

# MAT Impact For Ind AS Compliant Companies

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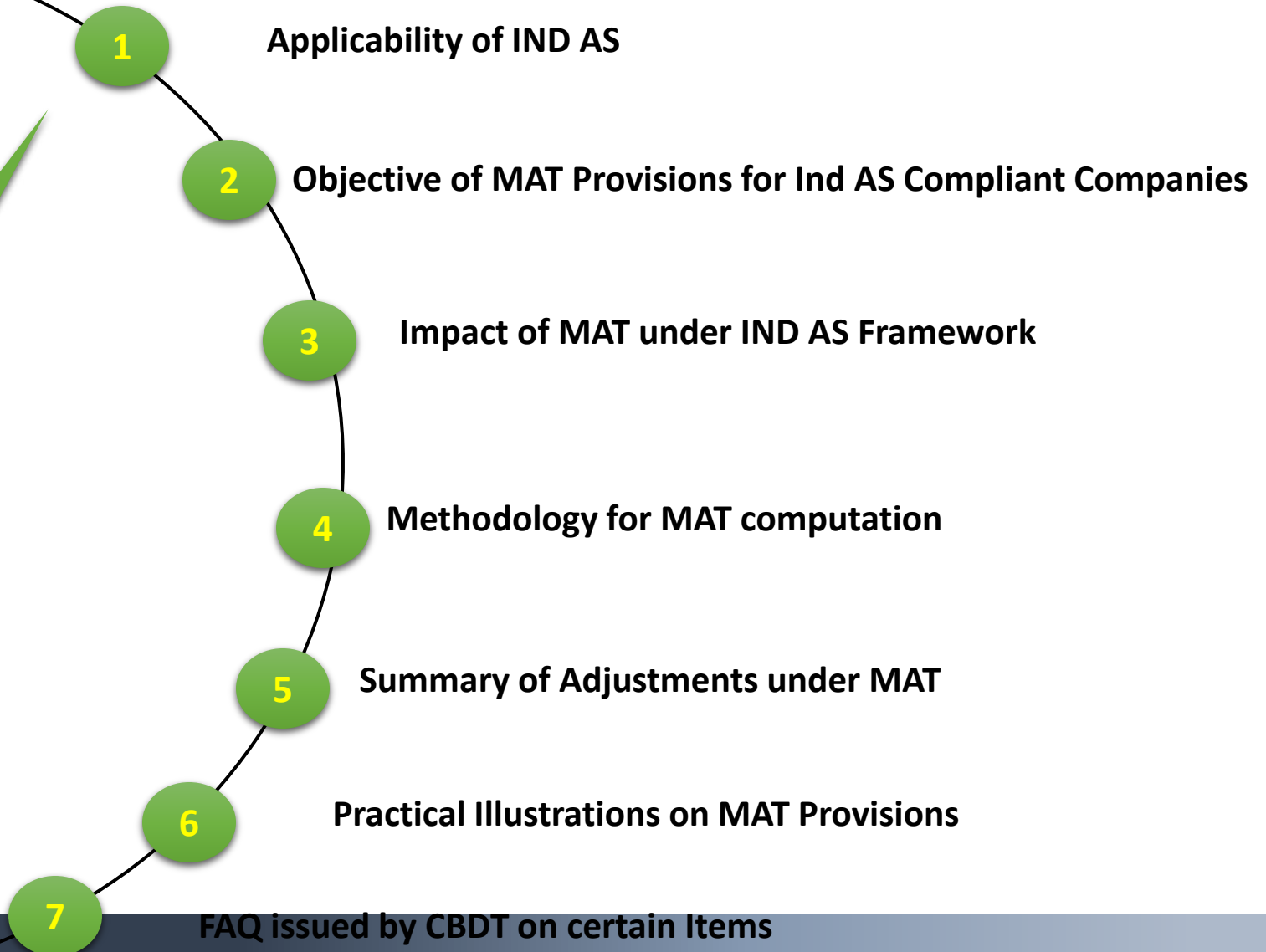
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Chartered accountants

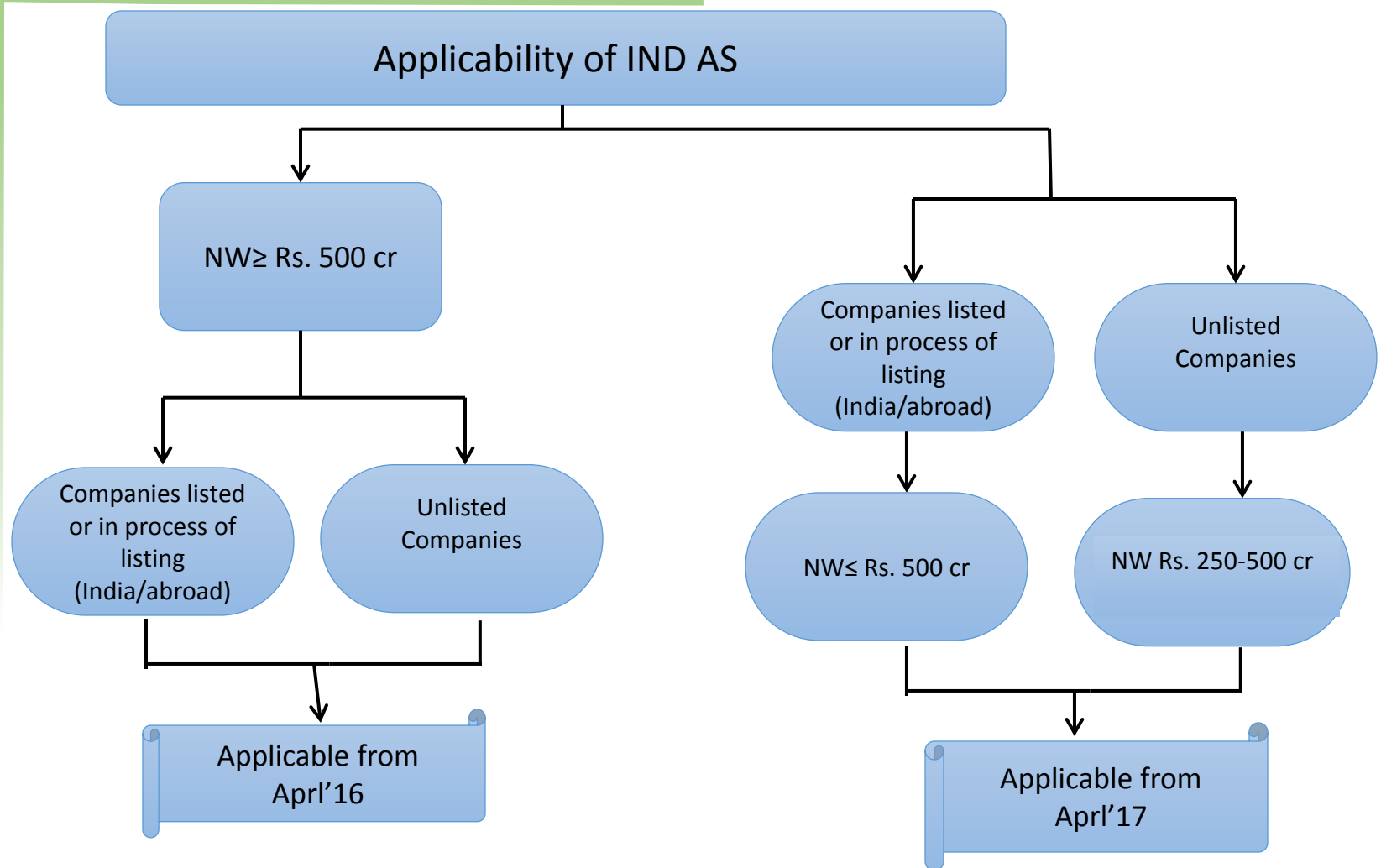
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**Note: 1) Indian Holding, Subsidiary, JV or AE of above (irrespective of NW)**

**2) 1<sup>st</sup> time adoption companies as on Mar17 & Mar 18, IND AS shall apply from FY 2017-18 & FY 2018-19**

## Applicability of IND AS

**NBFC**  
(as defined u/s 45I(f) of RBI Act)

w.e.f. April 2018  
(FY 2018-19)

- Companies listed/in process whose NW  $\geq$  Rs. 500 cr
- Unlisted companies having NW  $\geq$  Rs. 500 cr

w.e.f. April 2019  
(FY 2019-20)

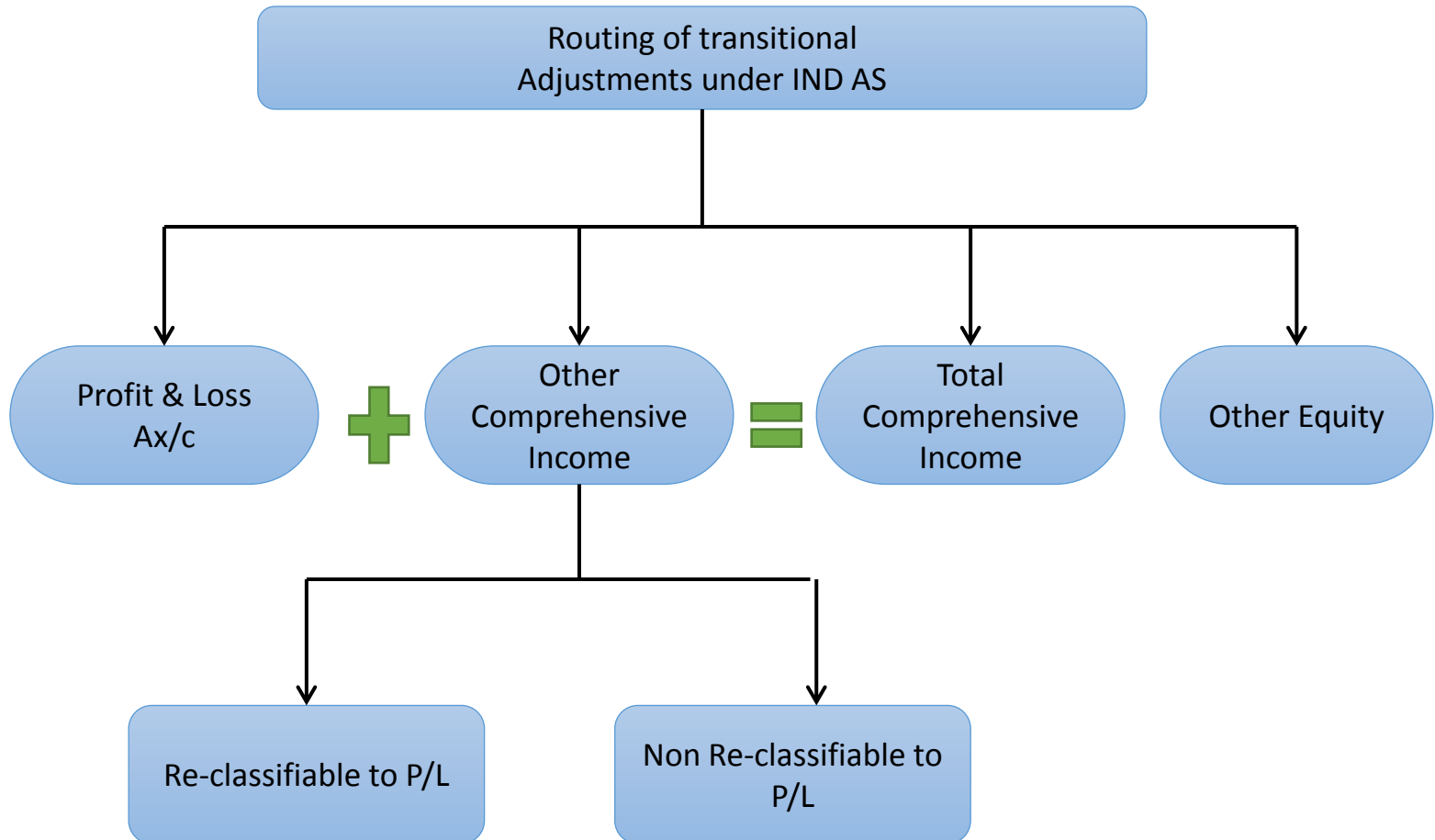
- Companies listed/in process whose NW  $\leq$  Rs. 500 cr
- Unlisted companies having NW Rs. 250 - 500 cr

*It Includes holding, Subsidiary, JV or AE of above companies*

## Objective of MAT Provisions for Ind AS Compliant Companies

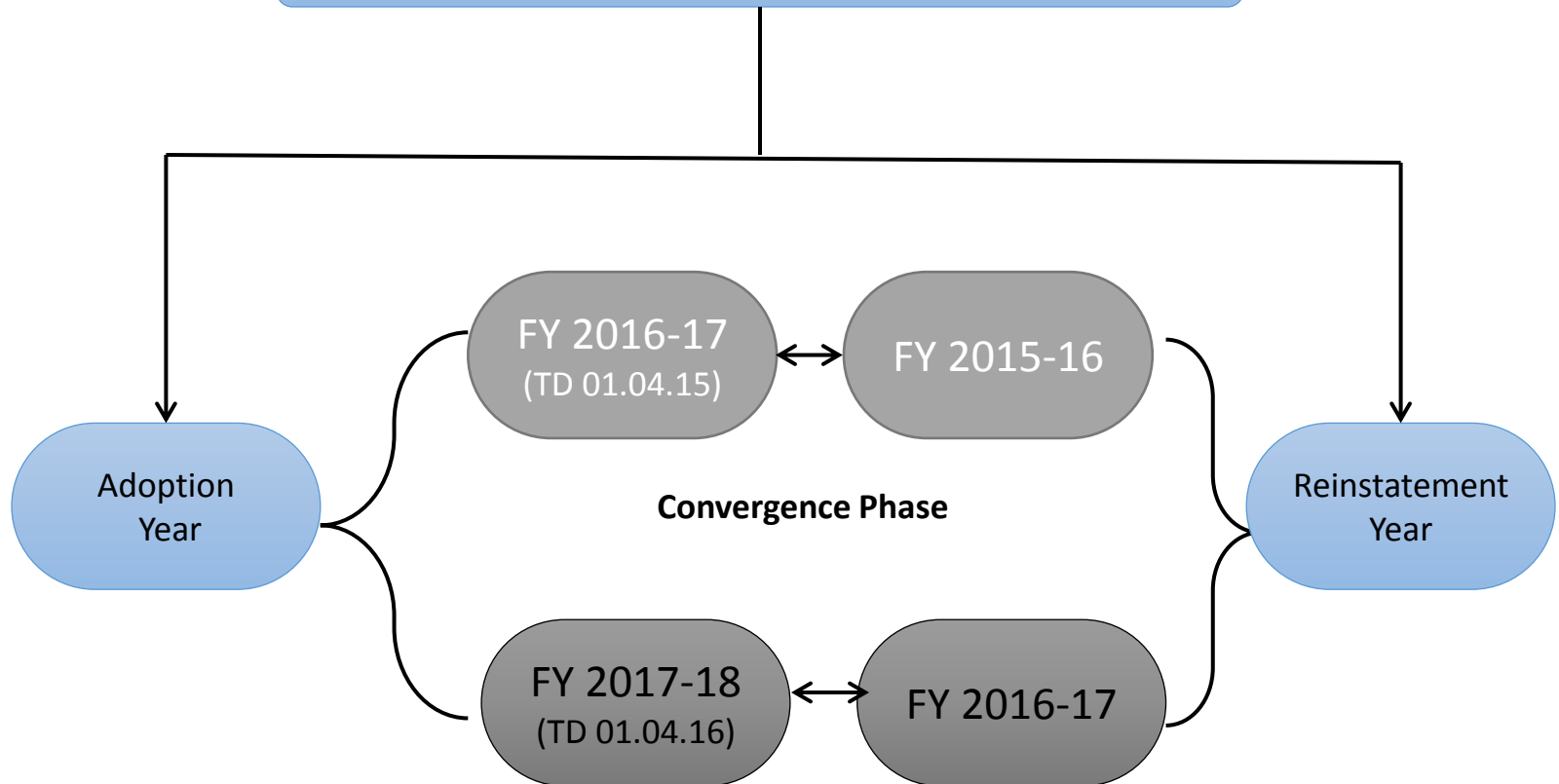
- ❑ For FY 2016-17, Company will prepare Ind AS financial statements for the first time, as applicable. Comparative previous year 2015-16 under Ind AS will also need to be provided. Consequently Transition Date (TD) will be 01.04.2015
- ❑ Considering different book profits for Ind AS compliant companies as compared to Indian GAAP, clarity on MAT provisions has been incorporated by Finance Act 2017 for such Ind AS compliant companies on first time adoption (FTA) and on an ongoing basis

## Impact of MAT under IND AS Framework



## Impact of MAT under IND AS Framework

### IND AS Framework in Convergence period



## Methodology for MAT computation

|   |          |   |     |
|---|----------|---|-----|
| Net Profit Before Tax as per Statement of P&L |          |   | xxx |
|   | Add/Less | Effects of normal MAT provisions - Explanation 1 to Sec.115JB(2)  | xxx |
|   |          | Book profit to be used to compute MAT   | xxx |
| A   | Add/Less | Adjustments for any other OCI items that will not be re-classified to profit or loss  | xxx |
| B   | Add/Less | Amount debited/Credited to P/L on distribution of non-cash assets to shareholders in demerger as per IND AS 10 (Appendix A)         | xxx |
| C   | Add/less | Adjustments for revaluation gain/loss for fixed assets & intangible assets in the year of their disposal or transfer.               | xxx |
| D   | Add/less | Adjustments for gains or losses from investments in equity instruments measured at FVTOCI in the year if their disposal or transfer | xxx |
|   |          | Book profit to be used to compute MAT   | xxx |

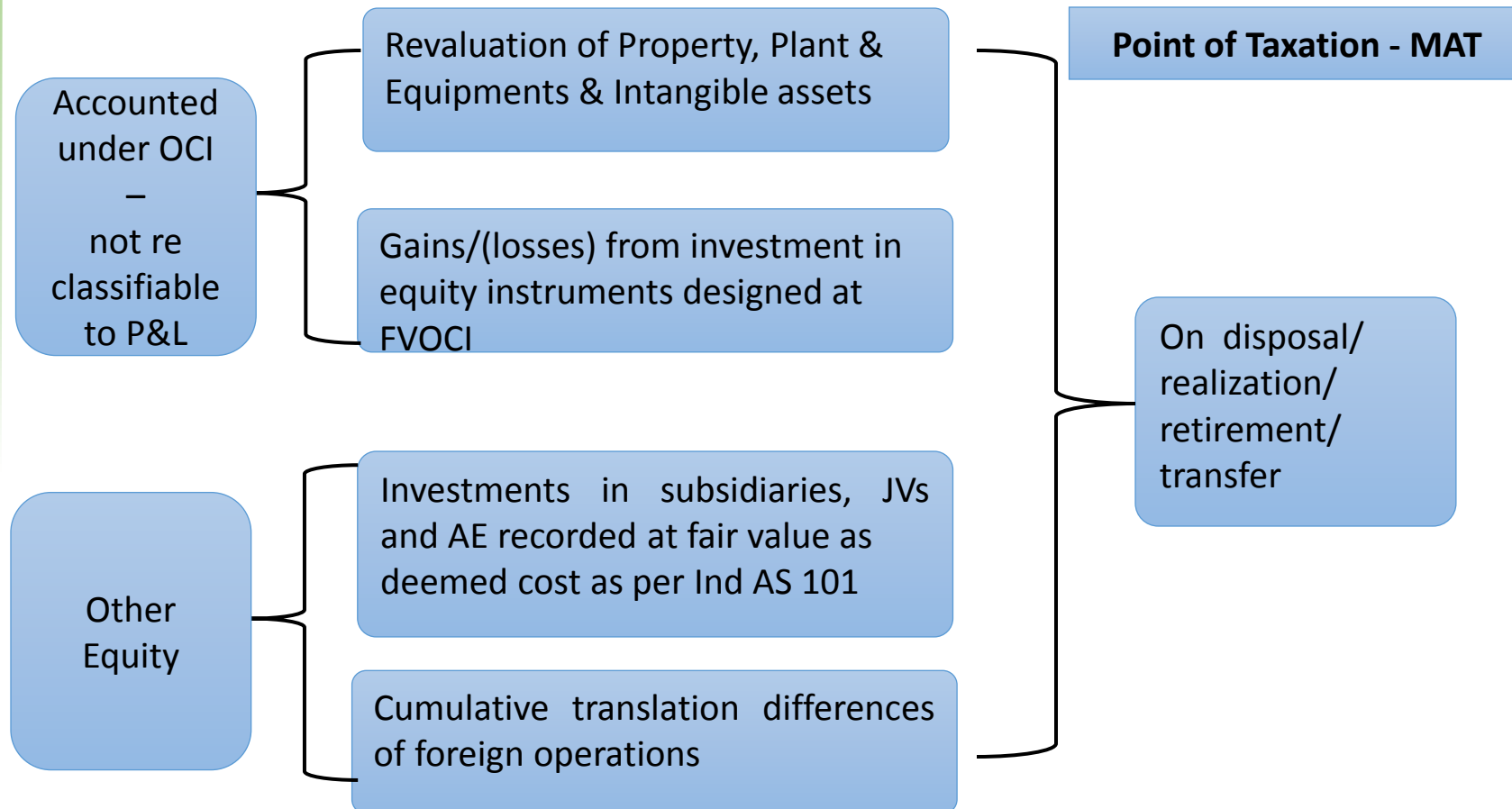


### Methodology for MAT computation

|   |          | Book profit to be used to compute MAT  | xxx |
|---|----------|--|-----|
| E | Add/less | Adjustments arising on account of transition to IND AS from existing Indian GAAP are required to be recorded under Other Equity in the balance sheet.-Adjustment which will not be reclassified to Profit/loss shall be included in MAT computation equally over a period of 5 years-Subject to following exceptions | xxx |
| F | Add/less | Adjustments for revaluation gain/loss for fixed assets & intangible assets in the year of their disposal or transfer   | xxx |
| G | Add/less | Adjustments for gains or losses from investments in equity instruments measured at FVTOCI in the year if their disposal or transfer  | xxx |
| H | Add/less | Investment in JV, Subsidiary & Associates –Measured at FV and adjustment in RE shall be included at the time of realisation  | xxx |
| I | Add/less | Any Adjusted made on account of cumulative translation difference relating to foreign operation shall be included at the time of disposal.   | xxx |
| J |          | Total Book profit Computed as per Sec 115JB  | xxx |

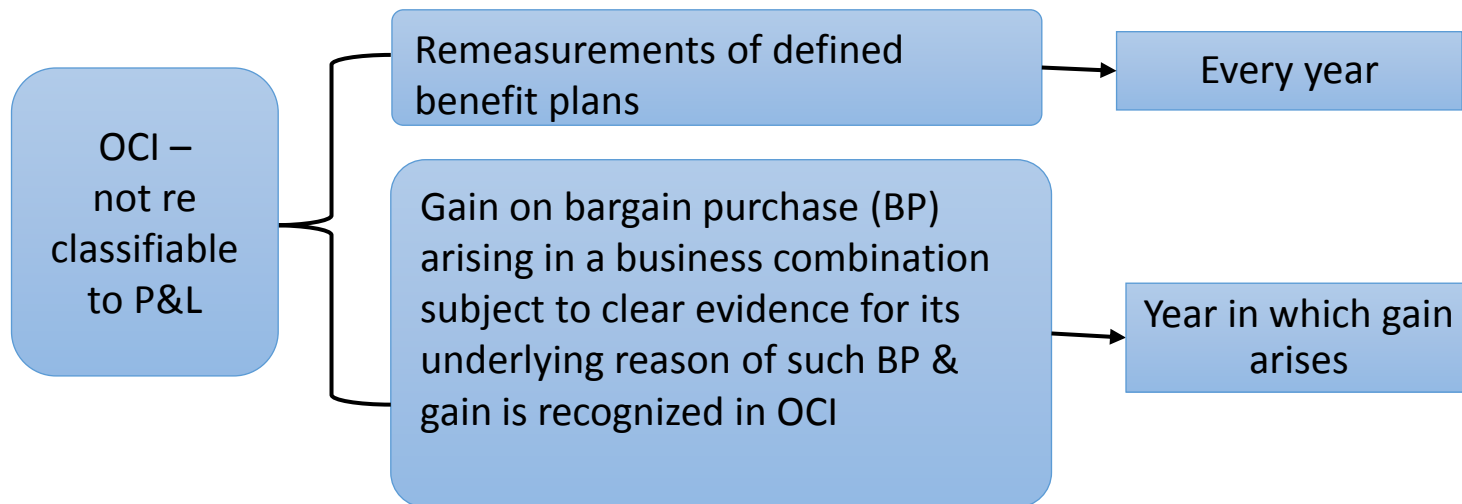
## Summary of Adjustments under MAT

### Specified Adjustments - Illustrations

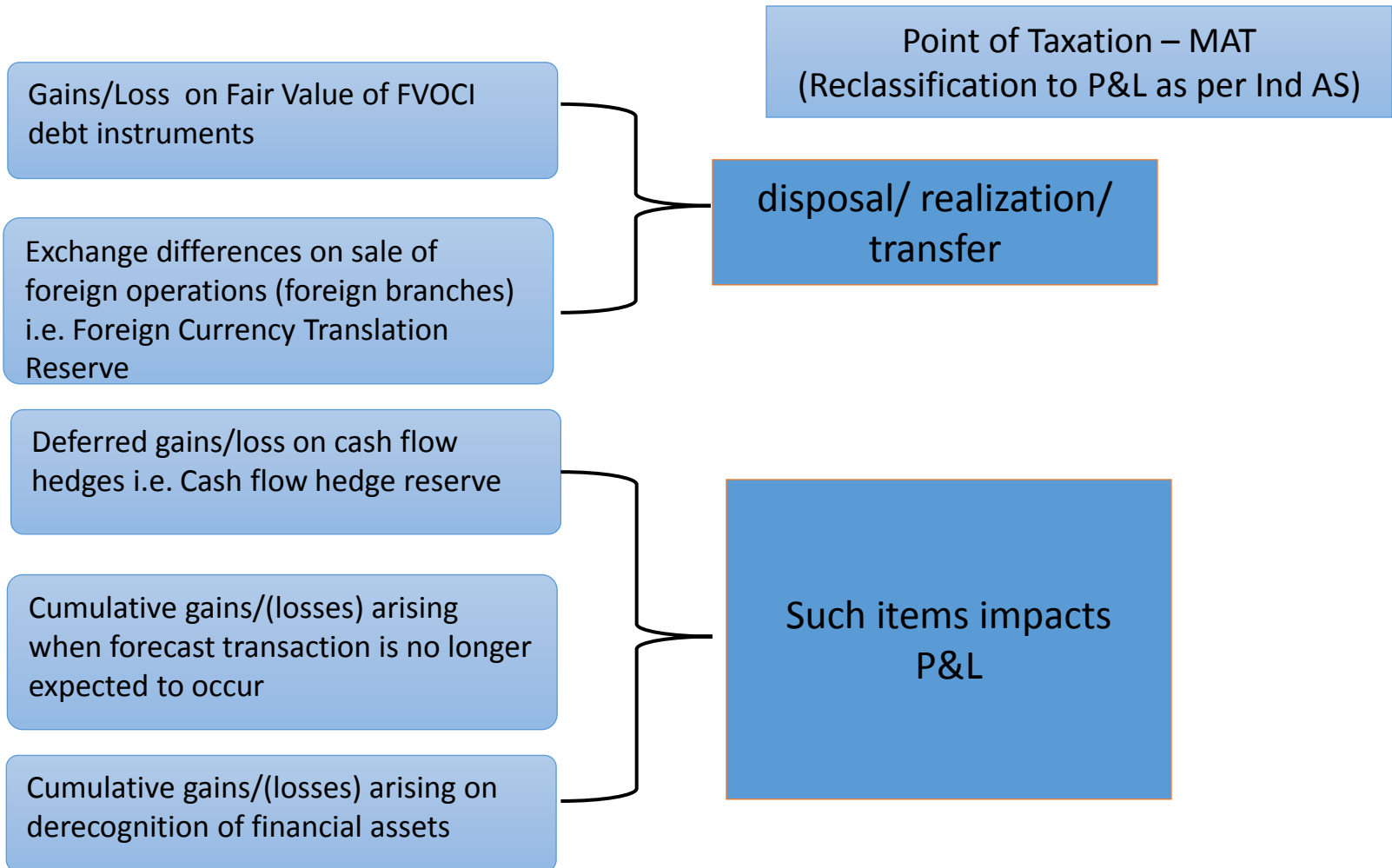


## Specified Adjustments - Illustrations

Point of Taxation - MAT



## Re-Classifiable Adjustment – Illustrations



## Other TD Adjustment – ‘Other Equity’ Components

Point of Taxation - MAT

Receivables are provided for based on Expected Credit Loss

Fair value gains on derivative assets

Gains/(loss) on fair value recognition on Investment in MFs etc.

Equally over the period of 5 years

## Illustration 1: Bharat Electronics Ltd

|  |    |          |         |
|--|----|----------|---------|
| Profit before exceptional items & tax ( III - IV )   |    | 202,942  | 173,212 |
| Exceptional items  |    | -        | -       |
| Profit before tax (V+VI)   |    | 202,942  | 173,212 |
| Tax Expense  | 10 |          |         |
| - Current Tax  |    | 51,500   | 48,600  |
| - Earlier years  |    | (873)    | 1       |
| - Deferred taxes   |    | (2,447)  | (6,125) |
| Total provision for taxation   |    | 48,180   | 42,476  |
| Profit for the year (VII - VIII)   |    | 154,762  | 130,736 |
| Other comprehensive income/(loss)  |    |          |         |
| Items that will not be reclassified subsequently to profit or loss   |    |          |         |
| - Remeasurement of the net defined benefit liability/asset   |    | (13,890) | (3,420) |
| - Equity instruments through other comprehensive income  |    | 1        | 1       |
| - Income tax relating to these items   |    | 4,704    | 1,183   |
| Total other comprehensive income/(loss) (Net of tax)   |    | (9,185)  | (2,236) |
| Total comprehensive income for the year (IX+X) [comprising profit and other comprehensive income for the year] |    | 145,577  | 128,500 |

## Illustration 1: Bharat Electronics Ltd

### NOTE 33

#### Financial Instruments - Fair Value Measurements

##### 1. Accounting classification and fair values

The following tables shows the carrying amount and fair values of financial assets and liabilities :

|  | As at 31 March 2017  |               |                | As at 31 March 2016 |               |                | As at 1 April 2015 |          |                |          |
|--|--|---------------|----------------|---------------------|---------------|----------------|--------------------|----------|----------------|----------|
|  | FVPL   | FVOCI         | Amortised Cost | FVPL                | FVOCI         | Amortised Cost | FVPL               | FVOCI    | Amortised Cost |          |
| <b>Financial Assets measured at fair value</b>     |  |               |                |                     |               |                |                    |          |                |          |
| <b>I</b>   | <b>Investments</b>   |               |                |                     |               |                |                    |          |                |          |
| i  | Equity Instruments – Mana Effluent Pvt Ltd.  | -             | 7              | -                   | -             | 6              | -                  | -        | 5              | -        |
| ii   | Other Investments  |               |                |                     |               |                |                    |          |                |          |
| a  | Investment in Life Insurance Corporation (LIC) of India (towards Leave encashment) | 30,702        | -              | -                   | 24,210        | -              | -                  | -        | -              | -        |
|  | <b>Sub Total</b>   | <b>30,702</b> | <b>7</b>       | <b>-</b>            | <b>24,210</b> | <b>6</b>       | <b>-</b>           | <b>-</b> | <b>5</b>       | <b>-</b> |
| <b>Financial Assets not measured at fair value</b> |  |               |                |                     |               |                |                    |          |                |          |
| <b>II</b>  | Trade Receivables  | -             | -              | 435,488             | -             | -              | 371,193            | -        | -              | 378,941  |

### Illustration 1:- Case Study

| Year  | FY 15-16                   |                   | FY 16-17                                      |                | FY 17-18     |                |
|---|----------------------------|-------------------|---|----------------|--------------|----------------|
|   | AS<br>(Cost)               | IND<br>AS<br>(FV) | AS<br>(Cost)                                  | IND AS<br>(FV) | AS<br>(Cost) | IND AS<br>(FV) |
| Investment Value<br>(Debt Component)            | 1,000                      | 1,500             | 1,000   | 1,400          |              |                |
| Practical<br>Illustrations on<br>MAT provisions | Rs. 500 -><br>Other equity |                   | Rs. 100 -> OCI –<br>Re-classifiable to<br>P&L |                |              |                |
| Sale Value                                      |                            |                   |   |                | 1,750        | 1,750          |
| Less: Asset Cost                                |                            |                   |   |                | (1,000)      | (1,400)        |
| Bal. Transfer -<br>Other Equity                 |                            |                   |   |                | (0)          | 400            |
| Profit (P&L)                                    |                            |                   |   |                | 750          | 750            |

**Conclusion : As per MAT, tax implication would be neutral**



## Illustration 2: Future Consumer Ltd

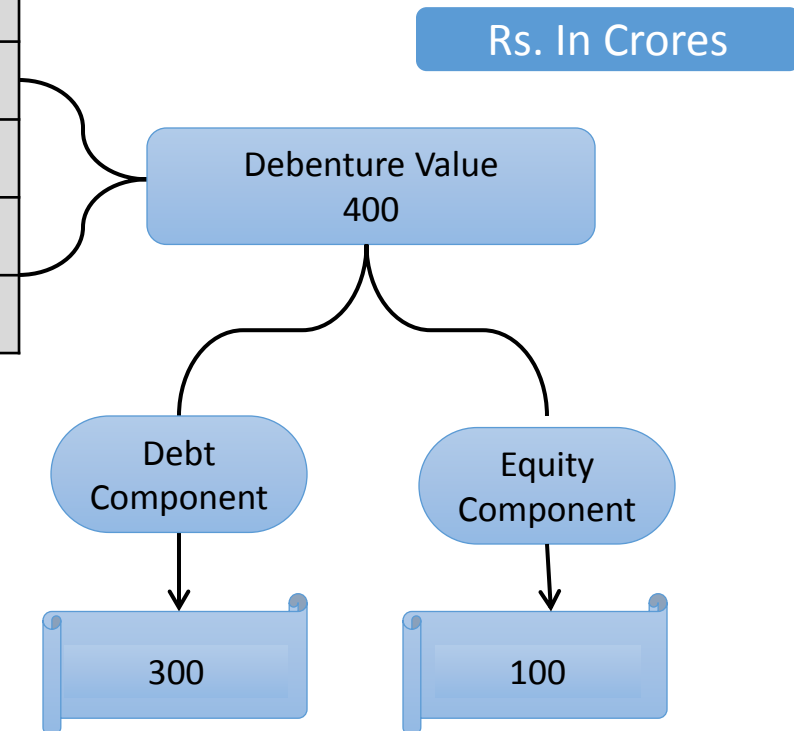
### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2017

(₹ In Lakhs)

| Particulars  | Equity Component of compound financial instruments | Reserves & Surplus   |                            |                 |                                   |   |                            |                    | Money received against share warrants | Total            |
|--|--|--|----------------------------|-----------------|-----------------------------------|---|----------------------------|--------------------|---------------------------------------|------------------|
|  |  | Capital Reserve for bargain purchase business combinations | Securities Premium Account | General Reserve | Share Options Outstanding Account | Statutory Reserve under section 45(IC) of RBI Act, 1934 | Capital redemption reserve | Retained Earnings  |                                       |                  |
| Profit for the year  | -  | -  | -                          | -               | -                                 | -   | -                          | 777.67             | -                                     | 777.67           |
| Other comprehensive income for the year, net of income tax | -  | -  | -                          | -               | -                                 | -   | -                          | (39.32)            | -                                     | (39.32)          |
| <b>Total comprehensive income for the year</b>             | -  | -  | -                          | -               | -                                 | -   | -                          | 738.35             | -                                     | 738.35           |
| Recognition of share-based payments                        | -  | -  | -                          | -               | 2,367.45                          | -   | -                          | -                  | -                                     | 2,367.45         |
| Shares held by ESOP Trust treated as treasury shares       | -  | -  | -                          | -               | -                                 | -   | -                          | (729.98)           | -                                     | (729.98)         |
| Transfer to securities premium on exercise of ESOP         | -  | -  | 966.38                     | -               | (966.38)                          | -   | -                          | -                  | -                                     | -                |
| Transfer to retained earning on exercise of ESOP           | -  | -  | -                          | -               | (163.77)                          | -   | -                          | 163.77             | -                                     | -                |
| Issue of compulsory convertible debentures (Refer Note 46) | 38,021.02  | -  | -                          | -               | -                                 | -   | -                          | -                  | -                                     | 38,021.02        |
| Issue of Shares  | -  | -  | 0.03                       | -               | -                                 | -   | -                          | -                  | -                                     | 0.03             |
| <b>Balance at 31st March 2017</b>                          | <b>38,021.02</b>                                   | <b>314.94</b>  | <b>4,067.29</b>            | <b>0.59</b>     | <b>2,254.13</b>                   | <b>-</b>  | <b>5.20</b>                | <b>(31,506.92)</b> | <b>1,675.00</b>                       | <b>14,831.25</b> |

## Illustration 2: Case Study

| Details of Debentures (CCDs) |            |
|------------------------------|------------|
| Issue Date                   | 01.02.2012 |
| Maturity Date                | 01.02.2022 |
| Face Value of Debenture      | Rs.1000    |
| No. of Debentures            | 40 Lakhs   |
| Valuation Date               | 01.02.2012 |
| Rate of Interest             | 12%        |



**Illustration 2: Case Study**

Rs. In Crores

| Financial Year | Opening balance (Debt) | Effective Interest Rate | Actual Interest | Closing Balance | Difference |
|----------------|------------------------|-------------------------|-----------------|-----------------|------------|
| 2012-13        | 300                    | 37                      | 48              | 290             | 11         |
| 2013-14        | 290                    | 35                      | 48              | 270             | 13         |
| 2014-15        | 270                    | 33                      | 48              | 250             | 15         |
| 2015-16        | 250                    | 30                      | 48              | 225             | 18         |

RE - 39

**Conclusion: As per MAT, amount transferred to RE of 39 & equity component of 100 will be taxable equally in 5 years**

### Illustration 3: Welspun Corp Ltd

#### Reconciliation of total equity as at March 31, 2016

| Particulars   | Notes to first-time adoption | March, 31 2016    |
|---|------------------------------|-------------------|
| Total equity (shareholder's fund) as per previous GAAP                |                              | 18,354.64         |
| <b>Adjustments:</b>   |                              |                   |
| Effect of change in method of recognising grants                      | 21 and C(vii)                | (3,970.16)        |
| Effect of measuring investments at fair value through profit and loss | 7(b), C (ii) and C (ii)      | 317.38            |
| Effect on account of reversal of proposed dividend                    | 16(b) and C(viii)            | 159.61            |
| Effect on account of effective interest method                        | 17(a) and C(v)               | 110.61            |
| Deferred tax impact on Ind AS adjustments                             | 20 and C(xvi)                | 1,270.31          |
| Others  |                              | 58.62             |
| <b>Total adjustments</b>  |                              | <b>(2,053.63)</b> |
| <b>Total equity as per Ind AS</b>                                     |                              | <b>16,301.01</b>  |

#### Reconciliation of total comprehensive income for the year ended March 31, 2016

| Particulars                                      | Notes to first-time adoption | March, 31 2016    |
|--|------------------------------|-------------------|
| Profit after tax as per previous GAAP            |                              | (933.62)          |
| <b>Adjustments:</b>                              |                              |                   |
| Fair valuation of investments                    | 27, C(ii) and C(iv)          | (230.70)          |
| Effect of change in method of recognising grants | 26 and C(vii)                | (120.47)          |
| Effect on account of effective interest method   | 34, C(v) and C(vi)           | (43.84)           |
| Deferred tax impact on Ind AS adjustments        | 35 and C(xvi)                | 144.56            |
| Others   |                              | (47.50)           |
| <b>Total adjustment</b>                          |                              | <b>(297.95)</b>   |
| <b>Profit after tax as per Ind AS</b>            |                              | <b>(1,231.57)</b> |
| Other comprehensive income                       | C(xv)                        | 334.66            |
| <b>Total comprehensive income as per Ind AS</b>  |                              | <b>(896.91)</b>   |

### **Illustration 3: Welspun Corp Ltd**

#### **(v) Borrowings**

Ind AS 109 requires transaction costs incurred towards origination of borrowings to be deducted from the carrying amount of borrowings on initial recognition. These costs are recognised in the profit or loss over the tenure of the borrowing as part of the interest expense by applying the effective interest rate method. Under previous GAAP, these transaction costs were charged to profit or loss as and when incurred. Accordingly, borrowings as at March 31, 2016 have been decreased by ₹ 110.61 (April 01, 2015: ₹ 154.45) with corresponding adjustment to retained earnings. The profit for the year ended March 31, 2016 reduced by ₹ 43.84 as a result of the additional interest expense.

**Illustration 3: Case Study**

| Particulars  | Transition Period                 |        |  |        | Subsequent Year                               |        |
|--------------|-----------------------------------|--------|--|--------|---|--------|
|              | FY 2015-16                        |        | FY 2016-17                                 |        | FY 2017-18                                    |        |
| Year         | AS                                | IND AS | AS   | IND AS | AS  | IND AS |
| Finance Cost | 1000                              | 800    | 1000                                       | 900    | 1000  | 1300   |
|              | Rs. 200 -> Other equity (MAT Tax) |        | Rs. 100 -> OCI- Non classifiable (MAT Tax) |        | Rs. (300) -> OCI- Non classified (MAT credit) |        |

**Conclusion : As per MAT, tax implication would be neutral**

**FAQs issued by CBDT on certain items  
Circular No. 24/2017 dated 25th July 2017**

**MTM gains/loss on financial instruments recognized through FVTPL**

| Particulars   | MAT Impact                             |
|---|--|
| MTM gains on financial instruments recognized through P&L | Include in book profits                |
| MTM loss on financial instruments recognized through P&L  | Allowable from book profit             |
| Provision for diminution/impairment of Other Assets       | Includible under normal MAT provisions |
| Gains/loss on financial instruments recognized (FVOCI)    | Amended MAT provisions                 |

### Dividend on Preference Shares on TD

Ind AS treats preference shares as 'Liability' and accordingly considers dividend on same as interest cost – **To add back dividend (incl. DDT) for MAT computation purpose**

| Particulars               | IND AS             | Indian GAAP/AS     |
|---------------------------|--------------------|--------------------|
| NPBT                      | 100                | 100                |
| Less: Preference Dividend | (10)<br>(Interest) | (10)<br>(Dividend) |
| Tax                       | (30)               | (30)               |
| NPAT                      | 60                 | 60                 |
| Book Profit               | 90                 | 100                |
| Add: Preference dividend  | 10                 | -                  |
| Profit as per MAT         | 100                | 100                |



Revaluation amount on PPE & IA considerable for adjustment purpose i.e. gross amount or amount after depreciation adjustment - Book profit of the previous year in which items of PPE & IA are retired, disposed, realised or otherwise transferred shall be adjusted by revaluation amount after adjustment of depreciation on such revaluation amount

| Particulars                                | AS/GAAP | Ind AS<br>(considering FV adj.) | FV Adj. & corresponding<br>depreciation |
|--|---------|---------------------------------|---|
| WDV/Deemed Cost as on 01.04.15             | 100     | 1000                            | 900                                     |
| Dep@10% for FY 15-16                       | 10      | 100                             | 90                                      |
| WDV as on 01.04.16                         | 90      | 900                             | 810                                     |
| Dep@10% for FY 16-17                       | 9       | 90                              | 81                                      |
| WDV as on 01.04.17                         | 81      | 810                             | 729                                     |
| Sale value as on 01.04.17                  | 900     | 900                             |   |
| Profit on sale credited to P&L             | 819     | 90                              |   |
| MAT Adjustment                             | -       | 729                             |   |
| Profit on sale to be considered for<br>MAT | 819     | 819                             |   |

Others

| Particulars  | Remarks   |
|--|---|
| Impact of Deferred Tax on TD   | Ignore  |
| Impact of Provision for Bad & Doubtful Debts on TD   | Ignore  |
| Share application money pending allotment reclassified to Other Equity on  | Ignore  |
| Equity component on financial instruments included in Other Equity   | Covered under transition amount & hence taxable over the period of 5 years  |
| Whether deduction would be available for AY 2017-18 onwards in case b/f loss gets wiped off on adjustment of transition amount | deduction of lower of depreciation or b/f losses shall be allowed based on 31.03.2016 figures & from subsequent periods as per Ind AS books of accounts |



# Thank You

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*Chartered Accountants*

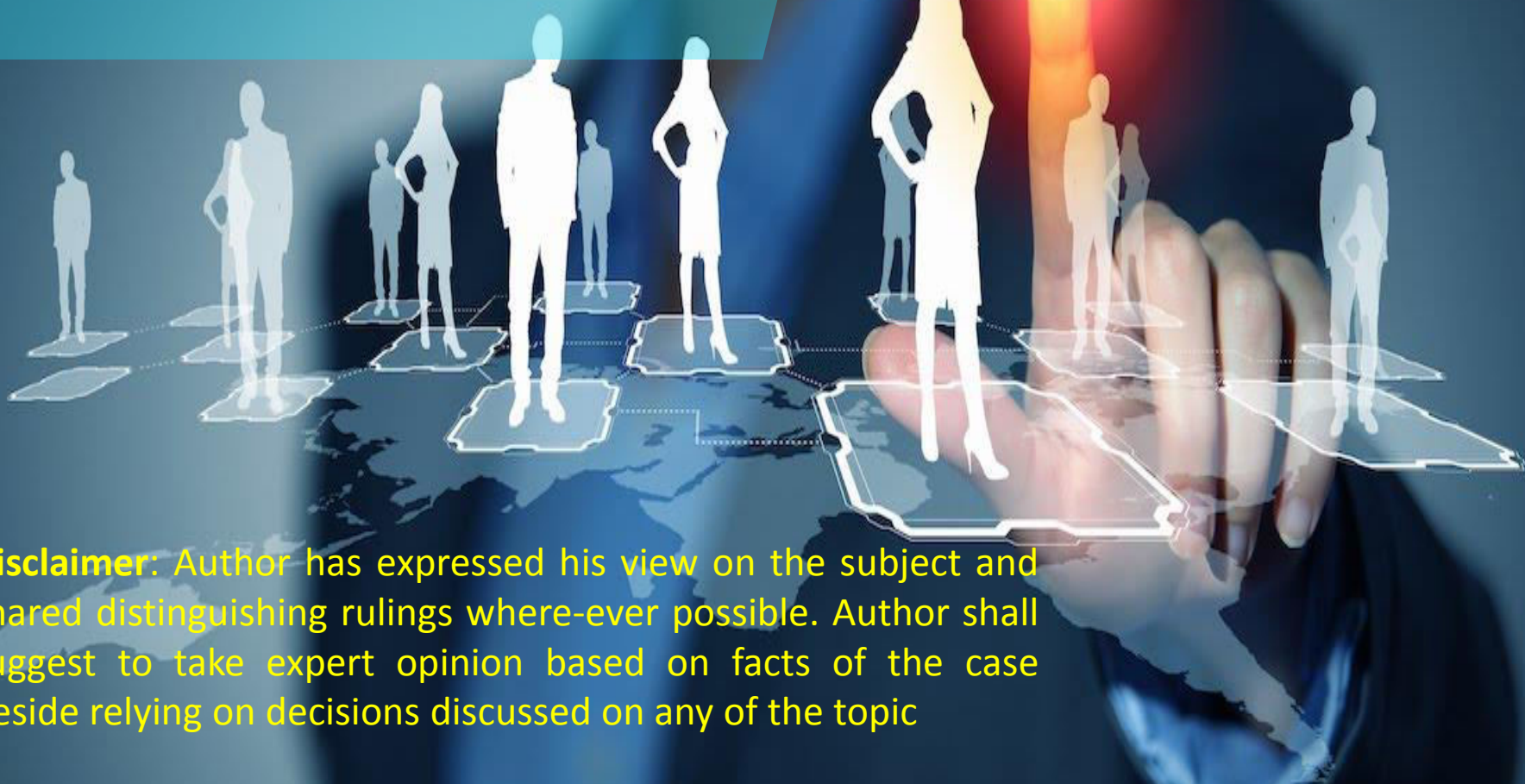
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