UNIT 1 INTERNATIONAL FINANCIAL REPORTING STANDARDS

Meaning:

The term ‚International Financial Reporting Standards' includes IFRS, IAS and interpretations originated by the IFRIC or the former Standing Interpretations Committee (SIC).

Process of setting IFRS:

From 1973 to 2001, the body in charge of setting the international standards was the International Accounting Standards Committee (IASC). The principal aim of IASC was to encourage national accounting standard setters around the world to improve and harmonize national accounting standards.

IASC issued 41 numbered standards, known as International Accounting Standards (IAS), as well as a framework for the preparation and presentation of financial statements. While some of the standards issued by the IASC have been withdrawn, many are still in force. In addition, the interpretations issued by the Standing Interpretations Committee (SIC) of IASC, are still in force.

In 2001, to strengthen the independence, legitimacy and quality of the international accounting-standard-setting process, the IASC Board was broad based and replaced by the International Accounting Standards Board (IASB) as the body in charge of setting the international standards.

It was decided by IASB that all effective IAS issued by the IASC as well as the interpretations issued by the SIC are adopted as its own standards. Those IAS continue to be in force to the extent they are not amended or withdrawn by the IASB. New standards issued by IASB would have prefix of ‚IFRS' and new interpretations would be issued by the International Financial Reporting Interpretation Committee (IFRIC).

Merits of IFRS:

1. IFRS brings improvement in comparability of financial information and financial performance with global peers and industry standards. This will result in more transparent financial reporting of a company's activities which will benefit investors, customers and other key stakeholders in India and overseas.

2. The adoption of IFRS is expected to result in better quality of financial reporting due to consistent application of accounting principles and improvement in reliability of financial statements. This, in turn, will lead to increased trust and reliance placed by investors, analysts and other stakeholders in a company's financial statements.

3. IFRS provide better access to the capital raised from global capital markets since IFRS are now accepted as a financial reporting framework for companies seeking to raise funds from most

capital markets across the globe. Thus, IFRS increase the efficiencies of global capital management.

4. IFRS minimize the obstacles faced by Multi-national Corporations by reducing the risk associated with dual filings of accounts. A recent decision by the US Securities and Exchange Commission (SEC) permits foreign companies listed in the US to present financial statements in accordance with IFRS. This means that such companies will not be required to prepare separate financial statements under Generally Accepted Accounting Principles in the US (US GAAP). Therefore, Indian companies listed in the US would benefit from having to prepare only a single set of IFRS compliant financial statements, and the consequent saving in financial and compliance costs.

5. The impact of globalization causes spectacular changes in the development of Multi-national Corporations in India. This has created the need for uniform accounting practices which are more accurate, transparent and which satisfy the needs of the users. Implementation of uniform accounting practices i.e., IFRS will provide much better quality information.

6. Uniform accounting standards (IFRS) enable investors to understand better the investment opportunities as against multiple sets of national accounting standard.

7. With the help of IFRS, investors can increase the ability to secure cross border listing.

Limitations of IFRS:

1. The perceived benefits from IFRS' adoption are based on the experience of IFRS compliant countries in a period of mild economic conditions. Any decline in market confidence in India and overseas coupled with tougher economic conditions may present significant challenges to Indian companies.

2. IFRS requires application of fair value principles in certain situations and this would result in significant differences in financial information currently presented, especially in relation to financial instruments and business combinations. Given the current economic scenario, this could result in significant volatility in reported earnings and key performance measures like EPS and P/E ratios. Indian companies will have to build awareness amongst investors and analysts to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements.

3. This situation is worsened by the lack of availability of professionals with adequate valuation skills, to assist Indian corporate in arriving at reliable fair value estimates. This is a significant resource constraint that could impact comparability of financial statements and render some of the benefits of IFRS' adoption ineffective.

4. Although IFRS are principles-based standards, they offer certain accounting policy choices to preparers of financial statements. For example, the use of a cost-based model or a revaluation

model in accounting for investment properties. This could reduce consistency and comparability of financial information to a certain extent and therefore reduce some of the benefits from IFRS' adoption.

5. IFRS are formulated by the International Accounting Standards Board (IASB) which is an international standard body. However, the responsibility for enforcement and providing guidance on implementation vests with local government and accounting and regulatory bodies, such as the ICAI in India. Consequently, there may be differences in interpretation or practical application of IFRS provisions, which could further reduce consistency in financial reporting and comparability with global peers. The ICAI will have to make adequate investments and build infrastructure to ensure compliance with IFRS.

Practical challenges in implementing IFRS:

1. There is a need for a change in several laws and regulations governing financial accounting and reporting in India. In addition to accounting standards, there are legal and regulatory requirements that determine the manner in which financial information is reported or presented in the financial statements. For example, the Companies Act determines the classification and accounting treatment for redeemable preference shares as equity instruments of a company, whereas these may be considered to be a financial liability under IFRS. The Companies Act also prescribes the format for presentation of financial statements for Indian companies, whereas the presentation requirements are significantly different under IFRS. Similarly, the Reserve Bank of India regulates the financial reporting for banks and other financial institutions, including the presentation format and accounting treatment for certain types of transactions. In the absence of adequate clarity and assurance that Indian laws and regulations will be amended to conform to IFRS, the conversion process may not gain momentum.

2. There is a lack of adequate professionals with practical IFRS conversion experience and therefore many companies will have to rely on external advisers and their auditors. This is magnified by a lack of preparedness amongst Indian corporate as this project may be viewed simply as a project management or an accounting issue which can be left to the finance function and auditors. However, it should be noted that IFRS conversion will involve a fundamental change to an entity's financial reporting systems and processes. It will require a detailed knowledge of the standards and the ability to consider their impact on business transactions and performance measures.

3. Another potential pitfall is viewing IFRS accounting rules as similar to Generally Accepted Accounting Principles in India (Indian GAAP), since Indian accounting standards have been formulated on the basis of principles in IFRS. However, this view disregards significant differences between Indian GAAP and IFRS as well as differences in practical implementation and interpretation of similar standards. Further, certain Indian standards offer accounting policy

choices which are not available under IFRS, for example, use of pooling of interests method in accounting for business combinations.

4. Convergence is not just a one-time technical step but will impose practical challenges of significant business and regulatory matters like structuring of ESOP schemes, training of employees, tax planning, modification of IT system, compliance with debt covenants.

5. Educating investors to understand the changed financial reporting under IFRS is challenging due to differences in various conceptual, practical, legal and implementation methods.

6. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory. For example the present direct tax laws do not address any tax implications likely to arise from IFRS transitions.

7. Complexities in the introduction of concepts such as present value and fair value measurement, recognition and the extent of disclosure required under IFRS are other challenges.

Examples:

- Treatment of expenses like premium payable on redemption of debentures, discount allowed on issue of debentures, underwriting commission paid on issue of debentures etc are different. This would bring a change in the income statement leading to enormous confusion and complexities.

- Financial statements are more complex under IFRS and thereby would pose a challenge in making useful decision.

Ind AS – The Indianised version of IFRS

Meaning of convergence with IFRS

In general terms, convergence with IFRS means to achieve harmony with IFRS. In precise terms convergence can be considered as ‚to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS‛. Thus, 'convergence with IFRS' means adoption of IFRS with certain exceptions, wherever necessary.

Need for convergence with IFRS

In the present era of globalization and liberalization, the World has become an economic village. The globalization of the business world and the attendant structures and the regulations, which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this world-wide trend. More and more Indian companies are also being listed on overseas stock exchanges. Sound financial reporting structure is imperative for economic well-being and effective functioning of capital markets.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

Benefits of achieving convergence with IFRS

There are many beneficiaries of convergence with IFRS such as the economy, investors, industry and accounting professionals.

Economy: As the markets expand globally, the need for convergence also increases. The convergence benefits the economy by increasing growth of its international business. It facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation and thereby economic growth. It encourages international investing and thereby leads to more foreign capital flows to the country.

Investors: A strong case for convergence can be made from the viewpoint of the investors who wish to invest outside their own country. Investors want the information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements prepared using a common set of accounting standards help investors better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. Investors' confidence would be strong if accounting standards used are globally accepted. Convergence with IFRS contributes to investors' understanding and confidence in high quality financial statements.

Industry: A major force in the movement towards convergence has been the interest of the industry. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. With the diversity in accounting standards from country to country, enterprises which operate in different countries face a multitude of accounting requirements prevailing in the countries. The burden of financial reporting is lessened with convergence of accounting standards because it simplifies the process of preparing the individual and group financial statements and thereby reduces the costs of preparing the financial statements using different sets of accounting standards.

Accounting professionals: Convergence with IFRS also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world. It offers them more opportunities in any part of the world if same accounting practices prevail throughout the world. They are able to quote IFRS to clients to give them backing for recommending certain ways of reporting. Also, their mobility to work in different parts of the world increases.

Relevance/Applicability of Ind AS (Converged IFRS) The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Rules, 2015 (the 'Rules') on 16th February, 2015. The Rules specify the Indian Accounting Standards (Ind AS) applicable to certain class of companies and set out the dates of applicability as follows:

1) Voluntary adoption Companies may voluntarily adopt Ind AS for financial statements for accounting periods beginning on or after 1 April, 2015, with the comparatives for the periods ending 31 March, 2015 or thereafter. Once a company opts to follow the Ind AS, it will be required to follow the same for all the subsequent financial statements.

2) Mandatory adoption The following companies will have to adopt Ind AS for financial statements from the accounting periods beginning on or after 1 April, 2016:

- Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India (listed companies) and having net worth of Rs. 500 crores or more.

- Unlisted companies having a net worth of Rs. 500 crores or more.

- Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above. Comparatives for these financial statements will be periods ending 31 March, 2016 or thereafter.

The following companies will have to adopt Ind AS for financial statements from the accounting periods beginning on or after 1 April, 2017:

- Listed companies having net worth of less than Rs. 500 crore.

- Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crore.

- Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above. Comparatives for these financial statements will be periods ending 31 March, 2017 or thereafter. The above mentioned roadmap for adoption will not be applicable to:

• Companies whose securities are listed or in the process of listing on SME exchanges (Exchanges meant for small and medium-sized enterprises).

• Companies not covered by the roadmap in the 'Mandatory adoption' categories mentioned above. • Insurance companies, banking companies and non-banking finance companies. In pursuance to the budget announcement by the Union Finance Minister Shri Arun Jaitley, after consultations with the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA), the roadmap for implementation of Ind AS converged with IFRS for Scheduled Commercial Banks (excluding Regional Rural Banks), Insurers/Insurance Companies and Non-Banking Finance Companies (NBFCs) for accounting periods beginning from 1 April, 2018 onwards, with comparatives for the periods ending 31 March, 2018 has been drawn up.

List of IFRS 1 – 15

Ind AS 101 (IFRS 1) : First Time Adoption of Indian Accounting Standards

Ind AS 102 (IFRS 2) : Share Based Payments

Ind AS 103 (IFRS 3) : Business Combinations

Ind AS 104 (IFRS 4) : Insurance Contracts

Ind AS 105 (IFRS 5) : Non-Current Assets Held for Sale & Discontinued Operations

Ind AS 106 (IFRS 6) : Exploration and Evaluation of Mineral Resources

Ind AS 107 (IFRS 7) : Financial Instruments: Disclosures

Ind AS 108 (IFRS 8) : Operating Segments

Ind AS 109 (IFRS 9) : Financial Instruments

Ind AS 110 (IFRS 10) : Consolidated Financial Statements

Ind AS 111 (IFRS 11) : Joint Agreements

Ind AS 112 (IFRS 12) : Disclosure of Interests in Other Entities

Ind AS 113 (IFRS 13) : Fair Value Measurement

Ind AS 114 (IFRS 14) : Regulatory Deferral Accounts

Ind AS 115 (IFRS 15) : Revenue from Contracts with Customers

Ind AS 115 (IFRS 15) : Impact on Various Sectors

Ind AS 115 (IFRS 15) : Accounting for Construction and Real Estate

List of International Accounting Standards (IAS) issued by IASB

Ind AS 1 (IAS 1) : Presentation of Financial Statements

Ind AS 2 (IAS 2) : Inventories

Ind AS 7 (IAS 7) : Statement of Cash Flows

Ind AS 8 (IAS 8) : Accounting Policies, Changes in Accounting Estimates & Errors

Ind AS 10 (IAS 10) : Events after the Reporting Period

Ind AS 11 (IAS 11) : Construction Contracts

Ind AS 12 (IAS 12) : Income Taxes

Ind AS 16 (IAS 16) : Property, Plant & Equipment

Ind AS 17 (IAS 17) : Leases

Ind AS 18 (IAS 18) : Revenue

Ind AS 19 (IAS 19) : Employee Benefits

Ind AS 20 (IAS 20) : Government Grants & Government Assistance

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

Ind AS 23 (IAS 23) : Borrowing Costs

Ind AS 24 (IAS 24) : Related Parties

Ind AS 27 (IAS 27) : Consolidated and Separate Financial Statements

Ind AS 28 (IAS 28) : Investments in Associates

Ind AS 29 (IAS 29) : Financial Reporting in Hyperinflationary Economics

Ind AS 31 (IAS 31) : Interests in Joint Ventures

Ind AS 32 (IAS 32) : Financial Instruments: Presentation

Ind AS 33 (IAS 33) : Earnings Per Share

Ind AS 34 (IAS 34) : Interim Financial Reporting

Ind AS 36 (IAS 36) : Impairment of Assets

Ind AS 37 (IAS 37) : Provisions, Contingent Liabilities and Contingent Assets

Ind AS 38 (IAS 38) : Intangible Assets

Ind AS 39 (IAS 39) : Financial Instruments: Recognition and Measurement

Ind AS 40 (IAS 40) : Investment Property

Ind AS 41 (IAS 41) : Agriculture

CHAPTER 2

ACCOUNTING FOR ASSETS AND LIABILITIES

(1) Investment properties (IND AS 40)

The term **investment property** refers to an investment in land and building held by the owner with the intension of earning rentals or for capital appreciation or for both.

According to Ind AS 40, investment property includes

1. Land held for long term capital appreciation rather than held for sale in the ordinary course of business.
2. Land held for an undetermined future use
3. Building owned by the reporting entity under finance lease.
4. Vacant building held by an entity to be leased out under operating leases.

Recognition criteria:

1. It is probable that the future economic benefits that are associated with the investment property will flow to the entity.
2. The cost of investment property can be measured reliably.

Measurement criteria:

An investment property shall be measured initially at cost. The cost of investment property comprises of its purchase price and any expenditure directly attributable to such investment and includes professional fees for legal services, property transfer taxes and other transaction cost.

Disposal:

An investment property should be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

(2) GOVT GRANTS (IAS 20)

A Govt grant is a form of govt assistance that involves transfer of resource to an enterprise in return for past or future compliance of certain conditions relating to its operating activities.

Recognition:

1. The entity shall comply with any conditions attached to the grant
2. Once the grant is received the grant is recognized as income under the period necessary to match them with the related cost for which they are intended to compensate on a systematic basis.

(3) BORROWING COSTS (IAS 23)

Borrowing cost means interest and other cost that an entity incurs in connection with borrowing of funds.

Recognition criteria:

An entity shall recognize and capitalize borrowing cost that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(4) CONSTRUCTION CONTRACTS (IAS 11)

A **construction contract** is a contract negotiated for the construction of an asset or a combination of assets that are closely inter-related or inter-dependant in terms of their design, technology and function or their ultimate purpose or use.

Recognition:

If the outcome of the construction contract can be estimated reliably, revenue and cost should be recognized in proportion to the stage of completion of contract activity.

(5) SHARE BASED PAYMENTS (IFRS 2/ Ind AS 1/2):

According to IFRS 2, a **share based transaction** is a payment in which an entity receives goods or services as consideration for its equity instruments.

Recognition and measurement criteria:

The issuance of rights to shares is presumed to relate to past service requiring the full amount of the grant date fair value to be expensed immediately. As a principle, the expense relating to equity settled share based payment will be calculated by multiplying the total instruments with the fair value of those instruments on the grant date.

(6) PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

Provision is a liability of uncertain timing or amount. Liability refers to a present obligation as a result of past events and settlement is expected to result in an outflow of resources.

Contingent liability is a possible obligation as a result of past events depending on some uncertain future.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by occurrence or non occurrence of uncertain future events which is not completely within the control of the entity.

Recognition for provision:

(1) An entity must recognize a provision only if a present obligation has arisen as a result of past event.

(2) Payment is probable

(3) Amount can be estimated reliably

Recognition for contingent liabilities:

Since the contingent liabilities are on a common ground and very uncertain in nature, the entity should not recognize contingent liabilities but should disclose them unless the probability of an outflow of economic resources is remote.

Recognition of contingent assets:

The contingent assets should not be recognized but it should be disclosed where an inflow of economic benefits is probable. When the realization of income is very certain, then the related asset can be treated and recognized appropriately.

(7) EVENTS OCCURING AFTER THE REPORTING PERIOD:

According to IAS 10, Events after the reporting period are those events favorable an unfavorable that occur between the statement of financial position date and the date when the financial statements are authorized for the issue.

Recognition criteria:

Adjust financial statements only for adjusting events i.e events after the balance sheet that provides further evidence of conditions that existed at the end of the reporting period. Do not adjust for non - adjusting events.

(8) PROPERTY, PLANT AND EQUIPMENTS (IAS 16)

According to this standard, PP&E are tangible assets

(A) that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes

(B) Are expected to be used fir more than one period.

Recognition criteria:

The recognition of PP&E depends on the following two criteria:

1. It is probable that the future economic benefits associated with the asset will flow into the entity
2. The cost of the asset can be measured reliably.

Measurement criteria:

- The initial measurement is at cost
- Subsequent measurement can be done using cost or revaluation model.

(9) INTANGIBLE ASSETS (IAS38)

Intangible assets are non-monetary assets without physical substance and identifiable or arising from contractual or other legal rights.

Recognition criteria:

1. An intangible asset must be identifiable in order to distinguish it from the goodwill.
2. It must be under the control of the entity as a result of past event.

(10) INVENTORIES (IAS 2)

It includes the following:

1. Goods held for sale in the ordinary course if business
2. Finished goods
3. Materials and supplies used in the production process(raw materials)

Measurement:

The cost should include:

1. Cost of purchase
2. Cost of conversion
3. Other costs incurred in bringing the inventories to their present location ans condition.

(11) LEASES (IAS 17)

A **lease** is an agreement whereby the lesser conveys to the lessee a right to use an asset for an agreed period of time in return for a payment or series of payments.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset

An **operating lease** is a lease other than a financial lease.

(12) IMPAIRMENT OF ASSETS (IAS 36)

IAS 36 seeks to ensure that an entity's assets are not carried at more than their recoverable amount with the exception of goodwill and certain intangible assets for which an annual impairment test is required.

Recognition of impairment loss:

1. An impairment loss is recognized whenever recoverable amount is below carrying amount.
2. The impairment loss is recognized as an expenses.
3. Adjust depreciation for future loss.

PRACTICAL PROBLEMS

1. Problems on PP&E
2. Problems on borrowing cost
3. Problems on govt grants
4. Problems on impairment of assets
5. Problems on leases

CHAPTER 3

PRESENTATION OF FINANCIAL STATEMENTS

A **financial statement** is a formal record of the financial activities and position of a business, person or an entity. It consists of the following:

1. Balance sheet
2. Income statement
3. Statement of changes in equity
4. Cash flow statement

Formats:

1. Format of financial position
2. Format of statement of profit or loss.

PRACTICAL PROBLEMS

1. Problems on presentation of financial position
2. Problems on preparation of statement of profit or loss.

Statement of changes in equity:

1. It includes the following

1. Opening balance
2. Effect of changes in accounting policy
3. Restated balance
4. Changes in share capital

5. Dividends
6. Income or loss for the period
7. Changes in revaluation reserve
8. Other gains and losses
9. Closing balance

CHAPTER 4

ACCOUNTS OF GROUPS

When a company holds majority of shares of another company, it is called **parent company** and the company whose shares are held is called **subsidiary company**. Majority of shares means at least 51% of the equity shares of the company.

Steps for calculation of consolidated statement of financial position:

STEP 1: Calculation of ratio of parent

STEP 2: Pre-acquisition profits or capital profits

STEP 3: Post-acquisition profits/ revenue profits

STEP 4: Calculation of non-controlling interest

STEP 5: Goodwill/ capital reserve calculation

PRACTICAL PROBLEMS

1. Problems on calculation of capital profits
2. Problems on calculation of revenue profits
3. Problems on calculation of goodwill/ capital reserve
4. Problems on calculation of non-controlling interest
5. Problems on preparation of consolidated balance sheet with simple adjustments.

UNIT 5: DISCLOSURE STANDARDS

Ind AS (IAS 24): Related Parties Definition of Related Party The party may be an individual, or a firm. It may be a shareholder, parent or group company. A party is related to an undertaking if:

(1) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the undertaking (this includes parents, subsidiaries and fellow subsidiaries;

(ii) has an interest in the undertaking that gives it significant influence over the undertaking; or (iii) has joint control over the undertaking;

(2) the party is an associate of the undertaking;

(3) the party is a joint venture in which the undertaking is a venturer;

(4) the party is a member of the key management personnel of the undertaking, or its parent;

(5) the party is a close member of the family of any individual referred to in (1) or (4);

(6) the party is an undertaking that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such undertaking resides with, directly or indirectly, any individual referred to in (4) or (5); or

(7) the party is a post-employment benefit plan (pension fund) for the benefit of employees of the undertaking, or of any undertaking that is a related party of the undertaking.

Under Ind AS, Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including:

(a) that person's children, spouse or domestic partner, brother, sister, father and mother;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

Adopted children would be included as close family members. Companies, investment vehicles owned by family members would also be considered as related parties, if they had any interaction with the undertaking.

Close members are included to avoid related parties disguising their activities by using family members.

Control is the power to govern the financial and operating policies of an undertaking so as to obtain benefits from its activities.

Example: The Govt. has a small shareholding in a defence company, but has the right to appoint and dismiss all directors. The Govt. has control, even if it decides not to exercise it. It may let the company appoint its own directors, but retains the right to dismiss any directors it chooses. The benefits the Govt. derives from this structure may be political, rather than economic. The control may be needed to avoid the company being controlled by a foreign power.

Joint control is the contractually-agreed sharing of control over an economic activity. Example: ABC Ltd. has a joint venture agreement with a foreign sales agent. It provides the goods, which its agent sells in a foreign territory. It shares the profits, with 40% belonging to it and 60% to the agent. This is an example of joint control.

Key management personnel include all directors and their equivalents. It also includes persons having authority and responsibility for planning, directing and controlling the activities of the undertaking, directly or indirectly. Example: Executives from an enterprise parent company may give instructions to its staff in important matters, such as strategic planning and treasury functions. For this enterprise, these are key management personnel.

Significant influence is the power to participate in the financial and operating policy decisions of an undertaking, but is not control over those policies. It may be gained by share ownership, statute or agreement. Example: Significant influence may be reflected in board membership, and/or a substantial shareholding of between 20% and 50%. A majority shareholding is more than a significant influence, as it would yield control, in most circumstances.

Related party disclosure Relationships between parents and subsidiaries shall be disclosed, whether or not there have been transactions between those related parties. An undertaking shall disclose the name of the undertaking's parent and, if different, the ultimate controlling party.

If the undertaking's parent is itself a subsidiary of another company, the parent is not the controlling party. It is necessary to establish which company is at the top of the group structure to identify the controlling party.

The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in Ind AS (IAS) 27, Ind AS (28) and Ind AS (IAS) 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled undertakings. If neither the undertaking'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 be disclosed. The next most senior parent is the first parent in the group above the immediate parent that produces consolidate financial statements available for public use.

An undertaking shall disclose key management personnel compensation in total and for each of the following categories:

(1) Short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

(2) Post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;

(3) Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within 12 months after the end of the period, profitsharing, bonuses and deferred compensation;

(4) Termination benefits; and

(5) Equity compensation benefits (share-based payments).

An undertaking shall also disclose the following if there have been transactions between related parties.

(1) the amount of transactions;

(2) 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;

(3) provisions for doubtful debts related to the amount of outstanding balances; and

(4) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Example: In addition to the standard compensation recorded for the key management personnel, three executives have subsidized loans for Rs. 50,000, Rs. 65,000 and Rs. 95,000. These will be disclosed, with the detailed terms of the loans. Any overdue repayment of any loan will also be noted. The loans would also be detailed, even if the rates were not subsidized.

Related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged. Example: A parent company may provide some of its key staff to a subsidiary without cost. The subsidiary is being subsidized at the expense of the parent.

The disclosures shall be made separately for each of the following categories:

(1) the parent;

(2) undertakings with joint control or significant influence over the undertaking;

(3) subsidiaries;

(4) associates;

(5) joint ventures in which the undertaking is a venturer;

(6) key management personnel of the undertaking or its parent; and

(7) other related parties, including major shareholders.

The classification of amounts payable to, and receivable from, related parties in the different categories as required in this paragraph is an extension of the disclosure requirement in Ind AS (IAS) 1 Presentation of Financial Statements for information to be presented either on the balance sheet or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

In the Ind AS 24, disclosures which conflict with confidentiality requirements of statute/regulations are not required to be made since Accounting Standards cannot override legal/regulatory requirements. Example: Banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

As per Ind AS 24, 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.

Ind AS 33 (IAS 33): Earnings Per Share Disclosure Ind AS 33 requires EPS related information of the parent company to be disclosed both in consolidated financial statements and separate financial statements.

An undertaking that discloses EPS, based upon its separate financial statements, shall present such information only on the face of its separate income statement.

The following disclosures shall be made with respect to EPS:

- Basic and Diluted EPS should be presented on the face of the income statement for each class of ordinary shares;
- Basic and Diluted EPS are presented with equal prominence;
- If an entity reports a discontinued operation, it should report the basic and diluted amounts per share for the discontinued operation;
- An entity should report Basic and Diluted EPS even if it is a loss per share;
- The amounts used as the numerators in calculating Basic and Diluted EPS, and reconciliation of those amounts to profit or loss attributable to the parent for the period;
- The weighted average number of ordinary shares used as the denominator in calculating Basic and Diluted EPS, and reconciliation of these denominators to each other.

An undertaking shall calculate Basic EPS amounts for profit attributable to ordinary equity shareholders of the parent undertaking and, if presented, profit from continuing operations, attributable to those equity share holders. Example: ABC Limited retail business is being sold, and has been classified as held-for sale (as per IFRS 5). The remaining business is a wholesale operation. This is the continuing operation. It will show the EPS for the whole business, and a separate calculation for the EPS, based on the continuing operation alone.

Basic EPS shall be calculated by dividing profit attributable to ordinary shareholders of the parent undertaking (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. Example: ABC Limited follows a calendar year. On January 1st there were 400 shares. This rose to 600 on April 1st. The net profit after tax, preference dividends and minority interests is Rs. 5,50,000. Calculation of weighted average number of ordinary shares outstanding and Basic EPS is as follows.

Ind AS 34 (IAS 34): Interim Financial Reporting Interim period is a financial reporting period shorter than a financial year.

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.

Contents of an Interim financial report Ind AS (IAS):

A complete set of financial statements as including the following components:

(i) Balance Sheet;

(ii) Income Statement;

(iii) Statement showing either

- ✓ all changes in equity or
- ✓ changes in equity, other than those arising from capital transactions with owners, and distributions to owners;
- ✓ Cash Flow Statement; and
- ✓ Accounting policies and explanatory notes.

Minimum components of an Interim financial report:

1. Condensed Balance Sheet,

2. Condensed Income Statement,

3. Condensed Cash Flow Statement,

4. Condensed Statement showing changes in equity, and

5. Selected explanatory notes.

Form and content of Interim Financial Statements A complete set of financial statements in an interim financial report should conform to the requirements of Ind AS (IAS) 1 for a complete set of financial statements.

Condensed statements should include, at a minimum, each of the headings and subtotals that were included in its most recent annual statements and the selected explanatory notes as required by Ind AS (IAS) 34. Additional line items or notes should be included if their omission would make the condensed interim statements misleading.

Basic and diluted EPS should be presented on the face of an income statement, complete or condensed, for an interim period. Ind AS (IAS) 1 provides guidance on major headings and subtotals.

An undertaking follows the same format in its interim statement showing changes in equity as it did in its most recent annual statement. An interim report is prepared on a consolidated basis if the undertaking's most recent annual statements were consolidated statements. The inclusion of the parent's separate statements in the interim report is optional.

Ind AS 104 (IFRS 4): Insurance Contracts Definition of Insurance Contract Insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Disclosures Information should be disclosed that helps the user to understand the amounts in the insurer's financial statements that arise from insurance contracts. Insurers also need to give details about the insurance risk to which they are exposed, including any concentration of risk and the impact of changes in variables on the key assumptions that are used.

Information that helps users understand the amount, timing and uncertainty of future cash flows is required. The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows also have to be disclosed. Information about the actual claims as compared with previous estimates needs disclosure and information about interest rate risk and credit rate risk that IAS 32 would require should be disclosed. Information about exposures to interest rate risk or market risk under embedded derivatives contained in a host insurance contract should be shown if the insurer does not show the embedded derivatives at fair value. However, insurers do not need to disclose the fair value of their insurance contracts at present but need to disclose the gains and losses from purchasing reinsurance contracts.

An embedded derivative is a component of a hybrid security that is embedded in a nonderivative instrument. An embedded derivative can modify the cash flows of the host contract because the derivative can be related to an exchange rate, commodity price, consumer price or some other variable which frequently changes. Example: Rental contract concluded for several years in advance with rental price adjustments according to inflation measured as consumer price index in European Union. Non-derivative part in this case is the rent of some property or facility. An embedded derivative part is the forward contract indexed to the consumer price index in EU.

Ind AS 108 (IFRS 8): Operating Segments Definition of Operating Segment An operating segment is a component of an undertaking:

(1) 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 undertaking;

(2) whose operating results are regularly reviewed by the undertaking's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and

(3) for which discrete financial information is available.

An operating segment may engage in business activities for which it is yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. Not every part of an undertaking is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the undertaking and would not be operating segments. An undertaking's pension plans are not operating segments.

The term 'Chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an undertaking. Often the chief operating decision maker of an undertaking is its Chief Executive Officer or Chief Operating Officer but, for example, it may be a group of executive directors or others.

Reportable Segments An undertaking shall report separately information about each operating segment that:

(1) has been identified, or results from aggregating two or more of those segments and

(2) exceeds the quantitative thresholds.

Aggregation criteria Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of Ind AS 108 (IFRS 8), the segments have similar economic characteristics and the segments are similar in each of the following respects:

(1) the nature of the products and services; Example: ABC limited group includes cobblers' shops and banks. These would not be included in the same segment.

(2) the nature of the production processes;

(3) the type or class of client for their products and services;

Example 1: ABC limited group provides pharmaceuticals to all areas of the world. Countries where tropical diseases will have different characteristics from those where cold and influenza dominate would not be included in the same segment.

Example 2: XYZ Limited production facilities are all in the southern hemisphere. Its clients are all in the northern hemisphere. Its segments can either be based on its production facilities or the locations of its clients. The group's reporting structure will indicate which choice to take.

(4) the methods used to distribute their products or provide their services; and

(5) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds An undertaking shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(1) Its reported revenue, including both sales to external clients and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments;

(2) The absolute amount of its reported profit or loss is 10% 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.

(3) Its assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable and separately disclosed, if the management believes that information about the segment would be useful to users.

Disclosure – General information An undertaking shall disclose the following general information: (1) factors used to identify the undertaking's reportable segments, including the basis of organization (for example, whether management has chosen to organize the undertaking around differences in products and services, geographical areas, regulatory requirements, or a combination of factors and whether operating segments have been aggregated) and

(2) types of products and services from which each reportable segment derives its revenues.

Disclosure – Specific information An undertaking shall disclose information to enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. An undertaking shall disclose the following for each period for which an income statement is presented:

(1) general information as described above;

(2) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement; and

(3) reconciliations of the totals: - of segment revenues, - reported segment profit or loss, - segment assets, - segment liabilities and - other material segment items to total undertaking amounts.

Reconciliations of Balance Sheet amounts for reportable segments to the undertaking's Balance Sheet amounts are required for each date at which a Balance Sheet is presented. Information for prior periods shall be restated.

Disclosure – Information about profit or loss, assets and liabilities An undertaking shall report a measure of profit or loss and total assets for each reportable segment. It shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.

It shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(1) revenues from external clients;

(2) revenues from transactions with other operating segments of the same undertaking;

(3) interest revenue;

(4) interest expense;

(5) depreciation and amortization;

(6) material items of income and expense;

(7) the undertaking's interest in the profit or loss of associates and joint ventures accounted for by the equity method;

(8) income tax expense or income; and

(9) material non-cash items other than depreciation and amortization.

An undertaking shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets:

(1) The amount of investment in associates and joint ventures accounted for

(2) The amounts of additions to non-current assets (assets that include amounts expected to be recovered more than 12 months after the Balance Sheet date).