Newsflash: MCA issues Companies (Indian Accounting Standards) Amendment Rules, 2022 to be effective from 1 April 2022

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Newsflash

MCA issues Companies (Indian Accounting Standards) Amendment Rules, 2022 to be effective from 1 April 2022

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1.0 Background

1.1 The Ministry of Corporate Affairs ("MCA") notified Companies (Indian Accounting Standards) Amendment Rules, 2022 ("Rules") vide ***Notification dated 23 March 2022***. These Rules shall come into effect from 1 April 2022. Companies that prepare their financial statements under Indian Accounting Standards ("Ind AS") will be required to apply the changes / modifications as prescribed in the Rules from financial year beginning from 1 April 2022. Quarterly financial results for period ending 30 June 2022 and thereafter shall comply with these Rules and amendments.

1.2 This newsletter covers the key requirements / amendments introduced by these Rules, along with the key transition provisions.

2.0 Key Amendments notified under the Rules

Ind AS Standard	Amendment
Ind AS 101 *First-time Adoption of Indian Accounting Standards*	Paragraph D16(a) of Ind AS 101 allows subsidiaries that become a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. The newly introduced paragraph D13A of Ind AS 101 extends this relief to the cumulative translation differences for all foreign operations. A subsidiary that uses the exemption in Ind AS 101.D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in Ind AS 101.D16(a). Newly inserted paragraph 39AG to Ind AS 101 states that this amendment shall be applied for annual reporting periods beginning on or after 1 April 2022.
Ind AS 103 *Business Combinations*	There are following three amendments to Ind AS 103: • The ICAI issued a revised Conceptual Framework for Financial Reporting under Indian Accounting Standards.

Ind AS Standard	Amendment
	However, one paragraph of Ind AS 103 continued to refer to the old Framework, as updating this paragraph could have caused conflicts for entities applying Ind AS 103. The amendments update Ind AS 103 so that it refers to the revised Conceptual Framework. • A requirement has been added to Ind AS 103 that, for obligations within the scope of Ind AS 37, an acquirer applies Ind AS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of Appendix C *Levies* of Ind AS 37, the acquirer applies the requirements of Appendix C to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. • An explicit statement in newly inserted paragraph 23A has been added in Ind AS 103 that an acquirer does not recognise contingent assets acquired in a business combination.
Ind AS 109 *Financial Instruments*	Ind AS 109 requires derecognition of a financial liability and recognition of a new financial liability when there is an exchange between an existing borrower and the lender of debt instruments with substantially different terms (including a substantial modification of the terms of an existing financial liability or part of it). The terms are substantially different if the discounted present value of the remaining cash flows under the new terms are at least 10% different from the discounted present value of the remaining cash flows of the original financial liability ('10%' test). The amendment in the Rules clarifies the nature of fees that an entity could include when it applies the '10%' test in assessing whether to derecognise a financial liability. It states that an entity shall include only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
Ind AS 16 *Property, Plant and Equipment*	Ind AS 16 states that directly attributable costs of property, plant and equipment include the costs of testing whether an asset is functioning properly, after deducting the net proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Rules amend Ind AS 16 to state that costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that

Ind AS Standard	Amendment
	location and condition (such as samples produced when testing equipment). Excess of net sale proceeds of items produced over the cost of testing, if any, shall not be recognised in the statement of profit or loss but deducted from the directly attributable costs considered as part of cost of an item of property, plant and equipment.
This is a carve out from IAS 16 under IFRS. IAS 16 prohibits any proceeds from selling items produced before that asset is available for use from being deducted from the cost of an item of property, plant and equipment. An entity recognises such sale proceeds and related costs in the statement of profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.	
Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Ind AS 37 does not provide guidance on which costs an entity considers in assessing whether a contract is onerous. The Rules amend Ind AS 37 to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of: • The incremental costs of fulfilling that contract (for example, direct labour or materials); and • An allocation of other costs that relate directly to fulfilling contracts (for example, allocation of depreciation charge for an item of property, plant and equipment used in fulfilling the contract)
Ind AS 41 *Agriculture*	The Rules have removed the requirement in Ind AS 41 for entities to exclude cash flows for taxation when measuring fair value. This is now consistent with the requirements of Ind AS 113 *Fair Value Measurement* to use cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

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