

Final Paper 1: Financial Reporting

Amendments applicable for November, 2023 examination (not given in October, 2021 edition of the study material)

I. Amendments to the Companies (Indian Accounting Standards) Rules, 2015 made by MCA on 31st March, 2023 (applicable for November, 2023 examination)

MCA has issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2023 to amend Companies (Indian Accounting Standards) Rules, 2015 vide notification G.S.R. 242(E) dated 31st March, 2023. These amendments come into effect from 1st April, 2023 and is applicable for the financial year 2023-2024 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 1 'Presentation of Financial Statements' by replacing significant account policy disclosure to material accounting policy disclosures'
- ◆ Amendment to Ind AS 8 'Accounting Policies, Change in Accounting Estimates and Errors' by replacing the definition of 'change in accounting estimate' to 'accounting estimates' and also mentioning the manner to develop and accounting estimates by an entity.
- ◆ Amendments to Ind AS 12 'Income Taxes' by adding exception to the recognition of deferred tax liability or deferred tax assets on taxable temporary difference or deductible temporary difference respectively.
- ◆ Amendment to Ind AS 101 'First Time Adoption of Indian Accounting Standards' by narrowing the scope of Initial Recognition Exemption with regard to leases and decommissioning obligations.
- ◆ Annual improvements to Ind AS (2022) in Ind AS 102 'Share-based Payments', Ind AS 103 'Business Combinations' Ind AS 107 'Financial Instruments- Disclosures', Ind AS 109 'Financial Instruments', Ind AS 15 'Revenue From Contracts with the Customers' and Ind AS 34 'Interim Financial Reporting'.

The key amendments to Ind AS pursuant to the Companies (Indian Accounting Standards) (Amendments) Rules, 2023 are explained below:

Ind AS	Significant amendment made in 2022
Ind AS 1, 'Presentation of Financial Statements'	<p>Para 10 and para 114 of Ind AS 1 have been modified by replacing 'significant accounting policies' with 'material accounting policies'.</p> <p>Further, disclosure of accounting policies has been modified and have discussed which accounting policy information should be considered as material.</p> <p>According to the amendment 'Accounting policy information' is material when it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.</p>

Ind AS	Significant amendment made in 2022
	<p>An entity is required to disclose, along with material accounting policy information or other notes, the judgements that management has made in the process of applying the entity's accounting policies which have the most significant effect on the amounts recognised in the financial statements.</p>
<p>Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'</p>	<p>Definition of 'Change in Accounting Estimate' given in para 5 has been replaced with the definition of 'Accounting Estimates'. The revised definition states as follows:</p> <p style="text-align: center;"><i>"Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty."</i></p> <p>As per the amendment, the company develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Earlier examples have been replaced by the following examples of accounting estimates:</p> <ul style="list-style-type: none"> (a) a loss allowance for expected credit losses, applying Ind AS 109; (b) the net realisable value of an item of inventory, applying Ind AS 2; (c) the fair value of an asset or liability, applying Ind AS 113; (d) the depreciation expense for an item of property, plant and equipment, applying Ind AS 16; and (e) a provision for warranty obligations, applying Ind AS 37. <p>To develop an accounting estimate, an entity has to use measurement techniques and inputs. Measurement techniques include estimation techniques and valuation techniques.</p>
<p>Ind AS 12, 'Income Taxes'</p>	<p>As per the amendment, paragraphs 15 and 24 have been modified by adding an exception to the recognition of deferred tax liability or deferred tax assets on taxable temporary difference or deductible temporary difference respectively, arising on account of the initial recognition of an asset or liability in a transaction which at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.</p>
<p>Ind AS 101, 'First Time Adoption of Indian Accounting Standards'</p>	<p>Amendment has narrowed the scope of Initial Recognition Exemption with regard to leases and decommissioning obligations. According to it, the entity will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on transactions such as initial recognition of a lease and a decommissioning provision.</p> <p>As per the amendment, despite Paragraphs 15 and 24 of Ind AS 12 exempt an entity from recognising a deferred tax asset or liability in particular circumstances, at the date of transition to Ind AS, a first-time adopter shall recognise a deferred tax asset — to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised — and a deferred tax liability for all deductible and taxable temporary differences associated with:</p>

Ind AS	Significant amendment made in 2022
	<p>(a) right-of-use assets and lease liabilities; and</p> <p>(b) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.</p>

II. Amendments to the Companies (Corporate Social Responsibility) Rules, 2014 (issued on 20th September, 2022) is applicable for November, 2023 Examination

The Ministry of Corporate Affairs (MCA), vide a notification dated 20th September 2022 issued the Companies (Corporate Social Responsibility) Amendment Rules, 2022. These amendments are effective from the date of their publication in the official gazette i.e., 20th September 2022. Some of the significant amendments notified therein are:

- **Constitution of a CSR Committee by a company having any amount in its unspent CSR account**

As per the amendment, a proviso has been added under Rule 3(1), stating that a company that has any amount outstanding in its unspent CSR account should constitute a CSR Committee and comply with the relevant provisions of Section 135 of the Companies Act, 2013.

- **Omission of Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014**

Rule 3(2) required that every company that ceases to fulfil the criteria prescribed under Section 135(1) of the Companies Act, 2013 for three consecutive financial years is not required to constitute a CSR Committee. Now as per the amendment, this Rule 3(2) of the Companies (Corporate Social Responsibility) Rules, 2014 has been omitted.

- **Inclusion in the list of entities that can be engaged as implementation agencies**

Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014 provides that the Board of Directors must ensure that CSR activities can be undertaken by a company itself or through certain implementation agencies which were listed therein. As per the amendment, in addition to the class of companies listed under Rule 4(1) of the Companies (Corporate Social Responsibility) Rules, 2014, new class of entities exempted under Section 10 of Clause (23C), which may be approved by the Principal Commissioner or Commissioner, have been included as implementation agencies. These entities are:

- Any fund or institution established for charitable purposes having regard to the objects of the fund or institution and its importance throughout India, or throughout any State or States,
- Any trust (including any other legal obligation), or institution wholly for public religious purposes, or wholly for public religious and charitable purposes, having regard to the manner in which the affairs of the trust or institution are administered and supervised for ensuring that the income accruing thereto is properly applied for the objects thereof,
- Any university or other educational institution existing solely for educational purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiab) or sub-clause (iiiad) of Clause 23(C) of the Income Tax Act, 1961, and
- Any hospital or other institution for the reception and treatment of persons suffering from illness or mental defectiveness, or for the reception and treatment of persons during convalescence, or of persons requiring medical attention or rehabilitation, existing solely for philanthropic purposes and not for purposes of profit, other than those mentioned in sub-clause (iiiac) or sub-clause (iiiae) of Clause 23(C) of the Income Tax Act, 1961.

- **Change in the limits of expenses incurred towards impact assessment studies**

Earlier Rule 8 of the Companies (Corporate Social Responsibility) Rules, 2014 provides that every company having an average CSR obligation of Rs. 10 crore or more in pursuance of Section 135(5) of the Companies Act, 2013 in the three immediately preceding financial years, should undertake an impact assessment, through an independent agency, of their CSR projects having outlays of Rs. 1 crore or more, and which have been completed not less than one year before undertaking the impact study.

Such a company may book an expenditure towards CSR for that financial year, which should not exceed five per cent of the total CSR expenditure for that financial year or Rs. 50 lakh, whichever is less.

As per the amendment, the limit to book expenditure towards impact assessment has now been reduced to two per cent (earlier five percent) of the total CSR expenditure for that financial year or Rs. 50 lakh, whichever is higher (earlier whichever is lower).

- **Revisions in Annexure II and e-form of the Companies (Corporate Social Responsibility) Rules, 2014.**

Annexure II of the Companies (Corporate Social Responsibility) Rules, 2014 prescribes a format for the annual report on CSR activities included in the company's board report. Some of the significant amendments in the format are:

- **Executive summary:** As per the amendment in the Annexure II, companies are required to provide an executive summary along with the weblinks of impact assessment of CSR projects, which have been carried out.
- **Disclosure on CSR spent:** As per the amendment, companies are required to disclose only the total amount spent on on-going and other CSR projects. Earlier, the format required disclosures of details of each project undertaken by the company (both ongoing projects as well as other projects).
- **Additional disclosure on unspent CSR amount:** In disclosure of unspent CSR amount for the preceding three financial years, companies are also required to disclose the balance amount in unspent CSR account, and deficiency, if any, in accordance with Section 135(6) of the Companies Act, 2013.

III. **Amendments to the Companies (Indian Accounting Standards) Rules, 2015 made by MCA on 23rd March, 2022 (applicable for November, 2023 examination)**

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 sale 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'	<p>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.</p> <p>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.</p> <p>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.</p>
Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets'	<p>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 is onerous.</p> <p>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.</p> <p>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 is onerous.</p> <p>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.</p>
Ind AS 103 'Business Combinations'	<p>In March, 2018, IASB revised Conceptual Framework for Financial Reporting.</p> <p>Accordingly, ICAI in August, 2020 came out with the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) under Ind AS.</p> <p>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.</p>

Ind AS	Significant amendment made in 2022
	<p>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'.</p> <p>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.</p> <p>Therefore, to resolve this implication, Ind AS 103 has been amended with regards to recognition exception for contingent 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.</p> <p>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.</p>
Ind AS 101 'First time adoption of Indian Accounting Standards'	<p>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.</p> <p>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.</p>
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

Ind AS	Significant amendment made in 2022
	<p>and lender due to different or substantial modification in terms of the contract.</p> <p>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.</p> <p>Earlier what is to be included in the <u>fees paid and fees received</u> was not mentioned in the standard.</p> <p>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 amount paid by the borrower to or on behalf of the lender and <u>fees received</u> includes fees amounts paid by the lender to or on behalf of the borrower.</p> <p>The above amendment will be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.</p>
Ind AS 41 'Agriculture'	<p>Earlier para 22 of Ind AS 41 prescribed certain cash flows that would not be considered for the purpose of assessing the fair values.</p> <p>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.</p> <p>This implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.</p>