

Ind AS Technical Facilitation Group Clarification Bulletin 19

Ind AS Technical Facilitation Group (ITFG) of Ind AS Implementation Group has been constituted for providing clarifications on timely basis on various issues related to the applicability and /or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, and other amendments finalised and notified till March 2019, raised by preparers, users and other stakeholders. Ind AS Technical Facilitation Group (ITFG) considered some issues received from members and decided to issue following clarifications¹ on May 08, 2019:

Issue 1: Entity A is required to apply Ind ASs in preparing its financial statements for periods beginning on or after April 1, 2018. Thus, the date of Entity A's transition to Ind ASs is April 1, 2017.

Entity A has a subsidiary, Entity B, which was formed by it in the year 2009, with Entity A initially subscribing to 60% of share capital of Entity B. During October 2015, i.e. before the date of transition to Ind ASs, Entity A acquired additional 25% shares in Entity B.

As Entity B was formed by Entity A itself as a subsidiary, Entity A's control of Entity B does not arise from a 'business combination' within the meaning of this term under Ind AS 103, *Business Combinations*. Consequently, the option available to a first-time adopter of Ind ASs to restate, or not restate, past business combinations as per Ind AS 103 does not apply in respect of Entity B.

Can Entity A account for the difference between the consideration paid for the additional 25% shares in Entity B acquired by it in October 2015 and the amount of reduction in non-controlling interests resulting from the said acquisition directly in equity while preparing its opening Ind AS balance sheet as at the date of transition to Ind ASs?

Response: Ind AS 101, *First-time Adoption of Indian Accounting Standards*, contains requirements applicable to first Ind AS financial statements of an entity. The provisions of Ind AS 101 relevant in the above context are as follows:

- Paragraph B7 of Ind AS 101 states that:

“A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind ASs:

¹ Clarifications given or views expressed by the Ind AS Technical Facilitation Group (ITFG) represent the views of the ITFG and are not necessarily the views of the Ind AS Implementation Group or the Council of the Institute. The clarifications/views are based on the accounting principles as on the date the Group finalises the particular clarification. The date of finalisation of this Bulletin is May 08, 2019. The clarification must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of clarifications by the ITFG. The clarifications given are only for the accounting purpose. The commercial substance of the transaction and other legal and regulatory aspects has not been considered and may have to be evaluated on case to case basis.

- (a) *the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;*
- (b) *the requirements in paragraphs 23 and B96 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and*
- (c) *the requirements in paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.*

However, if a first-time adopter elects to apply Ind AS 103 retrospectively to past business combinations, it shall also apply Ind AS 110 in accordance with paragraph C1 of this Ind AS.”

- According to paragraph C1 of Ind AS 101:

“A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 2010, it shall restate all business combinations that occurred between 30 June 2010 and the date of transition to Ind ASs, and it shall also apply Ind AS 110 from 30 June 2010.”

It is noteworthy that Ind AS 110, *Consolidated Financial Statements*, applies in respect of consolidation of not only those subsidiaries that were acquired by way of business combinations but also those entities which were formed by the parent itself and have been the parent's subsidiaries *ab initio*. Paragraphs 23 and B96 of Ind AS 110 apply to changes in a parent's ownership interest without loss of control of any subsidiary, whether it be a subsidiary whose control was acquired by the parent in a business combination or a subsidiary formed by the parent itself.

Paragraph B7 of Ind AS 101 generally prohibits retrospective application of paragraphs 23 and B96 of Ind AS 110 by a first-time adopter. There is nothing in Ind AS 101 to indicate that the prohibition contained in paragraph B7 on retrospective application of specified requirements of Ind AS 110 is applicable only in respect of subsidiaries acquired by way of business combinations and not in respect of subsidiaries formed by the parent itself. Consequently, if Entity A does not restate its past business combinations (refer paragraph C1 of Ind AS 101), the accounting treatment of purchase of the additional interest in Entity B carried out by Entity A in accordance with its previous GAAP would continue (i.e., no adjustments to the same would be made) while transitioning to Ind ASs.

Issue 2: A shipping entity is engaged in the business of transporting petroleum products from one port to another. Contracts between the entity and its customers typically state that the contract cannot be terminated once the entity takes delivery of goods from the customers at the port and sails to the designated port of destination. The period that a vessel takes to reach the port of destination ranges from ten days to around a month.

Whether the performance obligation of the entity under a typical contract with customers is:

- (i) satisfied over time and if so, whether the extent of satisfaction of performance obligation can be measured on the basis of number of days the vessel has sailed; or**
- (ii) satisfied at a point in time?**

Response: According to paragraph 31 of Ind AS 115, *Revenue from Contracts with Customers*:

“An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.”

Paragraph 32 of Ind AS 115 (or ‘the Standard’) requires an entity to determine, at contract inception, whether each performance obligation identified in accordance with the Standard is satisfied over time or at a point in time. As per the Standard, if an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

According to paragraph 35 of Ind AS 115:

“An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (see paragraphs B3–B4);*
- (b) the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or*
- (c) the entity’s performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37).”*

If any of the above criteria is met, consideration of the other criteria is unnecessary. This is because any one of the above criteria needs to be met to recognise revenue over time.

Application of the above criteria in the given case is discussed below.

Criterion (a)

As regards application of criterion (a), the following extracts from Application Guidance contained in Appendix B to Ind AS 115 are relevant:

B3 For some types of performance obligations, the assessment of whether a customer receives the benefits of an entity's performance as the entity performs and simultaneously consumes those benefits as they are received will be straightforward. Examples include routine or recurring services (such as a cleaning service) in which the receipt and simultaneous consumption by the customer of the benefits of the entity's performance can be readily identified.

*B4 For other types of performance obligations, an entity may not be able to readily identify whether a customer simultaneously receives and consumes the benefits from the entity's performance as the entity performs. **In those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.** In determining whether another entity would not need to substantially re-perform the work the entity has completed to date, an entity shall make both of the following assumptions:*

- (a) disregard potential contractual restrictions or practical limitations that otherwise would prevent the entity from transferring the remaining performance obligation to another entity; and*
- (b) presume that another entity fulfilling the remainder of the performance obligation would not have the benefit of any asset that is presently controlled by the entity and that would remain controlled by the entity if the performance obligation were to transfer to another entity. [Emphasis added]*

As per the above, the question to be answered to determine whether the performance obligation in the given case is satisfied over time or at a point in time is whether another entity, were it required to transport the goods to the port of destination, would need to substantially re-perform the work carried out by the entity to date. If that work would not need to be substantially re-performed, revenue would be recognised over time.

The answer to the question whether the work carried out by a reporting entity to date would, or would not, need to be substantially re-performed requires assessment in the context of the specific facts of a case.

Criterion (b)

Considering the nature of performance obligation of the company (transportation of goods belonging to the customer to the designated port of destination), the entity's performance cannot be said to create or enhance an asset that the customer controls as the asset is created or enhanced.

Criterion (c)

Considering the nature of performance obligation of the company, it is clear that its performance does not create an asset with an alternative use to the entity. Determining whether it has an enforceable right to payment for performance completed to date requires consideration of the detailed requirements and guidance provided in paragraphs 37 and B9-B13 of Ind AS 115. These paragraphs, inter alia, require an entity to consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date. While the right to payment for performance completed to date does not need to be for a fixed amount, the entity must be entitled, at all times throughout the duration of the contract, to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity's failure to perform as promised. In assessing the existence and enforceability of a right to payment for performance completed to date, an entity is required to consider the contractual terms as well as any legislation or legal precedent that could supplement or override those contractual terms. Application of the relevant requirements and guidance contained in Ind AS 115 in a particular case requires consideration of the specific facts and circumstances of the case.

Measurement of Progress towards Complete Satisfaction of a Performance Obligation

Ind AS 115 contains detailed requirements and guidance regarding measurement of progress towards complete satisfaction of a performance obligation. The standard notes that appropriate methods of measuring progress include output methods and input methods and requires an entity to consider the nature of the goods or services that the entity promised to transfer to the customer in determining the appropriate method for measuring progress. In case it is concluded that the performance obligation of the entity under its contract with a customer is satisfied over time, the entity should determine an appropriate method of measuring progress on the basis of the relevant requirements and guidance contained in Ind AS 115.

Issue 3: ABC Limited would be applying Ind ASs for the first time when it prepares its financial statements for the year ended March 31, 2019.

Ind AS 115, *Revenue from Contracts with Customers*, which has superseded Ind AS 18 and Ind AS 11, is applicable for accounting periods beginning on or after April 1, 2018. Appendix C to the standard contains transitional provisions. As per paragraph C3 of Appendix C:

“An entity shall apply this Standard using one of the following two methods:

- (a) retrospectively to each prior reporting period presented in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, subject to the expedients in paragraph C5; or***

(b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.”

[The method at (a) above is often referred to as ‘full retrospective adoption’ method (with some practical expedients). The method at (b) above is often referred to as ‘simplified (or modified) transition’ method.]

Can ABC Limited Ltd., being a first-time adopter of Ind ASs, apply simplified transition method provided under Ind AS 115?

Response: Paragraph 7 of Ind AS 101 states the following:

“An entity shall use the same accounting policies in its opening Ind AS Balance Sheet and throughout all periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, except as specified in paragraphs 13–19 and Appendices B–D.”

It is clear from the above that the general requirement of Ind AS 101 is retrospective application of the standards in force at the end of an entity’s first Ind AS reporting period. There are, however, specific optional exemptions from, and some mandatory exceptions to, this general requirement.

Paragraph 9 of Ind AS 101 states the following:

“The transitional provisions in other Ind ASs apply to changes in accounting policies made by an entity that already uses Ind ASs; they do not apply to a first-time adopter’s transition to Ind ASs, except as specified in Appendices B–D.”

It is clear from the above that being a first-time adopter, ABC Limited can apply the transitional provisions contained in Ind AS 115 only to the extent required or allowed to do so under Appendices B-D of Ind AS 101.

Paragraphs D34 and D35 of Ind AS 101 contain provisions dealing with application of transitional provisions of Ind AS 115 by a first-time adopter and state the following:

“D34 A first-time adopter may apply the transition provisions in paragraph C5 of Ind AS 115. In those paragraphs references to the ‘date of initial application’ shall be interpreted as the beginning of the first Ind AS reporting period. If a first-time adopter decides to apply those transition provisions, it shall also apply paragraph C6 of Ind AS 115.

D35 A first-time adopter is not required to restate contracts that were completed before the earliest period presented. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous GAAP.”

As per the above, a first-time adopter is allowed (but not required) to apply the transitional provisions contained in paragraph C5 (along with paragraph C6) of Ind AS 115. Paragraph C5 (along with paragraph C6) of Ind AS 115 allows an entity to use one or more of the practical expedients specified therein in carrying out full retrospective adoption of Ind AS 115. Ind AS 101 neither requires nor allows a first-time adopter to apply the transitional provisions contained in paragraphs C7, C7A and C8 of Ind AS 115. This means that in the given case, being a first-time adopter, ABC Limited is allowed to apply only the full retrospective adoption method (with practical expedients) given in Ind AS 115. ABC Limited does not have the choice of applying the simplified transition method.

Issue 4: ABC Limited has capital work-in-progress (CWIP) of ₹ 1,00,000 which meets the definition of a ‘qualifying asset’ as per Ind AS 23, *Borrowing Costs*. ABC Limited capitalises borrowing costs, using capitalisation rate for general borrowings, on ₹ 1,00,000.

PQR Limited, an unrelated, independent entity, acquires ABC Limited for cash consideration and merges it into itself. The merger meets the definition of a ‘business combination’ as per Ind AS 103, *Business Combinations*. As part of purchase price allocation (PPA), PQR Limited allocates ₹ 1,20,000 to CWIP which still meets the definition of a qualifying asset.

Post-acquisition, the financial statements of PQR Limited include CWIP at ₹ 1,20,000. For capitalisation of borrowing costs in post-acquisition financial statements of PQR Limited, should the capitalisation rate be applied on the amount derived based on PPA, i.e. ₹ 1,20,000?

Would the answer be any different if PQR Limited acquires 100% shares and control of ABC Limited but ABC Limited remains a separate legal entity which is consolidated by PQR Limited. Post-acquisition, the stand-alone financial statements of ABC Limited continue to carry CWIP at ₹ 1,00,000. However, consolidated financial statements of PQR Limited carry CWIP at ₹ 1,20,000.

Response: As per the facts of the case, upto the date of its acquisition by PQR Limited, ABC Limited has incurred a cumulative expenditure of ₹ 1,00,000 on an asset under construction (CWIP). While PQR Limited has paid a lump sum consideration for acquisition of ABC Limited, it has attributed an amount of ₹ 1,20,000 as consideration towards purchase of the CWIP. For the purpose of the following analysis, it has been assumed that the allocation of an amount of ₹ 1,20,000 towards purchase of the CWIP is appropriate under the facts and circumstances of the case.

Scenario I: ABC Limited is merged into PQR Limited

Where ABC Limited is merged into PQR Limited, the CWIP would appear as an asset in the stand-alone (and consequently, in the consolidated) financial statements of PQR Limited. At the time of merger, PQR Limited needs to make a fresh, independent assessment as to whether the CWIP meets the definition of a ‘qualifying asset’ from its perspective. In determining whether the CWIP is a ‘qualifying asset’ (i.e., an asset that necessarily takes a

substantial period of time to get ready for its intended use or sale), PQR Limited would consider only the remaining time to completion of the asset. It is assumed that it is on the basis of such fresh, independent assessment that the querist has asserted that the CWIP “still meets the definition of a qualifying asset”

It is noted that PQR Limited has acquired the CWIP as a part of merger of ABC Limited into it rather than in a transaction for purchase of the CWIP only. Through the purchase price allocation exercise carried out by PQR Limited, an amount of ₹ 120,000 has been determined to have been paid towards acquisition of the CWIP. Thus, from the perspective of the stand-alone (and consequently, consolidated) financial statements of PQR Limited, it is this amount of ₹ 120,000 (and not ₹ 100,000) which represents the expenditure incurred by PQR Limited on the CWIP for purposes of applying the requirements of Ind AS 23 relating to capitalisation of borrowing costs. Likewise, the timing of incurrence of the aforesaid expenditure of ₹ 120,000 on the CWIP is also to be determined from the perspective of PQR Limited and not from the perspective of ABC Limited. To illustrate, suppose that PQR Limited acquires ABC Limited and pays cash consideration on July 1, 20XX. In this case, for determining the amount of borrowing costs to be capitalised, the expenditure of ₹ 120,000 would be considered to have been incurred by PQR Limited on July 1, 20XX; the timing of incurrence of expenditure on CWIP by ABC Limited would not be relevant from the perspective of the stand-alone (and consequently, consolidated) financial statements of PQR Limited.

Scenario II: ABC Limited is not merged into PQR Limited

Where PQR Limited acquires 100% shares in (and consequently, control of) ABC Limited which continues to remain in existence, PQR Limited’s consolidated financial statements (but not its stand-alone financial statements) would include the CWIP as an asset. The ‘reporting entity’ in respect of consolidated financial statements is the group comprising the parent (PQR Limited in the instant case) and its subsidiaries (ABC Limited in the given case). Therefore, for purposes of consolidated financial statements, the determination of whether an asset meets the definition of a ‘qualifying asset’ as well as the determination of the amount of expenditure incurred thereon is made from the perspective of the group rather than from the perspective of the particular member of the group which owns or holds the said asset. In the given case, the group has incurred an expenditure of ₹ 120,000 to acquire the CWIP from a party outside the group. Consequently, for the purpose of applying the requirements of Ind AS 23 relating to capitalisation of borrowing costs at the group level (assuming that the CWIP meets the definition of ‘qualifying asset’ from the group’s perspective), the amount of expenditure on the CWIP would be considered to be ₹ 120,000. Further, the timing of incurrence of the expenditure of ₹ 120,000 on the CWIP would also have to be determined from the perspective of the group rather than from the perspective of ABC Limited.

The stand-alone financial statements of PQR Limited would include the investment in ABC Limited (rather than individual assets and liabilities of ABC Limited). As this investment is a financial asset, borrowing costs cannot be capitalised as part of carrying amount of the

same in view of paragraph 7 of Ind AS 23 which categorically states that financial assets are not qualifying assets.

Issue 5: As at March 31, 2018, A Limited, a listed company, has two subsidiaries – B Limited and C Limited. B Limited is a listed company whereas C Limited is an unlisted company. B Limited has been a subsidiary of A Limited for the last two decades and C Limited has been a subsidiary of A Limited since January 2016.

During the financial year 2018-19, B Limited merges into A Limited and one of the divisions of A Limited is transferred to C Limited. As per the scheme approved by the competent authority in this regard, the appointed date for the merger and the transfer as aforesaid is October 1, 2018.

The scheme becomes effective prior to the year ended 31 March 2019 as all the necessary approvals were received before year-end. While preparing the financial statements for the year ended March 31, 2019, would previous year figures in financial statements of A Limited and C Limited have to be restated as per paragraph 9 of Appendix C to Ind AS 103, *Business Combinations*?

Response:

Accounting for Merger of B Limited into A Limited

Merger of B Limited into A Limited represents merger of a subsidiary into its parent. Accounting for such a merger is dealt with in ITFG Clarification Bulletin 9 (Issue 2) which may be referred to.

Accounting for transfer of a division from A Limited to C Limited

Ind AS 103 defines the terms ‘business’ and ‘business combination’ and certain related terms as follows:

Business An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

Business combination A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as ‘true mergers’ or ‘mergers of equals’ are also business combinations as that term is used in this Ind AS.

Acquirer The entity that obtains control of the acquiree.

Acquiree The business or businesses that the acquirer obtains control of in a business combination.

The following terms defined in Ind AS 103 Appendix C, *Business Combinations of Entities under Common Control*, are also relevant:

Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Transferor means an entity or business which is combined into another entity as a result of a business combination.

Transferee means an entity in which the transferor entity is combined.

In the following analysis, it is assumed that the division transferred from A Limited to C Limited constitutes a ‘business’ (or businesses) within the meaning of this term under Ind AS 103. Based on this assumption, let us examine whether the transfer of the division from A Limited to C Limited qualifies as a ‘common control business combination’ from the perspective of C Limited:

- By virtue of the transfer, C Limited obtains control of a business that it did not previously control. Thus, transfer of the division meets the definition of a ‘business combination’ from the perspective of C Limited.
- The transferee (or the acquirer) in the aforesaid business combination is ‘C Limited’ and the transferor (or the acquiree) is the ‘division’ transferred to C Limited. Both the combining parties, i.e., C Limited and the said division, are controlled by A Limited before the transfer as well as after the transfer.
- As per the facts of the case, C Limited has been a subsidiary of A Limited since January 2016. Though not stated specifically in the facts of the case, it seems that the division transferred by A Limited to C Limited has been its (i.e., A Limited’s) part for quite some time. Assuming that this inference is correct, control of A Limited over the transferee (C Limited) and the transferor (the transferred division) cannot be said to be transitory.

As per the above analysis, from the perspective of C Limited, the transfer of the division to it qualifies as a common control business combination within the meaning of this term under Ind AS 103.

Appendix C to Ind AS 103 requires a common control business combination to be accounted for by the acquirer as per the ‘pooling of interest method’ as described in detail therein. Accordingly, C Limited would be required to account for the transfer of the division in its financial statements by applying the pooling of interests method. As per paragraph 9 of Appendix C to Ind AS 103:

“9 *The pooling of interest method is considered to involve the following:*

.....

(iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.”

In accordance with paragraph 9(iii) above, C Limited is required to prepare its financial statements (including comparative information presented therein) for the year ended March 31, 2019 as if the transfer of the division had occurred from the beginning of the comparative period presented in the financial statements for the year ended 31 March 2019 i.e., April 1, 2017, notwithstanding the appointed date of 1 October 2018 specified in the scheme.

Issue 6: ABC Limited is an unlisted company that was required to apply Ind ASs from financial year beginning April 1, 2017 due to its meeting the net worth criterion laid down in sub-clause (b) of clause (iii) of sub-rule (1) of rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 as amended till date. During the financial year ended March 31, 2018, it had an unlisted subsidiary, PQR Limited, having net worth of about ₹ 50 crore. Both ABC Limited and PQR Limited prepared their annual financial statements for the financial year ended March 31, 2018 as per Ind ASs.

During the financial year ended March 31, 2019, ABC Limited sold off substantially all of its investment in PQR Limited to an unrelated third party, XYZ Limited, which is an unlisted company. Prior to acquiring the majority stake in PQR Limited, XYZ Limited did not meet any of the criteria for mandatory application of Ind ASs.

After the sale of its shareholding in PQR Limited by ABC Limited as described above, PQR Limited does not qualify as a subsidiary or an associate or a joint venture company of ABC Limited. The net worth of PQR Limited still hovers around ₹ 50 crore.

Are PQR Limited and XYZ Limited required to apply Ind ASs?

Response: Rule (9) of the Companies (Indian Accounting Standards) Rules, 2015, states the following:

“Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specified in sub-rule (1), it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it.”

In view of the above, PQR Limited is required to continue to follow Ind ASs even though it does not meet the net worth criterion or the listing criterion and is no longer a subsidiary (or

a holding or an associate or a joint venture company) of a company meeting the listing or the net worth criterion.

As regards the issue of applicability of Ind ASs to XYZ Limited, Rule 4(1) of the Companies (Indian Accounting Standards) Rules 2015 as amended till date *inter-alia* states as follows:

“(i)...

(ii) ...

(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2017, with the comparatives for the periods ending on 31st March, 2017, or thereafter, namely:-

- (a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore;*
- (b) companies other than those covered in clause (ii) of sub-rule (1) and sub-clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.*
- (c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub-rule (1) and sub-clause (b) of clause (iii) of sub-rule (1), as the case may be:”*

It would be noted from the above that where a company does not meet both the listing criterion [clause (a)] and the net worth criterion [clause (b)], it is required to apply Ind ASs if, and only if, it is holding, subsidiary, joint venture or associate company of a company that meets the listing or the net worth criterion. In the given case, XYZ Limited meets neither the net worth criterion nor the listing criterion. Further, though XYZ Limited is holding company of PQR Ltd, the latter (i.e., PQR Limited) does not meet the net worth or the listing criterion. Hence, XYZ Limited is not required to apply Ind ASs (though it can elect to apply Ind ASs voluntarily).
