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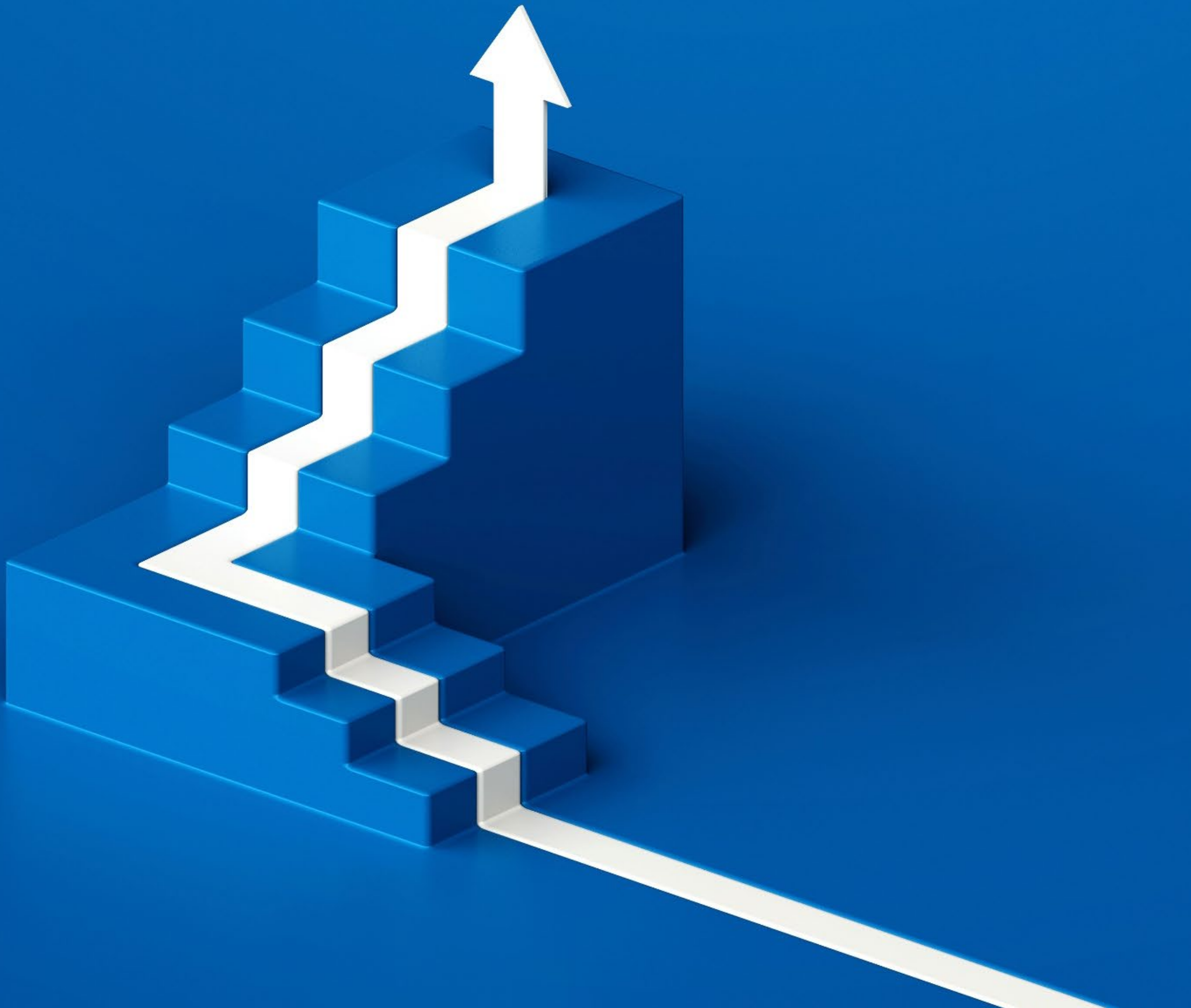
Recent Ind AS & IFRS Updates
2023-2024 Financial Reporting



Ind AS & IFRS Amendments

Every year, minor amendments to the International Financial Reporting Standards (IFRS) are introduced by the International Accounting Standards Board (IASB) by way of annual improvements. Generally, these amendments apply for accounting periods beginning on or after 1 January.

Indian Accounting Standards (Ind AS), which are converged standards based on IFRS but only applicable in India, follow a similar model. Every year in March, annual amendments to Ind AS are notified (by way of amendments to the Ind AS Rules under the Companies Act, 2013) and become applicable for accounting periods beginning on or after 1 April.

For instance, annual improvements notified on 31 March 2023 will become applicable for accounting periods beginning on or after 1 April 2023. Hence, companies should consider them while preparing financial statements for the year ending on 31 March 2024.

It should also be noted that Ind AS 1 requires companies to provide an explanatory note stating the impact of the amendments to Ind AS that have been issued and will apply in the next accounting period. Similar requirements exist in IFRS. In this article, we provide an overview of the recent amendments (with the applicability dates) to Ind AS and IFRS.

Amendments to Ind AS applicable for accounting periods beginning on or after 1 April 2023

Companies will be required to apply these amendments while preparing financial statements for the year 2023-24. These changes were notified on 31 March 2023 and can be accessed here.

Ind AS 1 – Presentation of Financial Statements

Disclosure of Accounting Policies (Similar change introduced in IFRS effective for accounting periods beginning on or after 1 January 2023)

Under this amendment, companies are now required to disclose material accounting policies rather than their significant accounting policies. The amendment clarifies that accounting policy information and other information are material when it can reasonably be expected to influence the decisions of primary users of general-purpose financial statements. Judgments made in applying the accounting policies (that have a significant effect on the financial statements) will continue to be disclosed. The amendment also clarifies that accounting policies related to immaterial transactions, other events, or conditions are themselves immaterial and do not need to be disclosed. Nevertheless, accounting policy information may be material, even if the amounts are immaterial, because of the nature of transactions, other events, or conditions. The standard further provides a few indicators of when the accounting policy information is expected to be material. An example of this would be choosing an accounting policy from one or more options permitted by Ind AS.

Ind AS 12 – Income Taxes

Initial recognition exemption (Similar change introduced in IFRS effective accounting periods beginning on or after 1 January 2023)

The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

The scope of the initial recognition exemption has now been narrowed with the introduction of additional conditions. Items that give rise to equal taxable and deductible temporary differences on initial recognition will not qualify for initial recognition exemption. This amendment would impact, for instance, the deferred taxes on the initial recognition of a lease liability and a corresponding recognition of the right-of-use asset. It applies to transactions that occur on or after the beginning of the earliest comparative period presented (while recognizing the cumulative effect of applying the amendments as an adjustment to the opening balance of retained earnings).

A consequential amendment has been made to Ind AS 101 - First-Time adoption of Ind AS, to require companies to recognize, on the date of transition, deferred tax assets (subject to the probability of future taxable profits) and deferred tax liabilities associated with the following:

- Right of use assets and lease liabilities.
- Decommissioning, restoration, and similar liabilities and corresponding amounts recognized as part of the cost of the related asset.

Amendments to IFRS applicable for accounting periods beginning on or after 1 January 2023

The amendments to Ind AS (covered above) have been drafted based on corresponding amendments to IFRS for accounting periods starting on or after 1 January 2023. Additionally, IFRS 17 has become applicable for accounting periods beginning on or after 1 January 2023.

IFRS 17 replaces IFRS 4 and provides comprehensive guidance on accounting for insurance contracts with the objective of increasing transparency and reducing diversity in the accounting for insurance contracts. Entities earlier accounted for some of the financial guarantee contracts under IFRS 4 rather than IFRS 9. The accounting treatment of such contracts needs to be reviewed in light of IFRS 17.

Amendments to IFRS applicable for accounting periods beginning on or after 1 January 2024

As a part of its annual improvements project, the IASB has introduced the following amendments to existing standards (applicable for accounting periods beginning on or after 1 January 2024).

IAS 1 - Presentation of Financial Statements

Classification of Liabilities as Current or Non-current

IAS 1 includes guidance on the classification of liabilities as current or non-current. Specific to borrowings, guidance is provided to cover aspects such as the rollover of existing loans, the effect of debt covenants on the classification, and the right to defer repayment. A thorough review of these provisions was carried out, and post the amendment, the classification rules are covered below.

A liability will be classified as non-current if, at the end of the reporting period, the entity has a right to defer the settlement of the liability for at least 12 months after the reporting period. While assessing this right, only the covenants that the entity is required to comply with on or before the end of the reporting period should be considered. Covenants that are to be complied with after the end of the reporting period should not be considered in assessing the existence of rights at the end of the reporting period.

A long-term loan arrangement might include a covenant, a breach of which will result in the loan becoming repayable on demand. If a breach has occurred on or before the end of the reporting period, it will result in the loan being classified as a current liability. Such classification will not change even if the lender has agreed not to demand payment (post the end of the reporting period but before the approval date) because of the breach. It is pertinent to note that under Ind AS, the rules are different, where such agreements with the lender after the balance sheet date are considered as an adjusting event, affecting the classification of the liabilities.

If, at the end of the reporting period, the entity has the right to rollover an obligation for at least 12 months after the reporting period, it will be classified as a non-current liability, even if it would otherwise be due within a short period.

Liabilities can also be settled by the issue of the entity's own equity shares and should be considered in determining whether the liability falls due within 12 months from the end of the reporting period.

IAS 7 - Statement of Cash Flows

Supplier Finance Arrangements

The amendment introduces new disclosure requirements for companies that have entered into supplier finance arrangements. It requires the disclosure of quantitative and qualitative information about these arrangements. Supplier finance arrangements are arrangements where amounts owed by the company to its suppliers are paid by a finance provider, with the company making payments on the same date or at a later date, as per the terms of the arrangement. These amendments do not apply to arrangements to finance receivables (such as factoring with or without recourse) and inventories.

IAS 21 - The Effects of Changes in Foreign Exchange Rate

Lack of Exchangeability

The amendment provides guidance on estimating the spot rates for currencies that lack exchangeability. Such lack of exchangeability may be due to government-imposed controls. The amendment also requires disclosures regarding the impact of using the estimated exchange rate.

Conclusion

Since Ind AS is a converged version of IFRS, similar amendments (to the extent they do not contradict the existing differences between Ind AS and IFRS) may be notified by the Ministry of Corporate Affairs for accounting periods beginning on or after 1 April 2024. When notified, companies will have to provide a note (in their FY 2023-23 financial statements) explaining the likely impact of the amendments to Ind AS that have been issued and will apply in FY 2024-25.

We believe that entities should perform a thorough analysis of these amendments and assess the impact that these amendments will have on financial statements in current and future years.

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