

Ind AS Transition Facilitation Group (ITFG) Clarification Bulletin 1

The Accounting Standards Board (ASB) of the ICAI has constituted 'Ind AS Transition Facilitation Group' (ITFG)¹ for providing clarifications on urgent basis on various issues related to the applicability and /or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders.

At the First (1st) Ind AS Transition Facilitation Group (ITFG) meeting held on January 16, 2016 at New Delhi, issues received from some members were discussed. The Group after due deliberations decided to issue following clarifications² on the issues considered at the meeting.

Issue 1. Company X, on standalone basis, had a net worth of above Rs. 250 crore but below Rs. 500 crore in financial year 2013-14 as well as financial year 2014-15 and is expected to exceed Rs. 500 crore in financial year 2015-16.

Whether the Company X be required to comply with Ind AS from financial year 2017-18 i.e. under Phase II, given that the net worth as on 31st March 2014 was below Rs. 500 Crore and the Company X was a company existing as on 31st March 2014 and was already falling under the threshold as on 31st March 2014 itself irrespective of the fact that the net-worth as on 31st March 2016 might be above Rs. 500 crore.

Response: Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

“For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

- (a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;*
- (b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).*

Explanation.- For the purposes of sub-clause (b), the companies meeting the specified

¹ Announcement on the Constitution of Ind AS Transition Facilitation Group (ITFG) is available at the ICAI's website at http://www.icai.org/new_post.html?post_id=12289&c_id=219

² Although the 'Ind AS Transition Facilitation Group' (ITFG) has been constituted by the Accounting Standards Board (ASB), clarifications given or views expressed by the ITFG represent the views of the members of the Ind AS Transition Facilitation Group (ITFG) and are not necessarily the views of the ASB or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of each clarification is indicated along with the clarification. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the Group. Members and others may send any further issues for clarification by ITFG by writing to asb@icai.in.

thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1)''.

In view of the requirement at (b) above, any company that meets the thresholds as specified in the Rules in a particular financial year, The Companies (Indian Accounting Standards) Rules, 2015, will become applicable to such company in immediately next financial year.

Therefore, in the given case, company X which had net worth of above Rs. 250 crore but below Rs. 500 crore in financial year 2013-14 as well as financial year 2014-15 and is expected to exceed Rs. 500 crore in financial year 2015-16, will have to prepare financial statements on the basis of Indian Accounting Standards (Ind AS), from the financial year beginning on April 1, 2016.

Issue 2. Company A is a listed company and has three Subsidiaries Company X, Company Y and Company Z. As on 31st March 2014, the net worth of Company A is Rs 600 Crores, net worth of Company X is Rs 100 Crores, Company Y is Rs 400 Crores and Company Z is Rs 210 Crores. All the three subsidiaries are non-listed public companies.

Case A During the financial year 2014-15, Company A has sold off its entire investment in Company X on 31st December 2014. Therefore, Company X is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31 March 2015. Should Company X prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Case B During the financial year 2015-16, Company A has sold off its investment in Company Y on 31st December, 2015. Therefore, Company Y is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31 March 2016. Should Company Y prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Case C During the financial year 2016-17, Company A has sold off its investment in Company Z on 31st December 2016, therefore company Z is no longer a subsidiary of Company A for the purposes of preparation of financial statements as on 31 March 2017. Should Company Z prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006 or the Companies (Indian Accounting Standards) Rules, 2015?

Response : Rule 4(1)(ii)(c) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

(4) (1) The Companies and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified in Annexure to these rules in preparation of their financial statements and audit respectively, in the following manner, namely:-

(ii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:-

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

(b) companies other than those covered by sub-clause (a) of clause (ii) of

- sub-rule(1) and having net worth of rupees five hundred crore or more;*
- (c) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be;*

Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015, states as under:

(2) For the purposes of calculation of net worth of companies under sub-rule (1), the following principles shall apply, namely:-

- (a) the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31st March, 2014 or the first audited financial statements for accounting period which ends after that date;*
- (b) for companies which are not in existence on 31st March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31st March, 2014, the net worth shall be calculated on the basis of the first audited financial statements ending after that date in respect of which it meets the thresholds specified in sub-rule (1).*

Explanation.- For the purposes of sub-clause (b), the companies meeting the specified thresholds given in sub-rule (1) for the first time at the end of an accounting year shall apply Indian Accounting Standards (Ind AS) from the immediate next accounting year in the manner specified in sub-rule (1).

Rule (9) of the Companies (Indian Accounting Standards) Rules, 2015, states that:

“Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specified in sub-rule (1), it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it”.

In view of the above requirements, Company A meets the criteria as specified in the Rule 4(2) (a) of the Companies (Indian Accounting Standards) Rules, 2015, on 31st March, 2014. Accordingly, the Companies (Indian Accounting Standards) Rules, 2015, will become applicable to the Company on mandatory basis from accounting periods commencing 1st April, 2016.

As per the Rule 4(1)(ii)(c) of the Companies (Indian Accounting Standards) Rules, 2015, a holding, subsidiary, joint venture or associate company of a Company to which the Companies (Indian Accounting Standards) Rules, 2015 applies will be required to follow the Companies (Indian Accounting Standards) Rules, 2015 for preparing and presenting its financial statements.

In the abovementioned case, Company A has net worth of more than Rs.500 crore in the financial year ending 31 March 2014. Therefore, ordinarily Company A along with its subsidiaries will have to apply Indian Accounting Standards (Ind ASs) for preparing financial statements for the accounting periods commencing 1st April, 2016, except in situations covered by Case A and Case B as discussed below.

Case A

Company A has sold off its entire investment in Company X on 31st December, 2014;

Company X is no longer a subsidiary of Company A as at the beginning of 1st April, 2016. Therefore, in this case, Company X would continue to prepare financial statements for the accounting periods commencing 1st April, 2016, as per the Companies (Accounting Standards) Rules, 2006.

Case B

Company A has sold its investment in subsidiary Company Y on 31st December, 2015, in consequence of which Company Y is no longer subsidiary of Company A as at the beginning of 1st April, 2016. Therefore, the Companies (Indian Accounting Standards) Rules, 2015 will not be applicable to Company Y. Therefore, Company Y would continue to prepare financial statements for accounting periods commencing April 1, 2016 under the Companies (Accounting Standards) Rules, 2006.

Case C

In the given case, Company A has sold its investment in subsidiary Company Z on 31st December, 2016; therefore, Company Z was a subsidiary of Company A as at the beginning of 1st April, 2016. Company Z being subsidiary of Company A as at the beginning of 1st April, 2016, would have to prepare financial statements for the accounting periods commencing 1st April, 2016 as per the Companies (Indian Accounting Standards) Rules, 2015.

Issue 3. Company XYZ Ltd. having net worth of Rs. 600 crores as on March 31, 2014 has taken a loan having term of 5 years for importing fixed assets as on July 1, 2014, February 1, 2016 and May 3, 2016. The Company has followed the policy of recognising the exchange differences arising from long term foreign currency monetary items in the cost of fixed assets where such monetary item has arisen for purchase of fixed assets pursuant to paragraph 46/46 A of AS 11, *The Effects of Changes in Foreign Exchange Rates*, notified under the Companies (Accounting Standards) Rules, 2006. Considering the requirements of paragraph D13AA of Ind AS 101, *First-time adoption of Indian Accounting Standards*, whether the company can continue to recognise the exchange differences arising from the abovesaid loans in the cost of Property, Plant and Equipment, when adopting Ind AS for the first time?

Response: Paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as follows:

“A first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.”

Paragraph D13AA of Ind AS 101, *First-time adoption of Indian Accounting Standards*, provides an option to continue the policy of recognising the exchange differences on long term foreign currency monetary items as per paragraph 46/46A of AS 11, *The Effects of Changes in Foreign exchange Rates*, only for those long term foreign currency monetary items which were recognised in the financial statements before the beginning of first Ind AS reporting period.

In the above case, the beginning of the first Ind AS reporting period for company XYZ is April 1, 2016. Therefore, the option given in paragraph D13AA of Ind AS 101 will be available for loans taken as on July 1, 2014 and February 1, 2016 and will not be available for the loan taken after March 31, 2016.

Issue 4: Company ZED Ltd., having net worth of Rs. 600 crores as on March 31, 2014, has assessed that its functional currency as per the requirements of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, is USD. The Company has taken loans in USD as well as in INR for importing fixed assets before 1st March 2014. The Company follows the policy of recognising the exchange differences arising from long term foreign currency monetary items in the cost of fixed assets where such monetary item has arisen for purchase of fixed assets. Considering the requirements of paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, whether the company can continue to recognise the exchange differences arising from the above said loans in the cost of Property, Plant and Equipment, when adopting Ind AS for the first time?

Response : Paragraph D13AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* states as follows:

“A first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.”

Paragraph D13AA as stated above provides an option to continue the policy of recognising the exchange differences on long term foreign currency monetary items as per paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates*, only for those long term foreign currency monetary items which were recognised in the financial statements before the beginning of first Ind AS reporting period. Therefore, the option given in paragraph D13AA of Ind AS 101, will be available in case of those long term foreign currency monetary items which were recognised in the financial statements ending on or before 31st March, 2016 and are regarded as foreign currency monetary items under Ind AS 21.

In the given case, the functional currency of Company ZED has changed from INR to USD. Therefore, the USD loans will no longer be regarded as foreign currency monetary items under Ind AS. Hence, such a company cannot continue the policy of recognising the exchange differences, arising from USD loans, in the cost of fixed assets.

Issue 5. ABC ltd. having net worth of Rs. 500 crores as on March 31, 2014 wants to assess its functional currency. From which date should company ABC Ltd. assess its functional currency i.e whether from date of transition or retrospectively as per paragraph 10 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*?

Response: Paragraphs 13-19 of Ind AS 101 *First-time Adoption of Indian Accounting Standards* provide ‘Exceptions to the retrospective application of other Ind ASs’ and Appendices B-C of Ind AS 101 *First-time Adoption of Indian Accounting Standards*, provide certain ‘Exceptions to retrospective application of other Ind ASs’ and ‘Exemptions for Business Combination’ respectively.

Paragraphs 13-19 and Appendices B-C are silent on the assessment of functional currency by an entity, i.e, from date of transition or retrospectively. Since neither any exception nor any exemption has been specified for assessment of functional currency, an entity will have to assess its functional currency retrospectively as per paragraph 10 of Ind AS 101 stated as below.

Paragraph 10 of Ind AS 101 *First-time Adoption of Indian Accounting Standards*, states as follows:

“Except as described in paragraphs 13–19 and Appendices B–D, an entity shall, in its opening Ind AS Balance Sheet:

- (a) recognise all assets and liabilities whose recognition is required by Ind ASs;*
- (b) not recognise items as assets or liabilities if Ind ASs do not permit such recognition;*
- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind ASs; and*
- (d) apply Ind ASs in measuring all recognised assets and liabilities”.*