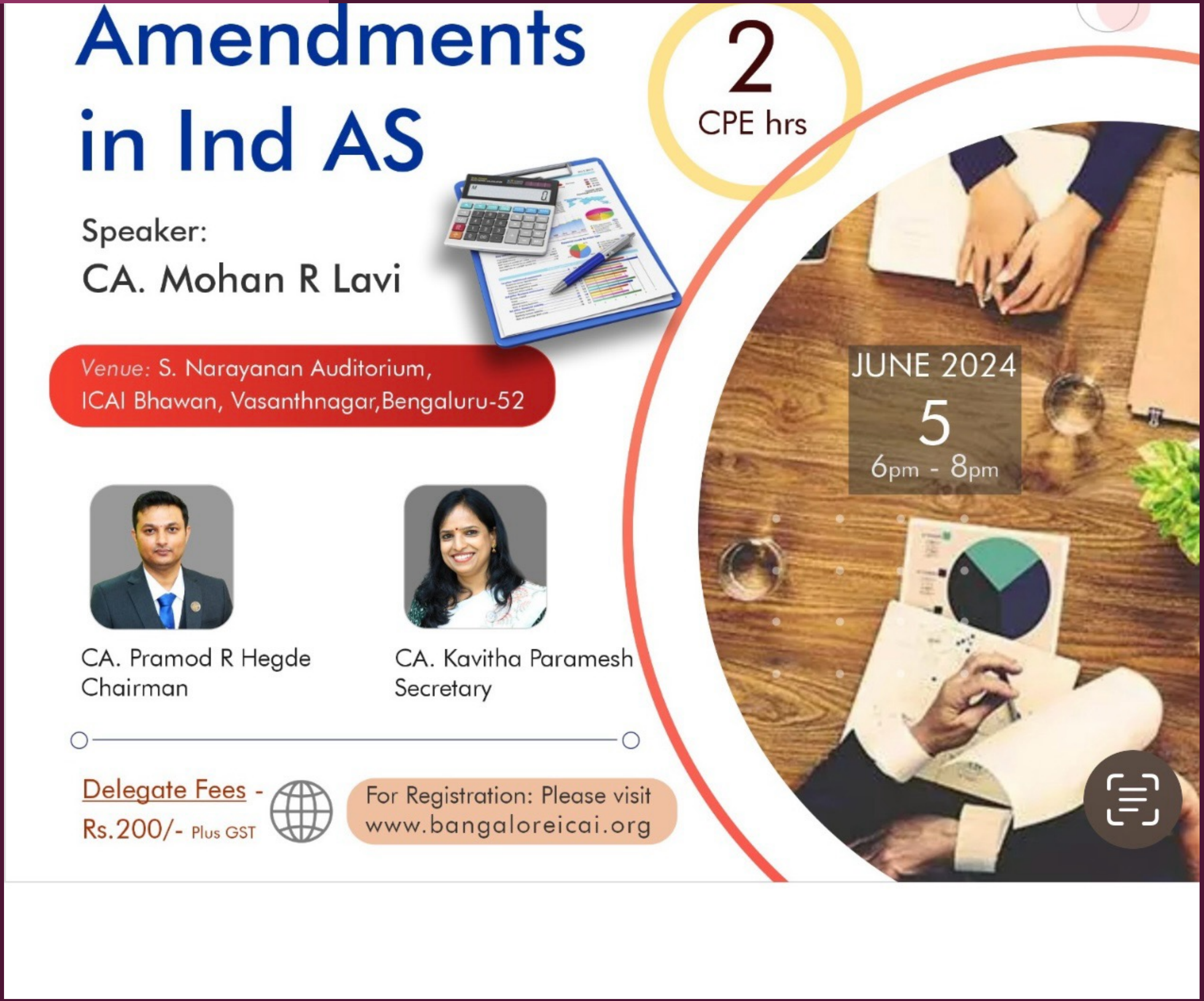
Amendments
in Ind AS
2
CPE hrs
Speaker:
CA. Mohan R Lavi
Venue: S. Narayanan Auditorium,
ICAI Bhawan, Vasanthnagar,Bengaluru-52
JUNE 2024
5
6pm - 8pm
CA. Pramod R Hegde
Chairman
CA. Kavitha Paramesh
Secretary
Delegate Fees -
Rs.200/- Plus GST
For Registration: Please visit
www.bangaloreicai.org

NEW IND AS STANDARDS

- Notification dated 31/3/2023
- IFRS 17 – 1.1.2023
- IFRS 18 - 1.1.2027

IND AS

- Applicability of Ind AS

IND AS 1

- Material Accounting Policies

- An entity shall disclose material accounting policy information. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users *of general purpose financial statements make on the basis of those financial statements.*

GSR DATED 31ST MARCH 2023

ACCOUNTING POLICIES

- Revenue
- Other Income
- Employee Benefits
- Borrowing Costs
- Foreign Exchange Gains/Losses
- Impairment
- Depreciation
- PPE/IP/HFS
- Financial Assets/Liabilities
- Provisions
- Business Combinations
- Taxes – Current and Deferred
- Fair Value
- ROU Asset

MATERIAL

"117A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

MATERIAL

- Material change in accounting policy
- Options given in Ind AS have changed and they are material
- Ind AS 8 Accounting policy
- Significant assumptions and judgements needed
- Complex

??

- Immaterial Accounting Policy shall not obscure material accounting policies

JUDGEMENTS

- Judgements made shall be disclosed

ACCOUNTING ESTIMATES

- Ind AS 8
- Monetary items in financial statements that are subject to measurement uncertainty

IND AS 8

- ECL
- NRV
- FV
- Provisions
- Depreciation
- Impairment

IND AS 12

- No deferred tax
- Affects neither accounting profit nor taxable profit
- Does not give rise to equal taxable and deductible temporary differences

IND AS 101/12

- First time adoption
- Deferred tax for leases and decommissioning costs

IFRS 18

PRESENTATION OF FINANCIAL STATEMENTS

WHY?

- On 9 April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18). All companies that apply IFRS accounting standards around the world are expected to use the new standard. IFRS 18 responds to market demand for greater comparability and transparency in how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss. The standard ushers in the most significant change to the statement of profit or loss since IFRS Accounting Standards were introduced more than 20 years ago.

WHAT?

- IFRS 18 introduces three sets of new requirements, comprising:

1. two new defined subtotals in the statement of profit or loss;
2. disclosures about management-defined performance measures (MPMs); and
3. enhanced guidance on grouping of information in the financial statements.

- Together, these requirements will help companies better communicate their financial performance, in turn helping investors make better decisions.

WHAT?

- IFRS 18 improves the comparability of information in the statement of profit or loss by introducing:
- three new defined categories – operating, investing and financing; and
- two new required subtotals to enable analysis – ‘operating profit’ and ‘profit before financing and income taxes.

REASON

- These new requirements respond to investors' concerns about challenges in comparing companies' financial performance. Today, companies' statements of profit or loss vary considerably in content and structure. Operating profit is one of the most frequently used subtotals, but companies apply various definitions to this same subtotal because, until now, it has not been defined in IFRS Accounting Standards. To illustrate, in a sample of 100 companies, 61 presented operating profit using at least nine different definitions.

FORMAT

Categories	Income statement
Operating	Revenue
	Cost of sales
	Gross profit
	Other operating income
	Selling expenses
	Research and development expenses
	General and administrative expenses
	Goodwill impairment loss
	Other operating expenses
	Operating profit

FORMAT

Investing	Share of profit and gains on disposal of associates and joint ventures
	Profit before financing and income taxes
Financing	Interest expense on borrowings and lease liabilities
	Interest expense on pension liabilities and provisions
	Profit before income taxes
Income taxes	Income tax expense
	Profit from continuing operations
Discontinued operations	Loss from discontinued operations
	Profit

DETAILS

- The operating category, together with the ‘operating profit or loss’ subtotal:
- consists of all income and expenses not classified in the other categories;
- provides a complete picture of a company’s operations; and
- serves as a starting point for forecasting future cash flows.

DETAILS

- The investing category:
- includes income and expenses from stand-alone investments – for example, rentals from an investment property or dividends from shares in other companies; also includes income and expenses from cash and cash equivalents and shares of profits or losses from equity-accounted associates and joint ventures; and enables investors to analyse returns from these investments separately from a company's operations.

DETAILS

- The financing category, together with the ‘profit before financing and income taxes’ subtotal:
- includes income and expenses on financing liabilities such as bank loans and bonds; also includes interest expenses on any other liability – for example, lease and pension liabilities; and allows investors to analyse the performance of a company before the effects of its financing.
- IFRS 18 also includes specific requirements to ensure that, for all companies, operating profit includes the income and expenses from a company’s main business activities. These requirements will mean that for some companies, such as banks and insurers, some income and expenses that would otherwise be classified in the investing or financing categories will be classified in the operating category.

DETAILS

- Companies often provide company-specific measures, commonly referred to as alternative performance measures or non-GAAP measures. IFRS 18 requires companies to disclose certain company-specific measures related to the statement of profit or loss in the notes to their audited financial statements – along with accompanying explanations and reconciliations. These requirements will bring transparency and discipline to how companies use measures in the scope of the requirements.

Among its disclosures many owners, along with financial reporters, will focus on page K-72. There, they will find the proverbial “bottom line” labeled “Net earnings (loss).” The numbers read $90 billion for 2021, ($23 billion) for 2022 and $96 billion for 2023.

What in the world is going on?

You seek guidance and are told that the procedures for calculating these “earnings” are promulgated by a sober and credentialed Financial Accounting Standards Board (“FASB”), mandated by a dedicated and hard-working Securities and Exchange Commission (“SEC”) and audited by the world-class professionals at Deloitte & Touche (“D&T”). On page K-67, D&T pulls no punches: “In our opinion, the financial statements . . . . . present fairly, *in all material respects* (italics mine), the financial position of the Company . . . . . and the results of its operations . . . . . for each of the three years in the period ended December 31, 2023 . . . . .”

We, however, are left uncomfortable. At Berkshire, *our* view is that "earnings" should be a sensible concept that Bertie will find somewhat useful – *but only as a starting point* – in evaluating a business. Accordingly, Berkshire *also* reports to Bertie and you what we call "operating earnings." Here is the story *they* tell: $27.6 billion for 2021; $30.9 billion for 2022 and $37.4 billion for 2023.

REPORTING

- **IFRS corporate financial reporting By All Accounts**
- Companies will be required to disclose information about MPMs in a single note. A crucial aspect of the disclosures is that each MPM will be required to be reconciled to the most directly comparable subtotal or total defined in IFRS Accounting Standards (for example, operating profit). These reconciliations will increase investors' understanding of how MPMs compare with measures defined by IFRS Accounting Standards. Companies will also be required to disclose explanations of why each MPM is reported and how it is calculated. And, to further improve discipline in the disclosure of MPMs, companies will need to explain any changes to reported MPMs.
- Preparers and investors tell the IASB they welcome the disclosure requirements for MPMs – preparers because they can provide their view of performance in the financial statements and investors because they expect greater transparency about management's view

REPORTING

- **Grouping of information**
- Finally, IFRS 18 introduces enhanced guidance on grouping information in the financial statements, otherwise known as aggregation and disaggregation. Companies will be required to reconsider how they group information in the financial statements, specifically:
- * whether information should be presented in the primary financial statements (to provide useful structured summaries of income, expenses, assets, liabilities, equity and cash flows) or disclosed in the notes (if material);
- * how to label items meaningfully and to disclose information about items labelled as 'other'; and
- * how to present or disclose operating expenses by nature or by function.
- These requirements respond to investors' concerns that the way companies group information in financial statements does not always provide the information investors need for their analysis – for example, some information is not shown in enough detail while other information is obscured with too much detail

INDIA?

- Schedule III
- RBI?
- IRDAI?

INSURANCE CONTRACTS

PRESENT POSITION

Available

- ED of Ind AS 117

Need

- Blessings and formats from IRDAI
- Final version of Ind AS 117
- MCA Notification

WHAT DO WE HAVE?

- IFRS 17
- Impact study by large insurers
- Accounting Policy as per IFRS 17
- Disclosures

IND AS 117

- Jugalbandhi of Ind AS 104/Ind AS 109/Ind AS 115
- Add in a bit of imagination also!
- JV between CA and Actuary

POINTS TO BE COVERED

- Why a new Standard on Insurance Contracts?

IFRS 17

- Is the standard extremely complex?

HEADERS

- Scope
- Recognition
- Measurement
- Modification
- Derecognition
- Presentation
- Disclosure

CONCEPTS

- What is an Insurance Contract?
- Insurance Boundary
- Bundling and Separation of Contracts?

CONCEPTS

- Fulfilment Cash Flows
- Contractual Service Margin (CSM)
- Onerous Contract
- Discretionary Participation Features

THREE APPROACHES

- Building Block Approach
- Variable Fee Approach
- Premium Allocation Approach

as follows:

	Example 1A	Example 1B
	CU	CU
Estimates of the present value of future cash inflows	(900)	(900)
Estimates of the present value of future cash outflows	545	1,089
Estimates of the present value of future cash flows	(355)	189
Risk adjustment for non-financial risk	120	120
Fulfilment cash flows[a]	(235)	309
Contractual service margin	235 [b]	– [c]
Insurance contract (asset) / liability on initial recognition[d]	**–**	**309** [c]
The effect on profit or loss on initial recognition is as follows:		
Insurance service expenses	–	(309) [c]
Loss recognised in the year	**–** [b]	**(309)**

PAA

- Detailed Calculations in GMM/BB Approach
- Different types of insurance policies

PAA

- An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach if, and only if, at the inception of the group:
- (a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced using the BB approach
- (b) the coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary) is one year or less.

ADVANTAGES

- No need to estimate future claims
- No need for CSM tracking

MODIFICATION

- Derecognise the original contract and recognize the modified contract
- If and only some conditions are satisfied

CONDITIONS

- Modified contract would have been out of the scope of Ind AS 117
- Modified contract would have different components resulting in separate contracts
- Modified contract would have a different contract boundary
- Modified contract would have been included in a different group of contracts

CONDITIONS

- the original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
- PAA approach was applicable to the old contract but not applicable to the modified contract

DISCLOSURES

- Transition Provisions
- Estimates and Judgements
- Quantitative and Qualitative Disclosures

amounts analysed in the tables above are:

Statement of profit or loss	Year 1	Year 2	Year 3	Total
	CU	CU	CU	CU
Insurance revenue	222	261	196	679 [(a)]
Insurance service expenses	(100)	(50)	(40)	(190)
Insurance service result	**122**	**211**	**156**	**489**
Investment income[(b)]	–	–	–	–
Insurance finance expenses	(39)	(27)	(13)	(79)
Finance result	**(39)**	**(27)**	**(13)**	**(79)**
Profit	**83**	**184**	**143**	**410**

(a) Applying paragraph B120, the entity calculates the total insurance revenue for the group of insurance contracts of CU679 as the amount of premiums paid to the entity of CU900 adjusted for the financing effect of CU79 and excluding the investment component of CU300 (CU100 a year for 3 years) ie CU679 = CU900 + CU79 – CU300.

(b) For the purpose of this example, these numbers are not included because they are accounted for applying another Standard.

THANK YOU!

MOHAN.LAVI@GMAIL.COM

+ 91 99000 22040