Ind As 1 Crux

OCI items not reclassified to P/L — Reval^n Surplus, Rem. Gain/Loss, Inv in Eq. Sh. at FVOCI

" " reclassified to P/L — Inv in Debt Instr at FVOCI, Translation of Foreign operation, Net movement on Cash Flow Hedge

Current Assets

realise asset within N.O.C., realise within 12 months, Trading, Cash or Cash Equivalent

N.O.C. → Time bet^n Acq. of R/m for processing and realisation in Cash or Cash Eq.

⟨R/m stock holding period + WIP holding period + F/G holding period + Debtors collection⟩

Non Current Assets → other than current Assets.

Note DTA/DTL classified as Non current

Current Liabilities

settle liab. within N.O.C, within 12 months, trading, No Right to defer settlement of liab. for atleast 12 months.

Non Current liabilities → classify all other liabilities as Non Current.

Breach of long term loan Contract and loan becomes payable on Demand.

1) lender agreed before approval of F/s (carve outs) not to demand repayment as a consequence of breach → Classify Non Current

2) lender agreed by the end of R.P. to provide atleast 12 months grace within which entity can rectify breach → classify Non Current

If grace period of 12 months allowed after R.P. End → classify Current.

Refinance/Roll over obligation

Agreement to refinance completed before R.P. End → Non current

Agreement to refinance completed after R.P. End → Current

If entity expects and has discretion to refinance/roll over obligation for atleast 12m after R.P. → classify as Non current

Additional points from Question Bank

1. In case Mgt. has bonafide reason to believe that it has complied with all Ind AS, it can make an unreserved and explicit statement of compliance with Ind AS even though auditor's report contains a qualification because of disagreement on application of Ind AS.

2. Commission received by Company acting as an Agent – Gross Revenue.
Commission paid by it to Sub Agents considered as Expense and should not be offset.

3. Classify Non Current / Current

Electricity Deposit → At all points deposits recoverable on Demand. However practically such connection is reqd. as long as entity exist. → Non Current

Tender Deposit / Earnest Money Deposit → It is paid for participation in various bids and normally becomes recoverable if entity does not win the bid. Depending on terms of deposit, if entity expects to realise within 12 months, then classified as Current otherwise Non Current.

GST Deposit paid under Dispute / Protest → It would depend on the facts of the case and expectation of entity to realise the same within 12 months.

4. An Entity may present comparative information in addition to the minimum comparative F/s reqd. by Ind AS as long as that information is prepared as per Ind AS.
This comparative info. may consist of one or more statement but need not require complete set of F/s.

5. Offsetting

(i) Gains or losses arising on disposal of various items of PPE presented on Net Basis.
(ii) Receivable and Payable from same entity can be offset if entity has legally enforceable to set off and intends to settle on net basis.

Ind As 10 Crux

Entity should report both favourable/unfavourable events after Reporting period.

Two Categories of Events after reporting period

(i) Adjusting Events	(ii) Non Adjusting Events
Events that provides evidence of conditions that existed at the end of R.P.	Indicative of conditions that arose after end of R.P.
Adjust amount recognised in F/s to reflect it	Only Disclosure if material <Nature of event, estimates of its Financial effect>

Examples of Events after R.P. that reqd. entity to adjust amounts recognised in F/s

1. Court Cases that confirms entity had present obligation
2. Bankruptcy of Customer after R.P.
3. Sale of inventories after R.P. gives evidence about NRV at R.P. end.
4. Determination of Bill Amount after R.P. of cost of asset purchased or sales proceeds.
5. Determination after R.P. of Amount of Profit sharing or Bonus payment.
6. Discovery of Frauds or Errors.

Dividends

Dividends Declared after R.P. → Not recognised but disclosed in Notes to A/c's.

If Dividends Declared to Preference Shareholders after R.P.

a) If Pref. Shr classified as Liability then recognise as interest expenses on time Basis
b) " " " " " Equity then No adjustment, only Disclosures

Going Concern → Not Prepare F/s on going concern basis if mgt. intends to liquidate entity or cease trading, or it has no realistic alternative but to do so.

Deterioration in operating results and Financial Position → Consider whether effect is so pervasive that Going concern assumption may not be appropriate.

Additional Points from Question Bank

1. Court order received after the R.P. provides evidence of liability existing at the end of R.P.

2. Earthquake took place before end of R.P. → Therefore condition existed at end of R.P. even though declared insolvent after end of R.P. → Adjusting Events (full Provision)

3. Met rocky surface after R.P. end but it was already there at R.P. end → Adjust

4. To claim duty drawback entity should file application within 15 days but if entity fails then duty drawback is at discretion of deptt.. If deptt approves duty drawback after R.P. end → Non Adjusting.

5. To recognise contingent Assets → Virtually certain i.e. ≥ 95% probability

Ind AS 34

Interim Period → Period shorter than Full F.Y.

Interim Financial report

Complete set of F/S → Ind AS 1

Condensed F/S → Ind AS 34 {Condensed B/S, P/L, C/F, S.O.C.E, Significant Notes}

↳ only Headings and Subtotals, Add. line item if omission make F/S misleading, BEPS & DEPS for that period.

Periods for which interim F/S reqd. to be Presented {2nd Q – July to Sept.}

1) B/sheet < As on 30th sept 2002 & As on 31st march. 2002 >

2) P/L < 1st july to 30th sept 2002, 1st April to 30th sept 2002, 1st july to 30th sept 2001 and 1st April to 30th sept 2001 >

3) Cash Flow & S.O.C.E < 1st April to 30th sept 2002, 1st April to 30th sept 2001 >

Recognition and measurement

1. Same A/cing policies in interim F/S as are applied in annual F/S.
2. Revenues earned and cost incurred recognised on accrual basis and shall not be anticipated or Deferred as of interim date if inappropriate. Seasonal Income will be recognised when they occur.

Interim period income tax is accrued using average annual effective income tax rate. Capital gain tax is calculated separately.

If employer contributions to government-sponsored insurance funds are assessed on an annual basis, the employer's related expense is recognised using an estimated average annual effective contribution rate in its interim financial statements, even though a large portion of the payments have been made early in the financial year. Accordingly, it should work out an average effective contribution rate and account for the same accordingly, in its interim financials.

Cost of Planned overhaul expenditure expected to occur later is not anticipated unless legal or constructive obligation.

If company has past record of declaring bonus every year, then it has no alternative but to pay Bonus. Therefore Provision should be made.

Ind AS 113 CRUX

Fair value is the EXIT PRICE received to sell the asset or paid to settle liability in orderly transaction (No stress sale) betn market participants {knowledgeable, unrelated}

Fair value measurement takes into account characteristic of asset or liability :
location of the asset, condition of the asset, asset/liability specific restrictions.

Principal market v/s most advantageous market

1st priority → Principal market { Highest volume of transaction, most liquid market }
2nd priority → most advantageous market { maximise Benefit }
↳ Sale proceeds − Transportation cost − Selling cost = maximum Benefit
But fair value = sale proceeds − Transportation cost

Fair value rules on Non Financial Asset

i) Highest and Best use { location, size, restrictions on use } ignore entity specific restriction
2) Valuation Premise { Standalone, combination with other asset i.e. CGU }

Fair value rules on Financial Asset

1) Valuation Premise { Single shares or Group of shares } control premium
2) liquidity discount and Non controlling stake discount adjustment.

Fair value Hierarchy*

1. level 1 Inputs → Quoted price in Active market for identical asset/liab. {if adjusted then level 2}
2. level 2 Inputs → a) Quoted price in Inactive market for identical asset/liab. b) Quoted Price for similar asset/liab. in Active/Inactive market c) other observable inputs.
3. level 3 Inputs → Unobservable inputs {Non market or Internal information}

Valuation techniques

1) <u>Market Approach (level 1 or 2 Inputs)</u>

Quoted Price or other observable Inputs or Industry P/E ratio or EBITDA multiple.

2) <u>Income Approach (usually level 3 Inputs)</u>

Future Earnings or Cash Flow discounted to get Fair Value. (FCFF or FCFE or ECM, DDM)

3) <u>Replacement Cost Approach</u> →

Cost reqd. to replace existing Asset/Liab to make it in a working condition.

Fair Value at Initial recognition

Fair value should be exit Price. In many cases Transaction Price equals Fair Value.

But Trans. Price not represent Fair value if :- a) Trans. betn related parties

b) Stress sale or liquidation sale c) Trans. Place different from Principal or most Adv. mkt.

d) Unit of account represented by trans. price is different.

Applying Fair Values rules to liability and own equity Instruments (Liab, FL, Equity)

When liabilities & Eq. Instt held by other Parties as Asset

When liabilities and Eq. Instt. held by other parties as Asset →

(i) Direct Quoted Price (ii) If D.Q.P. not available, Quoted price of Similar Liab/EQ held by market participants as Asset (iii) Other observable Inputs (iv) Unobservable Inputs.

When liabilities and Eq. Instt. not held by other parties as Asset

In this case, valuation technique from perspective of market participants that owes the liability or issued claim on Equity is used to evaluate fair values.

(i) Direct Quoted Price (ii) If D.Q.P. not available, Quoted price of Similar Liab/EQ held by market participants as Asset (iii) Other observable Inputs (iv) Unobservable Inputs.

Income Approach

Important Points to Solve Practical Questions-

Value of Equity $\left\{ \frac{\text{Market Cap}}{\text{No. of shares}} \right\}$

Market Capitalisation = P.V. of Cash Flows + Surplus Cash & Cash Eq. + Surplus Assets − Debt obligation

Enterprise value

EBITDA × $\frac{EV}{EBITDA}$ multiple. {like Price = EPS × P/E ratio}

∴ Fair value of XYZ share = {Enterprise value × % holding} − Liquidity discount − Non Controlling Discount

Fair value of Decommissioning liability

Labour cost + overhead cost + Profit margin % + inflation for 10 years + Premium and then pulled to Present value

$$= [\{131.25 + 105\} + 20\% \text{ margin}] \times (1.04)^{10} \times 1.05 = \frac{440.63}{(1.085)^{10}} = \underline{194.88}$$

Ind As 37 Crux

Provision recognised → Present obligation <legal or constructive>, Probability (>50%) of outflow of resources, amount of obligation can be measured reliably.
if entity can avoid future expenditure by its future action then provision not recognised.

Contingent liability

Possible obligation, Present obligation but no probability of outflow of resources or obligation amount cannot be measured reliably

Contingent Assets

When realisation of income is virtually certain (Prob >95%), recognition of contingent asset is appropriate.

Measurement of Provision

1. Best Estimate determined by mgt. judgement from past experience.

   Methods → 1) Expected value method (Prob. weights) 2) Most likely Amount.

2. Risk Adjustment <Adjusting Discount rates, Future Cash outflows, or P.V. of Cash o/f>

3. Present value ÷ If effect of time value is material, Provision should be discounted to Present value <Discount rate should be Pre tax rate>

4. Future events reflected only if sufficient evidence that they will occur.

Note

1) Provision reviewed at each R.P. end and adjusted to reflect current best estimate. If Prov. no longer probable, it is reversed

2) Ind As 37 do not permit recognition of Provision for future operating losses.

3) If Entity has a Contract that is onerous, Present obligation is recognised and measured as provision <lower of cost for fulfilling Contract and Penalty cost from failure>

4) If expenditure required to settle a provision expected to be reimbursed by another Party, reimbursement separately recognised as asset if virtually certain

   Provision if >50% Prob., Reimbursement Asset if >95% Prob.

Restructuring → changes scope of business or manner in which business are conducted.

<Sale or termination of a line of business, Closure of business locations, relocation of business activities, changes in mgt. structure.>

A constructive obligation arise only when entity has detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out restructuring.

Restructuring provision include only Direct expenditure arising due to restructuring that are necessarily entailed by restructuring and not associated with ongoing activities.

Restructuring provision not include :- marketing, retraining or relocating continuing staff, investment in new system.

Additional Points from Question Bank

1. Even if Entity has legal requirement to overhaul its shipping fleet, No obligation exist because entity could avoid future expenditure by its future action for e.g. by selling the ships. Ind AS 37 Prohibits recognition of Future operating losses

2. Community claims that Entity X has contaminated drinking water and notice received from Govt. agencies that investigation will be made. Entity implemented all safety measures but not 100% sure. Neither mgt. nor experts able to assess obligation until investigation is completed. It is possible obligation and disclose contingent liab.

3. Obligation to restore sea bed after 2 years. Amount expected = 1000000, Dis. rate = 5%.

$\therefore$ P.V. = $\frac{1000000}{(1.05)^2}$ = 907029. Provision recognised today = 907029 {Restore Exp. 907029
To Prov. 907029

1st yr = 907029 × 5% = 45351 {Interest Exp. 45351
To Provision 45351}. 2nd yr Prov. = 47619 {Int Exp
To Prov.}

Ind As 108 Crux

Core principle - Disclose info. to enable user of F/S to evaluate nature and financial effect of :- 1) Business Activities in which it engages.
2) Economic Environment in which it operates.

An operating segment is a Components of an Entity

a) Capable of Generating Revenues and incurring expenses.

b) reviewed by CODM, decisions about Resources Allocation & Performance Assessment

c) separate Financial Information available

Ind As 108 follows management approach meaning whichever business activity is considered by management as a separate source of revenue will be considered as an operating segment

Aggregation Criteria (Illustration 7 is important)

Two or more operating segments aggregated into single O.S. if below conditions satisfied :- (i) segments have similar economic characteristics
(ii) Segments are similar in respect to Nature of product & services, Production processes, type or class of customers, method used, nature of regulatory environment. (iii) Aggregation consistent with Ind AS.

Quantitative threshold **

A) Segment Revenue (Internal + External) ≥ 10% of Combined Revenue of all O.S.

B) Absolute Profit or loss ≥ 10% of greater of combined Profit or combined loss.

C) Assets ≥ 10% of combined Assets of all O.S.

if total external revenue reported is less than 75%, Additional O.S. should be included in O.S. to reach external revenue of atleast 75% of Entity's revenue.

Primary Info.

1. Revenue

External Rev. + Internal Rev. = Total Rev. − GST = Rev. (Net) + Other Op. Income = Total Income

2. Operating Results

Segment Results + Unallocated Income = Profit from Op. − Int. Exp. = PBT − tax (CT, DT) = PAT

3. Other Information {B/Sheet Info}

A. Segment Asset + Unallocated Investment + Unallocated Other assets = Total Assets

B. Segment Liab + Unallocated Liab + R/S + Share Capital = Total Liab & Sh. holders Funds.

C. Others → (i) Capital Expenditure (ii) Depriciation.

Geographical Info

Revenue, Asset, Capital Expenditure info within India and outside India.

Ind As 24 Crux

Close person includes →

- Person
  - Father
  - Mother
  - Brother
  - Sister
  - Spouse → Children
  - Domestic Partner → Children

— Also include dependants of Person, spouse, domestic partner.

KMP → Person having authority and responsibility for Planning, Directing and Controlling activities of entity. {may include executive as well as non executive Director}

Understanding Relationship betn Person and Reporting Entity

⇒ JDE

Person {incl. close person} → Holds more than 50% {control}, or
Holds 50% (Joint control), or
Hold more than 20% {Significant Influence}
} of Reporting Entity

⇓ AB

is a KMP of Reporting Entity | or Reporting Entity's Parent

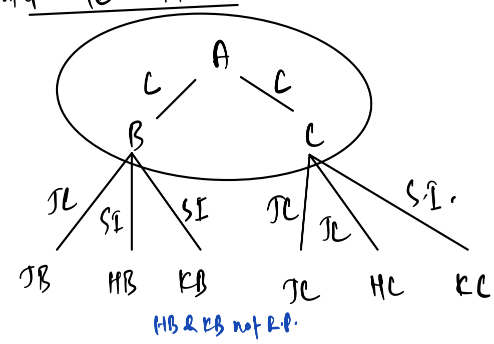
Understanding Relationship betn Reporting Entity and other entities

A Ltd	A Ltd	A Ltd	A Ltd
Controls	S.I.	J.C.	Provides KMP service
B Ltd	B Ltd	B Ltd	B Ltd
(R.P.)	(R.P.)	(R.P.)	(R.P.)

Mr A — S.I. KMP → A Ltd; S.I. KMP → B Ltd
A & B are not R.P.

A Ltd (or Mr. A)	A Ltd (or Mr. A)	A Ltd (or Mr. A)	A Ltd (or Mr. A)
Control → B Ltd; J.C. → C Ltd	J.C. → B Ltd; J.C. → C Ltd	J.C. → B Ltd; S.I. → C Ltd	S.I. → B Ltd; S.I. → C Ltd
B & C are R.P.	B & C are R.P.	B & C are R.P.	B & C are not R.P.

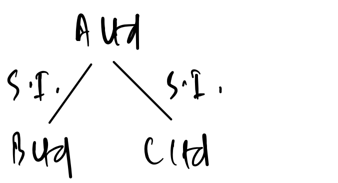
All are Entities



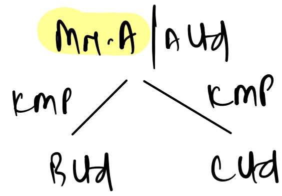
1. A, B & C are related to each other (members of same group)
2. JB, HB, KB and JC, HC, KC related to B, A & C.
3. JB related to HB, KB But HB not related to KB.
4. JC, HC, KC Related to each other
5. JH, HB, KB not related to JC, HC and KC.

A Ltd Provides KMP service to Reporting Entity or Reporting Entity's Parent - (R.P.)

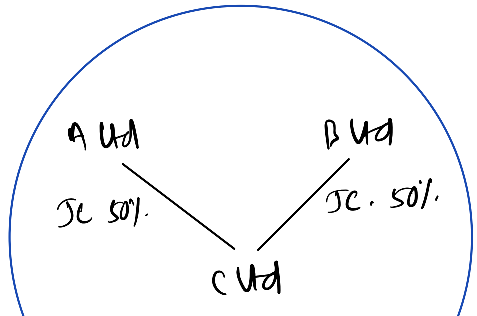
Understanding who are not related Parties



B & C are not related



B & C are not related



A Ltd & B Ltd are not related

Providers of Finance, trade unions, Govt agencies, Deptt, Public utilities, customer, Suppliers, Franchisor, Agent are not related parties.

Understanding R.P. transactions ÷ E.g. Purchase or sale of goods, property, other Assets; rendering or receiving service, leases, guarantee, Collateral etc.

Category 1 Disclosure → Entity is reqd. to disclose name of its parent and if different ultimate controlling party which may be a person

Category 2 Disclosure → Two types of Category 2 Disclosure.

Type 1 ÷ Compensation to KMP

a) Total compensation b) Compensation for each category (STEB, LTEB, PEB, TB, SBP)

Type 2 ÷ Disclosure when there have been R.P.T

1) Nature of R.P.T. 2) Info. about R.P.T., O/s Balance & Commitments.
3) Amount of Trans. 4) Amount of O/s Balance incl. Commitments and related Provisions
5) Expenses recognised during period w.r.t. bad or doubtful debts.

Government related Entities

Govt

Control, Joint Control, Significant Influence

ABC Ltd {GRE}

Govt

Control, JC, S.I. — ABC Ltd {GRE}

Control, JC, S.I. — XYZ Ltd {GRE}

ABC Ltd is exempted from disclosure related to trans., o/s Balance and Commitments from XYZ.

GRE are exempt from disclosure requirements in relation to Trans., o/s Balance & Committments with Government or other GRE.

In Case Reporting Entity opts to apply exemption, it shall disclose :

(i) name of the Govt. (ii) nature of Govt's relationship with Entity

(iii) nature and amount of each Significant transaction.

Ind As 8 Crux

Accounting policies → Specific Principles, Bases, Conventions, rules and Practices applied in Preparing and presenting F/s

How to select and Apply A/cing Policies

Firstly, Apply specific Ind AS.

Secondly, In absence of specific Ind AS, mgt uses judgement in developing and applying A/cing policies that is relevant to users and reliable in that F/s represent faithfully B/S, P/L and Cash Flows, Neutral, Prudent, reflect substance over form, complete in all material Aspects.

In making judgement, management shall refer to

Ratta

1) Ind As dealing with related and similar issues.
2) Conceptual Framework for FR under Ind AS.
3) Most recent Pronouncement of IASB.
4) Other standard setting Bodies that uses similar conceptual Framework.
5) Other Accounting literature and similar Industry Practices.

Change in Accounting policy

i) Change is reqd. by Ind As
ii) Results in providing more reliable and relevant information.

Following are not changes in A/cing policies

{PPE to Inv. property, Change in F.C.}

1) Accounting policy changed due to change in manner of business.
2) Application of new Accounting Policy.

Change in A/cing policies applied retrospectively unless other Ind As Provides transitional Provisions.

2. Change in Accounting Estimates

Due to uncertainities involved, many items in F/s can only be estimated Estimates may be of Bad debts Provision, warranty obligation, Fair value of FA and FL, useful lives or Expected residual value etc.

Estimate may need revision as a result of new information or more experience and accounted prospectively.

3. Errors {Retrospectively}

Prior Period Errors are omission from and misstatements in entity's F/s arising from failure to use or misuse of reliable information.

Eg. {Non Current classified Current, Finance cost mistakenly classified as other Expenses}

Common types of Errors.

i) Mathematical mistakes, omission, Frauds, misinterpretation of facts, mistakes in applying Accounting policies.

Treatment of Errors

i) Potential Errors of Current Period → Corrected before F/s approved for issue.

ii) Prior Period errors discovered subsequently

Relates to comparative Period → Restate in comparative F/s.

Relates to Period before earliest Comparative period → Prepare Third B/sheet.

Additional Points

1. A Carpet retail outlet sells and fits Carpet and recognise revenue when Carpet is fitted. It then decides to Sub contract fitting of carpet and recognise revenue at Point of sale. This is not a change in A/c policy as the manner of business is changed.

Ind As 20 Crux

Government Grants → Monetary and Non monetary transfer of resources

Government Assistance → No transfer of resources or value cannot be determined

↳ E.g. loan at market rates, Free technical advice, Normal trading transactions.

Govt Grants recognised if reasonable assurance that :-

1) Entity will comply with attached conditions 2) Grant will be received.

Ind As 20 rejects Capital Approach and Prescribes only Income Approach.

Grant related to Asset → Primary condition that entity should Purchase, Construct or acquire long term Asset. Eg. Cost of Asset = 1000000, Grant received = 800000

1st method Asset = 1000000, Deferred Income = 800000

{Deferred income is credited to P/L over the useful life of the asset i.e. same basis as Dep^n}

If refundable, then 1st adjusted with Deferred Income balance, Balance charged to P/L.

2nd method Asset = 200000 (net), No Recognition of Deferred Income.

if refundable, then Amount Paid is adjusted with PPE and Additional Dep^n

Grant related to Income → other than related to asset.

1st method → Credited in statement of P/L as 'Other Income' on a systematic basis over the period in which entity recognise related expenses.

2nd method → Deducted with related expense and expense recognised on 'Net Basis'

If refundable, first adjusted with Deferred Income, Balance charged to P/L.

Non monetary Govt Grant

1st method → Recognise both Asset and Govt. Grant at Fair value.

↳ Acing same as Grant related to Asset.

2nd method → Recognise Asset at Nominal value say ₹ 10.

Forgivable loans → Treated as Govt. Grants if entity will meets terms of Forgiveness.

Loan A/C

To Deferred Income / Govt Grant.

Loans at Below market rates → Say ₹ 1000000 for 3 yrs @ 5%, market rate = 12%

P.V. of loan at market rates = 50000 × PVIFA (12%, 3yrs) + 1000000 × PVIF (12%, 3rd yr) = 831870

Bank 1000000

To loan 831870

To Govt Grant 168130

Govt Grant for immediate relief without any condition credited directly to P/L