

# Indian Accounting Standard 1 — Presentation of Financial Statements

## Objective

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability

- both with financial statements of previous periods and
- with the financial statements of other entities.
- It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

## Scope

- An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).
- Consolidated Financial Statements in accordance with Ind AS 110 'Consolidated Financial Statements'
- Separate financial statements in accordance with Ind AS 27 'Separate Financial Statements'.
- This Ind AS does not apply to interim Financial Statements prepared in accordance with Ind AS 34 except para 15 to 35 of Ind AS 1.

## Definitions

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

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

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

**Material** Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

**Notes** contain information in addition to that presented in the balance sheet (including statement of changes in equity which is a part of balance sheet), statement of profit and loss and statement of cash flows.

**Owners** are holders of instruments classified as equity.

**Profit or Loss** is the total of income less expenses, excluding comprehensive income.

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

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

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

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

The components of other comprehensive income include:

- (a) changes in revaluation surplus — Ind As 16 & 38;
- (b) reameasurements of defined benefit plans — Ind AS 19;

- (c) gains and losses arising from translating the financial statements of a foreign operation — Ind AS 21;
- (d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income — Ind AS 109;
- (e) gains and losses on financial assets measured at fair value through other comprehensive income — Ind AS 109;
- (f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income — Ind AS 109;
- (g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk — Ind AS 109;
- (h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value — Ind AS 109;
- (i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument — Ind AS 109.

### **Purpose of financial statements**

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

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

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

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

- (a) a balance sheet as at the end of the period ;
- (b) a statement of profit and loss for the period;
- (c) statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information; and
- (f) comparative information in respect of the preceding period;
- (g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements
- (h) An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

### **General features**

- Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of

Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

- An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes.
- An entity shall not describe financial statements as complying with Ind ASs unless they comply with all the requirements of Ind ASs.
- An entity **cannot** rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.
- In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

**When an entity departs from a requirement of an Ind AS, it should be a part of its disclosure. It should disclose:**

- (a) that management has concluded that the financial statements present a true and fair view ;
  - (b) that it has complied with applicable Ind ASs, except that it has departed from a particular requirement to present a true and fair view;
  - (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and
  - (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- (e) When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures.

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

### **Going concern**

An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

When management is aware, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

**Example : 1**

Is there any specific disclosure requirement as per Ind AS-1 for a Company in Liquidation?

**Answer:**

For a Company in liquidation, the fundamental accounting assumption of Going Concern is apparently not valid.

The Carrying Amounts of assets and liabilities would reflect the Realisable Value.

As per Ind AS-1, when an Entity does not prepare Financial Statements on a going concern basis, it shall disclose –

- (a) that fact,
- (b) the basis on which it prepared the Financial Statements, and
- (c) the reason why the Entity is not regarded as a going concern.

**Accrual basis of accounting**

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses, when they satisfy the definitions and recognition criteria for those elements in the Framework.

**Materiality and aggregation**

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

Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

An entity need not provide a specific disclosure required by an Ind AS if the information is not material except when required by law.

**Offsetting**

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

An entity reports separately both assets and liabilities, and income and expenses. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.

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

**Example: 2**

Om Ltd has a vacant land measuring 10,000 sq.mts. which it had no intention to use in the future. The Board of Directors decided to sell the land to tide over its liquidity problems. The Company made a profit of ₹ 10 Lakhs by selling the said Land. There was a fire in the factory and a part of the unused factory valued at ₹ 8 Lakhs was destroyed. The Loss was setoff against the Profit from Sale of Land and a Profit of ₹ 2 Lakh was disclosed as Net Profit from Sale of Assets. Analyse.

**Answer:**

An Entity shall not offset Assets and Liabilities or Income and Expenses, unless required or permitted by an Ind AS.

When items of Income or Expense are material, an Entity shall disclose their nature and amount separately. Disposal of items of Property, Plant and Equipment is one example of such material item.

Disclosing Net Profits by setting off Fire Losses against Profit from Sale of Land is not correct. As per Ind AS-1, Profit on Sale of Land, and Loss due to Fire should be disclosed separately.

**Frequency of reporting**

An entity shall present a complete set of financial statements (including comparative information) at least annually.

When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

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

**Comparative information**

Except when Ind ASs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements.

Any narrative or descriptive information should be included if it is relevant to understand the financial statements.

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

**Additional comparative information**

An entity may present comparative information in addition to the minimum comparative financial statements required by Ind ASs, as long as that information is prepared in accordance with Ind ASs.

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

**Change in accounting policy, retrospective restatement or reclassification**

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

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

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

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

If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):

- (a) the nature of the reclassification;
- (b) the amount of each item or class of items that is reclassified; and
- (c) the reason for the reclassification.

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

- (a) the reason for not reclassifying the amounts, and
- (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

### **Consistency of presentation**

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

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

### **Structure and content**

Identification of the financial statements

- An entity shall clearly identify the financial statements and distinguish them from other information in the same published document. Ind ASs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using Ind ASs from other information that may be useful to users but is not the subject of those requirements.
- An entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:
  - the name of the reporting entity or other means of identification;
  - whether the financial statements are of an individual entity or a group of entities;
  - the date of the end of the reporting period;
  - the presentation currency; and
  - the level of rounding used in presenting amounts in the financial statements.

### **Balance Sheet**

As a minimum, the balance sheet shall include line items that present the following amounts:

- (a) property, plant and equipment;
- (b) investment property;

- (c) intangible assets;
- (d) financial assets (excluding amounts shown under (e), (h) and (i));
- (e) investments accounted for using the equity method;
- (f) biological assets within the scope of Ind AS 41 Agriculture;
- (g) inventories;
- (h) trade and other receivables;
- (i) cash and cash equivalents;
- (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations;
- (k) trade and other payables;
- (l) provisions;
- (m) financial liabilities (excluding amounts shown under (k) and (l));
- (n) liabilities and assets for current tax, as defined in Ind AS 12, Income Taxes;
- (o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;
- (p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;
- (q) non-controlling interests, presented within equity; and
- (r) issued capital and reserves attributable to owners of the parent.

### **Current/non-current distinction**

**An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet** in accordance with paragraphs that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

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

- (a) not more than twelve months after the reporting period, and
- (b) more than twelve months after the reporting period.

For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

An entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

### **Current assets**

**An entity shall classify an asset as current when:**

- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within twelve months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- (e) An entity shall classify all other assets as non-current.
- (f) This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

The **operating cycle** of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal

operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading and the current portion of non-current financial assets.

### **Current liabilities**

#### **An entity shall classify a liability as current when:**

- (i) it expects to settle the liability in its normal operating cycle;
- (ii) it holds the liability primarily for the purpose of trading;
- (iii) the liability is due to be settled within twelve months after the reporting period; or
- (iv) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

- An entity shall classify all other **liabilities as non-current**.
- Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period.
- Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Financial liabilities that provide financing on a long-term basis and are not due for settlement within twelve months after the reporting period are **non-current liabilities**.
- An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
  - (a) the original term was for a period longer than twelve months, and
  - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

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

- An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.
- An entity shall disclose the following, either in the balance sheet or the statement of changes in equity, or in the notes:
  - i. for each class of share capital:



- the number of shares authorised;
  - the number of shares issued and fully paid, and issued but not fully paid;
  - par value per share, or that the shares have no par value;
  - a reconciliation of the number of shares outstanding at the beginning and at the end of the period;
  - the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
  - shares in the entity held by the entity or by its subsidiaries or associates; and shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- ii. a description of the nature and purpose of each reserve within equity.

An entity whose capital is not limited by shares e.g., a company limited by guarantee, shall disclose information showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

### **Statement of Profit and Loss**

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

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

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

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

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

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

- (a) revenue, presenting separately interest revenue calculated using the effective interest method;
- (b) gains and losses arising from the derecognition of financial assets measured at amortised cost;
- (c) finance costs;
- (d) impairment losses ;
- (e) share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (f) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date;
- (g) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;
- (h) tax expense;
- (i) a single amount for the total of discontinued operations.

### **Information to be presented in the other comprehensive income section**

The other comprehensive income section shall present line items for amounts of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other Ind ASs:

- (a) will not be reclassified subsequently to profit or loss; and
- (b) will be reclassified subsequently to profit or loss when specific conditions are met.

An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

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

### **Profit or loss for the period**

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

### **Other comprehensive income for the period**

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

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

Other Ind ASs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments.

A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss.

These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

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

- **When items of income or expense are material, an entity shall disclose their nature and amount separately.**
- Circumstances that would give rise to the separate disclosure of items of income and expense include:
  - (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
  - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
  - (c) disposals of items of property, plant and equipment;
  - (d) disposals of investments;
  - (e) discontinued operations;
  - (f) litigation settlements; and
  - (g) other reversals of provisions.

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

### **Statement of Changes in Equity**

An entity shall present a statement of changes in equity. The statement of changes in equity includes the following information:

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

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

- For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item .
- An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.
- Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.
- Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity.
- Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

#### **Example: 3**

A loss of ₹8,00,000 on account of embezzlement of cash was suffered by the Company and it was debited to Salary Account, discuss.

#### **Answer:**

Embezzlement of Cash during the course of business is a Business Loss. It is a business hazard which can occur once in a while.

Loss due to embezzlement of Cash cannot be merged with any other head. Being a material item, it should to be disclosed under a distinct head in the P&L A/c and not under Salary A/c.

#### **Example: 4**

A Ltd as part of overall cost cutting measure, announced a Voluntary Retirement Scheme (VRS) to reduce its number of employee. During the first half year, the Company paid a compensation of ₹ 144 Lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular Salaries & Wages paid by the Company. Is this correct?

**Answer:**

VRS Payments as an overall cost-cutting measure may be considered as a part of routine business activities.

The nature and the amount involved may make it a material item requiring separate disclosure.

The Entity shall present additional line Items, Headings and Sub-Totals in the Statement of Profit and Loss, when such presentation is relevant to an understanding of the Entity's financial performance.

VRS payments should not be reflected as Salaries and Wages paid since they do not form part of regular Salaries and Wages given to Employees. The treatment given by the Company is not proper.

**Statement of Cash Flows**

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

**Notes**

**The notes shall:**

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

An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.

An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

- i. statement of compliance with Ind ASs ;
- ii. summary of significant accounting policies applied ;
- iii. supporting information for items presented in the balance sheet, and in the statement of profit and loss, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
- iv. other disclosures, including:

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

**Disclosure of accounting policies**

**An entity shall disclose in the summary of significant accounting policies:**

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

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

### **Sources of estimation uncertainty**

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

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period.

### **Capital**

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Qualitative information about its objectives, policies and processes for managing capital, including:

- i. a description of what it manages as capital;
- ii. when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
- iii. how it is meeting its objectives for managing capital.

Summary quantitative data about what it manages as capital. Some entities regard some financial liabilities as part of capital. Other entities regard capital as excluding some components of equity.

### **Puttable financial instruments classified as equity**

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

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

### **Other disclosures**

- An entity shall disclose in the notes the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share; and
- the amount of any cumulative preference dividends not recognised.

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

- the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

- a description of the nature of the entity's operations and its principal activities; the name of the parent and the ultimate parent of the group; and
- if it is a limited life entity, information regarding the length of its life.

## Indian Accounting Standard 2 — Inventories

### 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.

### Scope

**This Standard applies to all inventories, except:**

- financial instruments ; and
- biological assets (i.e living animals or plants) related to agricultural activity and agricultural produce at the point of harvest.

**This Standard does not apply to the measurement of inventories held by:**

- producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.
- commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.  
Broker-traders are those who buy or sell commodities for others or on their own account.

**Inventories** are assets:

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

**In case of service providers, inventories include the cost of service for which the entity has not yet recognised the revenue.**

**Net realisable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. It refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business.

**Fair value** reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date.

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

### Measurement of inventories

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

Cost of inventories comprises

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

**Costs of purchase** of inventories includes

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

**Costs of conversion** of inventories include

- costs directly related to the units of production, such as direct material, direct labour and other direct expenses; and
- systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods
- **Fixed production overheads** are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.
- **Variable production overheads** are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.
- The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.
- **Normal capacity** is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.
- The actual level of production may be used if it approximates normal capacity.
- The amount of fixed overhead allocated to each unit of production is not increased as a consequence of **low production or idle plant**. Unallocated overheads are recognised as an expense in the period in which they are incurred.
- In periods of **abnormally high production**, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost.

### Example: 1

Avishkar Ltd.'s normal production capacity is 1,00,000 units and the Fixed Overheads are estimated at ₹5,00,000. Give the treatment of Fixed Production Overhead under Ind AS – 2, if actual production during a period was –

- 84,000 units;
- 1,00,000 units;
- 1,20,000 units.

### Answer:

Fixed Production Overhead Rate (based on Normal Capacity) = ₹5,00,000/1,00,000 units = ₹5 p.u. Fixed Overhead is treated as under —

Particulars	Situation (i)	Situation (ii)	Situation (iii)
1. Normal Production	1,00,000 units	1,00,000 units	1,00,000 units
2. Actual Production	84,000 units	1,00,000 units	1,20,000 units
3. Difference in Production (1 – 2)	16,000 units (short)	Nil	20,000 units (Excess)

4. Recovery Rate to be used as per Ind AS – 2	Normal Rate = ₹5 per unit	Normal Rate = ₹5 per unit	Revised Rate = ₹5,00,000/1,20,000 units = ₹4.167 p.u.
5. Recovered Cost	84,000 × ₹5 = ₹4,20,000	1,00,000 units × ₹5 = ₹5,00,000	1,20,000 units × ₹4.167 p.u. = ₹5,00,000
6. Balance treated as Period Cost	₹80,000	Nil	Nil

- when **joint products** are produced or when there is a main product and a **by-product** and the costs of conversion of each product are not separately identifiable — they are allocated between the products on a rational and consistent basis.
- The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.
- In case of by-products which are by their nature immaterial, then they are often measured at net realisable value and this value is **deducted from the cost** of the main product.

### Other costs

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Following costs are excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

- abnormal amounts of wasted materials, labour or other production costs;
- storage costs, unless those costs are necessary in the production process before a further production stage;
- administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- selling costs.

### Example: 2

In a production process, Normal Waste is 4% of input. 6,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹1,250. The entire quantity of waste is on stock at the year-end. Compute the value of Inventory.

### Answer:

Abnormal Amounts of Waste Materials, Labour or other Production Costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred.

Normal Waste is 4% of 6,000 MT i.e. 240 MT and Abnormal Waste is 300 MT – 240 MT = 60 MT.

Cost of Normal Waste 240 MT will be included in determining the cost of inventories at the year-end.

Cost of Abnormal Waste 60 MT @ ₹1,250 i.e. ₹75,000 will be charged to Profit and Loss Account.

Ind AS 23, Borrowing Costs, identifies limited circumstances where borrowing costs are included in the cost of inventories.

- An entity may purchase inventories on **deferred settlement** terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase prices for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

### Example: 3



A firm (dealer of T.V) has purchased 100 T.Vs on deferred payment basis for ₹5,000 per month per T.V. The amount is to be paid in twelve monthly equal instalments. The cash cost per unit of T.V. is ₹56,000. At the end of year, 25 T.Vs were in the stock. What should be the Cost of Inventories?

**Answer:**

Interest Expense = Deferred Payment Price (-) Cash Cost =  $(5,000 \times 12 \text{ Months}) - 56,000 = ₹4,000$ .

Inventory should be valued only at Cash ₹56,000 p.u. Interest Expense ₹4,000 should not be included in Valuation of Inventory.

Conclusion:

- i. Value of Inventory = ₹56,000 × 20 units = ₹14,00,000
- ii. Cost of Inventory sold to be recognised as Expense in the Statement of P&L = ₹56,000 × 75 units = ₹42,00,000
- iii. Interest Expense to be recognised as an Expense in the Statement of P&L = ₹4,000 × 100 units = ₹4,00,000.

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

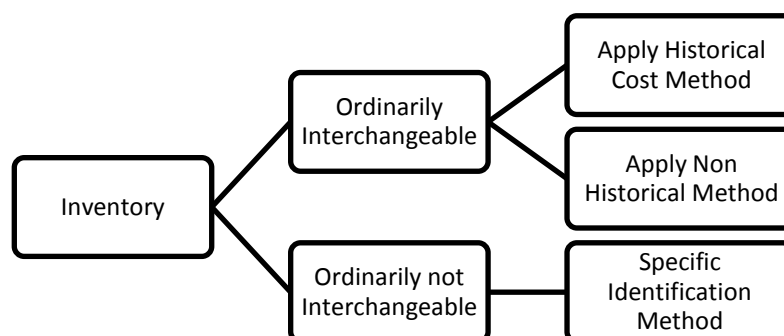
### Techniques for the measurement of cost

Techniques for the measurement of the cost of inventories, such as the **Standard cost** method or the **Retail method**, may be used. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation which are regularly reviewed /revised in the light of current conditions.

The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins.

The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

### Cost Formulas



- The cost of inventories of items that are **not ordinarily interchangeable** and goods or services produced and segregated for specific projects shall be assigned by using **specific identification of their individual costs**. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced.
- Specific identification of costs is inappropriate when there are large numbers of items of **inventory that are ordinarily interchangeable**. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain

predetermined effects on profit or loss. The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

- The **FIFO** formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.
- In case of **Weighted average** cost formula the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

### **Net realisable value**

- The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
- Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items.
- Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.
- Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices.
- Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exists or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

### **Recognition as an expense**

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

## Disclosure

### The financial statements shall disclose:

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

## Indian Accounting Standard 7 — Statement of Cash Flows

### Objective

- Providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
- Assessing the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.
- The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents.

### Scope

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

### Benefits of cash flow information

- A statement of cash flows, when used in conjunction with the rest of the finance statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.
- Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities.
- It also enhances the comparability.

- Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

## Definitions

**Cash** comprises cash on hand and demand deposits.

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

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

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

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

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

## Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, **three months or less** from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.

## Presentation of a statement of cash flows

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

An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

## Operating activities

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

1. cash receipts from the sale of goods and the rendering of services;
2. cash receipts from royalties, fees, commissions and other revenue;
3. cash payments to suppliers for goods and services;
4. cash payments to and on behalf of employees;
5. cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

6. cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
7. cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities.

The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

**An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.**

### **Investing activities**

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

Examples of cash flows arising from investing activities are:

1. cash payments to acquire property, plant and equipment, intangibles and other long-term assets.
2. cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
3. cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
4. cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
5. cash advances and loans made to other parties (other than advances and loans made by a financial institution);
6. cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
7. cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
8. cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

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

### **Financing activities**

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity.

Examples of cash flows arising from financing activities are:

1. cash proceeds from issuing shares or other equity instruments;
2. cash payments to owners to acquire or redeem the entity's shares;
3. cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
4. cash repayments of amounts borrowed; and

5. cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

### **Reporting cash flows from operating activities**

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

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

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

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

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

- changes during the period in inventories and operating receivables and payables;
- non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
- all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

### **Reporting cash flows from investing and financing activities**

**An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are permitted to be reported on a net basis.**

#### **Reporting cash flows on a net basis**

If nothing is mentioned as per Ind AS 7, cash flows will be presented on Gross Basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

**Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**

- **cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and**

Examples are:

- the acceptance and repayment of demand deposits of a bank;
- funds held for customers by an investment entity; and
- rents collected on behalf of, and paid over to, the owners of properties.

- **cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**

Examples are advances made for, and the repayment of:

- principal amounts relating to credit card customers;
- the purchase and sale of investments; and
- other short-term borrowings, for example, those which have a maturity period of three months or less.

**Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:**

- cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- the placement of deposits with and withdrawal of deposits from other financial institutions; and
- cash advances and loans made to customers and the repayment of those advances and loans.

### **Foreign currency cash flows**

**Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**

**The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

### **Interest and dividends**

**Cash flows from interest and dividends received and paid shall each be disclosed separately.**

**Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities.**

**In the case of other entities, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.**

The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with Ind AS 23, Borrowing Costs.

### **Taxes on income**

**Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.**

Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows

from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

### **Investments in subsidiaries, associates and joint ventures**

When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

### **Changes in ownership interests in subsidiaries and other businesses**

- The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.
- An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:
  - the total consideration paid or received;
  - the portion of the consideration consisting of cash and cash equivalents;
  - the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
  - the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

### **Classification of cash flow as financing activity**

Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in Ind AS 110, and is required to be measured at fair value through profit or loss.

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions, unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss.

### **Non-cash transactions**

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

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



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

Examples of non-cash transactions are:

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

### **Components of cash and cash equivalents**

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

### **Other disclosures**

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

There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group.

Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- (b) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- (c) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see Ind AS 108, Operating Segments).

### **Example 1:**

An entity sold a machinery (Book Value ₹1,00,000) for ₹72,000. The loss of ₹28,000 debited to the Profit & Loss Account. Is this transaction as Operating Activity?

### **Answer:**

Operating Activities are the principal revenue generating activities. Investing Activities relate to the acquisition and disposal of long-term assets and other investments that are not Cash Equivalents. However, Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as per Para 68A of Ind AS 16, are Cash Flows from Operating Activities. Cash receipts from rents and subsequent sales of such assets are also Cash Flows from Operating Activities.

The amount of ₹72,000 i.e. the sale proceeds should be shown as an Inflow under Investing Activities. ₹28,000 i.e. loss on sale of asset should be added back to derive Operating Cash Flow, under Indirect Method.

### **Example 2:**

Golden Ltd acquired Fixed Assets viz. Plant and Machinery for ₹60 Lakhs. During the same year, it also sold Furniture and Fixtures for ₹15 Lakhs. Can the Company disclose, Net Cash Outflow towards Purchase of Fixed Assets in the Statement of Cash Flows?

**Answer:**

Acquisition and Disposal of Fixed Assets is not prescribed for Net-Basis reporting.

The Company **cannot** disclose Net Cash Flow in respect of acquisition of Plant and Machinery and disposal of Furniture and Fixtures.

## **Indian Accounting Standard 8 — Accounting Policies, Changes in Accounting Estimates & Errors**

### **Objective**

The objective of this Standard is —

- to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies,
- accounting treatment and disclosure of changes in accounting estimates and corrections of errors.
- the standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.
- Disclosure requirements for accounting policies, except those are set out in Ind AS 1, Presentation of Financial Statements.

### **Scope**

This Standard shall be applied in —

- selecting and applying accounting policies, and
- accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.
- tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with Ind AS 12 'Income Taxes'.

### **Definitions**

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

**A change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

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

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

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

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

- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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

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

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

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - i. provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
  - ii. would have been available when the financial statements for that prior period were approved for issue from other information.

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

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

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards issued by the Institute of Chartered Accountants of India states that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

## **Accounting policies**

### **Selection and application of accounting policies**

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

Ind ASs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from Ind ASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Ind ASs are accompanied by guidance that is integral part of Ind AS to assist entities in

applying their requirements. Such guidance is mandatory.

**In absence of an Ind AS that specifically applies** to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
  - (b) reliable, in that the financial statements:
    - i. represent faithfully the financial position, financial performance and cash flows of the entity;
    - ii. reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
    - iii. are neutral, i.e free from bias;
    - iv. are prudent; and
    - v. are complete in all material respects.
- In making the judgment management shall refer to, and consider the applicability of, the following sources in descending order:
    - (a) the requirements in Ind ASs dealing with similar and related issues; and
    - (b) the definitions, recognition criteria and measurement concepts for assets liabilities, income and expenses in the framework.
  - In making the judgment, management may also **first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies** that use a similar conceptual framework to develop accounting standards, **other accounting literature and accepted industry practices, to the extent that these do not conflict with the above judgment.**

### **Consistency of accounting policies**

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

### **Changes in accounting policies**

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

- (a) is required by an Ind AS; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

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

### **Which are not changes in accounting policies?**

- (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
  - (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.
- **The initial application of a policy to revalue assets in accordance with Ind AS 16, Property, Plant and Equipment, or Ind AS 38, Intangible Assets, is a**

**change in an accounting policy to be dealt with as a revaluation in accordance with Ind AS 16 or Ind AS 38, rather than in accordance with this Standard.**

### **Applying changes in accounting policies**

- a. an entity shall account for a change in accounting policy **resulting from the initial application of an Ind AS** in accordance **with the specific transitional provisions**, if any, in that Ind AS. If the changes in accounting policies are due to a new Ind AS then the standard itself will provide a transitional period for implementation of policies and there will be a proper guideline.
- b. when an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

### **Early application of an Ind AS is not a voluntary change in accounting policy.**

In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

### **Retrospective application**

When an accounting policy is applied retrospectively the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

### **Limitations of retrospective application of policies:**

When retrospective application is required for initial application of an Ind AS that does not include specific transitional provisions applying to that change, a change in accounting policy shall be applied retrospectively **except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

**The entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**

When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods **as far back as is practicable.**

Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period.

The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity. Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

**The limitations lead the companies to follow the same accounting policies consistently to ensure relevance and reliability of financial statements.**

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

### **Disclosure**

When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

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

When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

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

### **Financial statements of subsequent periods need not repeat these disclosures.**

When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and

- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

### **Changes in accounting estimates**

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

- (a) bad debts;
- (b) inventory obsolescence;
- (c) the fair value of financial assets or financial liabilities;
- (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and
- (e) warranty obligations.

- ❖ The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- ❖ An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.
- ❖ By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
- ❖ A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate.
- ❖ When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

### **Accounting Treatment for a change in the estimates:**

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

- (a) the period of the change, if the change affects that period only; or
  - (b) the period of the change and future periods, if the change affects both.
- ❖ To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

**Example:** A change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

### **Disclosure**

- An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

- If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

## Errors

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

An entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

## Limitations on retrospective restatement

A prior period error shall be corrected by retrospective restatement **except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, **the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable.**

When it is **impracticable to determine the cumulative effect, at the beginning of the current period**, of an error on all prior periods, the **entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

**Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.**

## Disclosure of prior period errors

Entity shall disclose the following:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction:
  - for each financial statement line item affected; and
  - if Ind AS 33 applies to the entity, for basic and diluted earnings per share;
- the amount of the correction at the beginning of the earliest prior period presented; and
- if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

## Example 1:



There was a Material Prior Period Error by way of understatement of Salary Expense ₹15 Lakhs. How will you disclose it in the Financial Statements for the Financial Year 2016-2017, if the Salary Expense related to - (a) Financial Year 2015-2016 or (b) Financial Year 2013-2014?

**Answer:**

**Prior Period relating to 2015-16:**

**Treatment:** Financial Statements of 2016-2017, which will have comparative figures of Financial Year 2015-2016 will **re-state comparative amounts** of Salary Expense correctly.

**Prior Period relating to 2013-14:**

**Treatment:** Since comparative figures of 2013-2014 are not presented as comparative figures now, the difference of ₹15 Lakhs will be shown by **re-stating the Opening Balances** of Equity, at reduced amount.

**Financial statements of subsequent periods need not repeat these disclosures.**

**Impracticability in respect of retrospective application and retrospective restatement**

In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period.

For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and
- (b) would have been available when the financial statements for that prior period were approved for issue from other information.

For some types of estimates (e.g. a fair value measurement that uses significant unobservable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with Ind AS 19, Employee Benefits, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were approved for issue. The fact that significant estimates are frequently required when

amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

## **Indian Accounting Standard 10 — Events after the Reporting Period**

### **Events after the Reporting Period**

#### **Objective**

The objective of this Standard is to prescribe:

- i. Whether an entity should adjust its financial statements for events after the reporting period or not;
- ii. the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.
- iii. The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

#### **Scope**

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

#### **Definitions**

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

**Two types of events can be identified:**

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

**The standard clearly states that the events can be favourable as well as unfavourable.**

**Notwithstanding anything contained above, where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.**

The process involved in approving the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

- ❖ In some cases, an entity is required to submit its financial statements to its shareholders for approval, after the financial statements have been approved by the Board for issue. In such cases, the financial statements are approved for issue on the date of approval by the Board, not the date when shareholders approve the financial statements.
- ❖ In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

#### **Example**

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

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

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

### **Recognition and measurement**

#### **Adjusting events after the reporting period**

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

The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- (a) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of Ind AS 37.
- (b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

For example:

- i. the bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period; and
  - ii. the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.
- (c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.
  - (d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date.
    - These is a legal or constructive obligation at the end of the reporting period;
    - The obligation is based on profit sharing or bonus payments.
  - (e) the discovery of fraud or errors that show that the financial statements are incorrect.

#### **Non-adjusting events after the reporting period**

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

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

## **Dividends**

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

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

It depends on the fact whether the event existed at the end of the period or not.

## **Going concern**

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

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

Ind AS 1 specifies required disclosures if:

- (a) the financial statements are not prepared on a going concern basis; or
- (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

## **Disclosure**

### **Date of approval for issue**

- **An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.**
- It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date.

### **Updating disclosure about conditions at the end of the reporting period**

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

In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does

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

### **Non-adjusting events after the reporting period**

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

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

- (a) a major business combination after the reporting period (Ind AS 103, Business Combinations, requires specific disclosures in such cases) or disposing of a major subsidiary;
- (b) announcing a plan to discontinue an operation;
- (c) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations, other disposals of assets, or expropriation of major assets by government;
- (d) the destruction of a major production plant by a fire after the reporting period;
- (e) announcing, or commencing the implementation of, a major restructuring;
- (f) major ordinary share transactions and potential ordinary share transactions after the reporting period (Ind AS 33, Earnings per Share, requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under Ind AS 33);
- (g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;
- (h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see Ind AS 12, Income Taxes);
- (i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and
- (j) commencing major litigation arising solely out of events that occurred after the reporting period.

### **Distribution of Non-cash Assets to Owners**

Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its equity holders. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.

Indian Accounting Standards (Ind ASs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). Ind AS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements.

This Appendix applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

- (a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in Ind AS 103, ownership interests in another entity or disposal groups as defined in Ind AS 105); and

- (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This applies only to distributions in which all owners of the same class of equity instruments are treated equally.

### **Non-applicability**

This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

Therefore, for a distribution to be outside the scope of this Appendix on the basis that the same parties control the asset both before and after the distribution, a group of individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.

This Appendix does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with Ind AS 110.

This Appendix addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

### **Issues**

When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable.

Consequently, this Appendix addresses the following issues:

- (a) When should the entity recognise the dividend payable?
- (b) How should an entity measure the dividend payable?
- (c) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

### **Accounting Principles**

#### **When to recognise a dividend payable**

The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:

- a. when declaration of the dividend, e.g. by management or the board of directors, is approved by the relevant authority, e.g. the shareholders, if the jurisdiction requires such approval, or
- b. when the dividend is declared, e.g. by management or the board of directors, if the jurisdiction does not require further approval.

#### **Measurement of a dividend payable**

An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

An entity should account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable.

### **Presentation and disclosures**

An entity shall present the difference described above as a separate line item in profit or loss.

An entity shall disclose the following information, if applicable:

- (a) the carrying amount of the dividend payable at the beginning and end of the period; and
- (b) the increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.

If, after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

- (a) the nature of the asset to be distributed;
- (b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
- (c) the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to measure that fair.

### **Example 1:**

As at 31<sup>st</sup> March, Cost of Investments is ₹ 1,50,000, Market Value ₹ 1,80,000. Its value declines to ₹ 80,000 on 25<sup>th</sup> April. How should the Entity consider the above in its Financial Statements?

### **Answer:**

Decline in Fair Value of Investments does not normally relate to the condition of the Investments at the end of the reporting period, but reflects circumstances that have arisen **subsequently**.

The Entity does should **not adjust** the amounts recognised in its Financial Statements for the Investments, or

**Should not update** the amounts disclosed for the Investments as at the end of the reporting period.

The Entity may need to give **Additional Disclosure**.

### **Example 2:**

State the accounting requirements in case of Settlement after the Reporting Period, of a Court Case, that confirms that the Entity had a present obligation at the end of the Reporting Period.

### **Answer:**

It is an Adjusting Event.

The Entity **shall adjust** any previously recognised provision related to this Court Case in accordance, or **shall recognise** a new provision.

The Entity does not merely disclose a Contingent Liability because the settlement

provides additional evidence that would be considered accordingly.

## **Indian Accounting Standard 101 — First-time Adoption of Indian Accounting Standards**

### **Objective**

The objective of this Ind AS is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- (a) is transparent for users and comparable over all periods presented;
- (b) provides a suitable starting point for accounting in accordance with Indian Accounting Standards (Ind ASs); and
- (c) can be generated at a cost that does not exceed the benefits.

### **Scope**

An entity shall apply this Ind AS in:

- (a) its first Ind AS financial statements; and
- (b) each interim financial report for part of the period covered by its first Ind AS financial statements.

This Ind AS does not apply to changes in accounting policies made by an entity that already applies Ind ASs.

### **Definitions**

#### **First Ind AS financial statements**

The first annual financial statements in which an entity adopts Indian Accounting Standards (Ind ASs), by an explicit and unreserved statement of compliance with Ind ASs.

#### **First-time adopter**

An entity that presents its first Ind AS financial statements.

#### **Opening Ind AS Balance Sheet**

An entity's Balance Sheet at the date of transition to Ind ASs.

#### **Date of transition to Ind ASs**

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

#### **First Ind AS reporting period**

The latest reporting period covered by an entity's first Ind AS Financial Statements.

#### **Deemed cost**

An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.

#### **Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.



## Previous GAAP

The basis of accounting that a first-time adopter used for its statutory reporting requirement in India immediately before adopting Ind AS's. For instance, companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, shall consider those financial statements as previous GAAP financial statements.

### Example 1:

Until 31<sup>st</sup> March, 2017 a Company had been preparing and presenting the financial statements in line with the Companies(AS) Rules. With effect from accounting year beginning on or after 1<sup>st</sup> April 2017, the company is required to prepare and present its Financial Statements in line with Ind AS. In this case the date of transition to Ind AS is — 1<sup>st</sup> April, 2016.

## Recognition and measurement

### Opening Ind AS Balance Sheet

An entity shall prepare and present an opening Ind AS Balance Sheet at the date of transition to Ind ASs.

In its opening balance sheet —

- An entity shall recognise all the assets and liabilities whose recognition is required by Ind AS;
- It shall not recognise any item as its assets or liabilities if Ind AS does not allow;
- Apply any Ind AS for the measurement of its assets and liabilities;
- An entity can reclassify its assets or liabilities which may differ from the classification that was made as per previous GAAP.

## Accounting policies

- ❖ An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to the following:
  - Exceptions that are mandatory
  - Some exemptions which are optional
- ❖ An entity shall not apply different versions of Ind ASs that were effective at earlier dates. An entity may apply a new Ind AS that is not yet mandatory if that Ind AS permits early application.

### Example: Consistent application of latest version of Ind ASs

The end of entity A's first Ind AS reporting period is 31 March 2017. Entity A decides to present comparative information in those financial statements for one year only. Therefore, its date of transition to Ind ASs is the beginning of business on 1 April 2015 (or, equivalently, close of business on 31 March 2015). Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 2016.

## Application of requirements

Entity A is required to apply the Ind ASs effective for periods ending on 31 March 2017 in:

- (a) preparing and presenting its opening Ind AS balance sheet at 1 April 2015; and
- (b) preparing and presenting its balance sheet for 31 March 2017 (including comparative amounts for the year ended 31 March 2016), statement of profit and loss, statement of changes in equity and statement of cash flows for the year to 31

March 2017 (including comparative amounts for the year ended 31 March 2016) and disclosures (including comparative information for the year ended 31 March 2016).

If a new Ind AS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that Ind AS in its first Ind AS financial statements.

### **Exceptions or exemptions can be mandatory or optional.**

The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind Ass, therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs.

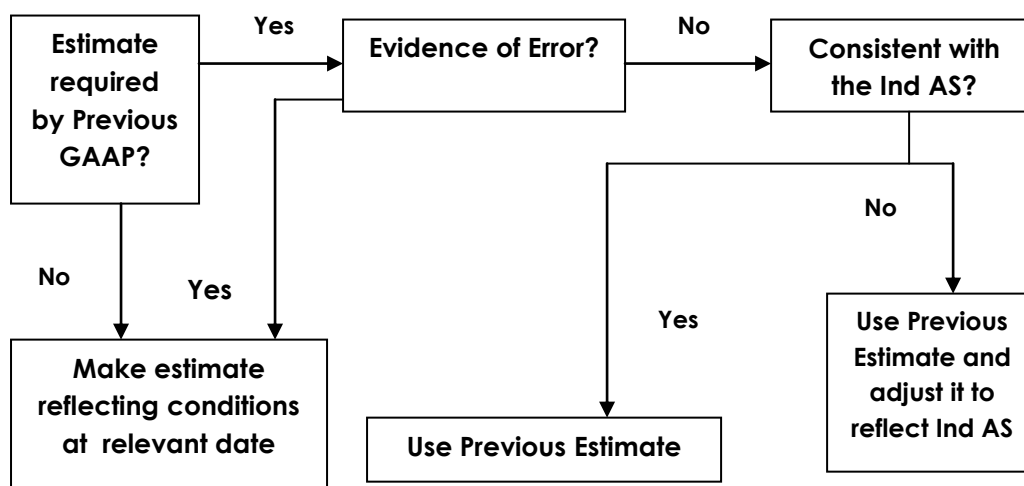
This Ind AS establishes two categories of exceptions/ exemptions to the principle that an entity's opening Ind AS Balance Sheet shall comply with each Ind AS:

- a. Exceptions to retrospective application of some aspects of other Ind Ass these are mandatory;
- b. exemptions from some requirements of other Ind Ass these are optional.

### **Exceptions to retrospective application of some aspects of other Ind Ass:**

**An entity's estimates in accordance with Ind ASs at the date of transition to Ind ASs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**

- **Estimates**



### **Derecognition of financial assets and financial liabilities**

A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind ASs.

For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to Ind ASs, it shall not recognise those assets and liabilities in accordance with Ind ASs (unless they qualify for recognition as a result of a later transaction or event).

An entity may apply the derecognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109

to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

### **Hedge accounting**

At the date of transition to Ind ASs an entity shall:

- (a) measure all derivatives at fair value; and
- (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

An entity shall not reflect in its opening Ind AS Balance Sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with Ind AS 109. However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with Ind ASs an individual item within that net position, or a net position if that meets the requirements in Ind AS 109, provided that it does so no later than the date of transition to Ind ASs.

If, before the date of transition to Ind ASs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in Ind AS 109, the entity shall apply Ind AS 109 to discontinue hedge accounting. Transactions entered into before the date of transition to Ind ASs shall not be retrospectively designated as hedges.

### **Non-controlling interests**

A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:

- total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- accounting for a loss of control over a subsidiary, and the related requirements of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.

### **Classification and measurement of financial assets**

An entity shall assess whether a financial asset meets the conditions of Ind AS 109 on the basis of the facts and circumstances that exist at the date of transition to Ind ASs.

- If it is impracticable to assess a modified time value of money element, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind ASs without taking into account the requirements related to the modification of the time value of money element. An entity shall disclose the carrying amount at the reporting date of the financial assets until those financial assets are derecognized.
- If it is impracticable to assess whether the fair value of a prepayment feature is insignificant on the basis of the facts and circumstances that exist at the date of transition to Ind-ASs, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to Ind-ASs without taking into account the exception for prepayment features. An entity shall disclose the carrying amount at the reporting date of the financial assets until those financial assets are derecognised.
- If it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind ASs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind ASs.

### **Impairment of financial assets**

An entity shall apply the impairment requirements of Ind AS 109 retrospectively subject to the following:

- At the date of transition to Ind ASs, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised
- An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind ASs, whether there have been significant increases in credit risk since initial recognition.
- If, at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized.

### **Embedded derivatives**

A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required as per Ind AS 109.

### **Government loans**

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation.

The first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to Ind ASs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

### **Optional Exemptions**

#### **1. Business Combination**

Ind AS 103 is not required to be applied to combinations before the date of transition. If any combination is restated all subsequent combinations are to be restated.

#### **If the exemption is used —**

- i. There will not be any change in classification;
- ii. Assets and Liabilities of past combination are measured at carrying amount.
- iii. Assets and Liabilities measured at fair value restated at date of transition – adjusted retained earnings.

#### **2. Share –based payment transactions**

Apply Ind AS 102 to share-based payments vested/settled after date of transition to Ind AS.

#### **3. Insurance Contracts**

An entity will apply Ind AS 104 for annual periods beginning on or after date of transition to Ind AS.

Insurer changes the accounting policies for liabilities and it can reclassify some or all of the financial assets.

#### **4. Cumulative translation differences**

- **Need not to:**
  - Recognise some translation differences in other comprehensive income.
  - Reclassify cumulative translation differences for foreign operation from equity to profit or loss as part of gain or loss on its disposal.
- **If first time adopter uses this exemption:**
  - Cumulative translation differences set to zero for all foreign operations.
  - Gain/loss on a subsequent disposal of a foreign operation shall exclude these differences that arose before transition.
- **Long term foreign currency monetary items**
  - A first time adopter may continue the policy adopted for accounting for exchange differences arising from long term monetary foreign currency items, as per previous GAAP.

#### **5. Deemed cost of PPE, intangible assets and investment property**

- Fair value will be used as deemed cost or
- Revaluation as deemed cost provided comparable to fair value or cost/depreciated cost at the date of revaluation or
- Carrying value as recognized in Financial Statement as per previous GAAP as at the transition date.

#### **6. Investment in subsidiaries, joint ventures and associates** are measured at cost. Which can be measured as per Ind AS 27 or can be deemed cost.

- **Designation of previously recognised financial instruments**
- Ind AS 109 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. An entity may designate an investment in an equity instrument as at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the date of transition.

#### **7. Compound financial instruments**

- Need not split the compound financial instruments into separate liability and equity component, if liability component not outstanding as at transition date.

#### **8. Designation of previously recognized financial instruments**

- Any financial liability may be designated at fair value through profit or loss at transition date.
- Any financial asset may be designated at fair value through profit or loss at transition date.
- Investment in equity may be designated at fair value through other comprehensive income at transition date.
- If retrospectively application of effective interest method or impairment requirement is impracticable – fair value shall be new amortised cost of financial asset on the date of transition.

#### **9. Fair value measurement of financial assets of financial liabilities**

- **May apply requirement of Ind AS 109 prospectively to transactions entered into on or after the date of transition.**

## **10. Decommissioning liabilities included in PPE**

- Need not comply with the requirement for changes in such liabilities that accounted before that date of transition.
- Liabilities are to be measured at the transition date as per Ind AS 37 and recognize its effect.

## **11. Financial assets or intangible assets accounted for in accordance Service Concession Arrangements**

Changes in accounting policies are accounted for in accordance with Ind AS 8, i.e. retrospectively, except for the policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP

If, for any particular service arrangement, it is impracticable for an operator to apply this Appendix retrospectively at the date of transition to Ind ASs, it shall recognise financial assets and intangible assets that existed at the date of transition to Ind Ass using the previous carrying amounts.

## **12. Extinguishing financial liabilities with equity instruments**

A first-time adopter may apply the Ind AS 109 from the date of transition to Ind ASs.

## **13. Severe hyperinflation**

- In hyperinflation, when date of transition to Ind AS is on or after the functional currency normalisation date, then all assets and liabilities held before the functional currency normalisation date may be taken at fair value on the date of transition.
- Fair value may be used as a deemed cost of those assets and liabilities in the opening Ind AS statement of financial position.

## **14. Leases**

A first time adopter may determine whether an arrangement existing at the date of transition to Ind AS contain a lease on the basis of facts and circumstances existing on the date of transition.

## **15. Designation of contract to buy or sell a non-financial item**

An entity may designate at the date of transition to Ind AS, contract that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of Ind AS 109 at the date and the entity designate all the similar contracts.

## **16. Stripping costs in the production phase of a surface mine**

A first-time adopter may apply the Appendix B of Ind AS 16 from the date of transition to Ind ASs.

## **17. Assets and liabilities of subsidiaries, joint ventures and associates in CFS**

- a. If subsidiary becomes a first time adopter later than its parent**

- Carrying amount based on parent's date of transition to Ind AS if no adjustment made for consolidated procedures and for the effects of business combination; or
  - Carrying amounts required by the rest of this Ind AS, based on the subsidiary's date of transition.
- b. If parent becomes a first time adopter later than its subsidiary
- Same carrying amounts as in financial statement of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

## **18. Revenue from contracts with customers**

A first-time adopter may use one or more of the following practical expedients when applying Ind AS 115 retrospectively:

- for completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period;
- for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; and
- for all reporting periods presented before the beginning of the first Ind AS reporting period, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

## **19. Non-current assets held for sale and discontinued operations**

Ind AS 105 requires non-current assets (or disposal groups) that meet the criteria to be classified as held for sale, non-current assets (or disposal groups) that are held for distribution to owners and operations that meet the criteria to be classified as discontinued and carried at lower of its carrying amount and fair value less cost to sell on the initial date of such identification. A first time adopter can:

- measure such assets or operations at the lower of carrying value and fair value less cost to sell at the date of transition to Ind ASs in accordance with Ind AS 105; and
- recognise directly in retained earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind ASs determined under the entity's previous GAAP.

## **20. Joint arrangements:**

- a. Transition from Proportionate Consolidation to Equity Method
- b. Transition from Equity Method to accounting for assets and liabilities
- c. Transitional provisions in entity's Separate Financial Statement.

## **Presentation and Disclosure:**

### **Comparative information and historical summaries**

Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with Ind ASs. This Ind AS does not require such summaries to comply with the recognition and measurement requirements of Ind ASs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by Ind AS 1. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

- i. label the previous GAAP information prominently as not being prepared in accordance with Ind ASs; and
- ii. disclose the nature of the main adjustments that would make it comply with Ind ASs. An entity need not quantify those adjustments.

### **Explanation of Transition to Ind AS**

#### **Reconciliation of**

- (a) equity from previous GAAP to Ind AS at transition and end of last year;
- (b) last year's total comprehensive income under GAAP to Ind AS.

- Sufficient details to understand adjustments to each line item.
- Reconciliation to distinguish correction of errors identified during transition from change in accounting policy.
- Fair value as deemed cost and the amount of the adjustment.
- If adopted first time exemption option, to disclose the fact and accounting policy until such time those PPE, Intangible Assets, investment properties or intangible assets significantly depreciated/impaired/derecognized.
- Interim financial reports to include reconciliation with equity and profit or loss under previous GAAP.
- Further information to comply with Ind AS 34.