

Year-end considerations

Updates of standards,
interpretations and
regulatory considerations
affecting financial
statements

March 2025



Shape the future
with confidence



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Foreword

As we revisit the Financial Year (FY) 2024-25, a number of challenges are likely to shape the future landscape. Amidst a backdrop of geopolitical tensions, fluctuating commodity prices, escalating inflation, and increasing interest rates, companies across the globe are grappling with substantial challenges in financial reporting. The unpredictable economic climate demands that entities thoroughly evaluate the impact of these factors on their financial statements.

Companies preparing for the year-end financial reporting need to consider the ways in which these economic and regulatory challenges will affect their financial statements.

It is essential for companies to consider providing additional disclosures to ensure accuracy and transparency in financial statements. The amendment to Ind AS 116 altering the treatment of sale and leaseback transactions and the introduction of Ind AS 117 significantly broadens the scope of insurance accounting and may affect non-insurance entities that issue contracts with insurance-like features. Tax regulations continue to evolve, necessitating a vigilant approach to compliance and strategic tax planning, along with alignment with the latest legislative amendments and their potential impact on financial outcomes.

In this rapidly changing environment, companies must remain vigilant, manage resources effectively, and adapt their financial reporting practices to meet the evolving demands of stakeholders and regulators, ensuring the integrity and resilience of their financial statements amidst global economic shifts.

This publication aims to help companies understand the accounting and regulatory changes that are relevant for FY 2024-25 and beyond.

It is our constant endeavor to help organizations stay updated with the latest developments and changes in the finance function. As companies gear up to finalize their financial statements for the year ended 31 March 2025, it is critical that they evaluate all key changes in accounting and regulatory space which impact financial and corporate reporting. This publication provides critical updates and insights to help finance leaders and teams update themselves with the changes applicable for the year-end closure and ensure that companies are well prepared for the closure with the changes.

Purpose of this publication

This publication provides an overview of the changes in accounting standards and interpretations as well as regulatory changes up to 31 December 2024, and few key considerations post 31 December 2024 which are relevant for financial year 2024-25 and beyond. It does not attempt to provide an in-depth analysis or discussion of the changes. Rather, it aims to highlight the key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions. This publication consists of three sections:

Section 1 provides an overview of the key accounting changes as of 31 December 2024 and certain key amendments that are applicable for financial statements for the year-ended 31 March 2025 and beyond.

Section 2 provides a glance at the regulatory and other changes that have been issued during this year and have a consequential impact on accounting, disclosures, and compliance with regulations.

Section 3 summarizes key hot topics that may have a significant impact on the reporting for the financial year-ended 31 March 2025 and beyond.

Hope you all find the publication useful. Happy reading!



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Contents

Section 1: New accounting pronouncements relevant for financial statements of FY 2024-25 or thereafter

1. Overview of key amendments to Indian Accounting Standards (Ind AS)	06
2. Summary of Expert Advisory Committee (EAC) Opinions	12
3. Key topic from IFRS perspective	21
4. Presentation and Disclosures - Key consideration	31

Section 2: Key regulatory changes

1. Key changes to Securities and Exchange Board of India (SEBI) Regulations	45
■ Amendment relating to Listing Obligations and Disclosure Requirements (LODR)	45
■ Amendment relating to Issue of Capital and Disclosure Requirements (ICDR)	50
■ Other regulatory changes	51

Section 3: Key hot topics

1. Purchase consideration in business combination in connection with employment services (ESOP vs contingent considerations)	55
2. Key considerations related to accounting for payments received from suppliers and its related disclosures	58
3. IFRS 18: Presentation and related potential changes	64
4. An overview of key accounting implications arising from recent amendments in the Income-tax Act	72



1

**New accounting
pronouncements relevant
for financial statements of
FY 2024-25 or thereafter**



1

Overview of key amendments to Indian Accounting Standards (Ind AS)

A. Ind AS 117: Insurance contracts for non-insurance entities

Background

Ministry of Corporate Affairs (MCA) had previously announced the notification of Indian Accounting Standard (Ind AS) 117, Insurance Contracts, on 12 August 2024. This standard replaced the interim standard Ind AS 104, Insurance Contracts, and came into effect for annual reporting periods starting on or after 1 April 2024. While Ind AS 117 was notified, the implementation roadmap for insurance companies was not provided at that time.

To address the anticipated challenges insurers might face in complying with the complex requirements of Ind AS 117, the MCA subsequently introduced the Companies (Indian Accounting Standards) Third Amendment Rules, 2024, ('relief amendment'). According to this amendment, insurers are permitted to continue to prepare their financial statements in accordance with Ind AS 104 for submission to their parent company, investor, or venturer for the purpose of consolidating financial statements until the Insurance Regulatory and Development Authority of India (IRDAI) mandates the application of Ind AS 117.

Ind AS 117 will continue to apply to the entities that are not insurers or insurance companies, with effect from 1 April 2024.

Relevance of Ind AS 117 for non-insurance entities

Ind AS 117 is relevant not only to insurance companies but also to any entity that enters into contracts

which are considered to be insurance contracts. The standard sets out principles for accounting for such contracts, which means entities can no longer rely on previous accounting practices such as Ind AS 115 (Revenue from Contracts with Customers) or Ind AS 109 (Financial Instruments), unless there is a specific exemption provided by Ind AS 117.

Definition of an insurance contract

An 'insurance contract' under Ind AS 117 is a contract in which one party (the issuer) assumes significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely impacts them. The emphasis is on the transfer of significant insurance risk due to an uncertain future event from the policyholder to the issuer.

The 'significant insurance risk' is defined as any risk, other than financial risk, that is transferred from the policyholder to the issuer. Ind AS 117 requires that at the inception of an insurance

contract, there must be uncertainty regarding the probability of the insured event, its timing, or the amount to be paid if the event occurs. There is no quantitative guidance for determining what constitutes 'significant' risk, which requires insurers to exercise their judgment.

Scope of Ind AS 117

While Ind AS 117 has a very wide definition of the term 'insurance contract,' it does not apply to all contracts meeting such a definition. Rather, Ind AS 117 provides certain scope exclusions where entities are prohibited from applying Ind AS 117 and, in certain other cases, it allows entities an option to apply Ind AS 117 or other Ind AS. Insurance contracts can generally be categorized into the following three groups:

- (i) Contracts specifically excluded from Ind AS 117
- (ii) Mandatory application of Ind AS 117
- (iii) Insurance contracts eligible for accounting policy choice





Ind AS 117 excludes the following transactions from its scope that may meet the definition of insurance contracts:

Scope exclusion	Applicable Ind AS	Key considerations
Warranties issued directly by a manufacturer/dealer/retailer in connection with the sale of goods/services to a customer	Ind AS 115	Scope exclusion applies to both assurance-type and service-type warranties. (Warranties provided by third party for goods sold by manufacturer/dealer/retailer fall within the scope of Ind AS 117)
Contractual rights or obligations contingent on the future use of, or the right to use, a non-financial item	Ind AS 115, Ind AS 38, Ind AS 116	Examples include certain license fees, royalties, variables and other contingent lease payments and similar items
Residual value guarantees provided by the manufacturer, dealer or retailer and lessees' residual value guarantees embedded in a lease	Ind AS 115 and Ind AS 116	Standalone residual value guarantees that transfer insurance risk, not addressed by other Ind AS, fall within the scope of Ind AS 117
Contingent Consideration (CC) in a business combination	Ind AS 103	CC is required to be recognized at fair value at the acquisition date, with subsequent remeasurements of non-equity consideration included in profit or loss
Employers' assets and liabilities from employee benefit plans	Ind AS 19 and Ind AS 102	
Insurance contracts in which the entity is the policyholder (unless these contracts are reinsurance contracts held)	Ind AS 109	Ind AS 37 may be applicable

Insurance contracts eligible for accounting policy choice

Ind AS 117 permits entities to apply either Ind AS 117 or another Ind AS to certain contracts that meet the definition of an insurance contract. The entity has the option to make the choice based on each contract, but once the choice is made, it is irrevocable.

(i) Fixed fee service contracts:

(for example, annual maintenance contracts, roadside assistance in a car breakdown service contracts): Ind AS 117 permits entities a choice of applying Ind AS 115 instead of Ind AS 117 to such contracts if, and only if, they meet specified conditions:

- The entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer,
- The contract compensates the customer by providing services, rather than by making cash payments to the customer, and

- Insurance risk transferred by the contract arises primarily from the customer's use of services, rather than from uncertainty over the cost of those services.

The policy choice explained above applies only to fixed-fee service contracts. When an entity charges a fee which varies with the level of service provided (for example, an elevator service contract that levies a fee per breakdown according to the work required), then the contract is unlikely to transfer significant insurance risk, and it would be a service contract within the scope of Ind AS 115.

(ii) Financial Guarantee contracts (FG contracts):

FG contracts transfer credit risk and may have various legal forms such as letters of credit, a credit default guarantee, or an insurance contract.

Upon transitioning to Ind AS 117, an entity that has previously explicitly stated that it considers FG contracts as insurance

contracts and has used accounting applicable to insurance contracts, may reconsider its previous election regarding accounting for FG contracts made under Ind AS 104 and decide whether it prefers to account for those contracts under Ind AS 117 or Ind AS 109. This is because there are no specific transition provisions either within Ind AS 117 or Ind AS 109.

However, an entity that had not previously explicitly stated that it considers such contracts as insurance contracts or had previously not applied accounting applicable to insurance contracts (i.e., Ind AS 109 accounting was applied) may not reconsider its previous election (whether it was made implicitly or explicitly).





(iii) Credit card contracts (or similar contracts that provide credit or payment arrangements):

Credit card contracts that meet the definition of an insurance contract are excluded from the scope of Ind AS 117 if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

The accounting is explained briefly:

- When insurance risk in a contract is assessed for individual customers while pricing the contract: Account for the entire contract under Ind AS 117.
- When the insurance component is a part of the contractual terms of the instrument, but insurance risk is not reflected in the pricing of the contract (for example, where contracts contain clauses on indemnification, remedy against breach, etc.): Account for the insurance component under Ind AS 117 and for the other components under Ind AS 109 and any other applicable Ind AS (Ind AS 115 or Ind AS 37).
- When insurance risk is not assessed for individual customers and insurance component is not a contractual term in the contract: Account for the contract under Ind AS 109 or other applicable standards.

Accounting for performance guarantees

A performance guarantee is a contractual commitment that one party makes to another, assuring the fulfilment of specific obligations outlined in the contract. The accounting for these guarantees is based on relevant accounting standards and not the issuer's business type. Entities must use judgment to determine the applicable standard by analyzing all significant terms and conditions.



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Ind AS 117 marks a significant shift in accounting for insurance contracts, impacting not just insurance entities but also non-insurance entities issuing contracts such as extended warranties, fixed-fee service agreements, financial guarantees, and product breakdown coverages. Replacing the flexibility of Ind AS 104, it introduces a structured measurement and disclosure framework, enhancing transparency and comparability. While IRDAI notification is awaited for implementation for insurance companies, it is already effective for non-insurance entities. Companies should reassess their contracts, update accounting policies, and ensure system readiness to mitigate compliance risks.

The first step is to assess if the guarantee is a 'financial guarantee contract' and account for it accordingly.

If it is not a financial guarantee contract, check if it qualifies as an insurance contract under Ind AS 117 and follow its requirements.

If an entity concludes that a guarantee it issues is neither a financial guarantee contract nor an insurance contract, the entity considers other requirements in Ind AS to determine how to account for the guarantee. These requirements include:

1. Ind AS 109: The guarantee might be within the scope of Ind AS 109 because it is a loan commitment, a derivative, or otherwise meets the definition of a financial liability as defined in Ind AS 32.
2. Ind AS 115: If the counterparty to the guarantee is a customer, and the guarantee is not within the scope of other Ind AS, Ind AS 115 might apply.
3. Ind AS 37: Where the guarantee gives rise to a provision, contingent liability or contingent asset that is not within the scope of other Ind AS.

In some cases, performance guarantees include, or are issued in conjunction with, indemnity agreements that give the issuer of the performance guarantee the right to claim back any amounts

paid out from the party whose non-performance led to the guarantee being called. Judgment is required to determine whether such arrangements are insurance contracts in the scope of Ind AS 117 or financial instruments under the scope of Ind AS 109.

Accounting for contracts covered under Ind AS 117

Once an arrangement is classified as an insurance contract within the scope of Ind AS 117, then such contracts are grouped together for measurement when they share similar risk characteristics.

Measurement approaches:

- **General Model:**
This is a default method which continuously reassesses liabilities based on current expectations of future claims.
- **Premium Allocation Approach (PAA):**
This approach simplifies accounting for contracts with a coverage period of one year or less, allocating premiums over the coverage period on the basis of either the passage of time or the expected release from risk. It can also be applicable to contracts with longer coverage if the outcomes are similar to those under General Model.



- **Variable Fee Approach (VFA):**

This approach is tailored for contracts with direct participation features that are linked to a pool of underlying investments.

The three models mentioned above have similar objectives wherein they:

- Provide a mechanism to release premiums as insurance revenue over the coverage period
- Recognize liabilities for future claims and service costs, including a profit margin (contractual service margin)
- Require separate recognition for claims incurred, with subsequent remeasurement for future cash flow expectations.

How we see it

- Non-insurance entities that have not previously applied insurance accounting are not necessarily exempt from applying insurance accounting in the future.
- Companies should evaluate whether they have contracts that might meet the definition of an insurance contract.
- Where non-insurance entities conclude they have issued contracts within the scope of Ind AS 117, they will need to assess the adequacy of their information systems, relevant processes, personnel and governance to satisfy considerably more complex recognition and measurement procedures as well as the demanding presentation and disclosure requirements set out in the standard.
- While the relief amendment is a boon for insurance companies, it is imperative that these entities closely monitor regulatory developments and prepare for the eventual implementation of Ind AS 117. A proactive approach will not only ensure compliance but also position companies for sustained growth and stability in a competitive market environment.
- Entities should give disclosure of impact of change in accounting policy/ impact of adoption of new standard.





B. Ind AS 116: Sale and leaseback transaction amendment

Background

On 9 September 2024, the MCA introduced the Companies (Indian Accounting Standards) Second Amendment Rules, 2024, which specifically address the accounting for sale and leaseback transactions under Ind AS 116 Leases.

This amendment is effective for periods commencing on or after 1 April 2024. It does not alter the accounting for leases in general but impacts sale and leaseback transactions that qualify as a sale and involve variable lease payments that are not in-substance fixed payments. The amendment focuses on the subsequent accounting for the seller-lessee.

Overview of the amendment

A sale and leaseback transaction is a financial arrangement in which an entity (the seller-lessee) sells an asset to another entity (the buyer-lessor) and subsequently rents the same asset back. The accounting treatment for such transactions under Ind AS 116 'Leases' depends on whether the transfer of the asset satisfies the requirements in Ind AS 115 'Revenue from Contracts with Customers' to be accounted for as a sale. A transaction qualifies as a sale if the buyer-lessor gains control of the underlying asset.

When a sale and leaseback is treated as a sale, paragraph 100(a) of Ind AS 116 requires seller-lessee to measure the resulting Right Of Use (ROU) asset based on the proportion of the asset's previous carrying amount that corresponds to the retained right of use. The seller-lessee should recognize only the gain related to the rights transferred to the buyer-lessor. Previously, Ind AS 116 did not clearly define how to



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The amendment to Ind AS 116 brings significant change in accounting for sale and leaseback transactions involving variable lease payments with retrospective effect. This change impacts asset-heavy sectors like real estate, aviation, retail, and infrastructure, where such sale and leaseback arrangements are common. Companies must re-assess all existing sale and leaseback agreements with variable payments, update financial models, update their accounting to comply with this new requirement and ensure all applicable disclosures on account of this change in accounting policy are made in the financial statements.

measure the liability arising from a sale and leaseback transaction, particularly when lease payments are variable and not indexed or rate-linked. The new amendment resolves this by introducing paragraph 102A to Ind AS 116.

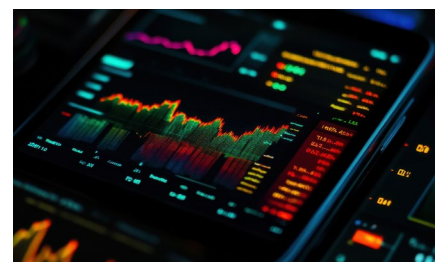
Details of the new paragraph 102A in Ind AS 116

Paragraph 102A specifies that after the commencement date in a sale and leaseback transaction, the seller-lessee must apply:

- paragraphs 29-35 of Ind AS 116, i.e., a lessee shall measure the ROU asset arising from the leaseback by applying a cost model or if ROU assets relate to a class of PPE to which the lessee applies the revaluation model in Ind AS 16, a lessee may elect to apply that revaluation model to all of the ROU assets that relate to that class of PPE, and
- paragraphs 36-46 of Ind AS 116 to the lease liability arising from the leaseback, i.e., a lessee shall measure the lease liability by: (a) increasing the carrying amount to

reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications. When applying paragraphs 36-46, the seller-lessee should determine 'lease payments' or 'revised lease payments' in such a way that no gain or loss associated with the retained right of use is recognized. This requirement does not preclude the seller-lessee from recognizing any gain or loss related to the partial or complete termination of a lease as required by paragraph 46(a) of Ind AS 116.

The initial measurement of the lease liability from a leaseback might lead to 'lease payments' that differ from the general definition.





Appendix D and illustrative examples

The amendment adds Appendix D to Ind AS 116, which provides two illustrative examples demonstrating the sale and leaseback transaction with fixed payments and above-market terms, and the subsequent measurement of an ROU asset and lease liability in a sale and leaseback transaction with variable lease payments not based on an index or rate.

The examples outline two approaches to determine subsequent lease payments:

■ Approach 1:

The seller-lessee calculates 'lease payments' to reflect expected lease payments at the commencement date, which, when discounted using the incremental borrowing

rate, equate to the lease liability's carrying amount at that date.

■ Approach 2:

The seller-lessee calculates 'lease payments' to reflect equal periodic payments over the lease term, which, when discounted using the incremental borrowing rate, equate to the lease liability's carrying amount at the commencement date.

In both scenarios, according to paragraph 102A and paragraph 38(b) of Ind AS 116, the seller-lessee recognizes in the Statement of Profit and Loss the difference between the actual lease payments made and the determined lease payments that reduce the lease liability's carrying amount. The seller-lessee must develop and apply an accounting policy that yields relevant

and reliable information in line with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Effective date and transition

A seller-lessee is required to apply the amendment to annual reporting periods beginning on or after 1 April 2024.

A seller-lessee shall apply the amendment retrospectively in accordance with Ind AS 8 to sale and leaseback transactions entered into after the date of initial application of Ind AS 116. (i.e., the amendment does not apply to sale and leaseback transactions entered into prior to the date of initial application). The date of initial application is the beginning of the annual reporting period in which an entity first applied Ind AS 116.

How we see it

The amendment may represent a significant change in accounting policy for entities that enter into sale and leaseback transactions with variable payments not dependent on an index or rate. Entities will also need to determine a suitable approach for determining 'lease payments' for these types of transaction.





2

Summary of Expert Advisory Committee (EAC) opinions

A. EACs covering issues relating to accounting in Statement of Profit and Loss

EAC-1 Accounting treatment of Hybrid Annuity Projects under Ind AS framework

Background

The company is a Special Purpose Vehicle (SPV) created for construction of a four-lane access controlled new greenfield highway section of inter corridor route on Hybrid Annuity Mode (HAM), which was awarded by the National Highways Authority of India (NHAI). HAM is a combination of both engineering, procurement and construction (EPC) and build, operate and transfer (BOT) annuity.

The company constructs the roads in two or two-and-a-half years and maintains the road for 15 years. NHAI/ the government paid 40% of the project costs /during the construction period and the remaining 60% of the cost is paid as annuity during the concession period which runs in 15 years along with the agreed interest. Further, during maintenance period, there will be receipt and expenses towards operation and maintenance (O&M), which are separate from the HAM contract value.

Total Bid Project Cost (BPC or Contract Value) consists of EPC civil road construction cost, interest during construction (IDC) as loan is taken for arrangement of 60% remaining amount and other pre-operative expenses, i.e., loan processing fees, independent engineer fees, audit fees, insurance, salary of SPV employees, bank guarantee (BG) commission,

secretarial compliance cost and other administration cost. Margins are derived by comparing total cash inflows vis-à-vis total outflows. Revenue is recognized based on total cost incurred plus margin.

The company is following Ind AS 115 for accounting of its transactions. As per Ind AS 115, during the construction period, revenue is recognized by taking the cost incurred till date plus margins and financial asset created. Further, the fair value of the transactions is to be calculated considering the project cash inflows and outflows in different periods. The difference between cash flows is represented as finance income (present value of cash flows) derived on the basis of effective IRR on net cash flows.

Issue under consideration

- (i) Whether borrowing costs (IDC, other financing cost, etc.) can be considered as part of total cost while calculating the margins for the project for revenue recognition?
- (ii) Can borrowing cost also be treated as a part of total cost while calculating measure of progress for recognizing financial asset for the project?

EAC view

The Committee noted that the basic issue that the company has raised relates to the accounting treatment of the borrowing costs it incurred under the service concession arrangement under HAM and has not examined any other issue that may arise from the facts of the case.

The Committee noted that the company has applied Appendix D 'Service Concession Arrangements' to Ind AS

115 in respect of the contract with NHAI. Accordingly, if the operator provides construction or upgrade services, the consideration received or receivable by the operator shall be recognized in accordance with Ind AS 115. The consideration may be rights to:

- a) a financial asset, or
- b) an intangible asset

Additionally, the operator should recognize an intangible asset when it receives a license to charge users for the public service. This right to charge users is not an unconditional right to receive cash, as it depends on the extent of public use of the service.

In the extant case, the Committee noted that the company has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services and the grantor (NHAI) has little, if any, discretion to avoid the payment. Therefore, the company's right under the arrangement constitutes a financial asset as per para 23 to 25 of Appendix D. Financial asset so recognized should be accounted as per Ind AS 109, i.e. at amortized cost or at fair value. Therefore, any interest calculated using effective interest method will be recognized in Statement of Profit and Loss.

With regard to inclusion of borrowing costs in the costs incurred during construction activities, the Committee noted that under paragraph 22 of Appendix D to Ind AS 115, borrowing costs shall be recognized as an expense as and when incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service), in which case, borrowing costs shall be



capitalized during the construction phase. In the current scenario, borrowing costs incurred shall be charged to the Statement of Profit and Loss, as and when incurred and not included as a part of contract/financial asset.

Further, borrowing costs shall not be included in the total cost for the purpose of determining the measure of progress of the contract under Ind AS 115, because they are incurred to fund the SPV's activities and do not represent the entity's efforts/inputs to satisfy the performance obligation.

How we see it

The EAC's opinion deals with capitalization of borrowing costs in a scenario where the contract is accounted for as a service concession arrangement using the financial assets model. The EAC opined that the borrowing costs cannot be capitalized, nor can they be included in the total cost for determining the measure of progress of the contract.

B. EACs covering issues relating to accounting in balance sheet

EAC-2: Accounting for major spares

Background

A company is a public sector enterprise engaged in mining of bauxite, manufacturing and selling of alumina and aluminum and generation of power for captive use.

The company recognized spare parts as PPE having unit value of more than INR 5 lakh and INR 1 lakh in case of critical spares. Useful life of major spares is estimated technically and depreciation on them commences when the PPEs are

available for use in the location and in a condition necessary for it to be capable of operating in the manner intended by the management. Major spares are deemed to be available for use when the same are fitted in the machinery so as to be capable of operating in the manner intended by the management.

On procurement of major spares, the same are kept at centrally placed stores and capitalized as PPE without assigning any useful lives. On issuance of the spares, the company was technically assessing the useful life of such spares for the purpose of depreciation. Management believes that the spare becomes available for use not at the store but at the location and in a condition where the same is to be fitted at the main plant/equipment with appropriate consideration of cost incurred in installation to make the spares capable of operating.

The Comptroller and Auditor General of India (C&AG) contended that depreciation on an item of spare part should commence immediately on purchase being readily available for use.

Issue under consideration

- (i) Whether, in case of spare parts being capitalized as PPE, date of purchase or date of issue should be considered as the date of available for use under Ind AS?
- (ii) Whether installation and commissioning expenses for such spares should be considered or ignored while applying depreciation?
- (iii) Whether useful life of spares estimated technically should consider the life of the intended machine where it will be installed or on a standalone basis?

EAC view

In the extant case, the major spares should be recognized as an item of PPE only when they meet the definition of PPE and satisfy the recognition criteria

as per Ind AS 16. Further, once the spare parts are classified as PPE, they will have to follow the requirements of Ind AS 16 in all aspects. Accordingly, the spare parts shall be capitalized, and their costs shall be determined as per the requirements of Ind AS 16 and shall also be depreciated as per the requirements of Ind AS 16.

With regards to the depreciation, the Committee noted that paragraph 55 of Ind AS 16, inter alia, provides that depreciation of an asset begins when it is available for use, i.e., when it is in the location and in a condition necessary for it to be capable of operating in the manner intended by management.

Considering the above-mentioned requirements, the spare part should be capitalized and depreciated from the date it becomes available for use. In this context, the Committee is of the view that the intended use of spare part is to act as a stand-by for replacement of the original part in the plant and machinery in case of its damage/non-functioning/breakdown and therefore, normally it is ready for its intended use on its purchase or acquisition and not on its actual use or replacement in the concerned plant and machinery. Further, since the spare is purchased for use as a stand-by, even when it is in store after purchase but before its use in machinery, it is in the location and condition for operating in the manner intended by management and is ready for its intended use of replacement. Accordingly, the depreciation of spare part should start from the date of its acquisition/purchase itself rather from the date when it is actually used/fitted.

The Committee believed that depreciation on major spares should be charged from the date of purchase, excluding installation and commissioning costs, until the spare is used for replacement. If installation and commissioning costs are not material, they can be recognized in the Statement of Profit and Loss. However, if these costs are material, they should be added to the carrying amount



of PPE when the spare is replaced, provided the recognition criteria in Ind AS 16 are met. The carrying amount of the replaced part, including its installation and commissioning costs, should be derecognized according to Ind AS 16.

As per the requirements of Ind AS 16, a spare part should be depreciated considering its useful life, however, that useful life should be estimated in terms of its expected utility to the entity including both the periods of storage and use, considering factors such as, intended use, part to be replaced, historical data, expected obsolescence, etc.

How we see it

This EAC addresses the principal issue of determining the timing of commencement of depreciation on critical spares classified as PPE. Such spares are ready for use on the date of purchase and thus depreciation should commence from the date of its purchase and not date of actual use. Its useful life should be estimated accordingly, including the period of storage.

Companies may need to revisit current policies and procedures including but not limited to updating fixed asset registers, current accounting software, etc.

EAC-3: Accounting for additional capitalization due to arbitration award

Background

A company is engaged in manufacturing of steel. It had placed an order with a consortium of companies for setting up blast furnace for a certain amount, however, due to delays, the commissioning got delayed. The company demanded liquidated damages from the consortium whereas the contractor did not accept the delay but raised claims for extra work and prolongation cost with interest. Failing the mutual discussions, the consortium invoked arbitration with the International Chamber of Commerce (ICC) which was ordered against the Company.

After arbitration was invoked by the contractor, the company accrued a liability of INR 153.71 crore with a corresponding capitalization of asset in September 2014. The claim was finally settled for INR 283.94 crore in March 2022. The company capitalized the incremental claim, i.e., INR 130.23 crore, in March 2022.

C&AG observed that INR 130.23 crore has been capitalized for the work that has already been completed before commissioning of the original asset and the company was getting benefits out

of it since then and thus depreciation on this additional capitalization should be charged from September 2014 instead of March 2022.

Issue under consideration

Whether the additional capitalization of INR 130.23 crore should be charged from September 2014 instead of March 2022?

EAC view

The Committee noted that, according to Ind AS 16, only costs directly attributable to bringing an item of PPE to its intended operational condition should be capitalized. Since the additional cost incurred towards additional design engineering cost, extra civil work, price variation claims, etc., has been contended by both the management and the C&AG auditor to be capitalized as part of the cost of the steel plant/blast furnace in the extant case, these costs are presumed to pertain to the pre-capitalization period (before the date of initial capitalization, i.e. September 2014).

The Committee also noted that the cost of the plant includes an element of an estimate of INR 153.71 crore towards extra price variation claim, extra civil work, and additional design engineering cost at the time of capitalization of the asset, actual cost of which got crystalized in 2022 at a higher amount and therefore, the same is a change in estimate of the cost of PPE which should be accounted as per Ind AS 8. Considering paragraphs 36 and 37 of Ind AS 8, the Committee noted that change in estimate due to adjustment of the carrying amount of an asset should be recognized prospectively by adjusting the carrying amount of the related asset in the period of the change. Further, the depreciation on the amount capitalized subsequently due to change in estimate should be charged prospectively. However, the resulting carrying amount of such asset should be reviewed for impairment as per the requirements of Ind AS 36.





How we see it

The EAC opinion addresses the principal issue on determining any subsequent amendment to the cost of capitalized PPE, based on an event confirming such amount, is considered as a change in accounting estimate. Further, the EAC addressed that the subsequent amendments to the cost require to be capitalized and depreciated prospectively as per the requirement of Ind AS 8.

EAC-4: Method to be adopted to determine Fair Value of Investment under Ind AS framework

Background

A company is a non-listed company of the State Government, registered under the Companies Act and a Non-Banking Financial Company (NBFC) registered under section 45 IA of the Reserve Bank of India Act, 1934.

The company has made an investment in equity shares (unquoted) of G Ltd., which is not listed at any recognized stock exchange. The company is holding 0.19% of the total issued and paid-up equity shares capital of G Ltd. Hence, G Ltd. is neither a subsidiary nor an associate or joint venture. The company has exercised the irrevocable option to classify equity instrument at Fair Value Through Other Comprehensive Income (FVTOCI) at the time of its first-time adoption of Ind AS. The company has determined the fair value of the investment in G Ltd. on the basis of book value of Consolidated Financial Statements (CFS) for valuation of investment in shares of G Ltd.

Issue under consideration

Whether the method adopted by the company to determine the fair value of investment based on book value of consolidated financial statements is appropriate?

EAC view

The Committee noted that considering the requirements of Ind AS 109 and Ind AS 101, the company has measured investment in equity shares of G Ltd. at FVTOCI. The Committee also noted that as per paragraph B5.2.3 of Ind AS 109, all investments in equity instruments are to be measured at fair value irrespective of whether these are quoted or not quoted in an active market except in limited circumstances. Fair value has to be determined as per the requirements of Ind AS 113 - 'Fair Value Measurement'.

The Committee noted that there are three widely used valuation techniques (market approach, cost approach and income approach) under Ind AS 113. The standard prescribes to use a valuation technique consistent with one or more of these approaches to measure fair value.

To increase consistency and comparability, para 72 of Ind AS 113 establishes fair value hierarchy. The fair value hierarchy prioritizes the inputs to valuation techniques, and not the valuation techniques used to measure fair value. Thus, the standard does not prescribe the use of a specific valuation technique or a hierarchy of valuation techniques; rather, it only provides a hierarchy of inputs to valuation techniques. Whichever approach or technique is used, the objective of fair valuation should be kept in mind, i.e., to estimate an exit price at measurement date from the perspective of holder of asset.

Considering the facts of the case, the Committee noted that for the valuation of investment in G Ltd., the company should use Level 2 inputs or if these are not available, it should use Level 3 inputs that are unobservable inputs. Thus, the Committee is of the view that the book values of G Ltd. (of standalone or consolidated financial statements) as on the reporting date, in itself, cannot be considered as a substitute of fair value of investment in G Ltd. and the company should follow the approaches, techniques and methodology prescribed under Ind AS 113 to determine fair value.



How we see it

This EAC opinion lays down the principle requirements of fair value measurements. Companies holding investment in an unlisted company and having exercised the irrevocable option to classify the equity instrument at fair value should determine fair value as per Ind AS 113 at each reporting period. Book values cannot be considered as a substitute for fair value measurement requirements.

Companies may need to revisit the measurement approach followed in its investments in unlisted entities.



EAC-5: Accounting for company's liability towards Social Security Scheme fund as per the requirements of Ind AS 19, 'Employee Benefits'

Background

A company is a Navratna Company under the Ministry of Petroleum and Natural Gas, Government of India and is engaged in the business of exploration, development, production and transportation of crude oil and finished petroleum products.

The company has a Social Security Scheme for providing specific financial assistance to dependent family members of the employee who dies during service period. Up to financial year (FY) 2021-22, this scheme was serviced through purchase of an appropriate insurance policy from approved life insurance companies, under which the company had no liability other than base premium (INR 4.29 crore) and 50% of additional

premium over and above base premium. In the year 2022-23, the company approved formation of the company's Social Security Scheme Trust Fund (SSS Fund) to carry out the activities as envisaged in the earlier Social Security Scheme. As a part of the objectives of the Trust, the funds will be invested in LIC. If in any financial year, the cash required for meeting the liabilities of the Trust Fund is less than the assets available, the shortfall shall be made good by the company. SSS Fund has been created to provide financial assistance to dependent family members of the employee who dies during service period. If an employee dies after service life, the dependent members are not eligible for any financial assistance from the Trust and accordingly, the company is of the opinion that it is neither a defined benefit plan nor a defined contribution plan as stated in paragraph 8 of Ind AS 19. Thus, for FY 2022-23, the company has neither carried out any actuarial valuation nor provided any disclosure in notes to accounts under Ind AS 19. However, C&AG is of the opinion that the above scheme is a defined benefit plan and thus Ind AS 19 should be followed.

Issue under consideration

Whether SSS Trust Fund should be classified as defined contribution plan or defined benefit plan? If it is classified as defined benefit plan, whether an actuarial valuation is required every year to ascertain the actuarial liability of the Trust Fund?

EAC view

EAC analyzed the relevant definitions of employee benefits as per para 6 of Ind AS 19 which covers employment benefit, post-employment benefits, and other long-term benefits. It also evaluated the defined contribution plan as well as defined benefit plan. Further, para 26 specifies post-employment benefit to include retirement benefits and other post-employment benefits such as life insurance and medical care. Any post-employment benefits are considered

as post-employment benefits plan and thus Ind AS 19 applies to all such arrangements.

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans depending on the economic substance. A plan can be considered as defined contribution plan unless entity has legal or constructive obligation to pay the benefits directly when due or pay further amounts if insurance does not pay all the future benefits to the employee. Considering the facts of the case, the benefits payable under the SSS Scheme are defined and not payable during the service or termination or post-employment but only on death of employee while they are in service. Such benefits are thus not considered as post-employment benefit but other long-term employee benefits.

Further, considering the facts of the case, the liability of the company under the scheme is not limited to any fixed contribution, thus it is in the nature of defined benefit plan. Accordingly, in the extant case, EAC is of the view that the company should account for the scheme as per the requirements of Ind AS 19 in respect of 'Other long-term employee benefits', which inter alia require measuring the present value of the defined benefit obligations and the related current service cost, applying an actuarial valuation method.

How we see it

EAC is of a view that if a company bears no further obligation beyond fixed contributions, it qualifies as a defined contribution plan. EAC further clarifies, if the company has a legal or constructive obligation to cover future payments or trust fund shortfalls, it must be classified as a defined benefit plan and actuarially valued using the Projected Unit Credit Method. Companies should carefully assess the nature, timing, and funding structure of their employee benefit schemes.



EAC-6: Accounting treatment of shareholder's loan provided to joint venture company under Ind AS framework

Background

A Government of India undertaking ('Company') is engaged in refining of crude oil and is jointly owned by O Ltd. (69.63%), Government of Assam (GoA) (26%) and E Ltd. (4.37%). The capacity of the refinery is being enhanced from 3.0 MMTPA to 9.0 MMTPA.

The Board of Directors of the company approved the loan to be given to its joint venture company, A Ltd., for the implementation of bio refinery project (hereinafter referred to as shareholder loan). A Ltd. has also obtained term loan from Punjab National Bank (PNB) for financing its project cost. The above shareholder loan is provided under two different agreements and both the agreements stated interest rate will be equal to PNB loan rate + spread. However, up to the commercial operation date (COD), no interest will be levied. Interest will be levied post-COD.

The company has accounted for the shareholder loan under Ind AS 109. Considering paragraphs B5.1.1, 5.1.2 and B4, the transaction price of shareholder loan is not considered at fair value as shareholder's loan agreement includes interest holiday during construction period which is generally not offered by financial institutions to its borrowers. Hence, the company derived a fair value of the instrument considering the tenure of the loan (15 and 11 years, respectively), thereby deriving a difference between transaction price and fair value which has been presented as investment in

joint venture. Interest on loan has been calculated considering fair value and accounted as other income.

C&AG, during the audit, raised an observation on creating provision for the interest income considering the same is non-realizable under the shareholder loan agreement.

Issue under consideration

Whether the accounting treatment of shareholder loan made by the company is correct or not? Also, whether provision is required to be created on interest income as opined by C&AG?

EAC view

The Committee noted relevant paragraphs from Ind AS 109 and Ind AS 113, which require financial assets to be initially recognized at their fair value plus transaction costs. While transaction price is generally considered as fair value at initial recognition, however, Ind AS 113 para B4 provides that transaction price may not be the fair value if the transaction is between related parties. Basis consideration of the above para and B5.1.1 of Appendix B of Ind AS 109, the Committee is of the view that in the extant case, the substance of the transaction is that the subsidiary/joint venture has received a contribution from the parent to the extent that the cash advanced exceeds the fair value of the subsidiary's/joint venture's financial liability or lender's fair value of the financial asset. Accordingly, the below market interest element is construed as a non-reciprocal capital contribution by the company to the joint venture (A Ltd.) and should be recognized by the company as an investment in joint venture (as a

component of the overall investment in the joint venture) in its separate financial statements.

As per the requirements of paragraphs 4.1.1 and 4.1.2 of Ind AS 109, the financial asset shall be measured at amortized cost since the loan appears to be held to collect contractual cash flows that are solely payments of principal and interest. The interest income on financial asset should be accrued and calculated by the company by using effective interest method considering the imputed rate(s) of interest for a similar instrument. The interest as per the contractual terms and interest accrued in the financial statements as per effective interest rate, is due to accounting as per applicable Ind AS. Further, the Committee also notes that the interest is realizable when the actual payout starts from the joint venture; therefore, at this stage, there is no non-realizable interest income which is required to be provided for.



This EAC opinion confirms that initial recognition of financial asset/liability should be accounted at fair value in case of the transaction price is not same as fair value. It also further clarifies that any notional income accounted for in accordance with requirements of Ind AS (not forming part of commercial arrangement) does not render such income/asset as irrecoverable, unless the underlying asset/liability itself is irrecoverable.

Praveen K Jindal

Partner, Financial Accounting Advisory Services (FAAS), EY India





EAC-7: Recognition of windmill plant as a PPE or as right of use assets

Background

The company engaged in the consultancy business of energy management, including renewable energy is a Central Public Sector Entity (CPSE). The company is facilitating Indian Railways (NWR) in procurement of power in open access and in achieving the net zero carbon.

The company owns a wind power plant of 26 MW, and the entire energy of the plant is being transmitted at stipulated traction sub-station of Indian Railways in terms of Power Purchase Agreement (PPAs) for a period of 25 years with Nodal Railways. This wind power plant is a part of 572MW wind farm developed by developer wherein balance capacity is owned by another CPSE. The land for wind farm was allotted to the developer as per the State land lease policy and was further sub-leased by the developer to the respective CPSEs. The company accounted leased land as right of use asset and balance power plant cost as PPE with useful life of 25 years as per technical assessment.

C&AG is of the view that on account of PPA entered into with NRW for a period of 25 years, the company should not account windmill power plant as PPE, rather it should be accounted as a finance lease of the asset.

Issue under consideration

Whether recognition of windmill plant as PPE as per Ind AS 16 is appropriate or the same should be considered as a finance lease of the asset as per Ind AS 116?

EAC view

The Committee noted that the company should first check if the arrangement with Railways falls under Appendix D of

Ind AS 115, which deals with Service Concession Arrangements. If it does, those guidelines should be followed. However, since this issue was not raised from that perspective, the Committee has not examined it under that assumption.

The Committee further noted in the extant case that the criteria for evaluation of lease as regards to having an identified asset and right to obtain substantially all of the economic benefits from the use of identified asset were met. The Committee noted that the contention point in the query was whether customer has right to direct how and for what purpose the asset is used throughout the period of use.

According to paragraph B25 of Ind AS 116, a customer can direct how and for what purpose an asset is used if they can change these aspects throughout the period of use. This involves decision-making rights like changing the type, timing, location, and quantity of output. However, in this case, the wind plant's location and output are fixed by the PPA, and the plant operates on a must-run basis. Therefore, neither the customer (NWR) nor the supplier can change how and for what purpose the plant is used during the contract period.

The Committee noted in the extant case that relevant decisions about how and for what purpose the asset is used are pre-determined in the contract. Paragraph B24 of Ind AS 116 states that if the decisions about how and for what purpose an asset is used are predetermined, a customer can direct the use of the asset if: (a) The customer has the right to operate the asset (or direct others to operate it) throughout the period of use without the supplier changing those instructions, or (b) The customer designed the asset (or specific aspects of it) in a way that predetermines its use throughout the period.

The Committee noted that in the extant case, the customer (NWR) does not operate the plant, and the company

makes all the decisions about how the plant is operated throughout the period of use. Thus, NWR has the same rights regarding the use of the plant as if it were one of many customers obtaining power from the plant. Therefore, NWR does not have the right to operate the asset throughout the period of use.

The Committee notes that in the extant case, the customer's involvement was limited to giving broad guidelines to be respected by the supplier (the company); however, various decisions significantly affecting economic benefits from use of the asset (for example, technical functionality or overall capacity, selecting the specific equipment to be installed, make and number of equipment to be installed, selecting the site location and layout, etc.) are left to the discretion of the supplier. Therefore, it seems from the facts supplied that the customer did not design the plant. Thus, the customer (viz., NWR) in the extant case does not have the right to direct how and for what purpose the plant is used.

Therefore, the Committee is of the view that in the extant case, the PPA cannot be considered as a lease agreement of windmill plant and should not be accounted for as per the requirements of Ind AS 116.

How we see it

This EAC opinion provides guidance on evaluation of lease accounting where entire capacity of the plant is used by a single customer over the useful life of plant. Unless the customer has the right to direct how and for what purpose the plant can be used, a mere right to obtain substantially all economic benefit over the life of asset does not trigger lease accounting under Ind AS 116.

Companies may need to revisit these principles as it will be applicable across industries wherein companies are setting up as asset to provide service to a single customer.



C. EACs covering issues relating to classification/presentation in the financial statements:

EAC-8: Accounting treatment and disclosure of debit balance of capital reserve arising on merger

Background

A public limited company has decided to merge S Ltd., a wholly owned subsidiary of the company and T Ltd., step-down subsidiary with the company. Both S Ltd. and T Ltd. were acquired subsidiaries. The company had presented goodwill in respect of these subsidiaries in the consolidated financial statements (CFS) of the company before the above merger. The company has accounted the above merger of S Ltd. and T Ltd. with the company under 'Common Control' transactions as per Ind AS 103, 'Business Combinations' under 'Pooling of Interest Method' and arrived at the negative capital reserve as a result of the transaction.

Issue under consideration

EAC opinion was sought whether the pre-merger consolidated goodwill shall continue to be shown in post-merger standalone financial statements (SFS) and CFS of the company and only balance amount (i.e., the negative capital reserve net off of goodwill) should be shown as debit balance of capital reserve or full amount of negative capital reserve (without considering goodwill) shall be shown as debit balance of capital reserve.

EAC view

EAC noted, "As per Appendix C of Ind AS 103, Business Combinations, in case of common control business combinations, the assets and liabilities of the combining entities are reflected at their carrying amounts". Further, para 11 of

Appendix C does not require balances of retained earnings to be recognized as per the CFS. Further para 12, inter alia, also requires that the identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form as they appeared in the financial statements of the transferor.

Therefore, it may be argued that Appendix C of Ind AS 103 contemplates recognizing the amounts from the SFS of the merging entities rather than the CFS. Accordingly, carrying values as appearing in the SFS of the subsidiary is to be taken; and if there is no goodwill recognized in the pre-merger financial statements of the subsidiary company and the step-down subsidiary company, no goodwill as appearing in the pre-merger CFS, should be recognized in the post-merger financial statements of the company.

The Committee further notes, as per Issue 2 of Ind AS Technical Facilitation Group (ITFG) Bulletin 9 there is no change due to the merger of a subsidiary at consolidated group level. The merger transaction only means that the assets, liabilities and reserves of subsidiary, which were earlier appearing in the CFS before the merger, would subsequently be a part of the SFS of the parent company. ITFG further notes that separate financial statements of the parent shall be considered as a continuation of the consolidated group for the purpose of common control transaction. Accordingly, it may not be inappropriate to recognize the carrying value of the assets, liabilities and reserves pertaining to subsidiary, as appearing in the pre-merger CFS of the parent company, in the post-merger financial statements of the parent company. In this case, the goodwill appearing in the pre-merger

consolidated financial statements of the company should be continued to be recognized in the post-merger financial statements of the company.

Based on the above considerations, the EAC opined that the treatment accorded by the company to not recognize goodwill appearing in the pre-merger CFS of the company in the post-merger financial statements of the company is also correct.



EAC remains instrumental in resolving complex financial reporting challenges. The previous uncertainty regarding the presentation of reserves created on account of merger of a subsidiary with parent has been addressed by EAC. The Committee has provided clarity on the matter of whether to carry forward goodwill in the post-merger financial statements as it appeared in the parent company's pre-merger consolidated reports, or to recognize only the capital reserve that emerges by using the standalone numbers of the transferee company. The EAC has confirmed that both views are possible.

Jaipa Sonchhatra

Partner, Financial Accounting Advisory Services (FAAS), EY India



EAC-9: Classification of portion in the common office complex, occupied by parent company, as investment property in the subsidiary company's financial statements

Background

Company ('Child Ltd'), which is a wholly owned subsidiary of a listed government company ('Parent Ltd'), is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India.

Child Ltd. as well as Parent Ltd. acquired adjacent pieces of land from State Development Authority (SDA) on perpetual lease in December 2003, which were recognized as ROU asset upon transition to Ind AS 116, 'Leases'. The land parcels were acquired for construction of the office complex.

A multistory office complex (Tower A and B) was constructed on these plots and out of total construction cost of the building ~50.12% was incurred by and capitalized in the books of Child Ltd. and the remaining ~49.88% was incurred by and capitalized in the books of Parent Ltd. Child Ltd. occupied ~ 30% (3 floors in Tower B) and Parent Ltd. occupied (Tower A + 2 floors in Tower B) ~ 70% of the building.

The part of the complex occupied and used by Parent Ltd. in excess of its proportionate share, according to the auditors, is akin to a beneficial interest enjoyed by Parent Ltd. The arrangement, being a related party transaction, should be at arm's length and accordingly, Child Ltd. should charge consideration from Parent Ltd. for such beneficial interest enjoyed by Parent Ltd. Parent Ltd. agreed to purchase of the two floors in Tower B from Child Ltd. after conversion of the leasehold land into freehold. Pending these approvals, the sale could not take place and thus, both the companies entered into a rental arrangement for the interim period.

The auditors observed that since Child Ltd. is earning rental income for the two floors, the same should be classified as Investment Property (IP) and the remaining part can continue to be accounted as PPE.

Issue under consideration

Whether the said two floors held by Child Ltd. should be classified as investment property?

EAC view

EAC noted that Child Ltd. has a dual use of its share of the office building-part being used by it and part being given for use to Parent Ltd. The Committee noted from the requirements of Ind AS 40 that similar types of property can be used for different purposes. Paragraph 10 of the Standard requires that when the property has dual purposes, if the portions could not be sold or leased out separately under finance lease, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Thus, in the extant case, even if it is considered that the building of Tower B pertaining to Child Ltd. is being held for dual use (assuming that each of these floors cannot be sold separately or separately leased out under a finance lease), since the three floors out of five floors are being used by the company for its own use, which cannot be considered as insignificant, the building or the property cannot be classified as investment property. EAC opined that in the extant case, considering the judgment exercised by the company based on the criteria used by it to classify investment property or to distinguish the same from owner-occupied property, the property (Building of Tower B) of Child Ltd. or a part thereof may not be classified as 'investment property'. However, as per the requirements of the Standard, the company should disclose the criteria used to distinguish investment property

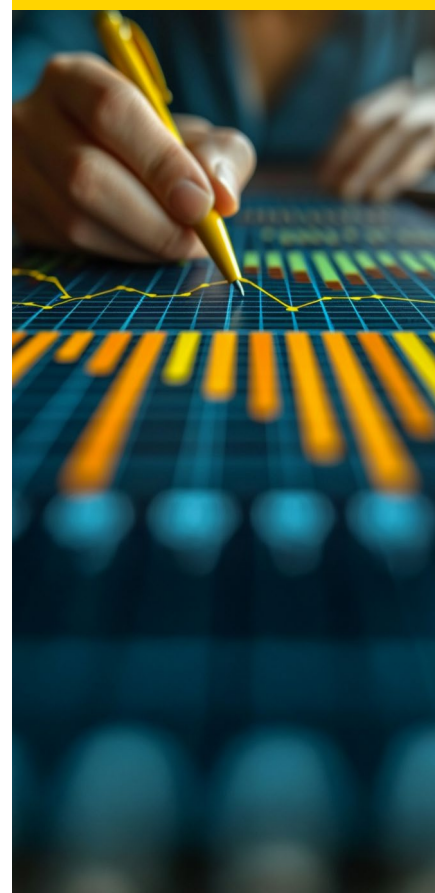
from owner-occupied property and from property held for sale in the ordinary course of business.

How we see it

This EAC opinion provides guidance on accounting for property held for dual use as IP or PPE based on the assumption that part of the property leased out cannot be sold/leases separately from the main property. Where a dual use property is partly let out, unless significant, may not be classified as IP.

These practices are common across various groups of companies, wherein premises/property owned by one entity is used/leased out to various group entities.

Companies should carefully consider the facts of the case while evaluating such arrangements and shall disclose the criteria considered for such classification in its financial statements.





3 Key topic from IFRS perspective

A. IFRS Interpretations Committee Discussion (IFRS IC)

IFRIC tentative agenda decision paper

1. Disclosure of revenues and expenses for reportable segments (IFRS 8, Operating Segments)

Background

Paragraph 23 of IFRS 8 requires an entity to disclose the specified amounts for each reportable segment when those amounts are included in the measure of segment profit or loss reviewed by the Chief Operating Decision Maker (CODM), even if they are not separately reviewed by the CODM, or when those amounts are regularly provided to the CODM, even if they are not included in the measure of segment profit or loss. The information to be reported are mentioned in sub para (a) to (i) of para 23 of IFRS 8 and includes information like revenue from external customers, interest revenue, material items of income and expense disclosed in accordance with IAS 1, etc.

Issue

IFRS Interpretation Committee (hereinafter referred as "IFRS IC") had received a request to clarify following:

- a) Whether an entity needs to disclose amounts in paragraph 23(a)-(i) of IFRS 8 for each reportable segment even if they are not separately reviewed by the CODM;
- b) Whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 Presentation of Financial Statements; and
- c) How an entity determines 'material items' in paragraph 23(f) of IFRS 8, more particularly, whether they are material qualitatively, or it includes amounts that are aggregation of individually quantitatively immaterial items? Also, whether materiality assessment needs to be performed at income statement level or segment level.
- b) applies the requirements in paragraphs 30-31 of IAS 1 in considering how to aggregate information in its financial statements;
- c) considers the nature or magnitude of information—in other words, qualitative or quantitative factors—or both, in assessing whether information about an item of income and expense is material; and
- d) considers circumstances including, but not limited to, those in paragraph 98 of IAS 1.

Discussion

With regards to the first part of the question, the IFRS IC points out that para 23 of IFRS 8 requires an entity to disclose the specified amounts for each reportable segment when those amounts are included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately reviewed by the CODM, or when those amounts are regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

While addressing point b and c in the issue, the IFRS IC references to para 7 of IAS 1 and para 30-31 of IAS 1 and accordingly stated that in applying paragraph 23(f) of IFRS 8, an entity:

- a) applies paragraph 7 of IAS 1 and assesses whether information about an item of income and expense is material in the context of its financial statements taken as a whole;



Companies are required to align their segment disclosures with the information regularly examined by the CODM to ensure financial reporting accurately mirrors operational performance. Given the frequent alerts from various regulators, it is imperative for the organizations to furnish the necessary disclosures to comply with reporting requirement, offering a transparent view of performance and allocation of resources to enhance the investor's trust.

Ravi Ladhania

Partner, Financial Accounting Advisory Services (FAAS), EY India



Conclusion

The IFRS IC concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.

How we see it

We believe that it is very important for the companies to review along with their internal management reporting, other financial information which are regularly presented to CODM. If any of the information as provided in para 23(a)-(i) are separately reviewed by CODM (even though not being a part of internal management reporting), the same are required to be presented as per requirements of para 23 of IFRS 8.

2. Climate-related commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

Background

In 20X0, a manufacturer publicly stated its commitment to reduce its greenhouse gas emissions by at least 60% by 20X9 and offset the remaining emissions in 20X9 and thereafter by buying carbon credits and retiring them in the carbon market.

With its statement, the entity publishes a detailed plan setting out how it will gradually modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in emissions by 20X9. The modifications will involve investing in more energy-efficient processes, buying energy from renewable sources, etc.

Issue

- Whether such a commitment to reduce or offset greenhouse gas emissions creates a constructive obligation;
- Whether such constructive obligation meets criteria in IAS 37 for recognising a provision; and
- If a provision is recognised, whether the expenditure required to settle it, is recognised as an expense or as an asset.

Discussion

The IFRS IC observed that whether an entity's statement of its commitment to reduce or offset its emissions creates a valid expectation that it will fulfill its commitment and hence creates a constructive obligation depends on the facts of the commitment and the circumstances surrounding it. Management would apply judgment to reach a conclusion considering those facts and circumstances.

With regards to part (b) of the issue, the IFRS IC referred to para 14 of IAS 37, which requires an entity to recognize a provision when the entity has,

- a present obligation as a result of past event,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and
- a reliable estimate can be made of the amount of the provision.

The IFRS IC, referring to illustrative example 2B accompanying IAS 37 and para 18 and para 19 of IAS 37, concluded that if the fact pattern creates a constructive obligation for the entity as mentioned above, that obligation is not a present obligation as a result of past event when the entity





publicly states its commitment in 20X0, as the entity has not taken the actions to which the statement applies. IFRS IC also stated that the entity will never have a present obligation for future modifications to its manufacturing methods because these costs will always be incurred in future and the entity, at some point will have to pay for the resources it purchases to modify its methods, but only when it receives these resources. Only when the entity has emitted the greenhouse gases that it has committed to offset will it have a present obligation to retire the carbon credits required to offset those greenhouse gases. The entity will have a present obligation to retire carbon credits only if and when it emits greenhouse gases in 20X9 and later years.

The second criterion for recognizing a provision is that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, to which the committee stated that although the entity will incur expenditure to modify its manufacturing methods, it will receive other resources for example, PPE, packing material, etc., in exchange of that expenditure and it will be able to use these resource to

manufacture products it can sell at a profit and accordingly, it will not require an outflow of resources embodying economic benefits. However, settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources. The entity will be required to retire carbon credits without receiving any resources in exchange.

Regarding the third criterion, IFRS IC believed that it is likely that the entity would be able to make a reliable estimate of the amount of a constructive obligation that satisfies the other recognition criteria.

Hence, the IFRS IC concluded that,

- a) Whether the entity's statement of its commitment to reduce and offset its greenhouse gas emissions creates a constructive obligation depends on the facts of the statements and circumstances surrounding it.
- b) If the statement creates a constructive obligation, the entity does not recognize a provision when it makes that statement. At that time, the constructive obligation is not a present obligation as a result of a past event. However, as the entity emits greenhouse gases in

20X9 and thereafter, it will incur a present obligation to retire the carbon credits to offset its past emissions and hence if the entity has not already retired the carbon credits required to offset its past emissions, it should recognize a provision if a reliable cost estimate can be made.

- c) Regarding part (c) of the issue, IFRS IC observed that the expenditure is recognized as an expense, unless it qualifies for recognition as an asset that qualifies for recognition under other IFRS standards.

IFRS IC observed that, irrespective of whether an entity's commitment to reduce or offset its greenhouse gas emissions results in the recognition of a provision, the actions the entity plans to take to fulfill that commitment could affect the amounts at which it measures its other assets and liabilities and the information it discloses about them, as required by various IFRS Accounting Standards.

Conclusion

IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine the issues, as mentioned.

How we see it

This is a relevant issue in the current economic environment in various jurisdictions. We believe it is very important for companies to look at their public statements, commitments on emission and related communication to determine whether it meets the definition of constructive obligation, as defined in IAS 37. It is also necessary to analyze, whether owing to that constructive obligation, whether there is an outflow of resources embodying economic benefits and hence, whether there is a need for the provision.



B. Other key topics from IFRS perspective

1. Contracts Referencing Nature-dependent Electricity

Background

Power Purchase Agreements (PPAs) are contracts between a buyer, typically a utility or large energy consumer, and a seller, usually a renewable energy generator, for the purchase of electricity at a predetermined price.

With the growing trend of companies entering into long-term PPAs for renewable energy to secure green electricity, earn renewable energy certificates, and hedge against price volatility, the demand for PPAs is rising as part of efforts to achieve carbon neutrality. This surge has led to practical challenges in applying IFRS 9.2.4, which addresses contracts for purchasing non-financial items, such as electricity, under these agreements.

Electricity markets are structured differently across various regions, which influences how PPAs are executed. The structure of the market can determine whether a PPA is classified as physical or virtual.

- **Physical PPAs:**
These involve the actual delivery of electricity from the seller to the buyer. The buyer typically has a contractual right to the electricity and an obligation to purchase it at the agreed price.
- **Virtual PPAs:**
These do not involve the physical delivery of electricity. Instead, they are financial contracts where the settlement is based on the difference between the agreed PPA price and the market price of electricity.



Guidance:

Accounting Guidance Under IFRS 9

Under IFRS 9:

- As virtual PPAs are only capable of being net settled, they generally are accounted for as derivatives at fair value through profit or loss.
- For physical PPA's, depending on the facts and circumstances, entity may need to assess whether the PPA is within the scope of IFRS 9. The assessment depends on whether a physical PPA is capable of being net settled, and if it is held in accordance with the entity's expected purchase or usage requirements (generally referred as "own use exemption"). If own use exemption is met, the PPA doesn't fall under the ambit of IFRS 9. However, in such cases, entities need to assess whether a provision is to be recognized for an onerous contract under Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets.

General Considerations for IFRS 9 Application

IFRS 9 applies to contracts for non-financial items that can be net settled in cash or other financial instruments, treating them as financial instruments, except when such contracts are held for the entity's expected operational use ('own use' exemption).

Under IFRS 9, the initial step is to assess if a contract for a non-financial item can be net settled. IFRS 9.2.6 provides guidance on how a contract may be net settled. If net settlement is not possible, the contract falls outside IFRS 9's scope and is treated as an executory contract.

Contracts that are not for 'own use' and can be net settled fall within IFRS 9's scope and are treated as derivatives.

Determining net settlement possibility

Under para 2.6 of IFRS 9, when determining if a contract can be net settled, entities should consider the following factors:

- If the contract terms explicitly permit net settlement in cash or other financial instruments.
- The entity's customary practices of net settling similar contracts, which may involve entering into offsetting contracts or selling the contract before maturity.
- The entity's habit of taking delivery of the underlying asset and then selling it shortly after to profit from short-term price changes or margins.
- The non-financial item (electricity) can be readily converted to cash.

These considerations help to establish whether a physical PPA is capable of net settlement and thus, whether it falls within the scope of IFRS 9 or qualifies for the 'own use' exemption.



'Own Use' exemption criteria

When a physical PPA is capable of being net-settled, entities must assess if it qualifies for the 'own use' exemption under IFRS 9.2.4. This involves using judgment to ensure the PPA is primarily for the entity's operational needs, especially when excess electricity cannot be stored and must be quickly consumed or sold. The main goal is to demonstrate that the PPA's purpose is for the entity's own use.

Splitting contracts at inception

Under IFRS, a commodity contract that can be net settled in cash and is entered into partly for 'own use' and partly for trading purposes, may be split into separate units of account at inception, based on the contract volumes or notional amounts which are expected to be used partly for trading and partly for 'own use'. IFRS 9 does not explicitly address this issue, and practice varies. The decision to split should be made at inception and applied consistently, considering the entity's business operations and the contract's volumes or notional amounts.

Amendments to IFRS 9 and IFRS 7

In December 2024, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 and IFRS 7 specifically addressing contracts referencing nature-dependent electricity. These amendments were driven by the need to provide more relevant and useful information in financial statements concerning contracts for the purchase of electricity generated from sources dependent on uncontrollable natural conditions, such as wind and solar power.

Scope of amendments

The amendments apply to contracts that expose entities to variability in the amount of electricity due to the reliance on natural conditions for generation. This includes both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity. The amendments are not applicable to contracts for electricity generated from controllable sources, like biofuels, which can be stored and used on demand.

Key Amendments

1. Clarification of the "own-use" exemption in IFRS 9:

The amendments provide clarity on the "own-use" exception in IFRS 9, which allows entities to account for contracts to buy or sell non-financial items not as derivatives but as executory contracts when they are entered into for the entity's expected purchase, sale, or usage requirements.

Some contracts referencing nature-dependent electricity may have features that expose an entity to the risk that it would be required to buy electricity during a delivery interval in which it cannot use the electricity. Owing to the design and operation of the market in which the electricity is transacted, an entity may be required to sell unused electricity within a specified period of time, leaving with no practical ability to avoid making such sales.

When evaluating such contracts for the own-use exception, the amendment requires an entity to





assess if it has been, and expects to be, a 'net purchaser' of electricity over the contract period. An entity will be a net purchaser of electricity if it buys sufficient electricity to offset the sales of any unused electricity in the same market in which it sold the electricity. An entity must make this net purchaser assessment based on reasonable and supportable information that is available without undue cost or effort.

2. Hedge accounting for Virtual PPAs:

The amendments permit entities to designate a variable nominal amount of forecast electricity transactions as the hedged item in a cash flow hedge when using contracts referencing nature-dependent electricity as hedging instruments. The amendment also states that if the cash flows of an in-scope contract designated as a hedging instrument are conditional on the occurrence of the forecast transaction that is designated as the hedged item in accordance with the amendments, this forecast transaction is presumed to be highly probable.

3. Disclosure Requirements:

IFRS 7 has been amended to require disclosures relating to contracts that have been excluded from the scope of IFRS 9 as a result of the amendments. In such cases, an entity must disclose in a single note:

- Information about the contractual features that expose the entity to:
 - Variability in an underlying amount of electricity
 - The risk that the entity would be required to buy electricity during a delivery interval where it cannot use it

- Information about unrecognized contractual commitments arising from such contracts, including:
 - The estimated future cash flows from buying electricity under these contracts, disclosed in appropriate time bands
 - Qualitative information about how the entity assesses whether a contract might become onerous
- Qualitative and quantitative information about the effects on the entity's financial performance for the reporting period, based on the information that the entity used to assess whether it was a net purchaser of electricity. This includes:
 - The costs arising from purchases of electricity made under the contracts, disclosing separately how much of the purchased electricity was unused at the time of delivery
 - The proceeds arising from sales of unused electricity
 - The costs arising from purchases of electricity made to offset sales of unused electricity

If in-scope contracts have been designated in a cash flow hedging relationship in accordance with the amendments, then when making the disclosures required by IFRS 7.23A, an entity must disaggregate the information about the terms and conditions of these hedging instruments by risk category.



If information on other contracts referencing nature-dependent electricity is disclosed in other notes in the financial statements (including those designated in a cash flow hedging relationship in accordance with the amendments), the entity must include cross-references to those notes in the single note outlined above.

Effective Date and Transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2026, with early application permitted. Entities must apply the amendments retrospectively in accordance with IAS 8 but are not required to restate prior periods unless it is possible to do so without using hindsight.

How we see it

The recent amendments to IFRS 9 and IFRS 7 on Contracts Referencing Nature-Dependent Electricity introduce key clarifications on the classification and disclosure of such contracts. While Ind AS 109 and Ind AS have not yet been updated to reflect these specific changes, the principles underlying these amendments are still pertinent to Indian entities. This is especially true for companies operating in sectors that are heavily influenced by environmental factors, such as renewable energy, utilities, and manufacturing.

Companies should evaluate whether contracts with variable pricing linked to nature-dependent factors meet the definition of a derivative or require bifurcation under Ind AS 109. Additionally, aligning disclosures with enhanced risk reporting principles under Ind AS 107 can improve transparency and risk management.

Entities should proactively assess their contracts and financial reporting practices to remain aligned with global best practices.



2. Other key amendments of IFRS

i. Amendments to IAS 1

Classification of liabilities as current or non-current

IASB has issued two amendments to IAS 1 Presentation of Financial Statements, introducing important changes to the requirements for current vs. non-current classification of liabilities. Under IFRS Accounting Standards, these changes are applicable for annual periods beginning on or after 1 January 2024. Exposure draft for the similar amendment is issued under Ind AS. However, the same is yet to be notified.

Current/non-current classification

Pre-amendment criteria	Post-amendment criteria
An entity shall classify a liability as current when <ol style="list-style-type: none">It expects to settle the liability in its normal operating cycleIt holds the liability primarily for the purpose of tradingThe liability is due to be settled within 12 months after the reporting period orIt does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.	An entity shall classify a liability as current when <ol style="list-style-type: none">It expects to settle the liability in its normal operating cycleIt holds the liability primarily for the purpose of tradingThe liability is due to be settled within 12 months after the reporting period orIt does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.
An entity shall classify all other liabilities as non-current.	An entity shall classify all other liabilities as non-current.
When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).





Overview of key amendments

The changes have been made to the criteria for classification of liabilities and there are no changes to the criteria applicable for current vs. non-current classification of assets.

■ Right to defer settlement:

It has been clarified that the liability arising from a loan agreement is classified as non-current if the entity has a right to defer its settlement for 12 months after the reporting date. It does not matter that the right to defer settlement is conditional on the entity complying with debt covenants after the reporting date.

■ Expected deferrals:

The classification of financial liabilities as current vs. non-current depends on when they are due for settlement and whether the entity has a right to defer its settlement for 12 months after the reporting date. For this purpose, the expectation or likelihood whether the entity will exercise its right to defer settlement is not relevant.

■ Settlement by way of own equity instruments:

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception, if, and only if, the conversion option itself is classified as an equity instrument, would be disregarded

Prior to the amendments, the standard required that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, do not affect its classification. As a result, a convertible instrument where the holder has the option to require convert to equity before maturity or at any time was classified as non-current if the maturity for cash settlement is greater than 12 months.

The amendments have removed the above clause, allowing entities to ignore early equity settlement at the option of the holder, to decide the current vs. non-current classification. Rather, in the amended standard, settlement through issuance of equity shares is also considered as settlement to decide classification of liabilities as current or non-current. However, there is only one exception; if the embedded equity conversion option itself is classified as an equity instrument based on principles laid down in IAS 32 Financial Instruments: Presentation.

■ Disclosures:

Additional disclosures have been prescribed for entities that classify liabilities arising from loan arrangements as non-current when the right to defer settlement of liabilities is subject to the entity complying with future covenants within 12 months. The disclosures required include:

- (i) Information about the nature of the covenants, including:
 - a) The nature of covenants
 - b) When the entity is required to comply with them
 - c) The carrying amount of related liabilities
- (ii) If facts and circumstances indicate that an entity may have difficulty in complying with such covenants, those facts and circumstances must be disclosed. For this purpose, disclosures required may include facts such as below:
 - a) The entity has acted during or after the reporting period to avoid or mitigate a potential breach
 - b) The entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting period.

How we see it

IASB has clarified that classification of loans and similar financial liabilities is unaffected by the management expectations/intention to settle within 12 months after the reporting date. By implication, it appears that the criterion 'the entity expects to settle the liability in its normal operating cycle' for current classification of liability is relevant only for liabilities, such as trade payables and some accruals for employee and other operating costs, which are part of the working capital used in the entity's normal operating cycle. The said criterion is not applicable for the classification of loans and other similar financial liabilities. Also, only the covenants specified in loan agreement and requiring compliance on or before the reporting date affect classification of the liability. Any future covenant is ignored for classification purposes.





Impact of breaches to debt covenants

IAS 1 position

Under the IFRS Accounting Standards, there are no material changes to the requirements concerning breaches of debt covenants.

On the lines of pre-amended IAS 1, the amended IAS 1 clarifies that when an entity breaches a covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current. This applies even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach.

An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least

12 months after that date. However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Position under Ind AS 1 Presentation of Financial Statements

As compared to IAS 1, the current Ind AS 1 contains the following two carve-outs on this matter:

- Under Ind AS 1, only a breach of material provision/ covenant of long-term loan will trigger current classification of the liability. If there is a breach of minor provision/ covenant, the entity can continue classifying the loan as non-current. In practice, differentiation between

breach of material and minor covenants may require exercise of the judgment and such assessment/ determination may change from one entity to another and for the same entity over different periods.

- In accordance with Ind AS 1, if there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date and the lender has agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach, then the entity need not to classify the liability as current. In other words, under Ind AS, the waiver granted by the lender after the reporting date and before the approval of the financial statements for issue is treated as an adjusting event.

How we see it

The current version of Ind AS 1 contains two important carve-outs which allow entities to classify liability as non-current in a scenario where they breach only non-material debt covenant in a loan agreement and/ or in scenario if they are able to get lender waiver after the reporting date. The Accounting Standard Board (ASB) of the Institute of Chartered Accountants of India (ICAI) had proposed to remove both these carve-outs and align requirements with IAS 1. The final outcome will be known when amendments to Ind AS 1 are notified.

Many entities have issued convertible instruments which are either non-redeemable or redeemable at the end of a fixed period. However, the holder can opt to convert such instruments into a variable number of equity shares at any time. Earlier, such instruments were classified as non-current liability. Post-amendment, these instruments will be classified as a current liability.





ii. Amendments to IFRS 9

a) Date of initial recognition or derecognition of financial assets or liabilities

The amendment clarifies that as per present requirements of IFRS 9, a financial asset or liability is recognized when the entity becomes party to the contractual provisions of the instrument. The amendment also states that financial assets are derecognized when the entity's rights to the contractual cash flows expire or are transferred. Regarding financial liabilities, they are derecognized when the obligations specified in the contract are discharged, cancelled or expires, or the liability otherwise qualifies for derecognition, which is the settlement date and the date on which the liability is extinguished.

Derecognition of a financial asset continues to be based on the expiry of the right to receive cash. The basis for the conclusion for the amendment clarifies that a mere confirmation from the debtor regarding initiation of payment instruction does not lead to expiry of the right to receive cash. There has to be access to cash post which such right expires.

How we see it

The entity may be required to review all the settlement methods that are applicable to it for derecognizing its financial assets or liabilities. In particular, settlement methods like credit cards, cheques, debit cards, etc., need to be reviewed to assess when exactly there is access to cash (in case of financial assets) and when the obligations are actually discharged, cancelled or expired.

b) Derecognition of financial liabilities: exception for payments made using an electronic payment system

The amendment introduces accounting policy choice in the specific scenario of payments made using an electronic payment system for financial liabilities. An entity can derecognize financial liabilities settled through electronic payment system before the settlement date only if following conditions met:

- The entity has no practical ability to withdraw, stop or cancel the payment instruction;
- The entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- The settlement risk associated with the electronic payment system is insignificant. For this to be the case, the payment system must have both of the following characteristics:
 - Completion of the instruction follows a standard administrative process
 - There is only a short time between the entity: i) ceasing to have the practical ability to withdraw, stop or cancel the instruction and to access the cash; and ii) when the cash is delivered to the counterparty.

Settlement risk would not be insignificant if completion of the payment instruction was subject to the entity's ability to deliver cash on the settlement date. Entities that make the accounting policy choice to derecognize the financial liability before settlement date, must apply this treatment to all financial liabilities settled using the same electronic payment system.



c) Effective Date

The amendment is effective for annual reporting periods beginning on or after 1 January 2026, with early application permitted.

How we see it

In today's scenario, where majority of the payments are made through electronic mode, this amendment gives a required clarification regarding derecognition of financial liabilities through electronic payment settlement method. However, it is important for entities to assess their current arrangements with banks to ascertain whether they have the practical ability to access the cash once the payment instructions are initiated and also assess the significance of settlement risk associated with the electronic payment system. It is important to note that this guidance is specific to financial liabilities and does not extend to financial assets.



4 Presentation and disclosures: Key consideration

Financial statements of the company are a means to communicate with its stakeholders and inform them on the company's revenue, expenses, profitability, debt and other long term and short-term commitments. Stakeholders rely on financial statements of the company for making crucial decisions. Hence, it is of paramount importance that the Presentation and Disclosures in the financial statements of the company are complete, clear and consistent.

Some of the key presentation and disclosure considerations to meet evolving stakeholder's expectations and stringent regulatory compliances are as below:

A. 'Commonly found errors in reporting practices' issued by The Institute of Chartered Accountants of India (ICAI)

The Research Committee of ICAI has compiled the pitfalls that were commonly observed as a roadblock for a company to achieve excellent reporting in the form of a publication named "Commonly found errors in reporting practices", released in January 2024. The publication also provides insights into the best practices adopted by leading companies. Some of the key observations and recommendations of

the Committee from the publication are as below:

a) Ind AS 115 revenue recognition related disclosures

■ Performance obligation and its description:

As per Para 119(b) of Ind AS 115, "an entity shall disclose information about its performance obligations in contracts with customers, including a description of the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56-58)."

The Committee observed that the company did not disclose payment terms of contracts with customers. Hence, such a presentation is not in compliance with provisions of Ind AS 115.

The Committee recommended that the company should disclose information about its performance obligations in contracts with customers as required by para 119(b) of Ind AS 115 as mentioned above.

■ Accounting policy for revenue recognition:

Ind AS 115 prescribes the following five-step model for revenue recognition: 1. Identify the contract(s) with a customer; 2. Identify the separate performance obligations in the contract; 3. Determine the transaction price; 4. Allocate the transaction price to the separate performance obligations; and 5. Recognize revenue when (or as) each performance obligation is satisfied.

The Committee observed that the company did not disclose the events pertaining to five-step model of revenue recognition in the accounting policy. It was noted that the accounting policy can be drafted better in line with requirement of Ind AS 115.

The Committee recommended that the company should disclose its accounting policy for revenue recognition by including the five-step model as mentioned.

■ Disclosures under revenue recognition:

As per para 114 of Ind AS 115, "An entity shall disaggregate revenue recognized from contracts with customers into categories that





depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87-B89 when selecting the categories to use to disaggregate revenue." As per para 126AA of Ind AS 115, "an entity shall reconcile the amount of revenue recognized in the Statement of Profit and Loss with the contracted price showing separately each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately."

The Committee observed that the company failed to give appropriate disclosures as per Ind AS 115 in terms of: Revenue disclosure and extended warranty and other adjustments were also not disclosed in the reconciliation with contract revenue, or an aggregate disclosure was given without specifying the reasons.

The Committee has suggested the following illustrative format for reconciliation of revenue recognized in Statement of Profit and Loss with the contracted price to be presented along with nature and amount of each adjustment separately:

Particulars	For the year 2023-24	For the year 2022-23
Contracted Price		
Adjustments		
Trade Discounts		
Refunds		
Revenue recognized in Statement of Profit and Loss		

b) Ind AS 24 related party disclosures

■ Terminology for related party:

The Committee recommended that in the related party disclosure under Ind AS 24, the correct terminology to use is 'Close Member of Key Management Personnel (KMP)', instead of 'Relatives of KMP'.

■ Definition of KMP:

In Ind AS 24, the following definition is given: "KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

The Committee observed that in the disclosure of names of related parties and nature of relationship, the company presented the

following categories for directors:

Non-Executive Director, Non-Executive Independent Director and KMP. In the category of KMP, the company disclosed the name of only Executive Director. From the disclosure given by the company, it can be interpreted that the company did not consider the Non-Executive Directors as KMP. The company has violated the provisions of Ind AS 24 because as per Ind AS 24, all directors are considered as KMP.

■ Related party disclosures:

As per Ind AS 24, to enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties. This is because the existence of control relationship

may prevent the reporting entity from being independent in making its financial and operating decisions.

The Committee observed that in most cases, companies failed to give appropriate disclosures of related parties.

■ Disclosure of transactions with related party:

Para 18 of Ind AS 24 states:

"If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17.

At a minimum, disclosures shall include:

- a) the amount of the transactions.
- b) the amount of outstanding balances, including commitments, and:
 - their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - details of any guarantees given or received....."

The Committee observed in some cases from the note on 'Related Party Transactions' that debentures were issued to holding company and ultimate holding company and the same was disclosed as transactions entered between them during the year. However, the amount outstanding towards these debentures was not disclosed, therefore, the requirements of Ind AS 24 have not been complied with.



■ **Disclosures relating to Key Managerial Personnel:**

As per para 17 of Ind AS 24, "An entity shall disclose key management personnel compensation in total and for each of the following categories: (a) short term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment."

The Committee observed in a few cases that in case of Key Managerial Personnel, the disclosure of remuneration paid to them was not made in accordance with the standards requirement.

c) **Ind AS 33 earnings per share related disclosures**

■ **Weighted average number of shares:**

As per para 70 (b) of Ind AS 33, "An entity shall disclose the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share".

In certain cases, the Committee observed that the disclosure of reconciliation of number of weighted average number of equity shares used as denominator in calculating the basic and diluted EPS was not made.

■ **Disclosure regarding the amount used in the numerator:**

As per para 70(a) of Ind AS 33, "An entity shall disclose the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the



parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share." Para 10 of Ind AS 33 states that "basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period." Further, Para 31 states: "For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares."

If the company has used the term 'profit or loss attributable to equity holders' in calculating basic EPS, then the same terminology shall not be used for calculating diluted EPS. The company should use the term 'numerator for calculating Diluted EPS'. Further, in view of Para 70(a), the company should disclose the amount used as numerator and present the reconciliation between numerator and profit or loss attributable to equity holders.

The Committee observed that while calculating basic and diluted EPS, companies failed to disclose the amount used in numerator. Also, in some cases, reconciliation of

numerator with the profit and loss attributable was not disclosed. The Committee further observed that the company had used the term 'profit or loss attributable to equity holders' in calculating basic EPS, and the same terminology 'profit or loss attributable to ordinary equity holders' was used while calculating dilutive EPS.

The Committee recommended that if the company has used the term 'profit or loss attributable to equity holders' in calculating basic EPS, then the same terminology shall not be used for calculating diluted EPS. Company should use the term 'numerator for calculating Diluted EPS'. Further, in view of Para 70(a), company should disclose the amount used as numerator and present the reconciliation between numerator and profit or loss attributable to equity holders.

■ **Bonus shares not considered for calculation of EPS:**

Para 64 of Ind AS 33 states, "If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are approved for issue,



the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively”.

The Committee noted in some cases that the company had issued bonus shares during the year and although the same had been considered for calculation of basic and diluted EPS for current financial year, they were not considered for calculation of EPS of previous year. Accordingly, it was viewed that requirements of paragraph 64 of Ind AS 33 have not been complied.

■ **Dividend on cumulative preference shares:**

Para 14 of Ind AS 33 specifically requires: “The after-tax amount of preference dividends that is deducted from profit or loss is:

- a) the after-tax amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and
- b) the after-tax amount of the preference dividends for cumulative preference shares required for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.”

In certain cases, the Committee observed that the dividend on

cumulative preference shares was not adjusted while determining earnings for the period.

The Committee recommended that where the company has cumulative preference shares, adjustment of dividend on such preference shares should be ensured while determining earnings for the period.

d) Ind AS 7 Statement of cash flows related disclosures

■ **Cash and cash equivalents- Not available for use by Group:**

Para 48 of Ind AS 7 states, “An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.”

The Committee observed that the company did not disclose the amount of significant cash and cash equivalents that are not available for use.

The Committee recommended that even if there is no such conditions or restrictions in using the cash and cash equivalent, management should explicitly disclose this fact to be in compliance with Ind AS 7.

■ **Reporting cash flows on a net basis:**

Para 21 of Ind AS 7 states, “An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.”

Ind AS 7 has specific conditions to be fulfilled in order to report cash flows on a net basis which have been specified in Para 22 as, “Cash flows arising from the following operating, investing, or financing activities may be reported on a net basis:

- a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.”

The Committee observed that in several cases, proceeds and repayment of term loans, current borrowings, etc., were disclosed on a net basis in the Statement of Cash Flows. Similarly, in certain cases like purchase/sale of investments in subsidiaries, sale/ purchase of PPE, were disclosed on net basis.

The Committee recommended that unless the conditions mentioned in Para 22 are fulfilled, companies should ensure that disclosures are made on a gross basis rather than net basis.

■ **Disclosure of changes in liabilities - Statement of Cash Flows:**

As per Para 44A of Ind AS 7 (Stper Para 44A of Ind AS 7 (Statement of Cash Flows), “An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.”

The Committee observed that the company did not make the disclosure about changes in liabilities arising from financing activities, including changes arising from cash flows as well as non-cash changes.

The Committee recommended that such reconciliation should be presented along with the Statement of Cash Flows.



■ **Reconciliation of cash and cash equivalents:**

As per Para 45 of Ind AS 7: "An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its Statement of Cash Flows with the equivalent items reported in the balance sheet."

In some cases, the Committee observed that the aggregate cash and cash equivalents considered in the Statement of Cash Flows were not reconciled with the cash and cash equivalents disclosed under the head 'cash and bank balances' in the balance sheet.



In an evolving business landscape, the quality of financial reporting is under constant scrutiny by various regulators. Companies must establish robust mechanisms for financial statement presentation and disclosures, ensuring clarity, accuracy, and compliance. Regulators are constantly raising red flags on the quality of financial statements, making it imperative for companies to strengthen their financial reporting frameworks. Addressing common pitfalls in financial statements has become essential to enhance transparency and build investor confidence.

Darshan Varma

Partner, Financial Accounting Advisory Services (FAAS), EY India

■ **Interest and dividends in the Statement of Cash Flows:**

Para 31 as per Ind AS 7 states: "Cash flows from interest and dividends received and paid shall each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities. In the case of other entities, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities."

The Committee observed that in some cases the interest and dividend paid are disclosed together instead of being disclosed separately in the Statement of Cash Flows.

■ **Effect of obtaining control or losing control of subsidiaries in Statement of Cash Flows:**

As per Para 39 of Ind AS 7, "The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities." Para 40 states: "An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

- the total consideration paid or received.
- the portion of the consideration consisting of cash and cash equivalents.
- the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and

- the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarized by each major category."

The Committee observed that companies did not show the effect of obtaining control or losing control of subsidiaries or other businesses as separate line items in the Statement of Cash Flows.

■ **Components of cash and cash equivalents:**

In explaining the definition of cash equivalents, Para 6 & 7 of Ind AS 7 states: "Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition."

The Committee observed that cash and cash equivalents, in a few cases, included deposits with maturity over twelve months.

Consequently, the Committee recommended that where deposits with maturity over 12 months are included in cash equivalents, it would be appropriate to explain why these were considered as cash equivalents.



B. Climate-related disclosures

Climate-related reporting and disclosures have been evolving significantly over the past decade. Stakeholders and the public are expecting more focus from companies to arrest climate change. Businesses are expected to voluntarily adopt best practices and align with global benchmarks to showcase their progress in mitigating climate impact. To assist companies in staying informed about global regulatory changes, the following summary outlines some of the latest updates in regulations.

IASB-issued exposure draft: Climate-related and other uncertainties in the financial statement

With the purpose to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements, IASB issued an exposure draft in July 2024 that provides eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. Though these examples highlight the requirements under IFRS Accounting Standards, they may provide context



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The landscape of environmental reporting and disclosures in India has undergone significant changes, reflecting a growing call from regulators, stakeholders, and the public for corporate action against climate change. It is imperative for entities to evaluate the impact of climate-related risks and determine if there are any significant effects that warrant disclosure within the financial statements. Entities may refer to the examples given by IASB's exposure draft around disclosure of Materiality judgments, Assumptions and other sources of estimation uncertainty and disaggregation of information for better presentation and disclosure of climate-related risks.

to Ind AS applicable companies in better presentation and disclosure of climate-related risks. The examples will help to improve the reporting of climate related effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports. The examples mainly intend to address the following areas:

1. Materiality judgements (Example 1- 2)
2. Assumptions and other sources of estimation uncertainty (Example 3 -7)

3. Disaggregation (Example 8)

Since IASB intends that existing requirements will not change, the exposure draft proposes no transition relief and does not include a proposed effective date. For Indian companies, these examples do not create any mandatory compliance burden, but they are being summarized below for better understanding of climate-related disclosures and to assist Indian businesses in meeting global standards.





Summary of examples proposed by the IASB in the Exposure Draft:

Examples	Summary	Accounting Standard
Example 1: Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)	<p>This example illustrates how an entity makes materiality judgments in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 Presentation of Financial Statements (paragraph 20 of IFRS 18 Presentation and Disclosure in Financial Statements).</p> <p>Background: A capital-intensive manufacturer, exposed to climate transition risks, has outlined a 10-year plan to cut greenhouse gas emissions through technological upgrades and process changes. The plan is disclosed in a general financial report, but further climate-related risk details are not included in the financial statements. The entity concludes that no additional disclosures are required under relevant IFRS standards.</p> <p>Application: Paragraph 31 of IAS 1 (Paragraph 20 of IFRS 18) emphasizes the need for entities to disclose additional material information when existing disclosures are insufficient to provide a clear understanding of the financial impact of significant events. In the given example, the entity determines that additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. Thus, the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why.</p>	IAS 1 Presentation of Financial Statements (IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027)
Example 2: Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)	<p>This example illustrates how an entity makes materiality judgments in financial statements in accordance with the requirement of IAS 1 (IFRS 18). In this example, these judgments do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.</p> <p>Background: The entity operates in an industry with minimal exposure to climate-related transition risks. It discloses in its financial report that its greenhouse gas emissions are low, supported by the use of renewable energy and avoidance of high-emission activities. Additionally, it outlines its commitment to maintaining these low emissions but does not provide further climate-related disclosures in its financial statements.</p> <p>Application: IAS 1.31 requires entities to assess whether additional disclosures are needed when specific IFRS standards do not sufficiently capture the impact of a transaction on financial statements. In this case, since climate-related risks are minimal and not material to the entity's financial position, the entity provides no further disclosures.</p>	IAS 1 Presentation of Financial Statements (IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027)
Example 3: Disclosure of assumptions: specific requirements (IAS 36)	<p>This example illustrates the requirements of IAS 36 Impairment of Assets. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets.</p> <p>Background: The entity operates in an industry with high greenhouse gas emissions and must buy emission allowances in some regions, increasing its costs. It expects these regulations to expand in the future. The entity also has significant goodwill linked to a Cash-Generating Unit (CGU) and tests it for impairment each year. Since emission costs directly impact its finances, the entity considers them a key factor in assessing the CGU's value.</p> <p>Application: The entity estimates the CGU's value in use for impairment under IAS 36, factoring in future emission costs. As per IAS 36.134(f), the entity discloses key assumptions and potential impairment risks if changes in these assumptions impact recoverable amounts, causing the CGU's carrying amount to exceed its recoverable amount.</p>	IAS 36 Impairment of Assets



Examples	Summary	Accounting Standard
Example 4: Disclosure of assumptions: general requirements (IAS 1/IAS 8)	<p>This example illustrates IAS 1 (IAS 8) requirements on disclosing key assumptions about the future, even if not explicitly required by other IFRS Standards. It highlights how entities identify and determine necessary disclosures to ensure transparency.</p> <p>Background: The entity, operating in a capital-intensive industry, faces climate-related transition risks that could impact the recoverability of its non-current assets. During the reporting period, impairment indicators emerge, prompting a CGU-level impairment test. The entity determines that the CGU's recoverable amount exceeds its carrying amount, hence no impairment.</p> <p>IAS 36 does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognized no impairment loss for that CGU during the period. However, the entity considers whether IAS 1 [IAS 8] requires it to disclose information about these assumptions.</p> <p>Application: In line with IAS 1.125 (IAS 8.31A)], the entity must disclose key assumptions impacting its CGU assessment, along with details of the CGU's non-current assets. Additionally, as per IAS 1.129 (IAS 8.31E), these disclosures should be presented in a way that enhances users' understanding of management's judgments and estimation uncertainties, with the level of detail varying based on the assumption's nature and significance.</p>	IAS 1 Presentation of Financial Statements (amended version of IAS 8 Basis of Preparation of Financial Statements effective for annual reporting periods beginning on or after 1 January 2027)
Example 5: Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)	<p>This example illustrates the requirement of IAS 1 (IFRS 18). It illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure.</p> <p>Background: The entity operates in a jurisdiction where the government has announced future regulations that could affect the recoverability of deferred tax assets related to unused tax losses. Since the regulation will not be reviewed for at least two years and IAS 12 does not mandate disclosure of such uncertainties, the entity concludes that no disclosure is required under IAS 1.125 (IAS 8.31A). This decision is based on the absence of losses in the current and prior reporting periods and the expectation that the regulation will not significantly affect the deferred tax asset in the next financial year.</p> <p>Application: Applying IAS 1.31 (IFRS 18.20), the entity discloses its assumption that the announced regulation will take effect only after it has utilized its unused tax losses. It also provides details on the impact of this assumption on the carrying amount of its deferred tax asset, including the amount recognized. This ensures transparency and helps users understand the key judgment made regarding future regulatory changes and their financial implications.</p>	IAS 1 Presentation of Financial Statements (IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027)



Examples	Summary	Accounting Standard
Example 6: Disclosure about credit risk	<p>This example illustrates the requirements of IFRS 7 (paras 35A-38) on how an entity discloses the impact of specific risks on its credit exposures and risk management practices. It also highlights how these practices align with the recognition and measurement of expected credit losses, ensuring transparency in financial reporting.</p> <p>Background: The entity, a financial institution, incorporates climate-related risks into its credit risk management. It monitors two key loan portfolios: (a) Agricultural loans, where climate events like droughts may impact borrowers' repayment ability, and (b) Corporate real estate loans, where properties in flood-prone areas pose increased credit risk.</p> <p>Application: Under IFRS 7.35A-38, entities must disclose material credit risk exposures. The entity determines that climate-related risks significantly impact its credit risk for agricultural and real estate loan portfolios. This conclusion is based on: (a) the relative size of these portfolios, (b) the extent of climate-related risk compared to other credit risk factors, and (c) external developments that influence investor decision-making.</p>	IFRS 7 Financial Instruments: Disclosures
Example 7: Disclosure about decommissioning and restoration provisions (IAS 37)	<p>This example illustrates the requirement of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if the carrying amount of the associated provision is immaterial.</p> <p>Background: The entity, a petrochemicals manufacturer, has long-term decommissioning and restoration obligations. While these costs are expected far in the future and currently have an immaterial impact when discounted, the growing transition to a low-carbon economy increases the risk of earlier facility closures, which could significantly affect the provision's carrying amount.</p> <p>Application: Paragraph 85 of IAS 37 requires an entity to disclose information for each class of provision. Although the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial, the entity concludes that information about the related obligations is material.</p>	IAS 37 Provisions, Contingent Liabilities and Contingent Assets
Example 8: Disclosure of disaggregated information (IFRS 18)	<p>This example illustrates the requirements in paragraphs 41-42 and B110 of IFRS 18 Presentation and Disclosure in Financial Statements. In particular, it illustrates how an entity might disaggregate the information it provides about a class of PPE on the basis of dissimilar risk characteristics.</p> <p>Background: The entity operates in a high-emission industry and owns PPE with varying exposure to climate-related transition risks. While it has invested in lower-emission alternatives, a significant portion of operations still rely on high-emission assets. Potential regulatory changes or shifts in consumer demand could impact the useful life, residual values, and recoverability of these assets, requiring careful assessment of financial reporting implications.</p> <p>Application: The entity applies IFRS 18's principles on aggregation and disaggregation, recognizing that its two types of PPE have distinct risk characteristics. Given the material impact of climate-related transition risks, the entity disaggregates disclosures in the notes to provide clearer insights into the financial implications. This includes separate disclosures under IAS 16 for useful life, residual value, and recoverability, ensuring transparency in financial reporting.</p>	IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027



How we see it

1. In preparing the financial statements of the Company, we encourage entities to assess the effect of climate-related risks and uncertainties on their financial position and financial performance and accordingly conclude whether there is any effect that needs to be disclosed in the financial statements. The entity should consider the overarching requirement in Ind AS 1 Presentation of Financial Statements, which requires entities to disclose additional information if it is material and failing to do so can influence the economic decisions of the users of financial statements.
2. Examples pertaining to requirements under IAS 36, IFRS 7 and IAS 37 might be helpful when an entity considers the key assumptions or inputs for the estimates that it needs to disclose in the financial statements, depending on its own specific circumstances. Appropriately reflecting the impact of climate change and associated risks in the financial statements and communicating that to users can be challenging and we encourage entities to make the necessary assessments with the help of guidance provided in the IASB examples.
3. Communicating information about the effects of climate change and other uncertainties has become increasingly relevant to the users of the financial statements. The examples by IASB give good direction and guidance. Thus, an entity needs to be mindful of its own specific uncertainties while applying judgment to determine.





C. Pillar Two Model Rules

Background

The Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from digitalization of the global economy. BEPS Pillar Two Model Rules apply to multinational enterprises (MNEs) with revenue in excess of EUR 750 million per their consolidated financial statements.

The Pillar Two Model Rules provide a template that jurisdictions can translate into domestic tax law and implement as part of an agreed common approach.

The rules:

- a) aim to ensure that large multinational groups pay a minimum amount of tax on income arising in each jurisdiction in which they operate.
- b) would achieve that aim by applying a system of top-up taxes that results in the total amount of taxes payable on excess profit in each jurisdiction representing at least the minimum rate of 15%; and
- c) typically require the ultimate parent entity of a group to pay top-up tax—in the jurisdiction in which it is domiciled—on profits of its subsidiaries that are taxed below 15%.

Applying the Pillar Two Rules and determining the impact are likely to be complex and challenging. IASB (or 'Board') believed that entities need time to determine how to apply the principles and requirements in IAS 12, Income Taxes to account for deferred taxes related to top-up tax.



Amendments to IAS 12: International Tax Reform Pillar Two Model Rules

On 23 May 2023, IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 (the 'Amendments'). Under these, Paragraphs 4A, 88A-88D and 98M were added.

The Amendments introduce:

- A mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two Model Rules (Para 4A of IAS 12); and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date (Para 88A-88D of IAS 12).

a) Temporary exception from recognition and disclosure of deferred taxes (Para 4A of IAS 12)

The Amendments clarify that IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the OECD, including a tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes,' respectively.

The Amendments introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes. The Board did not expand the scope of the temporary exception to include the measurement of deferred taxes recognized under domestic tax regimes, as an entity would not remeasure such deferred taxes to reflect Pillar Two income taxes it expects to pay when recovering or settling a related asset or liability.

The Amendments note that the temporary exception provides entities with relief from accounting for deferred taxes in relation to this complex new tax legislation allowing stakeholders time to assess the implications. It also avoids entities developing diverse interpretations of IAS 12 that could result in inconsistent application of the standard.

The Board did not include a sunset date for the temporary exception but will monitor the implementation of the Pillar Two model rules to determine when to undertake further work.

b) Pillar Two disclosures

Disclosure of application of the exception (Para 88A of IAS 12):

The Amendments require an entity to disclose that it has applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

We believe that the disclosure required by paragraph 88A is usually best presented alongside the accounting policies for income taxes. However, entities that have included a separate note or section on Pillar Two income taxes may wish to include this disclosure there.

Disclosure in periods when legislation is in effect (Para 88B of IAS 12):

An entity is required to separately disclose its current tax expense (income) related to Pillar Two income taxes, in the periods when the legislation is effective, as this helps users of financial statements understand the relative level of those taxes.

Disclosure in periods before legislation is in effect (Para 88C and 88D of IAS 12):

The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure



arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example, an entity could disclose the following information to meet these requirements:

- a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist.
- b) Quantitative information such as:
 - an indication of the proportion of an entity's profits that risks being subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
 - an indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

The above information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. IASB notes in the Basis for Conclusions: "... that an entity would not have to disclose information about possible future transactions and other possible future events (forward-looking information) to meet this requirement. For example, an entity would not be required to forecast future profits, reflect mitigation actions it expects to take in future periods, or consider possible future changes in tax legislation."

IASB observed that legislation in some jurisdictions was expected to be effective as early as 1 January 2024. Therefore, it expects many entities to have some information about their exposure available to them by the time the disclosure requirements are applicable. However, to the extent information is not known or reasonably estimable, an entity is instead required to disclose a statement to that effect and information about its progress in assessing its exposure.



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The implementation of Pillar Two Model Rules reshapes the global tax landscape, demanding enhanced compliance and financial transparency from multinational entities. The temporary exception from deferred tax recognition under IAS 12 provides crucial relief, allowing businesses time to assess the impact. Companies must proactively analyze their exposure, refine tax reporting strategies, and ensure robust disclosures to navigate this complex shift effectively.

c) Transition and effective date (Para 98M of IAS 12)

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, applies immediately and retrospectively upon issue of the amendments.

The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023 but are not required for any interim period ending on or before 31 December 2023.

d) Applying the amendments in interim financial reports

IAS 34 Interim Financial Reporting was not consequentially amended to reflect the new requirements introduced by the Amendments. Accordingly, the general principles and requirements in IAS 34 also apply to requirements in IAS 12 related to Pillar Two income taxes.

Paragraph 16A(a) of IAS 34 requires entities to apply the same accounting policies and methods of computation in the interim financial statements as compared to their most recent annual financial statements or, if those policies or methods have changed, to describe the nature and effect of the change. Accordingly, in the first set of interim financial statements published applying

a new accounting policy or method an entity is required to disclose the nature and effect of the change in the policies or methods including a description of the new accounting policy or the method adopted.

Furthermore, paragraph 15 of IAS 34 requires an entity to "... include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report."

In our view, where an entity publishes condensed interim financial statements in its interim report, the information regarding the application of the mandatory exception needs to be included in the condensed interim financial statements, unless the entity already disclosed its application of the mandatory exception in its previous annual financial statements.

The principles in paragraphs 15 and 16A of IAS 34 would apply regarding disclosure of the Pillar Two current tax expense, and disclosure of qualitative and quantitative information about an entity's exposure to Pillar Two income taxes, except in condensed interim financial statements prepared for interim periods ending on or before 31 December 2023. Where an



entity publishes complete financial statements in its interim financial report, the requirements in IAS 1 Presentation of Financial Statements would apply.

Estimating Pillar Two taxes in interim financial reports can be challenging too. We recommend to separately estimate Pillar Two income taxes at a more granular level in interim periods because:

- The estimated regular income tax rate needs to incorporate both current and deferred taxes, while the estimated Pillar Two rate only considers current tax.
- The Pillar Two current tax depends, in part, on when gains/losses are realized and is, therefore, more sensitive to cut-off effects than regular income taxes under IAS 12.
- Pillar Two minimum taxes may be due even when a jurisdiction or (sub)group is not profitable.
- The simplification benefits of estimating a combined regular income tax plus Pillar Two income tax, could easily be outweighed by inconsistencies arising from the mismatches between their recognition and measurement.
- Paragraph 88B of IAS 12 requires separate disclosure of the Pillar Two current tax expense in annual financial statements.

How we see it

1. Entities are given a mandatory temporary exception from recognizing or disclosing deferred tax implications arising from Pillar Two rules.
2. Entities need to monitor the developments around the implementation and (substantive) enactment of the Pillar Two model rules in the relevant jurisdictions and, if appropriate, engage with advisors to determine the impact of Pillar Two Model Rules on their financial statements.
3. It may be appropriate for an entity operating in a jurisdiction where the amendments are not yet effective to exercise judgment under IAS 8.10-11 and choose an accounting policy to not recognize deferred taxes related to Pillar Two income taxes. This approach aligns with the mandatory temporary exception in IAS 12 and ensures consistency, minimizing the need for future adjustments if the amendments are later endorsed.

While the above policy choice is considered acceptable, it would not preclude an entity from developing an accounting policy that does result in the recognition of deferred taxes in respect of Pillar Two income taxes. However, it should be noted that, in that case, an entity would be required to change its accounting significantly once the IAS 12 amendments are endorsed, which will prescribe a mandatory temporary exception from accounting for deferred taxes in respect of Pillar two income taxes.





2

Key regulatory changes



1

Key changes to Securities and Exchange Board of India (SEBI) Regulations

i. Amendment relating to Listing Obligations and Disclosure Requirements (LODR)

SEBI has issued amendments relating to enhancing disclosure and governance requirements of listed entities. Overview of the amendments and effective dates are as follows:

a. Verification of market rumours

The rapid spread of false information and rumours in the market can significantly disrupt the financial markets. Recognizing the importance of addressing this issue, the Securities and Exchange Board of India (SEBI) introduced a groundbreaking amendment to the Listing Obligations and Disclosure Requirements (LODR) Regulations. With an objective to avoid false market sentiment or impact on securities of the listed entity, SEBI, vide its notification dated 14 June 2023, had amended clause 30(11) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) requiring top 100 and 250 listed companies by market capitalization to confirm, clarify or deny any reported event or information in the mainstream media. Considering practical challenges pointed out by the industry and the fact that industry standards on the matter were still under finalization, the application of these requirements for top 100 and top 250 listed entities was deferred to 1 June 2024 and 1 December 2024, respectively.

As per the original notification, such confirmation, clarification, or denial was required based 'materiality' of the event or information, irrespective of

whether it had any material impact on market price of securities. However, the amended provisions provide that the market rumour should be verified if there is a material price movement in the securities of the listed entity.

The updated LODR regulations require covered listed entities by market capitalization to confirm, deny or clarify any reported event or information to the stock exchange within 24 hours from the trigger of material price movement if:

- There is material price movement (refer table below) as may be specified by the stock exchange;
- The event or information is reported in the mainstream media;
- The event or information is not general in nature, and
- The event or information indicates rumours of impending specific nature is circulating amongst the investing public.

Framework for material price movement

The National Stock Exchange (NSE) vide its circular dated 21 May 2024 has prescribed a framework to calculate material price movement triggering reporting requirements. Some key features of the framework are as below:

- (i) An acceptable range/ percentage of price variation has been prescribed based on price of the underlying share. Any variation within acceptable range will not trigger reporting requirements.
- (ii) To factor market dynamics, the price variation criteria will be compared with benchmark index. Price benchmarking for NSE prices

shall be NIFTY 50 Index and for BSE prices it shall be Sensex Index. Price benchmarking will be done at the start of day, i.e., 9:30 a.m.

- (iii) Rumours will be verified only if the security prices have moved in the direction of the news, i.e., if the security price has witnessed a positive movement for a positive news and vice versa.
- (iv) In case of intraday price movement (i.e., after 9:30 am), only price range-based price variation will be considered, without any comparison to the index movement. However, in case of inter-day price movement, percentage variation in share price and the benchmark index movement will be calculated from the closing price of the immediately preceding trading day.





Price range of the listed equity shares	Percentage variation in share price treated as material price movement	
	Benchmark index movement is less than 1% at 9:30 am and for intra-day share price movement	Benchmark index movement is greater than or equal to 1% at 9:30 am
INR 0-99.99	Greater than or equal to 5%	Greater than or equal to (5% + % change in benchmark index at 9:30) or price band limit
INR 100-199.99	Greater than or equal to 4%	Greater than or equal to (4% + % change in benchmark index at 9:30) or price band limit
INR 200 and above	Greater than or equal to 3%	Greater than or equal to (3+ % change in benchmark index at 9:30) or price band limit

Framework for considering unaffected price

SEBI has amended Regulation 30(11) of SEBI (LODR) regulations to provide that the effect on the price of the equity shares of the listed entity due to the material price movement and confirmation of the reported event or information may be excluded for calculation of the price for certain transactions as per the framework as specified by the SEBI.

Further, SEBI has issued the framework vide circular dated 21 May 2024. Key requirements of the circular are as below:

- The circular prescribes a methodology to calculate weighted average price (WAP) and the adjusted WAP (unaffected price). The methodology broadly requires that variation in daily WAP from the day of material price movement till the end of the next trading day after confirmation of the rumour be attributed to the rumour and, therefore, excluded from the WAP to calculate the unaffected price.
- The unaffected price will be applicable only if the listed entity has confirmed the rumour pertaining to the transaction within 24 hours from the trigger of material price movement.
- The unaffected price will be applicable for a period of 60 days or 180 days, based on stage of the transaction, from the date

of confirmation of the market rumour till the 'relevant date' under the existing regulations (public announcement, board approval, etc.).

- In case a rumour pertaining to a transaction has been confirmed by the listed entity and subsequent rumours are reported in the mainstream media with material update to the transaction which require confirmation once again, then the unaffected price will be applicable for each instance of confirmation of rumour.

Industry Standards Note on verification of market rumour

In order to facilitate ease of doing business, the Industry Standards Forum (ISF), comprising of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI, under the aegis of the stock exchanges, on a pilot basis, has formulated industry standards, in consultation with SEBI, for effective implementation of the requirement to verify market rumours under Regulation 30(11) of SEBI LODR Regulations. ISF has published Industry Standards Note (ISN) to facilitate a uniform approach and assist listed entities in complying with their obligations in respect of confirmation/denial/clarification of market rumours. The ISN has been prepared in consultation with SEBI and it sets out standard operating procedures for

compliance with the rumour verification requirement. Covered listed entities are encouraged to follow the ISN for ensuring compliance with the rumour verification requirement.



SEBI's enhanced framework for market rumour verification requirements not only enhance transparency and investor trust but also strengthen market integrity. Covered listed entities must now proactively monitor media reports and verify material price movements within strict timelines. The ISN, developed in collaboration with SEBI, aims to standardize practices and support covered listed entities in fulfilling their duties regarding the verification, denial, or clarification of market rumours. A structured governance approach and robust media monitoring mechanisms are essential to ensure compliance.

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The main aspects covered by ISN include:

(i) Scope and ambit of mainstream media

The entity needs to verify the source of rumour to see if it requires to respond. To avoid confusion around what mainstream media comprises of, ISN sets out the coverage of mainstream media for the purpose of compliance with said rumour regulations. It includes:

- Newspapers registered with the Registrar of Newspapers for India
- News channels permitted by Ministry of Information and Broadcasting under Government of India
- Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and
- Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India.
- Social media to be excluded in definition of mainstream media.

The ISN specifically lists down the TV channels, newspapers, and international media sources which should be covered. Requirement of Regulation 30 (11) is applicable only if the source of the rumour is under the mainstream media defined in ISN. ISF suggests that companies engage with reputed external media agencies for tracking the news reported in specific media as set out above.

(ii) Interpretation of 'not general in nature' rumour

For a market rumour which an entity is required to respond to, must provide;

- (i) specifically identifiable details of the matter/ event; or
- (ii) quotes or be attributed to sources who are reasonably expected to be knowledgeable about the matter.

Further, if a specific rumour turns out to be false, the company shall issue a statement to deny the rumour. ISN has given multiple examples to guide users as to what constitutes a specific or a vague rumour. Few illustrations referred in ISN are listed below:

Nature of Event	Rumour that provides 'specifically identifiable details'	Rumour that does not provide 'specifically identifiable details'
Merger	Company X is in talks for a potential merger with another FMCG company	Company X is in talks for a potential restructuring.
Resignation of one or more KMPs	The CEO of Company X is likely to resign	Company X is likely to witness resignations amongst its KMPs, in the near future.

It is extremely crucial for entities to be aware that not all the rumours are required to be responded to even if they are specific and impending, unless the market rumour results in a material price movement as per the framework issued by the stock exchanges. The parameter of Material Price Movement shall be applicable for market rumours in respect of mergers and acquisitions (M&A) transaction scenarios as well as non-M&A transaction scenarios.

(iii) Market rumour that is reported post-issuance of a pre-intimation

If there is a market rumour during the time period between issuance of the pre-intimation notice of a Board meeting under Regulation 29(1) and conclusion of the Board meeting, no confirmation/ denial/ clarification will be required. Appropriate disclosures may be made by the company as required under Regulation 30 read with Schedule III of the LODR Regulations, following the conclusion of the Board meeting. However, if the rumour is in respect of actions/ events distinct from the subject of the pre-intimation notice, and which may potentially take place at a future date, a specific confirmation/ denial/ clarification of the rumour may be required.

(iv) Rumour verification standards for various stages of a potential M&A transaction

ISN has provided illustrative response language against rumours for both the below-mentioned categories. The M&A transaction stages have been divided into two broad categories:

(i) Preparatory stages (where the name of the target/ counter party is not disclosable):

Preparatory stage is in essence an initial stage of an M&A. For example, signing of an NDA, commencement of a due diligence process, engagement of legal/ financial advisors/ investment bankers for assistance with the due diligence process/ evaluation of overall viability of the deal, etc. Companies are encouraged to refer to the illustrative language suggested in ISN for responding against rumours during preparatory stage M&A. It would assist companies to know the extent of information that should be reported considering the boundaries of on-going negotiations of the transactions.

(ii) Advanced stages (where the name of the target/ counterparty is disclosable):

Advanced stage of M&A is in essence a reflection of the finalization state of the transaction. Examples include, an ongoing multi-party bid process, selection of bidder, signing of binding



term-sheet, etc. Companies are encouraged to refer to the illustrative language suggested in ISN for responding against rumours advanced stage M&A. It would assist companies to know the extent of information that should be reported considering the boundaries of on-going negotiations of the transactions.

The requirement to confirm a market rumour under Regulation 30(11) shall not be applicable for transactions undertaken in the ordinary course of business.

(v) Scenarios where the company is not party to the deal/ does not have knowledge of the M&A transaction

In cases where the company is not a party to the deal, or does not have knowledge about the rumoured transaction/ deal, a specific confirmation/ denial would not be required, and a disclosure by the listed entity stating that it does not have

knowledge of the deal (or its details) and can neither confirm nor deny the rumour, would serve as sufficient compliance with the requirements of Regulation 30(11). It is clarified that the requirement on the company to seek a clarification is limited to a rumour concerning a transaction involving a promoter of the company, and not any other third party or public shareholder.

(vi) Rumour verification in non-M&A transaction scenarios

In respect of market rumours for non-M&A transaction related scenarios, companies may evaluate their response based on the following parameters:

- The market rumour in respect of the non-M&A transaction event should provide specifically identifiable details;
- The market rumour should be in respect of an impending event;
- Material price movement

In case of other non-M&A transaction

scenarios, the same principles mentioned above shall be applicable. ISN has provided a number of illustrations for non-M&A transactions and the approach for the same to comply with the requirement of regulations 30 (11) of SEBI LODR regulations.

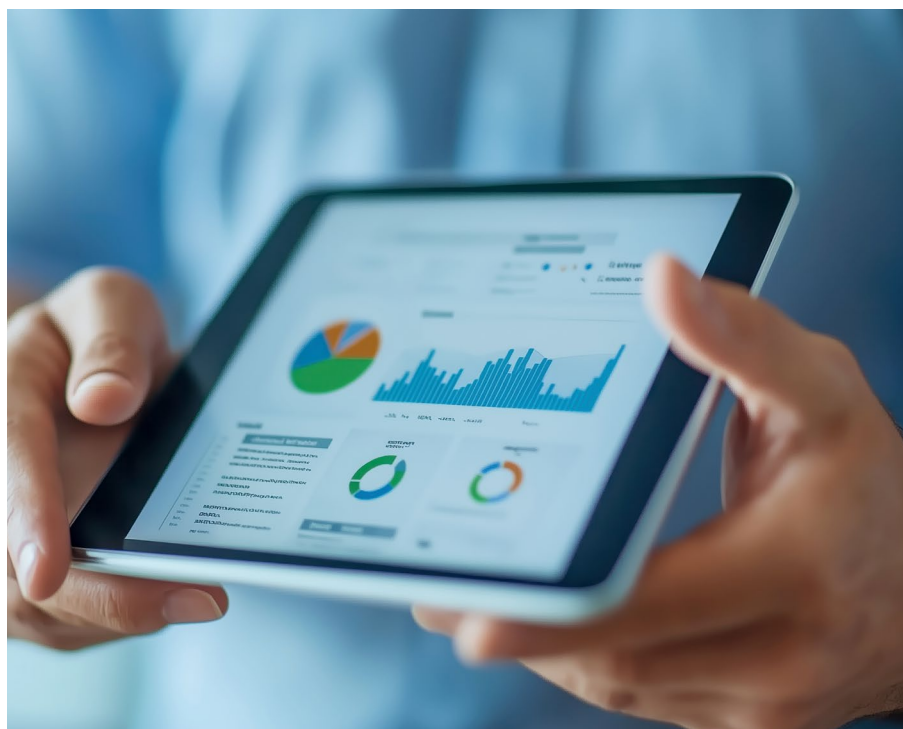
How we see it

The Rumour verification requirement underscores the importance of a proactive approach to disclosure, emphasizing the need for ongoing vigilance and responsiveness to market dynamics. The recently released ISN by ISF has effectively addressed many uncertainties surrounding compliance with Regulation 30(11) of the SEBI LODR Regulations.

The ISN offers a practical approach and recommended wording that can act as a helpful reference for companies when responding to market rumours. It meticulously outlines what information should be disclosed, how it should be communicated, when it should be released, and the level of detailing required to be provided.

Companies are advised to refer to ISN to ensure they meet the compliance standards set by Regulation 30(11) of the SEBI LODR regulations.

To adhere to these requirements, companies will need to make a significant commitment in terms of time and resources, which includes establishing robust internal controls and processes to monitor and verify information. This also includes setting up the necessary technological infrastructure and providing training to their staff to effectively manage thereby ensuring compliance and disclose pertinent information.





b. SEBI has notified SEBI (LODR) (Third Amendment) Regulations, 2024, which encompass a broad range of modifications to the existing regulations effective 31 December 2024.

Critical changes from the perspective of financial statements for the year ended 31 March 2025 are listed below

(i) Changes to the timeline for disclosing financial results post-approval of a resolution plan under the Insolvency Code

A listed entity that has had a resolution plan approved under Section 31 of the Insolvency Code shall disclose:

- Financial results within 90 days from the end of the quarter in which such resolution plan was approved, except in case such resolution plan has been approved in the last quarter of a financial year;
- Annual audited financial results within 120 days from the end of such financial year, if the resolution plan was approved during the last quarter of a financial year. [Regulation 33(3)].

(ii) Changes to the requirements for publishing financial results in newspapers

The existing regulation 47(1) is replaced with new provisions:

- Entities shall publish an advertisement with a QR code and webpage link for full financial results within 48 hours of Board approval, along with the modified opinion(s) or reservation(s), if any, expressed by the auditor, is accessible to the investors.
- Full financial results may be published in newspapers within the same 48-hour period at the entity's discretion.

(iii) Introduction of XBRL format for disclosures to stock exchanges

A new Regulation 50(4) is inserted under which disclosures to the stock exchanges by a listed entity shall be made in XBRL format in accordance with guidelines specified by the stock exchanges from time to time.

(iv) Amendments to the signing of quarterly financial results

The financial results submitted to the stock exchange shall be signed by the Chairperson, Managing Director, a Whole-Time Director, or in their absence, by any other Director authorized by the Board to sign the financial results [Regulation 52(2)(ba)].





ii. Amendment relating to Issue of Capital and Disclosure Requirements (ICDR)

SEBI has notified SEBI (ICDR) (Amendment) Regulations, 2024, which encompass a broad range of modifications to the existing regulations effective 18 May 2024. Among the many amendments, key ones are listed below:

a) SEBI removes security deposit requirement

Issuers were previously required to deposit 1% of the public subscription issue size with the designated stock exchange before opening the subscription list. This requirement under Regulation 38(1) has been removed.

b) Minimum promoters' contribution

Regulation 14 has been amended to include Promoter group entities and non-individual shareholders holding more than 5% of the post-offer equity share capital. These entities are now permitted to contribute towards minimum promoters' contribution (MPC) to meet the shortfall subject to maximum of 10% of post issue capital without being identified as a promoter.

c) Eligibility of converted securities for promoters' contribution

Regulation 15, relating to securities eligible for meeting MPC requirements, has been amended to include equity shares from the conversion of compulsorily convertible securities held for a year before filing the Draft Red Herring Prospectus (DRHP), provided that full disclosures of the terms of conversion or exchange are made in such draft offer document.



Prabir Das

Director, Financial Accounting Advisory Services (FAAS), EY India

SEBI's latest amendments to ICDR regulations mark a significant step toward simplifying capital-raising processes and enhancing market efficiency. The removal of 1% security deposit, expanded promoter contribution criteria, and flexibility in public issue timelines reflect SEBI's commitment to fostering a more dynamic and accessible fundraising environment. These changes aim to balance regulatory oversight with the evolving needs of issuers, ensuring a streamlined and resilient capital market.

d) Criteria for filing updated offer documents

Schedule XVI of Regulation 25(6) has been amended with regards to the increase or decrease in size of offer for sale (OFS) requiring fresh filing and it shall be based on only one of the criteria, i.e., either issue size in rupees or number of shares, as disclosed in the draft offer document.

e) Subscription period for public issue

Regulation 142 has been amended to include flexibility in extending the bid/offer closing date on account of force majeure events by minimum one day instead of present requirement of minimum three days.





iii. Other regulatory changes

1. Business Responsibility and Sustainability Report (BRSR)

SEBI introduced the requirement of ESG reporting in India in 2012. That version of ESG reporting was termed the Business Responsibility Report (BRR) and it was mandated by SEBI that the top 100 listed companies in India by market capitalization needed to file a BRR. SEBI increased the number of companies that were required to file for BRR, to the top 500 listed companies in India by market capitalization from FY 2015-2016 onwards. In May 2021, SEBI introduced a new ESG reporting structure titled 'Business Responsibility and Sustainability Reporting (BRSR)' under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR Regulations') to make it mandatory for the top 1,000 listed companies in the stock exchange (by market capitalization), to report their sustainability performance from FY 2022-2023 onwards.

On 12 July 2023, SEBI issued BRSR core-Framework for assurance and ESG disclosures for value chain. With regard to this framework, SEBI, at its Board meeting held on 18 December 2024, approved certain decisions related to BRSR. Furthermore, SEBI, vide a circular date 20 December 2024, issued Industry Standards on Reporting of BRSR Core. This circular shall be applicable for FY 2024-25 and onwards.

SEBI Board Meeting PR No.36/2024 dated 18 December 2024

Ease of doing business with respect to Business Responsibility and Sustainability Report (BRSR)

With a view to facilitate ease of doing business for listed entities and their value chain partners with regard to requirements under BRSR on

Environmental, Social and Governance ("ESG") disclosures and its assurance, and introduction of voluntary disclosure on green credits, the Board approved the following:

Environmental, Social and Governance (ESG) disclosures

- Deferring ESG disclosures for value chain, as well as "assessment or assurance" thereof, by one year. Hence, ESG disclosures for value chain shall apply from FY 2025-26 (as against the current requirement of FY 2024-25) and "assessment or assurance" thereof shall be applicable from FY 2026-27 (as against the current requirement of FY 2025-26).
- Providing ESG disclosures for value chain shall be "voluntary", instead of the present requirement of 'comply-and-explain'.
- Reducing the scope of value chain to cover the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value), respectively, while providing that the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value), respectively.

- Reporting of previous year numbers will be voluntary in case of first year of reporting of ESG disclosures for value chain.

Green Credits Disclosure

- Introduction of a leadership indicator in Principle 6 of BRSR for disclosure of green credits generated or procured by the listed entity and its top 10 value chain partners
- Substitution of "assurance" with "assessment or assurance" in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding BRSR. "Assessment" will be third-party assessment undertaken as per standards to be developed by the Industry Standards Forum (ISF) in consultation with SEBI. This would be applicable for BRSR Core disclosures for listed entities and value chain from FY 2024-25 and FY 2026-27 onwards, respectively. SEBI is yet to issue the amended LODR to give effect to the decisions taken at the SEBI Board meeting held on 18 December, 2024. Also, the 'Assessment standard' is yet to be issued by ISF In consultation with SEBI.



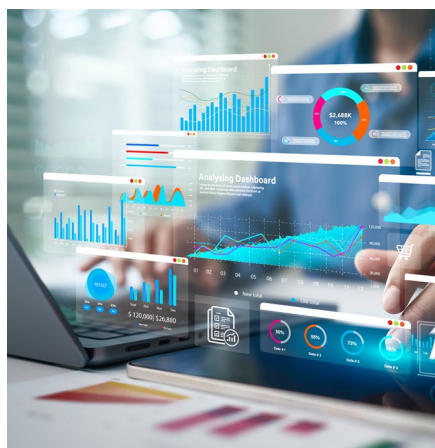


SEBI vide a circular SEBI/HO/CFD/CFD-PoD-1/P/CIR/2024/177 dated 20 December 2024

Industry Standards on Reporting of BRSR Core applicable for FY 2024-25 and onwards

In order to facilitate ease of doing business and to bring about standardization in implementation, the Industry Standards Forum ("ISF") comprising of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI, under the aegis of the Stock Exchanges, has formulated industry standards, in consultation with SEBI, for effective implementation of the requirement to disclose Business Responsibility and Sustainability Report (BRSR) Core under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") read with Chapter IV-B of SEBI master circular for compliance with the provisions of the LODR regulations by listed entities, issued vide SEBI/HO/CFD/PoD2/CIR/P/0155 and dated November 11, 2024. The listed entities shall follow the above industry standards to ensure compliance with SEBI requirements on disclosure of BRSR Core.

The industry associations which are part of ISF (ASSOCHAM, FICCI, and CII) and the stock exchanges have published the aforesaid industry standards on their websites.



2. Industry standards on "Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction (RPT)"

Regulation 23(9) of the LODR Regulations inter-alia requires listed entities to disclose RPTs, on a half-yearly basis, in the format specified by the Board and within the timelines specified in the regulations.

Regulation 23(2), (3) and (4) of SEBI LODR Regulations require RPTs to be approved by the audit committee and shareholders, if material.

In order to facilitate a uniform approach and assist listed entities in complying with the above-mentioned requirements, ISF has formulated industry standards, in consultation with SEBI, for minimum information to be provided for review of the audit committee and shareholders for approval of RPTs.

Part A and Part B of Section III-B of SEBI Master Circular dated 11 November 2024 ('Master Circular') specify the information to be placed before the audit committee and shareholders, respectively, for consideration of RPTs.

Part A - Information to be provided for review by the audit committee for approval of a proposed RPT

- Type, material terms and particulars of the proposed transaction
- Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise)
- Tenure of the proposed transaction (particular tenure shall be specified)
- Value of the proposed transaction
- The percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for

a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided)

- If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary,
 - details of the source of funds in connection with the proposed transaction;
 - where any financial indebtedness is incurred to make or give loans, interoperate deposits, advances or investments,
 - nature of indebtedness;
 - cost of funds; and
 - tenure;
 - applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
- Justification as to why the RPT is in the interest of the listed entity
- A copy of the valuation or other external party report, if any such report has been relied upon
- Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis
- Any other information that may be relevant

The audit committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis. Further, an RPT for which the audit committee has granted omnibus approval shall continue to be placed



before the shareholders if it is material in terms of Regulation 23(1) of the LODR Regulations.

Part B - Information to be provided to shareholders for consideration of RPTs

The notice being sent to the shareholders seeking approval for any proposed RPT shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- a) A summary of the information provided by the management of the listed entity to the audit committee as specified in part A above;
- b) Justification for why the proposed transaction is in the interest of the listed entity;
- c) Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary, the details specified under para (f) of part A above (The requirement of disclosing source of funds and cost of funds shall not be applicable to listed banks/NBFCs);
- d) A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- e) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;
- f) Any other information that may be relevant.

The explanatory statement contained in the notice sent to the shareholders for seeking approval for an RPT should provide relevant information to enable

shareholders to take a view whether the terms and conditions (T&C) of the proposed RPT are not unfavorable to the listed entity, compared to the T&C, had similar transaction been entered into between two unrelated parties. The information provided shall include but not be limited to the information specified above.

Transparency, accountability and shareholder empowerment are the bedrock of robust corporate governance. Therefore, listed entities should ensure compliance with the spirit of the law and endeavor to provide relevant and detailed information to shareholders to enable and empower the latter in taking an informed decision.

Effective date

This circular shall come into effect from July 1, 2025.





3

Key hot topics



1

Purchase consideration in business combination in connection with employment services (ESOP vs contingent considerations)

In some business combinations, provisions are made for contingent payments to employees or selling shareholders. Employment agreements or other arrangements with executives often provide the executives (who may also be shareholders) with a bonus or other payment, to be settled in cash or shares, if the company is acquired. These arrangements, which are commonly referred to as 'earn-outs', 'change in control provisions' or 'golden parachute arrangements', take many forms and have a variety of terms and conditions. These provisions are designed to incentivize retention and ensure key executives remain with the business after the transaction.

The complexity arises in determining whether these payments should be treated as part of the purchase consideration (i.e., the price paid for the acquired business) or as separate post-acquisition compensation costs. The distinction is critical for proper financial reporting, as it can significantly impact the valuation of the acquisition, the calculation of goodwill, and the profit and loss account. Also, this can influence future impairment testing and potentially impact long-term profitability. Misclassifying these payments can distort the true cost of the acquisition, leading to inaccurate goodwill calculation, misleading financial statements, and incorrect impact on profit margins.

Paragraph B54 of Ind AS 103 explains that contingent payments to employees or selling shareholders being considered part of the business combination or separate transactions depends on the specifics of the arrangement. To determine this, it is important

to understand why the acquisition agreement includes these payments, who initiated the arrangement, and when it was made.

Paragraph B55 further clarifies that if it is unclear whether these payments to employees or selling shareholders are part of the business deal or separate, the acquirer should look for certain indicators. These include:

Continuing employment:

The terms under which selling shareholders continue as key employees can help determine if the contingent payments are part of the business combination or separate. These terms could be in the employment agreement, acquisition agreement, or another document. If the contingent payments are lost if the employee leaves, it suggests the payments are for post-acquisition services. However, if the payments remain unaffected by employment termination, they are likely additional consideration rather than compensation for services.

Duration of employment:

If the required period of employment matches or exceeds the period over which contingent payments are made, it may suggest the payments are more about remuneration for post-acquisition services.

Level of remuneration:

If the regular salary or compensation for employees, aside from the contingent payments, is reasonable compared to other key employees in the combined company, it may suggest that the contingent payments are additional consideration rather than compensation for services.

Incremental payments to employees:

If selling shareholders who do not become employees receive lower contingent payments per share than those who become employees of the combined entity, it could indicate that the additional payments to the selling shareholders who become employees are actually remuneration for their services.

Number of shares owned:

The number of shares owned by selling shareholders who stay on as key employees can reveal the nature of the contingent payments. For instance, if those key employees owned most of the shares in the acquiree, it might suggest that the arrangement is a profit-sharing plan to compensate them for post-acquisition services. On the other hand, if these employees owned only a small number of shares and all selling shareholders received the same contingent payments per share, it could indicate that the payments are additional consideration. Also, any ownership interests held by related parties, like family members, should be taken into account.

Linkage to the valuation:

If the initial payment made during the acquisition is based on the lower end of the valuation range for the acquiree, and the formula for the contingent payments follows that valuation approach, it could indicate that the contingent payments are additional consideration. However, if the formula for the contingent payments aligns with previous profit-sharing arrangements, it may suggest that the main purpose of the arrangement is to provide remuneration.



Formula for determining consideration:

The method used to calculate the contingent payments can provide an insight into the arrangement's nature. For example, if the payment is based on a multiple of earnings, it could indicate that it is part of the acquisition. If it is a set percentage of earnings, it could suggest a profit-sharing arrangement for post-acquisition services.

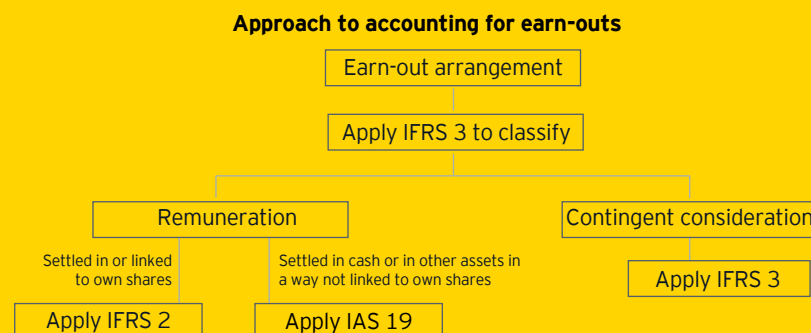
Other agreements and issues:

The terms of other agreements made with selling shareholders, such as non-compete clauses, consulting contracts, or property leases, and the tax treatment of contingent payments, may suggest that these payments are for purposes other than the acquisition. For example, if the acquirer signs a lease at a lower-than-market rate, some of the contingent payments might be for using the property, not for the business deal, and should be reported separately. But if the lease is at market rates, the payments are probably part of the acquisition.

How we see it

Based on the guidance in Ind AS 103, the treatment of contingent payments depends on a detailed analysis of the specific facts and circumstances of the arrangement. Key factors such as the payment's timing and conditions must be carefully considered to determine whether they represent compensation or additional purchase consideration. A thorough review of the agreements, employment terms, and any related arrangements is essential to determine whether these payments should be classified as part of the business combination or as separate transactions.

The approach to accounting for such arrangements is summarized in the diagram below:



Technical guidance provided in Ind AS 103.B54 and 103.B55 can be summarized in the table below:

Indicators to consider when classifying payments as remuneration or contingent consideration

Lead to conclusions as remuneration	Indicators to consider when assessing terms of additional payments to selling shareholders that remain employees	Lead to conclusions as contingent consideration
Payments forfeited in termination	Continuing employment	Payments are not affected by termination
Coincides with or exceeds payment period	Duration of required employment	Shorter than the payment period
Not reasonable compared to other key employees of the group	Level of other element of remuneration	Reasonable compared to the other key employees of the group
Other non-employee selling shareholders receive lower additional payments (on a per share basis)	Incremental payments to other non-employee selling shareholders	Other non-employee selling shareholders receive similar additional payments (on a per share basis)
Selling shareholders remaining as employees owned substantially all shares (in substance profit-sharing)	Number of shares owned when all selling shareholders receive same level of additional consideration (on a per share basis)	Selling shareholders remaining as employees owned only a small portion of shares
Formula for additional payment consistent with other profit-sharing arrangements rather than the valuation approach	Linkage of payments to valuation of business	Initial consideration at lower end of range of business valuation, and formula for additional payment linked to the valuation approach
Formula is based on performance, such as percentage of earnings	Formula is additional payments	Formula is based on valuation formula, such as multiple of earnings, indicating it is connected to a business valuation



Forfeiture clauses are typically included to ensure the integration and success of the acquired business under new ownership. However, understanding their accounting implications is vital to avoid unexpected outcomes in financial reporting.

This analysis often requires significant judgment to assess the relevant indicators as outlined in the guidance, ensuring the payments are properly classified within the context of the business combination.

The chart above can be referred to for a summary of key factors in determining whether contingent payments to employees or selling shareholders are part of the business combination or separate compensation transactions.

Example: Entity B appointed a candidate as its new CEO under a 10-year contract. The contract requires Entity B to pay the candidate CU5m if Entity B is acquired before the contract expires. Entity A acquires Entity B eight years later. The CEO was still employed at the acquisition date and will receive the

additional payment under the existing contract.

In this example, Entity B entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of the CEO. Thus, there is no evidence that the agreement was arranged primarily to benefit Entity A or the combined entity. Therefore, the liability to pay CU5m is accounted for as part of the acquisition of Entity B.

In other circumstances, Entity B might enter into a similar agreement with the CEO at the suggestion of Entity A during the negotiations for the business combination. If so, the primary purpose of the agreement might be to provide severance pay to the CEO, and the agreement may primarily benefit Entity A or the combined entity rather than Entity B or its former owners. In that situation, Entity A accounts for the liability to pay the CEO in its post-combination financial statements separately from the acquisition of Entity B.



Contingent payments in business combinations are often structured to retain key employees post-acquisition, ensuring stability and business continuity. However, the challenge lies in distinguishing whether these payments form part of the purchase price or serve as compensation for ongoing employment. Misclassification can impact goodwill, profit recognition, and future impairment assessments. Companies must carefully evaluate employment agreements, forfeiture conditions, and the linkage of payments to continued service to ensure appropriate recognition in financial statement.

Ayush Agrawal

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2

Key considerations related to accounting for payments received from suppliers and its related disclosures

Recent developments in e-commerce, new platforms, and shifting customer demands have transformed the way retailers interact with suppliers, leading to a variety of payment arrangements, such as rebates, incentives, and co-operative agreements. For example, a supplier may pay a retailer to support marketing activities. While Indian Accounting Standards address payments made by entities to customers, there is no single standard for accounting for payments received from suppliers. Various Ind AS guidelines, such as Ind AS 115, Ind AS 2, Ind AS 16, and Ind AS 38, provide partial guidance, focusing on specific scenarios like discounts, rebates, and trade allowances. However, there is no comprehensive framework that applies to all forms of payments

from suppliers, requiring entities to carefully assess each transaction to determine the appropriate accounting treatment.

Before determining the appropriate accounting for payments from suppliers, it is crucial for an entity to understand the context of the payment and any related contracts. Key guidance from Ind AS 115 should be considered, including the combination of contracts with the same customer and recognizing rights and obligations in both written and oral agreements, as well as those implied by customary business practices. In cases where multiple suppliers are involved, entities may need to use judgment to allocate payments appropriately. Common examples of consideration

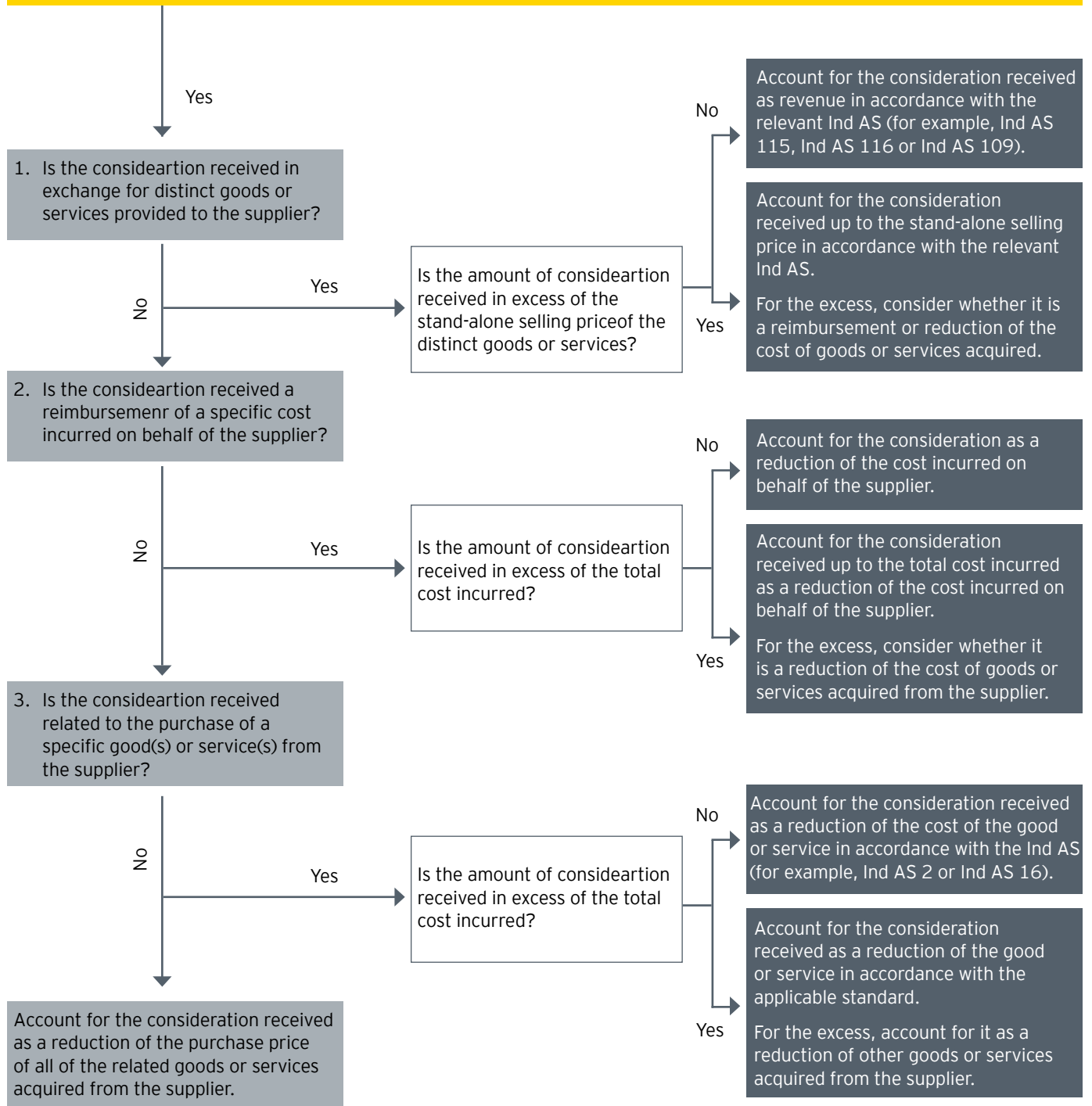
received from suppliers include co-operative advertising arrangements, slotting fees, buydowns or margin/price protection, coupons and rebates, and 'pay to play' arrangements. Once the context is understood, the entity can then apply various Indian Accounting Standards and exercise judgment in accounting for the payments.

Payments from suppliers generally fall into three key categories, each of which requires careful analysis to determine the correct accounting treatment. The chart below provides a summary of these categories, followed by a detailed breakdown of the steps to apply when evaluating supplier payments. Each step has been explored in the sections that follow.





Did the entity receive consideration from a supplier?





Step 1. Exchange of distinct goods or services for payment from the supplier

The first step is for an entity to assess whether the payment received (or receivable) from suppliers is in exchange for a distinct good or service transferred to the supplier. Ind AS 115 provides guidance on consideration paid (or payable) to a customer from the supplier's perspective. We believe it is appropriate for an entity, considering the requirements in Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors, to apply those requirements by analogy to payments received (or receivable) from suppliers from the customer's perspective.

(i) Determining whether the payment is for a distinct good or service

To determine if the payment is for a distinct good or service, an entity must identify all promised goods or services, including both explicit and implied promises, as well as those in other contracts or side agreements.

The entity must first assess if it has promised anything in exchange for the payment received. If the entity only performs administrative tasks without transferring a good or service to the supplier, there is no distinct good or service. These promises might not be explicitly stated in the supply contract but could be implied by customary practice or side agreements. Therefore, the entity must consider all facts and circumstances to determine if the supplier expects a good or service from the entity. If promised goods or services are identified, the entity applies a two-step process to determine whether they (or a bundle) are distinct.

- Consider at the level of the individual good or service whether the supplier can benefit from the good or service on its own or with other readily available resources, and

- Consider whether the good or service is separately identifiable from other promises in the contract

Both criteria must be met to conclude that the good or service is distinct. If met, the good or service is accounted for as a separate unit of account. An entity may need to apply significant judgment to determine if the good or service is identifiable. For example, if goods or services are transferred to the supplier and used by the supplier to provide goods or services to the entity, they may not be distinct (for example, a tool, mold, or component part used to manufacture goods the supplier sells to the entity).

(ii) A distinct good(s) or service(s) is identified

If one or more distinct goods or services are identified, an entity must determine if the consideration paid by the supplier exceeds the stand-alone selling prices of the goods or services provided:

- If the consideration is less than or equal to the stand-alone selling prices, the entity accounts for the sales or disposals of goods or services similarly to provisions to other customers, following applicable Ind AS such as Ind AS 109, Ind AS 115, and Ind AS 116. For example, payments received from suppliers for the right to use an asset may fall under Ind AS 116, while payments for financial instruments may fall under Ind AS 109. If the distinct goods or services are not part of regular operations, they may be treated as disposals of property, plant, or equipment, accounted for under Ind AS 16 or Ind AS 38.
- If the consideration exceeds the stand-alone selling prices, the entity must assess whether the excess is a reimbursement of costs incurred on behalf of the supplier or a reduction in the purchase price of goods or services acquired from the supplier.

Entities must determine whether the payment received (or receivable) is for a distinct good or service transferred to the supplier and if it reflects the fair value of the good or service. If so, the entity accounts for it similarly to other sales or disposals of goods or services.

Illustration 1-1: Market research service

Retailer A enters into an agreement to perform a significant amount of market research for Supplier B related to the launch of a new product. Supplier B believes that it is paying for the expertise and knowledge available from Retailer A. Retailer A believes Supplier B is electing to purchase its knowledge of the market rather than internally developing such knowledge. Retailer A regularly offers such services to its customers (including non-suppliers).

Based on an evaluation of the circumstances, the cash consideration received is in return for Retailer A providing distinct services to Supplier B, viz., market research services. By using guidance in Ind AS 115 for identifying performance obligations, these services are determined to be capable of being distinct (because the market research is regularly sold separately to non-suppliers), as well as sufficiently separable from Retailer A's purchases of Supplier B's goods. Considering these and related aspects, Retailer A determines that market research is distinct within the context of the contract.

The cash consideration received from Supplier B, therefore, needs to be accounted for as revenue in accordance with Ind AS 115, provided that the cash consideration received does not exceed the stand-alone selling price of the distinct services received by Supplier B. If the amount of cash consideration that Supplier B pays exceeds the stand-alone selling price of the distinct services, Retailer A would need to perform further analysis to determine whether



that excess represents a reimbursement of costs incurred on behalf of Supplier B or is a reduction of the purchase price of any goods or services acquired from Supplier B.

(iii) No distinct good or service is identified

If the entity does not identify a promised good or service in exchange for the payment from the supplier (either because there is no promise or because it is not distinct), it considers whether the supplier is reimbursing the entity for costs incurred on its behalf or the payment is a discount or rebate on goods or services purchased from the supplier.

Illustration 1-2: Slotting fees

A supermarket receives fees to place a supplier's goods prominently on its shelves (and not a particular shelf). Such fees are often referred to as slotting fees. The supermarket is not required to provide the supplier with any other goods or services in exchange for the payment. The supermarket concludes the payment it has received is not in exchange for a distinct good or service it provides to the supplier. Therefore, it moves to Step 2 (Reimbursement of costs incurred on behalf of the supplier) to determine whether the supplier is reimbursing the entity for costs incurred on its behalf or the payment is a discount or rebate on goods or services purchased from the supplier.



Step 2. Reimbursement of costs incurred on behalf of the supplier

(i) Determining whether the payment is a reimbursement

An entity may receive a payment from a supplier to reimburse costs incurred on the supplier's behalf, which could indicate the entity is acting as an agent for the supplier or has a contract to prepay amounts to the supplier's customers and later receive reimbursement. The entity must understand the nature of the reimbursement agreement with the supplier, considering all relevant facts and circumstances.

Ind AS does not contain detailed guidance on payments received for reimbursement of costs incurred on the supplier's behalf. However, factors to consider may include, but are not limited to:

- Whether there is a specific agreement with the supplier to incur the costs on their behalf and be reimbursed.
- Whether the costs to be reimbursed are directly related to the activities that caused them.

This is evident when the costs are incremental, meaning they would not have been incurred without the supplier's involvement. However, judgment is required in cases involving internal costs. For instance, payments for dedicated marketing staff working solely on promoting the supplier's goods could be deducted from the entity's personnel costs if their activities are directly related to the supplier's products.

- Whether the payment contains a margin exceeding the amount of the costs incurred. If so, this might indicate there is a service being performed or a good provided by the entity.

In such a situation, the entity may need to reconsider Step 1 (Exchange of distinct goods or services for payment from the supplier) or consider whether the payment is for both a reimbursement and in exchange for something else. For example, an entity could receive reimbursement for costs incurred in providing a good or service as the supplier's agent. On the other hand, reimbursement could be received by an entity for pass-through amounts to the customer on behalf of the supplier or the entity's margin/price protection rather than for costs incurred in the activities on the supplier's behalf.

Considering these factors, an entity needs to determine whether the payment is, in substance, a reimbursement of a supplier's cost. Often, an entity may need to use judgment and this assessment should be based on the weight of evidence available.

(ii) Payments that are a reimbursement of costs incurred on behalf of a supplier

If the payments are a reimbursement of costs incurred on behalf of a supplier:

- Any payment received up to, and including, the amount of costs incurred on behalf of the supplier, would be deducted from the costs recognized in the entity's financial statements.
- Any amount exceeding the costs incurred would need to be further assessed under Step 3 (Rebates or discounts on goods or services purchased from the supplier) to determine whether it is a discount or rebate on goods or services purchased from the supplier.

If an entity receives payment as reimbursement of costs paid on behalf of the supplier, the payment offsets the expense incurred on behalf of the supplier.



Illustration 2-1: Co-operative advertising arrangements

Supermarket A sells various products purchased from multiple suppliers. Supermarket A and some suppliers enter into a co-operative advertising arrangement to make a brochure for the upcoming holiday season to advertise specific products. Supermarket A and the suppliers agree to pay some parts of the printing and delivery costs of the brochure based on the relative space of each supplier's product in the advertisement. Supermarket A assesses the payment received in accordance with Step 1 and considering the specific facts and circumstances, concludes that it is not providing a distinct service to the suppliers. Instead, it concludes it is a reimbursement for costs incurred on behalf of the suppliers. When Supermarket A receives payments from the suppliers for reimbursement of the costs incurred in the co-operative advertising activities on the suppliers' behalf, these payments would be deducted from the advertising costs in the financial statements of Supermarket A. This is because the advertising costs are incurred to promote the sales of the specific products (or supplier) and the costs would not be incurred if Supermarket A and the suppliers had not entered into the arrangement.

(iii) Payments that are not a reimbursement of costs incurred on behalf of a supplier

If the payment does not represent a reimbursement, the entity would need to further assess the payment received under Step 3 to determine whether it is a discount or rebate on goods or services purchased from the supplier.



Illustration 2-2: Buydowns or margin/price protection arrangements

Manufacturer B agrees to reimburse Supermarket A up to a specified amount for shortfalls in the sales price received by the entity for Manufacturer B's products. Buydowns generally do not provide a distinct good or service to Manufacturer B, nor do they reimburse Supermarket A for a directly related cost incurred in selling Manufacturer B's products. Accordingly, such payments would be a reduction of the purchase price of goods or services acquired from Manufacturer B.

Step 3. Rebates or discounts on goods or services purchased from the supplier

If an entity receives payment from the supplier as a discount or rebate on purchased goods or services, the payment is deducted from the cost of the purchased good or service

If the payment is not in exchange for a distinct good or service or a reimbursement of amounts paid on behalf of a supplier, the payment will generally be part of a transaction in which the entity is purchasing something from the supplier – that is, a discount or rebate on a previous or upcoming purchase.

Appropriately identifying the goods or services the payment is related to is important in determining whether an Ind AS specifically applies to such a payment, and the appropriate timing of recognition in Statement of Profit and Loss.

Payments should be:

- Linked to the specific purchase(s) to which it relates, if known, or
- Allocated to purchases from suppliers on a reasonable and consistent manner, to the extent that the consideration cannot be linked to a specific good(s) or service(s).

In some cases, purchases may relate to more than one supplier (for example, co-operative advertising), and, therefore, specific attribution or allocation on a reasonable and consistent basis will be necessary.

Accounting for supplier consideration as a reduction in the cost of purchased goods or services (by analogy to Ind AS 115) may delay recognition in the profit and loss statement until the related goods or services are recognized. In some cases, judgment may be needed to apply supplier payments to the purchased goods or services, such as when the level of purchases is unknown, and the entity must estimate future purchases for proper allocation.



The e-commerce boom, new digital platforms, and evolving consumer preferences have reshaped retailer-supplier dynamics. An entity may receive various payments from suppliers, from simple rebates to complex marketing collaborations. In the absence of explicit guidance from Ind AS on accounting for such payments, entities must apply judgment, with Ind AS 115 offering direction on handling consideration paid or payable. For such arrangements, companies should provide additional disclosure to aid financial statement users' understanding.

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If a payment is specifically linked to or allocated to a recognized asset, several standards may apply. For example, Ind AS 2 applies to inventories purchased from suppliers. Paragraph 11 of Ind AS 2 states that trade discounts, rebates, and similar items are deducted when determining the cost of inventory. Although payments from suppliers to customers are not explicitly addressed, this should also include cash incentives and other supplier payments. These payments may take various forms, such as incentives offset against future purchases or payments tied to specific purchases. If these payments relate to inventories that have been sold, the entity would account for them as a reduction in the cost of materials consumed or the purchase of stock-in-trade.

However, in its November 2004 agenda decision, the IFRS Interpretations Committee clarified that “rebates that specifically and genuinely refund selling expenses would not be deducted from the cost of inventories”. As such, an entity receiving a payment from a supplier cannot default to treating any payment from a supplier from whom it purchases inventories as a reduction. Instead, it needs to determine the nature of the payment, which might require judgment.

Illustration 3-1: Discounts on inventories

Consider the fact pattern in Illustration 1-2 above, in which a supermarket concludes that slotting fees received are not received in exchange for a distinct good or service. Assume that the master supply arrangement with the supplier offers the supermarket discounted prices in exchange for prominence on store shelves. This discount is achieved through monthly payments and depends on the shelf position in a given month. The supermarket determines that the nature of the payment is a discount on inventories. On that basis, it accounts for the payment as a reduction of the costs of purchase of inventories, or as a reduction of cost of materials consumed/ purchase of stock-in-trade if the inventories have already been sold.

How we see it

Based on the analysis of supplier payments under Indian Accounting Standards (Ind AS), there is no explicit guidance on how a customer should account for payments received (or receivable) from suppliers, meaning judgment is required in these cases. Entities need to assess whether the payment received is in exchange for a distinct good or service transferred to the supplier. If so, it should be treated in the same manner as other similar sales or disposals of goods or services.

If the payment is a discount or rebate on purchased goods or services, it should be deducted from the cost of the goods or services purchased. However, if the payment is a reimbursement of costs incurred on behalf of the supplier, it should offset the relevant expense.

Given the complexity involved, entities must apply judgment when determining the nature of the payment, considering the contractual relationship between the parties and the facts and circumstances of the transaction. Key steps include identifying all promised goods or services, including any explicit or implied promises, and determining if a distinct good or service is being exchanged. Significant judgment may also be required in attributing or allocating payments to specific goods or services purchased from the supplier. This is crucial for ensuring that the timing of recognition aligns with when the associated goods or services are recognized in the income statement.

Given the judgment involved, entities should consider disclosing additional information for material payments received from suppliers, helping users of the financial statements understand the treatment of such payments.





3 IFRS 18: Presentation and related potential changes

In April 2024, IASB published a new IFRS Accounting Standard, viz., IFRS 18 Presentation and Disclosure in Financial Statements.

IFRS 18 marks the culmination of IASB's Primary Financial Statements (PFS) project, which had been running since 2014 with the objective to improve communication in financial statements.

Once effective, IFRS 18 will replace IAS 1 and some requirements currently included within IAS 1 will be moved to IAS 8 (renamed 'Basis of Preparation of Financial Statements') and to a much lesser extent, to IFRS 7 Financial Instruments: Disclosures.

Narrow scope consequential amendments have also been made to other IFRS Accounting Standards including:

- IAS 7 Statement of Cash Flows
- IAS 33 Earnings per share
- IAS 34 Interim financial reporting

IFRS 18 and the consequential amendments to other IFRS Accounting Standards are effective for periods beginning on or after 1 January 2027, with earlier application permitted.

This topic deals with the key new requirements in IFRS 18 and key consequential amendments in other IFRS Accounting Standards that could impact the financial statements for most reporting entities.

ICAI has issued an exposure draft of Ind AS 118- Presentation and Disclosure in Financial Statements, which corresponds to IFRS 18 for comments. The proposed effective date of Ind AS 118 is for annual reporting periods beginning on or after 1 April 2027.

Key concerns addressed

While IFRS 18 represents a major overhaul of the requirements relating to presentation and disclosure of information in financial statements, many of the existing requirements in IAS 1 are carried forward. This is because IASB has chosen to focus on targeted improvements designed to address the three key concerns expressed by users of financial statements (hereafter 'users'), being:

- Financial statements, particularly the Statement of Profit and Loss, are not sufficiently comparable across reporting entities
- The transparency and understandability of non-GAAP measures needs to be improved, and
- The level of disaggregation in financial statements does not always provide the information users need, and material information can be obscured





1. Financial reporting consideration

The application of IFRS 18 will not impact recognition and measurement of items in the financial statements. However, it is expected to change how entities present and disclose their financial statements, particularly the Statement of Profit and Loss (also known as the 'income statement'). IFRS 18 will affect the complete set of financial statements.

A. Presentation of new categorization and subtotals in the Statement of Profit and Loss

Under the IAS 1, there is no requirement to classify income and expenses into different 'categories' and it allows but does not require sub-totals. Operating profit, one of the most frequently used measures of performance, has not been defined in IFRS Accounting Standards until now, which has resulted in entities applying different definitions to the same subtotal. This has resulted in significant diversity, which makes it difficult for users of the financial statements to understand the information presented in the Statement of Profit and Loss and compare information between entities.

Categorization:

IFRS 18 requires an entity to classify all items of income and expenses into following new and defined categories:

- 1) Operating
- 2) Financing
- 3) Investing
- 4) Discontinued operations
- 5) Income taxes

Required subtotals:

IFRS 18 requires entities to present subtotals and totals for 'operating profit or loss,' and 'profit or loss before

financing and income taxes.' The first subtotal is intended to give a relevant representation of an entity's operations, while the second is intended to allow users to analyze the performance of an entity before the effect of its financing decisions. These categories and subtotals ought to result in a more standardized Statement of Profit and Loss.

B. Specified main business activities

For the purposes of classifying its income and expenses into the new categories required by IFRS 18, an entity will need to assess whether it has a 'specified main business activity' of investing in assets or providing finance to customers, as specific classification requirements apply to such entities. Determining whether an entity has such a specified main business activity is a matter of fact and circumstances which requires judgment. An entity may have more than one main business activity.

Operating category:

The operating category is intended to capture income and expenses from the entity's main business activities. However, IFRS 18 describes it as a residual category, so the operating category will comprise all income and expenses not included within the investing, financing, income taxes or discontinued operations categories, even if such income and expenses are volatile and/or unusual.

If an entity has a specified main business activity of investing in assets, the income and expenses from those assets will be included in the operating category, for example, real estate companies will need to present rental income in the operating category.

Entities with a specified main business activity of providing financing to customers will classify income and expenses from cash and cash equivalents that relate to providing

financing to customers (for example, cash and cash equivalents held for related regulatory requirements) within the operating category.

How we see it

Although many entities already present an operating profit or loss subtotal, it cannot be presumed that the classification of income and expenses to the operating category will not change. For example, many entities currently present 'share of the profit or loss of associates and joint ventures accounted for using the equity method' in the operating category, which is not permissible under IFRS 18.

Financing category:

To determine which income and expenses to classify in the financing category, IFRS 18 requires an entity to differentiate between two types of liabilities:

- **Type 1:** Liabilities that arise from transactions that involve only the raising of finance (i.e., entity receives finance in the form of cash, own equity or the discharge of a liability and will return cash or its own equity in exchange at a later date)
- **Type 2:** Other liabilities (i.e., liabilities other than Type 1 liabilities)

For entities that do not provide financing to customers as a main business activity, the financing category includes income and expenses that arise from the initial and subsequent measurement of all Type 1 liabilities, as well as incremental expenses attributable to the issue and extinguishment of such liabilities.

Interest income and expenses, as well as the effect of interest rate changes that arise while applying another IFRS accounting standard to other liabilities,



are recognized in the Type 2 financing category.

To avoid doubt, the standard outlines income and expenses that are not interest income or expenses for the purpose of applying other requirements in IFRS Accounting Standards and, accordingly, are classified in the operating category, for example:

- Expenses recognized for the consumption of purchased goods or services
- Current and past service costs from a defined benefit plan and
- Fair value remeasurements of a contingent consideration liability recognized by applying IFRS 3 Business Combinations

How we see it

Under IAS 1, practice is somewhat mixed with respect to the presentation of the different types of changes in provisions. Thus, the prescriptiveness of IFRS 18 will assist in comparability between entities.

The investing category:

- The investing category will generally include income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries, cash and cash equivalents and other assets, if they generate a return individually and largely independent of the entity's other resources (IFRS 18 includes examples of such assets)
- Income generated by the assets mentioned above (for example, interest, dividends and rental income)
- Income and expenses that arise from the initial and subsequent measurement of those assets, including on derecognition of the assets (for example, impairment

losses and reversals of impairment losses)

- Incremental expenses directly attributable to acquiring and disposing of those assets (for example, transaction costs and costs to sell)

Income taxes category:

An entity is required to classify in the income taxes category, the tax expense or tax income that are included in the Statement of Profit and Loss, applying IAS 12 Income Taxes and any related foreign exchange differences. IASB has clarified that the presentation of income and expenses related to income tax in that category complies with the presentation requirements of IAS 12.

Discontinued operations category:

An entity is required to classify in the discontinued operations category income and expenses from discontinued operations as required by IFRS 5. IASB has clarified that the presentation of income and expenses related to discontinued operations in this category complies with the presentation requirements of IFRS 5.

C. Classification of specific income and expenses

The requirement to classify all income and expense into one of the five categories above can be challenging for items that might fit into more than one of these categories. Thus, IFRS 18 provides guidance for classifying some specific types of income and expense.

Foreign exchange differences

Foreign exchange differences are classified in the same category as the income and expenses from the items that gave rise to those differences. For example, foreign exchange differences on a foreign-currency denominated

receivable for a sale of goods are classified in the operating category (the same category as the sale of goods). However, an entity is permitted to classify foreign exchange differences in the operating category if classifying them in the same category as the income and expenses from the items that gave rise to them would involve undue cost or effort.

Fair value gains and losses on derivatives

The classification of fair value gains and losses on derivatives depends on whether the derivatives are used to manage exposure to identified risks and whether they are designated as hedging instruments.

The gains and losses are classified as follows:

- **Financial instruments designated as hedging instruments:**
To the extent the derivative is recognized in the Statement of Profit and Loss, the gains and losses are classified in the same category as the income and expenses exposed to the risks that the derivative is covering, unless this would require grossing up of those gains and losses. In the latter case, an entity will classify all gains and losses on the derivative in the operating category.
- **Derivatives not designated as hedging instruments, but used to manage exposure to identified risks:**
The gains and losses are classified in the same category as the income and expenses affected by the risks that the derivative is managing, unless this would require either undue cost or effort, or the grossing up of the gains and losses. If one of the latter two is applicable, an entity will classify all gains and losses on the derivative in the operating category.



The requirements for derivatives only specify the appropriate category for gains and losses arising on them; they do not override the requirements in other IFRS, nor do they specify the line item.

Classification of income and expenses from hybrid contracts containing a host that is a liability

Classification of income and expenses of a hybrid contract with a host liability will depend on whether the embedded derivative is separated from the host contract.

Embedded derivative is separated

If separated, income and expenses arising from the host liability will be classified in accordance with the requirements for classifying a similar liability that is not a host in a hybrid contract. In other words, an entity will assess whether it is a Type 1 or Type 2 liability and follow the appropriate guidance. The separated embedded derivative is classified in accordance with the requirements for similar stand-alone derivatives, unless the derivative is not used to manage identified risk.

Embedded derivative is not separated

For a hybrid contract (no separation) that is a Type 1 liability and relates to providing financing to customers, an entity with a main business activity of providing financing to customers classifies all such income and expenses in the operating category. If the Type 1 liability does not relate to providing financing to customers, the entity has an accounting policy choice to classify the income and expenses in the operating or in the financing category.

Consistent with the treatment by an entity without a main business activity of providing financing to customers, for a hybrid contract (no separation) which is a Type 2 liability, the following apply:

- For a hybrid contract (no separation), within the scope of IFRS 9 and measured at amortized cost, the income and expenses arising from initial recognition and subsequent measurement of the liability will be classified in the financing category.
- For a hybrid insurance contract in the scope of IFRS 17, insurance finance income and expenses will be classified in the operating category.
- For all other hybrid contracts, interest income and expenses and income and expense from interest rate changes identified for the purposes of applying other IFRS Accounting Standards, will be classified in the financing category. If the income and expenses are not interest income and expenses, they will be classified as operating.

How we see it

- The undue cost and effort exemption, which results in the classification of certain foreign exchange differences in the operating category, is a pragmatic solution that could involve significant judgment.
- Many entities already present the gains and losses on designated hedging instruments and on those instruments used to manage risk in the manner required by IFRS 18. However, the new prescriptive requirements will require entities who are not currently presenting this information in line with IFRS 18 to change their current practice.





2. Disclosures related to the Statement of Profit and Loss

IFRS 18 introduces specific disclosure requirements related to the Statement of Profit and Loss:

a. Management-defined performance measures (MPMs)

Many entities currently use alternative performance measures to communicate management's view of an aspect of entity's performance. These may be included in press releases, strategic reports, management discussions and analysis, etc. IFRS 18 introduces the concept of MPMs and defines it as a subtotal of income and expenses that an entity uses in public communications outside financial statement. IFRS 18 has limited its scope to MPMs only. IFRS 18 explicitly notes that subtotals required by an IFRS Accounting Standard, including IFRS 18 itself, are not MPMs. IFRS 18.118 also lists some other subtotals that are not MPMs, for example, "gross profit or loss (revenue minus cost of sales) and similar subtotals".

To improve transparency around these measures, IFRS 18 requires an entity to disclose information about all its MPMs in a single note to the financial statements. The standard also lists several disclosures to be made, including:

- How the measure is calculated,
- How it provides useful information, and
- A reconciliation to the most comparable subtotal specified by IFRS 18 or another IFRS Accounting Standard.

IFRS 18 does not prohibit presentation of MPM in the Statement of Profit and Loss. However, IASB noted that an entity presenting an MPM in the Statement of



Profit and Loss will need to comply with the requirements set out in IFRS 18.24 for additional subtotals presented in the statement. An entity that presents an MPM in the Statement of Profit and Loss would also need to disclose all the information required for MPMs in a single note, even if this results in duplication.

b. Disclosure of expenses by nature, for entities that present the Statement of Profit and Loss by function

In the operating category of the Statement of Profit and Loss, an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both characteristics:

- a. the nature of expenses; or
- b. the function of the expenses within the entity.

In classifying expenses by nature ('nature expenses'), an entity provides information about operating expenses related to the nature of the economic

resources consumed to accomplish the entity's activities without reference to the activities in relation to which those economic resources were consumed. Such information includes information about raw material expense, employee benefit expense, depreciation and amortization.

In classifying expenses by function within the entity, an entity allocates and aggregates operating expenses according to the activity to which the consumed resource relates. For example, cost of sales is a function line item that combines expenses relating to an entity's production or other revenue-generating activities such as: raw material expense, employee benefit expense, depreciation and amortization. Therefore, when classifying expenses by function, an entity might:

- a. allocate to several function line items expenses relating to economic resources of the same nature; and
- b. include in a single function line item an allocation of expenses relating to economic resources of several natures.



3. Location of information, aggregation, and disaggregation

IFRS 18 requires aggregation and disaggregation of information to be performed with reference to similar and dissimilar characteristics while keeping the identified roles of the Primary Financial Statements (PFS) and the notes in mind. Since the purpose of the PFS is to provide a useful structured summary, an entity will, by design, aggregate material items on the face of the PFS, and then need to disaggregate them in the notes.

An entity is required to 'present' information in the PFS to provide structured summaries of the entity's income, expenses, assets, liabilities, equity and cash flows that are useful to users. The entity will also need to 'disclose' other material financial information in the notes to supplement the PFS.

4. Amendments to other IFRS standards

Amendments to IAS 7, Statement of Cash Flows

The amended IAS 7, once effective, will require all entities to use the 'operating profit' subtotal as the starting point for determining cash flows from operating activities under the indirect method.

The use of the operating profit subtotal as a consistent starting point will make the Statement of Cash Flows more consistent and help investors analyze and compare companies' operating cash flows. The change in the starting point is also simplifies the presentation of cash flows from operating activities as it will

eliminate some reconciling items that are used at present.

The amendments will also remove the optionality around the classification of cash flows from dividends and interest in the Statement of Cash Flows currently available under IAS 7.

That removal aims to increase comparability between entities and provide more meaningful information as, currently, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in an entity's business activities.

Amendments to IAS 33, Earnings per share

In addition to reporting basic and diluted earnings per share (EPS), IAS 33 permits entities to disclose (in the notes only) additional EPS calculated based on any component of the statement of comprehensive income.

The amendments to IAS 33 permit an entity to disclose these additional EPS only if the numerator is either a total or subtotal identified in IFRS 18 or is an MPM.

Amendments to IAS 34, Interim financial reporting

If an entity prepares condensed interim financial statements in accordance with IAS 34, in the first year of applying IFRS 18, it presents each heading it expects to use, and the subtotals required in IFRS 18 in its condensed interim financial statements.

As part of the information required by IAS 34.16A(a) (i.e., where accounting policies have changed since the last annual period, a description of the nature and effect of these changes), an entity that applies IAS 34 to prepare interim financial statements in the first year of applying IFRS 18, discloses

a reconciliation for each line item presented in the Statement of Profit and Loss for the comparative periods immediately preceding the current periods between:

- The restated amounts applying IFRS 18 to the comparative period and the cumulative comparative period, and
- The amounts previously presented applying IAS 1 to the comparative period and cumulative comparative period.

An entity can voluntarily provide additional reconciliations between the IAS 1 and IFRS 18 presentation for: [IFRS 18.C6]

- The current interim period (and the cumulative current interim period), and/or
- An earlier interim period in addition to those immediately preceding the current period as required above.





5. Transition and effective date

IFRS 18 supersedes IAS 1 and is effective for annual reporting periods beginning on or after 1 January 2027. Earlier application is permitted and must be disclosed in the notes. An entity is required to apply the consequential amendments to other IFRS Accounting Standards when it applies IFRS 18.

An entity is required to apply IFRS 18 retrospectively. However, an entity is not required to present the quantitative information specified in IAS 8.28(f) (i.e., the adjustment for each financial statement line item affected and the related effect on basic and diluted EPS, for the current period and each prior period presented).

In its annual financial statements, an entity must disclose, for the comparative period immediately preceding the period in which IFRS 18 is first applied, a reconciliation between each item in the Statement of Profit and Loss between:

- The restated amounts presented in accordance with IFRS 18, and
- The amounts previously presented by applying IAS 1.

An entity is permitted, but not required, to provide the reconciliation for:

- The reporting period in which IFRS 18 is first applied, and/or
- Earlier comparative periods.

6. Practical implication of new requirement

While there appears to be time before IFRS 18 becomes effective, we believe effective implementation requires advanced preparation, including system changes and user awareness of potential implications in advance. Hence, entities are strongly encouraged to proactively begin preparing for transition. They may consider the following steps:

Readiness assessment

- Conduct a detailed analysis of IFRS 18, particularly focusing on new categorization requirements. Understanding changes and training team is important for successful implementation.
- For groups of entities with diverse main business activities, evaluate how the categorization of income and expenses will impact group financial reporting and consolidation processes.
- For entities reporting under multiple GAAPs, decide the approach for reporting such as the need for dual books of accounts, templatization, etc.
- Evaluate judgment areas and policy choices available.
- Conduct readiness assessment for availability of relevant data and information.

Evaluating systems, processes and control impacts

- Entities may need to adjust systems and processes to capture relevant information to satisfy new requirements, for example, impact on chart of accounts, groupings, and classifications at the time of transaction accounting.
- Evaluate how to change the classification of income and expenses retrospectively to meet the requirement for comparative periods.
- In India, there is a requirement to maintain audit trail under the Companies Act (as modified). Evaluate potential implications of the system changes or manual data processing on the requirement to maintain audit trail.
- Update standard operating procedure (SOPs) and controls, if any.

Revisit performance measures

- Identify MPMs and determine which are within the scope of IFRS 18 requirements.
- Revisit/ reevaluate the presentation of MPMs.
- Develop a mechanism for regular tracking of MPMs used in various public communications to comply with IFRS 18 disclosure requirements.



IFRS 18 represents a fundamental shift in financial statement presentation, enhancing transparency, consistency, and comparability across entities. With new classifications for income and expenses, mandatory subtotals, and stricter disclosure requirements, companies must prepare for significant changes in reporting structures. This has a pervasive impact on all the entities across the different industry. It would impact processes, systems and IT, people and, more importantly, on a strategic level in investor communications. As the effective date approaches, entities should assess system readiness, update financial models, and align internal controls to comply with evolving regulatory expectations.

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- Entities may need to design new systems/ processes and controls around MPMs due to their inclusion in financial statement.

Effect on contracts or compensation policies

- Assess impact on contracts or compensation policies:
Entities with management remuneration policies based on a particular measure in the Statement of Profit and Loss may need to consider whether IFRS 18 impacts determination of such measure. For example, operating profit measurement before and after IFRS 18 application may potentially differ and entities paying remuneration based on such measure may need to consider whether there is also a need for a corresponding change to measure the remuneration policy.
- Similar to management remuneration, the application of IFRS 18 may also change the determination of performance measures used in loan agreement and thereby compliance with debt covenants. Entities will also need to evaluate whether there is a need for changes in the loan agreement to avoid potential non-compliance.

Communication strategy

- Develop a strategy for communicating potential impacts of IFRS 18 adoption to the shareholders and other stakeholders, ensuring transparency and preparedness.
- Monitor changes in local reporting landscape.



How we see it

Although the effective date of IFRS 18 may seem distant, entities are strongly encouraged to start analyzing the new requirements now, especially those involved in group reporting under IFRS. Many entities will need to collect and review information, engage with lenders to align covenants, and adjust KPIs for performance evaluation, which may necessitate updates to internal information systems. Additionally, entities should stay informed about industry-specific developments as practices evolve.



4

An overview of key accounting implications arising from recent amendments in the Income-tax Act

The Finance Act (No. 2), 2024 (the Finance Act 2024) has made certain key amendments in the Income-tax Act, 1961, as applicable to companies. These amendments include:

- (i) Abolition of the concept of acquisition cost indexation of specified capital assets to compute long-term capital gain (LTCG) arising on transfer of the asset, and
- (ii) Shifting the incidence of taxation on buyback of shares from the issuer company to the holder of shares.

Among other implications, these amendments need to be carefully evaluated with regard to current and deferred tax accounting.

i. Abolition of the concept of indexation of cost of acquisition of specified capital assets

Except for transition relief to specified non-corporate assessees for "grandfathered" immovable property acquired before 23 July 2024, the Finance Act 2024 has removed the concept of acquisition cost indexation whilst computing long-term capital gains arising on transfer of a long-term capital asset (i.e., capital asset transferred after meeting prescribed holding period criteria). With this change, the Finance Act 2024 has also made changes in the holding period for assets to be classified as long-term capital asset and also tax rate applicable on long-term capital gains.

Taxability of long-term capital gains in few categories of capital assets which are likely to impact broad range of Indian companies in general:

Long-term capital gains

- Tax rate to be set at 12.5% irrespective of asset class.¹
- Indexation benefit has been withdrawn except for land and/or building acquired before 23 July 2024 by specified non-corporate assessees.

Change in holding period:

To qualify as a long-term asset, the holding period of (a) listed units of business trust (REITs, InvITs) will now be 12 months instead of 36 months, and (b) some assets such as bullion, jewelry, etc., will now be 24 months instead of 36 months. Additionally, taxability of unlisted bonds and debentures is now governed by special provisions, which deem the gains arising from transfer, redemption or maturity of financial instruments covered therein² as short-term capital gains.

These amendments are applicable to all transfer of capital assets taken place on or after 23 July 2024.

Short-term capital gains

Tax on equity shares, units of business trust and units of equity-oriented funds listed in India increased to 20% from the present rate of 15%, where securities transaction tax is paid.

These amendments are applicable to all transfer of capital assets taken place on or after 23 July 2024.

A. Accounting implication:

Under Ind AS 12 Income Taxes, the indexed cost of acquisition, if allowed under the applicable Income-tax Act, was considered as tax base of the asset to determine resultant deferred tax asset/ liability arising on the asset concerned. The deferred tax asset, if any, arising on the asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The removal of indexation benefit, along with other changes, will impact the determination of tax base of the asset concerned and deferred tax asset/ liability to be recognized (assuming, probability criterion is met to recognize deferred tax asset, if any)



1. For listed equity shares, equity oriented mutual funds, units of business trust, threshold of INR1.25 lakh applies for taxation of capital gains
2. Other financial instruments deemed for short-term capital gains treatment are (a) market-linked debentures and (b) specified mutual funds (debt-oriented funds) acquired on or after 1 April 2023.



Accounting implications can be explained with examples below:

1. Investment in unlisted shares:

Nature of investment	Unlisted shares
Accounting policy	Fair value through profit and loss
Date/ year of acquisition	2020
Cost of acquisition	INR 49.50 crore
Transaction cost	INR 0.5 crore
Total acquisition cost	INR 50.00 crore
Index of the year of acquisition	301
Current index	363
Indexed cost of acquisition	INR 60.30 crore
Current fair value	INR 80.00 crore
Pre-amendment	
Current carrying amount (fair value)	INR 80.00 crore
Indexed cost of acquisition (Tax base)	INR 60.30 crore
Taxable temporary difference	INR 19.70 crore
Tax rate (excluding surcharge and cess)	20%
Deferred tax liability	INR 3.94 crore
Post-amendment	
Current carrying amount (fair value)	INR 80.00 crore
Actual cost of acquisition (Tax base)	INR 50.00 crore
Taxable temporary difference	INR 30.00 crore
Tax rate (excluding surcharge and cess)	12.5%
Deferred tax liability	INR 3.75 crore





2. Other cases:

Besides aforesaid investments, such impact can arise in many other cases also. Consider that a company purchased a piece of land several years ago. For financial reporting purposes, it is determined that cost of the land at initial recognition is INR50.00 crore and the same amount was its cost of acquisition for income-tax purposes. Prior to the amendment, under the Income-tax Act, long-term capital gain arising on transfer of land will be determined basis its indexed cost of acquisition. For simplicity, it is assumed that the indexed cost of acquisition of the land on 31 March 2024 was INR 85.00 crore and it is also assumed that the applicable long-term capital gains tax rate for the year ended 31 March 2024 was 20%. For financial reporting purposes, the company was measuring land at cost using the cost model as prescribed under Ind AS 16, Property, Plant and Equipment. In accordance with Ind AS 12, there as a deductible temporary difference of INR 35.00 crore between the carrying amount (original cost) and its tax base (indexed cost) as of 31 March 2024. Assuming Ind AS 12 criteria for recognition of deferred tax asset (DTA) was met, the company had recognized DTA of INR 7.00 crore [deductible temporary difference of INR 35.00 crore multiplied by applicable tax rate of 20%] as on 31 March 2024. Upon enactment of the Finance Act 2024 in August 2024, this deductible temporary difference ceases to exist since indexed cost of acquisition is no longer allowed.

The above changes will require companies to revisit previously recognized deferred tax asset/ liabilities, if any.

B. Applicability:

In respect of financial statements/ results for period ending after the enactment of the Finance Act, the changes enacted will need to be applied.

C. Recognition:

Paragraph 60 of Ind AS 12 provides as below:

The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

- a) a change in tax rates or tax laws,
- b) a reassessment of the recoverability of deferred tax assets, or
- c) a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognized in Statement of Profit and Loss, except to the extent that it relates to items previously recognized outside Statement of Profit and Loss."

Hence, changes in deferred tax asset/ liability will be recognized in the Statement of Profit and Loss, unless the changes relate to items previously recognized in other comprehensive income (OCI) or directly in equity. If this is the case, then only changes in deferred tax asset/ liability will be recognized in OCI or directly in equity.



It is crucial for companies to stay informed about the changing tax landscape and to understand the tax and accounting implications, including the risk of increased tax liabilities, marked by the elimination of indexation benefits and altered tax rates. The influence of these rules extends beyond the tax department, affecting the finance and Information Technology departments as well, and thus requires a holistic approach to address the regulatory changes in corporate strategy and operations.

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ii. Taxation of buyback of shares under Section 68 of the Companies Act, 2013

The Finance Act 2024 has also made significant changes to taxation of buyback of shares by a company, under Section 68 of the Companies Act, 2013 (as amended) (hereinafter referred to as 'buyback' or 'buyback of shares'). The amended taxation provisions apply to any buyback of shares that takes place on or after 1 October 2024.

Pre-amendment, in the case of a buyback, income-tax was levied on the (domestic) company effecting the buyback ('the issuer company') under Section 115QA of the Income-tax Act, 1961. Income chargeable to tax for this purpose meant "the amount of distributed income by the company on buy-back of shares from a shareholder," i.e., the consideration paid by the company on buyback of shares as reduced by the amount, which was received by the company for issue of such shares. In the hands of a shareholder whose shares were bought back, any income arising to the shareholder on account of the buyback was exempt from tax under Section 10(34A) of the Act.

Key considerations

The 2024 amendments shift the incidence of taxation on buyback of shares from the company affecting the buyback to the shareholders. As per the amendments:

- The total amount received by a shareholder pursuant to such a buyback would be taxable as dividend income under Section 2(22) of the Income-tax Act (as amended). It is important to note that the entire proceeds will be taxed as dividend income.
- The cost of acquisition of the shares bought back would be regarded as a capital loss in the hands of the shareholder. Such capital loss would

be allowed to be set off and/or carried forward in accordance with the provisions of the Income-tax Act.

- Buyback of shares that takes place on or after 1 October 2024 will no longer be taxable in the hands of the company affecting the buyback.
- Consequential amendments have also been made in Section 194 of the Act to bring distribution on the buyback under the ambit of dividend for the purpose of deduction of tax at source by the issuer company.

From the shareholder perspective, the application of the above amendment implies that while they will need to pay tax on buyback amount as soon as the buyback is affected, the realization of capital loss will be subject to availability of appropriate capital gains against which such loss can be offset.

Recognition of deferred tax

If a company has no convincing evidence on availability of capital gain to offset losses, it may not be able to recognize deferred tax asset on the carry forward of capital losses.

The buyback of shares is generally uncertain, and shareholders may have no visibility whether the issuer company will go for buyback of shares in the foreseeable future till the issuer company makes a firm announcement. Also, timing of buyback may be uncertain.

Amount received being taxable as dividend income and cost of acquisition being treated as capital loss, arises only in case of buyback of shares. However, in case of sale of shares, the consideration received on sale net of the cost of acquisition is taxable under the head capital gains.

To decide appropriate accounting, a company will need to assess whether it expects to realize its investments or a portion thereof through buyback or sale. Considering uncertainties, companies holding shares in many cases may not be able to demonstrate realization through buyback till there is clear indication of buyback plan from the issuer company.

If this is the case or the company is not intending to offer the shares under buyback, then intended manner of realization is through sale. In such a case, there is no need for recognizing separate deferred tax liability on consideration received/ receivable and deferred tax asset for capital loss. Rather, the company will compare carrying amount of the investment with its tax base and decide recognition of deferred tax asset/ liability on differential amount as per the requirements of Ind AS 12.

However, in cases where the company holding the shares has a clear indication of buyback plan from the issuer company and it intends to offer the shares under buyback, then intended manner of realization is through buyback. In such a case, deferred tax liability and asset recognition will be based on buyback being the intended manner of realization to the extent the company expects its investment to be realized through buyback route. Particularly, this will require the company to recognize separate deferred tax liability on related carrying amount of the investment concerned assuming it will be realized through buyback by the issuer company and the company will pay tax on dividend income. Separately, the holder company will have capital loss equal to cost of the investment and it will evaluate whether it can recognize deferred tax asset on the same as per the requirements of Ind AS 12. In most cases, both the impacts will be recognized in the Statement of Profit and Loss as the impact is arising due to change in expected manner of realization.

How we see it

The removal of indexation benefits and changes in capital gains tax rates require companies to re-evaluate their deferred tax positions under Ind AS 12. Previously recognized deferred tax assets (DTAs) or liabilities (DTLs) based on indexed cost may no longer be applicable, impacting financial statements. Companies should reassess the tax base of long-term capital assets, evaluate the recoverability of deductible temporary differences, and ensure compliance with the revised tax regime to avoid potential misstatements.



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EYIN2503-026

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