Speaker : N Jayendran

Ind AS - General Purpose Financial Statements - Practical Insights

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IND AS 103
Business Combination

Ind AS 103: Acquisition Related Cost

Abstract of accounting policy	"Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. ***Acquisition-related costs are generally recognised in statement of profit or loss as incurred".***
Paragraph 53 of Ind AS 103, Business Combinations	"Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with ***one exception. The costs to issue debt or equity securities shall be recognised in accordance with Ind AS 32 and Ind AS 109"***
Source : FRRB Observation	

Ind AS 103: Acquisition Related Cost

As per paragraph 53 of Ind AS 103, it was viewed that the acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. Accordingly, it was viewed that the ***wordings "generally" should not have been used***. ***It was therefore noted that the adopted policy is not in line with the requirements of Ind AS 103.***

Care should be taken in use of every word as the meaning may change and will invite adverse observation from regulator and also give misleading information to the users of financial statement

Ind AS 103: Transaction Cost including Stamp duty

- These costs are to be expensed in the period incurred and are not included in the business combination accounting. These costs are considered expenses ***<u>because they don't represent acquired value under the acquisition method of accounting.</u>***

- With the exception of the costs of registering and issuing debt or equity securities (which are typically recognized in accordance with other applicable accounting guidance) all other transaction costs are expensed out and are not considered in the business acquisition accounting.

Ind AS 103: Non compliance in Accounting policies and Notes

Some of the generally noted observations related to Ind AS 103 are

- ***Material business combinations*** in current and previous period are not disclosed .
- ***Policy on transaction cost*** associated with business combination is not disclosed.
- Large value (material value) attributed to customer relationship - The amortization policy simply stated that it was amortized on straight line method ***without mentioning that amortization method closely resembles the pattern the company expects to benefit from providing services to customers.***

Ind AS 103: Bargain Purchase

INDAS 103- Para 34 of Ind AS 103	In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the amount in paragraph 32(b) exceeds the aggregate of the amounts specified in paragraph 32(a). If that excess remains after applying the requirements in paragraph 36, the acquirer shall recognise the resulting ***gain in other comprehensive*** **income on the acquisition date and accumulate the same in equity as capital reserve.** The gain shall be attributed to the acquirer.
INDAS 103- Para 36 of Ind AS 103	Before recognising a gain on a bargain purchase, the acquirer shall determine whether there exists clear evidence of the underlying reasons for classifying the business combination as a bargain purchase. If such evidence exists, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that
INDAS 103- Para 36A of Ind AS 103	If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, the acquirer shall apply the requirements of reassessment and review described in paragraph 36. The excess, if any, as determined in accordance with paragraph 32 after applying the said requirements of paragraph 36, shall be ***recognised directly in equity as capital reserve.***

Ind AS 103: Acquisition date

Para 10 of Ind AS 103

The acquirer shall identify the acquisition date, which is the ***date on which it obtains control of the acquiree***.

Para 11 of Ind AS 103

The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Ind AS 103: Appointed date Vs Acquisition date

On 21 August 2019, the MCA issued a circular (no.09/2019) and clarified that the provision of Section 232(6) of the 2013 Act is an enabling provision which allows the companies in the scheme to decide and agree upon an appointed date from which the scheme should come into force.

The 'appointed date' identified under the scheme shall also be deemed to be the 'acquisition date' and date of transfer of control for the purpose of conforming to accounting standards (including Ind-AS 103 Business Combinations

Ind AS 103: Common Control Vs Not under common control

Common Control

- *Business combinations involving entities or businesses under common control shall be accounted for using the pooling of interest method*
- *No adjustments are made to reflect fair values. The only adjustments that are made are to harmonise accounting policies.*
- ***The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period** in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.*
- ***If the NCLT approves the scheme with a different appointed date as compared to the acquisition date as per Ind AS 103, the appointed date as approved by the NCLT under the scheme will be the acquisition date***

Not Under Common Control

- For business combinations other than under common control, the date of acquisition is the date from which the acquirer obtains control of the acquiree.
- Accounting is done with reference to the Fair value of Assets and Liabilities acquired in the business Combination.
- ***If the NCLT approves the scheme with a different appointed date as compared to the acquisition date as per Ind AS 103, the appointed date as approved by the NCLT under the scheme will be the acquisition date***

Ind AS 103: Acquisition date- Event after Balance Sheet date

Case Study:

Entity A and B are fellow subsidiaries (entities under common control) and filed a scheme of arrangement in April 2017 for merger of Entity B into Entity A. Both the entities are covered under phase I of Ind AS. Entity B filed auditor's certificate with NCLT pursuant to Section 230(7) of Companies Act, 2013 which states that the accounting treatment proposed in the scheme of compromise or arrangement is in conformity with the Ind AS.

Entity B gets approval from NCLT in April 2018, which is after the year end 31st March, 2018 but before the approval (by the Board of Directors) of the financial statements for the year ended 31st March 2018. As per the scheme, the appointed date is 1st April 2017. Whether the business combination of Entity B shall be incorporated in the Entity A's standalone financial statements for the year ended 31st March 2018?

Ind AS 103: Acquisition date- Event after Balance Sheet date

Paragraph 3 of Ind AS 10, *Events After the Reporting Period*

"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)."

Conclusion

Paragraph 22(a) of Ind AS 10 states that a major business combination after the reporting period is a non-adjusting event. However, where the court order approves a scheme with retrospective effect (appointed date), the courts' approval is an event that provide additional evidence to assist the estimation of amounts of assets and liabilities that existed at the balance sheet date.

In the given case, since the company has applied for the scheme of amalgamation with appointed date of April 1, 2017 and only the order of the court is pending, this shall be treated as an adjusting event. Accordingly, business combination of Entity B in Entity A shall be incorporated in the standalone financial statements of Entity A for the year ending 31st March 2018.

Source : ITFG Clarification Bulletin

Ind AS 103: Disclosures under Business Combination

The complete disclosure requirements of Ind AS 103 are not complied by many reporting entities.

Disclosures (application of paragraphs 59 and 61) of IND AS 103:

The primary disclosure requirement is that The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs during the current period or after the end of the reporting period but before the FS are adopted.

Various disclosures are required as per the standard that needs to be given. The entire list of compliance disclosure are contained in para B64-B66; some of the major ones are listed below

1. Complete information of each BC including information like details of acquiree, acquisition date, voting shares acquired , rationale for acquisition, fair value of consideration and fair value of each class of asset acquired, liability assumed , contingent consideration etc
2. The total amount of Good will and the amount that is tax deductible
3. In a bargain purchase the details of gains accumulated in OCI and the reasons why there was a gain.
4. Details of NCI for acquisition of less than 100% along with the basis of calculation and the valuation technique used.
5. In a business combination achieved in stages , the step wise acquisition date fair value of acquiree equity interest
6. Details of revenue and profits resulting from the BC included in the FS.
7. For Individually immaterial BC – above disclosures can be done on an aggregate basis with the details of the aggregation given.
8. There are separate disclosures for Common Control which needs to be given.

IND AS 110
Consolidated Financial Statements

Ind AS 110: Loss of Control

Para B98 of Appendix B : If a parent loses control of a subsidiary, the parent:

a) Derecognise:

i. the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
ii. the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

b) Recognise:

i. the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;
ii. if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and
iii. any investment retained in the former subsidiary at its fair value at the date when control is lost.

c) **reclassify to profit or loss** or transfer directly to retained earnings if required by other Ind ASs, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis described in paragraph B99.

(d) **recognise any resulting difference as a gain or loss in profit or loss** attributable to the parent.

Ind AS 110: Loss of Control

- ***Para B99 of Appendix B* -** If a parent loses control of a subsidiary, the parent shall account for all amounts previously recognised in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent 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 parent shall reclassify the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

  If a revaluation surplus previously recognised in other comprehensive income would be transferred directly to retained earnings on the disposal of the asset, the parent shall transfer the revaluation surplus directly to retained earnings when it loses control of the subsidiary.

- ***Paragraph B96 of Appendix B*** to Ind AS 110 further provides that, when the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

Ind AS 110: Treatment of depreciation in CFS

"19 A parent shall prepare consolidated financial statements using ***uniform accounting policies*** for like transactions and other events in similar circumstances.

B87 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies." It may be noted that the above mentioned paragraphs require an entity to apply uniform accounting policies and do not apply to accounting estimates made while preparing financial statements.

Further, paragraphs 60 & 61 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, state as follows: The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity which is reviewed at each year end. ***Such a change shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8***.

Thus parent following SLM method and Subsidiary following WDV method of depreciation is allowed in CFS, if such method closely reflects the expected pattern of consumption of future economic benefits embodied in the respective assets.

Source : ITFG Clarification Bulletin

Ind AS 110: De facto Control

Para B 41-42 defines situation where even an entity holds less than 50% of the voting rights of another entity, it can still have a current ability to direct the relevant activities of the investee. This concept is widely known as "**De-facto control**"

The investor's voting rights

Para -B41 *"An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally".*

Para- B42 *"When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:*

(a) the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:

(i) the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;

(ii) the more voting rights an investor holds relative to other vote holders, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;

(iii) the more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;

If there is such a de-facto control necessary disclosure on the basis of which the consolidation has happened is desirable.

Ind AS 110: Segment disclosure , Unrealized Profit and NCI

Business Segment Disclosure : Care has to be taken that for the purposes of reporting business segments, the business segments in the CFS has to be taken into consideration and not what is shown in the SFS of parent and subsidiary. Many times, the Holding Co may only be an Investment Company having investment and financial activities and the Subsidiary may be an operating Company. In this case while the SFS of both will not have segment disclosure, the CFS may require Segment disclosure considering the two diverse businesses of the Holding Co and the Subsidiary.

Unrealised Profits: While consolidating Associate and Joint venture using equity method, it is noted that many times the unrealised profit or loss from inter-company transactions are not eliminated and the share of profit is directly taken. Care should be taken to obtain the details of unrealised inter-company profits and adjustments to the extent of the holding of the consolidating entity needs to be done. The corresponding tax effect on the unrealised gain or loss if material needs to be factored in deferred tax.

Non Controlling Interest: The negative NCI is generally shown as a negative figure below Equity and not shown as a receivable as strictly the same is the loss attributable to the NCI and not a contractual receivable.

IND AS 27 - Separate Financial Statements

Ind As 111- Joint Arrangements

Ind AS 27 and 111- Share of Profit / Loss of LLP

Accounting treatment of profit share from investment in limited liability partnership which is under joint control (in separate financial statements)

Para 26 of Ind AS 111"Joint Arrangements" In its separate financial statements, a joint operator or joint venturer shall account for its interest in:

a) A joint operation in accordance with paragraph 20-22;
b) a joint venture in accordance with paragraph 10 of Ind AS 27, Separate Financial Statements."

Paragraph 10 of Ind AS 27, *Separate Financial Statements*, *inter alia*, provides that when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

a) at cost, or
b) in accordance with Ind AS 109

Therefore, adjustment of profit share from LLP to the carrying amount of the investment in LLP in its separate financial statements is not permitted.

Source : ITFG Clarification Bulletin

IND AS 27 - Separate Financial Statements

Matter contained in the Financial Statements "Investments in Subsidiaries / Associates / Joint Ventures"

The terms subsidiary', associate' and joint venture' shall be as defined in the respective Ind AS. Ind AS 32, Ind AS 107 and Ind AS 109 scope out those interests in subsidiaries, associates, joint ventures that are accounted for in accordance with Ind AS 110 Consolidated Financial Statements, Ind AS 27 Separate Financial Statements or Ind AS 28 Investments in Associates and Joint Ventures. However, such investments still meet the definition of financial instruments and may be presented as a separate line item on the face of a company's standalone balance sheet. In any case, the disclosure requirements of Ind AS 107 would not apply to such investments.

Observation

It was noted that the investments in Subsidiaries, Associates and Joint ventures have been disclosed separately from other than financial assets. However, as per the above stated para of Guidance Note, **it was viewed that such investment may be shown under the head of financial assets as a separate line item on the face of the Balance Sheet.**

Conclusion

Accordingly, it was viewed that the requirements of Division II – Ind AS Schedule III to the Companies Act,2013 have not been complied with.

Source : FRRB Observation

Matter contained in the Financial Statements "Expenses under Joint operation agreement"

The Company along with another company has entered into a Production Sharing Contract', with a Ministry, Government of India. They executed a Joint Operation Agreement' whereby the rights and obligations of either party vis-à-vis the above mentioned Production Sharing Contract' were ascertained. Further in the footnote, the company had disclosed the details of arrangements and share of assets.

Paragraph 20 – Joint Operations

A joint operator shall recognise in relation to its interest in a joint operation:

(a) its assets, including its share of any assets held jointly;

(b) its liabilities, including its share of any liabilities incurred jointly;

(c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

IND AS 111 – Joint Arrangement

Observation

It was noted from the footnote under note to the financial statements on Non-Current Financial Assets that the company had entered into a joint operation with another company and has disclosed the details of arrangements and share of assets. However, **the company did not recognise the obligation for liabilities, expenses and did not account for revenue pertaining to its joint operations.**

Conclusion

Accordingly, it was viewed that the requirements of Ind AS 111 have not been complied with.

Source : FRRB Observation

Ind AS 2: Inventories

Ind AS 2 : Inventories- Net Realisable Value Vs Fair Value

Matter contained in the Financial Statements

The accounting policy for Inventories read as follows:

"Inventories are stated at lower of cost and fair value (except scrap / waste which are valued at net realizable value) ....."

Ind AS 2, Inventories

Paragraph 9 – Measurement:

- Inventories shall be measured at the lower of cost and net realizable value.

Paragraph 6–Definition :

- **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.

Ind AS 2 : Inventories- Net Realisable Value Vs Fair Value

Observation:

Paragraph 9 of Ind AS 2 required that inventories should be valued at lower of cost and net realisable value. Paragraph 6 of Ind AS 2 gives definition of net realizable value (NRV) and paragraph 9 of Ind AS 113 defines fair value. The net realizable value is in nature different from the fair value of inventories. The net realizable value is entity-specific value and may not be similar to the fair value of the inventory as fair value is not entity-specific. It was viewed that net realisable value of inventory refers to the net amount (estimated selling price *less* estimated cost of completion and estimated cost of sale) that an entity expects to realise from the sale of inventory in the ordinary course of business whereas the fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date.

Conclusion

The inventories ought to be valued at lower of the cost or net realizable value and not the fair value. Accordingly, it was viewed that the above stated policy on inventory valuation is not in line with the requirements of Ind AS 2.

Source : FRRB Observation

Ind AS 2 : Inventories- Disclosures

Care needs to be taken to make adequate disclosures mentioned in Ind AS 2 "Inventories "

Disclosure as per Para 36 of Ind AS 2 is as follows

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 recognized 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.

Ind AS 7: Statement of Cash Flows

Ind AS 7 : Statement of Cash Flow-Taxes on Income

Matter contained in the Financial Statements

In the Statement of Profit and Loss of a company, income tax expense relating to current year and tax adjusted for earlier years was shown. Exact amount was disclosed by the company as income tax paid in its cash flow statement.

Observation:

It was noted that the income tax expense as disclosed under Statement of Profit and Loss was same as disclosed in cash flow statement as income tax paid. Considering the balances of provision for taxation and advance tax appearing in balance sheet, it was viewed that both the amounts could not be same. In the Statement of Cash Flow, actual amount of income tax paid by the company should have been disclosed.

Conclusion

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Source : FRRB Observation

Ind AS 7 : Statement of Cash Flow-Capital Expenditure

Matter contained in the Financial Statements

In the cash flow statement of a company, a cash outflow was reported as capital expenditure‘ under Cash Flows from Investing Activities.

Principle: Ind AS 7, Statement of Cash Flows

Paragraph 16– Presentation

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. Example of cash flows arising from investing activities are: Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development cost and self-constructed property, plant and equipment

Ind AS 7 : Statement of Cash Flow- Gratuity in Other Comprehensive Income

Matter contained in the Financial Statements

In the Cash Flow Statement of a company, adjustment was made in the profit or loss in respect of gratuity, which was part of other comprehensive income, while reporting net cash flows from operating activities.

Observation:

It was noted from the Cash Flow Statement that the net cash flow from operating activities was derived by adjusting profit or loss for the effects of non-cash items which includes gratuity under other comprehensive income (OCI). It was viewed that **while determining the net cash flow from operating activities, profit before tax has been taken and therefore, the adjustment made in OCI should not be considered**.

Conclusion

Accordingly, it was viewed that adjustment of provision of gratuity made through OCI in Profit before Tax is not in accordance with the requirements of Ind AS 7.

Source : FRRB Observation

Ind AS 7 : Statement of Cash Flow-Capital Expenditure

Observation

It was noted from the cash flow statement that a cash outflow has been reported as 'capital expenditure'. The capital expenditure was on account of cash paid to acquire property, plant and equipment. **It was viewed that such cash outflow should have been reported using the proper description of the line item viz. 'acquisition of property, plant and equipment' rather than as 'capital expenditure'** in line with the above mentioned requirements of paragraph 16(a) of Ind AS 7.

Conclusion

Accordingly, it was viewed that the description given while presenting the cash outflow on acquisition of property, plant and equipment was not in line with the above-stated requirement of Ind AS 7.

Source : FRRB Observation

Ind AS 7 : Statement of Cash Flow-Adjustment in cash flows

Following discrepancies were observed relating to the statement of Cash Flow:

a) There was no depreciation debited to Statement of Profit and Loss, however, the same was erroneously adjusted in cash flow statement.

b) The fair value adjustment on interest free ICD received from holding company were shown under cash flow from financing activities as repayment.

c) The proceeds from long term borrowings – Financial institution which was shown under cash flow from financing activities was contrary to its presentation under note on the Financial liabilities where it was classified as short-term borrowing. Thus, contrary information was provided in the financial statements.

d) The Company did not disclose changes in the financing activities arising from cash and non-cash changes as required by paragraph 44 A to 44E of Ind AS 7.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Source : FRRB Observation

Ind AS 7 : Cash flow from Financing activities

Amendment to INDAS 7 " Statement of Cash Flow "

There has been amendment in disclosure requirements of cash flow arising from financing activities, including both changes arising from cash flows and non-cash changes. Care should be taken to make the disclosure.

Para 17 of IND AS 7 : 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.

Ind AS 7 : Cash flow from Financing activities

Suggested Format for disclosure of Cash flow changes from financing activity

Particulars	Equity Capital	Non-current borrowings	Current borrowings	Current maturities of NCB	Leases	Total
Opening balance						
Changes from financing cash flows						
The effect of changes in foreign exchange rates						
Interest accrued						
Other changes (transfer within categories)						
Closing balance						

Ind AS 12: Income Taxes

Ind AS 12: Income Taxes- Items of Other Comprehensive Income and Tax Effect Thereon

Matter contained in the Financial Statements

In the Statement of Profit and Loss of a company —re -measurement of defined benefits plans not reclassified to profit or loss in subsequent periods‖, was shown under Other Comprehensive Income (OCI). However, no tax impact was shown in the statement of profit and loss in respect of such re-measurement of defined benefits plans under OCI.

Observation:

As per the requirements of paragraph 61A of Ind AS 12, current tax and deferred tax, relating to items that are recognized in other comprehensive income, shall be recognized in other comprehensive income. In other words, as re-measurement of defined benefit plans has been recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods, therefore, its tax impact should also be disclosed under the same head i.e., OCI.

Conclusion

Accordingly, it was viewed that the requirements of Ind AS 12 have not been complied with.

Source : FRRB Observation

Ind AS 12: Income Taxes-Disclosure

Some of the disclosures which are missing in Financials statements

- an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
- The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;
- in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
  - the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
  - the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the balance sheet;

Ind AS 12: Income Taxes-Disclosure

Some of the disclosures which are missing in Financials statements;

- the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense/ Deferred tax expenses ;
- deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and
- the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Ind AS 8, because they cannot be accounted for retrospectively.
- if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date (see paragraph 68), a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.

Ind AS 12: Income Taxes-Goodwill

Since there has been a change on Goodwill deduction in Income tax law as per the finance bill 2021, necessary impacts in deferred tax and current tax must be factored in considering that the lok sabha has passed the bill.

Ind AS 33: Earning per Share

The following observations were noted from the note to the financial statements on Earnings Per Share (EPS):

1. Number of shares that were issued during the year were considered as the weighted average number of shares while calculating the EPS and not the weighted average number of ordinary shares outstanding during the period. Hence, the calculation of EPS was incorrect.
2. Net profit after tax was considered for the calculation of EPS. However, as per the requirements of paragraph 10 of Ind AS 33, profit attributable to ordinary equity holders shall be considered for the calculation of EPS. In the given case, net profit after tax including impact of OCI, was divided by number of shares issued during the year. Both numerator as well as denominator used for EPS calculation was incorrect.

Accordingly, it was viewed that the requirements of Ind AS 33 have not been complied with.

Source : FRRB Observation

Ind AS 33: Earning per share

1. Further, the disclosures as required under paragraph 70 (a) and (b) of Ind AS 33 were also not given in the notes to the financial statements.
2. It was noted that the company has disclosed two Earnings Per Share (EPS) i.e. including Regulatory income (expense) and excluding Regulatory income (expense). It was observed that EPS [including Regulatory income (expense)] was computed by using numerator after considering Other Comprehensive Income. It was viewed that other comprehensive income should not be included while computing EPS. EPS excluding Regulatory income (expense) was computed by using a numerator which is not a line item in the Statement of Profit and Loss. Accordingly, as per the above stated paragraph 73 of Ind AS 33, a reconciliation statement should have been given, but such reconciliation statement was not given by the company.

Accordingly, it was viewed that the requirements of Ind AS 33 have not been complied with.

Source : FRRB Observation

Thank You!