BB VIRTUALS

Make My Delivery

CA FINAL

FINANCIAL REPORTING DIGEST



Edition 8

VOLUME-1

BY CA AAKASH KANDOI

#FRWITHAK

Make My Delivery

For CA FINAL
FINANCIAL REPORTING
DIGEST

#FRwithAK

For all revisions, updates and notes - Join My Telegram & Youtube Channel:

Youtube Channel (CA Aakash Kandoi)

Telegram Channel (@aakashkandoi_FR)



@AAKASHKANDOI_FR

Edition - 8

KEY FEATURES:

- ✓ Based on Institute's Revised Module (As per New Syllabus)
- ✓ Simple and Lucid Language
- ✓ Complex Theories Presented via Simplified Charts
- ✓ Great for Regular Reading and Last Day Revision

CA Aakash Kandoi

CA, Dip. IFRS (ACCA, UK), CFA

Level 3 Candidate, NCFM (NSE)

Make My Delivery

For CA Final

Financial Reporting

© Author

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the authors.

First Edition : January 2019
Eighth Edition : May 2024

Price : ₹ 1999 For Sets of 5 Volumes

Published & Distributed by

Make My Delivery

8-9-10, Hans Bhawan Building,Wing-2,
IP Estate , New delhi 110002
Ph.: +91 9958000380, 9899632870
E- Mail : Contact@makemydelivery.com
Web.: makemydelivery.com

We express our sincere thanks to all our readers, authors and business associates for helping us in our mission of producing quality books for quality education. We wish all our young readers a brilliant success in various examinations and a bright future.

- Publisher

Preface

It gives me immense pleasure to present the Eight Edition of C.A. Final Financial Reporting. This edition has updated syllabus which is applicable from May / Nov 2025 & 2026 Exam & onwards.

This book has everything which a student requires to understand & remember. Efforts have been made to keep the book in simplest form to understand without compromising on the coverage.

Students need to understand the concepts and logical reasoning of the Chapter. Also, students should practice as many illustrations as possible.

The More you Practice, the Better you Become.

For all revisions, updates and notes, students are requested to join the Telegram Channel & Youtube Channel:
Telegram Channel (@aakashkandoi_FR)
Youtube Channel Name: CA Aakash Kandoi

Every effort has been made to avoid any errors and omissions in this book. Despite all the effort we believe some errors might have crept in. The students are welcome to point out any errors/suggestions.

Best wishes,

- Aakash Kandoi

ACKNOWLEDGEMENT

I would like to acknowledge my Parents (Biharilal & Sunita), Gopal (My Brother), Jeenal (My Sister-in-Law) for all their support towards my studies, career, & various aspects of my life.

A Special Thank You to My Wife "Mrunali Kandoi" for her constant support, encouragement & motivation in all aspects of my life.

I am grateful & thankful for priceless guidance & support provided by Bhanwar Borana Sir & Shubham Keswani Sir.

Above all, A big Thank You to all my students, you are my inspiration & guiding force.

FINANCIAL REPORTING

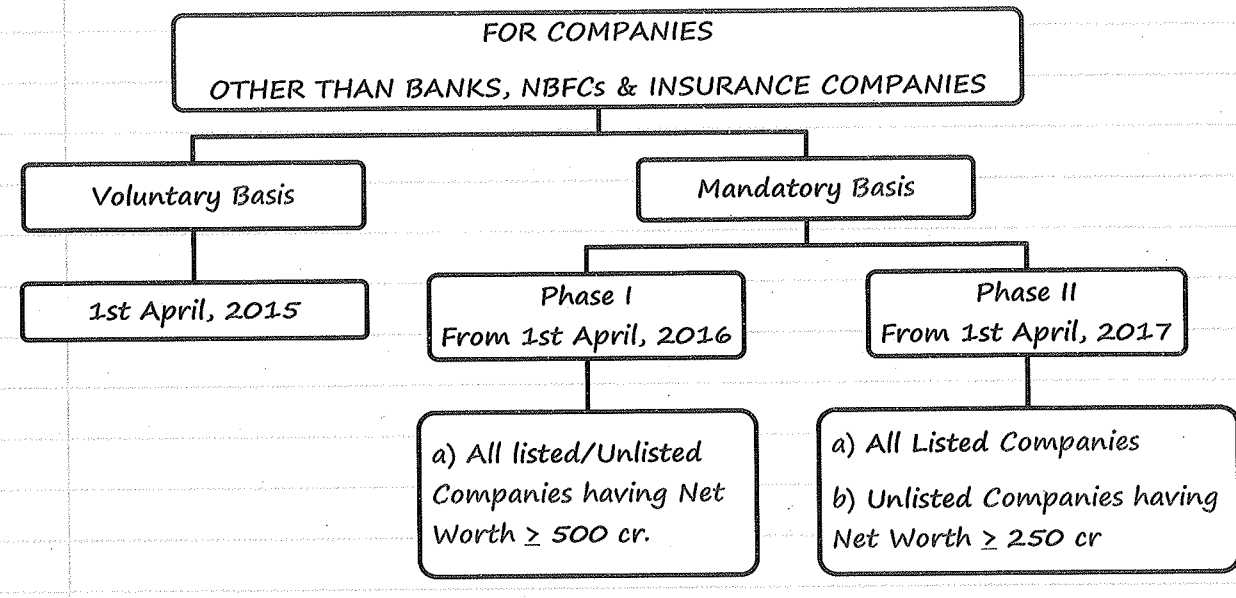
S. No		Topic Name	Page No.
1		Introduction to IND AS & Schedule III	1.1 - 1.10
2		Conceptual Framework for Financial Reporting under IND AS	2.1
3		IND AS 1 – Presentation of Financial Statements	3.1 - 3.8
4		IND AS 2 – Inventories	4.1 - 4.6
5		IND AS 7 – Statement of Cash Flow	5.1 – 5.9
6		IND AS 8 – Accounting Policies, Changes in Accounting Estimates & Errors	6.1 - 6.8
7		IND AS 10 – Events After the Reporting Period	7.1 - 7.5
8		IND AS 12 – Income Taxes	8.1 - 8.10
9		IND AS 16 – Property, Plant & Equipment	9.1 - 9.10
10		IND AS 19 – Employee Benefits	10.1 - 10.17
11		IND AS 20 – Accounting for Government Grants & Disclosure of Government Assistance	11.1 - 11.3
12		IND AS 21 – The Effects of Changes in Foreign Exchange Rates	12.1 - 12.11
13		IND AS 23 – Borrowing Costs	13.1 - 13.5
14		IND AS 24 – Related Party Disclosures	14.1 - 14.8
15		IND AS 33 – Earnings Per Share	15.1 - 15.9
16		IND AS 34 – Interim Financial Reporting	16.1 - 16.6
17		IND AS 36 – Impairment of Assets	17.1 - 17.8

FINANCIAL REPORTING

S. No		Topic Name	Page No.
18		IND AS 37 – Provisions, Contingent Liabilities & Contingent Assets	18.1 - 18.8
19		IND AS 38 – Intangible Assets	19.1 - 19.11
20		IND AS 40 – Investment Property	20.1 - 20.7
21		IND AS 41 – Agriculture	21.1 - 21.4
22		IND AS 101 – First Time Adoption of IND AS	22.1 - 22.15
23		IND AS 105 – Non-Current Asset Held for Sale & Discontinued Operation	23.1 - 23.6
24		IND AS 108 – Operating Segments	24.1 - 24.4
25		IND AS 113 – Fair Value Measurement	25.1 - 25.4

INTRODUCTION TO IND AS & SCHEDULE III – DIVISION II

1. APPLICABILITY & IMPLEMENTATION OF IND AS



NOTE:

i) Net worth in case of companies shall be checked from 31.03.14 & thereafter.
(Co. meeting specified threshold for first time at end of any accounting year shall apply IND AS from immediate next accounting year with comparatives.)
If any Co. does not meet applicability criteria as on cut-off date (31.03.14), they will have to reassess IND AS applicability criteria at each balance sheet date.)

ii) IND AS once applicable, always applicable

iii) An entity covered under IND-AS as per above will make its Parent, Subsidiary, Associate & Joint Venture also covered under IND AS

iv) Application of Ind AS is for both standalone as well as consolidated financial statements.

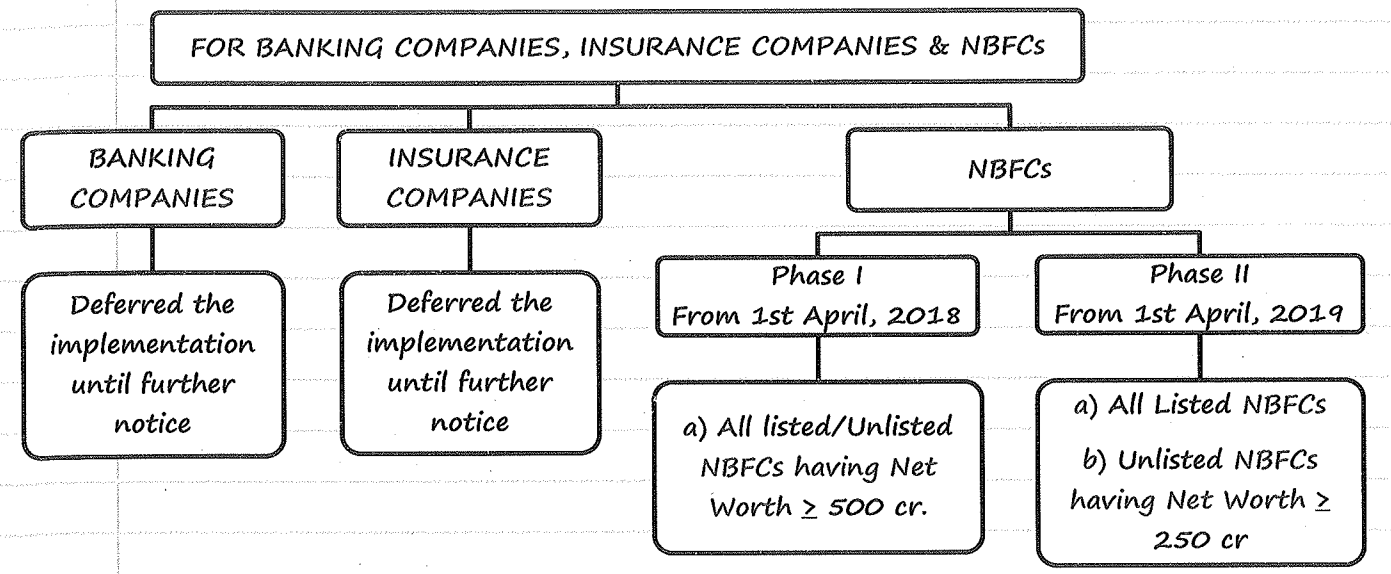
v) If Parent, Subsidiary, Associate & Joint Venture is Bank/Insurance/NBFC, then IND AS to such companies is applicable from their respective date (i.e. Dates Applicable to Banks/Insurance/NBFCs)

vi) Companies listed on SME exchange not required to apply IND AS

vii) Comparatives shall also be presented as per IND AS (Eg: A Co. adopted Ind AS from 1st

April, 20X4 for X4-X5. Hence it will be required to prepare its first Ind AS FS for X4-X5 with comparatives year X3-X4, and date of transition to Ind AS will be 1st April X3)

viii) Companies not covered above shall continue to apply Accounting Standards (AS)



NOTE:

i) Net worth in case of NBFCs shall be checked from 31.03.16 & thereafter.

ii) Voluntary adoption of IND AS is not allowed in case of Banks, Insurance & NBFCs

iii) Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.

iv) Holding, Subsidiary, JV and Associate companies of above Banks, Insurance, NBFC other than those already covered under corporate roadmap shall also apply IND AS from said date.

v) Comparatives shall also be presented as per IND AS.

❖ Ind AS Roadmap for Mutual Funds

SEBI vide a notification issued, FS of MF schemes will be prepared in accordance with Ind AS. And also issued certain guidelines with respect to Ind AS for MFs.

The circular also provides specific formats of FS for MF schemes under Ind AS. The requirements of the circular will become applicable from 1 Apr'23.

- Net Worth = Paid up Share Capital + All Reserves created out of profits + Securities Premium – Accumulated losses – Deferred Expenditure – Miscellaneous expenditure not written off.

  BUT Net worth DOES NOT include reserves created out of revaluation of assets, write back of depreciation, Amalgamation Reserve.

❖ Sch III & Div II – IND AS BASED FINANCIAL STATEMENTS

PART I –BALANCE SHEET

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
	ASSETS			
(1)	NON – CURRENT ASSETS			
	a) Property, Plant and Equipment b) Capital work-in-progress c) Investment Property d) Goodwill e) Other Intangible assets f) Intangible assets under development g) Biological Assets other than bearer plants h) Financial Assets i) Investments ii) Trade receivables iii) Loans i) Deferred tax assets (net) j) Other non-current assets			
(2)	Current assets			
	a) Inventories b) Financial Assets i) Investments ii) Trade receivables iii) Cash and cash equivalents iv) Bank balances other than (iii) above v) Loans vi) Others (to be specified) c) Current Tax Assets (Net) d) Other current assets			

	TOTAL ASSETS			
	EQUITY & LIABILITIES			
	EQUITY a) Equity Share capital b) Other Equity			
	LIABILITIES			
(1)	Non-current liabilities			
	a) Financial Liabilities i) Borrowings ii) Trade Payables (A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues of creditors other than micro enterprises iii) Other financial liabilities (other than those specified in item (b), to be specified) b) Provisions c) Deferred tax liabilities (Net) d) Other non-current liabilities			
(2)	Current liabilities			
	a) Financial Liabilities ii) Borrowings iii) Trade payables (A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues of creditors other than micro enterprises iv) Other financial liabilities (other than those specified in item (c) b) Other current liabilities c) Provisions d) Current Tax Liabilities (Net)			
	TOTAL EQUITY & LIABILITIES			

STATEMENT OF CHANGES IN EQUITY

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application on money pending allotment	Equity component of compound financial instrument	Reserve and Surplus				Debt Instrument through other Comprehensive Income	Equity Instrument through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange difference on translating the FS	Other items of Other Comprehensive Income (Specify nature)	Money received against share capital	Total
			Capital Reserve	Securities Premium	Other Reserve (Specify nature)	Retained Earning								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

PART II – STATEMENT OF PROFIT AND LOSS

	Particulars	Note No.	Figures as at the end of current reporting period	Figures for the previous reporting period
I	Revenue from operations			
II	Other Income			
III	Total Income (I + II)			
IV	EXPENSES Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in - Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and Amortization Expenses			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I-IV)			
VI	Exceptional Items			
VII	Profit/ (loss) before tax(V-VI)			
VIII	Tax expense: 1) Current tax 2) Deferred tax			
IX	Profit (Loss) for the period from continuing operations (VII - VIII)			
X	Profit (Loss) from dis-continued operations			
XI	Tax expenses of discontinued operations			
XII	Profit/(loss) from Discontinued operations (after tax) (X-XI)			
XIII	Profit/(loss) for the period (IX+XII)			
XIV	OTHER COMPREHENSIVE INCOME A. i) Items that will not be reclassified to profit or loss			

	ii) Income tax relating to items that will not be reclassified to profit or loss B. i) Items that will be reclassified to profit or loss ii) Income tax relating to items that will be reclassified to profit or loss			
XV	Total Comprehensive Income for the period (XIII+XIV) (Comprising Profit (Loss) and Other comprehensive Income for the period)			
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted			
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted			
XVIII	Earning per equity share (for discontinued & continuing operation) (1) Basic (2) Diluted			

❖ OTHER COMPREHENSIVE INCOME SHALL BE CLASSIFIED INTO:

A. Items that will NOT be reclassified to profit or loss:

i) Changes in revaluation surplus;

ii) Re-measurements of the defined benefit plans;

iii) Equity Instruments through Other Comprehensive Income;

iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;

v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

vi) Others (specify nature).

B. Items that will be reclassified to profit or loss:

i) Exchange differences in translating the financial statements of a foreign operation;

ii) Debt instruments through Other Comprehensive Income;

iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;

iv) Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and

v) Others (specify nature)

❖ Depending upon the turnover of the company, the figures appearing in the Financial Statements shall be rounded off as below:

Turnover	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

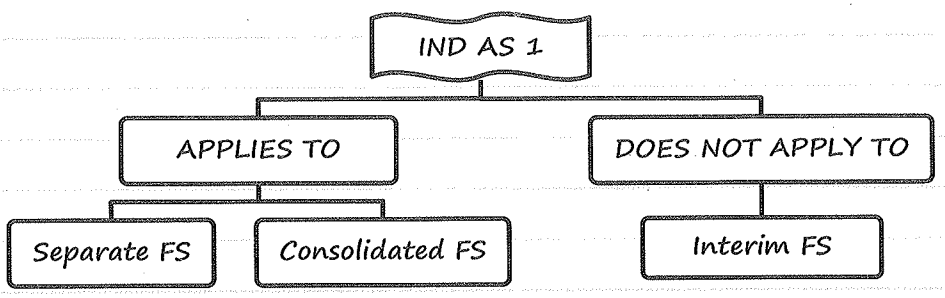
CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING UNDER IND AS

For this chapter, students are advised to directly refer ICAI Study Material for Concepts.

(As this chapter covers the basic concepts of Accounting)

IND AS 1
PRESENTATION OF FINANCIAL STATEMENTS

1. SCOPE



NOTE:

- If NPO's (Section 8 companies) apply this Standard, they may need to amend the descriptions used for particular line items in the FS.
- In case of conflict between Companies Act & IND AS – Follow Companies Act

  In case of Conflict between Sch III & IND AS – Follow IND AS

2. COMPLETE SET OF FS

I. Balance Sheet

II. Statement of P&L (In 2 Sections – 1st P&L & 2nd OCI)

III. Statement of Changes in Equity

IV. Statement of Cash Flows

V. Notes (comprising accounting policies and other explanatory information)

VI. Comparative Information in respect of the preceding period

VII. Balance Sheet as at the beginning of the preceding period (Refer Note a)

NOTE:

a) A B/S as at the beginning of the preceding period is to be PREPARED ONLY WHEN an entity applies an accounting policy retrospectively OR makes a retrospective restatement of items in its FS OR when it reclassifies items in its FS.

b) An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.

I. BALANCE SHEET

☞ To be prepared as per Schedule III of Companies Act.

☞ An entity shall present Current & Non-Current Assets, and Current & Non-Current Liabilities, as separate classifications in its B/S.

A. CURRENT ASSETS

Classfiy an asset as Current only when ANY of the 4 conditions are satisfied:

- It is Expected to be realised OR intended to be sold or consumed in Normal Operating Cycle*; OR
- It is Expected to be realised in 12 months after the reporting period; OR
- It is Held for Trading in ordinary course of business; OR
- It is Cash & Cash Equivalent (As per IND AS 7) UNLESS it is restricted of being exchanged or used for settlement for at least 12 months from reporting date

*OPERATING CYCLE

The operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

B. NON-CURRENT ASSETS

All other assets shall be classified as non-current assets.

C. CURRENT LIABILITY

Classfiy an liability as Current only when ANY of the 4 conditions are satisfied:

- It is Expected to be settled in Normal Operating Cycle*; OR
- It is Due to be settled in 12 months after the reporting period; OR
- It is Held for Trading in ordinary course of business; OR
- It DOES NOT have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period

D. NON-CURRENT LIABILITY

All other liabilities shall be classified as non-current liability

❖ BREACH OF LONG-TERM LOAN ARRANGEMENT (Carve Out to IAS 1)

☞ If there is a breach of Non-Current Loan Arrangement before B/S Date & Grace period to rectify the breach is provided by the lender:

i) CASE A: Grace Period is less than 12 months from the end of reporting period - Classify the Loan as Current Liability

ii) CASE B: Grace Period is more than 12 months from the end of reporting period - Classify the Loan as Non-Current Liability

NOTE:

- ✓ If the company, gets the compliance date extended BEFORE the breach, then such loan will retain its original classification (i.e. it will be classified as Non-Current) even if such extended period is less than 12 months from the end of reporting period.
- ✓ Also, if the lender agreed, after the reporting period and before the approval of the FS, not to demand payment as a consequence of the breach, then also such loan will retain its original classification (i.e. it will be classified as Non-Current)

II. STATEMENT OF PROFIT & LOSS

☞ To be prepared as per Schedule III of the Companies Act.

☞ Statement of Profit and Loss shall has 2 sections:

- Profit or loss for the Period;
- Other Comprehensive Income for the period

The sum of above is "Total Comprehensive Income"

☞ When an entity is required to prepare CFS, it shall present:

a) Profit or Loss for the period attributable to:
   - non-controlling interests, and
   - owners of the parent.

b) Total Comprehensive Income for the period attributable to:
   - non-controlling interests, and
   - owners of the parent.

III. STATEMENT OF CHANGES IN EQUITY

☞ The statement of changes in equity shall reconcile between the opening & closing amount for each component of equity, by separately disclosing changes resulting from:
   - Profit or Loss;
   - Each item of Other Comprehensive Income;
   - Effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8;
   - Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and
   - Any item recognised directly in equity (such as amount recognised directly in equity as capital reserve with Ind AS 103)

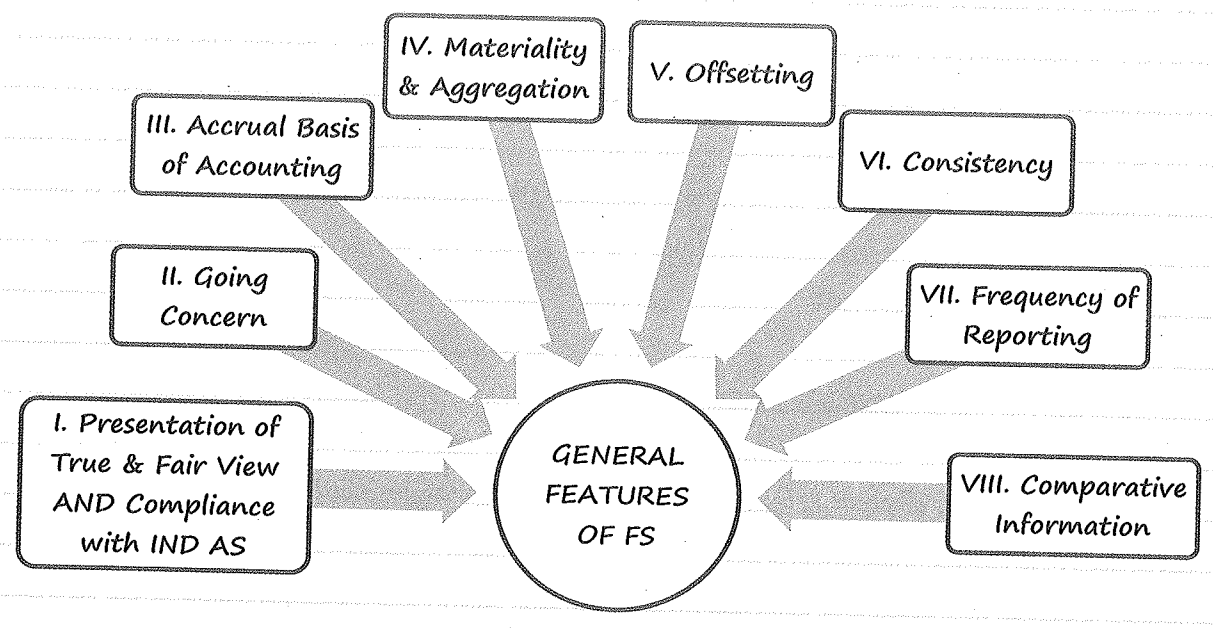
IV. STATEMENT OF CASH FLOWS

☞ To be prepared in accordance with IND AS 7.

V. NOTES

☞ The notes shall disclose:
   - Statement of compliance with Ind AS;
   - Information about the basis of preparation of FS & Significant accounting policies applied;
   - Supporting information for items presented in B/S, P&L, SOCIE and Cash Flows, in the order in which each statement and each line item is presented.
   - Other disclosure required by IND AS.

3. GENERAL FEATURES OF FINANCIAL STATEMENTS



I. PRESENTATION OF TRUE & FAIR VIEW AND COMPLIANCE WITH IND AS

- In virtually all circumstances, presentation of a True & Fair view is achieved by compliance with applicable Ind AS.
- An entity whose FS comply with Ind AS shall make an explicit and unreserved statement of such compliance in the notes.
- An entity CANNOT rectify inappropriate accounting policies just by disclosing it. (i.e. Disclosure is NOT a remedy for wrong accounting)

NOTE:

There may be disagreement of the Company with the auditor on applicability or requirement of any Ind AS and auditor may qualify the audit report.

Even in such a situation, FS will be assumed to be Ind AS compliant.

❖ DEPARTURE FROM REQUIREMENTS OF AN IND AS — WHETHER PERMISSIBLE?

In extremely rare circumstances, the entity may have to depart from a requirement in an IND AS beacuse it would conflict with the objective of FS set out in the Framework

Relevant Regulatory Framework DOES NOT PROHIBIT such a Departure

IND AS Permits such departure and it shall disclose:

a) That FS give a True & Fair view as per management conclusion;

b)That Complied with all IND AS EXCEPT the departure

c) Title of IND AS departed, Nature & Reason for Departure & Treatment Adopted

d) Financial Effect of departure on all periods presented.

Relevant Regulatory Framework PROHIBITS such a Departure

IND AS DOES NOT permit such departure BUT to reduce the perceived misleading aspects of compliance, it can disclose the following:

a) Title of IND AS in question, Nature & Reason why management thinks that complying with the requirement is in conflict with objective of FS

b) Financial Effect that would be necessary on all periods presented if the entity had departed

II. GOING CONCERN

- FS should be prepared on a going concern basis unless management either intends to liquidate or to cease trading, or has no realistic alternative but to do so.
- If FS are NOT prepared on a going concern basis, disclose the basis of preparation of FS and also the reason why the entity is not regarded as a going concern.
- If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed.

III. ACCRUAL BASIS OF ACCOUNTING

- An entity shall prepare its FS using the accrual basis of accounting, EXCEPT for cash flow information.

IV. MATERIALITY & AGGREGATION

☞ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions of users.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

☞ An entity shall present separately each material class of similar items, items of a dissimilar nature or function UNLESS they are immaterial, EXCEPT when required by law. (i.e. Even if items are immaterial, they shall be presented separately when it is required by law)

V. OFFSETTING

☞ An entity shall NOT offset Assets & Liabilities OR Income & Expenses, UNLESS required or permitted by an Ind AS.

☞ An entity presents on a net basis gains & losses arising from a group of similar transactions. (Example, Foreign exchange gains and losses or gains and losses arising on financial instruments held for trading).

However, an entity presents such gains and losses separately if they are material.

NOTE:

☞ Measuring assets net of valuation allowances is NOT offsetting. (Example, obsolescence allowances on inventories and doubtful debts allowances on receivables)

VI. CONSISTENCY

☞ An entity shall retain the presentation and classification of items in the FS from one period to the next UNLESS:

- Another presentation or classification would be more appropriate;

  OR
- An Ind AS requires a change in presentation.

☞ When making such changes in presentation, an entity reclassifies its comparative amounts UNLESS reclassification is impracticable.

- When it is impracticable, Disclose the reason for not reclassifying amounts, and nature of adjustments.

VII. FREQUENCY OF REPORTING

- An entity shall present a complete set of FS (including comparative information) at least ANNUALLY.
- When an entity changes the end of its reporting period and presents FS for a period longer or shorter than 1 year, an entity shall disclose:
  - Reason for using a longer or shorter period, AND
  - The fact that amounts presented in the FS are not entirely comparable.

VIII. COMPARATIVE INFORMATION

❖ MINIMUM COMPARATIVE INFORMATION

- An entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's FS.
  Comparative information for Narrative & descriptive information presented in Notes should be included if it is relevant to understand the current period's FS.
  (i.e. Minimum 2 B/S, 2 P&L, 2 Statement of Cash Flows, 2 SOCIE and Related Notes)
- When an entity applies an accounting policy retrospectively OR makes a retrospective restatement, it shall present minimum 3 B/S (i.e. the end of the current period, the end of the previous period and the beginning of the earliest comparative period), 2 of each of the other statements, and related notes.

❖ ADDITIONAL COMPARATIVE INFORMATION

- An entity may present comparative information for more than 1 year.
  The entity can also give comparative information of more than 1 year for Statement of P&L and only 1-year comparative for other statement of FS or vice versa.

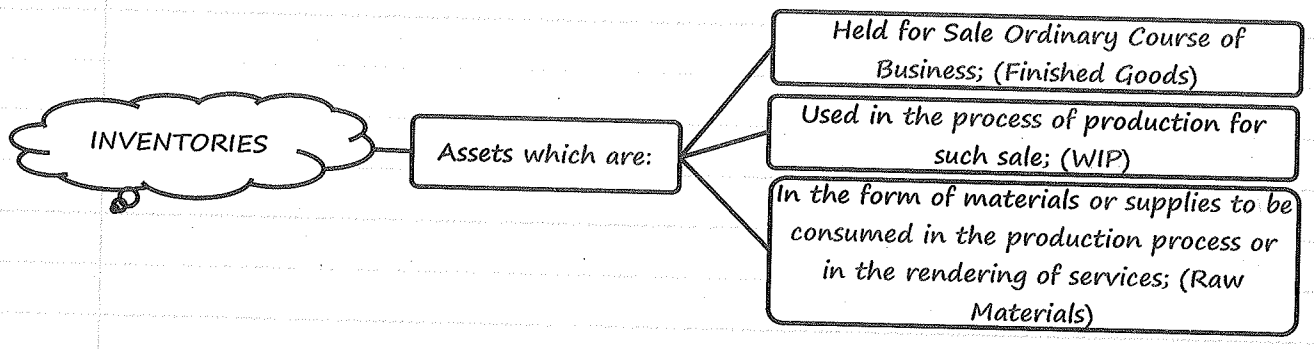
4. RECTIFICATION OF BREACH / WAIVER OF BREACH OF LONG-TERM LOAN ARRANGEMENT AFTER BALANCE SHEET DATE (CARVE OUT IN IND AS 1 FROM IAS 1)

- Discussed in IND AS 10 – Events after the Reporting Period

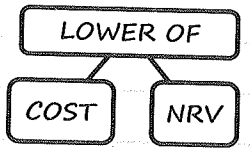
"Embrace the journey, not just the destination"

IND AS 2
INVENTORIES

1. DEFINITIONS



2. MEASUREMENT



NOTE:

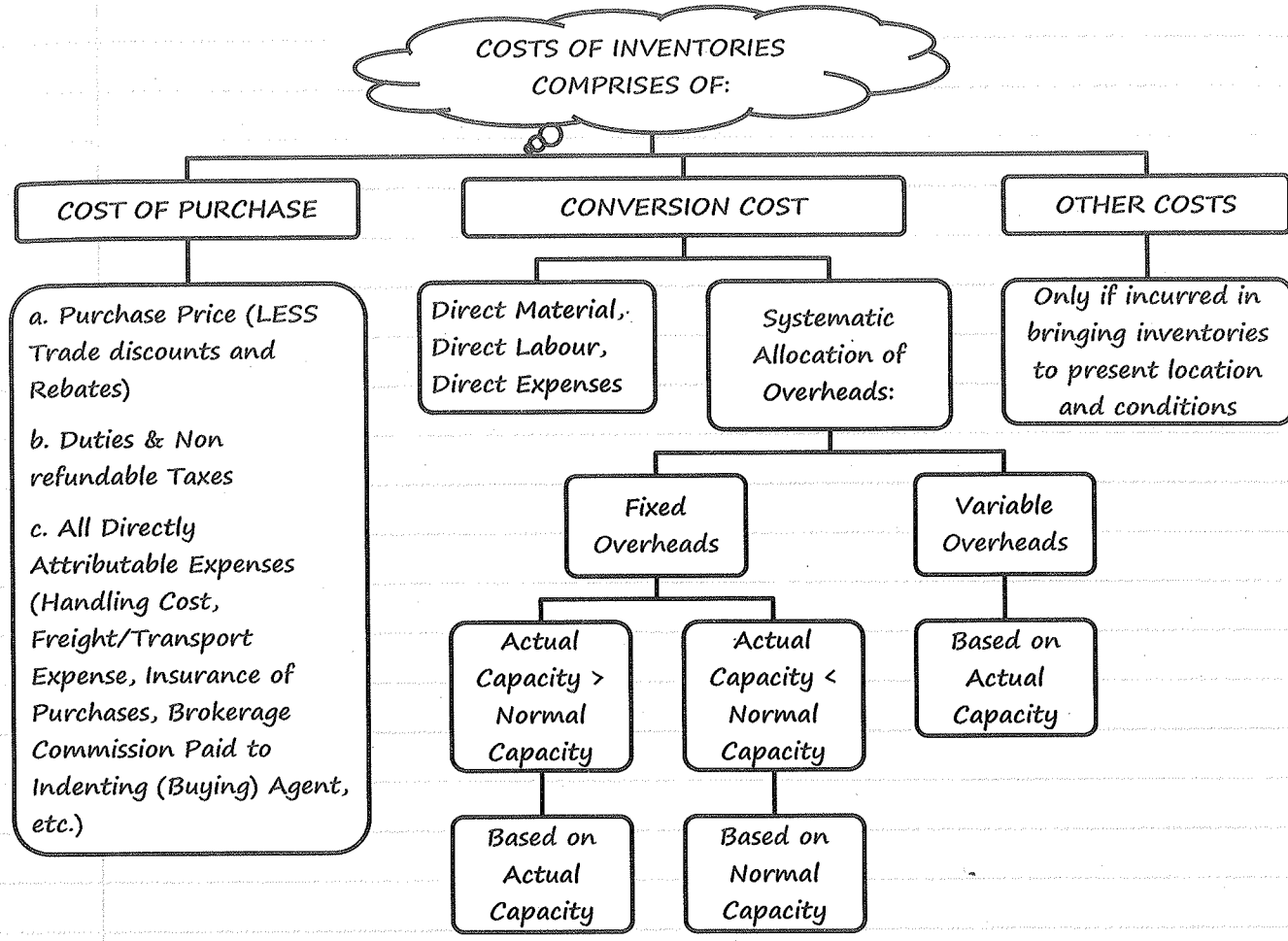
i) The comparison between cost and net realizable value should be made item by item or by group of items.

ii) Net realisable value for inventories is different from fair value less costs to sell because NRV is Entity-specific value and Fair Value is Market Based Measurement.

Example

An entity holds inventories of 10,000 units and it could sell the same in the market @ ₹ 10 each. The entity has an order in hand to sell the inventories @ ₹ 11. The incremental selling cost per unit is ₹ 0.50 per unit. In this situation, fair value is Rs 10 each, but net realisable value is₹ 10.5 each.

3. COST OF INVENTORIES



❖ EXCLUSIONS FROM COST OF INVENTORIES

a) Abnormal amounts of wasted materials, labour, other production costs.

b) Storage cost (If storage is part of process of production, such storage cost should be included in the cost. Eg: Storage cost incurred in production of wines, pickles etc.)

c) Administrative Overhead.

d) Selling & Distribution Cost.

e) Interest charges. (unless it is a Qualifying Asset as per IND AS 23)

4. ALLOCATION OF COST TO JOINT PRODUCTS & BY-PRODUCTS

➢ A production process may result in more than one product being produced simultaneously. This is the case when joint products are produced or when there is a main product & a by-product.

➢ IN CASE OF JOINT-PRODUCTS

When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis.

The allocation may be based on relative sales value of each product either:

- at the stage in the production process when the products become separately identifiable, or
- at the completion of production.

➢ IN CASE OF BY-PRODUCT

Most by-products are of immaterial value and therefore they are measured at net realizable value.

The Net realizable value of by-product is deducted from cost of conversion. Net cost of conversion (i.e. cost of conversion - net realizable value) is distributed among the main products.

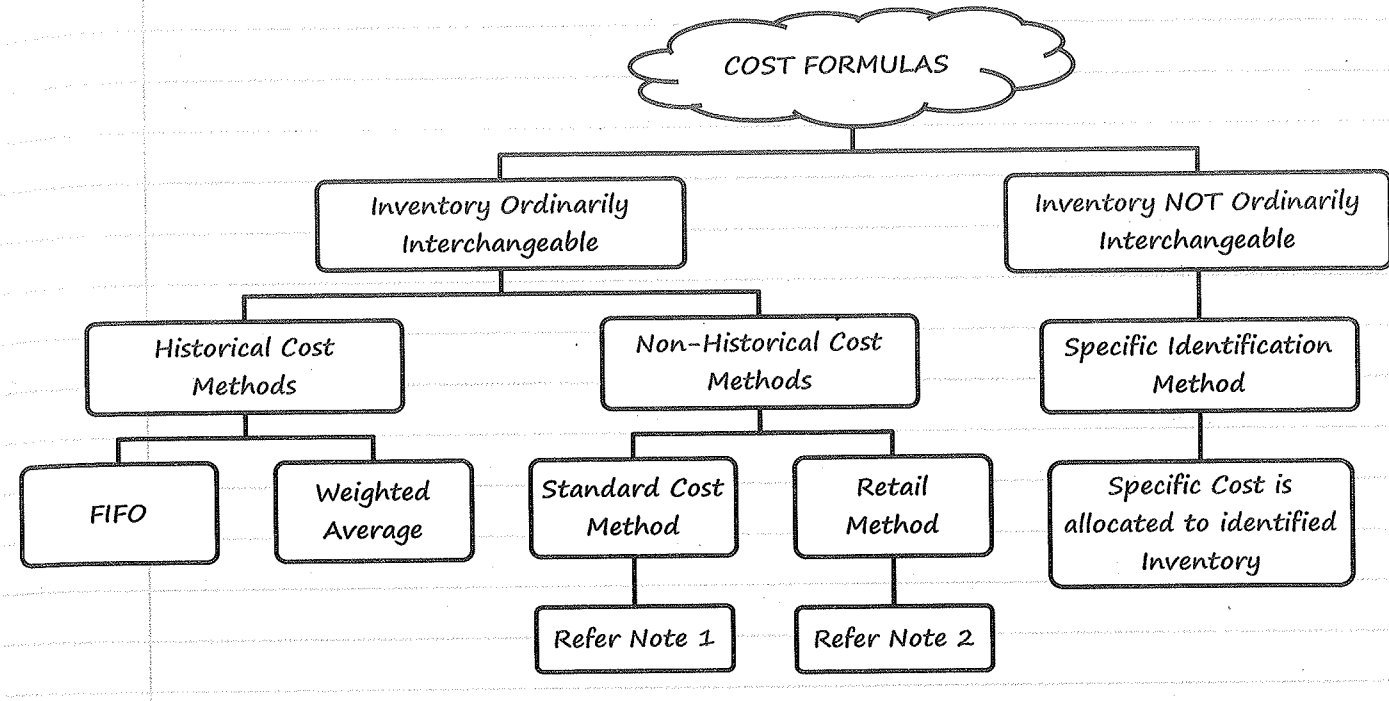
5. COST OF AGRICULTURAL PRODUCE HARVESTED FROM BIOLOGICAL ASSETS (AFTER POINT OF HARVEST)

➢ Such Inventories are measured on initial recognition at their fair value less costs to sell (FVLCTS) at the point of harvest.

Note:

This fair value less costs to sell as determined in accordance with Ind AS 41 will become the cost of the inventories at that date for application of Ind AS 2 "Inventories".

6. COSTS FORMULA



NOTE 1: STANDARD COST METHOD

- It takes into account normal levels of materials, supplies, labour efficiency & capacity utilisation.
- They are regularly reviewed and revised where necessary.

NOTE 2: RETAIL METHOD

- This method is often used in the retail industry when items of inventories are rapidly changing and have a similar margin and for which it is impracticable to use other costing method

Selling Price of Inventory	xxx
Less: Appropriate % of Gross Margin	(xxx)
Cost of the Inventory	xxx

Note:

An entity shall use the same cost formula for all inventories having a similar nature and use to the entity.

For inventories with a different nature or use, different cost formulas may be justified.

7. NET REALISABLE VALUE (NRV)

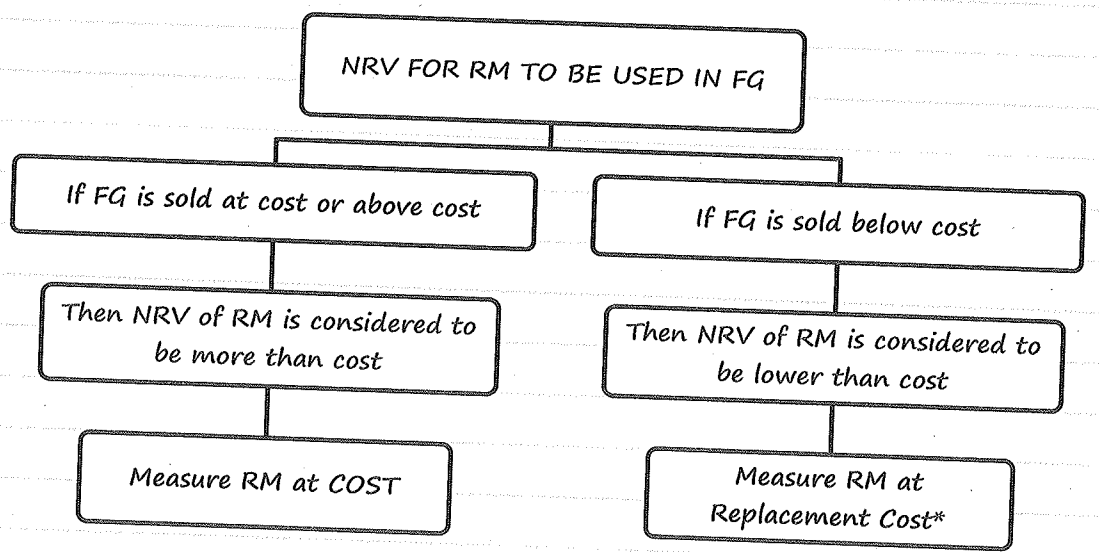
A. Estimate of NRV in case of FG

➢ Estimated Selling Price in the ordinary course of business	XXX
LESS: Estimated Costs to make the sale	(XXX)
NET REALISABLE VALUE	XXX

B. Estimate of NRV in case of WIP

Estimated Selling Price in the ordinary course of business	XXX
LESS: Estimated Cost of Completion (Applies in case of WIP)	(XXX)
LESS: Estimated Costs to make the sale (Applies to both FG & WIP)	(XXX)
NET REALISABLE VALUE	XXX

C. Estimates of NRV for Raw Material to be used in Finished Goods



*Replacement cost is the amount that an entity would have to pay to replace an asset at the present time, according to its current worth.

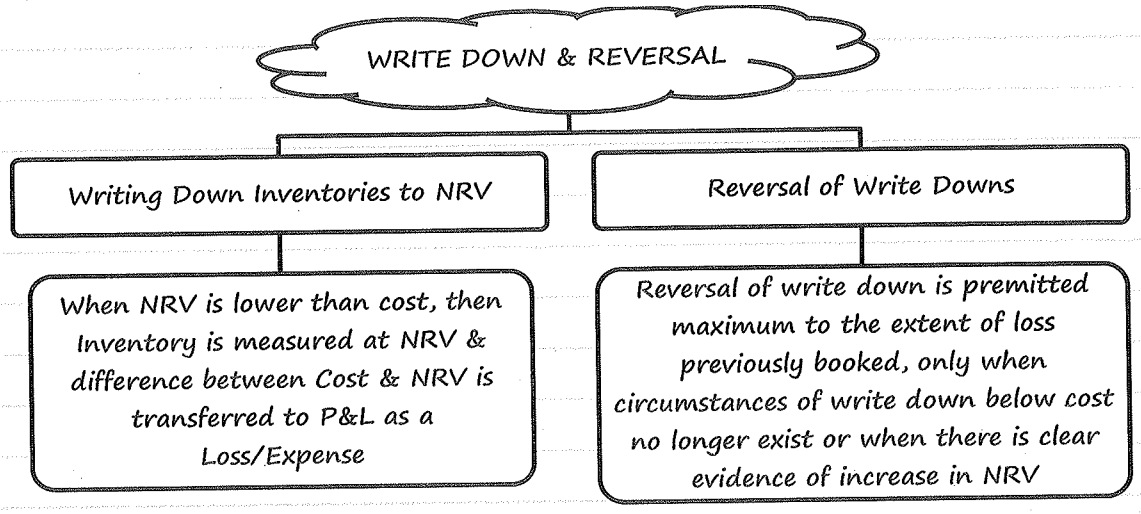
Note:

NRV are based on the most reliable evidence available at the time the estimates are made. These estimates of NRV take into consideration price fluctuations occurring after the balance sheet date to extent that such events confirm conditions existing at the end of the period.

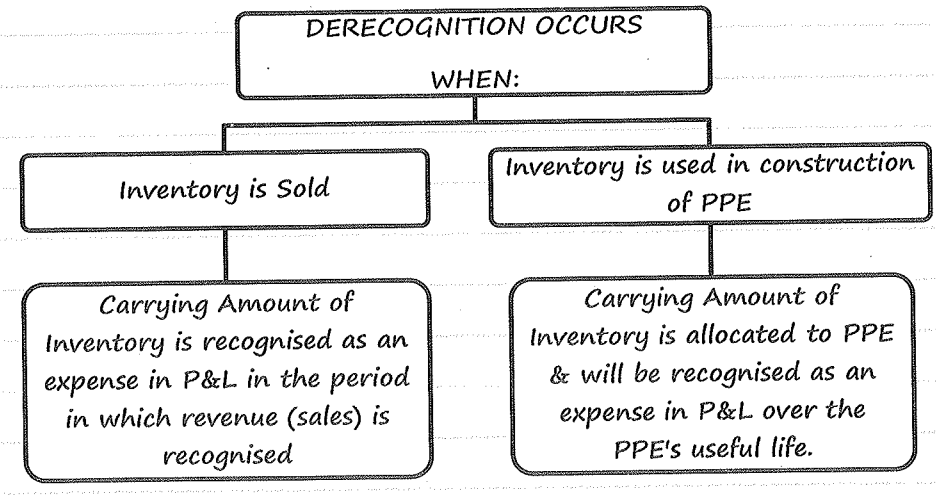
EXAMPLE

If an entity has 100 items of 'A' at the balance sheet date – NRV of these items on the balance sheet date is ₹ 60 and same goods are sold after the balance sheet date and before the approval of financial statements at ₹ 50, the entity should consider ₹ 50 as NRV for comparing with the cost of inventory

8. WRITING DOWN INVENTORIES TO NRV & REVERSAL OF WRITE DOWNS



9. DERECOGNITION OF INVENTORY



"Doubt kills more dreams than failure ever will"

IND AS 7
STATEMENT OF CASH FLOWS

1. MEANING OF STATEMENT OF CASH FLOWS

☞ Cash flow statement is a statement, which provides the details about how the cash is generated during the particular reporting period and how it is applied.

☞ While doing so, it takes into consideration the opening balances of cash & cash equivalents, adds cash generated, deducts cash payments and reconciles it with closing balances of cash & cash equivalents.

2. DEFINITIONS

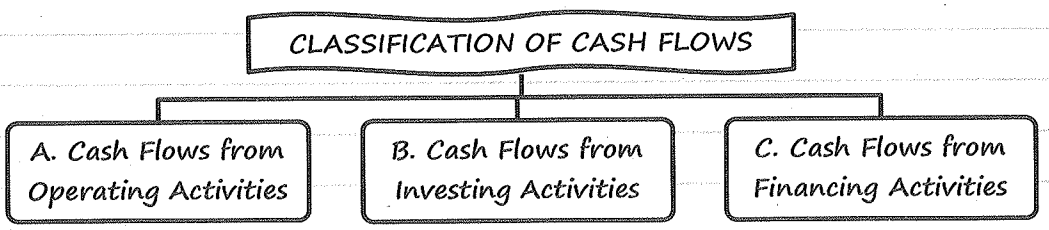
a) Cash comprises cash on hand and demand deposits.

b) Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. (Equity investments are excluded from cash equivalents.)

NOTE:

Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand are included as a component of CCE.

3. CLASSIFICATION OF CASH FLOWS



A. CASH FLOWS FROM OPERATING ACTIVITIES

☞ Cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity i.e. from operations of the business.

☞ Therefore, they are the result of the transactions that enter into the determination of profit or loss.

☞ EXAMPLES:

OPERATING CASH INFLOWS

- Cash receipts from sale of goods & services
- Cash receipts from royalties, fee, commission and other revenue
- Cash receipts & payments to an insurance entity for premiums, claims, annuities etc.
- Cash receipts & payments from contracts held for dealing or trading purpose

OPERATING CASH OUTFLOWS

- Cash payments to suppliers for goods & services
- Cash payments to and on behalf of employees
- Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities

❖ CERTAIN SPECIFIC ISSUES

i) Profit / Loss on Sale of Assets: The cash flows relating to such transactions are cash flows from investing activities.

ii) Properties built for let out: Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

iii) Operations of Financial companies and Banks: An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue- producing activity of that entity.

B. CASH FLOWS FROM INVESTING ACTIVITY

➢ Cash flows from investing activities represent the extent to which expenditures have been

made for resources intended to generate future income and cash flows i.e. activities that result in acquisition and disposal of long-term assets and other investments not included in cash equivalents.

- Only expenditures that result in a recognized asset in the balance sheet are eligible for classification as investing activities.
- EXAMPLES:

INVESTING CASH INFLOWS

- Cash receipts from sale of PPE, intangible & other long-term assets
- Cash receipts from sale of equity or debt instruments (other than those considered to be cash equivalents and those held for dealing or trading purposes)
- Cash receipts from repayment of advances & loans (other than by financial institution)
- Cash receipts from futures, forward, option & swap contracts (except when held for dealing or trading purposes, or the receipts are classified as financing activities)

INVESTING CASH OUTFLOWS

- Cash payments to acquire PPE, intangibles & other long-term assets.
- Cash payments to acquire equity or debt instruments (other than those considered to be cash equivalents or those held for dealing or trading purposes)
- Cash advances & loans given (other than by financial institution)
- Cash payments for futures, forward, option & swap contracts (except when held for dealing or trading purposes or payments are classified as financing activities

NOTE: When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

C. CASH FLOWS FROM FINANCING ACTIVITY

☞ The cash flows related to raising of funds and redemption of funds will be covered under Cash flows from financing activities. The cost of capital is also generally covered under the Financing Activity.

☞ EXAMPLES:

FINANCING CASH INFLOWS

- Cash proceeds from issuing shares or other equity instruments
- Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other Short-term or long-term borrowings

FINANCING CASH OUTFLOWS

- Cash payments to owners to acquire or redeem the entity's shares
- Cash repayments of amounts borrowed
- Cash payments by a lessee for the reduction of the outstanding liability relating to finance lease

4. REPORTING OF CASH FLOWS

A. REPORTING OF CASH FLOWS FROM OPERATING ACTIVITIES

i) DIRECT METHOD

☞ In this method major classes of gross cash receipts and gross cash payments are disclosed. Direct method starts with cash revenue/income/ receipts of the company. All the cash expenses will be deducted from such cash revenue. The cash profit will be adjusted for the cash flows arising from investing and financing activities.

☞ Non-cash expenses/losses/gains will not be considered. The payments to suppliers and receipts from customers are also taken into consideration. The resultant figure would cash flow from operating activity.

☞ Thus, direct method will have top down approach

ii) INDIRECT METHOD

☞ Indirect method is reverse of direct method. It starts with the accounting profit after tax as given in profit and loss accounts.

☞ Thereafter, the profit will be adjusted for non-cash items, losses and gains on investing and financing activities, interest and dividends, collection and payments to debtors/creditors etc. Accordingly, the cash from operating activity will derived.

☞ Thus, indirect method will have Bottom up approach.

NOTE:

Under both the methods the amount of Cash flow from Operating activities need to be necessarily same. It's only the approach for presentation which differs.

B. REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITES

☞ An entity is required to report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, EXCEPT to the extent that cash flows are permitted to be reported on a net basis.

NOTE: The presentation of cash flows from investing and financing activities is same under both direct and indirect method.

C. REPORTING CASH FLOWS ON A NET BASIS

☞ If nothing is specifically mentioned, then as per Ind AS 7, the cash flows will be presented on Gross Basis. Gross basis means the receipts would be shown separately and the payments will be shown separately.

☞ EXAMPLE: If in the year 20X1-20X2, some land is purchased for ₹ 2.5 crores and another land is sold for ₹ 3.5 crores then while presenting the information, entity shall show separately outflow of ₹ 2.5 crores and inflow of ₹ 3.5 crores.

NOTE: THE ABOVE BASE HAS FOLLOWING EXCEPTIONS (i.e. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis)

Examples

- Acceptance and repayment of demand deposits of a bank;
- Funds held for customers by an investment entity;
- Rents collected on behalf of, and paid over to, the owners of properties;
- Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short;
- Principal amounts relating to credit card customers;
- Purchase and sale of investments;
- Cash Receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- Cash advances & loans made to customers and repayment of those advances and loans.

D. FOREIGN CURRENCY CASH FLOWS

- Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying exchange rate at the date of the cash flow.
- Cash flows of a foreign subsidiary shall be translated at the exchange rates at the dates of the cash flows.
- Example: Suppose the money is received on account of exports on 15th January 2017 in US $. The company prepares the accounts in rupees. In such case the exchange rate between USD and Rupee as on 15th January 2017 need to be applied for conversion.

NOTE:

Unrealised gains & losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on CCE held or due in a foreign currency is reported in the statement of cash flows in order to reconcile CCE at the beginning and the end of the period.

This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

❖ Treatment of foreign exchange differences arising from unsettled transactions relating to operating activities

Under indirect method of preparation of statement of cash flows, the exchange differences that arise on translation at the balance sheet date, for monetary items that form part of operating activities, will require no adjustment in the reconciliation of profit to net cash flow from operating activities.

Example:

Entity A (Indian Company) purchased goods for resale from France during January for EUR 10,000 (Exchange rate: 1 EUR = ₹ 70) on a credit period of 4 months. It accounted for the purchase of inventory at ₹ 7,00,000 (10,000 x 70).

On 31st March, the exchange rate has changed to 1 EUR = ₹ 65. This would mean an unrealised gain due to exchange fluctuation of ₹ 50,000 (since the payables will be recorded at ₹ 6,50,000 (at closing exchange rate).

Assuming that the inventory is unsold at that date, the movement is reported as under:

Profit	₹ 50,000
Less: Increase in Inventory	₹ (7,00,000)
Add: Increase in Payables	₹ 6,50,000
Net Cash flows from operating activities	₹ 0

5. ADDITIONAL POINTS

A. INTEREST AND DIVIDENDS

☞ Cash flows from interest and dividends received and paid shall each be disclosed separately.

	FINANCING COMPANY	OTHER COMPANY
INTEREST PAID	Cash flows arising from operating activities (As this is their core business activity)	Cash flows from financing activities (As they are costs of obtaining financial resources)
INTEREST AND DIVIDENDS RECEIVED	Cash flows arising from operating activities (As this is their core business activity)	Cash flows from investing activities (As They are returns on investments)
DIVIDENDS PAID	Cash flows from financing activities (As they are costs of obtaining financial resources)	Cash flows from financing activities (As they are costs of obtaining financial resources)

B. TAXES ON INCOME

☞ Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities UNLESS they can be specifically identified with financing and investing activities in which case the tax cash flow is classified as an investing or financing activity as appropriate

C. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

☞ When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

☞ An entity that reports its interest in an associate or a joint venture using the equity method

includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

D. CHANGES IN OWNERSHIPS INTEREST IN SUBSIDIARIES AND OTHER BUSINESSES

i) CLASSIFICATION OF CASH FLOWS AS INVESTING ACTIVITY

☞ The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

☞ An entity shall disclose in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

- Total consideration paid or received;
- Portion of consideration consisting of CCE;
- Amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
- Amount of assets & liabilities other than CCE in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

ii) CLASSIFICATION OF CASH FLOWS AS FINANCING ACTIVITY

☞ Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity and is required to be measured at FVTPL.

E. NON-CASH TRANSACTIONS

☞ Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows.

☞ Examples of non-cash transactions are:

- Acquisition of assets either by assuming directly related liabilities or by means of a finance lease;
- Acquisition of an entity by means of an equity issue; and
- Conversion of debt to equity

6. DISCLOSURES

☞ An entity shall disclose the components of CCE and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

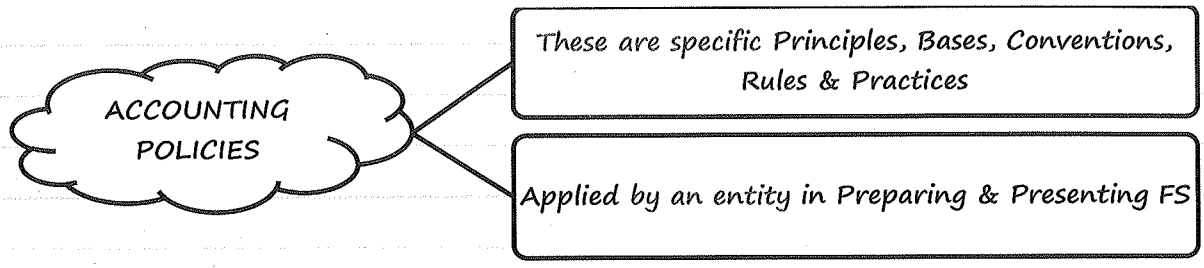
☞ It has been clarified that - Bank overdraft, in balance sheet, will be included within financial liabilities. Just because bank overdraft is included in CCE for Ind AS 7, does not mean that same should be netted off the CCE balance in balance sheet.

"Every day is a second chance"

IND AS 8 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES & ERRORS

1. ACCOUNTING POLICIES

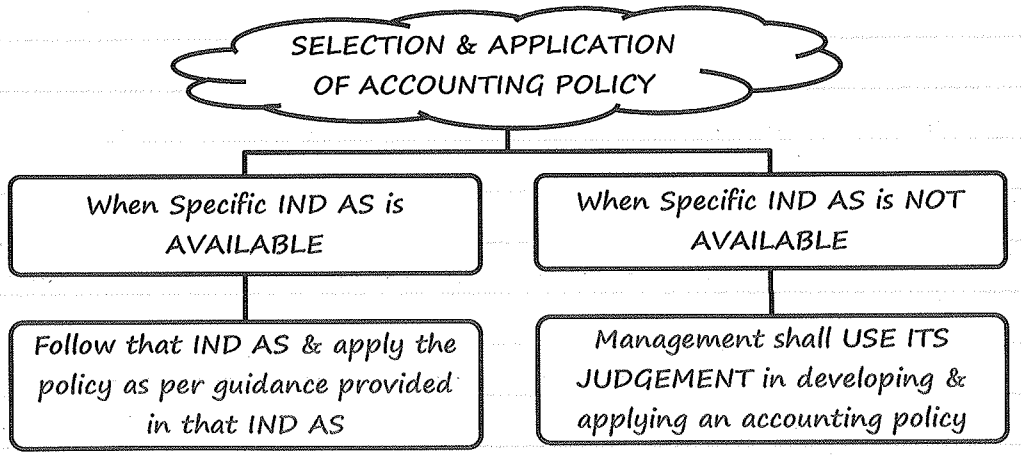
I. DEFINITIONS



EXAMPLES OF ACCOUNTING POLICY

a) Basis of accounting – Cash or Accrual or Hybrid?
b) Basis of Measurement of Non-Current Asset – Cost Model or Revaluation Model
c) Method of determination of Cost of Inventories – FIFO or Specific identification or Weighted Average?

II. SELECTION & APPLICATION OF ACCOUNTING POLICY



- Policy developed using judgement shall result in information that is:
  a) RELEVANT to the decision-making of users; AND
  b) RELIABLE

In making the judgement, management shall refer and consider the applicability of following sources in DESCENDING ORDER:

a) Any other Ind AS which are dealing with similar and related issues;
b) Basic Framework of Ind AS, which provides the general principles;
c) Pronouncements of IASB (International Accounting Standards Board);
d) Pronouncements of other standard setting bodies having a similar conceptual framework;
e) Check the accounting literature and accepted industry practices.

III. CONSISTENCY OF ACCOUNTING POLICIES

- An entity shall select & apply its accounting policies consistently for similar transactions, BUT if an Ind AS specifically requires or permits categorisation of items, then an appropriate accounting policy shall be selected & applied consistently to each category.

EXAMPLE 1

An entity has grouped its PPE into four classes viz., land, factory building, plant & machinery and furniture. The entity may propose to apply Revaluation model only to land & Cost model to others.

EXAMPLE 2

Ind AS 2 'Inventories' requires that inventory be valued at lower of cost and net realizable value. In identifying cost, it allows alternative cost formulas; FIFO and Weighted average. The same cost formula must be applied to items of inventory having similar nature or use, but a different cost formula can be applied to a different classification of inventory

IV. CHANGES IN ACCOUNTING POLICIES

An entity shall change an accounting policy only if:

- It is required by an IND AS; OR
- Results in FS providing more relevant & reliable information.

- THE FOLLOWING ARE NOT CHANGES IN ACCOUNTING POLICIES:

a) The application of an accounting policy for transactions that differ in substance from those previously occurring; AND
b) The application of a new accounting policy for transactions that did not occur previously or were immaterial.

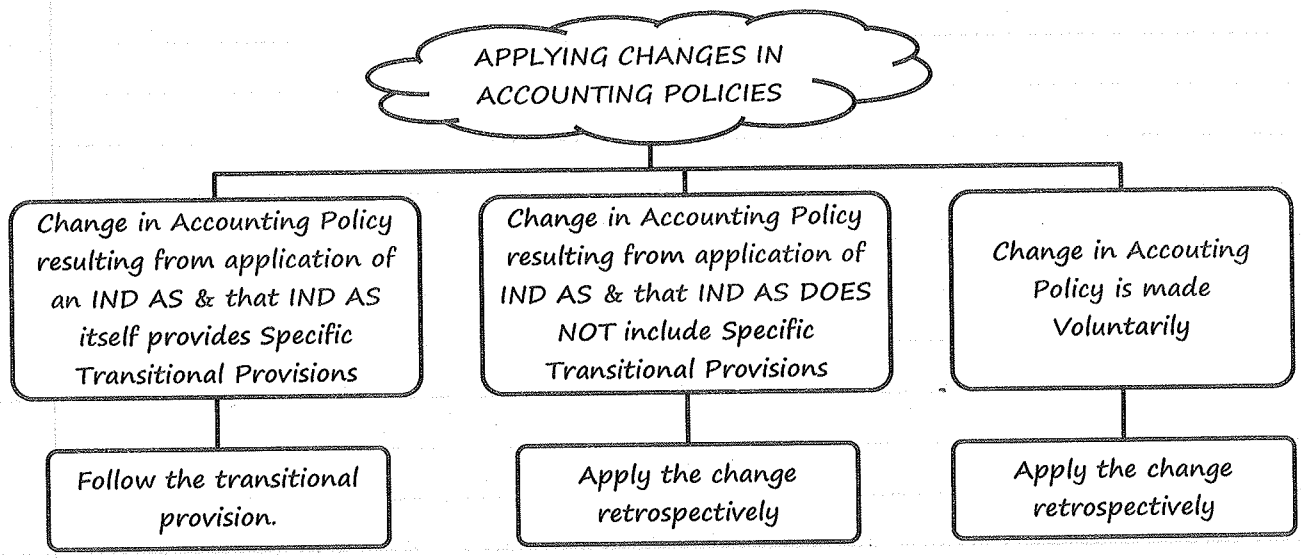
EXAMPLE

An entity had previously classified a PPE as owner occupied property where it was measured after initial recognition applying the revaluation model

The same is now being classified as investment property. Ind AS 40 on investment property permits only cost model. The entity now measures this investment property using the cost model.

This is not a change in accounting policy.

V. APPLYING CHANGES IN ACCOUNTING POLICIES



NOTE:

a) Early application of an Ind AS is NOT a voluntary change in accounting policy.

b) When in absence of an IND AS that specifically applies to a transaction, an accounting policy was applied from the relevant IFRS or most recent Pronouncement of IASB or other standard bodies, and following an amendment in such IFRS or Pronouncement, the entity chooses to change its accounting policy, then it will be considered as if the company is making the change voluntarily and accordingly it should apply the change retrospectively.

❖ RETROSPECTIVE APPLICATION

➢ IND AS 1 makes it compulsory for the entity to present a third Balance Sheet as at the beginning of previous year if it applies an accounting policy retrospectively

- Retrospective application is defined as applying the changed accounting policy to transactions as if that policy had always been applied.
- This means that comparative information for all prior periods presented will be adjusted for the effect of change in the policy. The amount of the resulting adjustment relating to periods before those presented in the FS is made to the opening balance of each affected component of equity of the earliest prior period presented.

NOTE: The restatement of FS for prior years does not mean that actual approved and issued FS have to be withdrawn and amended.

EXTRACT OF BALANCE SHEET

Particulars	Opening 01/04/17	Previous Year 31/03/18	Current Year 31/03/19
	Reserves to be adjusted with the difference related to 2016-17 & before		

❖ LIMITATION OF RETROSPECTIVE APPLICATION

- When retrospective application is required but it is IMPRACTICABLE* to determine the effect of change in prior years (i.e. not possible to determine either Period Specific effect or Cumulative effect), in that case the entity should apply the accounting policy as at the beginning of the earliest period for which retrospective application is practicable.

*IMPRACTICABLE – Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change retrospectively if:

a) The retrospective effects are not determinable;
b) Retrospective application requires assumptions or estimates of amounts which are supposed to be taken in that respective year considering the evidences and information on that date.

VI. DISCLOSURES

a) Nature of change in accounting policy

b) Reason for change in accounting policy

c) Effect on CY & prior periods due to change in accounting policy

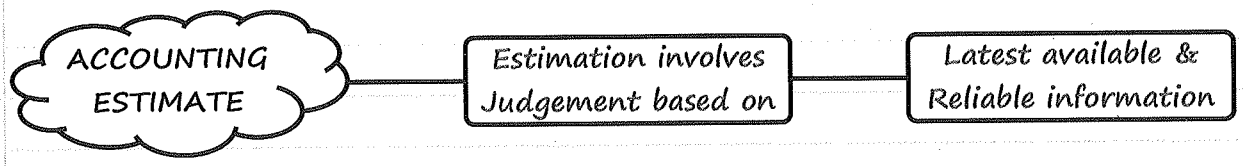
d) If retrospective application is impracticable, disclose the reason for the same.

e) When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:

- this fact; and
- known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's FS in the period of initial application.

2. ACCOUNTING ESTIMATE

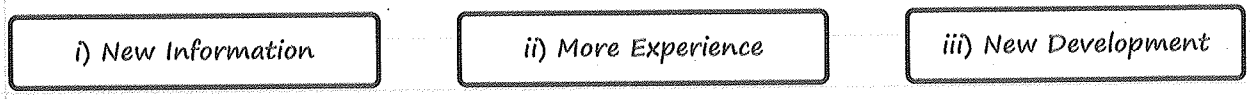
I. MEANING



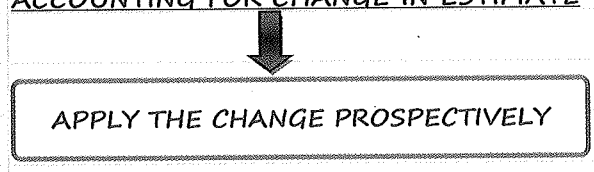
EXAMPLES WHERE ESTIMATES ARE REQUIRED:

Bad Debts, Inventory Obsolescence, Fair Value of Financial Assets or Financial Liabilities, Useful Life, Residual Value, Method of Depreciation, Warranty Obligations etc.

II. REASON FOR CHANGE IN ACCOUNTING ESTIMATE

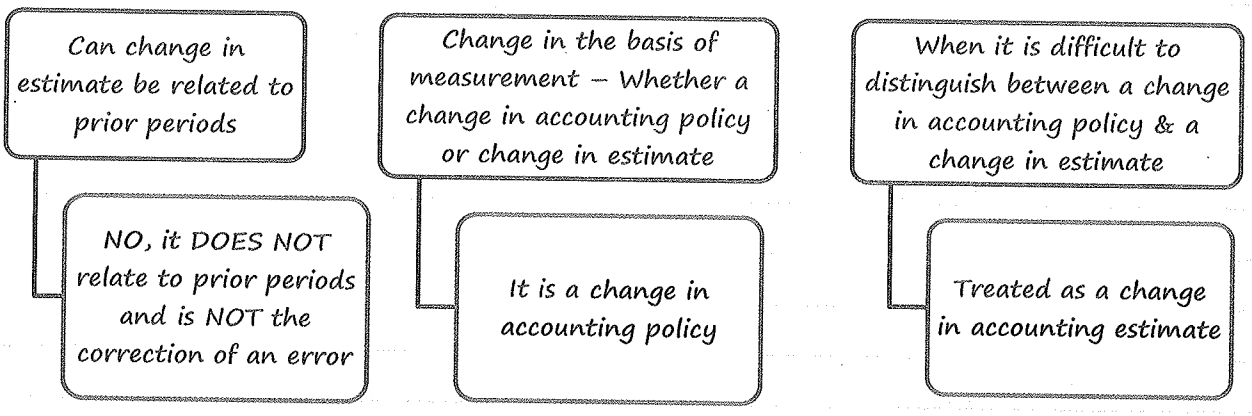


III. ACCOUNTING FOR CHANGE IN ESTIMATE



- Prospective recognition means that the change is applied to transactions from the date of the change in estimate.
- A change in an accounting estimate may affect only the current period's P&L, or the P&L of both the current period and future periods.

❖ OTHER IMPORTANT POINTS



IV. DISCLOSURES

a) Nature of change in accounting estimate

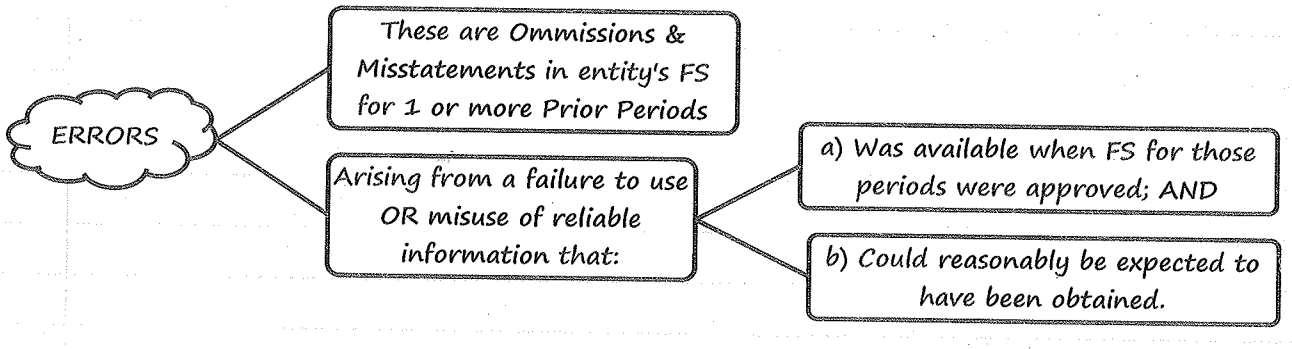
b) Amount of change in accounting estimate

c) Effect due to change on current & future periods

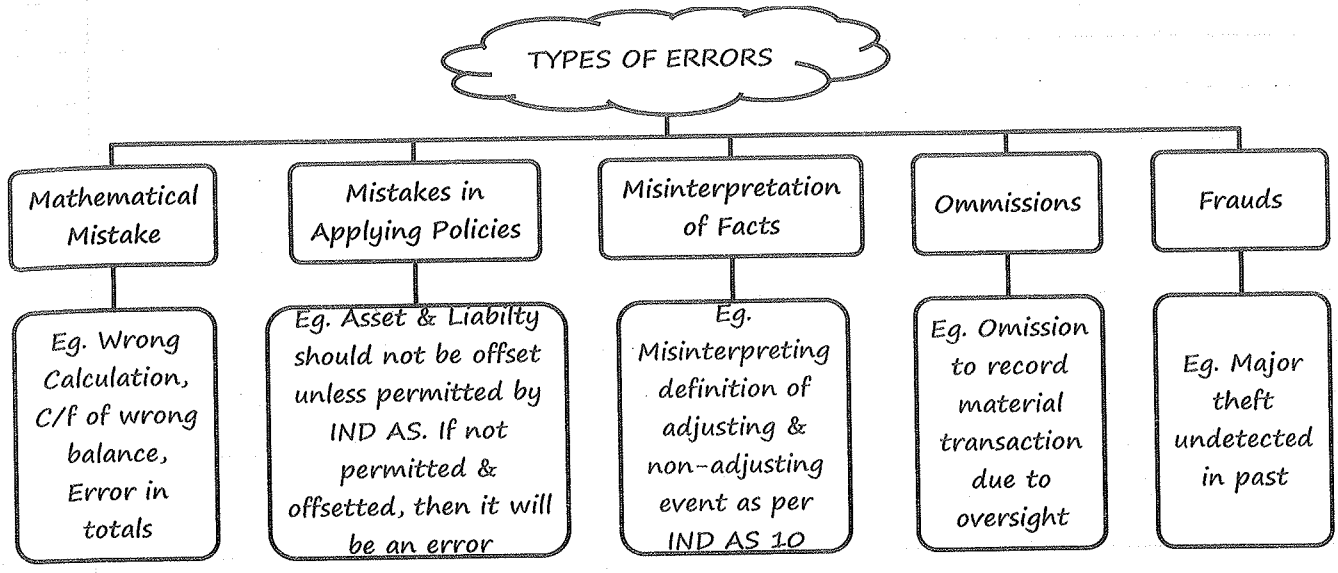
d) If not possible to estimate the effect on future periods, that fact must be disclosed.

3. ERRORS

I. DEFINTION



II. TYPES OF ERRORS



EXAMPLE

The following errors occurred in preparation of A Ltd.'s FS for the immediately preceding financial year –

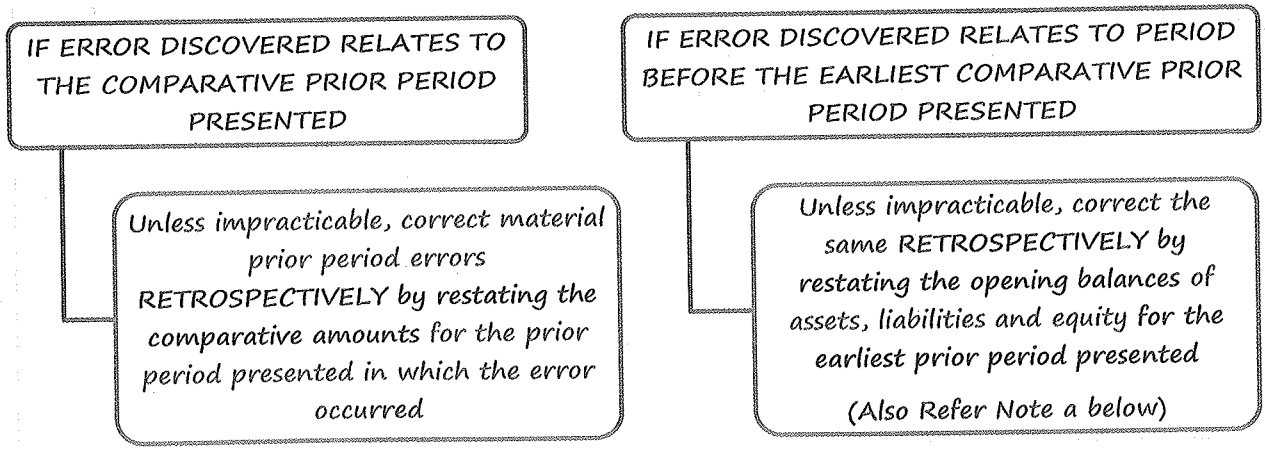
(a) Depreciation on plant & machinery understated by 0.30% of sales;

(b) Warranty provisions understated by 0.15% of sales;

(c) Allowance for bad debts understated by 0.25% of sales.

Individually none of these errors may be material but could collectively influence the economic decision of the users of the financial statements. These are material prior period errors

III. ACCOUNTING TREATMENT FOR ERRORS



NOTE:

a) As per IND AS 1, whenever there is a requirement of RETROSPECTIVE EFFECT, an entity should prepare Previous Year Opening B/S as well.

b) If Retrospective restatement is Impracticable – Same treatment as we saw above for Change in Accounting Policy.

c) Use the words Restated in the Balance Sheet and Profit & Loss after correction of prior period items.

IV. DISCLOSURES

a) Nature of Error

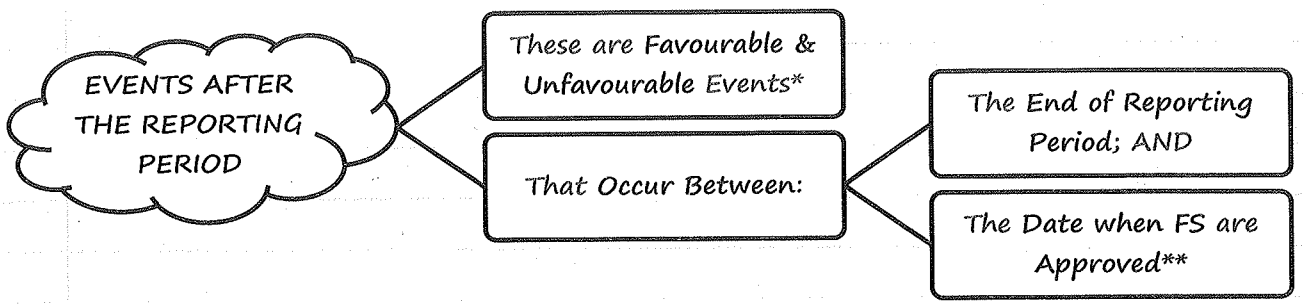
b) Amount of Error & its effect

c) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

"Success is a series of small efforts"

IND AS 10
EVENTS AFTER THE REPORTING PERIOD

1. DEFINITIONS



* The standard clearly states that events after reporting period can be favourable as well as unfavourable. Accordingly, an entity should report both favourable as well as unfavourable events after the reporting period

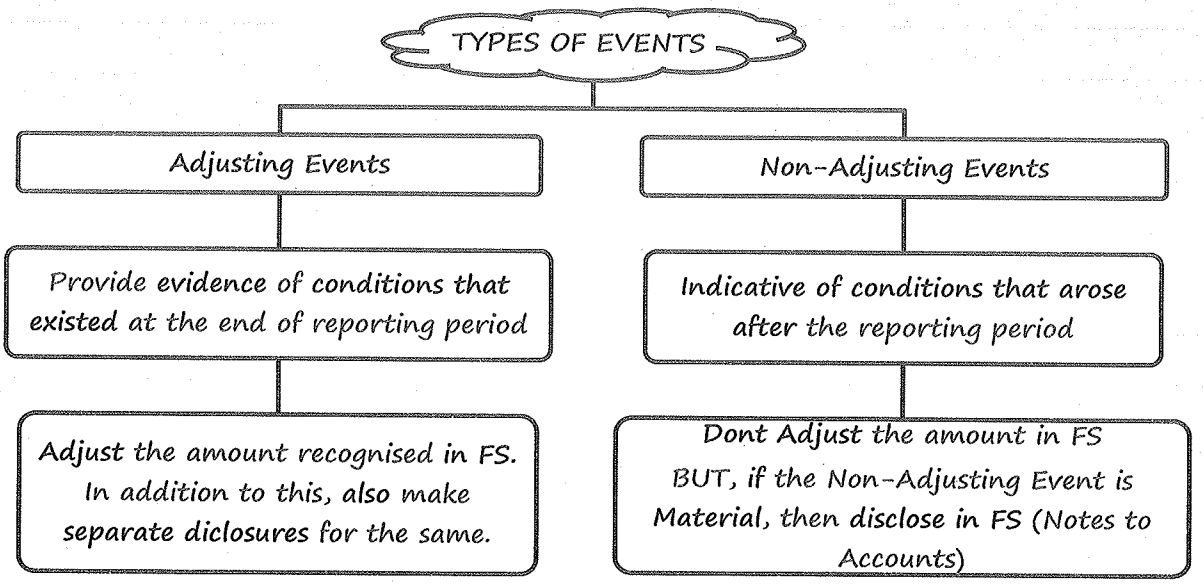
** DATE WHEN FS ARE APPROVED – It is the date when BOD approves the FS.

If in some cases Shareholders approval or Supervisory Board approval is needed for approval of FS after the approval of BOD, yet for the purpose of deciding the events after the reporting period, the date of approval will be considered as the date of approval by BOD only.

❖ WHEN THE DATE OF APPROVAL IS AFTER THE PUBLIC ANNOUNCEMENT OF SOME OTHER FINANCIAL INFORMATION

➢ 'Events after the reporting period' include all events up to the date when the FS are approved for issue, even if those events occur after the public announcement of profit or of other selected financial information

2. TYPES OF EVENTS



❖ EXAMPLES OF ADJUSTING EVENT

a) Settlement of court case after balance sheet date, that confirms obligation existing at the end of the reporting period.

b) The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

c) Sale of inventories after the year end but before the FS are approved, gives evidence about the NRV at the end of reporting period.

d) In some cases, assets which are purchased / sold before the end of reporting period, actual amount paid / received is determined after the end of reporting period.

{The sale of an asset took place in March, 20X2. However, the actual consideration was determined and collected after 31st March, 20X2, i.e., on 10th May, 20X2 (date of approval of FS was 15th May, 20X2). In such a situation, sale value recognised in the books as on 31st March, 20X2 should be adjusted}

e) If any error or fraud is detected after the reporting period, which is related to the reporting period.

❖ EXAMPLES OF NON-ADJUSTING EVENT

a) Decline in fair value of investments between the end of the reporting period and the date when FS are approved for issue, where the decline does not relate to the condition of the investments at the end of the reporting period.

b) A major Business Combination occurred after the end of reporting period for which the agreement was also entered after the end of reporting period, then it will be non-adjusting event.

{If agreement (& NOT meeting, negotiations) was entered before the end of reporting period & business combination was completed after the reporting period, then it would have been an adjusting event}

c) Destruction of a major production plant by a fire after the reporting period.

d) Changes in tax rates after the reporting period.

e) Commencing major litigation arising solely out of events that occurred after the reporting period.

f) Abnormally large changes in asset prices or foreign exchange rates after the reporting period.

3. SPECIAL CASES

A. DIVIDENDS

- If dividend is declared after the end of reporting period but before the approval of FS, then the dividends are not recognised as a liability at the end of the reporting period, because no obligation exists at that time.
- Such dividends are disclosed in notes to accounts.

B. GOING CONCERN

☞ If after the end of reporting period but before the FS are approved there are signs of entity liquidating the business or a major incident has occurred & it affects our going concern assumption, then the FS relating to the reporting period should NOT be prepared on going concern basis and it should prepare the FS with a different approach (Eg. Liquidation basis).

EXAMPLE – WHEN GOING CONCERN ASSUMPTION IS NOT VALID

All long-term liabilities will turn into short term liabilities. RM & WIP will be valued at market price / scrap value.

Also, as per IND AS 1, if FS are not prepared on the basis of going concern assumption, then disclose the same in notes to accounts.

C. LONG TERM LOAN ARRANGEMENTS (Carve Out to IAS 10)

☞ Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender after the end of reporting date BUT before the approval of FS to not demand payment as a consequence of the breach, shall be considered as an ADJUSTING EVENT

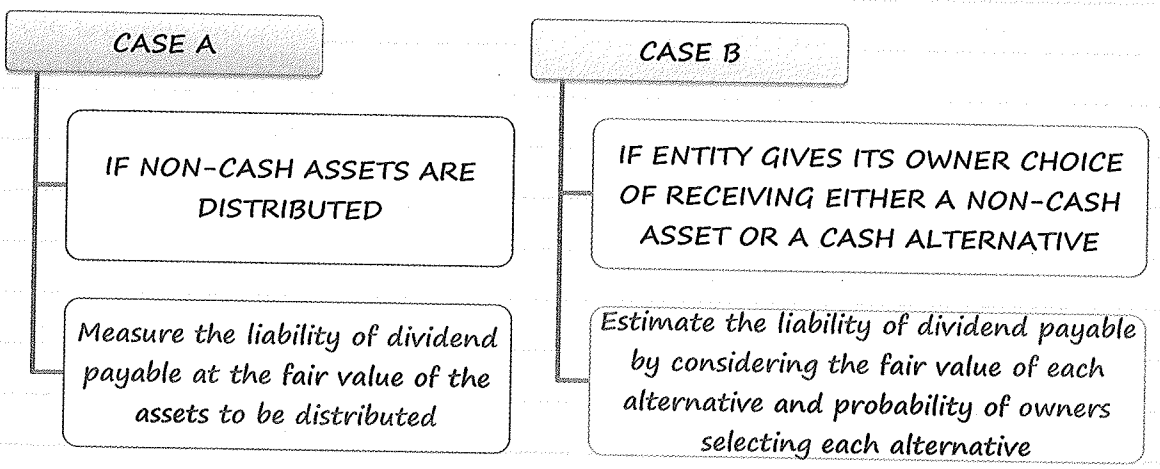
☞ (However, under IAS 10 'Events after the Reporting Period', an agreement with the lender after the reporting period but before the approval of the financial statements for issue not to demand payment (say, arising out of breach of loan covenants) is not considered as an adjusting event)

APPENDIX A: DISTRIBUTION OF DIVIDEND TO OWNER IN NON-CASH FORM

I. ACCOUNTING TREATMENT

☞ When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable.

❖ MEASUREMENT OF DIVIDEND PAYABLE



☞ At the end of each reporting period AND at the date of settlement, review and adjust the carrying amount of the dividend payable based on changes in Fair value of assets to be distributed, with any changes in the carrying amount of the dividend payable recognised in other equity as adjustments to the amount of the distribution.

☞ When an entity settles the dividend payable, it shall recognise the difference (if any), between the carrying amount of the assets distributed and the carrying amount of the

dividend payable in PROFIT OR LOSS.

☞ EXAMPLE

An entity decides to give a PPE to the owners as dividend. Dividend declared on 1/2/2017. Dividend paid on 1/05/2017.

On 1/02/2017

Assets Carrying Amount = 1,00,000

Assets Fair Value = 1,20,000

On 31/03/2017

Assets Fair Value = 1,30,000

On 1/05/2017

Assets Fair Value = 1,50,000.

SOLUTION:

1/02/17 R&S (Other Equity) A/c Dr. 1,20,000

To Dividend Payable A/c 1,20,000

31/3/17 R&S (Other Equity) A/c Dr. 10,000

To Dividend Payable A/c 10,000

1/05/17 R&S (Other Equity) A/c Dr. 20,000

To Dividend Payable A/c 20,000

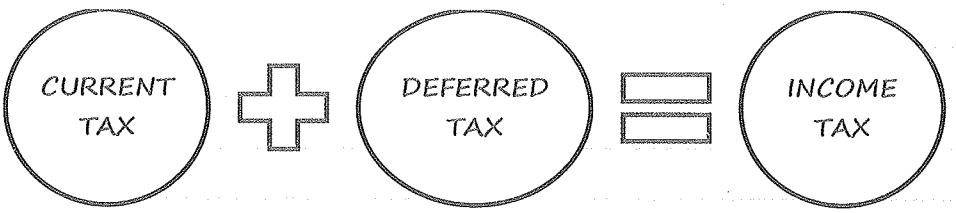
1/05/17 Dividend Payable A/c Dr. 1,50,000

To PPE A/c 1,00,000

To P&L A/c 50,000

"In the middle of difficulty lies opportunity."

IND AS 12
INCOME TAXES

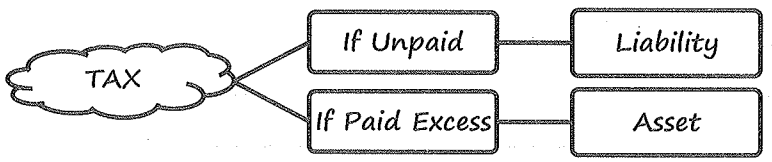


a) CURRENT TAX

1. DEFINITION

- Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

2. RECOGNITION



3. MEASUREMENT

- Current tax liabilities / assets shall be measured using the tax rates that have been enacted or substantively enacted by the end of the reporting period (i.e. Using Tax Rate applicable for the Current Period)

4. ACCOUTING TREATMENT OF CURRENT TAX EXPENSE IN STATEMENT OF P&L

- If item (income/expense) is recognised in P&L, then current tax expense on such item will also be recognised in P&L.

  BUT, if item relates to OCI, current tax on such item will also be recognised in OCI.

5. OFFSETTING CURRENT TAX ASSET & CURRENT TAX LIABILITY.

Allowed only if:
- Entity has legally enforceable right to set off; AND
- Intends to settle on a Net Basis

NOTE: The entity has a legally enforceable right to set off when they relate to income taxes levied by same taxation authority.

b) DEFERRED TAX

- The following STEPS should be followed in the recognition, measurement and presentation of deferred tax liabilities or assets:

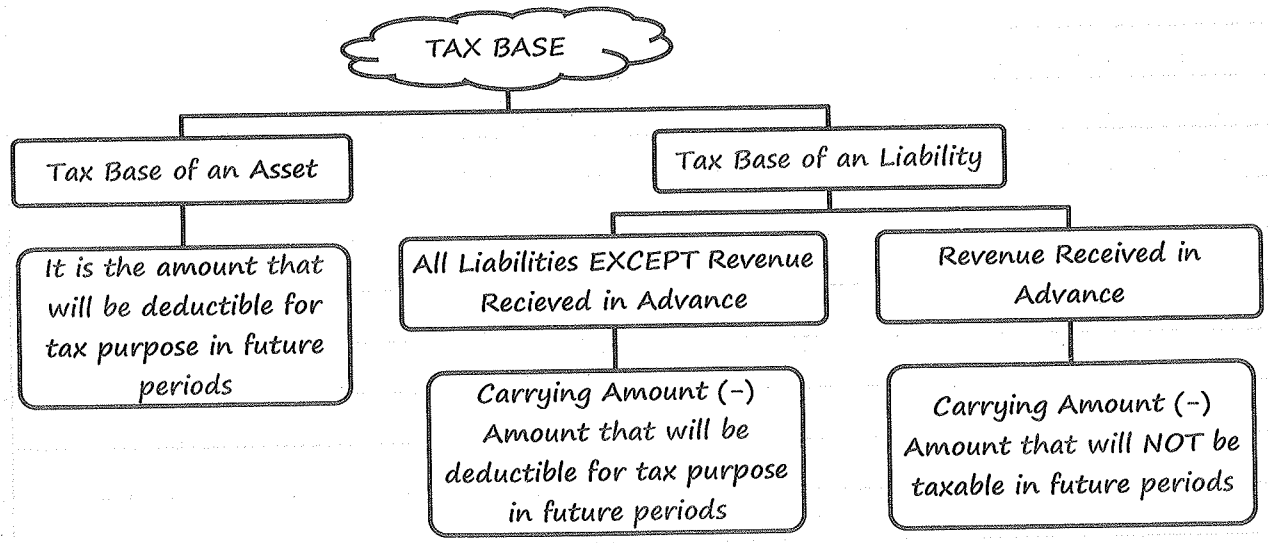
1. Compute Carrying Amount of Assets & Liabilities
2. Compute Tax Base of Assets & Liabilities
3. Compute Temporary Difference
4. Classify Temporary Difference
5. Assess deductible temporary difference, tax losses, unused tax credits
6. Determine Tax Rates for Deferred Tax
7. Calculate & Recognise Deferred Tax
8. Accounting for Deferred Tax
9. Offsetting Deferred Tax Asset & Deferred Tax Laibility

STEP 1: COMPUTE CARRYING AMOUNT OF ASSETS & LIABILITIES

- It is Balance of Asset or Liability as per accounting records.

STEP 2: COMPUTE TAX BASE

- It is the amount attributed to Asset or Liability for tax purposes.



NOTE:

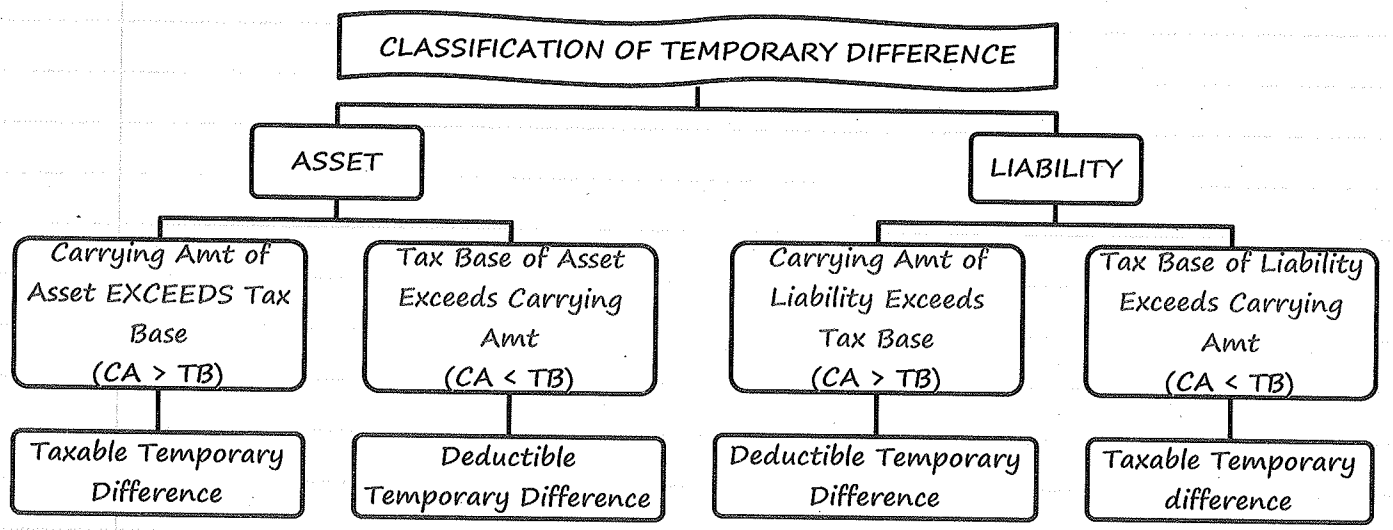
If any Asset is NOT Taxable OR if any Liability is NOT tax deductible (i.e. if difference is other than temporary) then Tax Base = Carrying Amount

STEP 3: COMPUTE TEMPORARY DIFFERENCE

- Temporary Difference = Carrying Amount of Asset/Liability (-) Tax Base

STEP 4: CLASSIFICATION OF TEMPORARY DIFFERENCE

- Temporary differences are to be classified into - Taxable temporary differences & Deductible temporary differences



NOTE:

- All Taxable Temporary Difference give rise to Deferred Tax Liability
- All Deductible Temporary Difference give rise to Deferred Tax Asset
- If carrying amount = tax base, then NO Temporary Difference

STEP 5: ASSESS (ALSO RE-ASSESS) DEDUCTIBLE TEMPORARY DIFFERENCE (DTD) , TAX LOSSES, UNUSED CREDITS

- DTD reduces future taxable profits. Therefore, an entity should recognise DTA on DTD only when it is probable that taxable profits will be available against which DTA can be utilised.
- For utilisation of DTA, standard provides three step criteria to be applied in serial order:

I) EXISTENCE OF TAXABLE TEMPORARY DIFFERENCE	•Entity should see whether there are sufficient taxable temporary differences whose reversal pattern matches with the reversal pattern of DTD.
II) PROBABILITY OF FUTURE PROFITS	•If it is probable that there will be sufficient taxable profits, then to the extent of available profits, DTA should be recognised.
III) AVAILABILITY OF TAX PLANNING OPPORTUNITIES	•If even after applying criteria no. 2, still there are unrecognised DTD, entity shall see whether any tax planning opportunities are available. •Tax planning opportunities are actions that entity would take in order to create or increase taxable income in a particular period before expiry of a tax loss.

❖ UNUSED TAX LOSSES & UNUSED TAX CREDITS

➢ DTA shall be recognised for carry forward of unused tax losses & unused tax credits to the extent it is probable that future taxable profit will be available against which it can be utilised.

❖ REASSESSMENT OF UNRECOGNISED DTA

➢ At the end of each year, entity should reassess unrecognised DTA. It may need to recognise a previously unrecognised DTA to the extent it has now become probable that future taxable profits will be available for DTA to be utilised.

STEP 6: DETERMINE TAX RATES FOR DEFERRED TAX

➢ Deferred Tax shall be measured at Future Tax Rates expected to apply to the period when the DTA will be realised or DTL will be settled & such rates should have been enacted or substantially enacted by the end of reporting period.

➢ Also, DTA/DTL should be created using the tax rate which is consistent with the expected manner of recovery or settlement

Eg: Asset – CA = 100, TB = 60, Tax Rate if sold = 20% & if used = 30%

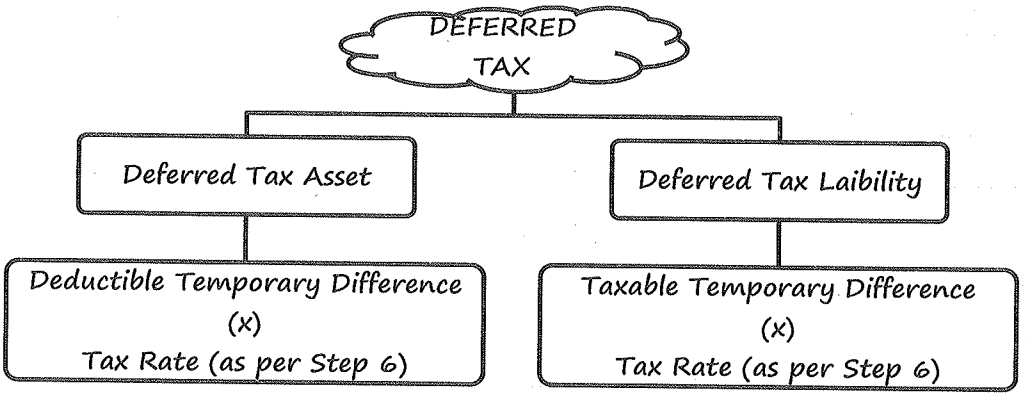
Case 1: If entity expects to sell the asset, DTL = 40x20% = 8

Case 2: If it expects to retain the asset and recover its carrying amount through use, DTL = ₹12 (₹40 at 30%)

- The DTA/DTL that arises from the revaluation of a non- depreciable asset, the tax rate applicable to recovery of carrying amount through sale should be used.

- DISTRIBUTION OF DIVIDENDS – In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend. In these circumstances, current and DTA/DTL are measured at the tax rate applicable to undistributed profits.

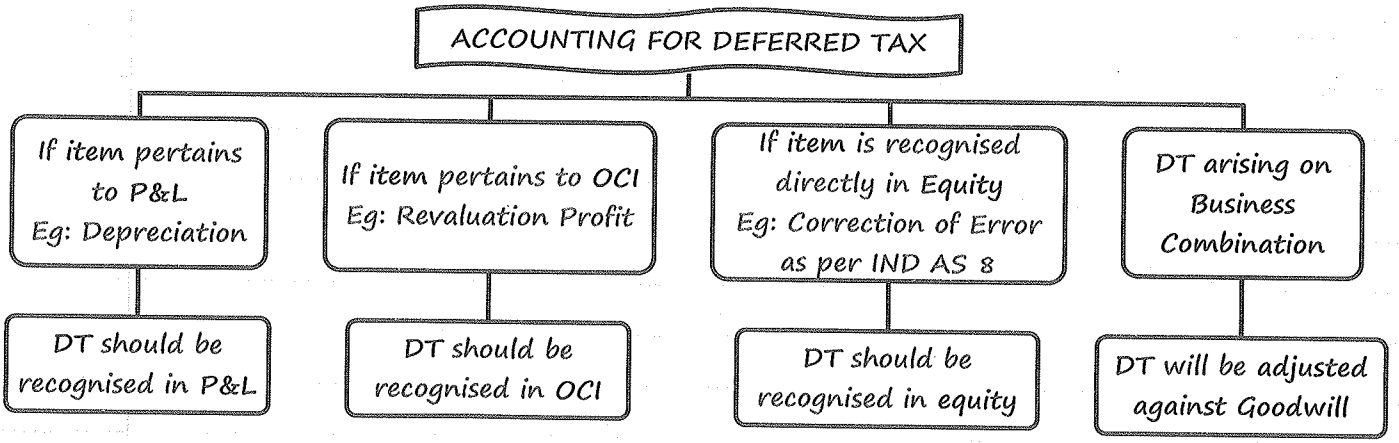
STEP 7: CALCULATE AND RECOGNISE DEFERRED TAX



NOTE:

- DTA/DTL should not be discounted.

STEP 8: ACCOUNTING FOR DEFERRED TAX



- Carrying Amount of DTA/DTL may change even though there is no change in the amount

of the related temporary differences. This can result from:

- a change in tax rates or tax laws;
- a reassessment of the recoverability of DTA; OR
- a change in the expected manner of recovery of an asset.

➢ In such cases, resulting deferred tax is recognised in P/L, except to the extent that it relates to items previously recognised outside P/L.

STEP 9: OFFSETTING DTA & DTL

ALLOWED ONLY IF:
- Entity has a legally enforceable right to set off current tax assets against current tax liabilities; AND
- DTA & DTL relate to income taxes levied by the same taxation authority

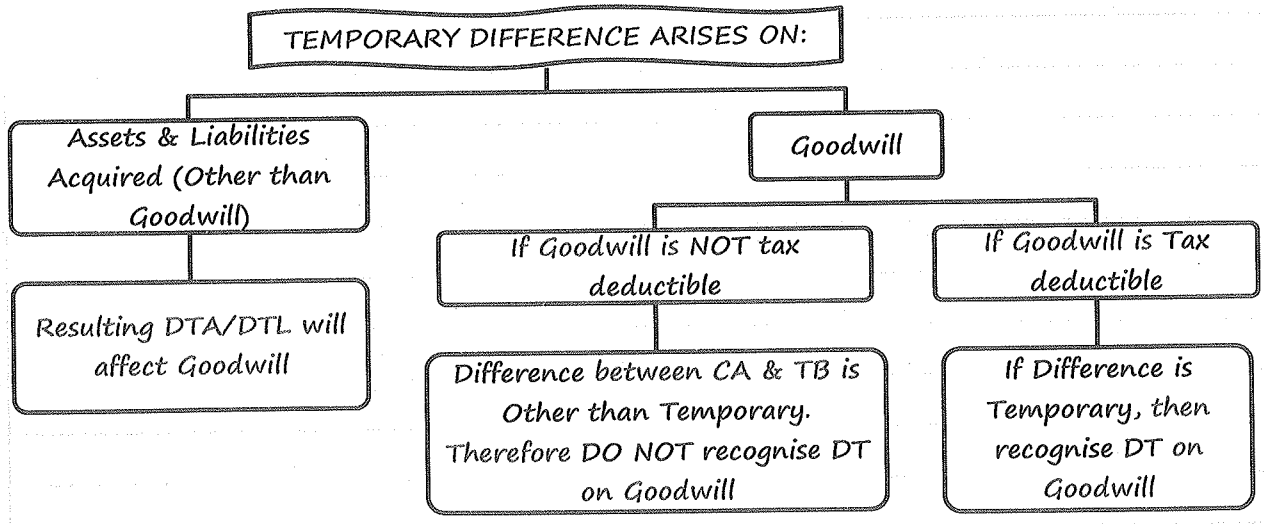
c) PRACTICAL APPLICATION & EXCEPTION

I. BUSINESS COMBINATION

➢ Identifiable assets & liabilities acquired in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax base of assets & liabilities acquired are not affected by the business combination or are affected differently.

➢ For Example, when the carrying amount is increased to fair value but the tax base remains at cost to the previous owner, a temporary difference arises.

➢ The effect of such temporary difference is summarised below:



NOTE: Due to Business Combination, it might be possible that the acquirer's unrecognised

DTA may also prove to become recognised. In such case unrecognised DTA of acquirer being recognised will NOT impact Goodwill.

II. ASSET ACQUISITION

- If initial recognition of an asset or liability is a transaction which:
  - Is NOT a business combination; AND
  - At the time of the transaction, neither affects accounting profit NOR Taxable Profit

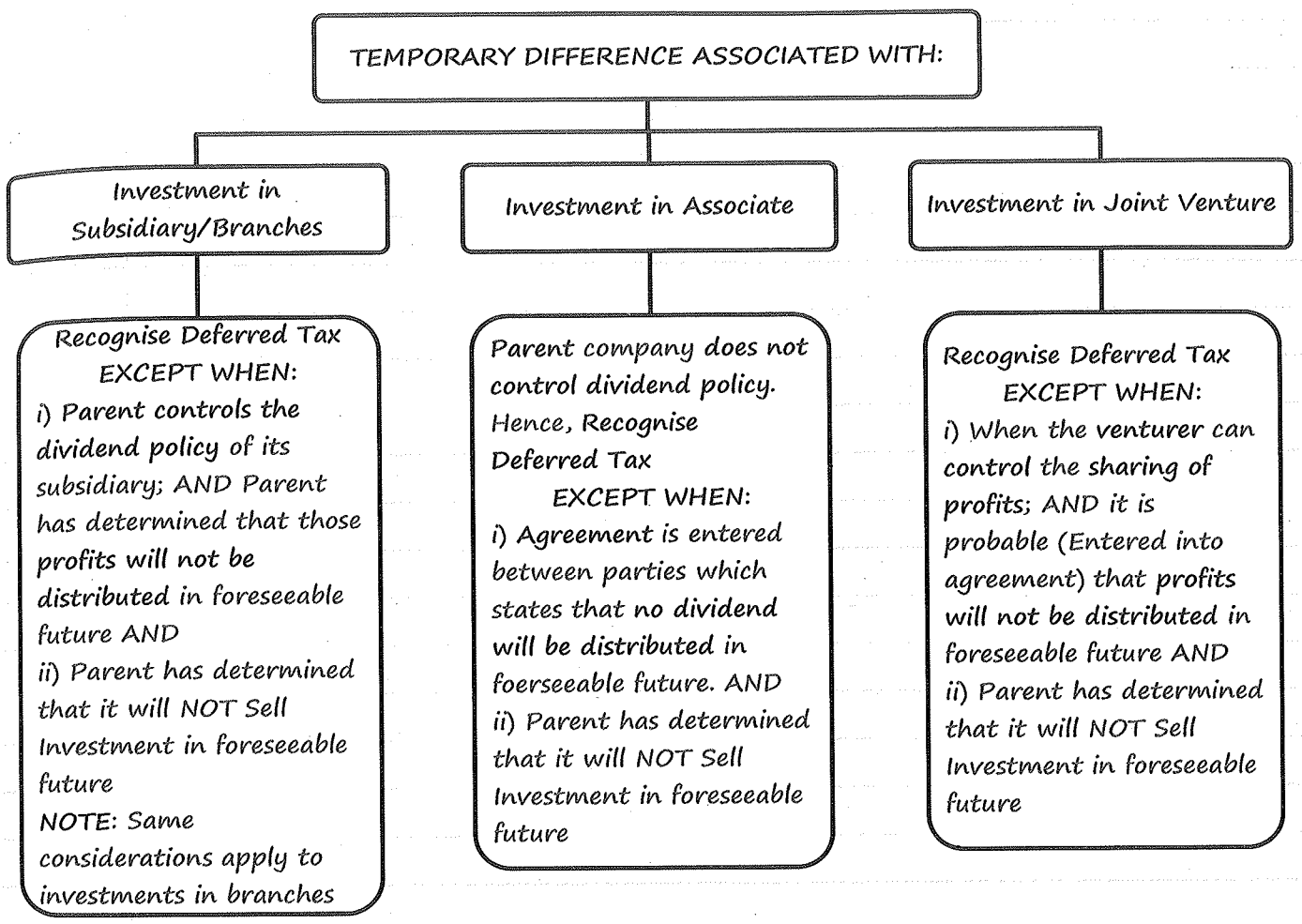
Then, NO DTA/DTL is to be recognised.

III. SHARE BASED PAYMENTS (SBP)

- Temporary Difference may arise in a transaction of share-based payment, for example, an entity may recognise an SBP Expense as per IND AS 102 in each year BUT not receive a tax deduction until the share options are exercised.
- Carrying Amount of SBP Transaction will always be NIL
- Tax Base will be the amount permitted as a deduction in future periods
- Difference between tax base & carrying amount, is a DTD that results in a DTA.
- ☞ Deferred tax will be recognised in P&L (As the expense pertains to P&L, so deferred tax will also be recognised in P&L)

IV. TEMPORARY DIFFERENCE ASSOCIATED WITH INVESTMENT IN SUBSIDIARY, BRANCHES, ASSOCIATE & JOINT VENTURE

- Temporary differences arise when carrying amount of investments (which is share of net assets the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment. Generally, taxable temporary difference will get reversed on distribution of dividends.
- An entity shall recognise a deferred tax for all temporary differences EXCEPT when following conditions are satisfied:


TEMPORARY DIFFERENCE ASSOCIATED WITH:
Investment in Subsidiary/Branches
Investment in Associate
Investment in Joint Venture
Recognise Deferred Tax
EXCEPT WHEN:
i) Parent controls the dividend policy of its subsidiary; AND Parent has determined that those profits will not be distributed in foreseeable future AND
ii) Parent has determined that it will NOT Sell Investment in foreseeable future
NOTE: Same considerations apply to investments in branches
Parent company does not control dividend policy. Hence, Recognise Deferred Tax
EXCEPT WHEN:
i) Agreement is entered between parties which states that no dividend will be distributed in foerseeable future. AND
ii) Parent has determined that it will NOT Sell Investment in foreseeable future
Recognise Deferred Tax
EXCEPT WHEN:
i) When the venturer can control the sharing of profits; AND it is probable (Entered into agreement) that profits will not be distributed in foreseeable future AND
ii) Parent has determined that it will NOT Sell Investment in foreseeable future

SIGNIFICANT DIFFERENCES IN IND AS 12 VIS-À-VIS AS 22

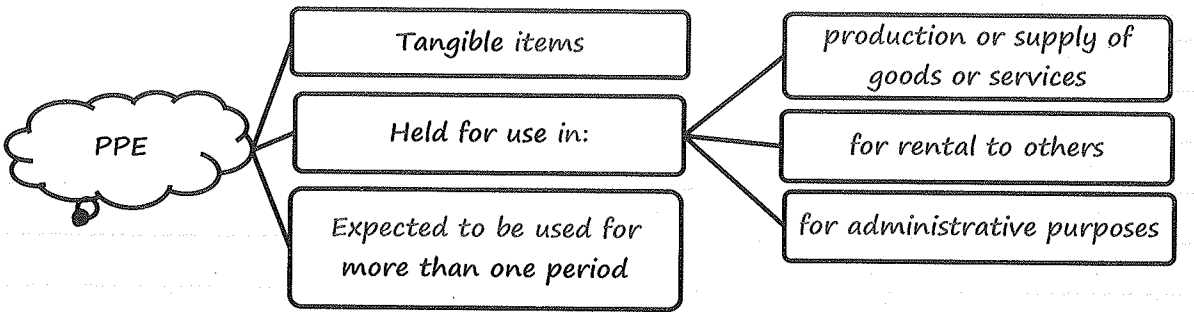
Sr No	Particulars	IND AS 12	AS 22
1	Approach for Creating Deferred Tax	Ind AS 12 is based on balance sheet approach. It requires recognition of tax consequences of differences between carrying amounts of assets & liabilities and their tax base.	AS 22 is based on income statement approach. It requires recognition of tax consequences of differences between taxable income & accounting income. Differences are classified into permanent and timing differences.
2.	Limited Exceptions for Recognition of DTA	DTA is recognised if it is probable that taxable profit will be available. DTA is also created if there are carry forward of unused tax losses & tax (MAT) credits. Existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, in that case, recognises a DTA only to the extent there is a sufficient taxable temporary difference or there is convincing other evidence sufficient taxable profit will be available.	DTA are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available. Where DTA is Recognised against unabsorbed depreciation or carry forward of losses under tax laws, recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available AS 22 explains what may be considered as virtual certainty supported by convincing evidence.
3.	Recognition of Current and Deferred Tax	Current & deferred tax are recognised as income or an expense and included in P&L, except if transaction is recognised, either in OCI or directly in equity, in those cases tax is also recognised in OCI or in equity, as appropriate	AS 22 does not deal with this aspect.
4.	Investments in subsidiaries, associates and joint ventures	As per Ind AS 12, DTL is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if certain conditions are satisfied.	AS 22 does not deal with this aspect.

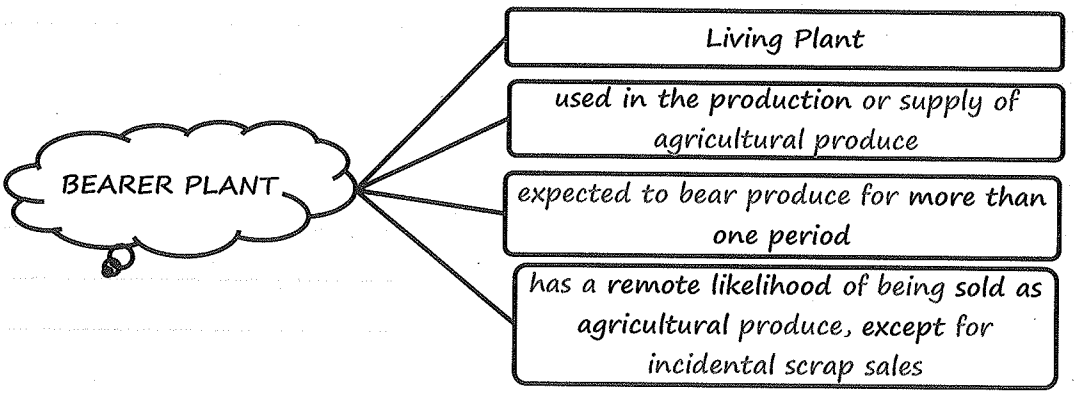
5.	Elimination of profit and losses resulting from the intra-group transactions	As per Ind AS 12, deferred tax should be recognised on temporary differences that arise from the elimination of URP resulting from the intra- group transactions.	As per AS 22, deferred tax in consolidated financials are a simple aggregation of the deferred tax recognised by the group entities
6.	DTA/DTL arising out of Revaluation of Assets	Ind AS 12 requires that DTA/DTL arising from revaluation of non- depreciable assets shall be measured at tax rate applicable on sale of asset rather than through use.	AS 22 does not deal with this aspect.
7.	Changes in Entities Tax Status or that of its Shareholders	Ind AS 12 provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.	AS 22 does not deal with this aspect.
8.	Guidance for Recognition of Deferred Tax in a Tax Holiday Period	Ind AS 12 does not deal with these situations.	AS 22 specifically provides guidance regarding recognition of deferred tax in situations of Tax Holiday under Sections 80-IA & 80-IB and Sections 10A and 10B of the Income Tax Act, 1961. Similarly, AS 22 provides guidance regarding recognition of deferred tax asset in case of loss under the head 'capital gains'
9.	In case of a company paying tax under section 115JB.	Ind AS 12 does not deal with this aspect.	AS 22 specifically provides guidance regarding tax rates to be applied in measuring DTA/DTL in a situation where a company pays tax under section 115JB.
10.	Guidance on Uncertainty Over Income Tax Treatment	Ind AS 12 gives special guidance on it.	AS 22 gives no such guidance.

"Your limitation—it's only your imagination"

IND AS 16
PROPERTY PLANT AND EQUIPMENT

1. DEFINITIONS





NOTE: When bearer plants are no longer used to bear produce, they might be cut down and sold as scrap. For example, - Use as firewood. Such incidental scrap sales would not prevent plant from satisfying the definition of Bearer Plant.

2. RECOGNITION CRITERIA

PPE RECOGNISED AS ASSET IF AND ONLY IF:

- PROBABLE FUTURE ECONOMIC BENEFITS, AND
- COSTS CAN BE MEASURED RELIABLY

❖ GUIDANCE ON WHETHER FOLLOWING ITEMS ARE TO BE RECOGNISED AS PPE:

SPARE PARTS, STAND-BY EQUIPMENT AND SERVICING EQUIPMENT

Treated as PPE ONLY If Definition and Recognition of PPE met.

Otherwise Treated as Inventory (IND AS 2)

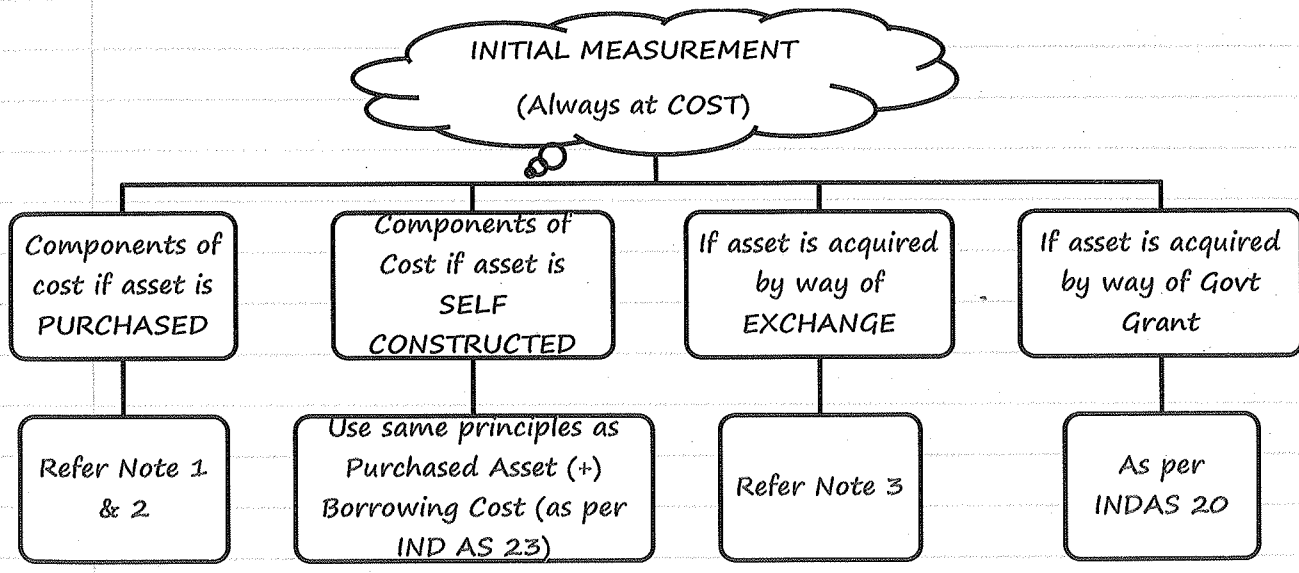
AGGREGATION OF INDIVIDUALLY INSIGNIFICANT ITEMS (MOULDS, TOOLS, DIES)

Aggregate individually insignificant items, such as moulds, tools and dies, and apply the criteria to the aggregate value, IF APPROPRIATE

SAFETY AND ENVIRONMENTAL EQUIPMENT

They Indirectly assist other assets to achieve FEBs, hence PPE.

3. MEASUREMENT



NOTE 1: COMPONENTS OF COST IF ASSET IS PURCHASED

a. Purchase Price (LESS Trade discounts and Rebates)
b. Non-refundable Taxes
c. All Directly Attributable Expenses
   - INCLUDES : Employee Costs, Cost of site, Delivery, installation, cost of testing less proceeds from sale of product arising from test production, Professional Fees, (Amendment / Clarification: The excess of net proceeds from sale of items produced during testing will not be credited to P&L i.e. it will be deducted from cost of PPE)

- DOES NOT INCLUDE: Inauguration expenses, Advertising and promotional costs, Training costs, Administration and other general overheads, Initial operating losses, Costs of relocating entity's operations, the income and related expenses of using under construction PPE for eg. Using as car parking site – should be recognized in the income statement.

  Cash Discount if any will be transferred to P&L.

d. Cost of decommissioning/dismantling and site restoration AT PRESENT VALUE (Also at each year end unwind the discount as the above cost of decommissioning has been recorded at PV)

JE for unwinding at each year end
Finance Charge Dr.
To Prov for Decommissioning

NOTE 2: DEFERRED CONSIDERATION

- If payment is deferred beyond normal credit terms then the cost of PPE will be cash price equivalent at the recognition date.
- Difference between the cash price at recognition date and the total payment is recognised as interest expense over the credit period.

NOTE 3: EXCHANGE OF ASSETS

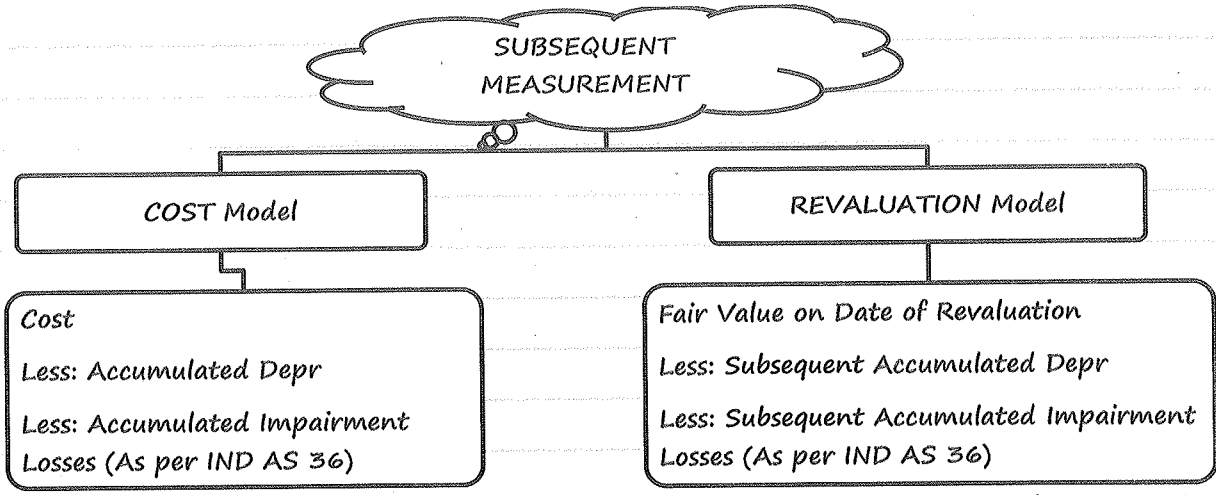
1st Pref: FV of Asset Given Up + Cash Paid (if any)
2nd Pref: FV of Asset Acquired,
3rd Pref: Carrying amount of Asset Given Up + Cash Paid (if any)

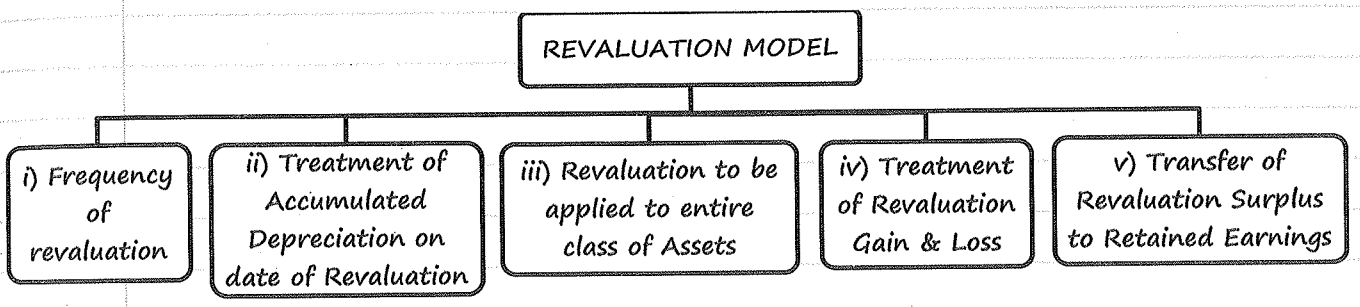
} Provided the transaction DOES NOT Lack Commercial Substance*

If Transaction lacks Commercial Substance,

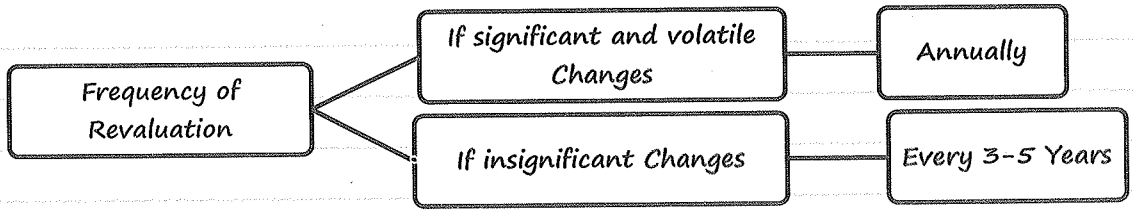
Only 1 Pref in such case: Carrying amount of Asset Given Up + Cash Paid (if any)

* A transaction lacks commercial substance is future cash flows (Risk, timing & Amount) are NOT expected to change as a result of the transaction. (i.e. Cash flows from New Acquired asset are going to be same as the Cash flows from the Old Transferred Asset)

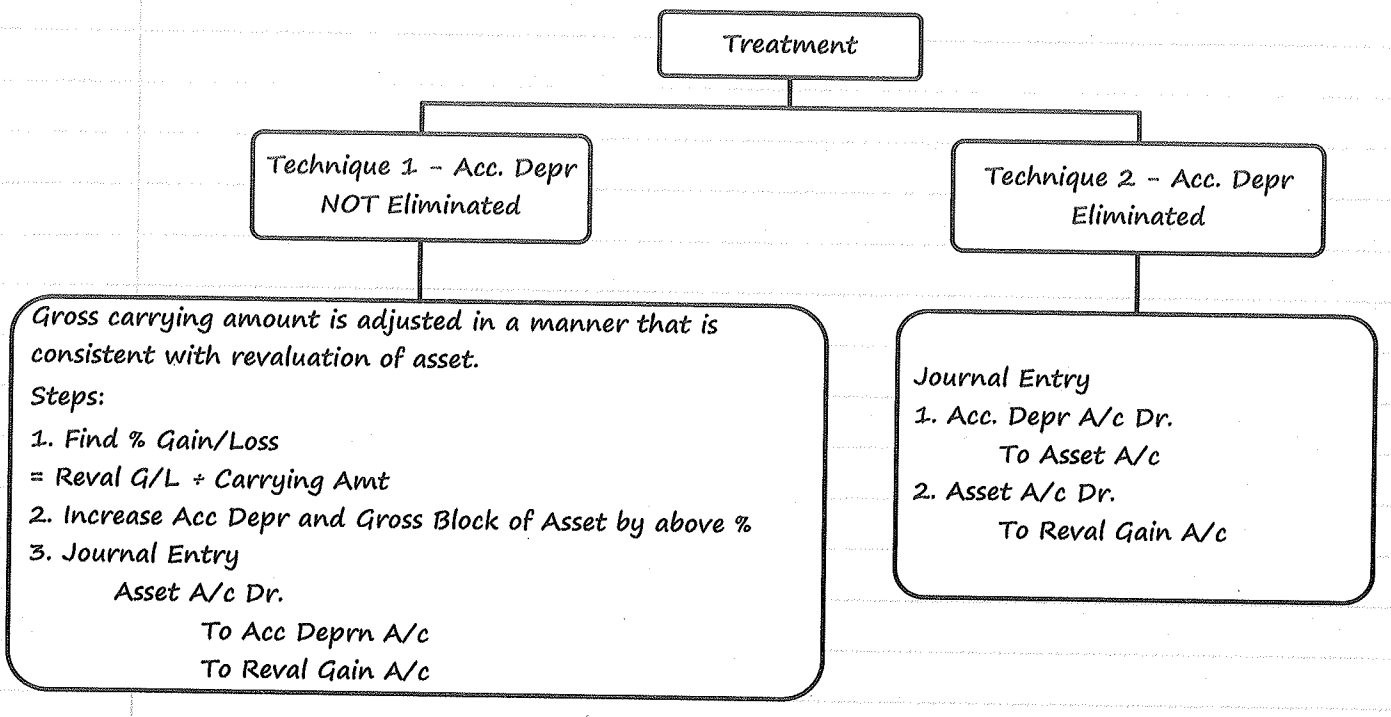




i) FREQUENCY OF REVALUATION



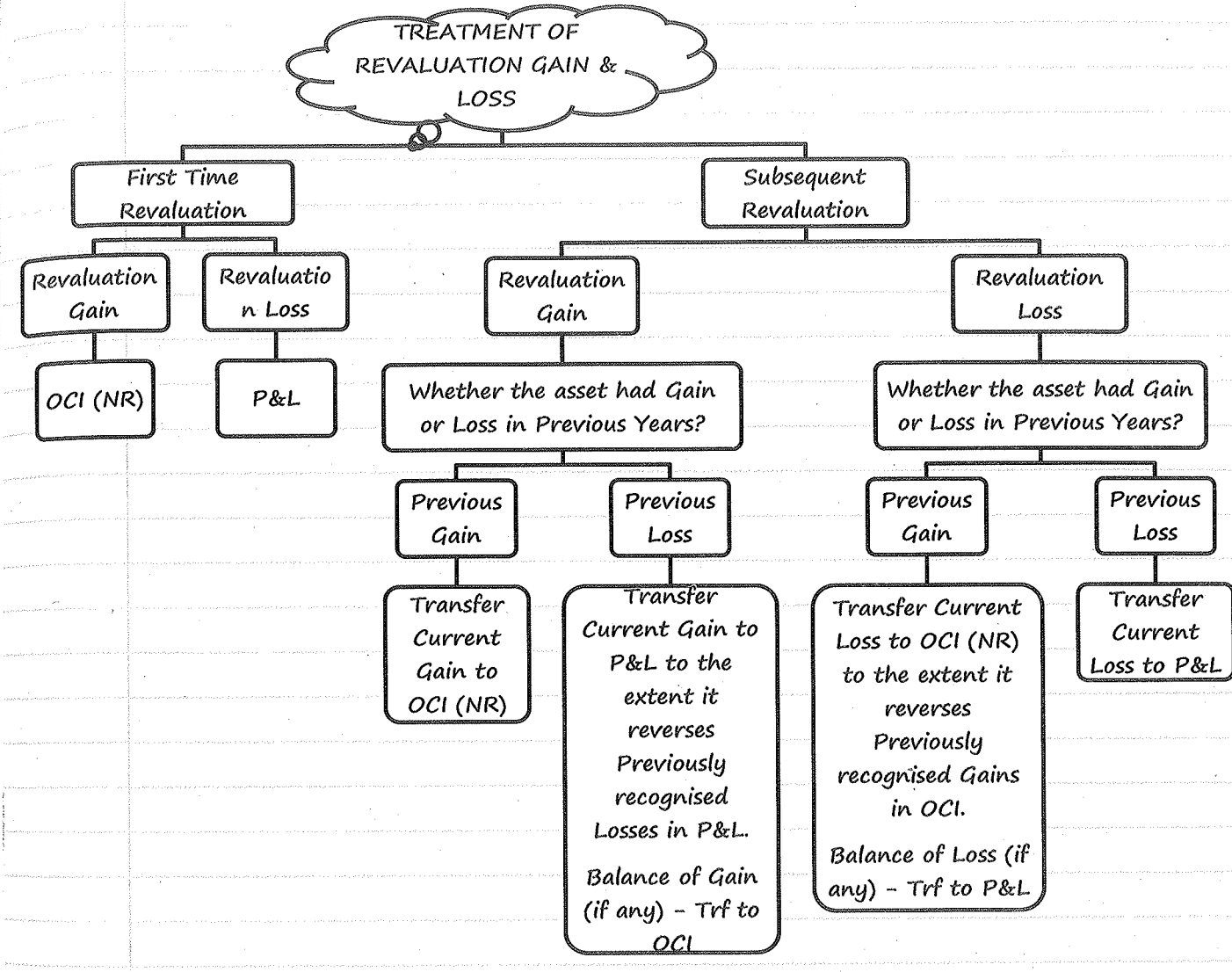
ii) TREATMENT OF ACCUMULATED DEPRECIATION ON DATE OF REVALUATION



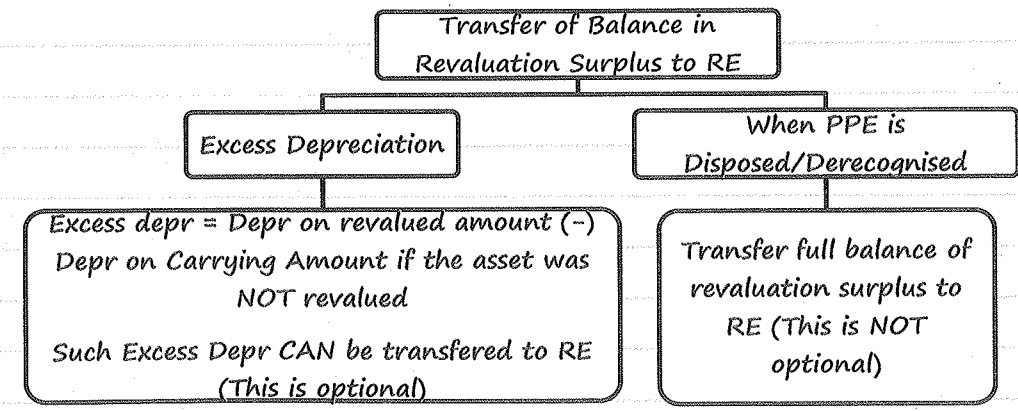
iii) REVALUATION TO BE APPLIED TO ENTIRE CLASS OF ASSETS

- If an item of PPE is revalued, the entire class to which that asset belongs shall be revalued.
- A class of PPE is grouping of similar nature and use in an entity's operation. (Examples of separate classes: Land, Land & Building, Machinery, Ships, Aircraft, Motor Vehicles, Furniture & Fixtures, Office Equipment, Bearer Plant.)
- Industrial building (such as factories) and office buildings can be classified as different classes of PPE since they have different characteristics.

iv) TREATMENT OF REVALUATION GAIN & LOSS



v) <u>TRANSFER OF REVALUATION SURPLUS TO RETAINED EARNINGS</u>

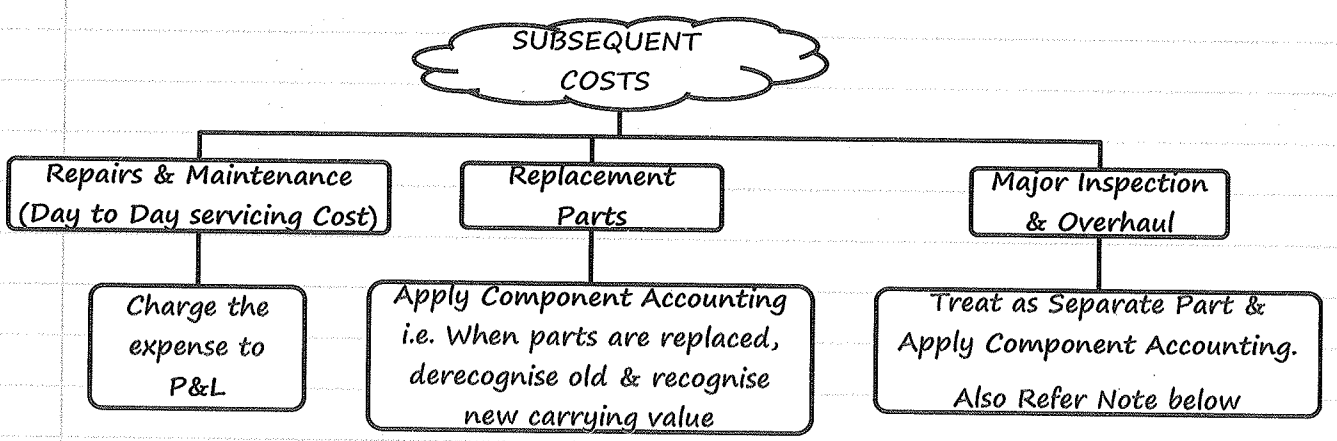


Caution: The above Transfers will NOT take place through P&L

4. COMPONENT ACCOUNTING

- Each Significant part of PPE with a cost that is significant in relation to the total cost should be depreciated separately. Even if the cost is NOT significant, then also component accounting can be followed.
- If significant parts have same useful life and same depreciation method, then such parts can be depreciated together.
- When significant part/component is replaced, old carrying value of replaced part will be de-recognised and new carrying value will be recognised.

5. SUBSEQUENT COST INCURRED

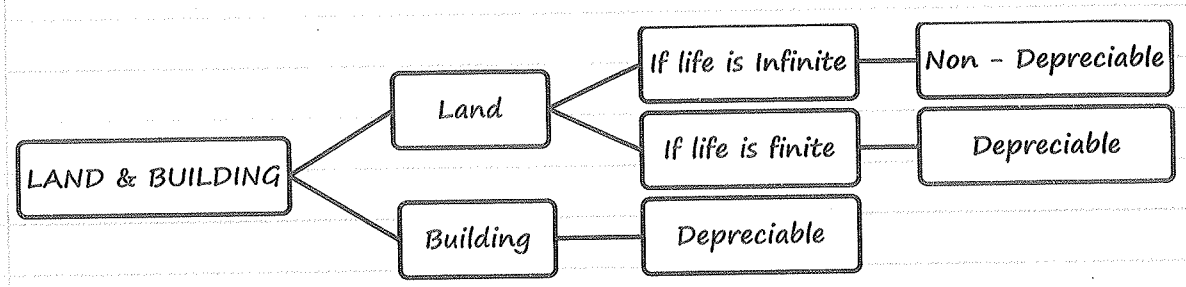


Note: In initial Cost of PPE, the cost of inspection is already included, therefore depreciate that cost separately applying component accounting.

When further inspection is carried out, the cost of new inspection is recognised in the carrying amount of PPE and remaining carrying amount (if any) of the previous inspection is derecognised.

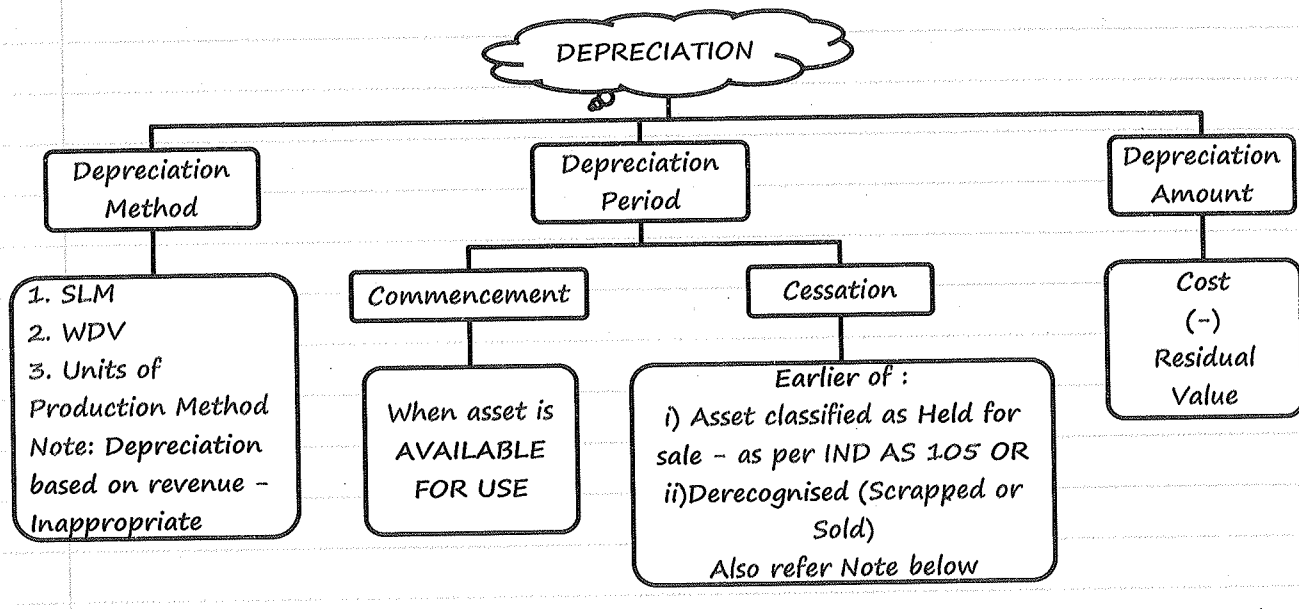
6. LAND & BUILDING

- These are separable assets and are separately accounted, even when they are acquired together.



7. DEPRECIATION

- It is systematic allocation of DEPRECIABLE AMOUNT to P&L over its Useful Life.



Note: Depreciation DOES NOT cease when an asset is idle or retired from use for sale (unless it is fully depreciated). However, depreciation may be zero under the "units of production method".

8. RESIDUAL VALUE

- It is estimated value of depreciable assets at the end of its useful life.
- If residual value exceeds carrying amount, then depreciation is zero.

9. USEFUL LIFE

- Number of years asset is likely to remain in service and provide benefits.
- Useful life may be shorter than economic life.

10. ANNUAL REVIEW AS PER IND AS 8 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- Depreciation Method, Residual Value & Useful Life should be reviewed at each year end.
- If any Change – Then it should be accounted for as CHANGE IN ACCOUNTING ESTIMATE

11. IMPAIRMENT

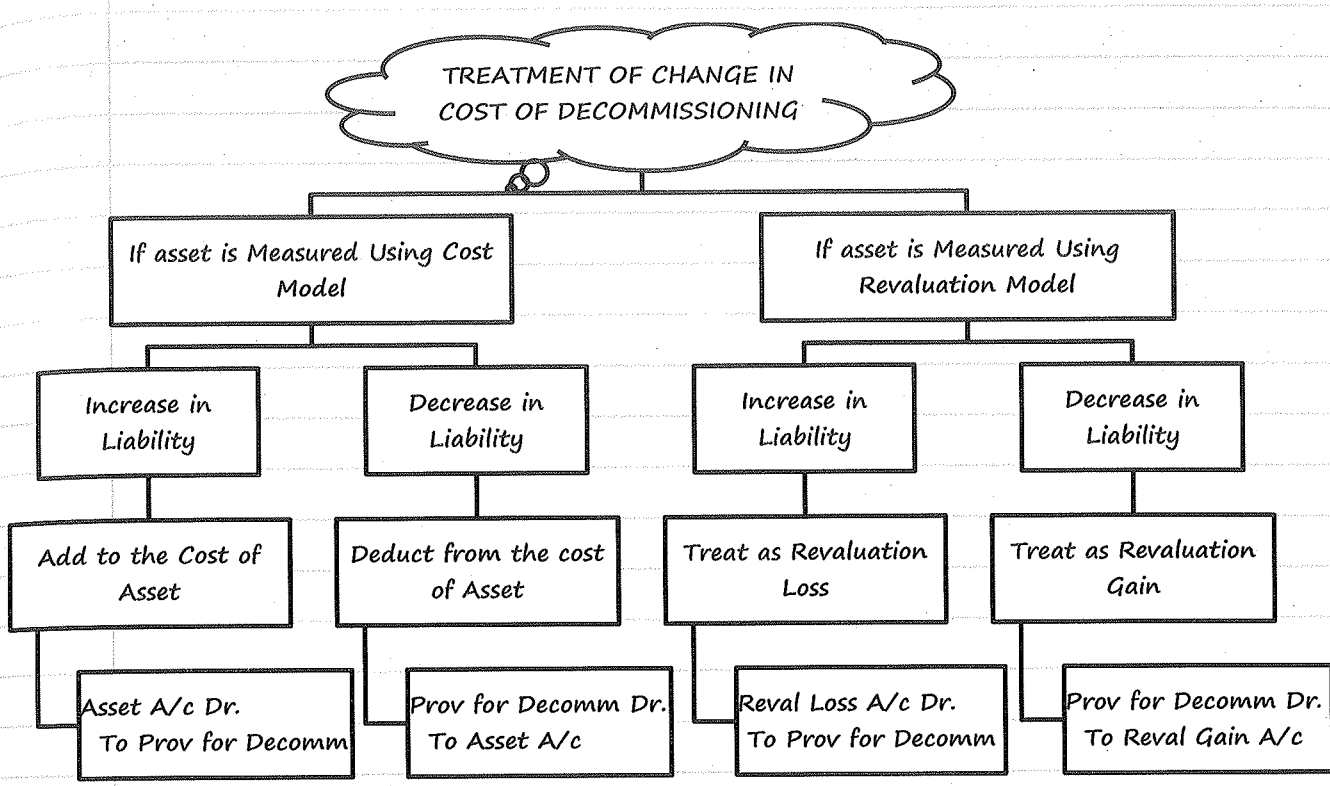
- Impairment testing and impairment losses are accounted as per Ind AS-36.
- In certain circumstances a third party will compensate an entity for an impairment loss (Eg. Insurance for fire damage). Such Compensation received will be recognised in P&L.
- Recognizing the compensation as deferred income or deducting it from the impairment loss or from the cost of a new asset is NOT appropriate.

12. DERECOGNITION

- Derecognise the Asset when:
  i)Disposed OR ii)No FEBs are expected
- Gain/Loss on Derecognition = Net Proceeds (-) Carrying Amount
  Gain/Loss should be transferred to P&L, it should NOT be classified as Revenue it will be shown under the head of Other Income.

13. CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES (Appendix A)

- Changes in cost of decommissioning may result from change in timing or amount of outflow or change in discount rate. It shall be accounted for as under:



"The future depends on what you do today"

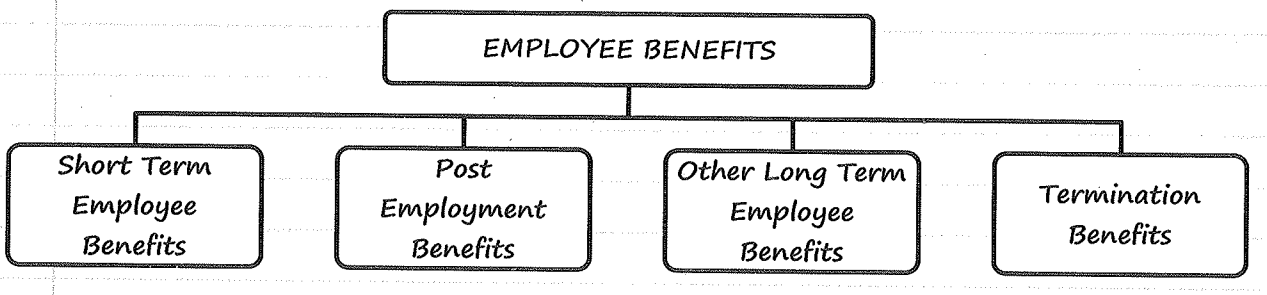
IND AS 19
EMPLOYEE BENEFITS

1. SCOPE

☞ This Standard shall be applied by an employer in accounting for all employee benefits other than:

- Benefits to which Ind AS 102, Share-based Payment, is applicable.
- Reporting by employee benefit plans.

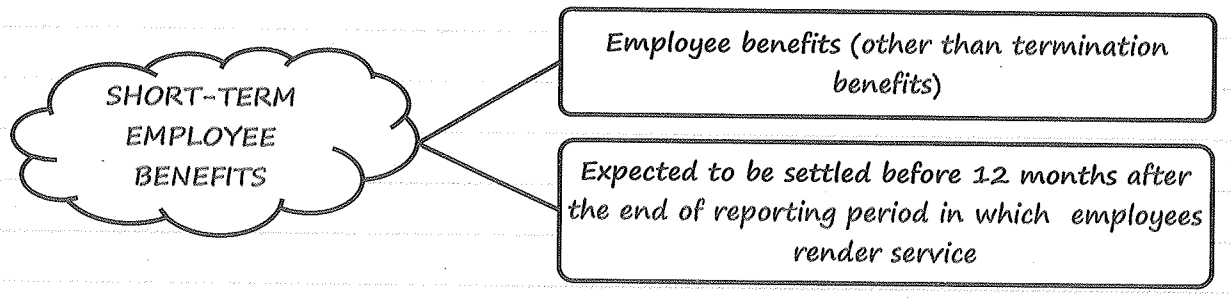
2. EMPLOYEE BENEFITS



NOTE: For the purpose of this Standard, employees include directors and other management personnel.

3. SHORT-TERM EMPLOYEE BENEFITS

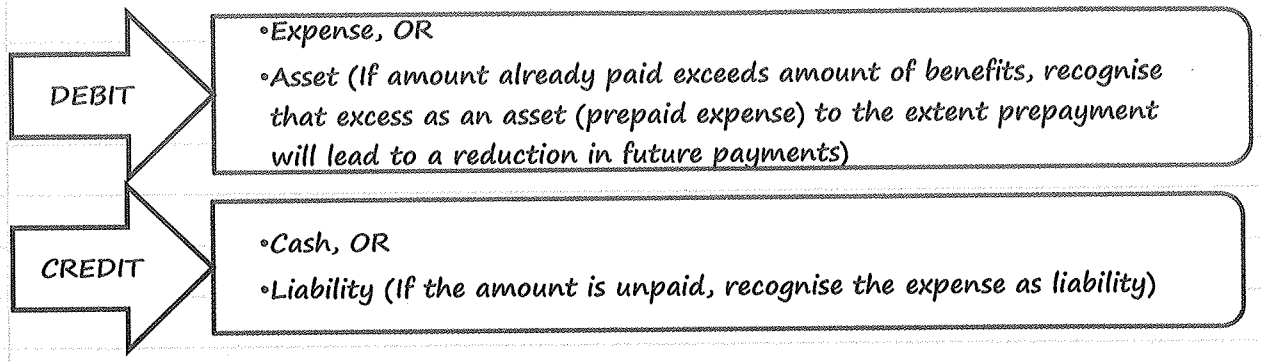
A. DEFINTION



☞ Short-term employee Benefits include:

- Wages & salaries, Paid annual & sick leave, Profit-sharing and bonuses, etc.

B. RECOGNITION AND MEASUREMENT OF SHORT-TERM BENEFITS



☞ NOTE:

a) Amount will NOT be discounted

b) If employee was involved in construction of Asset or Inventory – The expense will form part of the Cost of Asset (IND AS 16) OR Cost of Inventory (IND AS 2).

C. SHORT -TERM PAID ABSENCES

i) ACCUMULATING PAID ABSENCES

☞ These are the absences that are carried forward and can be used in future periods if the employee is not able to use them in current period. They can be either:

- Vesting: In this case, employees are entitled to a cash-payment for the unutilised leaves; and
- Non-vesting: In this case, employees are not entitled to a cash payment for unused leaves.

☞ An entity shall Recognise & Measure in current year the additional amount that the entity expects to pay as a result of the Unused Paid Leaves, that has accumulated at the end of the reporting period.

ii) NON-ACCUMULATING PAID ABSENCES

☞ These are the absences that do not carry forward and they will lapse if the current period's leave entitlement is not used in full by the employee.

☞ They do not entitle employees to a cash payment for unused entitlement on leaving the entity. Therefore, entity shall NOT recognise any liability or expense.

D. PROFIT-SHARING AND BONUS PLANS

☞ Expected costs of profit-sharing and bonus plans shall be recognised only when:

a) The entity has a present legal or constructive obligation to make such payments as a result of past events; and

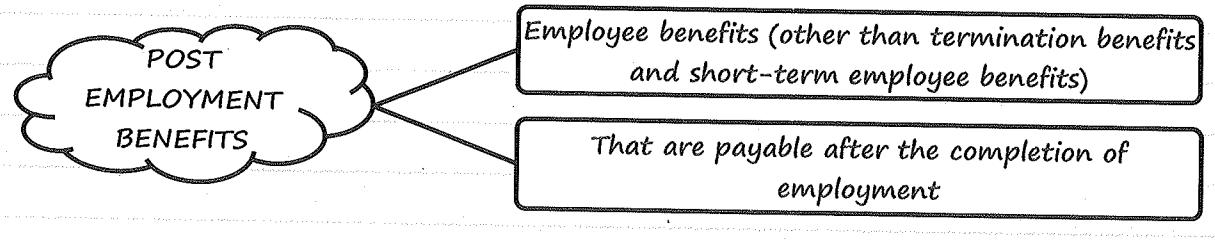
b) A reliable estimate of the obligation can be made by the entity.

☞ An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans NOT as a distribution of profit but as an expense.

NOTE: If profit-sharing & bonus payments are not settled before the 12 months after the end of the reporting period in which the employees render the related service, those payments are considered as other long –term employee benefits.

4. POST-EMPLOYMENT BENEFITS

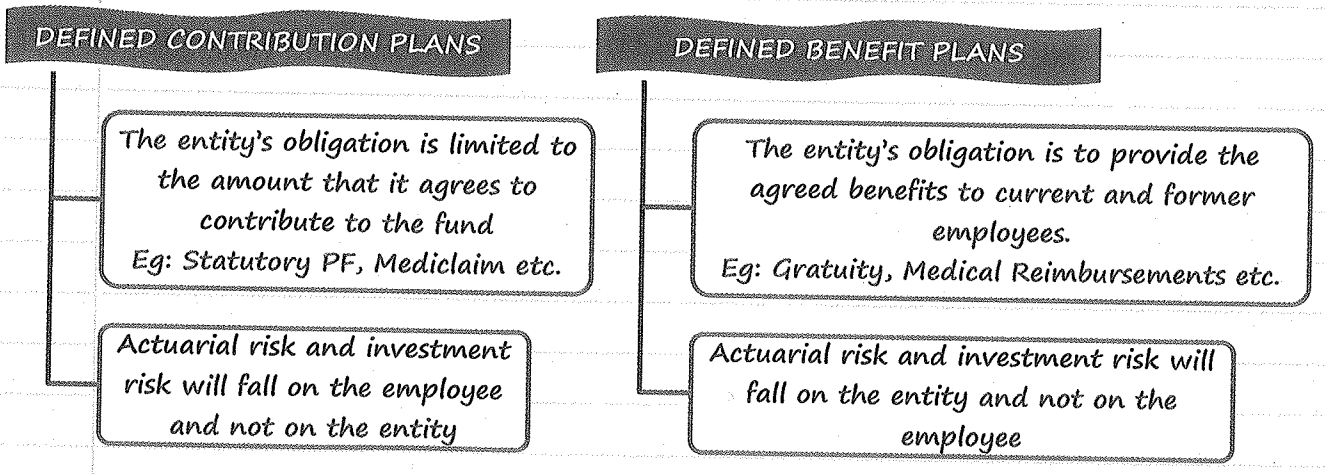
A. DEFINTION



☞ Post-employment benefits include:

- Retirement benefits such as pensions & lump sum payments on retirement; and
- Other post-employment benefit such as post-employment life insurance and post-employment medical care.

B. CLASSIFICATION OF POST EMPLOYEMENT BENEFIT PLANS



NOTE:

- Actuarial Risk: It is the risk that benefit (liability for entity) amount will be less/more than expected.
- Investment Risk: It is the risk that the investment amount would not be sufficient to pay the liability.

C. ACCOUNTING FOR DEFINED CONTRIBUTION PLANS

- The entity shall recognise the contribution payable to a defined contribution plan by EBE

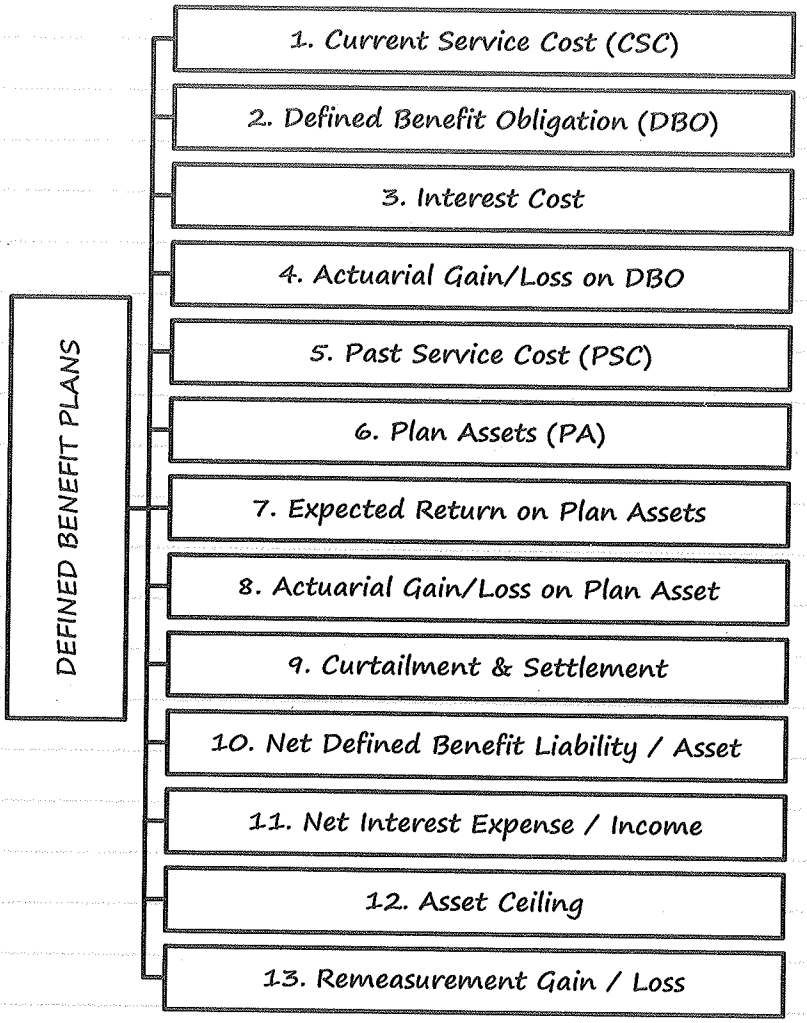
(Exp.) A/c Dr.

To Cash / Liability (if unpaid)

- Obligation (Liability) if falls due within 12 months from the end of reporting period are measured on an undiscounted basis
- Discounting is done where the obligation falls due AFTER 12 months after the end of the annual reporting period in which the employees render the related service

D. ACCOUNTING FOR DEFINED BENEFIT PLANS

- Projected Unit Credit Method (PUCM) is used by an entity to determine the present value of its defined benefit obligations and related current service cost and past service cost.



EXAMPLE (To understand the above terms in a better way)

XYZ Ltd. Limited hired Mr. Aakash for Salary of ₹ 10 lakhs per annum. He is entitled to Gratuity which will be 1% x Final Drawn Salary per annum x No. of completed years of service.

Expected growth rate (increment) in salary each year = 10%

Expected Employment Period = 5 years

Discount Rate = 10%

SOLUTION:

Gratuity Payable = 1% x Final Drawn salary per annum x No of completed years of service

Final Drawn Salary = 10 lakhs x $(1.10)^4$ = 14,64,100

(Note: Employee will get only 4 increments and Not 5 as he will get the 1st increment in Year 2 Beginning and so in 5 years he will get only 4 increments)

Therefore, Gratuity Payable = 1% x 14,64,100 x 5years = ₹ 73,200

Expense of 73200 is for 5 years therefore will be booked each year because even if it is payable after 5 years (Expected Retirement), it is earned by employee by working for 5 years. Also, we follow accrual basis of accounting & not cash basis.

Expense to be recognised each year = 73,200 / 5 = 14640 each year.

Year End	Cash Flow		Discounting Factor	Present Va (Approx.)
1	14,640	Payable after 4 years (as we are book exp at the end of year 1)	0.683	10,000
2	14,640	Payable after 3 years	0.751	11,000
3	14,640	Payable after 2 years	0.826	12,100
4	14,640	Payable after 1 year	0.909	13,300
5	14,640	Payable after 0 year	1	14,640

NOTE: We discounted the expense to be booked each year as they are to be payable after 12 months from the end of reporting period.

❖ JOURNAL ENTRIES AND MEANING OF KEY TERMS

a. AT THE END OF YEAR 1

i) Booking Gratuity Expense

Current Service Cost (P&L – EBE) A/c Dr. 10,000

To Defined Benefit Obligation (DBO) A/c 10,000

1. CURRENT SERVICE COST (CSC)

☞ It is the increase in the present value of the defined benefit obligation resulting from

employee service in the current year.

2. DEFINED BENEFIT OBLIGATION (DBO)

☞ It is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

b. AT THE END OF YEAR 2

i) Unwinding of Discount

Interest Cost A/c (P&L – EBE) Dr.	1,000	
To DBO A/c		1,000

(10,000 x 10%)

ii) Booking of Gratuity Expense for Year 2

CSC A/c Dr.	11,000	
To DBO A/c		11,000

3. INTEREST COST ON DBO

☞ It is increase in the value of DBO because of passage of time. (Opening PV of DBO x Discount Rate).

c. AT THE END OF YEAR 3

i) Unwinding of Discount

Interest Cost A/c Dr.	2,200	
To DBO A/c		2,200

(Opening DBO in Year 3 i.e. (10,000 + 1,000 + 11,000) x 10%)

ii) Booking of Gratuity Expense for Year 3

CSC A/c Dr.	12,100	
To DBO A/c		12,100

d. AT THE END OF YEAR 4

i) Unwinding of Discount

Interest Cost A/c Dr.	3,630	
To DBO A/c		3,630

(Opening DBO in Year 4 i.e. 36,300 x 10%)

ii) Booking of Gratuity Expense for Year 4

CSC A/c Dr.	13,310	
To DBO A/c		13,310

e. AT THE END OF YEAR 5

i) Unwinding of Discount

Interest Cost A/c Dr.	5,324	
To DBO A/c		5,324

(Opening DBO in Year 5 i.e. 53,240 x 10%)

ii) Booking of Gratuity Expense for Year 5

CSC A/c Dr.	14,640	
To DBO A/c		14,640

☞ DBO Balance at the end of 5th Year = 73,200 (Approx.)

iii) On payment of Gratuity

DBO A/c Dr.	73,200	
To Cash / Bank A/c		73,200

NOTE:

The above example is solved assuming:

- There are no changes in actuarial assumptions
- No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date.

4. ACTUARIAL GAINS & LOSSES ON DBO

☞ These are changes in the PV of DBO resulting from actuarial assumption change, experience adjustments etc. (Future salary increment, number of years of service, discount rate, mortality rate etc.)

a) If changes in assumption lead to INCREASE in present value of DBO	b) If changes in assumption lead to DECREASE in present value of DBO
•Actuarial loss on DBO(OCI-NR)A/c Dr. To DBO A/c	•DBO A/c Dr. To Actuarial Gain on DBO(OCI-NR)A/c

5. PAST SERVICE COSTS (PSC)

☞ These are changes in the PV of DBO for employee service in prior periods, resulting from a plan amendment (Example Gratuity of 1% was increased to 3%) or a curtailment (discussed later in point 9).

a) If amendment leads to INCREASE in present value of DBO	b) If amendment leads to DECREASE in present value of DBO
•PSC A/c (P&L – EBE) Dr. To DBO A/c	•DBO A/c Dr. To PSC A/c (P&L – EBE)

6. PLAN ASSETS (PA)

☞ These are assets which are created (invested) exclusively to fund the DBO. These assets can be used to only for settlement of DBO and are not available to entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity EXCEPT when plan assets are in excess of DBO.

☞ Plan Assets should be measured at Fair Value.

a) For amount contributed/invested in plan assets	b) Withdrawal of funds from plan assets to pay the benefits to employee
•Plan Assets A/c Dr. To Bank A/c	•Bank A/c Dr. To Plan Assets A/c

7. EXPECTED RETURN ON PLAN ASSETS

☞ Under IND AS 19, rate of expected return would be the same as the discounting rate used to find the PV of DBO.

☞ It is calculated as: Plan Assets x Discount Rate (Expected Rate of Return)

Journal Entry to Book Expected Return
•Plan Assets A/c Dr. To Interest Income A/c (P&L – EBE)

8. ACTUARIAL GAIN/LOSS ON PLAN ASSETS

☞ This is the return on plan assets excluding expected return. Since Plan assets are to be valued at Fair Value, there will be difference between expected return and actual return which is known as actuarial gain/loss on plan assets.

a) If actual return is greater than expected return, then there will be actuarial gain	b) If actual return is less than expected return, then there will be actuarial loss
•Plan Assets A/c Dr. To Actuarial Gain (OCI-NR) A/c	•Actuarial Loss (OCI-NR) A/c Dr. To Plan Assets A/c

❖ ACTUAL RETURN ON PLAN ASSETS

☞ Expected Return on PA (+) Actuarial Gain on PA (–) Actuarial Loss on PA

(Actual Return Comprises all the following: Expected Interest Income/Dividend Income (+/–) Realised Gains/Loss (+/–) Unrealised Gain/loss (–) Cost of managing PA (–) Taxes)

9. CURTAILMENT & SETTLEMENT

CURTAILMENT	SETTLEMENT
Curtailment arises when an entity significar reduces the number of employees covered b plan. A curtailment may arise from closing o plant, discontinuance of an operation termination or suspension of a plan.	A settlement occurs when an entity settles Defined Benefit Plan before the due date. (Example: DBO of 1,00,000 settled 90,000)

Journal Entry	Journal Entry to withdraw funds from plan assets
DBO A/c Dr.	Bank A/c Dr. 90,000
To Gain on Curtailment / PSC (P&L–EBE)	To Plan Assets A/c 90,000
	Journal Entry to Settle DBO
	DBO A/c Dr. 1,00,000
	To Bank A/c 90,000
	To Gain on Settlement (P&L-EBE) 10,000

10. NET DEFINED BENEFIT LIABILITY / ASSET

- Under IND AS 19, the Plan Assets and PV of DBO are netted off and presented in Balance sheet as Net Defined Benefit Asset / Liability
- If PV of DBO are Greater than Plan Assets then it is Net Defined Benefit Liability (also known as Net Deficit) which is to be presented on liability side.
- If Plan Assets are Greater than PV of DBO, then it is Net Defined Benefit Asset (also known as Net Surplus) which is to be presented on Asset side subject to Asset Ceiling (discussed later in Point 12)

11. NET INTEREST EXPENSE / INCOME

- Under IND AS 19, interest rate is same for booking interest expense (unwinding of discount on DBO) and booking interest income (expected return on Plan Assets)
- If interest expense is more than interest income, then in P&L under EBE Net Interest Expense (Interest Exp (–) Interest Income) will be shown.

12. ASSET CEILING

- If plan assets are greater than DBO (i.e. Net Defined Benefit Asset), then excess should be recognised as an asset if and ONLY IF:
  - Entity has the right to recover such excess in the form of refunds; OR
  - Entity can reduce its future contributions to the plan.
- Asset ceiling is the maximum amount that is available in the form of refunds from the plan or reductions in future contributions.
- Net Defined benefit asset is the lower of:

- Plan Assets (–) DBO; and
- Asset Ceiling

☞ This means the Net Defined Benefit Asset (Net Surplus) to be shown in the balance sheet should be restricted to asset ceiling if the surplus is greater than the asset ceiling and difference would be adjusted in OCI (NR) as a Remeasurement Loss.

☞ In case of Net Defined Benefit Liability (Net Deficit), asset ceiling is irrelevant.

EXAMPLE

DBO = 1,00,000

Plan Assets = 1,10,000

Asset Ceiling = 4,000

SOLUTION:

Net Defined Benefit Asset (Net Surplus) Before Adjustment of Asset Ceiling = 10,000

However, as the asset ceiling is 4,000, an adjustment should be made for 6,000 (10,000 (–) 4000)

Net Defined Benefit Asset (Net Surplus) After Adjustment of Asset Ceiling = 4,000

JOURNAL ENTRY

Remeasurement Loss A/c (OCI-NR) Dr. 6,000

To Plan Assets (Net Surplus) 6,000

13. REMEASUREMENT GAIN / LOSS

☞ It Comprises:

- Actuarial gains & losses on DBO;
- Actuarial gains & losses on plan assets; AND
- Any change due to asset ceiling

❖ DEFINED BENEFIT PLAN – PRESENTATION SUMMARY

STATEMENT OF PROFIT & LOSS – DRAFT		
A.	PROFIT & LOSS	

	Employee Benefit Expense	
	Current Service Cost	XX
(+/-)	Increase/Decrease in Past Service Cost	XX
	(Due to Plan Amendment, Curtailment or Settlement)	
(+/-)	Net Interest Expense / Income	XX
	(Interest Expense on DBO (-) Interest Income on Plan Asset)	—
		XX
B.	OCI -NR	
	Remeasurement Gain / loss	
(+/-)	Actuarial gains & losses on DBO;	XX
(+/-)	Actuarial gains & losses on plan assets; AND	XX
(-)	Changes (Loss) due to asset ceiling	XX
		XX

BALANCE SHEET		
A.	LIABILITY	
	NET DEFINED BENEFIT LIABILITY	
	Defined Benefit Obligation (Note 1)	XX
(-)	Plan Asset (Note 2)	XX
		XX
B.	ASSET	
	NET DEFINED BENEFIT ASSET	
	Plan Asset	XX
(-)	Defined Benefit Obligation	XX
	Net Defined Benefit Asset (Before Asset Ceiling Adjustment)	XX
(-)	Changes due to Asset Ceiling	XX
	Net Defined Benefit Asset (After Asset Ceiling Adjustme	XX

* IND AS 19 DOES NOT specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

NOTE 1 – DEFINED BENEFIT OBLIGATION		
	Opening Defined Benefit Obligation	XX
(+)	Interest Expense	XX
(+)	Current Service Cost	XX
(+)	Increase in Past Service Cost	XX
(–)	Decrease in Past Service Cost	(XX)
(–)	Gain on Curtailment / Settlement	(XX)
(–)	Benefit Paid	(XX)
(–)	Actuarial Gain on DBO	(XX)
(+)	Actuarial Loss on DBO	XX
	CLOSING DEFINED BENEFIT OBLIGATI	XX

NOTE 2 – PLAN ASSET		
	Opening Plan Assets	XX
(+)	Expected Return on Plan Assets (Interest Income)	XX
(+)	Contributions to Plan Assets	XX
(–)	Withdrawals to Pay Benefits	(XX)
(+)	Actuarial Gain on Plan Assets	XX
(–)	Actuarial Loss on Plan Assets	(XX)
	CLOSING FAIR VALUE OF PLAN ASSE	XX

❖ ATTRIBUTION OF CURRENT SERVICE COST TO EACH YEAR OF SERVICE

☞ The attribution of current service cost to a year of service should be done only if the unit of service rendered in that period gives rise to an additional unit of benefit to employee (i.e. liability for entity)

☞ If the employees service in later years gives rise to a higher level of benefits than the earlier years, an entity is required to attribute benefits over a straight-line basis over the eligible period.

☞ Eligible Period:

- Starts from – the date when service by the employee leads to benefit accrual AND
- Ends on – the date when further service by the employee does not give rise to any additional benefit entitlement.

❖ SPECIAL PLANS

MULTI-EMPLOYER PLANS	GROUP PLANS	STATE PLANS	INSURED BENEFITS
•These are plans that pool the assets contributed by various entities (not group companies) and use those assets to provide benefits to employees of those enitities •These can be DCS or DBS based on terms	•Group Plans that shares risk between entities under common control (Eg: A Parent & its Subsidiaries) •Usually these are DBS, but in some cases it may DCS based on terms	•State Plans are established by legislation to cover all entities and are operated by national or local govt. or another body. (Eg: EPF) •These are usually DCS, but in some cases it may be DBS based on terms.	•Entity obtains insurance from insurance co. towards its retirement benefit plans by paying insurance premium. •If entity has no obligation to pay beyond premium amount, then it will be DCS, Otherwise DBS

*DCS – Defined Contribution Plan, DBS – Defined Benefit Plan

5. OTHER LONG-TERM EMPLOYEE BENEFITS

A. MEANING

☞ Employee benefits which are expected to be settled after 12 months from the end of reporting period.

For example: Long-term paid absences such as sabbatical leave; jubilee or other long-service benefits; long-term disability benefits; profit-sharing and bonuses; deferred remuneration etc.

B. ACCOUNTING

☞ Accounting of Other long-term benefit is same as Defined Benefit Plan under Post Employment Benefit (i.e. using Projected Unit Cost Method) EXCEPT Remeasurement Gain/Loss will be recognised in P&L and not OCI.

☞ The reason being measurement of other long-term employee benefits is NOT usually subject to the same degree of uncertainty as the measurement of post-employment benefits.

6. TERMINATION BENEFITS

A. MEANING

☞ Termination benefits results from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

☞ Employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided

Example: Voluntary Retirement Scheme, Retrenchment Scheme

☞ Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits

B. ACCOUNTING

☞ An entity is required to recognise a liability and expense for termination benefits at the EARLIER of the following dates:

- when the entity can no longer withdraw the offer; OR
- when the entity recognises costs for a restructuring which is within the scope of Ind AS 37.

☞ If the termination benefits are expected to be settled after 12 months after the end of reporting period, discounting should be applied.

NOTE: Only that part of benefit which is exclusively linked to termination can be recorded as termination benefits. If any past of the compensation is linked to employee's future service, then that part should be recorded as a service cost and not termination cost.

❖ EXAMPLE ON TERMINATION BENEFITS

An entity plans to close a factory in 10 months and terminate the employment of all the remaining employees. Because the entity needs the expertise of employees at the factory to complete some contracts, it announces a plan of termination as follows:

- Each employee who stays and renders service until closure of the factory will receive ₹

30,000.

- Employees leaving before closure of the factory will receive ₹ 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 employees to leave before closure.

Therefore, the total expected cash outflows under the plan are ₹ 3,200,000 (ie 20 × ₹ 10,000 + 100 × ₹ 30,000).

SOLUTION:

The entity accounts for benefits provided:

- in exchange for termination of employment as termination benefits; AND
- in exchange for services as short-term employee benefits.

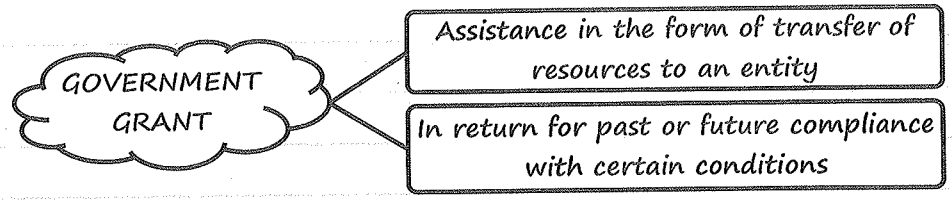
a) TERMINATION BENEFITS: The benefit provided in exchange for termination of employment is ₹ 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure. Therefore, the entity recognises a liability of ₹ 1,200,000 (120 × ₹ 10,000) for termination benefits at the earlier of when plan of termination is announced OR when entity recognises the restructuring costs associated with the closure of the factory.

b) SHORT TERM EMPLOYEE BENEFITS: The incremental benefits that employees will receive if they provide services for full 10 month are in exchange for services provided over that period and will be accounted as short-term employee benefits (to be settled within 12 months from end of reporting period). In this example, discounting is not required, so an expense of ₹ 200,000 (₹ 2,000,000 ÷ 10) is recognised each month for ten months, with a corresponding increase in liability.

"Strive for progress, not perfection"

IND AS 20 – ACCOUNTING FOR GOVERNMENT GRANT & DISCLOSURE OF GOVERNMENT ASSISTANCE

1. MEANING



2. EXCLUSION FROM ACCOUNTING OF GOVERNMENT GRANT

- Govt assistance provided in the form of benefits such as income tax holidays, investment tax credits, accelerated depreciation.
- Govt participation in the ownership of the entity
- Govt grants that will be covered by Ind AS 41 (Agriculture)
- Govt grant which cannot be reliably measured.
- Transactions with government that cannot be distinguished from the normal trading transactions of the entity

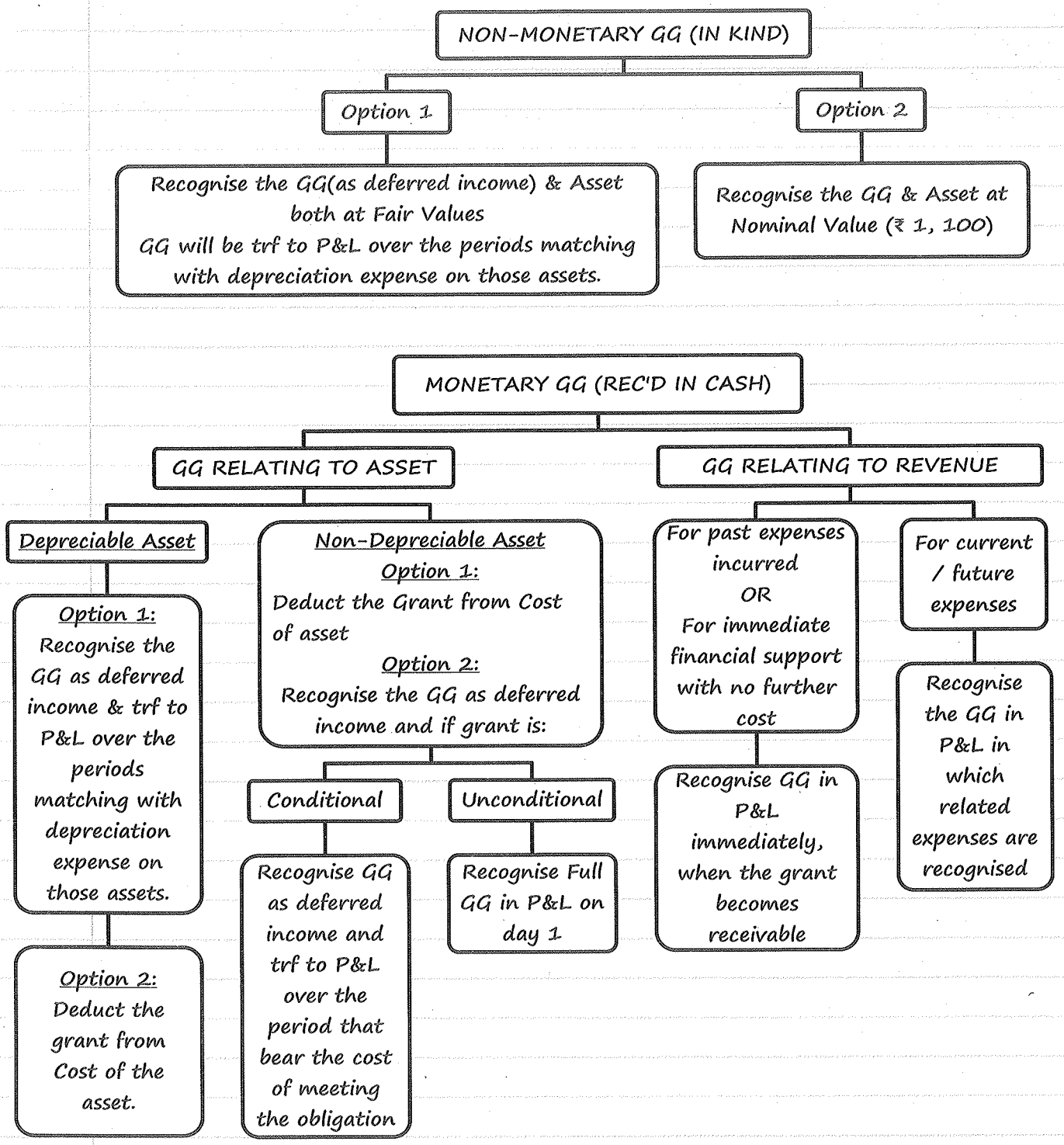
Note: The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.

3. RECOGNITION OF GOVERNMENT GRANT

It should be recognised only when there is a reasonable assurance that:

a) Entity will comply with the conditions attached to the grant; AND
b) Grant will be Received

4. ACCOUNTING FOR GOVERNMENT GRANT



NOTE:

1. GG recognised in P&L may either be shown under the head other income OR alternatively it may be deducted from the related expense.

5. REFUND OF GOVERNMENT GRANT

- Refund should be first written off against unamortised deferred credit balance available, the excess should be transferred to P&L immediately.
- If the on Receipt of Grant it was deducted from the carrying amount of asset, then Refund of Government Grant will be recognised by increasing the Carrying Amount of Asset. (The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of grant shall be recognised immediately in profit or loss.)

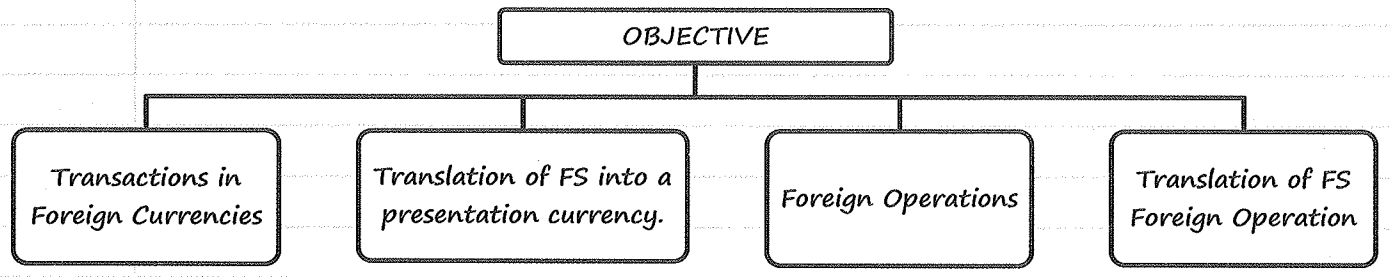
6. LOAN AT LESS THAN MARKET RATE OF INTEREST

- The benefit of a government loan at a below-market rate of interest is treated as a government grant.
- In this case, loan is measured at Fair Value and recognised as per IND AS 109. The benefit of below market rate i.e. difference between the initial carrying amount (Fair Value) as per IND AS 109 & proceeds received is to be treated as GG.
- Such GG is transferred to Deferred Income & Recognised in P&L on a systematic basis over the periods in which the entity recognised the related expenses for which the benefit of the loan (Grant) is intended to compensate.

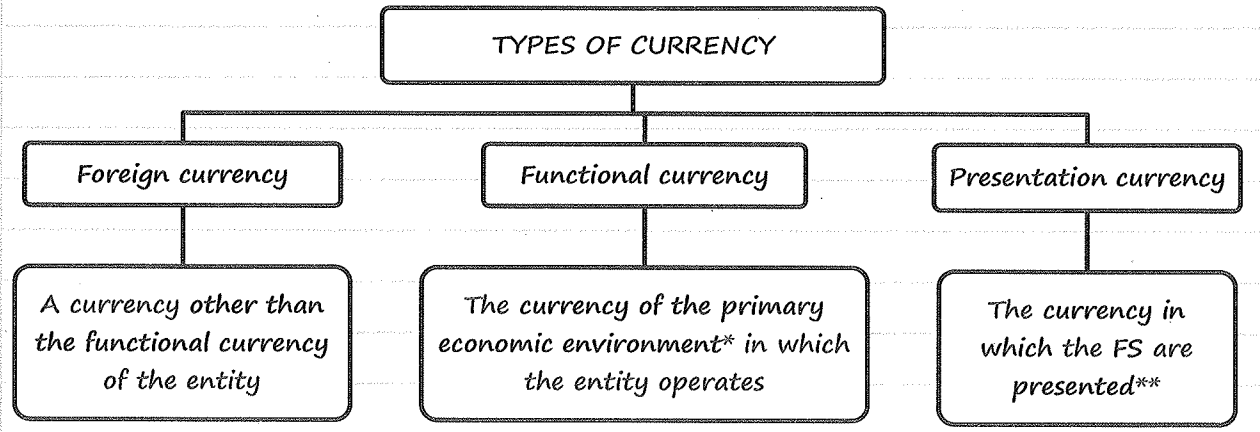
"Education is your ticket to the future; make sure it's first class"

IND AS 21
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1. OBJECTIVE & SCOPE



2. TYPES OF CURRENCY



*Primary Economic Environment – It will normally be the one in which it primarily generates and expends cash. The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency.

** Presentation currency may be different from the entity's functional currency.

3. FUNCTIONAL CURRENCY

☞ An entity measures its assets, liabilities, equity, income and expenses in its functional currency. All transactions in currencies other than the functional currency are foreign currency transactions.

(PRIMARY INDICATORS)

a)the currency:

i)that mainly influences sales prices for its goods & services. This will often be the currency in which sales prices are denominated and settled; and

ii)of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

b)the currency that mainly influences labour, material & other costs of providing goods & services. This will often be the currency in which these costs are denominated and settled.

Other factors that may provide supporting evidence to determine an entity's functional currency are (SECONDARY INDICATORS):

a)the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and

b)the currency in which receipts from operating activities are usually retained.

NOTE:

☞ When the above indicators are mixed and the functional currency is not obvious, the management will be required to use its judgment to determine the functional currency. Management has to give priority to primary indicators before considering the other indicators.

4. ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS

☞ It is a transaction that is denominated or requires settlement in a foreign currency (i.e., a currency other than the functional currency of the entity), including transactions arising when an entity:

a) buys or sells goods or services whose price is denominated in a foreign currency;

b) borrows or lends funds with amounts denominated in a foreign currency; or

c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

A. INITIAL RECOGNITION AT THE TRANSACTION DATE

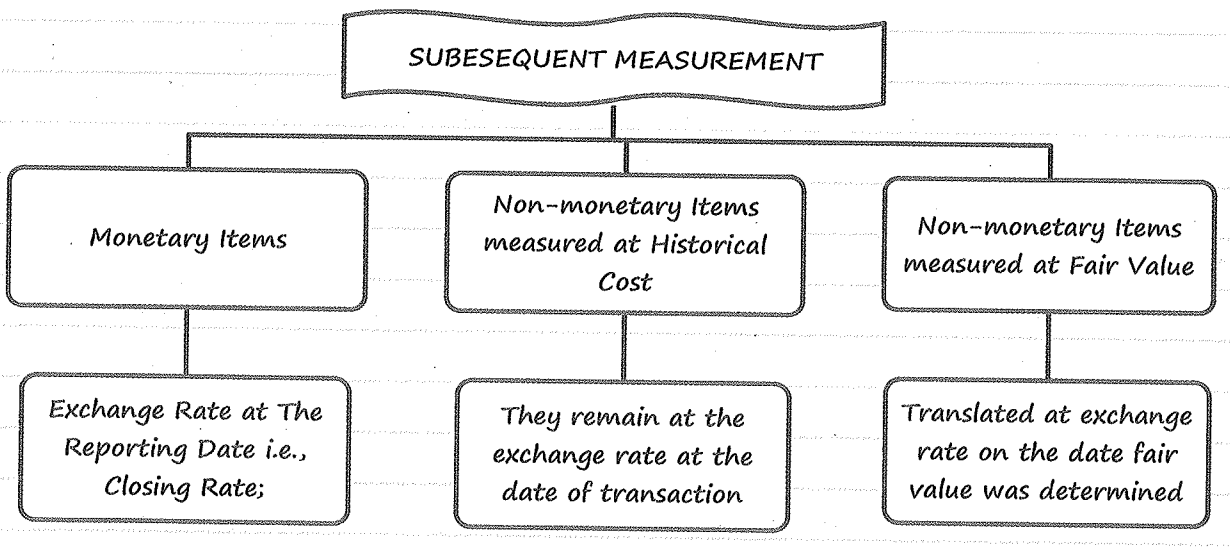
☞ A foreign currency transaction is initially recorded by translation in the entity's functional currency at the exchange rate on the transaction date.

B. MONETARY VS NON-MONETARY ITEMS

MONETARY ITEMS	NON-MONETARY ITEM
Right to Receive a Fixed or determinable number of units of currency.	There is NO right to receive fixed or determinable number of units of currency
EXAMPLES: ▪ Pensions & other employee benefits to be paid in cash; ▪ Provisions that are to be settled in cash; lease liabilities; ▪ Cash dividends that are recognised as a liability; ▪ Most debt securities are considered as monetary items because their contractual cash flows are fixed or determinable.	EXAMPLES: ▪ Prepaid Expense OR Income Received In Advance (On The Basis That No Money Will Be Paid Or Received In The Future) ▪ Goodwill; ▪ Intangible Assets; ▪ Inventories; ▪ PPE; ▪ Right-Of-Use Assets; ▪ Provisions That Are To Be Settled By The Delivery Of A Non-Monetary Asset

C. SUBSEQUENT RECOGNITION AT THE END OF EACH REPORTING PERIOD

☞ At the reporting date, assets and liabilities denominated in a foreign currency are translated as follows:



☞ In some cases, carrying amount of items is determined by comparing two or more amounts

e.g.

a) Inventories - measured at lower of cost and net realisable value.

b) Asset subject to impairment loss - lower of an asset's carrying amount and its recoverable amount.

☞ If such an asset is non-monetary and measured in a foreign currency, the carrying amount is determined by comparing:

a) Carrying amount stays at exchange rate on the date of the transaction (Historical Rate); &

b) NRV or recoverable amount, translated at the closing rate at the end of the reporting period.

EXAMPLE:

A foreign currency asset amounting to Euro 200,000 is recorded at the date of purchase when the exchange rate was ₹52 at ₹104 lacs.

So Carrying Amount will be 104 lakhs (ignoring Depreciation)

Recoverable amount on reporting date is calculated as Euro 175,000. The exchange rate on the date of valuation was ₹ 60 to a Euro.

So Recovering Amount will be 105 lacs (175,000 x 60)

Impairment loss will be NIL as Recoverable amount in Functional Currency Exceeds Carrying Amount.

D. RECOGNITION OF FOREIGN EXCHANGE GAINS AND LOSSES

i) MONETARY ITEMS

☞ Exchange differences arising on monetary items are recognised in profit or loss.

ii) NON-MONETARY ITEMS

☞ If the gain or loss on a non-monetary item is recognised in OCI, any exchange component of that gain or loss is also recognized in OCI.

☞ If the gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognized in profit or loss.

E. CHANGE IN FUNCTIONAL CURRENCY

☞ Once an entity has determined its functional currency, it is not changed unless there is a

change in the relevant underlying transactions, events and conditions. If circumstances change and a change in functional currency is appropriate, then the change is accounted for PROSPECTIVELY from the date of the change.

☞ For accounting the effect of a change in functional currency, ALL items are translated into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

5. USE OF A PRESENTATION CURRENCY OTHER THAN THE FUNCTIONAL CURRENCY

A. TRANSLATION OF FS TO THE PRESENTATION CURRENCY

☞ An entity may decide to present its FS in a currency or currencies other than its functional currency.

☞ If Presentation Currency differs from the entity's Functional Currency, it translates its FS into Presentation Currency.

☞ The FS are translated into presentation currency as follows:

a) ALL Assets & Liabilities (including comparatives) are translated at the closing rate at the date of that balance sheet;

b) Income & Expenses are translated at exchange rates on dates of relevant transactions; average rates can be used if they are a reasonable approximation;

B. TREATMENT OF EXCHANGE DIFFERENCE ON TRANSLATION

☞ All resulting exchange differences should be recognised in OCI and are presented in a separate component of equity - as foreign currency translation reserve (FCTR)

NOTE:

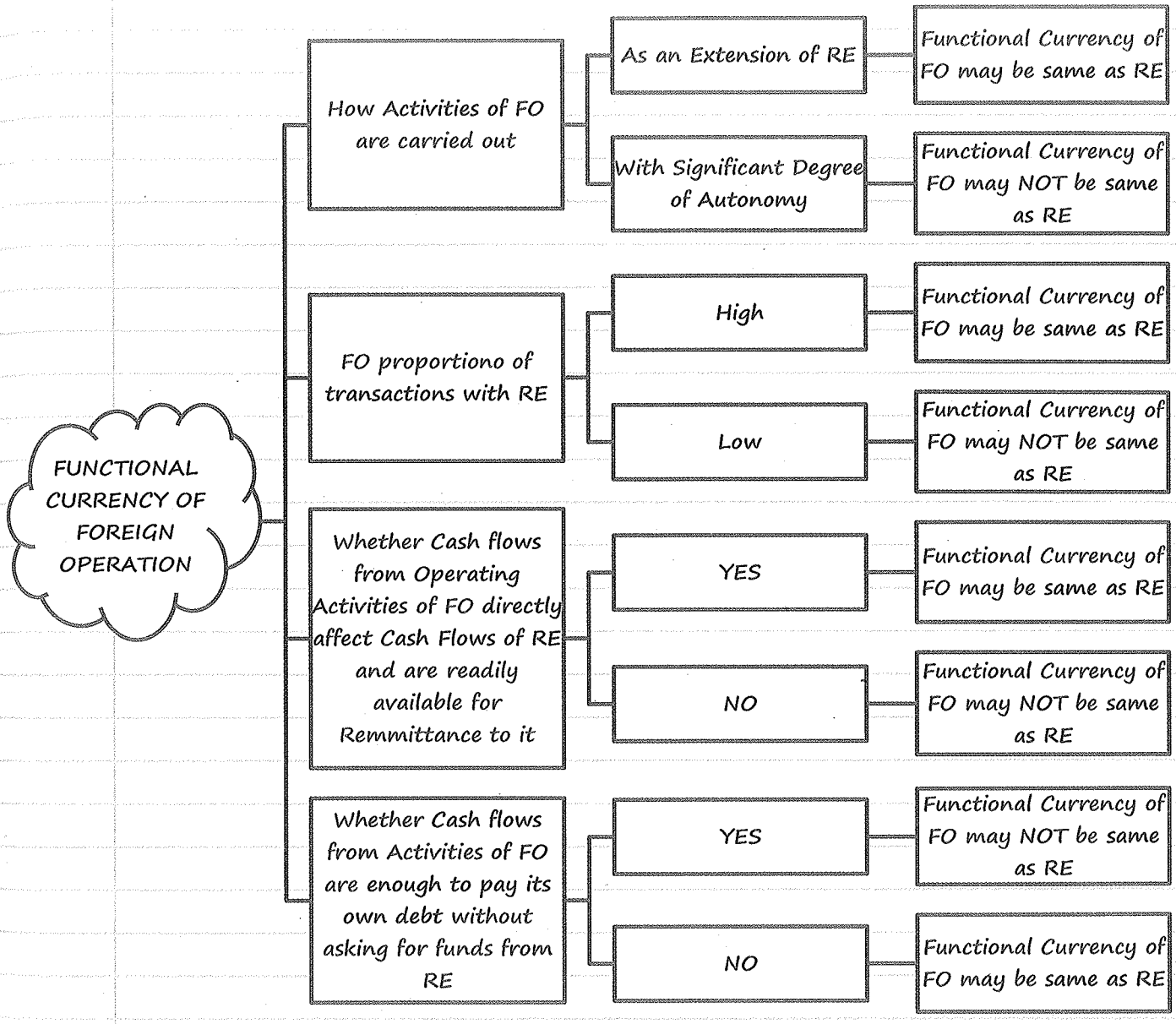
The Choice of PRESENTATION CURRENCY represents an accounting policy, and any change should be applied retrospectively in accordance with Ind AS 8, unless impracticable.

6. FOREIGN OPERATION

☞ Foreign operation has been defined as an entity that is a subsidiary, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

A. FUNCTIONAL CURRENCY OF FOREIGN OPERATION

☞ Additional factors are set out in this Standard to determine whether its functional currency is the same as that of the reporting entity:



*FO – Foreign Operation

**RE – Reporting Entity

☞ The above factors also demonstrate whether the entity is integral to the reporting entity or not.

7. TRANSLATION OF FOREIGN OPERATIONS

☞ Translation procedures for translating foreign operations are same as those followed for translating FS in a presentation currency that is different from its functional currency.

NOTE:

When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to NCI are allocated to, and recognized as a part of, NCI in the consolidated balance sheet.

8. INTRA-GROUP TRANSACTIONS

☞ Intra Group Transactions between Reporting Entity & Foreign Operation may include:

- Sale / Purchase of Goods & Services on Credit Resulting in Trade Receivable & Trade Payable, OR
- Long Term Loan Given by Parent to Subsidiary resulting in Loan Given & Loan Taken.

☞ Although intra-group balances are eliminated on consolidation, any related foreign exchange gains or losses will not be eliminated.

❖ NET INVESTMENT IN A FOREIGN OPERATION

☞ A monetary item receivable from or payable to a foreign operation may result in the following two cases:

a) Settlement of such monetary item is planned in the foreseeable future; OR
b) Settlement of the monetary item is neither planned nor likely to occur in the foreseeable future. (Eg Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payable)

☞ Where the settlement is neither planned nor likely to occur in the foreseeable future, it has the same economic effect as that of a capital contribution & may form part of net investment in a foreign operation.

NOTE:

☞ Long-term loan does not automatically qualify to be treated as net investment simply because it is of a long duration, unless management has expressed its intention that repayment is not foreseeable.

☞ In the absence of management's intention, it implies that its settlement is planned in foreseeable future.

❖ TREATMENT OF EXCHANGE DIFFERENCE OF INTRA GROUP TRANSACTION IN SFS/IFS OR CFS

A. Where the settlement is neither planned nor likely to occur in the foreseeable future (i.e. it forms part of a reporting entity's net investment in a foreign operation).

i) Treatment of Exchange difference in SFS

☞ Such exchange differences are recognised in profit or loss in the SFS of RE and/or the individual FS of the FO, as appropriate:

ii) Treatment of Exchange difference in CFS

☞ Such exchange differences are recognised initially in OCI and then reclassified from equity to profit or loss on disposal of the net investment.

B. Where the settlement is likely to occur in the foreseeable future

i) Treatment of Exchange difference in SFS

☞ Treatment in SFS remains the same

ii) Treatment of Exchange difference in CFS

☞ In CFS such exchange will be transferred to Consolidated P&L and NOT OCI.

EXAMPLE:

Parent P has USD as its functional currency and Subsidiary S has Euro as its functional currency. P, whose reporting date is 31st March, lends USD 100 to S on 30th September, 20X1. S converted the loan amount received into Euro on receipt.

	USD	EURO
Exchange rate at 30th September, 20X1	1	1.5
Exchange rate at 31st March, 20X2	1	2.0

❖ ENTRIES IN THE BOOKS OF ACCOUNT OF S

Date	Particulars	Debit (EURO)	Credit (EURO)

30th Sept, 20X1	Cash/Bank A/c Dr.	150	
	To Intra-group payable		150
	(To recognize intra-group loan)		
30th Mar, 20X2	Exchange Loss A/c Dr.	50	
	To Intra-group payable		50
	(To recognize exchange loss on intra-group loan)		

In S's second entry, the liability is remeasured at 31st March, 20X2 and a translation loss is recorded

❖ ENTRIES IN THE BOOKS OF ACCOUNT OF P

Date	Particulars	Debit (USD)	Credit (USD)
30th Sept, 20X1	Intra Group Receivable A/c Dr.	100	
	To Cash/Bank		100
	(To recognize intra-group loan on issue)		

On consolidation at 31st March, 20X2, the receivable and payable (in respect of Intra-group receivable and payable) will be eliminated. However, an exchange loss equivalent to EURO 50 (will be recognised in USD in CFS) for the year ended 31st March, 20X2 will remain on consolidation. This is appropriate because S will need to obtain USD in order to repay the liability. Therefore, the group has a foreign currency exposure. The exchange loss will be taken to consolidated profit or loss, unless the loan forms part of P's net investment in S in which case it will be transferred to other comprehensive income at the time of consolidation.

9. <u>GOODWILL AND FAIR VALUE ADJUSTMENTS ARISING FROM A BUSINESS COMBINATION</u>

☞ Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on a foreign operation's acquisition are treated as assets and liabilities of the foreign operation.

☞ Hence, they are expressed in the functional currency of the foreign operation and should be translated at the closing exchange rate as is the case for other assets and liabilities.

10. DISPOSAL OR PARTIAL DISPOSAL OF FOREIGN OPERATIONS

A. FULL DISPOSAL

i) On disposal of the foreign operation (Other than Subsidiary)

☞ The cumulative exchange differences relating to that foreign operation previously recognised in OCI and accumulated in equity are reclassified from equity to profit or loss (reclassification adjustment).

ii) On disposal of a Foreign Operation that is a Subsidiary (Loss of Control)

☞ The cumulative Exchange difference of Parent's Share previously recognised in OCI and accumulated in equity will be reclassified

☞ But, the cumulative amount of the exchange differences that have been attributed to the NCI is derecognised, but it is not reclassified to profit or loss.

☞ Even if the disposal in a subsidiary is partial but it results in Loss of Control, same treatment applies as discussed above.

EXAMPLE

Parent P owns 100 percent of foreign subsidiary S. P sells 70 percent of its investment and loses control of S. The entire balance in the foreign currency translation reserve in respect of S is reclassified to profit or loss

B. PARTIAL DISPOSAL

i) On Partial disposal of a Foreign Operation that is a Subsidiary (Without Loss of Control)

☞ In this case, the entity re- attributes the proportionate share of the cumulative amount of the exchange differences recognised in OCI to the NCI in that foreign operation.

☞ EXAMPLE

Parent P owns 100 percent of foreign subsidiary S. P sells 10 percent of its investment and retains control over S. Therefore, 10 percent of the balance in the foreign currency translation reserve is reclassified to NCI.

ii) On Partial disposal of a Foreign Operation (Other than Subsidiary)

☞ The entity reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in OCI.

EXAMPLE

Parent P owns 35 percent of foreign associate B. P sells a 5 percent stake and retains significant influence over B. Therefore, one-seventh (5/35) of the balance in the foreign currency translation reserve is reclassified to profit or loss.

NOTE:

A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognised by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognised in OCI is reclassified to profit or loss at the time of a write-down.

11. DIFFERENCE IN THE REPORTING DATES

- When there is difference in the year end of foreign operation and that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements.
- When such financial statements are not prepared, Ind AS 110 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.
- In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with Ind AS 110. A similar approach is used in applying the equity method to associates and joint ventures in accordance with Ind AS 28, Investment in Associates and Joint Ventures.

12. TAX EFFECT OF ALL EXCHANGE DIFFERENCES

- Ind AS 12, Income Taxes, applies to tax effects of gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency.

IND AS 23
BORROWING COSTS

1. SCOPE

- An entity shall apply this standard in accounting for borrowing costs.
- The Standard does not apply to actual or imputed cost of equity, including preferred capital not classified as a liability.

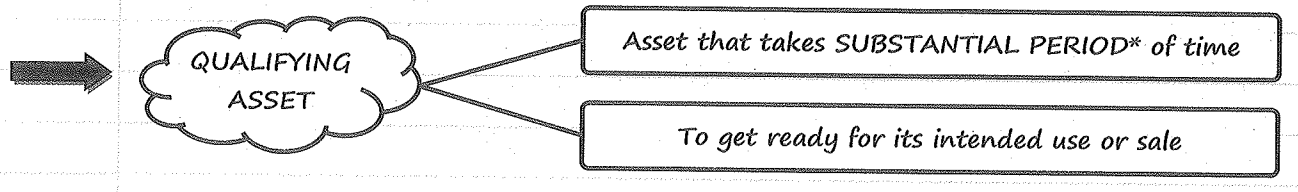
  Example: Dividend paid on equity shares, cost of issuance of equity shares, cost of preference share capital (not classified as liability as per Ind AS 32) will not be included as borrowing cost within the purview of this standard
- The general requirement of this standard (to capitalise directly attributable borrowings cost) is not required to be applied to:
  a) qualifying assets that are measured at fair value, for example, a biological asset accounted for under Ind AS 41
  b) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis even if they take a substantial period to get ready for sale – This exemption acknowledges the difficulty both in allocating borrowing costs to such inventories and monitoring those borrowing costs until the inventories are sold

2. DEFINITIONS



EXAMPLES OF BORROWING COST

- Interest calculated using EIR method (as described in IND AS 109)
- Finance charges on finance lease (as per IND AS 116)
- Exchange difference arising from foreign currency borrowings to the extent treated as adjustment to Interest Cost (Refer Point 6)



*Substantial Period – IND AS 23 does not specify what is substantial period, hence judgement is involved.

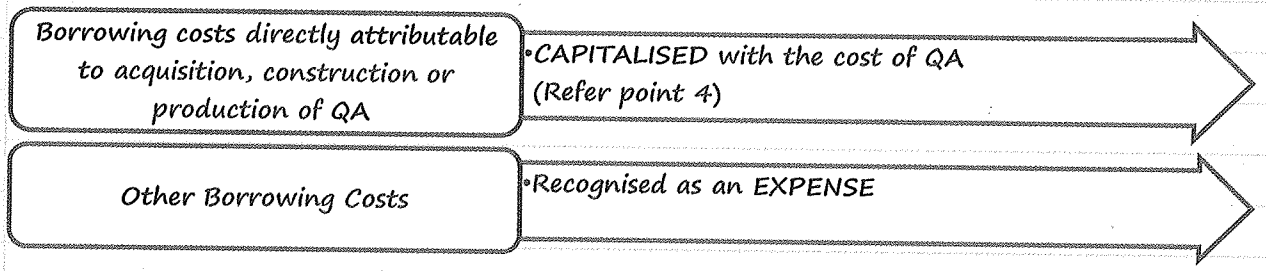
EXAMPLES OF QA (PROVIDED DEFINITION OF QA IS MET)

- Manufacturing plants, power generation facilities, intangible assets, investment properties, bearer plants etc.

THE FOLLOWING ARE NOT QA

- Inventory produced over a short period of time, Financial Assets (Eg: Investments), Assets ready for their intended use or sale when acquired.

3. TREATMENT OF BORROWING COST



4. BORROWING COSTS ELIGIBLE FOR CAPITALISATION

a) SPECIFIC BORROWING

- When funds are borrowed specifically for the purpose of obtaining a QA, it is a specific borrowing.
- Borrowing Costs eligible for Capitalisation = Actual Borrowing Costs LESS Investment Income on Temporary Investment of those Borrowings

b) GENERAL BORROWING

- All borrowings that are not specific represents general borrowings
- In this case, QA is funded from a pool of general borrowings
- Borrowing costs eligible for capitalisation

Step 1: Calculate Capitalisation Rate (CR)

CR = Weighted average borrowing costs on outstanding borrowings of the entity (excluding specific borrowings cost)

Total outstanding borrowings of the entity during the period (excluding specific borrowings)

Step 2: Calculation of Borrowing Costs to be capitalised

= Capitalisation Rate* (x) Expenditures incurred on QA

NOTE:

1. Borrowing Cost Capitalised should not exceed actual borrowing cost incurred

5. PERIOD OF CAPITALISATION

I. COMMECEMENT

- Commencement of capitalisation begins when ALL conditions are satisfied:

  a) Expenditure on QA has been incurred

  b) Activities that are necessary to prepare the QA for its intended use or sale have been undertaken (Refer Note)

  c) Borrowing costs is incurred
- NOTE: Such activities not only includes physical work but also includes technical work, legal & registration work, site preparation planning etc.)

II. SUSPENSION

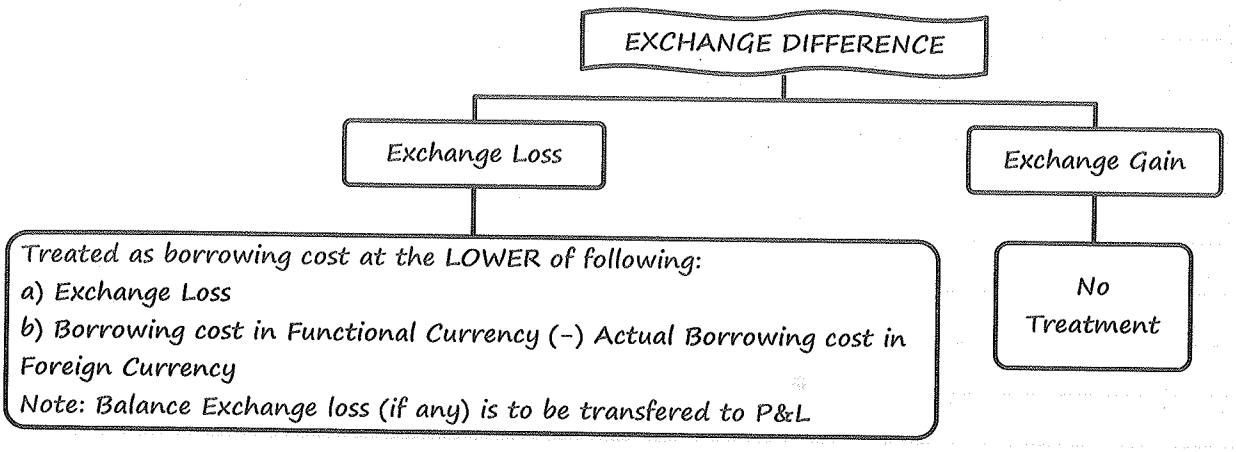
- Capitalisation should be suspended during extended period if active development is NOT taking place.

  NOTE: Capitalisation is NOT suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

III. CESSATION

- Cease capitalisation when substantially all the activities necessary to prepare QA for its intended use or sale are complete. (If minor modifications, such as the decoration of a property are outstanding, this will still indicate that substantially all the activities are complete)
- When construction of QA is completed in parts and each part is capable of being used separately, cease capitalisation of each part which is completed.

6. EXCHANGE DIFFERENCE TO BE TREATED AS BORROWING COST



NOTE:

- If Exchange Loss was treated as an adjustment to interest (i.e. treated as Borrowing Costs) in Current Year and in Subsequent Year there is Exchange Gain in respect of same borrowing, deduct the exchange gain from interest to the extent of the loss previously treated as interest.

7. OTHER RELEVANT CONCEPTS

A. Dividends payable on shares classified as financial liabilities

Dividends payable on preference shares that were classified as financial liabilities will meet the definition of borrowing costs.

B. CAPITALISING BORROWING COST IN GROUP FINANCIAL STATEMENTS

- There may be a situation when the borrowings are taken by one company and qualifying asset is developed by another company within a group.
- It may be appropriate to capitalise interest in the group financial statements on borrowings that appear in the financial statements of a different group entity from that carrying out the development.
- However, the entity carrying out the development should not capitalise any interest in its own financial statements as it has no borrowings.
- If, however, the entity has intra-group borrowings then interest on such borrowings may be capitalised in its own financial statements.

C. CESSATION OF CAPITALISATION FOR MATURING INVENTORIES

- For maturing inventories, it is sometimes difficult to determine when the 'period of production' ends, i.e. when inventories are being held for sale as opposed to being held to mature.

  Example:

  Whisky is 'mature' after three years, but goes on improving with age for many more years. It would seem acceptable to continue to add borrowing costs to value of such maturing inventories for as long as it can be demonstrated that it continues to increase in value solely on account of increasing age, rather than because of market fluctuations or inflation.

- If this cannot be demonstrated, then the inventories should be regarded as held for sale and no further borrowing costs should be capitalised.

IND AS 24
RELATED PARTY DISCLOSURES

1. INTRODUCTION

☞ It is quite probable that related party relationship may have an effect on the profit or loss and financial position of an entity. The effect gets displayed through:

a) Transactions that are entered between related parties may not be entered with unrelated parties;

Example: An entity may sell goods to its parent at cost. It may not sell goods at cost to an unrelated party.

b) Transactions with unrelated parties get influenced because of related party relationships.

Example: S Limited, a subsidiary of H Limited, in steel manufacturing used to purchase billets from UR Limited. H Limited acquires 100% stake in FS Limited who also manufactures billets. FS Limited is now a fellow subsidiary of S Limited. H Limited instructs S Limited not to purchase billets from UR Limited but from FS Limited.

2. OBJECTIVE & SCOPE

☞ The objective of the Standard is to ensure that the FS of an entity contains necessary disclosures with respect to Related Party so that users' attention could be drawn to the possibility that FS may be affected by such related party relationships. Scope is as follows:

- Identifying related party relationships
- Identifying related party transactions
- Identifying outstanding balances with related parties
- Identifying commitments with related parties
- Identifying the circumstances in which disclosures of above items is to be made
- Determining the disclosures to be made about the above items

☞ The disclosures are to be made in:

a) Individual financial statements of the entity.

b) Consolidated and Separate financial statements of a parent

NOTE:

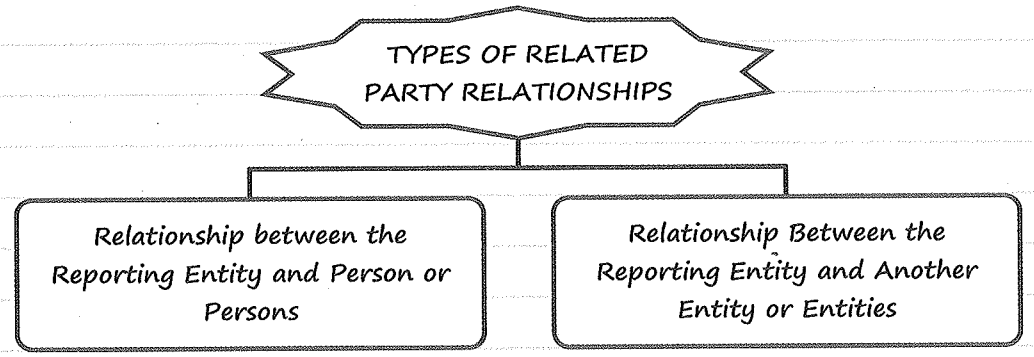
DISCLOSURES NOT REQUIRED WHEN EITHER

- Such disclosures are in conflict with the entity's duties of confidentiality OR
- Entity is prohibited by the statute

EXAMPLE

Banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

3. TYPES OF RELATED PARTY RELATIONSHIPS



4. UNDERSTANDING RELATIONSHIP BETWEEN THE REPORTING ENTITY AND A PERSON

a) A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of KMP* of the reporting entity or a parent of the reporting entity

* KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

b) Close members of the family of a person are the one who may be expected to influence or be influenced by that person in their dealings with the entity. It includes:

- that person's children, spouse or domestic partner, brother, sister, father and mother;
- children of that person's spouse or domestic partner; and
- dependents of that person or that person's spouse or domestic partner

EXAMPLES

- Mr. A holds 51% in equity share capital of A Limited. A Limited has no other form of share capital. As Mr. A controls A Limited, he is a related party.
- Mrs. A is wife of Mr. A. Mr. A holds 51% of equity shares of A Limited. A Limited has no other form of share capital. Mr. A controls A Limited. Since Mr. A is a related party, Mrs. A is also a related party of A Limited.
- Mr. D is a director of A Limited. Being a member of key management personnel of A Limited, he is related to A Limited.
- Mr. D is a director of H Limited. S Limited is a subsidiary of H Limited. Mr. D is related to S Limited

5. UNDERSTANDING RELATIONSHIP BETWEEN THE REPORTING ENTITY AND ANOTHER ENTITY

a. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
Example: SA Limited and SB Limited are subsidiaries of H Limited. SA Limited, SB Limited and H Limited are related to each other

b. One entity is an associate or joint venture of the other entity OR an associate or joint venture of a member of a group of which the other entity is a member.
Example: AS Limited is an associate of S Limited. S Limited is a subsidiary of H Limited. SH Limited is another subsidiary of H Limited. AS Limited and SH Limited are related parties

c. Both entities are joint ventures of the same third party.
Example: H Limited has entered into 2 joint ventures, JHA Limited (joint venture with A Limited) and JHB Limited (joint venture with B Limited). JHA Limited and JHB Limited are related parties

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
Example: JH Limited is a joint venture of H Limited. AH limited is an associate of H Limited. JH Limited and AH Limited are related parties.

e. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

f. The entity is controlled or jointly controlled by a person identified above.
Example: Mr. A controls A Limited (the reporting entity). He also controls B Limited. A Limited and B Limited are related to each other

g. A person identified above has control/joint control over the entity & is a member of the KMP of the other entity (or of a parent of the entity).
Example: Mr. A controls A Limited (the reporting entity). He is a non-executive director in B Limited. A Limited and B Limited are related parties

h. The entity, or any member of a group of which it is a part, provides KMP services to the reporting entity or to the parent of the reporting entity.
Example: A Ltd is a parent company with 3 subsidiary companies - B Ltd. C Ltd & D Ltd. It also has an associate company E Ltd. Subsidiary F Ltd of E Ltd provides key management personnel services to A Ltd. F Ltd. is in a related party relationship with A, B, C D & E Ltd.

i. The Standard further states that in the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.
Example: R Limited has an associate B Limited. B Limited has a subsidiary S Limited, a joint venture, J Limited and an associate A Limited. R Limited is the reporting entity. It identifies B Limited and S Limited as its related parties. J Limited and A Limited are not related parties of R Limited

NOTE:

The aforesaid definition is wide and exhaustive. The Standard therefore, as has been stated above, lays emphasis on the substance of the relationship rather than legal form.

6. UNDERSTANDING WHO ARE NOT RELATED PARTIES

☞ The Standard clarifies that certain relationships are not related party relationships. These are as follows:

a) Two entities are not related parties simply because they have a director or other member of KMP in common or because a member of KMP of one entity has significant influence over the other entity

Example:

i) Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. There are no transactions between these two entities. X Limited and Y Limited are not related parties.

ii) Mr. A is a director in X Limited. He is also a director in Y Limited. He has no other interest in either of these companies. Y Limited purchases the entire production of X Limited. The transactions are always at arm's length. X Limited and Y Limited may be related parties as it is quite possible that Y Limited may be able to exercise control/significant control over X Limited. As per this Standard substance is more important than mere legal form.

b) Two venturers are not related parties simply because they share joint control over a joint venture

Example:

JV Limited is an equal joint venture of J Limited and V Limited. J Limited and V Limited are not related parties

c) (i)providers of finance, (ii) trade unions, (iii) public utilities, and (iv) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, are not related parties simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision- making process)

Example:

A Bank and B Bank has provided finance to XY Limited. By virtue of loan agreement, they occupy a non-executive observer seat on the Board of Directors of XY Limited. A Bank and B Bank are not related parties of XY Limited.

d) A customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

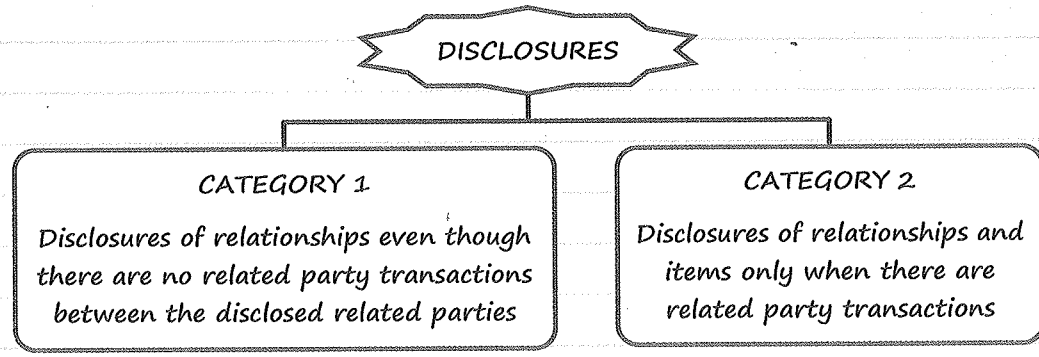
Example: A Limited is an auto ancillary of an automobile company. It supplies all its production to the automobile company. Automobile company has no other interest in A Limited. A Limited and automobile company are not related parties

7. UNDERSTANDING RELATED PARTY TRANSACTIONS

☞ A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

NOTE: It is not necessary for any consideration to be passed for related party transactions.

8. DISCLOSURES



A. CATEGORY 1 DISCLOSURES

☞ Relationships between parent and subsidiaries

- Under this an entity is required to disclose the name of its parent and, if different, the ultimate controlling party. It may be noted that the ultimate controlling party may be a person.

  Example: S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a

subsidiary of H Limited. S4 Limited, S3 Limited, S2 Limited and S1 Limited must disclose the name and relationship with S3 Limited, S2 Limited and S1 Limited respectively and with H Limited

- If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

  Example: S4 Limited (reporting entity) is a subsidiary of S3 Limited. S3 Limited is a subsidiary of S2 Limited. S2 Limited is a subsidiary of S1 Limited. S1 Limited is a subsidiary of H Limited. Only S2 Limited and S1 Limited produces consolidated financial statements for public use. S4 Limited must disclose the name and relationship with S3 Limited, S2 Limited and H Limited.

  But if, S3 Limited, S2 Limited, S1 Limited and H Limited all produces consolidated financial statements for public use. S4 Limited must disclose the name and relationship with S3 Limited and H Limited

B. CATEGORY 2 DISCLOSURE

☞ Under this category, two types of disclosures are required.

i) The first requires disclosures related to compensation to KMP.

ii) The second requires other disclosures where there have been related party transactions during the year

i) DISCLOSURES OF COMPENSATION TO KMP

☞ Total compensation to KMP

☞ If an entity obtains KMP services from another entity (the 'management entity'), the entity is not required disclose the compensation paid by that management entity to the management entity's employees or directors.

ii) DISCLOSURES WHERE THERE HAVE BEEN RELATED PARTY TRANSACTIONS DURING THE YEAR

☞ It shall disclose, in addition to disclosures listed above, the following:

a) the nature of the related party relationship;

b) the information about these related party transactions and outstanding balances, including commitments.

☞ The disclosures, at a minimum, shall include:

a) the amount of the transactions;

b) the amount of outstanding balances, including commitments, and

- their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
- details of any guarantees given or received;

c) provisions for doubtful debts related to the amount of outstanding balances; and

d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

☞ However, disclosures that related party transactions were made in arm's length transactions should be made only if such terms can be verified.

9. <u>EXEMPTION TO GOVERNMENT– RELAED ENTITIES</u>

☞ A reporting entity is exempt from the disclosure requirements in relation to (i) related party transactions (ii) outstanding balances and (iii) commitments with:

a) a government that has control, joint control or significant influence over reporting entity; AND

b) another entity that is a related party because the same government has control, joint – control or significant influence over both the reporting entity and the other entity.

☞ However, it shall disclose:

a) the name of the government;

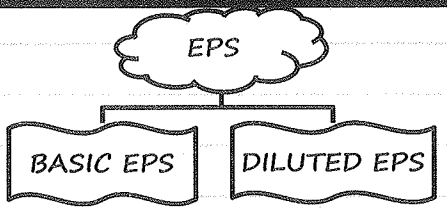
b) the nature of the government's relationship with the entity;

c) to enable the users to understand the effect of related party transactions the following information in sufficient details:

- the nature and amount of each individually significant transaction;
- for other transactions that are not significant individually but are significant when aggregated, either a qualitative or quantitative indication of their extent.

❖ Thus, the reporting entity is expected to apply its judgment to determine the level of details it is required to disclose as per above.

IND AS 33
EARNINGS PER SHARE



I. BASIC EPS

1. FORMULA

Basic EPS = Profit/Loss Attributable to Equity Share Holders

Weighted Avg No. of Equity Shares Outstanding during the period

2. PROFIT/LOSS ATTRIBUTABLE TO ESH

	EBIT	XX
	Interest (@EIR)	(XX)
	EBT	XX
	Tax	(XX)
	PAT	XX
	Preference Dividend (including DDT) – Note (a)	(XX)
(+)/(–)	Settlement Payment – Note (b)	(XX)
(+)/(–)	Income & Exp NOT Recognised in P&L although it was an item of P&L – Note (c)	(XX)
	Profit/Loss Available for ESH	XX

NOTE:

a) PREFERENCE DIVIDEND

- Cumulative Preference Shares: Dividend is to be deducted from current year for calculation of Basic EPS whether or not it has been declared in the current year.
- Non-cumulative Preference Shares: Dividend is to be deducted from current year only if the dividend is declared.
- If question is silent, assume Cumulative Preference Shares.

b) SETTLEMENT PAYMENT

- If preference shares are redeemed at premium during the year and its premium was not planned earlier, then such premium paid is to be deducted from P&L. (If such premium was already planned it would have been accounted in EIR)
- In case of discount on redemption which was not planned earlier, add back such discount to P&L.

c) INCOME & EXP NOT RECOGNISED IN P&L ALTHOUGH IT WAS AN ITEM OF P&L

- Where any item which is required to be recognised in P&L, but it debited/credited to Securities Premium/Other Reserves directly (Eg: Preliminary Expense), the amount shall be deducted from P&L for the purpose of calculating EPS.

d) WHILE CALCULATING EPS FOR CFS

- Only Consider Parent's Share of profit in CFS (i.e. do not include NCI's Share) for calculating EPS for CFS.

3. WEIGHTED AVERAGE NUMBER OF SHARES

- The weighted average number of ordinary shares o/s during the period is the number of ordinary shares o/s at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. (The time-weighting factor is the no. of days/months that the shares are o/s as a proportion of the total no. of days/month in the period)

4. DECIDING THE DATE FOR ISSUE OF SHARES

- Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue).

	Situation of issuance of ordinary shares	Date of inclusion of Ordinary Shares the weighted average number of shares (For Calculation of Basic EPS)
1.	When issued in exchange for cash	When cash is receivable
2.	When issued on voluntary reinvestment of dividends (on ordinary or preference shares)	When dividends are reinvested

3.	When issued as a result of conversion of a debt instrument to ordinary shares	When Interest ceases to accrue
4.	Issued in place of interest or principal on other financial instruments	When Interest ceases to accrue
5.	Issued in exchange for the settlement of a liability	On settlement date
6.	Issued as consideration for the acquisition of an asset other than cash	When the acquired asset is recognise
7.	Issued for rendering of services to the entity	When the services are rendered
8.	Issued as a part of the consideration transferred in a business combination	From the date of acquisition
9.	Issued upon the conversion of a mandatorily convertible instrument	From the date of entering into the contract
10.	Contingently issuable shares*	Included from the date when all necessary conditions are satisfied (including passage of time)

* Outstanding ordinary shares that are contingently returnable (i.e. subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

5. BONUS ISSUE (CAPITALISATION OF RESERVES OR STOCK DIVIDEND)

- In case of bonus issue, ordinary shares are issued to existing shareholders for no additional consideration i.e. the number of shares is INCREASED without an increase in resources.
- The number of ordinary shares outstanding before bonus, is adjusted for the bonus issue (based on BONUS FACTOR*), as if the event had occurred at the beginning of the earliest period presented (irrespective of the date of actual bonus issue)

*BONUS FACTOR = 1 + Bonus Ratio

6. SHARE SPLIT

- In case of Share Split, the number of ordinary shares outstanding is INCREASED without an increase in resources i.e. without any additional consideration.
- The number of ordinary shares outstanding is adjusted for the share split, as if the event

had occurred at the beginning of the earliest period presented. (Same like Bonus issue)

7. REVERSE SHARE SPLIT (CONSOLIDATION OF SHARES)

- In case of Reverse Share Split or consolidation of ordinary shares, the number of ordinary shares outstanding are REDUCED without any reduction in resources.
- The number of ordinary shares outstanding is adjusted for the reverse share split, as if the event had occurred at the beginning of the earliest period presented.

8. RIGHT ISSUE

- In case of rights issue, additional shares are offered to the existing shareholders at a discounted price that is below the current market price.
- The right shares issued consists of two elements:

  a) BONUS ELEMENT – Discount portion in a right issue (Treatment of bonus will apply to the Bonus element in right issue)

  b) SHARE ISSUED FOR CONSIDERATION – Issue of remainder shares at full market price (Normal Treatment of newly issued shares will apply)

❖ STEPS TO COMPUTE BONUS ELEMENT IN A RIGHT ISSUE:

STEP 1: COMPUTE THEORETICAL EX-RIGHT FAIR VALUE PER SHARE

$$= \frac{\text{Fair value of shares before exercise of right + Total amount received from right issue}}{\text{No of shares outstanding after the exercise of rights}}$$

STEP 2: CALCULATE BONUS FACTOR

$$= \frac{\text{Fair value per share immediately before the exercise of right}}{\text{Theoretical ex-right fair value per share}}$$

STEP 3: APPLY THE BONUS FACTOR TO SHARES BEFORE RIGHT ISSUE

The Bonus Factor should be applied to adjust the number of shares outstanding before the rights issue, both for the current year and for the previous year.

9. PARTLY PAID UP SHARES

- Where ordinary shares are issued but not fully paid, they are treated in the calculation of

Basic EPS as a fraction of a fully paid ordinary share.

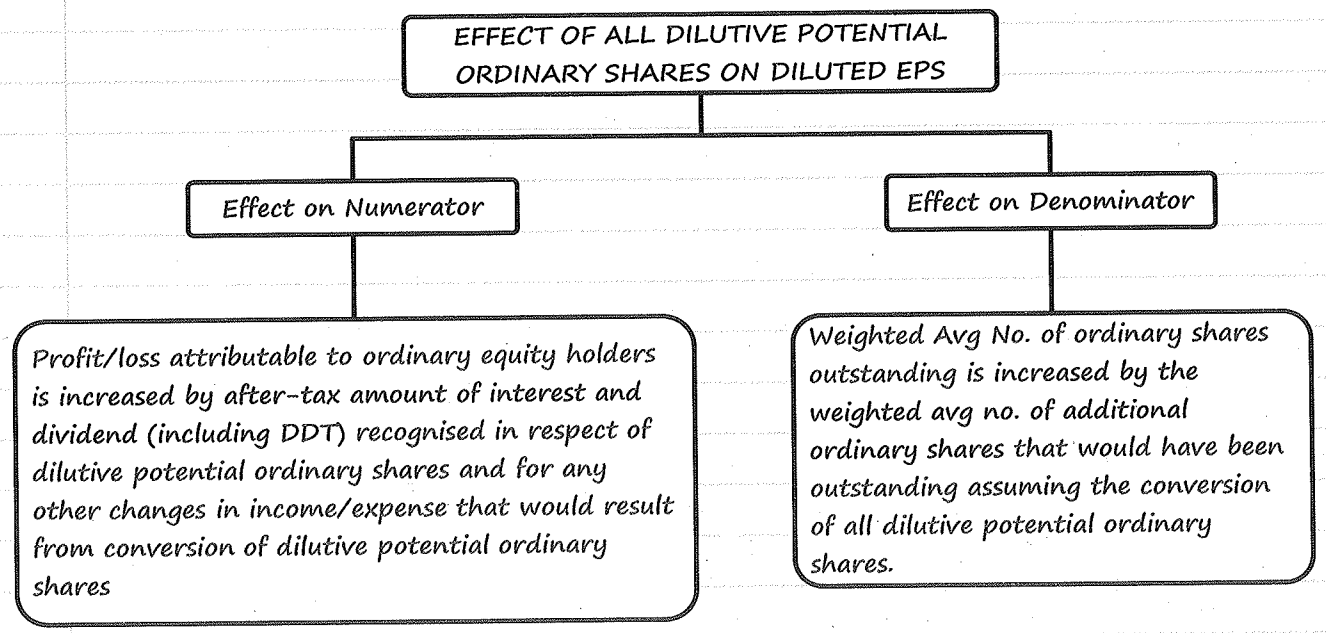
- Disclosure is made for each class of share.

II. DILUTED EPS

1. SCOPE & MEANING

- For the purpose of calculating Diluted EPS, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity (i.e. numerator), and the weighted average number of shares outstanding (i.e. denominator), for the effects of all dilutive potential ordinary shares.
- Potential ordinary share is a financial instrument or other contract that might result in the issue of ordinary shares to the holder of the contract, at the option of the issuer or the holder.

  Eg: Convertible Debentures, Convertible Preference Shares, Options & warrants (including ESOP), Contingently issuable Shares.



2. FORMULA

- Profit/Loss attributable to ESH +/- Effect of dilutive potential shares on earnings

  Weighted avg no. of Equity shares + Weighted avg no. of dilutive potential ordinary shares

NOTE:

i) Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period OR the date of the issue of the potential ordinary shares, whichever is later.

ii) Potential ordinary shares that are cancelled or lapsed during the period are included in the calculation of Diluted EPS only for the portion of the period during which they are outstanding.

iii) Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of Diluted EPS from the beginning of the period till the date of conversion. From the date of conversion, the resulting ordinary shares are included in both Basic and Diluted EPS.

iv) The conversion of the potential ordinary shares into ordinary shares should assume the most advantageous conversion rate or exercise price from the standpoint of the holder.

v) Only potential ordinary shares that are dilutive are considered in the calculation of diluted EPS. Potential ordinary shares should be treated as dilutive when their conversion would decrease profit per share or increase loss per share from continuing operations attributable to ordinary equity holders. The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted EPS.

3. STEPS TO CALCULATE DILUTED EPS

- An entity might have a number of different types of potential ordinary shares in issue. Each one would need to be considered separately rather than in aggregate.
- The sequence in which potential equity shares are considered, may affect whether they are dilutive. Therefore, to maximize the dilution, each issue of potential ordinary share is considered in sequence from the most dilutive to the least dilutive.

STEP 1: Calculate Incremental EPS for each potential ordinary share.

$$\text{Incremental EPS} = \frac{\text{Effect of potential share on earnings to equity holders}}{\text{Effect of potential share on Weighted Avg no. of Shares}}$$

STEP 2: Give Ranking to each potential equity share. The most dilutive (i.e. Lowest

Incremental EPS) will be given ranking No. 1. Assign the ranks to other potential shares in the ascending order.

STEP 3: Add the Effect of each potential equity share individually to Basic EPS of continuing operations, in the order of ranking given in step 2.
If the ratio of EPS decreases, the Potential Equity shares are dilutive.
If the ratio of EPS increases, then potential Equity shares are anti-dilutive.
Post Anti-dilutive, testing is NOT Required.

STEP 4: Calculate DEPS by adjusting only the effect of dilutive potential equity shares in Basic EPS.

❖ Alternate Method to test whether the Potential Ordinary Shares are dilutive or anti-dilutive:

- Convertible preference shares are anti-dilutive when the amount of the Preference dividend per share obtainable on conversion EXCEEDS Basic EPS. (i.e. If incremental EPS of Convertible Preference Share EXCEEDS Basic EPS, then the Convertible Preference Share is anti-dilutive)
- Similarly, convertible debt is antidilutive whenever its interest (net of tax) per ordinary share obtainable on conversion EXCEEDS Basic EPS. (i.e. If incremental EPS of Convertible Debenture EXCEEDS Basic EPS, then the Convertible debenture is anti-dilutive)

4. OPTIONS, WARRANTS AND THEIR EQUIVALENTS

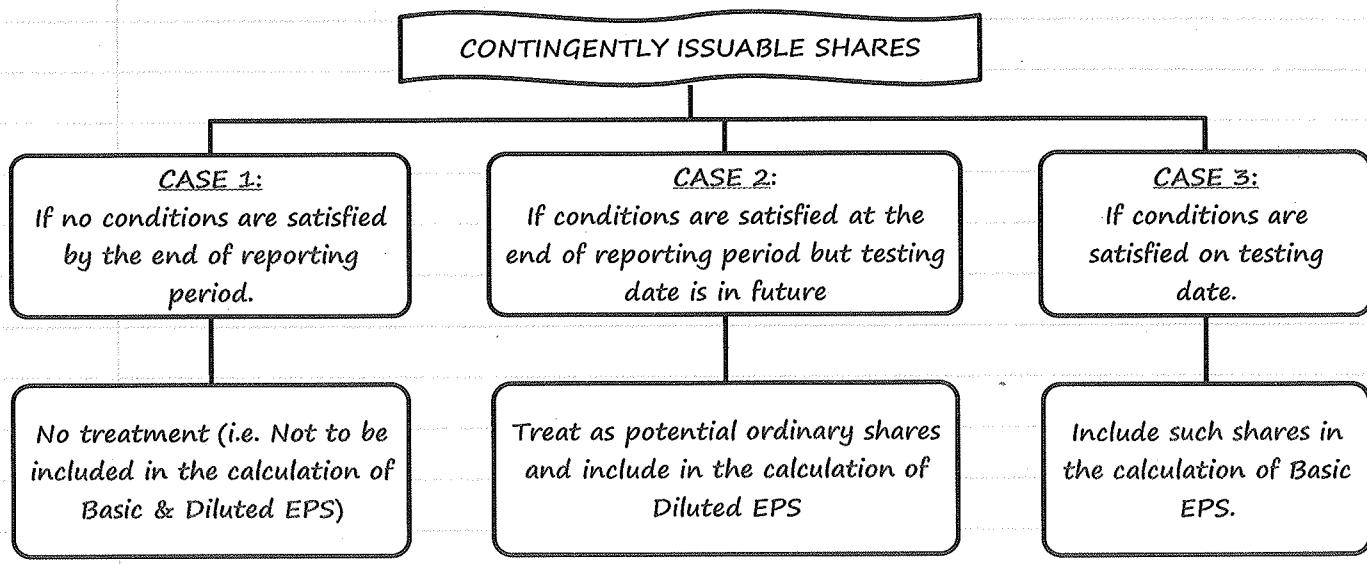
- In case of options and warrants, the difference between the no. of ordinary shares issued and the no. of ordinary shares that would have been issued at the avg market price of ordinary shares shall be treated as an issue of ordinary shares for no consideration. Only these shares are included in the calculation of Diluted EPS.
- Options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options or warrants. Previously reported EPS are not retroactively adjusted to reflect changes in prices of ordinary shares.

5. EMPLOYEE STOCK OPTIONS

- Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of Diluted EPS, even though they may be contingent on vesting. They are treated as outstanding on the grant date.
- Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

6. CONTINGENTLY ISSUABLE SHARES

- Contingent shares are contract under which shares are to be issued upon fulfilment of specified conditions. Generally, these conditions are related to specific future date.



III. ADDITIONAL POINTS

1. RETROSPECTIVE ADJUSTMENTS

- Diluted EPS of any prior period presented should not be restated for changes in the assumptions used (such as for contingently issuable shares) or for the conversion of potential ordinary shares (such as convertible debt) outstanding at the end of the previous period. These factors are already taken into account in calculating the basic and diluted EPS for the current period.
- Prior period's EPS data should be restated for the effects of errors and adjustments resulting from changes to accounting policies accounted for retrospectively.

- Basic and diluted EPS figures for the current period and for prior periods should include bonus issues, share splits, share consolidations and other similar events occurring during the period that change the number of shares in issue without a corresponding change in the resources of the entity (that is, retrospective application).

2. PARTICIPATING EQUITY INSTRUMENTS AND TWO-CLASS ORDINARY SHARES

- The equity of some entities includes:
  - Instruments that participate in dividend with ordinary shares according to a predetermined formula with an upper limit on the extent of participation.
  - A class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.
- Profit/loss for the period is allocated to different classes of shares and participating equity instruments in accordance with their dividend or other rights.

3. ENTITY WITH DISCONTINUED OPERATIONS

☞ An entity that reports a discontinued operation should use income from continuing operations, adjusted for preferred dividends and similar adjustments, if any, as the "control number" in determining whether potential common shares are dilutive. That is, the same number of potential common shares used in computing the diluted per-share amount of income from continuing operations should be used in computing all other reported diluted per-share amounts even if the effect will be anti-dilutive compared to their respective basic per-share amounts.

IND AS 34
INTERIM FINANCIAL REPORTING

1. OBJECTIVE & SCOPE

☞ The Objective of this Standard is to Prescribe

a) The minimum content of an interim financial report

b) The principles for recognition and measurement in complete or condensed financial statements for an interim period

☞ This Standard does not mandate which entities should be required to publish interim financial reports, how frequently, or how soon after the end of an interim period.

☞ This Standard applies if an entity is required or elects to publish an interim financial report in accordance with Indian Accounting Standards (Ind AS).

2. DEFINITIONS

a) INTERIM PERIOD

☞ It is a financial reporting period shorter than a full financial year.

b) INTERIM FINANCIAL REPORT

☞ It means a financial report containing either:

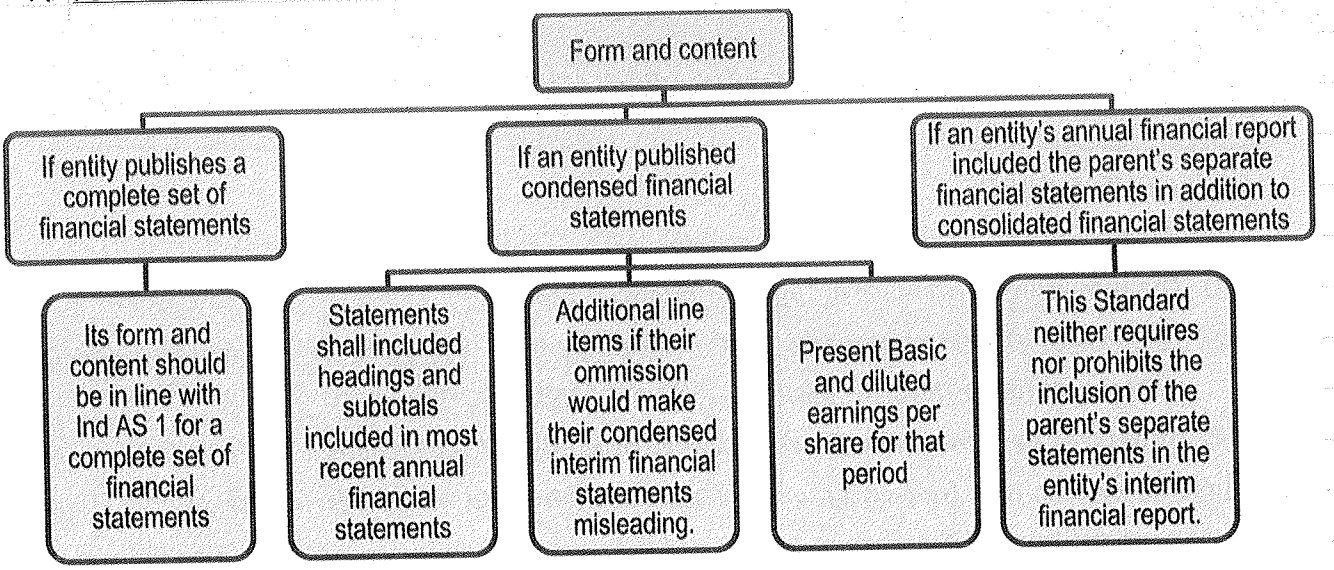
- A Complete set of FS (as described in Ind AS 1, Presentation of Financial Statements), OR
- A set of Condensed FS (as described in this Standard) for an interim period.

3. CONTENTS OF AN INTERIM FINANCIAL REPORT

☞ An Interim Financial Report shall include, at minimum, the following

- A Condensed Balance Sheet
- A Condensed Statement of profit and loss
- A Condensed Statement of changes in equity
- A Condensed statement of cash flows
- Notes, comprising significant accounting policies and
- Other explanatory information

A. FORM AND CONTENT OF INTERIM FINANCIAL REPORT



B. SIGNIFICANT EVENTS AND TRANSACTIONS

☞ An entity shall include in its interim financial report an explanation of events and transactions that are significant from the end of the last annual reporting period till the interim period.

☞ The following is a list of events and transactions for which disclosures would be required if they are significant: the list is NOT exhaustive.

a) the Write-down of inventories to NRV and reversal of such write- down (if any);
b) Recognition or Reversal of loss from impairment of Financial Asset, PPE, intangible asset.
c) Reversal of any provisions for costs of restructuring;
d) Acquisitions and disposals of PPE;
e) Litigation settlements;
f) Corrections of prior period errors;
g) Any loan default or breach;
h) Related party transactions;
i) Changes in the classification of financial assets;
j) Changes in contingent liabilities or contingent assets.
k) Other Relevant Disclosures

4. PERIODS FOR WHICH INTERIM FINANCIAL STATEMENTS ARE REQUIRED TO BE PRESENTED

☞ Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

a) IN CASE OF BALANCE SHEET

- Balance Sheet as of the end of the current interim period and
- A comparative balance sheet as of the end of the immediately preceding financial year.

b) IN CASE OF PROFIT OR LOSS

- Statements of profit and loss for the current interim period,
- Cumulatively for the current financial year to date,
- Comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

c) IN CASE OF STATEMENT OF CHANGES IN EQUITY

- Statement of changes in equity cumulatively for the current financial year-to-date,
- A comparative statement for the comparable year-to-date period of the immediately preceding financial year.

d) IN CASE OF STATEMENT OF CASH FLOWS

- Statement of cash flows cumulatively for the current financial year to date
- A comparative statement for the comparable year-to-date period of the immediately preceding financial year.

NOTE:

For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period MAY BE USEFUL.

❖ Following is the illustrative example to understand the periods for which interim financial statements are required to be presented.

☞ Scenario (a) Entity publishes interim financial reports half-yearly

The entity's financial year ends 31 March (Financial year). The entity will present the following financial statements (condensed or complete) in its half-yearly interim financial report as of 30 September 20X2:

Name of the component	Current period	Comparative period

Balance sheet as at	30 September 20X2	31 March 20X2
Statement of profit and loss : 6 months ending	30 September 20X2	30 September 20X1
Statement of cash flows: 6 months ending	30 September 20X2	30 September 20X1
Statement of changes in equity: 6 months ending	30 September 20X2	30 September 20X1

☞ Scenario (b) Entity publishes interim financial reports quarterly

The entity's financial year ends 31 March (Financial year). The entity will present the following financial statements (condensed or complete) in its quarterly interim financial report as of 30 September 20X2:

Name of the component	Current periods	Comparative periods
Balance sheet as at	30 September 20X2	31 March 20X2
Statement of profit and loss : 6 months ending; and 3 months ending	30 September 20X2; and 30 September 20X2	30 September 20X1; and 30 September 20X1
Statement of cash flows: 6 months ending	30 September 20X2	30 September 20X1
Statement of changes in equity: 6 months ending	30 September 20X2	30 September 20X1

5. RECOGNITION AND MEASUREMENT

	CRITERIA	RECOGNITION AND MEASUREMENT
1.	Same accounting policies as annual	▪ An entity shall apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements.
2.	Revenues received cyclically, occasionally or seasonally	▪ Revenues that are received seasonally, cyclically, or occasionally in an interim period shall NOT be deferred to other interim periods if deferral would not be appropriate at the end of the entity's financial year. Examples include dividend revenue, royalties, and government grants. ▪ Certain entities earn more revenue in certain interim periods of a financial year than other interim periods. Such revenues are recognised when they occur.

3.	Costs incurred unevenly during the financial year	▪ Costs that are incurred unevenly during an entity's financial year shall be deferred for interim reporting purposes IF AND ONLY IF, it is also appropriate to defer that type of cost at the end of the financial year. Eg: Prepaid Rent, Prepaid Insurance, Prepaid Property Taxes

6. MEASURING INTERIM INCOME TAX EXPENSE

☞ Income taxes are assessed on an annual basis. Interim period income tax expense is calculated by applying to the interim period's pre-tax income, the tax rate that would be applicable to expected total annual earnings (i.e. estimated average annual effective income tax rate).

☞ That estimated average annual rate would reflect a combination of the progressive tax rate structure expected to be applicable to the full year's earnings.

☞ The tax rate includes enacted or substantively enacted changes scheduled to take effect later in the financial year. (Ind AS 12, Income Taxes provides guidance on substantively enacted changes in tax rates).

☞ The estimated average annual income tax rate would be re-estimated on a year-to-date basis. The Standard requires disclosure of a significant change in estimate.

☞ To the extent practicable, a separate estimated average annual effective income tax rate is determined for each taxing jurisdiction and applied individually to income of each jurisdiction.

☞ Similarly, if different income tax rates apply to different categories of income (such as capital gains or income earned in particular industries), to the extent practicable a separate rate is applied to each individual category of interim period pre-tax income.

NOTE: While that degree of precision is desirable, it may not be achievable in all cases, and a weighted average of rates across jurisdictions or across categories of income is used if it is a reasonable approximation of the effect of using more specific rates.

7. RESTATEMENT OF PREVIOUSLY REPORTED INTERIM PERIODS

☞ A change in accounting policy, other than one for which the transition is specified by a new Ind AS, shall be reflected by:

a) Restating the FS of prior interim periods of the current financial year and the

comparable interim periods of any prior financial years that will be restated in the annual financial statements in accordance with Ind AS 8; OR

b) When it is IMPRACTICABLE to determine the cumulative effect at the beginning of the financial year, adjusting the financial statements of prior interim periods and comparable interim periods to apply the new accounting policy prospectively from the earliest date practicable.

NOTE:

In Case of Accounting Estimate, if any change in accounting estimate is done during current interim period, the effect of such change should be given from the Current interim period only (Prospective Accounting)

8. INTERIM FINANCIAL REPORTING AND IMPAIRMENT

☞ An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

IND AS 36
IMPAIRMENT OF ASSETS

1. SCOPE

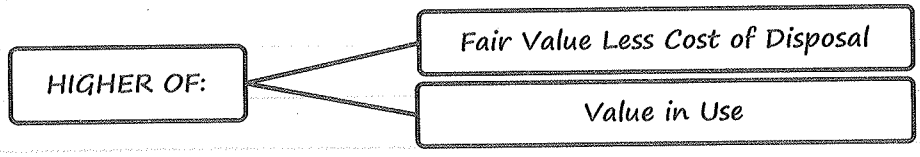
- This Standard applies to all assets, OTHER THAN:
  - Inventories (Ind AS-2);
  - Contract Assets (Ind AS-115);
  - Deferred tax assets (Ind AS-12);
  - Assets arising from employee benefits (Ind AS-19);
  - Financial assets that are within the scope of Ind AS-109;
  - Biological assets related to agricultural activities measured at FVLCTS (Ind AS-41)
  - Non-current assets (or disposal groups) classified as held for sale (Ind AS-105);
- This Standard also applies to financial assets classified as:
  - Financial assets classified as investment in subsidiaries, associates, joint ventures (IND AS 110, Ind AS 28, Ind AS- 111)

2. IDENTIFYING AN ASSET THAT MAY BE IMPAIRED

- An asset is impaired when its Carrying Amount EXCEEDS Recoverable Amount

3. MEASUREMENT OF RECOVERABLE AMOUNT

- The recoverable amount of an asset is:



A. FAIR VALUE LESS COST OF DISPOSAL

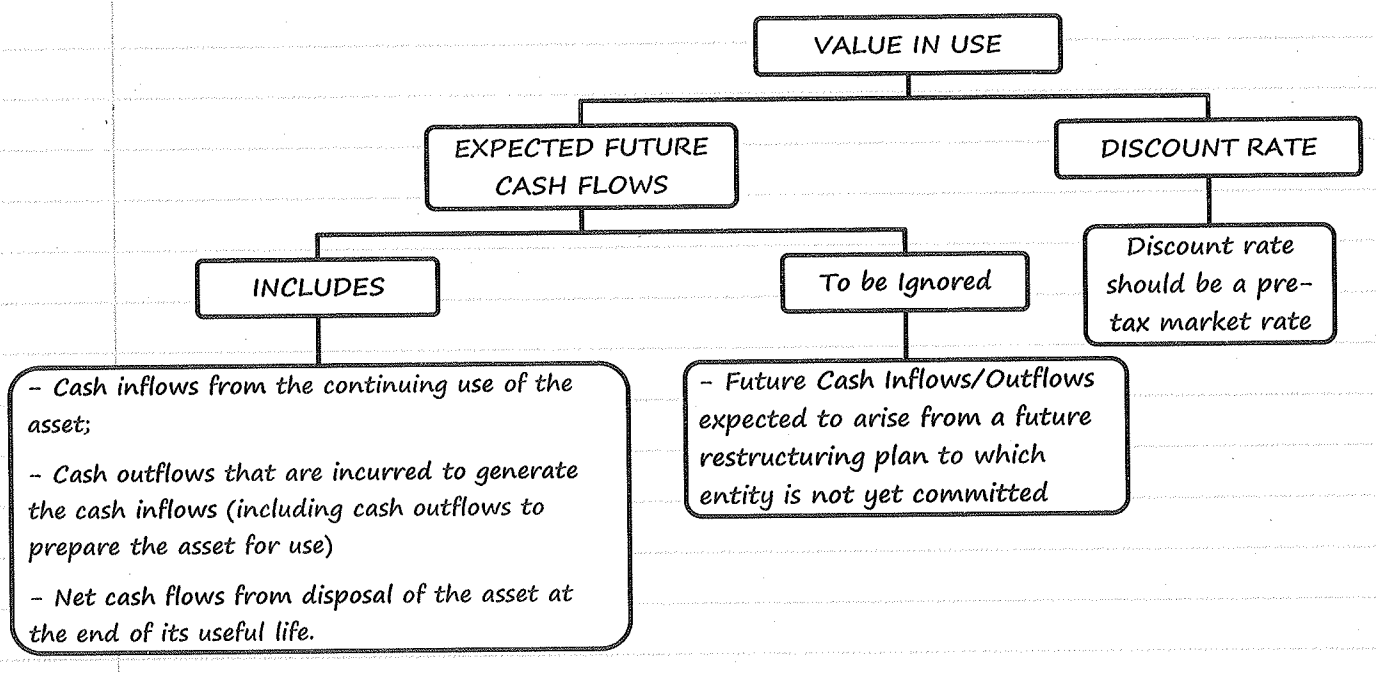
- FAIR VALUE - It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (As per Ind AS 113 Fair Value Measurement).
- COSTS OF DISPOSAL -These are incremental costs directly attributable to the disposal of an asset.

Eg: Legal costs, Stamp duty, Costs of removing the asset etc.

(Note: Valuation fee incurred is not a Cost of Disposal)

B. VALUE IN USE

- Value in use is the Present Value of the future cash flows expected to be derived from an asset
- Primarily two key decisions are involved in determining value in use:
  i) Estimation of Expected Future Cash Flows
  ii) Discount Rate to be used

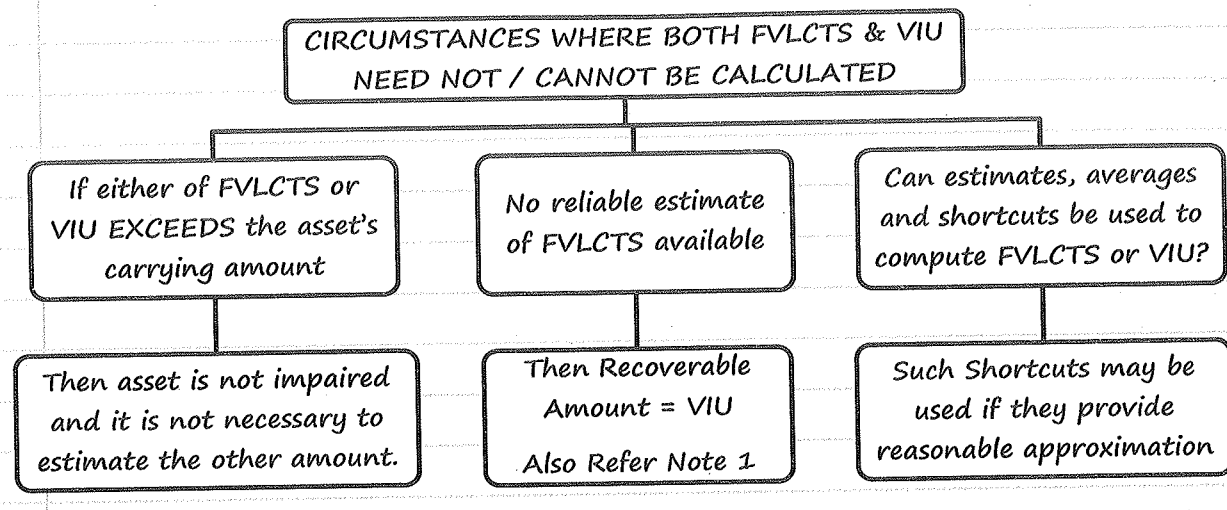


Note: In measuring VIU, cash flow projections should be based on forecasts covering a maximum period of Five years unless a longer period can be justified.

❖ GUIDANCE ON FOREIGN CURRENCY FUTURE CASH FLOWS

If any Cash Flows arise in foreign currency then such cash flows are to be converted to PV using Discounting Factor of Foreign currency and such PV is converted into ₹ (home currency) using Spot Rate (Rate on the date of Value in use Calculation)

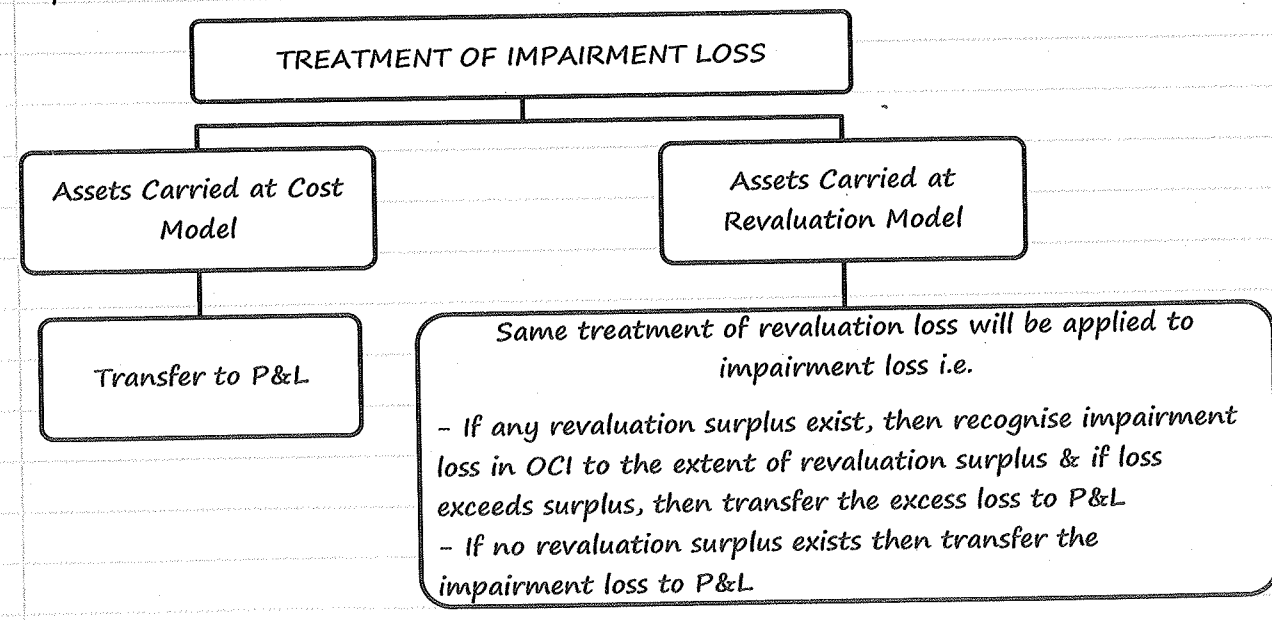
❖ CIRCUMSTANCES IN WHICH IT IS NOT NECESSARY TO CALCULATE BOTH FVLCTS & VIU OR IT IS NOT POSSIBLE TO ESTIMATE EITHER FVLCTS OR VIU



Note 1: Vice Versa is NOT applicable i.e. if VIU cannot be estimated then FVLCTS is NOT equal to Recoverable Amount. In that case, we will say that Recoverable Amount cannot be estimated.

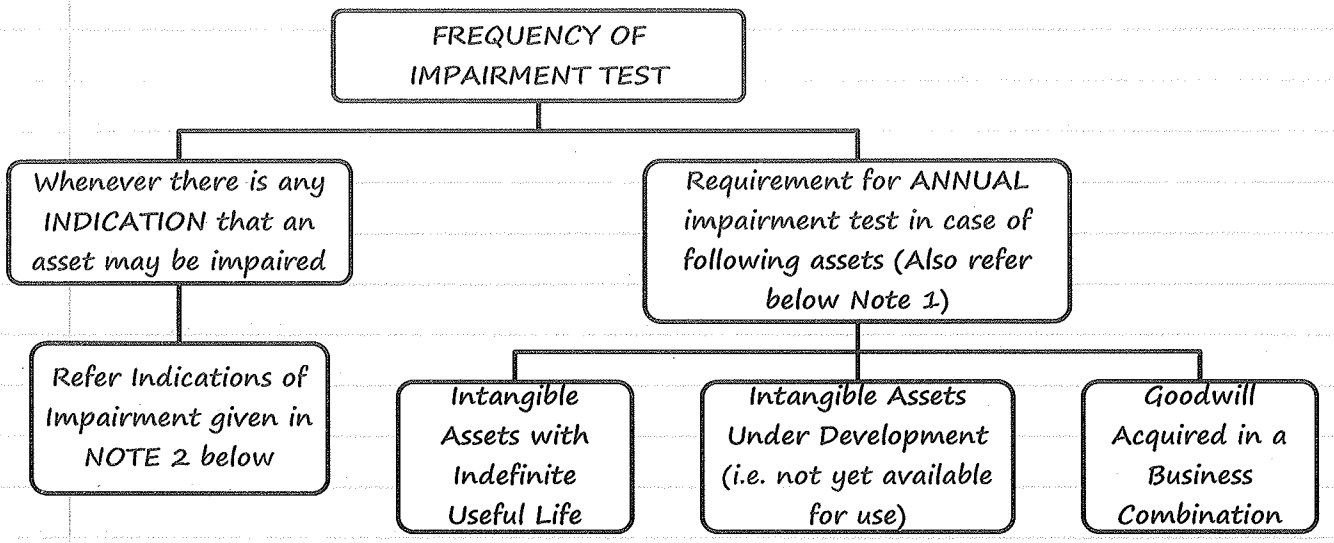
4. RECOGNISING AND MEASURING AN IMPAIRMENT LOSS

- Impairment Loss = Carrying Amount – Recoverable Amount



NOTE: After recognition of an impairment loss, depreciation should be charged on asset's revised carrying amount (i.e. Carrying amount after Impairment Loss) less its residual value (if any).

5. WHEN TO CONDUCT IMPAIRMENT TEST (FREQUENCY OF IMPAIRMENT TEST)



NOTE 1: GUIDANCE ON TIMING OF ANNUAL IMPAIRMENT TEST

- Annual impairment test may be pe performed same time every year and also whenever there is an indication.
- If an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.

NOTE 2: INDICATIONS OF IMPAIRMENT

A. EXTERNAL INDICATORS

- An Asset's Market Value has DECLINED.
- Significant Changes in Technology, Market Conditions, Economic & Legal Environment, which has ADVERSE effect on the entity
- Market Interest rates have INCREASED and those increases are likely to affect the discount rate used in calculating an asset's value in use.

B. INTERNAL INDICATORS

- Obsolescence or physical damage to the asset;
- Asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date.
- Useful life of an asset becoming finite from infinite;
- Economic performance of an asset will be worse than expected.

NOTE: The above indications are only illustrative and not to be taken as exhaustive or conclusive.

6. CASH GENERATING UNITS (CGU)

- A CGU is the smallest identifiable group of assets that generates cash inflows that generate cash flows together as a group.
- Sometimes, it is not possible to estimate the recoverable amount of the individual asset (because individual asset does not generate cash flows and if no cash flows then no VIU & if no VIU then no Recoverable Amount).

  In that case an entity is required to determine the recoverable amount for the CGU to which the asset belongs.

ALLOCATION OF ASSETS & LIABILITIES TO CGUs

1. Allocate only those assets that can be directly attributed or allocated on a reasonable & consistent basis to a CGU
2. In most cases, a CGU does not include any liability BUT a liability may be included if Recoverable Amount of CGU cannot be determined without consideration of such liability.

   Eg:Decommissioning/ Restoration Provision.

ALLOCATION OF GOODWILL TO CGUs

1. Goodwill acquired in a Business Combination does not generate Independent Cash Flows.

   Therefore, it is allocated to CGUs that are expected to benefit from the synergies of the business combination.
2. If Goodwill can be allocated to a CGU, then conduct impairment test for that CGU including Goodwill.
3. Goodwill sometimes cannot be allocated to individual CGUs on a reasonable basis but can only be allocated to a Group of CGUs. In that case:

   a. 1st Conduct impairment test of all individual CGUs without Goowill; and

   b. Then Conduct impairment test of Group CGU with Goodwill

ALLOCATION OF CORPORATE ASSETS TO CGUs

- Eg. Buiding of a Head Office

1. Corporate Assets do not generate Independent Cash Flows.

Therefore, Corporate assets are allocated to CGUs or Group of CGUs to which the asset belongs.

2. If a portion of Corporate Assets can be allocated to a CGU, then conduct impairment test for that CGU including Corporate Asset.

3. If it cannot be allocated to individual CGU but can be allocated to Group of CGUs then in that case:

a. 1st Conduct impairment test of all individual CGUs without Corporate Asset; and

b. Then Conduct impairment test of Group CGU with Corporate Asset

7. RECOGNITION AND MEASUREMENT OF AN IMPAIRMENT LOSS FOR A CASH-GENERATING UNIT

- Impairment Loss for CGU = Carrying Amount of CGU – Recoverable Amount of CGU
- ORDER OF ALLOCATION OF IMPAIRMENT LOSS TO ASSETS IN CGU:
  - First reduce the carrying amount of Goodwill allocated to CGU;
  - Then to all other Assets including Corporate Assets (Except those assets which are outside the scope of this IND AS for eg: Trade Receivable, Investments Inventory etc.)

- If any asset is tested individually and also the same is included in CGU, then no impairment loss will be allocated to that asset in CGU as individual impairment test of that asset is already conducted.

- If the recoverable amount of an individual asset cannot be determined (because value in use cannot be determined):
  - In that case if CGU is not impaired, then individual asset whose recoverable amount cannot be determined is also not impaired. This applies even if the FVLCTS of individual asset is lower than its Carrying amount.

8. REVERSAL OF IMPAIRMENT LOSS

- Impairment loss recognised in earlier years can be Reversed for an asset (OTHER THAN GOODWILL), if any indications exist that impairment loss has decreased/reversed.

❖ INDICATIONS OF REVERSAL OF IMPAIRMENT LOSS

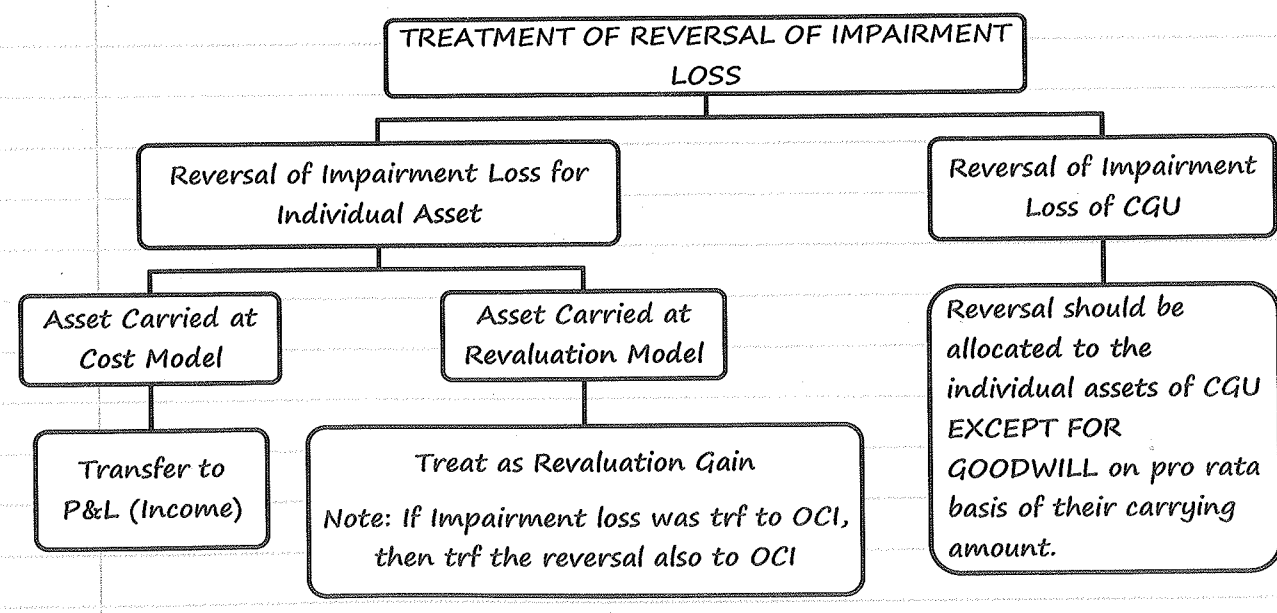
A. EXTERNAL INDICATORS

- An Asset's Market Value has INCREASED.
- Significant Changes in Technology, Market Conditions, Economic & Legal Environment, which has FAVOURABLE effect on the entity
- Market Interest rates have DECREASED and those increases are likely to affect the discount rate used in calculating an asset's value in use.

B. INTERNAL INDICATORS

- Economic performance of an asset will be better than expected.
- Significant changes with a favourable effect in a manner in which asset will be used.

NOTE: An asset's value in use may be greater than assets carrying amount simply because the value of future cash flows increases as they come closer (i.e. as a result of unwinding of discount due to passage of time). However, the service potential of that asset may not have increased. In such cases, DO NOT Reverse the Impairment Loss.



NOTE: After Reversal, increased carrying amount shall not exceed carrying amount (net of depreciation/amortization) had no impairment loss been recognised.

MAXIMUM AMOUNT OF REVERSAL OF IMPAIRMENT LOSS CAN BE CALCULATED AS BELOW:

Carrying amount of Asset Net of Depr (If there was no Impairment) Less: Carrying amount of Asset Net of Depr (after Impairment)	xxx (xxx)
Maximum Reversal of Impairment Possible	xxx

9. NON-CONTROLLING INTERESTS (NCI) – THE IMPACT ON GOODWILL IMPAIRMENT TESTING

☞ Under Ind AS 103 'Business Combinations' an entity has a choice between two methods:
NCI @ PSNA Method & NCI @ Fair Value Method

☞ If an entity measures NCI as PSNA Method, goodwill attributable to NCI is included in recoverable amount of CGU but is not recognised in CA of CGU.

☞ As a consequence, an entity shall gross up the carrying amount of goodwill to include the goodwill attributable to NCI.
This adjusted carrying amount is then compared with the recoverable amount determine whether the cash generating unit is impaired.

☞ Below is the guidance given on the allocation of impairment losses:
The impairment loss is allocated between parent and NCI in proportion of their stake;
If an impairment loss attributable to NCI relates to goodwill that is not recognised, then only impairment loss of parent's goodwill is recognised.

"Your effort in studying is your investment in success"

IND AS 37
PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS

1. DEFINITIONS

LIABILITY
- It is a Present Obligation
- Arising from Past Events,
- Settlement of which is expected to result in an Outflow of Resources

OBLIGATING EVENT
- It is an event that creates
- Legal or Constructive Obligation
- That results in an entity having no realistic alternative to settling that obligation

LEGAL OBLIGATION

It is an obligation that arises from:
a) Contract OR
b) Legislation / Law

Eg. X Ltd entered into a contract with Y Ltd for supply of goods. If any party breaches the contract, it has to pay ₹ 50,00,000 as penalty to other party. X Ltd breached the contract. The breach of contract is a Legal Obligation and X Ltd must settle the obligation.

CONSTRUCTIVE OBLIGATION

It is an obligation that arises from:
a) past practice, policy, specific statement indicated to others to acccept the responsibilities; AND
b) As a result of this it has created a valid expectation for other parties.

Eg. Pollution caused by entity due to which nearby public has protested. The entity promised to clean the river. No legislation requires so, but since the company has promised & created a valid expectation, it is a Constructive obligation

2. PROVISION

I. DEFINITION

PROVISION — It is a Liability with uncertain — Timing; or / Amount

II. RECOGNITION OF PROVISION

A PROVISION SHALL BE RECOGNISED ONLY WHEN:

- An entity has a Present Obligation (Legal or Constructive) as a result of Past Event,
- It is Probable that an Outflow of Resources will be required, AND
- A Reliable Estimate can be made.

- There should be a past event which leads to a present obligation and gives rise to a liability for which provision is made.

EXAMPLE

In respect of warranty provision – Past event is original sale.

In respect of contamination of land – Past event is original contamination.

- Only those provisions are recognised for which entity has no realistic alternative rather than settling it. If entity can avoid such expenditure by its future actions then NO provision is recognised.
- Where details of a proposed new law are yet to be finalized, obligation would arise only when the law is virtually certain to be enacted.

III. MEASUREMENT OF PROVISION

A) BEST ESTIMATE | B) PRESENT VALUE | C) RISKS & UNCERTAINTIES | D) FUTURE EVENTS | E) EXPECTED DISPOSAL OF ASSET

A. BEST ESTIMATE

- The amount of provision should be the best estimate.

If provision is measured for:

a) LARGE POPULATION OF ITEMS (eg: customer refunds, warranties, etc.)

- Consider the probability of each item

b) WHERE THERE IS A SINGLE (INDIVIDUAL) ITEM

- Consider most likely outcome

B. PRESENT VALUE

- Only when time value of money is material, the amount of provision should be at present value.
- Discounting factor will be pre-tax.

C. RISKS & UNCERTAINTIES

- All risks & uncertainties that would result in increase in the amount of provision, should be taken into account while measuring a provision.

D. FUTURE EVENTS

- Future events that may affect the amount of provision, should be considered only when there is sufficient objective evidence available that they will occur.

Eg. Cost of restoration of site may be reduced by future changes in technology.

If evidence of such change is available – Reduce the Provision

If NO evidence is available – No change in Provision

E. EXPECTED DISPOSAL OF ASSET

- NO provision for gain on expected disposal of asset is recognised.

EXAMPLE:

At the end of 20X1, an entity is demonstrably committed to the closure of some facilities, having drawn up a detailed plan and made appropriate announcements. The expected impact of the plan is as follows:

	20X2	20X3
Committed Closure Costs	₹ 10,00,000	
Gain from Sale of Property		₹ 2,00,000

The provision required at the end of 20X1 is ₹ 10,00,000. The expected gain on the sale of the property is dealt with separately under the derecognition criteria in Ind AS 16.

IV. USE OF PROVISION

- It can be used only for expenditure for which the provision was originally recognised. It cannot be settled against expenditure that does not relate to the provision.

V. CHANGES IN PROVISION

- It is to be reviewed at every year end and adjusted to reflect the current best estimate. If it is no longer required, it should be reversed.
- Once the amount of the obligation is crystallised and there is no uncertainty associated with an obligation, the liability is no longer a provision. The same should be reclassified as an element within liabilities.
- Where discounting is used, the carrying amount of provision increases each period due to passage of time. This increases the provision in B/S and it is recognised as Finance Cost in P&L.

JOURNAL ENTRY Finance Cost A/c Dr.

To Provision A/c

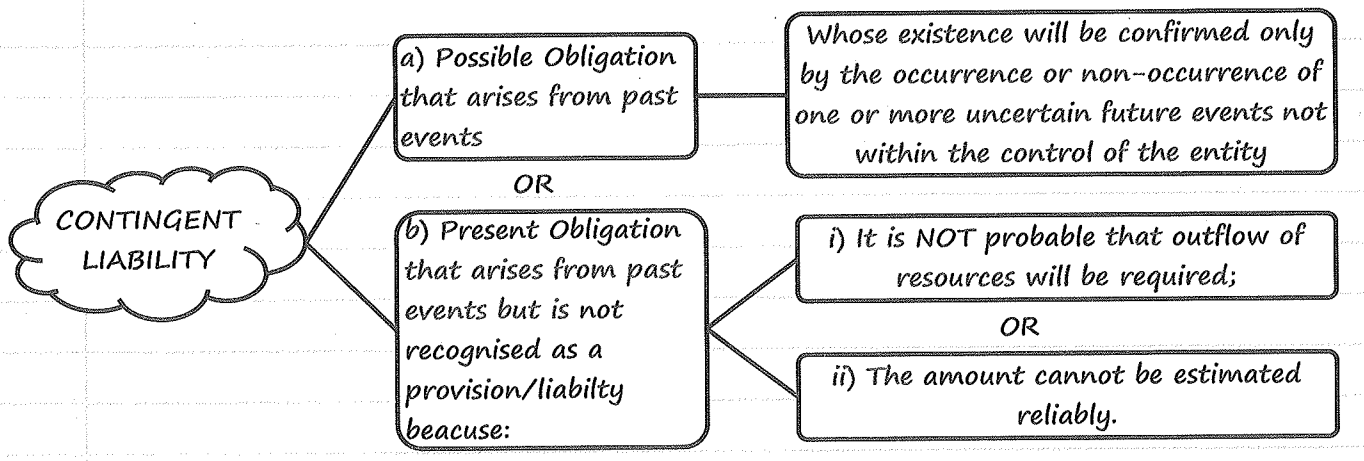
VI. FUTURE OPERATING LOSSES

- NO provision is to be recognised as it does not meet the definition of provision.

(It does not arise from past event. Also, it is not an obligation because the same can be avoided by closing the business)

3. CONTINGENT LIABILITY

I. DEFINITION

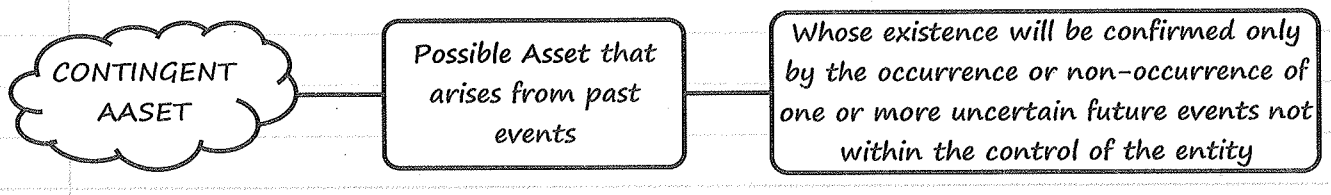


II. TREATMENT OF CONTINGENT LIABILITY

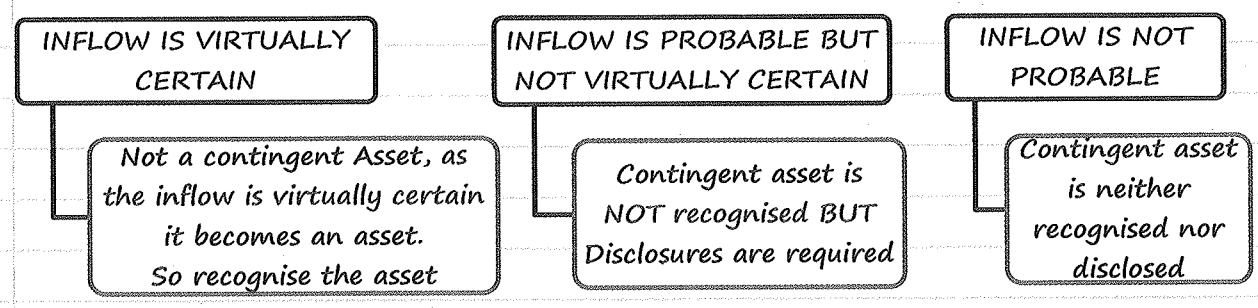
- Contingent liability is NOT recognised in B/S, it is only DISCLOSED.
- No disclosure is required if possibility of outflow is REMOTE.
- Where the entity is jointly & severally liable for an obligation:
  - For Own Share – Create a Liability / Provision
  - For Other's Share – Contingent Liability (if not remote)
- At the end of each year contingent liability is to be reviewed, if it becomes probable that outflow is required & it can be reliably estimated, then provision is recognised & contingent liability is removed.

4. CONTINGENT ASSET

I. DEFINITION



II. TREATMENT OF CONTINGENT ASSET



❖ TABULAR DEPICTION

Likelihood of outcome	Contingent liability	Contingent asset
Virtually certain (greater than 95% probability)	Recognise the provision	Recognise the asset
Probable (50% – 95% of probability)	Recognise the provision	Disclose about the contingent asset

Possible but not probable (5% - 50% of probability)	Disclose the contingency	No disclosure permitted
Remote (less than 5% probability)	No disclosure required	No disclosure permitted

5. REIMBURSEMENTS

- In this case some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.

❖ RECOGNITION CRITERIA

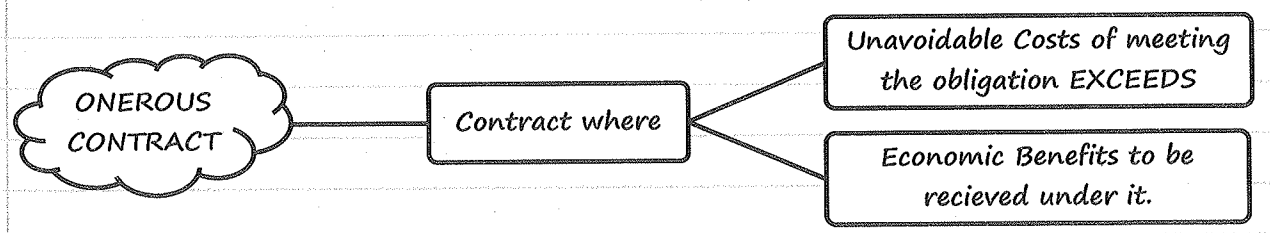
- Reimbursement is recognised only when it is virtually certain that such reimbursement will be received

  If NOT virtually certain, then disclose the reimbursement.

❖ ACCOUNTING TREATMENT

- Reimbursement shall be treated as separate asset in B/S (i.e. Provision liability & reimbursement asset will be shown separately in B/S)
- In P&L, Provision expense & reimbursement income can be netted off and presented.
- The amount of reimbursement shall NOT exceed the amount of provision

6. ONEROUS CONTRACT



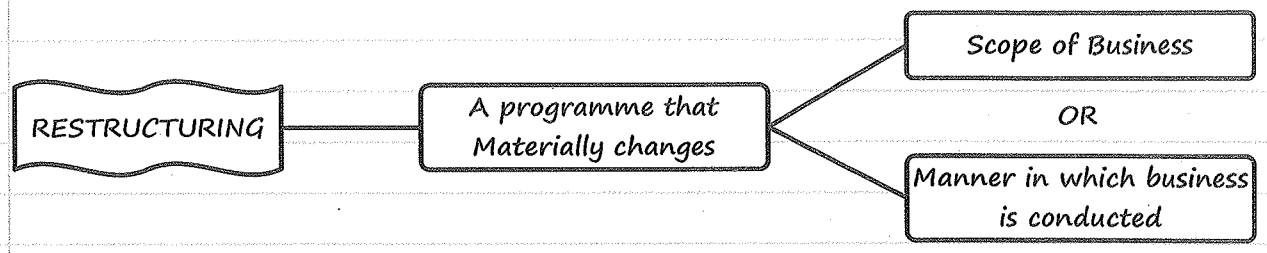
❖ ACCOUNTING TREATMENT

- It is to be recognised as Provision.
- The unavoidable cost (Amount of Provision) is cost of exiting from the contract, which is the LOWER OF:
  - Cost of fulfilling it; AND
  - Penalties arising from failure to fulfill it.

Amendment: As per amendment, both incremental costs to fulfil a contract and allocation

of directly attributable costs will form part of cost and this requires to take into consideration impairment loss on all assets whose cost will be considered in assessing the contract as onerous.

7. RESTRUCTURING

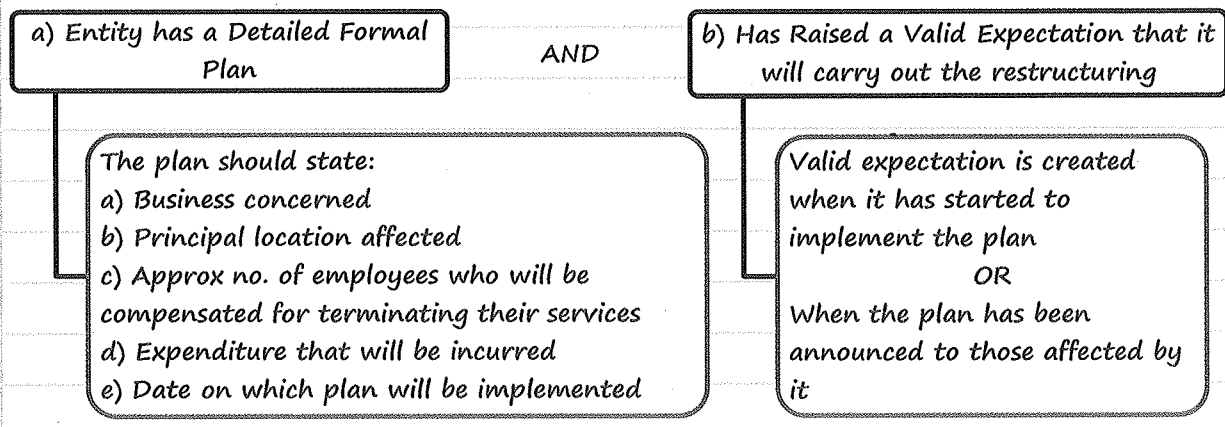


❖ ACCOUNTING TREATMENT

➢ A provision for restructuring cost should be recognised only when the recognition criteria of provision is met.

➢ An obligation should arise to recognise the restructuring cost as provision.

A constructive obligation arises when:



❖ RESTRUCTURING PROVISION AMOUNT:

INCLUDES

- Only the direct expense arising from restructuring, which are BOTH:
  a) Necessarily entailed by the restructuring; AND
  b) Not associated with the ongoing activities of the entity.

DOES NOT INCLUDE

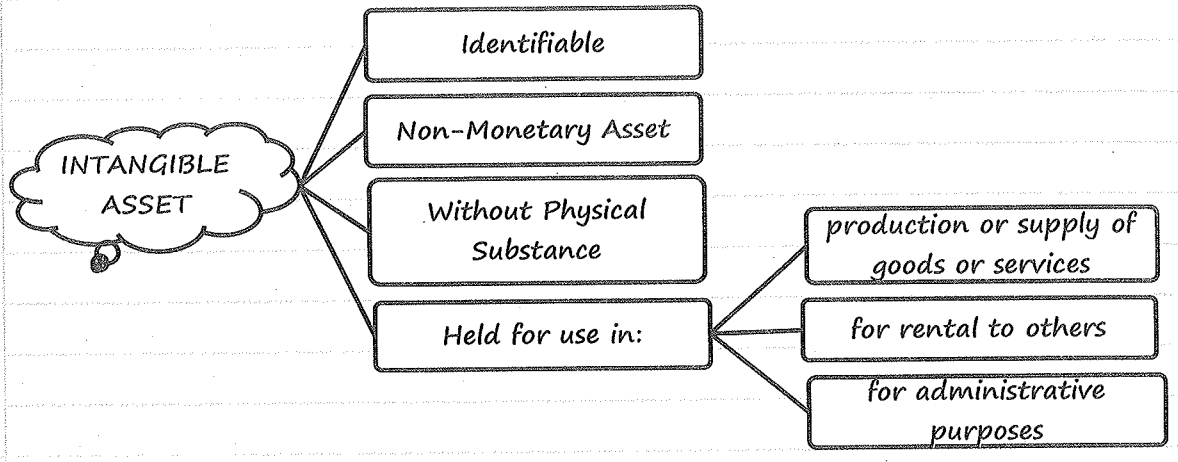
- Expenditure such as
  a) retraining or relocating continuing staff;
  b) marketing;
  c) investment in new systems & distribution networks.

  These expense relate to future conduct of business and are not liabilities for restructuring at the end of the reporting period.

"Your time is limited, don't waste it"

IND AS 38
INTANGIBLE ASSETS

1. DEFINITIONS



i) IDENTIFIABLILITY

- An asset is identifiable if it is either:
  - a) SEPARABLE (i.e. it is capable of being separated from the entity and sold/ transferred either individually or together with related contract); OR
  - b) ARISES FROM CONTRACTUAL or other legal rights.

ii) GUIDANCE ON ASSET THAT INCORPORATES BOTH TANGIBLE AND INTANGIBLE ELEMENTS SHOULD BE TREATED UNDER IND AS 16 OR IND AS 38

- The entity should assess which element is more significant.

Eg: 1. Software Purchased in a CD – Intangible Asset

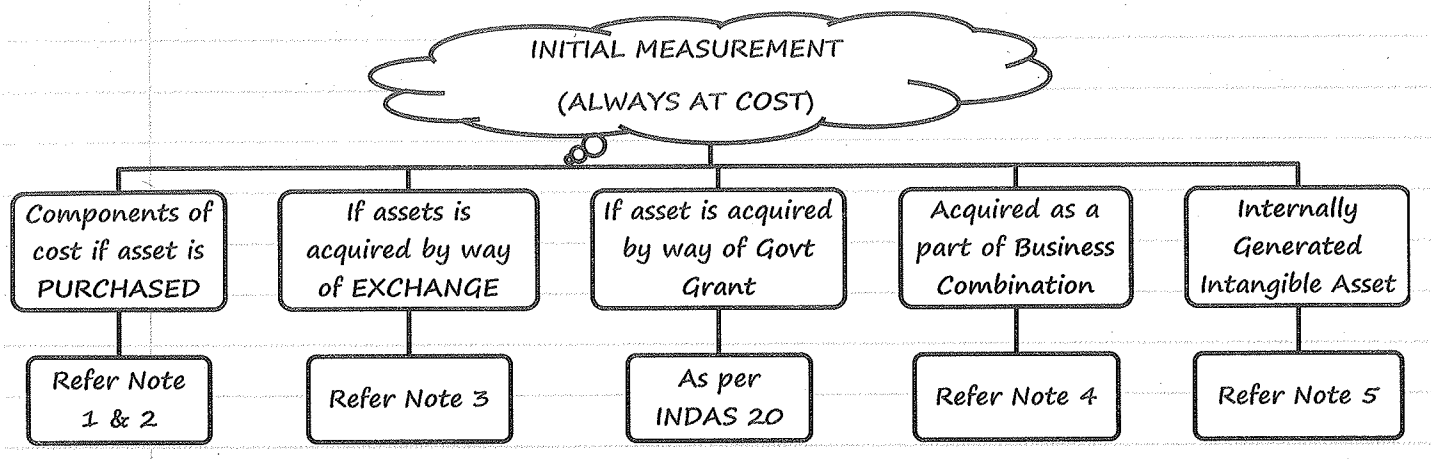
2. Computer Machine purchased incorporating software – Tangible Asset

2. RECOGNITION CRITERIA

INTANGIBLE ASSET RECOGNISED IF AND ONLY IF:

- PROBABLE FUTURE ECONOMIC BENEFITS, AND
- COSTS CAN BE MEASURED RELIABLY

3. MEASUREMENT



NOTE 1: COMPONENTS OF COST IF ASSET IS PURCHASED

a. Purchase Price (LESS Trade discounts and Rebates)
b. Non refundable Taxes
c. All Directly Attributable Expenses
   - INCLUDES : Employee Costs, Cost of Testing, Professional Fees, etc.
   - DOES NOT INCLUDE : Cost of Introducing a new product, Advertising and Promotional Costs, Staff Training Costs, Administration and Other General Overheads, Initial Operating Losses.

NOTE 2: DEFERRED CONSIDERATION

- If payment is deferred beyond normal credit terms, then the cost of PPE will be Cash Price Equivalent at the Recognition Date.
- The difference between the cash price at recognition date and the total payment is recognised as interest expense over the credit period.

NOTE 3: EXCHANGE OF ASSETS

1st Pref: FV of Asset Given Up + Cash Paid (if any)
2nd Pref: FV of Asset Acquired,
} Provided the transaction DOES NOT Lack Commercial Substance*
3rd Pref: Carrying amount of Asset Given Up + Cash Paid (if any)

If Transaction lacks Commercial Substance,

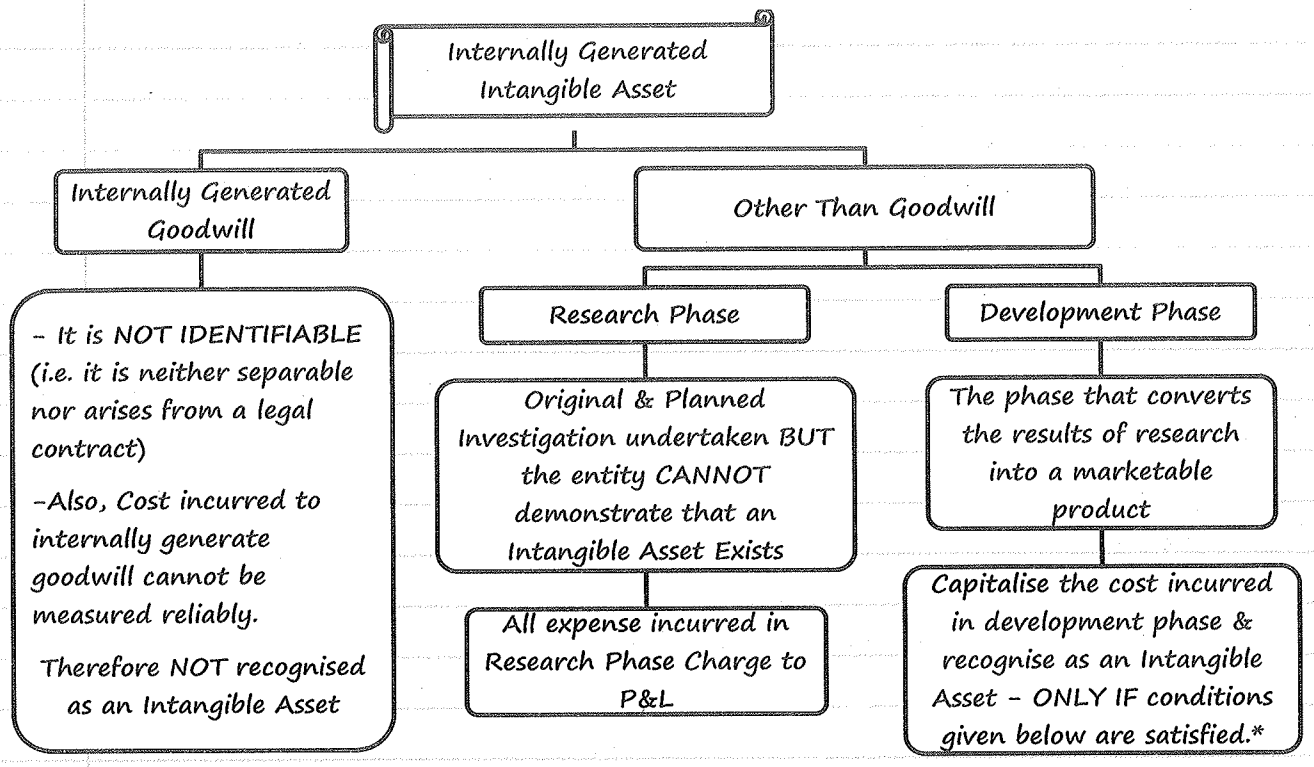
Only 1 Pref in such case: Carrying amount of Asset Given Up + Cash Paid (if any)

* A transaction lacks commercial substance is future cash flows (Risk, timing & Amount) are NOT expected to change as a result of the transaction. (i.e. Cash flows from New Acquired asset are going to be same as the Cash flows from the Old Transferred Asset)

NOTE 4: INTANGIBLE ASSET ACQUIRED AS A PART OF BUSINESS COMBINATION

- Cost of Intangible Asset acquired in Business Combination is Fair Value at the Date of Acquisition.
- Intangible Assets acquired in business combination are recognised separately from Goodwill irrespective of whether the asset had been recognised by the acquiree (i.e. seller) before business combination.
- If Intangible Assets are not separable from goodwill, then recognise the Intangible asset with Goodwill.
- If Intangible Assets are separable, but only together with another related Item, then recognise the Intangible Asset with the related item.
  (Eg. Two separable intangible assets are identified- a magazine's publishing title and a related subscriber database. Fair value of publishing title cannot be reliably measured as it cannot be sold without the database. Therefore, the two intangible assets are recognized as a single asset at combined Fair Value)

NOTE 5: INTERNALLY GENERATED INTANGIBLE ASSET

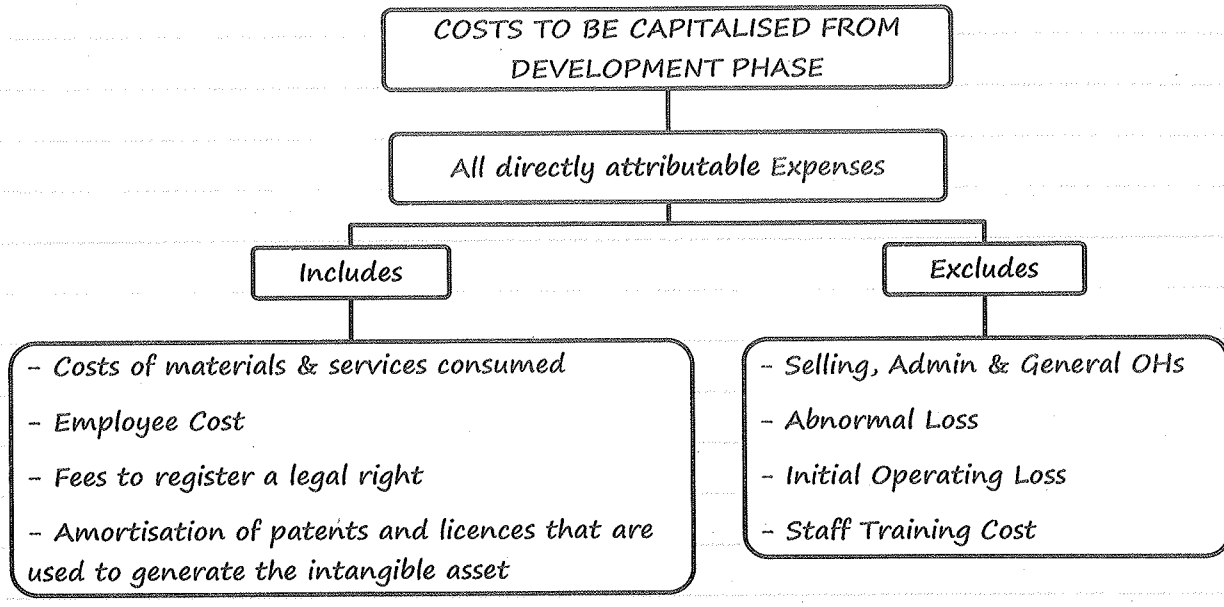


a) An intangible asset arising from development phase should be recognised if and only if, an entity can demonstrate all of the following conditions:

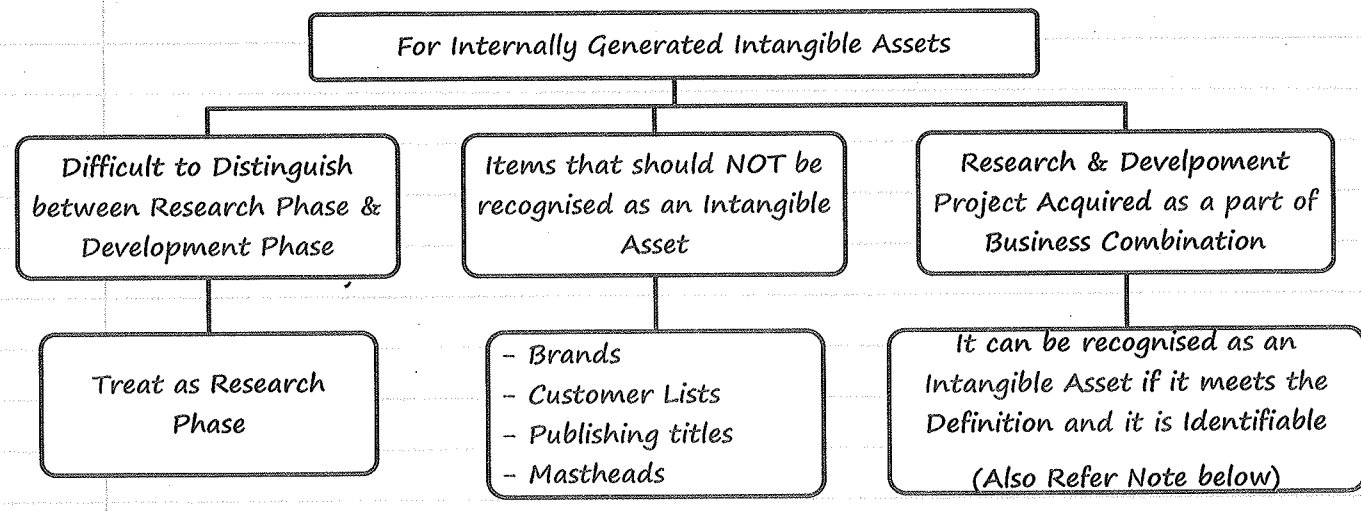
- Technical feasibility of completion of Intangible asset;
- Intention to complete the intangible asset;
- Ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits.
- Availability of adequate resources like technical, financial or others to complete the development.
- Ability to reliably measure the expenditure during its development.

b) Cost of an internally generated asset to be capitalized

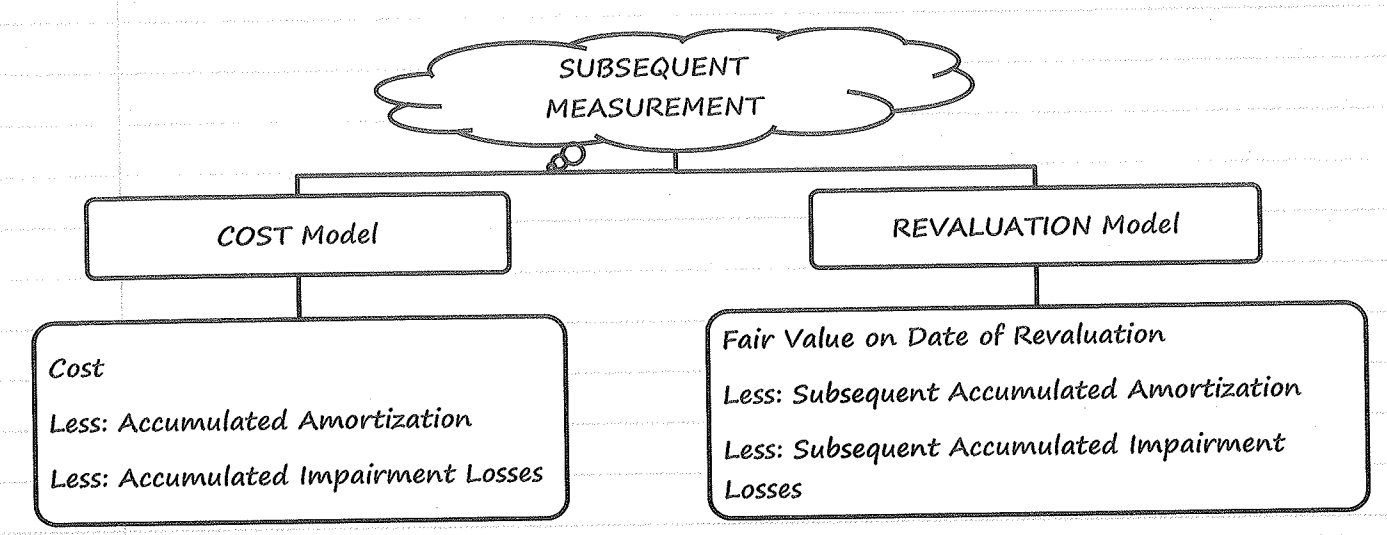
- Starts from the date when development phase begins.



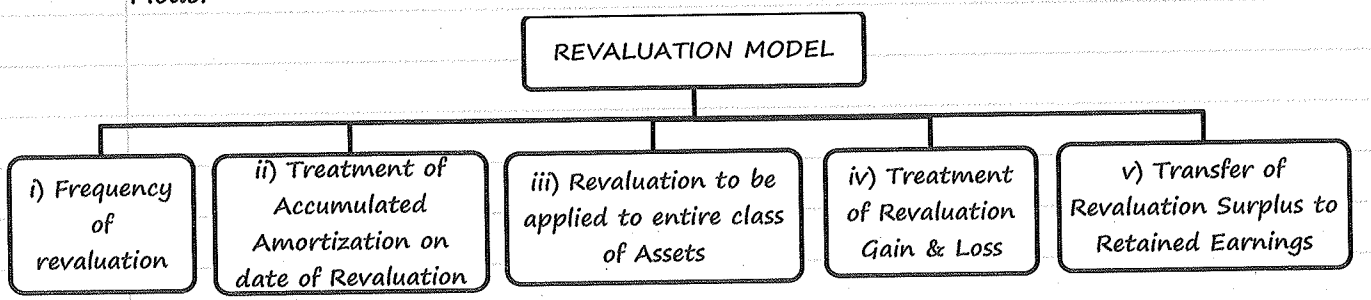
c) Other Important points relating to Internally Generated Intangible Asset



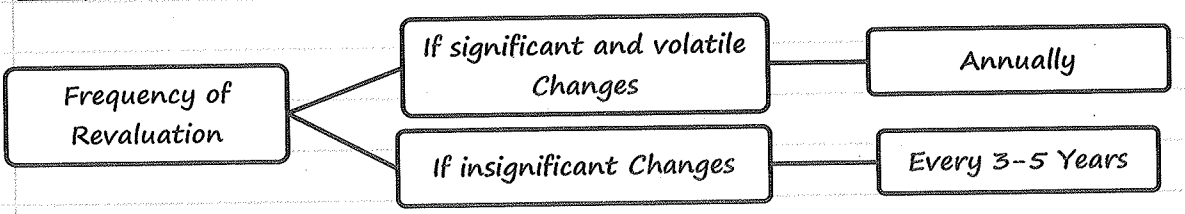
Note: After Recognising Acquired Research Project, company might incur expenses on the said research project in 2 phases i.e. Research Phase & Development Phase. Expenditure incurred by self in the research phase will be trf to P&L.



NOTE: Fair Value must be determined by reference to an active market. If active market is not available, then revaluation model cannot be used and the asset will be carried at Cost Model

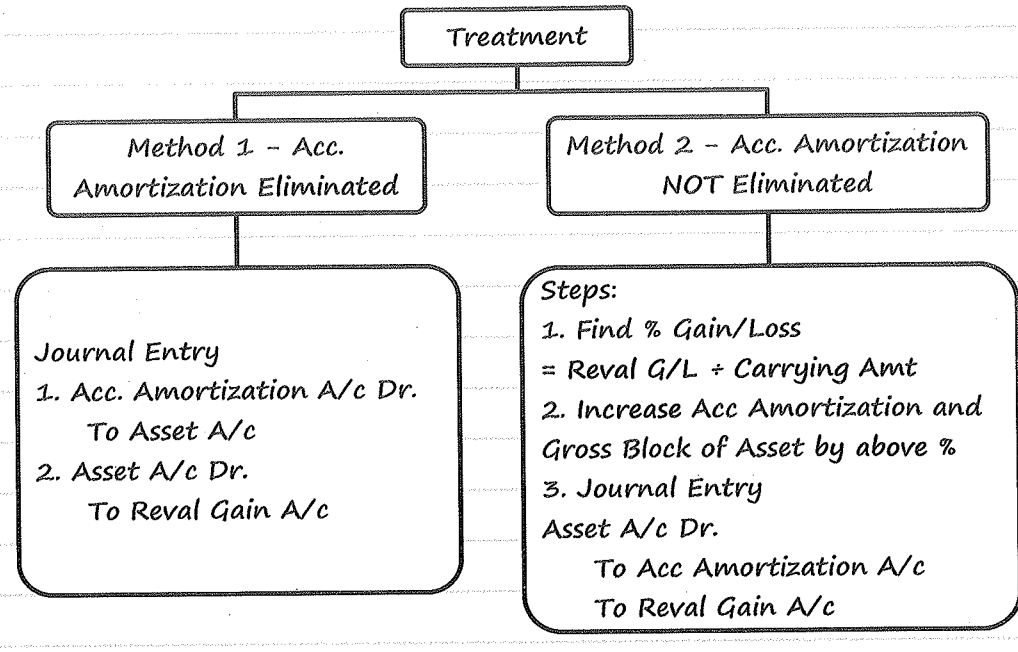


i) FREQUENCY OF REVALUATION



ii) TREATMENT OF ACCUMULATED AMORTIZATION ON DATE OF REVALUATION

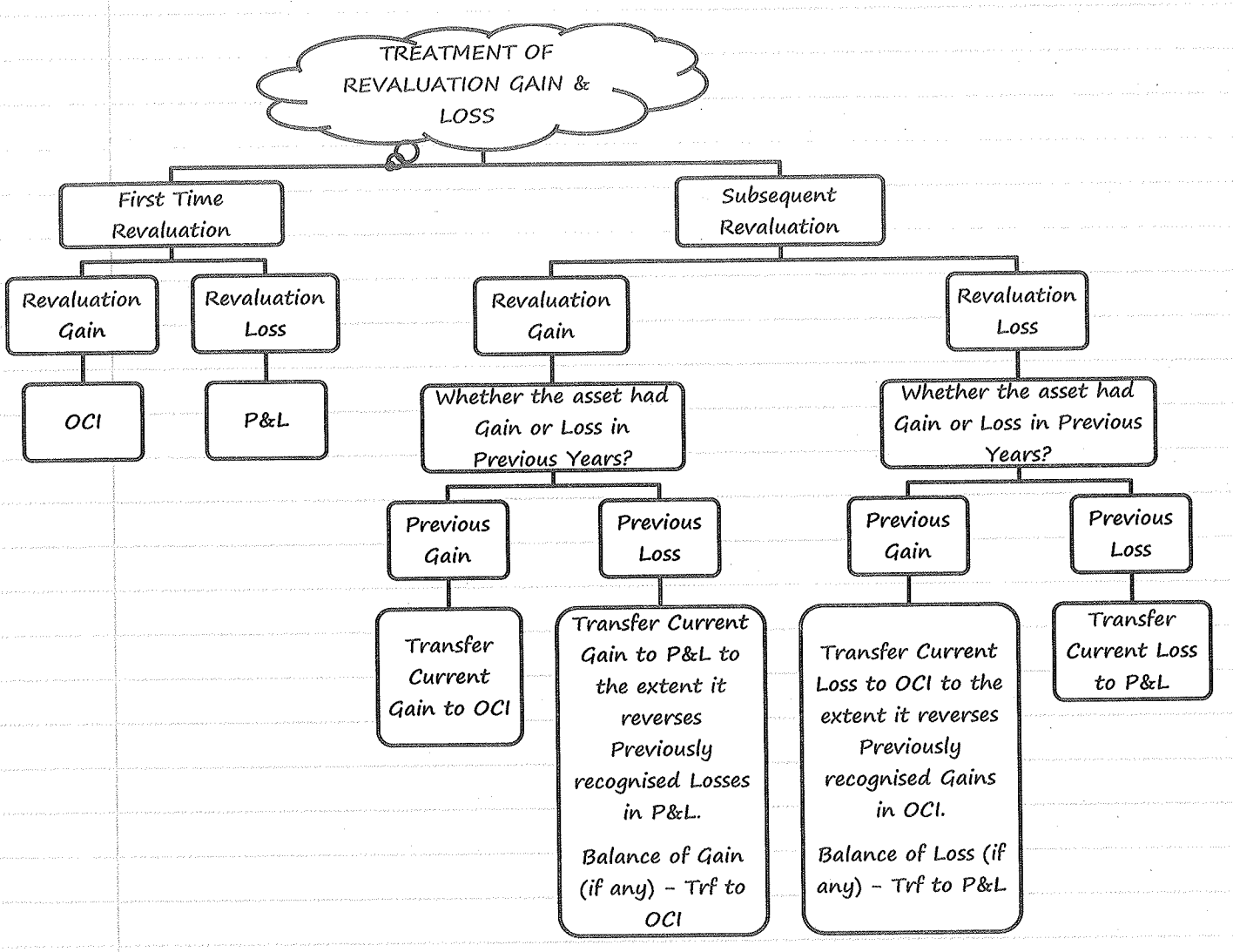
- When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the Intangible Asset is treated in one of the following ways:



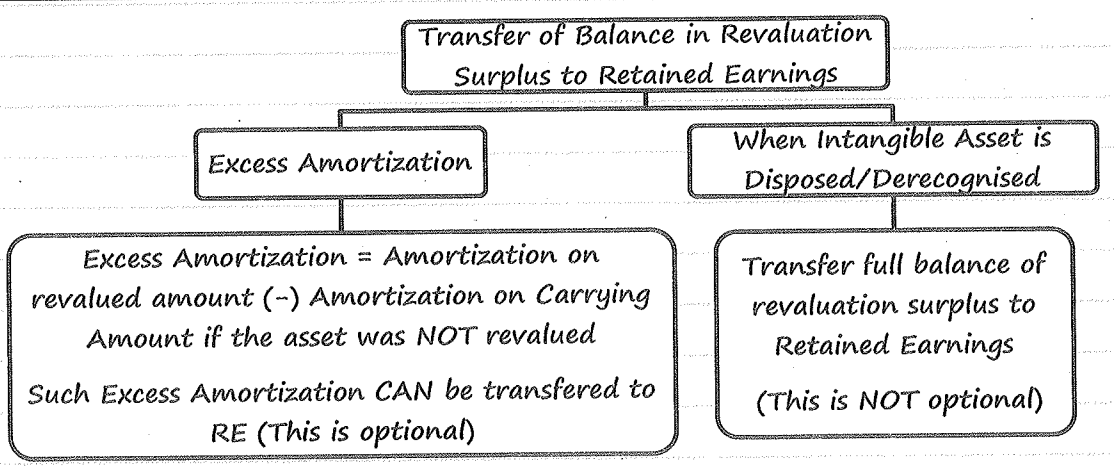
iii) REVALUATION TO BE APPLIED TO ENTIRE CLASS OF ASSETS

- If an Intangible Asset is revalued, the entire class to which that asset belongs shall be revalued.
- Exception: If no active market exists for an Intangible Asset in a class, then that particular asset will be carried at Cost Model and remaining Intangible Assets in that class can be carried at Revaluation Model

iv) TREATMENT OF REVALUATION GAIN & LOSS



v) TRANSFER OF REVALUATION SURPLUS TO RETAINED EARNINGS



Caution: The above Transfers will NOT take place through P&L

4. SUBSEQUENT COST INCURRED

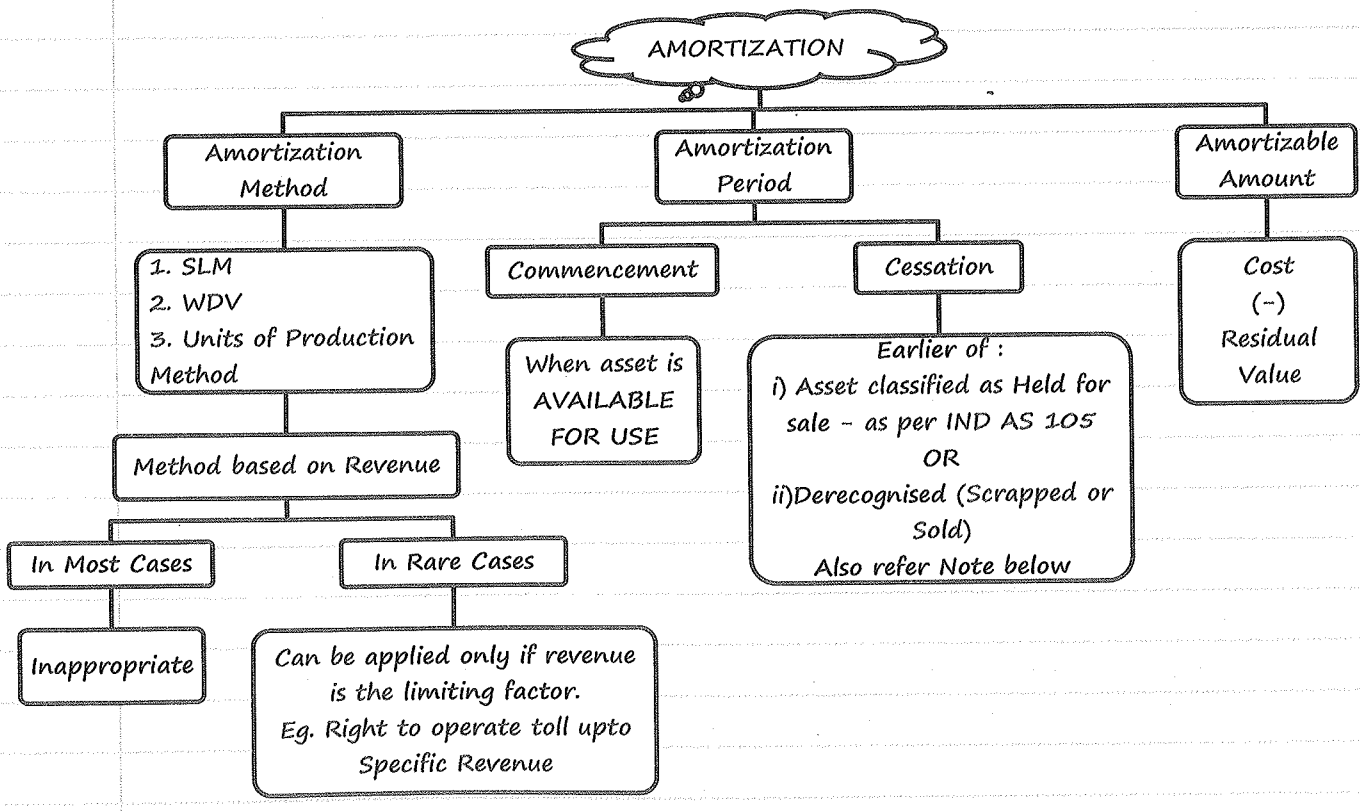
- Most subsequent expenditure do not result in excess FEBs. Therefore, such expenditures are charged to P&L

5. EXPENDITURE INCURRED BUT NO INTANGIBLE ASSET

- The following types of expenditure should always be recognised as an expense:
- Expenditure on research (except when it is acquired as part of a business combination);
- Start-up costs
- Expenditure on training activities;
- Expenditure on advertising and promotional activities
- Expenditure on relocating or reorganising part or all of an entity.

6. AMORTIZATION

- It is systematic allocation of AMORTIZABLE AMOUNT to P&L over its Useful Life.



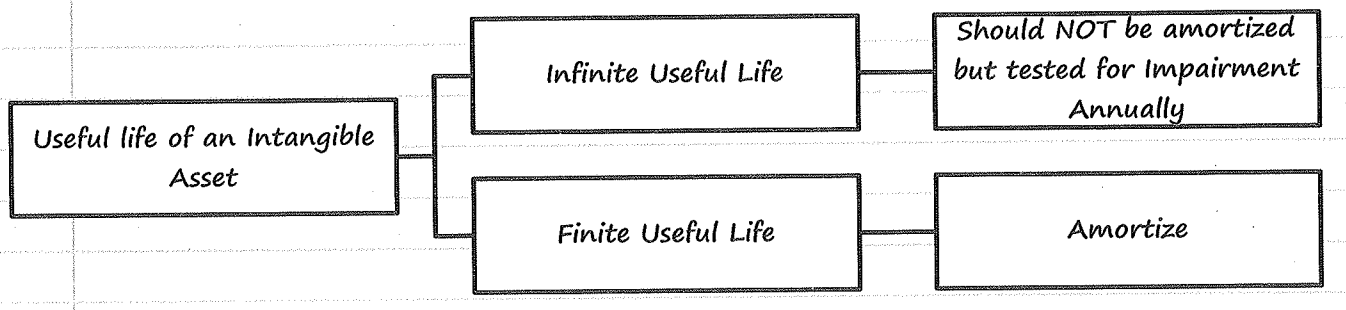
Note:

1. Amortization of an intangible asset DOES NOT cease when the intangible asset is idle or no longer used, unless the asset has been fully amortized or is classified as held for sale.
2. Intangible asset with indefinite useful life is not amortized but is tested for impairment annually (as per IND AS 36).

7. RESIDUAL VALUE

- Residual Value of an Intangible Asset in most cases is always assumed to be ZERO UNLESS:
  a) There is a commitment by a third party to purchase the asset at the end of its useful life; OR
  b) There is an active market available for the Intangible Asset & it is probable that such market will exist at the end of useful life of the asset.
- If residual value exceeds carrying amount, then amortization value shall be zero.

8. USEFUL LIFE



GUIDANCE ON USEFUL LIFE OF INTANGIBLE ASSET ARISING FROM A CONTRACTUAL OR OTHER LEGAL RIGHTS

- The useful life shall NOT exceed the period of the contract, but it may be shorter depending on the period over which the entity expects to use the asset.
- If the contract is renewable, then the useful life of the intangible asset shall include the renewal period ONLY IF :
  a) There is supportive evidence (possibly based on experience) that contract will be renewed;
  b) Any conditions necessary to obtain renewal will be satisfied; AND
  c) Cost of renewal is NOT significant compared to the FEBs expected to flow from renewal.

9. ANNUAL REVIEW AS PER IND AS 8 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- Amortization Method, Residual Value & Useful Life should be reviewed at each financial year end.
- If any Change – Then it should be accounted for as CHANGE IN ACCOUNTING ESTIMATE

10. IMPAIRMENT

- Impairment testing and impairment losses are accounted as per Ind AS-36.
- For an intangible asset with indefinite useful lives, an impairment review is required at least ANNUALLY.

11. DERECOGNITION

- Derecognise the Asset when:

  i)Disposed

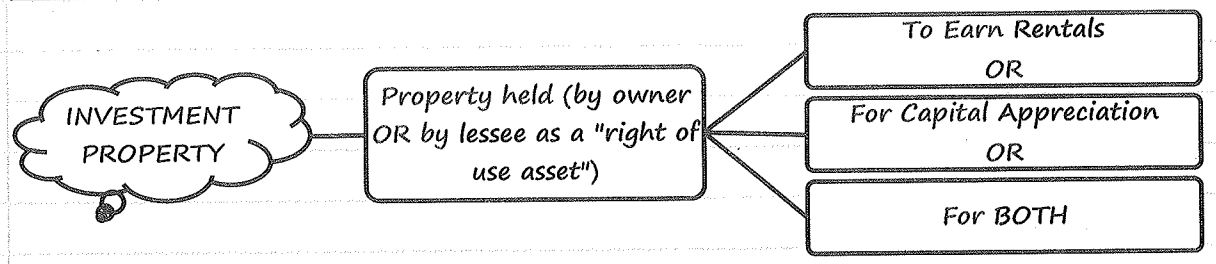
  OR

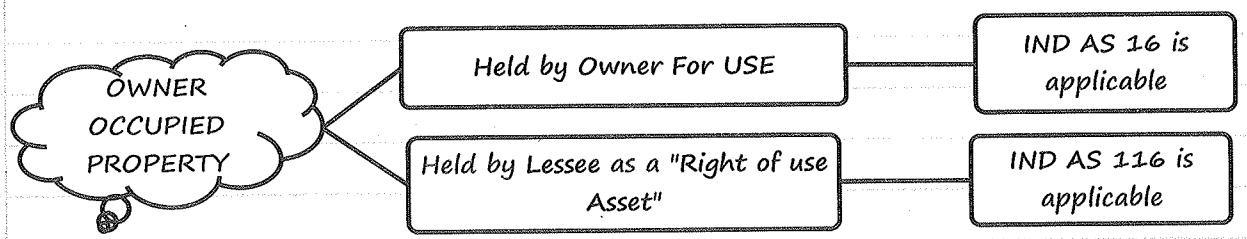
  ii)No FEBs are expected
- Gain/Loss on Derecognition = Net Proceeds (-) Carrying Amount

  Gain/Loss should be transferred to P&L, it should NOT be classified as Revenue i.e. it will be shown under the head of Other Income.

IND AS 40
INVESTMENT PROPERTY

1. DEFINITIONS





❖ EXAMPLES OF INVESTMENT PROPERTY

a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.

b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

c) A building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.

d) Property that is being constructed or developed for future use as investment property.

❖ EXAMPLES OF ITEMS THAT ARE NOT INVESTMENT PROPERTY AND ARE THEREFORE OUTSIDE THE SCOPE OF THIS STANDARD

a) Property intended for sale in the ordinary course of business (Ind AS 2),

b) Owner-occupied property (IND AS 16 & IND AS 116),

c) Employee occupied property (IND AS 16)

d) Owner-occupied property awaiting disposal. (IND AS 105)

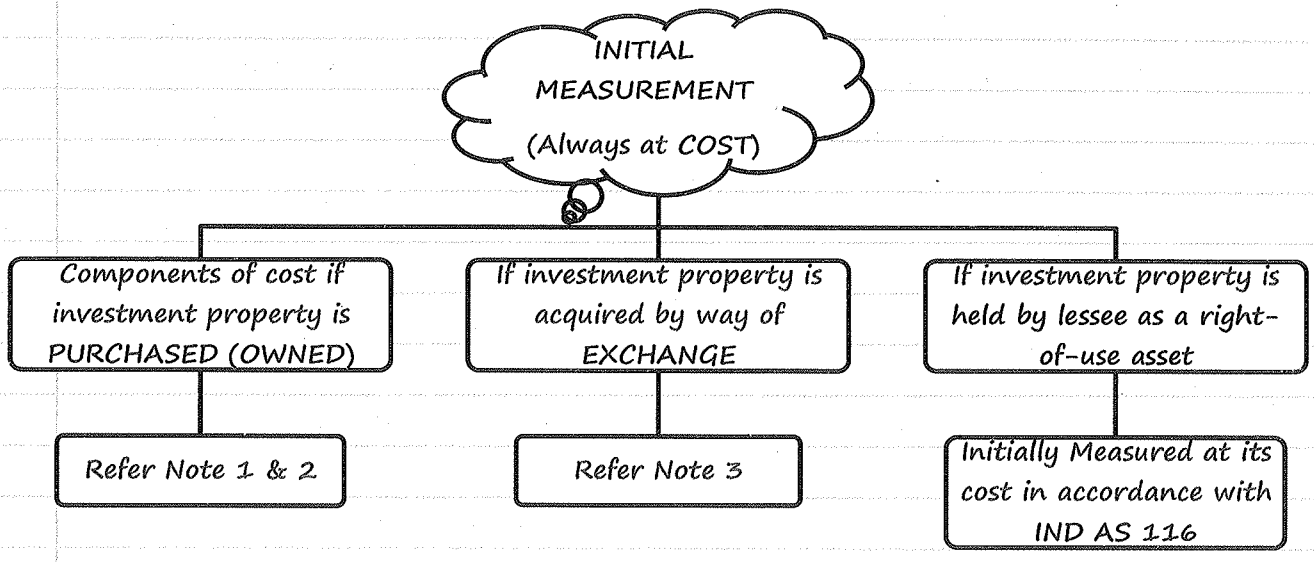
2. RECOGNITION CRITERIA

INVESTMENT PROPERTY RECOGNISED AS ASSET IF AND ONLY IF:

- PROBABLE FUTURE ECONOMIC BENEFITS, AND
- COSTS CAN BE MEASURED RELIABLY

NOTE: An investment property held by a lessee as a right-of-use asset shall be recognised in accordance with Ind AS 116

3. MEASUREMENT



NOTE 1: COMPONENTS OF COST IF ASSET IS PURCHASED

a. Purchase Price (LESS Trade discounts and Rebates)
b. Non refundable Taxes
c. All Directly Attributable Expenses
   - INCLUDES: Professional fees for legal services, property transfer taxes and other transaction costs.
   - DOES NOT INCLUDE: Start-up costs, operating losses, abnormal wastages in constructing or developing the property.

NOTE 2: DEFERRED CONSIDERATION

- If payment is deferred beyond normal credit terms, then the cost of PPE will be cash price equivalent at the recognition date.

- The difference between the cash price at recognition date and the total payment is recognised as interest expense over the credit period.

NOTE 3: EXCHANGE OF ASSETS

1st Pref: FV of Asset Given Up + Cash Paid (if any)
2nd Pref: FV of Asset Acquired,
} Provided the transaction DOES NOT Lack Commercial Substance*
3rd Pref: Carrying amount of Asset Given Up + Cash Paid (if any)

If Transaction lacks Commercial Substance,

Only 1 Pref in such case: Carrying amount of Asset Given Up + Cash Paid (if any)

* A transaction lacks commercial substance is future cash flows (Risk, timing & Amount) are NOT expected to change as a result of the transaction. (i.e. Cash flows from New Acquired asset are going to be same as the Cash flows from the Old Transferred Asset)

❖ SUBSEQUENT MEASUREMENT

- An entity measures subsequently all its investment property AT COST. (Revaluation Model is not permitted for investment property)
- This Standard requires all entities to measure the fair value of investment property, for disclosure purpose even though they are required to follow the cost model.
- The investment property which subsequently meets the criteria to be classified as held for sale in accordance with Ind AS 105, such properties shall be measured in accordance with Ind AS 105 (i.e. at FVLCTS)

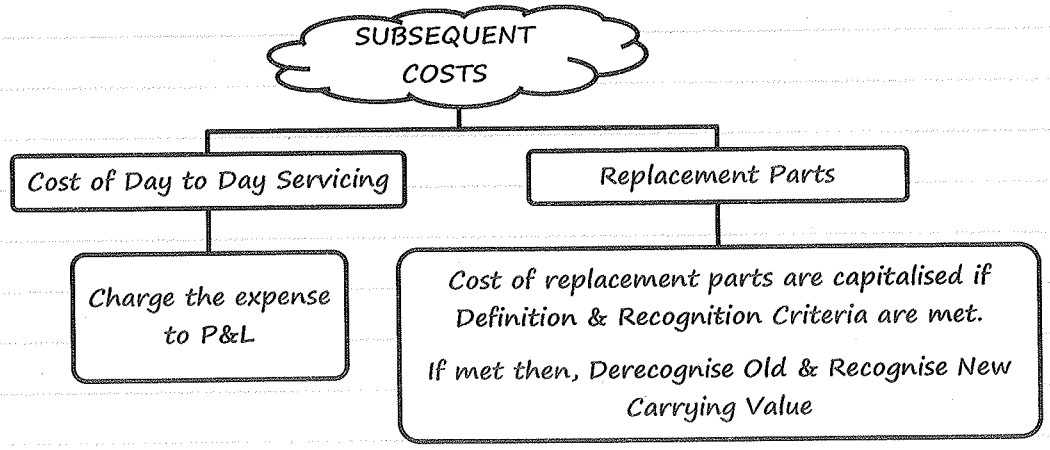
❖ GUIDANCE ON FAIR VALUE MEASUREMENT FOR DISCLOSURE PURPOSE

Treatment when Fair Value is not reliably measurable

Investment property under construction	Investment property (other than investment property under construction)
Entity determines that the Fair value is not reliably measurable	Entity determines that the Fair value is not reliably measurable on a continuing basis
But entity expects that the Fair Value of the property will be reliably measurable when construction is complete	Entity shall disclose the following: (i) A description of the investment property (ii) Explanation of why fair value cannot be measured reliably; and (iii) If possible, the range of estimates within which fair value is likely to lie
Then the entity shall measure the Fair Value of such Investment Property either when it becomes reliably measurable, or construction is completed, **whichever is earlier**	

NOTE: An entity that has measured the fair value of investment property under construction may not conclude that the fair value of the completed investment property cannot be measured reliably.

4. SUBSEQUENT COST INCURRED

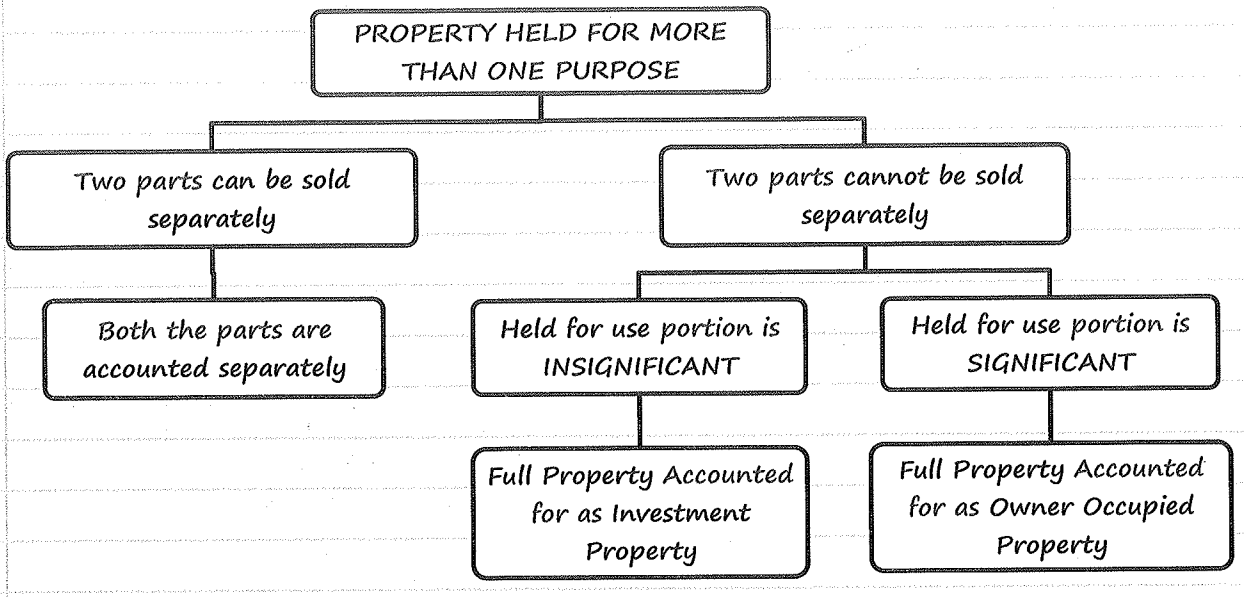


Note: Investment Property will be depreciated except in case of Land

5. PROPERTY HELD FOR MORE THAN ONE PURPOSE

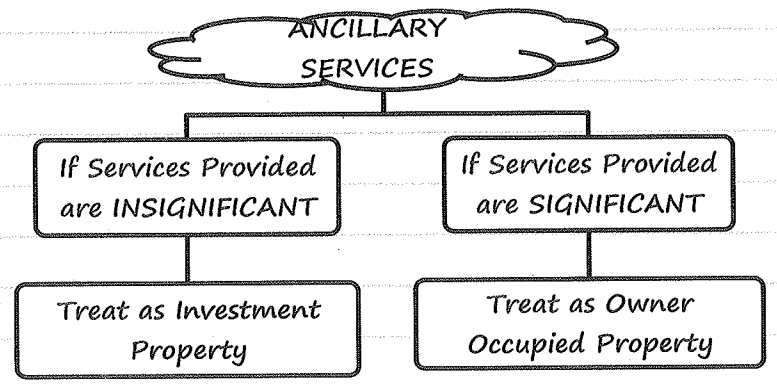
- In cases where property is held partly for capital appreciation and/or rentals (investment property) and partly held for use (owner occupied property), such property is accounted as

follows:



6. ANCILLARY SERVICES PROVIDED TO OCCUPANTS OF PROPERTY

➢ In some cases, an entity provides ancillary services to the occupants of a property.



NOTE: It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. Therefore, Judgement is needed in such cases.

EXAMPLE

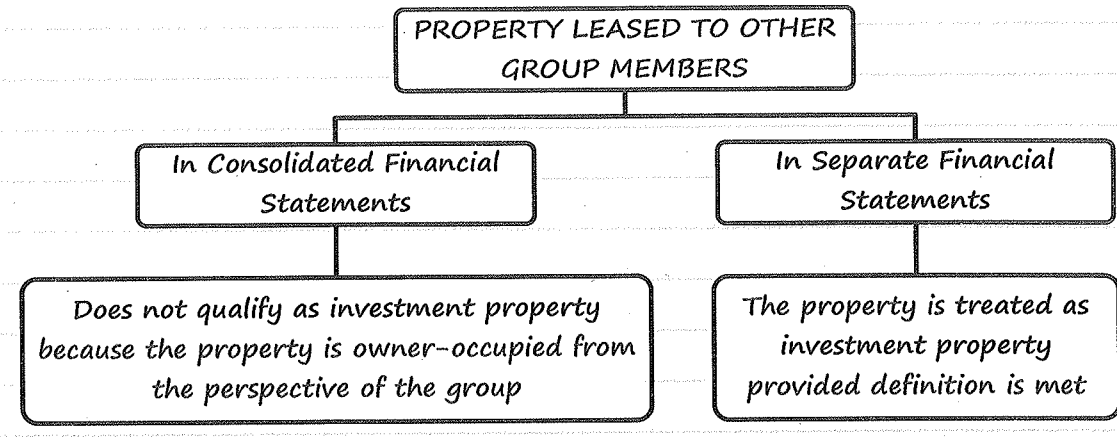
The owner of an office building provides security and maintenance services to the lessees who occupy the building. In such a case, since the services provided are insignificant, the property would be treated as an investment property.

If an entity owns and manages a hotel, services provided to guests are significant to the arrangement as a whole. In such case, an owner-managed hotel is owner-occupied

property, rather than investment property.

7. PROPERTY LEASED TO OTHER GROUP MEMBERS

➢ In some cases, an entity owns property that is leased to its parent or another subsidiary.



8. TRANSFER (TO OR FROM INVESTMENT PROPERTY)

➢ An entity shall transfer a property to or from investment property only when there is a CHANGE IN USE. A change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use.

NOTE: A change in management's intentions for the use of a property does not provide evidence of a change in use.

EXAMPLES OF EVIDENCE OF A CHANGE IN USE INCLUDE:

a) commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
Ind AS 40 ➡ Ind AS 16

b) commencement of development with a view to sale, for a transfer from investment property to inventories;
Ind AS 40 ➡ Ind AS 2

c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
Ind AS 16 ➡ Ind AS 40

d) inception of an operating lease to another party, for a transfer from inventories to investment property.

Ind AS 2 ➡ Ind AS 40

- Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

9. DERECOGNITION

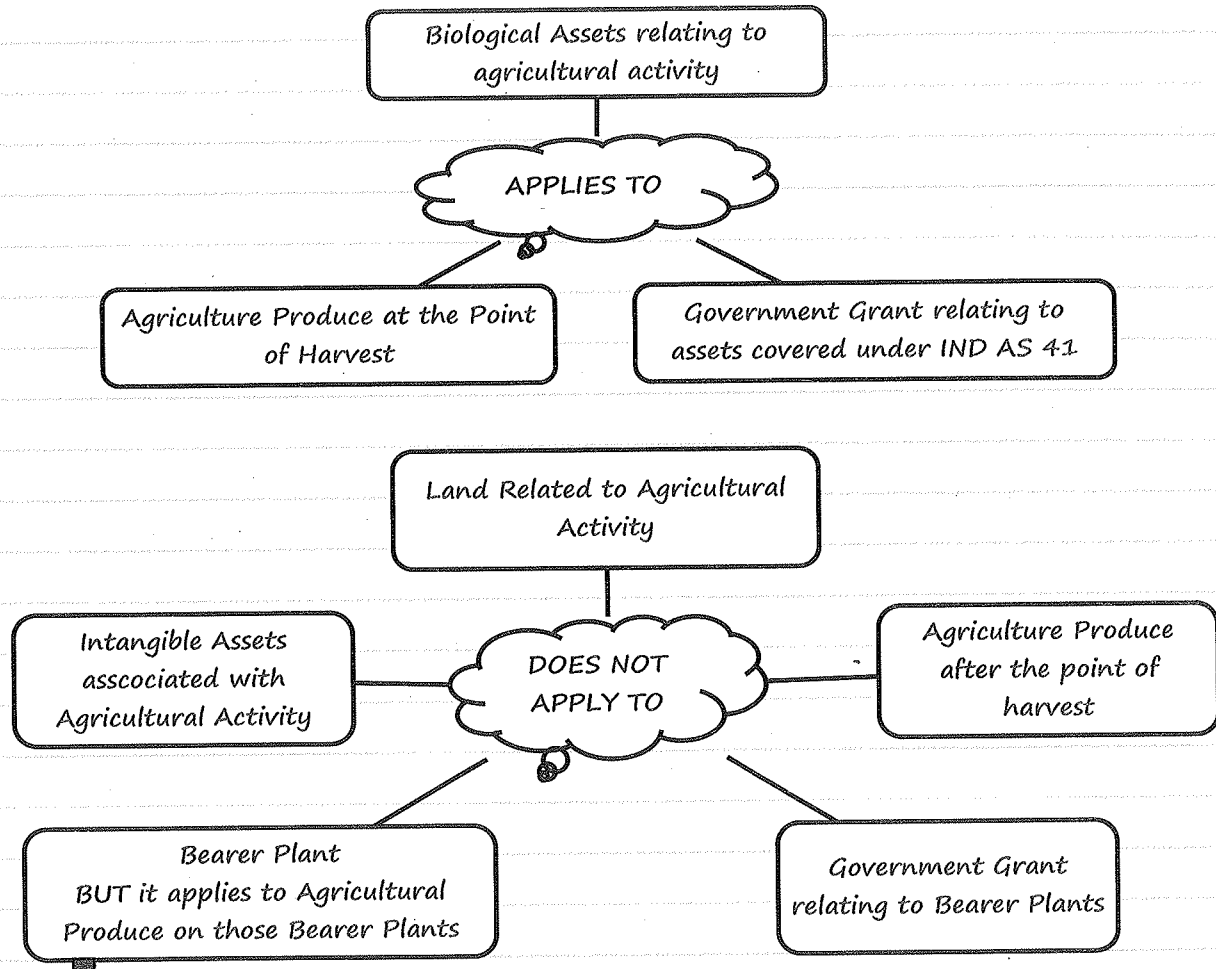
- Derecognise the Asset when:
  i)Disposed OR ii) No FEBs are expected
- Gain/Loss on Derecognition = Net Proceeds (-) Carrying Amount
  Gain/Loss should be transferred to P&L, it should NOT be classified as Revenue.

10. SUMMARY ON WHICH IND AS IS APPLICABLE TO VARIOUS PROPERTY

S.No	Property	Does it meet definition of Investment Property	Which Ind AS is Applicable
1.	Owned by a Co and leased out under an Operating Lease	Yes	Ind AS 40
2.	Held as a right-to-use asset and leased out under an Operating Lease	Yes	Ind AS 40
3.	Held as a right-to-use asset and leased out under Finance Lease	No	Ind AS 116
4.	Property acquired with a view for development and resale under ordinary course of business	No	Ind AS 2
6.	Land held for currently undetermined use	Yes	Ind AS 40
7.	Property occupied by Employees paying rent at less than market rate	No	Ind AS 16
8.	Investment Property held for sale	No	Ind AS 105

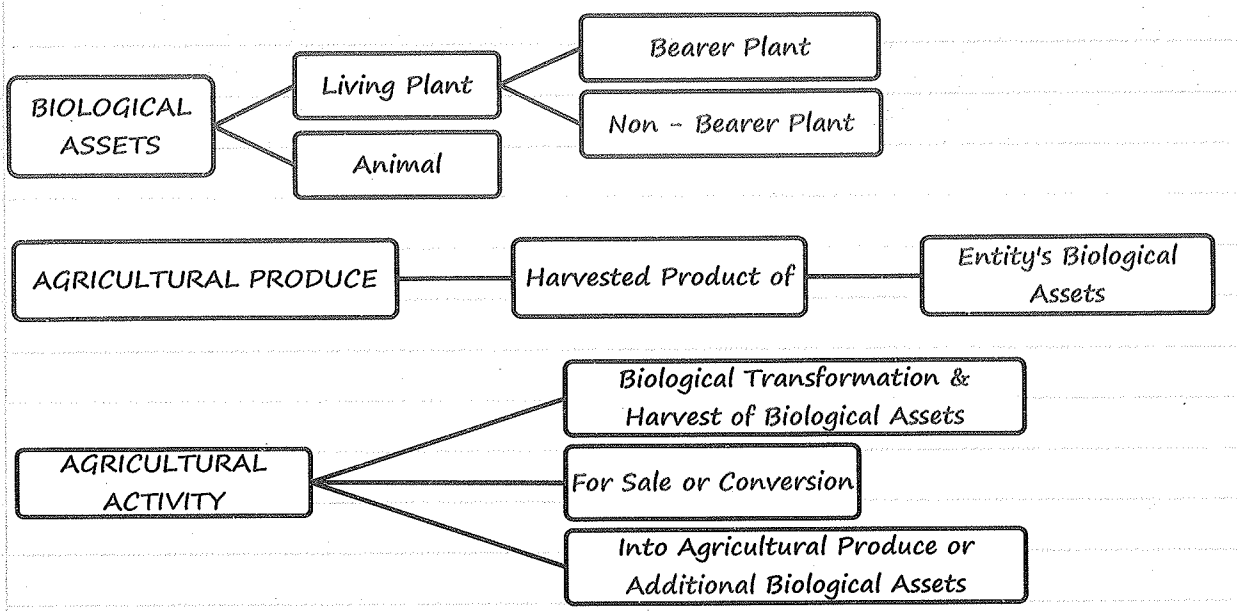
IND AS 41
AGRICULTURE

1. SCOPE



For example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope of Ind AS 41 and covered under Ind AS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of Ind AS 41

2. DEFINITIONS

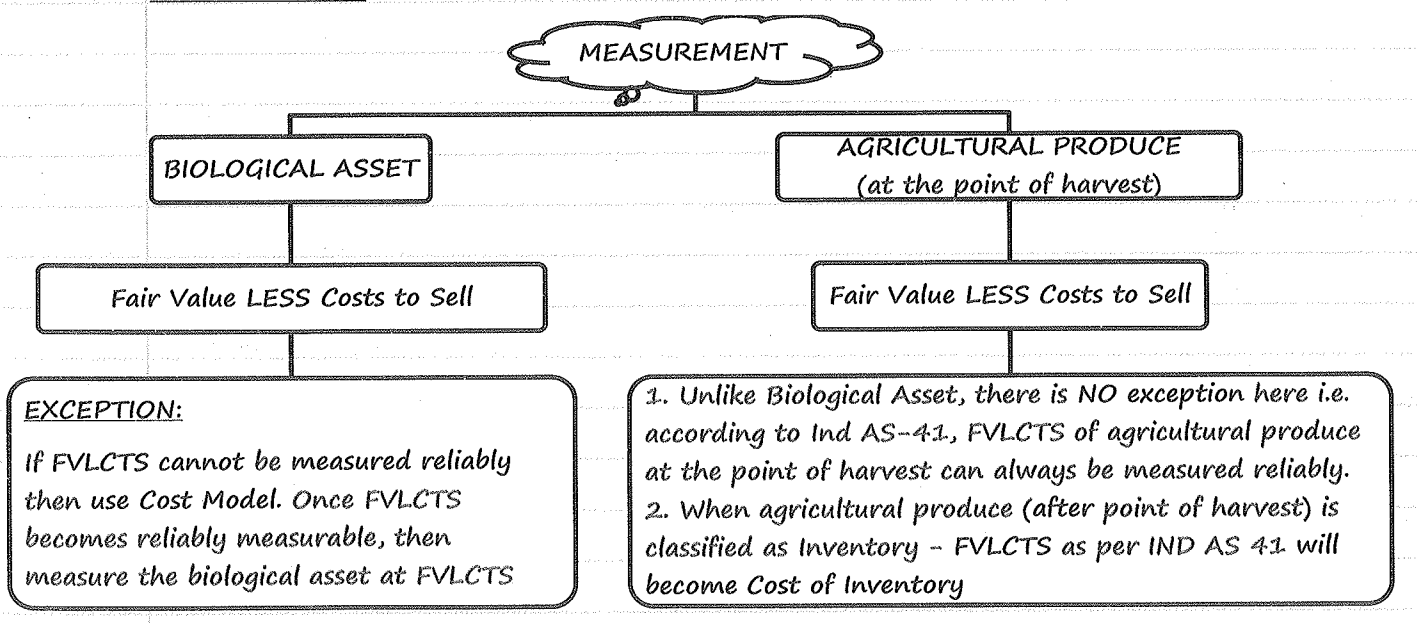


3. RECOGNITION CRITERIA

BIOLOGICAL ASSET OR AGRICULTURAL PRODUCE ARE RECOGNISED IF AND ONLY IF:

- ENTITY CONTROLS THE ASSET AS A RESULT OF PAST EVENT
- PROBABLE FUTURE ECONOMIC BENEFITS, AND
- FAIR VALUE OR COST CAN BE MEASURED RELIABLY

4. MEASUREMENT



Note: Amendment made in 2022 implies that tax cash flows must be included in the fair value measurement of biological assets as per Ind AS 41.

❖ OTHER IMPORTANT POINTS RELATING TO MEASUREMENT CRITERIA

a) Can Grouping of Biological Assets OR Agricultural Produce be done to Facilitate Fair Value Measurement?

➢ YES

b) What are the reasons due to which FVLCTS of Biological Asset can change?

➢ It can change in the market due to both:

- Physical changes &
- Price changes

c) Can Contract Price be relevant in measuring Fair Value?

➢ NO. Because Entities often enter into contacts to sell at a future date & fair value should reflect the current market value.

d) Can Cost be considered as approximation of Fair Value?

➢ YES, ONLY WHEN:

- little biological transformation has taken place since initial cost incurrence (For example, newly acquired livestock); OR
- the impact of biological transformation on price is NOT expected to be Material

e) What will be the fair value of biological assets attached to Land when NO separate market exists for such biological assets?

Fair Value of Combined Asset	XXX
Less: Fair Value of Raw Land & Land Improvements	(XXX)
Fair Value of Biological Asset	XXX

5. GAINS & LOSSES ON BIOLOGICAL ASSETS & AGRICULTURAL PRODUCE

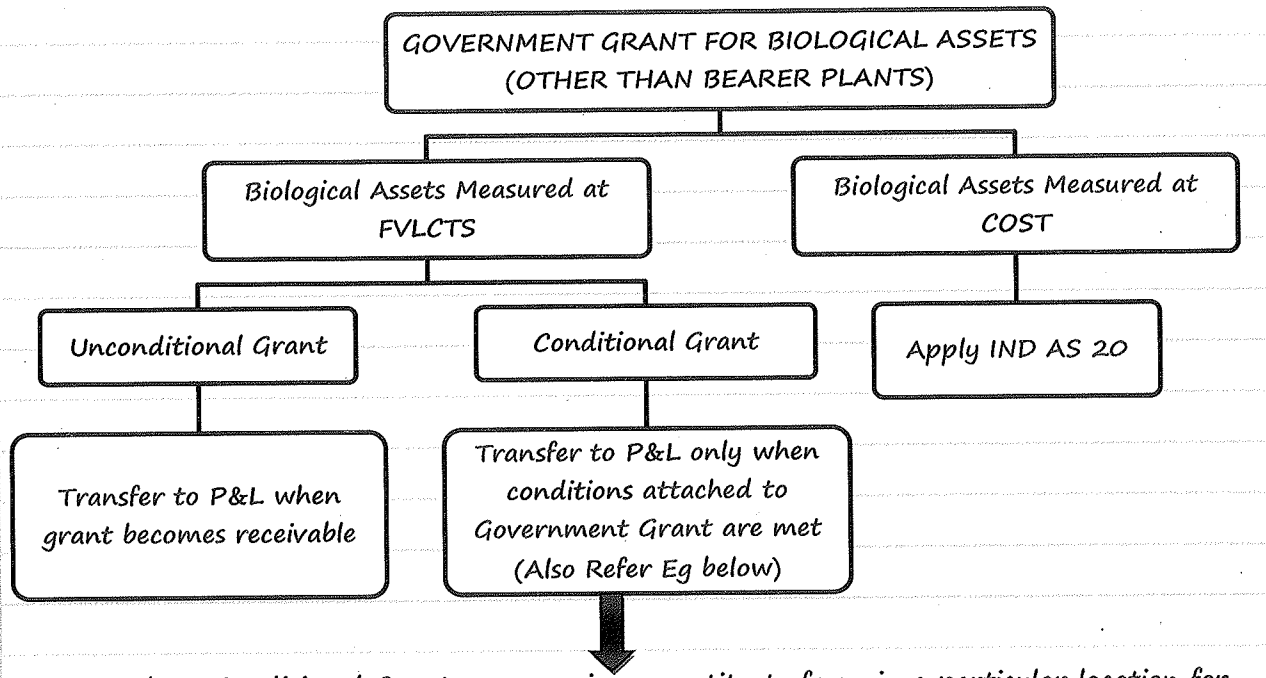
➢ Gain or loss on Biological Assets & Agricultural Produce may arise on:

- Initial Recognition OR
- From Changes in FVLCTS

➢ All such Gains & Losses shall be transferred to Profit & Loss A/c

6. GOVERNMENT GRANT

➢ Government Grant is usually received for Biological Assets Only.



➢ For example, a Conditional Grant may require an entity to farm in a particular location for 5 years and require the entity to return the Entire Grant if it farms for a period shorter than 5 years.
In this case, transfer the grant to P&L only after 5 years.

However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes.

IND AS 101
FIRST TIME ADOPTION OF IND AS

1. INTRODUCTION

☞ Conceptually, the accounting under Ind AS should be applied retrospectively at the time of transition to Ind AS.

☞ However, Ind AS 101 grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.

☞ Ind AS 101 also prohibits retrospective application of Ind AS in some areas (called exceptions), particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

2. OBJECTIVE

The objective of this Ind AS is to ensure that first Ind-AS FS, and its interim financial reports contain high quality information that

- is transparent for users and comparable;
- provides a suitable starting point; and
- at a cost that does not exceed the benefits

3. DEFINITIONS

a) First Ind AS Financial Statements

☞ The first annual FS in which an entity adopts Ind AS, by an explicit and unreserved statement of compliance with Ind AS i.e. partial compliance is not enough to make entity Ind AS compliant.

b) First –time adopter

☞ An entity that presents its first Ind AS financial statements, that entity is known as first time adopter

c) Date of Transition to Ind AS

☞ The beginning of the earliest period for which an entity presents full comparative

information under Ind ASs in first Ind AS Financial statements.

d) Opening Ind AS Balance sheet

☞ An entity's balance sheet at the date of transition to Ind AS

e) First Ind AS reporting period

☞ The latest reporting period covered by an entity's first Ind AS financial statements

EXAMPLE

XYZ Ltd. is a BSE listed company having net worth of ₹100 cr. So XYZ Ltd. has to prepare financial statements as per Ind AS from 1st April 20X1.

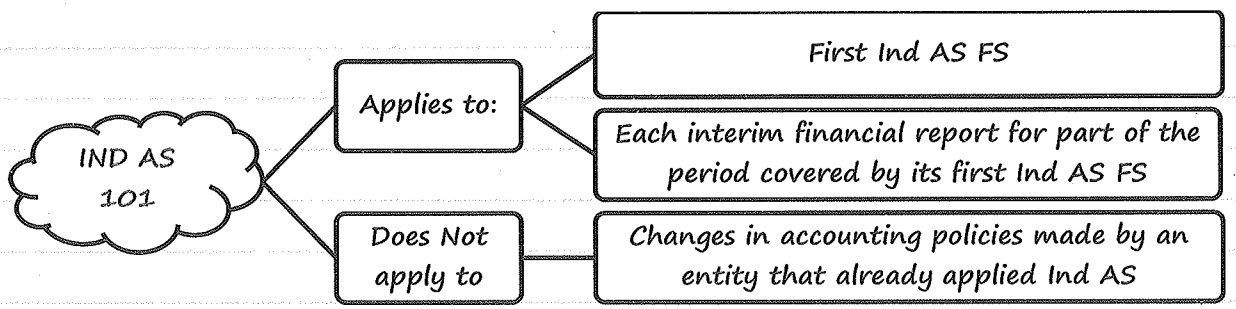
In this example, First Ind AS Financial Statements would be the statement for period ending as on 31.03.20X2

First –time adopter- "XYZ Ltd" with effect from 01.04.20X1 Opening Ind AS Balance sheet – 01.04.20X0

Date of Transition to Ind ASs-01.04.20X0

First Ind AS reporting period-01.04.20X1 to 31.03.20X2

4. SCOPE



5. RECOGNITION AND MEASUREMENT

a) OPENING IND AS BALANCE SHEET

☞ An entity shall prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

b) ACCOUNTING POLICIES

☞ Entity uses the same accounting policies in its opening Ind AS Balance Sheet and through 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, subject to:

- Mandatory exceptions and
- Optional exemptions

❖ The general principle of Ind AS 101:

☞ An entity shall, in its opening Ind AS Balance sheet:

- ✓ Recognise all assets and liabilities whose recognition is required by Ind AS.
- ✓ Not recognise items as assets or liabilities if Ind AS do not permit such recognition.
  For example, Ind AS 115, has different thresholds for revenue recognition as compared to AS 9 under Indian GAAP and hence an item that is recognized as a trade receivable in Indian GAAP, may not be so recognized under Ind AS;
- ✓ Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS.
  For example, Ind AS requires classification of assets given on operating lease as investment property whereas the same are presented as property, plant and equipment under Indian GAAP; and
- ✓ Apply Ind AS in measuring all recognised assets and liabilities.
  For example, Ind AS has well-defined measurement principles for financial assets and liabilities , like certain investments are measured at fair value under Ind AS, whereas the same are measured at lower of cost and fair value under Indian GAAP.

6. EXCEPTIONS/ EXEMPTIONS

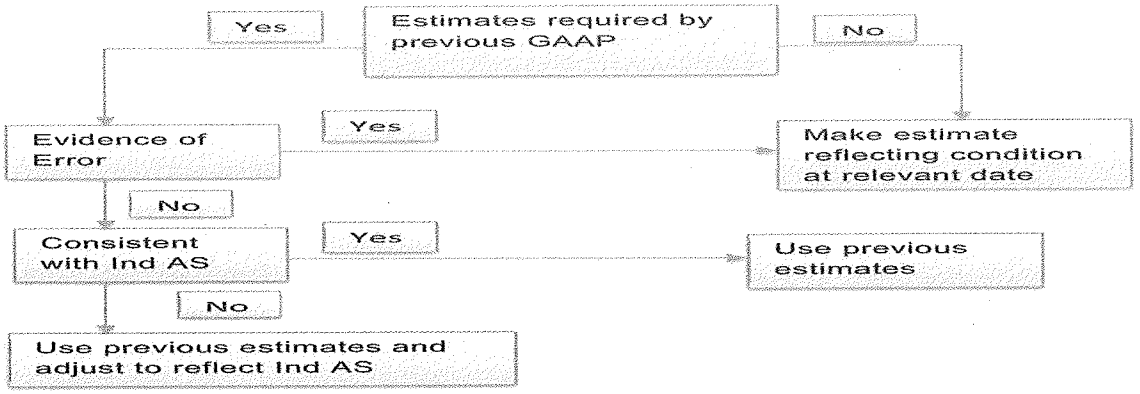
☞ There are two kinds of exceptions / exemptions in this Ind AS

- Mandatory (Exceptions to the retrospective application of other Ind AS)
- Optional (exemptions from application of other Ind AS)

a) MANDATORY (Exceptions to the retrospective application of other Ind AS)

i) ESTIMATES

☞ An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.



ii) DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

☞ A first-time adopter shall apply the derecognition requirements in Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS.

☞ An entity may apply the derecognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 as a result of past transactions was obtained at the time of initially accounting for those transactions

iii) NON-CONTROLLING INTERESTS

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

- 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;
- Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- Accounting for a loss of control over a subsidiary,

iv) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

☞ Ind AS 109 contains principles for classification of a financial asset as at (a) amortised cost or (b) fair value through other comprehensive income or (c) fair value through profit or loss.

Such classification depends on assessment of features of the financial asset on the date of its initial recognition.

- Ind AS 101 provides an exception to this general principle by requiring that such assessment should be done on the date of transition to Ind AS.
- Ind AS 101 further provides that if it is impracticable to assess the below mentioned features of a financial asset as at the date of transition to Ind AS, the "contractual cash flow characteristics test" shall be done without considering those features:
  - Modified time value of money element
  - Significance of the fair value of a prepayment feature
- An entity shall disclose the carrying amount of such financial assets until those financial assets are derecognized.
- Ind AS 109 requires the measurement of amortised cost of a financial asset or a financial liability using effective interest method. As an exception to this general measurement principle, Ind AS 101 provides that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS

v) IMPAIRMENT OF FINANCIAL ASSETS

- An entity shall apply the impairment requirements of Ind AS 109 retrospectively subject to the fact that information is available without undue cost or effort to determine the credit risk.
- An entity is not required to undertake an exhaustive search for information.
- If at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised, unless that financial instrument is low credit risk at a reporting date

vi) GOVERNMENT LOANS

- A first-time adopter shall classify all government loans received as a financial liability or an

equity instrument in accordance with Ind AS 32, Financial Instruments: Presentation.

- A first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.
- An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

Example:

Government of India provides loans to MSMEs at a below-market rate of interest to fund the set-up of a new manufacturing facility.

Company A"s date of transition to Ind AS is 1 April 20X5.

In 20X2, Company A had received a loan of ₹ 1 crore at a below-market rate of interest from the government. Under Indian GAAP, Company A accounted for the loan as equity and the carrying amount was ₹ 1 crore at the date of transition. The amount repayable at 31 March 20X9 will be ₹ 1.25 crore.

The loan meets the definition of a financial liability in accordance with Ind AS 32. Company A therefore reclassifies it from equity to liability. It also uses the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening. Ind AS balance sheet. It calculates the annual effective interest rate (EIR) starting 1 April 20X5 as below:

EIR = Amount / Principal(1/t) i.e. 1.25/1(1/4) i.e. 5.74%. approx.

At this rate, ₹ 1 crore will accrete to ₹ 1.25 crore as at 31 March 20X9.

During the next 4 years, the interest expense charged to statement of profit and loss shall be:

Year ended	Opening amortised cost (₹)	Interest expense for the year (₹) @ 5.74% p.a. approx.	Closing amortised cost (₹)
31 March 20X6	1,00,00,000	5,73,713	1,05,73,713
31 March 20X7	1,05,73,713	6,06,627	1,11,80,340
31 March 20X8	1,11,80,340	6,41,430	1,18,21,770
31 March 20X9	1,18,21,770	6,78,230	1,25,00,000

Calculations have been done on full scale calculator. However, in case calculations are done taking EIR as exact 5.74%, then there will be difference of a few ₹ due to rounding off

b) OPTIONAL (EXEMPTIONS FROM APPLICATION OF OTHER IND AS)

i) BUSINESS COMBINATION

☞ Ind AS 103 need not be applied to combinations before date of transition. But, if one combination is restated, all subsequent combinations are restated.

☞ When the exemption is used

- There won't be any change in classification from previous GAAP

  For example, if the "pooling of interests" method is applied as per AS 14, the balances of assets and liabilities arising therefrom shall be carried forward

  Another example is regarding the identification of the acquirer – irrespective of the fact that a business combination could have been a reverse acquisition as per Ind AS 103, the accounting adopted in previous GAAP shall be continued.

❖ Recognition exemptions

The table below summarises the provisions of Ind AS 101:

Case	Asset / liability recognised in previous GAAP	Asset / liability qualifies for recognition in Ind AS	Is the change an intangible asset?	Result: whether asset or liability recognised in opening Ind AS Balance Sheet?	How is the resulting change accounted for?
1	No	No	Not Applicable		
2	No	Yes	No	Yes*	Retained Earnings
3	No	Yes	Yes	Yes	Goodwill
4	Yes	No	Yes	No	Goodwill**
5	Yes	No	No	No	Retained Earnings

* Unless a financial asset or financial liability was derecognised in previous GAAP (refer mandatory exception below)

** Including any resulting changes to deferred tax and non-controlling interests

❖ Measurement exemptions:

☞ If an asset acquired or liability assumed was not recognized in previous GAAP but would have been recognised in Ind AS, it shall not have a deemed cost of zero and shall be measured at the amount at which Ind AS would require it to be measured. The resulting change is recognised in retained earnings.

☞ If an asset acquired or liability assumed was recognized in previous GAAP but Ind AS would require its subsequent measurement at other than original cost (for example, investments in certain equity instruments as per Ind AS 109), it shall be measured at such basis and not its original cost. The resulting change is recognised in retained earnings. Refer Example below.

In all other cases, no measurement adjustment shall be made to the carrying amounts of the assets acquired and liabilities assumed.

☞ Therefore, it should be evident that the balance of goodwill or capital reserve as per previous GAAP is not adjusted for any reason other than:

- Recognition of an intangible asset that was earlier subsumed in goodwill or capital reserve but Ind AS requires it to be recognised separately; or
- Vice versa, an asset that was recognised as an intangible asset under previous GAAP but is not permitted to be recognised as an asset under Ind AS

☞ Regardless of whether there is any indication that the goodwill may be impaired, the goodwill must be tested for impairment at the date of transition to Ind AS and any resulting impairment loss is to be recognised in retained earnings (or, if so, required by Ind AS 36, in revaluation surplus). The impairment test is based on conditions at the date of transition to Ind AS.

☞ As discussed in the chapter on consolidation, Ind AS 110 requires an entity to be consolidated based on assessment of "control". This assessment may sometimes result in consolidation of entities which were not consolidated in the previous GAAP financial statements

Example

If the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as Ind AS 116, would require the acquiree to do in its Ind AS Balance Sheet.

Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to Ind AS, the acquirer shall recognise that contingent liability at that date unless Ind AS 37 would prohibit its recognition in the financial statements of the acquiree

ii) SHARE BASED PAYMENT TRANSACTIONS

☞ IND AS 101 is encouraged, but not required to Apply Ind AS 102, Share-based Payment, to equity instruments that vested before date of transition to Ind AS.

☞ However, a first-time adopter may apply Ind AS 102 to equity instruments, only if it has disclosed publicly the fair value of those equity instruments, determined at the measurement date.

iii) DEEMED COST FOR PPE AND INTANGIBLE ASSETS & ROU Assets

☞ An entity has the following options with respect to measurement of its property, plant, and equipment (Ind AS 16), intangible assets (Ind AS 38) and right of use assets (Ind AS 116) in the opening Ind AS balance sheet:

- ✓ Measurement basis as per the respective standards applied retrospectively. This measurement option can be applied on an item-by-item basis. For example, Plant A can be measured applying Ind AS 16 retrospectively and Plant B can be measured applying the "fair value" or "revaluation" options mentioned below.
- ✓ Fair value at the date of transition to Ind AS. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.
- ✓ Previous GAAP revaluation, if such revaluation was, at the date of revaluation, broadly comparable to (a) fair value or (b) cost or depreciated cost in accordance with other Ind AS adjusted to reflect changes in general or specific price index. This measurement option can be applied on an item-by-item basis in similar fashion as explained above.
- ✓ Previous GAAP carrying amounts (provided there is no change in functional currency).

This measurement option can be applied only if applied to "all" of the assets classes and items therein. In addition, this measurement option can be applied to investment property (Ind AS 40) as well

iv) DEEMED COST FOR INVESTMENT PROPERTY

☞ Ind AS 40, Investment Property permits only the cost model. Therefore, option of availing fair value as deemed cost for investment property is not available for first time adopters of Ind AS for its financial statements.

v) CUMULATIVE TRANSLATION DIFFERENCE

☞ No need to:

- Recognise some translation differences in OCI.
- Reclassify cumulative translation differences for foreign operation from entity to profit or loss as part of gain or loss on its disposal

☞ If first time adopter uses this exemption:

- Cumulative translation differences set to zero for all foreign operations.
- Gain/ loss on subsequent disposal of a foreign operation shall exclude these differences that arose before transition

Amendment:

FCTR on transition is permitted to be reset to Nil value. Additionally, an option is added where a subsidiary / joint venture (which transitions to Ind AS after parent) can continue with the FCTR as appearing in the Consolidated Financial Statements of the Parent prior to transition

vi) Long-term foreign currency monetary items

☞ Paragraph 46A of AS 11 notified under the Companies (Accounting Standards) Rules, 2006 permitted companies to recognise foreign currency exchange gain / loss arising on long- term foreign currency monetary items in either of the following ways:

- ✓ In profit or loss
- ✓ If such monetary item was entered into to acquire property, plant and equipment or intangible asset - in the cost thereof
- ✓ If such monetary item was entered into for any other purpose -- accumulated in

foreign currency monetary item translation difference account (FCMITDA)

- A first-time adopter may continue the accounting policy adopted for accounting for exchange differences arising from long term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period, as per previous GAAP.
- To be clear, this exemption is not a permanent exemption from the requirements of Ind AS 21. It is available only for those long-term foreign currency monetary items which are recognised before the first Ind AS reporting period began. For example, if the transition date is 1 April 20X5, the first reporting period will be 1 April 20X6 to 31 March 20X7. Therefore, this exemption is available only if such monetary items were recognised in the last previous GAAP financial statements i.e. financial statements for the year ended 31 March 20X6.

vii) INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

- Ind AS 27 requires measurement of investments in subsidiaries, joint ventures, and associates either at (a) cost or (b) in accordance with Ind AS 109 (i.e., at fair value, either through other comprehensive income or through profit or loss).
- Ind AS 101 permits a first-time adopter to measure such investments at:
  - Cost determined in accordance with Ind AS 27 (as above) or
  - Deemed cost:
    - ✓ Fair value at the date of transition; or
    - ✓ Previous GAAP carrying amount at the date of transition

viii) COMPOUND FINANCIAL INSTRUMENTS

- A first-time adopter need not split the compound financial instruments into separate liability and equity component, if liability component not outstanding as at transition date.

ix) Fair value measurement of financial assets or financial liabilities

- As per Ind AS 109, if:
  - the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, and
  - such fair value is not based on:

- ✓ Level 1 inputs (refer Ind AS 113), or
- ✓ Valuation technique that uses only data from observable markets

then, such difference (referred to in first bullet above) is deferred and amortised in profit or loss on the basis stated in Ind AS 109.

☞ Ind AS 101 permits an entity to apply this requirement of Ind AS 109 prospectively to transactions entered into on or after the date of transition.

x) DECOMMISSIONING LIABILITIES INCLUDED IN PPE

☞ Appendix „A" to Ind AS 16 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

☞ An entity need not comply with this requirement for changes in such liabilities that occurred before the date of transition. If an entity avails of this exemption, it shall:

- Measure the liability as at the transition date as per Ind AS 37 i.e. based on the facts and circumstances, including the risk-adjusted discount rate, as at the transition date,
- If the liability is in the scope of Appendix A to Ind AS 16, roll-back that liability to the date that liability first arose using best estimate of historical risk-adjusted discount rate and include it in the cost of the asset, and
- Calculate accumulated depreciation on the transition date on the basis of estimated useful life as at that date

xi) DESIGNATION OF PREVIOUSLY RECOGNISED FINANCIAL INSTRUMENTS

☞ All financial instruments are initially measured at fair value. As regards subsequent measurement, Ind AS 109 permits that upon initial recognition, an entity may designate financial instruments as subsequently measured at fair value if certain criteria are met. Ind AS 101 exempts an entity from retrospective designation of financial instruments and permits that such designation be done based on the facts and circumstances that exist at the date of transition to Ind AS. In particular the exemption is provided for below mentioned financial instruments:

- Designation of any financial liability or asset at fair value through profit or loss

- Designation of investment in an equity instrument at fair value through other comprehensive income

xii) LEASES (Discussed in IND AS 116)

xiii) FINANCIAL ASSET OR INTANGIBLE ASSETS ACCOUNTED FOR SERVICE CONCESSION ARRANGEMENTS

☞ If impracticable for an operator to apply the requirements of the Ind AS retrospectively at the date of transition to Ind AS, it shall recognise financial assets and intangible assets that existed at the date of transition to Ind AS using the previous carrying amounts.

xiv) NON-CURRENT ASSETS HELD FOR SALE AND DISCOUNTED OPERATIONS

☞ A first-time adopter can:

- Measure noncurrent assets held for sale or discontinued operation at the lower carrying value and fair value less cost to sell at the date of transition to Ind AS in accordance with Ind AS 105; and
- Recognize directly in retain earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity's previous GAAP.

xv) ASSETS AND LIABILITIES OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

☞ If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall measure its assets and liabilities at either:

- The carrying amounts that would be included in the parent's CFS, based on the parent's date of transition to Ind AS. or
- The carrying amounts required by Ind AS 101, based on the subsidiary's date of transition to Ind AS.

xvi) REVENUE FROM CONTRACT WITH CUSTOMERS

☞ Any of the following exemption may be used in applying Ind AS 115 retrospectively:

- For completed contracts: Need not restate contracts that begin and end within the same annual reporting period;
- For completed contracts that have variable consideration: Option to use the

transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;

- For all reporting periods presented before the beginning of the first Ind AS reporting period, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

xvii) JOINT ARRANGEMENTS:

☞ Transition from Proportionate Consolidation to Equity Method

- To measure initial investment at transition date at the aggregate of carrying amount of assets and liabilities that had previously proportionately consolidated including goodwill arising on acquisition.
- To test the investment for impairment.
- If aggregate of all previously recognized assets/liabilities results in negative asset and if having legal or constructive obligation than recognize corresponding liability otherwise adjust retained earnings.

☞ Transition from Equity Method to accounting for assets and liabilities

- To derecognize previous investment and recognize share of each asset and liability in respect of its interest in joint operation.
- Difference between amount as per Ind AS and previously recognized;
  a. If carrying amount of previous investment is lower:
     Offset against goodwill relating to investment and thereafter retained earning
  b. If carrying amount of previous investment is higher:
     Adjust against retained earning

☞ Transitional provisions in entity's Separate FS

- To derecognise the investment and recognise assets and liabilities as per transition from equity method to accounting for assets and liabilities
- Provide reconciliation between amount derecognized, recognized and adjustment to retained earnings

7. PRESENTATION AND DISCLOSURE

a) COMPARATIVE INFORMATION

- Ind AS does not require historical summaries to comply with the recognition and measurement requirement of Ind AS.
- In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:
- Label the previous GAAP information prominently as not being prepared in accordance with Ind AS; and
- Disclose the nature of the main adjustments that would make it comply with Ind AS. An entity need not quantify those adjustments.

b) EXPLANATION OF TRANSITION TO IND AS

- Reconciliation of
  - Equity from previous GAAP to Ind AS at transition and last year end;
  - Last year's total comprehensive income under previous GAAP to Ind AS.
- Sufficient detail to understand adjustments to each line item.
- Reconciliation to distinguish correction of errors identified during transition from change in accounting policy.
- Fair value as deemed cost and the amount of the adjustment.
- Ind AS 36 disclosures for impairment during transition.
- If adopted first time exemption option, to disclose the fact and accounting policy until such time those PPE, Intangible Assets, investment properties or intangible assets significantly depreciated/impaired/derecognized.
- Interim financial reports to include reconciliation with equity and profit or loss under previous GAAP.
- Further information to comply with Ind AS 34

IND AS 105 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

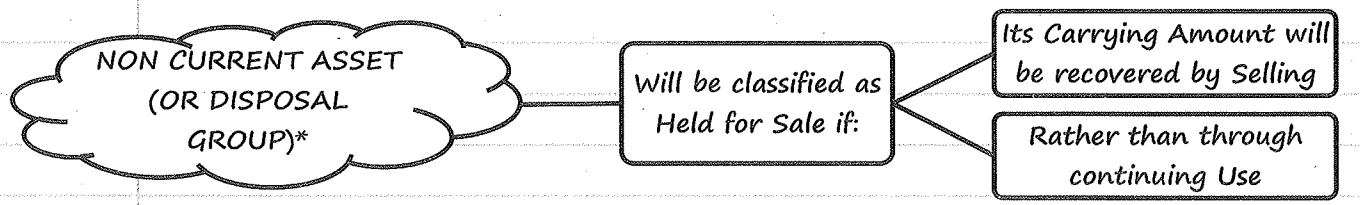
PART A: NON-CURRENT ASSET HELD FOR SALE

1. SCOPE

- The classification and presentation requirements of this Ind AS apply to all non- current assets and to all disposal groups of an entity.
- The measurement requirements of this Ind AS also apply to all non-current assets and to all disposal groups of an entity EXCEPT:

Deferred Tax Assets (IND AS 12), Assets arising from employee benefits (IND AS 19), Financial Assets (Within the scope of IND AS 109), Biological Assets & Agricultural Produce (IND AS 41) Contractual Rights under Insurance Contracts (IND AS 104)

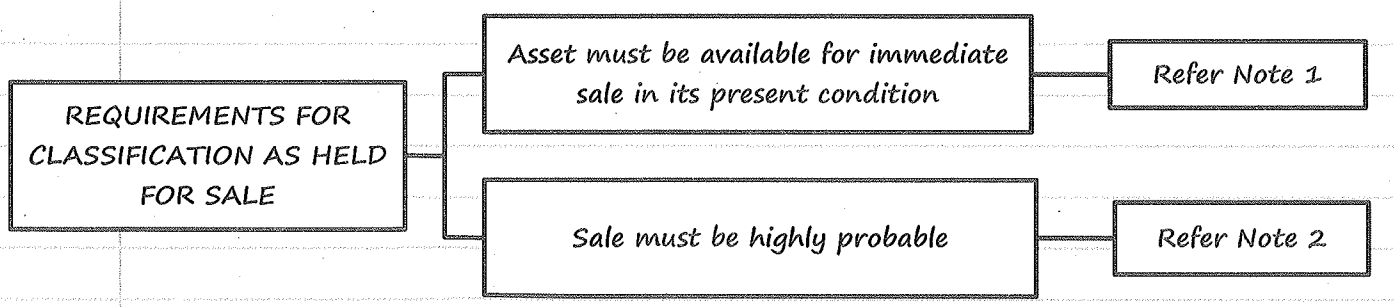
2. DEFINITIONS



*Disposal Group is a group of assets & liabilities directly associated with those assets, to be disposed of by sale, together as a group in a single transaction. (Disposal group may be a group of CGU, a single CGU or part of a CGU)

NOTE: All the Classification, Presentation & Measurement Criteria's which are applicable to Non-Current Assets will also apply to Disposal Group Classified as Held for Sale

3. CLASSIFICATION OF NON-CURRENT ASSET (OR DISPOSAL GROUP) AS HELD FOR SALE



NOTE 1: Asset must be available for immediate sale in its present condition

- The terms that are usual and customary for sale doesn't disqualify the asset from being classified as held for sale.
- However, it will NOT be considered as available for immediate sale if:
  - The asset continues to be vital for the entity's ongoing operations OR
  - The asset is required to be refurbished or renovated before sale to enhance its value and thus will be sold in a distant future.

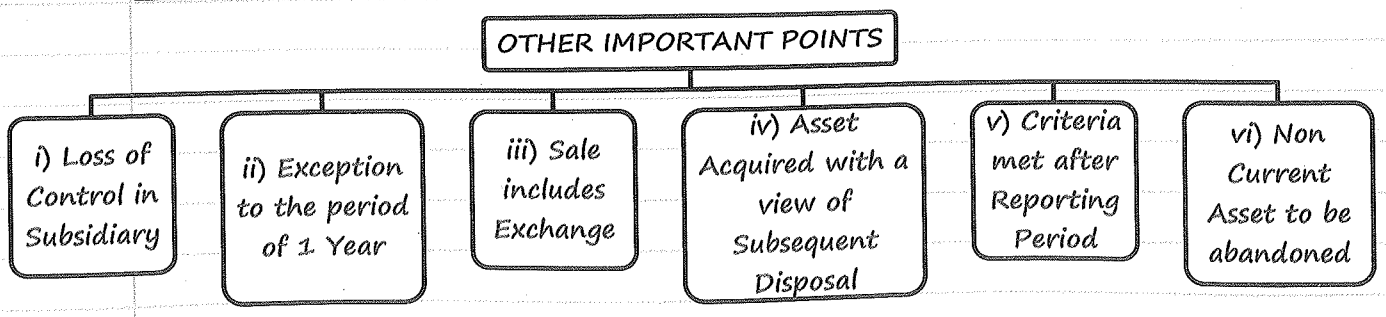
NOTE 2: Sale must be highly probable

Following are the five conditions to be satisfied for the sale to qualify as highly probable:

1. Management must be committed to a plan to sell the asset.
2. An active programme to trace a buyer and complete the selling plan must have been initiated.
3. The asset must be marketed for sale at a price that is reasonable in relation to its current fair value.
4. The sale transaction is expected to be completed within one year from the date of classification.
5. Significant changes to or withdrawal from the plan to sell the asset are unlikely.

Note: The likelihood of shareholders' approval should also be considered as part of assessment if it is required in the jurisdiction

❖ OTHER IMPORTANT POINTS



i) LOSS OF CONTROL IN SUBSIDIARY

➢ An entity which has committed to a sale plan which involves loss of control of subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out above is met.

ii) EXCEPTION TO THE PERIOD OF ONE YEAR

➢ An entity can classify an asset as held for sale, even if the timeframe of 1 year to conclude the sale transaction has lapsed, provided:

a) the delay must have been caused by the events or circumstances which are beyond the control of the entity; AND

b) there must be sufficient evidence that the entity is still committed to its selling plan.

iii) SALE INCLUDES EXCHANGE

➢ Sale transaction includes exchange of non-current assets for other non-current assets when the exchange has commercial substance in accordance of Ind AS 16

iv) ASSET ACQUIRED EXCLUSIVELY WITH A VIEW TO SUBSEQUENT DISPOSAL

➢ It is to be classified as held for sale at the acquisition date. The standard provides a short period (3 months) to meet the classification criteria that don't meet at the acquisition date except requirement of one year.

v) CRITERIA MET AFTER REPORTING PERIOD

➢ If the criteria of held for sale are met after the reporting period but before the date of authorisation of financial statements, the non-current asset should not be classify as held for sale. However, the entity shall disclose the information in the notes.

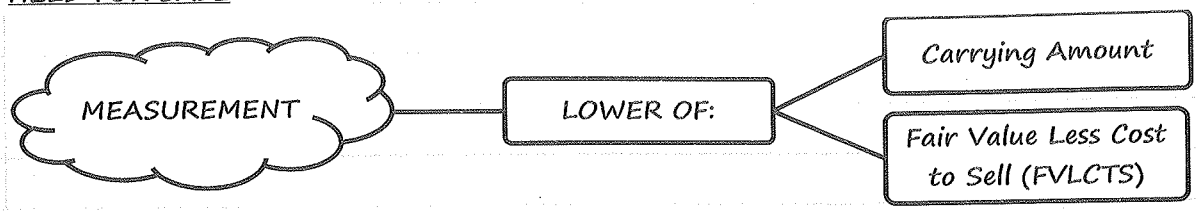
vi) NON-CURRENT ASSETS TO BE ABANDONED

☞ It shall not be classified as held for sale since its carrying amount will be recovered principally through continuing use and not from sale.

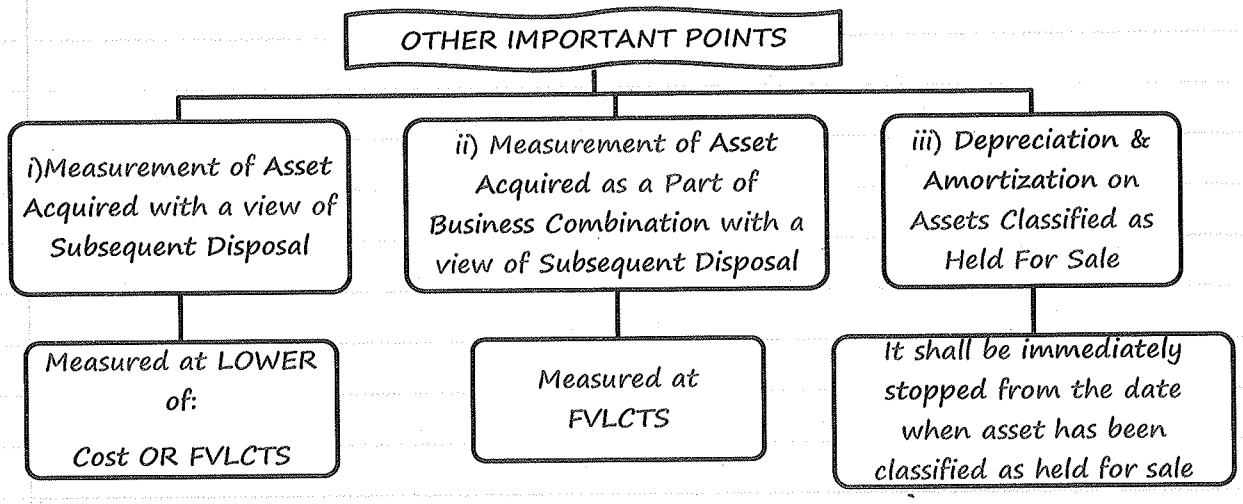
☞ Non-current assets to be abandoned include non-current assets that are to be used to the end of their economic life and non-current assets that are to be closed rather than sold.

☞ Assets that are temporarily taken out of use are not to be accounted for as abandoned.

4. MEASUREMENT OF NON-CURRENT ASSETS (OR DISPOSAL GROUPS) CLASSIFIED AS HELD FOR SALE



❖ OTHER IMPORTANT POINTS RELATING TO MEASUREMENT



5. RECOGNITION OF IMPAIRMENT LOSSES AND REVERSALS

❖ FOR NON-CURRENT ASSETS

- An entity should recognise an impairment loss (Carrying Amount (-) FVLCTS) on initial or subsequent write-down of the asset to FVLCTS.
- Reversal of Impairment Loss is permitted for any subsequent increase in FVLCTS of an asset, but not in excess of the cumulative impairment loss that has been recognised earlier, either in accordance with this Ind AS or previously in accordance with Ind AS 36, Impairment of Assets.

❖ FOR DISPOSAL GROUPS

- The impairment loss for a disposal group should reduce the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this Ind AS.

- Order of allocation of impairment loss to assets in disposal group:
  - First reduce the carrying amount of goodwill allocated to the disposal group;
  - Then to the other assets of disposal group on pro rata basis of the carrying amount of each asset in the group (Except those assets to which measurement requirements of this IND AS are not applicable for eg: Inventory, Trade Receivables, Investments etc.)
- Reversal of Impairment Loss on Disposal Group is permitted for any subsequent increase in FVLCTS, but not in excess of the cumulative impairment loss that has been recognised earlier, Except for Goodwill

6. CHANGES TO A PLAN OF SALE

- If an entity has classified an asset (or disposal group) as held for sale, but the held for sale criteria no longer met, the entity should cease to classify the asset (or disposal group) as held for sale.
- On the date when it ceases to be classified as held for sale, the entity shall measure the non-current asset (or disposal group) at the LOWER OF:
  - Carrying Amount, had the asset not been classified as held for sale; and
  - Recoverable Amount at the date when asset ceases to be classified as held for sale.

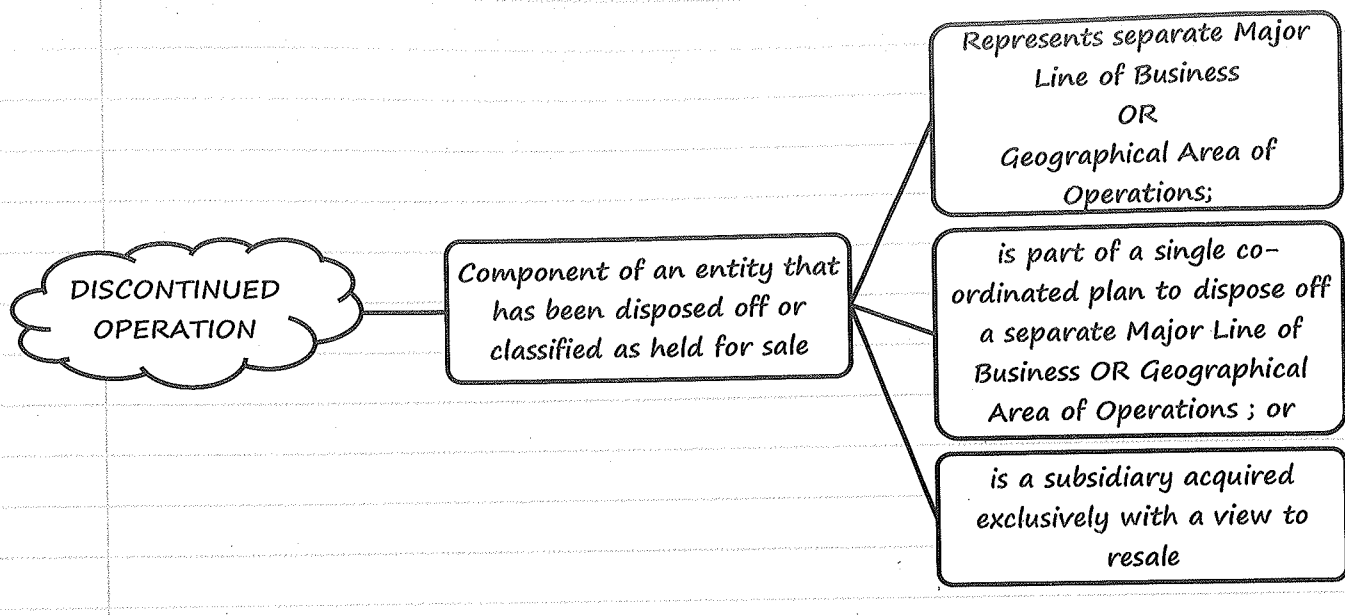
- If an entity disposes/sells an individual asset or liability from a disposal group, then:
  - Remaining non-current assets of the group that individually or as a group meet the criteria to be classified as held for sale shall be measured at the LOWER OF Carrying Amount and FVLCTS at that date; and

7. PRESENTATION OF A NON- CURRENT ASSET (OR DISPOSAL GROUP) CLASSIFIED AS HELD FOR SALE

- An entity is required to present a non-current asset (or disposal group) classified as held for sale separately from other assets in the balance sheet. In case of disposal groups, the assets and liabilities should NOT be offset and presented as a single amount.

PART B: DISCONTINUED OPERATIONS

8. DEFINITION



* COMPONENT OF AN ENTITY – It comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash- generating units while being held for use.

9. PRESENTATION OF DISCONTINUED OPERATIONS

- An entity should present & disclose information of discontinued operations separately from continuing operations.

10. CHANGE TO A PLAN OF SALE

- If an entity ceases to classify a component of an entity as held for sale, the results previously presented in discontinued operations should be reclassified and included in income from continuing operations for all periods presented.
- The amounts for prior periods should be described as having been re-presented.

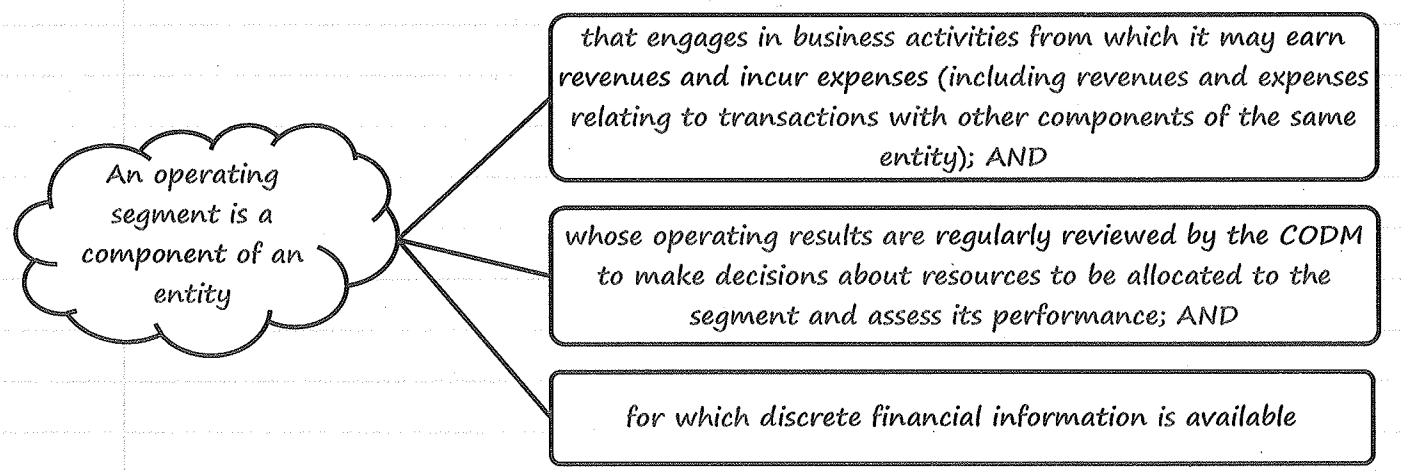
"Opportunities don't happen. You create them"

IND AS 108
OPERATING SEGMENTS

1. SCOPE

- This Standard shall apply to companies to which Ind ASs notified under the Companies Act apply.
- If an entity that is not required to apply Ind AS 108 chooses to disclose information about segments that does not comply with Ind AS 108, it should not describe the information as segment information.
- If a financial report contains both the consolidated financial statements of a as well as the parent's SFS, segment information is required only in CFS.

2. OPERATING SEGMENT



2.1 WHO IS CODM?

- The term 'chief operating decision maker' (CODM) identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity.
- Often the CODM of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

2.2 DETERMINATION OF SEGMENTS IN AS 17 VIS-À-VIS IND AS 108

- AS 17 requires an entity to identify two types of segments- business and geographical, using a risk and rewards approach. Ind AS 108, however, follows the management approach meaning thereby that whichever business activity is considered by the management (CODM) as a separate source of revenue will be considered as an operating segment.

2.3 CAN NON-REVENUE EARNING SEGMENT BE CLASSIFIED AS OPERATING SEGMENT?

- An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

2.4 OVERLAPPING SETS OF COMPONENTS

- In that situation, the entity should determine which set of components constitutes the operating segments by reference to the core principle.
- The core principle is that the entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

2.5 FUNCTIONS THAT ARE INTEGRAL TO BUSINESS

- In case of a company, where the activities of a function are an integral part of company's business (for example, research and development function for a pharmaceuticals or software company), this can be considered as an operating function provided that there is discrete information available that is regularly reviewed by the CODM

2.6 DISCONTINUED OPERATIONS – WHETHER AN OPERATING SEGMENT

- If the discontinued operation
  - continues to engage in business activities;
  - whose operating results are reviewed by the CODM; and
  - there is discrete information available to support the review Then, it would meet the definition of an operating segment

3. AGGREGATION CRITERIA

- Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of Ind AS 108, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

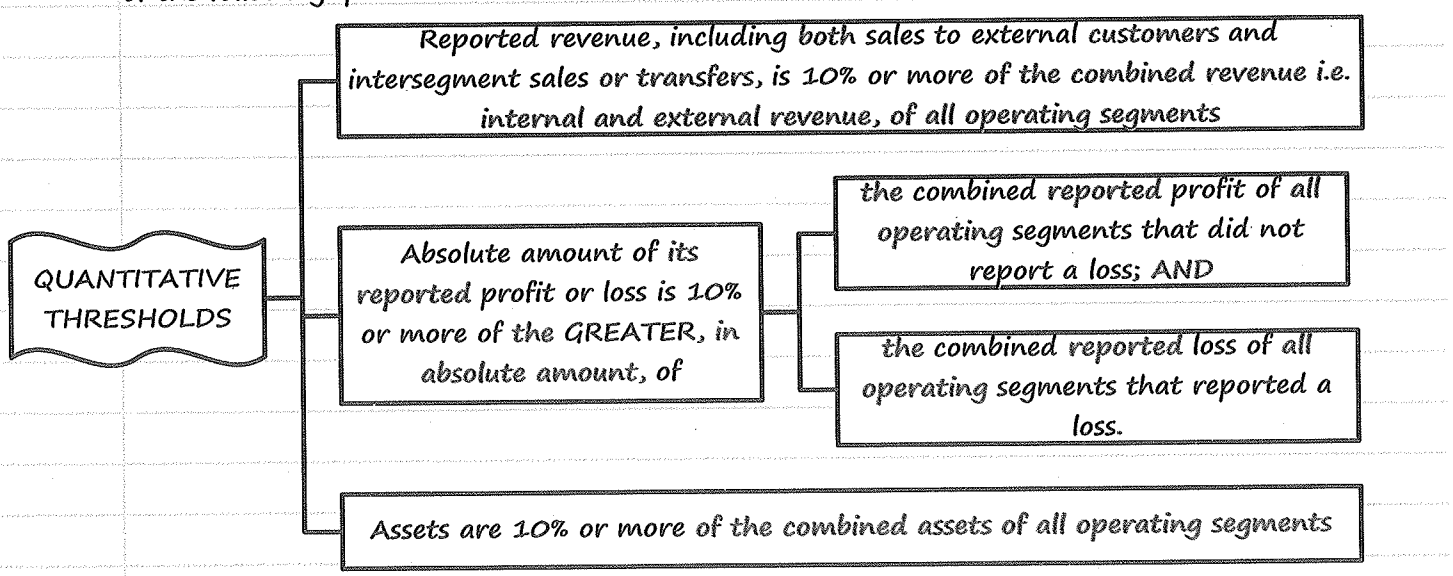
a) the nature of the products and services;
b) the nature of the production processes;
c) the type or class of customer for their products and services;
d) the methods used to distribute their products or services;

4. REPORTABLE SEGMENTS

- A segment is reportable when it:
  - Has been identified as meeting the definition of an Operating Segments OR results from Aggregating two or more of those segments; AND
  - Exceeds the Quantitative Thresholds.
- Those Segments which are not reportable should be clubbed under the head "other segments" in segment information.

4.1 QUANTITATIVE THRESHOLDS

- An entity should report separately information about an operating segment that meets ANY of the following quantitative thresholds:



4.2 MINIMUM 75% OF EXTERNAL REVENUE CRITERIA

- If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments should be identified as reportable segments (even if they do not meet the criteria) until at least 75% of the entity's revenue is included in reportable segments.

4.3 REPORTABLE IN IMMEDIATELY PRECEEDING PERIOD

- If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment should continue to be reported separately in the current period even if it no longer meets the criteria for reportability.

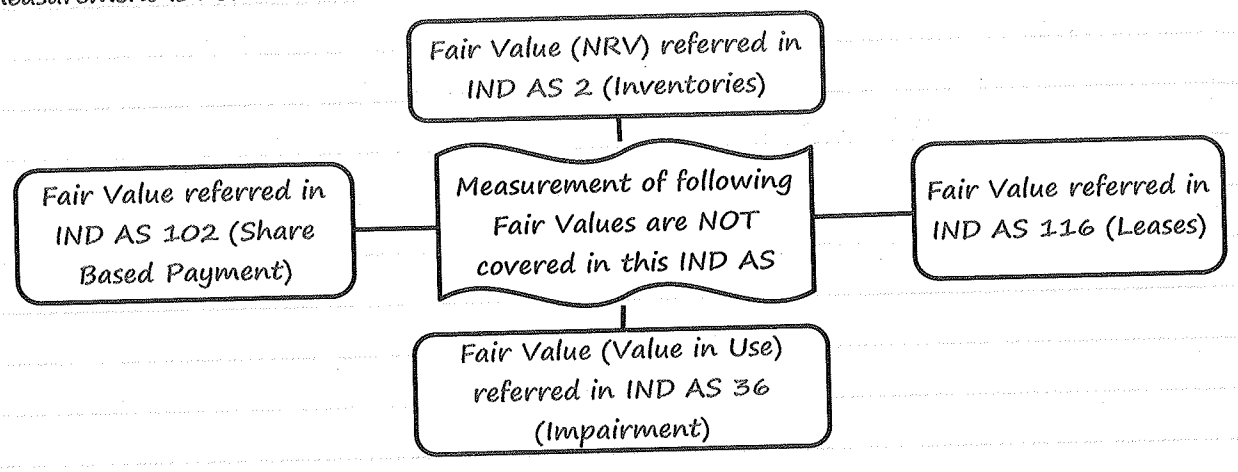
4.4 CHOICE OF MANAGEMENT

- Operating segments that do not meet any of the quantitative thresholds may be considered reportable and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

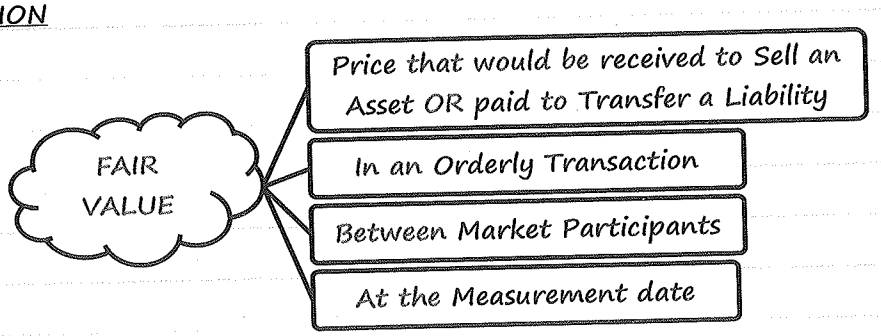
IND AS 113
FAIR VALUE MEASUREMENT

1. SCOPE

This Standard will cover all such requirement of another standard where fair value measurement is needed.



2. DEFINITION



NOTE: Orderly transaction means which is NOT a forced transaction.

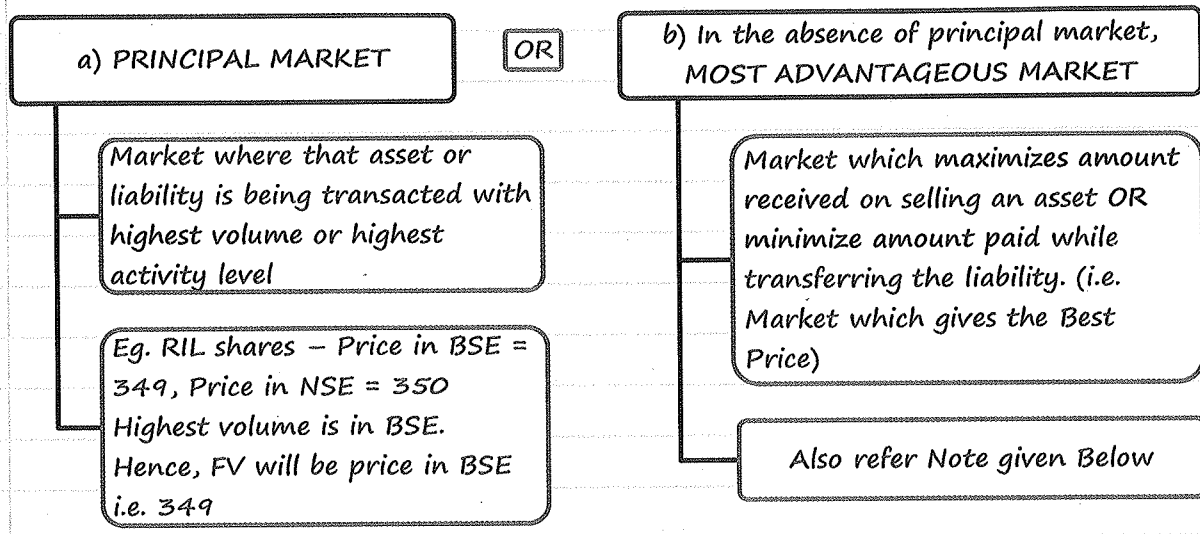
3. FAIR VALUE AT INITIAL RECOGNTITON

- TRANSACTION PRICE is the price paid to acquire the asset or received to assume the liability (ENTRY PRICE).
- FAIR VALUE is the price that would be received to sell the asset or paid to transfer the liability (EXIT PRICE).
- At the initial recognition, generally, Transaction Price = Fair Value
- If on INITIAL RECOGNITION, another Ind AS requires an entity to measure an asset/liability

at fair value and the transaction price differs from fair value (Eg: Pre-existing relationship exists between the parties as discussed in IND AS 109), recognise the Gain/loss in P&L unless that Ind AS specifies other treatment.

4. PRINCIPAL / MOST ADVANTAGEOUS MARKET

- A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place at either:



NOTE:

- For finding most advantageous market we need to consider both Transportation cost & Transaction cost (This will only help to identify most advantageous market)
- Fair Value will always be = Market Price (-) Transportation Cost
(Transaction cost is ignored because it is dealt in respective IND AS where Fair Value will be used.)

5. FAIR VALUE RULES FOR NON-FINANCIAL ASSET

- Identify the HIGHEST & BEST USE of Non-Financial Asset for market participants.

ANALYSIS OF HIGHEST & BEST USE

- The highest & best use should be Physically Possible, Legally Permissible & Financially Feasible.
- Entity specific restrictions would NOT be considered while finding out fair value of the non-financial asset.

- In the absence of potential best use which is not easily available, its current use would be considered as best use.

6. FAIR VALUE RULES FOR LIABILITIES & ENTITY'S OWN EQUITY INSTRUMENT

- Fair Value of Liability or Own Equity Instrument would be QUOTED PRICE IN AN ACTIVE MARKET - If available.
- If direct quoted price in an active market is NOT available, then:
  - Use QUOTED PRICE of Identical or Similar Liabilities/Equity Instruments (Which are held by other market participants as an Asset)
  - In absence of above, use Valuation Technique such as Income Approach, Market Approach etc. (Valuation Techniques are Discussed in detail in point 8)

7. FAIR VALUE HIERARCHY

I. LEVEL 1 INPUTS

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

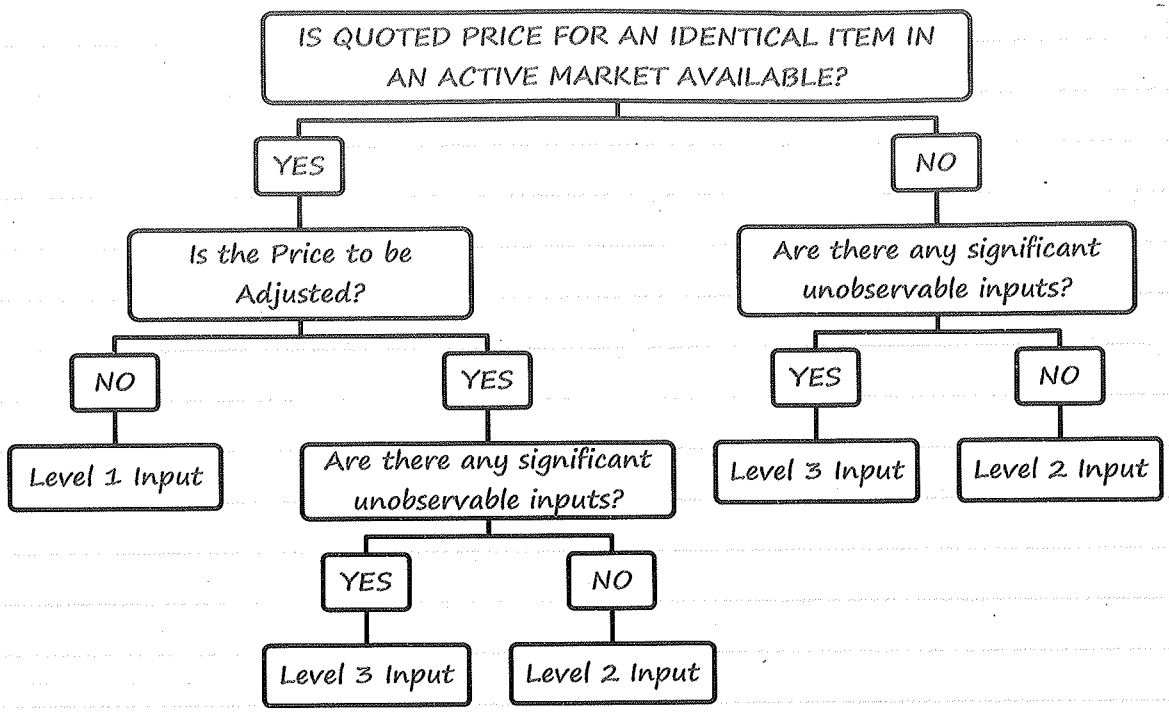
II. LEVEL 2 INPUTS

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 2 inputs include:
  - Quoted prices for similar assets or liabilities in active markets.
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
- Level 2 inputs can be adjusted, BUT these adjustments should not be significant. If it is a significant adjustment, it will be categorised into Level 3 automatically.

III. LEVEL 3 INPUTS

- Unobservable inputs for the asset or liability.
- It might include entity's own data such as Financial Forecasts, Historical Volatility etc.

NOTE: For fair valuation, maximum weight should be given to level 1 inputs and lower weight to level 3 inputs.



8. VALUATION TECHNIQUES

MARKET APPROACH
- The Market Approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets/ liabilities.

Eg. Valuation techniques using market multiples derived from a set of comparables.

INCOME APPROACH
- The Income Approach converts future amounts (e.g. cash flows or income & expenses) to a single current (i.e. discounted) amount. The fair value measurement reflects current market expectations about those future amount

Eg. Discounted cash flow method, Dividend Discount Model etc.

COST APPROACH
- Valuation Technique that reflects the amount that would be required to currently replace the service capacity of an asset adjusted for Obsolescence (often referred to as replacement cost)

Eg. This method may be used to measure non-financial asset

NOTE: It is to be noted that in case of availability of Quoted prices which are being used in an active market, there is no need to consider any valuation approach.

"It always seems impossible until it's done"