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CO LAW NOTIFICATION
NO. G.S.R. 179(E)
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Companies (Accounting Standards) (Amendment) Rules, 2011 - Notified Ind AS

In exercise of the powers conferred by clause (*a*) of sub-section (1) of section 642 read with sub-section (1) of section 210A and sub-section (3C) of section 211 of the Companies Act, 1956 (1 of 1956), the Central Government in consultation with the National Advisory Committee on Accounting Standards, hereby makes the following rules to amend the Companies (Accounting Standards) Rules, 2006, namely :—

1. (1) These rules may be called the Companies (Accounting Standards) (Amendment) Rules, 2011.

(2) It shall come into force on such date as the Central Government may, by notification in the official Gazette, appoint and different dates may be appointed for different classes of companies.

2. In the Companies (Accounting Standards) Rules, 2006, (hereinafter called as principal rules), in the Definition for clause 'C, the following shall be substituted, namely,—

"Annexure means Annexure to the rules ;"

3. In the Principal rules, in rule 3,

(*i*) the existing sub-rules (1) and (2) shall be re-numbered as sub-rules (3) and (4) respectively;

(*ii*) in re-numbered sub-rule (3), for the word 'Annexure', the word Annexure "B" shall be substituted;

(*iii*) before the re-numbered sub-rule (3), the following sub-rules shall be inserted, namely:—

"(1) The Central Government hereby prescribes Accounting Standards for application by companies specified in sub-rule (4) to be called Indian Accounting Standards (Ind ASs), which are specified in the Annexure A to these rules which shall apply to the following class of companies:-

(I) Companies other than Insurance companies, Banking companies and Non-Banking Finance Companies

(A) *a*. Companies which are part of NSE - Nifty 50

b. Companies which are part of BSE - Sensex 30

c. Companies whose shares or other securities are listed on stock exchanges outside India

d. Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores.

(B) Companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores

(C) Listed companies which have a net worth of Rs. 500 crores or less.

(II) Insurance companies, Banking companies and Non-Banking Finance companies

(A) Insurance companies

(B) (*a*) All Scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs. 300 crores

(*b*) Urban co-operative banks which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores

(C) *a.* Non-Banking Finance Companies which are part of NSE - Nifty 50

b. Non-Banking Finance Companies which are part of BSE - Sensex 30

c. Non-Banking Finance Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crores.

(D) All listed Non-Banking Finance companies and those unlisted Non-Banking Finance companies which do not fall in the above categories and which have a net worth in excess of Rs. 500 crores

(2) A company which follows accounting standards specified in Annexure "A" shall follow such standards only and not the standards specified in Annexure "B". A company which follows accounting standards specified in Annexure "B" shall follow such standards only and not the standards specified in Annexure "A".

(*iv*) after sub-rule (4), following shall be inserted:-

"Provided that IFRIC-4 and IFRIC-12, wherever referred to in any of the Indian Accounting Standards (INDAS), shall be applied from a date to be notified."

(4) In the Principal rules, the existing Annexure shall be named as Annexure "B" and before the Annexure 'B' so renamed the following shall be inserted, namely,—

"Annexure 'A'

(*See* rule 3)

[Indian Accounting Standards (Ind AS)]"

Indian Accounting Standard (Ind AS) 2

Inventories

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles.*)

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard deals with the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also deals with the cost formulas that are used to assign costs to inventories.

Scope

2. This Standard applies to all inventories, except:

(*a*) work in progress arising under construction contracts, including directly related service contracts (*see* Ind AS 11, Construction Contracts;

(*b*) financial instruments (*see* Ind AS 39 , Financial Instruments: Recognition and Measurement and Ind AS 32, Financial Instruments: Presentation); and

(*c*) biological assets (*i.e.*, living animals or plants) related to agricultural activity and agricultural produce at the point of harvest (*See* Ind AS 41, Agriculture[1])

3. This Standard does not apply to the measurement of inventories held by:

(*a*) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.

(*b*) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

4. The inventories referred to in paragraph 3(*a*) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.

5. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(*b*) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

6. The following terms are used in this Standard with the meanings specified:

Inventories are assets:

(*a*) held for sale in the ordinary course of business;

(*b*) in the process of production for such sale; or

(*c*) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

7. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

8. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (*see* Ind AS 18, Revenue).

Measurement of inventories

9. Inventories shall be measured at the lower of cost and net realisable value.

Cost of inventories

10. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

11. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

12. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

13. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

14. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs

15. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

16. Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(*a*) abnormal amounts of wasted materials, labour or other production costs;

(*b*) storage costs, unless those costs are necessary in the production process before a further production stage;

(*c*) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(*d*) selling costs.

17. Ind AS 23, *Borrowing Costs,* identifies limited circumstances where borrowing costs are included in the cost of inventories.

18. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Cost of inventories of a service provider

19. To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets [2]

20. In accordance with Ind AS 41, *Agriculture,* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the measurement of cost

21. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost.

Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

22. The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost Formulas

23. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

24. Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.

25. The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

26. For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

27. The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net realisable value

28. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

29. Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

30. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

31. Estimates of net realisable value also take into consideration me purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

32. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

33. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (*i.e.,* the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an expense

34. When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

35. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

36. The financial statements shall disclose:

(*a*) the accounting policies adopted in measuring inventories, including the cost formula used;

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

(*c*) the carrying amount of inventories carried at fair value less costs to sell;

(*d*) the amount of inventories recognised as an expense during the period;

(*e*) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;

(*f*) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;

(*g*) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and

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

37. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may be described as work in progress.

38. [Refer to Appendix 1]

39. An entity adopts a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, the entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (*Ind AS*) *2.*

This appendix lists the appendix which is a part of another Indian Accounting Standard and makes reference to Ind AS 2, *Inventories*

1. Appendix A, *Intangible Assets-Web site Costs* contained in Ind AS 38, *Intangible Assets.*

Appendix 1

Note: This Appendix is not a part of Indian Accounting Standard (*Ind AS*) *2, Inventories. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard and the corresponding International Accounting Standard* (*IAS*) *2, Inventories.*

Comparison with IAS 2, *Inventories*

1. Paragraph 38 of IAS 2 dealing with recognition of inventories as an expense based on function-wise classification, has been deleted keeping in view the fact that option provided in IAS 1 to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity has been removed and Ind AS 1 requires only nature-wise classification of expenses, However, in order to maintain consistency with paragraph number of IAS 2, the paragraph number is retained in Ind AS 2.

Indian Accounting Standard (Ind AS) 7

Statement of Cash Flows

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority*. *Paragraphs in bold type indicate the main principles.*)

Objective

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope

1. An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

2. [Refer to Appendix 1]

3. Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

4. A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

5. Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

6. The following terms are used in this Standard with the meanings specified :

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cashflows are inflows and outflows of cash and cash equivalents.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash and cash equivalents

7. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preference shares acquired within a short period of their maturity and with a specified redemption date.

8. Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

9. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

10. The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

11. An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

12. A single transaction may include cash flows that are classified differently. For example, when the instalment paid in respect of a fixed asset acquired on deferred payment basis includes both interest and loan, the interest element is classified under financing activities and the loan element is classified under investing activities.

Operating activities

13. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

14. Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(*a*) cash receipts from the sale of goods and the rendering of services;

(*b*) cash receipts from royalties, fees, commissions and other revenue;

(*c*) cash payments to suppliers for goods and services;

(*d*) cash payments to and on behalf of employees,

(*e*) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

(*f*) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

(*g*) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for rental to others and subsequently held for sale as described in paragraph 68A of Ind AS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

15. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

16. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(*a*) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(*b*) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(*c*) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(*d*) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(*e*) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(*f*) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

(*g*) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(*h*) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(*a*) cash proceeds from issuing shares or other equity instruments;

(*b*) cash payments to owners to acquire or redeem the entity's shares;

(*c*) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(*d*) cash repayments of amounts borrowed; and (*e*) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

18 An entity shall report cash flows from operating activities using either:

(*a*) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(*b*) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

19. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(*a*) from the accounting records of the entity; or

(*b*) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the statement of profit and loss for:

(*i*) changes during the period in inventories and operating receivables and payables;

(*ii*) other non-cash items; and

(*iii*) other items for which the cash effects are investing or financing cash flows.

20. Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(*a*) changes during the period in inventories and operating receivables and payables;

(*b*) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and

(*c*) ail other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

Reporting cash flows from investing and financing activities

21 An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.

Reporting cash flows on a net basis

22 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

(*a*) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and

(*b*) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

23. Examples of cash receipts and payments referred to in paragraph 22(*a*) are:

(*a*) the acceptance and repayment of demand deposits of a bank;

(*b*) funds held for customers by an investment entity; and

(*c*) rents collected on behalf of, and paid over to, the owners of properties.

23A Examples of cash receipts and payments referred to in paragraph 22(*b*) are advances made for, and the repayment of:

(*a*) principal amounts relating to credit card customers;

(*b*) the purchase and sale of investments; and

(*c*) other short-term borrowings, for example, those which have a maturity period of three months or less.

24. Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

(*a*) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(*b*) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(*c*) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

25. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

26. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

27. Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21 The *Effects of Changes in Foreign Exchange Rates.* This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, Ind AS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

28. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

29. [Refer to Appendix 1]

30. [Refer to Appendix 1]

Interest and dividends

31. Cash flows from interest and dividends received and paid shall each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities. In the case of other entities, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities.

32. The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with Ind AS 23 *Borrowing Costs.*

33. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Some argue that interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. However, it is more appropriate that interest paid and interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

34. Some argue that dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows. However, it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources.

Taxes on income

35. Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

36. Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

37. When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38. An entity which reports its interest in a jointly controlled entity (*see* Ind AS 31 *Interests in Joint Ventures*) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Changes in ownership interests in subsidiaries and other businesses

39. The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

40. An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

(*a*) the total consideration paid or received;

(*b*) the portion of the consideration consisting of cash and cash equivalents;

(*c*) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and

(*d*) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

41. The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

42. The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

42A. Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities.

42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (*see* Ind AS 27, *Consolidated and Separate Financial Statements*). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

43. Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

44. Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(*a*) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

(*b*) the acquisition of an entity by means of an equity issue; and

(*c*) the conversion of debt to equity.

Components of cash and cash equivalents

45. An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

46. In view of the variety of cash management practices and banking arrangements around the world and in order to comply with Ind AS 1 *Presentation of Financial Statements,* an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47. The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Other disclosures

48. An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group[3].

49. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group[4]. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

50. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

(*a*) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restricti6ns on the use of these facilities;

(*b*) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;

(*c*) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

(*d*) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (*see* Ind AS 108 *Operating Segments*) .

51. The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

52. The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

Appendix A

Illustrative Examples

Statement of cash flows for an entity other than a financial institution

This appendix accompanies, but is not part of, Ind AS 7.

1. The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with Ind AS 1 *Presentation of Financial Statements.*

2. Information from the statement of profit and loss and balance sheet is provided to show how the statements of cash flows under the direct method and indirect method have been derived. Neither the statement of profit and loss nor the balance sheet is presented in conformity with the disclosure and presentation requirements of other Standards.

3. The following additional information is also relevant for the preparation of the statements of cash flows:

- all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows :

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

- 250 was raised from the issue of share capital and a further 150 was raised from long-term borrowings and 100 was raised from short-term borrowing.

- interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was paid during the period.
- dividends paid were 1,200.
- the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.
- during the period, the group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.
- plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
- accounts receivable as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of profit and loss for the period ended 20X2 [a]

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

(*a*) The entity did not recognise any components of other comprehensive income in the period ended 20X2

Consolidated balance sheet as at end of 20X2

		20X2		**20X1**
Assets				
Cash and cash equivalents		230		160
Accounts receivable		1,900		1,200
Inventory		1,000		1,950
Portfolio investments		2,500		2,500
Property, plant and equipment at cost	3,730		1,910	
Accumulated depreciation	(1,450)		(1,060)	
Property, plant and equipment net		2,280		850
Total assets		7,910		6,660
Liabilities				

Trade payables		250		1,890
Interest payable		230		100
Income taxes payable		400		1,000
Long-term debt		2200		1,040
Short-term borrowing		100		—
Total liabilities		3,180		4,030
Shareholders' equity				
Share capital		1,500		1,250
Retained earnings		3,230		1,380
Total shareholders' equity		4,730		2,630
Total liabilities and shareholders' equity		7,910		6,660

Direct method statement of cash flows (paragraph 18(*a*))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash generated from operations	2,550	
Income taxes paid	(900)	
Net cash from operating activities		1,650
Cash flows from investing activities		
Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	150	
Proceeds from short term borrowings	100	
Payment of finance lease liabilities	(90)	
Interest paid	(270)	
Dividends paid	(1,200)	
Net cash used in financing activities		(1,060)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

Indirect method statement of cash flows (paragraph 18(*b*))

		20X2
Cash flows from operating activities		
Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	
Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	3,740	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
Cash generated from operations	2,550	
Income taxes paid	(900)	
Net cash from operating activities		1,650
Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	150	
Proceeds from short-term borrowings	100	
Payment of finance lease liabilities	(90)	
Interest paid	(270)	
Dividends paid	(1,200)	
Net cash used in financing activities		(1,060)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

Notes to the statement of cash flows (direct method and indirect method)

A. Obtaining control of subsidiary

During the period the Group obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100

Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of subsidiary X acquired	(40)
Cash paid to obtain control net of cash acquired	550

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.

C. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following amounts in the balance sheet:

	20X2		**20X1**
Cash on hand and balances with banks	40		25
Short-term investments	190		135
Cash and cash equivalents as previously reported	230		160
Effect of exchange rate changes	—		(40)
Cash and cash equivalents as restated	230		120

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary which are not freely remissible to the holding company because of currency exchange restrictions.

The Group has undrawn borrowing facilities of 2,000 of which 700 may be used only for future expansion.

D. Segment information

	Segment A		**Segment B**		**Total**
Cash flows from:					
Operating activities	1,790		(140)		1,650
Investing activities	(640)		160		(480)
Financing activities	(840)		(220)		(1,060)
	310		(200)		110

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Revenues excluding investment income	30,650	
Operating expense excluding depreciation	(26,910)	
Operating profit before working capital changes		3,740

Appendix B

Illustrative Examples

Statement of cash flows for a financial institution

This appendix accompanies, but is not part of Ind AS 7.

1. The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with Ind AS 1 *Presentation of Financial Statements.*

2. The example is presented using the direct method.

		20X2
Cash flows from operating activities		
Interest and commission receipts	28,447	
Interest payments	(23,463)	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	4,224	
(*Increase*) *decrease in operating assets:*		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
Increase (*decrease*) *in operating liabilities:*		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income tax	3,440'	
Income taxes paid	(100)	
Net cash from operating activities		3,340
Cash flows from investing activities		
Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
Net cash from investing activities		650

Cash flows from financing activities		
Issue of loan capital	l,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
Net cash from financing activities		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		8,840

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (*Ind AS*) *7 and the corresponding International Accounting Standard* (*IAS*) *7, Statement of Cash Flows.*

Comparison with IAS 7, *Statement of Cash Flows*

Ind AS 7 differs from International Accounting Standard (IAS) 7, *Statement of Cash Flows,* in the following major respects:

1. 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).

2. 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.

3. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.

4. Paragraph 2 of IAS 7 which states that IAS 7 supersedes the earlier version IAS 7 is deleted in Ind AS 7 as this is not relevant in Ind AS 7. However, paragraph number 2 is retained in Ind AS 7 to maintain consistency with paragraph numbers of IAS 7.

5. The following paragraph numbers appear as 'Deleted 'in IAS 7. In order to maintain consistency with paragraph numbers of IAS 7, the paragraph numbers are retained in Ind AS 7:

(*i*) paragraph 29

(*ii*) paragraph 30

Indian Accounting Standard (Ind AS) 8

Accounting Policies, Changes in Accounting Estimates and Errors

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*)

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1 *Presentation of Financial Statements.*

Scope

3. This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with Ind AS 12 *Income Taxes.*

Definitions

5. The following terms are used in this Standard with the meanings specified:

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

A *change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Indian Accounting Standards Ind ASs are Standards prescribed under section 211(3C) of the Companies Act, 1956.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(*a*) was available when financial statements for those periods were approved for issue; and

(*b*) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(*a*) the effects of the retrospective application or retrospective restatement are not determinable;

(*b*) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(*c*) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(*i*) provides evidence of circumstances that existed on the date(*s*) as at which those amounts are to be recognised, measured or disclosed; and

(*ii*) would have been available when the financial statements for that prior period were approved for issue from other information.

Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

(*a*) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

(*b*) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

6. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India states in paragraph 26 that 'It is assumed that users have a reasonable knowledge of business and economic activities and accounting and study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Accounting policies

Selection and application of accounting policies

7. When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.

8. Ind ASs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from Ind ASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

9. Ind ASs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of Ind ASs. Guidance that is an integral part of the Ind ASs is mandatory. Guidance that is not an integral part of the Ind ASs does not contain requirements for financial statements.

10. In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

(*a*) relevant to the economic decision-making needs of users; and

(*b*) reliable, in that the financial statements:

- (*i*) represent faithfully the financial position, financial performance and cash flows of the entity;
- (*ii*) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
- (*iii*) are neutral, *i.e.*, free from bias;
- (*iv*) are prudent; and
- (*v*) are complete in all material respects.

11. In making the judgment described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

(*a*) the requirements in Ind ASs dealing with similar and related issues; and

(*b*) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework.*

12. In making the judgment described in paragraph 10, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.

Consistency of accounting policies

13. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

14. An entity shall change an accounting policy only if the change:

(*a*) is required by an Ind AS; or

(*b*) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

15. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.

16. The following are not changes in accounting policies:

(*a*) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(*b*) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

17. The initial application of a policy to revalue assets in accordance with Ind AS 16 *Property, Plant and Equipment* or Ind AS 38 *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with Ind AS 16 or Ind AS 38, rather than in accordance with this Standard.

18. Paragraphs 19-31 do not apply to the change in accounting policy described in paragraph 17.

Applying changes in accounting policies

19. Subject to paragraph 23:

(*a*) an entity shall account for a change in accounting policy resulting from the initial application of an Ind AS in accordance with the specific transitional provisions, if any, in that Ind AS; and

(*b*) when an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

20. For the purpose of this Standard, early application of an Ind AS is not a voluntary change in accounting policy.

21. In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement; the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

22. Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(*a*) or (*b*), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

23. When retrospective application is required by paragraph 19(*a*) or (*b*), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

24. When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

25. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

26. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an Ind AS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

27. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50-53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

28. When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(*a*) the title of the Ind AS;

(*b*) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(*c*) the nature of the change in accounting policy;

(*d*) when applicable, a description of the transitional provisions;

(*e*) when applicable, the transitional provisions that might have an effect on future periods;

(*f*) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(*i*) for each financial statement line item affected; and

(*ii*) if Ind AS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;

(*g*) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(*h*) if retrospective application required by paragraph 19(*a*) or (*b*) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

29. When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(*a*) the nature of the change in accounting policy;

(*b*) the reasons why applying the new accounting policy provides reliable and more relevant information;

(*c*) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(*i*) for each financial statement line item affected; and

(*ii*) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;

(*d*) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(*e*) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30. When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

(*a*) this fact; and

(*b*) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

31. In complying with paragraph 30, an entity considers disclosing:

(*a*) the title of the new Ind AS;

(*b*) the nature of the impending change or changes in accounting policy;

(*c*) the date by which application of the Ind AS is required;

(*d*) the date as at which it plans to apply the Ind AS initially; and

(*e*) either:

(*i*) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or

(*ii*) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in accounting estimates

32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(*a*) bad debts;

(*b*) inventory obsolescence;

(*c*) the fair value of financial assets or financial liabilities;

(*d*) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and

(*e*) warranty obligations.

33. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

34. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

35. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

36. The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

(*a*) the period of the change, if the change affects that period only; or

(*b*) the period of the change and future periods, if the change affects both.

37. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

38. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Disclosure

39. An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

40. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

Errors

41. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (*see* paragraphs 42-47).

42. Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

(*a*) restating the comparative amounts for the prior period(*s*) presented in which the error occurred; or

(*b*) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Limitations on retrospective restatement

43. A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

44. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

45. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

46. The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.

47. When it is impracticable to determine the amount of an error (*e.g.,* a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50-53 provide guidance on when it is impracticable to correct an error for one or more prior periods.

48. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of prior period errors

49. In applying paragraph 42, an entity shall disclose the following:

(*a*) the nature of the prior period error;

(*b*) for each prior period presented, to the extent practicable, the amount of the correction:

(*i*) for each financial statement line item affected; and

(*ii*) if Ind AS 33 applies to the entity, for basic and diluted earnings per share;

(*c*) the amount of the correction at the beginning of the earliest prior period presented; and

(*d*) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in respect of retrospective application and retrospective restatement

50. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(*s*) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51-53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

51. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

52. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that :

(*a*) provides evidence of circumstances that existed on the date(*s*) as at which the transaction, other event or condition occurred, and

(*b*) would have been available when the financial statements for that prior period were approved for issue from other information. For some types of estimates (*e.g.* an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

53. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with Ind AS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were approved for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (*Ind AS*) *8.*

Appendix B, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment contained in Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets makes reference to (Ind AS) 8

Appendix B

Guidance on implementing

Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

(*This guidance accompanies, but is not part of, Ind AS 8.*) Example 1 - Retrospective restatement of errors

1.1 During 20X2, Beta Co discovered that some products that had been sold during 20X1 were incorrectly included in inventory at 31 December 20X1 at Rs. 6,500.

1.2 Beta's accounting records for 20X2 show sales of Rs. 104,000, cost of goods sold of Rs. 86,500 (including Rs. 6,500 for the error in opening inventory), and income taxes of Rs. 5,250.

1.3 In 20X1, Beta reported:

	Rs.
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000

1.4 20X1 opening retained earnings was Rs. 20,000 and closing retained earnings was Rs. 34,000.

1.5 Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.

1.6 Beta had Rs.5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

Beta Co. Extract from the statement of profit and loss

		(restated)
	20X2	20X1
	Rs.	Rs.
Sales	104,000	73,500
Cost of goods sold	(80.000)	(60.000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450

Beta Co. Statement of changes in equity

	Share capital	Retained earnings	Total
	Rs.	Rs.	Rs.
Balance at 31 December 20X0	5,000	20,000	25,000
Profit for the year ended 31 December 20X1 as restated	—	9,450	9,450
Balance at 31 December 20X1	5,000	29,450	34,450
Profit for the year ended 31 December 20X2	—	16,800	16,800
Balance at 31 December 20X2	5,000	46,250	51,250

Extracts from the notes

1. Some products that had been sold in 20X1 were incorrectly included in inventory at 31 December 20X1 at Rs. 6,500. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 20X2.

Example 2 - Prospective application of a change in accounting policy when retrospective application is not practicable

2.1 During 20X2, Delta Co. changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

2.2 In years before 20X2, Delta's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3 Delta's management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Delta's new policy prospectively from the start of 20X2.

2.3 Additional information:

Delta's tax rate is 30 per cent

	Rs.
Property, plant and equipment at the end of 20X1:	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey:	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

Extract from the notes

1. From the start of 20X2, Delta changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by Rs. 6,000; increase the opening deferred tax provision by Rs. 1,800; create a revaluation surplus at the start of the year of Rs. 4,200; increase depreciation expense by Rs. 500; and reduce tax expense by Rs.150.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 8 and the corresponding International Accounting Standard (IAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Comparison with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

1. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. The words 'approval of the financial statements for issue have been used instead of ''authorisation of the financial statements for issue ' in the context of financial statements considered for the purpose of events after the reporting period.

2. In paragraph 12 of Ind AS 8, it is mentioned that in absence of an Ind AS, management may first consider the most recent pronouncements of International Accounting Standards Board.

Indian Accounting Standard (Ind AS) 10

Events after the Reporting Period

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*)

Objective

1. The objective of this Standard is to prescribe:

(*a*) When an entity should adjust its financial statements for events after the reporting period; and

(*b*) the disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

2. This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Definitions

3. The following terms are used in this Standard with the meanings specified:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:

(*a*) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*) *;* and

(*b*) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

4. The process involved in approving the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5. In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been approved by the Board for issue. In such cases, the financial statements are approved for issue on the date of approval by the Board, not the date when shareholders approve the financial statements.

6. In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are approved for issue when the management approves them for issue to the supervisory board.

Example
On 18 March, 20X2, the management of an entity approves financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March, 20X2. The financial statements are made available to shareholders and others on 1 April, 20X2. The shareholders approve the financial statements at their annual meeting on 15 May, 20X2 and the financial statements are then filed with *a* regulatory body on 17 May, 20X2.

The financial statements are approved for issue on 18 March, 20X2 (*date of management approval for issue to the supervisory board*).

7. Events after the reporting period include all events up to the date when the financial statements are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and measurement

Adjusting events after the reporting period

8. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

9. The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(*a*) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of Ind AS 37.

(*b*) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(*i*) the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(*ii*) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

(*c*) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(*d*) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (*see* Ind AS *19 Employee Benefits*) .

(*e*) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the reporting period

10. An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

11. An example of a non-adjusting event after the reporting period is a decline in market value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 21.

Dividends

12. If an entity declares dividends to holders of equity instruments (as defined in Ind AS 32 *Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

13. If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with Ind AS 1 *Presentation of Financial Statements.*

Going concern

14. An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

16. Ind AS 1 specifies required disclosures if:

(*a*) the financial statements are not prepared on a going concern basis; or

(*b*) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

Disclosure

Date of approval for issue

17. An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

18. It is important for users to know when the financial statements were approved for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the end of the reporting period

19. If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

20. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting period about a contingent liability that existed, at the end of the reporting period. In addition to considering whether it should recognise or change a provision under Ind AS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting events after the reporting period

21. If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(*a*) the nature of the event; and

(*b*) an estimate of its financial effect, or a statement that such an estimate cannot be made.

22. The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:

(*a*) a major business combination after the reporting period Ind AS103 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;

(*b*) announcing a plan to discontinue an operation;

(*c*) major purchases of assets, classification of assets as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by Government;

(*d*) the destruction of a major production plant by a fire after the reporting period;

(*e*) announcing, or commencing the implementation of, a major restructuring (*see* Ind AS 37);

(*f*) major ordinary share transactions and potential ordinary share transactions after the reporting period Ind AS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under (Ind AS 33);

(*g*) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(*h*) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (*see* Ind AS 12 Income Taxes);

(*i*) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(*j*) commencing major litigation arising solely out of events that occurred after the reporting period.

Appendix A

Distribution of Non-cash Assets to Owners[5]

This Appendix is an integral part of Ind AS 10.

Background

1. Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners[6] acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.

2. Indian Accounting Standards (Ind ASs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). Ind AS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity presented as a part of the balance sheet or in the notes to the financial statements.

Scope

3. This Appendix applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(*a*) distributions of non-cash assets (*e.g.* items of property, plant and equipment, businesses as defined in Ind AS 103, ownership interests in another entity or disposal groups as defined in Ind AS 105; and

(*b*) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

4. This Appendix applies only to distributions in which all owners of the same class of equity instruments are treated equally.

5. This Appendix does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

6. In accordance with paragraph 5, this Appendix does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. Paragraph B2 of Ind AS 103 states that 'A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.' Therefore, for a distribution to be outside the scope of this Appendix on the basis that the same parties control the asset both before and after the distribution, a group of individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.

7. In accordance with paragraph 5, this Appendix does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with Ind AS 27.

8. This Appendix addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

Issues

9. When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, this Appendix addresses the following issues:

(*a*) When should the entity recognise the dividend payable?

(*b*) How should an entity measure the dividend payable?

(*c*) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Accounting Principles

When to recognise a dividend payable

10. The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:

(*a*) when declaration of the dividend, *e.g.* by management or the board of directors, is approved by the relevant authority, *e.g.* the shareholders, if the jurisdiction requires such approval, or

(*b*) when the dividend is declared, *e.g.* by management or the board of directors, if the jurisdiction does not require further approval.

Measurement of a dividend payable

11. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

12. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

13. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable

14. When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation and disclosures

15. An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.

16. An entity shall disclose the following information, if applicable:

(*a*) the carrying amount of the dividend payable at the beginning and end of the period; and

(*b*) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.

17. If, after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

(*a*) the nature of the asset to be distributed;

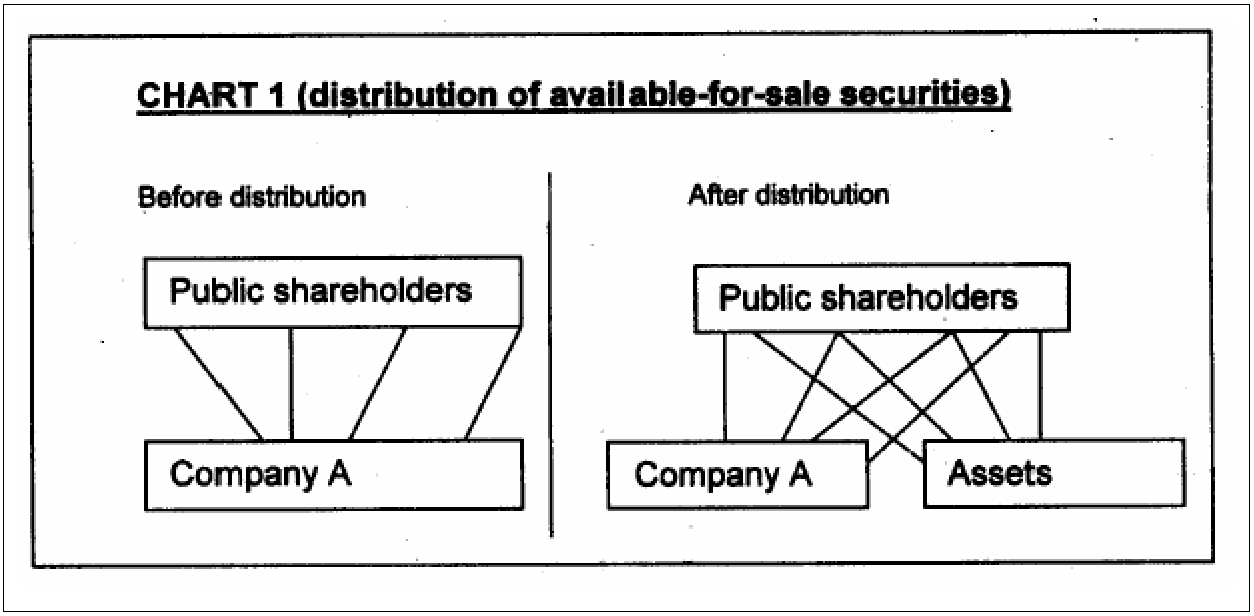
(*b*) the carrying amount of the asset to be distributed as of the end of the reporting period; and

(*c*) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by Ind AS 107 paragraph 27(*a*) and (*b*).

Illustrative examples

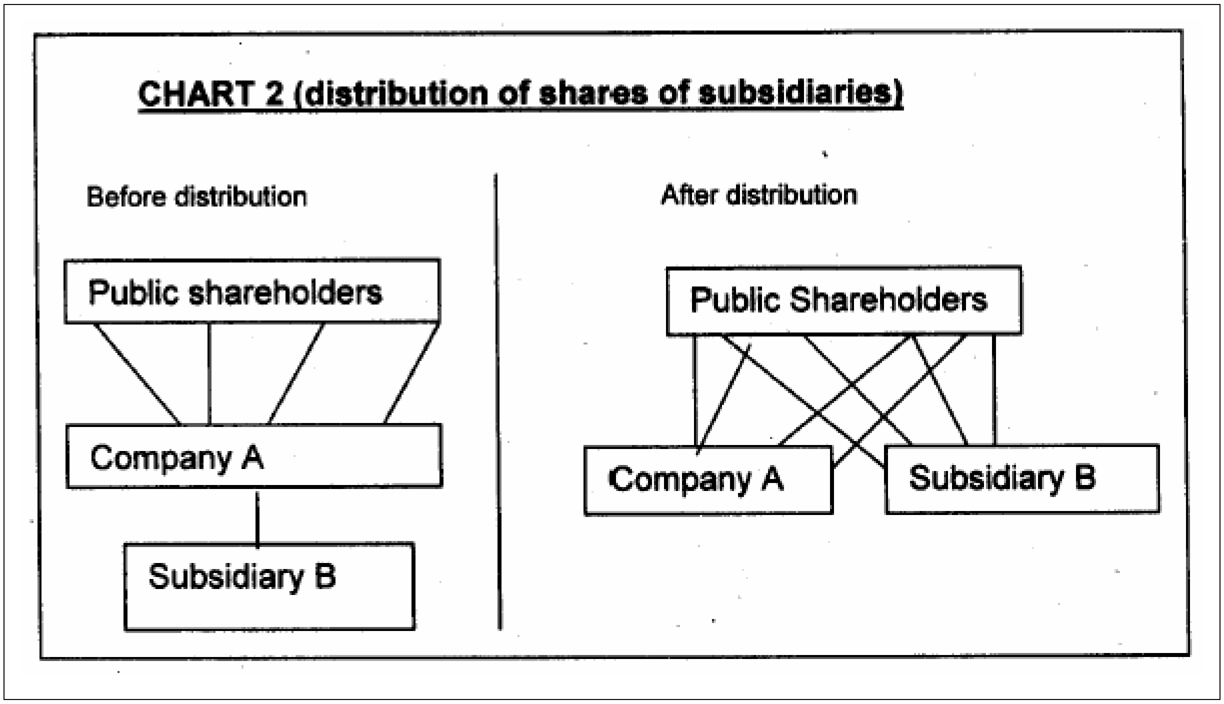
These examples accompany, but are not part of this appendix

Scope of the Appendix (paragraphs 3-8)



IE1 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A distributes certain assets (*e.g.* available-for-sale securities) *pro rata* to the shareholders. This transaction is within the scope of the Appendix.

IE2 However, if one of the shareholders (or a group bound by a contractual agreement to act together) controls Company A both before and after the transaction, the entire transaction (including the distributions to the non-controlling shareholders) is not within the scope of the Appendix. This is because in a *pro rata* distribution to all owners of the same class of equity instruments, the controlling shareholder (or group of shareholders) will continue to control the non-cash assets after the distribution.



IE3 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A owns all of the shares of Subsidiary B. Company A distributes all of the shares of Subsidiary B *pro rata* to its shareholders, thereby losing control of Subsidiary B. This transaction is within the scope of the Appendix.

IE4 However, if Company A distributes to its shareholders shares of Subsidiary B representing only a non-controlling interest in Subsidiary B and retains control of Subsidiary B, the transaction is not within the scope of the Appendix. Company A accounts for the distribution in accordance with Ind AS 27 *Consolidated and Separate Financial Statements.* Company A controls Company B both before and after the transaction.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 10 and the corresponding International Accounting Standard (IAS) 10, Events after the Reporting Period.

Comparison with IAS 10, *Events after the Reporting Period and IFRIC Interpretation 17*

1. Different terminology is used in this standard, *e.g.,* the term 'balance sheet' is used instead of 'Statement of financial position'. The words 'approval of the financial statements for issue have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

Indian Accounting Standard (Ind AS) 20

Accounting for Government Grants and Disclosure of Government Assistance

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Scope

1. This Standard shall be applied in accounting for, and in the disclosure of, Government grants and in the disclosure of other forms of Government assistance.

2. This Standard does not deal with:

(*a*) the special problems arising in accounting for Government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

(*b*) Government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation.

(*c*) Government participation in the ownership of the entity.

(*d*) Government grants covered by Ind AS , *Agriculture*[7] .

Definitions

3. The following terms are used in this Standard with the meanings specified:

Government refers to Government, Government agencies and similar bodies whether local, national or international.

Government assistance is action by Government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only Indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by Government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of Government assistance which cannot reasonably have a value placed upon them and transactions with Government which cannot be distinguished from the normal trading transactions of the entity[8].

Grants related to assets are Government grants/ whose primary condition is that an Entity qualifying for them should purchase, construct or otherwise acquire long-term assets; Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are Government grants other than those related to assets.

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed Conditions.

Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

4. Government assistance takes many forms varying both in the nature of the assistance given and in the conditions which are usually attached to it. The purpose of the assistance may be to encourage an entity to embark on a course of action which it would not normally have taken if the assistance was not provided.

5. The receipt of Government assistance by an entity may be significant for the preparation of the financial statements for two reasons. Firstly, if resources have been transferred, an appropriate method of accounting for the transfer must be found. Secondly, it is desirable to give an indication of the extent to which the entity has benefited from such assistance during the reporting period. This facilitates comparison of an (entity's financial statements with those of prior periods and with those of other entities.

6. Government grants are sometimes called by other names such as subsidies, subventions, or premiums.

Government grants

7. Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(*a*) the entity will comply with the conditions attaching to them; and

(*b*) the grants will be received.

8. A Government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

9. The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the Government.

10. A forgivable loan from Government is treated as a Government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

10A. The benefit of a Government loan at a below-market rate of interest is treated as a Government grant. The loan shall be recognised and measured in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement.* The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 39 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

11. Once a Government grant is recognised, any related contingent liability or contingent asset is treated in accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

12. Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

13. There are two broad approaches to the accounting for Government grants: the capital approach, under which a grant is recognised outside profit or loss, and the income approach, under which a grant is recognised in profit or loss over one or more periods.

14. Those in support of the capital approach argue as follows:

(*a*) Government grants are a financing device and should be dealt with as such in the balance sheet rather than be recognised in profit or loss to offset the items of expense that they finance. Because no repayment is expected, such grants should be recognised outside profit or loss.

(*b*) it is inappropriate to recognise Government grants in profit or loss, because they are not earned but represent an incentive provided by Government without related costs.

15. Arguments in support of the income approach are as follows:

(*a*) because Government grants are receipts from a source other than shareholders, they should not be recognised directly in equity but should be recognised in profit or loss in appropriate periods.

(*b*) Government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

(*c*) because income and other taxes are expenses, it is logical to deal also with Government grants, which are an extension of fiscal policies, in profit or loss.

16. It is fundamental to the income approach that Government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Recognition of Government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (*see* Ind AS 1 *Presentation of Financial Statements)* and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.

17. In most cases the periods over which an entity recognises the costs or expenses related to a Government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

18. Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

19. Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

20. A Government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

21. In some circumstances, a Government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant in profit or loss of the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

22. A Government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognized in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

Non-monetary Government grants

23. A Government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances the fair value of the non-monetary asset is assessed and both grant and asset are accounted for at that fair value.

Presentation of grants related to assets

24. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.

25. [Refer to Appendix 1].

26. The grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

27. [Refer to Appendix 1]

28. The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are disclosed as separate items in the statement of cash flows..

Presentation of grants related to income

29. Grants related to income are sometimes presented as a credit in the statement of profit and loss, either separately or under a general heading such as 'other income'; alternatively, they are deducted in reporting the related expense.

29A [Refer to Appendix 1]

30. Supporters of the first method claim that it is inappropriate to net income and expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading.

31. Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Repayment of Government grants

32. A Government grant that becomes repayable shall be accounted for as a change in accounting estimate (*see* Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors).* Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset shall be recognised by reducing the deferred income balance by the amount repayable.

33. [Refer to Appendix 1]

Government assistance

34. Excluded from the definition of Government grants in paragraph 3 are certain forms of Government assistance which cannot reasonably have a value placed upon them and transactions with Government which cannot be distinguished from the normal trading transactions of the entity.

35. Examples of assistance that cannot reasonably have a value placed upon them are free technical or marketing advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the entity is a Government procurement policy that is responsible for a portion of the entity's sales. The existence of the benefit might be unquestioned but any attempt to segregate the trading activities from Government assistance could well be arbitrary.

36. The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.

37. [Refer to Appendix 1]

38. In this Standard, Government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Disclosure

39. The following matters shall be disclosed:

(*a*) the accounting policy adopted for Government grants, including the methods of presentation adopted in the financial statements;

(*b*) the nature and extent of Government grants recognised in the financial statements and an indication of other forms of Government assistance from which the entity has directly benefited; and

(*c*) unfulfilled conditions and other contingencies attaching to Government assistance that has been recognised.

Appendix A

Government Assistance— No Specific Relation to Operating Activities

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 20.

Issue

1. In some countries Government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by Governments to entities which:

(*a*) operate in a particular industry;

(*b*) continue operating in recently privatised industries; or

(*c*) start or continue to run their business in underdeveloped areas.

2. The issue is whether such Government assistance is a 'Government grant' within the scope of Ind AS 20 and, therefore, should be accounted for in accordance with this Standard.

Accounting Principle

3. Government assistance to entities meets the definition of Government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to shareholders' interests.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 20 and the corresponding International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance

Comparison with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

1. 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.

2. 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. As a consequence thereof paragraph 32 has been modified and the following paragraphs of IAS 20 which are with reference to the options for presentation of grants related to assets have been deleted in Ind AS 20. In order to maintain consistency with paragraph numbers of IAS 20, the paragraph numbers are retained in Ind AS 20:

(*i*) Paragraph 25

(*ii*) Paragraph 27

(*iii*) Paragraph 33

3. 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. This change is consequential to the removal of option regarding 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. However, paragraph number 29A has been retained in Ind AS 20 to maintain consistency with paragraph numbers of IAS 20.

4. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.

5. Paragraph number 37 appear as 'Deleted 'in IAS 20. In order to maintain consistency with paragraph numbers of IAS 20, the paragraph number is retained in Ind AS 20.

Indian Accounting Standard (Ind AS) 21

The Effects of Changes in Foreign Exchange Rates

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

2. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

3. This Standard shall be applied

(*a*) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 39 *Financial Instruments: Recognition and Measurement*,

(*b*) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or the equity method; and

(*c*) in translating an entity's results and financial position into a presentation currency.

4. Ind AS 39 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of Ind AS 39 (*e.g.* some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Ind AS 39 applies to hedge accounting.

6. This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with Indian Accounting Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

7. This Standard does not apply to the presentation in a statement of cash flows of the cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (*see* Ind AS 7 *Statement of Cash Flows).*

Definitions

8. The following terms are used in this Standard with the meanings specified:

Closing rate is the spot exchange rate at the end of the reporting period.

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

A *group* is a parent and all its subsidiaries.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Elaboration on the definitions

Functional currency

9. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(*a*) the currency:

(*i*) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(*ii*) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(*b*) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

10. The following factors may also provide evidence of an entity's functional currency:

(*a*) the currency in which funds from financing activities (*i.e.* issuing debt and equity instruments) are generated.

(*b*) the currency in which receipts from operating activities are usually retained.

11. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its subsidiary, branch, associate or joint venture):

(*a*) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it. An example of the latter is when the operation accumulates cash and other monetary items, incurs expenses, generates income and arranges borrowings, all substantially in its local currency.

(*b*) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities

(*c*) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(*d*) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

12. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 9 before considering the indicators in paragraphs 10 and 11, which are designed to provide additional supporting evidence to determine an entity's functional currency.

13. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

14. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with Ind AS 29 *Financial Reporting in Hyperinflationary Economies.* An entity cannot avoid restatement in accordance with Ind AS 29 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its parent).

Net investment in a foreign operation

15. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 32 and 33. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

15A. The entity that has a monetary item receivable from or payable to a foreign operation described in paragraph 15 may be any subsidiary of the group. For example, an entity has two subsidiaries, A and B. Subsidiary B is a foreign operation. Subsidiary A grants a loan to Subsidiary B. Subsidiary A's loan receivable from Subsidiary B would be part of the entity's net investment in Subsidiary B if settlement of the loan is neither planned nor likely to occur in the foreseeable future. This would also be true if Subsidiary A were itself a foreign operation.

Monetary items

16. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (*e.g.* prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non monetary asset.

Summary of the approach required by this Standard

17. In preparing financial statements, each entity—whether a stand-alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—determines its functional currency in accordance with paragraphs 9-14. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 20-37 and 50.

18. Many reporting entities comprise a number of individual entities (*e.g.* a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 38-50.

19. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with Ind AS 27 *Consolidated and Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 38-50.

Reporting foreign currency transactions in the functional currency

Initial recognition

20. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(*a*) buys or sells goods or services whose price is denominated in a foreign currency;

(*b*) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(*c*) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

21. A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

22. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with Indian Accounting Standards. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the ends of subsequent reporting periods

23. At the end of each reporting period

(*a*) foreign currency monetary items shall be translated using the closing rate;

(*b*) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

(*c*) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

24. The carrying amount of an item is determined in conjunction with other relevant Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with Ind AS 16 *Property, Plant and Equipment.* Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

25. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories is the lower of cost and net realisable value in accordance with Ind AS 2 *Inventories.* Similarly, in accordance with Ind AS 36 *Impairment of Assets,* the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

(*a*) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (*i.e.* the rate at the date of the transaction for an item measured in terms of historical cost); and

(*b*) the net realisable value or recoverable amount, as appropriate, translated at the exchange rate at the date when that value was determined (*e.g.* the closing rate at the end of the reporting period).

The effect of this comparison may be that an impairment loss is recognised in the functional currency but would not be recognised in the foreign currency, or *vice versa*.

26. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of exchange differences

27. As noted in paragraph 3(*a*) and 5, Ind AS 39 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, Ind AS 39 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in other comprehensive income to the extent that the hedge is effective.

28. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except:

(*i*) exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation as described in paragraph 32;

(*ii*) where an entity exercises the option provided in paragraph 29A in respect of long-term monetary items.

29. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period. Paragraph 29A provides an option to recognise unrealised exchange differences arising on translation of certain long-term monetary assets and long-term monetary liabilities from foreign currency to functional currency.

29A. An entity may exercise the option in respect of recognition of exchange differences arising on translation of long-term monetary items from foreign currency to functional currency as follows:

(*i*) Unrealised exchange differences arising on long-term monetary assets and long-term monetary liabilities denominated in a foreign currency shall be recognised directly in equity and accumulated in a separate component of equity. The amount so accumulated shall be transferred to profit or loss over the period of maturity of such long-term monetary items in an appropriate manner. The separate component of equity shall be distinguished from any other component of equity representing any other exchange difference recognised in other comprehensive income and accumulated in equity.

(*ii*) The option provided in paragraph 29A(*i*) is not available for the long-term monetary assets and long-term monetary liabilities during the period they are classified as at fair value through profit or loss in accordance with Ind AS 39, either because they are held for trading or because of their designation as at fair value through profit or loss.

(*iii*) The option provided in paragraph 29A(*i*) shall be exercised for the first time when the exchange difference arising on a long-term monetary asset or a long-term monetary liability mentioned in paragraph 29A(*i*) is recognised. The option, once exercised, shall be irrevocable and shall be exercised in respect of all the long-term monetary assets and long-term monetary liabilities mentioned in paragraph 29A(*i*).

(*iv*) For the purpose of this paragraph, a monetary asset or a monetary liability shall be treated as long-term, if that asset or liability has a maturity period of twelve months or more from the date of the initial recognition of that asset or liability.

30. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

31. Other Indian Accounting Standards require some gains and losses to be recognised in other comprehensive income. For example, Ind AS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in other comprehensive income. When such an asset is measured in a foreign currency, paragraph 23(*c*) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in other comprehensive income.

32. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (*see* paragraph 15) shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (*e.g.* consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 48.

33. When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 28. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 28. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 28. Such exchange differences are recognised in other comprehensive income in the financial statements that include the foreign operation and the reporting entity (*i.e.* financial statements in which the foreign operation is consolidated, proportionately consolidated or accounted for using the equity method).

34. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 20-26. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in functional currency

35. When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

36. As noted in paragraph 13, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

37. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income in accordance with paragraphs 32 and 39(*c*) are not reclassified from equity to profit or loss until the disposal of the operation. When the option provided in paragraph 29A is exercised, exchange differences previously recognised directly in equity and accumulated in a separate component of equity in accordance with that paragraph are not transferred to profit or loss immediately on change of the entity's functional currency. They shall continue to be transferred to profit or loss in the manner stated in that paragraph.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

38. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

39. The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(*a*) assets and liabilities for each balance sheet presented (*i.e.* including comparatives) shall be translated at the closing rate at the date of that balance sheet;

(*b*) income and expenses for each statement of profit and loss presented (*i.e.* Including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(*c*) all resulting exchange differences shall be recognised in other comprehensive income.

40. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period, is inappropriate.

41. The exchange differences referred to in paragraph 39(*c*) result from:

(*a*) translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.

(*b*) translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognised in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognised as part of, non-controlling interests in the consolidated balance sheet.

42. The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(*a*) all amounts (*i.e.* assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent balance sheet, except that

(*b*) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (*i.e.* not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

43. When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with Ind AS 29 before applying the translation method set out in paragraph 42, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy [*see* paragraph 42(b)]. When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with Ind AS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.

Translation of a foreign operation

44. Paragraphs 45-47, in addition to paragraphs 38-43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportionate consolidation or the equity method.

45. The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (*see* Ind AS 27 and Ind AS 31 *Interests in Joint Ventures).* However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation. When the option provided in paragraph 29A is exercised, in the consolidated financial statements of the reporting entity, such an exchange difference is directly recognised in equity and disposed of in the manner prescribed in that paragraph.

46. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, Ind AS 27 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with Ind AS 27. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation to joint ventures in accordance with Ind AS 28 *Investments in Associates* and Ind AS 31.

47. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation.

Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 39 and 42.

Disposal or partial disposal of a foreign operation

48. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised (*see* Ind AS 1 *Presentation of Financial Statements).*

48A. In addition to the disposal of an entity's entire interest in a foreign operation, the following are accounted for as disposals even if the entity retains an interest in the former subsidiary, associate or jointly controlled entity:

(*a*) the loss of control of a subsidiary that includes a foreign operation;

(*b*) the loss of significant influence over an associate that includes a foreign operation; and

(*c*) the loss of joint control over a jointly controlled entity that includes a foreign operation.

48B. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognised, but shall not be reclassified to profit or loss.

48C. On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

48D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 48A that are accounted for as disposals.

49. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in other comprehensive income is reclassified to profit or loss at the time of a write-down.

Tax effects of all exchange differences

50. Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects. Ind AS 12 *Income Taxes* applies to these tax effects.

Disclosure

51. In paragraphs 53 and 55-57 references to 'functional currency' apply, in the case of a group, to the functional currency of the parent.

52. An entity shall disclose:

(*a*) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 39;

(*b*) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period; and

(*c*) net exchange differences recognised directly in equity and accumulated in a separate component of equity in accordance with paragraph 29A, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

53. When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.

54. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact, the reason for the change in functional currency and the date of change in functional currency shall be disclosed.

55. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with Indian Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 39 and 42.

56. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 55. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with Indian Accounting Standards and the disclosures set out in paragraph 57 are required.

57. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 55 are not met, it shall:

(*a*) clearly identify the information as supplementary information to distinguish it from the information that complies with Indian Accounting Standards;

(*b*) disclose the currency in which the supplementary information is displayed; and

(*c*) disclose the entity's functional currency and the method of translation used to determine the supplementary information.

Appendix A

References to matters - contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard 21

This appendix lists the appendix which is a part of another Indian Accounting Standard and makes reference to Ind AS 21, *The Effects* of *Changes in Foreign Exchange Rates.*

1. Appendix D *Hedges of a Net Investment in a Foreign Operation* contained in Ind AS 39, *Financial instruments: Recognition and Measurement* makes reference to this Standard also.

Appendix B

This Appendix accompanies, but is not part of Ind AS 21.

Example illustrating paragraph 14

Entity P has a subsidiary Entity S. Functional currencies of Entities P and S determined in accordance with Ind AS 21 are Rupee and CU respectively. Further, currency CU is determined as currency of a hyperinflationary economy within the meaning of Ind AS 29. The financial statements of Entity S should be restated in accordance with Ind AS 29. This requirement cannot be avoided, for example, by adopting Rupee as the functional currency of Entity S.

Example illustrating impairment loss in paragraph 25

Entity A's functional currency is Rupee. It has a building located in US acquired at a cost of US$ 10,000 when the exchange rate was US$ 1=Rs.50. The building is carried at cost in the financial statements of Entity A. For the purpose of this example depreciation is ignored. At the balance sheet date, there is an indication of impairment for this building. Consequently, an impairment test has been made in accordance with Ind AS 36 as at the balance sheet date and the recoverable amount of the building is determined to be US$ 9,500. The exchange rate as at the balance sheet date is US$ 1=Rs.53.

	Rs.
Cost translated at the exchange rate on the date of acquisition- US$10,000 @Rs.50 per US$	500,000
Recoverable amount translated at the exchange rate on the balance sheet date- US$9,500 @ Rs.53 per US$	503,500

Though there is an impairment loss of US$ 500 (US$10,000-US$9,500) in terms of foreign currency, there is no impairment loss in terms of functional currency. This is because, recoverable amount in terms of functional currency (Rs.503,500) exceeds carrying amount (*i.e.* cost in this example) in terms of functional currency (Rs.500,000). Hence, no impairment loss is recognised for the building.

Example illustrating paragraph 33

Entity P has a foreign subsidiary Entity S1. The functional currencies of Entities P and S1 are Rupee and US$ respectively. Both the entities follow financial year as accounting year. Accounting Year of both the entities ends on March 31. The presentation currency for Entity P's separate as well as consolidated financial statements is Rupee.

In all the following situations, it is assumed that the loan forms part of the entity's net investment in the foreign operation.

Situation 1:

Entity S1 owes to Entity P US$1,000 towards a loan obtained some years back. Exchange rates as at 31 March 20X0 and 31 March 20X1 were US$ 1=Rs.48 and US$ 1=Rs.50 respectively.

In the above situation, in the individual financial statements of Entity S1, no exchange difference arises on the loan since it is denominated in its own functional currency.

In the separate financial statements of Entity P, an exchange gain of Rs.2,000 arises as shown below:

	Rs.
Loan asset of US$1,000 translated	
@ exchange rate as at 31 March 20X1 (Rs.50 per US$)	50,000
@ exchange rate as at 31 March 20X0(Rs.48 per US$)	48,000
Exchange gain	2,000

In the consolidated financial statements of Entity P, the exchange gain of Rs.2,000 will be recognised in other comprehensive income and accumulated in equity.

Situation 2:

Entity S1 owes to Entity P Rs. 48,000 towards a loan obtained some years back. For the purpose of this example, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates during the year. Exchange rates as at 31 March 20X0 and 31 March 20X1 were US$ 1=Rs.48 and US$ 1=Rs.50 respectively. Average exchange rate during the financial year ending 31 March 20X1 was US$ 1=Rs.49.

In the above situation, in the separate financial statements of Entity P, no exchange difference arises on the loan since it is denominated in its own functional currency.

In the individual financial statements of Entity S1, an exchange gain of US$40 arises as shown below:

	US$
Loan liability of Rs.48,000 translated	
@ exchange rate as at 31 March 20X1 (Rs.50 per US$)	960
@ exchange rate as at 31 March 20X0(Rs.48 per US$)	1,000
Exchange gain	40

After translating the financial statements of Entity S1 into Rupees in accordance with paragraphs 38-47 of Ind AS 21, in the consolidated financial statements of Entity P, the exchange gain in terms of Rupee corresponding to US$ 40 *i.e.* Rs.1,960 (US$ 40 @ Rs.49) will be recognised in other comprehensive income and accumulated in equity.

Situation 3:

Entity S1 owes to Entity P €1,000 towards a loan obtained some years back. *Exchange rates:*

As at 31 March 20X0	As at 31 March 20X1

€1=Rs.60	€1=Rs.61
€1=US$1.3	€1=US$.1.4

Average exchange rate between US$ and Rupee during the financial year ending 31 March 20X1 was US$ 1 = Rs.45. For the purpose of this example, it is assumed that the use of the average exchange rate provides a reliable approximation of the spot rates during the year.

In the separate financial statements of Entity P, an exchange gain of Rs. 1,000 arises as shown below:

	Rs.
Loan asset of €1,000 translated	
@ exchange rate as at 31 March 20X1 (Rs.61 per €)	61,000
@ exchange rate as at 31 March 20X0 (Rs.60 per €)	60,000
Exchange gain	1,000

In the consolidated financial statements of Entity P, the exchange gain of Rs.1,000 will be recognised in other comprehensive income and accumulated in equity.

In the individual financial statements of Entity S1, an exchange loss of US$100 arises as shown below:

	US$
Loan liability of €1,000 translated	
@ exchange rate as at 31 March 20X1 (US$1.4 per €)	1,400
@ exchange rate as at 31 March 20X0(US$1.3 per €)	1,300
Exchange loss	100

After translating the financial statements of Entity S1 into Rupees in accordance with paragraphs 38-47 of Ind AS 21, in the consolidated financial statements of Entity P, the exchange loss in terms of Rupee corresponding to US$100 *i.e.* Rs.4,500 (US$100 @ Rs.45) will be recognised in other comprehensive income and accumulated in equity.

Example illustrating paragraph 37

Right from inception, Entity A's functional currency has been Rupee. It has one foreign operation with Euro as its functional currency. As a result of change in circumstances affecting the operations of the entity, the management determines that with effect from 1 January 20X1, the entity's functional currency will be US$. The exchange rate on that date is US$ 1=Rs.50. On that date, the carrying amount of inventories carried at cost in terms of previous functional currency is Rs. 100,000. The entity has previously recognised in other comprehensive income exchange differences arising on translation of its foreign operation and accumulated in equity as Foreign Currency Translation Reserve ('FCTR'). The accumulated FCTR as at 1 January 20X1 in terms of the previous functional currency is Rs.50,000. There is no change in the functional currency of the foreign operation. The entity follows calendar year as accounting year.

Entity A shall apply the translation procedures applicable to the new functional currency *i.e.* US$ prospectively from the date of change in functional currency. Accordingly, all items in its balance sheet as at 1 January 20X1 are translated into US$ at the exchange rate of US$ 1=Rs.50.

The carrying amount of the inventories as at 1 January 20X1 in terms of the new functional currency will be US$2,000 (Rs. 100,000 translated @ Rs.50 per US$). US$2,000 will be the historical cost of the inventories. This will be so even if the inventories were acquired prior to 1 January 20X1.

The accumulated FCTR as at 1 January 20X1 in terms of the new functional currency will be US$1,000 (Rs.50,000 translated @ Rs.50 per US$). This amount is not reclassified from equity to profit or loss until the disposal of the foreign operation.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 21 and the corresponding International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates.

Comparison with IAS 21, *The Effects of Changes in Foreign Exchange Rates*

1. The transitional provisions given in IAS 21 have not been given in the Ind AS 21, since all transitional provisions related to Indian ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards.*

2. Ind AS 21 permits an option to recognise 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.

3. Consequent to the optional treatment prescribed for some exchange differences (as mentioned in 2 above), an additional disclosure has been added in paragraph 52 of Ind AS 21.

4. Appendix containing examples illustrating application of paragraphs 14, 25, 33 and 37 have been added in Ind AS 21.

5. When there is a change in functional currency of either the reporting currency or a significant foreign operation, IAS 21 requires disclosure of that fact and the reason for the change in functional currency. Ind AS 21 requires an additional disclosure of the date of change in functional currency.

6. Different terminology is used in this Standard *e.g.,* the term 'balance sheet'' is used instead of 'Statement of financial position'.

Indian Accounting Standard (Ind AS) 23

Borrowing Costs

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Core principle

1. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Scope

2. An entity shall apply this Standard in accounting for borrowing costs.

3. The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

4. An entity is not required to apply the Standard to borrowing costs directly attributable to the acquisition, construction or production of:

(*a*) a qualifying asset measured at fair value, for example, a biological asset; or

(*b*) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

Definitions

5. This Standard uses the following terms with the meanings specified:

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

A *qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

6. Borrowing costs may include:

(*a*) interest expense calculated using the effective interest method as described in Ind AS 39 *Financial Instruments: Recognition and Measurement;*

(*b*) [Refer to Appendix 1]

(*c*) [Refer to Appendix 1]

(*d*) finance charges in respect of finance leases recognised in accordance with *Leases'*, and

(*e*) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

6A. With regard to exchange difference required to be treated as borrowing costs in accordance with paragraph 6(*e*), the manner of arriving at the adjustments stated therein shall be as follows:

(*i*) *the adjustment should be of an amount which is equivalent to the extent to which the exchange loss does not exceed the difference between the cost of borrowing in functional currency when compared to the cost of borrowing in a foreign currency.*

(*ii*) *where there is an unrealised exchange loss which is treated as an adjustment to interest and subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss* *previously recognised as an adjustment should also be recognised as an adjustment to interest"*

7. Depending on the circumstances, any of the following may be qualifying assets:

(*a*) inventories

(*b*) manufacturing plants

(*c*) power generation facilities

(*d*) intangible assets

(*e*) investment properties.

Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Recognition

8. An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

9. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably. When an entity applies Ind AS 29 *Financial Reporting in Hyperinflationary Economies,* it recognises as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

Borrowing costs eligible for capitalisation

10. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

11. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other entities in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgment is required.

12. To the extent that an entity borrows funds specifically for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

13. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

14. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

15. In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the carrying amount of the qualifying asset over recoverable amount

16. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

Commencement of capitalisation

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

(*a*) it incurs expenditures for the asset;

(*b*) it incurs borrowing costs; and

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

18. Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (*see* Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance).* The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

19. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of capitalisation

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

21. An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, an entity does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. An entity also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period that high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographical region involved.

Cessation of capitalisation

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

23. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

24. When an entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

25. A business park comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

Disclosure

26. An entity shall disclose:

(*a*) the amount of borrowing costs capitalised during the period; and

(*b*) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

Appendix A

References to matters contained in other Indian Accounting Standards (Ind ASs)

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 23.

1. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities)* contained in Ind AS 16 *Property, Plant and Equipment* makes reference to this Standard also.

2. Appendix A *(Service Concession Arrangements* contained in Ind AS 11, *Construction Contracts*, makes reference to this Standard also.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (IndAS) 23 and the corresponding International Accounting Standard (IAS) 23, Borrowing Costs.

Comparison with IAS 23, Borrowing Costs

1. IAS 23 provides no guidance as to how the adjustment prescribed in paragraph 6(*e*) is to be determined. Paragraph 6A is added in Ind AS 23 to provide the guidance.

2. The following paragraph numbers appear as 'Deleted 'in IAS 23. In order to maintain consistency with paragraph numbers of IAS 23, the paragraph numbers are retained in Ind AS 23:

(*i*) paragraph 6(*a*)

(*ii*) paragraph 6(*b*)

3. The transitional provisions given in IAS 23 have not been given in Ind AS 23, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of international Financial Reporting Standards.*

Indian Accounting Standard (Ind AS) 24

Related Party Disclosures

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.).

Objective

1. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Scope

2. This Standard shall be applied in:

(*a*) identifying related party relationships and transactions;

(*b*) identifying outstanding balances, including commitments, between an entity and its related parties;

(*c*) identifying the circumstances in which disclosure of the items in (*a*) and (*b*) is required; and

(*d*) determining the disclosures to be made about those items.

3. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with Indian Accounting Standard (Ind AS) 27 *Consolidated and Separate Financial Statements.* This Standard also applies to individual financial statements.

4. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

4A. Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

4B. In case a statute or a regulator or a similar competent authority governing an entity prohibit the entity to disclose certain information which is required to be disclosed as per this Standard, disclosure of such information is not warranted. For 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.

Purpose of related party disclosures

5. Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence.

6. A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

7. The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.

8. For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Definitions

9. The following terms are used in this Standard with the meanings specified:

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(*a*) A person or a close member of that person's family is related to a reporting entity if that person:

   (*i*) has control or joint control over the reporting entity;

   (*ii*) has significant influence over the reporting entity; or

   (*iii*) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(*b*) An entity is related to a reporting entity if any of the following conditions applies:

   (*i*) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (*ii*) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (*iii*) Both entities are joint ventures of the same third party.

   (*iv*) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (*v*) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

   (*vi*) The entity is controlled or jointly controlled by a person identified in (*a*).

   (*vii*) A person identified in (*a*)(*i*) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are the persons specified within meaning of 'relative' under the Companies Act 1956 and that person's domestic partner, children of that person's domestic partner and dependants of that person's domestic partner.

Compensation includes all employee benefits (as defined in Ind AS 19 *Employee Benefits)* including employee benefits to which Ind AS 102 *Share-based Payments* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:

(*a*) 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 twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(*b*) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(*c*) 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 twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(*d*) termination benefits; and

(*e*) share-based payment.

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

Joint control is the contractually agreed sharing of control over an economic activity.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Government refers to government, government agencies and similar bodies whether local, national or international.

A *government-related entity* is an entity that is controlled, jointly controlled or significantly influenced by a government.

10. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

11. In the context of this Standard, the following are not related parties:

(*a*) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

(*b*) two venturers simply because they share joint control over a joint venture.

(*c*) (*i*) providers of finance,

(*ii*) trade unions,

(*iii*) public utilities, and

(*iv*) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).

(*d*) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

12. In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures

All entities

13. Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

14. To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. This is because the existence of control relationship may prevent the reporting entity from being independent in making its financial and operating decisions. The disclosure of the name of the related party and the nature of the related party relationship where control exists may sometimes be at least as relevant in appraising an entity's prospects as are the operating results and the financial position presented in its financial statements. Such a related party may establish the entity's credit standing, determine the source and price of its raw materials, and determine to whom and at what price the product is sold.

15. The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in Ind AS 27 *Consolidated and Separate Financial Statements*, Ind AS 28 *Investments in Associates* and Ind AS 31 *Interests in Joint Ventures.*

16. Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

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

(*a*) short-term employee benefits;

(*b*) post-employment benefits;

(*c*) other long-term benefits;

(*d*) termination benefits; and

(*e*) share-based payment.

18. If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

(*a*) the amount of the transactions;

(*b*) the amount of outstanding balances, including commitments, and:

(*i*) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(*ii*) details of any guarantees given or received;

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

(*d*) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

19. The disclosures required by paragraph 18 shall be made separately for each of the following categories:

(*a*) the parent; '

(*b*) entities with joint control or significant influence over the entity;

(*c*) subsidiaries;

(*d*) associates;

(*e*) joint ventures in which the entity is a venturer;

(*f*) key management personnel of the entity or its parent; and

(*g*) other related parties

20. The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in Ind AS 1 *Presentation of Financial Statements* for information to be presented either in 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.

21. The following are examples of transactions that are disclosed if they are with a related party:

(*a*) purchases or sales of goods (finished or unfinished);

(*b*) purchases or sales of property and other assets;

(*c*) rendering or receiving of services;

(*d*) leases;

(*e*) transfers of research and development;

(*f*) transfers under licence agreements;

(*g*) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(*h*) provision of guarantees or collateral;

(*i*) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts[9] (recognized and unrecognised);

(*j*) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party;

(*k*) management contracts including for deputation of employees.

22. Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties, (*see* paragraph 34B of Ind AS 19).

23. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

24. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

24A. 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.

Government-related entities

25. A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:

(*a*) a government that has control, joint control or significant influence over the reporting entity; and

(*b*) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

26. If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:

(*a*) the name of the government and the nature of its relationship with the reporting entity (*i.e.* control, joint control or significant influence);

(*b*) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

 (*i*) the nature and amount of each individually significant transaction; and

 (*ii*) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21.

27. In using its judgment to determine the level of detail to be disclosed in accordance with the requirements in paragraph 26(*b*), the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is:

(*a*) significant in terms of size;

(*b*) carried out on non-market terms;

(*c*) outside normal day-to-day business operations, such as the purchase and sale of businesses;

(*d*) disclosed to regulatory or supervisory authorities;

(*e*) reported to senior management;

(*f*) subject to shareholder approval.

Illustrative examples

The following examples accompany, but are not part of, Ind AS 24 Related Party Disclosures.

They illustrate:

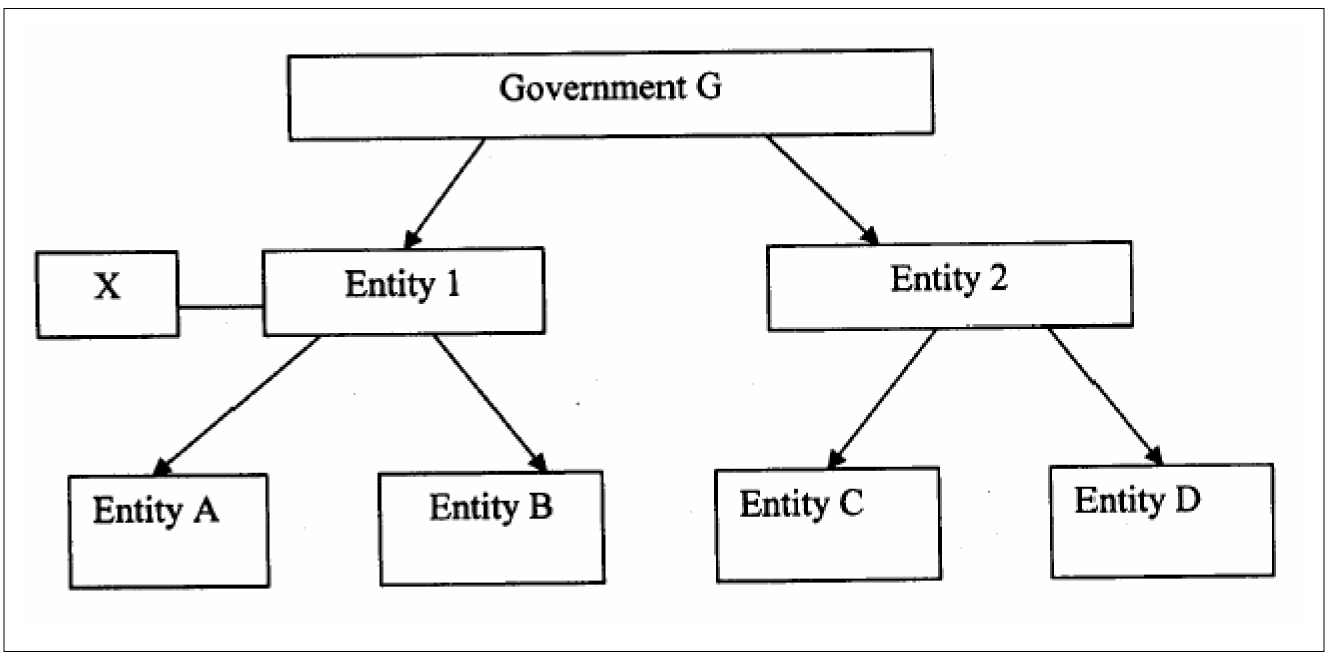
- *the partial exemption for government-related entities; and*
- *how the definition of a related party would apply in specified circumstances.*

In the examples, references to 'financial statements' relate to the individual, separate or consolidated financial statements.

Partial exemption for government-related entities

Example 1 - Exemption from disclosure (Paragraph 25)

IE 1 Government G directly or indirectly controls Entities 1 and 2 and Entities A, B, C and D. Person X is a member of the key management personnel of Entity 1.



IE 2 For Entity A's financial statements, the exemption in paragraph 25 applies to:

(*a*) transactions with Government G; and

(*b*) transactions with Entities 1 and 2 and Entities B, C and D.

However, that exemption does not apply to transactions with Person X.

Disclosure requirements when exemption applies (paragraph 26)

IE 3 In Entity A's financial statements, an example of disclosure to comply with paragraph 26(*b*)(*i*) for individually significant transactions could be:

Example of disclosure for individually significant transaction carried out on non-market terms

On 15 January 20X1 Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, sold a 10 hectare piece of land to another government-related utility company for Rs. 5 million. On 31 December 20X0 a plot of land in a similar location, of a similar size and with similar characteristics, was sold for Rs 3 million. There had not been any appreciation or depreciation of the land in the intervening period. *See* note X [of the financial statements] for disclosure of government assistance as required by Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and notes Y and Z [of the financial statements] for compliance with other relevant Accounting Standards.

Example of disclosure for individually significant transaction because of size of transaction

In the year ended December 20X1 Government G provided Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, with a loan equivalent to 50 per cent of its funding requirement, repayable in quarterly instalments over the next five years. Interest is charged on the loan at a rate of 3 per cent, which is comparable to that charged on Entity A's bank loans. *See* notes Y and Z [of the financial statements] for compliance with other relevant Accounting Standards.

Example of disclosure of collectively significant transactions

In Entity A's financial statements, an example of disclosure to comply with paragraph 26(*b*)(*ii*) for collectively significant transactions could be:

Government G, indirectly, owns 75 per cent of Entity A's outstanding shares. Entity A's significant transactions with Government G and other entities controlled, jointly controlled or significantly influenced by Government G are [a large portion of its sales of goods and purchases of raw materials] or [about 50 per cent of its sales of goods and about 35 per cent of its purchases of raw materials].

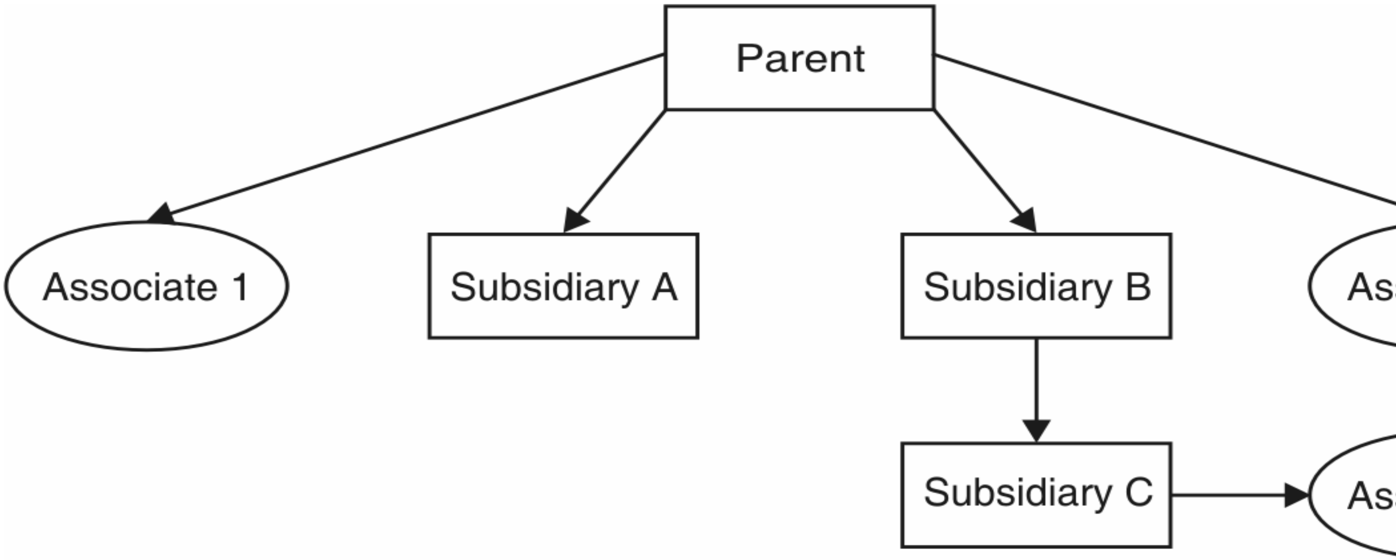
The company also benefits from guarantees by Government G of the company's bank borrowing. *See* note X [of the financial statements] for disclosure of government assistance as required by Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and notes Y and Z [of the financial statements] for compliance with other relevant Accounting Standards.

Definition of a related party

The references are to subparagraphs of the definition of a related party in paragraph 9 of Ind AS 24.

Example 2 - Associates and subsidiaries

IE4. Parent entity has a controlling interest in Subsidiaries A, B and C and has significant influence over Associates 1 and 2. Subsidiary C has significant influence over Associate 3.



IE5. For Parent's separate financial statements, Subsidiaries A, B and C and Associates 1, 2 and 3 are related parties. [*Paragraph 9*(*b*)(*i*) *and* (*ii*)]

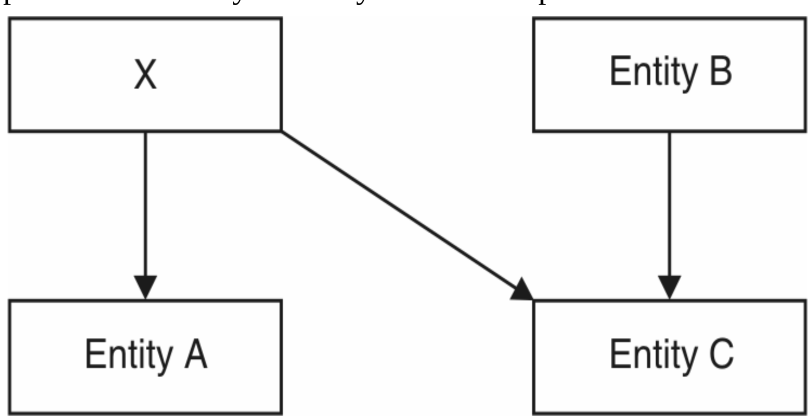
IE6. For Subsidiary A's financial statements, Parent, Subsidiaries B and C and Associates 1, 2 and 3 are related parties. For Subsidiary B's separate financial statements, Parent, Subsidiaries A and C and Associates 1, 2 and 3 are related parties. For Subsidiary C's financial statements, Parent, Subsidiaries A and B and Associates 1, 2 and 3 are related parties. [*Paragraph 9*(*b*)(*i*) *and* (*ii*)]

IE7. For the financial statements of Associates 1, 2 and 3, Parent and Subsidiaries A, B and C are related parties. Associates 1, 2 and 3 are not related to each other. [*Paragraph 9*(*b*)(*ii*)]

IE8. For Parent's consolidated financial statements, Associates 1, 2 and 3 are related to the Group. [*Paragraph 9*(*b*)(*ii*)]

Example 3 - Key management personnel

IE9. A person, X, has a 100 per cent investment in Entity A and is a member of the key management personnel of Entity C. Entity B has a 100 per cent investment in Entity C.



IE10. For Entity C's financial statements, Entity A is related to Entity C because X controls Entity A and is a member of the key management personnel of Entity C. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*iii*)]

IE11. For Entity C's financial statements, Entity A is also related to Entity C if X is a member of the key management personnel of Entity B and not of Entity C. [*Paragraph 9*(*b*)(*vi*)-(*a*)(*iii*)]

IE12. Furthermore, the outcome described in paragraphs IE10 and IE11 will be the same if X has joint control over Entity A. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*iii*)]

IE12A. The outcome described in paragraphs IE10 and IE11 would be different, if X had only significant influence over Entity A and not control or joint control; then Entities A and C would not be related to each other.

IE13. For Entity A's financial statements, Entity C is related to Entity A because X controls A and is a member of Entity C's key management personnel. [*Paragraph 9*(*b*)(*vii*)-(*a*)(*i*)]

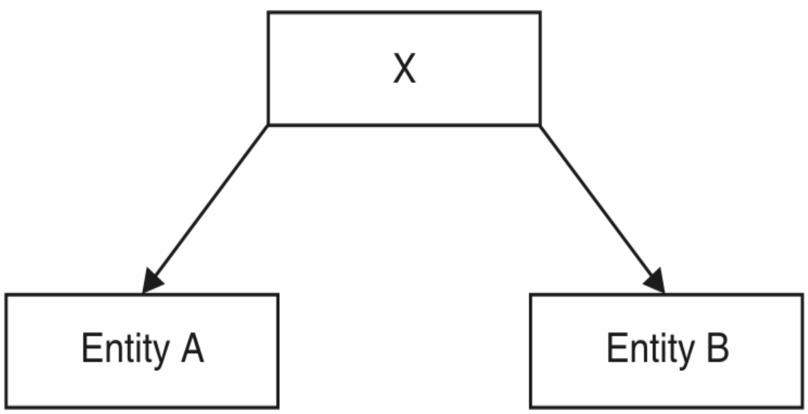
IE14. Furthermore, the outcome described in paragraph IE13 will be the same if X has joint control over Entity A.

IE14A. The outcome described in paragraph IE 13 will also be the same if X is a member of key management personnel of Entity B and not of Enfity C. [*Paragraph 9*(*b*)(*vii*)-(*a*)(*i*)]

IE15. For Entity B's consolidated financial statements, Entity A is a related party of the Group if X is a member of key management personnel of the Group. [*Paragraph 9*(*b*)(*vi*)-(*a*)(*iii*)]

Example 4 - Person as investor

IE16. A person, X, has an investment in Entity A and Entity B.



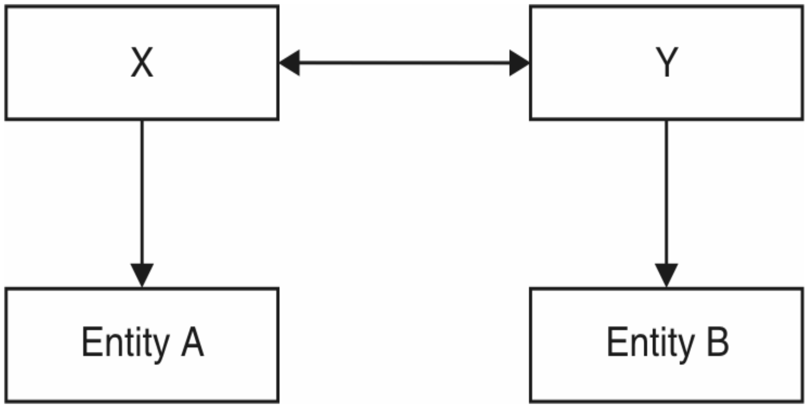
IE17. For Entity A's financial statements, if X controls or jointly controls Entity A, Entity B is related to Entity A when X has control, joint control or significant influence over Entity B. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*i*) *and 9*(*b*)(*vii*)-(*a*)(*i*)]

IE18. For Entity B's financial statements, if X controls or jointly controls Entity A, Entity A is related to Entity B when X has control, joint control or significant influence over Entity B. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*i*) *and 9*(*b*)(*vi*)-(*a*)(*ii*)]

IE19. If X has significant influence over both Entity A and Entity B, Entities A and B are not related to each other.

Example 5 - Close members of the family holding investments

IE20. A person, X, is the domestic partner of Y. X has an investment in Entity A and Y has an investment in Entity B.



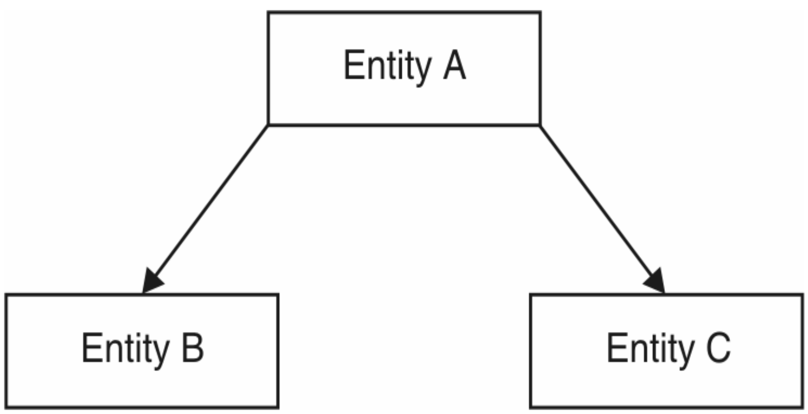
IE21. For Entity A's financial statements, if X controls or jointly controls Entity A, Entity B is related to Entity A when Y has control, joint control or significant influence over Entity B. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*i*) *and 9*(*b*)(*vii*)-(*a*)(*i*)]

IE22. For Entity B's financial statements, if X controls or jointly controls Entity A, Entity A is related to Entity B when Y has control, joint control or significant influence over Entity B. [*Paragraph 9*(*b*)(*vi*) -(*a*)(*i*) *and 9*(*b*)(*vi*)-(*a*)(*ii*)]

IE23. If X has significant influence over Entity A and Y has significant influence over Entity B, Entities A and B are not related to each other.

Example 6 - Entity with joint control

IE24. Entity A has both (*i*) joint control over Entity B and (*ii*) joint control or significant influence over Entity C.



IE25. For Entity B's financial statements, Entity C is related to Entity B. [*Paragraph 9*(*b*)(*iii*) *and* (*iv*)]

IE26. Similarly, for Entity C's financial statements, Entity B is related to Entity C. [*Paragraph 9*(*b*)(*iii*) *and* (*iv*)]

Appendix 1

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard

(*Ind AS*) *24 and the corresponding International Accounting Standard* (*IAS*) *24, Related Party Disclosures*

Comparison with IAS 24, *Related Party Disclosures*

1. 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. (Paragraphs 4A and 4B of Ind AS 24).
2. 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*
3. Paragraph 24A has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.
4. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position'.

Indian Accounting Standard (Ind AS) 28

Investments in Associates

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*

Scope

1. This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:

a. venture capital organisations

b. [Refer to Appendix 1]

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement.* Such investments shall be measured at fair value in accordance with Ind AS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(*f*).

Definitions

2. The following terms are used in this Standard with the meanings specified:

An *associate* is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

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

The *equity method* is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A *subsidiary* is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

3. Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.

4. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements, unless required by law.

5. [Refer to Appendix 1]

Significant influence

6. If an investor holds, directly or indirectly (*e.g.* through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (*e.g.* through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

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

- *a.* representation on the board of directors or equivalent governing body of the investee;
- *b.* participation in policy-making processes, including participation in decisions about dividends or other distributions;
- *c.* material transactions between the investor and the investee;
- *d.* interchange of managerial personnel; or
- *e.* provision of essential technical information.

8. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares[10], or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (*i.e.*, potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

9. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

10. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

Equity method

11. Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor (*see* Ind AS 1 *Presentation of Financial Statements*) .

12. When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

Application of the equity method

13. An investment in an associate shall be accounted for using the equity method except when:

a. the investment is classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations;*

b. [Refer to Appendix 1]

c. [Refer to Appendix 1]

14. Investments described in paragraph 13(*a*) shall be accounted for in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*

15. When an investment in an associate previously classified as held for sale, 40 longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

16. [Refer to Appendix 1]

17. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.

18. An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with Ind AS 39 from that date provided the associate does not become a subsidiary or a joint venture as defined in Ind AS 31. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

b. the carrying amount of the investment at the date when significant influence is lost.

19. When an investment ceases to be an associate and is accounted for in accordance with Ind AS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 39.

19A. If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has available-for-sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

20. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in Ind AS 27. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.

21. A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (*see* paragraphs 26 and 27).

22. Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.

23. An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as follows:

a. goodwill relating to an associate is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

b. any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is recognised directly in equity as capital reserve in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

24. The most recent available financial statements of the associate are used by the investor in applying the equity method. When the end of the reporting period of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.

25. When, in accordance with paragraph 24, the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months unless it is impracticable to do so. The length of the reporting periods and any difference in the ends of the reporting periods shall be the same from period to period.

26. The investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless it is impracticable to do so.

27. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method.

28. If an associate has outstanding cumulative preference shares that are held by parties other than the investor, and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.

29. If an investor's share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (*i.e.*, priority in liquidation).

30. After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

31. After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of Ind AS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.

32. The investor also applies the requirements of Ind AS 39 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

33. Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in Ind AS 36 *Impairment of Assets.* Instead, the entire carrying amount of the investment is tested for impairment in accordance with Ind AS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in Ind AS 39 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with Ind AS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:

a. its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

b. the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

34. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

35. An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 38-43 of Ind AS 27.

36. This Standard does not mandate which entities produce separate financial statements available for public use.

Disclosure

37. The following disclosures shall be made:

a. the fair value of investments in associates for which there are published price quotations;

b. summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;

c. the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;

d. the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;

e. the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period;

f. the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;

g. the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;

h. the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and

i. summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

38. Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.

39. The investor's share of changes recognised in other comprehensive income by the associate shall be recognised by the investor in other comprehensive income.

40. In accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* the investor shall disclose:

a. its share of the contingent liabilities of an associate incurred jointly with other investors; and

b. those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (*Ind AS*) *28.*

1. Appendix A, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* contained in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* makes reference to this Standard also.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this appendix is only to bring out the differences between Indian Accounting Standard (*Ind AS*) *28 and the corresponding International Accounting Standard* (*IAS*) *28, Investments in Associates.*

Comparison with IAS 28, *Investments in Associates*

1. 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. These changes have been made because the investor does not have 'control' over the associate, it may not be able to influence the associate to prepare additional financial statements or to follow the accounting policies that are followed by the investor.

2. Paragraph 1(*b*) of IAS 28 has been deleted in Ind AS 28 as the Companies Act, 1956, is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities. However, paragraph number 1(*b*) has been retained in Ind AS 28 to maintain consistency with IAS 28.

3. Paragraphs 5, 13(*b*) and 13(*c*) have been deleted as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraph numbers have been retained in Ind AS 28 to maintain consistency with IAS 28.

4. Paragraph number 16 appears as 'Deleted 'in IAS 28. In order to maintain consistency with paragraph numbers of IAS 28, the paragraph number is retained in Ind AS 28

5. Paragraph 23(*b*) has been modified on the lines of Ind AS 103 to transfer excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of investment in capital reserve whereas in IAS 28, it is recognised in profit or loss.

Indian Accounting Standard (Ind AS) 31

Interests in Joint Ventures

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles*) .

Scope

1. This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

(*a*) venture capital organisations

(*b*) [Refer to Appendix 1]

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement.* Such investments shall be measured at fair value in accordance with Ind AS 39, with changes in fair value recognised in profit or loss in the period of the change. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

2. A venturer with an interest in a jointly controlled entity is exempted from paragraphs 30 (proportionate consolidation) and 38 (equity method) when it meets the following conditions:

(*a*) the interest is classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations;*

(*b*) [Refer to Appendix 1]

(*c*) [Refer to Appendix 1]

Definitions

3. The following terms are used in this Standard with the meanings specified:

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

The *equity method* is a method of accounting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets of the jointly controlled entity. The profit or loss of the venturer includes the venturer's share of the profit or loss of the jointly controlled entity.

An *investor in a joint venture* is a party to a joint venture and does not have joint control over that joint venture.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

A *joint venture* is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Proportionate consolidation is a method of accounting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies.

A *venturer* is a party to a joint venture and has joint control over that joint venture.

4. Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity.

5. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements, unless required by law.

6. [Refer to Appendix 1]

Forms of joint venture

7. Joint ventures take many different forms and structures. This Standard identifies three broad types-jointly controlled operations, jointly controlled assets and jointly controlled entities-that are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

(*a*) two or more venturers are bound by a contractual arrangement; and

(*b*) the contractual arrangement establishes joint control.

Joint control

8. Joint control may be precluded when an investee is in legal reorganisation or in bankruptcy, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

Contractual arrangement

9. The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence (*see* Ind AS 28). Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.

10. The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(*a*) the activity, duration and reporting obligations of the joint venture;

(*b*) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;

(*c*) capital contributions by the venturers; and

(*d*) the sharing by the venturers of the output, income, expenses or results of the joint venture.

11. The contractual arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to control the activity unilaterally.

12. The contractual arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the economic activity, it controls the venture and the venture is a subsidiary of the operator and not a joint venture.

Jointly controlled operations

13. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

14. An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the contractual arrangement.

15. In respect of its interests in jointly controlled operations, a venturer shall recognise in its financial statements:

(*a*) the assets that it controls and the liabilities that it incurs; and

(*b*) the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

16. Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

17. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly controlled assets

18. Some joint ventures involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

19. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits through its share of the jointly controlled asset.

20. Many activities in the oil, gas and mineral extraction industries involve jointly controlled assets. For example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

21. In respect of its interest in jointly controlled assets, a venturer shall recognise in its financial statements:

(*a*) its share of the jointly controlled assets, classified according to the nature of the assets;

(*b*) any liabilities that it has incurred;

(*c*) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

(*d*) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

(*e*) any expenses that it has incurred in respect of its interest in the joint venture.

22. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognises in its financial statements:

(*a*) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled oil pipeline is classified as property, plant and equipment.

(*b*) any liabilities that it has incurred, for example those incurred in financing its share of the assets.

(*c*) its share of any liabilities incurred jointly with other venturers in relation to the joint venture.

(*d*) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture.

(*e*) any expenses that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

Because the assets, liabilities, income and expenses are recognised in the financial statements of the venturer, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

23. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly controlled entities

24. A jointly controlled entity is a joint venture that involves the establishment of s corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

25. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the profits of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

26. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an entity commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity that is jointly controlled by the entity and the government or agency.

27. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as an oil pipeline, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity assets that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.

28. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with Indian Accounting Standards.

29. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its financial statements as an investment in the jointly controlled entity.

Financial statements of a venturer

Proportionate consolidation

30. A venturer shall recognise its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 38. When proportionate consolidation is used, one of the two reporting formats identified below shall be used.

31. A venturer recognises its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

32. When recognising an interest in a jointly controlled entity, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits through its share of the assets and liabilities of the venture. This substance and economic reality are reflected in the consolidated financial statements of the venturer when the venturer recognises its interests in the assets, liabilities, income and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 34.

33. The application of proportionate consolidation means that the balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in Ind AS 27.

34. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. For example, it may combine its share of the jointly controlled entity's inventory with its inventory and its share of the jointly controlled entity's property, plant and equipment with its property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements. For example, it may show its share of a current asset of the jointly controlled entity separately as part of its current assets; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of its property, plant and equipment. Both these reporting formats result in the reporting of identical amounts of profit or loss and of each major classification of assets, liabilities, income and expenses; both formats are acceptable for the purposes of this Standard.

35. Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.

36. A venturer shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

37. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

Equity method

38. As an alternative to proportionate consolidation described in paragraph 30, a venturer shall recognise its interest in a jointly controlled entity using the equity method.

39. A venturer recognises its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in subsidiaries or whether it describes its financial statements as consolidated financial statements.

40. Some venturers recognise their interests in jointly controlled entities using the equity method, as described in Ind AS 28. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits. Nevertheless, this Standard permits the use of the equity method, as an alternative treatment, when recognising interests in jointly controlled entities.

41. A venturer shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

Exceptions to proportionate consolidation and equity method

42. Interests in jointly controlled entities that are classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations* shall be accounted for in accordance with that Indian Accounting Standard.

43. When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

44. [Refer to Appendix 1]

45. When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with Ind AS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date when a jointly controlled entity becomes a subsidiary of an investor, the investor shall account for its interest in accordance with Ind AS 27 and Ind AS 103 *Business Combinations.* From the date when a jointly controlled entity becomes an associate of an investor, the investor shall account for its interest in accordance with Ind AS 28. On the loss of joint control, the investor shall measure at fair value any investment the investor retains in the former jointly controlled entity. The investor shall recognise in profit or loss any difference between:

(*a*) the fair value of any retained investment and any proceeds from disposing of the part interest in the jointly controlled entity; and

(*b*) the carrying amount of the investment at the date when joint control is lost.

45A. When an investment ceases to be a jointly controlled entity and is accounted for in accordance with Ind AS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with Ind AS 39 .

45B. If an investor loses joint control of an entity, the investor shall account for all amounts recognised in other comprehensive income in relation to that entity on the same basis as would be required if the jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or. liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the investor loses joint control of the entity. For example, if a jointly controlled entity has available-for-sale financial assets and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognized in other comprehensive income in relation to those assets. If an investor's ownership interest in a jointly controlled entity is reduced, but the investment continues to be a jointly controlled entity, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognized in other comprehensive income.

Separate financial statements of a venturer

46. An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 38-43 of Ind AS 27.

47. This Standard does not mandate which entities produce separate financial statements available for public use.

Transactions between a venturer and a joint venture

48. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers.[11] The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

49. When a venturer purchases assets from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.

50. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount of the asset in accordance with Ind AS 36 *Impairment of Assets.* In determining value in use, the venturer estimates future cash flows from the asset on the basis of continuing use of the asset and its ultimate disposal by the joint venture.

Reporting interests in joint ventures in the financial statements of an investor

51. An investor in a joint venture that does not have joint control shall account for that investment in accordance with Ind AS 39 or, if it has significant influence in the joint venture, in accordance with Ind AS 28.

Operators of joint ventures

52. Operators or managers of a joint venture shall account for any fees in accordance with Ind AS 18 *Revenue.*

53. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

54. A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:

(*a*) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;

(*b*) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

(*c*) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

55. A venturer shall disclose the aggregate amount of the following commitments' in respect of its interests in joint ventures separately from other commitments:

(*a*) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and

(*b*) its share of the capital commitments of the joint ventures themselves.

56. A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.

57. A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.

APPENDIX A

Jointly Controlled Entities - Non-Monetary Contributions by Venturers

Issue

1. Paragraph 48 of Ind AS 31 refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 24 of Ind AS 31 says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

2. Contributions to a JCE are transfers of assets by venturers in exchange for an equity interest in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

3. The issues are:

(*a*) when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an equity interest in the JCE should be recognised by the venturer in profit or loss;

(*b*) how additional consideration should be accounted for by the venturer; and

(*c*) how any unrealised gain or loss should be presented in the consolidated financial statements of the venturer.

4. This Appendix deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an equity interest in the JCE that is accounted for using either the equity method or proportionate consolidation.

Accounting Principles

5. In applying paragraph 48 of Ind AS 31 to non-monetary contributions to a JCE in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers except when:

(*a*) the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE; or

(*b*) the gain or loss on the non-monetary contribution cannot be measured reliably; or

(*c*) the contribution transaction lacks commercial substance, as that term is described in Ind AS 16.

If exception (*a*), (*b*) or (*c*) applies, the gain or loss is regarded as unrealised and therefore is not recognised in profit or loss unless paragraph 6 also applies.

6. If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.

7. Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated balance sheet.

Appendix B

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard 31.

1. Appendix A, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* contained in Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* makes reference to this Standard also.

Appendix 1

Note : This Appendix is not a part of the Indian Accounting Standard. The purpose of this appendix is only to bring out the differences between Indian Accounting Standard Ind AS) 31 and the corresponding International Accounting Standard (IAS) 31, Interests in Joint Ventures and SIC 13, *Jointly Controlled Entities — Non-Monetary Contributions by Venturers* issued by the International Accounting Standards Board.

Comparison with IAS 31, *Interests in Joint Ventures*

1. The transitional provisions given in IAS 31 have not been given in Ind AS 31 since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, First-time Adoption of Indian Accounting Standards corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards.

2. Different terminology is used, as used in existing laws *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.

3. Paragraph 1(*b*) of IAS 31 has been deleted in Ind AS 31 as the Companies Act, 1956 is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.

However, paragraph number 1(*b*) has been retained in Ind AS 31 to maintain consistency with IAS 31.

4. Sub-Paragraphs 2(*b*) and (*c*) and paragraph 6 have been deleted as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraph number 6 has been retained in Ind AS 31 to maintain consistency with IAS 31.

5. Paragraph 44 has been deleted by IASB. However, the paragraph number has been retained in Ind AS 31 to maintain consistency with IAS 31.

Indian Accounting Standard (Ind AS) 40

Investment Property

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*)

Objective

1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2. This Standard shall be applied in the recognition, measurement and disclosure of investment property.

3. Among other things, this Standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in Ind AS 17 *Leases*, including:

(*a*) classification of leases as finance leases or operating leases;

(*b*) recognition of lease income from investment property (*see* also Ind AS 18 *Revenue*) *;*

(*c*) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(*d*) measurement in a lessor's financial statements of its net investment in a finance lease;

(*e*) accounting for sale and leaseback transactions; and

(*f*) disclosure about finance leases and operating leases.

4. This Standard does not apply to :

(*a*) biological assets related to agricultural activity (*see* Ind AS 41 *Agriculture*[12]) *;* and

(*b*) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Definitions

5. The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised in the balance sheet

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, *e.g.* Ind AS 102 *Share-based Payment*

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

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

(*b*) sale in the ordinary course of business.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

6. [Refer to Appendix 1]

7. Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) generates cash flows that are attributable not only to property, but also to other assets used in the production or supply process. Ind AS 16 *Property, Plant and Equipment* applies to owner-occupied property.

8. The following are examples of investment property:

(*a*) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

(*b*) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

(*c*) a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases.

(*d*) a building that is vacant but is held to be leased out under one or more operating leases.

(*e*) property that is being constructed or developed for future use as investment property.

9. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(*a*) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (*see* Ind AS 2 *Inventories*) , for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(*b*) property being constructed or developed on behalf of third parties (*see* Ind AS 11 *Construction Contracts*) .

(*c*) owner-occupied property (*see* Ind AS 16), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(*d*) [Refer to Appendix 1]

(*e*) property that is leased to another entity under a finance lease.

10. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

11. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when the owner of an office building provides security and maintenance services to the lessees who occupy the building.

12. In other cases, the services provided are significant. For example, if an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed hotel is owner-occupied property, rather than investment property.

13. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, the owner of a hotel sometimes transfers some responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the owner's position may, in substance, be that of a passive investor. At the other end of the spectrum, the owner may simply have outsourced day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

14. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7-13. Paragraph 75(*c*) requires an entity to disclose these criteria when classification is difficult.

15. In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the group. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 5. Therefore, the lessor treats the property as investment property in its individual financial statements.

Recognition

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

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

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

17. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

18. Under the recognition principle in paragraph 16, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

19. Parts of investment properties may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that art replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at recognition

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

21. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

22. [Refer to Appendix 1]

23. The cost of an investment property is not increased by:

(*a*) start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management),

(*b*) operating losses incurred before the investment property achieves the planned level of occupancy, or

(*c*) abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

24. If payment for an investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

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

26. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out in paragraphs 33-52. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

27. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (*a*) the exchange transaction lacks commercial substance or (*b*) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

28. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(*a*) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred, or

(*b*) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and

(*c*) the difference in (*a*) or (*b*) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

29. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (*a*) the variability in the range of reasonable fair value estimates is not significant for that asset or (*b*) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after recognition

Accounting policy

30. An entity shall adopt as its accounting policy the cost model prescribed in paragraph 56 to all of its investment property.

31. [Refer to Appendix 1]

32. This Standard requires all entities to determine the fair value of investment property for the purpose of disclosure even though they are required to follow the cost model. An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

32A-32C [Refer to Appendix 1]

Fair value determination

33-35 [Refer to Appendix 1]

36. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (*see* paragraph 5). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

37. An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

38. The fair value of investment property shall reflect market conditions at the end of the reporting period.

39. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

40. The fair value of investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (*e.g.* periodic payments such as contingent rents).

41. [Refer to Appendix 1]

42. The definition of fair value refers to 'knowledgeable, willing parties'. In this context, 'knowledgeable' means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the end of the reporting period. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.

43. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (*e.g.* a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

44. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

45. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

46. In the absence of current prices in an active market of the kind described in paragraph 45, an entity considers information from a variety of sources, including:

(*a*) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(*b*) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(*c*) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

47. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

48. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (*see* paragraph 53).

49. Fair value differs from value in use, as defined in Ind AS 36 *Impairment of Assets.* Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

(*a*) additional value derived from the creation of a portfolio of properties in different locations;

(*b*) synergies between investment property and other assets;

(*c*) legal rights or legal restrictions that are specific only to the current owner; and

(*d*) tax benefits or tax burdens that are specific to the current owner.

50. [Refer to Appendix 1]

51. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

52. [Refer to Appendix 1]

Inability to determine fair value reliably

53. There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall determine the fair value of that investment property either when its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall make the disclosures required by paragraphs 79(*e*)(*i*), (*ii*) and (*iii*).

53A. Once an entity becomes able to measure reliably the fair value of an investment property under construction for which the fair value was not previously determined, it shall determine the fair value of that property. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 53, the entity shall make the disclosures required by paragraphs 79(*e*)(*i*), (*ii*) and (*iii*).

53B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has determined the fair value of an item of investment property under construction may not conclude that the fair value of the completed investment property cannot be determined reliably.

54. In the exceptional cases when an entity is compelled, for the reason given in paragraph 53, to make the disclosures required by paragraphs 79(*e*)(*i*), (*ii*) and (*iii*), it shall determine the fair value of all its other investment property, including investment property under construction. In these cases, although an entity may make the disclosures required by paragraphs 79(*e*)(*i*), (*ii*) and (*iii*) for one investment property, the entity shall continue to determine the fair value of each of the remaining properties for disclosure required by paragraph 79(*e*).

55. If an entity has previously determined the fair value of an investment property, it shall continue to determine the fair value of that property until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of business) even if comparable market transactions become less frequent or market prices become less readily available.

Cost model

56. After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations.* Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with Ind AS 105.

Transfers

57. Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(*a*) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

(*b*) commencement of development with a view to sale, for a transfer from investment property to inventories;

(*c*) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(*d*) commencement of an operating lease to another party, for a transfer from inventories to investment property.

(*e*) [Refer to Appendix 1]

58. Paragraph 57(*b*) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the balance sheet) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

59. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

60-65 [Refer to Appendix 1]

Disposals

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

67. The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in Ind AS 18 for recognising revenue from the sale of goods and considers the related guidance in the Appendix E to Ind AS 18. Ind AS 17 applies to a disposal effected by entering into a finance lease and to a sale and leaseback.

68. If, in accordance with the recognition principle in paragraph 16, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. A replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

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

70. The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with Ind AS 18 using the effective interest method.

71. An entity applies Ind AS 37 or other Standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

72. Compensation from third parties for investment property that was impaired, lost or given up shall be recognised in profit or loss when the compensation becomes receivable.

73. Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(*a*) impairments of investment property are recognised in accordance with Ind AS 36;

(*b*) retirements or disposals of investment property are recognised in accordance with paragraphs 66-71 of this Standard;

(*c*) compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when it becomes receivable; and

(*d*) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 20-29 of this Standard.

Disclosure

74. The disclosures below apply in addition to those in Ind AS 17. In accordance with Ind AS 17, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease provides lessees' disclosures for finance leases and lessors' disclosures for any operating leases into which it has entered.

75. An entity shall disclose:

(*a*) its accounting policy for measurement of investment property.

(*b*) [Refer to Appendix 1]

(*c*) when classification is difficult (*see* paragraph 14), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business.

(*d*) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data.

(*e*) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.

(*f*) the amounts recognised in profit or loss for:

(*i*) rental income from investment property;

(*ii*) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and

(*iii*) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.

(*iv*) [Refer to Appendix 1]

(*g*) the existence and amounts of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

(*h*) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

76.-78. [Refer to Appendix 1]

79. In addition to the disclosures required by paragraph 75, an entity shall disclose:

(*a*) the depreciation methods used;

(*b*) the useful lives or the depreciation rates used;

(*c*) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(*d*) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

(*i*) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;

(*ii*) additions resulting from acquisitions through business combinations;

(*iii*) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(*iv*) depreciation;

(*v*) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with Ind AS 36;

(*vi*) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(*vii*) transfers to and from inventories and owner-occupied property; and

(*viii*) other changes; and

(*e*) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot determine the fair value of the investment property reliably, it shall disclose:

(*i*) a description of the investment property;

(*ii*) an explanation of why fair value cannot be determined reliably; and

(*iii*) if possible, the range of estimates within which fair value is highly likely to lie.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (*Ind AS*) *40 Investment Property.*

1. Appendix A *Income Taxes-Recovery of Revalued Non-Depreciable Assets* contained in Ind AS 12, *Income Taxes* makes reference to this Standard also.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (*Ind AS*) *40 and the corresponding International Accounting Standard* (*IAS*) *40, Investment Property.*

Comparison with IAS 40, *Investment Property*

1. 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. The following paragraphs of IAS 40 which deal with fair value model have been deleted in Ind AS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:

(*i*) Paragraph 6

(*ii*) Paragraph 31

(*iii*) Paragraphs 32A-32C

(*iv*) Paragraphs 33-35

(*v*) Paragraph 41

(*vi*) Paragraph 50

(*vii*) Paragraph 52

(*viii*) Paragraphs 60-65

(*ix*) Paragraph 75(*b*)

(*x*) Paragraph 75(*f*)(*iv*)

(*xi*) Paragraphs 76-78

2. The transitional provisions given in IAS 40 have not been included in Ind AS 40 since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, First-time Adoption of Indian Accounting Standards corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards.

3. IAS 40 requires disclosure of fair values of investment property when cost model is used. Since this requirement is retained in Ind AS 40, paragraphs 53, 53A, 53B, 54 and 55 and certain other paragraph of IAS 40 have been modified. The modifications include substitution of fair value measurement with fair value determination/disclosure and deletion of reference to use of cost model when fair value determination is unreliable.

4. 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. As a result, paragraph 6 of IAS 40 has been deleted in Ind AS 40 (*see* point 1(*i*) above). In addition, the expression 'investment property under a finance or operating lease' appearing in paragraph 74 of IAS 40 has been modified as 'investment property under a finance lease' in Ind AS 40.

5. As a result of prohibition of use of fair value model in Ind AS 40, there are some modifications in the wording of paragraph 26 (removal of the words 'for the fair value model'), paragraphs 30 and 32 (Accounting policy), heading above paragraph 33 ('Fair value determination' instead of 'Fair value model'), paragraph 56, paragraph 59 (deletion of portion relating to fair value model), paragraph 68 (deletion of a portion dealing with fair value model), heading above paragraph 74 (deletion of the heading 'Fair value model and cost model') and 75(*a*) (disclosure of accounting policy) as compared to the wording used in IAS 40.

6. Different terminology is used in this Standard *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position'.

7. The following paragraphs appear as 'Deleted' in IAS 40. In order to maintain consistency with paragraph numbers of IAS 40, the paragraph numbers are retained in Ind AS 40:

(*i*) Paragraph 9(*d*)

(*ii*) Paragraph 22

(*iii*) Paragraph 57(*e*)

Indian Accounting Standard (Ind AS) 108

Operating Segments

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*)

Core principle

1. An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Scope

2. This Accounting Standard shall apply to companies to which Accounting Standards notified under Part I of the Companies (Accounting Standards) Rules ———— apply.

3. If an entity that is not required to apply this Indian Accounting Standard chooses to disclose information about segments that does not comply with this Indian Accounting Standard, it shall not describe the information as segment information.

4. If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

Operating segments

5. An operating segment is a component of an entity:

(*a*) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

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

(*c*) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

6. Not every part of an entity 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 entity and would not be operating segments. For the purposes of this Indian Accounting Standard, an entity's post-employment benefit plans are not operating segments.

7. 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 entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

8. For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

9. Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 5 apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

10. The characteristics in paragraph 5 may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organisation. For example, in some entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the entity shall determine which set of components constitutes the operating segments by reference to the core principle.

Reportable segments

11. An entity shall report separately information about each operating segment that:

(*a*) has been identified in accordance with paragraphs 5-10 or results from aggregating two or more of those segments in accordance with paragraph 12, and

(*b*) exceeds the quantitative thresholds in paragraph 13.

Paragraphs 14-19 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

12. 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 this Indian Accounting Standard, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(*a*) the nature of the products and services;

(*b*) the nature of the production processes;

(*c*) the type or class of customer for their products and services;

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

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

Quantitative thresholds

13. An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(*a*) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

(*b*) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (*i*) the combined reported profit of all operating segments that did not report a loss and (*ii*) the combined reported loss of all operating segments that reported a loss.

(*c*) Its assets are 10 per cent 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 management believes that information about the segment would be useful to users of the financial statements.

14. An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.

15. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.

16. Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 28. The sources of the revenue included in the 'all other segments' category shall be described.

17. If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 13.

18. If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.

19. There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 13-18 increases above ten, the entity should consider whether a practical limit has been reached.

Disclosure

20. An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

21. To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of profit and loss is presented :

(*a*) general information as described in paragraph 22;

(*b*) 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, as described in paragraphs 23-27; and

(*c*) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 28.

Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

General information

22. An entity shall disclose the following general information:

(*a*) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and

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

Information about profit or loss, assets and liabilities

23. An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity 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:

(*a*) revenues from external customers;

(*b*) revenues from transactions with other operating segments of the same entity;

(*c*) interest revenue;

(*d*) interest expense;

(*e*) depreciation and amortisation;

(*f*) material items of income and expense disclosed in accordance with paragraph 97 of Ind AS 1 *Presentation of Financial Statements;*

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

(*h*) income-tax expense or income; and

(*i*) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

24. An entity 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 the measure of segment assets:

(*a*) the amount of investment in associates and joint ventures accounted for by the equity method, and

(*b*) the amounts of additions to non-current assets[13] other than financial instruments, deferred tax assets, post-employment benefit assets (*see* Ind AS 19 *Employee Benefits* paragraphs 54-58) and rights arising under insurance contracts.

Measurement

25. The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

26. If the chief operating decision maker uses only one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment profit or loss, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

27. An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:

(*a*) the basis of accounting for any transactions between reportable segments.

(*b*) the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income-tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

(*c*) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.

(*d*) the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly utilised liabilities that are necessary for an understanding of the reported segment information.

(*e*) the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.

(*f*) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

28. An entity shall provide reconciliations of all of the following :

(*a*) the total of the reportable segments' revenues to the entity's revenue.

(*b*) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(*c*) the total of the reportable segments' assets to the entity's assets.

(*d*) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(*e*) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Restatement of previously reported information

29. If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

30. If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Entity-wide disclosures

31. Paragraphs 32-34 apply to all entities subject to this Indian Accounting Standard including those entities that have a single reportable segment.

Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32-34 shall be provided only if it is not provided as part of the reportable segment information required by this Indian Accounting Standard.

Information about products and services

32. An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

33. An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(*a*) revenues from external customers (*i*) attributed to the entity's country of domicile and (*ii*) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.

(*b*) non-current assets[14] other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (*i*) located in the entity's country of domicile and (*ii*) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, sub-totals of geographical information about groups of countries.

Information about major customers

34. An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Indian Accounting Standard, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgment is required to assess whether a Government (including Government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that Government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.

Appendix A

Defined term

operating segment	An operating segment is a component of an entity:
	that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
	whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
	for which discrete financial information is available.

Appendix B

Contents

Guidance on implementing Ind AS 108

Operating Segments

Guidance on implementing

Ind AS 108 *Operating Segments*

This guidance accompanies, but is not part of, Ind AS 108.

Introduction

IG1 This implementation guidance provides examples that illustrate the disclosures required by Ind AS 108 and a diagram to assist in identifying reportable segments. The formats in the illustrations are not requirements. A format that provides the information in the most understandable manner in the specific circumstances is encouraged. The following illustrations are for a single hypothetical entity referred to as Diversified Company.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the Indian Accounting Standard).

Description of the types of products and services from which each reportable segment derives its revenues (paragraph 22(*b*))

Diversified Company has five reportable segments: car parts, motor vessels, software, electronics and finance. The car parts segment produces replacement parts for sale to car parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and property lending operations.

Measurement or operating segment profit or loss, assets and liabilities (paragraph 27)

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses. Diversified Company accounts for intersegment sales and transfers as if the sales or

transfers were to third parties, *i.e.* at current market prices.

Factors that management used to identify the entity's reportable segments (paragraph 22(a))

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as individual units, and the management at the time of the acquisition was retained.

Information about reportable segment profit or loss, assets and liabilities

IG3 The following table illustrates a suggested format for disclosing information about reportable segment profit or loss, assets and liabilities (paragraphs 23 and 24). The same type of information is required for each year for which a statement of profit and loss is presented. Diversified Company does not allocate tax expense (tax income) or non-recurring gains and losses to reportable segments. In addition, not all reportable segments have material non-cash items other than depreciation and amortisation in profit or loss. The amounts in this illustration are assumed to be the amounts in reports used by the chief operating decision maker.

	Car parts	Motor vessels	Software	Electronics	Finance	All other	Totals
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenues from external customers	3,000	5,000	9,500	12,000	5,000	1,000[(a)]	35,500
Intersegment revenues	–	–	3,000	1,500	–	–	4,500
Interest revenue	450	800	1,000	1,500	–	–	3,750
Interest expense	350	600	700	1,100	–	–	2,750
Net interest revenue[(b)]	–	–	–	–	1,000	–	1,000
Depreciation and amortization	200	100	50	1,500	1,100	–	2,950
Reportable segment profit	200	70	900	2,300	500	100	4,070
Other material non-cash items:							
Impairment of assets	–	200	–	–	–	–	200
Reportable segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for reportable segment non-current assets	300	700	500	800	600	–	2,900
Reportable segment liabilities	1,050	3,000	1,800	8,000	30,000	–	43,850

(*a*) Revenues from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small property business, an electronics equipment rental business, a software consulting practice and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

The finance segment derives a majority of its revenue from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 23, only the net amount is disclosed.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

IG4 The following illustrate reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the entity's corresponding amounts (paragraph 28(*a*)-(*d*)). Reconciliations also are required to be shown for every other material item of information disclosed (paragraph 28(*e*)). The entity's financial statements are assumed not to include discontinued operations. As discussed in paragraph IG2, the entity recognises and measures pension expense of its reportable segments on the basis of cash payments to the pension plan, and it does not allocate certain items to its reportable segments.

Revenues	Rs.
Total revenues for reportable segments	39,000
Other revenues	1,000
Elimination of intersegment revenues	(4,500)
Entity's revenues	35,500

Profit or loss	Rs.
Total profit or loss for reportable segments	3,970
Other profit or loss	100
Elimination of intersegment profits	(500)
Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before income-tax expense	3,070

Assets	Rs.
Total assets for reportable segments	79,000
Other assets	2,000
Elimination of receivable from corporate headquarters	(1,000)
Other unallocated amounts	1,500

Entity's assets	81,500

Liabilities	Rs.
Total liabilities for reportable segments	43,850
Unallocated defined benefit pension liabilities	25,000
Entity's liabilities	68,850

Other material items	Reportable segment totals	Adjustments	Entity totals
	Rs.	Rs.	Rs.
Interest revenue	3,750	75	3,825
Interest expense	2,750	(50)	2,700
Net interest revenue (finance segment only)	1,000	–	1,000
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortization	2,950	–	2,950
Impairment of assets	200	–	200

The reconciling item to adjust expenditures for assets is the amount incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are material.

Geographical information

IG5 The following illustrates the geographical information required by paragraph 33. (Because Diversified Company's reportable segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (paragraph 32).)

Geographical information	Revenues[(a)]	Non-current assets
	Rs.	Rs.
United States	19,000	11,000
Canada	4,200	–
China	3,400	6,500
Japan	2,900	3,500
Other countries	6,000	3,000
Total	35,500	24,000
Revenues are attributed to countries on the basis of the customer's location		

Information about major customers

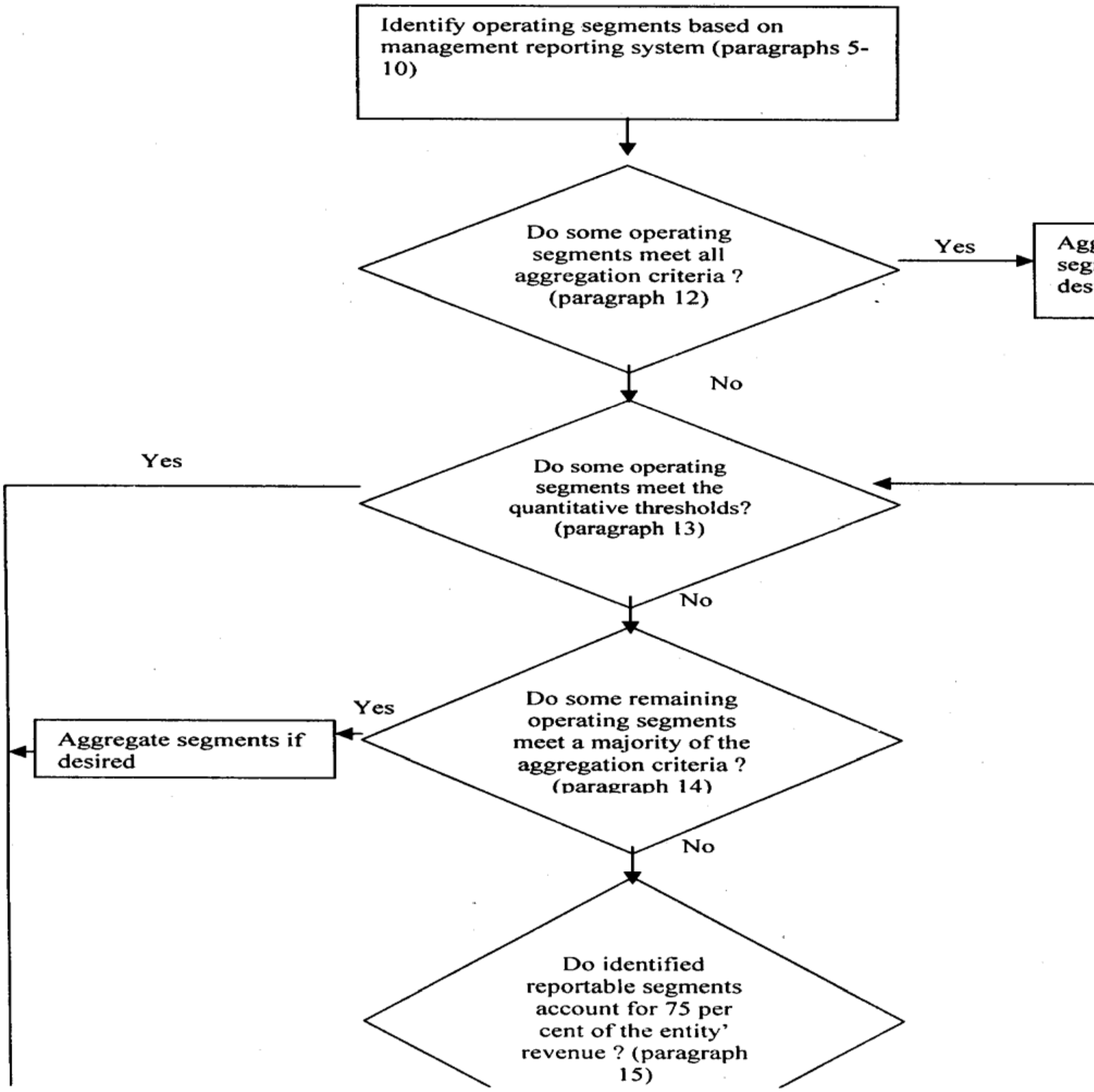
IG6 The following illustrates the information about major customers required by paragraph 34. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

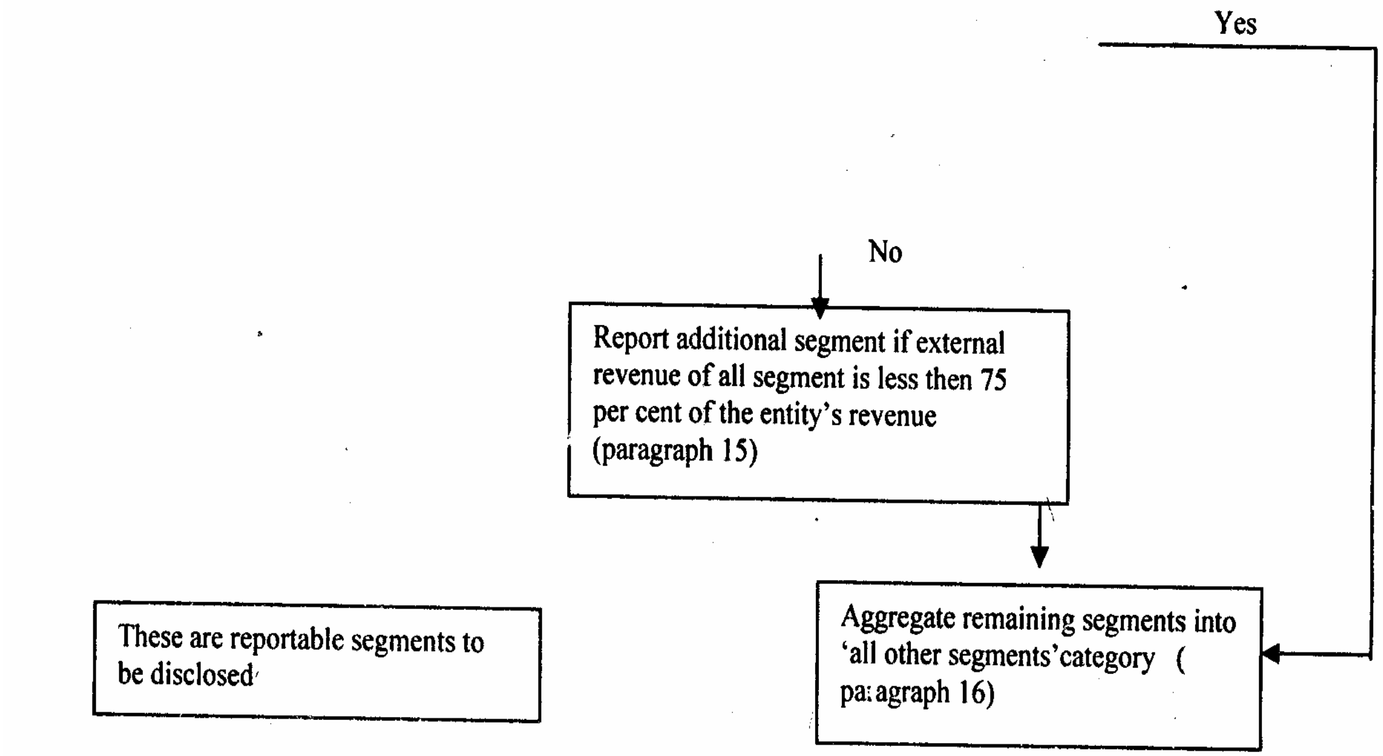
Revenues from one customer of Diversified Company's software and electronics segments represent approximately Rs. 5,000 of the Company's total revenues.

Diagram to assist in identifying reportable segments

IG7 The following diagram illustrates how to apply the main provisions for identifying reportable segments as defined in the Indian Accounting Standard. The diagram is a visual supplement to the Indian Accounting Standard. It should not be interpreted as altering or adding to any requirements of the Indian Accounting Standard nor should it be regarded as a substitute for the requirements.

Diagram for identifying reportable segments





Appendix 1

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 108 and the corresponding International Financial Reporting Standard (IFRS) 8, Operating Segments

Comparison with IFRS 8, *Operating Segments*

1. The transitional provisions given in IFRS 108 has not been given in Ind AS 108, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*

2. Different terminology is used, as used in existing laws *e.g.*, the term 'balance sheet' is used instead of Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.

Indian Accounting Standard (Ind AS) 1

Presentation of Financial Statements

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles).

Objective

1. This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

2. An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).

3. Other Ind ASs set out the recognition, measurement and disclosure requirements for specific transactions and other events.

4. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 *Interim Financial Reporting.* However, paragraphs 15-35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in Ind AS 27 *Consolidated and Separate Financial Statements.*

5. This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

6. Similarly, entities whose share capital is not equity may need to adapt the financial statement presentation of members' interests.

Definitions

7. The following terms are used in this Standard with the meanings specified:

General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Indian Accounting Standards (Ind ASs) are Standards prescribed under section 211(3C) of the Companies Act, 1956.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Notes contain information in addition to that presented in the balance sheet (including statement of changes in equity which is a part of the balance sheet), statement of profit and loss and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.

The components of other comprehensive income include:

(*a*) changes in revaluation surplus (*see* Ind AS 16 *Property, Plant and Equipment and* Ind AS 38) *Intangible Assets;*

(*b*) actuarial gains and losses on defined benefit plans recognised in accordance with paragraphs 92 and 129A of Ind AS 19 *Employee Benefits;*

(*c*) gains and losses arising from translating the financial statements of a foreign operation (*see* Ind AS 21 *The Effects of Changes in Foreign Exchange Rates);*

(*d*) gains and losses on remeasuring available-for-sale financial assets (*see* Ind AS 39 *Financial Instruments: Recognition and Measurement);*

(*e*) the effective portion of gains and losses on hedging instruments in a cash flow hedge (*see* Ind AS 39).

Owners are holders of instruments classified as equity.

Profit or loss is the total of income less expenses, excluding the components of other comprehensive income.

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Total comprehensive income comprises all components of profit or loss' and of 'other comprehensive income'.

8. [Refer to Appendix 1)]

8A. The following terms are described in Ind AS 32 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in Ind AS 32:

(*a*) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of Ind AS 32)

(*b*) an instrument that imposes on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of Ind AS 32).

Financial statements

Purpose of financial statements

9. Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(*a*) assets;

(*b*) liabilities;

(*c*) equity;

(*d*) income and expenses, including gains and losses;

(*e*) contributions by and distributions to owners in their capacity as owners; and

(*f*) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10. A complete set of financial statements comprises:

(*a*) a balance sheet as at the end of the period (including statement of changes in equity which is presented as a part of the balance sheet);

(*b*) a statement of profit and loss for the period;

(*c*) [Refer to Appendix 1];

(*d*) a statement of cash flows for the period;

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

(*f*) a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

11. An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.

12. As per paragraph 81. an entity shall present the components of profit or loss and components of other comprehensive income as part of a single statement of profit and loss.

13. Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

(*a*) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(*b*) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(*c*) the entity's resources not recognised in the balance sheet in accordance with Ind ASs.

14. Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of Ind ASs.

General features

Presentation of True and Fair View and compliance with Ind ASs

15. Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework.* The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

16. An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply with all the requirements of Ind ASs.

17. In virtually all circumstances, presentation of a true and fair view is achieved by compliance with applicable Ind ASs. Presentation of a true and fair view also requires an entity:

(*a*) to select and apply accounting policies in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item.

(*b*) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(*c*) to provide additional disclosures when compliance with the specific requirements in Ind ASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

19. In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

20. When an entity departs from a requirement of an Ind AS in accordance with paragraph 19, it shall disclose:

(*a*) that management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;

(*b*) that it has complied with applicable Ind ASs, except that it has departed from a particular requirement to present a true and fair view;

(*c*) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework,* and the treatment adopted; and

(*d*) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21. When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(*c*) and (*d*).

22. Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an Ind AS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

23. In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework,* but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(*a*) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework;* and

(*b*) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

24. For the purpose of paragraphs 19-23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework,* management considers:

(*a*) why the objective of financial statements is not achieved in the particular circumstances; and

(*b*) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework.*

Going concern

25. When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

26. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

27. An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

28. When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework.*

Materiality and aggregation

29. An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

30. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

31. An entity need not provide a specific disclosure required by an Ind AS if the information is not material except when required by law.

Offsetting

32. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

33. An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of profit and loss or balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

34. Ind A3 18 *Revenue* defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(*a*) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(*b*) an entity may net expenditure related to a provision that is recognised in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35. In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

36. An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(*a*) the reason for using a longer or shorter period, and

(*b*) the fact that amounts presented in the financial statements are not entirely comparable.

37. [Refer to Appendix 1]

Comparative information

38. Except when Ind ASs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

39. An entity disclosing comparative information shall present, as a minimum, two balance sheets, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three balance sheets, two of each of the other statements, and related notes. An entity presents balance sheets as at :

(*a*) the end of the current period,

(*b*) the end of the previous period (which is the same as the beginning of the current period), and

(*c*) the beginning of the earliest comparative period.

40. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

41. When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

(*a*) the nature of the reclassification;

(*b*) the amount of each item or class of items that is reclassified; and

(*c*) the reason for the reclassification.

42. When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(*a*) the reason for not reclassifying the amounts, and

(*b*) the nature of the adjustments that would have been made if the amounts had been reclassified.

43. Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

44. Ind AS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

45. An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(*a*) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or

(*b*) an Ind AS requires a change in presentation.

46. For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

47. This Standard requires particular disclosures in the balance sheet (including statement of changes in equity which is a part of the balance sheet) or in the statement of profit and loss and requires disclosure of other line items either in those statements or in the notes, Ind AS 7 *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.

48. This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other Ind ASs. Unless specified to the contrary elsewhere in this Standard or in another Ind AS, such disclosures may be made in the financial statements.

Identification of the financial statements

49. An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50. Ind ASs apply only to financial statements, and not necessary to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using Ind ASs from other information that may be useful to users but is not the subject of those requirements.

51. An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

(*a*) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(*b*) whether the financial statements are of an individual entity or a group of entities;

(*c*) the date of the end of the reporting period or the period covered by the set of financial statements or notes;

(*d*) the presentation currency, as defined in Ind AS 21; and

(*e*) the level of rounding used in presenting amounts in the financial statements.

52. An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgment is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.

53. An entity often makes financial statements more understandable by presenting information in thousands, lakhs, millions or crores of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Balance Sheet

Information to be presented in the balance sheet

54. As a minimum, the balance Sheet shall Include line items that present the following amounts:

(*a*) property, plant and equipment;

(*b*) investment property;

(*c*) intangible assets;

(*d*) financial assets (excluding amounts shown under (*e*), (*h*) and (*i*));

(*e*) investments accounted for using the equity method;

(*f*) biological assets;

(*g*) inventories

(*h*) trade and other receivables;

(*i*) cash and cash equivalents;

(*j*) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations;*

(*k*) trade and other payables;

(*l*) provisions;

(*m*) financial liabilities (excluding amounts shown under (*k*) and (*l*));

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

(*o*) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;

(*p*) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105:

(*q*) non-controlling interests, presented within equity; and

(*r*) issued capital and reserves attributable to owners of the patent.

55. An entity shall present additional line items, headings and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

56. When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

57. This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in natures function to warrant separate presentation in the balance sheet. In addition:

(*a*) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(*b*) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

58. An entity makes the judgment about whether to present additional items separately on the basis of an assessment of:

(*a*) the nature and liquidity of assets;

(*b*) the function of assets within the entity; and

(*c*) the amounts, nature and timing of liabilities.

59. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with Ind AS 16.

Current/non-current distinction

60. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet in accordance with paragraphs 66-76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

61. Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(*a*) no more than twelve months after the reporting period, and

(*b*) more than twelve months after the reporting period.

62. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

63. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

64. In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

65. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Ind AS 107 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

66. An entity shall classify an asset as current when:

(*a*) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(*b*) it holds the asset primarily for the purpose of trading;

(*c*) it expects to realise the asset within twelve months after the reporting period; or

(*d*) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current

67. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets classified as held for trading in accordance with Ind AS 39) and the current portion of non-current financial assets.

Current liabilities

69. An entity shall classify a liability as current when:

(*a*) it expects to settle the liability in its normal operating cycle;

(*b*) it holds the liability primarily for the purpose of trading;

(*c*) the liability is due to be settled within twelve months after the reporting period; or

(*d*) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (*see* paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current

70. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with Ind AS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income-taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (*i.e.* are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement without twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(*a*) the original term was for a period longer than twelve months, and

(*b*) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue.

73. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74. When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

75. However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

76. In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are approved for issue, those events are disclosed as non-adjusting events in accordance with Ind AS 10 *Events after the Reporting Period:*

(*a*) refinancing on a long-term basis;

(*b*) rectification of a breach of a long-term loan arrangement; and

(*c*) the granting by the lender of a period of grade to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Information to be presented either in the balance sheet or in the notes

77. An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

78. The detail provided in sub-classifications depends on the requirements of Ind ASs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of sub-classification. The disclosures vary for each item, for example:

(*a*) items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;

(*b*) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(*c*) inventories are disaggregated, in accordance with Ind AS 2 *Inventories,* into classifications such as merchandise, production supplies, materials, work-in-progress and finished goods;

(*d*) provisions are disaggregated into provisions for employee benefits and other items; and

(*e*) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

79. An entity shall disclose the following, either in the balance sheet or in the statement of changes in equity which is part of the balance sheet, or in the notes :

(*a*) for each class of share capital :

  (*i*) the number of shares authorised;

  (*ii*) the number of shares issued and fully paid, and issued but not fully paid;

  (*iii*) par value per share, or that the shares have no par value;

  (*iv*) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

  (*v*) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

  (*vi*) shares in the entity held by the entity or by its subsidiaries or associates; and

  (*vii*) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(*b*) a description of the nature and purpose of each reserve.

80. An entity whose capital is not limited by shares *e.g.*, a company limited by guarantee, shall disclose information equivalent to that required by paragraph 79(*a*), showing changes during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

80A. If an entity has reclassified

(*a*) a puttable financial instrument classified as an equity instrument, or

(*b*) an instrument that imposes on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation and is classified as an equity instrument

between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of Profit and Loss

81. An entity shall present all items of income and expense including components of other comprehensive income recognised in a period in a single statement of profit and loss.

Information to be presented in the statement of profit and loss

82. As a minimum, the statement of profit and loss shall include line items that present the following amounts for the period:

(*a*) revenue;

(*b*) finance costs;

(*c*) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(*d*) tax expense;

(*e*) a single amount comprising the total of:

(*i*) the post-tax profit or loss of discontinued operations and

(*ii*) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(*f*) profit or loss;

(*g*) each component of other comprehensive income classified by nature (excluding amounts in (*h*));

(*h*) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(*i*) total comprehensive income.

83. An entity shall disclose the following items in the statement of profit and loss as allocations for the period:

(*a*) profit or loss for the period attributable to:

(*i*) non-controlling interests, and

(*ii*) owners of the parent.

(*b*) total comprehensive income for the period attributable to:

   (*i*) non-controlling interests, and

   (*ii*) owners of the parent.

84. [Refer to Appendix 1]

85. An entity shall present additional line items, headings and sub-totals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

86. Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of profit and loss, and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87. An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes.

Profit or loss for the period

88. An entity shall recognise all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

89. Some Ind ASs specify circumstances when an entity recognises particular items outside profit or loss in the current period. Ind AS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other Ind ASs require or permit components of other comprehensive income that meet the *Frameworks* definition of income or expense to be excluded from profit or loss (*see* paragraph 7).

Other comprehensive income for the period

90. An entity shall disclose the amount of income-tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

91. An entity may present components of other comprehensive income either:

(*a*) net of related tax effects, or

(*b*) before related tax effects with one amount shown for the aggregate amount of income-tax relating to those components.

92. An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93. Other Ind ASs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94. An entity may present reclassification adjustments in the statement of profit and loss or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.

95. Reclassification adjustments arise, for example, on disposal of a foreign operation (*see* Ind AS 21), on derecognition of available-for-sale financial assets (*see* Ind AS 39) and when a hedged forecast transaction affects profit or loss (*see* paragraph 100 of Ind AS 39 in relation to cash flow hedges).

96. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with Ind AS 16 or Ind AS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraphs 92 and 129A of Ind AS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (*see* Ind AS 16 and Ind AS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (*see* Ind AS 19).

Information to be presented in the statement of profit and loss or in the notes

97. When items of income or expense are material, an entity shall disclose their nature and amount separately.

98. Circumstances that would give rise to the separate disclosure of items of income and expense include:

(*a*) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(*b*) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(*c*) disposals of items of property, plant and equipment;

(*d*) disposals of investments;

(*e*) discontinued operations;

(*f*) litigation settlements; and

(*g*) other reversals of provisions.

99. An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

100. Entities are encouraged to present the analysis in paragraph 99 in the statement of profit and loss.

101. Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in the form as described in paragraph 102.

102. In the analysis based on the 'nature of expense' method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method is simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work-in-progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103. [Refer to Appendix 1]

104. [Refer to Appendix 1].

105. [Refer to Appendix 1].

Statement of changes in equity

106. An entity shall present a statement of changes in equity as a part of balance sheet as required by paragraph 10. The statement of changes in equity includes the following information:

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

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

(*c*) [Refer to Appendix 1]

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

(*i*) profit or loss;

(*ii*) each item of other comprehensive income;

(*iii*) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and (*iv*) any item recognised directly in equity such as amount recognised directly in equity as capital reserve with paragraph 36A of Ind AS 103.

Information to be presented in the statement of changes in equity which is a part of the balance sheet or in the notes.

106A. For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (*see* paragraph 106(*d*)(*ii*)).

107. An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

108. In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109. Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

110. Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity. Paragraph 106(*b*) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

111. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. Ind AS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes Structure

112. The notes shall:

(*a*) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117-124;

(*b*) disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and

(*c*) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

113. An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet, in the statement of changes in equity which is a part of the balance sheet and in the statement of profit and loss, and statement of cash flows to any related information in the notes.

114. An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(*a*) statement of compliance with Ind ASs (*see* paragraph 16);

(*b*) summary of significant accounting policies applied (*see* paragraph 117);

(*c*) supporting information for items presented in the balance sheet, in the statement of changes in equity which is a part of the balance sheet, in the statement of profit and loss, and statement cash flows, in the order in which each statement and each line item is presented; and

(*d*) other disclosures, including:

(*i*) contingent liabilities (*see* Ind AS 37) and unrecognised contractual commitments, and

(*ii*) non-financial disclosures, *e.g.* the entity's financial risk management objectives and policies (*see* Ind AS 107).

115. In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of profit and loss and the latter relate to the balance sheet. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.

116. An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

117. An entity shall disclose in the summary of significant accounting policies:

(*a*) the measurement basis (or bases) used in preparing the financial statements, and

(*b*) the other accounting policies used that are relevant to an understanding of the financial statements.

118. It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Ind ASs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (*see* Ind AS 31 *Interests in Joint Ventures).* Some Ind ASs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, Ind AS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income-taxes to disclose its accounting policies for income-taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

121. An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by Ind ASs but the entity selects and applies in accordance with Ind AS 8.

122. An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (*see* paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

123. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgments in determining:

(*a*) whether financial assets are held-to-maturity investments;

(*b*) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(*c*) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(*d*) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

124. Some of the disclosures made in accordance with paragraph 122 are required by other Ind ASs. For example, Ind AS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. Ind AS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

125. An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(*a*) their nature, and

(*b*) their carrying amount as at the end of the reporting period.

126. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127. The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128. The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

129. An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgments that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(*a*) the nature of the assumption or other estimation uncertainty;

(*b*) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(*c*) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(*d*) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

130. This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

131. Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

132. The disclosures in paragraph 122 of particular judgments that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.

133. Other Ind ASs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, Ind AS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. Ind AS 107 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. Ind AS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

134. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

135. To comply with paragraph 134, the entity discloses the following:

(*a*) qualitative information about its objectives, policies and processes for managing capital, including:

- (*i*) a description of what it manages as capital;
- (*ii*) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
- (*iii*) how it is meeting its objectives for managing capital.

(*b*) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (*e.g.* some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (*e.g.* components arising from cash flow hedges).

(*c*) any changes in (*a*) and (*b*) from the previous period.

(*d*) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(*e*) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

136. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Puttable financial instruments classified as equity

136A. For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

(*a*) summary quantitative data about the amount classified as equity;

(*b*) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(*c*) the expected cash outflow on redemption or repurchase of that class of financial instruments; and

(*d*) information about how the expected cash outflow on redemption or repurchase was determined.

Other disclosures

137. An entity shall disclose in the notes:

(*a*) the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during the period, and the related amount per share; and

(*b*) the amount of any cumulative preference dividends not recognised.

138. An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(*a*) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(*b*) a description of the nature of the entity's operations and its principal activities;

(*c*) the name of the parent and the ultimate parent of the group; and

(*d*) if it is a limited life entity, information regarding the length of its life.

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard (Ind AS) 1.

This appendix lists the different appendices which are the part of other Indian Accounting Standards and make reference to Ind AS 1:

1. Appendix A *Distributions of Non-cash Assets to Owners* contained in *Ind AS 10 Events after the Reporting Period*

2. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contained in Ind AS 16, *Property, Plant and Equipment*

3. Appendix A *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* contained in Ind AS 19 *Employee Benefits*

4. Appendix A *Intangible Assets— Web Site Costs* contained in Ind AS 38, *Intangible Assets*

5. Appendix E *Extinguishing Financial Liabilities with Equity Instruments* contained in *Ind AS 39 Financial Instruments: Recognition and Measurement.*

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 1 and the corresponding International Accounting Standard (IAS) 1, Presentation of Financial Statements.

Comparison with IAS 1, *Presentation of Financial Statements*

1. 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 recognised 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. Paragraph 84 of IAS 1 is with reference to the two statement approach. As Ind AS 1 does not allow the aforesaid option, the paragraph 84 is deleted. However, paragraph number 84 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

2. 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. Paragraph 10(*c*) of IAS 1 is with reference to the separate statement of changes in equity. As Ind AS 1 does not require it, the same is deleted. However, paragraph number 10(*c*) has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

3. Different terminology is used in Ind AS 1 *e.g.,* the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of Profit and Loss' is used instead of 'Statement of comprehensive income'. The words 'approval of the financial statements for issue' have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

4. Paragraph 8 of IAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. Ind AS 1 is changed to remove alternatives by giving one terminology to be used by all entities. However, paragraph number 8 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

5. Paragraph 37 of IAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. As Ind AS 1 does not permit it, the same is deleted. However, paragraph number 37 has been retained in Ind AS 1 to maintain consistency with paragraph numbers of IAS 1.

6. Paragraph 99 of IAS 1 requires an entity to present an analysis of expenses recognised 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. In IAS 1 the following paragraphs are with reference to function-wise classification of expense. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph numbers are retained in Ind AS 1 :

(*i*) Paragraph 103

(*ii*) Paragraph 104

(*iii*) Paragraph 105

7. 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.

8. Paragraph number 106(*c*) appears as 'Deleted' in IAS 1. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph number is retained in Ind AS 1.

9. Cross-reference to paragraph 93A of IAS 19 has been modified as cross reference to paragraphs 92 and 129A of Ind AS 19 as a result of certain changes in Ind AS 19 as compared to IAS 19.

Indian Accounting Standard (Ind AS) 16

Property, Plant and Equipment

(This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

2. This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

3. This Standard does not apply to:

(*a*) property, plant and equipment classified as held for sale in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations;*

(*b*) biological assets related to agricultural activity (*See* Ind AS 41, Agriculture[15]);

(*c*) the recognition and measurement of exploration and evaluation assets (*see* Ind AS 106 *Exploration for and Evaluation of Mineral Resources);* or

(*d*) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (*b*)-(*d*).

4. Other Indian Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, Ind AS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

5. An entity accounting for investment property in accordance with Ind AS 40 *Investment Property* shall use the cost model in this Standard.

Definitions

6. The following terms are used in this Standard with the meanings specified:

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, *e.g.* Ind AS 102 *Share-based Payment.*

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:

(*a*) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(*b*) are expected to be used during more than one period.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

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

Recognition

7. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(*a*) it is probable that future economic benefits associated with the item will flow to the entity; and

(*b*) the cost of the item can be measured reliably.

8. Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts, stand-by equipment and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one period.

9. This Standard does not prescribe the unit of measure for recognition, *i.e.* what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial costs

11. Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with Ind AS 36 *Impairment of Assets.*

Subsequent costs

12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (*see* paragraphs 67-72).

14. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at recognition

15. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Elements of cost

16. The cost of an item of property, plant and equipment comprises:

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

(*b*) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(*c*) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17. Examples of directly attributable costs are:

(*a*) costs of employee benefits (as defined in Ind AS 19 *Employee Benefits)* arising directly from the construction or acquisition of the item of property, plant and equipment;

(*b*) costs of site preparation;

(*c*) initial delivery and handling costs;

(*d*) installation and assembly costs;

(*e*) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(*f*) professional fees.

18. An entity applies Ind AS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with Ind AS 2 or Ind AS 16 are recognised and measured in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

19. Examples of costs that are not costs of an item of property, plant and equipment are:

(*a*) costs of opening a new facility;

(*b*) costs of introducing a new product or service (including costs of advertising and promotional activities);

(*c*) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(*d*) administration and other general overhead costs.

20. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(*a*) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(*b*) initial operating losses, such as those incurred while demand for the item's output builds up; and

(*c*) costs of relocating or reorganising part or all of an entity's operations.

21. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

22. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (*see* Ind AS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. Ind AS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of cost

23. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

24. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (*a*) the exchange transaction lacks commercial substance or (*b*) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

25. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(*a*) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(*b*) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(*c*) the difference in (*a*) or (*b*) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

26. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (*a*) the variability in the range of reasonable fair value estimates is not significant for that asset or (*b*) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

27. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with Ind AS 17.

28. [Refer to Appendix 1].

Measurement after recognition

29. An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost model

30. After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

32. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

33. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

34. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(*a*) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost.

(*b*) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

36. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

37. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

(*i*) land;

(*ii*) land and buildings;

(*iii*) machinery;

(*iv*) ships;

(*v*) aircraft;

(*vi*) motor vehicles;

(*vii*) furniture and fixtures; and

(*viii*) office equipment.

38. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

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

40. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

41. The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

42. The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with Ind AS 12 *Income Taxes.*

Depreciation

43. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

44. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

45. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

48. The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

49. The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (*see* Ind AS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with Ind AS 38 *Intangible Assets.*

Depreciable amount and depreciation period

50. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

51. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

52. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

53. The depreciable amount of an asset is determined after deducting its residual value, *in* practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

55. Depreciation of an asset begins when it is available for use, *i.e.*, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

56. The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(*a*) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(*b*) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(*c*) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(*d*) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

57. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

58. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

59. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation method

60. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

61. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

62. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

63. To determine whether an item of property, plant and equipment is impaired, an entity applies Ind AS 36 *Impairment of Assets.* That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

64. [Refer Appendix 1]

Compensation for impairment

65. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

66. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(*a*) impairments of items of property, plant and equipment are recognised in accordance with Ind AS 36;

(*b*) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(*c*) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and

(*d*) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

67. The carrying amount of an item of property, plant and equipment shall be derecognised:

(*a*) on disposal; or

(*b*) when no future economic benefits are expected from its use or disposal.

68. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless Ind AS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

68A. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with Ind AS 18 *Revenue.* Ind AS 105 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

69. The disposal of an item of property, plant and equipment may occur in a variety of ways (*e.g.* by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in Ind AS 18 for recognising revenue from the sale of goods. Ind AS 17 applies to disposal by a sale and leaseback.

70. If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

72. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with Ind AS 18 reflecting the effective yield on the receivable.

Disclosure

73. The financial statements shall disclose, for each class of property, plant and equipment:

(*a*) the measurement bases used for determining the gross carrying amount;

(*b*) the depreciation methods used;

(*c*) the useful lives or the depreciation rates used;

(*d*) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(*e*) a reconciliation of the carrying amount at the beginning and end of the period showing:

(*i*) additions;

(*ii*) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals;

(*iii*) acquisitions through business combinations;

(*iv*) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with Ind AS 36;

(*v*) impairment losses recognised in profit or loss in accordance with Ind AS 36;

(*vi*) impairment losses reversed in profit or loss in accordance with Ind AS 36;

(*vii*) depreciation;

(*viii*) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(*ix*) other changes.

74. The financial statements shall also disclose:

(*a*) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(*b*) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(*c*) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(*d*) if it is not disclosed separately in the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

75. Selection of the depreciation method and estimation of the useful life of assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(*a*) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and

(*b*) accumulated depreciation at the end of the period.

76. In accordance with Ind AS 8 an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(*a*) residual values;

(*b*) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(*c*) useful lives; and

(*d*) depreciation methods.

77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(*a*) the effective date of the revaluation;

(*b*) whether an independent valuer was involved;

(*c*) the methods and significant assumptions applied in estimating the items' fair values;

(*d*) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other Valuation techniques;

(*e*) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and

(*f*) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders

78. In accordance with Ind AS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(*e*)(*iv*)-(*vi*).

79. Users of financial statements may also find the following information relevant to their needs:

(*a*) the carrying amount of temporarily idle property, plant and equipment;

(*b*) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(*c*) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with Ind AS 105; and

(*d*) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Appendix A

Changes in Existing Decommissioning, Restoration and Similar Liabilities

This Appendix is an integral part of Ind AS 16.

Background

1. Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Appendix such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under Ind AS 16, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Ind AS 37 contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Scope

2. This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

(*a*) recognised as part of the cost of an item of property, plant and equipment in accordance with Ind AS 16; and

(*b*) recognised as a liability in accordance with Ind AS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

Issue

3. This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(*a*) a change in the estimated outflow of resources embodying economic benefits (*e.g.*, cash flows) required to settle the obligation;

(*b*) a change in the current market-based discount rate as defined in paragraph 47 of Ind AS 37 (this includes changes in the time value of money and the risks specific to the liability); and

(*c*) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

Accounting Principles

4. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with paragraphs 5-7 below.

5. If the related asset is measured using the cost model:

(*a*) subject to (*b*), changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period.

(*b*) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

(*c*) if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with Ind AS 36.

6. If the related asset is measured using the revaluation model:

(*a*) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

(*i*) a decrease in the liability shall (subject to (*b*)) be recognised in other comprehensive income and increase the revaluation surplus within equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;

(*ii*) an increase in the liability shall be recognised in profit or loss, except that it shall be recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(*b*) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in profit or loss.

(*c*) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation shall be taken into account in determining the amounts to be recognised in profit or loss or in other comprehensive income under (*a*). If a revaluation is necessary, all assets of that class shall be revalued.

(*d*) Ind AS 1 requires disclosure in the statement of profit and loss of each component of other comprehensive income or expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

7. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in profit or loss as they occur. This applies under both the cost model and the revaluation model.

8. The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. Capitalisation under Ind AS 23 is not permitted.

Illustrative examples of Changes in Existing Decommissioning, Restoration and Similar Liabilities

(*These examples accompany, but are not part of, Appendix A.*)

Common facts

IE1. An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on 1 January, 2000. The plant has a useful life of 40 years. Its initial cost was Rs. 120,000; this included an amount for decommissioning costs of Rs. 10,000, which represented Rs. 70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on 31 December.

Example 1: Cost model

IE2. On 31 December, 2009, the plant is 10 years old. Accumulated depreciation is Rs. 30,000 (Rs. 120,000 × $^{10}/_{40}$ years). Because of the unwinding of discount (5 per cent) over the 10 years, the decommissioning liability has grown from Rs. 10,000 to Rs. 16,300.

IE3. On 31 December, 2009, the discount rate has not changed. However, the entity estimates that, as a result of technological advances, the net present value of the decommissioning liability has decreased by Rs. 8,000. Accordingly, the entity adjusts the decommissioning liability from Rs. 16,300 to Rs. 8,300. On this date, the entity makes the following journal entry to reflect the change:

	Rs.	Rs.
Dr. decommissioning liability	8,000	
Cr. cost of asset		8,000

IE4. Following this adjustment, the carrying amount of the asset is Rs. 82,000 (Rs. 120,000 - Rs.8,000 - Rs.30,000), which will be depreciated over the remaining 30 years of the asset's life giving a depreciation expense for the next year of Rs. 2,733 (Rs. 82,000 ÷ 30). The next year's finance cost for the unwinding of the discount will be Rs. 415 (Rs. 8,300 × 5 per cent).

IE5. If the change in the liability had resulted from a change in the discount rate, instead of a change in the estimated cash flows, the accounting for the change would have been the same but the next year's finance cost would have reflected the new discount rate.

Example 2: Revaluation model

IE6. The entity adopts the revaluation model in Ind AS 16 whereby the plant is revalued with sufficient regularity that the carrying amount does not differ materially from fair value. The entity's policy is to eliminate accumulated depreciation at the revaluation date against the gross carrying amount of the asset.

IE7. When accounting for revalued assets to which decommissioning liabilities attach, it is important to understand the basis of the valuation obtained. For example:

(*a*) if an asset is valued on a discounted cash flow basis, some valuers may value the asset without deducting any allowance for decommissioning costs (a 'gross' valuation), whereas others may value the asset after deducting an allowance for decommissioning costs (a 'net' valuation), because an entity acquiring the asset will generally also assume the decommissioning obligation. For financial reporting purposes, the decommissioning obligation is recognised as a separate liability, and is not deducted from the asset. Accordingly, if the asset is valued on a net basis, it is necessary to adjust the valuation obtained by adding back the allowance for the liability, so that the liability is not counted twice.[16]

(*b*) if an asset is valued on a depreciated replacement cost basis, the valuation obtained may not include an amount for the decommissioning component of the asset. If it does not, an appropriate amount will need to be added to the valuation to reflect the depreciated replacement cost of that component.

IE8. Assume that a market-based discounted cash flow valuation of Rs. 115,000 is obtained at 31 December, 2002. It includes an allowance of Rs. 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. The amounts included in the balance sheet at 31 December, 2002 are therefore:

	Rs.
Asset at valuation (1)	126,600
Accumulated depreciation	nil
Decommissioning liability	(11,600)
Net assets	115,000

Retained earnings (2)	(10,600)
Revaluation surplus (3)	15,600

Notes:

(1) Valuation obtained of Rs. 115,000 *plus* decommissioning costs of Rs. 11,600, allowed for in the valuation but recognised as a separate liability = Rs. 126,600.

(2) Three years' depreciation on original cost Rs. 120,000 × $^{3}/_{40}$ = Rs. 9,000 *plus* cumulative discount on Rs.10,000 at 5 per cent compound = Rs. 1,600; total Rs. 10,600.

(3) Revalued amount Rs. 126,600 less previous net book value of Rs. 111,000 (cost Rs. 120,000 less accumulated depreciation Rs. 9,000).

IE9. The depreciation expense for 2003 is therefore Rs. 3,420 (Rs. 126,600 × $^{1}/_{37}$) and the discount expense for 2003 is Rs. 600 (5 per cent of Rs. 11,600). On 31 December 2003, the decommissioning liability (before any adjustment) is Rs. 12,200 and the discount rate has not changed. However, on that date, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by Rs. 5,000. Accordingly, the entity adjusts the decommissioning liability from Rs. 12,200 to Rs. 7,200.

IE10. The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model. If it had done, the excess would have been taken to profit or loss in accordance with paragraph 6(*b*). The entity makes the following journal entry to reflect the change:

	Rs.	Rs.
Dr. decommissioning liability	5,000	
Cr. revaluation surplus		5,000

IE11. The entity decides that a full valuation of the asset is needed at 31 December, 2003, in order to ensure that the carrying amount does not differ materially from fair value. Suppose that the asset is now valued at Rs. 107,000, which is net of an allowance of Rs.7,200 for the reduced decommissioning obligation that should be recognised as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore Rs. 114,200. The following additional journal entry is needed :

	Rs.	Rs.
Dr. accumulated depreciation (1)	3,420	
Cr. asset at valuation		3,420
Dr. revaluation surplus (2)	8,980	
Cr. asset at valuation (3)		8,980

Notes:

(1) Eliminating accumulated depreciation of Rs.3,420 in accordance with the entity's accounting policy.

(2) The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.

(3) Previous valuation (before allowance for decommissioning costs) Rs. 126,600, less cumulative depreciation Rs.3,420, less new valuation (before allowance for decommissioning costs) Rs. 114,200.

IE12. Following this valuation, the amounts included in the balance sheet are:

	Rs.
Asset at valuation	114,200
Accumulated depreciation	*nil*
Decommissioning liability	(7,200)
Net assets	107,000
Retained earnings (1)	(14,620)
Revaluation surplus (2)	11,620

Notes:

(1) Rs. 10,600 at 31 December, 2002 *plus* 2003's depreciation expense of Rs.3 420 and discount expense of Rs.600 = Rs. 14,620.

(2) Rs. 15,600 at 31 December, 2002, *plus* Rs. 5,000 arising on the decrease in the liability, less Rs.8,980 deficit on revaluation = Rs.11,620.

Appendix B

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Ind AS 16.

This appendix lists the appendices which are part of other Indian Accounting Standards and make reference to Ind AS 16, *Property, Plant and Equipment*

1. Appendix A, *Income Taxes—Recovery of Revalued Non-Depreciable Assets* contained in Ind AS 12.
2. Appendix A, *Service Concession Arrangements* contained in Ind AS 11 *Construction Contracts.*
3. Appendix B, *Service Concession Arrangements: Disclosures* contained in Ind AS 11 *Construction Contracts.*
4. Appendix C, *Determining whether an Arrangement contains a Lease* contained in Ind AS 17 *Leases.*
5. Appendix A, *Intangible Assets—Web Site Costs* contained in Ind AS 38 *Intangible Assets.*
6. Appendix C, *Transfers of Assets from Customers* contained in Ind AS 18 *Revenue.*

Appendix 1

Note: This Appendix is not a part of this Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (*Ind AS*) *16 and the corresponding International Accounting Standard* (*IAS*) *16,* *Property, Plant and Equipment and IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Comparison with IAS 16, *Property, Plant and Equipment* and IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

1. The transitional provisions given in IAS 16 and IFRIC 1 have not been given in Ind AS 16, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards.*
2. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit' and loss is used instead of 'Statement of comprehensive income'.
3. Paragraph 28 has been deleted .since Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* does not permit the option of reducing the carrying amount of an item of property, plant and equipment by the amount of Government grant received in respect of such an item, which is permitted in IAS 20. However, to maintain consistency with paragraph numbers of IAS 16, this paragraph number is retained in Ind AS 16.
4. Paragraph number 64 appears as 'Deleted 'in IAS 16. In order to maintain consistency with paragraph number of IAS 16, the paragraph number is retained in Ind AS 16.
5. Paragraphs 5 of Ind AS 16 and IE 7 of Appendix A of Ind AS 16 have been modified, since Ind AS 40, *Investment Property,* prohibits the use of fair value model.

Indian Accounting Standard (Ind AS) 29

Financial Reporting in Hyperinflationary Economies

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*) .

Scope

1. This Standard shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.
2. In a hyperinflationary economy, reporting of operating results and financial position in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.
3. This Standard does not establish an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

(*a*) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(*b*) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(*c*) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(*d*) interest rates, wages and prices are linked to a price index; and

(*e*) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

4. It is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date. Nevertheless, this Standard applies to the financial statements of any entity from the beginning of the reporting period in which it identifies the existence of hyperinflation in the country in whose currency it reports.

The restatement of financial statements

5. Prices change over time as the result of various specific or general political, economic and social forces. Specific forces such as changes in supply and demand and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

6. Entities that prepare financial statements on the historical cost basis of accounting do so without regard either to changes in the general level of prices or to increases in specific prices of recognised assets or liabilities. The exceptions to this are those assets and liabilities that the entity is required, or chooses, to measure at fair value. For example, property, plant and equipment may be revalued to fair value and biological assets are generally required to be measured at fair value. Some entities, however, present financial statements that are based on a current cost approach that reflects the effects of changes in the specific prices of assets held.

7. In a hyperinflationary economy, financial statements, whether they are based on a historical cost approach or a current cost approach, are useful only if they are expressed in terms of the measuring unit current at the end of the reporting period. As a result, this Standard applies to the financial statements of entities reporting in the currency of a hyperinflationary economy. Presentation of the information required by this Standard as a supplement to unrestated financial statements is not permitted. Furthermore, separate presentation of the financial statements before restatement is discouraged.

8. The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, shall be stated in terms of the measuring unit current at the end of the reporting period. The corresponding figures for the previous period required by Ind AS 1, *Presentation of Financial Statements* and any information in respect of earlier periods shall also be stated in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(*b*) and 43 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* apply.

9. The gain or loss on the net monetary position shall be included in profit or loss and separately disclosed.

10. The restatement of financial statements in accordance with this Standard requires the application of certain procedures as well as judgment. The consistent application of these procedures and judgments from period to period is more important than the precise accuracy of the resulting amounts included in the restated financial statements.

Historical cost financial statements

Balance sheet

11. Balance sheet amounts not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

12. Monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

13. Assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement in order to ascertain the amount outstanding at the end of the reporting period. These items are carried at this adjusted amount in the restated balance sheet.

14. All other assets and liabilities are non-monetary. Some non-monetary items are carried at amounts current at the end of the reporting period, such as net realisable value and fair value, so they are not restated. All other non-monetary assets and liabilities are restated.

15. Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. For example, property, plant and equipment, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.

16. Detailed records of the acquisition dates of items of property, plant and equipment may not be available or capable of estimation. In these rare circumstances, it may be necessary, in the first period of application of this Standard, to use an independent professional assessment of the value of the items as the basis for their restatement.

17. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the functional currency and a relatively stable foreign currency.

18. Some non-monetary items are carried at amounts current at dates other than that of acquisition or that of the balance sheet, for example property, plant and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.

19. The restated amount of a non-monetary item is reduced, in accordance with appropriate Indian Accounting Standards, when it exceeds its recoverable amount. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount and restated amounts of inventories are reduced to net realisable value.

20. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The balance sheet and statement of profit and loss of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets and profit or loss. When the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

21. The impact of inflation is usually recognised in borrowing costs. It is not appropriate both to restate the capital expenditure financed by borrowing and to capitalise that part of the borrowing costs that compensates for the inflation during the same period. This part of the borrowing costs is recognised as an expense in the period in which the costs are incurred.

22. An entity may acquire assets under an arrangement that permits it to defer payment without incurring an explicit interest charge. Where it is impracticable to impute the amount of interest, such assets are restated from the payment date and not the date of purchase.

23. [Refer to Appendix 1]

24. At the beginning of the first period of application of this Standard, the components of owners' equity, except retained earnings and any revaluation surplus, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated balance sheet.

25. At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later. The movements for the period in owners' equity are disclosed in accordance with Ind AS 1.

Statement of profit and loss

26. This Standard requires that all items in the statement of profit and loss are expressed in terms of the measuring unit current at the end of the reporting period. Therefore all amounts need to be restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.

Gain or loss on net monetary position

27. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of profit and loss and the adjustment of index linked assets and liabilities. The gain or loss may be estimated by applying the change in a general price index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

28. The gain or loss on the net monetary position is included in profit or loss. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of profit and loss.

Current cost financial statements Balance sheet

29. Items stated at current cost are not restated because they are already expressed in terms of the measuring unit current at the end of the reporting period. Other items in the balance sheet are restated in accordance with paragraphs 11 to 25.

Statement of profit and loss

30. The current cost statement of profit and loss, before restatement, generally reports costs current at the time at which the underlying transactions or events occurred. Cost of sales and depreciation are recorded at current costs at the time of consumption; sales and other expenses are recorded at their money amounts when they occurred. Therefore all amounts need to be restated into the measuring unit current at the end of the reporting period by applying a general price index.

Gain or loss on net monetary position

31. The gain or loss on the net monetary position is accounted for in accordance with paragraphs 27 and 28.

Taxes

32. The restatement of financial statements in accordance with this Standard may give rise to differences between the carrying amount of individual assets and liabilities in the balance sheet and their tax bases. These differences are accounted for in accordance with Ind AS 12, *Income Taxes.*

Statement of cash flows

33. This Standard requires that all items in the statement of cash flows are expressed in terms of the measuring unit current at the end of the reporting period.

Corresponding figures

34. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 42(*b*) and 43 of Ind AS 21 apply.

Consolidated financial statements

35. A parent that reports in the currency of a hyperinflationary economy may have subsidiaries that also report in the currencies of hyperinflationary economies. The financial statements of any such subsidiary need to be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its parent. Where such a subsidiary is a foreign subsidiary, its restated financial statements are translated at closing rates. The financial statements of subsidiaries that do not report in the currencies of hyperinflationary economies are dealt with in accordance with Ind AS 21.

36. If financial statements with different ends of the reporting periods are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statements.

Selection and use of the general price index

37. The restatement of financial statements in accordance with this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

Economies ceasing to be hyperinflationary

38. When an economy ceases to be hyperinflationary and an entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements.

Disclosures

39. The following disclosures shall be made:

(*a*) the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the end of the reporting period;

(*b*) whether the financial statements are based on a historical cost approach or a current cost approach; and

(*c*) the identity and level of the price index at the end of the reporting period and the movement in the index during the current and the previous reporting period.

(*d*) the duration of the hyperinflationary situation existing in the economy.

40. The disclosures required by this Standard are needed to make clear the basis of dealing with the effects of inflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Appendix A

Applying the Restatement Approach under Ind AS 29 Financial Reporting in Hyperinflationary Economies

This Appendix is an integral part of the Indian Accounting Standard (*Ind AS*) *29, Financial Reporting in Hyperinflationary Economies*

Background

1. This Appendix provides guidance on how to apply the requirements of Ind AS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with Ind AS 29.

Issues

2. The questions addressed in this Appendix are:

(*a*) how should the requirement'... stated in terms of the measuring unit current at the end of the reporting period' in paragraph 8 of Ind AS 29 be interpreted when an entity applies the Standard?

(*b*) how should an entity account for opening deferred tax items in its restated financial statements?

Accounting Treatment

3. In the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of Ind AS 29 as if the economy had always been hyperinflationary. Therefore, in relation to non-monetary items measured at historical cost, the entity's opening balance sheet at the beginning of the earliest period presented in the financial statements shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the end of the reporting period. For non-monetary items carried in the opening balance sheet at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the end of the reporting period.

4. At the end of the reporting period, deferred tax items are recognised and measured in accordance with Ind AS 12. However, the deferred tax figures in the opening balance sheet for the reporting period shall be determined as follows:

(*a*) the entity remeasures the deferred tax items in accordance with Ind AS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the reporting period by applying the measuring unit at that date.

(*b*) the deferred tax items remeasured in accordance with (*a*) are restated for the change in the measuring unit from the date of the opening balance sheet of the reporting period to the end of that reporting period.

The entity applies the approach in (*a*) and (*b*) in restating the deferred tax items in the opening balance sheet of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies Ind AS 29.

5. After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

Illustrative example

This example accompanies, but is not part of, Appendix A.

IE1. This example illustrates the restatement of deferred tax items when an entity restates for the effects of inflation under Ind AS 29 *Financial Reporting in Hyperinflationary Economies.* As the example is intended only to illustrate the mechanics of the restatement approach in Ind AS 29 for deferred tax items, it does not illustrate an entity's complete financial statements.

Facts

IE2. An entity's balance sheet at 31 December, 20X2(before restatement) is as follows:

Note Balance Sheet			
	20X2		**20X1**
	(Rs.) million		**(Rs.) million**
ASSETS			
Property, plant and equipment	300		400
Other assets	XXX		XXX
Total assets	XXX		XXX
EQUITY AND LIABILITIES			
Total equity	XXX		XXX
Liabilities			
Deferred tax liability	30		20
Other liabilities	XXX		XXX
Total liabilities	XXX		XXX
Total equity and liabilities	XXX		XXX
Notes			
Property, plant and equipment			
All items of property, plant and equipment were acquired in December, 20X0. Property, plant and equipment are depreciated over their useful life, which is five years.			
Deferred tax liability			
The deferred tax liability at 31 December, 20X2 of Rs. 30 million is measured as the taxable temporary difference between the carrying amount of property; plant and equipment of Rs.300 and their tax base of Rs.200. The applicable tax rate is 30 per cent.			
Similarly, the deferred tax liability at 31 December, 20X1 of Rs 20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs. 400 and their tax base of Rs 333.			

IE3. Assume that the entity identifies the existence of hyperinflation in, for example, April 20X2 and therefore applies Ind AS 29 from the beginning of 20X2. The entity restates its financial statements on the basis of the following general price indices and conversion factors.

	General price indices	**Conversion factors at 31 Dec. 20X2**
December 20X0 (*a*)	95	2.347
December 20X1	135	1.652
December 20X2	223	1.000

(*a*) For example, the conversion factor for December 20X0 is 2.347=223/95

Restatement

IE4. The restatement of the entity's 20X2 financial statements is based on the following requirements:

- Property, plant and equipment are restated by applying the change in a general price index from the date of acquisition to the end of the reporting period to their historical cost and accumulated depreciation.
- Deferred taxes should be accounted for in accordance with Ind AS 12, *Income Taxes.*
- Comparative figures for property, plant and equipment for the previous reporting period are presented in terms of the measuring unit current at the end of the reporting period.
- Comparative deferred tax figures should be measured in accordance with paragraph 4 of the Appendix A.

IE5. Therefore the entity restates its balance sheet at 31 December, 20X2 as follows:

Note	**Balance Sheet (restated)**	**20X2 Rs. million**		**20X1 Rs. million**
	ASSETS			
1	Property, plant and equipment	704		939
	Other assets	XXX		XXX
	Total assets	XXX		XXX
	EQUITY AND LIABILITIES			
	Total equity	XXX		XXX
	Liabilities			
2	Deferred tax liability	151		117
	Other liabilities	XXX		XXX
	Total liabilities	XXX		XXX
	Total equity and liabilities	XXX		XXX
	Notes			
1.	*Property, plant and equipment*			
	All items of property, plant and equipment were purchased in December 20X0 and depreciated over a five-year period. The cost of property, plant and equipment is restated to reflect the change in the general price level since acquisition, *i.e.*, the conversion factor is 2.347 (223/95).			
		Historical Rs. million		Restated Rs. million
	Cost of property, plant and equipment	500		1,174

	Depreciation 20X1	(100)		(235)
	Carrying amount 31 December 20X1	400		939
	Depreciation 20X2	(100)		(235)
	Carrying amount 31 December 20X2	300		704
2.	*Deferred tax liability*			

	The nominal deferred tax liability at 31 December 20X2 of Rs. 30 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs. 300 and their tax base of Rs. 200. Similarly, the deferred tax liability at 31 December 20X1 of Rs. 20 million is measured as the taxable temporary difference between the carrying amount of property, plant and equipment of Rs. 400 and their tax base of Rs. 333. The applicable tax rate is 30 per cent.	
	In its restated financial statements, at the end of the reporting period the entity remeasures deferred tax items in accordance with the general provisions in Ind AS 12, *i.e.*, on the basis of its restated financial statements. However, because deferred tax items are a function of carrying amounts of assets or liabilities and their tax bases, an entity cannot restate its comparative deferred tax items by applying a general price index. Instead, in the reporting period in which an entity applies the restatement approach under Ind AS 29, it (*a*) remeasures its comparative deferred tax items in accordance with Ind AS 12 after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening balance sheet of the current reporting period by applying the measuring unit at that date, and (*b*) restates the remeasured deferred tax items for the change in the measuring unit from the date of the opening balance sheet of the current period up to the end of the reporting period.	
	In the example, the restated deferred tax liability is calculated as follows:	
		Rs. million
	At the end of the reporting period:	
	Restated carrying amount of property, plant and equipment (*see* note 1)	704
	Tax base	(200)
	Temporary difference	504
	@ 30 per cent tax rate = Restated deferred tax liability 31 December, 20X2	151
	Comparative deferred tax figures:	
	Restated carrying amount of property, plant and equipment [either 400 × 1.421 (conversion factor 1.421 = 135/95), or 939/1.652 (conversion factor 1.652 = 223/135)]	568
	Tax base	(333)

	Temporary difference	235
	@ 30 per cent tax rate = Restated deferred tax liability 31 December, 20X1 at the general price level at the end of 20X1	71
	Restated deferred tax liability 31 December, 20X1 at the general price level at the end of 20X2(conversion factor1.652 = 223/135)	117

IE6. In this example, the restated deferred tax liability is increased by Rs. 34 to Rs. 151 from 31 December 20X1 to 31 December 20X2. That increase, which is included in profit or loss in 20X2, reflects (*a*) the effect of a change in the taxable temporary difference of property, plant and equipment, and (*b*) a loss of purchasing power on the tax base of property, plant and equipment. The two components can be analysed as follows:

	Rs. million
Effect on deferred tax liability because of a decrease in the taxable temporary difference of property, plant and equipment (Rs. 235 + Rs. 133) × 30%	31
Loss on tax base because of inflation in 20X2 (Rs. 333 × 1.652 - Rs. 333) × 30%	(65)
Net increase of deferred tax liability	(34)
Debit to profit or loss in 20X2	34

The loss on tax base is a monetary loss. Paragraph 28 of Ind AS 29 explains this as follows:

> The gain or loss on the net monetary position is included in net income. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income and expense items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the statement of profit and loss.

Appendix 1

Note: This Appendix is not a part of the proposed Indian Accounting Standard (*Ind AS*) *29, Financial Reporting in Hyperinflationary Economies. The purpose of this Appendix is only to bring out the differences between the this Indian Accounting Standard and corresponding International Accounting Standard IAS 29, Financial Reporting in Hyperinflationary Economies.*

Comparison with IAS 29, *Financial Reporting in Hyperinflationary Economies*

1. Ind AS 29 requires an additional disclosure regarding the duration of the hyperinflationary situation existing in the economy as compared to IAS 29.
2. Paragraph number 23 appears as 'Deleted 'in IAS 29. In order to maintain consistency with paragraph numbers of IAS 29, the paragraph number is retained in Ind AS 29.

3. Different terminology is used in this standard, *e.g.*, term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss is used instead of 'Statement of comprehensive income'.

Indian Accounting Standard (Ind AS) 105

Non-current Assets Held for Sale and Discontinued Operations

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles*) .

Objective

1. The objective of this Indian Accounting Standard is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the Indian Accounting Standard requires:

(*a*) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and

(*b*) assets that meet the criteria to be classified as held for sale to be presented separately in the balance sheet and the results of discontinued operations to be presented separately in the statement of profit and loss.

Scope

2. The classification and presentation requirements of this Indian Accounting Standard apply to all recognised non-current assets[17] and to all disposal groups of an entity. The measurement requirements of this Indian Accounting Standard apply to all recognised non-current assets and disposal groups (as set out in paragraph 4), except for those assets listed in paragraph 5 which shall continue to be measured in accordance with the Standard noted.

3. Assets classified as non-current in accordance with Ind AS 1 *Presentation of Financial Statements* shall not be reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with this Indian Accounting Standard. Assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with this Indian Accounting Standard.

4. Sometimes an entity disposes of a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit.[18] The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 5 from the measurement requirements of this Indian Accounting Standard. If a non-current asset within the scope of the measurement requirements of this Indian Accounting Standard is part of a disposal group, the measurement requirements of this Indian Accounting Standard apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 18, 19 and 23.

5. The measurement provisions of this Indian Accounting Standard[19] do not apply to the following assets, which are covered by the Indian Accounting Standards listed, either as individual assets or as part of a disposal group:

(*a*) deferred tax assets (Ind AS 12 *Income Taxes*) .

(*b*) assets arising from employee benefits (Ind AS 19 *Employee Benefits*) .

(*c*) financial assets within the scope of Ind AS 39 *Financial Instruments: Recognition and Measurement.*

(*d*) [Refer to Appendix 1]

(*e*) non-current assets that are measured at fair value less costs to sell in accordance with Ind AS 41 Agriculture[20].

(*f*) contractual rights under insurance contracts as defined in Ind AS 104 *Insurance Contracts.*

5A. The classification, presentation and measurement requirements in this Indian Accounting Standard applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

5B. This Indian Accounting Standard specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other Indian Accounting Standards do not apply to such assets (or disposal groups) unless those Indian Accounting Standards require:

(*a*) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or

(*b*) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of Ind AS 105 and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of Ind AS 1, in particular paragraphs 15 and 125 of that Standard.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

6. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

7. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Thus, an asset (or disposal group) cannot be classified as a non-current asset (or disposal group) held for sale, if the entity intends to sell it in a distant future.

8. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

8A. An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6-8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

9. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix B are met.

10. Sale transactions include exchanges of non-current assets for other non- current assets when the exchange has commercial substance in accordance with Ind AS 16 *Property, Plant and Equipment.*

11. When an entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it shall classify the non-current asset (or disposal group) as held for sale at the acquisition date only if the one-year requirement in paragraph 8 is met (except as permitted by paragraph 9) and it is highly probable that any other criteria in paragraphs 7 and 8 that are not met at that date will be met within a short period following the acquisition (usually within three months).

12. If the criteria in paragraphs 7 and 8 are met after the reporting period, an entity shall not classify a non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting period but before the approval of the financial statements for issue, the entity shall disclose the information specified in paragraph 41(*a*), (*b*) and (*d*) in the notes.

12A. A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Non-current assets that are to be abandoned

13. An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(*a*)(*c*), the entity shall present the results and cash flows of the disposal group as discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

14. An entity shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Measurement of non-current assets (or disposal groups) classified as held for sale

Measurement of a non-current asset (or disposal group)

15. An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

15A. An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.[21]

16. If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale (*see* paragraph 11), applying paragraph 15 will result in the asset (or disposal group) being measured on initial recognition at the lower of its carrying amount had it not been so classified (for example, cost) and fair value less costs to sell. Hence, if the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.

17. When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

18. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable Indian Accounting Standards.

19. On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this Indian Accounting Standard, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable Indian Accounting Standards before the fair value less costs to sell of the disposal group is remeasured.

Recognition of impairment losses and reversals

20. An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell, to the extent that it has not been recognised in accordance with paragraph 19.

21. An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised either in accordance with this Indian Accounting Standard or previously in accordance with Ind AS 36 *Impairment of Assets.*

22. An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(*a*) to the extent that it has not been recognised in accordance with paragraph 19; but

(*b*) not in excess of the cumulative impairment loss that has been recognised, either in accordance with this Indian Accounting Standard or previously in accordance with Ind AS 36, on the non-current assets that are within the scope of the measurement requirements of this Indian Accounting Standard.

23. The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Indian Accounting Standard, in the order of allocation set out in paragraphs 104(*a*) and (*b*) and 122 of Ind AS 36 .

24. Again or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition. Requirements relating to derecognition are set out in:

(*a*) paragraphs 67-72 of Ind AS 16 for property, plant and equipment, and

(*b*) paragraphs 112-117 of Ind AS 38 *Intangible Assets* for intangible assets.

25. An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Changes to a plan of sale

26. If an entity has classified an asset (or disposal group) as held for sale, but the criteria in paragraphs 7-9 are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.

27. The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

(*a*) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

(*b*) its *recoverable amount* at the date of the subsequent decision not to sell.[22]

28. The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss[23] from continuing operations in the period in which the criteria in paragraphs 7-9 are no longer met. The entity shall present that adjustment in the same caption in the statement of profit and loss used to present a gain or loss, if any, recognised in accordance with paragraph 37.

29. If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria in paragraphs 7-9. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amounts and fair values less costs to sell at that date. Any non-current assets that do not meet the criteria shall cease to be classified as held for sale in accordance with paragraph 26.

Presentation and disclosure

30 An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

Presenting discontinued operations

31. A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity, will have been a cash-generating unit or a group of cash-generating units while being held for use.

32. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(*a*) represents a separate major line of business or geographical area of operations,

(*b*) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or

(*c*) is a subsidiary acquired exclusively with a view to resale.

33. An entity shall disclose:

(*a*) a single amount in the statement of profit and loss comprising the total of:

- (*i*) the post-tax profit or loss of discontinued operations, and
- (*ii*) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

(*b*) an analysis of the single amount in (*a*) into:

- (*i*) the, revenue, expenses and pre-tax profit or loss of discontinued operations;
- (*ii*) the related income tax expense as required by paragraph 81(*h*) of Ind AS 12;
- (*iii*) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
- (*iv*) the related income tax expense as required by paragraph 81(*h*) of Ind AS 12.

  The analysis may be presented in the notes or in the statement of profit and loss. If it is presented in the statement of profit and loss it shall be presented in a section identified as relating to discontinued operations, *i.e.*, separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (*see* paragraph 11).

(*c*) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (*see* paragraph 11).

(*d*) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of profit and loss.

33A. [Refer to Appendix 1]

34. An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

35. Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:

(*a*) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.

(*b*) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.

(*c*) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.

36. If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance with paragraphs 33-35 shall be reclassified and included in income from continuing operations for all periods presented. The amounts for prior periods shall be described as having been represented.

36A. An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required in paragraphs 33-36 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32.

Gains or losses relating to continuing operations

37. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

Presentation of a non-current asset or disposal group classified as held for sale

38. An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the balance sheet or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

39. If the disposal group is a newly acquired subsidiary that meets the criteria to be classified as held for sale on acquisition (*see* paragraph 11), disclosure of the major classes of assets and liabilities is not required.

40. An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the balance sheet for prior periods to reflect the classification in the balance sheet for the latest period presented.

Additional disclosures

41. An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(*a*) a description of the non-current asset (or disposal group);

(*b*) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

(*c*) the gain or loss recognised in accordance with paragraphs 20-22 and, if not separately presented in the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss;

(*d*) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with Ind AS 108 *Operating Segments.*

42. If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

Appendix A

Defined terms

This appendix is an integral part of the Indian Accounting Standard.

cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
costs to sell	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.
current asset	An entity shall classify an asset as current when:
	(*a*) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
	(*b*) it holds the asset primarily for the purpose of trading;
	(*c*) it expects to realise the asset within twelve months after the

	reporting period; or
	(*d*) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
discontinued operation	A component of an entity that either has been disposed of or is classified as held for sale and:
	(*a*) represents a separate major line of business or geographical area of operations,
	(*b*) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
	(*c*) is a subsidiary acquired exclusively with a view to resale.
disposal group	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80-87 of Ind AS 36 *Impairment of Assets* or if it is an operation; within such a cash-generating unit.
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
firm purchase commitment	An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (*a*) specifies all significant terms, including the price and timing of the transactions, and (*b*) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.
highly probable	Significantly more likely than probable.
non-current asset	An asset that does not meet the definition of a Current asset.
probable	More likely than not.
recoverable amount	The higher of an asset's fair value less costs to sell and its value in use.
value in use	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Appendix B

Application supplement

This appendix is an integral part of the Indian Accounting Standard.

Extension of the period required to complete a sale

B1. As noted in paragraph 9, an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). An exception to the one-year requirement in paragraph 8 shall therefore apply in the following situations in which such events or circumstances arise:

(*a*) at the date an entity commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and:

(*i*) actions necessary to respond to those conditions cannot be initiated until after a *firm purchase commitment* is obtained, and

(*ii*) a firm purchase commitment is highly probable within one year.

(*b*) an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non- current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and:

(*i*) timely actions necessary to respond to the conditions have been taken, and

(*ii*) a favourable resolution of the delaying factors is expected.

(*c*) during the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:

(*i*) during the initial one-year period the entity took action necessary to respond to the change in circumstances,

(*ii*) the non-current asset (or disposal group) is being actively marketed at a price that is reasonable, given the change in circumstances, and

(*iii*) the criteria in paragraphs 7 and 8 are met.

Appendix C

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of Indian Accounting Standard 105.

This appendix makes reference to Appendix A, *Distributions of Non-cash Assets to Owners* contained in Ind AS 10, *Events after the Reporting Period.*

Appendix D

Contents

Guidance on Implementing

Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Exceptions to the criterion that the sale should be expected to be completed in one year (paragraphs 8 and B1)	Examples 5-7
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Presenting discontinued operations in the statement of profit and loss (paragraph 38)	Example 11
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Guidance on implementing

Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations*

This guidance accompanies, but is not part of, Ind AS 105.

Availability for immediate sale (paragraph 7)

To qualify for classification as held for sale, a non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) (paragraph 7). A non-current asset (or disposal group) is available for immediate sale if an entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. Examples 1-3 illustrate situations in which the criterion in paragraph 7 would or would not be met.

Example 1

An entity is committed to a plan to sell its headquarters building and has initiated actions to locate a buyer.

(*a*) The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 7 would be met at the plan commitment date.

(*b*) The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 7 would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 2

An entity is committed to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.

(*a*) The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date will be transferred to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 7 would be met at the plan commitment date.

(*b*) The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 7 would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility were obtained earlier.

Example 3

An entity acquires through foreclosure a property comprising land and buildings that it intends to sell.

(*a*) The entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not be met until the renovations are completed.

(*b*) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 26.

Completion of sale expected within one year (paragraph 8)

Example 4

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 7), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 8). That criterion would not be met if, for example:

(*a*) an entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently ceased to be leased and the ultimate form of a future transaction (sale or lease) has not yet been determined.

(*b*) an entity is committed to a plan to 'sell' a property that is in use, and the transfer of the property will be accounted for as a sale and finance leaseback.

Exceptions to the criterion in paragraph 8

An exception to the one-year requirement in paragraph 8 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraphs 9 and B1). Examples 5-7 illustrate those situations

Example 5

An entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In that situation, the conditions in paragraph B1(*a*) for an exception to the one-year requirement in paragraph 8 would be met.

Example 6

An entity is committed to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. In that situation, the conditions in paragraph B1(*b*) for an exception to the one-year requirement in paragraph 8 would be met.

Example 7

An entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

(*a*) During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraphs 7 and 8 are therefore met. In that situation, the conditions in paragraph B1(*c*) for an exception to the one-year requirement, in paragraph 8 would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

(*b*) During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by paragraph 7. In addition, paragraph 8 also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph B1(*c*) for an exception to the one-year requirement in paragraph 8 would not be met. The asset would be reclassified as held and used in accordance with paragraph 26.

Determining whether an asset has been abandoned

Paragraphs 13 and 14 of the Indian Accounting Standard specify requirements for when assets are to be treated as abandoned. Example 8 illustrates when an asset has not been abandoned.

Example 8

An entity ceases to use a manufacturing plant because demand for its product has declined. However, the plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up. The plant is not regarded as abandoned.

Presenting a discontinued operation that has been abandoned

Paragraph 13 of the Indian Accounting Standard prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a major line of business or geographical area of operations, they are reported in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the Indian Accounting Standard.

Allocation of an impairment loss on a disposal group

Paragraph 23 of the Indian Accounting Standard requires an impairment loss (or any subsequent gain) recognised for a disposal group to reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of the Indian Accounting Standard, in the order of allocation set out in paragraphs 104 and 122 of Ind AS 36. Example 10 illustrates the allocation of an impairment loss on a disposal group.

Example 10

An entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	Rs.	Rs.

Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment	5,700	5,700
Inventory	2,400	2,200
AFS financial assets	1,800	1,500
Total	**16,000**	**14,900**

The entity recognises the loss of Rs. 1,100 (Rs. 16,000 - Rs. 14,900) immediately before classifying the disposal group as held for sale.

The entity estimates that fair value less costs to sell of the disposal group amounts to Rs. 13,000. Because an entity measures a disposal group classified as held for sale of the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of Rs. 1,900 (Rs. 14,900 - Rs. 13,000) when the group is initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of the Indian Accounting Standard are applicable. Therefore, no impairment loss is allocated to inventory and AFS financial assets. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of Ind AS 36.

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	Rs.	Rs.	Rs.
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	-	2,200
AFS financial assets	1,500	-	1,500
Total	**14,900**	**(1,900)**	**13,000**

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets *pro rata* based on the carrying amounts of those assets.

Presenting discontinued operations in the statement of profit and loss

Paragraph 33 of the Indian Accounting Standard requires an entity to disclose a single amount in the statement of profit and loss for discontinued operations with an analysis in the notes or in a section of the statement of profit and loss separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GROUP - STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(Rupees in thousands)	**20X2**		**20X1**
Continuing operations			
Revenue	X		X
Cost of sales	(X)		(X)
Gross profit	X		X
Other income	X		X
Distribution costs	(X)		(X)
Administrative expenses	(X)		(X)
Other expenses	(X)		(X)
Finance costs	(X)		(X)
Share of profit of associates	X		X
Profit before tax	X		X
Income tax expense	(X)		(X)
Profit for the period from continuing operations	X		X
Discontinued operations			
Profit for the period from discontinued operations[24]	X		X
Profit for the period	X		X
Attributable to:			
Owners of the parent			
Profit for the period from continuing operations	X		X
Profit for the period from discontinued operations	X		X
Profit for the period attributable to owners of the parent	X		X
Non-controlling interests			
Profit for the period from continuing operations	X		X
Profit for the period from discontinued operations	X		X
Profit for the period attributable to non-controlling interests	X		X
	X		X

Presenting non-current assets or disposal groups classified as held for sale

Paragraph 38 of the Indian Accounting Standard requires an entity to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the balance sheet. Those assets and liabilities are not offset and presented as a single amount. Example 12 illustrates these requirements.

Example 12

At the end of 20X5, an entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the critetia in paragraphs 7 and 8 to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I:	Disposal group II:
	Rs.	Rs.
Property, plant and equipment	4,900	1,700
AFS financial asset	1.400[25]	-
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	**3,900**	**800**

The presentation in the entity's balance sheet of the disposal groups classified as held for sale can be shown as follows:

	20X5		**20X4**
ASSETS			
Non-current assets			
AAA	X		X
BBB	X		x
CCC	X		X
	X		X
Current assets			
DDD	X		X
EEE	X		X
	X		X
Non-current assets classified as held for sale	8,000		—
	X		X

Total assets	X		X
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
FFF	X		X
GGG	X		X
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	400		—
	X		X
Non-controlling interests	X		X
Total equity	X		X

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative balance sheet for any previous periods are therefore not re-presented.

Measuring and presenting subsidiaries acquired with a view to resale and classified as held for sale

A subsidiary acquired with a view to sale is not exempt from consolidation in accordance with Ind AS 27 *Consolidated and Separate Financial Statements.* However, if it meets the criteria in paragraph 11, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Entity A acquires an entity H, which is a holding company with two subsidiaries, S1 and S2. S2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 32(*c*), S2 is also a discontinued operation.

The estimated fair value less costs to sell of S2 is Rs. 135. A accounts for S2 as follows:

- initially, A measures the identifiable liabilities of S2 at fair value, say at Rs. 40
- initially, A measures the acquired assets as the fair value less costs to sell of S2 (Rs. 135) *plus* the fair value of the identifiable liabilities (Rs. 40), *i.e.,* at Rs. 175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at Rs. 130. The liabilities are remeasured in accordance with applicable Indian Accounting Standards, say at Rs. 35. The total assets are measured at Rs. 130 + Rs. 35, *i.e.,* at Rs. 165
- at the end of the reporting period, A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale,* and
- in the statement of profit and loss, A presents the total of the post-tax profit or loss of S2 and the post-tax gain or loss recognised on the subsequent remeasurement of S2, which equals the remeasurement of the disposal group from Rs. 135 to Rs. 130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.

Appendix 1

Comparison with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (*Ind AS*) *105 and the corresponding International Financial Reporting Standard* (*IFRS*) *5, Non-current Assets Held for Sale and Discontinued Operations issued by the International Accounting Standards Board.*

1. The transitional provisions given in IFRS 5 have not been given in Ind AS 105, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards.*

2. Different terminology is used in this standard, *e.g.*, the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. Words 'approval of the financial statements for issue have been used instead of 'authorisation of the financial statements for issue' in the context of financial statements considered for the purpose of events after the reporting period.

3. Requirements regarding presentation of discontinued operations in the separate income statement, where separate income statement is presented under paragraph 33A of IFRS 5 have been deleted. This change is consequential to the removal of option regarding 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. However, paragraph number 33A has been retained in Ind AS 105 to maintain consistency with paragraph numbers of IFRS 5.

4. Paragraph 5(*d*) of IFRS 5 deals with non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property.* Since Ind AS 40 prohibits the use of fair value model, this paragraph is deleted in Ind AS105.

Indian Accounting Standard (Ind AS) 106[26]

Exploration for and Evaluation of Mineral Resources

(*This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.*) .

Objective

1. The objective of this Indian Accounting Standard is to specify the financial reporting for the *exploration for and evaluation of mineral resources.*

2. In particular, the Indian Accounting Standard requires:

(*a*) limited improvements to existing accounting practices for *exploration and evaluation expenditures.*

(*b*) entities that recognise *exploration and evaluation assets* to assess such assets for impairment in accordance with this Indian Accounting Standard and measure any impairment in accordance with Ind AS 36 *Impairment of Assets.*

(*c*) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Scope

3. An entity shall apply the Indian Accounting Standard to exploration and evaluation expenditures that it incurs.

4. The Indian Accounting Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

5. An entity shall not apply the Indian Accounting Standard to expenditures incurred:

(*a*) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

(*b*) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Recognition of Exploration and Evaluation Assets

Temporary exemption from Ind AS 8 paragraphs 11 and 12

6. When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

7. Paragraphs 11 and 12 of Ind AS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no Accounting Standard applies specifically to that item. Subject to paragraphs 9 and 10 below, this Accounting Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Measurement of Exploration and Evaluation Assets

Measurement at recognition

8. Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

9. An entity shall determine an accounting policy specifying which expenditures are; recognised as exploration and evaluation assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

(*a*) acquisition of rights to explore;

(*b*) topographical, geological, geochemical and geophysical studies;

(*c*) exploratory drilling;

(*d*) trenching;

(*e*) sampling; and

(*f*) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

10. Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework for the Preparation and Presentation of Financial Statements* issued by the Institute of Chartered Accountants of India and Ind AS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.

11. In accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Measurement after recognition

12. After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in Ind AS 16 *Property, Plant and Equipment* or the model in Ind AS 38) it shall be consistent with the classification of the assets (*see* paragraph 15).

Changes in accounting policies

13. An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in Ind AS 8.

14. To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in Ind AS 8, but the change need not achieve full compliance with those criteria.

Presentation

Classification of exploration and evaluation assets

15. An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

16. Some exploration and evaluation assets are treated as intangible (*e.g.,* drilling rights), whereas others are tangible (*e.g.,* vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification of exploration and evaluation assets

17. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

Impairment

Recognition and measurement

18. Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with Ind AS 36, except as provided by paragraph 21 below.

19. For the purposes of exploration and evaluation assets only, paragraph 20 of this Accounting Standard shall be applied rather than paragraphs 8-17 of Ind AS 36 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

20. One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):

(*a*) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

(*b*) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

(*c*) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

(*d*) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with Ind AS 36. Any impairment loss is recognised as an expense in accordance with Ind AS 36.

Specifying the level at which exploration and evaluation assets are assessed for impairment

21. An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with Ind AS 108 *Operating Segments.*

22. The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Disclosure

23. An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

24. To comply with paragraph 23, an entity shall disclose:

(*a*) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.

(*b*) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

25. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either Ind AS 16 or Ind AS 38 consistent with how the assets are classified.

Appendix A

Defined Terms

This Appendix is an integral part of the Indian Accounting Standard.

exploration and evaluation assets	Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.
exploration evaluation expenditures	Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
Exploration for and evaluation of mineral resources	The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (*Ind AS*) *106 and the corresponding International Financial Reporting Standard* (*IFRS*) *6, Exploration for and Evaluation of Mineral Resources.*

Comparison with IFRS 6, *Exploration for and Evaluation of Mineral Resources*

1. The transitional provisions given in IFRS 6 have not been given in Ind AS 106, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards.*

1. Indian Accounting Standard (Ind AS) 41, *Agriculture,* is under formulation.
2. Indian Accounting Standard (Ind AS) 41, *Agriculture,* is under formulation. Accordingly, this paragraph would be effective from the date Ind AS 41, *Agriculture,* comes into effect.

3. The requirements shall be equally applicable to the entities in case of separate financial statements also.
4. *Ibid*.
5. This Appendix deals, *inter alia,* with when to recognise dividends payable to its owners.
6. Paragraph 7 of Ind AS 1 defines owners as holders of instruments classified as equity.
7. This Standard is under formulation.
8. *See* Appendix A *Government Assistance— No Specific Relation to Operating Activities*
9. Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

*If the reporting entity had concluded that this transaction constituted government assistance it would have needed to consider the disclosure requirements in Ind AS 20

10. In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.
11. *See* also Appendix A of this standard *Jointly Controlled Entities— Non-Monetary Contributions by Venturers* .
12. Ind AS 41 *Agriculture* is under formulation.

13 For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

14. For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.
15. Indian Accounting Standard (Ind AS) 41, *Agriculture,* is under formulation.
16. For examples of this principle, *see* Ind AS 36 *Impairment of Assets.*
17. For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period. Paragraph 3 applies to the classification of such assets.
18. However, once the cash flows from an asset or group of assets are expected to arise principally from sale rather than continuing use, they become less dependent on cash flows arising from other assets, and a disposal group that was part of a cash-generating unit becomes a separate, cash-generating unit.
19. Other than paragraphs 18 and 19, which require the assets in question to be measured in accordance with other applicable Accounting Standards.
20. This standard is under formulation.
21. Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

22. If the non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognised after the allocation of any impairment loss arising on that cash-generating unit in accordance with Ind AS 36.

23. Unless the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with Ind AS 16 or Ind AS 38 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

24. The required analysis would be given in the notes.

25. An amount of Rs. 400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.

Non-current liabilities			
HHH	X		X
III	X		X
JJJ	X		X
	X		X
Current liabilities			
KKK	X		X
LLL	X		X
MMM	X		X
Liabilities directly associated with non-current assets classified as held for sale	3,300		—
	X		X
Total liabilities	X		X
Total equity and liabilities	X		X

26. Ind AS 106, *Exploration for and Evaluation of Mineral Resources* will be applied with modification from a date to be notified later on.