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CNK & Associates LLP

IFRS/Ind AS Update

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In brief

- IASB amends definition of business in IFRS Standard on business combinations

The IASB has issued narrow-scope amendments to IFRS 3 Business Combinations to improve the definition of a business

International Accounting Standard Board (IASB) Updates

IASB amends definition of business in IFRS Standard on business combinations

The IASB has issued narrow-scope amendments to IFRS 3 *Business Combinations* to improve the definition of a business.

- **Previous definition of a business:** An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
- **New definition of a business:** An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. The amendments will help companies determine whether an acquisition made is of a business or a group of assets

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business

In brief

- **IASB clarifies its definition of 'material'**

The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements

The amendments arose from a post-implementation review **(PIR)** of IFRS 3, an assessment carried out to determine whether an IFRS Standard works as intended. Following feedback from the PIR, the Board is also working on another project linked to IFRS 3 in which it is exploring possible improvements to the accounting for goodwill.

Companies are **required to apply the amended definition of a business to acquisitions that occur on or after 1st January 2020** with earlier application.

For details refer: https://www.ifrs.org/news-and-events/2018/10/iasb-amends-definition-of-business-in-ifrs-standard-on-business-combinations/

IASB clarifies its definition of 'material'

The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements.

The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements **(FS)**. The updated definition amends IAS 1 *Presentation of FS* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendments are a response to findings that some companies experienced difficulties using the old definition when judging whether information was material for inclusion in the FS.

The changes are **effective from 1st January 2020**, but companies can decide to apply them earlier.

- **Old definition:** Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions that users make on the basis of the FS (IAS 1 *Presentation of FS*).
- **New definition:** Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose FS make on the basis of those FS, which provide financial information about a specific reporting entity.

The amendments clarify the definition of material and its application by:
- aligning the wording of the definition of material across IFRS Standards and other publications and making minor improvements to that wording;
- including some of the supporting requirements in IAS 1 in the definition to give them more prominence; and
- clarifying the explanation accompanying the definition of material.

The amendments were also drafted to address concerns that the wording in the definition of material was different in the Conceptual Framework for Financial Reporting, IAS 1 and IAS 8.

In brief

- IASB to propose one-year deferral of insurance contracts and also amend it.

The IASB has also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time. Additionally, in the December 2018 meeting it has decided to amend IFRS 17.

The amendments address these concerns by:

- replacing the term *'could influence'* with *'could reasonably be expected to influence'*;
- including the concept of *'obscuring information'* alongside the concepts of *'omitting'* and *'misstating'* information in the definition of material;
- clarifying that the users to which the definition refers are the primary users of general purpose FS referred to in the Conceptual Framework; and
- aligning the definition of material across IFRS Standards and other publications.

For details refer: https://www.ifrs.org/news-and-events/2018/10/iasb-clarifies-its-definition-of-material/

IASB to propose one-year deferral of insurance contracts

The IASB has voted to **propose a one-year deferral of the effective date for IFRS 17, *Insurance Contracts*, to 2022.**

The IASB has also decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments Standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time.

The Board has proactively been working to support insurers and others with the transition to the new insurance contracts Standard, including through establishing a Transition Resource Group and providing education materials. As part of that process, it has sought to understand any concerns companies may have about their ability to get ready for the new insurance contracts Standard by the 2021 effective date.

The decision to propose a one-year deferral at this meeting acknowledges the uncertainty that arises from the Board's discussions about IFRS 17, while being responsive to comments from stakeholders that implementation should not be unduly disrupted. By making this decision, the Board has provided a clear direction, which will help companies with their planning.

For details refer: https://www.ifrs.org/news-and-events/2018/11/iasb-to-propose-one-year-deferral-of-insurance-contracts-standard/

At the meeting held in December 2018, the IASB has decided to amend IFRS 17. The Board's discussions will continue in early 2019 and will be followed by a public consultation on the proposed amendment(s) before any changes are confirmed.

For details refer: https://www.ifrs.org/news-and-events/2018/12/iasb-to-propose-narrow-scope-amendments-to-ifrs-17/

In brief

- IASB proposes clarifications for companies assessing whether contracts will be loss-making

The IASB has published amendments to IAS 37 ***Provisions, Contingent Liabilities and Contingent Assets.*** The amendments specify the costs an entity includes in determining the 'cost of fulfilling' a contract for the purpose of assessing whether a contract is onerous.

- IASB completes review of the Standard on fair value measurement.

The Summary Report on its PIR of IFRS 13 showed that the Standard works as intended.

IASB proposes clarifications for companies assessing whether contracts will be loss-making

The IASB has published amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs a company should include when assessing whether a contract will be loss-making.

The proposed amendments originate from a request to the IFRS Interpretations Committee for clarification of which costs to include in this assessment.

A company determines that a contract will be loss-making—and describes it as onerous—if the costs the company expects to incur to fulfil the contract are higher than the economic benefits it expects to receive from it.

The Board has proposed to amend IAS 37 to-

- specify that the 'costs of fulfilling' a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfil contracts.
- include include examples of costs that relate and costs that do not relate directly to a contract

The proposed amendments would apply to all contracts within the scope of IAS 37.

What are the implications?

Clarifying that IAS 37 *does not* require an incremental cost approach could help avoid a significant change in accounting practice for onerous construction contracts.

However, specifying that IAS 37 *does* require companies to include all directly related costs could change the way in which companies assess other types of contract. Companies that apply an incremental cost approach at present may record onerous contract costs earlier than they do at present.

For details refer: https://www.ifrs.org/news-and-events/2018/12/iasb-proposes-clarifications-for-companies-assessing-whether-contracts-will-be-loss-making/

IASB completes review of the Standard on fair value measurement (IFRS 13)

The Board conducts a Post Implementation Review **(PIR)** of new Standards and major amendments to a Standard after they have been in use around the world for 2 ro 3 years. The purpose is to consider—with input from stakeholders—whether the Standard functions as expected and whether the information it requires companies to provide is useful to users of financial statements. A PIR also assesses whether any unexpected costs have arisen during implementation.

IFRS 13 *Fair Value Measurement* was issued in 2011 and came into effect in 2013. It provides principle-based guidance on how to measure fair value and disclosure requirements. IFRS 13 does not determine when fair value measurement is to be used.

The IFRS 13 PIR showed that the requirements of the Standard are working as intended and that the information companies provide applying the Standard is useful to investors. The Board also concluded that no unexpected costs have arisen from applying IFRS 13. The Board is now following up on feedback relating to disclosures about fair value measurement in its project on Targeted Standards-level Review of Disclosures, which is part of the Board's work on Better Communication in Financial Reporting.

The PIR identified some challenges linked to the judgement the Standard requires companies to apply, however evidence gathered through the PIR showed that companies are finding ways to resolve these challenges. The Board decided to monitor developments in this area and to continue liaising with the valuation profession.

For details refer: https://www.ifrs.org/news-and-events/2018/12/iasb-completes-review-of-the-standard-on-fair-value-measurement/

Effective dates of amendments to Conceptual Framework/IFRS/IAS

Conceptual Framework

	Pronouncements	Issued	Effective Dates
Conceptual Framework for Financial Reporting 2018	Original Issue	March 2018	No stated effective date, therefore effective from date of issue.
Amendments to References to the Conceptual Framework in IFRS Standards	Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	March 2018	Annual periods beginning on or after 1st January 2020

IAS

IAS	Pronouncements	Issued	Effective dates- Annual periods beginning on or after	Corresponding Ind AS
IAS 1- *Presentation of Financial Statements*	Amendments regarding the definition of material	October 2018	1st January 2020	Ind AS 1

IAS	Pronouncements	Issued	Effective dates- Annual periods beginning on or after	Corresponding Ind AS
IAS 19- *Employee Benefits*	Amendments regarding plan amendments, curtailments or settlements	February 2018	1st January 2019	Ind AS 19

IFRS

IFRS	Pronouncements	Issued	Effective dates	Corresponding Ind AS
IFRS 3- *Buisness Combination*	Amendments to clarify the definition of a business	2018	Business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st January 2020	Ind AS 103

New and revised pronouncements as at 31st December 2018

The table below provides a summary of the pronouncements which will be mandatorily applied by entities for the first time for the year ended on 31st December 2018, for various quarterly reporting periods:

Pronouncements	Effective dates	Corresponding Ind AS
Standards		
IFRS 9 *Financial Instruments*		Ind AS 109
IFRS 15 *Revenue from Contracts with Customers*		Ind AS 115
Interpretations		
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*		
Amendments		
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	1st January 2018	Ind AS 115
Classification and Measurement of *Share-based Payment Transactions* (Amendments to IFRS 2)		Ind AS 102
Transfers of *Investment Property* (Amendments to IAS 40)		Ind AS 40
Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)		Ind AS 101 and Ind AS 28

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Indian Accoutning Standards (Ind AS)

(IFRS as applicable in India with certain carve-outs)

In brief

- **NBFC Ind AS Schedule III notified and amendments to Schedule III to Companies Act, 2013**

Amendment to Ind AS Schedule III require companies preparing Ind AS FS to give additional disclosures related to trade receivables, loans receivables and trade payables etc.

- **Ind AS Technical Facilitation Group Clarification Bulletin 17**

The ITFG has considered various implementation issues received from members and has issued clarifications on 11 Ind AS issues through this Bulletin

NBFC Ind AS Schedule III notified and amendments to Schedule III to Companies Act, 2013

The MCA has notified Ind AS Schedule III applicable to NBFCs as defined in the Companies (Ind AS) (Amendment) Rules, 2016. This Schedule III will apply to NBFCs covered under Ind AS applicability.

Additionally, the MCA has also amended the existing Division I (Indian GAAP) & Division II (Ind AS) Schedule III. Among other matters, amendment to Ind AS Schedule III require companies preparing Ind AS FS to give additional disclosures related to trade receivables, loans receivables and trade payables and also comply with the disclosure requirements under the Micro, Small and Medium Enterprises Development Act, 2006

For details refer: http://www.mca.gov.in/Ministry/pdf/NotificationScheduleIII_12102018.pdf

ICAI Releases

Ind AS Technical Facilitation Group Clarification Bulletin 17

The ITFG of Ind AS Implementation Group has been constituted for providing clarifications on timely basis on various issues related to the applicability and /or implementation of Ind AS under the Companies (Ind AS) Rules, 2015, raised by preparers, users and other stakeholders.

The ITFG has considered various implementation issues received from members. The ITFG, after due deliberations, has issued clarifications on 11 Ind AS issues through its 17th Bulletin.

Among other matters, these pertain to -

- Accounting for Land
- Whether Dividend Distribution Tax (DDT)should be included in calculating included in calculating effective interest rate (EIR) on the preference shares?
- Whether the benefit being received by a MNC is a government grant or a government assistance *other than government grant* under Ind AS 20, *Government Grants and Disclosure of Government Assistance*?
- Recognition of 'dividend income' on an investment on a debt instrument in the books of the investor
- Classification of Preference Shares

For details refer: https://resource.cdn.icai.org/53225indasitfg42666.pdf

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Key Take Away

- The amendments of definition of business in IFRS 3 are designed to help companies decide whether an acquisition consists of a business or a group of assets.
- In an effort to make it easier for companies to make materiality judgments, the IASB issued a clarified definition of "material."The definition of materiality is a crucial element in accounting because it helps companies decide whether information is important enough to be included in their Financial Statements. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgement
- IASB has decided to propose extending to 2022 the temporary exemption for insurers to apply the financial instruments standard, IFRS 9, so that both IFRS 9 and IFRS 17 can be applied at the same time. The move follows concerns from insurers and others about the transition to the new standard
- The ITFG clarifications are expected to resolve various practical implementation issues faced by companies tranitioning to Ind AS.

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