Clarifications issued by Ind AS Transition Facilitation Group (ITFG)

- CA Hemal Shah

Contents

ITFG Bulletins issued so far on following standards:

1. **Property Plant & Equipment - Ind AS 16**
2. **Consolidated Financial Statements - Ind AS 110**
3. **Inventories - Ind AS 2**
4. **Provisions, Contingent Liabilities and Contingent Assets - Ind AS 37**

Issues discussed by Ind AS Transition Facilitation Group

On initial application of the Ind AS, preparers, users and other stakeholders have come across various issues on which clarification or explanations were/are required.

Hence the Institute of Chartered Accountants of India has constituted ‘Ind AS Transition Facilitation Group’ (ITFG) on January 11, 2016.

The objective behind formation of the group is to provide clarifications on various issues related to the applicability and implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015.

The group has come out with 15 bulletins so far comprising of many clarifications.

The issues majorly pertain to clarifications required on application of Ind AS or issues pertaining to interpretation of the same.

Property Plant & Equipment – Ind AS 16

Cost model or revaluation model

Bulletin 12 - Issue 1

A Company has certain immovable properties such as land or building. Whether it is allowed to use revaluation model under Ind AS 16, Property, Plant and Equipment for such immovable properties instead of cost model in its first Ind AS financial statements.

Whether ABC Ltd. can opt for cost model for some class of property, plant and equipment and apply revaluation model for other class of property, plant and equipment?

Response:

- An entity needs to evaluate whether the land and building that it holds is an investment property or PPE
- If land or building is classified as PPE, then the same shall be initially measured at cost and for subsequent measurement the entity has the option to choose cost model or revaluation model as per Ind AS 16.
- However, if land or building has been held to earn rentals or for capital appreciation or both then it is investment property and only cost model can be used as per Ind AS 40.
- ABC can opt for cost model for some class of property, plant and equipment and apply revaluation model for other class of PPE

Deemed cost of PPE

FAQ by ASB

If an entity avails deemed cost exemption under para D7AA, whether the entity should use the original cost or the net book value as deemed cost? whether accumulated depreciation and impairment loss is considered as nil? Whether impairment loss recognized under previous GAAP can be reversed?

Response:

Deemed cost

- Entity should consider the net book value (NBV) at transition date as the deemed cost of PPE and not its original value. As the previous GAAP carrying value here means net book value.
- The future depreciation charge on PPE will be based on the NBV and the remaining useful life on transition date to Ind AS

Depreciation and Impairment loss

- Since NBV is deemed cost, previously recognized depreciation and impairment loss is considered to be Nil. Thus, reversal of previously recognized impairment loss is not permitted.

Application of Deemed cost exemption

Bulletin 10 - Issue 4 and Bulletin 3 - Issue 11

- An entity had recognised few assets as assets held for sale and disclosed the same under current assets instead of fixed assets under the previous GAAP. However, on transition to Ind AS, the said asset could not fulfil the criteria of assets held for sale prescribed under Ind AS 105, hence the same needs to be classified as PPE.
- The issue under consideration is whether the deemed cost exemption can be applied to these assets?
- Whether para D7AA can be applied for capital work in progress?

Response:

- As per Ind AS 101, the deemed cost exemption is applicable to PPE as defined under Ind AS 16 and recognised as Fixed Assets in the financial statements at the transitional date irrespective of whether these were disclosed separately. Since the entity had only disclosed it separately and had not eliminated the same from the books, it can avail the deemed cost exemption for such type of assets as well.
- Capital work in progress is in the nature of PPE under construction and accordingly, provisions of Ind AS 16 apply to it. Thus, exemption under para D7AA will be available for CWIP as well.

Retrospective application of Ind AS 16:

Bulletin 3 - Issue 14

- A Ltd. measure its PPE by applying Ind AS 16 retrospectively in first Ind AS FS. Under previous GAAP, it followed depreciation rates specified in Schedule XIV to the Companies Act, 1956.
- Whether A Ltd need to re-compute depreciation based on useful lives from the date of initial capitalisation of PPE or it will have to apply depreciation rates applied under previous GAAP till the date of opening balance sheet?

Response:

- When entity apply Ind AS 16 retrospectively, all requirements including component accounting and depreciation based on estimated useful life are applied retrospectively. If entity's previous GAAP's depreciation methods and rates are acceptable under Ind AS, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate.
- If depreciation rates were adopted solely based on useful lives/ rates prescribed in Schedule XIV/ Schedule II and do not reflect a reasonable estimate of the asset's useful life as per Ind AS, and If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening Ind AS balance sheet retrospectively so that it complies with Ind AS.

Retrospective application of Ind AS 16:

Bulletin 14 - Issue 16

- PQR Ltd. Covered under Phase II of Ind AS roadmap, measure its PPE by applying Ind AS 16 retrospectively and revaluation model. It has been applying revaluation model under previous Indian GAAP.

- What will be the accounting treatment of the following revaluation surplus in the Ind AS financial statements of PQR Ltd:
  a) Revaluation surplus as per previous GAAP on transition date;
  b) Revaluation gain arising after transition date.

Response:

- If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.
- Accordingly, revaluation reserve on transition date will be recognised as revaluation surplus in equity and opening balance of revaluation surplus as per previous GAAP should be transferred to retained earnings

Treatment of capital spares

Bulletin 2 - Issue 4, Bulletin 3 – Issue 9 and Bulletin 5 - Issue 6

- A Company has certain spare parts that were recognized as inventory under previous GAAP but meets the definition of PPE under Ind AS. Company has applied D7AA exemption.
- At what amount spares can be recognized? Whether depreciation should be charged from the date when it becomes available for use or date of actual use? How will useful life determined?

Response:

recognition

Ind AS should be applied retrospectively since it meets the definition and recognition criteria of Ind AS 16. Entity can not apply D7AA deemed cost exemption in this case as it is available only for PPE and in the present case this was earlier recognized as inventory

depreciation

The depreciation begins when asset is available for use which, in case of spare part, may be from its date of purchase, as spare part is readily available for use.

useful life

In determination of the useful life of spare part, life of the machine in respect of which it can be used can be one of the determining factors

Foreign exchange differences pertaining to fixed assets and borrowings related to fixed assets

Bulletin 1 - Issue 3

- Exchange gains or losses arisen for purchase of fixed assets is capitalised in cost of Property, plant and equipment or accumulated in a reserve named as Foreign Currency Monetary Item Translation Difference Account (FCMITDA) as per AS 11.

- Transitional exemptions under Ind AS 101 (paragraph D13AA) allows continuation of recognition of exchange differences in the same way it was accounted before the beginning of the first Ind AS financial reporting period.

- Whether this option be availed for loans taken even after the Ind AS transition date.

Response:

- No. exchange differences arising from translation of long term foreign currency monetary items recognised **in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP**"

- Considering this, this exemption can be availed only for loans which are taken up to the date of Ind AS transition date

Foreign exchange differences pertaining to fixed assets and borrowings related to fixed assets

Bulletin 7 - Issue 3

- A further question was raised where the part of the loan (say 70% was drawn before the Ind AS transition date). However remaining sanctioned loan of 30% was drawn after the Ind AS transition date e.g after April 1, 2015 for a company adopting Ind AS for the first time in financial year 2016-17 with 2015-16 being comparative year.

- Whether the treatment allowed under Ind AS will continue to apply after the transition date for the undrawn part of the loan.

Response:

- No. Considering the same explanation above, this exemption can be availed only for loans which are taken up to the date of Ind AS transition date

- Therefore the exemption would not apply to any loan taken subsequent to the date of adoption to Ind AS and also the undrawn part of the foreign currency loan for the loans sanctioned earlier and the foreign exchange differences arising on these cases would be taken to statement of profit and loss.

- However for the purpose of Income Tax Act, companies will still be governed by provisions of Section 43A of the Income Tax Act, 1961

Foreign exchange differences pertaining to fixed assets and borrowings related to fixed assets

Bulletin 2 - Issue 1

- Another question on loan borrowed prior to Ind AS transition date in case of companies who have opted for recognising the differences in FCMITDA

- Whether the amortisation of balance in FCMITDA needs to be taken to Profit or loss or other comprehensive income.

Response:

- Since the amortisation of exchange differences under the existing policy (as per the previous GAAP) would be recognised in the statement of profit and loss affecting the profit or loss for the period, amortisation of balance of FCMITDA shall also be routed through profit or loss and not through Other Comprehensive Income (OCI).

Capitalisation of asset not meeting the criteria of Ind AS 16

Bulletin 8 - Issue 4

ABC Ltd. is a FTA of Ind AS and has opted for deemed cost exemption. It had capitalised an item of property, plant and equipment under previous GAAP even though it did not meet the definition of an asset. Whether this asset cost can also be continued to be capitalised under deemed cost exemption?

Response:

- The option of deemed cost exemption can be availed for property, plant and equipment measured as per previous GAAP. The incorrect capitalisation of the item of PPE did not meet the definition of asset as per previous GAAP and the definition of 'PPE' as per Ind AS 16, accordingly the deemed cost exemption under paragraph D7AA of Ind AS 101 cannot be availed for those assets.
- The incorrect capitalisation of asset which does not meet the definition of tangible asset will be covered under Ind AS 101 being an error, and the disclosure of the same should be done as per Ind AS 101.

Treatment of Revaluation Reserve & Deferred Tax on transition

Bulletin 8 - Issue 7

- A company is a FTA of Ind AS. It has opted for exemption under paragraph D7AA of Ind AS 101, *First-time Adoption of Indian Accounting Standards* and also elected the cost model under Ind AS 16, *Property, Plant and Equipment* for subsequent measurement.
- On the date of transition to Ind AS, what will be the accounting treatment of the balance outstanding in the “Revaluation Reserve” created as per previous GAAP.

Response:

- In the given case balance outstanding in the revaluation reserve should be transferred to retained earnings or if appropriate, another category of equity. This is because after transition, the Company is no longer applying the revaluation model of Ind AS 16, instead it has elected to apply the cost model approach.
- It may be noted that the requirements of Companies Act, 2013 for declaration of dividend will be required to be evaluated separately.

Treatment of Revaluation Reserve & Deferred Tax on transition

Bulletin 8 - Issue 7

On the date of transition to Ind AS, what will be the treatment of deferred tax on this transition revaluation reserve?

Response:

- In accordance with Ind AS 12, Income Taxes, deferred tax would need to be recognised on any difference between the carrying amount and tax base of assets and liabilities. No deferred tax is created on equity components.
- However, since the asset has been revalued, there will be difference for the amount between carrying value and tax base. Hence, deferred tax will have to be recognised on such asset.

Capitalisation of cost incurred for the assets used as a support for building/creation of main asset

Bulletin 11 - Issue 8

- An entity is setting up a new refinery outside the city limits and hence an additional expenditure is incurred for construction of railway siding, road and bridge.
- Whether the cost of the support assets created should be capitalised with the main cost of the asset

Response:

- In the given case, the railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations and also expenditure on these items will help the entity to get future economic benefits, the aforesaid expenditure is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

- In this case, even though the company may not be able to recognise expenditure incurred on these assets as an individual item of Property, plant and equipment as it may not be able to restrict others from using it, entire expenditure incurred may be capitalised as a part of overall cost of the project

Adjustments to the carrying value of PPE…

Revised Bulletin 5 - Issue 4 and Bulletin 10 – Issue 2

- Co has adopted Ind AS and availed exemption as per D7AA. It had adjusted value of PPE under previous GAAP due to below given reason. How should it be treated under Ind AS?

- It had capitalized processing fees on a loan as part of fixed assets as per previous GAAP. The loan needs to be accounted for as per amortised cost method as per Ind AS 109.

Response:

- As per Ind AS 101, if the carrying value is considered as the deemed cost, no further adjustments are allowed to the deemed cost of the Property, plant and equipment. However Ind AS 101 also states that except for the mandatory exceptions and voluntary exemptions provided in Ind AS 101, measurement of all assets and liabilities will be done basis other Ind AS.

- Since there is no mandatory exception or voluntary exemption in Ind AS 101, the carrying amount of loan needs to be restated to its amortised cost as per Ind AS 109 on transition date. The carrying amount of PPE as at the date of the transition should be reduced by the amount of processing cost net of depreciation provided.

- The difference between the adjustments to the carrying amount of loan and to fixed assets should be recognised in retain earnings as on the date of transition.

Adjustments to the carrying value of PPE

Revised Bulletin 5 - Issue 5

- Co has adopted Ind AS and availed exemption as per D7AA. It has to adjust the value of PPE as prescribed by Ind AS 20 on account of Government grant received against purchase of fixed asset while it was deducted from the carrying value of fixed asset as per AS 12. Whether the adjustment is allowed or not?

Response:

- No, applying the same principle as above, since there is no mandatory exception or voluntary exemption in Ind AS 101, the cost of PPE will be increased to the extent of grant amount and the same will be shown as deferred income as per Ind AS 20.

- The grant will be recognised as unamortised deferred income as at the date of the transition and the corresponding adjustment needs to be made to the carrying amount of PPE and retained earnings, respectively, as the grant is directly linked to the PPE.

- In both the cases, since the adjustment to the PPE is only consequential and arising because of applying the transition requirements, it would not be construed as an adjustment to the deemed cost of PPE

Adjustments to the carrying value of PPE

Bulletin 12 - Issue 2

- Continuing the above example, however in this case, Co has chosen to measure the item of PPE at its fair value and use that as its deemed cost on the date of transition to Ind AS. How should the value of Government grant received be treated under Ind AS considering the adjustment required by Ind AS 20.

Response:

- As per Ind AS 113, Fair Value Measurement, "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) **regardless of whether that price is directly observable or estimated using another valuation technique**."

- Accordingly, in the given case, fair value of the asset is independent of the government grant received on the asset and no adjustment with regard to the government grant should be made to the fair value of the property, plant and equipment taken as deemed cost on the date of transition to Ind AS.

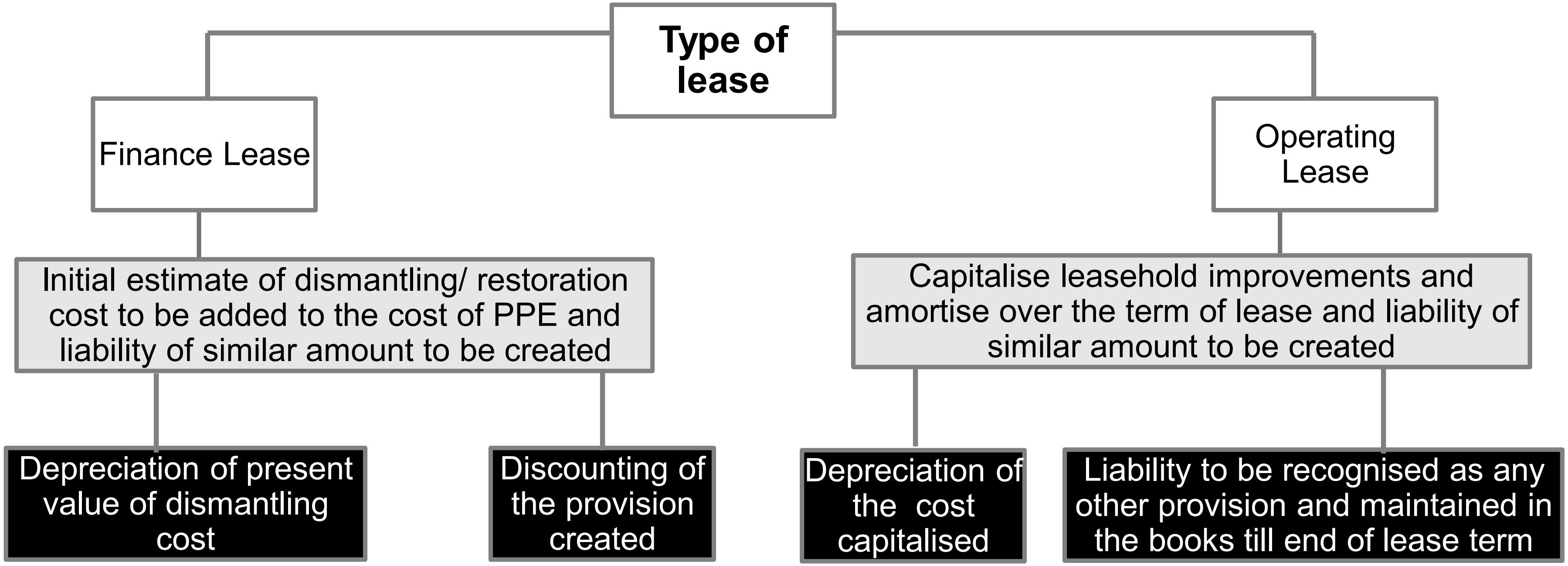
Adjustments to the carrying value of PPE

Bulletin 14 - Issue 2

- A company is using a leasehold land for its business purposes. As per the lease terms, the company is under an obligation to restore the land to its original condition at the end of the lease tenure. What should be the accounting treatment of restoration costs in case of a leasehold land?

Response:

- The company will be required to first evaluate whether the lease is a finance lease or an operating lease, in accordance with the principles of Ind AS 17, Leases.



Type of lease

Finance Lease

Initial estimate of dismantling/ restoration cost to be added to the cost of PPE and liability of similar amount to be created

Depreciation of present value of dismantling cost

Discounting of the provision created

Operating Lease

Capitalise leasehold improvements and amortise over the term of lease and liability of similar amount to be created

Depreciation of the cost capitalised

Liability to be recognised as any other provision and maintained in the books till end of lease term

Consolidated Financial Statements – Ind AS 110

Change in stake holding of parent

Bulletin 13 - Issue 7

- Parent had 70% stake in subsidiary. The other investor invested additional funds in the subsidiary reducing the parent's stake to 60%. However, there was no loss of control by the Parent. How this partial deemed disposal should be accounted in the consolidated financial statements of the Parent assuming that investment in subsidiary is measured at cost.

Response:

- As per Ind AS 110, Consolidated Financial Statements, 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 (i.e. transactions with owners in their capacity as owners). Thus, such transactions have no impact on goodwill or the statement of profit and loss.
- Ind AS 110 further provides that, when the proportion of the equity held by non controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent
- Ind AS 112, Disclosure of Interests in Other Entities, an entity is required to present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

Eliminations in Consolidated Financial Statements

Bulletin 12 - Issue 5

- H Limited made a sales to S Limited at a profit of 10% and the sales made are being used in its operation by S i.e. is considered as PPE. H has chosen to avail the deemed cost exemption for first time adoption of Ind AS which requires the values appearing in the subsidiary's financial statements to be taken without any adjustment.

- Will such unrealised profits existing in the property, plant and equipment at consolidated level require elimination?

Response:

- As per Ind AS 101, if the financial statements are consolidated financial statements, the previous GAAP amount of the subsidiary shall be that amount used in preparing and presenting consolidated financial statements.

- Further, Ind AS 110 states to eliminate in full intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group

- Accordingly, in the given case H in its consolidated financial statements will first eliminate the intra group profit of 10% recognised in separate financial statements of S and then will apply the deemed cost exemption under paragraph D7AA of Ind AS 101.

Eliminations in Consolidated Financial Statements

Bulletin 9 - Issue 2

- State whether the effect of the below business combination is required to be eliminated in the consolidated financial statements of A Ltd.

Situation 1: A Ltd. has two subsidiaries B Ltd. and C Ltd. B merges with C

Situation 2: B Ltd. is the subsidiary of A Ltd. B merges with A

Response:

- Ind AS 110, Consolidated Financial Statements, states as follows:

a) combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries.

b) offset (eliminate) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary

c) eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group

In accordance with the above, all intra-group transactions should be eliminated in preparing consolidated financial statement in accordance with Ind AS 110. The legal merger of a subsidiary with the parent or legal merger of fellow subsidiaries is an intra-group transaction and accordingly, will have to be eliminated in the Consolidated Financial Statements of the Parent.

Different depreciation policy of subsidiary and parent

Bulletin 11 - Issue 6

- PQR Ltd. is the subsidiary company of MNC Ltd. In the standalone financial statements prepared in accordance with Ind AS, PQR has adopted Straight-line method (SLM) of depreciation and MNC has adopted Written-down value method (WDV). As per Ind AS 110, Consolidated Financial Statements, a parent shall prepare consolidated financial statements using uniform accounting policies
- How will these property, plant and equipment be depreciated in the consolidated financial statements of MNC Ltd. prepared as per Ind AS?

Response:

- As per Ind AS 110, A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.
- It may be noted that an entity to apply uniform accounting policies and it does not apply to accounting estimates made while preparing financial statements.
- The change in depreciation method shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8 as depreciation reflects the consumption of future economic benefits embodied in the asset.
- Therefore, there can be different methods of estimating depreciation for property, plant and equipment, if their expected pattern of consumption is different. The method once selected in the SFS of the subsidiary should not be changed while preparing the CFS.
- Accordingly, in the given case, the property, plant and equipment of subsidiary company may be depreciated using straight line method and property, plant and equipment of parent company may be depreciated using written down value method, if such method closely reflects the expected pattern of consumption of future economic benefits embodied in the respective assets.

Investment in variety of instruments in subsidiary

Bulletin 14 - Issue 7

- A holding company H Ltd., which is covered under phase II of Ind AS has a 57% subsidiary S Ltd.
- S has issued 1.5% optionally convertible preference shares to its holding company, which are non-cumulative. All preference shares are issued to holding company. The subsidiary company has the option to convert or redeem the preference shares. H does not have any right for the redemption of such preference shares. How will these instruments be accounted for in the consolidated financial statements and individual financial statements.

Response:

- It has been assumed that S Ltd. has an option to convert the instrument into a fixed number of its own shares. Since S has the ability to avoid cash payment, it can regard entire instrument as a part of equity.
- For H, this will continue to be regarded as an investment and excluded from the scope of Ind AS 109 unless elected otherwise.
- In the consolidated financial statements of the Group, these transactions will be eliminated, being intra-group transactions in accordance with Ind AS 110

Investment in partnership firm

Bulletin 15 - Issue 9

- A Company has investment in a partnership firm and it has established that it has control over the firm as per the requirements of Ind AS 110. Accordingly, as per Ind AS, the company is required to consolidate the firm as its subsidiary. There are amounts outstanding towards retired partners' capitals, which are repayable by the partnership firm on demand. What would be the accounting treatment of these outstanding retired partners' capital balances? Whether these are required to be discounted?

Response:

- In the given case, since the company has assessed and established control over the partnership firm as per Ind AS 110, accordingly, it will be required to consolidate the partnership firm as per the requirements of Ind AS. Though Ind AS would not be applicable to the partnership firm nevertheless its financial statements to be consolidated by the company is required to be in compliance with Ind AS.

- In the given case, since the amounts outstanding towards retired partners' capitals can be demanded by those retired partners anytime and it meets the definition of a financial liability under Ind AS 32(i.e. it is firm's contractual obligation to deliver cash or another financial asset), accordingly, the same shall be measured at its fair value.

- Since these are payable on demand, no discounting would be required

Treatment of Dividend Distribution Tax

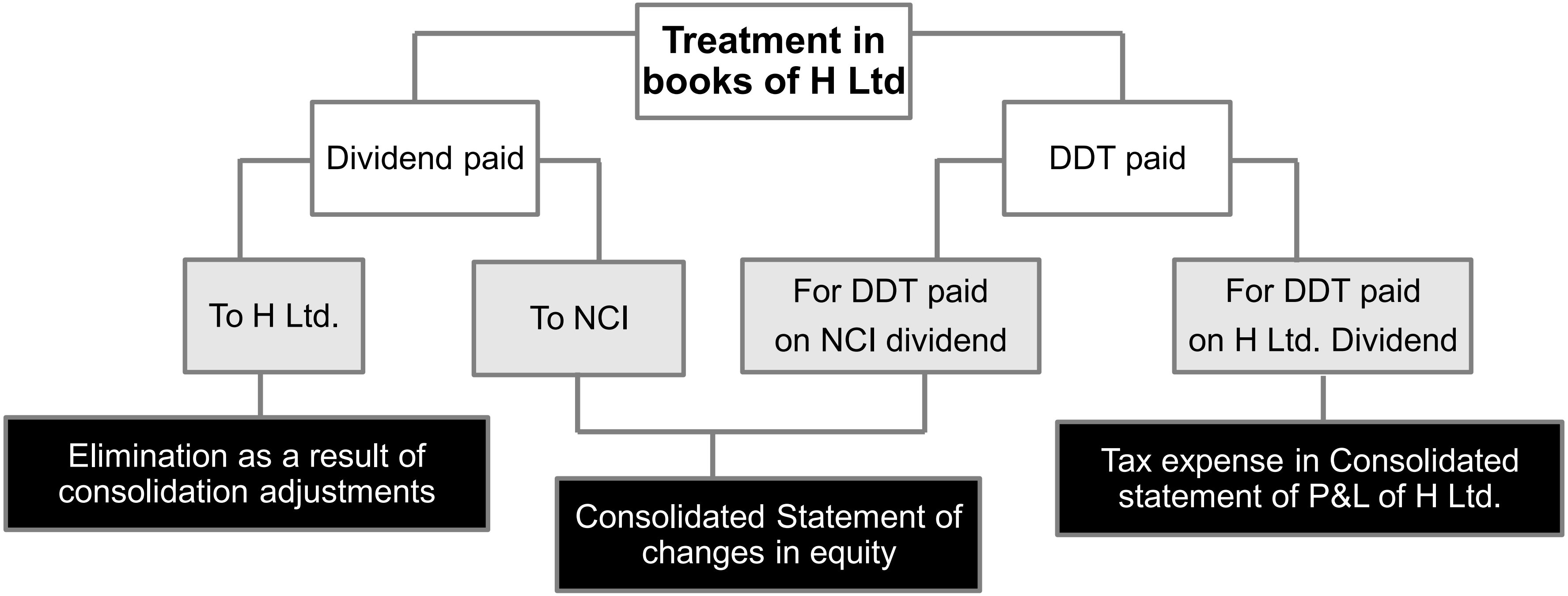
Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Treatment of dividend distribution tax in consolidated financial statements

  Scenario 1:

  H limited has 60% holding in S Ltd. S Ltd paid a total dividend of INR 2,00,000 and DDT of 40,000
- Should the share of H Limited in DDT paid by S Limited amounting to INR 24,000 be charged as expense in the consolidated profit and loss of H Limited?

Response:


Treatment in books of H Ltd
Dividend paid
DDT paid
To H Ltd.
To NCI
For DDT paid on NCI dividend
For DDT paid on H Ltd. Dividend
Elimination as a result of consolidation adjustments
Consolidated Statement of changes in equity
Tax expense in Consolidated statement of P&L of H Ltd.

Treatment of Dividend Distribution Tax

Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Accordingly, the books of H Ltd, S Ltd. And CFS will look as below:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity by way of reduction of NCI)	-	(2,00,000)	1,20,000	(80,000)
DDT (in Statement of Changes in Equity by way of reduction of NCI)	-	(40,000)	24,000	(16,000)
DDT (in Statement of P&L)	-	-	24,000	24,000

Treatment of Dividend Distribution Tax

Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Treatment of dividend distribution tax in consolidated financial statements

  Scenario 2A:

  Extending scenario 1, H limited also pays a dividend of INR 3,00,000 to its shareholders on which DDT liability is INR 60,000. As per the tax laws, DDT paid by S Ltd. of INR 24,000 is allowed as set off against the DDT liability of H Ltd., resulting in H Ltd. paying INR 36,000 (60,000 – 24,000) as DDT to tax authorities.

Response:

- If the DDT paid by S Ltd on dividend paid to H Ltd is allowed as a set off, then the same should be should be recognised in the consolidated statement of changes in equity

- Accordingly, DDT of 76,000 (INR 40,000 being DDT paid by S Ltd. And INR 36,000 DDT paid by H Ltd. should be recognised in consolidated statement of changes in equity. No amount will be charged to consolidated statement of profit and loss. The basis for such accounting would be that due to Parent H Ltd's transaction of distributing dividend to its shareholders (a transaction recorded in Parent H Ltd's equity) and the related DDT set-off, this DDT paid by the subsidiary is effectively a tax on distribution of dividend to the shareholders of the parent company.

Treatment of Dividend Distribution Tax

Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Accordingly, the books of H Ltd, S Ltd. And CFS will look as below:

Transactions	**H Ltd.**	**S Ltd.**	**Consol Adjustments**	**CFS H Ltd**
Dividend Income (P&L)	1,20,000	-	(1,20,000)	-
Dividend (in Statement of Changes in Equity	(3,00,000)	(2,00,000)	1,20,000	(3,80,000)
DDT (in Statement of Changes in Equity)	(36,000)	(40,000)	-	(76,000)

Treatment of Dividend Distribution Tax

Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Treatment of dividend distribution tax in consolidated financial statements

  Scenario 2B:

  Extending scenario 2, H limited pays a dividend of INR 1,00,000 to its shareholders on which DDT liability @ 20% is INR 20,000. As per the tax laws, DDT paid by S Ltd. of INR 24,000 is allowed as set off against the DDT liability of H Ltd. and hence DDT liability of H Ltd. becomes Nil.

Response:

- In above case, balance INR 4,000 should be charged in the consolidated statement of profit and loss.
- Accordingly, the books of H Ltd, S Ltd. And CFS will look as below:

Transactions	H Ltd.	S Ltd.	Consol Adjustments	CFS H Ltd
Dividend Income (P&L)	1,20,000	-	(1,20,000)	(1,20,000)
Dividend (in Statement of Changes in Equity)	(1,00,000)	(2,00,000)	1,20,000	(1,80,000)
DDT (in Statement of Changes in Equity)	-	(40,000)	4,000	(36,000)
DDT (in statement of P&L)	-	-	(4,000)	(4,000)

Treatment of Dividend Distribution Tax

Bulletin 13 - Issue 9, Bulletin 9, Issue 1

- Treatment of dividend distribution tax in consolidated financial statements

  Scenario 3:

  Will the answer be different for the treatment of dividend distribution tax paid by associate in the consolidated financial statement of investor, if as per tax laws the DDT paid by associate is

  not allowed set-off against the DDT liability of the investor?

Response:

- Considering that as per tax laws, DDT paid by associate is not allowed set off against the DDT liability of the investor, the investor's share of DDT would be accounted by the investor company by crediting its investment account in the associate and recording a corresponding debit adjustment towards its share of profit or loss of the associate.

Inventories – Ind AS 2

Shares held as stock-in-trade

Bulletin 14 - Issue 5

- A share broking company is dealing in sale/purchase of shares for its own account and therefore is having inventory of shares purchased by it for trading. The company is covered under Phase II of Ind AS roadmap. What will be the accounting treatment of such shares held as stock-in trade in accordance with Ind AS?

Response:

- Paragraph 2 of Ind AS 2, Inventories, inter-alia, states that this Standard applies to all inventories, except financial instruments (Ind AS 32, Financial Instruments: Presentation and Ind AS 109, Financial Instruments).

- A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Accordingly, the principles of recognising and measuring financial instruments are governed by Ind AS 109, its presentation is governed by Ind AS 32 and disclosures about them are in Ind AS 107, Financial Instruments: Disclosures, even if these instruments are held as stock-in trade by a company.

- Further Ind AS 101, First-time Adoption of Indian Accounting Standards does not provide any transitional relief from the application of the above standards.

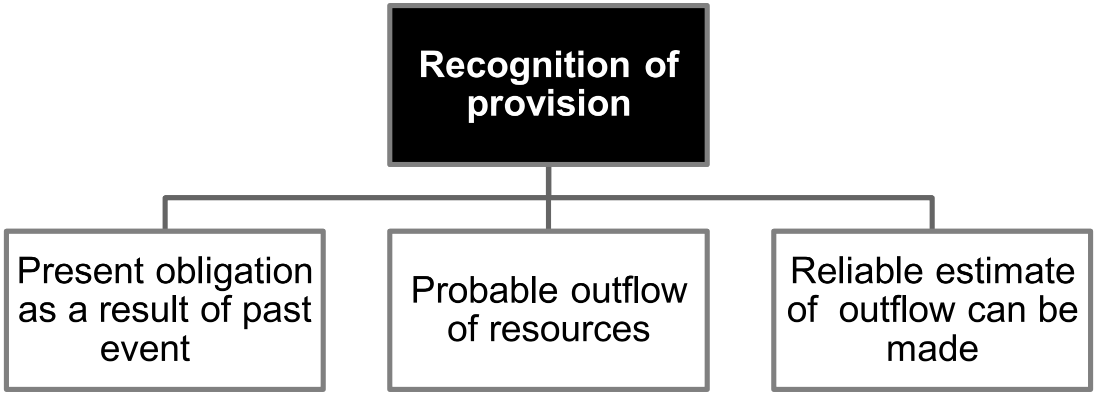
Provisions, Contingent Liabilities and Contingent Assets – Ind AS 37

Provision for CSR

Bulletin 8 - Issue 1

- Whether provision for unspent Corporate Social Responsibility expenditure is required to be made as per Ind AS?

Response:


Recognition of provision
Present obligation as a result of past event
Probable outflow of resources
Reliable estimate of outflow can be made

- Section 135 (5) of the Companies Act, 2013 requires a company to spend a certain amount as expenditure towards CSR. The proviso to section 135 (5) of the Act provides that if the specified amount is not spent by the company during the year, the Directors' Report should disclose the reasons for not spending the amount.
- Accordingly, the provision for the amount which is not spent (shortfall) may not be required in financial statements
- However if the Company has already undertaken certain CSR activity for which an obligation is created/ contract is entered, then as per Ind AS 37, a provision for such CSR obligation is required to be made in the financial statements

Questions

Thank You