Ind AS Carve Outs

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Dare to Commit

Carve out Images

Carve outs - Meaning & significance

- Carve out dictionary meaning :
  - Cut (a hard material) in order to produce an object or design
  - Take something from a larger whole, especially with difficulty:

- In terms of Ind-AS carve out is not defined anywhere in the Ind AS but the term is used to indicate the differences in IFRS and Ind AS

- Carve outs are made to achieve certain objectives as detailed here after.

Carve outs - Objectives

Carve outs – Objectives

- In India, legal statute /legal requirement overrides the Accounting standards
- Economic environment (i.e. developing economy) and non availability of mature market for bonds/securities/ Investment properties
- Curb the abuse of the requirement/options given by IFRS considering the past experience in India
- In very rare cases, provide time to India Inc. in getting align with global practice in light of existing relaxation in Indian GAAP given in past
- Consequential to change in other Ind AS
- Ensure Comparability

Coverage

- Meaning of Carve out and its significance
- Carve out - Objectives
- Detailed analysis of Carve outs for various Ind AS
- Summary of Carve outs
- Questions??

Indian Accounting Standard - 1
Presentation of Financial Statements

Ind AS-1 Presentation of Financial Statements

- With regard to preparation of Statement of profit and loss, International Accounting Standard (IAS) 1, Presentation of Financial Statements, provides an option either to follow the single statement approach or to follow the two statement approach. While in the single statement approach, all items of income and expense are recognized in the statement of profit and loss, in the two statements approach, two statements are prepared, one displaying components of profit or loss (separate income statement) and the other beginning with profit or loss and displaying components of other comprehensive income. Ind AS 1 allows only the single statement approach. Further, IAS 1 requires preparation of a Statement of Changes in Equity as a separate statement. Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet

Rationale/thought process??

Ind AS-1 Presentation of Financial Statements

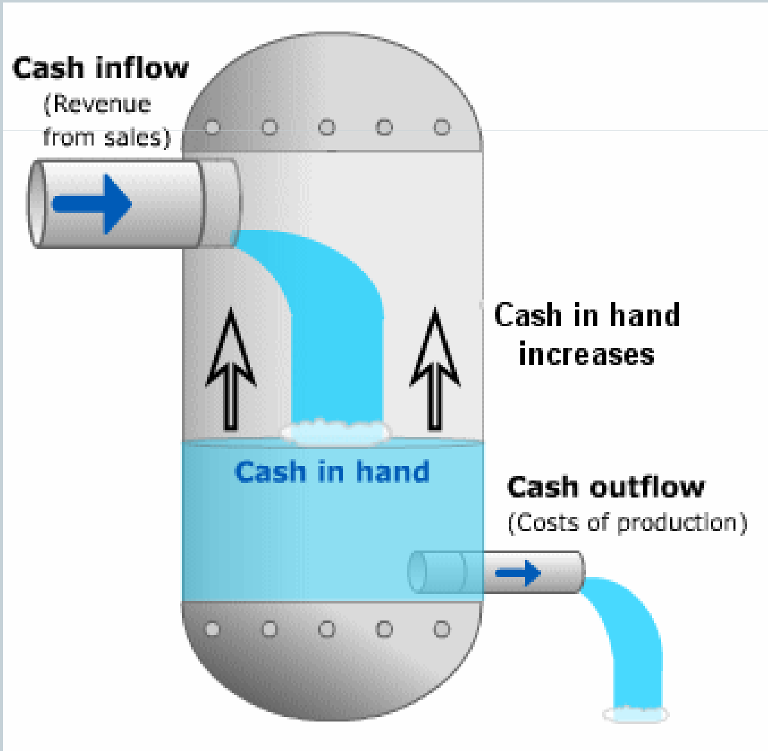
- Paragraph 99 of IAS 1 requires an entity to present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the equity. Ind AS 1 requires only nature-wise classification of expenses.

  [Under revised Sch VI under the companies Act also nature wise classification is permitted, hence to align the requirement of statute, Ind AS has prohibited function wise classification]

- IAS 1 contains Implementation Guidance. Ind AS 1 does not include the same because various enactments have prescribed formats, e.g., Schedule VI to the Companies Act, 1956.

- Similar changes have also been made to Ind AS 34 Interim reporting as a consequential change to Ind AS 1.

Indian Accounting Standard - 7
Statement of Cash Flows



Ind AS - 7 Statement of Cash Flows

- In case of other than financial entities, IAS 7 gives an option to classify the interest paid and interest and dividends received as item of operating cash flows. Ind AS 7 does not provide such an option and requires these item to be classified as item of financing activity and investing activity, respectively (refer to the paragraph 33)

- IAS 7 gives an option to classify the dividend paid as an item of operating activity. However, Ind AS 7 requires it to be classified as a part of financing activity only.

Ind-AS 11 Construction Contracts & Ind AS 18 Revenue

Ind AS - 11 Construction Contracts & Ind AS- 18 Revenue

- IAS 11 does not deal with accounting for construction contracts in respect of real estate developers. However, this has been dealt with under Ind AS 11, since it has been kept out of the scope of Ind AS 18 Revenue.

- IFRIC 15 has not been included in Ind AS 18 to scope out such agreements and to include the same in Ind AS 11, Construction Contracts.

Indian Accounting Standard - 12
Income Taxes

Ind AS 12 - Taxes on Income

- Requirements regarding presentation of tax expense (income) in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding the two statement approach in Ind AS 1. Ind AS 1 requires that the components of profit or loss and components of other comprehensive income shall be presented as a part of the statement of profit and loss.

- Paragraph 68(a) has been modified as a consequence of different accounting treatment of bargain purchase gain in Ind AS 103, Business Combinations, in comparison to IFRS 3, Business Combination

Ind AS 12 - Taxes on Income

- Paragraph 33 of Ind AS 12 has been modified due to not allowing the option of deducting specified grant from the cost of the related asset as in Ind AS 20 [Only consequential change as no DTA/DTL is recognized on such non taxable grant]

- As a consequence of not allowing fair value model in Ind AS 40, paragraph A4 of Appendix A has been deleted corresponding to SIC 21. [This Appendix discussed about DTA/DTL on Investment properties carried at revalued amount under IAS 40 but considered non depreciable for IAS 16, DTA/DTL needs to be created based on rate applicable on sale of such assets]

Indian Accounting Standard - 17
Leases

Ind AS - 17 Leases

- Paragraphs 18 of IAS 17 dealing with measurement of the land and buildings elements when the lessee's interest in both land and buildings is classified as an investment property in accordance with Ind AS 40 Investment Property if the fair value model is adopted.

- Paragraph 19 of IAS 17 dealing with property interest held under an operating Lease as an investment property, if the definition of investment property is otherwise met and fair value model is applied, have been deleted, since Ind AS 40, Investment Property, prohibits the use of fair value model. However, paragraph numbers have been retained in Ind AS 17 to maintain consistency with paragraph numbers of IAS 17

(Will be discussed in details when we discuss Ind AS 40 and both are linked to fair value model option hence consequential change)

Indian Accounting Standard - 19
Employee Benefits

Ind AS - 19 Employee Benefits

- IAS 19 permits various options for treatment of actuarial gains and losses for post-employment defined benefit plans whereas Ind AS 19 requires recognition of the same in other comprehensive income, both for post-employment defined benefit plans and other long-term employment benefit plans. The actuarial gains recognized in other comprehensive income should be recognized immediately in retained earnings and should not be reclassified to profit or loss in a subsequent period. Changes consequent to the aforesaid have been made in the other paragraphs, including addition of a new paragraph 129A.

- The Ind AS 19 unlike IAS 19 gives guidance that detailed actuarial valuation of defined benefit obligations may be made at intervals not exceeding three years.

- According to Ind AS 19 the rate to be used to discount postemployment benefit obligation shall be determined by reference to the market yields on government bonds, whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds.

Indian Accounting Standard - 20 Accounting of Government Grants & Disclosure of Government Assistance

Ind AS - 20 Accounting of Govt. Grants

- IAS 20 gives an option to measure non-monetary government grants either at their fair value or at nominal value. Ind AS 20 requires measurement of such grants only at their fair value. Thus, the option to measure these grants at nominal value is not available under Ind AS 20.

- IAS 20 gives an option to present the grants related to assets, including non-monetary grants at fair value in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Ind AS 20 requires presentation of such grants in balance sheet only by setting up the grant as deferred income. Thus, the option to present such grants by deduction of the grant in arriving at the carrying amount of the asset is not available under Ind AS 20.

- Requirements regarding presentation of grants related to income in the separate income statement, where separate income statement is presented under paragraph 29A of IAS 20 have been deleted. (Consequential to change in Ind AS 1)

Indian Accounting Standard - 21
The Effects of Changes in Foreign Exchange Rates

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

- Ind AS 21 permits an option to recognize exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange differences to be transferred to profit or loss in an appropriate manner. IAS 21 does not permit such a treatment. Consequentially a new paragraph 29A has been added in Ind AS 21 as compared to IAS 21.

Indian Accounting Standard - 24
Related Party Disclosures

Ind AS - 24 Related Party Disclosures

- In the Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards can not override legal/regulatory requirements. (Paragraphs 4A and 4B of Ind AS 24).

- In the Ind AS 24, relatives as specified under the meaning of relative under the Companies Act, 1956 are included in the definition of the '**close members of the family of a person'**

- Paragraph 24A has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

  <u>Para 24A –</u>

"Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure"

Ind AS – 27; Ind AS - 28 & Ind AS – 31 CFS & SFS

Ind AS - 27 CFS & SFS

- Applicability: Paragraphs related to applicability or exemptions have been deleted/modified as the requirement in India as regards applicability is governed by the Companies Act and the Rules made there under.

- Format: Paragraph 9 (Ind AS 27) read with Appendix C prescribes the form of consolidated financial statements to be applied to the extent circumstances admit.

- In case net assets of Subsidiary/Associate/JVs exceeds cost, the difference should be credited to capital reserve in Ind AS unlike in PL in IAS.

- Where the financial statements of an associate used in applying equity method are prepared as of a date different from that of the investor, IAS 28 requires that this difference should not be more than three months. However, paragraph 25 (Ind AS) 28 provides that this difference should not be more than three months, unless impracticable. Similarly, paragraph 26 of Ind AS 28 requires use of uniform accounting policies, unless impracticable, which IAS 28 does not provide.

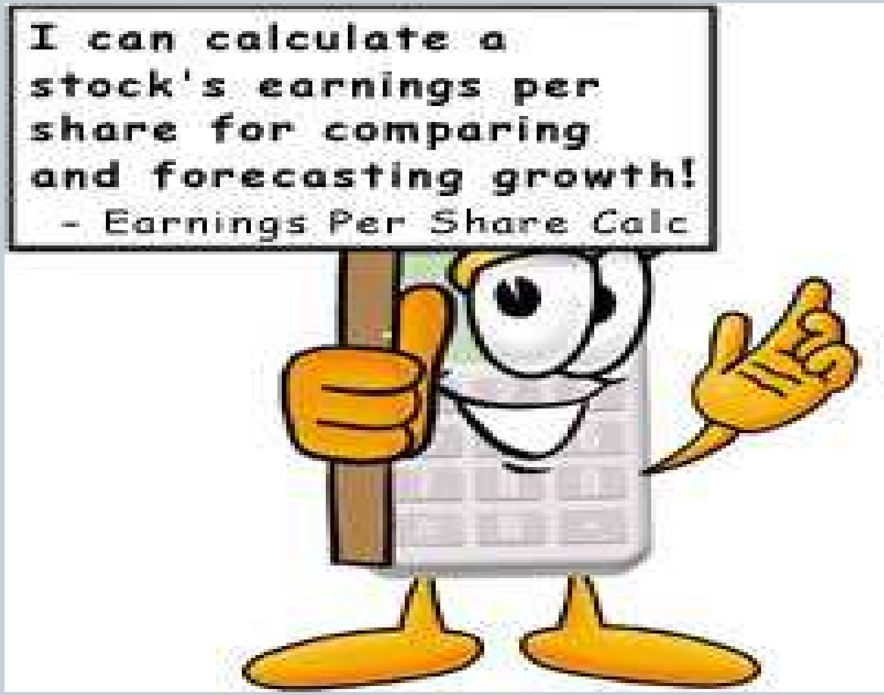
Indian Accounting Standard – 32 Financial Instruments : Presentation

Ind AS - 32 Financial Instruments Presentation

- As an exception to the definition of 'financial liability' in paragraph 11 (b) (ii), Ind AS 32 considers the equity conversion option embedded in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is considered an equity instrument if the exercise price is fixed in any currency. This exception is absent in IAS 32.

- Requirements regarding presentation of dividends classified as an expense in the separate income statement, where separate income statement is presented, have been deleted. This change is consequential to the removal of option regarding two statement approach in Ind AS 1.

Indian Accounting Standard – 33
Earnings per Share



Ind AS - 33 Earnings per Share

- IAS 33 provides that when an entity presents both consolidated financial statements and separate financial statements, it may give EPS related information in consolidated financial statements only, whereas, the Ind AS 33 requires EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

- Paragraph 2 of IAS 33 has been deleted in the Ind AS as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made there under.

- In Ind AS 33, a paragraph has been added after paragraph 12 on the following lines :"Where any item of income or expense which is otherwise required to be recognized in profit or loss in accordance with accounting standards is debited or credited to securities premium account/other reserves, the amount in respect thereof shall be deducted from profit or loss from continuing operations for the purpose of calculating basic earnings per share."

Indian Accounting Standard – 39 Financial Instruments : Measurements & Recognition

Ind AS - 39 Financial Instruments Measurements & Recognition

- A proviso has been added to paragraph 48 of Ind AS 39 that in determining the fair value of the financial liabilities which upon initial recognition are designated at fair value through profit or loss, any change in fair value consequent to changes in the entity's own credit risk shall be ignored. IAS 39 requires all changes in fair values in such liabilities to be recognized in profit or loss.

Indian Accounting Standard – 40
Investment Property

Ind AS - 40 Investment Property

- IAS 40 permits both cost model and fair value model (except in some situations) for measurement of investment properties after initial recognition. Ind AS 40 permits only the cost model.

- IAS 40 permits treatment of property interest held in an operating lease as investment property, if the definition of investment property is otherwise met and fair value model is applied. In such cases, the operating lease would be accounted as if it were a finance lease. Since Ind AS 40 prohibits the use of fair value model, this treatment is prohibited in Ind AS 40.

Indian Accounting Standard – 101 First time adoption of Indian Accounting Standards

Ind AS - 101 First time adoption of Indian Accounting Standards

- Paragraph 3 of Ind-AS 101 specifies that 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 Act, 1956 whereas IFRS 1 provides various examples of first IFRS financial statements.

- IFRS 1 defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting IFRS. Ind-AS 101, however, defines previous GAAP as the basis of accounting that a first-time adopter used immediately before adopting Ind-AS for complying with the reporting requirements in India. The change makes it mandatory for Indian entities to consider the financial statements prepared in accordance with existing notified Indian accounting standards as was applicable to them as previous GAAP when it transitions to Ind-AS.

Ind AS - 101 First time adoption of Indian Accounting Standards

- Paragraph 22 of IFRS 1 requires specific disclosures if the entity provides non-IFRS comparative information and historical summaries. Such disclosures are not required under Ind-AS 101. In order to maintain consistency with paragraph numbers of IFRS 1, the paragraph number is retained in Ind AS 101.

- IFRS 1 defines transitional date as beginning of the earliest period for which an entity presents full comparative information under IFRS. It is this date which is the starting point for IFRS and it is on this date the cumulative impact of transition is recorded based on assessment of conditions at that date by applying the standards retrospectively except to the extent specifically provided in this standard as optional exemptions and mandatory exceptions.

- Ind-AS 101, however, provides that the date of transition is the beginning of the current period and in addition provides an option to present comparative financial statements in accordance with Ind-AS on a memorandum basis.

Ind AS - 101 First time adoption of Indian Accounting Standards

- IFRS requires Reconciliations for opening equity, total comprehensive income, cash flow statement and closing equity for the comparative period to explain the transition to IFRS from previous GAAP. Ind-AS 101, provides an option to provide a comparative period financial statements on memorandum basis. Accordingly, entities that do not provide comparatives need not provide reconciliation for total comprehensive income, cash flow statement and closing equity in the first year of transition but are expected to disclose significant differences pertaining to total comprehensive income. Entities that provide comparatives would have to provide reconciliations which are similar to IFRS.

Ind AS - 101 First time adoption of Indian Accounting Standards

- Inclusion/modification of existing exemptions to make it relevant for India. For example

  Paragraph D7A has been added to provide for transitional relief from the retrospective application of Ind AS 16: Property, Plant and Equipment. Paragraph D7A provides an entity option to use carrying values of all such assets as on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind-AS.

  Paragraph 27B has been included in Ind AS 101 which requires the disclosure that if an entity adopts for first time exemption the option provided in accordance with paragraph D7A, the fact and the accounting policy shall be disclosed by the entity until such time that significant block of such assets is fully depreciated or derecognized from the entity's Balance Sheet.

- Paragraph D9 provides for transitional relief from retrospective application of paragraphs 6-9 of the Appendix C of Ind AS 17.

Ind AS - 101 First time adoption of Indian Accounting Standards

- Paragraph D11A has been added to provide the transitional relief from the retrospective application of Ind AS 19 that a first-time adopter may elect to recognize all cumulative actuarial gains and losses subsequent to the date of transition to Ind-AS in other comprehensive income as Ind AS 19 requires recognition of actuarial gains and losses for postemployment defined benefit plans and other long-term employment benefit plans in other comprehensive income immediately and are not reclassified to profit or loss in a subsequent period. Para related to transition provision for corridor approach is deleted.

- Paragraph D13 A has been added to provide exemption as a consequence of optional treatment for certain exchange differences given in Ind AS 21.

- Paragraph D23 of IFRS 1 provides for transitional adjustment requiring companies to apply the provisions of IAS 23 to be applied prospectively after the transition date. However, this was considered as not relevant in Indian situation as Ind AS 23 AS 16 always required an entity to capitalize borrowing costs as compared to IAS 23 where it provided an option to expense out such borrowing cost.

Ind AS - 101 First time adoption of Indian Accounting Standards

- D19B has been added to provide that financial instruments measured at fair value shall be measured at fair value as on the date of transition to Ind-AS.

- Paragraph B2 of IFRS 1 provides that, an entity would have had to adopt the de-recognition requirements for transactions entered after 1 January, 2004. However, for Ind-AS 101 purposes, all these dates have been changed to coincide with the transition date elected by the entity adopting these converged standards i.e. Ind-AS.

- Paragraph D-26 has been added to provide for transitional relief while applying Ind AS 105 – Noncurrent Assets Held for Sale and Discontinued Operations. Paragraph D26 provides an entity to use the transitional date circumstances to measure such assets or operations at the lower of carrying value and fair value less cost to sell.

Ind AS - 101 First time adoption of Indian Accounting Standards

- Paragraph D19A has been added to provide that the financial instruments carried at amortized cost should be measured in accordance with Ind-AS 39 from the date of recognition of financial instruments unless it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of Ind AS 39.If it is impracticable then the fair value of the financial instrument at the date of transition to Ind-ASs shall be the new amortized cost of that financial instrument at the date of transition to Ind-ASs.

Indian Accounting Standard - 103
Business Combinations

Ind AS - 103 Business Combinations

- IFRS 3 requires bargain purchase gain arising on business combination to be recognized in profit or loss. Ind AS 103 requires the same to be recognized in other comprehensive income and accumulated in equity as capital reserve, unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognized directly in equity as capital reserve. This has some consequential changes such as change in wording of paragraphs 34 and 36, paragraphs IE47 and IE48 of illustrative examples, additional disclosure in paragraph B64(n) and addition of new paragraph 36A. Cross-reference to the new paragraph 36A has been added in paragraphs B46, B64(n), Appendix E-heading above paragraph IE45 and text below paragraph IE48.

- IFRS 3 excludes from its scope business combinations of entities under common control. Ind AS 103 (Appendix C) gives the guidance in this regard. Consequently, paragraph 2 has been modified in Ind AS 103. Further, paragraphs B1-B4 of IFRS 103 have been deleted in Ind AS 103.

Other Standards – Inventory, Hyperinflationary economy, Impairment and Intangible Assets

Other Standards

Ind AS 2 - Inventories

- Paragraph 38 of IAS 2 dealing with recognition of inventories as an expense based on function-wise classification, has been deleted Consequent to change in Ind AS 1

Ind AS 29 - Financial Reporting in Hyperinflationary Economies

- Ind AS 29 requires an additional disclosure regarding the duration of the hyperinflationary situation existing in the economy as compared to IAS 29

Ind AS 36 - Impairment of Assets

- Paragraph 2(f) is deleted in Ind AS 36 as Ind AS 40 requires cost model. Further, for this reason, paragraph 5 of Ind AS 36 has been modified by deleting reference to fair value measurement of investment property.

Ind AS 38 - Intangible Assets

- With regard to the acquisition of an intangible asset by way of a government grant, IAS 38 provides the option to an entity to recognize both asset and grant initially at fair value or at a nominal amount. Ind AS 38 allows only fair value for recognizing the intangible asset and grant in accordance with Ind AS 20.

Framework for preparation and presentation f/s in accordance with Ind AS and IFRS

Framework for preparation and presentation f/s

- IFRS financial statement includes balance sheet, income statement, and a statement of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of funds flow) where as in Ind – AS the scope of changes in financial position is restricted to cash flow statement which is mandatory to prepare along with BS and P&L.

- Ind –AS does not recognizes ‘ fund flow statement ’ as part of financial statement.

Summary

- Carve outs
  - Legal statutory requirements overrides Ind AS
    - Nature wise classification (Ind AS 1)
    - RPT- confidentiality requirements
    - CFS- applicability or exemption
    - 1st Financial statement- as per Ind AS notified by Companies act
  - Curb the abuse of requirement
    - One statement approach (Ind AS 1)
    - Measure the non monetary government grants at fair value
    - IP-cost model (No mature bond market)
    - Grants related to assets- Netting not allowed
  - Consequential to amendment in other Ind AS
    - Presentation of tax expense (income) in separate income statement
    - Bargain purchase gain- treated as capital reserve
    - Property interest held under an operating lease
    - Excess of assets over cost- Capital reserve
  - Suit the requirement of Indian environment (considering the maturity of market)
    - Accounting for Investment property
    - Real state- Agreement for construction (IFRCI 15)
    - Exchange diff – long term monetary items
  - Ensure comparability
    - Financial liabilities- Entity's own credit risk shall be ignored

Summary

- **Carve outs**
  - Legal statutory requirements overrides Ind AS
  - Curb the abuse of requirement
    - Bargain purchase- Capital reserve
    - Guidance on entities having common control
  - Consequential to amendment in other Ind AS
    - Single statement approach in Ind AS 34 (Ind AS 1)
    - Statement of changes in equity as part of balance sheet
    - An option to provide reconciliation
  - Suit the requirement of Indian environment (considering the maturity of market)
    - FCCB liability portion
    - Measurement of property- Cost model and fair value model
    - Use carrying value of property, plant and equipment
  - Ensure comparability

Questions???

Thank You

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