Final Paper 1 Financial Reporting

Amendments applicable from November, 2022 examination

Companies (Indian Accounting Standards) (Amendment) Rules, 2022

MCA has issued Companies (Indian Accounting Standards) (Amendment) Rules, 2022 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 255(E) dated 23rd March, 2022. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS. However, this time MCA has come out with a carve out in Ind AS 16. These amendments come into effect from 1st April, 2022 and is applicable for the financial year 2022-2023 onwards for the financial statements prepared on the basis of Ind AS. Following are the areas in which the amendments have been brought in by the MCA through this notification:

- Amendment to Ind AS 16 'Property, Plant and Equipment' on accounting of proceeds from selling of items produced during testing and carve out in this regard from IAS 16
- Amendment to Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' on determination of cost of fulfilling a contract for measurement of provision for an onerous contract.
- Amendments to Ind AS 103 'Business Combinations' with reference to Conceptual Framework for Financial Reporting and insertion of certain paragraphs under exceptions to recognition principle on liabilities, contingent liabilities and contingent assets
- Annual improvements to Ind AS (2021) in Ind AS 101 'First Time Adoption of Indian Accounting Standards', Ind AS 109 'Financial Instruments' and Ind AS 41 'Agriculture'.

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2022 are explained below:

Ind AS	Significant amendment made in 2022
Ind AS 16, 'Property, Plant and Equipment'	Para 17(e) of Ind AS 16 has been amended by adding a clarification that the excess of net proceeds from sale of items produced during testing will not be credited to Profit or loss i.e. it will be deducted from the cost of an item of property, plant and equipment. However, amendment made in IAS 16 by IASB prohibited deduction of proceeds of items produced during testing from cost of an item of property, plant and equipment. This differential treatment in IAS 16 and Ind AS 16 has led to a carve out, which will have consequential impact on depreciation, impairment and deferred tax.

Ind AS	Significant amendment made in 2022
Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Paragraph 68A has been inserted which clarifies which cost needs to be considered in the costs to fulfil a contract while determining whether the contract as onerous. As per the amendment made in 2022, both the incremental costs to fulfil a contract and allocation of directly attributable costs will form part of the cost used for determination of onerous contract. Para 69 has been amended by replacing **<u>'assets dedicated to the contract'</u>** to **<u>'assets used in fulfilling the contract'.</u>** This amendment requires to take into consideration the impairment loss on all the assets whose cost will be considered in assessing the contract as onerous. These amendments are prospective from 1st April, 2022 with cumulative effect recognised in the opening balance of retained earnings or other component of equity, as appropriate on 1st April, 2022. Comparative period financials not to be restated.
Ind AS 103 'Business Combinations'	In March, 2018, IASB revised Conceptual Framework for Financial Reporting. Accordingly, ICAI in August, 2020 came out with the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) under Ind AS. The amendments made in Ind AS 103 is due to change in reference to Conceptual Framework without change in the accounting requirements for business combinations. Due to revision in the Conceptual Framework, there were certain accounting implications to contingent liabilities and levies within the scope of Ind AS 37 and Appendix C 'Levies'. As per it, the assets and liabilities in a business combination are recognised if they meet the definition of an asset or liability as per the Conceptual Framework. The timing of recognition of a levy may sometimes be different due to specific guidance given in Appendix C. Therefore, while recognizing levies at the acquisition date, an acquirer might recognise at the acquisition date a liability to pay a levy that it would not recognise subsequently when applying Appendix C 'Levies'. This difference would arise because an entity might recognise a liability earlier by applying the Conceptual Framework. This liability would be derecognized immediately afterwards when principles of Appendix C are applied, and the entity would recognise a so-called Day 2 gain. Therefore, to resolve this implication, Ind AS 103 has been amended with regards to recognition exception for contingent

Ind AS	Significant amendment made in 2022
	liabilities and levies by inserting para 21A to 21C. An exception has been added to the requirements of para 11 of Ind AS 103 for liabilities and contingent liabilities that would be within the scope of Ind AS 37 or Appendix C if incurred separately, rather than assumed in a business combination. Further, Ind AS 103 prohibited the recognition of contingent assets even prior to the 2022 amendments. However, prohibition was not stated explicitly in Ind AS 103 itself. Therefore, para 23A has been inserted in Ind AS 103 to explicitly prohibit recognition of contingent asset.
Ind AS 101 'First time adoption of Indian Accounting Standards'	Para D13 of Ind AS 101 provides an exemption to a first-time adopter of Ind AS with regard to cumulative translation differences on the date of transition to Ind AS. According to it, first time adopter of Ind AS are permitted to deem all cumulative translation differences for all foreign operations to be zero on the date of transition to Ind AS. Para D13A has been inserted in Ind AS 101 which removes the conflict between the requirements of paragraph D16(a) of Ind AS 101 which provides exemption where a subsidiary adopts Ind AS later than its parents and the exemptions on cumulative translation differences at the carrying amount included in the parent's consolidated financial statements. Similar exemption is available to joint venture and an associate that uses the exemption in para D16(a) of Ind AS 101. Para D16(a) of Ind AS 101 provides that a subsidiary can measure its assets and liabilities at the carrying amounts in parent's consolidated financial statements.
Ind AS 109 'Financial Instruments'	As per Ind AS 109, a financial liability is derecognised when it is extinguished, which includes exchange between an existing borrower and lender due to different or substantial modification in terms of the contract. Further, Ind AS 109 clarified that terms are considered to have been substantially modified when the net present value of the cash flows under the new terms **(including any fees paid net of any fees received)** and discounted using the original EIR differs by atleast 10% from the present value of the remaining cash flows under the original terms. Earlier what is to be included in the **<u>fees paid and fees received</u>** was not mentioned in the standard. Now the amendment has been made in 2022 by substituting para B3.3.6 and inserting para B3.3.6A in Ind AS 109 which clarify that the **<u>fees paid</u>** (for the above purpose) includes

Ind AS	Significant amendment made in 2022
	amount paid by the borrower to or on behalf of the lender and **fees received** includes fees amounts paid by the lender to or on behalf of the borrower. The above amendment will be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.
Ind AS 41 'Agriculture'	Earlier para 22 of Ind AS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values. Out of those cash flows, the amendment made in 2022 deleted the cash flows for taxation from the exclusion list for measurement of fair value. This implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.