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SUMMARY CHART

Sample Notes

Curated By:-

CA, CPA

Vinod Kumar Agarwal

(AIR 2 - CA Foundation, AIR 4 - CA Inter, AIR 24 - CA Final)

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CA FINAL

GROUP - I - NEW COURSE

FINANCIAL REPORTING

SUMMARY CHART

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ABOUT

CA VINOD KUMAR AGARWAL

(AIR-2nd, 4th & 24th IN FOUNDATION, INTER & FINAL RESPECTIVELY)

SUMMARY

Founder Member of A.S. Foundation, India's Leading Academy for C.A. Course, CA Vinod Kumar Agarwal is a fellow member of ICAI and a past member of the Board of Studies, ICAI. With a teaching experience of twenty years, he has guided more than 1,00,000 students and is ranked as one of the best teachers for Accounts and Financial Management at Intermediate level and Financial Reporting and SFM at Final Level.

He has authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, and his books have sold more than 2,00,000 copies.

PUBLICATIONS AND ACHIEVEMENTS

- A merit holder in all the three levels of exams conducted by ICAI (2nd rank, 4th rank, and 24th rank in CA Foundation, CA Intermediate ar CA Final respectively).
- Scored 99 marks in Accountancy in CA Foundation.
- Authored books on Accounts, Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management, Integrated Business Solutions, etc.
- Complied a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.
- Compiled a book, "Mind Candy", a book on motivation.
- Compiled a book, "Sweet Voice", a book on inspirational quotes.
- Working experience with India's top firms Firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte).
- Published article in the Students Newsletter of ICAI on "Valuation of Equity Shares" and "Stock Market Index".
- Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

EDUCATION

- Passed the Certified Public Accountant (CPA) (USA) exam in 2007.
- Post-graduation from Pune University with First Class.
- Graduation from B.M.C.C, Pune with distinction.
- Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.
- Passed the Derivative Module test conducted by National Stock Exchange.
- Also appeared for UPSC exam and cleared Mains twice.

TEACHING EXPERIENCE

- Teaches Accounts, Advanced Accountancy, Financial management at CA Intermediate Level and Financial Reporting and Advanced Financial Management (AFM) at CA Final level.
- Pioneer of creating and distributing video tutorials in pen drives/google drive among students.
- Produced All India Toppers (1st Rank) in CPT examination and final examination apart from more than 250 all India merit- holders.
- More than 30000 Facebook subscribers, more than 135000 YouTube subscribers.
- Sold more than 40000 video lectures in pen-drive and google-drive mode.
- In 2019, launched a brand VKNOW, to become a national brand for digital learning.

TEACHING APPROACH

- Simple and effective way of teaching through concept building, class-room practice, home-exercise, and power-point presentation.
- A large variety of problems are solved in the class to meet the examination requirements.
- Notes are updated frequently covering amendments and exam problems.

IND AS 109 FINANCIAL INSTRUMENTS - SUMMARY CHART

BACKGROUND

IND AS 109 introduces a single classification and measurement model for financial assets, dependent on both:

- ☑ The entity's business model objective for managing financial assets
- ☑ The contractual cash flow characteristics of financial assets

IND AS 109 removes the requirement to separate embedded derivatives from financial asset host contracts (it instead requires a hybrid contract to be classified in its entirety at either amortised cost or fair value) Separation of embedded derivatives has been retained for financial liabilities (subject to criteria being met)

INITIAL RECOGNITION AND MEASUREMENT (FINANCIAL ASSETS AND FINANCIAL LIABILITIES)

Initial Recognition

When the entity becomes party to the contractual provisions of the instrument Specific quantitative disclosure requirements:

Initial Measurement At fair value, plus for those financial assets and liabilities not classified at fair value through profit or loss, directly attributable transaction costs **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 **Directly attributable transaction costs** - incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

FINANCIAL ASSETS - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Assets are classified as either: **(1) Amortised cost (2) Fair value through profit or loss (3) Fair Value through other comprehensive income**

(1) AMORTISED COST

Category classification criteria

Both of the below conditions must be met:

(i) Business model objective: financial assets held in order to collect contractual cash flows

(ii) Contractual cash flow characteristics: solely payments of principal and interest on the principal amount outstanding

Subsequent measurement

- ☑ Amortised cost using the effective interest method

(i) BUSINESS MODEL ASSESSMENT

Based on the **overall business**, **not** instrument-by-instrument

Centres on whether financial assets are held to collect contractual cash flows:

- ☑ How the entity is run
- ☑ The objective of the business model as determined by key management personnel (KMP) (per IND AS 24 *Related Party Disclosures*)

Financial assets do not have to be held to contractual maturity in order to be deemed to be held to collect contractual cash flows, but the overall approach must be consistent with 'hold to collect'

(ii) CONTRACTUAL CASH FLOW ASSESSMENT

Based on an **instrument-by-instrument** basis

Financial assets with cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

Interest is consideration for **only** the time-value of money and credit risk

FOREX financial assets: assessment is made in the denomination currency (i.e. FX movements are not taken into account)

IND AS 109 contains various illustrative examples in the application of both the (i) Business Model Assessment and (ii) Contractual Cash Flow Characteristics

(2) FAIR VALUE THROUGH PROFIT OR LOSS

Category classification criteria

- ☑ Financial assets that do not meet the amortised cost criteria
- ☑ Financial assets designated at initial recognition. The option to designate is available:
- ☑ If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch')

Note: the option to designate is **irrevocable**

Subsequent measurement

- ☑ Fair value, with all gains and losses recognised in profit or loss
- ☑ Amortised cost using the effective interest method

(3) FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

EQUITY INSTRUMENTS

Note: Designation at initial recognition is **optional** and **irrevocable**.

Category classification criteria

- ☑ Available **only** for investments in equity instruments (within the scope of IND AS 109) that are **not** held for trading.

Subsequent measurement

- ☑ Fair value, with all gains and losses recognised in other comprehensive income
- ☑ Changes in fair value are not subsequently recycled to profit and loss
- ☑ Dividends are recognised in profit or loss.

DEBT INSTRUMENTS

Category classification criteria

- ☑ meets the SPPI contractual cash flow characteristics test (see box (1)(ii) above)
- ☑ Entity holds the instrument to collect contractual cash flows and to sell the financial assets

Subsequent measurement

- ☑ Fair value, with all gains and losses recognised in other comprehensive income
- ☑ Changes in fair value are not subsequently recycled to profit and loss.

IND AS 109 FINANCIAL INSTRUMENTS - SUMMARY CHART

IMPAIRMENT OF FINANCIAL ASSETS

Scope

The impairment requirements are applied to:

- ☑ Financial assets measured at amortised cost (incl. trade receivables)
- ☑ Financial assets measured at fair value through OCI
- ☑ Loan commitments and financial guarantees contracts where losses are currently accounted for under IND AS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- ☑ Lease receivables

The impairment model follows a three-stage approach based on changes in expected credit losses of a financial instrument that determine

- ☑ the recognition of impairment, and
- ☑ the recognition of interest revenue

Initial recognition

At initial recognition of the financial asset an entity recognises a loss allowance equal to 12 months expected credit losses which consist of expected credit losses from default events possible within 12 months from the entity's reporting date. An exception is purchased or originated credit impaired financial assets.

Subsequent measurement

STAGE	1	2	3
IMPAIRMENT	12 month expected credit loss	Lifetime expected credit loss	
INTEREST	Effective interest on the gross carrying amount (before deducting expected losses)		Effective interest on the net (carrying) amount

THREE-STAGE APPROACH

STAGE 1

12 month expected credit losses (gross interest)

- ☑ Applicable when **no significant increase in credit risk**
- ☑ Entities continue to recognise 12 month expected losses that are updated at each reporting date
- ☑ Presentation of interest on gross basis

STAGE 2

Lifetime expected credit losses (gross interest)

- ☑ Applicable in case of **significant increase in credit risk**
- ☑ Recognition of lifetime expected losses
- ☑ Presentation of interest on gross basis

STAGE 3

Lifetime expected credit losses (net interest)

- ☑ Applicable in case of **credit impairment**
- ☑ Recognition of lifetime expected losses
- ☑ Presentation of interest on a net basis

PRACTICAL EXPEDIENTS

30 days past due rebuttable presumption

- ☑ Rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due
- ☑ When payments are 30 days past due, a financial asset is considered to be in stage 2 and lifetime expected credit losses would be recognised
- ☑ An entity can rebut this presumption when it has reasonable and supportable information available that demonstrates that even if payments are 30 days or more past due, it does not represent a significant increase in the credit risk of a financial instrument.

☑ Low credit risk instruments

- ☑ Instruments that have a low risk of default and the counterparties have a strong capacity to repay (e.g. financial instruments that are of investment grade)
- ☑ Instruments would remain in stage 1, and only 12 month expected credit losses would be provided.

SIMPLIFIED APPROACH

Short term trade receivables

- ☑ Recognition of only 'lifetime expected credit losses' (i.e. stage 2)
- ☑ Expected credit losses on trade receivables can be calculated using provision matrix (e.g. geographical region, product type, customer rating, collateral or trade credit insurance, or type of customer)
- ☑ Entities will need to adjust the historical provision rates to reflect relevant information about current conditions and reasonable and supportable forecasts about future expectations

Long term trade receivables and lease receivables

- ☑ Entities have a choice to either apply:
- ☑ the three-stage expected credit loss model; or
- ☑ the 'simplified approach' where only lifetime expected credit losses are recognised

LOAN COMMITMENTS AND FINANCIAL GUARANTEES

- ☑ The three-stage expected credit loss model also applies to these off balance sheet financial commitments
- ☑ An entity considers the expected portion of a loan commitment that will be drawn down within the next 12 months when estimating 12 month expected credit losses (stage 1), and the expected portion of the loan commitment that will be drawn down over the remaining life the loan commitment (stage 2)
- ☑ For loan commitments that are managed on a collective basis an entity estimates expected credit losses over the period until the entity has the practical ability to withdraw the loan commitment

IND AS 109 FINANCIAL INSTRUMENTS - SUMMARY CHART

FINANCIAL LIABILTIES - SUBSEQUENT CLASSIFICATION AND MEASUREMENT

Financial Liabilities are classified as either: **(1) Amortised Cost (2) Fair value through profit or loss**.

In addition, specific guidance exists for:

(i) Financial guarantee contracts and **(ii) Commitments to provide a loan at a below market interest rate**

(iii) Financial Liabilities that arise when the transfer of a financial asset either does not qualify for derecognition or where there is continuing involvement

(1) AMORTISED COST

Category classification criteria

All financial liabilities, except those that meet the criteria of (2), (i), and (ii).

Subsequent measurement

☑ Amortised cost using the effective interest method

(2) FAIR VALUE THROUGH PROFIT OR LOSS

Category classification criteria

☑ Financial liabilities held for trading

☑ Derivative financial liabilities

☑ Financial liabilities designated at initial recognition. The option to designate is available:

- ➲ If doing so eliminates, or significantly reduces, a measurement or recognition inconsistency (i.e. 'accounting mismatch'), or
- ➲ If a group of financial liabilities (or financial assets and financial liabilities) is managed, and evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally to KMP

Subsequent measurement

☑ Fair value with all gains and losses being recognised in profit or loss

(I) FINANCIAL GUARANTEE CONTRACTS
(II) COMMITMENTS TO PROVIDE A LOAN AT A BELOW MARKET INTEREST RATE

Subsequent measurement (the higher of either)

(I) The amount determined in accordance with IND AS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(ii) The amount initially recognised, less (when appropriate) cumulative amortisation recognised in accordance with IND AS 115 *Revenue from contracts with customers*

(iii) FINANCIAL LIABILITIES RESULTING FROM THE TRANSFER OF A FINANCIAL ASSET
(That does not qualify for derecognition)
(Where there is continuing involvement)

Financial liability for the consideration received is recognised

Subsequent measurement

The net carrying amount of the transferred asset and associated liability is measured as either:

☑ Amortised cost of the rights and obligations retained (if the transferred asset is measured at amortised cost)

☑ The fair value of the rights and obligations retained by the entity when measured on a stand-alone basis (if the transferred asset is measured at fair value)

EMBEDDED DERIVATIVES

Definition and description

Embedded derivatives are components of a hybrid contract (i.e. a contract that also includes a non-derivative host), that causes some (or all) of the contractual cash flows to be modified according to a specified variable (e.g. interest rate, commodity price, foreign exchange rate, index, etc.)

Exclusions and exemptions (i.e. not embedded derivatives)

☑ Non-financial variables that are specific to a party to the contract.

☑ A derivative, attached to a financial instrument that is contractually transferable independently of that instrument, or, has a different counterparty from that instrument.

- ➲ Instead, this is a separate financial instrument.

Embedded derivatives are accounted for differently depending on whether they are within a host contract that is a financial asset or a financial liability

EMBEDDED DERIVATIVES WITHIN A FINANCIAL ASSET HOST CONTRACT

The embedded derivative is **not separated** from the host contract

Instead, the whole contract in its entirety is accounted for as a **single instrument** in accordance with the requirements of Ind AS 109.

EMBEDDED DERIVATIVES WITHIN A HOST CONTRACT THAT IS A FINANCIAL LIABILITY

Subject to meeting the adjacent criteria, the embedded derivative is:

☑ Separated from the host contract

☑ Accounted for as a derivative in accordance with IND AS 109 (i.e. at fair value through profit or loss)

Criteria: to separate an embedded derivative

1) Economic characteristics of the embedded derivative and host are not closely related
2) An identical instrument (with the same terms) would meet the definition of a derivative, and
3) The entire (hybrid) contract is not measured at fair value through profit or loss

Host contract (once embedded derivative is separated)

The (non-financial asset) host contract is accounted for in accordance with the appropriate IND AS

IND AS 109 FINANCIAL INSTRUMENTS

DERECOGNITION

FINANCIAL ASSETS

Consolidate all subsidiaries (including special purpose entities (SPEs))

↓

Determine whether the derecognition principles below are applied to all or part of the asset

↓

Have the rights to the cash flows from the asset expired? — YES → Derecognisethe asset

↓ NO

Has the entity transferred its rights to receive the cash flows from the asset? — YES → (go to: Has the entity transferred substantially all risks and rewards?)

↓ NO

Has the entity assumed an obligation to pay the cash flows from the asset that meets the conditions in IND AS 109 paragraph 3 2 5? — NO → Continue to recognisethe asset

↓ YES

Has the entity transferred substantially all risks and rewards? — YES → Derecognisethe asset

↓ NO

Has the entity retained substantially all risks and rewards? — YES → Continue to recognisethe asset

↓ NO

Has the entity retained control of the asset ? — NO → Derecognisethe asset

↓ YES

Continue to recognise asset to the extent of the entity's continuing involvement.

FINANCIAL LIABILITIES

- A financial liability is derecognised only when extinguished - i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in profit or loss.

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received and (ii) any cumulative gain or loss that was recognised directly in equity is recognised in profit or loss.

IND AS 109 paragraph 3.2.5 - where an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, three conditions need to be met before an entity can consider the additional derecognition criteria:

- The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients
- The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The entity is not entitled to reinvest the cash flows except for the short period between collection and remittance to the eventual recipients. Any interest earned thereon is remitted to the eventual recipients

IND AS 109 FINANCIAL INSTRUMENTS

CRITERIA TO APPLY HEDGE ACCOUNTING (ALL CRITERIA MUST BE MET)

(i) Hedging Relationship

Must consist of:
- Eligible hedging instruments
- Eligible hedged items.

(ii) Designation and Documentation

Must be formalised at the inception of the hedging relationship:
- The hedging relationship
- Risk management strategy and objective for undertaking the hedge
- The hedged item and hedging instrument
- How hedge effectiveness will be assessed.

(iii) All three hedge effectiveness requirements met

(a) An economic relationship exists between the hedged item and hedging instrument
(b) Credit risk does not dominate changes in value
(c) The hedge ratio is the same for both the:
- Hedging relationship
- Quantity of the hedged item actually hedged, and the quantity of the hedging instrument used to hedge it.

ELIGIBLE HEDGING INSTRUMENTS

Only those with from contracts with **EXTERNAL** parties of the entity (or group), that are:

Derivatives measured at fair value through profit or loss (FVTPL)

Note: this excludes written options unless they are designated as an offset to a purchased option

Non-derivatives measured at fair value through profit or loss (FVTPL)

Note: this excludes FVTPL financial liabilities where fair value changes resulting from changes in own credit risk are recognised in other comprehensive income (OCI)

Designation: An entity must designate a hedging instrument in full, except for:
- A proportion (e.g. 50%) of the nominal amount an entire hedging instrument (but not part of the fair value change resulting from a portion of the time period that the hedging instrument is outstanding)
- **Option contracts**: separating the intrinsic value and time value, and designating only the change in intrinsic value
- **Forward contract**: separating the forward element and spot element, and designating only the change in the spot element

ELIGIBLE HEDGED ITEMS

Eligible hedged items are reliably measurable: assets; liabilities; unrecognised firm commitment; highly probable forecast transactions; net investment in a foreign operation. May be a single item, or a group of items (subject to additional criteria - below).

HEDGES OF A GROUP OF ITEMS (ALL CRITERIA MUST BE MET)

(i) All items and (and components) are eligible hedged items

(ii) The items are managed as a group for risk management purposes.

(iii) For group cash flow hedges: where cash flow variability is not expected to be approximately proportional to the overall group cash flows variability, both:
- Foreign currency is being hedged
- The reporting period, nature, and volume, in which the forecast transactions are expected to affect profit or loss is specified.

Designation: An entity can designate a hedged item (i) in full (ii) in part (component). If in part, only the following types of parts (components) of hedged items can be hedged:
- One or more selected contractual cash flows
- Parts (components) of a nominal amount
- Separately identifiable and reliably measureable changes (cash flow or fair value) that, based on the context of the market structure they relate to, are attributable to a specific risk(s)

ELIGIBLE HEDGED ITEMS

(i) Cash flow hedge

Hedge of exposure to cash flow variability in cash attributable to a particular risk associated with an asset, liability, or highly probable forecast transaction (or part thereof i.e. component)

Recognition
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- The lower of the cumulative gain or loss on the hedging instrument or fair value in the hedged item is recognised separately within equity (cash flow hedge reserve (CFHR))
- For forecast transactions resulting in a non-financial asset / liability, the amount recognised in CFHR is removed and included in the initial cost of the non-financial asset / liability. This is not accounted for as a reclassification
- For all other forecast transactions, the amount recognised in CFHR is reclassified to profit or loss in the periods when the cash flows are expected to affect profit or loss

(ii) Fair value hedge

Hedge of exposure to fair value variability in an asset, liability, or unrecognised firm commitment (or part thereof i.e. component), attributable to a risk that could affect profit or loss

Recognition
- Gain or loss on hedging instrument: recognised in profit or loss (unless the hedging instrument is an equity instrument measured at fair value through OCI, then recognised in OCI)
- Gain or loss on hedged item: recognised in profit or loss (unless the hedged item is an equity instrument measured at fair value through OCI, then recognised in OCI)

(iii) Hedges of a net investment in a foreign operation

Hedge of an entity's interest in the net assets of a foreign operation.

Recognition
- Hedge effectiveness is recognised in OCI
- Hedge ineffectiveness is recognised in profit or loss
- Upon disposal of the foreign operation, accumulated amounts in equity are reclassified to profit or loss

IND AS 107 FINANCIAL INSTRUMENTS: DISCLOSURES

DISCLOSURE REQUIREMENTS: SIGNIFICANCE OF FINANCIAL INSTRUMENTS IN TERMS OF THE FINANCIAL POSITION AND PERFORMANCE

BALANCE SHEET

- Total carrying value of each category of financial assets and liabilities on face of the balance sheet or in the notes
- Information on fair value of loans and receivables
- Financial liabilities designated as at fair value through profit or loss
- Financial assets reclassified
- Financial assets that do not qualify for derecognition
- Details of financial assets pledged as collateral & collateral held
- Reconciliation of allowance account for credit losses
- Compound financial instruments with embedded derivatives
- Details of defaults and breaches of loans payable

STATEMENT OF PROFIT AND LOSS

- Gain or loss for each category of financial assets and liabilities in the statement of profit and loss or in the notes
- Total interest income and interest expense (effective interest method)
- Fee income and expense
- Interest on impaired financial assets
- Amount of impairment loss for each financial asset

OTHER

Accounting policies
- All relevant accounting policies. Include measurement basis

Hedge accounting
- Description of hedge, description and fair value of hedged instrument and type of risk hedged
- Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations

Fair value
- Fair value for each class of financial asset and liability
- Disclose method and relevant assumptions to calculate fair value
- Disclose if fair value cannot be determined

DISCLOSURE REQUIREMENTS : NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE RISKS ARE MANAGED

Qualitative disclosure
- Exposure to risk and how it arises
- Objectives, policies and processes for managing risk and method used to measure risk

Quantitative disclosure
- Summary of quantitative data about exposure to risk based on information given to key management
- Concentrations of risks

SPECIFIC QUANTITATIVE DISCLOSURE REQUIREMENTS

LIQUIDITY RISK

Definition
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

- Maturity analysis for financial liabilities that shows the remaining contractual maturities
- Time bands and increment are based on the entities' judgement How liquidity risk is managed

CREDIT RISK

Definition
The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

- Maximum exposure to credit risk without taking into account collateral
- Collateral held as security and other credit enhancements
- Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
- Information about collateral and other credit enhancements obtained

MARKET RISK

Definition
The risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk

- A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity

or

- If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis

SCOPE

IND AS 107 applies to all recognised and unrecognised financial instruments (including contracts to buy or sell non-financial assets) except:
- Interests in subsidiaries, associates or joint ventures, where IND AS 27 / 28 or IND AS 110 / 111 permit accounting in accordance with IND AS 109
- Assets and liabilities resulting from IND AS 19
- Insurance contracts in accordance with IND AS 104 (excluding embedded derivatives in these contracts if IND AS 109 require separate accounting)
- Financial instruments, contracts and obligations under IND AS 2, except contracts within the scope of IND AS 109
- Puttable instruments (IND AS 32)

FAIR VALUE (FV) HIERARCHY

All financial instruments measured at fair value must be classified into the levels below (that reflect how fair value has been determined)

- **Level 1:** Quoted prices, in active markets
- **Level 2:** Level 1 quoted prices are not available but fair value is based on observable market data
- **Level 3:** Inputs that are not based on observable market data

A financial Instrument will be categorised based on the lowest level of any one of the inputs used for its valuation

The following disclosures are also required:
- Significant transfers of financial instruments between each category - and reasons why
- For level 3, a reconciliation between opening and closing balances, incorporating; gains / losses, purchases / sales / settlements, transfers
- Amount of gains / losses and where they are included in profit and loss
- For level 3, if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact

TRANSFER OF FINACIAL ASSETS

Information for transferred assets that are and that are not derecognised in their entirety
- Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety
- Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets.

IND AS 103 Business Combinations

IDENTIFYING A BUSINESS COMBINATION SCOPE

A business combination is a transaction or event in which acquirer obtains **control** over a **business**(e.g. acquisition of shares or net assets, legal mergers, reverse acquisitions). Appendix C includes guidance on common control transactions

IND AS 103 does not apply to-
- The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- Acquisition of an asset or group of assets that is not a business
- A combination of entities or businesses under common control

Definition of "control of an investee"
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

Control (refer to IND AS 110)
- Ownership of more than half the voting right of another entity
- Power over more than half of the voting rights by agreement with investors
- Power to govern the financial and operating policies of the other entity under statute/ agreement
- Power to remove / appoint majority of directors
- Power to cast majority of votes

Definition of a "Business"
- Integrated set of activities and assets
- Capable of being conducted and managed to provide return
- Returns include dividends and cost savings

Acquisition Costs
- Cannot be capitalised, must instead be expensed in the period they are incurred
- Costs to issue debt or equity are recognised in accordance with IND AS 32 and IND AS 109

ACQUISITION METHOD

A business combination must be accounted for by applying the acquisition method

STEP 1: IDENTIFY ACQUIRER

IND AS 110 *Consolidated Financial Statements* is used to identify the acquirer - the entity that obtains control of the acquiree

STEP 2: DETERMING THE ACQUISITION DATE

The date on which the acquirer obtains control of the acquiree

STEP 3: RECOGNITION AND MEASUREMENT OF ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS (NCI)

- As of the acquisition date, the acquirer recognises, separately from goodwill:
  - The identifiable assets acquired
  - The liabilities assumed
  - Any NCI in the acquiree
- The acquired assets and liabilities are required to be measured at their acquisition-date fair values
- NCI interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in net assets
- All other components of NCI (e.g. from IND AS 102 *Share-based payments* or calls) are required to be measured at their acquisition-date fair values
- There are certain exceptions to the recognition and / or measurement principles which cover contingent liabilities, income taxes, employee benefits, indemnification assets, reacquired rights, share-based payments and assets held for sale

STEP 4: RECOGNITION AND MEASUREMENT OF GOODWILL OR A BARGAIN PURCHASE

- Goodwill is recognised as the excess between:
  - The aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree
  - The identifiable net assets acquired (including any deferred tax balances)
- Goodwill can be grossed up to include the amounts attributable to NCI
- A gain from a bargain purchase is to be recognised in other comprehensive income and accumulated in equity as capital reserve
- The consideration transferred in a business combination (including any contingent consideration) is measured at fair value
- Contingent consideration is either classified as a liability or an equity instrument on the basis of IND AS 32 *Financial Instruments*
- Contingent consideration that is within the scope of IND AS 109 (classified as a financial liability) needs to be remeasured at fair value at each reporting date with changes reported in profit or loss

ADDITIONAL GUIDANCE FOR APPLYING THE ACQUISITION METHOD

STEP ACQUISTION

- An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. This is known as a business combination achieved in stages or as a step acquisition
- Obtaining control triggers re-measurement of previous investments (equity interests)
- The acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognised in profit or loss

BUSINESS COMBINATION WITHOUT TRANSFER OF CONSIDERATION

- The acquisition method of accounting for a business combination also applies if no consideration is transferred
- Such circumstances include:
  - The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control
  - Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights
  - The acquirer and the acquiree agree to combine their businesses by contract alone

SUBSEQUENT MEASUREMENT AND ACCOUNTING

- In general, after the date of a business combination an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable IND ASs
- However, IND AS 103 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets

IND AS 12 INCOME TAXES

CURRENT TAX

- Recognise liability for unsettled portion of tax expense
- Recognise an asset to the extent amounts paid exceed amounts due
- Tax loss which can be used against future taxable income can be recognised as an asset (deferred tax asset).

CURRENT TAX MEASUREMENT

Measure the asset / liability using the tax rates that are enacted or substantially enacted at the reporting date.

TEMPORARY DIFFERENCES

Taxable temporary differences will result in taxable amounts in future when the carrying amount of an asset is recovered or liability is settled.

Deductible temporary differences will result in deductible amounts in future when the carrying amount of an asset is recovered or a liability is settled.

ASSETS AT FAIR VALUE

In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (or loss) for the current period. As a result the tax base of the asset is adjusted and no temporary differences arise. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

DEFINITIONS–TEMPORARY DIFFERENCE AND TAX BASE

Temporary difference: Difference between the carrying amount of an asset / liability and its tax base.

Tax base of an asset

- Is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the 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.

Tax base of a liability

- Is its carrying amount
- Less any amount that will be deductible for tax purposes in respect of the liability in future periods.

Tax base of income received in advance

- Is its carrying amount
- Less any revenue that will not be taxable in the future.

DEFERRED TAX

Deferred tax liabilities

Recognise liabilities for all taxable temporary differences, except to the extent it arises from:

- Initial recognition of goodwill
- Initial recognition of an asset / liability that does not affect accounting or tax profit and the transaction is not a business combination
- Liabilities from undistributed profits from investments in subsidiaries, branches and associates, and interests in joint ventures where company can control the timing of the reversal.

Deferred tax assets

Recognise for deductible temporary differences, unused tax losses, unused tax credits to the extent that taxable profit will be available against which the asset can be used, except to the extent it arises from:

- The initial recognition of an asset / liability, other than in a business combination, which does not affect accounting / tax profit.

Recognise for deductable temporary differences arising from investments in subsidiaries and associates to the extent it is probable the temporary difference will reverse in the foreseeable future and there will be available tax profit to be utilised.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available (i.e. the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised).

DEFERRED TAX MEASUREMENT

- Measure the balance at tax rates that are expected to apply in the period in which the asset is realised or liability settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period
- Deferred tax assets and liabilities are not discounted
- The applicable tax rate depends on how the carrying amount of an asset or liability is recovered or settled
- Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, directly in equity or other comprehensive income, or a business combination
- Current tax and deferred tax are charged or credited directly to equity or other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, directly to equity or other comprehensive income.

IND AS 110 CONSOLIDATED FINANCIAL STATEMENTS

SCOPE

A parent is required to present consolidated financial statements, except if:
- It meets all the following conditions:
  - It is a subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
  - Its debt or equity instruments are not traded in a public market
  - It did not, nor is in the process of filing, financial statements for the purpose of issuing instruments to the public
  - Its ultimate or any intermediate parent produces IND AS compliant consolidated financial statements available for public use
- It is a post or long term-employment benefit plan to which IND AS 19 *Employee Benefits* applies
- It meets the criteria of an investment entity (see page 2 of 2)

THE CONTROL MODEL

Model

An investor determines whether it is a parent by assessing whether it controls the investee. An investor is required continuously to reassess whether it controls an investee. An investor **controls** an investee if it has **all** of the following:
- **Power** over the investee
- **Exposure**, or **rights**, to variable returns from its involvement with the investee
- The **ability** to use its power, to affect the amount of the investor's returns

Considerations(refer to boxes below)

(i) The purpose and design of the investee
(ii) What the relevant activities are and how decisions about those activities are made
(iii) Whether the rights of the investor give it the current ability to direct the relevant activities
(iv) Whether the investor is exposed, or has rights, to variable returns from its involvement
(v) Whether the investor has the ability to use its power to affect the amount of the investor's returns

(i) PURPOSE AND DESIGN

In assessing the purpose and design of the investee, consider:
- The **relevant activities**
- How **decisions** about relevant activities are made
- Who has the **current ability** to direct those activities
- Who **receives returns** from those activities

In some cases, **voting rights** (i.e. if unrelated to relevant activities) may not be the dominant factor of control of the investee.

(ii) RELEVANT ACTIVITIES

Relevant activities include (but are not limited to):
- Selling and purchasing of goods or services
- Managing financial assets during their life
- Selecting, acquiring or disposing of assets
- Researching / developing new products or processes
- Determining a funding structure or obtaining funding.

Decisions on relevant activities include (but are not limited to):
- Establishing operating and capital decisions & budgets
- Appointing, remunerating, and terminating an investee's key management personnel (KMP) or service providers.

(iii) RIGHTS TO DIRECT RELEVANT ACTIVITIES

Rights that, either individually or in combination, can give an investor **power** include (but are not limited to):
- Rights in the form of **voting rights** (or **potential voting rights**) of an investee
- Rights to appoint, reassign or remove members of an investee's key management personnel (KMP), or another entity that has the ability to direct the relevant activities
- Rights to direct the investee into (or veto any changes to) transactions for the **benefit** of the investor
- Other rights (such as decision-making rights specified in a **management contract**) that give the holder the ability to direct the relevant activities

Special relationships beyond a passive interest
- Sometimes there may be indicators present that an investor has more than simply a passive interest
- The presence of indicators alone may not satisfy the power criteria, but may add to other considerations:
  - The investee's KMP who direct relevant activities are current or previous employees of the investor
  - Investee operations are dependent on the investor (e.g. funding, guarantees, services, materials, etc.)
  - A significant portion of the investee activities involve, or are conducted on behalf of, the investor
  - Investor's exposure or rights to returns is disproportionally greater that it's voting (or similar) rights.

Substantive rights
- Only substantive rights (i.e. rights that can be practically exercised) are considered in assessing power
- Factors to consider whether rights are substantive include (but are not limited to):
  - Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise or conversion price, detrimental terms and conditions, laws and regulations)
  - Whether there is a practical mechanism to facilitate multiple parties exercising rights
  - Whether the party holding the rights would benefit from the exercise of those rights
  - Whether the rights are actually exercisable when decisions about relevant activities need to be made

Protective rights
- Are designed to protect the interests of the holder, but do not give the holder power over the investee, e.g. - operational lending covenants; non-controlling interest rights to approve significant transactions of capital expenditure, debt, and equity; seizure of assets by a borrower upon default
- **Franchisor's right in franchise arrangements** are generally considered protective rights as they are intended to protect the franchise brand

Voting rights

Power with a majority of voting rights, occurs where:
- Relevant activities are directed by vote; or
- A majority of the governing body is appointed by vote.

Majority of voting right but no power occurs where:
- Relevant activities are not directed by vote
- Such voting rights are not substantive.

De-facto control

Power without a majority of voting rights, occurs where:
- Contractual arrangements with other vote holders exist
- Relevant activities directed by arrangements held
- The investor has practical ability to unilaterally direct relevant activities, considering all facts and circumstances:
  - Relative size and dispersion of other vote holders
  - Potential voting rights held - by the investor and other parties
  - Rights arising from contractual arrangements
  - Any additional facts or circumstances (i.e. voting patterns)

Potential voting rights
- Potential voting rights are only considered if substantive
- Must consider the purpose and design of the instrument.

(iv) EXPOSURE, OR RIGHTS, TO VARIABLE RETURNS (I.E. RETURNS THAT ARE NOT FIXED, AND VARY AS A RESULT OF PERFORMANCE OF AN INVESTEE)

Based on the substance of the arrangement (not the legal form) assesses whether investee returns are variable, and how variable they are. Variable returns can be: only positive; only negative; or both positive and negative. Including:
- Dividends, other distributions of economic benefits from an investee (e.g. interest from debt securities issued by the investee) and changes in the value of the investor's investment in that investee
- Fees from servicing assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in net assets on liquidation, tax benefits, and access to future liquidity
- Returns unavailable to other interest holders - synergies, economies of scale, cost savings, sourcing scarce products, access to proprietary knowledge, limiting operations or assets to enhance the value of the investor's other assets

IND AS 110 CONSOLIDATED FINANCIAL STATEMENTS

(v) LINK BETWEEN POWER AND RETURNS – DELEGATED POWER

- When an investor with decision-making rights (a decision maker (DM)) assesses whether it controls an investee, it determines whether it is a principal or an agent. An agent is primarily engaged to act on behalf of the principal and therefore does not control the investee when it exercises decision making authority
- An investor may delegate its decision-making authority to an agent on specific issues or on all relevant activities. When assessing whether it controls an investee, the investor treats the decision-making rights delegated to its agent as held by itself directly
- A DM considers the relationship between itself, the investee and other parties involved, in particular the following factors below, in determining whether it is an agent

SCOPE OF DECISION MAKING AUTHORITY

Activities permitted in agreements and specified by law:

- Discretion available on making decisions
- Purpose and design of the investee:
  - Risks the investee was designed to be exposed to
  - Risks to be passed to other involved parties
  - Level of involvement of DM in design of the investee

RIGHTS HELD BY OTHER PARTIES

- May affect the DM's ability to direct relevant activities
- Removal rights, or other rights, may indicate that the DM is an agent
- Rights to restrict activities of the DM are treated the same as removal rights

REMUNERATION

The greater the magnitude of, and variability associated with the DM's remuneration relative to returns, the more likely the DM is a principal.

DM's considered as agent if the following exists:

- Remuneration is commensurate with the services provided
- The remuneration includes only terms customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis

RETURNS FROM OTHER INTERESTS

An investor may hold other interests in an investee (e.g. investments, guarantees). In evaluating its exposure to variability of returns from other interests in the investee the following are considered:

- The greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the DM is a principal
- Whether its exposure to variability of returns is different from that of other investors and, if so, whether this might influence actions

INVESTMENT ENTITIES

Definition of an investment entity

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both
- Measures and evaluates performance of substantially all of its investments on a fair value basis

Other typical characteristics (not all have to be met, but if not met additional disclosures are required):

- More than one investment
- More than one investor
- Investors not related parties of the entity
- Ownership interests in the form of equity or similar interests

Investment entity shall not consolidate its subsidiaries or apply IND AS 103 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IND AS 109

RELATIONSHIP WITH OTHER PARTIES

In assessing **control** an investor considers the nature of relationships with other parties and whether they are acting on the investor's behalf (de facto agents).

Such a relationship need not have a contractual arrangement, examples may be:

- The investor's related parties
- A party whose interest in the investee is through a loan from the investor
- A party who has agreed not to sell, transfer, or encumber its interests in the investee without the approval of the investor
- A party that cannot fund its operations without investor (sub-ordinated) support
- An investee where the majority of the governing body or key management personal are the same as that of the investor
- A party with a close business relationship with the investor

NON - CONTROLLING INTERESTS

- A parent presents non-controlling interests in the consolidated Balance Sheet within equity, separately from the equity of the owners of the parent.
- Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.
- The entity shall also attribute total comprehensive income to the owners of the parent and to the non controlling interest even if this results in the non controlling interests having a deficit balance.

CONTROL OF SPECIFIED ASSETS (SILOS)

An investor considers whether it treats a portion of an investee as a deemed separate entity and whether it controls it. Control exists if and only if, the following conditions are satisfied:

(i) Specified assets of the investee (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in, the investee

(ii) Parties other than those with the specified liability do not have rights or obligations related to the specified assets or to residual cash flows from those assets

(iii) In substance, returns from the specified assets cannot be used by the remaining investee and none of the liabilities of the deemed separate entity are payable from the assets of the remaining investee

Thus, in substance, all the assets, liabilities and equity of that deemed a separate entity are ring-fenced from the overall investee. Such a deemed separate entity is often called a 'silo'.

LOSS OF CONTROL

- Derecognition of the assets and liabilities and of any non controlling interests in the former subsidiary at their carrying amounts from the consolidated balance sheet
- Recognise any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IND AS's
- Recognises the gain or loss associated with the loss of control attributable to the former controlling interest
- If the parent losses 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 require if parent had directly disposed of the related assets or liabilities

- Since, IND AS 40, Investment Properties requires all investment properties to be measure at cost initially and cost less depreciation subsequently, sub-paragraph (a) of B85L have been deleted as this deal with investment property measure at fair value which is not relevant in the Indian context.

CONSOLIDATION PROCEDURES

Consolidation procedures:

- Combine assets, liabilities, income, expenses, cash flows of the parent and subsidiary
- Eliminate parent's investment in each subsidiary with its portion of the subsidiary's equity
- Fully eliminate intra group transactions and balances

Parent and subsidiaries must have uniform accounting policies and reporting dates. If not, alignment adjustments must be quantified and posted to ensure consistency.

Reporting dates cannot vary by more than 3 months.

Consolidation of an investee begins from the date the investor obtains control of the investee and ceases when the investor loses control of the investee.

DISCLOSURE

Refer to IND AS 112 *Disclosure of Interests in Other Entities* .

IND AS 111 Joint Arrangements

SCOPE

IND AS 111 applies to all parties subject to a joint arrangement. A joint arrangement (JA):
- Binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties)
- Gives two (or more) parties joint control.

Joint arrangements are classified either as:
- **Joint operation** - parties have rights to the assets, and obligations for the liabilities of the JA
- **Joint venture** - parties have rights to only the net assets of the JA.

JOINT CONTROL (JOINT DE - FACTO CONTROL, SUBSTANTIVE RIGHTS, PROTECTIVE RIGHTS)

Joint control

Joint control is based on the same control principle as IND AS 110 Consolidation (i.e. Power, exposure to variable returns, ability to use power to affect variable returns).

Joint control is the contractually agreed sharing of control in relation to decisions regarding the relevant activities and requires the unanimous consent of the controlling parties (refer to IND AS 110 for definition of relevant activities). This can be explicit or implicit:
- E.g. joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
- E.g. joint control does not exists if, after considering all contractual agreements, the minimum required majority of voting rights can be achieved by more than one combination of parties agreeing together.

Joint de-facto control

Joint de-facto control is based on the same de-facto control principle as IND AS 110. Joint de-facto control only exists if the parties are contractually bound to vote together in relation to decisions on relevant activities. In assessing joint de-facto control, an entity may consider previous voting attendance, but not previous voting results (i.e. whether other parties historically voted the same way as the entity).

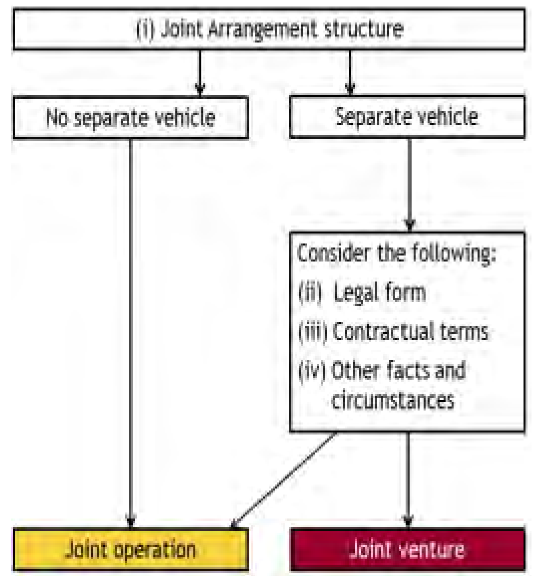
Substantive and protective rights

The assessment of substantive and protective rights is based on the same principles as IND AS 110:
- Substantive rights (rights that can be practically exercised) are considered in assessing power
- Protective rights (rights designed to protect the interests of the holder) are not considered in assessing power.

Arrangements are not within the scope of IND AS111 if joint control (or joint de -facto control) does not exist (i.e. no contractual unanimous consent required for decisions that relate to the relevant activities).

CLASSIFICATION OF JOINT ARRANGEMENTS (AS EITHER JOINT OPERATIONS OR JOINT VENTURES)

Classification depends upon the assessment of the rights and obligations of the parties, and considers the JA's: (i) Structure; (ii) Legal form; (iii) Contractual terms; (iv) Other facts and circumstances (refer to boxes below).



(i) STRUCTURE

JAs not structured through a separate vehicle are classified as a **joint operation**.
JAs structured through a separate vehicle may be classified as a either a joint operation or joint venture depending on analysis of (i),(ii),(iii) below.

(ii) LEGAL FORM

The legal form of the separate vehicle may be relevant in determining whether parties have rights to assets and obligations for liabilities, or the rights to net assets of the JA. However, must consider whether any contractual terms (iii) and/or other facts and circumstances (iv) impact the rights of the parties conferred by the legal form.

Partnerships: Legal form gives parties rights to assets and liabilities, rather than net assets. JA is therefore classified as a joint operation.

Unlimited liability vehicles: Legal form does not give parties rights to assets, merely guarantees liabilities. JA is therefore classified as a joint venture.

(iii) CONTRACTUAL TERMS

Usually, the rights and obligations agreed in the contractual terms are consistent, or do not conflict, with those conferred by legal form (ii).

However parties must assess contractual terms to confirm is in fact the case.

On their own, guarantees provided to third parties, and obligations for unpaid or additional capital do not result in an obligation for liabilities and hence classification as a joint operation.

(iv) OTHER FACTS AND CIRCUMSTANCES

Other facts and circumstances may:
- Give parties rights to substantially all economic benefits from the JA
- Cause the JA to depend on the parties to continuously settle its liabilities.

E.g. JAs designed to primarily sell output to the parties give the parties substantially all economic benefits, and means the JA relies on cash flows from the parties to settle its liabilities. JA is therefore classified as a joint operation.

IND AS 111 Joint Arrangements

RECOGNITION AND MEASUREMENT: JOINT CONTROLLING PARTIES

JOINT OPERATIONS

Consolidated / Individual Financial Statements

A joint operator recognises in relation to 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 expenses, including its share of any expenses incurred jointly.

The above are accounted for in accordance with the applicable IND ASs.

Separate Financial Statements

Same treatment as for consolidated / individual financial statements detailed above.

JOINT VENTURES

Consolidated / Individual Financial Statements

Apply the equity method in accordance with IND AS 28 *Investments in Associates and Joint Ventures* (unless the entity is exempted from applying the equity method).

Separate Financial Statements

Recognise interest either:

- At cost
- As a financial asset in accordance with IND AS 109 *Financial Instruments*

RECOGNITION AND MEASUREMENT : ENTITIES THAT PARTICIAPTE, BUT DO NOT HAVE JOINT CONTROL ('NON-JOINT CONTROLLING PARTIES')

In some instances, there may be other parties who are investees in a joint arrangement but do not themselves have joint control of the joint arrangement.

JOINT OPERATIONS

(non-joint controlling party has contractual rights and obligations to assets, liabilities, expenses and revenues)

Account for its contractual share of assets, liabilities, expenses, and revenues in both its

- Consolidated/Individual financial statements
- Separate financial statements.

JOINT VENTURES

Identical to joint operations where the non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses and revenues (i.e. assess for significant influence, and then account for accordingly).

JOINT OPERATIONS

(non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses and revenues)

Consolidated / Individual Financial Statements

Assess for significant influence in accordance with IND AS 28 (i.e. as an associate):

- If present: apply the equity method[1] in accordance with IND AS 28 (unless the entity is exempted from applying the equity method)[1].
- If not present: financial asset (IND AS 109).

Separate Financial Statements

Assess for significant influence in accordance with IND AS 28:

- If present: either (i) at cost (ii) financial asset (IND AS 109)
- If not present: financial asset (IND AS 109).

EQUITY METHOD EXEMPTION

Venture capital organisation, mutual funds, unit trusts, investment-linked insurance funds, and similar entities may elect to measure associates and joint ventures at fair value through profit or loss in accordance with IND AS 109 *Financial Instruments* rather than apply the equity method.

DISCLOSURE

Refer to IND AS 112 *Disclosure of Interests in Other Entities.*

EFFCTIVE DATE & TRANSITION REQUIREMENTS

Appendix C of IND AS 11 dealing with effective date, transition and withdrawal of other IND ASs has not been included in IND AS 111, due to the following reasons:

- Effective date is not relevant as the date of application will be notified under the Companies Act.
- Transitional provisions related to IND ASs, wherever considered appropriate have been included in IND AS 101, First-time Adoption of Indian Accounting Standards, corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards

BUSINESS COMBINATIONS UNDER COMMON CONTROL IND AS 103

Paragraph B33D refers to the accounting specified in Appendix C 'Business Combinations under Common Control' of IND AS 103 for the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

IND AS 28 Investments in Associates and Joint Ventures

SCOPE

Applies to all entities that are investors with joint control of, or significant influence over, an investee.

DEFINITIONS

Associate
An entity over which the investor has significant influence.

Significant influence
Power to participate in financial and operating policy decisions of the investee.
But not control or joint control over those policies.

Joint arrangement
Arrangement of which two or more parties have joint control.

Joint control
The contractually agreed sharing of control of an arrangement - decisions require the unanimous consent of the parties sharing control.

Joint venture
A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The **equity method** is a method of accounting:
- That initially recognises an investment in an investee at cost
- Thereafter adjusts the investment for the post-acquisition change in the investor's share of net assets of the investee (IND AS 28.2)
- The profit or loss of the investor includes the investor's share of the profit or loss of the investee and
- The Investor's other comprehensive income includes its share of the investee's other comprehensive income

Refer to IND AS 110 appendix A, for definitions of:
- Control of an investee
- Group
- Parent
- Separate financial statements
- Subsidiary.

APPLICATION

SIGNIFICANT INFLUENCE

- Rebuttable presumption: 20% - 50% shareholding gives rise to significant influence
- Evidenced in one or more of the following ways:
  - Representation on the board of directors or equivalent governing body of the investee
  - Participation in policy-making processes, including participation in decisions about dividends or other distributions
  - Material transactions between the investor and the investee
  - Interchange of managerial personnel
  - Provision of essential technical information

EXEMPTION FROM EQUITY METHOD

If the entity is a parent that is exempt from preparing consolidated financial statements, as set out in IND AS 110 *Consolidated Financial Statements* paragraph 4(a), or if:
- The investor is a wholly or partially owned subsidiary and its other owners have been informed about the decision
- The investor's debt or equity instruments are not publicly traded
- The investor did not file its financial statements with a securities commission or other regulator for the purposes of issuing any class of instruments to the public
- The ultimate or intermediate parent of the investor produces consolidated financial statements that comply with IND ASs

DISCLOSURES

The disclosure requirements for Investments in Associates and Joint Ventures are provided in IND AS 112 *Disclosure of Interests in Other Entities.*

EQUITY METHOD

- The investment is initially recognised at cost
- Subsequently, the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition (IND AS 28):
  - The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss
  - Distributions received from an investee reduce the carrying amount of the investment
  - Adjustments to the carrying amount may also arise from changes in the investee's other comprehensive income (OCI) i.e. revaluation of property, plant and equipment and foreign exchange translation differences. The investor's share of those changes is recognised in OCI of the investor
  - An investment in an investee that meets the definition of a 'non-current asset held for sale' should be recognised in accordance with IND AS 105 *Non-current Assets Held for Sale and Discontinued Operati ons.*
- The equity method is used from the date significant influence arises, to the date significant influence ceases.

IMPAIRMENT LOSSES

- The entity applies the impairment requirements in Ind AS 109 to its other interests in the associate or joint venture that are in the scope of IND AS 109 and that do not constitute a part of the net investment.
- Goodwill that forms part of the carrying amount of an investment in an investee is not separately recognised and therefore not tested separately for impairment - instead the entire investment is tested as 'one' in accordance with IND AS 36.

SEPARATE FINANCIAL STATEMENTS

An investment in an investee is required to be accounted for in the entity's separate financial statements either at cost or at fair value in accordance with IND AS 109.

ISSUES TO NOTE

- Potential voting rights are taken into account to determine whether significant influence exists, but equity accounting is based on actual interest only unless those potential voting rights currently give the entity access to the returns.
- Financial statements of the investor and investee used must not differ by more than 3 months in terms of the reporting date
- The investors' share in the investee's profits and losses resulting from transactions with the investee are eliminated in the equity accounted financial statements of the parent.
- Use uniform accounting policies for like transactions and other events in similar circumstances unless in case of an associate, it is impracticable.
- If an investor's share of losses of an investee exceeds its interest in the investee, discontinue recognising share of further losses. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that investee.
- After the entity's interest is reduced to zero, aadditional losses are provided and a liability is recognised if entity has incurred legal or constructive obligation or made payment on behalf of associate or joint venture.
- If ownership interest is reduced, but equity method remains, the entity reclassifies to profit or loss the gain or loss that had previously been recognised in OCI.

DISCONTINUING THE USE OF THE EQUITY METHOD

An entity is required to discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
- If an investment becomes a subsidiary, the entity follows the guidance in IND AS 103 *Business Combinatons* and IND AS 110 *Consolidated Financial Statements*
- If any retained investment is held as a financial asset, the entity applies IND AS 109 *Financial Instruments,* and recognise in profit or loss the difference between:
  - The fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture and
  - The carrying amount of investment at date equity method discontinued.
- Account for all amounts recognised in OCI in relation to that investment on same basis as if investee had directly disposed of related assets and liabilities.

IND AS 27 Separate Financial Statements

SCOPE

When an entity elects (or is required by law) to present separate financial statements, IND AS 27 applies in accounting for investments in:

- Subsidiaries
- Joint ventures
- Associates.

IND AS 27 does not mandate which entities produce separate financial statements.

DEFINITIONS

Separate financial statements

Separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with IND AS 109, Financial Instruments.

Consolidated financial statements

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

For definitions of: associate; control of an investee; group; joint control; joint venture; joint venturer; parent; significant influence; and subsidiary - please refer to the below standards:

- IND AS 110 *Consolidated Financial Statements*
- IND AS 111 *Joint Arrangements*
- IND AS 28 *Investments in Associates and Joint Ventures.*

SEPARATE FINANCIAL STATEMENTS

- Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances set out in paragraphs 8-8A. Separate financial statements need not be appended to, or accompany, those statements
- An entity that is exempted in accordance with paragraph 4(a) of IND AS 110 from consolidation or paragraph 17 of IND AS 28 from applying the equity method may present separate financial statements as its only financial statements. (Paragraphs 8-8A)

PREPARATION OF SEPARATE FINANCIAL STATEMENTS

Investment in subsidiaries, joint ventures, and associates

Accounted for either:

- At cost,
- At fair value in accordance with IND AS 109,

Investments in subsidiaries, joint ventures, and associates classified as held for sale

When investments are classified as held for sale or for distribution to owners (or included in a disposal group that is classified as held for sale or for distribution to owners), they are accounted for:

- In accordance with IND AS 105 *Non-current Assets Held for Sale and Discontinued Operations*, if previously accounted for at cost
- In accordance with IND AS 109, if previously accounted for in accordance with IND AS 109.

Investments in associates or joint ventures at fair value

Investments in associates or joint ventures that are measured at fair value in accordance with IND AS 109 are required to be measured in the same way in the separate and consolidated financial statements (i.e. at fair value).

Dividends received

Dividends received from subsidiaries, joint ventures, and associates are recognised when the right to receive the dividend is established and accounted for as follows:

- in profit or loss, if the investment is accounted for at cost or at fair value;

DISCLOSURE

An entity is required to apply all applicable IND ASs when providing disclosures in its separate financial statements.

When a parent qualifies and elects not to prepare consolidated financial statements (IND AS 110 paragraph 4(a)) and instead prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements
- That the exemption from consolidation has been used
- The name, principal place of business, address, and country of incorporation, of the entity whose IND AS compliant consolidated financial statements are publicly available
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and its proportion of the voting rights held in those investees.
- A description of the method used to account for the investments listed under the previous bullet point.

When a parent (other than a parent using the consolidation exemption) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, it is required to disclose:

- That the financial statements are separate financial statements
- A list of significant investments in subsidiaries, joint ventures and associates, including:
  - The name of those investees
  - The investees principal place of business and country of incorporation
  - The proportion of the ownership interest and the proportion of voting rights held in those investees.
- A description of the method used to account for the investments listed above

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