

# Basics and Introduction to Ind AS

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## Section A – Practical & Relevant Theory Questions

### Applicability of Ind AS on Indian Companies

#### Question 1

(M24)

List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any.

#### Answer

MCA has notified the Companies (Indian Accounting Standards) Rules, 2015. Accordingly, it has notified 39 Ind AS and has laid down mandatory Ind AS transition roadmap for companies excluding banking companies and insurance companies under following two phases:

#### Phase I

Following companies were covered under Phase I for accounting periods beginning on or after **1<sup>st</sup> April 2016**, with the comparatives for the periods ending on 31<sup>st</sup> March 2016:

- (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) above 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) and sub-clause (b) as mentioned above.

#### Phase II

Following companies were covered under Phase II for accounting periods beginning on or after **1<sup>st</sup> April 2017**, with the comparatives for the periods ending on 31<sup>st</sup> March 2017:

- (a) companies whose equity or debt securities are **listed** or in process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;
- (b) companies other than those covered in sub-clause (a) above i.e. **unlisted** companies having **net worth** of rupees **two hundred and fifty crore or more** but less than rupees five hundred crore.
- (c) **holding, subsidiary, joint venture or associate** companies of companies covered by sub-clause (a) and sub-clause (b) as mentioned above.

#### Exclusions:

The roadmap shall not be applicable to companies whose securities are listed or are in the process of being **listed on SME** without initial public offering in accordance with the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Ind AS would not be applicable to companies other than listed companies whose net worth is less than ₹ 250 Crores and they will continue to follow AS. However, they can voluntary adopt Ind AS any time.

**Question 2**

(SM)

The net worth of Company B (an unlisted company) was ₹ 600 crores as on 31<sup>st</sup> March 2014. However, due to losses incurred in FY 14-15, the net worth of the company was ₹ 400 Crores as on 31<sup>st</sup> March 2015. From when company B shall apply Ind AS?

**Answer**

Here the company's **net worth** as on cut-off date was **greater than ₹ 500 crores**, which suggests that it should be covered **under phase I** of the roadmap. A question may however arise in mind that since, the net worth as on immediately preceding year-end was ₹ 400 crores, would the company be covered under phase II of the roadmap?

"It may be noted that the net worth shall be calculated in accordance with the stand-alone financial statements of the company as on 31<sup>st</sup> March, 2014. Accordingly, if the net worth threshold criteria for a company are once met, then it shall be required to comply with Ind AS, irrespective of the fact that as on later date its net worth falls below the criteria specified."

In view of the above, the Company B will be required to follow Ind AS for accounting periods beginning on or after **1<sup>st</sup> April 2016**.

**Question 3**

(SM)

The net worth of Company C (an unlisted company) was ₹ 400 crores as on 31<sup>st</sup> March 2014. However, the net worth of the company was ₹ 600 Crores as on 31<sup>st</sup> March 2015. From when company C shall apply Ind AS?

**Answer**

Similar issue has been encountered in ITFG Bulletin 1, Issue 1 which gives reference to clause 2b of the notification wherein it is stated that:

"For companies which are not in existence on 31<sup>st</sup> March, 2014 or an existing company falling under any of thresholds specified in sub-rule (1) for the first time after 31<sup>st</sup> 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)"

Hence, any company that meets the thresholds as specified in the Companies (Indian Accounting Standards) Rules, 2015 in a particular financial year, Ind AS will become applicable to such company in immediately next financial year. Hence, in the present case, Company C is **covered by Phase I** of the roadmap and accordingly, Ind AS will be applicable to Company C for accounting periods beginning on or after **1<sup>st</sup> April 2016**.

**Question 4**

(SM)

Following is a snapshot of audited balance sheet of company A as on 31<sup>st</sup> March 2014. Company A's equity shares are listed on Bombay Stock Exchange since 2010.

<b>Liabilities</b>	<b>₹ in crores</b>	<b>Assets</b>	<b>₹ in crores</b>
Equity Share Capital	160	Fixed Assets	455
Securities Premium	200	Investments	200

General Reserve	150	Current Assets	50
Revaluation Reserve	40	Miscellaneous Expenditure not written off	80
Profit and Loss A/c	75		
Liabilities	160		
<b>Total</b>	<b>785</b>	<b>Total</b>	<b>785</b>

- (i) As per roadmap, which Phase company A fall into? Will your answer change if Company A is an unlisted company?
- (ii) If the balance of profit and loss account is negative ₹ 375 crores. When Ind AS should be applicable to Company A? Will you answer change if Company A is an unlisted company?

**Answer**

**(i) Calculation of Net Worth**

Particulars	₹ in crores
Equity Share Capital	160
Securities Premium	200
General Reserve	150
Profit and Loss A/c	75
Miscellaneous Expenditure not written off	(80)
<b>Net Worth as per Section 2(57) of The Companies Act, 2013</b>	<b>505</b>

Note: Revaluation Reserve would not be included in the calculation of net worth as per definition mentioned in section 2(57) of The Companies Act, 2013

The company is a listed company and it does meet the net worth threshold of ₹ 500 Crores. Hence it would be **covered under phase I**. Hence Ind AS would be applicable to the company for accounting periods beginning on or after **1<sup>st</sup> April 2016**.

**Even if Company A is an unlisted** company as company A's net worth is more than 500 Crores, it would be **covered under Phase I** of the road map and hence Ind AS would be applicable for the accounting periods beginning on or after 1<sup>st</sup> April 2016.

- (ii)** If the balance of Profit and Loss A/c is negative ₹ 375 Crores, the **net worth** as per section 2(57) of The Companies Act, 2013 would be **₹ 55 Crores** [Equity share capital ₹ 160 Cr + Securities Premium ₹ 200 Cr + General Reserve ₹ 150 Cr – Debit balance of P&L ₹ 375 Cr – Miscellaneous expenditure not written off ₹ 80 Cr]. Hence, it does not meet the criteria as mentioned in Phase I i.e. Listed company or Net worth of ₹ 500 Cr or more.

However, as Company A is a **listed company**, it will irrespective be **covered under Phase II** as the first criteria of phase II states “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 less than rupees five hundred crore”. Hence, Ind AS would be applicable to Company A for the accounting periods beginning on or after **1<sup>st</sup> April 2017**.

**If Company A is an unlisted company, Ind AS would not be applicable** until it breaches the net worth criteria mentioned in the roadmap.

**Question 5**

(SM)

Company A is the parent company of a group. Company A is an unlisted company having net worth of ₹ 60 crores as on 31<sup>st</sup> March 2014. Following are the other companies of the group.

Name of the company	Relationship	Net worth as on 31 <sup>st</sup> March 2014
Company B (Unlisted)	Subsidiary of Company A	₹ 600 Crore
Company C (Unlisted)	Subsidiary of Company B	₹ 150 Crore

Whether Ind AS be applicable to companies A, B and C?

**Answer**

Company A and C are unlisted and do not exceed the net worth criteria. However, the net worth of Company B exceeds ₹ 500 Crore hence it would be **covered under Phase I** of the roadmap.

As Ind AS be applicable to Company B, the parent company of Company B i.e. Company A and subsidiary of Company B i.e. Company C would also get covered under Ind AS irrespective of net worth criteria. Hence **Ind AS would be applicable to all three companies i.e. Company A, B and C.**

**Question 6**

(SM)

Fresh Vegetables Limited (FVL) was incorporated on 2<sup>nd</sup> April 2014 under the provisions of the Companies Act, 2013 to carry on the wholesale trading business in vegetables. As per the audited accounts of the financial year ended 31<sup>st</sup> March 2017 approved in its annual general meeting held on 31<sup>st</sup> August 2017 its net worth, for the first time since incorporation, exceeded ₹ 250 crore. The financial statements since inception till financial year ended 31<sup>st</sup> March 2016 were prepared in accordance with the Companies (Accounting Standards) Rules 2006. It has been advised that henceforth it should prepare its financial statements in accordance with the Companies (Indian Accounting Standards) Rules, 2015.

The following additional information is provided by the Company:

- FVL has in the financial year 2015-2016 entered into a 60:40 joint arrangement with Logistics Limited and incorporated a partnership firm 'Vegetable Logistics Associates' (VLA) to carry on the logistics business of vegetables from farm to market.
- FVL also has an associate company Social Welfare Limited (SWL) that was incorporated in July, 2015 as a charitable organization and registered under section 8 of the Companies Act, 2013. Social Welfare Limited has been the associate company of FVL since its incorporation.

Examine the applicability of Ind AS on FVL, VLA & SWL.

**Answer**

Applicability of Ind AS in general:

- Currently Ind AS is applicable to the following companies except for companies other than banks and Insurance Companies, on mandatory basis:
  - (a) All companies which are listed or in process of listing in or outside India on Stock Exchanges.
  - (b) Unlisted companies having net worth of ₹ 250 crore or more but less than ₹ 500 crore.
  - (c) Holding, Subsidiary, Associate and Joint venture of above.

- Companies listed on SME exchange are not required to apply Ind AS on mandatory basis.
- Once a company starts following Ind AS either voluntarily or mandatorily on the basis of criteria specified, it shall be required to follow Ind AS for all the subsequent financial statements even if any of the criteria specified does not subsequently apply to it.
- Application of Ind AS is for both standalone as well as consolidated financial statements if threshold criteria met or adopted voluntarily.
- Companies meeting the thresholds for the first time at the end of an accounting year shall apply Ind AS from the immediate next accounting year with comparatives.
- Companies not covered by the above roadmap shall continue to apply existing Accounting Standards notified in the Companies (Accounting Standards) Rules, 2006.

Since the **net worth of FVL in immediately preceding year exceeded ₹ 250 crore, Ind AS is applicable to it.** The entity VLA and SWL have to be examined as they may fall in criteria (c) above.

**Applicability of Ind AS on VLA**

The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

If partners conclude that they have joint control of the arrangement and have rights to the net assets of the arrangement relating to the partnership firm, then this would be a **joint venture**. In such a case, **Ind AS would be applicable** to them.

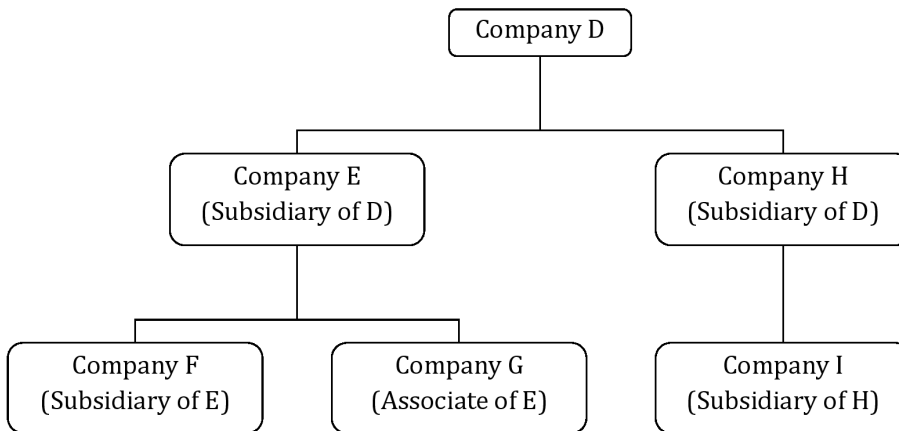
**Applicability of Ind AS on SWL**

Social Welfare Limited (SWL) is **associate** company of FVL. Accordingly, **Ind AS would be applicable** on SWL too irrespective of the fact that SWL has been incorporated as a charitable organisation.

**Question 7**

(SM)

Following is the structure of Company D



All the companies in above structure are unlisted companies and the net worth of company E is ₹ 300 crores and net worth of all the other companies is below ₹ 250 crores as on 31<sup>st</sup> March 2014. To which company would Ind AS be applicable?

**Answer**

As mentioned in the Companies (Indian Accounting Standards) Rules, 2015, if Ind AS is applicable to a

company, it would also be applicable to its Holding Company, subsidiary company, associate company and Joint Venture. As the **net worth of company E is above ₹ 250 crores**, it would be **covered under Phase II** of the roadmap. Hence, its **subsidiary (Company F), associate (Company G) and Holding (Company D) would also be covered under Ind AS** with effect from **1<sup>st</sup> April 2017**.

With respect to other companies of the group, following guidance is given in ITFG clarification bulletin 15, Issue 10: "It may be noted that Ind AS applies to holding, subsidiary, joint venture and associate companies of the companies which meet the net worth/listing criteria. This requirement does not extend to another fellow subsidiary of a holding company which is required to adopt Ind AS because of its holding company relationship with a subsidiary meeting the net worth/listing criteria. Holding company will be required to prepare separate and consolidated financial statements mandatorily under Ind AS, if one of its subsidiaries meets the specified criteria and therefore, such subsidiaries may be required by the holding company to furnish financial statements as per Ind AS for the purpose of preparing Holding company's consolidated Ind AS financial statements. Such fellow subsidiaries may, however, voluntarily opt to prepare their financial statements as per Ind AS."

Hence the other companies of the group i.e. Company H and Company I would not be covered under Ind AS. However, as mentioned in ITFG, **Company H and I would be required to prepare its financial statements under Ind AS** so as to facilitate Company D for preparation of its consolidated financial statements. Hence, though statutorily Company H and I may continue to prepare its financial statements under AS, but it will also have to converge to Ind AS. Moreover, they may also opt to voluntarily adopt Ind AS and prepare its statutory accounts under Ind AS too.

## **Section B – Fully Irrelevant Theoretical Questions**

### **Question 1**

(MTP M24)

Which entities are required to prepare their financial statements mandatorily on the basis of Indian Accounting Standards (Ind AS)?

### **Answer**

**Following entities are mandatorily required to prepare their financial statements based on Indian Accounting Standards**

- All Listed Corporate Entities
- Unlisted Corporate Entities having net worth of rupees two hundred fifty crore or more
- All holding, subsidiary, joint venture or associate companies of the above mentioned listed and unlisted corporate entities
- All listed NBFCs
- Unlisted NBFCs having net worth of rupees two hundred fifty crore or more
- All holding, subsidiary, joint venture or associate companies of the above mentioned listed and unlisted NBFCs

### **Question 2**

(SM)

ABC Inc., incorporated in a foreign country has a net worth of ₹ 700 Crores. It has two subsidiaries Company X whose net worth as on 31<sup>st</sup> March 2014 is ₹ 600 Crores and Company Y whose net worth is ₹ 150 Crores. Whether Company X and Y would be required to follow Ind AS from accounting periods commencing on or after 1<sup>st</sup> April 2016 on the basis of their own net worth or on the basis of the net worth of ABC Inc.?

### **Answer**

Similar issue has been dealt in ITFG Clarification Bulletin 2, Issue 2. ITFG noted that as per Rule 4(1)(ii)(a) of the Companies (Indian Accounting Standards) Rules, 2015, Company X having net worth of ₹ 600 crores as on 31<sup>st</sup> March 2014, would be required to prepare its financial statements for the accounting periods commencing from 1<sup>st</sup> April 2016, as per the Companies (Indian Accounting Standards) Rules, 2015. While Company Y Ltd. having net worth of ₹ 150 crores as on 31<sup>st</sup> March 2014, would be required to prepare its financial statements as per the Companies (Accounting Standards) Rules, 2006.

Since, the foreign company ABC Inc., is not a company incorporated under the Companies Act, 2013 or the earlier Companies Act, 1956, it is not required to prepare its financial statements as per the Companies (Indian Accounting Standards) Rules, 2015. As the foreign company is not required to prepare financial statements based on Ind AS, the net worth of foreign company ABC would not be the basis for deciding whether Indian Subsidiary Company X Ltd. and Company Y Ltd. are required to prepare financial statements based on Ind AS.

**Question 3**

(SM)

As per the roadmap, Ind AS is applicable to Company X from the financial year 2017-18. Company X (not NBFC) is a subsidiary of Company Y (NBFC). Company Y is an unlisted NBFC company having net worth of ₹ 400 crores. What will be the date of applicability of Ind AS for company X and company Y? If Ind AS applicability date for parent NBFC is different from the applicability date of corporate subsidiary, then, how will the consolidated financial statements of parent NBFC be prepared?

**Answer**

In accordance with the roadmap, it may be noted that NBFCs having net worth of less than 500 crore shall apply Ind AS from 1<sup>st</sup> April 2019 onwards. Further, the holding, subsidiary, joint venture or associate company of such an NBFC other than those covered by corporate roadmap shall also apply Ind AS from 1<sup>st</sup> April 2019.

Accordingly, in the given case, Company Y (NBFC) shall apply Ind AS for the financial year beginning 1<sup>st</sup> April 2019 with comparative for the period ended 31<sup>st</sup> March 2019. Company X shall apply Ind AS in its statutory individual financial statements from financial year 2017-2018 (as per the corporate roadmap). However, for the purpose of Consolidation by Company Y for financial years 2017-2018 and 2018-2019, Company X shall also prepare its individual financial statements as per AS.