



Highlights of this issue:

1. Exposure Draft of Initial Application of Ind AS 117 and Ind AS 109 - Comparative Information (Amendments to Ind AS 117, Insurance Contracts)
2. Expert Advisory Opinion – Presentation of interest earned from the deployment of surplus funds with banks.

1. Exposure Draft of Initial Application of Ind AS 117 and Ind AS 109 - Comparative Information (Amendments to Ind AS 117, Insurance Contracts)

- a. The Accounting Standard Board ('ASB') of the Institute of Chartered Accountants of India ('ICAI') has issued an exposure draft (ED) of amendments in Ind AS 117 corresponding to amendments to IFRS 17.
- b. The ED includes a transition option relating to comparative information about financial assets presented where an entity first applies Ind AS 117 i.e. *Insurance Contracts* and Ind AS 109, i.e. *Financial Instruments* at the same time.
- c. The ED contains provisions related to classification for entities that have applied Ind AS 109 before they apply Ind AS 117.

2. Expert Advisory Opinion:

Presentation of interest earned from the deployment of surplus funds with banks.

A. Background:

Expert advisory committee ('EAC') of the ICAI has issued an opinion in respect of the presentation of interest earned from the deployment of surplus funds with banks.

ABC LTD. is a (hereinafter referred to as 'the Company') company incorporated as a project executing agency by the Ministry of Railways ('MoR') and the Government of Maharashtra ('GoM'). The project to be executed by the Company is called Mumbai Urban Transport Project ('MUTP').

The Company recovers costs incurred [Direction and General (D&G) charges] and earns interest on unutilised funds temporarily deployed with Scheduled Banks. Except for 2 years in the last 9 years, the above interest earned by the Company is higher than D&G charges.

Based on the above facts, the Company is of the view that revenue generated from the activity of deposit of funds with banks is crucial, integral, and inextricable part of the core revenue-generating activities. If interest income was not earned, the Company would have faced losses in those years. Thus, the above interest earned is considered as 'other operating revenue' in the financial statements.

B. Key issues:

Whether the present practice of accounting and presentation of interest earned from the activity of deployment of funds with banks, pending their utilisation in MUTP, as 'other operating revenue' in the financial statements is correct?

C. Basis of Opinion:

Guidance Note (GN) on Division I – Non Ind AS Schedule III to the Companies Act, 2013 (revised July, 2019 Edition), issued by the ICAI

D. Key Principles Applied & Conclusions:

- a) As per GN, for non-finance companies, revenue from operations needs to be disclosed separately as revenue from:
 - (i) sale of products
 - (ii) sale of services
 - (iii) other operating revenues
- b) The term "other operating revenue" is not defined in the guidance note. However, this would include revenue arising from a company's operating activities (i.e. either its principal or ancillary revenue-generating activities) but which is not revenue arising from the sale of products or rendering of services.

- c) As per the requirements of the GN, interest income in the case of a company other than the finance company needs to be disclosed under the head 'other income' unless it is arising from the company's operating activities (as in the case of a finance company).
- d) Further, in the opinion of EAC, any terms of discussion, communication between the Company and MoR does not demonstrate that MoR allowed the Company to temporarily retain such interest as compensation or consideration of the operating activities of the Company.
- e) In the opinion of EAC, the accounting treatment depends on the nature of income, and mere allowing to retain or use interest income for meeting the expenditure does not change the nature of income.
- f) Also, the EAC is of the view that the regularity or quantum of an item of income may not necessarily determine the nature of an income as operating or non-operating.
- g) On the basis of the above, the EAC is of the view that in the extant case, interest income should be disclosed under the head 'other income' in the financial statements.



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