IND AS 8

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services

The Ind AS are converged IFRS standards, which have been introduced to standardize the way Indian companies report their financial information to various stake holders.

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty-nine Indian Accounting Standards converged with International Financial Reporting Standards are (henceforth called IND AS) are currently notified by the Ministry. These are: IND ASs 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40,41, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110,111,112,113,114,115, 116.

Companies follow Ind AS either Voluntarily or Mandatorily. Once a company follows Indian AS, either mandatorily or voluntarily, it cannot revert to old method of Accounting.The Mandatory Applicability from Accounting Period beginning on or after 1 April 2017 is for :

- Every Listed Company or company in process of being listed.
- Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion)

The Ministry of Corporate Affairs has implemented the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues have been resolved with the concerned departments.

We have prepared a simple analysis for below mentioned Ind AS for your ready reference which can act as ready-reckoner for your day to day use.

Hope you enjoy reading our Analysis.

Happy reading!!

Team J P Chawla & Co. LLP

Rajat Chawla

He is a Fellow member of the Institute of Chartered Accountants of India. He is also a C.P.A; Certified Public Accountant from The American Institute of Certified Public Accountants, United States of America. He is also a commerce honours graduate from Delhi University, Delhi, India. He is also a Certified Information System Auditor (C.I.S.A) and a member of Information system Audit and Control Association, United States of America.

His area of expertise includes Audit and Assurance, International Taxation ,Transfer Pricing, International business advisory, Valuations, FEMA/ RBI advisory, Goods & Service tax (GST), Merger and Acquisitions, Management consultancy, Due Diligence, Information system audit and development, reporting under US GAAP and IFRS, Accounting process improvement, Business process outsourcing, Knowledge process outsourcing and Business process off shoring.

He has been a regular speaker at various forums on various topics related to Tax, finance and commerce. He has also contributed in various tax publications as author / co-author. He has also co-authored two books on transfer pricing, published by Lexis – Nexis and Taxmann respectively.

Mohit Dixit

He is a member of the Institute of Chartered Accountants of India and he is also a commerce honours graduate from Delhi University.

He is having 5 + years of experience in the area of statutory audits, internal audits, assurance & Transaction Advisory related engagements in industries such as manufacturing, retail, infrastructure, information technology, e-commerce, banking, telecommunication, health and aviation sectors.

His area of expertise includes Indian GAAP and IND AS Advisory, Management accounting, outsourcing, audit & assurance, financial reporting and valuation.

Ind AS-8 Accounting Policies, Changes in Accounting Estimates and Errors

While preparing financial statements, management has some questions like

- Which accounting policy is to be selected?
- How an accounting policy is to be changed?
- What to do if there is change in accounting estimation by management?
- How to rectify any error occurred in previous years?

Why Ind AS 8?

Ind AS 8 gives answers of all the above questions. This Standard shall be applied in:

- Selecting and applying accounting policies,
- Accounting for changes in accounting policies,
- Accounting for changes in accounting estimates and
- Accounting for corrections of prior period errors.

The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Some Important Definitions

Accounting policies	Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Change in accounting estimate	A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.
Prior period errors	Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: 1. was available when financial statements for those periods were approved for issue; and 2. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Accounting policies

A. Selection and application of accounting policies

In selection and application of accounting policies, first of all applicability of Ind AS is to be checked.

If Ind AS is Applicable: When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.

If Ind AS is NOT Applicable: In the absence of an Ind AS that specifically applies to a transaction, other event or condition, ***management shall use its judgement in developing and applying an accounting policy*** that results in information that is:

a) ***relevant*** to the economic decision-making needs of users and

b) ***reliable****

Accounting policy will be reliable, if it

- Represent faithfully the financial position, financial performance and cash flows of the entity
- Reflect the economic substance of transactions, other events and conditions, and not merely the legal form
- Neutral, i.e. free from bias
- Prudent
- Complete in all material respects

Consideration in Judgement Making

Management shall refer to, and consider the applicability of, the following sources in descending order:

- the requirements in Ind ASs dealing with similar and related issues and
- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework.

Further management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources as above mentioned.

B. Consistency of Accounting Policies

Accounting policies shall be applied consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies maybe appropriate.

If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

C. Changes in Accounting Policies

When change in Accounting Policies Allowed or Permissible:

Change an accounting policy is allowed only if it:

1. Is required by an Ind AS

   OR

2. Results in providing reliable and more relevant information

When it will not called a change in Accounting Policies:

The following are not changes in accounting policies:

1. The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
2. The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

How to apply Change in Accounting Policies:

If change in Accounting Policies due to application of Ind AS and that Ind AS:

Specifies Transitinal Provisions	Does not Specifies Transitional Provisions
Apply changes as specified in transitional provisions.	Not need to change. However if entity wants to change in Accounting Policies voluntarily then ***Apply changes Retrospectively.***

When change is applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

If there is a need of retrospectively change, but retrospetively change is Impracticable:

Impracticable to determine the period-specific effects	Impracticable to determine the cumulative effect
The entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.	The entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.

D. **Disclosures**

When initial application of an Ind AS has an effect on the current period, any prior period, or might have an effect on future periods, an entity shall disclose: (Only for first time application)

- the title of the Ind AS
- when applicable, that the change in accounting policy is made in accordance with its transitional provisions
- the nature of the change in accounting policy
- when applicable, a description of the transitional provisions
- when applicable, the transitional provisions that might have an effect on future periods
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
    1. for each financial statement line item affected
    2. if Ind AS 33, Earnings per Share, applies to the entity, for basic and diluted earnings per share;
- The amount of the adjustment relating to periods before those presented, to the extent practicable; and
- ***if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.***

When a voluntary change in accounting policy has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose: (Only for first time)

- the nature of the change in accounting policy
- the reasons why applying the new accounting policy provides reliable and more relevant information
- for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
    1. for each financial statement line item affected
    2. if Ind AS 33 applies to the entity, for basic and diluted earnings per share
- The amount of the adjustment relating to periods before those presented, to the extent practicable
- if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

- This fact; and
- known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

Changes in Accounting Estimates

There are many uncertainties inherent in business activity that is why many items in financial statements cannot be measured exactly but can only be estimated.

Estimation involves judgements based on the latest available, reliable information.

Estimates may be required in the following examples:

- Bad debts
- Inventory obsolescence
- The fair value of financial assets or financial liabilities
- Warranty obligations.

Note: When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

A. How to deal with change in Accounting Estimates

If a change in an accounting estimate results:

changes in assets and liabilities, or relates to an item of equity	Any other case
It shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.	It shall be recognised prospectively by including it in profit or loss in: • The period of the change, if the change affects that period only or • The period of the change and future periods, if the change affects both.

B. Disclosure

Practicable to estimate the effect

- disclose nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods.

Impracticable to estimate the effect

- disclose that fact.

Errors

In a financial statement, Error may be in

- Recognition
- Measurement
- Presentation
- Disclosure

Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

A. How to rectify prior period error

Material prior period errors shall be corrected retrospectively in the first set of financial statements approved for issue after their discovery by:

I. Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

II. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

If retrospective correction not possible because:

Impracticable to determine the period-specific effects	Impracticable to determine the cumulative effect
The entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).	The entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

B. Disclosure of prior period errors

Disclosure is rquired to be made about: (only at the time of coorection)

- the nature of the prior period error
- for each prior period presented, to the extent practicable, the amount of the correction:
  1. For each financial statement line item affected and
  2. if Ind AS 33 applies to the entity, for basic and diluted earnings per share
- The amount of the correction at the beginning of the earliest prior period presented
- if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Dear Valuable Client / Colleague,

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

With Best Regards,

Team JPC

About JPC

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit www.jpc.co.in

In this document, "JPC" refers to J P Chawla & Co. LLP Chartered Accountants (a limited liability partnership firm regulated by the Institute of Chartered Accountants of India, FRN : 001875N/ N500025).

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