

CNK & Associates, LLP

Accounting Standards vs Taxation
- Revenue Recognition, Effect of Changes
in Foreign Exchange Rates, Construction
Contracts, Leases & Government Grants

8th July 2017

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Agenda

- Revenue Recognition (Ind AS 18 v/s. ICDS IV)
- Construction contracts (Ind AS 11 v/s. ICDS III)
- Effect of changes in Foreign Exchange Rates (Ind AS 21 v/s. ICDS VI)
- Leases (Ind AS 17 v/s. ICDS)
- Government Grants (Ind AS 20 v/s. ICDS VII)

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Revenue Recognition

AS 9: Revenue Recognition

Ind AS 18: Revenue Recognition

ICDS: IV

Revenue Recognition

Indian GAAP	Ind AS
AS 9	Ind AS 18
Definition of Revenue:	
<p>Revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.</p>	<p>Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.</p>
Measurement:	
<p>Revenue is recognized at the nominal amount of consideration receivable.</p>	<p>Revenue is measured at the fair value of the consideration received or receivable.</p>

Revenue Recognition ...

Indian GAAP	Ind AS
AS 9	Ind AS 18
Rendering of Services:	
Completed Service Contract method is permitted.	Requires recognition of revenue using Percentage of Completion method only.
Interest:	
Requires the recognition of revenue from interest on time proportion basis .	Requires interest to be recognized using EIR method .
Customer Loyalty Programme:	
Does not deal with this aspect.	Specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme.

Revenue Recognition ...

Indian GAAP	Ind AS
AS 9	Ind AS 18
Excise Duty Treatment:	
Specifically provides that the excise duty included in the turnover should be shown as reduction from the gross turnover on the face of the P/L.	As per the definition, Excise duty needs to be included in Gross Revenue. Excise Duty is to be separately included in 'Other expenses'.
Separate Components Recognition:	
No specific guidance	Provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.
Discounting:	
No specific guidance	When cash inflow is deferred, it requires discounting to the present value

Revenue Recognition ...

Indian GAAP	Ind AS
AS 9	Ind AS 18
Barter Transaction:	
No specific guidance	A non-monetary barter transaction of similar goods or services is not considered to have commercial substance and hence the gain or loss from such a transaction is not recognised.
Transfer of PPE by Customer:	
No specific guidance	Deals with accounting of transfer of PPE by the customers to the entity, which are used by the entity to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

Revenue Recognition ... ICDS vs Ind AS

ICDS	Ind AS
ICDS IV	Ind AS 18
Definition of Revenue:	
<p>“Revenue” is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person’s resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration. – Also s.145A</p>	<p>Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.</p>
Measurement:	
<p>Revenue is recognized at the nominal amount of consideration receivable.</p>	<p>Revenue is measured at the fair value of the consideration received or receivable.</p>

Revenue Recognition ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS IV	Ind AS 18
Rendering of Services:	
<p>Requires recognition of revenue using Percentage of Completion method only. Completed Service Contract method is permitted for contracts with duration of not more than 90 days.</p> <p>When services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.</p>	<p>Requires recognition of revenue using Percentage of Completion method only.</p>
<p>Requires the recognition of revenue from interest on time proportion basis. No requirement of reasonable certainty of</p>	<p>Requires interest to be recognized using EIR method. Only when it is probable that economic benefits associated with the</p>

Revenue Recognition ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS IV	Ind AS 18
ultimate collection.	transaction will flow to the entity; and the amount of revenue can be measured reliably.
Interest on Refund of Tax, Duty or Cess:	
Requires recognition in the year in which refund is received	No specific guidance
Discount/Premium on Debt Securities:	
To be accrued over period of maturity	To be recognised using EIR method
Excise Duty Treatment:	
As per the definition, Excise duty needs to be included in Gross Revenue. Excise Duty is to be separately treated as an expense.	As per the definition, Excise duty needs to be included in Gross Revenue. Excise Duty is to be separately included in 'Other expenses'.

Revenue Recognition ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS IV	Ind AS 18
Separate Components Recognition:	
No specific guidance	Provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction.
Discounting:	
Not permitted	When cash inflow is deferred, it requires discounting to the present value
Barter Transaction:	
No specific guidance SC decision in case of Orient Trading Co Ltd v CIT 224 ITR 371	A non-monetary barter transaction of similar goods or services is not considered to have commercial substance and hence the gain or loss from such a transaction is not recognised.

Revenue Recognition ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS IV	Ind AS 18
Transfer of PPE by Customer:	
No specific guidance	Deals with accounting of transfer of PPE by the customers to the entity, which are used by the entity to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.
Royalty:	
To be accrued in accordance with terms of relevant agreement, unless, having regard to the substance of the transaction, more appropriate to recognize revenue on some other systematic and rational basis	Royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement. Only when when it is probable that economic benefits associated with transaction will flow to the entity; and amount of revenue can be measured reliably.

Revenue Recognition ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS IV	Ind AS 18
Dividends:	
To be recognized in accordance with provisions of the Act – section 8	Ind AS 109 - Dividends recognised when: (a) entity's right to receive payment of the dividend is established; (b) it is probable that economic benefits associated with dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably.
Customer Loyalty Programme:	
Does not deal with this aspect	Specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme.
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Construction Contracts

AS 7: Construction Contracts

Ind AS 11: Construction Contracts

ICDS: III

Construction Contracts

Indian GAAP	Ind AS
AS 7	Ind AS 11
Borrowing Costs:	
Includes borrowing costs as per AS 16 'Borrowing Costs' , in the costs that may be attributable to contract activity in general and can be allocated to specific contracts.	No such specific reference of borrowing costs is given.
Measurement of Contract Revenue:	
Contract revenue is measured at the consideration received or receivable. In other words, there is NO need to measure contract revenue at fair value.	Contract revenue is measured at the fair value of the consideration received or receivable.
Service Concession Arrangements (SCA's):	
No specific guidance	Appendix A of Ind AS 11 deals with the accounting aspects of SCA's.

Construction Contracts ...

Service Concession Arrangements:

Does the grantor control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price?

YES

NO

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangements? Or is the infrastructure used in the arrangements for the entire useful life?

YES

NO

Is the infrastructure constructed or acquired by the operator from a third party for the purpose of the service arrangement?

YES

NO

OUTSIDE THE SCOPE OF APPENDIX A

NO

Is the infrastructure existing infrastructure of the grantor to which the operator is given access.

YES

WITHIN THE SCOPE OF APPENDIX A

Operator does not recognize infrastructure as PPE or as leased assets.

Construction Contracts ...

Service Concession Arrangements:

WITHIN THE SCOPE OF APPENDIX A

Operator does not recognize infrastructure as PPE or as leased assets.

Does the operator have a contractual right to receive cash or other financial asset from or at direction of the grantor as described in Para 16 of Appendix A?

YES

Operator recognizes a financial asset to the extent that it has a contractual right to receive cash or another financial asset as described in Para 16 of Appendix A?

NO

Does the operator have a contractual right to charge users of the public services as described in Para 17 of Appendix A?

YES

Operator Recognizer an intangible asset to the extent that it has a contractual right to receive an intangible asset as described in Para 17 of Appendix A.

NO

OUTSIDE THE SCOPE OF APPENDIX A

Construction Contracts ...

Indian GAAP	Ind AS
AS 7	Ind AS 11
Real Estate:	
GN on 'Accounting for Real Estate Transactions' (revised in 2012) is applicable for entities to whom IGAAP is applicable.	Ind AS 11 does not deal with accounting in the financial statements of real estate developers. The revised GN on 'Accounting for Real Estate Transactions' issued by ICAI provides specific guidance on recognition of revenue from real estate sales. <i>(The revised GN is applicable for entities to whom Ind AS is applicable).</i>

Real Estate Developers

Indian GAAP	Ind AS
GN 2012	GN 2016
<p>In accordance with the GN revenue is recognised when all significant risks and rewards of ownership have been transferred to the buyer, and other conditions for recognition of revenue to be followed in accordance with AS 9 'Revenue Recognition'.</p>	<p>Revenue to be recognised by applying the percentage completion method as explained in Ind AS 11 'Construction Contracts'</p>
Applicability:	
To be applied prospectively .	To be applied retrospectively .
Project Revenues:	
Project Revenues are measured as the consideration received or receivable.	Project Revenues are measured at Fair value of the consideration received or receivable.

Real Estate Developers ...

Indian GAAP	Ind AS
GN 2012	GN 2016
Percentage Completion method:	
<p>Real estate project can be reliably measured only when following 4 conditions are met:</p> <ul style="list-style-type: none"> a) All critical approvals necessary for commencement of the project have been obtained. b) When the stage of completion of the project reaches a reasonable level of development. c) At least 25% of the saleable project area is secured by contracts and agreements with buyers. d) At least 10% of the total revenue as per the agreements of sale. 	<p>Real estate project can be reliably measured only when following 4 conditions are met:</p> <ul style="list-style-type: none"> a) All critical approvals necessary for commencement of the project have been obtained. b) When the stage of completion of the project reaches a reasonable level of development. c) At least 25% of the saleable project area is secured by contracts and agreements with buyers. d) At least 10% of the contract consideration as per the agreements of sale.

Construction Contracts ... ICDS vs Ind AS

ICDS	Ind AS
ICDS III	Ind AS 11
Borrowing Costs:	
<p>Includes borrowing costs as per ICDS IX 'Borrowing Costs' , in the costs that may be attributable to contract activity in general and can be allocated to specific contracts.</p> <p>S.36(1)(iii) & CIT v Lokhandwala Construction Industries 260 ITR 579 (Bom)</p>	To be done as per Ind AS 23
Measurement of Contract Revenue:	
<p>Contract revenue is measured at the consideration received or receivable. In other words, there is no need to measure contract revenue at fair value.</p>	<p>Contract revenue is measured at the fair value of the consideration received or receivable.</p>
Service Concession Arrangements (SCA's):	
No specific guidance	Appendix A of Ind AS 11 deals with the accounting aspects of SCAs.

Construction Contracts ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS III	Ind AS 11
Manner of Recognition of Contract Revenue & Expenses:	
<p>Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date</p>	<p>When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on the construction contract shall be recognised as an expense immediately</p>

Construction Contracts ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS III	Ind AS 11
Early Stage Recognition:	
<p>During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25 % of the stage of completion.</p>	<p>When the outcome of a construction contract cannot be estimated reliably:</p> <p>(a) revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and</p> <p>(b) contract costs shall be recognised as an expense in the period in which they are incurred.</p> <p>An expected loss on the construction contract shall be recognised as an expense immediately</p> <p>When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately</p>

Construction Contracts ... ICDS vs Ind AS ...

ICDS	Ind AS
ICDS III	Ind AS 11 and GN
Real Estate:	
<p>ICDS III does not deal with tax treatment of real estate transactions. A separate ICDS will be issued in respect of such transactions (draft issued for public comments in May 2017)</p> <p>GN on 'Accounting for Real Estate Transactions' (revised in 2016) is applicable for entities to whom Ind AS is applicable.</p> <p>To be applied prospectively.</p>	<p>Ind AS 11 does not deal with accounting in the financial statements of real estate developers. The revised GN on 'Accounting for Real Estate Transactions' issued by ICAI provides specific guidance on recognition of revenue from real estate sales.</p> <p><i>(The revised GN is applicable for entities to whom Ind AS is applicable).</i></p> <p>To be applied retrospectively.</p>

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Leases

AS 19: Leases

Ind AS 17: Leases

ICDS: None

Leases

Indian GAAP	Ind AS
AS 19	Ind AS 17
Leasehold land:	
Leasehold land is accounted for as fixed assets, not covered by AS 19	Leasehold land is covered under Ind AS 17 , Hence, to be recognised as Operating or Finance Lease as per definition and classification criteria.
Operating lease rentals – Recognition:	
Lease payments under an operating lease should be recognised as an expense in the statement of PL 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.	There is a carve-out as per which it is recognised as per lease agreement terms including for the escalation of Operating Lease Rentals that are in line with the expected general inflation . Otherwise, on a straight line basis over the lease term.

Leases ...

Indian GAAP	Ind AS
AS 19	Ind AS 17
Separation of lease elements:	
No specific guidance	When a lease includes elements of both land & building, an entity should assess the classification of each element as finance or an operating lease separately.
Operating leases – incentives:	
No specific guidance	Lease incentives (e.g. rent free period) for Operating Leases are recognised by lessor / lessee as a reduction of rental income / expense respectively, over the lease term.

Leases ...

Indian GAAP	Ind AS
AS 19	Ind AS 17
Determining whether an arrangement contains a lease:	
<p>No specific guidance.</p> <p>Payments under such arrangements are recognised in accordance with the nature of expense incurred.</p>	<p>Arrangements that do not take the legal form of a lease but fulfilment of which is dependant on the use of specific assets and which convey the right use the assets are accounted for as lease.</p>
Evaluating the Substance of transactions involving the legal form of a lease:	
<p>No specific guidance</p>	<p>If a series of transactions involves the legal form of a lease and the economic effect can only be understood with reference to the series as a whole, then the series may need to be accounted for as a single transaction.</p>

Leases ...

Whether to consider a **leasehold land** as finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

At the inception of the lease, if the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased land, it is generally considered as a finance lease

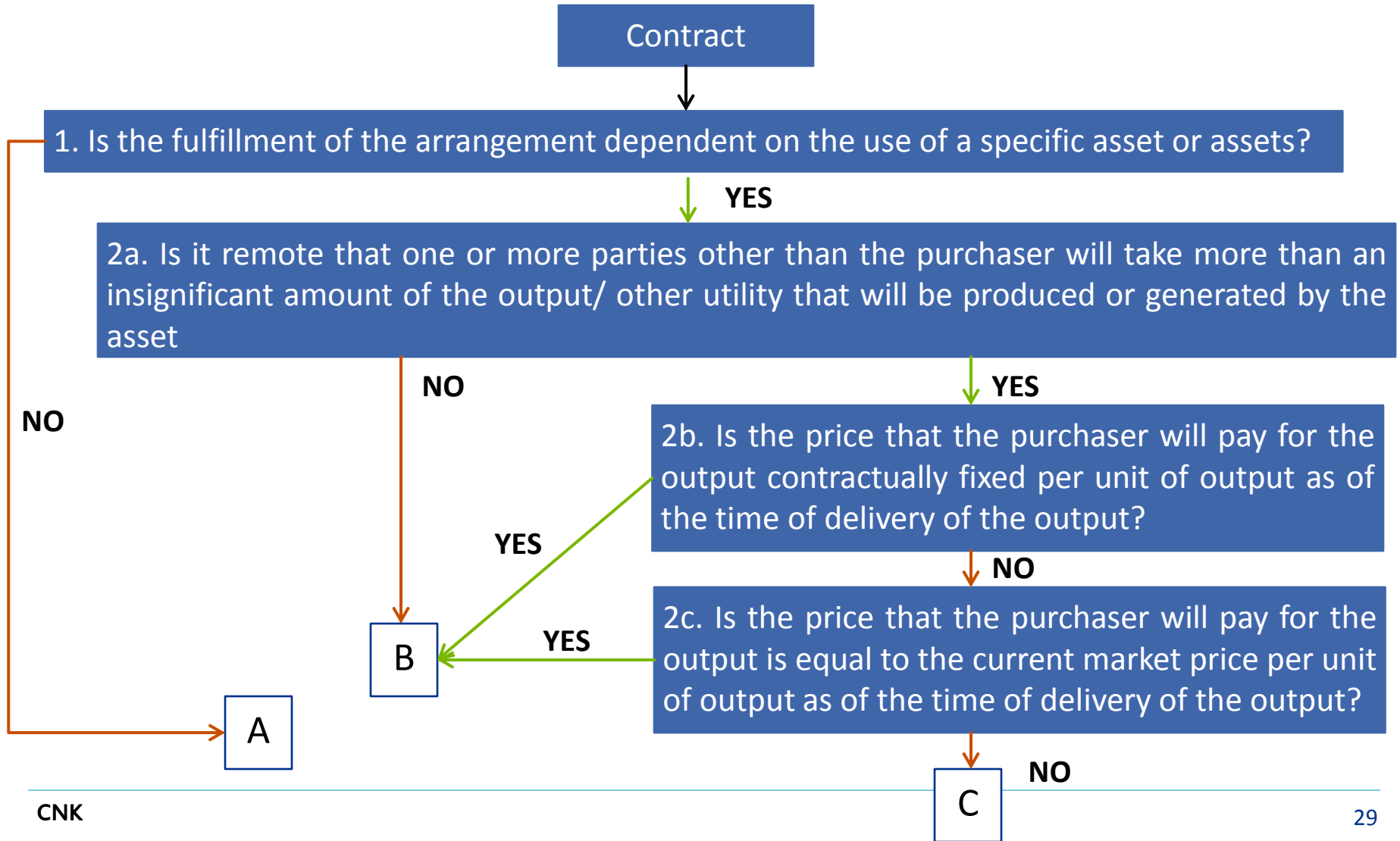
In addition to the above point, if lease of land transfers substantially all of the risks and rewards incidental to ownership of land to lessee, then it's a finance lease; otherwise it is an operating lease

It's a Finance Lease if lease term is for the major part of the economic life of the asset (land normally has an indefinite economic life) even if title is not transferred at the end

The fact that the lease term is normally shorter than the economic life of the land does not necessarily mean that a lease of land is always an operating lease; the other classification requirements are also to be considered.

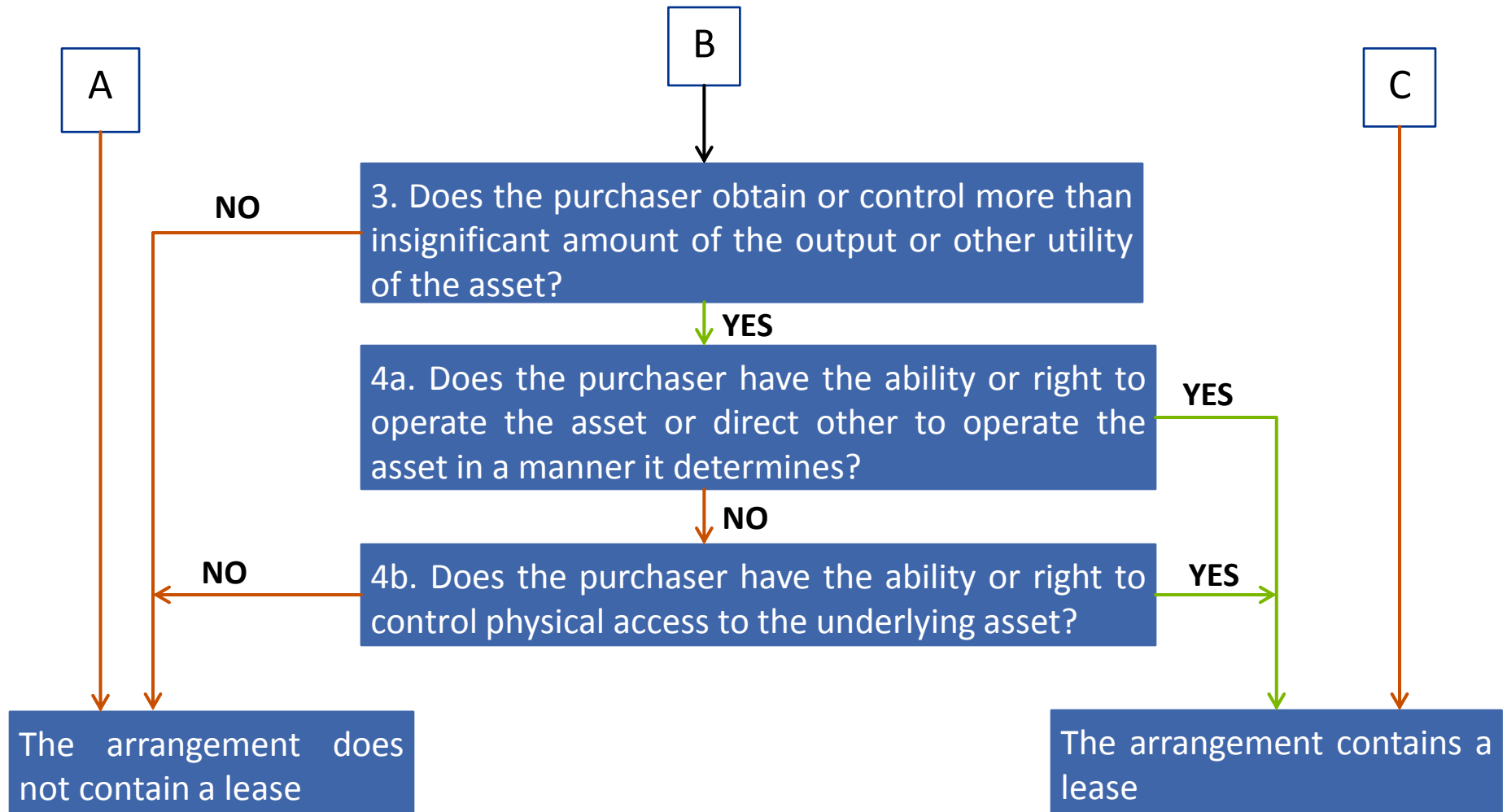
Leases ...

Determining whether an arrangement contains a lease



Leases ...

Determining whether an arrangement contains a lease



Leases ... ICDS vs Ind AS

ICDS	Ind AS
-	Ind AS 17
Specific Guidance:	
No specific ICDS – new ICDS likely to be notified.	Ind AS 17 applicable
Treatment of Finance Lease:	
<p>No specific guidance – ICDS IX – borrowing costs includes finance charges in respect of assets acquired under finance leases or under other similar arrangements.</p> <p>Depreciation allowable to lessor - I.C.D.S. Ltd v CIT (2013) 350 ITR 527 (SC)</p>	<p>To be recognized as assets and liabilities. Lease payments to be apportioned between finance charge and reduction of outstanding liability</p>
Operating leases – incentives:	
No specific guidance	<p>Lease incentives (e.g. rent free period) for Operating Leases are recognised by lessor / lessee as a reduction of rental income / expense respectively, over the lease term.</p>

Leases ... ICDS vs Ind AS ...

ICDS	Ind AS
-	Ind AS 17
Leasehold land:	
Lease Rent treated as expense	Leasehold land is covered under Ind AS 17 , Hence, to be recognised as Operating or Finance Lease as per definition and classification criteria.
Operating lease rentals – Recognition:	
Lease payments under an operating lease should be recognised as an expense in the statement of PL on a straight line basis over the lease term	There is a carve-out as per which it is recognised as per lease agreement terms including for the escalation of Operating Lease rentals that are in line with the expected general inflation . Otherwise, on a straight line basis over the lease term.

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**Accounting for Government
Grants and Disclosure of
Government Assistance**

AS 12: Accounting for Government Grants

Ind AS 20: Accounting for Government Grants
and disclosure of Government Assistance

ICDS: VII

Accounting for Government Grants ...

Indian GAAP	Ind AS
AS 12	Ind AS 20
Government Assistance:	
Does not deal with disclosure of Government assistance other than in the form of Government Grants.	Deals with both Government Grants as well as Government assistance.
Forgivable loans:	
No specific guidance	Treated as government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
Government loans with below market rate of interest:	
No specific guidance	Initially recognised at fair value and the difference between proceeds received and the initial fair value is accounted as government grant.

Accounting for Government Grants ...

Indian GAAP	Ind AS
AS 12	Ind AS 20
Recognition:	
<p>Capital Approach or Income Approach</p>	<p>Government Grants are recognized as income to match them with related costs.</p> <p>Grants related to assets, including non monetary grants at fair value should be presented in the balance sheet only by setting up the grant as deferred income.</p>
Grants in the nature of promoter's contribution:	
<p>Grants to be recognized directly in Capital Reserve.</p>	<p>Grants will be recognised as income over the periods necessary to match them with the related costs which they intend to compensate, on a systematic basis.</p>

Accounting for Government Grants ...

Indian GAAP	Ind AS
AS 12	Ind AS 20
Repayment of Government Grants relating to Fixed Assets:	
<p>Recognised either by increasing the carrying amount of the asset or reducing the deferred income or capital reserve.</p> <p>If the carrying amount is increased, depreciation on the same is provided prospectively.</p> <p>Can be classified as an extra ordinary item.</p>	<p>Recognised by reducing the deferral income balance by the amount payable.</p> <p>Prohibited to be classified as an extra ordinary item.</p>
Non monetary government grants:	
<p>Non monetary grants free of costs are accounted for at nominal values.</p>	<p>The asset and grant to be accounted for at fair value.</p>

Accounting for Government Grants ...

ICDS vs Ind AS

ICDS	Ind AS
ICDS VII	Ind AS 20
Government Assistance:	
Does not deal with disclosure of Government assistance other than in the form of Government Grants.	Deals with both Government Grants as well as Government assistance.
Forgivable loans:	
No specific guidance	Treated as government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
Government loans with below market rate of interest:	
No specific guidance	Initially recognised at fair value and the difference between proceeds received and the initial fair value is accounted as government grant.

Accounting for Government Grants ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VII	Ind AS 20
Recognition:	
Recognition shall not be postponed beyond actual receipt	On accrual basis
Capital Approach in case of Grants relating to depreciable fixed assets & other fixed assets (not requiring fulfilment of certain obligations). Other grants to be recognised as income	Government Grants are recognized as income to match them with related costs. Grants related to assets, including non monetary grants at fair value should be presented in the balance sheet only by setting up the grant as deferred income
Grants in the nature of promoter's contribution:	
No specific provision	Grants will be recognised as income over the periods necessary to match them with the related costs which they intend to compensate, on a systematic basis.

Accounting for Government Grants ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VII	Ind AS 20
Repayment of Government Grants relating to Fixed Assets:	
<p>Recognised either by increasing the carrying amount of the asset or reducing the deferred income.</p> <p>If the carrying amount is increased, depreciation on the same is provided prospectively.</p>	<p>Recognised by reducing the deferral income balance by the amount payable.</p>
Non monetary government grants:	
<p>Non monetary grants in form of assets given at concessional rate – assets are accounted for at acquisition cost.</p>	<p>The asset and grant to be accounted for at fair value.</p>

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The Effects of Changes in Foreign Exchange Rates

AS 11: The Effects of Changes in Foreign
Exchange Rates

Ind AS 21: The Effects of Changes in Foreign
Exchange Rates

ICDS: VI

The Effects of Changes in Foreign Exchange Rates

Indian GAAP	Ind AS
AS 11	Ind AS 21
Functional and Presentation Currency:	
Foreign currency is a currency other than reporting currency which is currency in which financial statements are prepared.	Functional currency is the currency of primary economic environment in which entity operates. Presentation currency is currency in which financial statements are presented.
Change in functional currency:	
Change in Reporting currency is not dealt with by AS 11	Change in functional currency is applied prospectively. The fact of change in functional currency, the reason and the date of change should be disclosed

The Effects of Changes in Foreign Exchange Rates ...

Indian GAAP	Ind AS
AS 11	Ind AS 21
Recognition of Exchange Differences:	
<p>Exchange differences arising on translation of monetary items are recognized as income or expense in the period in which they arise. Companies can also elect to capitalize exchange differences on long term foreign currency monetary items to fixed assets (to the extent they relate to the acquisition of such fixed assets) or elect to account for such exchange differences in the 'Foreign Currency Monetary Item Translation Difference Account' which is subsequently amortized through PL.</p>	<p>Provides option to continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP (i.e. Para 46 / 46A of AS 11). Once exercised, such a policy decision shall be irrevocable.</p>

The Effects of Changes in Foreign Exchange Rates ...

Indian GAAP	Ind AS
AS 11	Ind AS 21
Exchange differences - Net investment in non-integral foreign operation:	
<p>Recognised in 'Foreign Currency Translation Reserve' and recognised as income or expense at the time of disposal of operation</p>	<p><u>Separate Financial statements</u> Recognised in PL in the period it arises</p> <p><u>Consolidated Financial statements</u> Recognised in OCI and reclassified from equity to PL on disposal of the net investment</p> <p>However the company may continue the policy adopted for exchange differences recognised in financial statements for the period ending immediately before the beginning of first Ind AS financial reporting period as per previous GAAP.</p>

The Effects of Changes in Foreign Exchange Rates ...

Indian GAAP	Ind AS
AS 11	Ind AS 21
Forward exchange contracts (FECs):	
<p><u>Not intended for trading or speculation</u></p> <ul style="list-style-type: none"> ➤ Any premium or discount is amortised as expense or income over the life of the contract ➤ Exchange differences are recognised in the statement of profit and loss in the reporting period in which the rates change. <p><u>Intended for trading or speculation</u></p> <ul style="list-style-type: none"> ➤ Premium or discount is ignored ➤ At balance sheet date, value is marked to its current market value and the gain or loss on the contract is recognised 	<p>Foreign Exchange contracts are excluded from its scope. FECs, however they are accounted for as a derivative.</p> <p>(covered under Ind AS 109)</p>

The Effects of Changes in Foreign Exchange Rates ...

Indian GAAP	Ind AS
AS 11	Ind AS 21
Translation in the consolidated financial statements:	
<p>Integral foreign Operation:</p> <ul style="list-style-type: none"> ➤ Monetary items-Closing rate ➤ Non-Monetary items <ul style="list-style-type: none"> • Valued at cost-Historical rate • Valued at market value- Rate on which market value was determined ➤ Income & Expense- Historical/ Average rate <p>Non- Integral foreign Operation:</p> <ul style="list-style-type: none"> ➤ Assets & Liabilities- Closing rate ➤ P/L items-Actual/Average rate 	<p>There is no classification as integral or non-integral foreign operations.</p> <p>Assets & Liabilities- Translated at closing rate</p> <p>Income & Expenses- Translated at Actual/Average rates</p>

The Effects of Changes in Foreign Exchange Rates

... ICDS vs Ind AS

ICDS	Ind AS
ICDS VI	Ind AS 21
Functional and Presentation Currency:	
“Reporting currency” means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.	Functional currency is the currency of primary economic environment in which entity operates. Presentation currency is currency in which financial statements are presented.
Change in functional currency:	
Change in Reporting currency is not dealt with by ICDS VI	Change in functional currency is applied prospectively. The fact of change in functional currency, the reason and the date of change should be disclosed

The Effects of Changes in Foreign Exchange Rates ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VI	Ind AS 21
Recognition of Exchange Differences:	
<p>Exchange differences arising on translation of monetary items are recognized as income or expense in the period in which they arise.</p> <p>In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year.</p> <p>Section 43A – exchange differences on forex borrowing for acquiring assets from outside India – to be capitalised on payment</p>	<p>Provides option to continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP (i.e. Para 46 / 46A of AS 11). Once exercised, such a policy decision shall be irrevocable.</p>

The Effects of Changes in Foreign Exchange Rates ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VI	Ind AS 21
Exchange differences - Net investment in non-integral foreign operation:	
<p>No concept of non-integral foreign operation</p>	<p><u>Separate Financial statements</u> Recognised in PL in the period it arises</p> <p><u>Consolidated Financial statements</u> Recognised in OCI and reclassified from equity to PL on disposal of the net investment</p> <p>However the company may continue the policy adopted for exchange differences recognised in financial statements for the period ending immediately before the beginning of first Ind AS financial reporting period as per previous GAAP.</p>

The Effects of Changes in Foreign Exchange Rates ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VI	Ind AS 21
Forward exchange contracts (FECs):	
<p><u>Not intended for trading or speculation</u></p> <ul style="list-style-type: none"> ➤ Any premium or discount is amortised as expense or income over the life of the contract ➤ Exchange differences are recognised in the statement of profit and loss in the reporting period in which the rates change. <p><u>Intended for trading or speculation or to hedge foreign currency risks of a firm commitment or a highly probable forecast transaction</u></p> <ul style="list-style-type: none"> ➤ Premium, discount or exchange difference is recognized at the time of settlement 	<p>Foreign Exchange contracts are excluded from its scope. FECs, however they are accounted for as a derivative.</p> <p>(covered under Ind AS 109)</p>

The Effects of Changes in Foreign Exchange Rates ...

ICDS vs Ind AS ...

ICDS	Ind AS
ICDS VI	Ind AS 21
Translation in the consolidated financial statements:	
<p>Standalone statements – no consolidated statements</p> <p>There is no classification as integral or non-integral foreign operations.</p> <ul style="list-style-type: none"> ➤ Monetary items-Closing rate ➤ Non-Monetary items <ul style="list-style-type: none"> • Valued at cost-Historical rate • Valued at market value- Rate on which market value was determined <p>Income & Expense - Translated at Actual/Average rates</p>	<p>There is no classification as integral or non-integral foreign operations.</p> <p>Assets & Liabilities- Translated at closing rate</p> <p>Income & Expenses- Translated at Actual/Average rates</p>

Any Questions ?



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Thank You

