

## **Exposure Draft – Disclosures of Accounting Policies (Amendments to Ind AS 1, Presentation of Financial Statements).**

**Background:** The move to amend Ind AS 1 – Presentation of Financial Statements can be traced to the amendment to International Financial Reporting Standards ('IFRS') especially in the backdrop of amending the definition of 'materiality'. IFRS Practice Statement 2 'Making Materiality Judgements' issued in September 2017 explains the why this particular amendment was required. As given in the above Practice Statement 2 the objective (*in summary*) is to provide guidance on making materiality judgements when preparing general purpose financial statements and provide a behavioral change in the way companies prepare their financial statements, which could also include a greater application of judgement. The International Accounting Standard Board ('IASB') has received feedback from stakeholders indicating there was little clarity on how the materiality judgements are being made. IASB also gave a guidance on adopting the four-step approach to determine what is 'material' and judgements related to 'material transactions'. The above practice statement also included specific topics on making materiality judgements on prior-period transactions, errors in accounting, information about covenants and interim reporting.

**Use of the word 'significant':** Currently the term 'significant' is not defined in the standards. Entities do give 'Significant Accounting Policies' which most of the times are verbatim of what is given in the standards and may not convey in the right manner how these policies were used in the preparation of the financial statements. Further, like how the 'management commentary' is also being amended to require entities to explain specific terminologies or terms used other than what is typically or mandated to be used in the financial statements, it does bring clarity into changing the phrase 'significant accounting policies' to 'material accounting policy information', since materiality is now being redefined and accounting policies are anyway defined under Ind AS 8. *To draw an analogy from the point of view of reporting on internal financial controls also, any 'significant deficiency' would need to be reported to those charged with governance and where there is a 'material weakness', the auditors need to consider whether to qualify the internal financial control report etc.,*

### Comments on the exposure draft:

1. It is definitely a welcome move to use 'material accounting policies' considering consistency in the application in Ind AS 8 as well.
2. The assessment of what is 'material' is surely a very subjective process though to a large extent there is guidance available and authoritative literatures are being issued in this regard.
3. Para 117A mentions '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 condition is itself material'.

*Comments: To give a clarification on how accounting policy on certain material transactions material for the purpose of disclosures are not required to be disclosed. Examples or guidance may be given in this regard.*

4. Para 117B enlists circumstances to be considered to consider whether the accounting policy information is material or not.

*Comments:*

- a. *Clause (b) gives an example of changes in valuation of investment property. In my view, this could indicate that this clause is applicable only to this scenario. Would be better to mention that 'such a situation could arise where there is an amendment to Ind AS'.*
- b. *To also clarify on whether 'material accounting information' would also apply to items in the financial statements required to be given under law (and not by any Ind AS), or voluntary disclosures by an entity and whether this would apply even to 'management commentaries' as well.*

5. Para 118 and Para 119 has now been proposed to be deleted.

*Comments:*

- a. *In my view this para should be retained or should be issued as a guidance. Since, it is important for the prepares of the financial statements and also the primary users of the financial statements to know whether it has used 'historical cost' basis or any other basis, especially in situations like where the going concern issue exists.*
  - b. *Deletion of Para 119 – agree since this is broadly covered in Para 117B.*
6. Agree with amendments to Ind AS 107, Financial Instruments: Disclosures
7. Agree with amendments to Ind AS 34, Interim Financial Reporting.

*Comments: Since for SEBI LODR Guidelines, only the recognition and measurement aspects of Ind AS 34 is used and not the disclosures aspects, this amendment may not have a significant impact on the quarterly results published under the aforesaid guidelines.*

*Other Comments:*

- a. *Would be better to give illustrations to help users to understand the concept much better.*
- b. *Para 117B could include few more examples to indicate the circumstances where 'material accounting information' needs to be given. Possibly this may be given by a note.*
- c. *There are other Ind AS (given herewith) which uses the word 'significant' in various provisions and circumstances, which in my view should be retained and possibly a guidance on that the word 'material' would be used for specific purposes would help (Refer Annexure).*

**Conclusion:**

- a. No major reservations in moving from 'significant accounting policies' to 'material accounting policies.**
- b. To give more guidance or examples on 'material accounting policies.**
- c. To clarify the use of the word 'significant' in various other Ind AS, since it would suit the requirement or the context of that particular standard.**

***Annexure: Ind AS using the word ‘significant’ in various contexts.***

- a. *Ind AS 7 Statement of Cash Flows – Para 48: on disclosure of ‘significant’ amount of cash and cash equivalent held by an entity are not available for use.*
- b. *Ind AS 10 Events after the Reporting Period – Para 16(b) on specific disclosures required if ‘management is aware of material uncertainties related to events or conditions that may cast ‘significant’ doubt upon the entity’s ability to continue as a going concern.*
- c. *Ind AS 12 – Income Taxes: Para 74(b)(ii) – ‘significant’ amounts of deferred tax liabilities or assets are expected to be settled or recovered, Para 84 for relationship between accounting profit and taxable profit and ‘significant’ factors that affect such relationship, and Para 88 ‘significant’ effect on changes arising out of events after the reporting period.*
- d. *Ind AS 16 as well which uses the word ‘significant’ in Ind AS 16 (Para 43 to Para 47 on Depreciation, Para 25 to 26 on Fair Valuation, Para 34 on Revaluation Model). Similarly, in Ind AS 38 Intangible Assets Para 78 on frequency of revaluation, Para 94, Para 96 or sourcing the information without ‘significant’ cost, Para 122 in determining that asset has an indefinite useful life, etc.,*
- e. *Ind AS 19 Employee benefits: Definition of past service costs includes ‘significant’ reduction by the entity in the number of employees covered by a plan, and other places where the word ‘significant’ is used in Para 105 explaining curtailing costs, Para 139(b) concentration of risk, Para 144 actuarial assumptions and Para 145 sensitivity analysis of ‘significant’ assumptions.*
- f. *Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance – Para 5 which discusses about receipt of government assistance by an entity may be ‘significant’ for the preparation of the financial statements.*
- g. *Ind AS 21 The Effects of Changes in Foreign Exchange Rates: Para 11 which discusses about factors to be considered in determining functional currency of a foreign operation in case of an entity having ‘significant’ degree of autonomy, Para 22 on if exchange rates fluctuate ‘significantly’ use of the average rate for a period is inappropriate, Para 46 which provides for in the process of preparing consolidated financial statements under Ind AS 110, a different date*

*can be used however the difference cannot be more than three months but adjustments are made for the effects of any 'significant' transactions after that date, Para 54 where there is a change in functional currency of either the reporting entity or a 'significant' foreign operation, such fact shall be disclosed.*

- h. Ind AS 24 Related Party Disclosures – the definition of 'significant influence' as given in Ind AS 110 Consolidated Financial Statements or Ind AS 27, Separate Financial Statements or Ind AS 28 'Investments in Associates and Joint Ventures, uses the word 'significant'. And also used in Para 40 of Ind AS 33 – Earnings Per Share on the same topic and Para 8 of Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets.*
- i. Ind AS 32 Financial Instruments: Presentation – Para AG14J(d) with regard to classifying an instrument as debt and not as equity if the contracts requiring the payment of an 'insignificant' percentage of profit for services rendered or goods provided.*
- j. Ind AS 36 under Para 12(a) discusses about external sources of information required for testing impairment of assets, there could be observable indications that the asset's value has declined during the period 'significantly' more than would be expected as a result of the passage of time or normal use.*
- k. Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets – Para 9 mentions 'If a contributor does not have control or joint control of, or 'significant' influence over, the fund, the contributor shall recognize the right to receive reimbursement from the fund which is lower of decommissioning obligation and contributors share to the fair value of the net assets.*
- l. Ind AS 40: Investment Property – Para 10 to 13 – which discusses whether the property is investment property or not if it is used 'significantly' for services or ancillary services.*
- m. Ind AS 41: Agriculture – Para 11 discusses about measuring 'significant' physical attributes to measure the future benefits.*
- n. Ind AS 101 – First Time Adoption of Ind AS – Para 27AA dealing with disclosures on 'significantly' depreciated assets and Para B8EA to B8G dealing with disclosures on 'significant' increase in credit risk.*

- o. Ind AS 102 – Share based payments – Para B13 and B40 on use of assumptions in the value of stock options.*
  - p. Ind AS 103 – Business Combinations – Para 47 for accounting of ‘significant’ changes in fair value, Para B15(b) existence of a large minority voting interest in the combined entity if no other owner or organized group has a ‘significant’ voting interest and Para B55(h) on other agreements and issues which may have ‘significant’ impact on the business combinations.*
  - q. Ind AS 105 – Non-Current Assets Held for Sale and Discontinued Operations – Para 8 dealing with any ‘significant’ changes in plan to disposing off the asset and Para 12A dealing ‘significant’ changes to the distribution activity where assets are disposed of to the owners.*
  - r. Ind AS 115 – Revenue from Contract with Customers – Par 13 to reassess the criteria of whether the customer meets the criteria at the inception as given in Para 9 on realizability and whether the ability to pay has deteriorated ‘significantly’. Para 29 on factors that indicate that an entity’s promise to transfer the goods or services or has it modified ‘significantly’ and Para 38(d) on performance obligations satisfied at a point in time and whether there is ‘significant’ risks and rewards has been transferred to the customer, etc.,*
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