

# **Workshop on Indian Accounting Standards**

**Course Notes**

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## Introduction to Indian Accounting Standards and convergence

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Day 1

Designed to give you knowledge and application of:

1. Introduction to Indian Accounting Standards and convergence
2. Revenue Recognition
3. Financial Instruments
4. Fair Value Measurement
5. Investment Property

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Session 1: The IASB and The Regulatory Framework

Learning outcomes

- Roadmap to implementation of INDAS
- Components of financial statements
- Recognition and measurement of elements of financial statements

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### Clarity on INDAS opening Balance sheet date and First INDAS financial statements

The end of entity A's first Ind AS reporting period is 31 March 2017. Entity A decides to present comparative information in those financial statements for one year only. Therefore, its date of transition to Ind ASs is the beginning of business on 1 April 2015 (or, equivalently, close of business on 31 March 2015). Entity A presented financial statements in accordance with its previous GAAP annually to 31 March each year up to, and including, 31 March 2016.

(Example illustrated in next slide)

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### Continued

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### What is a Regulatory Framework?

A **structure** which helps an entity decide how to treat items that need to be included in the financial statements

### What are Indian Accounting Standards (abbreviated as IND AS)?

IND AS refers to a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS).

IFRSs are a single set of high quality, understandable and enforceable global accounting standards

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### The Conceptual Framework.....

The Framework is not an accounting standard.

The Framework provides the general principles upon which the accounting standards themselves will be based i.e. the framework is the standard of all standards.

i.e. What makes an asset an asset?

Or a liability a liability?



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### Components of financial statements

A complete set of financial statements include

Balance Sheet at the end of the period

Statement of profit or loss for the period

Statement of change in equity for the period

Statement of cash flows for the period

Notes comprising a summary of significant accounting policies & explanatory notes

Comparative information in respect of preceding period

Balance sheet as on beginning of preceding period

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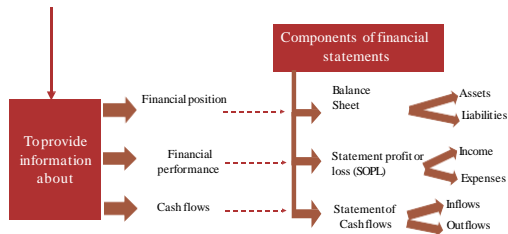
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### Objectives of components of financial statements



However, information in the financial statements is only useful if it helps users to make decisions

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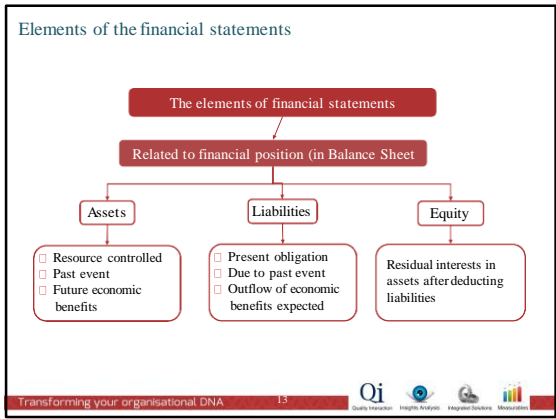
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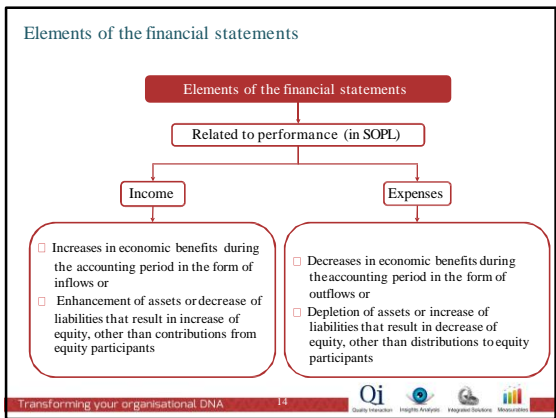
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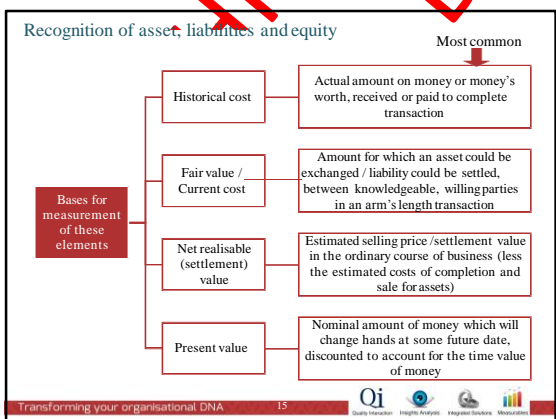
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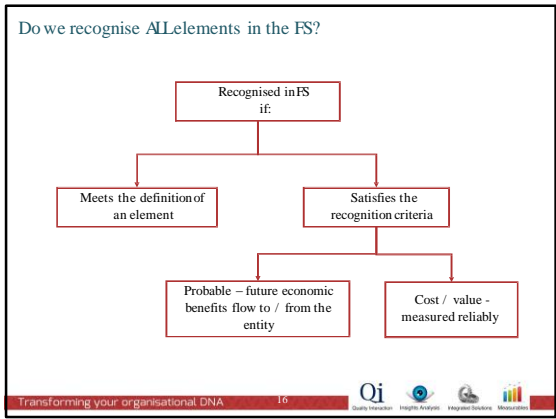
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Example

Which of the following can be recognised as elements of FS and why?

- You as employees?
- An inheritance received by a company?
- A licence to mine natural resources given by the government?

Answer

1. Probable inflow? <input type="checkbox"/>	Measured reliably? <input type="checkbox"/>	Asset? <input type="checkbox"/>
2. Probable inflow? <input type="checkbox"/>	Measured reliably? <input type="checkbox"/>	Asset? <input type="checkbox"/>
3. Probable inflow? <input type="checkbox"/>	Measured reliably? <input type="checkbox"/>	Asset? <input type="checkbox"/>

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Test Yourself

Do the following classify as an **asset** or **liability** within the definitions given by the Framework? Give reasons.

- Mitchell Ltd has purchased machinery for \$100,000. Also it purchased a patent for \$10,000. The patent will give the company sole use of a particular manufacturing process which will save \$4,000 a year for the next four years.
- Adams Car Sales has an intention to purchase four imported cars, in the coming international car show to be held in London.
- Poolwhirl Co provides a warranty with every refrigerator sold.



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Answer

- i. Machinery - an **asset** as there is a past event (purchase), control (by Mitchell) and future economic benefit (use of the machine to create income). The patent purchased is an (intangible) asset - there is a past event, control and future economic benefit through cost savings. So, both are assets and will be recognised in the financial statements.
- ii. This **cannot be classified as an asset**. Adams Car Sales only has an intention to purchase – this intention is only in the mind, not in hand. In order to recognise an item as an asset, a past event, control and future economic benefits are required. The intention to purchase a car cannot become an asset as there is no past event, no control and no future economic benefits.
- iii. This is a **liability**: the business has taken on a present obligation as a result of a past event (the sales), there is a probability of future outflow of economic resources (replacing the fridge) and a reliable estimate can be made of the obligation (cost of replacing the fridge). This liability would be recognised when the warranty is issued rather than when a claim is made.

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Formats of components of financial statements...

- Balance Sheet
- Statement of Profit or Loss and Other Comprehensive Income
- Statement of Changes in Equity



Refer to word file printed at the end of this session

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RECAP

- Roadmap to implementation of INDAS
- Components of financial statements
- Recognition and measurement of elements of financial statements

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*Thank you*

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