**IND AS INTRODUCTION**

Transition from Indian GAAP (IGAAP) to Indian Accounting Standards (Ind-AS) is a historic and landmark change, pursuant to India’s commitment to G20 in the 2009 summit.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders

The Hon'ble Finance Minister of India, Shri Arun Jaitely ji, in his Budget speech in July 2014 stated that –

*“There is an urgent need to converge the current Indian accounting standards with the International Financial Reporting Standards (IFRS). I propose for adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year*

*2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis. Based on the international consensus, the regulators will separately notify the date of implementation of Ind AS for the Banks, Insurance companies etc. Standards for the computation of tax would be notified separately”*

**APPLICABILITY OF IND AS**

The adoption of Ind-AS would mean significant changes in the preparation and presentation of financial statements. India is converging to International Financial Reporting Standards (IFRS) in a phased manner, beginning 1 April 2016/2017 (excluding scheduled commercial banks, insurance companies and non-banking financial companies).

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| **Phase I (from 1 April 2016)** | **Phase II (from 1 April 2017)** |
| All listed and unlisted companies having net worth INR500 crore or more. | All listed companies not covered in Phase I and unlisted companies having net worth INR250 crore or more |
| Holding companies, subsidiaries and joint venture or associate companies of these companies | Holding companies, subsidiaries and joint venture or associate companies of these companies |

**Overview of Ind As Transition**

Last Indian GAAP financial statements

First Ind AS financial statements

Comparative period Reporting period

1st April 2015 1st April 2016 31st march 2017

Beginning of the first Ind AS reporting period

End of the first Ind AS reporting period

Date of transition to Ind AS – Opening balance sheet

**2016-17 MAT based on Ind AS profit**

**2015-16 MAT based on Indian GAAP profit**

**Ind AS financials:Books of Accounts to be maintained**

A complete set of financial statements under Ind AS includes the following:

1. Balance sheet at the end of the period

2. Statement of profit and loss for the period

3. Statement of changes in equity for the period

4. Statement of cash flows for the period; notes, comprising a summary of significant accounting policies and other explanatory information.

5. Comparative financial information in respect of the preceding period as specified

6. Balance sheet as at the beginning of the preceding 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 having an impact on the balance sheet as at the beginning of the preceding period.

**STATEMENT OF CHANGES IN EQUITY**

**The statement of changes in equity includes the following information:**

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| **(*a*)** |  | **for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:** | |
| **(*i*)** |  | profit or loss; |
| **(*ii*)** |  | 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. |
| **(*b*)** |  | **for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;** |
| **(*c*)** |  | **the amount of dividends recognised as distributions to owners during the period.** |





**STATEMENT OF PROFIT AND LOSS**

**(STATEMENT OF COMPREHENSIVE INCOME)**

1. The statement of profit and loss shall present:-
2. profit or loss for the period;
3. other comprehensive income;
4. **Total comprehensive income** for the period, being the total of profit or loss and other comprehensive income.
5. **The profit or loss section** of the statement of profit and loss shall include line items that present the following amounts for the period:
6. Revenue from operation
7. other Income
8. interest revenue calculated using the effective interest method;
9. expenses;
10. gains and losses arising from the derecognition of financial assets measured at amortised cost;
11. finance costs;
12. impairment losses (including reversals of impairment losses or impairment gains);
13. share of the profit or loss of associates and joint ventures accounted for using the equity method; **( in case of consolidation**)
14. if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date;
15. if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;
16. tax expense;
17. a single amount for the total of discontinued operations.

# Ind AS impact on P&L

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| **Financial guarantee given by parent on behalf of**  **subsidiary** | No accounting required; only disclosure | Income is recognized for financial guarantee given | Higher book profit |  |
| **Forex gain/ loss on long-term foreign currency borrowings** | Option to capitalize or defer gains/ losses on borrowings related to fixed assets/ other borrowings  (AS 11.46A) | No such option for new borrowings | Higher or lower book profit depending on exchange rate movement |  |
| **Identification of lease contained in arrangements such as power purchase agreement** | No requirement to identify leases contained in purchase/ sale/ service arrangements. Normal purchase/ sale/ service accounting is applied. | If it is finance lease – Lessee will recognize interest expenses and depreciation, instead of purchase transaction | Higher interest expenses  plus depreciation in initial  years |  |
| **Derivative gains/ losses** | ICAI announcement – only losses are recognised, based on prudence  principle | Both fair value gains and losses are recognised | Fair value losses will reduce and Fair value gains will increase book profits |  |
| **Redeemable preference shares redeemable at premium & considered as**  **liability under Ind**  **AS** | Premium is charged to securities premium or RE | Charged to P&L as interest expense | Book profit would be lower |  |
| **Financial liability measured at amortized cost** | Interest expense recognition at contracted rate | Interest is recognized using EIR | Book profit may be higher or lower, depending on specific facts |  |

1. **The other comprehensive income section** shall present line items for the amounts for the period of :
2. items of other comprehensive income (excluding amounts in paragraph (B), classified by nature and grouped into those that, in accordance with other Ind ASs:
   1. will not be reclassified subsequently to profit or loss; and
   2. will be reclassified subsequently to profit or loss when specific conditions are met.
3. in case of consolidation, the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other Ind ASs:
4. will not be reclassified subsequently to profit or loss; and
5. will be reclassified subsequently to profit or loss when specific conditions are met.
6. An entity may present items of other comprehensive income either:
7. net of related tax effects, **or**
8. before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.
9. **The components of other comprehensive income** include:
10. changes in revaluation surplus (see Ind AS 16, Property, Plant and Equipment and Ind AS 38, Intangible Assets);
11. remeasurements of defined benefit plans (see Ind AS 19, Employee Benefits);
12. 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);
13. gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109, Financial Instruments;
14. gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of Ind AS 109.
15. the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109;
16. for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of Ind AS 109);
17. changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of Ind AS 109);
18. changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of

that financial instrument as the hedging instrument (see Chapter 6 of Ind AS 109).

1. 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.

OCI items recyclable to P&L are included in book profit, when those items are recycled as per Ind AS. For MAT calculation, the starting point is the net profit as per the statement of profit and loss before considering any items forming a part of OCI.

**Adjustments specified under the existing section 115JB will continue to be made to arrive at book profit**

**Sub-section (2A) of section 115JB provides for following Ind AS adjustment to Book profit for person required to prepare accounts as per Ind AS.**

Following items are Added :

1. Amount credited to OCI under the head “"Items that will not be re-classified to profit or loss“ except:

•revaluation surplus as specified; or

•gains or losses from equity instruments designated at FVTOCI as per Ind AS 109

2. One-fifth of the transition amount if positive for first 5 years of Ind AS

Following items are reduced :

1. Amount debited to OCI under the head “"Items that will not be re-classified to profit or loss“

2. One-fifth of the transition amount if negative for first 5 years of Ind AS

***Calculation of Transition amount on Convergence Date :***

Aggregate Amount Capital reserve = Transition amount

Adjusted in other equity - premium

Following shall not be included in transition amount:

A) amount or aggregate of the amounts adjusted in the OCI on the convergence date which shall be subsequently re-classified to the profit or loss;

(B) revaluation surplus for assets in accordance with the Ind AS 16 and Ind AS 38 adjusted on the convergence date;

(C) gains or losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with the Ind AS 109 adjusted on the convergence date;

(D) adjustments relating to items of property, plant and equipment and intangible assets recorded at fair value as deemed cost in accordance with paragraphs D5 and D7 of the Ind AS 101 on the convergence date;

(E) adjustments relating to investments in subsidiaries, joint ventures and associates recorded at fair value as deemed cost in accordance with paragraph D15 of the Ind AS 101 on the convergence date; and

(F) adjustments relating to cumulative translation differences of a foreign operation in accordance with paragraph D13 of the Ind AS 101 on the convergence date.

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| **Particulars** | **Treatment under IND AS** | **MAT Implication** |
| Revaluation of Property, Plant & Equipment’s(PPE) and Intangible Assets | Revaluation adjustments are recognised through OCI. In the year of sale, profit/loss on sale is recognised in the statement of profit and loss. | To be included in book profits at the time of disposal/realisation/retirement or at the time of transfer. Depreciation and gain/loss on transfer shall be computed without considering such retained earnings adjustments on account of fair valuation. |
| Gains and losses from investments in equity instruments designed at fair value through OCI. | Fair valuation adjustments may be recognised through OCI. In the year of sale, profit/loss on sale is recognised in OCI | To be included in book profits at the time of disposal/realisation/retirement or at the time of transfer |
| Re-measurements of defined benefit plans. | Fair valuation adjustments are recognised through OCI. | To be included in book profits every year as the re-measurements gains and losses arises. |
| Investments in subsidiaries, joint ventures and associates. | If an entity adopts the fair value as the deemed cost for investments in subsidiaries, joint ventures and associates in the opening financial statements, then the difference in the carrying value and fair value should be adjusted in retained earnings. | The adjustment in retained earnings shall be included in the book profit at the time of realisation of such investment. |
| Translation differences of foreign operations. | Foreign exchange translation adjustments are recognised through OCI. | The translation differences will be considered for the purpose of MAT when the same are reclassified to profit and loss at the time of sale. |

# **IND AS 113 – FAIR VALUE MEASUREMENT**

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| Fair value measurement is a fundamental concept forming the underlying basis for the Ind AS framework.  Fair valuation of certain assets and liabilities is a prerequisite for the adoption of Ind AS. ***Definition of Fair Value*** “Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly  transaction between market participants at the measurement date.”  ***Exclusion from Scope***  The following are the exclusions from the scope even though they are measured at fair value :   * IND AS 102 (Share Based Payments) * IND AS 17 (Leases) * IND AS 2 (Inventories) * IND AS 36 (Impairment of Assets)  ***Key principles***  A fair value measurement requires determination of the following:  • The particular asset or liability that is the subject of measurement  • The highest and best use for a non-financial asset  • The principal (or most advantageous) market  • Fair value hierarchy  • The valuation technique ***Fair Value Hierarchy*** Definitions  **Fair Value H Fair Value Hierarchy**  Quoted prices (unadjusted) in active markets for identical assets/liabilities that entity can access at measurement date  LEVEL 1  Inputs other than quoted prices with in level 1 those are directly/indirectly observable  LEVEL 2  Unobservable inputs for asset/ liability  LEVEL 3  \*Quoted prices are given the highest priority and unobservable inputs the least.  The valuation technique Ind AS 113 addresses how to measure fair value, but does not stipulate when fair  value can or should be used.  **VALUATION TECHNIQUES**  :  **- Market Approach**: Market Approach uses prices and other relevant information generated by market  transactions involving comparable assets/liabilities/business, and considers qualitative and quantitative  factors (Comparable Companies Valuation Method) by using market multiples (EBITDA, revenue, etc.)  or matrix pricing (compare with benchmark securities).  **- Cost Approach** :Cost Approach reflects the amount that would be required currently to replace the service  capacity of an asset. This approach is ideally used for tangible assets (Replacement Cost method).  **- Income Approach** :Income Approach converts future amounts to the current (i.e. discounted) amount  (for example Cash Flows or Income and Expenses) resulting in the current market expectations about those future amounts. For example, Present Value Techniques, Option Pricing Models, Multi-period Excess Earning Method, etc. |
| If multiple valuation techniques are used to measure fair value, the results should be evaluated considering  the reasonableness of the range of values. Fair value is the point within the range that is most representative  of the fair value in the given scenario. |
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| **IND AS 109 : FINANCIAL INSTRUMENTS**  **Measurement at recognition**  All financial assets and liabilities are measured initially at fair value under Ind AS 109. Fair value is the  amount for which an asset could be exchanged.   |  |  | | --- | --- | | CLASSIFICATION | FAIR VALUATION REQUIRED | | Financial assets measured at amortised cost | **X** | | Financial assets measured at Fair Value Through Profit and Loss (FVTPL) | ✓ | | Financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI | ✓ | | Financial liability measured at FVTPL | ✓ | | Financial liability measured  at amortised cost | **X** |   The following will be the implication on MAT while considering the fair value of investment :  **MAT Implications**  **FVTPL -** Book profit includes year on year Gain of FVTPL items  1/5thof gain on transition amount included in book profit  **FVTOCI-** Year on year gain included in book profit in the year disposal  Gain on transition amount included in book profit in the year  on disposal |

**Example: Investments measured at FVTPL**

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| **Date** | **Cost** | **Fair Value** | **Retained Earnings** | **P&L** | **MAT Impact** |
| 01.04.2015 | 100 | 150 | 50 |  | INR 70 to be included in MAT over 5 years, i.e., INR 14 per year from 2016-17 to 2020-21 |
| 31.03.2016 |  | 170 |  | 20 |
| 31.03.2017 |  | 200 |  | 30 | To be included in MAT computation for the year |
| 31.03.2018 |  | 175 |  | (25) | Downward fair valuation to be added back as per section 115JB. This results in double whammy for companies. |
| 31.03.2019 |  | 210 |  | 35 | INR 25 to be offset against downward valuation disallowed in last year  INR 10 to be included in MAT computation |

**IND AS 37- Provisions, Contingent Liabilities and Contingent Assets**

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| **Sl. No** | **Term** | **Definition** |
| 1 | Provision | A provision is a liability of uncertain timing or amount. |
| 2 | Liability | A liability is a present obligation of the entity arising from past events,  the settlement of which is expected to result in an outflow from the  entity of resources embodying economic benefits. |
| 3 | Obligating event | An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. |
| 4 | Legal obligation | A legal obligation is an obligation that derives from: |
|  |  | (a)    a contract (through its explicit or implicit terms); |
|  |  | (b)     legislation; or (c) other operation of law. |
| 5 | Constructive obligation | A constructive obligation is an obligation that derives from an entity’s actions where: |
|  |  | (a)     by an established pattern of past practice, published policies or a sufficiently  specific current statement, the entity has indicated to other parties that it will accept  certain responsibilities; and |
|  |  | (b)     as a result, the entity has created a valid expectation on the part of those  other parties that it will discharge those responsibilities. |
| 6 | Contingent liability | (a)    a possible obligation that arises from past events and whose existence will be  confirmed only by the occurrence or non-occurrence of one or more uncertain future  events not wholly within the control of the entity; or |
|  |  | (b)     a present obligation that arises from past events but is not recognised because: |
|  |  | (i) it is not probable that an outflow of resources embodying |
|  |  | economic benefits will be required to settle the obligation; or |
|  |  | (ii) the amount of the obligation cannot be measured with sufficient reliability. |
| 7 | Contingent asset | A contingent asset is a possibleassetthat arises from past events and whose existence will be  confirmed only by the occurrence or non- occurrence of one or more uncertain future events  not wholly within the control of the entity. |
| 8 | Onerous contract | An onerous contract is a contract in which the unavoidable costs of meeting the obligations  under the contract exceed the economic benefits expected to be received under it. |
| 9 | Restructuring | A restructuring is a programme that is planned and controlled by management, and materially changes either  A. The scope of a business undertaken by an entity; or B. The manner in which that business is conducted. |

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| **Type of transaction** | **In scope** | **Out of scope** | **Standard** |
| Restructuring costs | **\*** |  |  |
| Environmental penalties | **\*** |  |  |
| Decommissioning costs | **\*** |  |  |
| Product warranties | **\*** |  |  |
| Legal claims | **\*** |  |  |
| Reimbursement rights | **\*** |  |  |
| Future operating costs | **\*** |  |  |
| Onerous contracts | **\*** |  |  |
| Repairs and maintenance costs | **\*** |  |  |
| Provision for depreciation / doubtful debts |  | \* |  |
| Executory contracts |  | \* |  |
| Construction contracts |  | \* | Ind AS 11 |
| Income taxes |  | \* | Ind AS 12 |
| Leases |  | \* | Ind AS 17 |
| Employee benefits |  | \* | Ind AS 19 |
| Insurance contracts |  | \* | Ind AS 104 |
| Contingent liabilities in business combinations |  | \* | Ind AS 103 |
| Financial instruments (including financial guarantees) |  | \* | Ind AS 109 |

**Comparison with AS**

* Ind AS 37 Provisions, Contingent liabilities and Contingent assets does not apply to all financial (including financial guarantee) that are within the scope of Ind AS 109 Financial Instruments.

**AS 29** Provisions, Contingent Liabilities and Contingent Assets excludes from its scope only those financial instruments, which are carried at fair value.

* Ind AS 37 specifically requires provision to be created for constructive obligations if other criteria for recognition of provision are also met. It requires that where the effect of time value of money is material, the amount of provision should be the present value of expenditures expected to be required to settle the obligation. Where discounting is used, the carrying amount of provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

**As per AS 29**, provisions are recognised based on legal obligation.

* Ind AS 37 mandates creation of provision considering time value of money.

**However, as per AS 29**, discounting of provision is prohibited.

* Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefit is probable.

Ind AS 37 mandates creation of provision considering time value of money.

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| **Accounting under IGAAP** | |
| Expense account | 100 |
| To Provision account | 100 |

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| **Accounting under Ind AS for creation of provision** | |
| Expense account | 90 |
| To Provision account | 90 |

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| **Accounting under Ind AS for interest charge YoY** | |
| Interest account | 4 |
| To Provision account | 4 |

**CONTINGENT ASSET**

Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefit is probable.

* A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity;
* Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
* Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
* A contingent asset is disclosed, where an inflow of economic benefits is probable (paragraph 34).

**IND AS 12- DEFERRED TAX ASSET OR LIABILITY**

The Ind AS 12 “Income Taxes” follows balance sheet approach instead of Profit and loss approach. The following are key principals:-

1. Accounting profit is profit or loss for a period before deducting tax expense.
2. Taxable profit (tax loss)is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).
3. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

1. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
2. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
3. deductible temporary differences;
4. the carry forward of unused tax losses; and
5. the carry forward of unused tax credits.
6. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:
7. **taxable temporary differences**, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
8. **deductible temporary differences**, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
9. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.
10. The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.
11. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.
12. A deferred tax liability shall be recognised for all **taxable temporary differences**.
13. A deferred tax asset shall be recognised for **all deductible temporary differences** to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

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| **Examples** **of Tax base of Assets** |
| |  |  |  |  | | --- | --- | --- | --- | | 1. |  | A machine cost Rs. 100. For tax purposes, depreciation of Rs. 30 has already been deducted in the current and prior periods and the remaining cost will be deductible in future periods, either as depreciation or through a deduction on disposal. Revenue generated by using the machine is taxable, any gain on disposal of the machine will be taxable and any loss on disposal will be deductible for tax purposes. *The tax base of the machine is Rs. 70*. | | | 2. |  | Interest receivable has a carrying amount of Rs. 100. The related interest revenue will be taxed on a cash basis. *The tax base of the interest receivable is nil*. | | | 3. |  | Trade receivables have a carrying amount of Rs. 100. The related revenue has already been included in taxable profit (tax loss). *The tax base of the trade receivables is Rs. 100*. | | | 4. |  | Dividends receivable from a subsidiary have a carrying amount of Rs. 100. The dividends are not taxable. *In substance, the entire carrying amount of the asset is deductible against the economic benefits. Consequently, the tax base of the dividends receivable is Rs. 100*.(*a*) | | | 5. |  | A loan receivable has a carrying amount of Rs. 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs. 100*. | | |  |  |  | |  |  |  | |

**Examples** **of Tax base of Liabilities**

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| 1. |  | Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense will be deducted for tax purposes on a cash basis. *The tax base of the accrued expenses is nil*. |
| 2. |  | Current liabilities include interest revenue received in advance, with a carrying amount of Rs. 100. The related interest revenue was taxed on a cash basis. *The tax base of the interest received in advance is nil*. |
| 3. |  | Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense has already been deducted for tax purposes. *The tax base of the accrued expenses is Rs. 100*. |
| 4. |  | Current liabilities include accrued fines and penalties with a carrying amount of Rs. 100. Fines and penalties are not deductible for tax purposes. *The tax base of the accrued fines and penalties is Rs. 100*.(*a*) |
| 5. |  | A loan payable has a carrying amount of Rs. 100. The repayment of the loan will have no tax consequences. *The tax base of the loan is Rs. 100*. |

**Distinction between Ind As 12 and As-22**

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| **Particulars** | **Ind AS 12** | **AS-22** |
| Approach for deferred taxes | Balance sheet approach (Temporary Differences) | Profit and loss approach (Timing Differences) |
| Recognition of taxes in OCI or Equity | Tax on items recognised in OCI or directly in equity is also recorded in OCI or equity, as appropriate | No specific guidance |
| Recognition of DTA on  unused tax losses, etc. | DTA is recognised for unused losses and tax credits to the extent it is probable that future taxable profit will be available | Unused losses – Virtual certainty of future  taxable profits |
| Deferred tax on unrealized  intragroup profits | Recognised at buyer’s rate | Not recognised |
| Disclosures | Certain additional disclosures like Reconciliation,  details of tax holiday and expiry of losses,  unrecognized DTL etc. are required. | Not required |

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| **IND AS 36 –IMPAIRMENT OF ASSETS**  The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifieswhen an entity should reverse an impairment loss and prescribes disclosures.  **IND AS 36 Impairment of assets is applicable to Investments in subsidiaries, associates and Joint Ventures in the separate financial statements of parent. It requires that an entity should estimate the Following assets for impairment atleast annually even if there is no indicator of impairment.**  This Standard shall be applied in accounting for the impairment of all assets, other than:  (a) inventories (see Ind AS 2 Inventories);  (b) assets arising from construction contracts (see Ind AS 11 Construction Contracts);  (c) deferred tax assets (see Ind AS 12 Income Taxes);  (d) assets arising from employee benefits (see Ind AS 19 Employee Benefits);  (e) financial assets that are within the scope of Ind AS 39 Financial Instruments: Recognition and Measurement;  (f) biological assets related to agricultural activity that are measured at fair value less costs to sell  **RECOGNISING AND MEASURING AN IMPAIRMENT LOSS**  The requirements for recognising and measuring impairment losses for an individual asset other than goodwill. Recognising and measuring impairment losses for cash-generating units and goodwill are dealt with in the IND AS.  **Impairment Loss = Recoverable Amount of an asset – Carrying Amount**  An **impairment loss** is the amount by which the carrying amount of an asset or a cash-generating unit  exceeds its recoverable amount.  The **recoverable amount of an asset** or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.  **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated  depreciation (amortisation) and accumulated impairment losses thereon. |
|  |
| If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.  An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at  revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.  An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.  **If an impairment loss is recognised, any related deferred tax assets or liabilities are determined in accordance with Ind AS 12 by comparing the revised carrying amount of the asset with its tax base .**   |  |  |  |  | | --- | --- | --- | --- | |  | | | | |  | | | | |  | | | | | **Topic** | **AS 28** | **Ind AS 36** | | **Goodwill** | There is no concept of intangible assets with indefinite useful life. Goodwill to be tested for impairment using the  “bottom-up/top-down” approach under which the goodwill is,in effect, tested for impairment by allocating its carrying amount to each cash- generating unit or smallest group of cash-generating units to which a portion of that carrying amount can be allocated on a reasonable and consistent basis. | It is allocated to the lowest level at which  goodwill is internally monitored  by management which should not be larger  than an operating segment before aggregation  of segments as defined in Ind AS 108. There is no bottom-up approach or top down approach for allocation of goodwill. | | **Goodwill** | Goodwill and other intangibles are tested for impairment only when there is an indication that they may be impaired. However, intangible assets that are not available for use and intangible assets that are amortised over a period exceeding ten years are to be assessed for impairment at least at each financial year end even if there is no indication that the asset is impaired. | Goodwill, intangible assets not available for use and indefinite life intangible assets  are required to be tested for impairment at least on an annual basis or earlier if there is an indication of impairment.  Goodwill is allocated to cash generating units that are expected to benefit from the synergies of business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. | |

**Clarifications on computation of book profit for the purposes of levy of Minimum Alternate Tax (MAT) under section 115JB of the Income-tax Act, 1961 for Indian Accounting Standards (Ind AS) compliant companies by CBDT through circular no. 133/23/2015-TPL dated 25th July, 2017**

# Question 1: The profit for the period may include Marked to market (MTM) gains/ losses on account of fair value adjustments on various financial instruments recognised through profit or loss (FVTPL). A situation may arise where the losses on account of fair value adjustments could be added back in view of clause (i) of Explanation 1 to section 115JB (2) of the Act. Whether the losses on such instruments require any adjustment for computing book profits for the purposes of MAT?

Answer: Since MTM gains recognised through profit or loss on FVTPL classified financial instruments are included in book profits for MAT computation, it is clarified that MTM losses on such instruments recognised through profit or loss shall not require any adjustments as provided under clause (i) of Explanation 1 to section 115JB(2) of the Act. However, in case of provision for diminution/ impairment in value of assets other than FVTPL financial instruments, the existing adjustment of clause (i) of Explanation 1 to section 115JB (2) of the Act shall apply.

It is further clarified that for financial instruments where gains and losses are recognised through Other Comprehensive income (OCI), the amended provisions of MAT shall continue to apply.

# Question 2: For the purposes of section 115JB of the Act, what shall be the starting point for computing Book profits for Ind AS compliant companies? Whether Profit before other comprehensive income [Item number XIII in Part 2 (Statement of Profit and Loss) of Division **II of Schedule III to the Companies Act 2013] or Total Comprehensive Income(including other comprehensive income)[Item number XV in Part 2 (Statement of Profit and Loss) of Division II of Schedule III to the Companies Act 2013] shall be the starting point?**

Answer: Starting point for computing Book profits for Ind AS compliant companies shall be Profit before other comprehensive income [Item number XIII in Part 2 (Statement of Profit and Loss) of Division II of Schedule III to the Companies Act 2013].

# Question 3: As per Explanation to Section 115 JB (2C) of the Act, the convergence date is defined as the first day of the first Indian Accounting standards reporting period as defined in Ind AS 101. The Memorandum explaining the provisions of the Finance Bill 2017mentions that the adjustment as on the last day of the comparative period is to be considered. It may be clarified as to what would be the appropriate manner for computation of transition amount on convergence date, 1st April i.e. at the start of the day or at the end of the day?

Answer: In the first year of adoption of Ind AS, the companies would prepare Ind AS financial statement for reporting year with a comparative financial statement for immediately preceding year. As per Ind AS 101, a company would make all Ind AS adjustments on the opening date of the comparative financial year. The entity is also required to present an equity reconciliation between previous Indian GAAP and Ind AS amounts, both on the opening date of preceding year as well as on the closing date of the preceding year. The amounts as on start of the opening date of the first year of adoption should be considered for the purposes of computation of transition amount.

For example, companies which adopt Ind AS with effect from 1st day of April 2016 are required to prepare their financial statements for the year 2016-17 as per requirements of Ind AS. Such companies are also required to prepare an opening balance sheet as of 1st day of April 2015 and restate the financial statements for the comparative period 2015-16. In such a case, the first time adoption adjustments as of 31st day of March 2016 should be considered [i.e. the start of business on 1st day of April 2016 (or, equivalently, close of business on 31st day of March 2016)] for computation of MAT liability for previous year 2016-17 (Assessment year 2017-18) and thereafter.

# Question 4: As per Indian GAAP, proposed dividend was required to be recognized in the financial statements for the year for which it pertained to even though these were declared in the subsequent year. Section 115JB of the Act already provides for adjustments for dividend for computation of book profit*.* As per Ind AS, the amount of proposed dividend (including dividend distribution taxes) is required to be recognized in the year in which it has been declared rather than the year for which it pertains to. Accordingly, on transition to Ind AS, the amount of proposed dividend for FY 2015-16 which was recognized in profit and loss account in FY 2015-16 is required to be reversed and credited to Retained Earnings. For the computation of MAT, whether these balances would form part of the transition amount and thus be adjusted over a period of 5 years?

Answer: Adjustment of proposed dividend (including dividend distribution taxes) shall not form part of the transition amount.

# Question 5: Under Ind AS, adjustments on the transition date may have a corresponding impact on deferred taxes. Should the deferred taxes on such amounts be considered for the purpose of transition amount?

Answer: Any deferred taxes adjustments recorded on the transition date shall be ignored for the purpose of computing Transition Amount.

# Question 6: As mentioned in Question No.1, clause (i) of Explanation 1 to Section 115JB(2) of the Act provides for adjustments for computation of book profit for *the amount or amounts set aside as provision for diminution in the value of any asset.* Convergence date adjustments may include adjustment for Provision for Bad and Doubtful Debts (Expected Credit Loss adjustment) at the time of transition. Whether these adjustments would form part of the transition amount referred to in section 115JB(2C) of the Act?

Answer: Adjustments relating to provision for diminution in the value of any assets other than the ones mentioned in Question Number 1 above, shall not be considered for the purpose of computation of the Transition Amount. Therefore, adjustments relating to provision for doubtful debts shall not be considered for the purpose of computation of the transition amount.

# Question 7: Under Section 115 JB of the Act, transition amount has been defined as the amount or the aggregate of the amounts adjusted in the ‘Other Equity’ (excluding capital reserve and securities premium reserve) on the convergence date. Whether changes in share application money on reclassification to ‘Other Equity’ would form part of the Transition Amount?

Answer: Share application money pending allotment which is reclassified to Other Equity on transition date shall not be considered for the purpose of computing Transition Amount.

# Question 8: Under Ind AS, Investments in preference share is considered to be a liability and the corresponding dividend expense is debited to Profit and loss account as interest cost. Should such interest expenses on preference shares be deducted for the purpose of MAT computation?

Answer: For the purpose of computation of MAT, profit/Transition Amount shall be increased by dividend/interest on preference share (including dividend distribution taxes) whether presented as dividend or interest.

# Question 9: How do we account for items such as equity component, if any, of financial instruments like Non-Convertible debentures (NCDs), Interest free loan etc. included in other equity as per Ind AS for the computation of transition amount under MAT?

Answer: Items such as equity component of financial instruments like NCD’s, Interest free loan etc. would be included in the Transition Amount.

# Question 10: Where revaluation/ fair value adjustments have been made to items of Property, Plant & Equipment (PPE) under Ind AS, as per section 115JB of the Act, the book profit of the previous year in which the items of PPE are retired, disposed or realised shall be increased or decreased, as the case may be, by the revaluation amount relatable to such items of PPE. Whether the revaluation amount to be considered for adjustment should be the gross amount of the revaluation or the amount after adjustment of the depreciation on the revaluation amount?

Answer: The book profit of the previous year in which the items of PPE are retired, disposed, realised or otherwise transferred shall be increased or decreased, as the case may be, by the revaluation amount after adjustment of the depreciation on the revaluation amount relatable to such asset. This has been explained by an illustration as under:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Erstwhile Indian GAAP** | **Ind-AS (considering fair value/revaluati on adjustment on PPE)** | **Fair Value/Revaluat ion Adjustments and corresponding**  **depreciation** |
| WDV/Deemed Cost as on 1 April  2015 | 100 | 1000 | 900 |
| Depreciation @ 10% for F.Y. 2015-  16 | 10 | 100 | 90 |
| WDV as on 1 April 2016 | 90 | 900 | 810 |
| Depreciation @ 10% for F.Y. 2016-  17 | 9 | 90 | 81 |
| WDV as on 1 April 2017 | 81 | 810 | 729\* |
| Sale value as on 1 April 2017 | 900 | 900 |  |
| Profit on sale credited to P&L | 819 | 90 |  |
| Adjustment for MAT - revaluation amount after adjustment of the  depreciation | 0 | 729\* |  |
| **Profit on sale to be considered for**  **MAT** | **819** | **819** |  |

# Question 11: How should adjustments for service concession arrangements be treated for the purpose of computation of book profit under MAT?

Answer: Adjustments on account of Service Concession arrangements would be included in the Transition Amount and also on an ongoing basis.

# Question 12: Existing clause (iii) of explanation to section 115JB(2) of the Act provides for deduction of lower of the amount of loss brought forward or unabsorbed depreciation as per books of account for computation of book profits. In case where, on adjustment of transition amount, the losses as per books of account gets wiped off, whether deduction for the said amount would be available for assessment year 2017-2018 onwards?

Answer: For assessment year 2017-2018, the deduction of lower of depreciation or losses shall be allowed based on the position as on 31 March 2016. For the subsequent periods, the position as per books of account drawn as per Ind AS shall be considered for computing lower of loss brought forward or unabsorbed depreciation.

# Question 13: How Capital Reserves or Securities Premium existing as per old Indian GAAP reclassified to Retained Earnings/ Other Reserves on Convergence date be treated for MAT purpose.

Answer: The Capital Reserves or Securities Premium existing as on the convergence date as per the erstwhile Indian GAAP which are reclassified to Retained Earnings/ Other Reserves under Ind AS and vice versa, shall not be considered for the purposes of Transition Amount.

It is further clarified, that even after such reclassifications, the amount of revaluation reserve shall continue to be considered as revaluation reserve for the purposes of computation of book profit and shall also include transfer to any other reserves by whatever name called or capitalised.

# Question 14: Companies which follow accounting year other than March, 2017 ending for Companies Act purposes and are required to transition to Ind AS will have to prepare financial statements for MAT purposes for FY 2016-17 partly under Indian GAAP and partly under Ind AS. How should such companies compute MAT on transition to Ind AS?

Answer: In view of second proviso to section 115JB (2) of the Act, companies will be required to follow Indian GAAP for the pre-convergence period and Ind AS for the balance period.

For example, a Company following December ending will be required to prepare, accounts for MAT purposes under Indian GAAP for 9 months upto December 2016 and under Ind AS for 3 months thereafter. The transition amount will be calculated with reference to 1st January, 2017.