IND AS

CA SACHIN MOHE

Deferred settlement terms

- Accounting takes into consideration the time value of money.
- A fixed asset was purchased on deferred payment terms i.e. the payment will be made after a time span of 1 year. The price payable after one year is Rs. 110
- Had the payment been made immediately the purchase price would be Rs. 100.
- Will the fixed asset be recorded at Rs. 100 or Rs. 110 ?

Particulars	Amount	Amount
Fixed Asset	100	
To Capital creditor		100
Interest expense	10	
To capital creditor		10
Capital creditor	110	
To Bank		110

- Similar accounting will be applicable for inventories, intangible assets, etc.

Prior period errors – AS 5 v/s Ind AS 8

Profit & Loss A/C – FY 2015

Particulars	Amount Rs.
Revenue	100
Less : Expenditure	30
Less **:** Depreciation	10
Profit	**60**

Balance Sheet- 31.3.2015

Liabilities	Rs.	Assets	Rs.
Equity and reserves	100	Fixed Assets	100
		(110-10)	
Total	**100**	**Total**	**100**

- Error of Rs. 15 in depreciation – more depreciation should have been charged
- Error was realized in FY 2016-17

Profit & Loss A/C – FY 2017

Particulars	Amount Rs.
Revenue	100
Less : Expenditure	30
Less **:** Depreciation	10
Less : Prior period error - dep	15
Profit	**45**

Balance Sheet- 31.3.2017

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Equity and reserves	65	90	Fixed Assets	65	90
			(110-10-10-10-15)		
Total	**65**	**90**	**Total**	**65**	**90**

Prior period errors – AS 5 v/s Ind AS 8

Profit & Loss A/C – FY 2017

Particulars	Amount Rs.
Revenue	100
Less : Expenditure	30
Less **:** Depreciation	10
Profit	**60**

Balance Sheet- 31.3.2017

Liabilities	Rs.	Rs.	Rs.	Assets	Rs.	Rs.	Rs.
Equity	65	75	85	Fixed Assets	65	75	85
				(120-10-10-10-15)			
Total	65	75	85	**Total**	65	75	85

Ind AS 21 - Effects of changes in foreign exchange rates

Accounting of exchange differences - Basics

	Monetary items	Non-monetary items not at fair value	Non-monetary items at fair value
Initial recognition	Spot rate / Historical rate/ rate on date of fair value		
Subsequent recognition	Closing rate	N/A	N/A

Example – Exchange differences to the extent considered an adjustment in interest costs

Particulars
Loan taken of USD 10,000 on 1.4.2003
Interest rate is 5 % but corresponding interest rate if borrowed in India is 11%
Opening exchange rate is 1 USD = 45 and closing rate is 1 USD = 48

- Interest for the period = USD 10,000 X 5% X 48 = 24,000
- Increase that would have resulted if the loan was taken in India = 10,000 X 45 X 11% =49,500
- Difference between interest on local and foreign borrowings = Rs. 25,500
- Increase in liability towards principal = Rs. 30,000 (10,000 * (48-45))

Rs. 30,000

Rs. 25,500 – regarded as borrowing cost

Rs. 4,500 – accounted as exchange difference

What is the benefit of treating as borrowing cost ?

Example – Foreign currency monetary item translation difference account (FCMITDA)

Particulars	Amount
USD borrowing not related to depreciable asset taken on 1.4.2014	100 USD
Tenure	6 years
Exchange rate – 1.4.2014	1 USD = 40
Exchange rate – 31.3.2015	1 USD = 50
Exchange rate – 31.3.2016	1 USD = 60

Particulars	Amount
Opening balance of FCMITDA – 1.4.2014	**-**
Add : Exchange loss on 31.3.2015 (100 * (50-40))	1000
Less: Amortization of exchange difference (1000/5)	(200)
Closing balance of FCMITDA – 31.3.2015	**800**
Add : Exchange loss on 31.3.2015 (100 * (60-50))	1000
Less: Amortization of exchange difference (1800/4)	(450)
Closing balance of FCMITDA – 31.3.2016	**1350**

Provisions related to Long term foreign currency monetary items (LTFCMI)

Long term foreign currency monetary items prior to transition to Ind AS

↓

Continue with capitalization of exchange differences

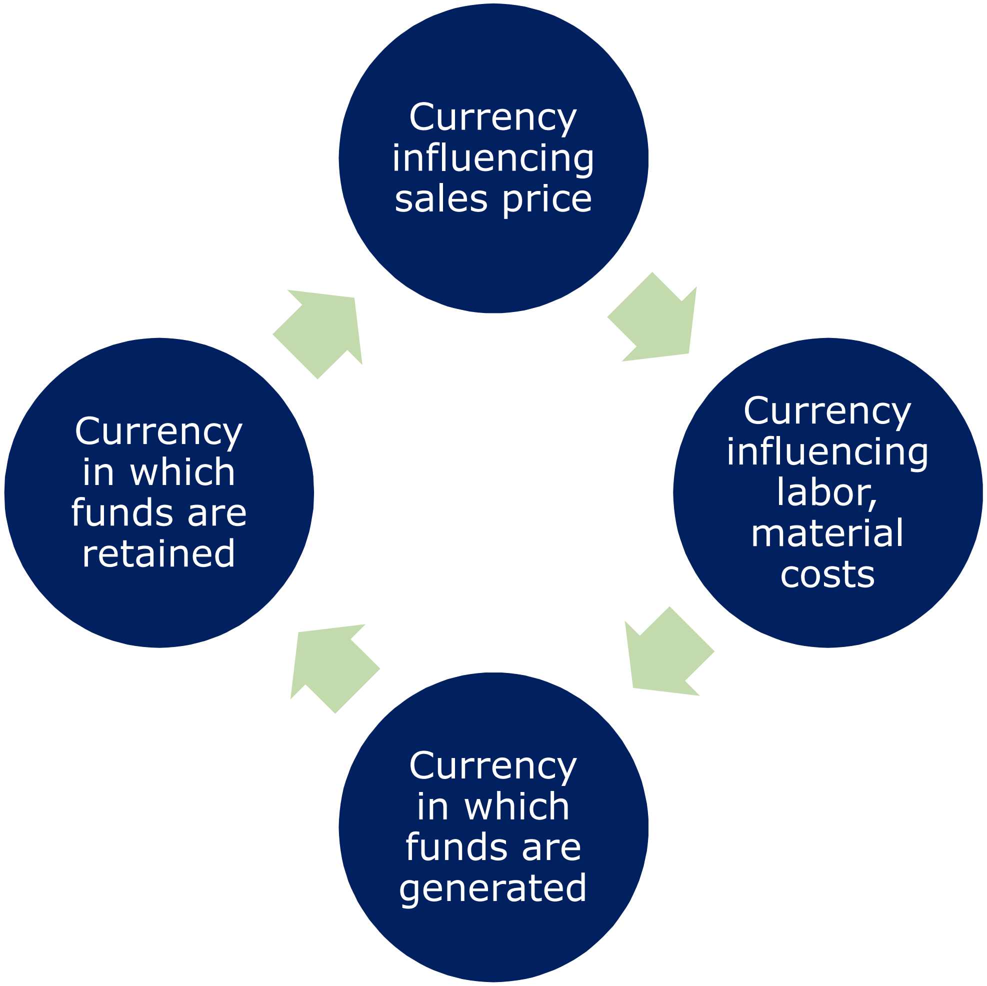
Long term foreign currency monetary items after transition to Ind AS

↓

No capitalization allowed unless exchange differences are considered as adjustment of interest costs

What is functional currency?

Currency of the primary economic environment in which an entity operates



Determination of functional currency

Background :

- Steel LLC is a steel manufacturer in the US.
- Steel LLC owns a coal mine in Indonesia through PT Coal miners.
- The entire output of PT Coal miners is sold to Steel LLC and is also entirely funded by a USD loan granted by Steel LLC.
- All the expenses of PT Coal miners are incurred in the local Indonesian Rupiah.
- What is the functional currency of PT Coal miners ?

Sales – USD

Expenditure – Indo Rupee

Funding – USD

Retained – Indo Rupee

USD is the functional currency and books will be maintained in USD and not Indo Rupee though may be **presented** in Indo Rupee

Functional currency – What's the big deal ?

Particulars	Amount	Currency	Exchange rate
Loan from Steel LLC - outstanding	20	USD	1000
Sales to Steel LLC – amount still receivable	40	USD	1000
Expenses in local currency – creditors are yet to be repaid	12000	Indo rupee	NA
Closing rate is 1 USD = 1200 Indo rupee			

What will be the components of P&L ?

Particulars	Indo Rupee	USD
Income		
Sales to Steel LLC	40000	40
Forex gain on restatement of receivables (40 X 200)	8000	-
Forex gain on restatement of payables (12000/1000)-(12000/1200) (12-10)	-	2
Expenses		
Expenses incurred for operations	12000	10
Forex loss on restatement of loan (20 X (1200-1000))	4000	-
Profit	32,000	32

Ind AS 108
Operating segments

What is Segment?

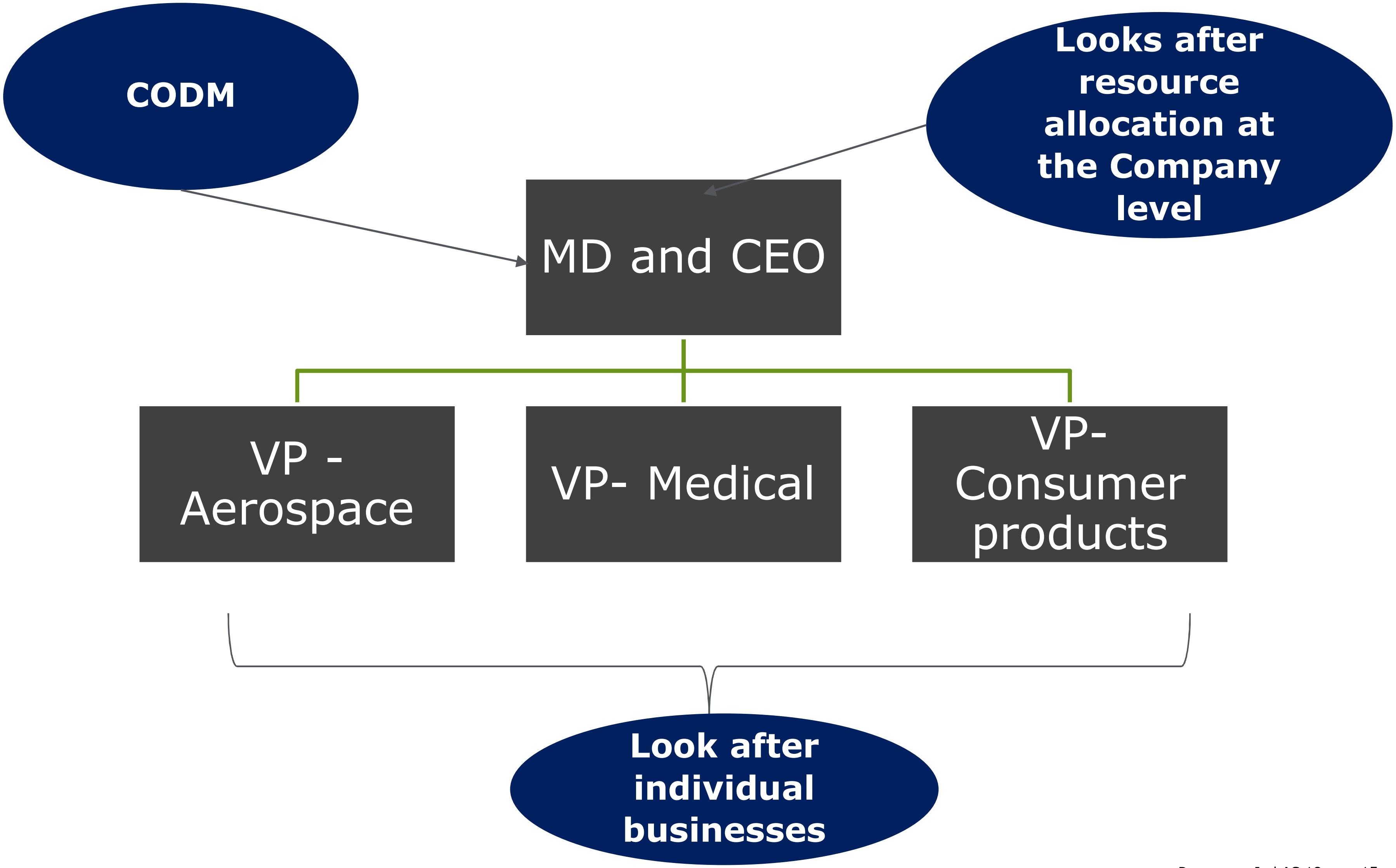
Component of an entity that

Engages in business activity – earns revenue and incurs expenses

Whose operating results are regularly reviewed by the Chief Operating Decision Maker (CODM)

For which discrete financial information is available

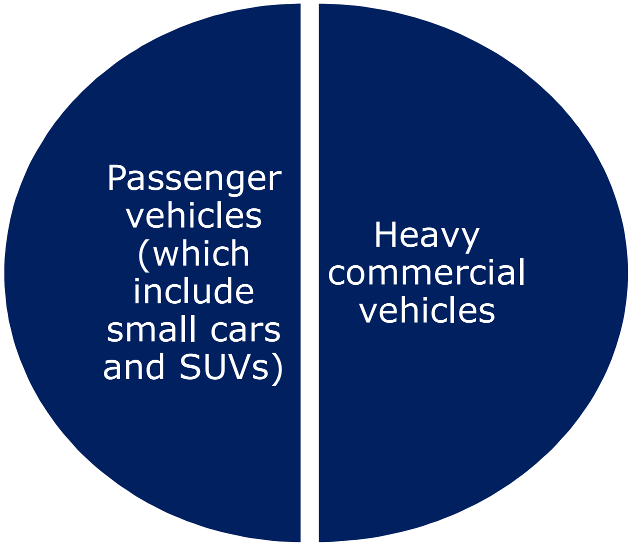
Indentification of Chief Operating Decision Maker (CODM)



Why CODM ?

Background :

- Schumacher Motors is a manufacturer of passenger vehicles, SUVs, heavy commercial vehicles and small cars.
- Mr. Schumacher, CEO called for a meeting of top executives of Schumacher motors for taking decisions on resource allocation between its various products.
- The 4 executives brought 4 separate reports containing data of the 4 categories mentioned above.
- He denied to review those reports and said that he would want to see the financial information as per the following categorisation :



Will segment information be also disclosed in a similar manner ?

Subsidiaries associates and joint arrangements

Control

Significant influence

Joint arrangements

Ind AS 110 v/s AS 21 Consolidated financial statements

Control → Subsidiary → Consolidate

Control as per AS 21

Majority voting rights → Control over composition of Board → Control

Consolidation of Subsidiaries – AS 21 and Ind AS 110

Holding company - A

Liabilities	Rs.	Assets	Rs.
Equity	7	Investments	7
Total	**7**	**Total**	**7**

Subsidiary company - B

Liabilities	Rs.	Assets	Rs.
Equity – held by holding co	7	Building	100
Equity – held by C	3		
Loan from C	90		
Total	**100**	**Total**	**100**

Holding company – A- consolidated Balance sheet

Liabilities	Rs.	Assets	Rs.
Equity	7		
Minority	3	Building	100
Loan	90		
Total	**100**	**Total**	**100**

Let us assess some more facts of the same case and lets assess control in the light of definition in Ind AS 110

Ind AS 110 v/s AS 21 Consolidated financial statements

- Company A holds more than 70% in Company B.

- Balance 30% of Company B is held by Company C

- Company B owns a building and has let out the building to Company C and is the only source of income

- Company C has an option to purchase the 70% stake in Company B from Company C.

- The building has been funded as under :

Particulars	Proportion
Equity share capital – held by company A	7
Equity share capital – held by company C	3
Loan given by Company C	90
Total	100

So, isn’t it wrong to get influenced by the shareholding pattern ?

Ind AS 110 v/s AS 21 Consolidated financial statements

Control as per Ind AS 110

Control = Power

Exposure / right to variable returns

Ability to use power to affect returns

- Relevant activities
- Contractual arrangements
- Funding pattern
- Key managerial personnel

Something beyond majority of voting rights !

Ind AS 110 v/s AS 21 Consolidated financial statements

Shareholding and composition over BOD is given more importance	Shareholding and composition over BOD is given less importance
Potential voting rights are not considered	Potential voting rights are not considered
Accounting period between holding and subsidiary should be lesser than 6 months	Accounting period between holding and subsidiary should be lesser than 3 months

What is Joint Control ?

More than one party to an arrangement

contractually agreed sharing of control

decisions about the relevant activities require the unanimous consent

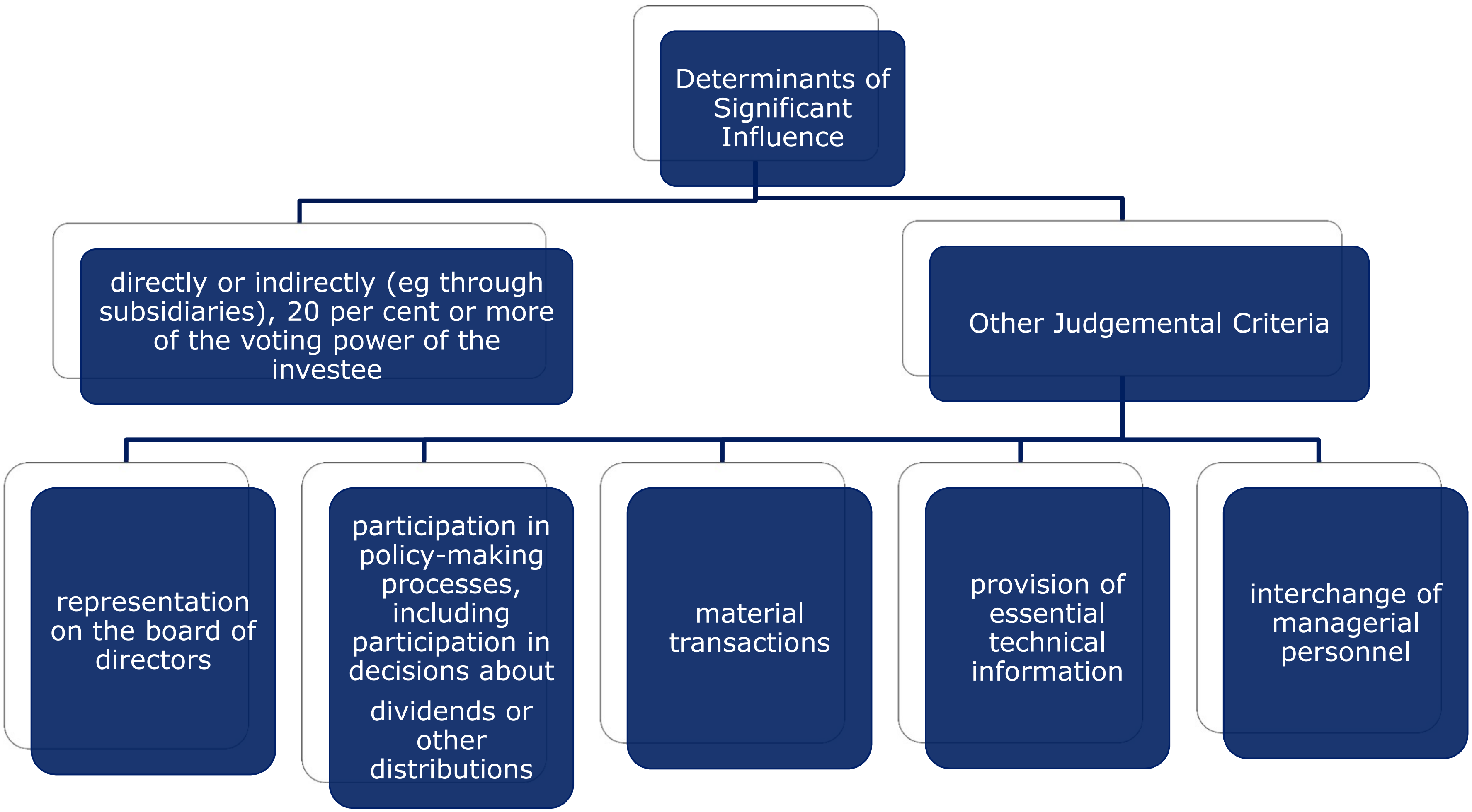
Example – Joint Control

Background :
Assume an arrangement has three parties: A has 70 per cent of the voting rights in the arrangement and B and C each have 15 per cent. The contractual arrangement between A, B and C specifies that all the decisions need to be taken unanimously by all the 3 parties.

Q :
Is this example of Joint Control since A holds 50% of voting rights?

A:
For any decision to be taken a unanimous consent of all the parties is required. This leads to joint control.

What is Significant Influence ?



Example – Significant influence

Background :
Entity A holds 15% of voting rights in entity B through its equity holding. Entity B has 4 directors of which one Director is a representative of Entity A.

Q :
Does Entity A have significant influence over Entity B ?

A:
Even though A holds less than 20% of the voting rights, it influences any decision of B , through its representative in the Board. Thus A has significant influence over B

Consolidation of Subsidiaries – AS 21 and Ind AS 110

Holding company - A

Liabilities	Rs.	Assets	Rs.
Equity	100	Investments	80
Reserves	100	Other assets	120
Total	**200**	**Total**	**200**

Subsidiary company - B

Liabilities	Rs.	Assets	Rs.
Equity – held by holding co	80	Other Assets	120
Equity – held by others	20		
Post acquisition Reserves	20		
Total	**120**	**Total**	**120**

Holding company – A- consolidated Balance sheet

Liabilities	Rs.	Assets	Rs.
Equity	100		
Minority (20+4)	24	Other assets	240
Reserves (100+16)	116		
Total	**240**	**Total**	**240**

This is known as line by line consolidation and it's the Same in AS 21 and Ind AS 110 except that Minority interest is known as Non-controlling interest !

Associate equity pick up accounting – AS 23 and Ind AS 28

Investor company - C

Liabilities	Rs.	Assets	Rs.
Equity	100	Investments	20
		Other assets	80
Total	**100**	**Total**	**100**

Associate company - B

Liabilities	Rs.	Assets	Rs.
Equity – held by holding co	80	Other Assets	120
Equity – held by others	20		
Post acquisition Reserves	20		
Total	**120**	**Total**	**120**

Investor Company – A- consolidated Balance sheet

Liabilities	Rs.	Assets	Rs.
Equity	100		
Share of profit from associate	4	Investments (20+4)	24
Total	**240**	**Total**	**240**

This is known as equity pick up and is same in AS 23 and Ind AS 28 !

Joint arrangements accounting – AS 27 and Ind AS 111

Co venturer- A

Liabilities	Rs.	Assets	Rs.
Equity	100	Investments	80
Reserves	100	Other assets	120
Total	**200**	**Total**	**200**

Joint venture- B

Liabilities	Rs.	Assets	Rs.
Equity – held by holding co	80	Other Assets	120
Equity – held by others	20		
Post acquisition Reserves	20		
Total	**120**	**Total**	**120**

Company – A- consolidated Balance sheet

Liabilities	Rs.	Assets	Rs.
Equity	100		
Reserves (100+16)	116	Other assets (120+96)	216
Total	**216**	**Total**	**216**

This is known as proportionate consolidation and is same in AS 27 and Ind AS 111 only if the joint arrangement is in the nature of joint operation as per Ind AS 111

Joint arrangements accounting – AS 27 and Ind AS 111

Co venturer- A

Liabilities	Rs.	Assets	Rs.
Equity	100	Investments	80
Reserves	100	Other assets	120
Total	**200**	**Total**	**200**

Joint venture- B

Liabilities	Rs.	Assets	Rs.
Equity – held by holding co	80	Other Assets	120
Equity – held by others	20		
Post acquisition Reserves	20		
Total	**120**	**Total**	**120**

Company – A- consolidated Balance sheet

Liabilities	Rs.	Assets	Rs.
Equity	100	Investments (80+4)	84
Reserves	100	Other assets	120
Share in profit of joint venture	4		
Total	**204**	**Total**	**204**

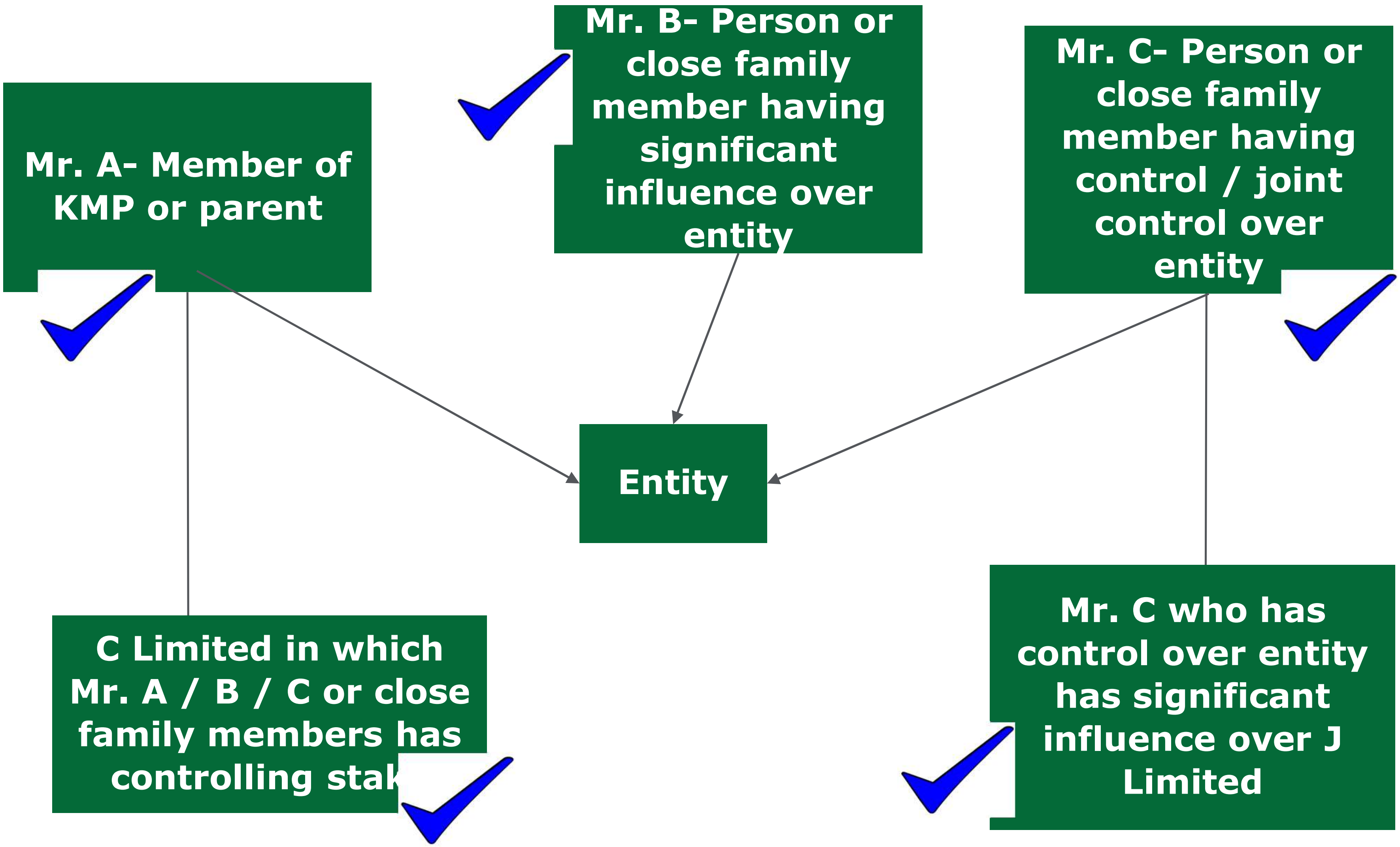
This is known as equity pick up and is done if the joint arrangement is classified as a joint venture as per Ind AS 111. This concept does not exist in AS 27

Key changes in accounting of subsidiaries, associates and joint arrangements

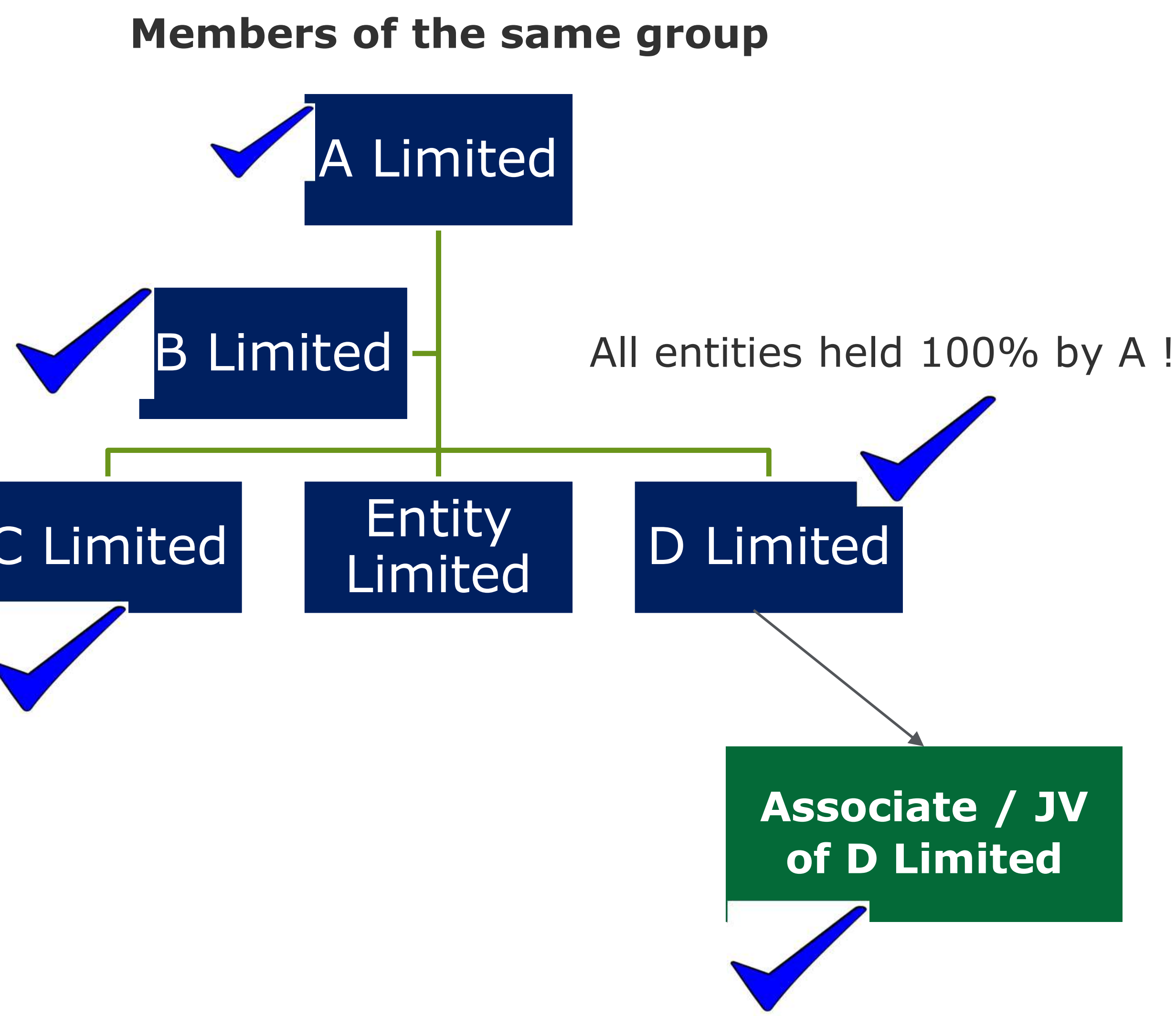
- Definition of control has completely changed and has more coverage
- Potential voting rights are also considered in the assessment of control for eg. call option to purchase shares
- Minority interest is known as Non-controlling interest
- In associate accounting there is no major change except that of consideration of potential voting rights in assessment of whether investor associate relationship exists
- In case of joint arrangements, there is a major change in terms of following equity pick up accounting in case of joint arrangements which are classified as joint ventures

IND AS 24 – RELATED PARTY DISCLOSURES

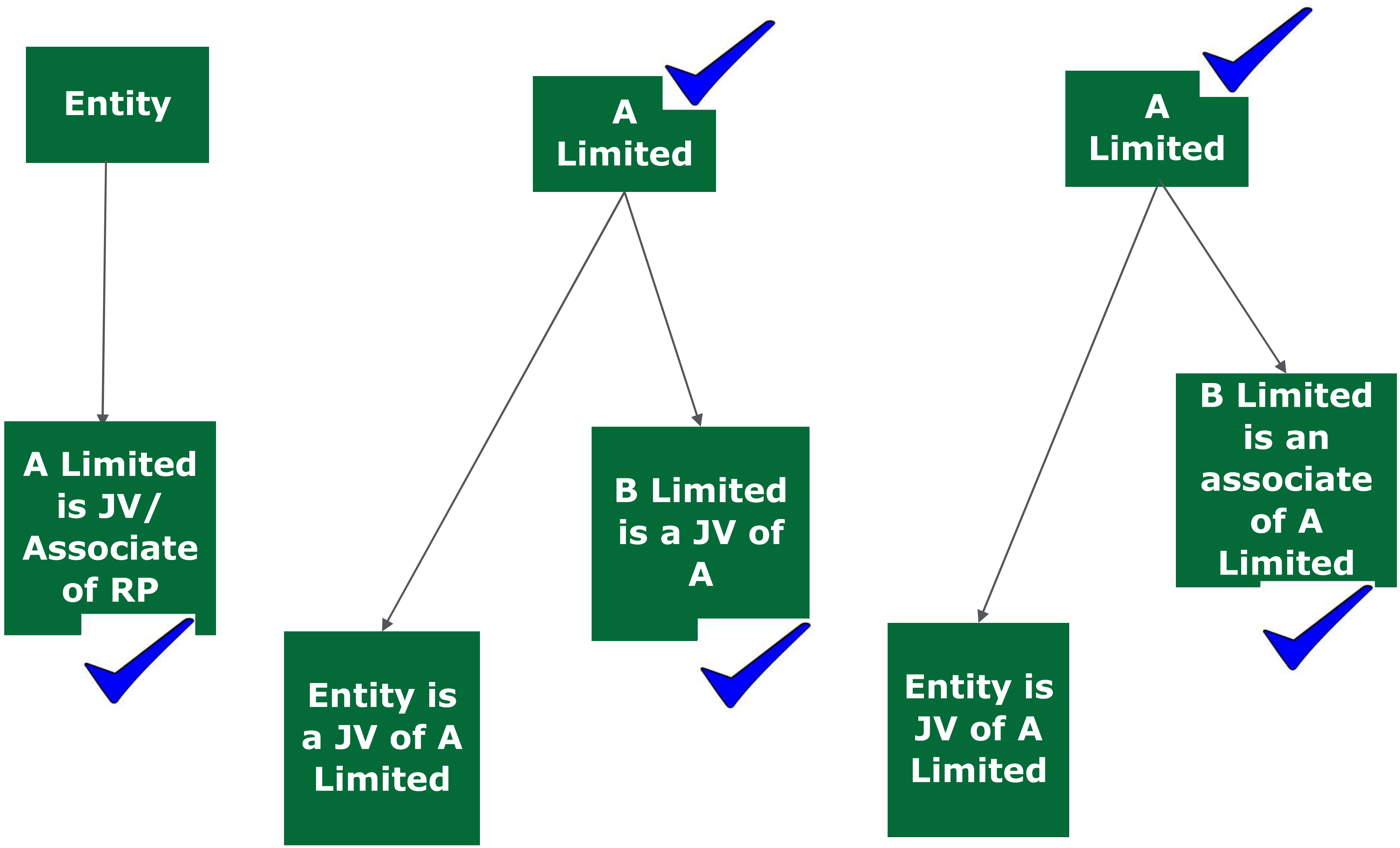
Flowcharts – related parties (person specific)



Flowcharts – related parties (entity specific)



Flowcharts – related parties (entity specific)



Flowcharts – close family members

- that person’s children, spouse or domestic partner, brother, sister, father and mother;
- children of that person’s spouse or domestic partner; and
- dependants of that person or that person’s spouse or domestic partner.

Flowcharts - related parties

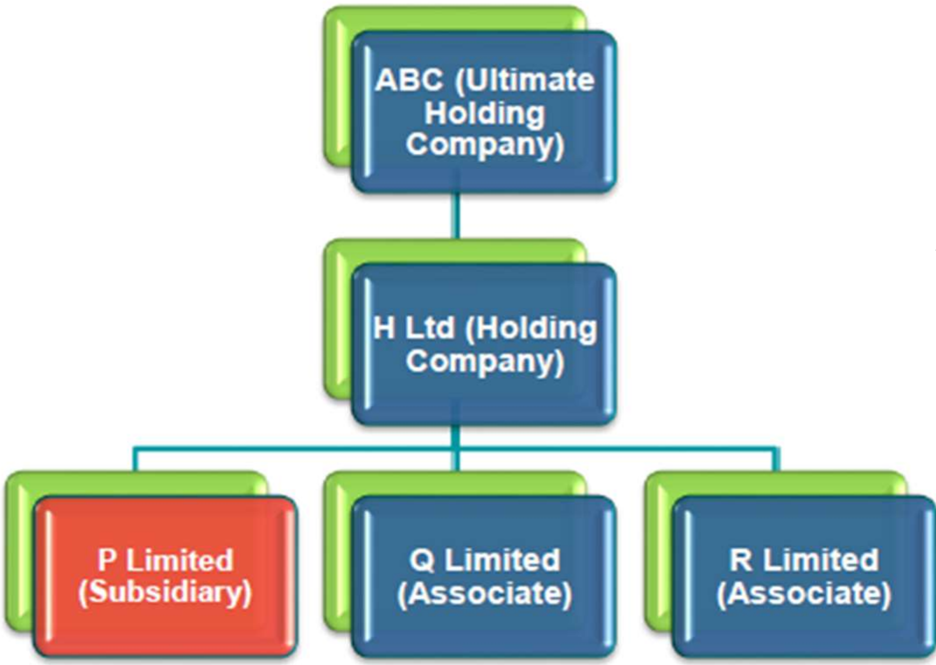
PF Trust, Gratuity Trust,

- Post employment benefit plan for the benefit of the employees of either the RP or an entity related to the RP

Key managerial personnel services

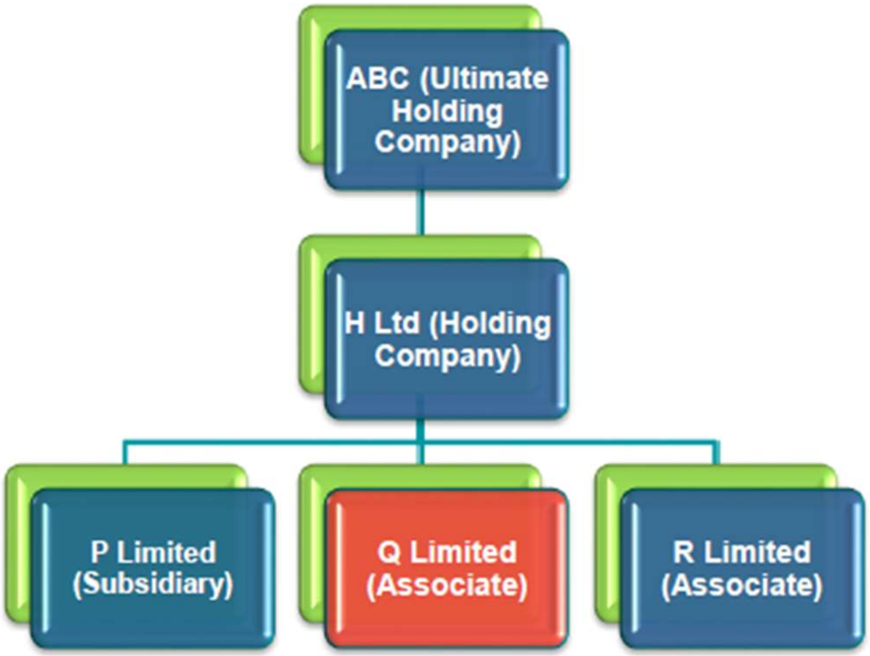
- The entity, or any member of a group of which it is a part, provides key management personnel services to the RP or its parent

Q & A



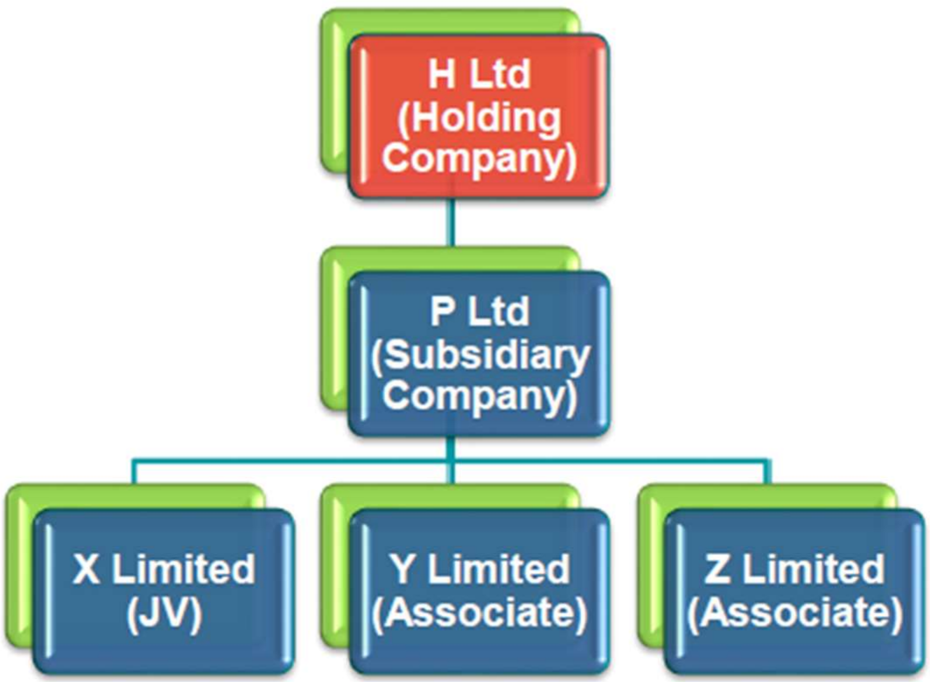
Who are related parties of P ?

ABC, H, Q and R



Who are related parties of Q ?

ABC, H, P and R



Who are related parties of H ?

P, X, Y and Z

Income Taxes - Ind AS 12

Key terms / definitions / concepts

Particulars	Amount	AS 22 parlance	Ind AS 12 parlance
Profit before tax as per books of accounts	100	Accounting income	Accounting profit
Less : Additional depreciation allowed as per Section 32 of the IT Act, 1961	(20)	Timing differences	Taxable Temporary differences
Add: Expenses disallowed which will never be allowed in the future	50	Permanent differences	Not defined
Add: Expenses disallowed u/s 43 B which will be allowed in the future	30	Timing differences	Deductible Temporary differences
Taxable income as per tax laws	160		

How much deferred tax will be created in the above case ?

Key terms / definitions / concepts

Current tax	• Amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. (Both AS 22 and Ind AS 12)
Tax expense (income)	• Aggregate amount of current tax and deferred tax (Both AS 22 and Ind AS 12)
Deferred tax	• Tax effect of timing differences (Defined in AS 22 but not in Ind AS 12)
Deferred tax assets	• Amounts of income taxes recoverable in future periods in respect of • a) deductible temporary differences; • b) the carryforward of unused tax losses ; and • c) the carryforward of unused tax credits (As per Ind AS 12, not defined in AS 22)
Deferred tax liabilities	• Amounts of income taxes payable in future periods in respect of taxable temporary differences. (As per Ind AS 12, not defined in AS 22)

CALCULATING DEFERRED TAX BALANCES

Calculating deferred taxes is not easy ! However, the step by step approach will help us to conquer this fear !

Establishing the accounting and tax base – Balance Sheet approach

In all the below examples, determine the tax base and accounting base :

- Example 1 :

Particulars	Books of Accounts	Tax books
Cost of Machine	100	100
Less : Depreciation	(20)	(40)
WDV	80	60

Rs. 60 is the tax base and Rs.80 is the accounting base as per the below information and hence difference exists.

- Example 2 :

Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense will be deducted for tax purposes on a cash basis.

The tax base of the accrued expenses is nil and the accounting base is Rs. 100. Hence, difference exists.

- Example 3:

A loan payable has a carrying amount of Rs. 100. The repayment of the loan will have no tax consequences.

The tax base of the loan is Rs. 100 and the accounting base is also Rs. 100. Hence, no difference exists.

Example

Particulars	Books of Accounts	Tax books
Gross block	100	100
Less : Depreciation	(20)	(40)
WDV	**80**	**60**
Revaluation	40	-
WDV after revaluation	**120**	**60**

AS 22 – Accounting of income taxes

Step 1 : Difference in P&L depreciation is Rs. 20 (more in tax books less in books of accounts)

Step 2 : Deferred tax liability of Rs. 6 will be created.

Ind AS 12 (book

Step 1 : Tax base is Rs. 60 and accounting base is Rs. 120

Step 2 : There exists a temporary difference of Rs. 60

Step 3 : The temporary difference has a tax effect

Step 4 : Since, the asset is depreciated, the tax rate would be the one considered through use i.e. 30% (assuming the normal tax rate to be 30%)

Step 5: Rs. 60 is the amount of taxable temporary difference and hence, deferred tax liability of Rs. 18 will be created on such difference

Step 5 - Calculate the amount of deferred tax asset /deferred tax liability

Taxable temporary difference	Deductible temporary difference
↓	↓
Higher deduction in tax	Lower deduction in tax
↓	↓
Lower deduction in books of accounts	Higher deduction in books of accounts
↓	↓
Higher tax outflow in the future	Less tax outflow in the future
↓	↓
Deferred tax liability	Deferred tax asset

Example 1 – Rs. 80 is the accounting base and Rs. 60 is the tax base of an asset. The taxable temporary difference is Rs. 20 will lead to a deferred tax liability.

Example 2 – Expenses of Rs. 100 accrued are deductible on payment basis. The deductible temporary difference is Rs. 100 will lead to a deferred tax asset.

Unused tax losses and unused tax credits

- Are unused tax losses and tax credits deductible temporary differences or taxable temporary differences ?

  Answer : Deductible temporary differences

- The existence of unused tax losses is strong evidence that future taxable profit may not be available.

Deferred tax assets on unused tax losses / tax credits will be allowed if there exists :

- Sufficient taxable temporary differences
- Convincing evidence that sufficient taxable profits will be available

Unused tax losses and unused tax credits

Example 7

Company A has unused tax losses of Rs.75,000 and taxable temporary differences of Rs. 25,000 relating to the same taxation authority. Company A has been loss making for the last two years. In the near term, there is no convincing evidence that there will be sufficient taxable profits in the future. Can deferred tax assets be recognised on the unused tax losses of Rs. 75,000 ?

Solution

Due to lack of convincing evidence as mentioned above, the deferred tax assets will be recognised at Rs. 25000 i.e. to the extent of taxable temporary differences.

Lets answer it !

- While computing deferred tax did we consider any items in the Profit & Loss Account Statement in any of the 5 steps ?

Ans : No

- Are permanent differences defined in Ind AS 12 ?

Ans : No

- Apart from the deductible temporary differences and carry forward of unused tax losses, deferred tax assets also include the carryforward of unused tax credits. Can we think of an example of unused tax credits ?

Ans : Minimum Alternate tax computed as per Section 115 JB of the IT Act, 1961

These points will help us in understanding some key differences between Ind AS 12 and AS 22. So, lets analyze these differences.

Key Differences between AS 22 and Ind AS 12

Particulars	**AS 22 – Accounting for taxes on income**	**Ind AS 12 – Income Taxes**
Calculation of deferred taxes	P&L approach	Balance sheet approach
Recognition of deferred tax assets for unused tax losses	Virtual certainty supported by convincing evidence is required	Entity should have sufficient taxable temporary differences or there is **convincing other evidence** that sufficient taxable profits will be available.
Deferred tax on unrealized intra group profits	Deferred tax is **not recognized**.	Deferred tax on unrealized intra-group profits **is recognised** at buyer's income tax rate.
Disclosures	Disclosures are **minimal.**	Disclosures are **exhaustive**.

THANK YOU