IFRS AND IND AS

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Preface

India, one of the fastest growing global economies is on the verge of converging with International Financial Reporting Standards (IFRS). As on date 123 countries across the globe have converged with IFRS, India is soon to join the bandwagon.

The Ministry of Corporate Affairs in its press release dated 25.2.2011 notified 35 Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called Draft IND AS). The Ministry of Corporate Affairs will implement the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues are resolved with the concerned Departments. Consequently, the companies listed outside but carrying their operations in India will need to convert their accounts from Indian GAAP to IFRS while some of the companies would like to see how their how their present financial statements would look if these were prepared as per IFRS.

Though, there has been considerable delay in the implementation of these standards, efforts are on the run. The newly revised Schedule VI which is completely based on IAS 1 is a clear evidence of being optimistic on convergence with IFRS.

While similarities between the Indian Accounting standards and IFRS do exist, the changes required to convert to international standards are both numerous and complex. It is essential for companies and finance professionals to initiate their IFRS learning curve and to begin the design of IFRS adoption strategy.

This book is intended to provide an understanding and to serve as a valuable guide to IFRS which essential for the successfully implementation of Ind AS. I hope the readers will find this book useful.

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Chapter 1

INTRODUCTION

HISTORY OF ACCOUNTING

To develop a broader view of the accounting profession, auditors and accountants need to be aware of both national and international professional standards. However contemporary Western schools of thought on accounting do not acknowledge the historical contributions of non-European cultures. A better-rounded view could be achieved through acknowledging the accomplishments of non-Western cultures in the development of professional practices, particularly the accounting profession.

Ancient India is a prime example of a culture whose accounting practices merit more attention due to their complexity and innovation. Looking back at Indian history, one finds that the art and practice of accounting were present in India even in Vedic times The Rig-Veda has references to accounting and commercial terms like kraya (sale), Vanij (merchant), sulka (price).

MEANING OF IFRS

The term IFRS has both a narrow and a broader meaning. Narrowly, IFRSs refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor International Accounting Standards Committee

HISTORICAL BACKGROUND

The foundation for international accounting standards was laid in 1966, when it was proposed that an International Study Group be started comprising the Institute of Chartered Accountants of England & Wales (ICAEW), American Institute of Certified Public Accountants (AICPA) and Canadian Institute of Chartered Accountants (CICA). As a result, the Accountants International Study Group (AISG) was set up in 1967, which published papers on important topics.

In June 1973 the International Accounting Standards Committee (IASC) came into existence, with the stated intent that the new international standards it released must "be capable of rapid acceptance and implementation world-wide". The IASC survived for 27 years, until 2001, when the organisation was restructured and the International Accounting Standards Board (IASB) came into existence.

Between 1973 and 2000 the International Accounting Standards Committee (IASC) released a series of standards called 'International Accounting Standards' in a numerical sequence that began with IAS 1 and ended with IAS 41 Agriculture which was published in December 2000.

IASB stated that they would adopt the body of standards issued by the Board of the International Accounting Standards Committee (which would continue to be designated 'International Accounting Standards' but any new standards would be published in a series called International Financial Reporting Standards (IFRS)

ACCOUNTING STANDARDS IN INDIA

Accounting Standards in India are issued by Accounting Standard Board (ASB) of Institute of Chartered Accountants of India and are largely based on IFRS. With the opening of Indian economy in near past, the convergence to IFRS has become unavoidable. Keeping this in view, ASB decided to form an IFRS task force in August 2006. Based on the recommendation of this task force, the Council of ICAI, in its 269th meeting decided to fully converge with IFRS from the accounting periods commencing on or after 1st April 2011. At initial stage, this convergence

will be mandatory for listed and other public interest entities like banks, insurance companies, NBFCs, and large sized organizations with high turnover or annual income.

The Ministry of Corporate Affairs in its Press Release dated 25.2.2011 notified 35 Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS). The Ministry of Corporate Affairs will implement the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues are resolved with the concerned Departments.

It would be ensured that the implementation of the converged standards in a phased manner is smooth for the stakeholders. The date of implementation of the IND AS will be notified by the Ministry at a later date.

Why this convergence?

Converging with IFRS will have multiple benefits for Indian entities especially those who aspire to go global. Some of the benefits of convergence with IFRS are explained below:

a) Accessibility to foreign capital markets

b) Reduced Cost

c) Enhance Comparability

d) Boon for multinational group entities

e) New Opportunities for the professionals

Chapter 2

OVERVIEW OF IFRS

Preface to IFRS

The first preface was published in January 1975, and amended in November 1982. However, it was replaced in April 2002 and further amended twice in January and November 2007. It sets out the objective and due process of the IASB and explains the scope, authority, and timing of application of IFRSs.

IFRS Defined in (IAS 1.7, IAS 8.5 ,IFRS 1 Appendix A)

Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise

a. International Financial Reporting Standards
b. International Accounting Standards; and
c. Interpretations developed by the IFRS Interpretations Committee (IFRIC) and
d. Former Standing Interpretations Committee (SIC)

TOTAL IFRS LITERATURE

1. Preface ,
2. Conceptual Framework
3. Glossary
4. IFRS Foundation Constitution, 51 sections & one annex
5. Due process Handbook of IASB
6. Due process Handbook of IFRS Interpretation Committee

7. 66 IFRSs
8. SME IFRS

Framework for setting standards

The International Accounting Standards Board published the conceptual framework in 1989. It was intended to guide both international and national standard setters when setting standards setting standards, and to assist preparers and auditors when interpreting standards or dealing with issues that the standards do not cover. The framework for international standard setting involves several dedicated bodies, as well as the co-operation and input from standard setting bodies throughout the world. Trustees have the power to appoint the members of the IFRS Advisory Council, the International Accounting Standards Board (Board) and the IFRS Interpretations Committee (formerly known as *IFRIC*). The Trustees also monitor the IASB's effectiveness, raise funds, approve the IASB's budget and take responsibility for constitutional changes. The Board which includes twelve full-time and two part-time members [(effective 1 February 2009 increasing to 16 members at a date no later than 1 July 2012 and up to three members may be part-time members], is drawn from a range of geographic locations and experience, and includes those with a background in preparing financial statements, users of financial statements, auditors and academics. In addition, the standard setting process involves the resource and input from a number of national standard setting bodies. Seven of the Board members are responsible for liasing with these groups in their home countries.

A second technical committee is the IFRS Interpretations Committee. The role of this Committee is to prepare interpretations of IFRS. The Interpretations tend to deal with reporting issues where unsatisfactory practice has arisen or where the Standards lack guidance in particular business circumstances. The members of this Committee are generally practitioners, selected for their knowledge of IFRS and their experience in the application of Standards.

IFRS Foundation

IFRS Foundation is the new name of the IASC Foundation. The name change formally took effect on 1 July 2010. A non profit organization, IFRS Foundation is the legal entity under which

the IASB operates. The Foundation is governed by a board of 22 trustees.

The IFRS Advisory Council provides support and advice in the standard setting process. The IASB staff, headed by Chairman of IASB provides technical support to the Board and IFRS Interpretations Committee. Moreover, the staff has a technical director and research director and a number of project directors with considerable background in technical accounting matters

The IASB meets monthly and on a quarterly basis with the Advisory Council and national standard setters. The meetings are open to public observation, except for certain administrative matters that are discussed in closed sessions

Effective 1 February 2009, the IASC Foundation Constitution was amended to create a Monitoring Board of public authorities with the purpose of enhancing public accountability of the IASC Foundation while not impairing the independence of the standard-setting process.

The Monitoring Board (section 18 to 23 of IFRS Foundation Constitution)

A Monitoring Board will provide a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. A Memorandum of Understanding will be agreed between the Monitoring Board and the Trustees describing the interaction of the Monitoring Board with the Trustees. The Monitoring Board shall develop a charter that sets out its organizational, operating and decision-making procedures. Responsibilities of the Monitoring Board are as follows

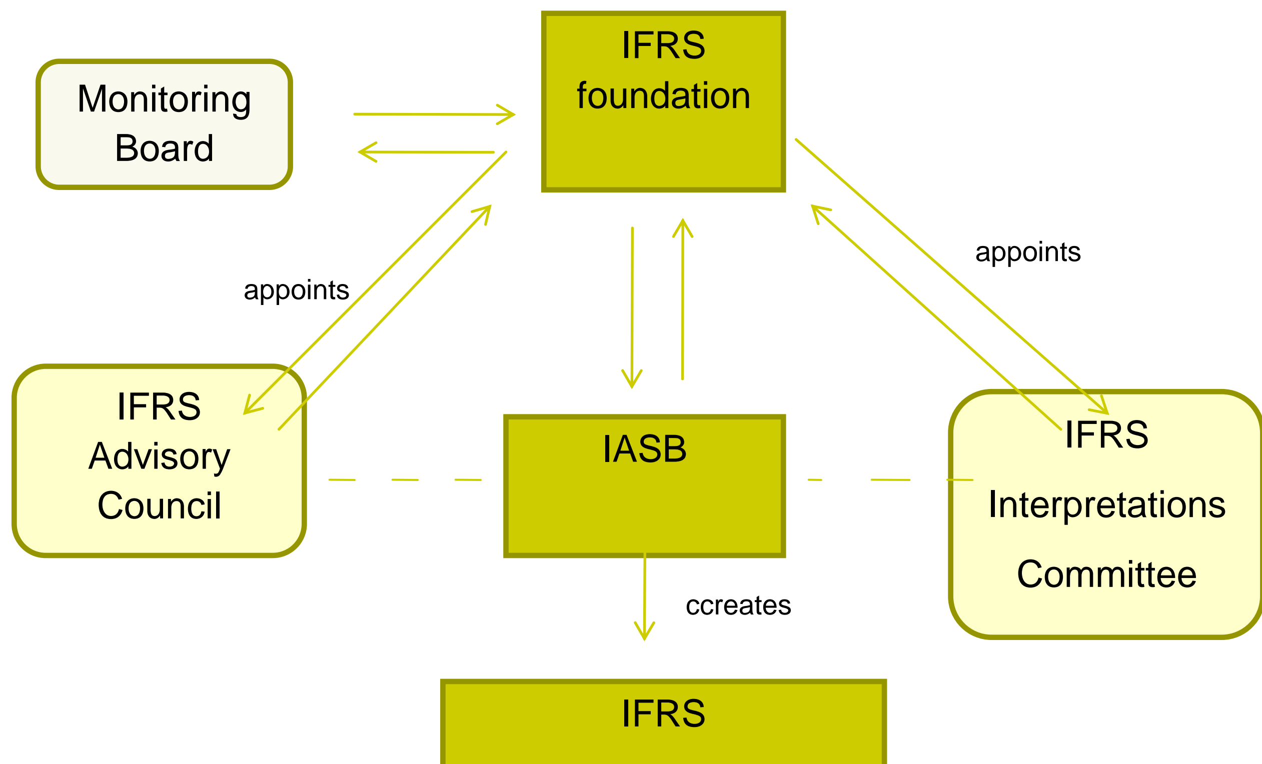
- to participate in the process for appointing Trustees
- to review and provide advice to the Trustees on their fulfilment of the responsibilities

IFRS Interpretations Committee

The IFRS Interpretations Committee (formerly called the IFRIC) is the interpretative body of the IASB. The Interpretations Committee comprises 14 voting members appointed by the Trustees and drawn from a variety of countries and professional backgrounds. The mandate of the

Interpretations Committee is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs and to provide authoritative guidance (**IFRIC Interpretations**) on those issues.

The working of the IASB can be diagrammatically depicted as follows:



Scope of IFRS

(i) All International Accounting Standards (IASs) and Interpretations issued by the former IASC (International Accounting Standard Committee) and SIC (Standard Interpretation Committee) continue to be applicable unless and until they are amended or withdrawn.

(ii) IFRS set out recognition, measurement, presentation and disclosure requirements of transaction and events in general purpose financial statements.

(iii) IFRSs apply to the general purpose financial statements and other financial reporting by profit-oriented entities -- those engaged in commercial, industrial, financial, and similar activities, regardless of their legal form.

(iv) Entities other than profit-oriented business entities may also find IFRSs appropriate

(v) General purpose financial statements are intended to meet the common needs of shareholders, creditors, employees, and the public at large for information about an entity's financial position, performance, and cash flows.

(vi) Other financial reporting includes information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

(vii) IFRS apply to individual company and consolidated financial statements.

(viii) A complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of cash flows, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a summary of accounting policies, and explanatory notes.

(ix) If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment, financial statements may be described as conforming to IFRS whichever treatment is followed.

(x) In developing Standards, IASB intends not to permit choices in accounting treatment. Further, IASB intends to reconsider the choices in existing IASs with a view to reducing the number of those choices.

(xi) IFRS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority.

(xii) IAS 1 provides that, the conformity with IAS requires compliance with every applicable IAS and Interpretation requires compliance with all IFRSs as well.

The focus of international standard setting is on profit-oriented reporting entities, including non-corporate entities such as mutual funds. Despite concentrating on profit-type entities, the IASB envisages that non-profit entities in the private and public sectors may nevertheless find its Standards an appropriate basis for financial reporting. The specific needs of the public sector

have been acknowledged by the International Federation of Accountants (IFAC), whose Public Sector Committee has on its agenda the preparation of standards based on IFRS, for use by public sector entities. However, a non-profit entity that states compliance with IFRS should comply with IFRS in full.

A profit-oriented reporting entity is one that reports to users, who rely on the financial statements as a major source of financial information about the entity. Financial Statements are directed to the information needs of users such as investors and potential investors, employees, lenders, suppliers, creditors, customers, governments and the public at large.

The term financial statements refer to statements that display different aspects of the entity's financial performance and position. Financial position is reflected in the statement of financial position and a statement of changes in shareholders' equity (excluding transactions with shareholders). Financial performance is reported in the statement of comprehensive income and liquidity position in the statement of cash flows. These statements are supplemented by a series of detailed notes.

Some standards permit different treatments for certain types of transactions or events. One treatment is designated as the benchmark treatment, and the other the allowed alternative. Neither is designated as the IASB's preferred approach. The Board intends to develop future Standards that require similar transactions and events to be accounted for in the same way. The IASB intends to reconsider the choices given in current IFRS with a view to reducing and potentially eliminating them.

Process of setting Standards (Due Process)

IFRSs are developed through an international due process that involves accountants, financial analysts, and other users of financial statements like the business community, stock exchanges, etc from around the world. IASB in consultation with IFRS Advisory Council, decides the agenda on which work is under taken. Several key areas that IASB considers in adding an agenda item are

- Relevance and reliability of information to users.

- consistency with the IASB's organisational objectives and plans
- increasing convergence of accounting standards
- deficiency of current guidance, for example where there is diversity in national standards or where no guidance exist
- Resource constraint.

The due process comprises six stages, with the Trustees having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. After the standard is issued

After an agenda is added, IASB may form an advisory group to give advice on project. Board develops and publishes a discussion paper. The paper sets out all of the key issues for discussion, and poses a series of questions to which the public is invited to respond to which the Board may include their own response to particular questions. After analysis of pubic comment, the board issues an exposure draft. The Exposure Draft should include a basis for conclusions and highlight any dissenting opinions that arose during the approval process. The Board may use public hearings to discuss proposed standards. The Board may "field test" a particular draft Standard in "live" situations across different countries to ensure that its proposals are practical and effective.

A Standard must be approved by the nine of the fourteen members. The published Standard must include a basis for conclusions, to explain among other things how the Board dealt with public comments, and highlight any dissenting opinion that arose during the approval process.

Due Process Handbook for IFRS Interpretations Committee

IFRS Interpretations Committee Interpretations are developed in accordance with a due process of consultation and debate, including making draft Interpretations available for public comment.

The Due Process Handbook for IFIC was published in draft for public comment in May 2006. It is based on the existing framework of the due process laid out in the Constitution of the IASC Foundation and the Preface to International Financial Reporting Interpretations issued by the IASB. It reflects the public consultation conducted in 2005 and 2006, and supersedes the Preface to International Financial Reporting Interpretations.

The IFRS Interpretation Committee due process comprises seven stages:

1. Identification of issues.
2. Setting the agenda
3. IFRS Interpretation Committee meetings and voting
4. Development of a draft Interpretation
5. The IASB's role in the issue of a draft Interpretation
6. Comment period and deliberation
7. The IASB's role in an Interpretation

Application of New Standard

An IFRS or Interpretation applies from the date specified in the document. Some standards encourage early adoption. If a new standard is early adopted all changes of the standard must be implemented at the same time. Selective application of different elements within an individual standard is not permitted. A new standard can only be early adopted if it was in effect at the time the financial statements were issued, that is, the proposals included in an exposure draft cannot be applied where they conflict with an existing standard.

New Standards set out transitional provisions to be applied upon the initial application of the Standard or Interpretation. An entity will either have to adopt new guidance retrospectively and restate past transactions for the effect of the requirement, or prospectively to transactions that occur after the date the Standard or Interpretation was introduced, depending on the transitional guidance

Chapter 3

The Conceptual Framework for Financial Reporting

The IASB Framework was approved by the IASC Board in April 1989 for publication in July 1989, and adopted by the IASB in April 2001. The Conceptual Framework was issued by the IASB in September 2010. It superseded the Framework for the Preparation and Presentation of Financial Statements.

This *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the *Conceptual Framework* is:

(a) To assist the Board in the development of future IFRSs and in its review of existing IFRSs;

(b) To assist the Board in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by IFRSs;

(c) To assist national standard-setting bodies in developing national standards;

(d) To assist preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of an IFRS;

(e) To assist auditors in forming an opinion on whether financial statements comply with IFRSs;

(f) To assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with IFRSs; and

(g) To provide those who are interested in the work of the IASB with information about its approach to the formulation of IFRSs.

Scope of Framework

The Conceptual Framework deals with:

(a) The objective of financial reporting;

The objective of general purpose financial reporting is

I. To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

II. To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entities resources.

III. To provide information regarding the liquidity of the entity

However, the financial statements need not provide all information that an user may require to arrive at decision as they contain only financial information and not the non financial information.

(b) The qualitative characteristics of useful financial information;

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The fundamental qualitative characteristics are Relevance and Faithful Representation. Comparability, Verifiability, Timeliness and Understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented.

(c) The definition, recognition and measurement of the elements from which financial statements are constructed;

Elements of Financial Statements include Assets, Liabilities, Equity, Income and Expenses

Recognition of the Elements of Financial Statements

The recognition is based on the probability of the future economic benefits and reliability of measurement. It involves the recognition of assets, liabilities, income and expense.

Measurement of the Elements of Financial Statements

Measurement involves assigning monetary amounts at which the elements of the financial statements are to be recognised and reported. The Framework acknowledges that a variety of measurement bases are used today to different degrees and in varying combinations in financial statements, including: Historical cost; Current cost ; Net realisable (settlement) value and Present value (discounted)

Historical cost is the measurement basis most commonly used today, but it is usually combined with other measurement bases. The Framework does not include concepts or principles for selecting which measurement basis should be used for particular elements of financial statements or in particular circumstances. The qualitative characteristics do provide some guidance, however.

(d) Concepts of capital and capital maintenance.

The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a loss.

Users of financial statement and their information needs

The Framework notes that financial statements cannot provide all the information that users may need to make economic decisions. For one thing, financial statements show the financial effects of past events and transactions, whereas the decisions that most users of financial statements have to make relate to the future. Further, financial statements provide only a limited amount of

the non-financial information needed by users of financial statements. While all of the information needs of these user groups cannot be met by financial statements, there are information needs that are common to all users, and general purpose financial statements focus on meeting these needs.

Responsibility for Financial Statements

The management of an enterprise has the primary responsibility for preparing and presenting the enterprise's financial statements.

The Cost Constraint on useful Financial Reporting

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes cost, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

Chapter 4

LIST OF STANDARDS

Total number of IFRS (including those effective from 1st January 2013) = 66

IFRS = 13

IAS = 28

IFRIC Interpretations = 16

SIC Interpretations = 9

List of IFRS

1	IFRS 1	First – time Adoption of International Financial Reporting Standards
2	IFRS 2	Share-based Payment
3	IFRS 3	Business Combinations
4	IFRS 4	Insurance Contracts
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
6	IFRS 6	Exploration for and evaluation of Mineral Resources
7	IFRS 7	Financial Instruments: Disclosures
8	IFRS 8	Operating Segments
9	IFRS 9	Financial Instruments (This standard will replace IAS 39 Financial Instruments: Recognition and Measurement on being updated completely)

10	IFRS 10	Consolidated Financial Statements
11	IFRS 11	Joint Arrangements
12	IFRS 12	Disclosure of Interests in Other Entities
13	IFRS 13	Fair Value Measurement

Including IFRSs that are applicable w. e f 1st January 2013 IFRS – 13

List of IAS

1	IAS 1	Presentation of Financial Statements
2	IAS 2	Inventories
3	IAS 7	Statement of Cash Flows
4	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
5	IAS 10	Events After the Reporting Period
6	IAS 11	Construction Contracts
7	IAS 12	Income Taxes
8	IAS 16	Property, Plant and Equipment
9	IAS 17	Leases
10	IAS 18	Revenue
11	IAS 19	Employee Benefits
12	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance

13	IAS 21	The Effects of Changes in Foreign Exchange Rates
14	IAS 23	Borrowing Costs
15	IAS 24	Related Party Disclosures
16	IAS 26	Accounting and Reporting by Retirement Benefit Plans
17	IAS 27	~~Consolidated and~~ Separate Financial Statements (w.e.f 1st January 2013)
18	IAS 28	Investments in Associates and Joint Ventures (w.e f. 1st January 2013)
19	IAS 29	Financial Reporting in Hyperinflationary Economies
	~~IAS 31~~	~~Interest in Joint Ventures~~ (w.e.f 1st January 2013)
20	IAS 32	Financial Instruments: Presentation
21	IAS 33	Earnings Per Share
22	IAS 34	Interim Financial Reporting
23	IAS 36	Impairment of Assets
24	IAS 37	Provisions, Contingent Liabilities and Contingent Assets
25	IAS 38	Intangible Assets
26	IAS 39	Financial Instruments: Recognition and Measurement
27	IAS 40	Investment Property
28	IAS 41	Agriculture

Including IAS applicable w.e.f 1st Jan 2013 – 28

List of IFRIC Interpretations

1	IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
2	IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments
3	IFRIC 4	Determining whether an Arrangement contains Lease
4	IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
5	IFRIC 6	Liabilities arising from Participation in a Specific Market- Waste Electrical and Electronic Equipment
6	IFRIC 7	Applying restatement approach under IAS 29
7	IFRIC 10	Interim Financial Reporting and Impairment
8	IFRIC 12	Service Concession Arrangements
9	IFRIC 13	Customer Loyalty Programmes
10	IFRIC 14	IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
11	IFRIC 15	Agreements for the Construction of Real Estate
12	IFRIC 16	Hedges of a Net Investment in a Foreign Operation
13	IFRIC 17	Distribution of Non – Cash assets to owners
14	IFRIC 18	Transfer of assets from customers
15	IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
16	IFRIC 20	Stripping Costs in the Production Phase

Including IFRIC Interpretations applicable w.e.f 1st January 2013 – 16

Before 1st January 2013 - 16

List of SIC Interpretations

1	SIC 7	Introduction of the EURO
2	SIC 10	Government Assistance- No Specific Relation to Operating Activities
	~~SIC 12~~	~~Consolidation- Special Purpose Entities~~ (w.e.f 1st January 2013
	~~SIC 13~~	~~Jointly Controlled Entities- Non Monetary Contribution by Venturers~~ (w.e.f ist January 2013)
3	SIC 15	Operating Lease- Incentives
4	SIC 21	Income Taxes- Recovery of Revalued Non Depreciable Assets
5	SIC 25	Income Taxes- Change in Tax Status of an Entity or its Shareholders
6	SIC 27	Evaluating the Substance of Transaction Involving the Legal Form of a Lease
7	SIC 29	Service Concession Arrangements: Disclosures
8	SIC 31	Revenue: Barter Transaction Involving Advertising Services
9	SIC 32	Intangible Assets- Web Site Costs

Including SIC Interpretations applicable w.e.f 1st January 2013 – 9

Before 1st January 2013 - 11

Total number of IFRS (w e f 1st January 2013) = 13+28+16+9 = 66

Chapter 5

PRESENTATION OF FINANCIAL STATEMENTS

I. PRESENTATION OF FINANCIAL STATEMENTS

IAS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements. Standards for recognising, measuring, and disclosing specific transactions are addressed in other Standards and Interpretations. It does not however prescribe any fixed format for presentation of Financial Statements though it includes a sample of illustrative financial statement structure in its Guidance on Implementing IAS 1which is optional.

This Standard applies to all general purpose financial statements based on International Financial Reporting Standards.

General purpose financial statements are those intended to serve users who do not have the authority to demand financial reports tailored for their own needs.

To meet that objective, financial statements provide information about an entity's:

- Assets
- Liabilities
- Equity
- Income and expenses, including gains and losses
- Other changes in equity
- 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.

Components of financial statements

IAS 1 defines a complete set of Financial Statements to include the following:

a) a statement of financial position as at the end of the period; (this was in earlier versions of IAS 1 referred to as 'Balance Sheet')

b) a statement of comprehensive income for the period;

- Components of profit or loss may be presented either as part of single statement of comprehensive income or in separate income statement
- When an income statement is prepared it should be displayed immediately before the statement of comprehensive income

c) a statement of changes in equity for the period;

d) a statement of cash flows for the period; (earlier referred to as cash flow statement)

e) notes, comprising a summary of significant accounting policies and other explanatory information; and

f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements

Reports that are presented outside of the financial statements -- including financial reviews by management, environmental reports, and value added statements -- are outside the scope of International Financial Reporting Standards (IFRSs).

Basis of Preparation of Financial Statements

1. Fair presentation and Compliance with IFRSs

The financial statements must present fairly the financial position, financial performance and cash flows of an entity. Fair presentation 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 IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

IAS 1 requires that an entity whose financial statements comply with IFRSs make an explicit and unreserved statement of such compliance in the notes. Financial statements should not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.

Inappropriate accounting policies cannot be rectified either by disclosure of the accounting policies used or by notes or explanatory material.

In extremely rare circumstances, management may conclude that compliance with an IFRS requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework. In such a case, the entity is required to depart from the IFRS requirement, with detailed disclosure of the nature, reasons, and impact of the departure.

2. Going Concern

An entity preparing IFRS financial statements is presumed to be a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case IAS 1 requires a series of disclosures like the basis on which the financial statements are prepared and the reasons why the entity is not regarded as going concern.

3. Accrual basis of accounting

IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

4. Consistency of Presentation

The presentation and classification of items in the financial statements should be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS.

5. Materiality and Aggregation

Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial.

6. Offsetting

Assets and liabilities, and income and expenses, should not be offset unless required or permitted by a Standard or an Interpretation. It is important that assets and liabilities, and income and expenses, are reported separately.

7. Comparative Information

IAS 1 requires that comparative information must be disclosed in respect of the previous period for all amounts reported in the financial statements, both face of financial statements and notes, unless another Standard requires otherwise. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless the reclassification is impracticable.

Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes.

IAS 8 deals with adjustments to comparative information required when an entity changes and accounting policy or corrects an error.

8. Consistency of preparation

A change in presentation and classification of items from one period to the next is permitted only when it is a result of:

- a significant change in the nature of the entity's operations;
- identification of a more appropriate presentation; or
- the requirements of a new IFRS or SIC.

9. Frequency of reporting

Financial statements are usually prepared annually. If the annual reporting period changes and financial statements are prepared for a different period, then the enterprise must disclose the reason for the change and a warning about problems of comparability

Structure and Content

The financial statements should be identified clearly and each component of the financial statements should be identified clearly. The following information should also be displayed prominently and repeated when necessary for proper understanding of the information presented:

a) Name of the reporting entity and any change in that information from the preceding reporting date.
b) Whether the statements are for an entity or for a group.
c) The date or period covered.
d) The presentation currency (defined in IAS 21 – The effects of changes in foreign exchange rates). Presentation currency is the currency in which the financial statements are presented.
e) Level of rounding used in presenting amounts (thousands, millions etc).

Information to be presented in the statement of financial position

As a minimum, the statement of financial position 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) below);

e) investments accounted for using the equity method;

f) biological assets;

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 IFRS 5 *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) above);

n) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;

o) deferred tax liabilities and deferred tax assets, as defined in IAS 12;

p) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

q) minority interest, presented within equity; and

r) Issued capital and reserves attributable to owners of the parent.

Current/ Non- current distinction

IAS 1 states that an entity should make a distinction between current and non current assets and liabilities, except when the presentation based on liquidity provides information that is more reliable and relevant

Information to be presented either in the statement of financial position or in the notes

An entity should disclose further sub-classifications of the line items presented, classified in an appropriate manner. The details to be provided would depend on the requirements of IFRS nad on the size, nature and function of the amounts involved

Regarding share capital and reserves, the entity should disclose the following on the face of the Statement of Financial Position or in the notes:

i. Number of shares authorised
ii. Number of shares issued and fully paid and issued but not fully paid
iii. Par value of shares or that shares have no par value
iv. reconciliation of shares outstanding at the beginning and the end of the period
v. description of rights, preferences, and restrictions
vi. Shares held by the entity, including shares held by subsidiaries and associates
vii. shares reserved for issuance under options and contracts
viii. a description of the nature and purpose of each reserve within owners' equity

An entity without share capital, such as partnership or trust shall disclose information equivalent to I to vii above

Statement of Comprehensive Income

IAS 1 requires all non-owner changes in equity to be presented in either (i) statement of comprehensive income or (ii) two statements, a separate income statement and a statement of other comprehensive income.

Information to be presented on the face of the statement of comprehensive income

The following information should be disclosed on the face of the statement of comprehensive income, together with any additional headings or sub-totals as may be required by individual standards or that may be required to give a fair presentation of the entity's performance

a) Revenue

b) Finance costs

c) Share of the profit or loss of associates and joint ventures accounted for using the equity method

d) Tax Expenses

e) a single amount comprising the total of

- the post-tax profit or loss of discontinued operations and
- the post-tax gain or loss recognised on the disposal of the assets or disposal group(s) constituting the discontinued operation

f) profit or loss

g) each component of other comprehensive income classified by nature

h) each component of other comprehensive income of associates and joint venture accounted using equity method; and

i) total comprehensive income

The following items must also be disclosed on the face of the statement of comprehensive income as allocations of

a) profit or loss for the period:

- profit or loss attributable to minority interest; and
- Profit or loss attributable to equity holders of the parent.

b) Total comprehensive income for the period as:

- comprehensive income attributable to minority interest; and
- Comprehensive income attributable to equity holders of the parent.

All items of income or expense recognised in a period must be included in profit or loss unless a Standard or an Interpretation requires otherwise.

No items may be presented on the face of the statement of comprehensive income or in the notes as extraordinary items.

Following items need to be disclosed either on the face of the income statement or in the notes, if material:

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) disposal of items of property, plant and equipment;
d) disposal of investments;
e) discontinued operations;
f) litigation settlements; and
g) other reversals of provisions.

Expenses should be analysed either by nature of expenses (raw materials, staffing costs, depreciation, etc.) or by function (cost of sales, selling, administrative, etc.) either on the face of the income statement or in the notes. If an enterprise categorizes by function, additional information on the nature of expenses including depreciation, amortisation expense and employee benefits expense must be disclosed.

The amount of dividends recognised as distributions to equity holders during the period and the related amount per share should be disclosed on the face of the statement of comprehensive income or the statement of changes in equity or in the notes.

Statement of changes in equity

An entity shall present a statement of changes in equity showing in the statement:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) each item of other comprehensive income: and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

II. STATEMENT OF CASH FLOWS [IAS 7]

The statement of cash flows is an important primary statement. It shows a company's flow of cash.

All enterprises that prepare financial statements in conformity with IFRSs are required to present a statement of cash flows. [IAS 7.1]

The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term,

highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition.[IAS 7.7]. Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date). Bank overdrafts which are repayable on demand and which form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents. [IAS 7.8]

Cash flows **exclude** transfers between 'cash' and 'cash equivalents' hence, it is essential to determine what makes up cash

Presentation of the Statement of Cash Flows

Cash flows must be analysed between operating, investing and financing activities.

Key principles specified by IAS 7 for the preparation of a statement of cash flows are as follows:

- Operating activities are the main revenue-producing activities of the enterprise that are not investing or financing activities. Separate disclosure is required as cash flow from operating activities is a key indicator of the extent to which the operation of the entity has generated sufficient cash flows for maintaining its operating capability etc.

- Investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents . Separate disclosure is important as they represent the extent to which expenditure has been made for resources intended to generate future income and cash flows.

- Financing activities are activities that alter the size and composition of equity capital and borrowing structure of the enterprise. Separate disclosure is useful in predicting claims on future cash flows by providers of capital to the entity.

- for operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable [IAS 7.18]

Direct and indirect method

The direct method shows each major class of gross cash receipts and gross cash payments.

The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

Foreign currency cash flows

The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary should be the rate in effect at the date of the cash flows.

Cash flows of foreign subsidiaries should be translated at the exchange rates prevailing when the cash flows took place.

Investment in subsidiaries, associates and joint ventures

In case of associates and joint ventures, where the equity method is used, the statement of cash flows should report only cash flows between the investor and the investee; where proportionate consolidation is used, the cash flow statement should include the venturer's share of the cash flows of the investee

Aggregate cash flows relating to acquisitions and disposals of subsidiaries and other business units should be presented separately and classified as investing activities, with specified additional disclosures. The aggregate cash paid or received as consideration should be reported net of cash and cash equivalents acquired or disposed of

Other Accounting treatment

- Interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period [IAS 7.31]

- Cash flows arising from taxes on income shall be separately disclosed and are normally classified as operating, unless they can be specifically identified with financing or investing activities [IAS 7.35]

- cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments except for the following cases, which may be reported on a net basis: [IAS 7.22-24]
- cash receipts and payments on behalf of customers (for example, receipt and repayment of demand deposits by banks, and receipts collected on behalf of and paid over to the owner of a property)
- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, generally less than three months (for example, charges and collections from credit card customers, and purchase and sale of investments)
- cash receipts and payments relating to fixed maturity deposits
- cash advances and loans made to customers and repayments thereof
- investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements [IAS 7.43]
- the components of cash and cash equivalents should be disclosed, and a reconciliation presented to amounts reported in the statement of financial position [IAS 7.45]
- the amount of cash and cash equivalents held by the enterprise that is not available for use by the group should be disclosed, together with a commentary by management [IAS 7.48]
- Additional information that may be lead to better understanding of financial statements.
- Amount of undrawn borrowing facilities available for future operating activities and to settle capital commitment.
- Aggregate amount of cash flows that represent increase in operating capacity separately from those cash flows required to maintain operating capacity

- Amount of cash flows arising from operating, investing and financing activities of each reportable segment.

- Aggregate amount of cash flows from each operating, investing and financing activities related to each joint venture reported using proportionate consolidation.

NOTES TO THE FINANCIAL STATEMENTS

The notes must: [IAS 1.103]

- present information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclose any information required by IFRSs that is not presented on the face of the statement of financial position, statement of comprehensive income, statement of changes in equity, or cash flow statement; and
- Provide additional information that is not presented on the face of the statement of financial position, statement of comprehensive income, statement of changes in equity, or cash flow statement that is deemed relevant to an understanding of any of them.

Notes should be cross-referenced from the face of the financial statements to the relevant note. [IAS 1.104]

IAS 1.105 suggests that the notes should normally be presented in the following order:

- a statement of compliance with IFRSs
- a summary of significant accounting policies applied, including: [IAS 1.108]
    - the measurement basis (or bases) used in preparing the financial statements
    - the other accounting policies used that are relevant to an understanding of the financial statements
- supporting information for items presented on the face of the statement of financial position, statement of comprehensive income, statement of changes in equity, and cash flow statement, in the order in which each statement and each line item is presented
- other disclosures, including:

- contingent liabilities and unrecognised contractual commitments
- non-financial disclosures, such as the entity's financial risk management objectives and policies

Summary of other IFRS dealing with presentation requirements

III. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- Standard prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors
- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements
- Hierarchy for choosing accounting policies:
  - IASB Standards and Interpretations, taking into account any relevant IASB implementation guidance;
  - in the absence of a directly applicable IFRS, look to the requirements and guidance in IFRSs dealing with similar and related issues; and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework for the Preparation and Presentation of Financial Statements; and
  - management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices.
- Accounting policies are applied consistently to similar transactions.
- An accounting policy is changed only if required by an IFRS, or if the change results in reliable and more relevant information.
- If a change in accounting policy is required by an IFRS, the pronouncement’s transition requirements are followed. If none are specified, or if the change is voluntary, the new accounting policy is applied retrospectively by restating prior periods.

- If restatement is impracticable, the cumulative effect of the change is included in profit or loss. If the cumulative effect cannot be determined, the new policy is applied prospectively.
- 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. Example change in mortality rate of the employees.
- Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
- The effect of a change in an accounting estimate, shall be recognised prospectively i.e. changes in accounting estimates are accounted for in the current year, or future years, or both and there is no restatement.
- 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
  - was available when financial statements for those periods were authorised for issue; and
  - 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
- All material errors are corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening statement of financial position for the earliest prior period presented.
- Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions of users taken on the basis of the financial statements.

IV. IAS 10 Events after the Reporting Period

- The standard prescribes when an entity should adjust its financial statements for events after the reporting period and the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.
- Events after the end of the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- Adjusting events – the financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period (such as resolution of a court case after the end of the reporting period).
- Non-adjusting events – the financial statements are not adjusted to reflect events that arose after the end of the reporting period (such as a decline in market prices after year end, which does not change the valuation of investments at the end of the reporting period). The nature and impact of such events are disclosed.
- Dividends proposed or declared on equity instruments after the end of the reporting period are not recognised as a liability at the end of the reporting period. Disclosure is required.
- Financial statements are not prepared on a going concern basis if events after the end of the reporting period indicate that the going concern assumption is not appropriate.
- An entity discloses the date its financial statements are authorised for issue.

V. IAS 33: Earning per Share

- The principal objective of this standard is to prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. However, the prime focus of this Standard is on the denominator of the earnings per share calculation.

- This standard is not mandatory on all entities. However, entities whose share are listed or are in process of listing for trading in public and any other entity voluntarily presents EPS must comply with this standard.
- An *ordinary share* is an equity instrument that is subordinate to all other classes of equity instruments.
- A *potential ordinary share* is a financial instrument or other contract that may entitle its holder to ordinary shares
- An entity should present basic and diluted EPS for each class of ordinary share that has a different right to share in profit for the period. The EPS should be presented for all periods presented and with equal prominence.
- If an entity presents only a statement of comprehensive income, EPS is reported in that statement. If it presents both a statement of comprehensive income and a separate statement of comprehensive income, EPS is reported only in the separate statement of comprehensive income.
- An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.
- EPS is reported for profit or loss attributable to equity holders of the parent entity, for profit or loss from continuing operations attributable to equity holders of the parent entity, and for any discontinued operations.
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. In other words, basic EPS=earnings numerator: after deduction of all expenses including tax, and after deduction of non-controlling interests and preference dividends/ denominator: weighted average number of shares outstanding during the period.
- The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential

ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources

- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Diluted EPS calculated as follows:
  - earnings numerator: the profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
  - denominator: adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and
  - anti-dilutive potential ordinary shares are excluded from the calculation.
- If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.

VI. IAS 34: Interim Financial Statement

- The objective of this standard is to prescribe the minimum content of an interim financial report and the recognition and measurement principles for an interim financial report.
- This is not a mandatory statement for all enterprises. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards.
- *Interim financial report* means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
- *Interim period* is a financial reporting period shorter than a full financial year.

- Minimum components of an interim financial report are:
  - condensed statement of financial position;
  - condensed statement of comprehensive income presented either as a condensed single statement or a condensed separate statement of comprehensive income and a condensed statement of comprehensive income;
  - condensed statement of changes in equity;
  - condensed statement of cash flows; and
  - selected explanatory notes.
- Prescribes the comparative periods for which interim financial statements are required to be presented.
- Materiality is based on interim financial data, not forecasted annual amounts.
- The notes in an interim financial report provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
- Same accounting policies as used in annual financial statements.
- Revenue and costs are recognised when they occur, not anticipated or deferred.
- Change in accounting policy – restate previously reported interim periods.
- **IAS 1 v/s IAS 34**: "This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting. However, paragraphs 15-35 apply to such financial statements" [IAS 1.4]. Paragraphs 15-35 of IAS 1, which therefore apply when preparing all interim financial reports (whether condensed or complete), deal with:
  - fair presentation and compliance with IFRSs;
  - going concern;
  - accrual basis of accounting;
  - materiality and aggregation; and
  - off-setting.

VII. IAS 21: Effect of Changes in Foreign Exchange Rates

The standard deals with three aspects namely

- Foreign Operation (FO),
- Foreign Currency Transaction (FCT),
- Presentation of Financial Statements in Foreign Currency

Effective Date and Application of this Standard

- An entity shall apply this standard for annual periods beginning on or after 1st January 2005
- This Standard supersedes IAS 21 – The Effects of Changes in Foreign Exchange Rates (Revised in 1993)
- Also relevant are SIC -7 Introduction of the Euro and IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

3 Aspects of IAS 21

- Foreign Operation (FO)
- Foreign Currency Transaction (FCT)
- Presentation of Financial Statements (FS) in Foreign Currency (FC)

Objectives of IAS 21

- Prescribing rules to include FCT and FO in the FS of an entity
- Translating FS into Presentation Currency

Principal Issues

- Which Exchange Rate to Use??
- How to report the Effects of Changes in Exchange Rates in the FS

Application of the Standard

- **In Accounting** – Transactions and Balances in FCs (except derivative transactions and balances covered under **IFRS 9)**
- **In Translating** – Results and Financial Position of FOs (included in the FS of the entity by Consolidation)
- **In Translating** – Results and Financial Position of the Entity – Into Presentation Currency

Exclusion

- FC Derivatives (IFRS 9) excluded from the scope of IAS 21
- Hedge Accounting for FC Items and Hedging of Net Investment in FO excluded
- Does not apply to presentation in a Statement of Cash Flow of Foreign Currency Transaction or Translation of Cash Flows from FOs (IAS 7 Cash Flow Statements)

FC Derivative embedded in other contracts (not covered under IFRS 9) are covered under IAS 21

Important Terminologies

- Closing Rate
- Exchange Difference
- Exchange Rate
- Fair Value
- Foreign Currency
- Foreign Operation
- Functional Currency
- Group
- Monetary Items
- Net Investment in a Foreign Operation
- Presentation Currency
- Spot Exchange Rate

Certain Terminologies in Detail

- **Foreign Operation - is an entity that is a**
  - A Subsidiary
  - An Associate
  - A Joint Venture
  - A Branch

  of the **Reporting Entity**

- **Net Investment in a Foreign Operation**

An Entity (Parent A)

Monetary Items (No Trade Receivable or Payables) (Loan Given)

Receivable from or Payable to

(Settlement for which is neither planned nor likely to occur in foreseeable future)

A Foreign Operation (Subsidiary B)

- **Monetary Items**
  - It is a right to receive a fixed or determinable number of units of a currency
    - Eg., Pension and Other employee benefits to be paid in Cash
    - Provisions that are to be settled in Cash
    - Cash dividends that are recognized as liabilities
- **Non Monetary Items**
  - Absence of right to receive a fixed or determinable number of units of a currency
    - Eg., Prepaid rent
    - Goodwill
    - Intangible Assets
    - Inventories
    - PPE

Approach of a Standard

1. Determination of Functional Currency
2. Translation of FC Items into Functional Currency and reporting the effects of translation
3. Translation of Results and Financial Position of an individual entity within the Reporting Entity whose Functional Currency differs from the Presentation Currency should be translated

Reporting Foreign Currency Transactions in Functional Currency (of the Reporting Entity)

Nature of FC Transactions

1. Buying and Selling of Goods or Services – Price denominated in FC
2. Borrowing or Lending of Funds – When amounts Payable or Receivable – Denominated in FC
3. Acquiring or Disposing of assets – Denominated in FC or Incurring or Settling of Liabilities – Denominated in FC

Initial Recognition

Step 1: Apply Spot Exchange Rate between Foreign Currency and Functional Currency

Step 2: As on the Date of Transaction (date on which it qualifies for recognition under IFRS)

Step 3: On the Foreign Currency Amount

Reporting at the ends of Subsequent Reporting Periods

At the end of every reporting period

1. FC Monetary Items translated – using Closing Rate
2. Non Monetary Items – measured using Historical Cost in FC – translated at Ex Rate at the date of the Transaction
3. Non Monetary Items – measured using Fair Value in FC – translated at Ex Rate at the date when FV was determined

(Determination of HC or FV depends on IAS 16 where the item is PPE)

(Determination of lower of Cost or NRV as per IAS 2 where it is inventory)

(Determination of lower of carrying amount or recoverable amount depends on IAS 36 Impairment of Assets where assets are subject to impairment)

Recognition of Exchange Differences

Exchange Differences arises

- On settlement of Monetary Items or
- Translating Monetary Items at rates different from that of Initial Recognition – during the period or in previous financial statements

Treatment of Exchange Difference

- Shall be recognized in Profit or Loss Account.

Settlement of Monetary Items in FC

- **Change in Ex Rate – between Transaction Date and Date of Settlement –** results in exchange difference
- **Settlement in the same period –** All exchange difference is recognized in that period
- **Settlement in subsequent period –** Exchange difference recognized in each period up to the date of settlement

Monetary Items that forms part of a reporting entity's NI in FO

Exchange difference is recognized

- in Profit or Loss Account in Separate FS of Reporting Entity or
- in Profit or Loss Account in Individual FS of the Foreign Operation

In Consolidated FS

- Such Ex Diff is shall be recognized initially in other comprehensive income and reclassified from equity to profit or loss
- On disposal of NI in FO

Gain or Loss in Non Monetary Item

- Recognized in other Comprehensive Income – exchange component of that gain or loss is recognized in the other Comprehensive income

(IAS 16 requires gains or losses on revaluation of PPE to be recognized in other comprehensive income)

- Recognized in Profit or Loss A/c – exchange component of that gain or loss is recognized in Profit or Loss A/c

Change in Functional Currency

Functional Currency of an entity reflects the underlying

- Transactions
- Events
- Conditions

Hence, Functional Currency once determine can be changed only if there is change to those underlying

- Transactions
- Events
- Conditions

(For eg., Change in Currency that mainly influences the sale price of goods and services may lead to a change in an entity's functional currency)

Change in Entity's Functional Currency

- The entity shall apply translation procedure applicable to the new functional currency
- Prospectively
- From the Date of Change

using the Exchange Rate at the Date of Change

Use of Presentation Currency other than Functional Currency

- An entity may present its financial statement in any currency (or currencies)
- If the Presentation Currency differs from the functional currency of the entity, it translates its results and financial position to the presentation currency
- The results and financial position of an entity whose functional currency is not the currency of a hyper inflationary economy – shall be translated into a different presentation currency using the following procedure
  - Assets and Liabilities of each statement of financial position presented shall be translated at the closing rate
    - At the date of that statement of financial position
  - Income and expenses for each statement of comprehensive income or separate income statement presented shall be translated at exchange rates

        - At the dates of the Transaction
    - All resulting exchange differences shall be recognized in other comprehensive income

Translation of a Foreign Operation

- Follows normal Consolidation procedure
- Intragroup monetary assets or liability, whether short term or long term cannot be eliminated against corresponding intra group liability
- Treatment as assets and liabilities of the Foreign Operation
    - Any GW arising on the acquisition of a foreign operation
    - Any FV adjustments to the carrying amount of assets and liabilities on the acquisition of that foreign operation
    - They shall expressed in Functional Currency of the Foreign Operation
    - Shall be translated at the closing rate

Disposal or Partial Disposal of a Foreign Operation

On Disposal of a Foreign Operation

- Exchange Differences relating to that Foreign Operaiton
- Recognized in Other Comprehensive Income and Accumulated in a Separate Component of Equity
- Shall be reclassified from Equity to Profit or Loss A/c
- When the gain or loss on disposal is recognized (IAS 1)
- On partial disposal proportionate share of the cumulative amount shall be reclassified to Profit or Loss A/c

The following accounted for as Disposals

- Loss of Control of Subsidiary (incl a Foreign Operation)
- Loss of Significant Influence over an Associate (incl a Foreign Operation)
- Loss of Joint Control over a Jointly Controlled Entity (incl a Foreign Operation)

Tax Effects of all Exchange Differences

- Tax effects on

    - Gains and loss on FC Transactions and
    - Exchange Difference arising on translating the Results and Financial Position of an Entity into a different currency.

- IAS 12 Income Taxes applies to these tax effects

Disclosure Requirements

An entity shall disclose

- Amount of Exchange Difference recognized in Profit or Loss A/c
- Net Exchange Differences recognized in other Comprehensive Income and Accumulated in a separate component of equity
- Reconciliation of the amount of such exchange difference at the beginning and end of the period
- Statement of fact
    - when Presentation Currency is difference from that of the Functional Currency
    - of Change in the Functional Currency of the Reporting Entity
    - When entity presents its financial statements in a currency different from its functional currency
    - When an entity displays its financial statement or other financial information in a currency that is different from either its functional currency or presentation currency

Chapter 6

FINANCIAL REPORTING BY GROUP ENTITIES

The relevant standards in this context are IAS 1, IFRS 3, 10, 11, IAS 27, 28.

A synopsis of these standards are given below

I. IFRS 3: BUSINESS COMBINATIONS

Business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants. Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations

Scope Exclusions

- the formation of a joint venture
- the acquisition of an asset or a group of assets that does not constitute a business
- a combination of entities or businesses under common control

Method of Accounting for Business Combinations

Acquisition method

Steps in applying the acquisition method are:

1. Identification of the 'acquirer' - the combining entity that obtains control of the acquiree.
2. Determination of the 'acquisition date' - the date on which the acquirer obtains control of the acquiree.
3. Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI) in the acquiree.
4. Recognition and measurement of goodwill or a gain from a bargain purchase option.

Applying the acquisition method

- A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.
- One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree).
- The IFRS establishes principles for recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
- Any classifications or designations made in recognising these items must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.
- Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.
- the acquirer, having recognised the identifiable assets, the liabilities and any non-controlling interests has to identify any difference between:

  (a) the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
  (b) the net identifiable assets acquired.

  The difference will, generally, be recognised as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognised in profit or loss.
  The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

Disclosures

i. Disclosure of information about current business combinations
ii. Disclosure of information about adjustments of past business combinations

In general, an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in a business combination after the business combination has been completed in

accordance with other applicable IFRSs. However, the IFRS provides accounting requirements for reacquired rights, contingent liabilities, and contingent consideration and indemnification assets.

II. IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (renamed as SEPARATE FINANCIAL STATEMENTS w.e.f 1/1/2013)

Twin objectives of setting standards to be applied:

i. in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent; and
ii. in accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statement

Key Definitions [IAS 27.4]

Consolidated financial statements: The financial statements of a group presented as those of a single economic entity.

Subsidiary: An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Parent: An entity that has one or more subsidiaries.

Control: The power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Identification of Subsidiaries

Control is presumed when the parent acquires more than half of the voting rights of the enterprise. Even when more than one half of the voting rights is not acquired, control may be evidenced by power: [IAS 27.13]

- over more than one half of the voting rights by virtue of an agreement with other investors; or
- to govern the financial and operating policies of the other enterprise under a statute or an agreement; or
- to appoint or remove the majority of the members of the board of directors; or
- to cast the majority of votes at a meeting of the board of directors.

Consolidation procedures

IAS 27 requires the parent entity to consolidate all its subsidiaries by following the procedures stated below:

- Line-by-line adding together items of assets, liabilities, equity, income and expenses of the financial statements of the parent and its subsidiaries. Only post acquisition income and expenses are added.
- Elimination of the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary
- Elimination in full of intragroup balances and transactions (e.g. profits and losses resulting from sale of inventory within the group), and including income, expenses and dividends; note intragroup losses may indicate an impairment that requires
- Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified. However, they are not deducted from the profit or loss for the year; and
- Non-controlling interests in the net assets of consolidated subsidiaries are identified and presented in equity separately from the parent shareholders' equity. Non-controlling interests in the net assets consist of:

  (i) the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3; and

(ii) the minority's share of changes in equity since the date of the combination.

- The depreciation on the property, plant and equipment, impairment of assets and amortization of intangibles of subsidiary are calculated based on acquisition date values of assets and liabilities of the subsidiary.

Non-controlling interests must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be 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.

Changes in the ownership interests

Changes in a parent's ownership interest in a subsidiary **that do not result in the loss of control** are accounted for within equity. When an **entity loses control** of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Separate financial statements

When an entity elects, or is required by local regulations, to present separate financial statements, investments in subsidiaries, jointly controlled entities and associates must be accounted for at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Disclosures

i. Disclosures required in consolidated financial statements
ii. Disclosures required in separate financial statements that are prepared for a parent that is permitted not to prepare consolidated financial statements
iii. Disclosures required in the separate financial statements of a parent, investor in a jointly controlled entity, or investor in an associate

Separate Financial Statements (IAS 27) w.e.f 1st January 2013

IAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in

- subsidiaries,
- joint ventures and
- associates

when an entity prepares separate financial statements.

Requirement of the Standard

The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*.

Effective Date of the Standard

The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 (as amended in 2011) at the same time.

Scope of the Standard

This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

Definitions

- **Consolidated financial statements** are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

- **Separate financial statements** are those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IFRS 9 *Financial Instruments*.

In the Preparation of Separate Financial Statements

When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) At cost, or

(b) In accordance with IFRS 9.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with IFRS 9 is not changed in such circumstances.

Disclosure

- An entity shall apply all applicable IFRSs when providing disclosures in its separate financial statements
- When a parent elects not to prepare consolidated financial statements and instead prepares separate financial statements a description of the method used to account for the investments should be disclosed. It shall also disclose in those separate financial statements:
    - The fact that the financial statements are separate financial statements
    - A list of significant investments in subsidiaries, joint ventures and associates, including:

      (i) The name of those investees.

      (ii) The principal place of business (and country of incorporation, if different) of those investees.

      (iii) Its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

- On preparing separate financial statements the parent or investor shall identify the financial statements prepared in accordance with IFRS 10, IFRS 11 or IAS 28 (as amended in 2011) to which they relate.

Important Points

- The standard does not specify the class of entities that produce separate financial statements
- Financial statements in which the equity method is applied are not separate financial statements.
- The financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- **Recognition of Dividend:** An entity shall recognize a dividend from a subsidiary, a joint venture or an associate in profit or loss in its separate financial statements when its right to receive the dividend is established.
- Where on application of this standard the entity does not apply IFRS 9, IAS 39 shall stand applicable instead of IFRS 9

III. IAS 28 - INVESTMENT IN ASSOCIATES renamed as Investments in Associates and Joint Ventures w.e.f 1st January 2013

Key Definitions

Associate: An enterprise in which the investor has significant influence but not control or joint control.

Significant Influence: Power to participate in the financial and operating policy decisions but not control them.

Equity method: A method of accounting by which an equity investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net profit or loss of the associate (investee).

The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process;
- material transactions between the investor and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

Equity method

Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

- The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss.
- Distributions received from an investee reduce the carrying amount of the investment.
- Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee that arise from changes in the investee's other comprehensive income.
- Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences.
- The investor's share of those changes is recognised in other comprehensive income of the investor
- After application of the equity method, including recognising the associate's losses, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.
- The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

An investor need not use the equity method if all of the following four conditions are met: [IAS 28.13(c)]

1. the investor is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;
2. the investor's debt or equity instruments are not traded in a public market;
3. the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
4. the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

Presentation

- Equity method investments must be classified as non-current assets. [IAS 28.38]
- The investor's share of the profit or loss of equity method investments, and the carrying amount of those investments, must be separately disclosed. [IAS 28.38]
- The investor's share of any discontinuing operations of such associates is also separately disclosed. [IAS 28.38]
- The investor's share of changes recognised directly in the associate's equity are also recognised directly in equity by the investor, with disclosure in the statement of changes in equity as required by IAS 1 Presentation of Financial Statements. [IAS 28.39]

Investments in Associates and Joint Venture (IAS 28) w.e.f 1st January 2013

The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures

Effective Date of Application

The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

If an entity applies this Standard earlier, it shall disclose that fact and apply IFRS 10, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 (as amended in 2011) at the same time.

Application of Standard

The standard is to be applied by all entities that are investors with joint control of, or significant influence over, an investee.

Definitions

- An *associate* is an entity over which the investor has significant influence.
- *Consolidated financial statements* are the financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
- The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.
- The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
- A *joint arrangement* is an arrangement of which two or more parties have joint control.

- *Joint control* is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control
- A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
- A *joint venturer* is a party to a joint venture that has joint control of that joint venture.
- *Significant influence* is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

Significant Influence

If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence

Test of Significant Influence

(a) Representation on the board of directors or equivalent governing body of the investee;

(b) Participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) Material transactions between the entity and its investee;

(d) Interchange of managerial personnel; or

(e) Provision of essential technical information.

Application of Equity Method

- An entity uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements.
- An entity that does not have any subsidiaries also uses the equity method to account for its investments in associates or joint ventures in its financial statements even though those are not described as consolidated financial statements.

Non Application of Equity Method

The only financial statements to which an entity does not apply the equity method are separate financial statements. It presents in accordance with IAS 27 *Separate Financial Statements*.

The Equity Method

- Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor’s share of the profit or loss of the investee after the date of acquisition.
- The investor’s share of the investee’s profit or loss is recognised in the investor’s profit or loss.
- Distributions received from an investee reduce the carrying amount of the investment

Exemptions from Application of Equity Method

An entity need not apply the equity method to its investment in an associate or a joint venture if

- the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of IFRS 10 or
- If all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with IFRSs.

Points to note under Equity Method

- An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture.
- On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

  (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

  (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the

determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

- The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method.
- If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

Discontinuing Application of Equity Method

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

(a) **Subsidiary:** If the investment becomes a subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.

(b) **Financial Asset:** If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9.

The entity shall recognise in profit or loss any difference between:

(i) The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and

(ii) The carrying amount of the investment at the date the equity method was discontinued.

(c) When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

Disclosures

No disclosures specified in IAS 28.

Important Points

- A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
- An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee.
- IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method.
- When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to IFRS 9.
- In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with IFRS 9.
- An entity shall apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale.
- Investment, or a portion of an investment, in an associate or a joint venture is classified as non-current asset where the investment, or any retained interest in the investment not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

- When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IFRS 9.
- If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.
- Upstream and Downstream transactions in the application of Equity Method are as follows 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.
- An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of IAS 27

IV. IFRS 10: CONSOLIDATED FINANCIAL STATEMENTS

The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Effective Date of Application

The IFRS is effective for annual periods beginning on or after 1 January 2013.

Requirements of the Standard

- Requires an entity (the *parent*) that controls one or more other entities (*subsidiaries*) to present consolidated financial statements;

- The standard defines the principle of *control*, and establishes control as the basis for consolidation;
- The standard sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
- The standard sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 does not deal with

Accounting requirements for business combinations and their effect on consolidation, including goodwill arising on a business combination (IFRS 3 on Business Combinations)

IFRS 10 does apply to

- A parent (need not present consolidated financial statements) if it meets all the following conditions:

  (i) It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

  (ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

  (iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

  (iv) Its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs.

- Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.

Important Definitions

Consolidated Financial Statements - The financial statements of a **group** in which the assets, liabilities, equity, income, expenses and cash flows of the **parent** and its **subsidiaries** are presented as those of a single economic entity.

Control of an Investee - An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Decision Maker - An entity with decision-making rights that is either a principal or an agent for other parties.

Group - A **parent** and its **subsidiaries**.

Non-controlling Interest - Equity in a **subsidiary** not attributable, directly or indirectly, to a **parent**.

Parent - An entity that **controls** one or more entities.

Power - Existing rights that give the current ability to direct the **relevant activities**.

Protective Rights - Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant Activities - For the purpose of this IFRS, relevant activities are activities of the investee that significantly affect the investee's returns

Removal Rights - Rights to deprive the decision maker of its decision-making authority.

Subsidiary - An entity that is controlled by another entity.

Determination of Control

- An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
- An investor controls an investee if and only if the investor has all the following:

  (a) Power over the investee

  (b) Exposure, or rights, to variable returns from its involvement with the investee and

(c) The ability to use its power over the investee to affect the amount of the investor's returns

Factors that assist Determination of Control

Consideration of the following factors may assist in making that determination:

(a) The purpose and design of the investee

(b) What the relevant activities are and how decisions about those activities are made

(c) Whether the rights of the investor give it the current ability to direct the relevant activities

(d) Whether the investor is exposed, or has rights, to variable returns from its involvement with the investee and

(e) Whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns

Power over the Investee

- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the *relevant activities*, ie the activities that significantly affect the investee's returns.
- Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.
- An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.

- An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities

Rights that give an investor power over an investee

Power arises from rights. To have power over an investee, an investor must have existing rights that give the investor the current ability to direct the relevant activities

Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:

(a) Rights in the form of voting rights (or potential voting rights) of an investee

(b) Rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities;

(c) Rights to appoint or remove another entity that directs the relevant activities;

(d) Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and

(e) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

The greater an investor's exposure, or rights, to variability of returns from its involvement with an investee, the greater is the incentive for the investor to obtain rights sufficient to give it power

Relevant activities and direction of relevant activities

For many investees, a range of operating and financing activities significantly affect their returns. Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:

(a) Selling and purchasing of goods or services;

(b) Managing financial assets during their life (including upon default);

(c) Selecting, acquiring or disposing of assets;

(d) Researching and developing new products or processes; and

(e) Determining a funding structure or obtaining funding.

Examples of decisions about relevant activities include but are not limited to:

(a) Establishing operating and capital decisions of the investee, including budgets; and

(b) Appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment.

Protective Rights

Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances. However, not all rights that apply in exceptional circumstances or are contingent on events are protective

Examples of protective rights include but are not limited to:

(a) a lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.

(b) the right of a party holding a non-controlling interest in an investee to approve capital expenditure greater than that required in the ordinary course of business, or to approve the issue of equity or debt instruments.

(c) the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions.

Voting Rights

Often an investor has the current ability, through voting or similar rights, to direct the relevant activities

Power with a majority of the voting rights

An investor that holds more than half of the voting rights of an investee has power in the following situations

(a) the relevant activities are directed by a vote of the holder of the majority of the voting rights, or

(b) a majority of the members of the governing body that directs the relevant activities are appointed by a vote of the holder of the majority of the voting rights.

Majority of the voting rights but no power

For an investor that holds more than half of the voting rights of an investee, to have power over an investee, the investor's voting rights must be substantive and must provide the investor with the current ability to direct the relevant activities, which often will be through determining operating and financing policies.

An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive.

Power without a majority of the voting rights

An investor can have power with less than a majority of the voting rights of an investee, for example, through:

(a) A contractual arrangement between the investor and other vote holders

(b) Rights arising from other contractual arrangements

(c) The investor's voting rights

(d) Potential voting rights or

(e) A combination of (a)–(d).

Returns from Investee

- An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.

- Although only one investor can control an investee, more than one party can share in the returns of an investee.

Power and Returns

An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

Continuous Reassessment

An investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control

Consolidation Procedure

Consolidated financial statements:

(a) Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.

(b) Offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary (IFRS 3 explains how to account for any related goodwill).

(c) Eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (profits or losses resulting from intragroup

transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. IAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

IFRS 10 Supersedes

- This IFRS supersedes the requirements relating to consolidated financial statements in IAS 27 (as amended in 2008)
- This IFRS also supersedes SIC-12 *Consolidation—Special Purpose Entities*

Disclosures

No disclosures specified in IFRS 10

Important Points

- When two or more investors collectively control an investee, when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant IFRSs, such as IFRS 11 *Joint Arrangements*, IAS 28 *Investments in Associates and Joint Ventures* or IFRS 9 *Financial Instruments.*
- When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power
- Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities.

- An entity includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary.
- The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date.
- If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the entity shall compute its share of profit or loss after adjusting for the dividends on such shares, whether or not such dividends have been declared.
- If a parent loses control of a subsidiary, it shall:

Derecognise:

(i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and

(ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

Recognise:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and

(iii) any investment retained in the former subsidiary at its fair value at the date when control is lost.

Reclassify

Reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognised in other comprehensive income in relation to the subsidiary on

Recognise

Recognise any resulting difference as a gain or loss in profit or loss attributable to the parent.

- An entity shall apply this IFRS retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- When applying this IFRS for the first time, an entity is not required to make adjustments to the accounting for its involvement with either:

  (a) Entities that were previously consolidated in accordance with IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation— Special Purpose Entities* and, in accordance with this IFRS, continue to be consolidated; or

  (b) Entities that were previously unconsolidated in accordance with IAS 27 and SIC-12 and, in accordance with this IFRS, continue not to be consolidated.

V. IFRS 11: JOINT ARRANGEMENTS

An entity applies IFRS 11 to determine the type of joint arrangement in which it is involved

This standard establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Effective Date of Application of the Standard

The IFRS is effective for annual periods beginning on or after 1 January 2013

Requirements of the Standard

A party to the joint arrangement is required to

- Determine the type of joint arrangement in which it is involved
- By assessing its rights and obligations arising from the arrangement.

Application of IFRS 11

The standard is to be applied by all entities that are a party to a joint arrangement.

Definitions

Joint arrangement - An arrangement of which two or more parties have **joint control**.

Joint control - The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation - A **joint arrangement** whereby the parties that have **joint control** of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint operator - A party to a **joint operation** that has **joint control** of that joint operation.

Joint venture - A **joint arrangement** whereby the parties that have **joint control** of the arrangement have rights to the net assets of the arrangement.

Joint venturer - A party to a **joint venture** that has **joint control** of that joint venture.

Party to a joint arrangement - An entity that participates in a **joint arrangement**, regardless of whether that entity has **joint control** of the arrangement.

Separate vehicle - A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Joint Arrangement

- A joint arrangement is an arrangement of which two or more parties have joint control.
- The IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (ie activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.
- In a joint arrangement, no single party controls the arrangement on its own.
- An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement.

- The standards distinguishes between parties that have joint control of a joint arrangement (*joint operators* or *joint venturers*) and parties that participate in, but do not have joint control of, a joint arrangement.

Characteristics of a Joint Arrangement

A joint arrangement has the following characteristics:

(a) The parties are bound by a contractual arrangement

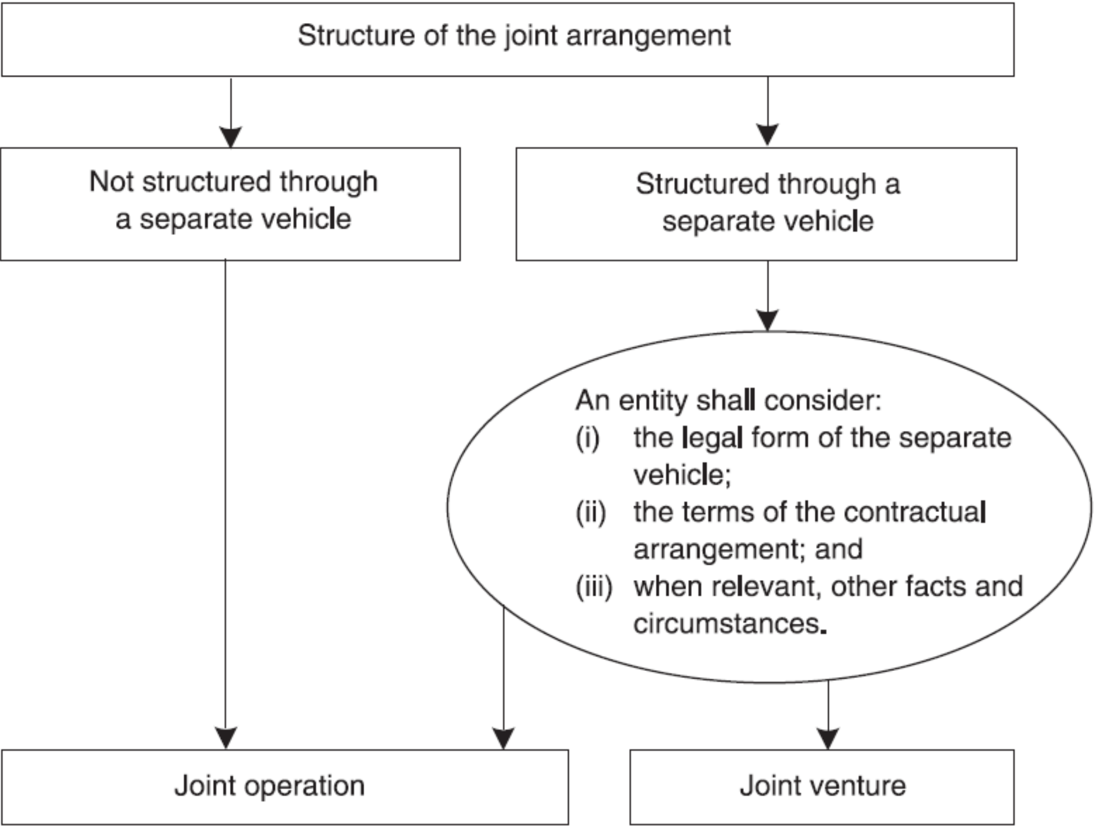
(b) The contractual arrangement gives two or more of those parties joint control of the arrangement

Types of Joint Arrangements

The Standard classifies Joint Arrangement into two types

- **Joint operations -** A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint arrangement that is not structured through a separate vehicle is a joint operation. The parties are called Joint Operators.
- **Joint ventures -** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation. The parties are called Joint Venturers.

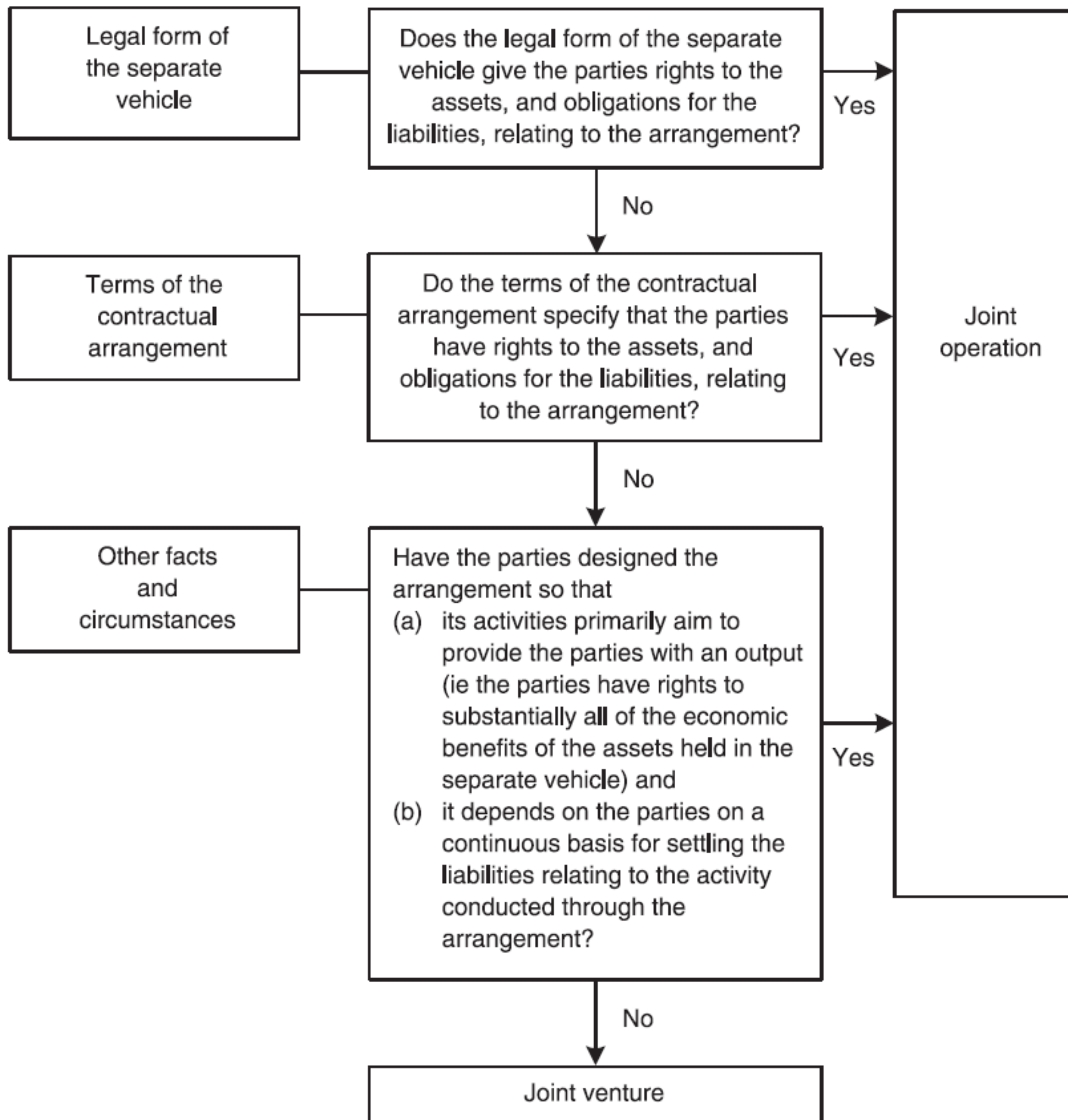
Joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.



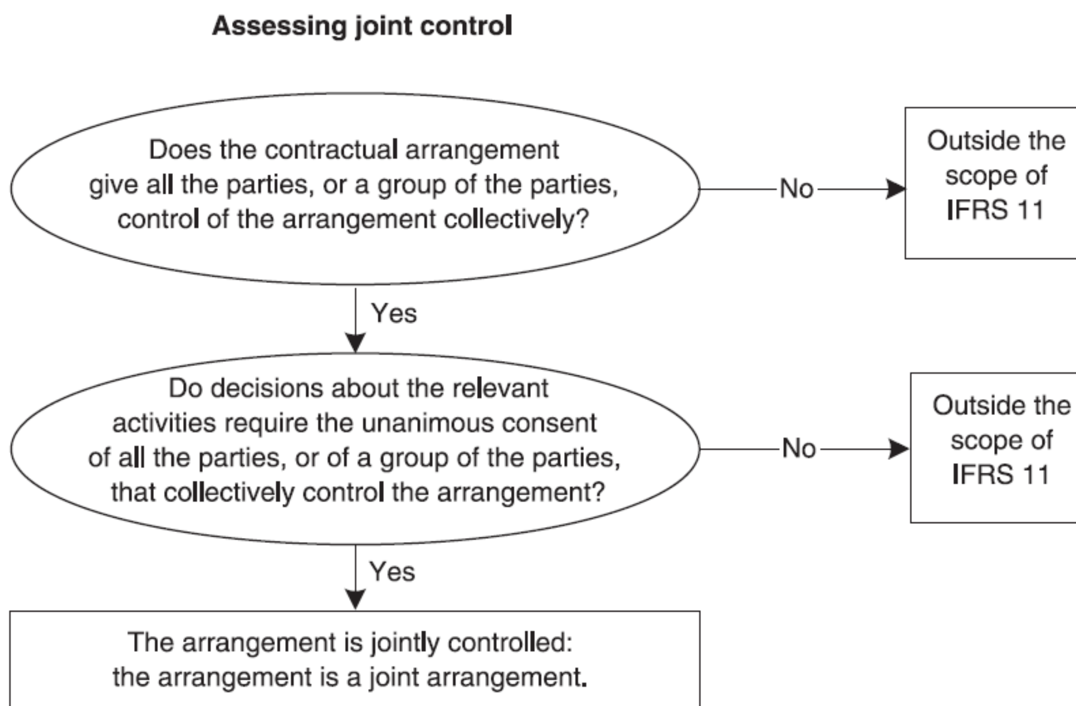
Rights and Obligations

- An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations.

- An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and other facts and circumstances.



Assessing Joint Control



When an arrangement is outside the scope of IFRS 11, an entity accounts for its interest in the arrangement in accordance with relevant IFRSs such as IFRS 10, IAS 28 (as amended in 2011) or IFRS 9.

Assessing the Terms of Contractual Arrangement

Assessing the terms of the contractual arrangement		
	Joint operation	**Joint venture**
The terms of the contractual arrangement	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (ie it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The contractual arrangement establishes that the parties to the joint arrangement share all interests (eg rights, title or ownership) in the assets relating to the arrangement in a specified proportion (eg in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (ie no rights, title or ownership) in the assets of the arrangement.

Assessing the terms of the contractual arrangement		
	Joint operation	**Joint venture**
Obligations for liabilities	The contractual arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (eg in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The contractual arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The contractual arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The contractual arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.

Assessing the terms of the contractual arrangement		
	Joint operation	**Joint venture**
Revenues, expenses, profit or loss	The contractual arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement.

Assessing the terms of the contractual arrangement		
	Joint operation	**Joint venture**
Guarantees	The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).	

Joint Operator

- A joint operator is required to recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses.
- A joint operator shall recognise in relation to its interest in a joint operation:

  (a) Its assets, including its share of any assets held jointly;

  (b) Its liabilities, including its share of any liabilities incurred jointly;

  (c) Its revenue from the sale of its share of the output arising from the joint operation;

  (d) Its share of the revenue from the sale of the output by the joint operation; and

  (e) Its expenses, including its share of any expenses incurred jointly.

- A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Joint Venturer

- A joint venturer is required to recognise an investment and to account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that standard.
- Party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with IFRS 9 *Financial Instruments*

Disclosure Requirements

The disclosure requirements for parties with joint control of a joint arrangement are specified in IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 11 Supersedes

The IFRS supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*

Important Points

- An enforceable contractual arrangement is often, in writing, usually in the form of a contract or documented discussions between the parties
- The contractual arrangement generally deals with such matters as:

  (a) The purpose, activity and duration of the joint arrangement.

  (b) How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.

  (c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement

  (d) The capital or other contributions required of the parties.

  (e) how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

The following IFRSs have been amended consequent to the introduction of IFRS 10, 11, 12 in May2011

IFRS 1 – First Adoption of International Financial Reporting Standards

IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 31, B7, C1, D1, D14 and D15 and added paragraph D31. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRS 2 – Share – based Payment

IFRS 11, issued in May 2011, amended paragraph 5. An entity shall apply that amendment when it applies IFRS 11.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 28. An entity shall apply that amendment when it applies IFRS 11.

IFRS 7 Financial Instruments: Disclosures

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011 amended paragraph 3. An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IFRS 9 *Financial Instruments* (as issued in November 2009)

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph C8 and deleted paragraphs C18–C23 and the headings above paragraphs C20 and C22. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRS 9 *Financial Instruments* (as issued in October 2010)

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3.2.1, B3.2.1–B3.2.3, B4.3.12(c), B5.7.15, C11, C24 and C30 and deleted paragraphs C23, C25–C28

and the headings above paragraphs C25 and C27. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 7 *Statement of Cash Flows*

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 37, 38 and 42B and deleted paragraph 50(b). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11

IAS 12 *Income Taxes*

IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 2, 15, 18(e), 24, 38, 39, 43–45, 81(f), 87 and 87C. An entity shall apply those amendments when it applies IFRS 11.

IAS 18 *Revenue*

IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 6(b). An entity shall apply that amendment when it applies IFRS 11.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3(b), 8, 11, 18, 19, 33, 44–46 and 48A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 24 ***Related Party Disclosures***

IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12, issued in May 2011, amended paragraphs 3, 9, 11(b), 15, 19(b) and (e) and 25. An entity shall apply those amendments when it applies IFRS 10, IFRS 11 and IFRS 12.

IAS 32 ***Financial Instruments: Presentation***

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 4(a) and AG29. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 33 ***Earnings per Share***

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 4, 40 and A11. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 36 ***Impairment of Assets***

IFRS 10 and IFRS 11, issued in May 2011, amended paragraph 4, the heading above paragraph 12(h) and paragraph 12(h). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IAS 38 *Intangible Assets*

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraph 3(e). An entity shall apply that amendment when it applies IFRS 10 and IFRS 11.

IAS 39 *Financial instruments: Recognition and Measurement* (as amended at October 2009)

IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 2(a), 15, AG3, AG36–AG38 and AG4I(a). An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

IFRS 10 and IFRS 11, issued in May 2011, amended paragraphs 8 and 9. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

IFRIC 9 *Reassessment of Embedded Derivatives*

IFRS 11, issued in May 2011, amended paragraph 5(c). An entity shall apply that amendment when it applies IFRS 11.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRS 11 issued in May 2011, amended paragraph 2. The entity shall apply that amendment when it applies IFRS 11.

Chapter 7

RECOGNITION, MEASUREMENT, PRESENTATION & DISCLOSURE OF ASSETS

Relevant IFRS on Assets are as follows IAS 2, 16, 17, 32, 38, 39, 40, 41, IFRS 5, 6, 7, 9, 13. Let us see some of them in detail.

I. INVENTORIES [IAS 2]

Inventories are assets which are

- held for sale in the ordinary course of business [e.g. merchandise held by a retailer],
- in the process of production for sale; [e.g. finished goods, work in progress, and raw material held by manufacturer], or
- in the form of materials or supplies to be consumed in production or in rendering services.

IAS 2 *Inventories* prescribes the accounting treatment for inventories including issues in determination of costs and its subsequent recognition as an expense. It deals with all types of inventories except:

i. work in progress arising under construction contracts, including directly related service contracts
ii. financial instruments and
iii. Biological assets related to agricultural activity and agricultural produce at the point of harvest.

Cost of Conversion

The costs of conversion of inventories for manufactured goods include costs directly related to the units of production, such as direct labor and overheads. The allocation of overheads must be systematic and rational. The allocation of fixed overheads, i.e. expenses which are fixed in

amount irrespective of quantum of production, should be based on normal production levels. In the periods of drastically low production certain portion of the fixed overheads should be directly taken to operations and should not be charged to inventory as these would inflate the amount at which the inventories are carried. However, 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.

On the other hand, variable production overheads, i.e. expenses which vary in direct proportion to quantum of production, are allocated to each unit of production on the basis of the actual use of the production facilities.

A Case Study

The following are relevant pieces of information for entity X:

a) Production in full capacity is 20,000 units/ year

b) Normal capacity is 15,000 units/ year

c) Actual production in year 2xx8 is 13,000 units

d) Total fixed production overhead is Rs. 45,00,000

e) Total variable production overhead is Rs.26,00,000

f) Out of 13,000 units produced in current year 2000 unit is in stock at the end of the year

How will be the fixed and variable over heads allocated to the inventories?

Solution

Variable OH absorption rate: Varible Production OH/ No. of units actually produced

= Rs. 26,00,000/13000units

= Rs. 200/unit

Fixed OH absorption rate: Total Fixed OH/No.of units produced in normal capacity

= Rs. 45,00,000/15,000

= Rs. 300/unit

Note: The amount of fixed overhead allocated to inventory will not be increased as a result of low production by using normal capacity to allocate fixed overhead.

Total OH absorption rate = Fixed OH + Variable OH

= 200 = 300

= Rs. 500/unit

Overall production overhead recognized as part of cost of inventory is

= Total OH absorption rate * no of units

=500 * 2000

= Rs.10,00,000

Amount of OH expensed in profit or losses for the year

= 26,00,000+ 45,00,000- 10,00,000

=Rs. 61,00,000

Other Costs

Beside the purchase cost and the cost of conversion there are certain other costs which are added to the cost of inventory. However, the prerequisite condition for recognizing these in inventories is that it should be essential to incur these expenses to bring the inventories to its present location and condition. Certain examples of such costs would be costs of designing products for specific customers or non production overheads.

Cost which are not part of inventories

i. abnormal amounts of wasted materials, labour or other production costs
ii. storage costs, unless those costs are necessary in the production process before a further production stage;
iii. administrative overheads that do not contribute to bringing inventories to their present location and condition;
iv. selling costs;
v. Research cost;
vi. Some development cost;
vii. Borrowing cost except for certain circumstances as specified in IAS 23 *Borrowing Cost.*

The above expenses are usually not included in the costs of inventory rather they are expensed in the period in which they are incurred.

Entity may purchase inventories on deferred settlement terms. In such cases, the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing and not recognized in cost of inventories. To illustrate this, suppose an entity A purchase certain raw material from entity B at Rs. 1,05,000 which it would pay to entity B after 3 months. The normal credit period allowed by entity B is 1 weak in which case it charges Rs. 1,00,000 for similar merchandise. In this case, Rs. 1,00,000 will only be considered in the cost of purchases of material and Rs. 5000 will be regarded as financing charges and expensed in profit or losses accordingly.

Certain Exception to measurement principle

Agricultural produce, such as wool, logs and grapes are the harvested product of biological assets and are recognized as inventory. The cost of such agricultural produce at initial recognition is its fair value less estimated point-of-sale costs at the point of harvest. Similarly, when an investment property is reclassified as inventory i.e. when an entity proposes to develop the property for sale, the property's cost at initial recognition would be its cost less accumulated depreciation or fair

value at the date of transfer, depending on the measurement alternative the entity previously adopted in accounting for the investment property.

Cost of inventories of a service provider

To the extent that service providers have inventories, they measure them at the costs of their production. These costs generally includes

i. labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and
ii. attributable overheads.

The expenses which are not recognized in cost of inventory are

i. Labor and other costs relating to sales and general administrative personnel and non-attributable overheads as these costs are recognized as expenses in the period in which they are incurred; and
ii. profit margins.

Joint products and by- products

Sometimes, an entity may produce more than one product simultaneously in a production process. The inventory valuation in these cases would greatly depend on the significance of the products produced during the process. Usually, when the each of the products has significant values they are considered as joint product and where one product has significant value and others are relatively insignificant they are referred to as by- products.

In case of joint products, when the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. Generally, the allocation is based 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. Often after the split off, each product may require certain additional costs to be incurred for their completion and ready for sale. The allocation of joint cost, in such case should take into account the additional individual product costs yet to incurred after the point at which joint production ceases.

On the other hand, in case of by-products, the by-products are measured at net releasable value and this value is deducted from the cost of the main product.

Methods of inventory costing permitted under IFRS

1. Specific Identification
2. First in First out Method (FIFO)
3. Weighted Average Cost
4. Standard Cost
5. Retail Method
6. Net Realizable Value

Disclosures

Inventories should be presented as a line item on the face of the balance

a) accounting policies adopted including cost formula used;

b) carrying amount of inventories and carrying amount in classifications appropriate to the entity;

c) 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;

f) the amount reversed of a previous write-down recognised as income in the period;

g) the circumstances that led to the reversal of a previous write-down; and

h) the carrying amount of inventories pledged as security for liabilities.

Classification of inventory (in the statement of financial position or notes) should be in a manner appropriate to the entity and applied consistently. The most common classifications are supplies, raw materials, work-in-progress and finished goods.

The following disclosures are required [IAS 2.36 (a)-(h)(R.05)]:

II IFRIC 20: STRIPPING COSTS OF THE PRODUCTION PHASE (IFRIC 20 applies to annual periods beginning on or after 1 January 2013. Earlier application is permitted.)

Entities remove mine waste materials to gain access to mineral ore deposits especially in Surface Mining Operations. Stripping is nothing but the waste removal activity. Stripping may result in usable ore which can be used to produce inventory and access to further quantity of material for future mining. The interpretation is all about how and when to account separately for the benefits accruing. It is also about how to measure these benefits at the initial stage and subsequently. IFRIC 20 is only about waste removal cost during the production phase of the mine.

The principles of IAS 2 *Inventories* to be applied in accounting for the costs of stripping activity to be accounted for to the extent that the benefit from the stripping activity is realised in the form of inventory produced

Stripping Activity Asset is the costs of stripping activity which provides a benefit in the form of improved access to ore. It is recognized as a non-current when the following conditions are met:

- Where there is a probability that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity
- The component of the ore body for which access has been improved is easily identifiable.
- The costs relating to the stripping activity associated with that component can be measured reliably

Production stripping costs are allocated between the inventory produced and the stripping activity asset, where the costs of the stripping activity asset and the inventory produced are not separately identifiable. This done by using an allocation basis that is based on a relevant production measure

The stripping activity asset so identified is treated as an addition to/or as an enhancement of an existing asset. It is further classified as tangible or intangible taking into account the nature of the existing asset of which it forms part of. It is initially measured at cost and subsequently carried at cost or its revalued amount less depreciation or amortisation and impairment losses. It is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

III. PROPERTY, PLANT AND EQUIPMENT [IAS 16]

Property, plant and equipment, hereafter also referred to as PPE, are long lived non-financial and tangible asset that holds the promise of providing economic benefits to an enterprise for a period greater than that covered by entity's current year financial statement. Therefore, these assets are

capitalized and not expenses as when the costs are incurred. The costs of these assets are allocated over expected periods of benefit.

Biological assets, intangible assets (including computer software, trademarks, licenses), investment property, investments in subsidiaries, associates and joint ventures are not PPE. However, land and separable assets used in agricultural activity should be considered as PPE In IFRS. IAS 16 *Property, Plant and Equipment* prescribe the accounting treatment for property, plant and equipment. The standard deals with recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. However, the standard does not apply in the following cases:

- property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- biological assets related to agricultural activity
- the recognition and measurement of exploration and evaluation assets; or
- mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Recognition

Items of property, plant, and equipment should be recognised as assets when it is probable that: [IAS 16.7]

- the future economic benefits associated with the asset will flow to the enterprise; and
- the cost of the asset can be measured reliably.

This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

IAS 16 does not prescribe the unit of measure for recognition – what constitutes an item of property, plant, and equipment. [IAS 16.9] Note, however, that if the cost model is used (see

below) each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. [IAS 16.43]

IAS 16 recognises that parts of some items of property, plant, and equipment may require replacement at regular intervals. The carrying amount of an item of property, plant, and equipment will include the cost of replacing the part of such an item when that cost is incurred if the recognition criteria (future benefits and measurement reliability) are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of IAS 16.67-72. [IAS 16.13]

Also, continued operation of an item of property, plant, and equipment (for example, an aircraft) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed. [IAS 16.14]

Initial Measurement

They should be initially recorded at cost. [IAS 16.15] Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site

If payment for an item of property, plant, and equipment is deferred, interest at a market rate must be recognised or imputed. [IAS 16.23]

If an asset is acquired in exchange for another asset (whether similar or dissimilar in nature), the cost will be measured at the fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably

measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. [IAS 16.24]

Measurement Subsequent to Initial Recognition

IAS 16 permits two accounting models:

i. Cost Model. The asset is carried at cost less accumulated depreciation and impairment.
ii. Revaluation Model. The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably.

The Revaluation Model

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date. [IAS 16.31]

If an item is revalued, the entire class of assets to which that asset belongs should be revalued. [IAS 16.36]

Revalued assets are depreciated in the same way as under the cost model (see below).

If a revaluation results in an increase in value, it should be credited to equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised as income. [IAS 16.39]

A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. [IAS 16.40]

When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer

to retained earnings should not be made through the statement of comprehensive income (that is, no "recycling" through profit or loss). [IAS 16.41]

Depreciation (Cost and Revaluation Models)

For all depreciable assets:

The depreciable amount (cost less prior depreciation, impairment, and residual value) should be allocated on a systematic basis over the asset's useful life

The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8.

The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise

The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8.

Depreciation should be charged to the statement of comprehensive income, unless it is included in the carrying amount of another asset

Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.

Recoverability of the Carrying Amount

IAS 36 requires impairment testing and, if necessary, recognition for property, plant, and equipment. An item of property, plant, or equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable.

Derecognition (Retirements and Disposals)

An asset should be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the statement of comprehensive income.

IV. INVESTMENT PROPERTY [IAS 40]

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Examples of investment property: [IAS 40.8]

- Land held for long-term capital appreciation
- Land held for undecided future use
- Building leased out under an operating lease
- Vacant building held to be leased out under an operating lease
- Property that is being constructed or developed for future use as investment property

The following are not investment property and, therefore, are outside the scope of IAS 40

- property held for use in the production or supply of goods or services or for administrative purposes;

- property held for sale in the ordinary course of business or in the process of construction of development for such sale (IAS 2 Inventories);
- property being constructed or developed on behalf of third parties (IAS 11 Construction Contracts);
- owner-occupied property (IAS 16 Property, Plant and Equipment), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal; and
- property leased to another entity under an finance lease.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:

(a) The rest of the definition of investment property is met;

(b) the operating lease is accounted for as if it were a finance lease in accordance with IAS 17 Leases; and

(c) The lessee uses the fair value model set out in this Standard for the asset recognized

Recognition

Investment property shall be recognised as an asset when, and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably

Measurement

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, ie the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph.

The Standard permits entities to choose either:

(a) **a fair value model**, under which an investment property is measured, after initial measurement, at fair value with changes in fair value recognised in profit or loss; or

(b) a cost model. The cost model is specified in IAS 16 and requires an investment property to be measured after initial measurement at depreciated cost (less any accumulated impairment losses).

An entity that chooses the cost model discloses the fair value of its investment property.

The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in profit or loss (unless IAS 17 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.

Disclosures

Both Fair Value Model and Cost Model

- whether the fair value or the cost model is used;

- if the fair value model is used, whether property interests held under operating leases are classified and accounted for as investment property;
- if classification is difficult, the criteria to distinguish investment property from owner-occupied property and from property held for sale.
- The methods and significant assumptions applied in determining the fair value of investment property.
- The extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed.
- the amounts recognised in profit or loss for:
  - rental income from investment property;
  - direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
  - direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.
- Restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.
- Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance or enhancements.

Additional Disclosures for the Fair Value Model

- a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing additions, disposals, fair value adjustments, net foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes.
- significant adjustments to an outside valuation (if any)

- if an entity that otherwise uses the fair value model measures an item of investment property using the cost model, certain additional disclosures are required.

Additional Disclosures for the Cost Model

- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing additions, disposals, depreciation, impairment recognised or reversed, foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes;
- the fair value of investment property. If the fair value of an item of investment property cannot be measured reliably, additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie.

V. LEASES [IAS 17]

Lease is an agreement whereby the leassor conveys to lessee in return for a payment or series of payments the right to use an asset for an agreed period of time including contracts giving hirer an option to acquire title to asset by paying an extra amount usually at end of the contract (as in the case of hire purchase contracts)

IAS 17 applies to all leases other than lease agreements for minerals, oil, natural gas, and similar regenerative resources and licensing agreements for films, videos, plays, manuscripts, patents, copyrights, and similar items.

However, IAS 17 does not apply as the basis of measurement for the following leased assets:

- Property held by lessees that are accounted for as investment property for which the lessee uses the fair value model set out in IAS 40.
- Investment property provided by lessors under operating leases
- Biological assets held by lessees under finance leases

- Biological assets provided by lessors under operating leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership

Accounting by Lessees

- Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit
- at commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the enterprise's incremental borrowing rate);
- finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability (the finance charge to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability);
- the depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease - the asset should be depreciated over the shorter of the lease term or the life of the asset;

Accounting by Lessors

1. Operating Leases

- ➢ Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.
- ➢ The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IAS 16 and IAS 38.

- Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2. Finance Leases

- Lessors shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.
- The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged.

Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised

VI. INTANGIBLE ASSETS [IAS 38]

An intangible asset is an identifiable non-monetary asset without physical substance.

The three critical attributes of an intangible asset are:

I. identifiability

II. control (power to obtain benefits from the asset)

III. future economic benefits (such as revenues or reduced future costs)

An intangible asset is identifiable when it:

- is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package) or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations

Recognition and Measurement

Initial Recognition

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

(a) The definition of an intangible asset; and

(b) The recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

An intangible asset shall be recognised if, and only if:

(a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) The cost of the asset can be measured reliably.

The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

An intangible asset shall be measured initially at cost.

The cost of a separately acquired intangible asset comprises:

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

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

In accordance with IFRS 3 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

(a) In accordance with this Standard and IFRS 3 (as revised in 2008), an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquire before the business combination. This

means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

Internally generated intangible assets

Internally generated goodwill shall not be recognised as an asset.

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

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

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

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

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

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

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

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

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

Measurement after recognition

An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model: After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

Definition of active market and useful life

An *active market* is a market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

Useful life

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

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

The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost. To determine whether an intangible asset is impaired, an entity applies IAS 36

Impairment of Assets

Intangible assets with finite useful lives
The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. *Depreciable amount* is the cost of an asset, or other amount substituted for cost, less its residual value. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
The *residual value* of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were

already of the age and in the condition expected at the end of its useful life. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
(a) There is a commitment by a third party to purchase the asset at the end of its useful life; or
(b) There is an active market for the asset and:
(i) Residual value can be determined by reference to that market; and
(ii) It is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortised. In accordance with IAS 36 *Impairment of Assets,* an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount
(a) Annually, and
(b) Whenever there is an indication that the intangible asset may be impaired.
The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

VII. IMPAIRMENT OF ASSETS [IAS 36]

An asset is impaired when its carrying amount exceeds its recoverable amount. IAS 36 is intended to ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is calculated.

IAS 36 applies to all assets except: [IAS 36.2]

- inventories (see IAS 2)
- assets arising from construction contracts (see IAS 11)
- deferred tax assets (see IAS 12)
- assets arising from employee benefits (see IAS 19)
- financial assets (see IAS 39)
- investment property carried at fair value (see IAS 40)
- certain agricultural assets carried at fair value (see IAS 41)
- insurance contract assets (see IFRS 4)
- assets held for sale (see IFRS 5)

Therefore, IAS 36 applies to (among other assets):

- land
- buildings
- machinery and equipment
- investment property carried at cost
- intangible assets
- goodwill
- investments in subsidiaries, associates, and joint ventures
- assets carried at revalued amounts under IAS 16 and IAS 38

Key definitions:

Carrying amount: the amount at which an asset is recognised in the statement of financial position after deducting accumulated depreciation and accumulated impairment losses

Recoverable amount: The higher of an asset's fair value less costs to sell (sometimes called net selling price) and its value in use

Fair value: The amount obtainable from the sale of an asset in a bargained transaction between knowledgeable, willing parties.

Value in use: The discounted present value of estimated future cash flows expected to arise from:

- the continuing use of an asset, and from
- its disposal at the end of its useful life.

Identifying an Asset That May Be Impaired

At each reporting date, review all assets to look for any indication that an asset may be impaired (its carrying amount may be in excess of the greater of its net selling price and its value in use). IAS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then you must calculate the asset's recoverable amount. [IAS 36.9]

The recoverable amounts of the following types of intangible assets should be measured annually whether or not there is any indication that it may be impaired. In some cases, the most recent detailed calculation of recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period: [IAS 36.10]

- an intangible asset with an indefinite useful life.
- an intangible asset not yet available for use.
- goodwill acquired in a business combination.

Determining Recoverable Amount

- If fair value less costs to sell or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired. [IAS 36.19]
- If fair value less costs to sell cannot be determined, then recoverable amount is value in use. [IAS 36.20]

- For assets to be disposed of, recoverable amount is fair value less costs to sell. [IAS 36.21]

Fair Value less Costs to Sell

- If there is a binding sale agreement, use the price under that agreement less costs of disposal. [IAS 36.25]
- If there is an active market for that type of asset, use market price less costs of disposal. Market price means current bid price if available, otherwise the price in the most recent transaction. [IAS 36.26]
- If there is no active market, use the best estimate of the asset's selling price less costs of disposal. [IAS 36.27]
- Costs of disposal are the direct added costs only (not existing costs or overhead). [IAS 36.28]

Value in Use

The calculation of value in use should reflect the following elements: [IAS 36.30]

- an estimate of the future cash flows the entity expects to derive from the asset in an arm's length transaction;
- expectations about possible variations in the amount or timing of those future cash flows;
- the time value of money, represented by the current market risk-free rate of interest;
- the price for bearing the uncertainty inherent in the asset; and
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections. [IAS 36.33] IAS 36 presumes that budgets and forecasts should not go beyond five years; for periods after five years, extrapolate from the earlier budgets. [IAS 36.35] Management should assess the

reasonableness of its assumptions by examining the causes of differences between past cash flow projections and actual cash flows. [IAS 36.34]

Cash flow projections should relate to the asset in its current condition – future restructurings to which the entity is not committed and expenditures to improve or enhance the asset's performance should not be anticipated. [IAS 36.44]

Estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments. [IAS 36.50]

Discount Rate

In measuring value in use, the discount rate used should be the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. [IAS 36.55]

The discount rate should not reflect risks for which future cash flows have been adjusted and should equal the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset. [IAS 36.56]

For impairment of an individual asset or portfolio of assets, the discount rate is the rate the company would pay in a current market transaction to borrow money to buy that specific asset or portfolio.

If a market-determined asset-specific rate is not available, a surrogate must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. The following would normally be considered: [IAS 36.57]

- the enterprise's own weighted average cost of capital;
- the enterprise's incremental borrowing rate; and
- other market borrowing rates.

Recognition of an Impairment Loss

- An impairment loss should be recognised whenever recoverable amount is below carrying amount. [IAS 36.59]
- The impairment loss is an expense in the statement of comprehensive income (unless it relates to a revalued asset where the value changes are recognised directly in equity). [IAS 36.60]
- Adjust depreciation for future periods. [IAS 36.63]

Cash-Generating Units

Recoverable amount should be determined for the individual asset, if possible. [IAS 36.66]

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then determine recoverable amount for the asset's cash-generating unit (CGU). [IAS 36.66] The CGU is the smallest identifiable group of assets: [IAS 36.6]

- that generates cash inflows from continuing use, and
- that are largely independent of the cash inflows from other assets or groups of assets.

Impairment of Goodwill

Goodwill should be tested for impairment annually. [IAS 36.96]

To test for impairment, goodwill must be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall: [IAS 36.80]

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- not be larger than a segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment at least annually by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit: [IAS 36.90]

- If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit is not impaired.
- If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity must recognise an impairment loss.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order: [IAS 36.104]

- first, reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- then, reduce the carrying amounts of the other assets of the unit (group of units) pro rata on the basis.

The carrying amount of an asset should not be reduced below the highest of: [IAS 36.105]

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

If the preceding rule is applied, further allocation of the impairment loss is made pro rata to the other assets of the unit (group of units).

Reversal of an Impairment Loss

- Same approach as for the identification of impaired assets: assess at each statement of financial position date whether there is an indication that an impairment loss may have decreased. If so, calculate recoverable amount. [IAS 36.110]
- No reversal for unwinding of discount. [IAS 36.116]

- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised. [IAS 36.117]
- Reversal of an impairment loss is recognised as income in the statement of comprehensive income. [IAS 36.119]
- Adjust depreciation for future periods. [IAS 36.121]
- Reversal of an impairment loss for goodwill is prohibited. [IAS 36.124]

VIII. BORROWING COSTS [IAS 23]

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. IAS 23 prescribes the accounting treatment for borrowing costs.

Key Definitions

Borrowing cost is: [IAS 23.6]

- interest expense (calculated by the effective interest method under IAS 39),
- finance charges in respect of finance leases recognised in accordance with IAS 17 Leases, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Borrowing cost does not include amortisation of ancillary costs incurred in connection with borrowings. Nor does it include actual or imputed cost of equity capital, including any preferred capital not classified as a liability pursuant to IAS 32. [IAS 23.1]

A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use. [IAS 23.5] That could be property, plant, and equipment and investment property during the construction period, intangible assets during the development period, or "made-to-order" inventories. [IAS 23.6]

Recognition

- An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.
- An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.
- To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.
- To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
- The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period

An entity shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the entity first meets all of the following conditions:

(a) it incurs expenditures for the asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Chapter 8

RECOGNITION, MEASUREMENT, PRESENTATION & DISCLOSURE OF INCOME

Income is defined in the Framework for the Preparation and Presentation of Financial Statements as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. [F.70]

Income encompasses both revenue and gains. [F.74]

Income is dealt with under the following standards and interpretations

1. Construction contracts (IAS 11)
2. Revenue (IAS 18)
3. Agreements for the Construction of Real Estate (IFRIC 15)
4. Service Concession Arrangements (IFRIC 12)
5. Disclosure – Service Concession Arrangements (SIC 29)
6. Customer Loyalty Programmes (IFRIC 13)
7. Revenue - Barter Transactions Involving Advertising Services (SIC 31)
8. Agriculture (IAS 41)

I. CONSTRUCTION CONTRACTS [IAS 11]

A construction contract is a contract specifically negotiated for the construction of

i. an asset or

ii. or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

In the absence of a contract, IAS 11 does not apply

The two types of contracts are:

1. Fixed Price contracts- in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

2. A cost plus contract - in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

Construction contracts include: [IAS 11.5]

(a) Contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

(b) Contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

Contract revenue and contract costs

Contract revenue shall comprise:

(a) The initial amount of revenue agreed in the contract; and

(b) Variations in contract work, claims and incentive payments:

(i) To the extent that it is probable that they will result in revenue; and

(ii) They are capable of being reliably measured

Contract costs should include costs that relate

a) directly to the specific contract [e.g. site labour costs, costs of materials used in construction, depreciation of plant and equipment used in construction, costs of hiring equipment, costs of moving equipment to and fro from site, costs of design and technical assistance directly related to contract and claims from third parties] and

b) costs that are attributable to the contractor's general contracting activity to the extent that they can be reasonably allocated to the contract, and

c) Such other costs that can be specifically charged to the customer under the terms of the contract.

Accounting treatment

If the outcome of a construction contract can be estimated reliably, revenue and costs should be recognised in proportion to the stage of completion of contract activity. This is known as the percentage of completion method of accounting. [IAS 11.22] To be able to estimate the outcome of a contract reliably, the enterprise must be able to make a reliable estimate of total contract revenue, the stage of completion, and the costs to complete the contract. [IAS 11.23-24]

The stage of completion of a contract can be determined in a variety of ways - including

- the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- surveys of work performed, or
- Completion of a physical proportion of the contract work. [IAS 11.30]

Uncertainty of income

If the outcome cannot be estimated reliably, no profit should be recognised. Instead, contract revenue should be recognised only to the extent that contract costs incurred are expected to be recoverable and contract costs should be expensed as incurred. [IAS 11.32]

An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable. [IAS 11.22 and 11.36]

Single or separate contracts [IAS 11.9]

A group of contracts, whether with a single customer or with several customers, shall be treated as a single construction contract when:

(a) The group of contracts is negotiated as a single package;

(b) The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

(c) The contracts are performed concurrently or in a continuous sequence.

When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when:

(a) Separate proposals have been submitted for each asset;

(b) Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) The costs and revenues of each asset can be identified.

An additional asset constructed at the option of the customer shall be treated as a separate construction contract when: [IAS 11.10]

(a) The asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

(b) The price of the asset is negotiated without regard to the original contract price.

Disclosure

i. amount of contract revenue recognised; [IAS 11.39(a)]

ii. method used to determine revenue; [IAS 11.39(b)]

iii. method used to determine stage of completion; [IAS 11.39(c)] and

iv. for contracts in progress at reporting date: [IAS 11.40]

   a) aggregate costs incurred and recognised profit

   b) amount of advances received

c) amount of retentions

Presentation

i. The gross amount due **from** customers for contract work should be shown as an asset. [IAS 11.42]. This is the net amount of

(a) Costs incurred plus recognised profits; less
(b) The sum of recognised losses and progress billings for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings

ii. The gross amount due **to** customers for contract work should be shown as a liability. [IAS 11.42]. This is the net amount of:

(a) Costs incurred plus recognised profits; less
(b) The sum of recognised losses and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

II. REVENUE [IAS 18]

Revenue is defined as the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends). [IAS 18.7]

Revenue excludes: [IAS 18.6]

(a) Lease agreements (IAS 17 Leases);

(b) Dividends arising from investments which are accounted for under the Equity method (IAS 28 Investments in Associates);

(c) Insurance contracts within the scope of IFRS 4 Insurance Contracts;

(d) Changes in the fair value of financial assets and financial liabilities or their Disposal (IAS 39 Financial Instruments: Recognition and Measurement);

(e) Changes in the value of other current assets;

(f) Initial recognition and from changes in the fair value of biological assets Related to agricultural activity (IAS 41 Agriculture);

(g) Initial recognition of agricultural produce (IAS 41); and

(h) The extraction of mineral ores.

Measurement of revenue

Revenue should be measured at the fair value of the consideration receivable. [IAS 18.9]

- trade discounts and volume rebates allowed by the entity are deducted to determine fair value
- When the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue
- Exchanges for dissimilar items are regarded as generating revenue.

Recognition of Revenue

Recognition, as defined in the IASB Framework, means incorporating an item that meets the definition of revenue (above) in the statement of comprehensive income when it meets the following criteria:

- It is probable that any future economic benefit associated with the item of revenue will flow to the entity, and
- The amount of revenue can be measured with reliability

IAS 18 provides guidance for recognising the following specific categories of revenue:

(a) The sale of goods;

(b) The rendering of services; and

(c) The use by others of entity assets yielding interest, royalties and dividends.

Sale of Goods

Revenue arising from the sale of goods should be recognised when all of the following criteria have been satisfied: [IAS 18.14]

a) the seller has transferred to the buyer the significant risks and rewards of ownership;

b) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) the amount of revenue can be measured reliably;

d) it is probable that the economic benefits associated with the transaction will flow to the seller; and

e) the costs incurred or to be incurred in respect of the transaction can be measured reliably

Rendering of Services

For revenue arising from the rendering of services, provided that all of the following criteria are met, revenue should be recognised by reference to the stage of completion of the transaction at the reporting date (the percentage-of-completion method): [IAS 18.20]

a) the amount of revenue can be measured reliably;

b) it is probable that the economic benefits will flow to the seller;

c) the stage of completion at the reporting date can be measured reliably; and

d) the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

When the above criteria are not met, revenue arising from the rendering of services should be recognised only to the extent of the expenses recognised that are recoverable (a "cost-recovery approach". [IAS 18.26]

Interest, Royalties, and Dividends

For interest, royalties and dividends, provided that it is probable that the economic benefits will flow to the enterprise and the amount of revenue can be measured reliably, revenue should be recognised as follows: [IAS 18.29-30]

a) interest: on a time proportion basis that takes into account the effective yield;

b) royalties: on an accruals basis in accordance with the substance of the relevant agreement; and

c) Dividends: when the shareholder's right to receive payment is established.

Disclosure [IAS 18.35]

i. accounting policy for recognising revenue

ii. amount of each of the following types of revenue:

a) sale of goods

b) rendering of services

c) interest

d) royalties

e) dividends

f) within each of the above categories, the amount of revenue from exchanges of goods or services

III. AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE [IFRIC 15]

IFRIC 15 standardises accounting practice across jurisdictions for the recognition of revenue by real estate developers for sales of units, such as apartments or houses, 'off plan' – that is, before construction is complete

An agreement for the construction of real estate is a construction contract within the scope of IAS 11 only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether it exercises that ability or not).

- If the buyer has that ability, IAS 11 applies.
- If the buyer does not have that ability, IAS 18 applies.

Accounting treatment

IAS 11	IAS 18
Revenue is recognised on a percentage-of-completion basis provided that reliable estimates of construction progress and future costs can be made.	If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver real estate to the buyer, the agreement is accounted for as the sale of goods under IAS 18.

IV. SERVICE CONCESSION ARRANGEMENTS [IFRIC 12]

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution

networks, prisons or hospitals. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

There are two types of service concession arrangement

i. Where the operator receives a **financial asset**, specifically an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

ii. Where , the operator receives an **intangible asset** – a right to charge for use of a public sector asset that it constructs or upgrades and then must operate and maintain for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Accounting treatment

Financial asset	**Intangible asset**
The asset is recognized to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services	The asset is recognized to the extent that it receives a right (a licence) to charge users of the public service

In both cases, the asset is measured at fair value.

V. DISCLOSURE – SERVICE CONCESSION ARRANGEMENTS [SIC 29]

Under SIC 29, the following should be disclosed in each period:

- a description of the arrangement;
- significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (such as the period of the concession, re-pricing dates, and the basis on which re-pricing or re-negotiation is determined);
- the nature and extent (quantity, time period, or amount, as appropriate) of:
  - rights to use specified assets;
  - obligations to provide or rights to expect provision of services;
  - obligations to acquire or build items of property, plant and equipment;
  - obligations to deliver or rights to receive specified assets at the end of the concession period;
  - renewal and termination options; and
  - other rights and obligations (for instance, major overhauls); and
- Changes in the arrangement occurring during the period.

VI. Customer Loyalty Programmes [IFRIC 13]

IFRIC 13 explains how such entities should account for their obligations to provide free or discounted goods or services [points or travel miles] to customers who redeem award credits.

Key provisions

- An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). In effect, the award is accounted for as a separate component of the sale transaction.

- The amount of proceeds allocated to the award credits is measured by reference to their fair value, that is, the amount for which the award credits could have been sold separately.

- The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. It may fulfil its obligations either by supplying the awards itself or by engaging (and paying) a third party to do so.
- If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which IAS 37 would require recognition of a liability.
- If IFRIC 13 causes an entity to change its accounting policy for customer loyalty awards, IAS 8 applies.

VII. REVENUE - BARTER TRANSACTIONS INVOLVING ADVERTISING SERVICES (SIC 31)

IAS 18 stipulates revenue cannot be recognised if the amount of revenue is not reliably measurable. Under SIC 31, revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference only to non-barter transactions that:

- involve advertising similar to the advertising in the barter transaction;
- occur frequently;
- represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;
- involve cash and/or another form of consideration (such as marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
- do not involve the same counterparty as in the barter transaction.

VIII. AGRICULTURE (IAS 41)

IAS 41 prescribes the accounting treatment and disclosures related to agricultural activity for the following:

a) Biological assets

b) Agricultural produce at the point of harvest

c) Government grants covered in para 34-35 of IAS 41

The standard does not apply to:

a) land related to agricultural activity [IAS 16] or

b) Intangible assets related to agricultural activity [IAS 38]

Key concepts

Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are living animals and plants.

Agricultural produce is the harvested product from biological assets.

Point of sale costs: Commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes. Point of sale costs do not include transport and other costs necessary to get assets to a market

Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Accounting Treatment

An enterprise should recognise a biological asset or agriculture produce only when the enterprise controls the asset as a result of part events, it is probable that future economic benefits will flow to the enterprise, and the fair value or cost of the asset can be measured reliably. [IAS 41.10]

Biological assets should be measured on initial recognition and at subsequent reporting dates at fair value less estimated point-of-sale costs, unless fair value cannot be reliably measured. [IAS 41.12]

Agricultural produce should be measured at fair value less estimated point-of-sale costs at the point of harvest. Because harvested produce is a marketable commodity, there is no 'measurement reliability' exception for produce. [IAS 41.13]

The gain on initial recognition of biological assets at fair value, and changes in fair value of biological assets during a period, are reported in net profit or loss. [IAS 41.26]

A gain on initial recognition of agricultural produce at fair value should be included in net profit or loss for the period in which it arises. [IAS 41.28]

All costs related to biological assets that are measured at fair value are recognised as expenses when incurred, other than costs to purchase biological assets.

IAS 41 presumes that fair value can be reliably measured for most biological assets. However, that presumption can be rebutted for a biological asset that, at the time it is initially recognised in financial statements, does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are determined to be clearly inappropriate or unworkable. In such a case, the asset is measured at cost less accumulated depreciation and impairment losses. But the enterprise must still measure all of its other biological assets at fair value. If circumstances change and fair value becomes reliably measurable, a switch to fair value less point-of-sale costs is required. [IAS 41.30]

The following guidance is provided on the measurement of fair value:

- a quoted market price in an active market for a biological asset or agricultural produce is the most reliable basis for determining the fair value of that asset. If an active market does not exist, IAS 41 provides guidance for choosing another measurement basis. First choice would be a market-determined price such as the most recent market price for that type of asset, or market prices for similar or related assets; [IAS 41.17-19]

- if reliable market-based prices are not available, the present value of expected net cash flows from the asset should be use, discounted at a current market-determined pre-tax rate; [IAS 41.20]
- in limited circumstances, cost is an indicator of fair value, where little biological transformation has taken place or the impact of biological transformation on price is not expected to be material; [IAS 41.24] and
- the fair value of a biological asset is based on current quoted market prices and is not adjusted to reflect the actual price in a binding sale contract that provides for delivery at a future date. [IAS 41.16]

Other Issues

The change in fair value of biological assets is part physical change (growth, etc.) and part unit price change. Separate disclosure of the two components is encouraged, not required. [IAS 41.51]

Fair value measurement stops at harvest. IAS 2, Inventories, applies after harvest. [IAS 41.13]

Agricultural land is accounted for under IAS 16, Property, Plant and Equipment. However, biological assets that are physically attached to land are measured as biological assets separate from the land. [IAS 41.25]

Intangible assets relating to agricultural activity (for example, milk quotas) are accounted for under IAS 38, Intangible Assets.

Government Grants

Unconditional government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable. [IAS 41.34]

If such a grant is conditional (including where the grant requires an entity not to engage in certain agricultural activity), the entity recognises it as income only when the conditions have been met. [IAS 41.35]

Disclosure

Disclosure requirements in IAS 41 include:

- description of an enterprise's biological assets, by broad group [IAS 41.41]
- change in fair value during the period [IAS 41.40]
- fair value of agricultural produce harvested during the period [IAS 41.48]
- description of the nature of an enterprise's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period [IAS 41.46]
- information about biological assets whose title is restricted or that are pledged as security [IAS 41.49]
- commitments for development or acquisition of biological assets [IAS 41.49]
- financial risk management strategies [IAS 41.49]
- methods and assumptions for determining fair value [IAS 41.47]
- reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences [IAS 41.50]

Disclosure of a quantified description of each group of biological assets, distinguishing between consumable and bearer assets or between mature and immature assets, is encouraged but not required. [IAS 41.43]

If fair value cannot be measured reliably, additional required disclosures include: [IAS 41.54-55]

- description of the assets
- an explanation of the circumstances
- if possible, a range within which fair value is highly likely to fall
- gain or loss recognised on disposal
- depreciation method
- useful lives or depreciation rates
- gross carrying amount and the accumulated depreciation, beginning and ending

If the fair value of biological assets previously measured at cost now becomes available, certain additional disclosures are required. [IAS 41.56]

Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases in the expected level of grants. [IAS 41.58]

Chapter 9

RECOGNITION, MEASUREMENT, PRESENTATION & DISCLOSURE OF EXPENSES & LIABILITIES

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. [Framework 70]

The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the enterprise. Expenses that arise in the course of the ordinary activities of the enterprise include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. Losses represent other items that meet the definition of expenses and may or may not, arise in the course of the ordinary activities of the enterprise. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Framework. [F.78]

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. [F.49 (b)]

List of IFRSs dealing with Recognition, Measurement, Presentation and disclosure of Expenses and Liabilities:

- IAS 19 – Employee Benefits
- IFRIC 14- IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IFRIC 1 -Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 5- Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

- IFRIC 6- Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- IAS 12- Income Taxes
- SIC 21 - Income Taxes – Recovery of Revalued Non-Depreciable Assets
- SIC 25- Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
- IFRS 2- Share-based Payment
- Financial Liabilities –
    - IAS 32 Financial Instruments: Presentation
    - IAS 39 Financial Instruments: Recognition and Measurement
    - IFRS 7 Financial Instruments: Disclosure
    - IFRS 9 Financial Instruments
    - IFRS 13 Fair Value Measurement

Recognition of Expenses

In most cases, expenses result from the production or sale of goods and services during the period and therefore there is usually little uncertainty that future benefits have been consumed. Such expenses are usually reliably measured. However, where resources such as property, plant and equipment are consumed over a number of periods, it may be difficult to be certain about the quantum of benefits consumed in the current period. In such cases expenses are measured at some assumptions and estimation. In such cases there is a presumption that management is able to estimate expenses and losses reliably. Though the framework states that where entity cannot measure an item of expense and associated liability reliably the management should state the fact in the notes, however, this should be in very rare circumstances.

Where there can be a little ambiguity regarding recognition of item as an expense or an asset,the entity should rely on the definition and recognition criteria of assets and expenses, and on the guidance provided throughout IFRS to determine the appropriate accounting treatment. Generally an item of cost may be included in the cost of, for example property, plant and equipment if it is directly attributable to bringing the asset to its working condition. Certain costs are capitalized under IFRS such as :

- borrowing costs
- Site preparation costs
- Estimated cost of dismantling and removing an asset and restoring a site
- Cost of installation, delivery etc of property, plant and equipment.

Timing of Recognition

Expenses are recognised on accrual basis to relate with the period when they are incurred. The matching principle requires that all expenses incurred in generating revenue should be recognised in the same period in which the related revenue is recognised. Some costs like those on raw material, wages for direct labor consumed in manufacturing process are relatively easy to identify with related revenue generating activity. These costs are included in inventory and expensed as cost to sales when products are sold or revenue from it is realized. Nevertheless, entity should not use the matching concept to defer all types of expenses in the statement of financial position that do not meet the definition of an asset, to match with the related income. Certain expenses like depreciation of property, plant and equipment is systematically recognised over a period chosen to match the asset's expected benefits. Some IFRSs also requires or give option to defer certain expenses over a prescribed period. For e.g

- a loss on a sale and leaseback transaction classified as a finance lease is deferred and amortised over the lease term and the asset tested for impairment
- a lessor should recognise the cost of a lease incentive over the lease period as a reduction of the lease revenue
- an actuarial loss arising from the measurement of a defined benefit liability can be either recognised immediately, or amortised over a prescribed period
- Fair value losses on financial instruments designated as cash flow hedges are deferred and amortised over a period simultaneously with earnings recognition of the hedged item.

Measurement of Expenses

Expenses are generally measured at the fair value of the amount paid or payable. Some expenses such as the cost of sales and employee costs can usually be measured easily by reference to a

cash outflow or an amount due under a purchase agreement. However, expenses that arise from both permanent and periodic depletion of assets can involve complex and inexact predictions about the entity's future operating environment and depend on management's estimation.

IFRS provides guidance for measurement of certain types of specific expenses like employee benefit cost, cost where share based payments has been made, cost of barter transaction, foreign currency losses, loss on partial disposal of subsidiary, interest expenses, etc.

LIABILITIES

Recognition of liability

The following characteristics must be present in a liability to be recognised in a statement of financial position:

- There is a present obligation which is settled by the probable future by the entity by probable future transfer of an asset on demand or on a particular date or on happening of certain event
- This obligation is not optional for the entity and hence cannot be avoided
- The event that creates the obligation has already taken place
- The amount required to settle the obligation could be reliably measured.

It should be noted that it is quite possible that an item meets the definition of a liability and still may not meet the recognition criteria. Some obligations may be due immediately and hence highly probable. Other may not be immediately due but in course of time yet not conditional on any other event, such as restoration costs, and hence less probable but still be recognised. However, conditional obligations that require the occurrence of an event not certain to occur before they become unconditional, do not satisfy the recognition criteria as liabilities. These are contingent liabilities and should only be disclosed if their possibility not very remote.

Measurement of Liability

Liabilities are initially measured at the present discounted amount of the cash outflows due to an external party. Otherwise, where liabilities are based on best estimates, the present discounted value of the amount expected to settle an obligation is recorded. A liability may be subsequently

re-measured as a result of a revision of an amount due or a revision in an estimate of the obligation.

Derecognition of liability

An entity should derecognize a liability when an obligation is settled through payment, forgiveness or conversion into equity. In the case of a provision, derecognition occurs when the expenditure provided for is incurred or the provision adjusted to reflect a current best estimate

The standards are explained as under:

I. SHARE-BASED PAYMENTS [IFRS 2]

A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of

(a) Equity,

(b) Cash, or

(c) Equity or cash.

IFRS 2 applies to all entities. There is no exemption for private or smaller entities. Furthermore, subsidiaries using their parent's or fellow subsidiary's equity as consideration for goods or services are within the scope of the Standard.

There are two exemptions to the general scope principle.

1. The issuance of shares in a business combination should be accounted for under IFRS 3 Business Combinations. However, care should be taken to distinguish share-based payments related to the acquisition from those related to employee services.

2. IFRS 2 does not address share-based payments within the scope of paragraphs 8-10 of IAS 32 Financial Instruments: Disclosure and Presentation, or paragraphs 5-7 of IAS 39 Financial

Instruments: Recognition and Measurement. Therefore, IAS 32 and 39 should be applied for commodity-based derivative contracts that may be settled in shares or rights to shares.

IFRS 2 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares, and the issuance of additional shares are therefore outside its scope.

Recognition and Measurement

The issuance of shares or rights to shares requires an increase in a component of equity. IFRS 2 requires the offsetting debit entry to be expensed when the payment for goods or services does not represent an asset. The expense should be recognised as the goods or services are consumed. For example, the issuance of shares or rights to shares to purchase inventory would be presented as an increase in inventory and would be expensed only once the inventory is sold or impaired.

The issuance of fully vested shares, or rights to shares, is presumed to relate to past service, requiring the full amount of the grant-date fair value to be expensed immediately. The issuance of shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expensed over the vesting period.

As a general principle, the total expense related to equity-settled share-based payments will equal the multiple of the total instruments that vest and the grant-date fair value of those instruments. In short, there is truing up to reflect what happens during the vesting period. However, if the equity-settled share-based payment has a market related performance feature, the expense would still be recognised if all other vesting features are met. The following example provides an illustration of a typical equity-settled share-based payment.

II. EMPLOYEE BENEFITS [IAS 19]

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

IAS 19 applies to (among other kinds of employee benefits):

- wages and salaries
- compensated absences (paid vacation and sick leave)
- profit sharing plans
- bonuses
- medical and life insurance benefits during employment
- housing benefits
- free or subsidised goods or services given to employees
- pension benefits
- post-employment medical and life insurance benefits
- long-service or sabbatical leave
- 'jubilee' benefits
- deferred compensation programmes
- termination benefits.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

(b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions

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

(a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

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

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

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

(b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset

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

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

The Standard requires a simpler method of accounting for other long-term employee benefits than for postemployment benefits: actuarial gains and losses and past service cost are recognised immediately.

Termination benefits

Termination benefits are employee benefits payable as a result of either:

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits should be based on the number of employees expected to accept the offer

III. The limit on a defined benefit asset, minimum funding requirements and their interaction IFRIC 14

The issues addressed in this interpretation are:

- When refunds or reductions in future contributions should be regarded as available in accordance of IAS 19
- How a minimum funding requirement might affect the availability of reduction in future contributions
- When a minimum funding requirement might give rise to a liability

In many countries, laws or contractual terms require employers to make minimum funding payments for their pension or other employee benefit plans. This enhances the security of the retirement benefit promise made to members of an employee benefit plan.

IFRIC 14 addresses the interaction between a minimum funding requirement and the limit placed by IAS 19 on the measurement of the defined benefit asset or liability. When determining the limit on a defined benefit asset in accordance with IAS 19, under IFRIC 14 entities are required to measure any economic benefit available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. The entity's intention on how to use a surplus (for instance, whether the entity intends to improve benefits rather than reduce contributions or get a refund) must be disregarded.

Such economic benefits are regarded as available to an entity if the entity has an unconditional right to realise them at some point during the life of the plan or when the plan is settled, even if they are not realisable immediately at the statement of financial position date. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the entity's control (for example, approval by third parties such as plan trustees). To the extent right is contingent, no asset would be recognised.

IV. INCOME TAXES [IAS 12]

IAS 12 Income Taxes prescribes the accounting treatment for income taxes being the accounting for the current and deferred tax consequences of

(a) the future recovery (settlement) of the carrying amount of assets (liabilities) that are recognised in an entity's statement of financial position; and

(b) transactions and other events of the current period that are recognised in an entity's financial statements

Current Tax

The tax payable to (or receivable from) the tax authorities in the jurisdiction(s) in which an entity operates is accounted for according to the basic principles of accounting for liabilities and assets.

Current tax (for current and prior periods) should, to the extent unpaid, be recognised as a liability

If the amount already paid in respect of current and prior period exceeds the amount due for those periods, the excess should be recognised as an asset.

The benefit relating to a tax loss that can be carried back to recover current tax of a previous period should be recognised as an asset.

Deferred taxation

a) Deferred tax liability

A deferred tax liability shall be recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the statement of financial position. This arises when the carrying amount of an asset exceeds it tax base. Consequently, the future recovery of the carrying amount will generate taxable profit; e.g.

Accumulated depreciation of an asset in the financial report is less than the cumulative depreciation allowed up to the reporting date for tax purposes, e.g. depreciation of an asset is accelerated for tax purposes

Development costs have been capitalized and will be amortized to the statement of comprehensive income but were deducted in calculating taxable amounts in the reporting period in which they were incurred.

A taxable temporary difference also arises when the carrying amount of a liability is less than its tax base, because the future settlement of its tax base will generate taxable profit (e.g. a loan initially recognised at fair value net of borrowing costs incurred in the loan establishment but the tax deductions for the costs are amortised over the life of the loan).

A deferred tax liability will not be recognised if arising from:

i. the initial recognition of goodwill or goodwill which amortisation is not deductible for tax purposes

ii. the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)

Deferred tax asset

A deferred tax asset is recognised when there is a deductible temporary difference between the tax base of an asset or liability and its carrying amount in the statement of financial position, but only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deductible temporary difference arises when the carrying amount of a liability exceeds its tax base, as the future settlement of its carrying amount will be deductible (e.g. provision for warranty is recognised in the accounts at the point of sale but it is only recognised as a tax deduction when the expense is incurred and paid). Further, a deductible temporary difference arises when the carrying amount of an asset is less than its tax base, as its future recovery will generate a tax deduction (e.g. a depreciable asset where accumulated depreciation is greater for accounting than tax purposes, or an asset is revalued downwards but the unrealised loss is not tax deductible until the loss is crystallised by disposal). A deferred tax asset will not be recognised if arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits, but only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Allocation

This Standard requires an entity to account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss

(either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively). Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill arising in that business combination or the amount of the bargain purchase gain recognised.

V. SIC Interpretation 21: Income taxes – Recovery of Revalued Non-Depreciable Assets

SIC 21 deals with cases where a non-depreciable asset is carried at revaluation under IAS 16. No part of the carrying amount of such an asset is considered to be recovered thorough its use. Therefore, SIC 21 concludes that the deferred tax liability or asset that arises from revaluation must be measured based on the tax consequences that would follow from the sale of the asset rather than through use. In some jurisdictions, this will result in the use of a capital gain tax rate rather than the rate applicable to corporate earnings.

VI. SIC Interpretation 25: Income taxes – Changes in the tax status of an enterprise or its shareholders

A change in the tax status of an enterprise or its shareholders does not give rise to increase or decrease in the pre-tax amounts recognised directly in equity. Therefore, SIC 25 concludes that the current and deferred tax consequences of the change in tax status would be included in net profit or loss for the period. However, where a transaction or event does result in a direct credit or charge to equity, for example the revaluation of property, plant and equipment under IAS 16, the related tax consequences would still be recognised directly in equity.

VII . PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

IAS 37 prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except:

(a) those resulting from financial instruments that are carried at fair value;

(b) those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent;

(c) those arising in insurance entities from contracts with policyholders; or

(d) those covered by another Standard.

IAS 37 represents a very important standard in IFRS as it is necessary to be aware of the principle of past obligating events, the transfer of economic benefits and the principles of estimation

Provisions

A provision is a liability of uncertain timing or amount.

Recognition

A provision should be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

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

If these conditions are not met, no provision shall be recognised

In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

Measurement

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where a single

obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes.

Contingent liabilities

A *contingent liability* is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

An entity should not recognise a contingent liability. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

An entity shall not recognise a contingent asset. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

The main requirements of this standard are summarized in the standard in the Appendix A as follows:

Provisions and contingent liabilities

Where, as a result of past events, thereC may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity		
There is a present	**There is a possible obligation or**	**There is a possible obligation**

obligation that probably requires an outflow of resources	**a present obligation that may, but probably will not, require an Outflow of resources.**	**or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognised (paragraph 14).	No provision is recognised (paragraph 27).	No provision is recognised (paragraph 27).
Disclosures are required for the provision (paragraphs 84 and 85).	Disclosures are required for the contingent liability (paragraph 86).	No disclosure is required (paragraph 86).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent assets

Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits is virtually certain	**The inflow of economic benefits is probable, but not virtually certain.**	**The inflow is not probable**
The asset is not contingent (Paragraph 33).	No asset is recognised (Paragraph 31).	No asset is recognised (Paragraph 31).
	Disclosures are required (Paragraph 89).	No disclosure is required (Paragraph 89).

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed

by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party	**The obligation for the amount expected to be reimbursed remains with the entity and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph 57).	The reimbursement is recognised as a separate asset in the statement of financial position and may be offset against the expense in the statement of comprehensive income. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 53 and 54).	The expected reimbursement is not recognised as an asset (paragraph 53).
No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph 85(c)).	The expected reimbursement is disclosed (paragraph 85(c)).

VIII. Changes in Existing Decommissioning, Restoration and Similar Liabilities [IFRIC1]

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

Most entities account for their property, plant and equipment using the cost model. Where this is so, these changes are required to be capitalised as part of the cost of the item and depreciated prospectively over the remaining life of the item to which they relate. This is consistent with the treatment under IAS 16 of other changes in estimate relating to property, plant and equipment.

Where entities account for their property, plant and equipment using the fair value model, a change in the liability does not affect the valuation of the item for accounting purposes. Instead, it alters the revaluation surplus or deficit on the item, which is the difference between its valuation and what would be its carrying amount under the cost model. The effect of the change is treated consistently with other revaluation surpluses or deficits. Any cumulative deficit is taken to profit or loss, but any cumulative surplus is credited to equity.

IX. Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [IFRIC 5]

Some entities have obligations to decommission assets or to perform environmental restoration or rehabilitation. Some such entities contribute to a fund established to reimburse the decommissioning, restoration or rehabilitation costs when they are incurred. The fund may be set up to meet the decommissioning costs of a single contributor or for many contributors.

The issues addressed in IFRIC 5 are:

a) How should a contributor account for its interest in a fund?

b) When a contributor has an obligation to make additional contributions, how should that obligation be accounted for?

X. Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [IFRIC 6]

IFRIC 6 clarifies when certain producers of electrical goods are required to recognise a liability under IAS 37 for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment supplied to private households

The event that triggers liability recognition is participation in the market during the measurement period. The measurement period is a period in which market shares are determined for the purposes of allocating waste management costs. IFRIC 6 states that it is this date, rather than the date of production of the equipment or incurrence of costs, that is the triggering event for liability recognition.

Chapter 10

FINANCIAL INSTRUMENTS

The definition of financial instruments is very extensive. Any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity, fall into the ambit of financial instruments. Cash, bank balances, trade receivables and payables, bank loans and overdrafts, issued debts, ordinary and preference shares, investments in securities like shares and debentures, derivatives are some of the example of financial instruments. Every entity has financial instruments, even if it is only cash, debtors or creditors

The following standards deal with the accounting for financial instruments:

- IAS 32 Financial Instruments: Presentation
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 7 Financial Instruments: Disclosure
- IFRS 9 Financial Instruments
- IFRS 13 Fair Value Measurement

I. PRESENTATION OF FINANCIAL INSTRUMENTS [IAS 32]

IAS 32, *Financial Instruments: Presentation,* addresses the presentation of financial instruments as financial liabilities or equity. IAS 32 includes requirements for

- The presentation of financial instruments as either financial liabilities or equity, including when a financial instrument should be presented as a financial liability or equity instrument by the issuing entity;
- How to separate and present the components of compound financial instruments that contains both liability and equity elements;
- The accounting treatment of reacquired equity instruments of the entity;
- The presentation of interests, dividends, losses, and gains related to financial instruments; and
- The circumstances in which financial assets and financial liabilities should be offset
- IAS 32 complements the requirements for recognizing and measuring financial assets and financial liabilities in IAS 39, *Financial Instruments: Recognition and Measurement*, and the disclosure requirements for financial instruments in IFRS 7, *Financial Instruments: Disclosures.*

Debt/ Equity Classification

Financial Instruments should be presented based on their substance rather than their legal form. Any liability that is a contractual obligation to deliver cash or other financial assets, or to exchange financial assets or liabilities with other entity in terms that are potentially unfavourable to the entity, is a financial liability. Moreover, a contract that will or may be settled in the entity's own equity instruments and is non-derivative for which the entity is or may be obliged to deliver a variable number of entity's own equity is also a financial liability.

On the other hand, an equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all its liabilities. Therefore, an instrument is an equity instrument if, and only if both the conditions in (a) and (b) are satisfied.

(a) The instrument contains no contractual obligation

- To deliver cash or another financial asset to another entity; or

- to exchange financial assets or financial liabilities with another entity under conditions that is potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the company's own shares, it is

- a non-derivative for which the entity is not obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Proper presentation and classification of an issued financial instrument as either a financial liability or an equity instrument determines whether interest, dividends, gains, and losses relating to that instrument are recognized in profit or loss or directly in equity

Financial Assets are any asset that is:

- Cash
- An equity instrument of another entity
- A contractual right
    - to receive cash or another financial asset from another entity
    - Exchange financial assets and liabilities with another entity under conditions that are potentially favourable to the entity
- A contract that will or may be settled in the entity's own equity instruments and is:
    - Non derivative for which the entity is or may be obliged to receive a variable number of entities own equity instrument; or

- A derivatives that will or may be settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the entity own equity instruments. For this purpose the entity's own equity instrument does not include instruments that are themselves contracts for future receipt or delivery of the entity's own equity instruments.

Some of the examples of financial assets are cash, bank balance, trade account receivables, loans, debt securities, etc.

Contracts and contractual rights

The terms 'contract', 'contractual right' and 'contractual obligation' is fundamental to the definitions of financial instruments, financial assets and financial liabilities. The reference to a 'contract' is to an agreement between two or more parties that have clear economic consequences and which the parties have little, if any, discretion to avoid, usually because the agreement is enforceable at law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing. Contractual rights and contractual obligations are rights and obligations that arise out of a contract. Assets and liabilities that are not contractual in nature are not financial assets or financial liabilities even though it may result in the receipt or delivery of cash.

Most contracts give rise to a variety of rights and obligations, and the rights and obligations arising from a contract will often change or be added to as the contract is performed. Some of these rights and obligations may fall within the definition of financial instruments and some may not. For example, an unperformed contract for the purchase or sale of tangible assets usually gives rise to rights and obligations to exchange a physical asset for a financial asset (although it is possible that, if the contract is breached, the exchange will involve the payment of compensation). These rights and obligations do not represent a financial instrument. Under the same contract, once the physical asset has been delivered, a debtor or creditor will usually arise and this will be a financial instrument.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive), meaning that each case is an

example of a financial instrument. A company holding a convertible bond has a contractual right to receive another financial asset (shares, with cash as an alternative) from the issuer.

In very broad terms, financial assets will, or are likely to, lead to a company receiving cash in the future; financial liabilities will, or are likely to, lead to a company paying out cash in the future. But the cash may be received, or paid, via a whole chain of contractual rights or obligations – for example, a company may hold an option to acquire a convertible bond that can be converted into shares that can be sold for cash. So the definitions of financial asset and financial liability in IAS 32 are in general terms.

Exclusions from Financial Assets:

There are several exclusions from the normal classification and accounting rules for financial assets. The items excluded are:

i. a hedged item in a fair value hedge

ii. Interests in subsidiaries, associates and joint ventures, except where they are held temporally for disposal in near future.

iii. rights and obligations under leases, except for embedded derivatives included in lease contracts

iv. employers' assets and liabilities under employee benefit plans

v. rights and obligations under an insurance contract

vi. financial instruments issued by the entity that meet the definition of an equity instrument

vii. Contracts for contingent consideration in a business combination. This exemption applies only to the acquirer

viii. contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date

ix. financial instruments, contracts and obligations under share based payment transactions, except for contracts that can be settled net in cash or another financial instrument

x. loan commitments that cannot be settled net in cash and which the entity has not designated as at fair value through profit or loss

Financial Liability as per the standard is any liability that is

- a contractual obligation
  - to deliver cash or other financial assets to another entity; or
  - to exchange financial assets or liabilities with other entity in terms that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instrument and is
  - a non derivative for which the entity is or may be obliged to deliver a variable number of entity's own equity instruments; or
  - is a derivative that will or may be settled other than by fixed amount of cash or another financial asset for a fixed number of entities own equity instruments.

The standard defines **equity instrument** as any contract that represents a residual interest in assets of the entity after deducting all its liability.

Sometimes the terms of financial instrument are such that they contain components of both equity and liability such instruments are called **compound instruments.** The liability and equity components of a compound instrument are required to be accounted for separately.

Equity- Liability Classification

Many instruments that have the legal form of equity are, in substance, liabilities. A financial instrument should be classified as a financial liability or an equity instrument depending on the substance of the arrangement rather than the legal form. Liabilities arise when the issuer is contractually obligated to deliver cash or another financial asset to the holder of the instrument. An instrument is an equity instrument only if the issuer has no such obligation, i.e. it has an unconditional right to avoid settlement in cash or another financial asset. The ability to defer payment is not enough to achieve equity classification, unless payment can be deferred

indefinitely. Generally, an obligation for the entity to deliver its own shares is not a financial liability because an entity's own shares are not considered its financial assets. An exception to this is where an entity is obliged to deliver a variable number of its own equity instruments.

The key questions that must be addressed when determining classification as a financial liability or equity instrument are therefore:

- Is settlement in cash or another financial asset neither mandatory nor at the option of the holder?
- Does the issuer have the unconditional right (i.e. full discretion) to avoid payments in cash or other financial assets or to defer payment indefinitely?
- if settlement in cash, another financial asset or a variable number of shares is dependent on the outcome of uncertain future events beyond the issuer's and the holder's control, is the event that would cause such settlement extremely rare, highly abnormal and very unlikely to occur?
- If the instrument is, or may be, settled in own shares, is the number of shares that will or may be delivered fixed, so that the holder is fully exposed to fluctuations in the issuer's share price?

Now let us study each of these issues in some details

Obligation to deliver cash or another financial asset

The obligation to deliver cash or another financial asset may arise explicitly or it may arise indirectly through the terms and conditions of the financial instrument. All the terms and conditions of the contract should be carefully assessed to determine the nature of obligation.

A case study:

Entity X has issued some preference shares. The shares provide the holders with a mandatory fixed cumulative annual dividend of 10% that is payable provided Entity B has sufficient

distributable profits. The dividend is payable regardless of whether a dividend is paid on the entity's ordinary shares. The shares are redeemable at the issuer's option.

Solution:

Although, the preference shares are redeemable only at the issuer's option, in substance, they are debt instruments. To classify an instrument as equity, the issuer must assess the various rights attached to the share to determine whether it exhibits the fundamental characteristic of a liability. In this case, the dividend rights attached to the shares are such that the issuer cannot use its discretion to avoid payment of the dividend. Such a mandatory fixed cumulative dividend is similar to an interest payment that provides the shareholder with a lender's rate of return. Hence, the entity X should classify the entire preference shares as financial liabilities.

Unconditional right to avoid payment

An instrument qualifies to be classified as equity only if the entity has absolute discretion to avoid delivering cash or another financial asset. Otherwise, the instrument meets the definition of a financial liability. The management should have discretion to unilaterally set the timing and amount (including zero) of the payment. Such discretion should exist indefinitely for an instrument to be classified as equity. For example, an ability of the management of the issuer to unilaterally set the amount of any dividends, combined with no stated redemption date, might result in equity classification.

A potential inability or restriction on the ability of an entity to satisfy its obligation to transfer financial assets does not mean the entity has an unconditional right to avoid payment. For instance, an instrument requiring fixed payments only if there are distributable profits but not otherwise, is not an equity instrument. The presence or absence of distributable profits is not within management's control, and therefore does not give management the discretion to avoid payment of dividends.

For similar reasons the following factors do not affect classification of a preference share as either a financial liability or an equity instrument:

- A history of making distributions

- An intention to make distributions in the future
- A possible negative impact on the price of ordinary shares of the issuer if distributions are not made
- The amount of an issuer's reserves
- An issuer's expectation of profit or loss for a period
- An ability or inability of the issuer to influence the amounts of its profit or loss for the period

Settlement based on uncertain future events

The terms of some instruments may give rise to an obligation to pay cash or transfer another financial asset only on the occurrence of one or more uncertain future events. For instance, an instrument may include clauses which call for redemption in the event of changes in tax legislation or failure to comply with financial performance measures or covenants etc. Where such specified events are beyond the entity's control, the entity does not have the unconditional right to avoid payment, and hence the instrument is classified as a liability. Liability treatment may be avoided only where an entity can demonstrate that either:

- the related contingent settlement provision is not genuine. An example may be where settlement is contingent upon the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur
- settlement in cash or another financial asset is only required in the event of liquidation of the issuer

Settlement in entity's own shares

Since the entity's own equity instruments do not represent financial assets of the entity, an entity's obligation to deliver its own equity instruments is generally not a financial liability. However, where there is an obligation of an entity to deliver a variable number of its own equity instruments or to exchange a fixed number of its own equity instruments for a variable amount of

cash or other assets is a financial liability. In such cases, the entity is using its own shares as currency to settle an obligation that is either fixed in amount or those changes with a variable other than the price of the entity's own shares. As a result, the holder of the contract is not fully exposed to changes in the entity's share price and the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities.

Some examples:

ITEMS	**CLASSIFICATION**
Ordinary shares	equity, since right to receive cash if form of cash or otherwise at issuers discretion
Advance received	not financial liability, since obligation to deliver goods or services
Warranty obligations	-do-
Tax provisions	Non financial liability, since it is statutory obligation and not contractual obligation
Company’s registration fees, etc.	-do-
Mandatorily redeemable shares	Financial liability
Bill payables	Financial liability
Trade creditors	Financial liability
Perpetual instruments with mandatory coupon payments	Financial liability
Puttable instruments	Financial liability
Instrument requiring mandatory payment of % of profit	Financial liability

Instrument redeemable at option of issuer	Equity, since outflow of cash avoidable
Instrument redeemable mandatorily on fulfilment of certain condition	Financial liability
Deposits	Financial liability
Contingent settlement	Financial liability, if provisions genuine and not limited to liquidation
Dividends	Not a financial liability if declaration at discretion of issuer
Declared dividend	Financial liability
Dividend pusher/stopper	Not financial liability
Bank overdraft	Financial liability

Offsetting a Financial Asset and a Financial Liability

A financial asset and liability should be offset against each other, to present net amount in the statement of financial position only when an enterprise has a currently enforceable right to set off the recognised amounts and intends to either settle on net basis or simultaneously settle the liability and realize the asset. Otherwise, in case of transfer of a financial asset that does not qualify for derecognition the entity should not offset the transferred asset and associated liability.

It is important to note that the existence of an enforceable right to set off financial asset and financial liability is by itself not sufficient basis for offsetting. Together with it, there should also be an intention to do so. When offset is applied entity has the right to pay or receive a single net amount in relation to two instruments and if it intends to do so, in effect the entity has single financial asset or financial liability.

Offsetting Vs Derecognition

Offsetting of a financial asset with a financial liability is different from derecognising financial assets or liabilities. Unlike de-recognition, offsetting does not remove an asset or liability from statement of financial position. Rather it amounts to net presentation of the asset or liability as either a net asset or a net liability. Moreover, derecognition of a financial instrument can give rise to gain or loss on Derecognition whereas there is no such gain or loss in case of offsetting.

Legal right to offset

Legal right to offset is debtor's legal right, by contract or otherwise to settle or otherwise eliminate all or portion of an amount due to creditor by applying against that amount due an amount due from the creditor. As the right here are legal right, the circumstance that gives rise to such a right will vary from one legal jurisdiction to another. Thus for each relationship between two parties it is necessary to consider the particular laws applicable to it. Sometimes a debtor may have legal right to offset an amount due from third party against amount due from creditor, provided there is a legal agreement to do so between three parties.

Intention to offset

The existence of an enforceable right to set off financial asset and financial liability is by itself not sufficient basis for offsetting; there should also be an intention to do so. The intention of offset is presumed to be there either when entity intents to exercise the right to offset or to settle simultaneously an offsetting financial asset and financial liability. The intention of one or both parties to settle on net basis is not sufficient if there is no legally enforceable right to do so.

In December 2011 the IASB separately issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) to clarify the application of certain offsetting criteria in IAS 32, namely:

- the meaning of 'currently has a legally enforceable right of set-off'; and

- that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

II. CLASSIFICATION OF FINANCIAL ASSETS – IAS 39: All financial assets are classified in any of the following four categories:

i. at fair value through profit or loss (FVTPL)

ii. available for sale (AFS)

iii. loans and receivables (LR)

iv. held to maturity (HTM)

1. Financial Assets at Fair Value through Profit or loss:

This classification has further two sub classifications. First category contains financial assets that are held for trading purpose. Here, all derivatives except financial guarantee contracts and designated and effective hedging instrument are regarded as held for trading. Beside this all financial assets which are principally acquired for the purpose of sale or in case of portfolio of identified financial instruments that are managed together, there are evidences of short term profit making, are classified as at FVTPL. Second category includes financial assets that are on initial recognition designated as one to be measured at fair value with fair value changes in profit or loss.

2. Held – To – Maturity Investments

Held-to-maturity (HTM) financial assets are Non-derivative financial assets with fixed or determinable payments and fixed maturity that entity has positive intention and ability to hold till maturity. The following are excluded

- On initial recognition designated as at FVTPL

- Loans and receivables and
- Available for Sale financial assets

3. Loans and Receivables

Loans and receivables are financial assets that are:

- Non derivative financial assets
- With fixed and determinable payments
- Those are not quoted in an active market

Other Than

- Those that entity wants to sell immediately or in short term i.e. those classified as held for trading
- Those that entity on initial designation designates as at FVTPL
- Those that entity on initial recognition designates as available for sale

Those that are subsequently classified as available for sale as holder may not recover substantial portion of its investment for reason other than because of credit deterioration.

4. Available for Sale Financial Assets

Available for Sale are non-derivative financial assets that are designated as available for sale, other than those

- Classified as loans & receivables
- Held to maturity
- Held for trading
- Designated as at FVTPL

Thus, AFS is a residual category. The AFS category will include all equity securities except those classified as fair value through profit or loss

Classification of Financial Assets under IFRS 9 applicable on or after 1st January 2013

Financial Assets are classified into two groups namely (applicable on or after 1st January 2013)

- Amortised Cost
- Fair Value

(This Classification is made at the time the financial asset is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument)

Reclassification of Financial Assets

- IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes;
- Reclassification is done **prospectively** from **reclassification date**
- An entity does not restate any previously recognised gains, losses, or interest.
- For debt instruments, reclassification is required between FVTPL and amortised cost, or vice versa
- IFRS 9 does not allow reclassification where:
    - the 'other comprehensive income' option has been exercised for a financial asset, or
    - the fair value option has been exercised in any circumstance for a financial assets or financial liability.

Initial Recognition of Financial Asset

- An entity shall recognise a financial asset in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument (Para 3.1 of IFRS 9)
- At initial recognition, an entity shall measure a financial asset at its fair value plus transaction cost where it is directly attributable.

Measurement of Financial Assets

A financial asset shall be measured at **amortised cost** if both of the following conditions are met:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (Para 4.2 of IFRS 9)

A financial asset shall be measured at **fair value** unless it is measured at amortised cost. (Para 4.4 of IFRS 9)

Even if an instrument meets the two amortised cost tests, IFRS 9 contains an option to designate a financial asset as measured at **Fair Value through Profit or Loss (FVTPL**) if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. (Para 4.5 of IFRS 9)

Equity Instruments

All equity investments in scope of IFRS 9 are

- to be measured at fair value in the balance sheet,
- with value changes recognised in profit or loss,

- except for those equity investments for which the entity has elected to report value changes in 'other comprehensive income'.

There is no 'cost exception' for unquoted equities

Derecognition of Financial Asset

The basic premise for the derecognition model in IFRS 9 is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety or
- specifically identified cash flows from an asset (or a group of similar financial assets) or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets). or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets)

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

Classification of Financial Liabilities: Financial liabilities are classified into one of the two categories:

i. Financial liabilities at fair value through profit or loss
ii. Other financial liabilities measured at amortised cost using the effective interest method.

The category of financial liability at fair value through profit or loss has two subcategories:

i. Designated. A financial liability that is designated by the entity as a liability at fair value through profit or loss upon initial recognition.

ii. Held for trading. A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future.

Measurement

Initially, financial assets and liabilities should be measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Subsequently, financial assets and liabilities (including derivatives) should be measured at fair value, with the following exceptions:

i. Loans and receivables, held-to-maturity investments, and non-derivative financial liabilities should be measured at amortised cost using the effective interest method.

ii. Investments in equity instruments with no reliable fair value measurement (and derivatives indexed to such equity instruments) should be measured at cost.

iii. Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements of the IAS 39.

iv. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, or that are accounted for using the continuing-involvement method, are subject to particular measurement requirement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Financial assets that are not carried at fair value though profit and losses are subject to impairment test. If expected life cannot be determined reliably, then the contractual life is used

Initial Recognition of Financial Liability

- An entity shall recognise a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.(Para 14 of IAS 39)
- A financial liability is recognised initially in the balance sheet, it is measured at fair value (plus transaction costs in some cases).

Derivatives are defined as financial instruments or other contracts with all of the following characteristics

- Its value changes in response to change in a variable like interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating etc., provided in case of non-financial variable that variable is not specific to party to contract.
- It requires no or smaller initial net investment as compared to what would be required for other contract to have similar response to market change.
- It is settled at future date.

A derivative typically includes futures, forwards, swaps and options contracts. Beside these some of the derivatives which are selectively covered by IAS 39 *Financial Instrument: Recognition and Measurement* include:

- Derivatives on interest in a subsidiaries, associates or joint ventures unless the derivative meet the definition of equity instrument.
- Derivatives embedded in the lease agreements if they are separable from host contract.
- Derivatives embedded in insurance contracts if the derivative itself is not a contract covered by the IFRS 4 *Insurance Contracts*.
- Loan commitments that can be settled net in cash or by delivering or issuing another financial instrument.

- Loan commitments and whole class of such loan commitments, where the entity has past practice of selling the resulting loan assets shortly after its origination.
- Contracts to buy or sell a non financial instrument that can be settled net in cash or other financial instrument or by exchanging financial instruments, unless it was entered into and continues to be held for purpose of delivery of a non financial item in accordance with the entity's expected purchase, sale or usage requirements.

The Variable

The Variable is also called Underlying. Some examples of variable would include a security price, commodity price, interest rate, credit rating, foreign exchange rate, index price or rates of them, etc.

A variable along with notional amount or a payment provision determines settlement amount of a derivative. A derivative usually has a notional amount like number of shares or amount of index or number of units or weight, etc. However, sometimes a derivative contract may instead require a fixed payment or payment of an amount that can change, on happening of a future event that is unrelated to a notional. Such payments are called payment provision. Beside this, a derivative contract may not have a notional amount or a fixed payment provision, but instead a multiple underlying

EMBEDDED DERIVATIVES

An embedded derivative is a component of hybrid instrument that also includes non derivative host contract, such that some of cash flows of hybrid instrument vary in way similar to a standalone derivative. In other words, an embedded derivative is a derivative instrument that is combined with a non-derivative host contract to form a single hybrid instrument. The host contract might be a debt or equity instrument, a lease, an insurance contract or a sale or purchase contract. An e.g.

Company X holds a bond which is convertible into the ordinary shares of Company Y.

Hybrid contract: Convertible bond

Host contract: Bond asset

Embedded derivative: Convertible option

The convertible option is an embedded derivative. It fulfils all the three conditions that define derivative.

All freestanding derivatives, except for designated and effective hedging instruments, are measured at fair value with all changes in fair value recognised in profit or loss. This requirement on embedded derivatives is designed to ensure that measurement at fair value cannot be avoided by embedding a derivative in another contract or financial instrument that is not carried at fair value. However, a derivative contained in a financial asset or liability that is carried at fair value through profit or loss is not separated, as changes in its value are included in changes in the value of the combined instrument and hence are already reported in profit or loss. A derivative that is attached to a financial instrument but is contractually transferable independently, or has different counterparty from that instrument, is not embedded derivative, but separate financial instrument.

Conditions for Separation of Derivative:

The economic characteristics and risks of embedded derivatives are not closely related to that of host contract

Separate instrument with same terms meet the definition of embedded derivative (i.e. it must have underlying, no or lesser initial net investment, settlement at future date)

Hybrid instrument is not measured at fair value through profit or loss (such classification can be done unless embedded derivative does not significantly modify cash flow or where it is evident that separation is prohibited)

The term "closely related' has not been defined in the standard. The Appendix to IAS 39 provides lists of example of embedded derivative that are closely related to their host contracts and those that are not closely related. A degree of judgment is required when an embedded derivative does not fall in any of two lists. The assessment of whether an embedded derivative is

closely related is primarily qualitative rather than quantitative and requires an understanding of the economic characteristics and risks of both instruments.

Derecognition of Financial Asset

Derecognition in the context of financial assets is the removal of the financial asset from the statement of financial position through sale, payment, renegotiation, or default of the counter-party. Assessing whether or not a financial asset should be derecognised is normally straight forward. For example, when a manufacturer receives a payment from a customer for the delivery of goods the manufacturer no longer has any rights to further cash flows from the receivable. It should derecognise, i.e. remove receivables from the statement of financial position. However, the derecognition test is not always very simple and requires a lot of judgement. The decision weather a transfer qualifies for derecognition is made by applying dual tests for risk and reward and for control.

Dual Tests for Derecognition of Financial Assets

Risk and Reward Test: The risks and rewards tests seek to establish whether, having transferred a financial asset, the entity continues to be exposed to the risks of ownership of that asset or it continues to enjoy the benefit that it generates in future.

Control Tests: The control tests are designed with a view to understand which entity, transferor or the transferee, controls the asset. In other words, which entity can direct how benefits of those assets are realized.

Impairment

A financial asset or group of assets is impaired, and impairment losses are recognised, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. An entity is required to assess at each reporting date whether there is any objective evidence of impairment. If any such evidence exists, the entity is required to do a detailed impairment calculation to determine whether an impairment loss should be recognised.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate

Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk statistics and collectively assessed for impairment.

If, in a subsequent period, the amount of the impairment loss relating to a financial asset carried at amortised cost or a debt instrument carried as available-for-sale decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through profit or losses. Impairments relating to investments in available-for-sale equity instruments are not reversed.

III. DISCLOSURE REQUIREMENTS OF IFRS 7

An entity must group its financial instruments into classes of similar instruments and, when disclosures are required, make disclosures by class. [IFRS 7.6]

The two main categories of disclosures required by IFRS 7 are:

i. Information about the significance of financial instruments

ii. Information about the nature and extent of risks arising from financial instruments

i. Financial Instruments are very important part of any entities financial statements. One of the purpose of these disclosure requirements are to enable the users of the financial statements to evaluate the significance of financial instruments held or issued by entity, in assessing its financial position and performance

Certain minimum disclosures requirement has been prescribed by the standards. However, the location for the required statement of financial position disclosures has not been specified. The disclosures may be given at the face of the statement of financial position or by the way of notes to the financial statements.

Financial assets as at fair value through profit or loss

Entities are required to give extensive disclosures when it designates a loan or receivable as at fair value though profit or loss. This is because, applying fair value option to these instruments makes a significant impact on financial statements as fair value movements are recognised in the financial statements. The required disclosure include maximum amount of credit exposure, the impact of credit derivatives on the credit exposure, and changes in fair value of loans or receivables (or group of loans and receivables) and any related credit derivatives due to changes in credit risk, both during the period and cumulatively. Since it is difficult for many entities to identify and reliably measure changes in fair value of loans and receivables attributable to change in own credit risks, entities are allowed to calculate the amount of change in fair value that is not attributable to change in market condition that give rise to market risks. Entities are allowed to use other methods if it represents the effect of credit risks more faithfully. However, entities need to disclose the method used and if entity believes that the disclosures does not faithfully represent the changes in fair value of financial asset attributable to changes in its credit risk, it should give the reason for such conclusion and other relevant factors.

Financial liabilities at fair value through profit or loss

Extensive disclosures are required when an entity designates a financial liability as at fair value through profit or loss, particularly about the credit worthiness. The change in fair value of financial liability during the period and cumulative, due to change in the credit risk of that liability should be disclosed. Since it is difficult for many entities to identify and reliably measure changes in fair value of financial liabilities attributable to change in own credit risks, entities are allowed to calculate the amount of change in fair value that is not attributable to change in market condition that give rise to market risks. Entities may use other methods, if they can demonstrate that it results in more faithful representation of change in fair value attributable to changes in credit risk of the liability. Entities need to disclose the method used and if entity believes that the disclosures does not faithfully represent the changes in fair value of financial asset attributable to changes. Moreover, entities are also required to disclose the carrying amount of the financial liability at fair value through profit or loss and the amount entity would contractually liable to pay at maturity to the holder of the instrument.

Other Disclosures in Statement of Financial Position

Reclassification: Entities are required to disclose the amount and reason for reclassification of financial assets from cost or amortised cost to fair value or vice versa, for each category of financial assets. As discussed earlier, reclassification into or out of financial asset or liability as at fair value through profit or loss is not permitted. Hence, in practice disclosure relating to reclassification into and out of available for sale category will be required.

Transferred assets not Derecognized: As discussed earlier, some transfers of financial assets do not qualify for derecognition. In such cases, it is important that user of the financial statements are able to evaluate the extent and nature of the risk and rewards entity continues to be exposed to and extent of its continuing involvement with the asset. The disclosures for derecognition are required for each class of financial assets, which can be either be according to type of financial asset or according to nature of risk and reward retained. The entities are required to disclose for each class of such financial assets:

- The nature of the assets
- The nature of the risk and rewards of ownership to which entity remain exposed
- The carrying amount of the assets and associated liabilities when entity continues to recognise all of the assets and in case entity continues to recognise to the extent of its continuing involvement, the total carrying amount of the original assets are also disclosed.

Collateral Received: An entity should disclose the fair value and terms and condition of use of financial or non financial assets received as collateral which the company has right to sell or repledge in the collateral in the absence of default. It should also disclose the fair value of any such collateral sold or repledged and whether the entity has an obligation to return it.

Collateral Given: In respect to collateral pledged by the entity it should disclose the carrying amount and terms and conditions of financial assets pledged as collateral. Moreover, in respect of collateral given, for which counterparty has, right to sell or repledge, it should be classified separately from other financial assets.

Allowance Account For credit losses: Entities are required to present a reconciliation of changes in allowance account, for credit losses due to impairment for each class of financial assets during the period. Such disclosures are useful for assessing the adequacy of the allowance for impairment losses. However, components of reconciliation have not been specified and preparer has flexibility of determining the most appropriate format.

Compound financial instruments with multiple embedded derivatives: If an entity issues a compound instrument i.e. an instrument with both liability and equity component, with multiple derivatives (as in the case of callable convertible debentures), it should disclose the existence of such features.

Defaults and Breaches: Entities are required to disclose details of any defaults of principal, interest, sinking fund, or redemption terms during the period of any financial liability that is loan payable by the entity. Moreover, the carrying amount of any such loans that are in default at the reporting date is required and whether the default was remedied or the terms of the loans payable were renegotiated before the issue of financial statements should also be stated. Similar disclosures are also required for breaches of other loan agreement if those breaches permit the lender to demand accelerated repayment. However, disclosure need not be given if the breaches are remedied or terms of loan are renegotiated on or before the reporting date. This information is relevant to users for determining the entities credit worthiness and affects the future fund raising prospects of the company.

Financial Instruments in statement of profit or loss and equity

As in the case of minimum statement of financial position related disclosures, an entity is permitted to present the required statement of comprehensive income disclosures on either the face of the statement of comprehensive income or in the notes to financial statements. Disclosures in respect to following item of income, expense, gains and losses should be disclosed by the entity:

Net gains or losses for each financial instrument category of financial instrument as defined earlier. The financial assets and liabilities held for trading has to be shown separately from those designated as at fair value through profit or loss on initial recognition.

Total interest income and total interest expense, calculated using effective interest method for financial assets or financial liabilities other than not at fair value through profit or loss, should be disclosed.

Fee income and expense, other than those included in determining effective interest rate, arising from financial assets and liabilities other than financial assets and liabilities as at fair value - through profit or loss. Moreover, the disclosure shall be provided of trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. Such information is useful in assessing the level of such activities by entity and in estimating probable future income of the entity.

Interest income on impaired financial assets that is determined using the rate of interest used to discount the future cash flows for measuring impairment loss.

The amount of any impairment loss for each class of financial asset

As stated earlier, the class is generally lower level of aggregation than a category. For example an entity may disclose impairment of available for sale debt securities separately from available for sale equity securities, if the classes are significant.

ii. **Credit Risk:** Credit Risk refers to the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market Risk: This is the risk that the fair value or the future cash flow of the financial instrument will fluctuate because of the changes in the market price. It comprises of three types of risks, which are currency risk, interest rate risk and other price risk.

Currency Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest Rate Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

Other Price Risk: It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price other than those arising from interest rate

risk and currency risk. These changes may be caused by the factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Other Disclosures

1. Accounting Policies

Normally, measurement bases and accounting policies used in preparation and understanding of financial statements are disclosed. For financial instruments these requirement would include the following:

- Criteria for designating financial assets and financial liabilities as at fair value through profit or loss
- Nature of financial assets or liabilities that have been designated as at fair value through profit or loss
- Narrative description of justification of designation of financial asset or financial liability as at fair value through profit or loss
- Criteria for designating financial asset as available for sale
- Determining when the carrying amount of impaired financial assets are reduced directly and when allowance account has to be used.
- Criteria for writing off the amount charged to allowance account against the carrying amount of impaired financial assets.
- Whether trade date or settlement date accounting model is used for accounting of regular way purchases and sales of financial assets.
- Method of determining net gains or net losses on each category of financial instrument. For example, whether the net gains or net losses on items at fair value through profit or loss includes interest or dividend income.

- The criteria for determining the objective evidence of impairment loss.
- When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, the accounting policy for financial assets that are subject to renegotiation.

2 Hedge Accounting Disclosures

Hedging activities are integral and a very significant part of many entities. These activities are integral to entity's financial risk management policy. Hedge accounting is not mandatory for an enterprise. It is adopted to remove the difference in timing of recognition of gains and losses on exposure that is being hedged and the hedging instrument. This accounting choice can have significant effect on the financial statement.

For all hedges, entity must disclose a description of each type of hedge, description and fair values at reporting date of the financial instruments designated as hedging instruments date and nature of the risks being hedged. Since, in cash flow hedges, entity has to make significant judgments about expectation of the cash flow and these hedges also requires recognition of gains and losses directly in equity which are recycled to profit or loss, greater transparency is required. Therefore, some additional disclosures are required for cash flow hedges, which are:

- The expected period of cash flows and timing of their effect in profit or loss
- Description of any forecast transaction which was hedged previously, but no longer expected to occur
- The amount recognised in appropriate equity account during the period
- Amount recycled from equity to profit or loss for the period
- The amount removed from appropriate equity account and included in the initial cost or other carrying amount of non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.
- The ineffectiveness recognised in profit or loss that arises from cash flow hedges.

In case of fair value hedges the gain or loss on the hedging instrument and gain or loss on the hedged item are immediately recognised in profit or loss in all periods. The net of these represents the effective portion of the fair value hedge. Therefore, the gain or loss on the hedging instrument and gain or loss on the hedged item attributable to hedged risk are separately disclosed either on the face of the financial statement or in the notes to financial statements.

The ineffectiveness recognised in profit or loss that arises from hedges of net investment in foreign operation is also disclosed.

Information about the fair values of each class of financial asset and financial liability, along with:

- Comparable carrying amounts.
- Description of how fair value was determined.
- Detailed information if fair value cannot be reliably measured.

Recent Amendments to IFRS 7 *Financial Instruments: Disclosures*

Reclassification

In October 2008 the Board amended IAS 39 to permit reclassification of particular financial assets in some circumstances. The amendments introduce into IFRSs the same possibility of reclassifications that is already permitted under US GAAP in limited circumstances. The amendments would permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss category and out of the available-for-sale category

The Board decided to require additional disclosures about the situations in which any such reclassification is made, and the effects on the financial statements. . The Board regards such information as useful because the reclassification of a financial asset can have a significant effect on the financial statements.

If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50D of IAS 39 or out of the available-for-sale category in accordance with paragraph 50E of IAS 39, it shall disclose:

(a) the amount reclassified into and out of each category;

(b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods

(c) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;

(d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period;

(e)in the period of reclassification and in subsequent periods until the financial asset is derecognised, the gain or loss that would have been recognised in profit or loss or OCI had the financial asset not been reclassified, and the actual gain, loss, income and expense recognised in profit or loss;

(f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

. The amendments are effective 1 July 2008.

March 2009: IASB enhances the IFRS 7 financial instruments disclosures

On 5 March 2009, the IASB has issued *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*. The amendments require enhanced disclosures about fair value measurements and liquidity risk. Among other things, the new disclosures:

clarify that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument

And disclosure of any change in the method for determining fair value and the reasons for the change

establish a three-level hierarchy for making fair value measurements:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Add disclosure, for each fair value measurement in the statement of financial position, of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 is used including a measure of sensitivity to a change in input data

Clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts

Add disclosure of a maturity analysis for derivative financial liabilities

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2009, with earlier application permitted. However, an entity will not be required to provide comparative disclosures in the first year of application.

In December 2011 the IASB issued Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The new disclosures will provide users of financial statements with information about the effect or potential effect of netting arrangements on an entity's financial position. These disclosures will also provide comparable information between financial statements prepared in accordance with IFRSs and those prepared in accordance with US GAAP. The disclosures apply to:

- All financial instruments set off in the statement of financial position in accordance with IAS 32, and

- Financial instruments subject to a master netting arrangement or similar agreement even if not set off in the statement of financial position.

They do not apply to:

- Financial instruments with only non-financial collateral agreements,
- Financial instruments with financial collateral agreements but no other rights of set-off, and
- Loans and customer deposits with the same financial institution (unless they are set off in the statement of financial position).

IV.FINANCIAL INSTRUMENTS - IFRS 9

In April 2001 the International Accounting Standards Board (IASB) adopted IAS 39 Financial Instruments: Recognition and Measurement, which had originally been issued by the International Accounting Standards Committee in March 1999.

The IASB intends to ultimately replace IAS 39 in its entirety. The IASB divided its project to replace IAS 39 into phases. As the IASB completes each phase, it will replace portions of IAS 39 with chapters in IFRS 9.

In November 2009, the IASB issued the chapters of IFRS 9 Financial Instruments relating to the classification and measurement of financial assets. In October 2010 the IASB added the requirements related to the classification and measurement of financial liabilities to IFRS 9. This includes requirements on embedded derivatives and how to account for own credit risks for financial liabilities that are measured at fair value.

In October 2010 the IASB also decided to carry forward unchanged from IAS 39 the requirements related to the derecognition of financial assets and financial liabilities. Because of these changes, in October 2010 the IASB restructured IFRS 9 and its Basis for Conclusions. In December 2011, the IASB deferred the effective date to January 2015.

V. FAIR VALUE MEASUREMENT - IFRS 13

The standard deals with “how to measure fair value?”

Salient Features of IFRS 13

- The IFRS explains how to measure fair value for financial reporting.
- Some IFRSs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments.
- Fair value is a market-based measurement, not an entity-specific measurement.
- The timing of fair value measurement is not covered.

How it all began?

The case of **Barings Bank**

- Barings Bank - 1762 to 26th February 1995
- ING, a Dutch bank, purchased Barings Bank in 1995 for the nominal sum of £1and assumed all of Barings' liabilities, forming the subsidiary ING Barings
- The bank lost £827 million ($1.3 billion) the loss is twice the banks available trading capital
- It was due to speculative investing, primarily in futures contracts, at the bank's Singapore office.
- Nick Leeson Key Personnel in the Baring Bank (Born on 25thFebruary 1967) (age 44)

The Standard Does Not Apply To

The standard does not apply to transactions that are covered under the following standards

- IFRS 2 – Share - based Payment
- IAS 17 – Leases
- IAS 36 – Impairment of Assets

Requirements of the Standard

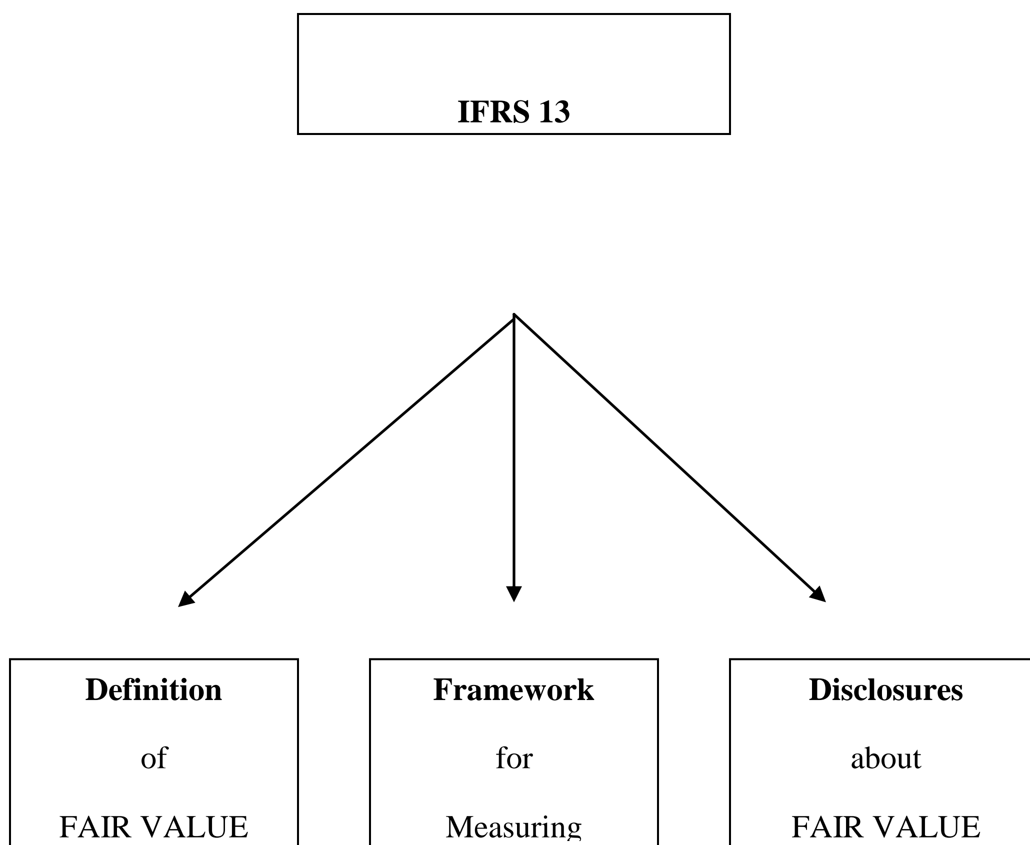
The IFRS explains that a fair value measurement requires an entity to determine the following:

(a) The particular asset or liability being measured;

(b) For a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;

(c) The market in which an orderly transaction would take place for the asset or liability; and

(d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.



Definitions

Active market - A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Entry Price - The price paid to acquire an asset or received to assume a liability in an exchange transaction.

Exit Price - The price that would be received to sell an asset or paid to transfer a liability.

Expected Cash Flow - The probability-weighted average (ie mean of the distribution) of possible future cash flows.

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

Highest and best use - The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.

Income Approach - Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Inputs - The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

(a) The risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and

(b) The risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Level 1 inputs Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs Unobservable inputs for the asset or liability.

Market approach A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

Market Corroborated Inputs - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Market Participants - Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) They are independent of each other, ie they are not related parties as defined in IAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

(c) They are able to enter into a transaction for the asset or liability.

(d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.

Most Advantageous Market - The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

Non-Performance Risk - The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk.

Observable Inputs - Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Orderly Transaction - A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

Principal Market The market with the greatest volume and level of activity for the asset or liability.

Risk Premium - Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'.

Transaction Costs - The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:

(a) They result directly from and are essential to that transaction.

(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in IFRS 5).

Transport Costs - The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.

Unit of Account - The level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes.

Unobservable Inputs - Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

Definition of Fair Value

Fair Value –

- It is a price
- received when an asset is sold or paid to transfer a liability
- in an orderly transaction between participants
- at the measurement date

Requirements of Fair Value Measurement

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

A fair value measurement requires an entity to determine all the following:

(a) The particular asset or liability that is the subject of the measurement (consistently with its unit of account).

(b) For a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).

(c) The principal (or most advantageous) market for the asset or liability.

(d) The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would

use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

Asset or Liability

- A fair value measurement is for a particular asset or liability.
- Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:
  - (a) The condition and location of the asset; and
  - (b) Restrictions, if any, on the sale or use of the asset.

The asset or liability measured at fair value might be either of the following:

(a) A Stand-Alone Asset or Liability (eg a financial instrument or a non-financial asset); or

(b) A Group of Assets, a Group of Liabilities or a Group of Assets and Liabilities (eg a cash generating unit or a business).

Orderly Transaction

- A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

Place of Transaction

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(a) In the *principal market* for the asset or liability; or

(b) In the absence of a principal market, in the *most advantageous market* for the asset or liability

Assumptions of Market Participants in Determining Fair Value of an Asset or Liability

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Price for determination of Fair Value

- The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for *transaction costs*.
- Transaction costs shall be accounted for in accordance with other IFRSs.
- Transaction costs do not include *transport costs*.

What is Fair Value Measurement?

The definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement.

Need for Fair Value Measurement

IFRS 13 remedies the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurements that have led to the diversity in practice and have reduced the comparability of information reported in financial statements.

Not relevant in FVM

An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

Measurement of Non Financial Asset

A fair value measurement of a non-financial asset takes into account

- a market participant's ability
- to generate economic benefits
- by using the asset
- in its *highest and best* use or
- by selling it to another market participant
- that would use the asset in its highest and best use.

Valuation for Non Financial Asset

- The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (eg a business).
- The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis.

Financial or Non Financial Liability

- A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (eg equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date.
- The transfer of a liability or an entity's own equity instrument assumes the following:
    - A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation.

- An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument.

Liabilities and equity instruments held by other parties as assets

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available. Then

- Where the identical item is held by another party as an asset,
- An entity shall measure the fair value of the liability or equity instrument from the **perspective of a market participant** that holds the identical item as an asset at the measurement date.

Liabilities and equity instruments not held by other parties as assets

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available. And

- The identical item is not held by another party as an asset,
- An entity shall measure the fair value of the liability or equity instrument using a **valuation technique** from the perspective of a market participant that owes the liability or has issued the claim on equity.

Transaction Price Vs Fair Value

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*) In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

Valuation Techniques

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

Objective of Valuation Technique

The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

Types of Valuation Techniques

Three widely used valuation techniques are

- The market approach,
- The *cost approach* and
- The income approach.

An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Examples of markets in which inputs might be observable for some assets and liabilities (eg financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Fair Value Hierarchy

- To increase consistency and comparability in fair value measurements and related disclosures, this IFRS establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value.
- The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and
- The lowest priority to unobservable inputs (*Level 3 inputs*).

- The fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value.

Level 1 Inputs

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Quoted Price

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available

No Adjustments to Level 1 Inputs except in the following circumstance

(a) When an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date).

(b) When a quoted price in an active market does not represent fair value at the measurement date.

(c) When measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset.

Level 2 Inputs

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 2 Inputs Includes

(a) Quoted prices for similar assets or liabilities in active markets.

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) Inputs other than quoted prices that are observable for the asset or liability, for example:

(i) interest rates and yield curves observable at commonly quoted intervals;

(ii) implied volatilities; and

(iii) credit spreads.

(d) *market-corroborated inputs*.

Adjustments to Level 2 Inputs depends on the following factors

(a) The condition or location of the asset;

(b) The extent to which inputs relate to items that are comparable to the asset or liability and

(c) The volume or level of activity in the markets within which the inputs are observed.

Level 3 Inputs

- Level 3 inputs are unobservable inputs for the asset or liability.
- Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date

Disclosure Requirements

An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.

(b) For recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

Applicable Business Transactions and relevant Standards

The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It does not require fair value measurements in addition to those already required or permitted by other IFRSs

Effective Date of Application

The IFRS is to be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. This IFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Important Points

- Fair Value – It is a price – received when an asset is sold or paid to transfer a liability – in an orderly transaction between participants – at the measurement date.
- Under Fair Value measurement – the transactions are said to take place in the most advantageous markets or principle market
- Fair value measurement is based on the market and not entity specific
- In case of non –financial assets, fair value is measured based on the highest and best use of the asset according to the market conditions
- Bid and ask prices are used where they tend to represent the fair value, while it is not as such required
- Categorising Fair Value Measurement based on the type of inputs
- Disclosure requirement are very similar to that of IFRS 7 – Financial Instruments: Disclosure except that it is applicable to all assets and liabilities measured at Fair Values and not just financial instruments.

- The following disclosures are required.
    - Information on the different hierarchy level into which fair value measurements fall
    - Changes in the level of fair value measurement between quoted prices and observed prices
    - Methods of Fair Value Measurements and Changes in valuation techniques
    - Additional disclosures required for fair value measurement category that are based on inputs developed from assumptions prevalent in the market.
- The standard is effective for annual periods beginning on or after 1st January 2013 while earlier application is permitted.
- Every entity uses fair value measurement concept hence the standard is applicable to all such entities

Amendments to Other IFRS

In IFRSs 1, 3–5 and 9 (issued in October 2010) the definition of fair value is replaced with:

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.

In IASs 2, 16, 18–21, 32 and 40 the definition of fair value is replaced with:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13 *Fair Value Measurement*.)

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (as amended at September 2010)

IFRS 13 *Fair Value Measurement*, issued in May 2011, deleted paragraph 19, amended the definition of fair value in Appendix A and amended paragraphs D15 and D20. An entity shall apply those amendments when it applies IFRS 13.

IFRS 2 ***Share-based Payment***

This IFRS uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. Therefore, when applying IFRS 2 an entity measures fair value in accordance with this IFRS, not IFRS 13

IFRS 3 ***Business Combinations***

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 20, 29, 33, 47, amended the definition of fair value in Appendix A and amended paragraphs B22, B40, B43–B46, B49 and B64. An entity shall apply those amendments when it applies IFRS 13

IFRS 4 ***Insurance Contracts***

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended the definition of fair value in Appendix A. An entity shall apply that amendment when it applies IFRS 13.

IFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations***

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended the definition of fair value in Appendix A. An entity shall apply that amendment when it applies IFRS 13.

IFRS 7 ***Financial Instruments: Disclosures*** **(as amended at October 2009)**

IFRS 13, issued in May 2011, amended paragraphs 3, 28, 29, B4 and B26 and Appendix A and deleted paragraphs 27–27B. An entity shall apply those amendments when it applies IFRS 13.

IFRS 9 ***Financial Instruments*** **(issued November 2009)**

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 5.1.1, 5.2.1, 5.3.2, 8.2.5, 8.2.11, B5.1, B5.4, B5.5, B5.7, C8, C20, C22, C27 and C28 and added paragraph 5.1.1A. An entity shall apply those amendments when it applies IFRS 13.

IFRS 9 ***Financial Instruments*** **(issued October 2010)**

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 3.2.14, 4.3.7, 5.1.1, 5.2.1, 5.4.1, 5.6.2, 7.2.5, 7.2.11, 7.2.12, amended the definition of fair value in Appendix A, amended paragraphs B3.2.11, B3.2.17, B5.1.1, B5.2.2, B5.4.8, B5.4.14, B5.4.16, B5.7.20, C3, C11, C26, C28, C30, C49 and C53, deleted paragraphs 5.4.2, B5.4.1–B5.4.13 and added paragraphs 5.1.1A, B5.1.2A and B5.2.2A. An entity shall apply those amendments when it applies IFRS 13.

IAS 1 ***Presentation of Financial Statements***

IFRS 13, issued in May 2011, amended paragraphs 128 and 133. An entity shall apply those amendments when it applies IFRS 13.

IAS 2 ***Inventories***

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 6 and amended paragraph 7. An entity shall apply those amendments when it applies IFRS 13.

IAS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors***

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraph 52. An entity shall apply that amendment when it applies IFRS 13.

IAS 10 ***Events after the Reporting Period***

IFRS 13, issued in May 2011, amended paragraph 11. An entity shall apply that amendment when it applies IFRS 13.

IAS 16 ***Property, Plant and Equipment***

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 6, amended paragraphs 26, 35 and 77 and deleted paragraphs 32 and 33. An entity shall apply those amendments when it applies IFRS 13.

IAS 17 ***Leases***

Paragraph 6A is added as follows: IAS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. Therefore, when applying IAS 17 an entity measures fair value in accordance with IAS 17, not IFRS 13.

IAS 18 *Revenue*

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 7. An entity shall apply that amendment when it applies IFRS 13.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 3. An entity shall apply that amendment when it applies IFRS 13.

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 8 and amended paragraph 23. An entity shall apply those amendments when it applies IFRS 13.

IAS 28 *Investments in Associates* (as amended at October 2009)

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraphs 1 and 37. An entity shall apply those amendments when it applies IFRS 13.

IAS 31 *Interests in Joint Ventures* (as amended at October 2009)

IFRS 13 *Fair Value Measurement*, issued in May 2011, amended paragraph 1. An entity shall apply that amendment when it applies IFRS 13.

IAS 32 *Financial Instruments: Presentation* (as amended at September 2010)

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 11 and amended paragraphs 23 and AG31. An entity shall apply those amendments when it applies IFRS 13.

IAS 33 *Earnings per Share*

IFRS 13, issued in May 2011, amended paragraphs 8, 47A and A2. An entity shall apply those amendments when it applies IFRS 13.

IAS 34 ***Interim Financial Reporting*** **(as amended at May 2010)**

IFRS 13, issued in May 2011, added paragraph 16A(j). An entity shall apply that amendment when it applies IFRS 13.

IAS 36 ***Impairment of Assets***

IFRS 13, issued in May 2011, amended paragraphs 5, 6, 12, 20, 78, 105, 111, 130 and 134, deleted paragraphs 25–27 and added paragraphs 25A and 53A. An entity shall apply those amendments when it applies IFRS 13.

IAS 38 ***Intangible Assets***

IFRS 13, issued in May 2011, amended paragraphs 8, 33, 47, 50, 75, 78, 82, 84, 100 and 124 and deleted paragraphs 39–41 and 130E. An entity shall apply those amendments when it applies IFRS 13

IAS 39 ***Financial Instruments: Recognition and Measurement*** **(as amended at October 2009)**

IFRS 13, issued in May 2011, amended paragraphs 9, 13, 28, 47, 88, AG46, AG52, AG64, AG76, AG76A, AG80, AG81, AG84 and AG96, added paragraph 43A and deleted paragraphs 48–49, AG69–AG75, AG77–AG79 and AG82. An entity shall apply those amendments when it applies IFRS 13.

IAS 40 ***Investment Property***

IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 5, amended paragraphs 26, 29, 32, 40, 48, 53, 53B, 78–80 and 85B and deleted paragraphs 36–39, 42–47, 49, 51 and 75(d). An entity shall apply those amendments when it applies IFRS 13.

AS 41 ***Agriculture***

IFRS 13, issued in May 2011, amended paragraphs 8, 15, 16, 25 and 30 and deleted paragraphs 9, 17–21, 23, 47 and 48. An entity shall apply those amendments when it applies IFRS 13.

IFRIC 2 ***Members' Shares in Co-operative Entities and Similar Instruments*** **(as amended at October 2009)**

IFRS 13, issued in May 2011, amended paragraph A8. An entity shall apply that amendment when it applies IFRS 13.

IFRIC 4 ***Determining whether an Arrangement contains a Lease***

In paragraph 15(a) 'fair value' is footnoted as follows: * IAS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13. Therefore, when applying IAS 17 an entity measures fair value in accordance with IAS 17, not IFRS 13.

IFRIC 13 ***Customer Loyalty Programmes***

IFRS 13, issued in May 2011, amended paragraphs 6 and AG1–AG3. An entity shall apply those amendments when it applies IFRS 13.

IFRIC 17 ***Distributions of Non-cash Assets to Owners***

IFRS 13, issued in May 2011, amended paragraph 17. An entity shall apply that amendment when it applies IFRS 13.

IFRIC 19 ***Extinguishing Financial Liabilities with Equity Instruments*** **(as amended at September 2010)**

IFRS 13, issued in May 2011, amended paragraph 7. An entity shall apply that amendment when it applies IFRS 13.

Chapter 11

Industry based standards

I. INSURANCE CONTRACTS [IFRS 4]

An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

IFRS 4 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Furthermore, it does not address accounting by policyholders.

IFRS 4 exempts an insurer temporarily (until completion of Phase II of the Insurance Project) from some requirements of other IFRSs, including the requirement to consider the IASB's Framework in selecting accounting policies for insurance contracts. However, the IFRS:

- Prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions).
- Requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
- Requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and prohibits offsetting insurance liabilities against related reinsurance assets.

II. EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES [IFRS 6]

IFRS 6 provides guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

Exploration and evaluation expenditures are expenditures incurred by an entity in connection with exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration for and evaluation of mineral resources include the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource

Summary of IFRS 6:

(a) permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.

(b) requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.

(c) varies the recognition of impairment from that in IAS 36 Impairment of Assets but measures the impairment in accordance with that Standard once the impairment is identified.

(d) requires disclosure of information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources, including

(i) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

(ii) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources

III. ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS (IAS 26)

IAS 26 deals with Accounting and Reporting by Retirement Benefit Plans.

Key Definitions

Retirement benefit plan: An arrangement by which an enterprise provides benefits (annual income or lump sum) to employees after they terminate from service. [IAS 26.8]

Defined Contribution Plan: A retirement benefit plan by which benefits to employees are based on the amount of funds contributed to the plan by the employer plus earnings thereon. [IAS 26.8]

Defined Benefit Plan: A retirement benefit plan by which employees receive benefits based on a formula usually linked to employee earnings. [IAS 26.8]

Defined Contribution Plans

The report of a defined contribution plan should contain a statement of net assets available for benefits and a description of the funding policy. [IAS 26.13]

Defined Benefit Plans

The report of a defined benefit plan should contain either: [IAS 26.17]

i. a statement that shows the net assets available for benefits, the actuarial present value of promised retirement benefits (distinguishing between vested benefits and non-vested benefits) and the resulting excess or deficit; or

ii. a statement of net assets available for benefits, including either a note disclosing the actuarial present value of promised retirement benefits (distinguishing between vested benefits and non-vested benefits) or a reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the report of a defined benefit plan, the most recent valuation should be used as a base and the date of the valuation disclosed. The actuarial present value of promised retirement benefits should be based on the benefits promised under the terms of the plan on service rendered to date, using either current salary levels or projected salary levels, with disclosure of the basis used. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits should also be disclosed.

The report should explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.

Retirement benefit plan investments should be carried at fair value. For marketable securities, fair value means market value. If fair values cannot be estimated for certain retirement benefit plan investments, disclosure should be made of the reason why fair value is not used. [IAS 26.33]

Disclosure

- Statement of net assets available for benefit, showing: [IAS 26.35(a)]
    i. assets at the end of the period
    ii. basis of valuation
    iii. details of any single investment exceeding 5% of net assets or 5% of any category of investment
    iv. details of investment in the employer
    v. liabilities other than the actuarial present value of plan benefits
- Statement of changes in net assets available for benefits, showing: [IAS 26.35(b)]
    i. employer contributions
    ii. employee contributions

iii. investment income

iv. other income

v. benefits paid

vi. administrative expenses

vii. other expenses

viii. income taxes

ix. profit or loss on disposal of investments

x. changes in fair value of investments

xi. transfers to/from other plans

- Description of funding policy
- Other details about the plan
- Summary of significant accounting policies
- Description of the plan and of the effect of any changes in the plan during the period
- Disclosures for defined benefit plans:

i. actuarial present value of promised benefit obligations

ii. description of actuarial assumptions

iii. description of the method used to calculate the actuarial present value of promised benefit obligations

Chapter 12

DISCLOSURE STANDARDS

The following standards deal with disclosure requirements

- IAS 24 Related Party Disclosures
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRS 12 Disclosure of Interest in Other Entities
- SIC 29 Service Concession Arrangements: Disclosures

I. RELATED PARTY TRANSACTIONS [IAS 24]

A party is related to an entity if:

(a) Directly, or indirectly through one or more intermediaries, the party:

(i) Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) Has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) The party is an associate (as defined in IAS 28 *Investments in Associates*) of the entity;

(c) The party is a joint venture in which the entity is a venturer (see IAS 31 *Interests in Joint Ventures*);

(d) The party is a member of the key management personnel of the entity or its parent;

(e) The party is a close member of the family of any individual referred to in (a) or (d);

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:
(a) the individual's domestic partner and children;
(b) children of the individual's domestic partner; and
(c) dependants of the individual or the individual's domestic partner.

Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
An entity shall disclose key management personnel compensation in total and for each of the following categories:
(a) short-term employee benefits;
(b) post-employment benefits;
(c) other long-term benefits;
(d) termination benefits; and
(e) share-based payment.

If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:
(a) the amount of the transactions;
(b) the amount of outstanding balances and:
(i) their terms and conditions, including whether they are secured, and the nature

of the consideration to be provided in settlement; and
(ii) details of any guarantees given or received;
(c) provisions for doubtful debts related to the amount of outstanding balances; and
(d) the expense recognised during the period in respect of bad or doubtful debts due
from related parties. [paragraph 17]

The disclosures required by paragraph 17 shall be made separately for each of the following categories:
(a) the parent;
(b) entities with joint control or significant influence over the entity;
(c) subsidiaries;
(d) associates;
(e) joint ventures in which the entity is a venturer;
(f) key management personnel of the entity or its parent; and
(g) other related parties.
Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

II. OPERATING SEGMENTS [IFRS 8]

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

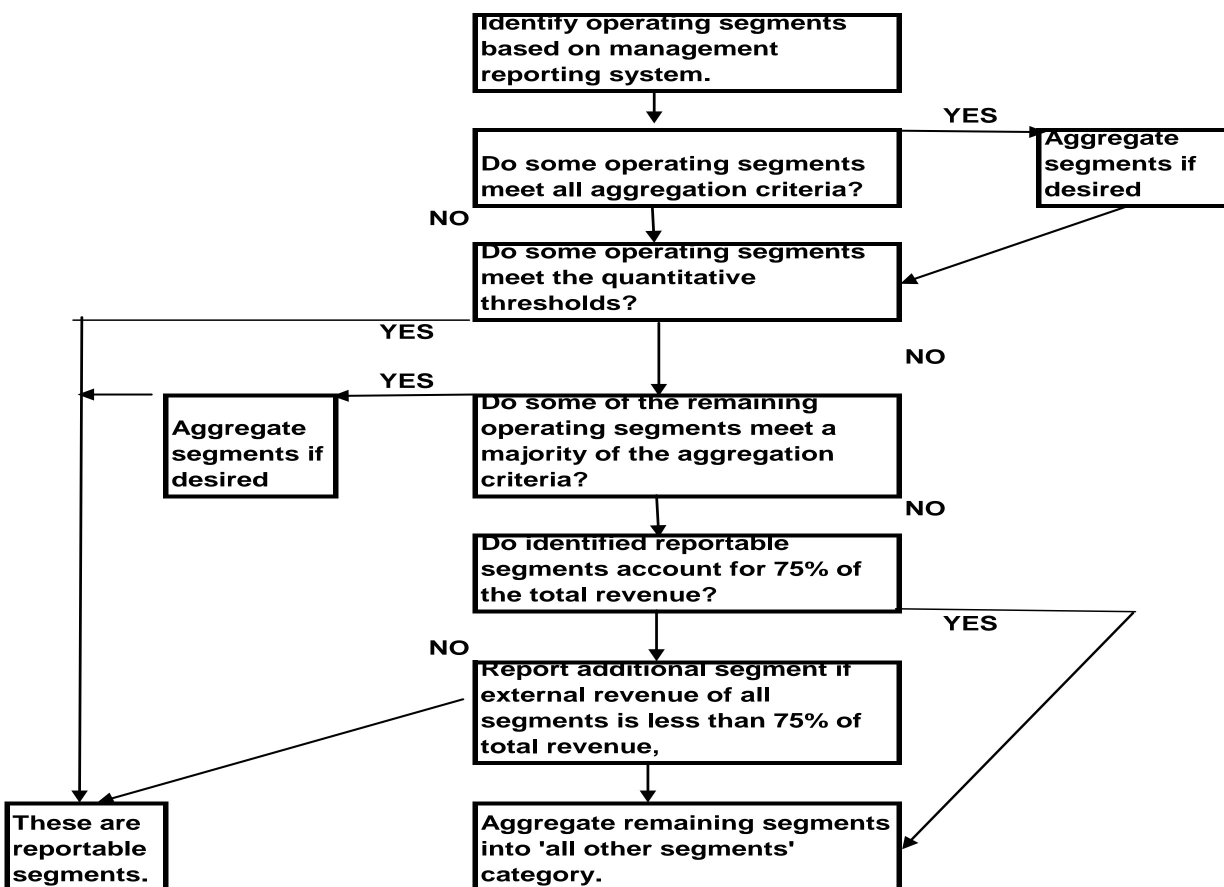
Reportable segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

Diagram for identifying reportable segments



Disclosure Requirements

Required disclosures include:

i. general information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;

ii. information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and

iii. reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.

iv. some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services.

v. Analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.

vi. information about transactions with major customers.

vii. considerable segment information at interim reporting dates.

III. IFRS 12 – DISCLOSURE OF INTEREST IN OTHER ENIFRS 1TITIES

Application of Standard

IFRS 12 applies to entities that have an interest in

- A subsidiary,
- A joint arrangement,
- An associate or
- An unconsolidated structured entity.

Effective Date of Application

The IFRS is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Requirements of the Standard

The standard requires an entity to disclose information that enables users of financial statements to evaluate:

(a) The nature of, and risks associated with, its interests in other entities; and

(b) The effects of those interests on its financial position, financial performance and cash flows.

The standard talks about the minimum disclosures an entity must provide. It also requires an entity to consider the level of detail necessary to satisfy the disclosure objective.

Definitions

Income from a structured entity - For the purpose of this IFRS, income from a **structured entity** includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

Interest in another entity - For the purpose of this IFRS, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.

An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity.

An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Structured Entity - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to

administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Disclosures Required

An entity shall disclose

(a) The significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest

(b) Information about its interests in:

(i) Subsidiaries

(ii) Joint arrangements and associates

(iii) *Structured entities* that are not controlled by the entity (unconsolidated structured entities)

Disclosure of Significant Judgments and Assumptions

An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgments and assumptions) in determining:

(a) That it has control of another entity, ie an investee as described in paragraphs 5 and 6 of IFRS 10 *Consolidated Financial Statements*;

(b) That it has joint control of an arrangement or significant influence over another entity; and

(c) The type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

Interest in Subsidiaries

An entity shall disclose information that enables users of its consolidated financial statements

(a) **To understand:**

(i) The composition of the group; and

(ii) The interest that non-controlling interests have in the group's activities and cash flows and

(b) **To evaluate:**

(i) The nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group

(ii) The nature of, and changes in, the risks associated with its interests in consolidated structured entities

(iii) The consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control and

(iv)The consequences of losing control of a subsidiary during the reporting period

Interests in joint arrangements and associates

An entity shall disclose information that enables users of its financial statements to evaluate:

(a) The nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates

(b) The nature of, and changes in, the risks associated with its interests in joint ventures and associates

Interests in unconsolidated structured entities

An entity shall disclose information that enables users of its financial statements:

(a) To understand the nature and extent of its interests in unconsolidated structured entities

(b) To evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

The Standard Does Not Apply To

(a) Post-employment benefits plans or other long-term employee benefit plans to which IAS 19 *Employee Benefits* applies.

(b) An entity's separate financial statements to which IAS 27 *Separate Financial Statements* applies.

(c) An interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

(d) An interest in another entity that is accounted for in accordance with IFRS 9 *Financial Instruments*. However, an entity shall apply this IFRS:

> (i) when that interest is an interest in an associate or a joint venture that, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, is measured at fair value through profit or loss; or

(ii) when that interest is an interest in an unconsolidated structured entity.

Amendments to Other IFRS

IAS 1 *Presentation of Financial Statements*

IFRSs 10 and 12, issued in May 2011, amended paragraphs 4, 119, 123 and 124. An entity shall apply those amendments when it applies IFRSs 10 and 12.

IAS 24 *Related Party Disclosures*

IFRS 10, IFRS 11 *Joint Arrangements* and IFRS 12, issued in May 2011, amended paragraphs 3, 9, 11(b), 15 and 19(e). An entity shall apply those amendments when it applies IFRSs 10, 11 and 12.

Chapter 13

FIRST TIME ADOPTION OF IFRS [IFRS 1]

The objective of this IFRS is to ensure that an entity's *first IFRS 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 International Financial Reporting

Standards (IFRSs); and

(c) can be generated at a cost that does not exceed the benefits.

An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs.

An entity shall use the same accounting policies in its opening IFRS statement of financial position and

throughout all periods presented in its first IFRS financial statements .In general, those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period

STRUCTURE OF IFRS 1

IFRS 1 is set out in Paras 1-40 and Appendices A-E

- Appendix A- Defined Terms
- Appendix B- Exceptions to the retrospective application of other IFRSs
- Appendix C- Exemptions for business combinations
- Appendix D- Exemptions from other IFRSs
- Appendix E - Short-term exemptions from IFRSs

KEY DEFINTIONS as set out in Appendix A

1. **First time Adopter:** An entity that presents its first IFRS financial statements
2. **First IFRS financial Statements:** The First annual financial statements in which an entity adopts IFRS by an explicit and unreserved statement of compliance with IFRS
3. **First IFRS reporting period**: The latest reporting period covered by an entity's first IFRS financial statements
4. **Opening IFRS statement of financial position**: An entity's statement of financial position at the date of transition to IFRSs
5. **Date of transition to IFRSs**: The beginning of the earliest period for which an entity presents full comparative information under IFRSs in its first IFRS financial statements

OBJECTIVE OF IFRS 1

The objective of IFRS 1 is to ensure that an entity's first IFRS financial statements and its first IFRS interim financial statements contain high quality financial information that:

(a) Is transparent for users and comparable over all periods presented;

(b) Provides a suitable starting point for accounting under IFRS; and

(c) Can be generated at a cost that does not exceed the benefits to users.

SCOPE OF IFRS 1

An entity shall apply this IFRS 1 in:

(a) Its first IFRS financial statements; and

(b) each interim financial report, if any, that it presents in accordance with IAS 34 *Interim Financial Reporting* for part of the period covered by its first IFRS financial statements.

The first IFRS statements are the first annual financial statement in which the entity makes an explicit and unreserved statement of compliance with IFRS. . This means IFRS-1 does not apply to entities that already apply IAS /IFRS.

Most companies will apply IFRS 1 when they move from local GAAP to IFRS. In India, all public interest entities will be required to adopt IFRS for all accounting periods beginning on or after 1st April 2011. IFRS 1 must also be applied when a company's previous financial statements:

i. Was prepared under national GAAP not consistent with IFRS in all respect. included a reconciliation of some items from a previous GAAP to IFRS;

ii. complied with some, but not all, IFRS in addition to a previous GAAP – for example, in areas where there is no previous GAAP guidance; or

iii. complied with IFRS in all respects in addition to a previous GAAP, but did not include an explicit and unreserved statement of compliance.

An entity can also be a first-time adopter if, in the preceding year, its published financial statements asserted:

I. Compliance with some but not all IFRSs.
II. Included only a reconciliation of selected figures from previous GAAP to IFRSs. (Previous GAAP means the GAAP that an entity followed immediately before adopting to IFRSs.)

An entity may be a first-time adopter if, in the preceding year, it prepared IFRS financial statements for internal management use, as long as those IFRS financial statements were not and given to owners or external parties such as investors or creditors. If a set of IFRS financial statements was, for any reason, given to an external party in the preceding year, then the entity will already be considered to be on IFRSs, and IFRS 1 does not apply.

However, an entity **is not a first-time adopter** if, in the preceding year, its published financial statements asserted:

- Compliance with IFRSs even if the auditor's report contained a qualification with respect to conformity with IFRSs.
- Compliance with both previous GAAP and IFRSs.

Some situations to explain when IFRS 1 can be applied

1. Can an offering document contain the first IFRS financial statements?

Yes, if the financial statements included in the offering document contains an explicit and unreserved statement of compliance with IFRS it will be the first IFRS financial statements provided complete set is presented with comparative previous year information as required by IAS 1. The context in which the financial statements are prepared is not relevant to deciding whether or not they are the first IFRS financial statements. IFRS 1 should not be applied to the financial statements issued after the offering.

2. Can management of an existing IFRS reporter apply the exemptions of IFRS 1 to an entity's financial statements by dropping an explicit and unreserved statement of compliance with IFRS from its financial statements?

Yes. Deleting the statement of compliance with IFRS means that the financial statements will not be IFRS financial statements, even though entity has been preparing IFRS financial statements for several years. Entity's subsequent financial statements will therefore be entity's first IFRS financial statements.

3. Can an entity use a new holding company to create the first IFRS financial statements?

No. The creation of a new parent entity just to hold the group is a transaction that has no substance. The transaction should be ignored, and the first financial statements of the new parent entity should be prepared on the basis that the original parent continues as the preparer of the group financial statements.

4. Can management apply IFRS 1 when an entity's previous financial statements were qualified?

No. IFRS 1 is not applied when an entity previously prepared financial statements that contained an explicit statement of compliance with IFRS, but for which the auditors' report was qualified.

5. Can IFRS 1 be applied when an entity previously complied with some, but not all, IFRSs?

Yes. IFRS 1 is applied when an entity's previous financial statements did not contain an explicit and unreserved statement of compliance with IFRS. The statement that the financial statements complied with some, but not all, IFRSs is not an explicit and unreserved statement of compliance.

TRANSITION DATE FOR IFRS AND PREPARING OPENING STATEMENT OF FINANCIAL POSITION AT DATE OF TRANSITION

For Indian companies transiting to IFRS from 2011 and required to make comparative statements for one preceding year and having financial year from April to March, the date of transition would be 1st April 2010 and for companies having financial year from January to December date of transition would be 1st January 2010.

An entity's first IFRS financial statements must include at least one comparative period, but an entity may elect or be required to provide more than one comparative period. The beginning of the earliest comparative period for which the entity presents full comparative information under IFRS will be treated as its date of transition to IFRS.

The opening IFRS statement of financial position is the starting point for all subsequent accounting under IFRS. Companies should prepare an opening IFRS statement of financial position at 'the date of transition to IFRS'. This statement of financial position forms the basis for preparation of financial statements for eg opening statement of financial position is required for, and integral to an equity reconciliation that has to be presented in an entity's first IFRS financial statements.

The opening statement of financial statement has to be prepared as on this date however, the same need not be published in the first IFRS financial statements.

In preparing opening statement of financial position entity must: follow the ***Recognition & Measurement principles of IFRS 1***

RECOGNITION & MEASUREMENT PRINCIPLES OF IFRS 1

IFRS 1 requires a first-time adopter to use the same accounting policies including general principle of retrospective application, optional exemptions and mandatory exceptions in its opening IFRS statement of financial position and all periods presented in its first IFRS financial statements The selection of accounting policy among diverse existing alternatives as per IFRS standards should be done carefully , fully understanding its implication on both the opening IFRS statement of financial position and the financial statements of future periods.

A number of standards allow companies to choose between alternative policies. Companies should select the accounting policies to be applied to the opening IFRS statement of financial position carefully, with a full understanding of the implications on both the opening IFRS statement of financial position and the financial statements of future periods.

A company may apply a standard that has been issued at the reporting date, even if that standard is not mandatory, as long as the standard permits early adoption.

As a first time adopter is required to comply with all IFRS standards effective at the reporting date, it is evident that the transitional provisions of individual IFRS do not apply to first .time adopter. Instead the opening statement of financial position is prepared by a first time adopter only in accordance with IFRS-1. The IASB has stated that it will provide specific guidance for first-time adopters in all new standards.

Therefore for a first-time adopter, the requirements in IFRS 1 override the transitional provisions in other IFRS. There are limited exceptions [IFRS 1.9] to this general rule relating to

(1) Insurance contracts and

(2) Assets classified as held for sale and discontinued operations

(3) IFRIC relating to *determining whether an Arrangement contains a Lease*.

(4) Financial assets or intangible assets accounted for in accordance with IFRIC12

(5) Provisions relating to Borrowing costs (IAS 23).

In these cases IFRS 1 specifically requires application of the transitional rules in the relevant IFRS. It is important to note that the transition rules for first-time adopters and entities that already report under IFRS may differ significantly.

OPENING STATEMENT OF FINANCIAL POSITION

Generally a first time adopter shall comply with the following requirements of IFRS-1 in its opening statement of financial position:

(a) recognise all assets and liabilities whose recognition is required by IFRSs;

i. IAS 39 requires recognition of all derivative financial assets and liabilities, including embedded derivatives. These were not recognised under many local GAAPs.

ii. IAS 19 requires an employer to recognise its liabilities under defined benefit plans. These are not just pension liabilities but also obligations for medical and life insurance, vacations, termination benefits, and deferred compensation. In the case of "over-funded" plans, this would be a defined benefit asset.

iii. IAS 37 requires recognition of provisions as liabilities. Examples could include an entity's obligations for restructurings, onerous contracts, decommissioning, remediation, site restoration, warranties, guarantees, and litigation.

iv. Deferred tax assets and liabilities would be recognised in conformity with IAS 12.

A Case Study

Entity X occupies its factory shed on a 30-year lease. The useful life of the shed is estimated to be 35 years and the net present value of the minimum lease payments at the inception of the lease amounted to 90% of the fair value of the shed. Entity X has accounted for the lease arrangements as an operating lease under Indian GAAP. If Entity x has to transit to IFRS what adjustments should be made on the opening IFRS statement of financial position?

Solution

The management of entity X should recognise the building as property, plant and equipment and should recognise a finance lease liability instead of operating lease in accordance with IAS 17as the lease is for over 85% of the useful life of the building and the net present value of the minimum lease payments is equivalent to substantially all of the fair value of the property at the inception of the lease. Therefore Entity X should record the building as an asset at the net present value of the minimum lease payments at the inception of the lease, less appropriate depreciation. Entity X should also record a finance lease liability at the net present value of the minimum lease payments at the inception of the lease; less capital repayments calculated using the rate of interest implicit in the lease.

The difference between the amounts recorded as property, plant and equipment and the amount recorded as finance lease liability should be included in retained earnings

(b) Not recognise items as assets or liabilities if IFRSs do not permit such recognition;

For example:

IAS 38 does not permit recognition of expenditure on any of the following as an intangible asset:

- research
- start-up, pre-operating, and pre-opening costs
- training
- advertising and promotion
- moving and relocation

If the entity's previous GAAP had allowed accrual of liabilities for "general reserves", restructurings, future operating losses, or major overhauls that do not meet the conditions for

recognition as a provision under IAS 37, these are eliminated in the opening IFRS statement of financial position.

If the entity's previous GAAP had allowed recognition of reimbursements and contingent assets that are not virtually certain, these are eliminated in the opening IFRS statement of financial position.

Treasury shares are not recognized as assets in the IFRS.

Deferred tax assets, when recovery is not probable are derecognized as per IFRS.

A Case Study

An Entity manufactures textile weaving machines. The machines require installation, which is done by entity's own employees and takes nearly four weeks. An additional charge is added to the sales invoice to cover the costs of installation. Entity recognizes revenue from the sale of the machines when they are delivered to the customer's premises. There are always a number of installations in progress at the end of each financial year. In entity has to converge to IFRS what adjustments should be made for the opening IFRS statement of financial position?

Solution

The entity should exclude from the opening IFRS statement of financial position any receivables recorded previously in connection with machines that have not been installed as IAS 18 requires that revenue is recognised when the buyer accepts delivery and installation and inspection are complete. Revenue cannot be recognised in connection with machines that have not been installed, so any receivable recorded should be excluded from the opening IFRS statement of financial position. The revenue should be recognised in subsequent year when installation is complete and customer has accepted the product. The machines delivered but not yet installed and accepted should be recognised as inventory at cost. The corresponding adjustment is made to reduce retained earnings.

(c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRSs;

i. IAS 10 does not permit classifying dividends declared or proposed after the reporting date as a liability at the statement of financial position date. In the opening IFRS statement of financial position these would be reclassified as a component of retained earnings.

ii. If the entity's previous GAAP had allowed treasury stock (an entity's own shares that it had purchased) to be reported as an asset, it would be reclassified as a component of equity under IFRS.

iii. Items classified as identifiable intangible assets in a business combination accounted for under the previous GAAP may be required to be classified as goodwill under IAS 22 because they do not meet the definition of an intangible asset under IAS 38. The converse may also be true in some cases. These items must be reclassified.

iv. Some offsetting (netting) of assets and liabilities or of income and expense items that had been acceptable under previous GAAP may no longer be acceptable under IFRS

(d) Apply IFRSs in measuring all recognised assets and liabilities.

The general measurement principle is to apply IFRS in measuring all recognised assets and liabilities. Therefore, if an entity adopts IFRS for the first time in its annual financial statements for the year ended 31 December 2011, in general it would use the measurement principles in IFRSs in force at 31 December 2011.

Financial instruments are valued at fair value or amortised cost under IAS 39.

Pension liabilities are valued as per IAS 19 and involves detailed and complex calculations

Provisions are calculated using the best estimate as per IAS 37

Impairment of assets is checked as per the detailed complex calculation as per IAS 36.

All items like receivables (IAS 18), employee benefit obligations (IAS 19), deferred taxation (IAS 12), financial instruments (IAS 39), provisions (IAS 37), impairments of property, plant and equipment and intangible assets (IAS 36), assets held for disposal (IFRS 5), share-based payments, etc. are measured in accordance with IFRS

Resulting Adjustments required on account of moving from previous GAAP to IFRS at the time of first-time adoption.

The transition to IFRS could result in an entity having to change its accounting policies on recognition and measurement. The effect of this is recognized

- Directly in retained earnings or other appropriate category of equity in the opening IFRS statement of financial position prepared at the date of transition to IFRSs,

For example, an entity that applies the IAS 16 – Property, Plant and Equipment – revaluation model in its first IFRS financial statements would recognize the difference between cost and the revalued amount of property, plant and equipment in a revaluation reserve. Conversely, an entity that had applied a revaluation model under its previous GAAP, but decided to apply the cost model under IAS 16 would reallocate the revaluation reserves to retained earnings.

There are significant disclosure requirements relating to changes in accounting policies on transition to IFRS. The information gathering and reporting systems of the entities should be suitably modified to deliver correct presentation and disclosure requirements as per IFRS in the opening and subsequent period statement of financial positions of the first time adopters.

EXCEPTIONS TO THE PRINCIPLE THAT AN ENTITY'S OPENING STATEMENT SHALL COMPLY WITH EACH IFRS

1. Exceptions from other IFRS

2. Exceptions to retrospective application of other IFRSs

Optional Exemption to retrospective application

Fourteen exemptions are designed to allow companies some relief from full retrospective application so as to simplify the task of convergence. However, the application of the exemptions is also not very straightforward. Some exemptions allow for alternative ways of applying the relief and others have conditions attached an entity may elect to use one or more of the following 14 exemptions:

a) business combinations

b) *fair value* or revaluation as *deemed cost*

c) employee benefits

d) cumulative translation differences

e) compound financial instruments

f) assets and liabilities of subsidiaries, associates and joint ventures

g) designation of previously recognised financial instruments

h) share-based payment transactions

i) insurance contracts

j) decommissioning liabilities included in the cost of property, plant and equipment

k) leases

l) fair value measurement of financial assets or financial liabilities at initial recognition;

m) a financial asset or an intangible asset accounted for in accordance with IFRIC 12 *Service Concession Arrangements* and

n) borrowing costs

An entity shall not apply these exemptions by analogy to other items.

Now we shall look into each of this optional exemption one by one:

a) BUSINESS COMBINATION- APPENDIX C

Exemptions for business combinations

The IASB issued the latest revised version of IFRS 3 – Business Combinations in January 2008. which comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009. The standard permits earlier application, provided that IAS 27 as amended in 2008 is applied at the same time.

For all transactions qualifying as business combinations under IFRS 3, an entity being a first time adopter has three choices viz.

i. Not restate business combinations before the date of transition.

ii. Restate all business combinations before the date of transition.

iii. Restate a particular business combination, in which case all subsequent business combinations must also be restated and the IAS 36 impairment guidance must be applied.

The entity applying IFRS 3 as stated above has to comply with the following provisions of the standard:

Applying the acquisition method i.e. retrospective application

- A business combination must be accounted for by applying the acquisition method.
- An acquirer shall be identified for all business combinations.
- The cost of the business combination must be calculated.
- The IFRS establishes principles for recognising and measuring the identifiable assets acquired, including any additional intangible assets under IAS 38 Intangible Assets and

the liabilities assumed, including any contingent liabilities and any non-controlling interest in the acquiree.

- Each identifiable asset and liability is measured at its acquisition-date fair value. Any non-controlling interest in an acquiree is measured at fair value or as the non-controlling interest's proportionate share of the acquirer's net identifiable assets.
- The IFRS requires the acquirer, having recognised the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between:

  - the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and
  - the net identifiable assets acquired.

The difference will, generally, be recognised as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognised in profit or loss.

- Not amortise goodwill thus determined as per previous clause.
- Carry out an impairment test of assets as per IAS 36 Impairment of Assets during each annual period subsequent to the date of acquisition.

The retrospective application of IFRS 3 by a first time adopter could be onerous and in many cases impracticable because it requires an entity to review all the business combinations since its incorporation and to recreate every information that was not collected at the time of business combination but is required for retrospective application at the date of transition to IFRS. Moreover, from the date that a company applies IFRS 3 to its business combinations, it must also comply with IAS 27 and IAS 36.

To ease the burden of restating following retrospective application of IFRS3, IFRS1 includes an optional exemption. The exemption provides that an entity that chooses to apply exemption provided in IFRS 1 is not required to restate business combinations to comply with IFRS 3, *Business Combinations*, where control was obtained before the transition date. The exemption is

available to all transactions that meet the definition of a business combination under IFRS 3. The classification under Indian GAAP is not relevant for determining whether the exemption can be applied. The exemption also applies to acquisitions of investments in associates and joint ventures.

However, application of the exemption is complex and certain adjustments must be made.

If a first-time adopter restates any business combination to comply with IFRS 3 (as amended in 2008), it shall restate all later business combinations and shall also apply IAS 27 (as amended in 2008) from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations as per IFRS 3 that occurred between 30 June 20X6 and the date of transition to IFRSs, and it shall also apply IAS 27 (amended 2008) from 30 June 20X6. The optional exemption will however be available for all the business combinations before 30 June 20X6. as per IFRS1.

The adjustments to recognized goodwill, other assets and liabilities under previous GAAP and reversal of goodwill amortization under previous GAAP related to business combination are treated retrospectively in accordance with IFRS 3 and effect is directly recognized in retained earnings.

Reversal of previously amortised goodwill and testing of the goodwill for impairment is done from the date the IFRS 3 is followed retrospectively by a first time adopter. If from the date of transition, such restatement as per IFRS 3 is made, the reversal and impairment testing is done in the retained earnings as on date of transition or if from an earlier date such restatement is done, then the reversal and impairment is carried out for all the intervening periods i.e. from the date of retrospective restatement to the date of transition.

Application of optional exemption

Under the previous GAAP, an entity may have followed some other method for accounting for business combination

For eg :

- Acquisition method as prescribed by IFRS 3

- Uniting of interests method
- Reverse Acquisition method

If optional exemption is elected by a first time adopter, then it shall retain the same classification as was under previous GAAP, On the other hand, if an entity elects to apply IFRS 3 retrospectively, it shall comply with the provisions of IFRS 3 which permits only acquisition method for accounting business combinations.

The first-time adopter shall recognise all its assets and liabilities at the date of transition to IFRSs that were acquired or assumed in a past business combination, other than:

(i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (paragraph B2); and

(ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with IFRSs in the separate statement of financial position of the acquiree

Most assets or liabilities will be adjusted through retained earnings except for the following two cases where adjustment is made in goodwill:

Goodwill is increased/decreased for an intangible asset recognized/ not recognised under Indian GAAP that does not qualify/qualify for recognition as an asset under IAS 38, or

Goodwill is impaired at the transition date after applying IAS 36.

Goodwill

The goodwill shall be adjusted at the date of transition for the following items only in case optional exemption for business combination is used:

(a) Intangible assets

Previous GAAP	**IFRS**	**Treatment to Goodwill**
Recognised	Not Recognised	Carrying amount at the date of transition of intangible assets (less deferred tax and non controlling interests) is added to goodwill
Not Recognised i.e. *intangible assets subsumed within goodwill*	Recognised	The amount at which the intangible assets would have been recognized in the separate IFRS financial statements of the subsidiary at the date of transition less (deferred tax and non controlling interests) is deducted from goodwill.

Goodwill shall also be adjusted on account of the following:

(b) Contingency affecting the amount of purchase consideration:

If the contingency has been settled and resolved before the date of transition although the effect has not been shown in the goodwill under previous GAAP then , goodwill as at the date of transition is adjusted for the amount of contingency.

Goodwill adjustment is also done when payment of the contingent amount is considered probable based on the reliable estimate calculated by the entity.

Impairment of Goodwill

Any resulting impairment of goodwill carried out at the date of transition is reflected as adjustment to goodwill. This requirement for testing impairment is compulsory as per IAS 36 without regard to any indication about impairment and based on the conditions existing at the transition date and in any resulting impairment loss is recognized in retained earnings (or, if so required by IAS 36, in revaluation surplus).

No other adjustments shall be made to the carrying amount of goodwill at the date of transition to IFRS. IFRS 1 highlights the following examples for which goodwill is not adjusted

- to exclude in process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with IAS 38 in the statement of financial position of the acquiree);
- to adjust previous amortisation of goodwill;
- to reverse adjustments to goodwill that IFRS 3 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to IFRSs.

Goodwill deducted directly from equity

If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity then that goodwill is neither shown as an asset under the opening statement of financial position nor is it shown as a separate component of equity. Instead it is deducted directly from retained earnings.

Furthermore, on disposal of the subsidiary or if the investment in the subsidiary becomes impaired. which gave rise to goodwill previously deducted from equity, the amount recognized in the retained earnings at the date of transition is not transferred to profit or loss as part of net gain or loss on disposal.

Subsequent adjustments to goodwill previously deducted from equity resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings

Negative goodwill

Any negative goodwill recognised under previous GAAP is derecognized with corresponding adjustment to retained earnings at the date of transition.

To summarise the provisions relating to exemption with respect to business combination, it is evident that application of the exemption is complex, and certain adjustments to transactions may still be required. The following points should be kept in mind when exemption is availed of:

- Classification of the combination as an acquisition or a pooling of interests does not change.
- Assets and liabilities acquired or assumed in the business combination are recognized in the acquirer's opening IFRS statement of financial position, unless IFRS does not permit recognition.
- Deemed cost of assets and liabilities acquired or assumed is equal to the carrying value under Indian GAAP immediately after the business combination.
- Assets and liabilities that are measured at fair value under IFRS are restated to fair value in the opening IFRS statement of financial position, with the offset being recorded in equity
- Assets and liabilities that were not recognized under Indian GAAP immediately after the business combination are recognized on the opening IFRS statement of financial position only if they would be recognized in the acquired entity's separate IFRS statement of financial position.
- Goodwill must be tested for impairment at the date of transition to IFRS, using the impairment testing method required by IAS 36

b) FAIR VALUE OR REVALUATION AS DEEMED COST

Normally under IFRS property, plant and equipment are measured using either cost model or revaluation model. Under cost model they are carried at cost less accumulated depreciation and accumulated impairment. Under revaluation model they are valued at each reporting date. As per IFRS 1, for property, plant and equipment, an entity can choose to measure the value using:

- Cost in accordance with IFRS.

- Fair value at the date of transition as deemed cost.

A revaluation carried out at a previous date (such as an IPO) as deemed cost, subject to certain conditions

This exemption is very beneficial to entities as they need not dig in the records of previous year to remeasure depreciation and amortization amounts in previous years. It should be noted that an entity that applies the fair value as deemed cost exemption at the IFRS transition date is not required to revalue these assets in subsequent periods. When the exemption is applied, deemed cost is the basis for subsequent depreciation and impairment tests. The "fair value as deemed cost" exemption may be applied on an asset-by-asset basis. Moreover, this exemption can also be applied to investment property if an entity elects to use the cost model in IAS 40, *Investment Property,* or to intangible assets that meet both the recognition and revaluation criteria in IAS 38, *Intangible Assets.* However, it cannot be applied to any other assets or liabilities.

c) EMPLOYEE BENEFITS

The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits (that is, all forms of consideration i.e. wages and salaries profit sharing plans ,bonuses etc given by an enterprise in exchange for service rendered by employees

Types of Post-employment Benefit Plans

The accounting treatment for a post-employment benefit plan will be determined according to whether the plan is a

- defined contribution or
- a defined benefit plan

Under a defined contribution plan, the enterprise pays fixed contributions into a fund but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. In these plans, the cost to be recognised in the period is the contribution payable in exchange for service rendered by employees during the period.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. These would include both formal plans and those informal practices that create a constructive obligation to the enterprise's employees.

Under these plans, the present value of the defined benefit obligation should be determined using the Projected Unit Credit Method.

The employee benefits will be treated in accordance with the general principle of retrospective application i.e. any changes in the accounting policies are made retrospectively and the effect is shown in the retained earnings. There is no exemption in this area.

The relevant provisions of IAS 19 are summarized below in table format:

Relevant category	**Treatment in the financial statements**
Calculation under IAS 19 For defined benefit plans,	Projected Unit Credit Method The amount recognised in the statement of financial position should be the present value of the defined benefit obligation (that is, the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods), as adjusted for unrecognised actuarial gains and losses and less unrecognised past service cost, and reduced by the fair value of plan assets at the reporting date.
Actuarial valuations , actuarial gains and losses	***Possibility to roll forward or back*** Measurements of employee benefit obligations at three dates: the end of the first IFRS reporting period, the date of the comparative statement of financial position and the date of transition to IFRSs is cumbersome. So an actuary can be engaged to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (IAS 19 paragraph 57).

Estimates	***Apply guidance on estimates as per IFRS -1*** After adjustments to reflect any difference in accounting policies, the first time adopter shall make actuarial assumptions at the date of transition to IFRSs that are consistent with actuarial assumptions made for the same date in accordance with previous GAAP, unless there is objective evidence that those assumptions were in error .If certain assumptions were not made under previous GAAP then IFRS 1 requires that the estimates reflect market conditions at the date of transition (eg of discount rates and fair value of plan assets at the date of transition to IFRSs).The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the entity makes the revisions and are not reflected in the calculation of pension liabilities at the date of transition.
Past service cost	Is the term used to describe the change in the obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced). Past service cost should be recognised immediately to the extent that it relates to former employees or to active employees already vested. Otherwise, it should be amortised on a straight-line basis over the average period until the amended benefits become vested

Actuarial gains and losses – The corridor approach

The provisions for Valuations in respect of defined benefit plans are calculated on the basis of a large number of actuarial assumptions such as employee turnover, discount rates, inflation, future salary increase, expected long term return on plan assets and are carried out with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from those that would be determined at the reporting date. The assumptions used for the purposes of such valuations should be unbiased and mutually compatible. The rate used to

discount estimated cash flows should be determined by reference to market yields at the reporting date on high quality corporate bonds.

On an ongoing basis, actuarial gains and losses arise that comprise

- Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred)
- Effects of changes in actuarial assumptions.
- The difference between the expected return and actual return on plan assets.

Over a long time period, actuarial gains and losses may offset one another and therefore the enterprise is not required to recognise all such gains and losses immediately. The Standard specifies that if the accumulated unrecognised actuarial gains and losses exceed 10% of the greater of the defined benefit obligation or the fair value of plan assets, a portion of that net gain or loss is required to be recognised immediately as income or expense. The portion recognised is the excess divided by the expected average remaining working lives of the participating employees. Actuarial gains and losses that do not breach the 10% limits described above (the 'corridor') need not be recognised - although the enterprise may choose to do so. Over the life of the plan, changes in benefits under the plan will result in increases or decreases in the enterprise's obligation.

The retrospective application of the corridor approach would require cumulative actuarial gains and losses from the inception of each pension plan to be split into recognized and unrecognized gains and losses at each reporting date. This would be impracticable for a first time adopter unless the entity has data readily available under previous GAAP by following similar accounting practice as in IAS 19 for employee benefits. Thus IFRS 1 applies optional exemption to retrospective application of the corridor approach.

Thus through this optional exemption a first-time adopter is allowed to recognise all cumulative actuarial gains and losses at the date of transition to IFRSs in retained earning without requiring them to be recycled through profit or loss account subsequently. This selection, however does not preclude it from using the corridor approach for later actuarial gains and losses.

This exemption may result in a significant charge to equity at the date of transition, however this is compensated by avoiding the amortizing the accumulated losses in profit or losses account over a period. Thus those actuarial gains and losses which arise subsequent to the date of transition will be recognized in the profit or losses account.

d) CUMULATIVE TRANSLATION DIFFERENCES

Retrospective application of IAS 21, *The Effects of Changes in Foreign Exchange Rates,* would require a company to determine the foreign currency translation differences in accordance with IFRS from the date on which a foreign operation was formed or acquired. This would mean restating the currency translation reserve to what it would have been had IFRS always been applied. Restatement requires an entity to recreate the IFRS financial statements of every subsidiary since each one was acquired or created and to calculate currency adjustments for each year through to transition date. The cost of restating is likely to outweigh the benefit for most entities. However, the exemption allows a company to apply IAS 21 prospectively. All cumulative translation gains and losses as of the transition date are reset to zero through an adjustment to opening retained earnings and gains or losses on subsequent disposals of foreign operations will exclude translation differences that arose before the transition date. Translation differences arising after the transition date are recorded in other comprehensive income.

e) COMPOUND FINANCIAL INSTRUMENTS

IAS 32 requires a company to split a compound financial instrument at inception into separate liability and equity components according to substance of the contract. Two entries remain in equity when the liability component of a compound financial instrument has been repaid - the original equity component and the interest on the liability component that is part of retained earnings. However, IFRS 1 exemption provides that if the liability component is no longer outstanding at the transition date, a first-time adopter does not have to separate it from the equity component in the equity. If the liability component is outstanding at the transition date, companies will need to bifurcate the two elements of equity and measure the components in accordance with IAS 32.

f) ASSETS AND LIABILITIES OF SUBSIDIARIES, ASSOCIATES, AND JOINT VENTURES

A parent and its subsidiaries 9or associate or joint venture) might adopt IFRS at different dates. For instance, an Indian parent company might prepare its first IFRS financial statements at December 31, 2014, while its subsidiary in U.S might not adopt IFRS for statutory reporting till 2014. In such cases, the exemption under IFRS 1 allows a subsidiary to measure its assets and liabilities either at the carrying amounts included in its parent's consolidated IFRS financial statements or on the basis of IFRS 1 as applied to its statutory financial statements at its own date of transition. However, when a subsidiary (joint venture or associates) elects to use the carrying amounts in its parent's consolidated financial statements, those carrying amounts are adjusted to exclude consolidation and acquisition adjustments.

Moreover, when a parent adopts IFRS after a subsidiary, the parent must measure the subsidiary's assets and liabilities in the consolidated financial statements using the subsidiary's existing IFRS carrying values. Most of the IFRS 1 voluntary exemptions cannot be used on an existing IFRS-reporting subsidiary. However, the subsidiary's carrying values are adjusted to include consolidation and acquisition adjustments.

A Case Study
Entity X, an Indian company, has a subsidiary in China that has already adopted IFRS and filed its IFRS financial statements. The subsidiary opted to use fair value as deemed cost for certain property, plant and equipment as allowed by the IFRS 1 optional exemptions while adopting IFRS for the first time. Can entity X again avail of the exemption to fair value Chinese subsidiary's property, plant and equipment when transiting to IFRS?
Solution When Entity X converts to IFRS, it must carry over the value of the Chinese subsidiary's property, plant and equipment at the deemed cost less depreciation currently on the subsidiary's books. Therefore, Entity X cannot use the fair value as deemed cost exemption again for the

Chinese subsidiary at the time of its own transition date.

g) DESIGNATION OF PREVIOUSLY RECOGNIZED FINANCIAL INSTRUMENTS

Entities will have to classify their financial assets and liabilities as if they had always applied IFRS. IAS 39 permits a financial instrument to be designated on initial recognition as a financial asset or financial liability at fair value through profit or loss (provided it meets certain criteria) or as available for sale. As per IAS 32 the choice is irrevocable i.e. a financial asset cannot be reclassified in and out of fair value through profit or loss account category. However, IFRS 1 allows an exemption from retrospective application by permitting such designations to be made at the date of transition.

This exception of designation at the date of transition instead of the designation at the initial recognition as required by IAS 39 is allowed because the first time adopter might have applied the provisions of previous GAAP at the date of initial recognition and has not been able to take the advantage of election available to the entities that already report under IFRS. .

Accordingly, an entity may choose to designate a financial instrument as a financial asset or financial liability "at fair value through profit or loss" or may designate a financial asset as available-for-sale at its transition date.

If the entity shall uses this exception it shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to IFRSs only to the extent that it results from adopting IAS 39.

h) SHARE-BASED PAYMENT TRANSACTIONS

The share-*based payment transaction* are accounted for in accordance with IFRS 2.The standard requires an entity to reflect in its profit or loss and financial position the effects of share-based

payment transactions, transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity including expenses associated with transactions in which *share options* are granted to employees.

For equity-settled share-based payment transactions, the IFRS requires an entity to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity is required to measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. This amount is recognized at the grant date or allocated over the vesting period if any attached to the scheme.

An entity need only apply IFRS 2, Share-based payments, to equity instruments granted before 7 November 2002 (i.e. the date when IFRS 2 was issued) and to those granted after 7 November 2002 which were not vested by the later of transition date. However, share based payment granted after 7 November 2002 which has not vested till the date of transition entities would be required to apply IFRS 2. Similarly only liabilities arising from cash-settled share-based payments arising after 7 November 2002 and not settled by the later of transition date are captured. A first-time adopter may choose to apply IFRS 2 to other instruments but only if the entity has previously disclosed publicly the fair value of the instruments, determined at the measurement date.

The relevant provisions of IFRS 2 relating to first time adopter are summarized below in table format:

Grant date	**Application of IFRS 2**	**Conditions to be complied with**

<table>
<tr><td>Granted on or before 7 November 2002.**</td><td>A first-time adopter is encouraged, but not required, to apply IFRS 2

Share-based Payment to these equity instruments</td><td rowspan="3">A first-time adopter shall

nevertheless disclose the information required by paragraphs 44 and 45

of IFRS 2.in all these cases without regard to grant and vesting dates</td></tr>
<tr><td>Granted after

7 November 2002 and vested before the later of (a) the date of transition

to IFRSs and (b) 1 January 2005.**</td><td>A first-time adopter is encouraged, but not required, to apply IFRS 2 to these equity instruments.</td></tr>
<tr><td>Granted after

7 November 2002 and vested after1 January 2005.</td><td>IFRS 2 must be applied retrospectively with changes to comparative information.</td></tr>
</table>

* * However, if a first-time adopter elects to apply IFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in IFRS2.

The relevant provisions of IFRS 2 relating to liabilities arising from share-based payment are summarized below in table format:

Date of settlement of liabilities	**Application of IFRS 2**
Liabilities arising from share-based payment transactions that	A first-time adopter is encouraged, but not required, to apply IFRS 2 to liabilities arising from share-based payment

were settled before the date of transition to IFRSs. **AND** Liabilities that were settled before 1 January 2005.	transactions that were settled before the date of transition to IFRSs and to those liabilities that were settled before 1 January 2005..
Other liabilities	IFRS 2 must be applied retrospectively with changes to comparative information. However comparative information need not be restated to the extent that the information relates to a period or date that is earlier than 7 November 2002

(i) INSURANCE CONTRACTS

The objective of this IFRS 4 on Insurance Contracts is to specify the financial reporting for *insurance contracts* by any entity that issues such contracts (described in this IFRS as an *insurer*) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires:

(a) Limited improvements to accounting by insurers for insurance contracts.

(b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

In contrast to the general principle of retrospectively application in IFRS 1, the provisions in IFRS 4 (para 40 of IFRS 4) as well as the Para D4 of Appendix D to IFRS 1 states that a first-time adopter issuing Insurance Contracts (Issuer) may apply the transitional provisions in IFRS 4

Insurance Contracts prospectively for reporting periods on or after 1st January 2005 with optional application earlier.

IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

j) CHANGES IN EXISTING DECOMMISSIONING, RESTORATION, AND SIMILAR LIABILITIES INCLUDED IN THE COST OF PROPERTY, PLANT AND EQUIPMENT

IFRIC 1 requires that changes made to a decommissioning liability, for which an asset is recognised, are recognised against the cost of the asset. This treatment assumes that changes relate to the discount rate or changes in the estimated cash flows to settle the liability and the IAS 16 cost model are used. The adjusted asset value is depreciated over the remaining useful life of the asset in accordance with IAS 16. Retrospective application of IFRIC 1 would require identification of all the revisions to the discount rate and estimated cash flows that would have been recognised since the inception of the decommissioning obligation. IFRS 1 provides an exemption from full retrospective application. IFRS 1 allows first time adopters to apply a shortcut method for measuring the decommissioning liability and related depreciated asset cost at the transition date. Entities can elect to measure the decommissioning liability at the transition date in accordance with IAS 37 and then "back into" the amount of the decommissioning liability that would have been included in the cost of the related asset at the time the liability first arose by discounting the liability to that date using historic risk-adjusted rates. The entity would then calculate the accumulated depreciation on that discounted amount as of the transition date using the current estimate of the useful life and the depreciation policy adopted under IFRS.

k) LEASES

IFRIC 4, *Determining Whether an Arrangement Contains a Lease,* requires an assessment of whether a contract or arrangement contains a lease at the inception of the contract or arrangement. However, as per IFRS 1 first-time adopters must apply IFRIC 4, but can elect to make this assessment as of the date of transition based on the facts at that date instead of inception date of the arrangement.

l) FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT INITIAL RECOGNITION

IAS 39 contains guidance to determine fair value of financial instruments. Normally, the transaction price of a financial instrument is the best evidence of fair value, unless fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. At initial recognition, a company may recognize day one gain or loss I.e. a gain or loss on the difference between this fair value measurement and the transaction price only if the measurement of fair value is based entirely on observable market inputs without modification. Otherwise recognition of a day one gain or loss is prohibited and requires transaction price to be taken as fair value. Subsequent measurement and recognition follows the guidance as provided in IAS 39. A first time adopter may measure these financial instruments at initial recognition either:

- Prospectively for transactions entered into after October 25, 2002; or
- Prospectively for transactions entered into after January 1, 2004.

m) SERVICE CONCESSION ARRANGEMENTS

IFRIC 12, *Service Concession Arrangements,* applies to contractual arrangements between grantor and operator in which a private sector operator participates in the development, financing, operation, and maintenance of infrastructure for public sector services. First-time adopters may elect to use the transitional provisions of IFRIC 12 rather than full retrospective application. Paragraph 30 of IFRIC 12 provides that when it is impractical for an operator to apply IFRIC 12 retrospectively the operator may:

- Recognize financial and intangible assets that existed at the start of the earliest period presented.
- Use the previous carrying amounts as the carrying amount at that date (however previously classified).
- Test the financial and intangible assets recognized at that date for impairment

n) Borrowing Cost

IFRS 1 allows first time adopter to apply transitional provision provided in paragraphs 27 and 28 of IAS 23 *Borrowing Costs*. If the accounting treatment for capitalized interest required by IAS 23 is different than a company's previous accounting policy, the company should apply IAS 23 to borrowing costs related to qualifying assets capitalized on or after January 1, 2009, or the date of transition to IFRS, if later. Alternatively, companies can designate any date before January 1, 2009 and apply the standard to borrowing costs relating to all qualifying assets capitalized on or after that date.

APPLYING MANDATORY EXCEPTIONS TO RETROSPECTIVE APPLICATIONS (Appendix B)

There are three mandatory exceptions to full retrospective application. They apply in areas where retrospective application would be inappropriate. These exemptions are:

1. derecognition of financial assets and financial liabilities
2. hedge accounting and
3. non-controlling interests

1. Derecognition of financial assets and financial liabilities

IAS 39 is applied retrospectively to the derecognition of non-derivative financial assets and non-derivative financial liabilities. Such financial assets and liabilities derecognised before 1 January 2004 under previous GAAP are not recognised on the opening IFRS statement of financial position. In other words, first-time adopter shall apply the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after 1 January 2004.

Notwithstanding the provisions mentioned above, an entity may choose to apply the IAS 39 derecognition requirements from an earlier date. However, it must have obtained the necessary information at the time of initially accounting for the transactions concerned.

2. Hedge Accounting

In contrast to the general principle of retrospective application in IFRS-1, the provisions relating to hedge accounting need not be applied retrospectively as doing the same would call for using the entity's perception in order to achieve a predetermine specific result which would make the financial statements misleading. The exception therefore requires that hedge accounting may be applied prospectively by a first time adopter.

As required by IAS 39, at the date of transition to IFRSs, 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. Recognise the effect in retained earnings.

If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IAS 39 the entity shall apply paragraphs 91 and 101 of IAS 39 to discontinue hedge accounting and recognise the effect in retained earnings.

This exception requires entities to recognize hedging relationships in the opening Statement of financial position (i.e., at the transition date) if the hedging instrument is of a type that would qualify for hedge accounting under IFRS. However, hedge accounting can be applied to those hedging relationships subsequent to the transition date only if all of hedge accounting criteria as stated in IAS 39 are met. Entities should first consider whether their hedge qualifies for hedge accounting under IAS 39. If they qualify, entities must follow the detailed guidance in IFRS 1 to recognize the hedging instrument and the hedging relationship in the opening statement of financial position. Hedge accounting after the transition date may be applied only if all the IAS 39 hedge accounting criteria are met. If the criteria are not met the entity should apply IAS 39 guidance for discontinuing hedge accounting until the criteria are met. If hedges are of a type that does not qualify for hedge accounting under IAS 39, the hedging relationship must not be reflected in the opening statement of financial position.

3. Non Controlling Interest

A first-time adopter shall apply the following requirements of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) prospectively from the date of transition to IFRSs:

- the requirement in paragraph 28 of IAS 27 that the 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; because as per the amendments to IAS 27 in the Jan 2008 the non controlling interests are a part of equity and hence an entity should attribute total comprehensive income to the non controlling interest even if it results in a deficit balance

- the requirements in paragraphs 30 and 31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; In Jan 2008 the Board decided to amend substantively IAS 27 thereby incorporating this provision of accounting for all transactions which change the ownership interest of the parent without resulting in a loss of control are accounted for as equity transactions. Equity transactions mean transactions wherein the carrying amount of the controlling and non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary, without disturbing profit or losses account, or any assets (including goodwill) or liabilities of the subsidiary and

- the requirements in paragraphs 34–37 for accounting for a loss of control over a subsidiary. A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain economic benefits from its activities. The loss of control ceases the parent – subsidiary relationship. The parent no longer controls the assets and liabilities of the subsidiary and hence derecognizes the same and also derecognizes the carrying amount of any non controlling interests.

However, if a first-time adopter elects to apply IFRS 3 (as revised in 2008) retrospectively to past business combinations, it shall also apply IAS 27 (as amended in 2008) in accordance with paragraph C1 of IFRS1.

<u>IAS 36 -Impairment of Assets</u>

IAS 36 as revised in March 2004 requires an entity to test for impairment in some cases when there is an indication that asset has been impaired, or in other cases annually, Irrespective of any indication whether an asset has been impaired or not. This impairment testing without any indication is done in the following cases:

- The recoverable amount of an intangible asset with an indefinite useful life is to be measured annually whether any indication for impairment exists or not.
- The recoverable amount of an intangible asset which is not yet available for use is to be measured annually whether any indication for impairment exists or not.
- The goodwill acquired in a business combination is to be tested for impairment annually whether any indication for impairment exists or not.

An impairment loss is recognized in the profit or losses account when an asset's recoverable amount is less than carrying amount. Recoverable amount is the lower of an asset's fair value less costs to sell and its value in use.

An entity applies IAS 36 in:

(a) Determining whether any impairment loss exists at the date of transition to IFRSs; and

(b) Measuring any impairment loss that exists at that date, and reversing any impairment loss that no longer exists at that date.

The first time adopter shall recognize any impairment loss arising on the date of transition to IFRS as a result of change in accounting policies in retained earnings.

An entity's first IFRS financial statements include the disclosures that IAS 36 would have required if the entity had recognized those impairment losses or reversals in the period beginning with the date of transition to IFRSs (paragraph 24(c) of the IFRS).

The estimates used to determine whether an entity recognises an impairment loss or provision (and to measure any such impairment loss or provision) at the date of transition to IFRSs are 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 (paragraphs 14 and 15 of the IFRS). The entity reports the impact of any later revisions to those estimates (both under previous GAAP and under IFRS) as an event of the period in which it makes the revisions i.e. in profit or losses account.

A first time adopter is not permitted to reverse any impairment loss on goodwill subsequent to the date of transition.

IAS 29 Financial Reporting in Hyperinflationary Economies

An entity complies with IAS 21 the Effects of Changes in Foreign Exchange rates in determining its functional currency and presentation currency. When the entity prepares its opening IFRS statement of financial position, it applies IAS 29 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

Retrospective application of IAS 29 is required to present true and fair results in the financial statements, even when the currency at present no longer hyperinflationary

An entity which elects to use the fair value of an item of property, plant and equipment at the date of transition to IFRSs as its deemed cost at that date, as per paragraphs D5–D8 of the IFRS 1 and therefore gives the disclosures required by paragraph 30 of the IFRS 1, is required to apply IAS 29 to periods after the date for which the revalued amount or fair value was determined

IAS 18 -Revenue

If an entity has received amounts that do not yet qualify for recognition as revenue in accordance with IAS 18 (for example, the proceeds of a sale that does not qualify for revenue recognition), the entity recognises the amounts received as a liability in its opening IFRS statement of financial position and measures that liability at the amount received.

IAS 12- Income Taxes

An entity applies IAS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening IFRS statement of financial position and their tax bases.

In accordance with IAS 12, the measurement of current and deferred tax reflects tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. An entity accounts for the effect of changes in tax rates and tax laws when those changes are enacted or substantively enacted.

If the previous GAAP measurement of deferred tax is based on an accounting policy which is largely on the basis of IFRS accounting policy, then the estimate of deferred tax already calculated is not adjusted unless there is objective evidence that the estimate is in error.

Reconciliations

The first IFRS financial statements shall be presented in accordance with the presentation and disclosure requirements in IAS 1 Presentation of Financial statements and other standards and interpretation under IFRS.

Comparative information

To comply with IAS 1, an entity's first IFRS financial statements shall include at least three statements of financial position, two statements of comprehensive income, two separate statement of comprehensive incomes (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information.

An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.

Thus as per the provisions of IFRS 1, an entity's first IFRS financial statements shall include:

reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with IFRSs for both of the following dates:

(i) the date of transition to IFRSs; and

(ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP*, which is the same as beginning of the current reporting period.*

(b) a reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.

(c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS statement of financial position, the disclosures that IAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRSs.

If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows

The reconciliations as stated above shall:

- Give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. *And*
- Shall distinguish the correction of the errors made under previous GAAP, from changes in accounting policies.

IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts IFRSs. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements.

If an entity did not present financial statements for previous periods, its first IFRS financial statements shall disclose that fact.

IAS 34 -Interim Financial Reporting

IFRS does not require an entity to publish interim reports in compliance with IAS 34. Due to industry and government regulations entities generally prepare interim financial reports.

IAS 34 applies only if an entity is required, or elects, to present an interim financial report in accordance with IFRSs. Accordingly, neither IAS 34 nor the IFRS requires an entity:

(a) to present interim financial reports that comply with IAS 34; or

(b) to prepare new versions of interim financial reports presented in accordance with previous GAAP. However, if an entity does prepare an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity restates the comparative information presented in that report so that it complies with IFRSs.

The entity which prepares interim financial reports for part of the period as stated above shall satisfy the following requirements in addition to the requirements of IAS 34:

(a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:

- a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
- a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

The following reconciliations are mentioned in the paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26,

(a) Reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with IFRSs for both of the following dates:

(i) the date of transition to IFRSs; and

(ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP. *This is the same as beginning of the current reporting period.*

(b) a reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.

(c) if the entity recognised or reversed any impairment losses for the reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

For eg : Entity A's first IFRS financial statements are for a period that ends on 31 December 20X5, and its first interim financial report in accordance with IAS 34 is for the quarter ended 31 March 20X5. Entity A prepared previous GAAP annual financial statements for the year ended 31 December 20X4, and prepared quarterly reports throughout 20X4.

Application of requirements

In each quarterly interim financial report for 20X5, entity A includes reconciliations of:

(a) its equity in accordance with previous GAAP at the end of the comparable quarter of 20X4 i.e. 31st March 2004 to its equity in accordance with IFRSs at that date 31st March 2004; and

(b) its total comprehensive income (or, if it did not report such a total, profit or loss) in accordance with previous GAAP for the comparable quarter of 20X4 (current and year to date) to its total comprehensive income in accordance with IFRSs. (1st Jan 2004 to 31st March 2004)

In addition to the reconciliations required by (a) and (b) and the disclosures required by IAS 34, entity A's interim financial report for the first quarter of 20X5 includes reconciliations of (or a cross-reference to another published document that includes these reconciliations):

(a) Reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with IFRSs for both of the following dates:

(i) the date of transition to IFRSs; 1 January 20X4 being date of transition and

(ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP. *which is the same as beginning of the current reporting period.* 31 December 20X4 or 1st Jan 2005.

(b) its total comprehensive income (or, if it did not report such a total, profit or loss) for 20X4 in accordance with previous GAAP to its total comprehensive income for 20X4 in accordance with IFRSs. Ie 1st January 2004 to 31st December 2004.

If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

Each of the above reconciliations gives sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. The first time adopter also explains the material adjustments to the statement of cash flows.

IAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

If the first time adopter becomes aware of errors made in accordance with previous GAAP, the reconciliations distinguish the correction of those errors from changes in accounting policies.

PRESENTATION AND DISCLOSURES

This IFRS does not provide exemptions from the presentation and disclosure requirements in other IFRSs.

Non-IFRS comparative information and historical summaries

The recognition and measurement requirements of this IFRS are not applicable to those entities which present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with IFRSs. This IFRS does not require such summaries to comply with the provisions of IFRSs.

Also, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by IAS 1. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

(a) label the previous GAAP information prominently as not being prepared in accordance with IFRSs; and

(b) disclose the nature of the main adjustments that would make it comply with IFRSs. An entity need not quantify those adjustments.

Disclosures

The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows.

IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts IFRSs. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements.

Use of fair value as deemed cost

If an entity uses fair value in its opening IFRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an Investment property or an intangible asset the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS statement of financial position:

- the aggregate of those fair values; and
- the aggregate adjustment to the carrying amounts reported under previous GAAP.

Designation of financial assets or financial liabilities

The entity shall disclose the fair value of financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

Use of deemed cost for investments in subsidiaries, jointly controlled entities and associates

If an entity uses a deemed cost in its opening IFRS statement of financial position for an investment in a subsidiary, jointly controlled entity or associate, the entity's first IFRS separate financial statements shall disclose:

(a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;

(b) the aggregate deemed cost of those investments for which deemed cost is fair value; and

(c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

FIRST TIME ADOPTION OF IFRS: CHECKLIST- IFRS -1

Sr. No.	Particulars	Yes/NO/NA

(A)	**General Requirements**	
1	What are the key impacts on the organisation and its financial reporting arising from the implementation of IFRS?	
2	What are the key changes to accounting policies?	
3	What level of resource is required to successfully manage the transition?	
4	What IFRS staff training is required?	
5	What actions are required to ensure that bodies that are consolidated into the financial statements will successfully implement IFRS?	
6	What role do internal audit have in aiding the transition?	
7	What is the potential budgetary impact of the move to IFRS?	
8	How and when will engagement with the external auditor take place?	
9	What implications to the configuration of financial systems arise as a result of the transition to IFRS?	
10	For what balances and disclosures is there a need to capture new and revised data with regard to IFRS?	
11	How do management accounting processes need to be re-engineered to ensure they are compatible with IFRS?	
12	Are parallel systems needed for initial years of transition, for IFRS and FRS based information, to ensure that comparative information can be accurately produced?	
(B)	**Requirements of IFRS -1**	

1	**Compliance with IFRS: Explicit and unreserved**	
	Whether an entity has adopted IFRS for the first time by an explicit and unreserved statement of compliance with IFRS?	
2	**Accounting Policies**	
	Whether same accounting policies are used in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements? Whether the correction of errors is distinguished from changes in accounting policies in reconciliation?	
3	**Presentation of first time financial statements**	
4	**Exemptions (optional) and Exceptions (Mandatory) available for first time adoption of IFRS**	
4 (A)	**EXEMPTIONS: (Optional)** **(Indicate for each exemption whether it is opted for?)**	
1	**Fair value or revaluation as deemed cost**	
	An entity may elect to apply:- - Fair value at the date of transition to IFRSs or - A previous GAAP revaluation at, or before, the date of transition (if the revaluation broadly comparable to fair value or cost or depreciated cost in accordance with IFRSs)	
2	**Employee benefits (IAS 19)**	
	If corridor approach is used, than entity may elect to recognise all	

	cumulative actuarial gains and losses at the date of transition to IFRSs (If uses this election, apply it to all plans)	
3	**Business Combinations**	
	(a) IFRS 3 need not be applied to combinations before date of transition BUT, if one combination is restated, all subsequent combinations are restated When the exemption is used No change in classification Post combination carrying amount deemed cost for assets and liabilities measured at cost Assets and liabilities measured at fair value restated at date of transition – adjust retained earnings (b) Goodwill is recognised at the carrying amount under previous GAAP and adjusted for Intangibles that are not recognised under IFRS Intangibles that must be recognised under IFRS Contingent consideration not recognised; and Tested for impairment	
4	**Cumulative translation differences (IAS 21)**	
	The entity may elect: (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and	

	(b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences. *IAS 21:* (a) to recognise some translation differences in other comprehensive income and (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation from equity to profit or loss as part of the gain or loss on disposal.	
5.	**Assets and liabilities of subsidiaries, associates and joint ventures.**	
	(A) **Prepares separate financial statements** Accounting for investments in subsidiaries, jointly controlled entities and associates either: (a) at cost (cost- IAS27 or fair value or carrying value as per previous GAAP) or (b) in accordance with IAS 39. (B) **If a subsidiary/associate/joint venture becomes a first-time adopter later than its parent (1st)**, the subsidiary shall, in its financial statements, measure its assets and liabilities at either: (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, or (b) the carrying amounts based on the subsidiary's date of transition to IFRSs.	

	(C) **if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) (1st)** the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. (D) **If a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements**, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.	
6	**Designation of previously recognized financial instruments**	
	IAS 39 permits (A) a financial asset to be designated on initial recognition as available for sale or (B) a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss.	
7	**Share based payment transactions**	
	(1) A first-time adopter is encouraged, but not required, to apply IFRS 2 *Share-based Payment* to **equity instruments** that were granted on or before 7 November 2002.	

	A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 and vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005. However, if a first-time adopter elects to apply IFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in IFRS 2. For all grants of equity instruments to which IFRS 2 has not been applied (eg equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of IFRS 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which IFRS 2 has not been applied, the entity is not required to apply paragraphs 26–29 of IFRS 2 if the modification occurred before the date of transition to IFRSs. (2) A first-time adopter is encouraged, but not required, to apply IFRS 2 to **liabilities** arising from share-based payment transactions that were settled before the date of transition to IFRSs. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to liabilities that were settled before 1 January 2005. For liabilities to which IFRS 2 is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.	
8	**Compound financial instruments (IAS 32)**	
	The entity need not separate two portions (retained earning –cumulative interest, equity) of compound financial instruments, if the liability	

	component is no longer outstanding at the date of transition to IFRSs. *IAS 32*: To split compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of IAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component.	
9	**Decommissioning liabilities included in the cost of property, plant and equipment.**	
	If a first-time adopter the exemption from IFRIC 1, it shall: (a) measure the liability as at the date of transition to IFRSs in accordance with IAS 37; (b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount of liability to be included in the cost of the related asset when the liability first arose (by discounting the liability to that date using discount rate) and (c) **calculate the accumulated depreciation on that amount, as at the** **date of transition to IFRSs,** on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRSs. *IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it	

	relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs.	
10	**Leases (IFRIC 4)**	
	A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.	
11	**Fair value measurement of financial assets or financial liabilities at initial recognition.**	
	Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of IAS 39 paragraph AG76 and in paragraph AG76A, in either of the following ways: (a) prospectively to transactions entered into after 25 October 2002; or (b) prospectively to transactions entered into after 1 January 2004.	
12	**Insurance contracts (IFRS 4)**	
	IFRS 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.	
13	**Borrowing costs (IAS 23)**	
	A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 July 2009 or the date of transition to IFRSs, whichever is later.	

14	**Service concession arrangements.**	
	A first-time adopter may apply the transitional provisions in IFRIC 12.	
4 (B)	**EXCEPTIONS TO RETROSPECTIVE APPLICATIONS: (Mandatory)**	
1	**Hedge accounting**	
	As required by IAS 39, at the date of transition to IFRSs, 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 hedging relationship on the date of transition if does not qualify for hedge accounting as per IAS 39. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges.	
2	**Derecognition of financial assets and financial liabilities.**	
	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 1 January 2004, it shall not recognise those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event). An entity may apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing, provided that the information needed to apply IAS 39 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.	

3	**Non controlling interests.**	
	Entity to apply the following requirements of IAS 27 **prospectively** from the date of transition to IFRSs: (a) total comprehensive income attributed to the owners of the parent and to the non-controlling interests (b) accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and (c) accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, if a first-time adopter elects to apply IFRS 3 (as revised in 2008) retrospectively to past business combinations, it shall also apply IAS 27 (as amended in 2008) in accordance with paragraph C1 of this IFRS.	
5	**Accounting of Difference between I GAAP and IFRS?**	
	All assets and liabilities are to be reflected as per IFRS. Whether the difference between carrying value of Indian GAAP and carrying value under IFRS accounted in the retained earnings in the statement of financial position?	
6	**Presentation and Disclosure**	
	No exemptions from the presentation and disclosure requirements in other IFRS provided by IFRS -1.	
7	**Comparative information**	
	Whether first IFRS financial statements include at least one year of comparative information under IFRS?	

8	**Historical summaries and additional previous GAAP comparative Information**	
	If (i) historical summaries of selected data that does not comply with the recognition or measurement requirements of IFRSs for periods before the first period for which it presents full comparative information under IFRSs, or (ii) comparative information under previous GAAP in addition to the comparative information required by IAS 1 *Presentation of Financial Statements* are presented than, a) Whether the previous GAAP information prominently labelled as not being prepared under IFRS? and b) Whether the nature of the main adjustments that would make the previous GAAP information comply with IFRS are disclosed?	
9	**Explanation of transition to IFRS (Reconciliations)**	
	An entity shall explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows and shall include the following reconciliations. The reconciliation shall be provided for both of the following dates: a) the date of transition to IFRSs; and b) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP. 1. Reconciliations of its equity reported under previous GAAP to its equity under IFRSs. 2. Reconciliation of the profit or loss reported under previous GAAP to its	

	profit or loss under IFRSs 3. Explain the material adjustments to the cash flow statement.	
10	**Impairment Loss**	
	When the impairment loss has been recognised or reversed for the first time in preparing its opening IFRS statement of financial position, whether the disclosures of IAS 36 *Impairment of Assets* are included in financial statements if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRS?	
11	**Interim financial reports (IAS 34)**	
	Whether Interim financial report during first year of transition, for the comparable interim period of the immediately preceding financial year, include reconciliations of: a) its equity under previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and b) its profit or loss under previous GAAP for that comparable interim period (current and year-to-date) to its profit or loss under IFRSs for that period.	

Chapter 14

IFRS FOR SMEs

The International Accounting Standards Board (IASB) issued today an International Financial Reporting Standard (IFRS) designed for use by small and medium-sized entities (SMEs) on 9.07.2009. The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced.

Simplifications include:

- financial instruments meeting special criteria are measured at cost or amortised cost with all others measured at fair value through profit or loss
- goodwill and other indefinite-life intangibles are amortised over 10 years or their estimated lives where reliably determinable
- equity accounting of associates and joint ventures may be measured at cost
- joint venture entities cannot be proportionately consolidated
- all research and development costs and borrowing costs are expensed
- certain income tax accounting principles are consistent with the approach set out in the recent Exposure Draft issued by the IASB
- review of the residual values, useful lives, and depreciation/amortisation for property, plant and equipment and intangible assets need only be conducted upon indication that a change may have occurred since the previous period
- investment property may be carried and treated as property, plant and equipment that is measured at cost if fair value cannot be measured reliably without undue cost
- Impairment of goodwill calculations simplified property, plant and equipment must be carried at cost.

Significant omissions

This IFRS does not address presentation of segment information, earnings per share, or interim financial reports by a small or medium-sized entity. An entity making such disclosures shall describe the basis for preparing and presenting the information.

Contents of the IFRS for SMEs

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1 Small and Medium-sized Entities

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3 Financial Statement Presentation

4 Statement of Financial Position

5 Statement of Comprehensive Income and Income Statement

6 Statement of Changes in Equity and Statement of Comprehensive Income and Retained Earnings

7 Statement of Cash Flows

8 Notes to the Financial Statements

9 Consolidated and Separate Financial Statements

10 Accounting Policies, Estimates and Errors

11 Basic Financial Instruments

12 Additional Financial Instruments Issues

13 Inventories

14 Investments in Associates

15 Investments in Joint Ventures

16 Investment Property

17 Property, Plant and Equipment

18 Intangible Assets other than Goodwill

19 Business Combinations and Goodwill

20 Leases

21 Provisions and Contingencies

22 Liabilities and Equity

23 Revenue

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25 Borrowing Costs

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27 Impairment of Assets

28 Employee Benefits

29 Income Tax

30 Foreign Currency Translation

31 Hyperinflation

32 Events after the End of the Reporting Period

33 Related Party Disclosures

34 Specialised Activities

35 Transition to the IFRS for SMEs

Small and medium-sized entities are entities that:

(a) do not have public accountability, and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. General purpose financial statements are those that present fairly financial position, operating results, and cash flows for external capital providers and others.

An entity has **public accountability** if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Listed companies, no matter how small, may not use the IFRS for SMEs

A subsidiary whose parent or group uses full IFRSs may use the IFRS for SMEs if the subsidiary itself does not have public accountability

The following table gives a comparison of the standards under IFRS and IFRS for SME

IAS/ IFRS	**Standard**	**Title**	**Corresponding Standard for SME**
IAS	1	Presentation of Financial Statements	Sec 3
IAS	2	Inventories	Sec 13
IAS	7	Statement of Cash Flows	Sec 7
IAS	8	Accounting Policies, Changes in Accounting Estimates and Errors	Sec 10

IAS/ IFRS	Standard	Title	Corresponding Standard for SME
IAS	10	Events After the Reporting Period	Sec 32
IAS	11	Construction Contracts	Sec 23
IAS	12	Income Taxes	Sec 29
IAS	16	Property, Plant and Equipment	Sec 17
IAS	17	Leases	Sec 20
IAS	18	Revenue	Sec 23
IAS	19	Employee Benefits	Sec 28
IAS	20	Accounting for Government Grants and Disclosure of Government Assistance	Sec 24
IAS	21	The Effects of Changes in Foreign Exchange Rates	Sec 30
IAS	23	Borrowing Costs	Sec 25
IAS	24	Related Party Disclosures	Sec 33
IAS	26	Accounting and Reporting by Retirement Benefit Plans	Sec 28
IAS	27	Separate Financial Statements	Sec 9
IAS	28	Investments in Associates	Sec 14
IAS	29	Financial Reporting in Hyperinflationary Economies	Sec 31

IAS/ IFRS	Standard	Title	Corresponding Standard for SME
IAS	31	Interests In Joint Ventures	Sec 15
IAS	32	Financial Instruments: Presentation – Disclosure provisions superseded by IFRS 7 effective 2007	Sec 11
IAS	33	Earnings Per Share	----------
IAS	34	Interim Financial Reporting	----
IAS	36	Impairment of Assets	Sec 27
IAS	37	Provisions, Contingent Liabilities and Contingent Assets	Sec 21
IAS	38	Intangible Assets	Sec 18
IAS	39	Financial Instruments: Recognition and Measurement	Sec 12
IAS	40	Investment Property	Sec 16
IAS	41	Agriculture	Sec 34
IFRS	1	First - time Adoption of International Financial Reporting Standards	Sec 35
IFRS	2	Share-based Payment	Sec 26
IFRS	3	Business Combinations	Sec 19
IFRS	4	Insurance Contracts	-

IAS/ IFRS	Standard	Title	Corresponding Standard for SME
IFRS	5	Non-current Assets Held for Sale and Discontinued Operations	-
IFRS	6	Exploration for and evaluation of Mineral Resources	Sec 34
IFRS	7	Financial Instruments: Disclosures	-
IFRS	8	Operating Segments	-

The SME Implementation Group (SMEIG) published two question and answer documents (Q&As) on the IFRS for Small and Medium-sized Entities (SMEs) in December 2011. The two Q&As contain guidance to help entities assess whether they have public accountability and, therefore, whether they meet the scope requirements in Section 1 of the IFRS for SMEs.

- **Q&A 2011/02 Entities that typically have public accountability**
- **Q&A 2011/03 Interpretation of 'traded in a public market' in applying the IFRS for SMEs**

Q&As published by the SMEIG are non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRSs. This point is important as some commentators had questioned whether these Q&As might be misused as interpretations of similar issues and terminology in full IFRS.

Chapter 15

EASY UNDERSTANDING OF IFRS THROUGH

SIMPLE ILLUSTRATIONS

1. Plant Property and Equipment (IAS 16)

- Asset Value Rs.100,00,000
- Depreciation SLM over a period of 5 years
- At the end of the 4th year it was re-determined at a further period of 5 years
- Carrying amount of Rs.40,00,000 will be depreciated at Rs.8,00,000 every year for the next 5 years

Depreciation A/c Dr 8,00,000

To PPE A/c 8,00,000

2. Financial Instruments (IFRS 9)

- A Ltd holds Glaxco Ltd shares purchased at Rs.50,000

- A Ltd sell the shares to B Ltd.
- The Investment has been sold for Rs.5,00,000
- Fair Value on the date of Sale is Rs.13,00,000

How do we account for the same?

A/c Entry in A Ltd

Initial Measurement

Fair Value on the date of purchase is Rs.1,00,000

Shares in Glaxco Ltd A/c Dr 1,00,000

To Bank A/c 50,000

To Gain on Purchase 50,000

- On the date of sale - Revision of Fair Value at Rs.13,00,000

Shares in Glaxco Ltd A/c Dr 12,00,000

To Mark to Fair Value 12,00,000

Bank A/c Dr 5,00,000

Loss on Sale Dr 8,00,000

To Shares in Glaxco Ltd A/c 13,00,000

A/c Entry in B Ltd

On the date of purchase

Shares in Glaxco Ltd A/c Dr 13,00,000

To Bank A/c 5,00,000

To Gain on Purchase 8,00,000

3. Agriculture – IAS 41

Purchase of Livestock

- Fair Value – 6000
- Purchase Cost 500

Livestock A/c Dr 6000

To Bank 500

To Gain on Purchase 5500

(Measurement is at fair value under IAS 41)

4. Income Taxes – IAS 12

An entity's PPE Carrying Value – Rs.10, 00,000

Revalued at Rs.15, 00,000

Rate of Tax 20%

What is the Deferred Tax Liability and the entry to be passed?

- Carrying Value is Rs.15, 00,000 after revaluation.
- Tax Liability – 20%*(15,00,000-10,00,000)
- Deferred Tax Liability is Rs.1,00,000

PPE A/c Dr Rs.5, 00,000

To Revaluation Surplus A/c Rs.5, 00,000

Revaluation Surplus A/c Dr Rs.1, 00,000

To Deferred Tax Liability A/c   Rs.1, 00,000

5. Business Combination (IFRS 3)

Complete merger by payment - Purchase of Business

- Fixed Assets 5 crores
- Current Assets – 3 crores
- Current Liabilities - 2 crores
- Contingent Liabilities 1 crores
- Payment made 4 crores
- Fair Value of Fixed Assets – 4.5 crores

Journal Entry for purchase of business

Non Current Assets A/c   Dr   4.5cr

Current Assets A/c Dr. 3cr

To Current Liabilities A/c   2cr

To Contingent Liabilities A/c   1cr

To Bank A/c   4cr

To Gain on Purchase   .5cr

Future liability of Rs.1crore to be paid to the buyer after two years

Non Current Assets A/c Dr	4.5cr	
Current Assets A/c Dr	3cr	
Goodwill A/c Dr	.5cr	
To Long Term Liability A/c		1cr
To Current Liability A/c		2cr
To Contingent Liability A/c		1cr
To Bank A/c		4cr

6. Errors pertaining to Previous Years

- In 2011, B Ltd discovered that some products that had been sold during 2010 where incorrectly included in the stock on 31st March 2011 of Rs.7,000 Cr
- In 2011 – Sales is at Rs.1,04,000 Cr Cost of Goods sold is at Rs.87,000 Cr (which includes error in opening inventory) and income taxes of Rs.5,250 Cr

Statement of Comprehensive Income of B Ltd – 2010

	Rs. in Cr
Sales	73,000
Cost of Goods sold	(53,000)

Profit before income taxes	20,000
Income Taxes	(6,000)

Profit	14,000

- 2010 RE was Rs.20,000 and closing RE was Rs.34,000
- B Ltd tax rate was 30% for 2010 and 2011
- It has no other income or expense.
- Share capital of B Ltd Rs. 5,000 remained the same except the retained earnings

How will you go about the retrospective restatement of errors?

Solution

Restated Statement of Comprehensive Income

	Rs. In Cr	
	2011	2010
Sales	1,04,000	73,000
Cost of Goods Sold	(80,000)	(60,000)
	--------------	--------------
Profit before Inc Tax	24,000	13,000
Income Taxes	(7,200)	(3,900)

Profit	16,800	9100

Statement of Changes in Equity

Rs. In Cr

	Share Capital	**RE**	**Total**
Balance as at 31st Mar 2011	5,000	20,000	25,000
Profit for y.e 31st Mar 2011		9,100	9,100
Balance as at 31st Mar 2011	5,000	29,100	34,100
Profit for y.e 31st Mar 2012		16,800	16,800
Balance as at 31st Mar 2012	5,000	45,900	50,900

- Financial Statements of 2010 have restated to correct this error. The result is there is no effect in 2011

	Rs. In Cr
(Increase) in Cost Goods Sold	(7,000)
Decrease in Income Tax Expense	2,100

(Decrease) in Profit	(4,900)

(Decrease) in Inventory	(7,000)
Decrease in Income Tax payable	2,100

(Decrease) in Equity	(4,900)

Chapter 16

Indian Accounting Standards (Ind AS)

Applicability of Indian Accounting Standards

Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting. Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, Industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes.

Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, Industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, Industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, Industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, Industrial or business in nature.

Scope of Accounting Standards

Accounting Standards are generally in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular Accounting Standard is found to be not in conformity with law, the provisions of the said law will prevail and the financial statements should be prepared in conformity with such law.

The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need not be treated as adverse comments on the related financial statements.

The Accounting Standards are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time. The date from which a particular Standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the ICAI. However, no standard will have retroactive application, unless otherwise stated.

The Accounting Body of India ICAI persuades the Government, appropriate authorities, industrial and business community to adopt the Accounting Standards in order to achieve uniformity in preparation and presentation of financial statements.

In formulation of Accounting Standards, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.

Objective of Financial Statement

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions

- Information about financial position is primarily provided in a **balance sheet.**
- Information about performance is primarily provided in a **statement of profit and loss**
- Information about cash flows is provided in the financial statements by means of a **cash flow statement.**

The component parts of the financial statements are interrelated because they reflect different aspects of the same transactions or other events.

The financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and statement of profit and loss. They may include disclosures about the risks and uncertainties affecting the enterprise and any resources and obligations not recognised in the balance sheet (such as mineral reserves). Information about business and geographical segments and the effect of changing prices on the enterprise may also be provided in the form of supplementary information.

Usefulness of Financial Information

- Information about **the economic resources** controlled by the enterprise and its capacity in the past to alter these resources is useful in predicting the ability of the enterprise to generate cash and cash equivalents in the future.
- Information about **financial structure** is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those with an interest in the enterprise; it is also useful in predicting how successful the enterprise is likely to be in raising further finance.

- Information about **liquidity and solvency** is useful in predicting the ability of the enterprise to meet its financial commitments as they fall due. Liquidity refers to the availability of cash in the near future to meet financial commitments over this period. Solvency refers to the availability of cash over the longer term to meet financial commitments as they fall due.
- Information about the **performance** of an enterprise, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect.
- Information about **performance** is useful in predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgements about the effectiveness with which the enterprise might employ additional resources.
- Information concerning **cash flows** of an enterprise is useful in order to evaluate its investing, financing and operating activities during the reporting period. This information is useful in providing the users with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

Compliance with Indian Accounting Standards

- Accounting Standards issued by the ICAI have legal recognition through the Companies Act,1956, whereby every company is required to comply with the Accounting Standards and the statutory auditors of every company are required to report whether the Accounting Standards have been complied with or not.
  - Section 211 of the Companies Act, 1956, deals with the form and contents of balance sheet and profit and loss account. The Companies (Amendment) Act, 1999 has inserted new sub-sections 3A, 3B and 3C to Section 211, with a view to

ensure that the financial statements are prepared in accordance with the Accounting Standards.

  - Reporting of compliance with the Accounting Standards by the management is concerned, clause (i) under the new sub-section 2AA of Section 217 of the Companies Act, 1956, (inserted by the Companies Amendment Act, 2000) prescribes that the Board's report should include a Directors' Responsibility Statement Indicating therein that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
  - Clause (d) under sub-section 3 of Section 227 of the Companies Act, 1956 dealing provision to report on the compliance of accounting standards has been inserted under section 227 of the Companies Act, 1956, thereby casting a duty upon the auditor of the company to report on such compliance.

- The Insurance Regulatory and Development Authority (IRDA) (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 requires insurance companies to follow the Accounting Standards issued by the ICAI.
- The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India also require compliance with the Accounting Standards issued by the ICAI from time to time.
- The National Advisory Committee on Accounting Standards (NACAS) has been constituted under section 210A as referred to under section 211 (3C) to advise the Central Government on formulation and laying down of the accounting standards for adoption by companies or class of companies.

Basic Assumptions in the Preparation of Financial Statements

- **Accrual Basis – T**he effects of transactions and other events are recognised when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

- **Going Concern –** An enterprise is a going concern and will continue in operation for the foreseeable future.
- **Consistency -** The accounting policies are followed consistently from one period to another

International Harmonisation of Accounting Standards

Accounting Standards are formulated on the basis of the International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by the IASB. Corresponding to the IASs/IFRSs Accounting Standards issued by the ICAI have legal recognition through the Companies Act, 1956, whereby every company is required to comply with the Accounting Standards and the statutory auditors of every company are required to report whether the Accounting Standards have been complied with or not.

The Standards formulated by the ASB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

The ASB may consider any issue requiring interpretation on any Accounting Standard. Interpretations will be issued under the authority of the Council. The authority of Interpretation is the same as that of Accounting Standard to which it relates.

The IND AS Literature

Preface to the Statements of Accounting Standards sets out ASB's mission and objectives, the scope of Indian Accounting Standards, due process for developing IND AS and interpretations, and policies on effective dates, format, and language for IND AS.

Framework for the Preparation and Presentation of Financial Statements which serves as a guide to resolving accounting issues that are not addressed directly in a standard. It is always

advisable for a beginner in IND AS to first properly understand the framework as it sets out basic principles of recognition and measurement of all elements adopted for all the IND AS and Interpretations from ASB.

This Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the Framework is to:

(a) assist preparers of financial statements in applying Accounting Standards and in dealing with topics that have yet to form the subject of an Accounting Standard;

(b) assist the Accounting Standards Board in the development of future Accounting Standards and in its review of existing Accounting Standards;

(c) assist the Accounting Standards Board in promoting harmonisation of regulations, accounting standards and procedures relating to the preparation and presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by Accounting Standards;

(d) assist auditors in forming an opinion as to whether financial statements conform with Accounting Standards;

(e) assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with Accounting Standards; and

(f) provide those who are interested in the work of the Accounting Standards Board with information about its approach to the formulation of Accounting Standards.

Nothing in this framework overrides any specific Accounting Standard

How to study IND AS ?

Ind ASs are the near final Indian Accounting Standards issued by Institute of Chartered Accountants of India and notified by the Government of India. All the 35 standards issued are converged with IFRS. The date of implementation of the IND AS will be notified by the Ministry of Corporate Affairs at a later date.

These standards do not resemble IFRS. Both by presentation and measurement principles they are new set of accounting standards developed in the line of IFRS.

Terminologies used in Ind AS

- The term “Statement of Financial Position” has been replaced by “Balance Sheet”
- The term “Statement of Comprehensive Income” by “Statement of Profit and Loss”
- The words “ authorization of the financial statements for issue” have been replaced by “approval of the financial statements for issue”

First Time Adoption

IFRS standards have been in existence for quite sometime and adoption/ convergence of IFRS by different countries began in a phased manner leading to cases where there are countries which have converged, those in the process of adopting the standard and those which are not consistent with IFRS. Unlike IFRS, Indian Accounting Standards are a new set of accounting standards issued by ICAI, which have not been followed by any one before, hence all the entities will be adopting these standards for the first time in India.

Para 2A to Ind AS 101 has granted special exemption to entities by granting them special concession pertaining to preparation of opening balance sheet as per Ind AS. Those entities that have already filed IFRS compliant balance sheet at the end of the preceding financial year are allowed to use the same as the opening balance sheet after considering the adjustments for the differences between Ind ASs and IFRSs.

Paragraph 4 of IFRS 1 provides various examples of instances when an entity does not

apply this IFRS. Ind AS 101 does not provides the same. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.

Comparative Financial Information

In accordance with Ind-AS 101, a first time adopter need not provide the corresponding previous period financial statements in accordance with Ind - AS when it reports its first Ind-AS financial statements. Irrespective of the option elected, the first time adopter shall present latest corresponding previous periods' financial statements prepared as per the previous GAAP when presenting its first Ind-AS financial statements.

Thus, in terms of this Ind-AS, a first time adopter has the following two options:

(a) The first Ind-AS financial statements includes only two Balance Sheets (including one statement of changes in equity) and one statement of profit and loss, one statement of cash flows and related notes for the financial year prepared under Ind -AS. This first Ind-AS financial statements would include the previous years' comparative figures as per the previous GAAP.

For example, a first time reporter for whom the first reporting period is financial statements for the year ending March 31, 2012 would only provide two Balance Sheets (including one statement of changes in equity) i.e. April 1, 2011 and March 31, 2012 and one statement of profit and loss, one statement of cash flows and related notes for the financial year ending March 31, 2012, accompanied by reclassified previous years financial statements for the year ending March 31, 2011 as per the previous GAAP to the extent practicable, or

(b) In addition to (a) above voluntarily provide the previous years' comparatives corresponding to the first Ind -AS financial statements also under Ind-AS on a memorandum basis. Only for compilation of previous year's comparative financial statements under Ind -ASs the entity shall assume that the deemed date of transition as at the beginning of the comparative period. For example, the first time adopter for whom the first reporting period is financial statements for the year ending March 31, 2012 would provide three Balance Sheets (including two statements of changes in equity) i.e. April 1, 2010, April 1, 2011 and March 31, 2012 and two statements of profit and loss, two statements of cash flows and related notes i.e. for the financial year ending March 31, 2012 and for the corresponding comparative period under Ind-AS. In addition, the first Ind-AS financial statements would include the reclassified financial statements of the entity for the year ending March 31, 2011 as per the previous GAAP to the extent practicable.

An entity's comparative financial statements under Ind-ASs should:

i. Apply consistent accounting policies for the first Ind-AS financial statements and comparative period

ii. Apply the optional exemptions consistently as at the date of transition, i.e, beginning date of the financial year for which an entity presents financial information under Ind -ASs and deemed date of transition, i.e, beginning date of the comparative financial year for which an entity presents financial information under Ind-ASs.

Transition Explanation – Ind AS

According to Para 23 of the Ind AS 101 "*An entity shall explain how the transition from previous GAAP to Ind - ASs affected its reported Balance Sheet, financial performance and cash flows.*"

Reconciliations

An entity's first Ind -AS financial statements shall include:

(a) **Reconciliation of its Equity** reported in accordance with Ind -ASs to its equity in accordance with previous GAAP on the date of transition to Ind-ASs.

(b) Significant differences between previous GAAP and Ind -AS in respect of its **total comprehensive income** (or if it did not report such a total, profit or loss).

For example, a first time adopter for whom the first reporting period as per Ind-AS is year ending March 31, 2012; would provide significant differences explaining the impact on the total comprehensive income for the year ending on that date arising from adoption of the Ind-AS.

(c) If the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind-AS Balance Sheet, the disclosures that Ind AS 36 *Impairment of Assets* would have

required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind -ASs.

(d) Where however, an entity decides to provide one year comparative period providing significant differences between previous GAAP and Ind -AS in respect of its **total comprehensive income** then such an entity shall provide the following disclosures

i. a reconciliation of its equity in accordance with Ind -AS as at the end of the comparative period presented to its equity reported in accordance with previous GAAP; and

ii. a reconciliation of its total comprehensive income in accordance with Ind-AS compiled on a memorandum basis to its total comprehensive income (or if it did not report such a total, profit or loss) in accordance with previous GAAP for the comparative period.

For example, a first time adopter for whom the first reporting period as per Ind-AS is year ending March 31, 2012 along with one year comparative figure would provide a reconciliation explaining the impact on the total comprehensive income for the year ending March 31, 2011 and on the equity as at March 31, 2011 arising from adoption of the Ind -AS.

Where an entity uses the most recent previous financial statements prepared in accordance with IFRS, it shall disclose the adjustments made for differences in Ind ASs and IFRS and explain the effect thereof on equity and/or total comprehensive income (or profit or loss where it did not report such a total).

The disclosures required under this standard offers sufficient detail to enable users to understand the material adjustments to the Balance Sheet and statement of profit and loss. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

Application of Other Standards

- Ind AS 8 does not apply to changes in accounting policies an entity makes when it adopts Ind-ASs or to changes in those policies until after it presents its first Ind-AS financial statements.
- If during the period covered by its first Ind -AS financial statements an entity changes its accounting policies or its use of the exemptions contained in this Ind-AS, it shall explain the changes between its first Ind-AS interim financial report and its first Ind-AS financial statements

If an entity did not present financial statements for previous periods, its first Ind AS financial statements shall disclose that fact.

- Ind AS 104 on Insurance Contracts – The standard is made effective for the accounting period beginning on or after the date of transition, hence there is no question of retrospective effect unlike IFRS which requires retrospective application in accordance with transitional provision that dates back to the accounting period beginning on or after 1.4 2004
- Ind AS 23 – Borrowing Cost – Transitional provisions of Ind AS 23 on Borrowing Cost is applicable

When are Financial Statements said to be compliant with IND AS?

All statements prepared in accordance with requirements stated in Indian Accounting Standards are said to be compliant with Ind AS.

Scope of IND AS

- An entity shall apply this Ind-AS in:

(a) its first Ind-AS financial statements1 and

(b) each interim financial report, if any, that it presents in accordance with Ind AS 34 *Interim Financial Reporting* for part of the period covered by its first Ind-AS financial statements.

- This standard does not apply to entities that, in respect of its most recent previous financial statements, have filed such financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by International Accounting Standards Board with regulatory authorities. Such entities may adopt the balance sheet so filed as at the end of the immediately preceding financial year as the opening Ind AS balance sheet after making adjustments for differences in Ind-ASs and IFRSs as on the date of transition to Ind-AS.
- An entity's first Ind-AS financial statements are the first annual financial statements in which the entity adopts Ind -ASs, in accordance with Ind-Ass notified under the Companies Ac t, 1956 and makes an explicit and unreserved statement in those financial statements of compliance with Ind - ASs.
- This Indian Accounting Standard does not apply to changes in accounting policies made by an entity that already applies Ind-ASs. Such changes are the subject of: (a) requirements on changes in accounting policies in Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ; and

  (b) specific transitional requirements in other Ind -ASs.

Components of Financial Statements

IND AS 1.10 details a set of Financial Statements to be comprised of the following:

A complete set of financial statements comprises:

(a) A balance sheet as at the end of the period (including statement of changes in equity which is presented as a part of the balance sheet);

(b) A statement of profit and loss for the period;

(c) (Paragraph 10(c) of IAS 1 is with reference to the separate statement of changes in equity. As Ind AS 1 does not require it, the same is deleted. However, paragraph number 10(c) has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1)

(d) A statement of cash flows for the period;

(e) Notes, comprising a summary of significant accounting policies and other explanatory information; and

(f) A balance sheet as at the beginning of the earliest comparative 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.

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

Process of Standard Setting

Process of setting Standards (Due Process)

Ind ASs are developed through a due process that involves accountants, financial analysts, and other users of financial statements like the business community, stock exchanges, etc from around the country. ASB decides the agenda on which work is under taken. Several key areas that ASB considers in adding an agenda item are

- Relevance and reliability of information to users.
- Consistency with the ASB's organisational objectives and plans
- convergence of accounting standards
- deficiency of current guidance, for example where there is diversity in national standards or where no guidance exist
- Resource constraint.

Elements of Financial Statements

- **Assets:**
  - **Definition**: It is resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow.
  - **Recognition:** When it is probable that future economic benefits will flow and the asset has cost or value that can be reliably measured
- **Liabilities:**
  - **Definition**: It is the present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
  - **Recognition:** When it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be reliably measured.
- **Equity**
  - **Definition**: It is the residual interest in the asset of the entity after deducting all its liability.
- **Income**
  - **Definition:** Income is the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities those results in increase in equity, other than those relating to contribution from equity participants. It encompasses both revenue and gains.
  - **Recognition:** When an increase in the future economic benefits related to an increase in an asset or decrease in a liability has arisen that can be reliably measured.
- **Expenses**
  - **Definition:** It is the decrease in economic benefits during the accounting period in the form of outflows or depletion of assets or incurrence of liabilities those results in decrease in equity, other than those relating to contribution to equity participants. It encompasses both losses and expenses that arise in the course of ordinary activity of the entity.

- **Recognition:** When a decrease in the future economic benefits related to a decrease in an asset or increase in a liability has arisen that can be reliably measured

Principle Assumptions in Preparation of Financial Statements

- Going Concern
- Consistency
- Accruals
- Materiality
- Aggregation
- Offsetting

1. List of Standards

These are the near final Indian Accounting Standards (Ind ASs) finalised by the Council of the ICAI and sent to the National Advisory Committee on Accounting Standards (NACAS). These are subject to any changes, which may be made by the Government before their notification. Any changes in the Ind AS vis. a vis. corresponding IAS/IFRS are given in Appendix 1 appearing at the end of each Ind AS.

1. Ind AS 101 First-time Adoption of Indian Accounting Standards
2. Ind AS 102 Share based Payment
3. Ind AS 103 Business Combinations
4. Ind AS 104 Insurance Contracts
5. Ind AS 105 Non current Assets Held for Sale and Discontinued Operations
6. Ind AS 106 Exploration for and Evaluation of Mineral Resources
7. Ind AS 107 Financial Instruments: Disclosures
8. Ind AS 108 Operating Segments

9. Ind AS 1 Presentation of Financial Statements

10. Ind AS 2 Inventories

11. Ind AS 7 Statement of Cash Flows

12. Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors

13. Ind AS 10 Events after the Reporting Period

14. Ind AS 11 Construction Contracts

15. Ind AS 12 Income Taxes

16. Ind AS 16 Property, Plant and Equipment

17. Ind AS 17 Leases

18. Ind AS 18 Revenue

19. Ind AS 19 Employee Benefits

20. Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance

21. Ind AS 21 The Effects of Changes in Foreign Exchange Rates

22. Ind AS 23 Borrowing Costs

23. Ind AS 24 Related Party Disclosures

24. Ind AS 27 Consolidated and Separate Financial Statements

25. Ind AS 28 Investments in Associates

26. Ind AS 29 Financial Reporting in Hyperinflationary Economies

27. Ind AS 31 Interests in Joint Ventures

28. Ind AS 32 Financial Instruments: Presentation

29. Ind AS 33 Earnings per Share

30. Ind AS 34 Interim Financial Reporting

31. Ind AS 36 Impairment of Assets

32. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

33. Ind AS 38 Intangible Assets

34. Ind AS 39 Financial Instruments: Recognition and Measurement

35. Ind AS 40 Investment Property

IFRICs and SICs not notified

The following IFRICs and SICs are not notified

- IFRIC 4 – Determining whether an Arrangment Contains a Lease
- IFRIC 12 – Service Concession Arrangements
- IFRIC 20 – Stripping Costs of the Production Phase
- SIC 29 Disclosures – Service Concession Arrangements

Eliminated IFRIC Interpretations

- IFRIC 15 - Agreements for the Construction of Real Estate. The standard is excluded because unlike IFRS, IND AS proposes to apply principles of construction contract
- IFRIC 2 – Member's Shares in Cooperative Entities and Similar Instruments does not form part of IND AS

Irrelevant SIC Interpretation

- **SIC 7 –** Introduction of the EURO

2. Revised Schedule VI

The Ministry of Corporate Affairs has recently issued a Revised Schedule VI to the Companies Act, 1956, to lay down a new format for preparation and presentation of financial statements by Indian companies. The revised Schedule VI has been framed as per the Existing Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The notification shall come into force for the Balance Sheet and Statement of Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011.

Brief Insight to Revised Schedule VI

- The revised schedule VI prescribes the minimum requirements for disclosure on the face of financial statements or in the notes. Line items, sub-line items and subtotals can be presented as an addition or substitution on the face of financial statements when such presentation is relevant for understanding of the company's financial position or performance. It should also be noted that the disclosures required under accounting standards and in the Act are in addition to the disclosures set-out in the revised Schedule VI. A company should make such additional disclosures in the notes to accounts or by way of an additional statement unless these are required to be disclosed on the face of the financial statements.
- In case the requirements of the Act and/ or accounting standards requires a change in the treatment or disclosure in the financial statements, the requirements of the Act and/ or accounting standards will prevail over the Schedule VI
- In the existing Schedule VI, break-up of amounts disclosed in main balance sheet and profit and loss (P&L) account was given in the schedules. Additional information was furnished in the notes to account. The revised Schedule VI has eliminated the concept of schedule and such information will now be provided in the notes to accounts. This is in line with the practice under IFRS. Further, all information relating to a particular item of balance sheet and The Statement of Profit and Loss account disclosed in the notes is required to be cross-referred to that item on the face of balance sheet/ Statement of Profit and Loss account.

- Except in the case of the first financial statements laid before the company (after its incorporation), the corresponding amounts for the immediately preceding reporting period for all items shown in the financial statements including notes will also be given.
- For the purposes of revised Schedule VI, the terms used therein will carry the meaning as defined by the applicable accounting standards. Therefore, the terms like related parties, holding and subsidiary company will have the same meaning as defined under the Companies Accounting Standards Rules,2006.
- The revised Schedule VI requires that in preparing the financial statements including the notes to accounts, a balance should be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
- There is an explicit requirement to use the same unit of measurement uniformly throughout the financial statements. Rounding off rules have been changed and now the option of presenting figures in terms of hundreds and thousands is eliminated for companies whose turnover exceeds `100 crores. Moreover, the companies with turnover of less than 100 crores can now round it off even to the nearest lakhs or millions or decimal therefore which was not permitted earlier.

Simplification of disclosures

The revised Schedule VI has removed a number of disclosure requirements that were not considered relevant in the present day context. Examples include:

a. Disclosures relating to managerial remuneration and computation of net profits for calculation of commission

b. Information relating to licensed capacity, installed capacity and actual production

c. Information on investments purchased and sold during the year

d. Investments, sundry debtors and loans & advances pertaining to companies under the same management

e. Commission, brokerage and non-trade discounts

The format of Balance Sheet and Statement of Profit and Loss Account as contained in the Part I and II of the revised Schedule VI are reproduced below.

Unlike Ind-AS 101 which provides an option to provide comparative figures upon first-time adoption of converged Indian accounting standards, the revised Schedule VI aptly does not contain such an option. The corresponding amounts i.e comparatives for the immediately preceding reporting period for all items shown in the Financial Statements including notes is required to be provided.

3. Understanding Statement of Profit & Loss Account and Balance Sheet under Ind AS

Balance Sheet under Ind AS

Information to be presented in the balance sheet will be as follows.

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;

(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 and 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

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.

An entity shall classify all other assets as NON –CURRENT ASSETS.

Non Current Assets

The term ‘non-current’ includes tangible, intangible and financial assets of a long-term nature.

Current Liabilities

An entity shall classify a liability as current when:

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

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

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

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

An entity shall classify all other liabilities as NON-CURRENT LIABILITIES.

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

1. 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.
2. The following shall be disclosed either in the balance sheet or in the statement of changes in equity which is part of the balance sheet , or in the notes:

    (a) for each class of share capital:

        (i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of eac h reserve.

Format for Opening Balance Sheet under Ind AS

Opening

BALANCE SHEET AS AT

Particulars	**Notes**	**Previous Standard According to**	**Total changes**	**Values according to Ind AS**

		Ind AS format		
NON CURRENT ASSETS				
Property, plant and equipment and Investment Property				
Goodwill				
Advances for Capital Assets				
Intangible assets				
Investments				
Investments in associates				
Available for sale investments				
Receivables and other non-current Assets				
Deferred tax assets				
TOTAL NON CURRENT ASSETS			-	-
CURRENT ASSETS				
Inventories				
Trade receivables				
Other current assets				
Income tax assets				
Investments and financial receivables				
Cash and cash equivalents				
TOTAL CURRENT ASSETS			-	-

TOTAL ASSETS			-	-
SHAREHOLDERS' EQUITY				
Share capital				
Reserves				
Retained earnings				
TOTAL SHAREHOLDERS' EQUITY			-	-
NON CURRENT LIABILITIES				
Interest-bearing loans and short term borrowings				
Employee benefits liabilities				
Provisions				
Deferred tax liabilities				
TOTAL NON CURRENT LIABILITIES			-	-
CURRENT LIABILITIES				
Banks overdrafts and short-term borrowings				
Interest-bearing loans and short term borrowings				
Trade payables				

Provisions				
Income tax liabilities				
Other liabilities				
TOTAL CURRENT LIABILITIES			**-**	**-**
TOTAL LIABILITIES			**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			**-**	**-**

Indian Accounting Standard or Ind-AS notified by the Ministry of Corporate Affairs is certainly a clear case of departure from the existing Accounting Standard in many ways. The standard Ind-AS 101 does not require restating several phenomenal figures by way of mandate and optional exemptions.

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

(a) Paragraphs 14–17 and Appendix B prohibit retrospective application of some aspects of other Ind-ASs.

(b) Appendices C–E grant exemptions from some requirements of other Ind-ASs.

Mandates pertain to Business Combinations in the past, derecognition of Financial assets and Liabilities and Non controlling interest (earlier called 'Minority interest' in a consolidation). There are about 17 items referred to in Appendix D to Ind AS 101 which are optionally exempted in entirety from restatement of previous year transactions.

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.

The following are some of the points that may be impacting the preparation of Opening Balance Sheet under Ind-AS

1. Fixed Assets (Property, Plant and Equipment):

Ind AS 101 allows us to adopt the carrying amount in the previous Financials which were under the previous GAAP but requires us to measure any decommissioning liabilities that should have been included earlier in the cost of the asset and measure in parallel the Liability by using an appropriate historic risk adjusted discount rate. The exemption available here is from doing impairment testing for this additional carrying amount in the asset due to capitalization of the decommissioning liability. In fact this is a requirement as per Appendix D to Ind-AS 16.

2. Re-measurement of Assets as per new definitions:

Let us remember that as per Ind AS 1, the definition of a Current asset requires any one of the four criteria to be met for calling it as Current asset. One of them is realisation within the normal operating cycle. Normal operating cycle is the normal time elapsing between purchase or process of the asset and realisation of cash. This creates a huge possibility for assets that were treated earlier as Long term assets (under the criteria of realisation beyond 12 months) to be treated as Current assets due to the fact that the normal operating cycle is itself more than 12 months e.g. Massive Infrastructure projects. There seems to be no exemption in this regard under Ind AS 101.

3. Re-measurement of certain Financial assets and Liabilities:

Unless Impracticable to do so, Financial assets and Liabilities such as Loans and Receivables and Held to Maturity assets are required to be carried at Amortised cost by using Effective Interest rates. Effective Interest rate is nothing but the Internal Rate of Return of the Investment i.e. a rate which discounts the future cash flows to its principal amount. This disregards whatever interest rate has been set by the Loan agreements. If Impracticable, then these financial assets and Liabilities have to be measured at Fair value as on the date of Transition (e.g. 1.4.2011) and this value will be deemed to be amortised cost on that date.

4. Non Current Assets held for Sale:

Noncurrent assets which were initially valued at lower of cost and Fair value less costs to sell on the date of initial recognition should be again valued to lower of cost and Fair value less costs to sell on the date of transition.

5. Statement of Changes in Equity:

Statement of Changes in Equity is an integral component of Balance sheet as per the new Ind AS and is therefore required to be prepared presenting the components specifically required. This is a departure from the IFRS which does not make the SOCIE as part of the Balance sheet.

6. Investment Properties:

Investment properties too may be carried at the same amount as reported under the previous GAAP. But as per Ind AS-40 though recognition is on cost basis, there is a need to disclose the Fair value of the property on the date of the transition. However Ind AS 101 does not stop us from recognizing the Investment Properties at Fair value on the transition date and take them as the deemed cost going forward.

7. Cumulative Forex translation differences on Foreign operations under the previous GAAP:

It may be noted that all along we may have been parking the Foreign exchange translation differences from a Non integral foreign operation in a separate reserve as per the existing GAAP. The new Ind AS does away with the Integral and Non integral classifications. All such accumulated translation differences shall be deemed to be Zero on the transition date. Subsequently when the operations are sold, only those differences arising after the transition date will have to be considered.

8. Exchange differences in respect of Long term Monetary assets or Liabilities:

There is an irrevocable option given under paragraph 21A of Ind AS 21 whereby the company can park the exchange differences on translation of Long term monetary assets and Liabilities in equity and then transfer them to P&L account over the period of maturity of these assets or liabilities. As per Ind AS 101 this option can also be exercised retrospectively to our advantage (i.e. if there had been heavy exchange losses in the past). If not then the accumulated exchange differences in respect of those items are deemed to be zero on the date of transition.

To sum up, some of the common ground works necessary before preparation of opening Ind AS will be,

· Estimating the operating cycle for each division or business segment.

· Estimating the effective Interest rates for each Loan transaction or HTM investments.

· Estimating the Fair value of Investment Properties

· Re-estimating the Fair value less costs to sell for Noncurrent assets held for sale as on date of transition and compare again with the carrying amount.

As a preparatory measure the Schedule VI too has been amended along the lines to accommodate most of the new features and also made effective from financial years commencing on or after 1.4.2011. We can expect to avoid chaos like the one which went on between Foreign exchange difference treatment under erstwhile AS-3 and the Old Schedule VI. This is because, the Schedule is mechanised to get automatically amended accordingly for every change in the requirements as per law and the Accounting standards.

Format for Balance Sheet under Ind AS

BALANCE SHEET AS AT

Particulars	Notes	Year ended	
		20XX	**20XX**
NON CURRENT ASSETS			
Property, plant and equipment and Investment Property			
Goodwill			
Advances for Capital Assets			
Intangible assets			
Investments			
Investments in associates			
Available for sale investments			
Receivables and other non-current Assets			
Deferred tax assets			
TOTAL NON CURRENT ASSETS		**-**	**-**
CURRENT ASSETS			
Inventories			
Trade receivables			
Other current assets			
Income tax assets			
Investments and financial receivables			

Cash and cash equivalents			
TOTAL CURRENT ASSETS		**-**	**-**
TOTAL ASSETS		**-**	**-**
SHAREHOLDERS' EQUITY			
Share capital			
Reserves			
Retained earnings			
TOTAL SHAREHOLDERS' EQUITY		**-**	**-**
NON CURRENT LIABILITIES			
Interest-bearing loans and short term borrowings			
Employee benefits liabilities			
Provisions			
Deferred tax liabilities			
TOTAL NON CURRENT LIABILITIES		**-**	**-**
CURRENT LIABILITIES			
Banks overdrafts and short-term borrowings			
Interest-bearing loans and short term			

borrowings			
Trade payables			
Provisions			
Income tax liabilities			
Other liabilities			
TOTAL CURRENT LIABILITIES		**-**	**-**
TOTAL LIABILITIES		**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**-**	**-**

Statement of Profit & Loss Account under Ind AS

An entity shall present all items of income and expense including components of other comprehensive income recognized in a period in a single statement of profit and loss.

Information to be presented in the Statement of Profit and Loss

The statement of profit and loss shall have the following line items that present the following amounts for the period:

(a) Revenue;

(b) Finance costs;

(c) Share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) Tax expense;`

(e) A single amount comprising the total of:

(i) the post-tax profit or loss of discontinued operations a nd

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued

operation;

(f) Profit or loss;

(g) each component of other comprehens ive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

Allocations for the Period

An entity shall disclose the following items in the statement of profit and loss as allocations for the period:

(a) profit or loss for the period attributable to:

(i) non-controlling interests, and

(ii) owners of the parent.

(b) total comprehensive income for the period attrib utable to:

(i) non-controlling interests, and

(ii) owners of the parent.

Format for the Statement of Profit or Loss under Ind AS

- Statement of Profit or Loss for the year ended ….

		Year ended	
	Note	**20XX**	**20XX**
Continuing operations			
Revenue			
Cost of sales			
Gross Profit			

Distribution expenses
Marketing expenses
Occupancy expenses
Administration expenses
Finance costs
Other expenses
Other income
Other (losses)/gains – net
Operating profit1
Finance income
Finance costs
Finance costs – net
Share of (loss)/profit of associates
Profit before income tax
Income tax expense
Profit for the year
Earnings per share
Basic earnings per share
Diluted earnings per share

Latest Happenings on Ind AS

The Institute of Chartered Accountants in India (ICAI) published the following exposure drafts that proposes to adopt Indian Accounting Standard (Ind-AS) equivalents to the five standards on consolidation, joint arrangements and disclosures issued by the IASB in the month of May 2011.

- Exposure Draft of Indian Accounting Standard (Ind AS) 27 (as amended) *Separate Financial Statements*
- Exposure Draft of Indian Accounting Standard (Ind AS) 28 (as amended) *Investments in Associates and Joint Ventures*
- Exposure Draft of Indian Accounting Standard (Ind AS) 110 *Consolidated Financial Statements*
- Exposure Draft of Indian Accounting Standard (Ind AS) 111 *Joint Arrangements*
- Exposure Draft of Indian Accounting Standard (Ind AS) 112 *Disclosure of Interests in Other Entities*.

The effective date of application of Ind-AS is yet to be pronounced by the Government of India. There exist a number of differences between existing Ind-AS and IFRSs. These 5 exposure drafts on Ind AS propose amendments to the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The amendments proposed relate to date of application, terminologies used, references to certain standards which have not yet been adopted or converged as Ind-AS. In addition to these, those requirements that are not relevant in the Indian context have been removed. Many requirements under IFRS have been conveniently altered according Indian scenario and adoption status namely, the deletion of the exemption from consolidation for wholly-owned and partially owned subsidiaries in certain circumstances.

ANNEXURE -1

Specimen Financial Statement prepared under IFRS

M/s XYZ Limited

Consolidated Statement of Financial Position

(All amounts in nearest '000 Rs. unless otherwise stated)

		As at 31 March	
	Schedules	**2012**	**2011**
Assets			
Non Current Assets			
Property, Plant and Equipment			

Intangible Assets			
Investment in Associate			
Deferred Income Tax Assets			
Held to Maturity Financial Assets			
Available for Sale Financial Assets			
Long-Term Trade and other Receivables			
Derivative Financial Instruments			
Total Non Current Assets (A)			
Current Assets			
Inventories			
Short-Term Trade and other Receivables			
Available-for-sale Financial Assets			
Derivative Financial Instrument			
Financial Asset classified as Held for Trading			
Financial Asset designated as at Fair Value through Profit or Loss			

Account			
Cash and Cash Equivalent			
Total Current Assets (B)			
Non Current Assets/ Disposal Group held for Sale (C)			
Total Assets (A) +(B) + (C)			
Equity			
Portion of Equity attributable to Shareholders			
Equity			
Non-Controlling Interests			
Total Equity (D)			

Liabilities			
Non Current Liabilities			
Long Term Borrowings			
Deferred Tax liabilities			
Derivative Financial Instruments			
Retirement Benefit Obligations			
Provisions for other liabilities			
Total Non-Current Liabilities (E)			
Current Liabilities			
Trade and other Short Term Payables			
Current Income Tax Liabilities			
Borrowings			
Derivative Financial Instruments			
Other Provisions for short term liabilities			

Total Current Liability (F)			
Liability associated with Non Current Asset/ Disposal Group Held for Sale (G)			
Total Liabilities (H= E+F+G)			
Total Equity and Liabilities (D+H)			

XYZ Limited			
Consolidated Statement of Comprehensive Income			
(All amounts in nearest '000 Rs. Unless otherwise stated)			
		Year Ended 31 March	
	Schedules	2012	2011
Continuing Operations			
Sales			
Cost of Sales			
Gross Profit			
Other income			
Administrative Expenses			
Selling and Distribution Expenses			
Finance Costs			
Other Gains/(Losses)			
Operating Profit			

Share of profit from Associates			
Profit Before Income Tax			
Income Tax Expense			
Profit After Income Tax from Continued Operations			
Profit before tax for the Year from Discontinued Operations			
Income tax on Profit from Discontinued Operations			
Profit after tax from Discontinued Operations			
Total PAT for year			
Other Comprehensive Income:			
Exchange Difference on translating foreign Operations			
Available for sale financial assets			

Cash Flow Hedges			
Net Investment hedges			
Gains on property revaluation			
Actuarial gains (losses) on employment benefit obligation			
Share of other comprehensive income of associates			
Income tax on other comprehensive income			
Net Other Comprehensive Income			
Total comprehensive Income for the year			
Attributable to Equity Share holders of the Company			
Attributable to Non-Controlling Interest			
Basic Earnings from Share:			
From Continued Operations			
From Discontinued Operations			
Diluted Earnings per Share:			

From Continued Operations			
From Discontinued Operations			

XYZ Limited

Consolidated Statement of Cash Flows

(All amounts in nearest '000 Rs. Unless otherwise stated)

		Year Ended 31 March	
		2012	2011
Cash Flows from Operating Activities			
Cash Flows from Operations			
Interest Paid			
Income Tax Paid			
Net Cash from Operating Activities (A)			
Cash Flows from Investing Activities			
Investment in Subsidiary			
Investment in Associates			

Purchase of Property, Plant and Equipment			
Sale of Property, Plant and Equipment			
Loans to Associates			
Loan repayment from Associates			
Purchase of Financial Assets			
Interest received			
Dividend Received			
Net cash generated/ (used) in Investing Activities (B)			
Cash Flows from Financing Activities			
From Issue of Equity Shares			
From Issuance of Redeemable preference Shares			
Proceeds from Borrowings			
Repayments of Borrowings			
Dividend paid to Equity shareholders			
Dividend to preference share holders			
Dividend to Minority Holders			
Net Cash Generated/ used from Financing			

Activities (C)			
Net increase/ decrease in cash and cash equivalent			
Cash, Cash Equivalent in the beginning of the year			
Cash and Cash Equivalent at the end of year			

XYZ Limited

Statement of Changes in Equity

(All amounts in nearest '000 Rs. Unless otherwise stated)

	Share Capital	Retained Earnings	Translation of foreign operations	AVS Financial Assets	Cash Flow Hedges	Revaluation Surplus	Total	Non-Controlling Intere	otal Equity

								st	
Balance as at 1/4/10									
Changes in accounting Policy									
Restated Balance									
Changes in Equity for 10-11									
Dividend									
Total comprehensive income for year									
Balance as at 31/3/2011									
Changes in Equity for 11-12									

Issue of share capital									
Dividends									
Total comprehensive income for the year									
Transfer to retained Earnings									
Balance as at 31/3/12									

Notes to the Consolidated Financial Statements

1. About the Company

The XYZ Public Limited Company its subsidiaries (together 'the group') manufacture, distribute and sell leather products through a chain of independent retailers. The group has manufacturing plants around the world and sells mainly in countries within the India, China, Sri Lanka and Bangladesh. It is public limited company domiciled in India. The address of its registered office is ………………The Company has its primary listing on the Bombay Stock Exchange. The Group consolidated statements were approved by the Board on ……………..

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are discussed below. All the policies have been applied consistently to all the years presented. The consolidated financial statements of XYZ Public Limited Company have been prepared in accordance with International Financial Reporting Standards. Both historic cost and revaluation models have been used in accordance with principles stated in IFRSs.

2.1 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the

net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Associates

Associates are all entities, over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the Statement of comprehensive income.

2.2 Foreign currency translation

Items included in the financial statements of each of the group's entities are measured in the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'currency' Rupees, which are the company's functional and the group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other (losses)/gains – net.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

The results and financial position of all the group entities in countries that have a functional currency different from the Rupees are translated into the presentation currency as follows:

assets and liabilities for each statement of financial position presented are translated at the closing rate at reporting date;

income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.3 Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognised within provisions. Freehold land and buildings are subsequently carried at fair value, based on periodic (usually triennial) valuations by a professionally qualified valuer. Changes in fair value are recognised in equity (the "revaluation reserve"). An appropriate transfer is made from the revaluation reserve to the profit and loss reserve when freehold land and buildings are expensed through the income statement (e.g. through depreciation, impairment or sale). All other items of property, plant and equipment are carried at depreciated cost.

Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment is to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Freehold buildings - 5% per annum straight line
Leasehold land - evenly over the length of lease

Leasehold buildings - 5% per annum straight line

Plant and machinery - 25% per annum straight line

Fixtures and fittings - 20% per annum straight line

Computer equipment - 40% per annum straight line

Motor vehicles - 25% per annum reducing balance

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the statement of comprehensive income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.4 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily interchangeable items.

2.5 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated

amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 15 to 20 years.

2.6 Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only in-the-money derivatives. They are carried in the t at fair value with changes in fair value recognised in the statement of comprehensive income.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost, with changes through the statement of comprehensive income.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available for- sale and comprise the group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

2.7 Financial liabilities

The group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income.

Other financial liabilities: Other financial liabilities include the following items:

• Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

• Bank borrowings, certain preference shares and the debt element of convertible debt issued by the group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

2.8 **Non-current assets/ disposal groups held for sale**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.9 Equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.10 Trade Payables and short term borrowings

Trade payables and other short term borrowings unless designated as at Fair Value through profit or loss account are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.11 Borrowings

Borrowings include Preference shares, which are mandatorily redeemable on a specific date. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee Benefits

Pension Plans

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies. The group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of recognised income and expense (SORIE) in the period in which they arise. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are

amortised on a straight-line basis over the vesting period. For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

All the entities in the group provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the SORIE in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after the reporting date are discounted to their present value.

Profit-sharing and bonus plans

The group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after

certain adjustments. The group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.14 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. Revenue is recognised only when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Revenue is recognised from sales of goods – wholesale and retail, Sales of services, Interest income, Royalty income and Dividend income.

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Mr. Rajkumar Adukia is an eminent consultant, writer, and speaker. An authority on IFRS, Mr. Adukia has handled various assignments across the globe covering countries like USA, Canada, Saudi Arabia and UAE. He has addressed more than 300 lectures on IFRS. A senior partner of Adukia & Associates, he has advised more than 25 large organizations to convert their financial statements as per IFRS. He has authored two books on IFRS namely "Encyclopaedia on IFRS (3000 pages) and second book is "Handbook on IFRS" (1000 pages).

In addition to being a Chartered Accountant, Company Secretary and a Cost Accountant, Mr. Adukia also holds a degree in law. He has been involved in the activities of the Institute since 1984 as a convenor of Kalbadevi CPE study circle. He was the Chairman of the Western Region of Institute of Chartered Accountants of India in 1997 and has been actively involved in various committees of ICAI. He became a member of the Central Council in 1998 and ever since he has worked tirelessly towards knowledge sharing, professional development and enhancing professional opportunities for members.

Mr. Rajkumar is a frequent speaker on trade and finance at seminars and conferences organized by the Institute of Chartered Accountants of India, various chambers of Commerce, income tax offices and other professional associations. He has also lectured at the S.P. Jain Institute of Management, Intensive Coaching Classes for Inter & Final CA students and Direct Taxes Regional Training Institute of CBDT. He also develops and delivers short courses, seminars and workshops on changes and opportunities in trade and finance. He has extensive experience as a

speaker, moderator and panellist at workshops and conferences held for both students and professionals across the country and abroad. Mr. Adukia has delivered lectures abroad at forums of International Federation of Accountants and travelled very extensively abroad for professional work.

He has been coordinating with various professional institutions, associations' universities, University Grants Commission and other educational institutions. Besides he has actively participated with accountability and standards-setting organizations in India and at the international level. He was the member of J.J. Irani committee which drafted Companies bill 2008. He was also member of secretarial standards Board of ICSI. Currently he represents ASSOCHAM as member of Cost Accounting Standards Board of ICWAI. He is member of working group of Competition Commission Of India, National Housing Bank, NABARD, RBI, CBI etc.

He has served on the Board of Directors in the capacity of independent director at BOI Asset management Co. Ltd., Bharat Sanchar Nigam Limited and SBI Mutual Fund Trustee Company Pvt. Ltd. He is also a member of the London Fraud Investigation team.

Mr. Rajkumar Adukia has simultaneously expanded his practice to include internal audit, business advisory and planning, commercial law compliance, project work, taxation, carbon credit, SEZ, FEMA, real estate, labour laws and trusts. His clientele include large corporations, owner-managed companies, small manufacturers, service businesses, property management and construction, exporters and importers, and professionals. He has undertaken specific assignments on fraud investigation and reporting in the corporate sector and has developed background material on the same.

Based on his rich experience, he has written numerous articles on most aspects of finance-accounting, auditing, taxation, valuation, public finance. His authoritative articles appear regularly in financial papers like Business India, Financial Express, Economic Times and professional and business magazines. He has authored several accounting and auditing manuals. He has authored books on vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, Encyclopaedia on

IFRSs etc. His books are known for their practicality and for their proactive approaches to meeting practice needs.

Some of the notable publications authored by Mr. Rajkumar S Adukia

1. Encyclopedia on IFRS
2. The Handbook on IFRS
3. Professional Opportunities for Chartered Accountants
4. A Manual on Internal Audit
5. Manual on SEZ,FT & WZ-Developers and Units(including other export oriented units such as 100% EOU.STP,EHTP,BTP AND AEZ)
6. Guide to Stock Audit in Banks
7. A Manual on Statutory Bank Branch Audit
8. A Manual on Companies (Auditor's Report) Order 2003
9. Money Laundering and Its Prevention- An Overview of Counter Measures (Including Notifications, International Initiatives & Compliance Programs)
10. Encyclopedia for Real Estate Builders, Developers, Brokers and Investors
11. LABOUR LAWS OF INDUSTRY one should know (for employers& employees)
12. Manual on Anti -Dumping & Countervailing Duty including Safeguard measures For Importers, Exporters, traders & Producers
13. A Guide to MAHARASHTRA VAT AUDIT WITH GUIDANCE NOTE
14. A Comprehensive Guide on Company Deposits (Including all allied provisions like chit funds, Nidhi Companies, Miscellaneous Companies, NHB ,RBI guidelines, state money lending provisions)
15. Encyclopedia on Not for Profit Organisations (includes charitable Trust, Societies, Non Trading Corporations, Section 25 Companies under Companies Act 1956, Foreign Contribution (Regulation) Act 1976)
16. Limited Liability Partnership - Redefining Partnerships & its changing role
17. NRI's Guide to Investment in Immovable Property and Tax Planning