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The recent changes in Indian Accounting Standards

CHANGES | DISCUSSION | ACCOUNTING | IMPACT

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Contents

INTRODUCTION 3

SUMMARY OF THE CHANGES 4

Ind AS 116 LEASES [NEW STANDARD] 6

Ind AS 109 FINANCIAL INSTRUMENTS 10

(Amended for Prepayment features with Negative compensation)

Ind AS 12 INCOME TAXES 12

(Appendix C inserted on Uncertainty over Income Tax Treatments)

Ind AS 19 EMPLOYEE BENEFITS 17

(Plan Amendment, Curtailment or Settlement - Amendments to Ind AS 19)

Ind AS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES 19

(Long-term interests in Associates and joint ventures - Amendments to Ind AS 28)

INTRODUCTION

The changes will affect companies' financial reporting from Financial Year 2019-20 onward.

It contains both New Standard that has been issued and amendments made to existing ones.

The Ministry of Corporate Affairs has notified two recent changes to make it at par with the changes made in corresponding International Financial Reporting Standards (IFRS):

- ✓ The Companies (Indian Accounting Standards) Amendment Rules, 2019 – which notify Ind AS 116: Leases; and
- ✓ The Companies (Indian Accounting Standards) Second Amendment Rules, 2019 – which notify changes to multiple standards.

The above changes are effective from 1 April 2019. Accordingly, entities are required to evaluate the implication of these changes and should disclose in their quarterly as well as annual financial statements.

SUMMARY OF THE CHANGES

Sl. No	Name of Ind AS	Remarks
1.	Ind AS 116 – Leases (New Standard)	This is a new Standard which has replaced Ind AS 17 'Leases'. Under the new standard the lessors' accounting largely remains unchanged, however, they might see an impact to their business model and lease products. Under the new regime, all leases (including the operating lease) will be accounted for 'on-balance sheet', other than short-term and low value asset leases.
2.	Ind AS 109 – Financial Instruments (Amended for Prepayment features with Negative compensation)	The amendment allows companies to measure particular prepayment of financial assets with negative compensation at amortised cost or at fair value through other comprehensive income – instead of measuring those assets at fair value through profit or loss.
3.	Ind AS 12 – Income Taxes (Appendix C inserted on Uncertainty over Income Tax Treatments)	Appendix C has been inserted to incorporate the 'Uncertainty over Income Tax Treatments' specifying how entities should reflect uncertainty in accounting for income taxes.
4.	Ind AS 19 – Employee Benefits (Plan Amendment, Curtailment or Settlement - Amendments to Ind AS 19)	Before the amendment, the Ind AS 19 implies that entities should not revise the assumptions for the calculation of current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. The amendments provide ways out for this situations and treatments for the same.
5.	Ind AS 28 – Investments in Associates and Joint Ventures (Long-term interests in Associates and joint ventures - Amendments to Ind AS 28)	An amendment made to clarify that a company should apply Ind AS 109 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures; whereas a company should not apply Ind AS 109 for accounting of long-term interests in an associate or joint venture for which equity method is followed by the company.

Impact of the amendments on the entities:

Name of Ind AS	Entities affected	Impact on affected entities
Ind AS 116 – Leases (New Standard)	**Many**	**High**
Ind AS 109 – Financial Instruments (Amended for Prepayment features with Negative compensation)	**Few**	**High**
Ind AS 12 – Income Taxes (Appendix C inserted on Uncertainty over Income Tax Treatments)	**Many**	**Medium**
Ind AS 19 – Employee Benefits (Plan Amendment, Curtailment or Settlement - Amendments to Ind AS 19)	**Some**	**Medium**
Ind AS 28 – Investments in Associates and Joint Ventures (Long-term interests in Associates and joint ventures - Amendments to Ind AS 28)	**Few**	**High**

Ind AS 116 LEASES [NEW STANDARD]

Ind AS 116 Leases (Ind AS 116), has been notified by the Ministry of Corporate Affairs and is applicable from 1 April 2019 onwards.

Under the new scenario lessees will be greatly affected by the new leases standard. The lessors' accounting largely remains unchanged. However, they might see an impact to their business model and lease products due to changes in needs and behaviour.

Currently, many operating lease contracts include non-lease (say services) components which are embedded in the lease contract. For example, cleaning services is embedded with lease agreement in which space is taken on lease. Many entities do not separate the operating lease component in the contracts because the accounting for an operating lease and for a service/supply arrangement generally have a similar impact on the financial statements today. Besides, operating lease contracts remain off balance sheet items.

Under the new leases standard, lessee accounting for the two elements ((i) operating lease and (ii) service components) of the contract will change because leases will have to be recognised on the balance sheet.

Ind AS 116 is summarised in the below table:

Headings	How dealt in Ind AS 116
Scope – exclusions from Ind AS 116	• Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources, covered under Ind AS 106 or Ind AS 38. • Leases of biological assets in scope of Ind AS 41 • Service concession arrangements in scope of Ind AS 115 • Licences of intellectual property granted by a lessor in scope of Ind AS 115 • Rights held under licensing agreements in scope of Ind AS 38 for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights
Definition of lease	• a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration • definition and supporting guidance cover substance over form while identifying a lease contract with the intention to bring many more leases on balance sheet
Lessee accounting	• short-term (means a lease term of 12 months or less at the commencement date) and low value asset (which requires judgement and entities may cover through their accounting policy) may be excluded INITIAL MEASUREMENT • a lessee will be required to recognise its leases on the balance sheet. This involves recognising: a 'right-of-use' asset; and a lease liability • cost of the right-of-use asset shall comprise: a) amount of the initial measurement of the lease liability; b) any lease payments made at or before the commencement date; c) any initial direct costs incurred by the lessee; and

	d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset (as per the Ind AS 37) • The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date. Lease payment should be discounted using the interest rate implicit in the lease or lessee's incremental borrowing rate. Lease payment comprises fixed payments less any lease incentives receivable; variable lease payments; amounts payable towards guaranteed residual value; the exercise price of a purchase option; and payments of penalties for terminating the lease if as per the contract lessee exercising an option to terminate the lease. SUBSEQUENT MEASUREMENT • the right-of-use asset is accounted for as like a purchased asset and depreciated or amortised • The lease liability is accounted for similarly to a financial liability using the effective interest method
Lessor accounting	Ind AS 116's requirements for lessor accounting are similar to those of Ind AS 17. • lessor shall classify each of its leases as either an operating lease or a finance lease • lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and all other leases are classified as an operating lease • whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract ACCOUNTING FOR FINANCE LEASE • lessor shall recognise assets held under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease • lessor shall recognise finance income over the lease term on the lessor's net investment in the lease ACCOUNTING FOR OPERATING LEASE • lessor shall recognise lease payments from operating leases as income on either a straight-line basis or another systematic basis • lessor shall recognise costs, including depreciation, incurred in earning the lease income as an expense
Effective date	• Ind AS 116 is effective for annual periods beginning on or after 1 April 2019.
Transition	Ind AS 116 provides lessees with a choice between two broad methods • Full retrospective application – with restatement of comparative information in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. • Partial retrospective application – without restating comparatives. Under this approach, the cumulative effect of initially applying Ind AS 116 is recognised as an adjustment to equity at the date of initial application.

Under this approach, a number of more specific transition requirements and optional reliefs are available.

EXAMPLE OF OPERATING LEASE ACCOUNTING IN THE BOOKS OF LESSEE

Operating Lease: Example

Start of Lease	01.04.2019
Lease Term	3 years
Space on Rent	2 identified flats in building
Rent Payable (Rs.)	50000 per annum
Discount rate	6%

Calculation of Lease Liability:

Financial Year	Year	Rent	DF@6%	PV
2019-20	1	50000	0.943	47,169.81
2020-21	2	50000	0.890	44,499.82
2021-22	3	50000	0.840	41,980.96
				1,33,650.60

Lease Liability Schedule:

Financial Year	Year	Opening Balance	Interest @ 6%	Payment	Closing Balance
2019-20	1	1,33,650.60	8,019.04	50000	91,669.63
2020-21	2	91,669.63	5,500.18	50000	47,169.81
2021-22	3	47,169.81	2,830.19	50000	-

Entries

		Year	1	2	3	Total
1	Initial Recognition					
	Right of use Asset	Dr	1,33,650.60			1,33,650.60
	Lease Liability*	Cr	-1,33,650.60			-1,33,650.60
2	Depreciation on Right of Use Asset depreciated over 3 years					
	Depreciation	Dr	13,365.06	13,365.06	13,365.06	40,095.18
	Accumulated Depreciation	Cr	-13,365.06	-13,365.06	-13,365.06	-40,095.18
3	Unwinding of Interest Cost					
	Finance Cost	Dr	8,019.04	5,500.18	2,830.19	16,349.40
	Lease Liability	Cr	-8,019.04	-5,500.18	-2,830.19	-16,349.40
4	Payment of Rent					
	Lease Liability	Dr	50,000.00	50,000.00	50,000.00	1,50,000.00
	Bank	Cr	-50,000.00	-50,000.00	-50,000.00	-1,50,000.00

*Note: lease liability has to be bifurcated in Non-current and current.

EXAMPLE OF FINANCE LEASE ACCOUNTING IN THE BOOKS OF LESSOR

<u>Finance Lease: Example</u>

Start of Lease	01.04.2019
Lease Term	4 years
Leased item	One machinery having life of 4 years
Lease payable (Rs.)	2000 annually in arrears
Present value of lease payment (Rs.)	5710
Implicit rate of interest	15%

Year	Opening Balance (Rs.)	Finance Income @ 15% (Rs.)	Cash received (Rs.)	Closing balance (Rs.)
1.	5710	856	2000	4566
2.	4566	685	2000	3251
3.	3251	488	2000	1739
4.	1739	261	2000	-

Lessor will recognise Net investment in finance lease Rs. 5710 initially (has to be bifurcated in non-current and current) which will change with the finance income and cash received amount. Finance income will be shown in profit & loss statement on yearly basis.

Ind AS 109 FINANCIAL INSTRUMENTS
(Amended for Prepayment features with Negative compensation)

Introduction

In October 2017, the IASB published 'Prepayment Features with Negative Compensation after doing minor amendment in IFRS 9. Keeping inline, the Ministry of Corporate Affairs has also made a corresponding change in Ind AS 109. The amendment allows companies to measure particular financial assets with the feature of prepayment with negative compensation at amortised cost or at fair value through other comprehensive income (FVOCI)– instead of measuring those assets at fair value through profit or loss (FVTPL).

Background

A debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

A financial asset with prepayment option meets SPPI criterion if the prepayment amount substantially represents unpaid amount of principles and interest, which may include reasonable additional compensation for early termination of the contract (the opting party may be paying additional amount to the other party as a compensation).

Under this prepayment option in some cases it could so happen that the other party may be forced to accept the negative compensation for example when a borrower chooses to prepay his loan. In this situation, since the SPPI criterion is not met the instrument, which was previously measured at amortised cost (or FVOCI following the principles of the pre amended standard) will be measured at FVTPL after opting prepayment option with negative compensation.

Amendment

Considering the above requirement, IASB issued the minor amendments in IFRS 9 and in-turn in India Ind AS 109 has also been amended so that entities will now be able to measure financial assets with the feature of prepayment with negative compensation at amortised cost or at FVOCI.

Effective date and transition

The amendment is mandatory for annual reporting periods beginning on or after 1 April, 2019. The Amendment is required to be applied retrospectively, in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors. An entity is not required to restate prior periods to reflect the application of these amendments. If required, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

EXAMPLE:

Negative Compensation – Example for A Ltd.	
Loan given in Financial year	2017-18
Loan amount (given to B Ltd)	Rs. 400 crores

Interest rate	8% p.a.
Loan term	4 years
Payment condition	Payable at end of loan term

Loan agreement contains a prepayment clause and under that lender has permitted to pay the amount due at the end of year 3 and it has been mutually decided that he will pay Rs. 500 crore as full settlement of the loan due.

Treatment of prepayment Before Ind AS 109 amendments:

Amount in Rs. crore

Financial year	Opening balance	Interest @ 8% p.a.	Payment	Closing balance	Accounting treatments in the books of A Ltd.
2017-18	400.00	32.00	-	432.00	• Loan measured at amortised cost • Rs. 432 crores as loan (non-current & current) in Balance sheet • Rs. 32 crores as interest income in Profit & Loss statement
2018-19	432.00	34.56	-	466.56	• Loan measured at amortised cost • Rs. 466.56 crores as loan (non-current & current) in Balance sheet • Rs. 34.56 crores as interest income in Profit & Loss statement
2019-20	466.56	37.32	-	503.88	• Loan measured at amortised cost will be decommissioned and will be measured at FVTPL as and when the prepayment is accepted. • Rs. 37.32 crores as interest income in Profit & Loss statement • Loan amount of Rs. 503.88 crores measured at amortised cost previously will now be valued at Rs. 500 crores and will be classified as FVTPL in Balance sheet • Loss of Rs. 3.88 crores (503.88-500) i.e. negative compensation will be transferred to Profit & loss statement as loss on valuation of loan
2020-21	503.88	40.31	544.20	-	• Because of prepayment of loan in the last year, loan balance and interest will not be accounted for in the current year.

Treatment of prepayment After Ind AS 109 amendments:

Financial year	Opening balance	Interest @ 8% p.a.	Payment	Closing balance	Accounting treatments in the books of A Ltd.
2019-20	466.56	33.44	-	500.00	• Loan will be measured at amortised cost. • The negative compensation of Rs. 3.88 crores will be adjusted with the interest income.

Ind AS 12 INCOME TAXES
(Appendix C inserted on Uncertainty over Income Tax Treatments)

Introduction

IAS 12 'Income Taxes' specifies how to account for current and deferred tax but does not explains about how to reflect the effects of uncertainty while determining the same. It has been observed by the standard setters that there was diversity in practice in recognition and measurement of tax liability or assets where there was uncertainty in the application of tax laws. To bring the uniformity in practice, in June 2017 the IFRS Interpretations Committee (IFRIC) has published a new Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments'. This speaks about how entities should reflect uncertainty in accounting for income taxes. The Ministry of Corporate Affairs has notified the corresponding change in Ind AS 12, by including IFRIC 23 as Appendix C to Ind AS 12.

Issues addressed

The main issues addressed in the Appendix C to Ind AS 12 are summarised in the below table.

Issue	How dealt in Ind AS
What is uncertain tax treatment and its effect on accounting	• tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law or not • For example, an entity's decision not to submit any income tax filing in a tax jurisdiction, or not to include particular income in taxable profit, is an uncertain tax treatment if its acceptability is uncertain under tax law • The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. • Consequently, a dispute or examination of a particular tax treatment by the taxation authority may affect both an entity's taxable profit (tax loss) and the tax base which in turn will affects determination of current and deferred tax (deferred tax asset or liability) respectively
The assumption that entity should make about the examination of tax treatment by the taxation authorities	• Before assessing the impact of uncertain tax treatment on accounts, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.
Whether an entity should consider uncertain tax treatments separately	• Entities would be required to use their judgement & experience • to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together.

	• In determining the approach to be followed, entities shall consider which approach better predicts the resolution of the uncertainty • for example, (a) how it prepares its income tax filings and supports tax treatments; or (b) how the entity expects the taxation authority to make its examination and resolve issues that might arise from that examination
Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	• If it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings • If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods: o the most likely amount - the single most likely amount in a range of possible outcomes o the expected value - the sum of the probability-weighted amounts in a range of possible outcomes. • Examples related to 'expected value' and 'most likely amount' are provided below the table.
Changes in facts and circumstances	• An entity shall reassess a judgement or estimate required by this Interpretation if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate • An entity shall reflect the effect of a change in facts and circumstances or of new information as a change in accounting estimate applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. • An entity shall apply IAS 10 *Events after the Reporting Period* to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event. • Examples of changes of facts & circumstances: o Changes in the rules established by taxation authority o The expiry of a taxation authority's right to examine or re-examine a tax treatment o agreement or disagreement by the taxation authority with the tax treatment or a similar tax treatment used by the entity o information that the taxation authority has agreed or disagreed with a similar tax treatment used by another entity; and

	○ information about the amount received or paid to settle a similar tax treatment
Disclosure	• entities are required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of Ind AS 1 *Presentation of Financial Statements* • In addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under Ind AS 12.88.[1]
Effective date	• An entity shall apply this Appendix for annual reporting periods beginning on or after 1 April, 2019.
Transition	• Entities shall apply this Appendix: ○ retrospectively by applying Ind AS 8, if that is possible without the use of hindsight; or ○ retrospectively with the cumulative effect of initially applying this Appendix at the date of initial application in the opening balance of retained earnings (or another component of equity) without adjusting comparative information.

EXAMPLE ON EXPECTED VALUE METHOD FOR APPLYING UNCERTAINTITY OF TAX TREATMENT:

Entity ABC files its income tax return claiming one deduction which is related to treatment of intangible assets. The taxation authority may challenge the tax treatment given by the entity. In this context the uncertain tax treatments affect only the determination of taxable profit for the current period.

Entity ABC notes that the taxation authority's decision on the matter related to treatment of intangible assets would affect, or be affected by, the other intangible assets matters which are pending before the tax authorities. Entity ABC concludes that if all the matters are considered together it will better predict the resolution of the uncertainty. Entity ABC also concludes it is not probable that the taxation authority will accept the tax treatments. Consequently, entity ABC reflects the effect of the uncertainty in determining its taxable profit in the below table. Entity ABC also estimates the probabilities of the possible additional amounts that might be added to its taxable profit.

Possible outcome (a)	Estimated additional amount (Rs.) (b)	Probability (%) (c)	Estimated expected value (Rs.) (d = c*b)
Outcome 1	-	10%	-
Outcome 2	300	40%	120
Outcome 3	500	20%	100
Outcome 4	1000	30%	300
		100%	520

[1] Ind AS 12.88 speaks about disclosure of tax-related contingent liabilities and contingent assets in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets after giving due care of changes announced after the reporting period following the principles of an Ind AS 10, Events after the Reporting Period.

Outcome 2 is the most likely outcome, however, entity ABC based on its judgement believes that the expected value of Rs. 520 better predicts the resolution of the uncertainty. Accordingly, entity ABC recognises and measures its current tax liability applying Ind AS 12 based on taxable profit that includes Rs. 520 to reflect the effect of the uncertainty. The amount of Rs. 520 is in addition to the amount of taxable profit reported in its income tax filing.

EXAMPLE ON MOST LIKELY AMOUNT METHOD FOR APPLYING UNCERTAINTY OF TAX TREATMENT:

Most Likely amount – Example for XYZ Ltd.	
Financial year	2019-20
Profit before tax and depreciation on the below asset	Rs. 500 crores
Asset purchased for Research & Development	Rs.60 crores separately identifiable tangible asset
Life of assets	4 years
Depreciation method	Straight line in accounts
Tax rate prevailing	30%

To understand the provision of the uncertainty of tax treatment it has been assumed that the tax law specifies that the full cost of the tangible asset is deductible for tax purposes, but the timing of deductibility is uncertain. XYZ Ltd. concludes that considering this tax treatment separately better predicts the resolution of the uncertainty. It further concludes the most likely amount that the taxation authority will accept as a deductible amount for Year 1 is Rs.30 and that the most likely amount better predicts the resolution of the uncertainty.

Treatment under both the situations – with & without uncertainty of tax treatment

Amount in Rs. crore

Tax Treatment without uncertainty principles		Tax Treatment with uncertainty principles	
Profit before tax [500 – 15*]	485.00	Profit before tax [500 – 15*]	485.00
Less:		Less:	
Current tax	132.00	Current tax	141.00
Deferred tax	13.50	Deferred tax	4.50
Profit after tax	339.50	**Profit after tax**	339.50
Tax Calculation as per tax filing:		Tax Calculation as per tax authority:	
Profit before tax	485.00	Profit before tax	485.00
Add: Depreciation as per accounts	15.00	Add: Depreciation as per accounts	15.00
Less: Tax allowance on assts for research & development	60.00	Less: Tax allowance on assts for research & development	30.00
Taxable Profit	440.00	Taxable Profit	470.00
Tax Provision for CY @30% on above	132.00	Tax Provision for CY @30% on above	141.00
Calculation of Deferred tax:			
Carrying value (60-15)	45.00	Carrying value (60-15)	45.00
Tax base (60-60)	0.00	Tax base (60-30)	30.00
Temporary difference	45.00	Temporary difference	15.00
Deferred tax provision @30%	13.50	Deferred tax provision @30%	4.50

*this is depreciation on straight line basis considering life of 4 years

From the above table it is clear that when principles of uncertainty over tax treatment along with judgements and estimates are applied in determining taxable profit for Year 1 the amount of current tax, tax base and deferred tax liability is changed as compared to the amount as computed without using these principles.

Ind AS 19 EMPLOYEE BENEFITS
(Plan Amendment, Curtailment or Settlement - Amendments to Ind AS 19)

Introduction

The IFRS Interpretations Committee was asked to clarify the calculation of current service cost and net interest for the remainder of an annual period when a plan amendment or curtailment occurs as there was no reference to such changes in the existing standard. The committee asked the IASB to do the correction in the standard as they could not develop the interpretation for the same. Accordingly, the IASB published 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)' in February 2018. The Ministry of Corporate Affairs has also notified the corresponding changes in Ind AS 19.

Background

Before the amendment, it was noticed that current IAS 19 implies that entities should not revise the assumptions for the calculation of current service cost and net interest during the period, even if an entity remeasures the net defined benefit liability (asset) in the event of a plan amendment, curtailment or settlement. Meaning calculation of current service cost and net interest during the period should be based on the assumptions as at the start of the annual reporting period.
The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements.

Amendment

Current service cost and net interest:

After the amendments to Ind AS 19, when a defined benefit plan is amended, curtailed or settled during a period and the net defined benefit liability or asset is remeasured as a result of one of these transactions, the company is now required to:

- determine the current service costs and the net interest for the remainder of the reporting period using the updated assumptions used for this remeasurement; and
- determine the net interest for the remaining period based on the remeasured net defined benefit liability or asset.

For example, if an amendment is made to a defined benefit plan half way through the year, the current service cost and net interest for the remaining six months of the year are recalculated using the same actuarial assumptions as those used to remeasure the net defined benefit liability (or asset).

Asset ceiling requirements:

When an entity has a surplus in a defined benefit plan (because the fair value of plan assets exceeds the present value of the defined benefit obligation), it measures the net defined benefit asset at the lower of the surplus and the asset ceiling[2]. The accounting for a plan amendment, curtailment or settlement may reduce or eliminate a surplus, which may cause the effect of the asset ceiling to change.

The amendments to Ind AS 19 clarify that the company should first determine any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount to be recognised in profit or loss and then the company should determine the effect of the asset ceiling after the plan amendment,

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[2] It means that a surplus can only be recognized to the extent that it will be recoverable in the form of refunds or reduced contributions in the future.

curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognised in other comprehensive income.

For example, a company has a defined benefit plan with plan assets of RS. 1,100 and a defined benefit obligation (obligation) of Rs. 800. It does not recognise the plan surplus of Rs. 300 because the asset ceiling applies – i.e. it has a net defined benefit asset of zero. If it then settles the plan, the amount of plan assets it transfers to settle its obligation is Rs. 1,100 and it will record a loss of Rs.300 on settlement in profit or loss. The assessment of the asset ceiling is a distinct step from the calculation of the settlement loss and is not a part of it. The company should reverse the effect of the asset ceiling separately through OCI.

Effective date and transition

The amendment is mandatory for annual reporting periods beginning on or after 1 April, 2019.
The amendments are only to be applied prospectively as the standard setters have concluded that the benefits of applying the amendments retrospectively – (i) would not exceed the cost of doing so as the entities, might have previously remeasured many times the net defined benefit liability or asset on account of plan amendments, curtailments and settlements at the start of the accounting period and (ii) would not provide useful trend information to users of financial statements because plan amendments, curtailments and settlements are discrete one-off events.

Ind AS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Long-term interests in Associates and joint ventures - Amendments to Ind AS 28)

Introduction

In October 2017 the IASB published 'Long-term interest in Associates and Joint Ventures (Amendments to IAS 28)' clarifying how the entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests in Associates and Joint Ventures. The corresponding changes to Ind AS 28 have now been notified by the Ministry of Corporate Affairs.

Background

The IASB board and interpretation committee have received submission asking whether long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture (long-term interests) are within the scope of IFRS 9 or not. Further, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.
On this issue the Board concluded that with respect to interests in an associate or joint venture, exclusion paragraph (i.e. 2.1(a)) of IFRS 9 excludes from its scope only interests to which the equity method is applied. Further the board has concluded that, IAS 28 does not specify requirements for other aspects of recognising or measuring. Thus, such long-term interests are not accounted for in accordance with IAS 28, as envisaged in paragraph 2.1(a) of IFRS 9. The board while concluding has envisaged long-term interests like long term loan to associates or investment in non-cumulative preference shares in associates, etc that form part of the investment in the associate.

Amendment

Accordingly, few paras of Ind AS 28 has been amended to clarify that the exclusion in Ind AS 109 applies only to interests accounted for using the equity method. Therefore, a company applies Ind AS 109 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures.

Effective date and transition

The amendment is mandatory for annual reporting periods beginning on or after 1 April, 2019.
An entity shall apply the changes retrospectively by applying Ind AS 8, if that is possible without the use of hindsight; or retrospectively with the cumulative effect of initially applying this Appendix at the date of initial application in the opening balance of retained earnings (or another component of equity) without adjusting comparative information.

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