

Exposure Draft

Disclosures of Accounting Policies

**(Amendments to Ind AS 1, Presentation
of Financial Statements)**

Definitions

7 The following terms are used in this Standard with the meanings specified:

Accounting policies are defined in paragraph 5 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and the term is used in this Standard with the same meaning.

...

Comments: The para has no clarity hence re-worded below:

Accounting Policies, Changes in Accounting Estimates and Errors are defined in paragraph 5 of Ind AS 8, and these terms defined in Ind AS 8 are used in this Standard (Ind AS 1) also with the same meaning.

Financial statements

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Complete set of financial statements

10 A complete set of financial statements comprises:

...

(e) notes, comprising ~~material significant~~ accounting policy ~~information policies~~ and other explanatory information;

...

Comments:

1. SIRC of ICAI supports the proposal to replace the reference to 'significance' with the concept of 'materiality'. The words 'significant' and 'material' are translated the same or very similarly, the understanding in both cases being that entities should disclose only 'important' policies that are necessary for primary users to understand the financials. This, together with the other Disclosure Initiative projects to clarify the definition and application of materiality, has the potential to better relate the assessment about information on accounting policies with the application of materiality to the other information and, thus help entities apply judgement, to identify and disclose accounting policies that provide material information to users.

2. SIRC of ICAI acknowledges that there is an inherent difficulty in applying the concept of materiality to disclosure about accounting policies. This is because an accounting policy, considered in isolation, would rarely directly affect the decisions of users of financial statement. Therefore, as proposed in the ED, the materiality of an accounting policy can only be assessed in combination with other information identified as material.

3. Moreover, this addition to Ind AS 1 has the potential to assist entities to better apply judgement to the assessment about information on accounting policies with the application of materiality to the other information and disclose accounting policies that provide material information to users.

Structure and content

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Notes

Structure

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114 Examples of systematic ordering or grouping of the notes include:

...

(c) following the order of the line items in the statement of profit or loss and the balance sheet, such as:

...

(ii) material ~~significant~~ accounting policy information ~~policies applied~~ (see paragraph 117);

...

Disclosure of ~~accounting policy information~~ **accounting policy information**

117 An entity shall disclose ~~material its significant~~ accounting policy information (see paragraph 7). 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. ~~policies comprising:~~

~~(a) the measurement basis (or bases) used in preparing the financial statements; and~~

~~(b) the other accounting policies used that are relevant to an understanding of the financial statements.~~

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.

117B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:

(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;

(b) the entity chose the accounting policy from one or more options permitted by Ind ASs—such a situation could arise if the entity chooses to measure investment property at historical cost rather than fair value¹;

(c) the accounting policy was developed in accordance with Ind AS 8 in the absence of an Ind AS that specifically applies;

(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or

(e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one Ind AS to a class of material transactions.

117C Accounting policy information that focuses on how an entity has applied the requirements of the Ind ASs to its own circumstances provides entity-specific

1 Amendments to Ind AS 40, Investment Property, permitting fair value option to measure investment property have already been recommended by the Institute of Chartered Accountants of India for prescription by the Central Government in consultation with and after examination of the recommendations of National Financial Reporting Authority (NFRA) in accordance with the due process under Companies Act, 2013.

information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Ind ASs.

117D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

117E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Ind ASs.

118-121 [Refer Appendix 1]

~~118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.~~

~~119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other~~

~~events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Ind ASs. An example is disclosure of a regular way purchase or sale of financial assets using either trade date accounting or settlement date accounting (see Ind AS 109, Financial Instruments). Some Ind ASs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, Ind AS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.~~

~~120 Omitted~~

~~121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by Ind ASs but the entity selects and applies in accordance with Ind AS 8.~~

122 An entity shall disclose, along with ~~material its significant~~ accounting ~~policy information~~ **policies** or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Comments:

1. In para 117(B) clause (b) is corrected for a grammatical error as below:

(b) the entity chose the accounting policy from one or more options permitted by Ind AS— such a situation could arise if the entity chooses to measure investment property at historical cost rather than fair value¹;

2. SIRC of ICAI suggests that the Ind AS 1 may clarify that, in applying the principle of materiality, an entity needs also consider the accounting policies that are relevant to an understanding of its financial statements taken as a whole. We understand that the amendment aims at preventing entities to include the text contained in Ind AS 1 in their financial statements. However, in some cases, information about immaterial accounting policies or information reproducing the requirements in Ind A1 1 may be helpful, particularly the case when some accounting requirements in Ind AS 1 may be particularly complex as not all primary users of financial statements are accounting experts. Entities should avoid the mere repetition of the text of Ind AS 1, but at the same time they should still ensure that users are provided with the basis to get an understanding of how Ind AS 1 is being applied.

3. SIRC of ICAI suggests considering additional examples of circumstances where information was assessed to be material for the previous period, but not in the current

period. The Ind AS 1 could clarify that the materiality assessment is made in relation to the financial statements as a whole, i.e. including the (minimum) comparative information presented.

4. SIRC of ICAI agrees that providing guidance to help entities determine when an accounting policy is material and useful. We agree that information on accounting policies is mostly useful when it provides insight into how an entity has applied accounting requirements in its own circumstances.

5. Criterion (d) of Para:117B refers to significant judgements or assumptions. We welcome that a cross-reference to Para:122 & 125 while discussing significant judgements and assumption have been added.

6. If a change in an accounting policy relates to transactions or events that are not material to the current period but are expected to have a material effect in future periods, it is unclear whether the accounting policy would be considered as immaterial for the current period.

7. Para:117B (d) emphasises on making significant judgements or assumptions in applying an accounting policy. SIRC of ICAI welcome this amendment, since such an approach would encourage entities to apply judgement in determining what information to disclose and how best to communicate that information to users.

8. SIRC of ICAI supports the less prescriptive language used in Ind AS 1as it will help to improve the behaviours contributing to the disclosure problem and reduce the likelihood of the 'checklist' approach being applied. Further the less prescriptive language would lead to fewer irrelevant disclosures being included in financial statements as it would help preparers to decide, based on the objective of the disclosures, what information should be disclosed.

9. SIRC of ICAI is of the view that if the standard has the potential to improve the usefulness of financial statements by better aligning disclosure objectives with detailed reporting requirements, it would be of significance.

10. SIRC of ICAI feels that the proposed ED is a shift to more principles-based disclosure objectives and requirements that carries the risk of undermining comparability between entities.

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Transition and effective date

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139U [Refer Appendix 1]

139V Disclosure of Accounting Policies, amended paragraphs 7, 10, 114, 117 and 122, added paragraphs 117A–117E and deleted paragraphs 118, 119 and 121. An entity shall apply the amendments to Ind AS 1 for annual reporting periods beginning on or after 1 April 2023.

Comments: The proposal to bring the new amendments on or after 1 April 2023 provides ample time for preparation to meet the amended standard.

Appendix 1

Comparison with IAS 1, Presentation of Financial Statements

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6. Following paragraph numbers appear as 'Deleted' in IAS 1. In order to maintain consistency with paragraph numbers of IAS 1, the paragraph numbers are retained in Ind AS 1.

...

(x) paragraphs ~~120~~118-121

...

11. Paragraph 139U of IAS 1 related to effective date of Amendments to IAS 1: Classification of Liabilities as Current or Non-current has not been included in Ind AS 1 as the corresponding amendments to Ind AS 1 has not been issued/notified. However, in order to maintain consistency with paragraph numbers of IAS 1, the paragraph number is retained in Ind AS 1.

Amendments to other Ind AS

Amendments to Ind AS 107, Financial Instruments: Disclosures

Paragraphs 21 and B5 are amended. Paragraph 44 II is added. New text is underlined and deleted text is struck through.

Significance of financial instruments for financial position and performance

...

Other disclosures

Accounting policies

21 In accordance with paragraph 117 of Ind AS 1, Presentation of Financial Statements, an entity discloses material ~~its significant~~ accounting policy information ~~policies~~, comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

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Effective date and transition

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44II Disclosure of Accounting Policies, which amends Ind AS 1 amended paragraphs 21 and B5. An entity shall apply that amendment for annual reporting periods beginning on or after 1 April 2023.

Comments: The proposal to bring the new amendments on or after 1 April 2023 provides ample time for preparation to meet the amended standard.

Appendix B Application guidance

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Classes of financial instruments and level of disclosure (paragraph 6)

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Other disclosure—accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of **material accounting policy information, which is expected to include information about** the measurement basis (or bases) for financial instruments used in preparing the financial statements ~~and the other accounting policies used that are relevant to an understanding of the financial statements~~. For financial instruments, such disclosure may include:

...

Paragraph 122 of Ind AS 1 also requires entities to disclose, along with **material ~~its significant~~ accounting policy information ~~policies~~** or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Amendments to Ind AS 34, Interim Financial Reporting

Paragraph 5 is amended and paragraph 60 is added. New text is underlined and deleted text is struck through.

Content of an interim financial report

5 Ind AS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, **material ~~comprising significant~~ accounting policy information ~~policies~~** and other explanatory information;

...

Effective date and transition

...

60 Disclosure of Accounting Policies, which amends Ind AS 1, amended paragraph 5. An entity shall apply that amendment for annual reporting periods beginning on or after 1 April 2023.

Comments: The proposal to bring the new amendments on or after 1 April 2023 provides ample time for preparation to meet the amended standard.