(v) S Ltd. received ₹ 10 lakh for purchase of machinery costing ₹ 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

(vi) Government gives a grant of ₹ 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%. **[Nov-2018] [Also asked in MTP-Nov-2020]**

Ans.

(i) The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote 1)

(ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.

(iii) ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.

(iv) ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years. (Refer footnote 2)

(v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

As per the amenement made by MCA in Ind AS 20 on 21st Sepetember, 2018 alternatively if the company is following the policy of recognizing non-monetary grants at nominal alue, the company will not recognise any government grant. Land will be shown in the financial statements at ₹ 1.

RT 8. **COMPREHENSIVE**

A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. To reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

- If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;
- Such loan will be repayable to the government in 5 years from the date of disbursal;
- The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be depreciated over a period of 5 years using straight-line method. In the month of March, 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March, 20X3.

Measure the amount of government grant as on 1st April, 20X1. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31st March, 20X2. Also determine the impact on profit or loss if any, on account of revocation of government grant as on 31st March, 20X3.

[RTP-May-2022]

Ans.

As per the principles of Ind AS 20 ‚Accounting for Government Grants and Disclosure of Government Assistance', the benefits of a government loan at a below market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with Ind AS 109 ‚Financial Instruments'. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received. The benefit is accounted for in accordance with Ind AS 20. As per Ind AS 109, the loan should be initially measured at its fair value.

Initial recognition of grant as on 1st April, 20X1

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500

A Limited will recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as the government grant and will make the following entry on receipt of loan:

Date	Particulars	Dr. (₹)	Cr. (₹)
1.4.20X1	Bank account Dr. To Deferred Grant Income To Loan account (Being grant initially recorded at fair value)	25,00,000	10,82,500 14,17,500

Accounting treatment for year ending 31st March, 20X2

As per para 3 of Ind AS 20, grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

As per para 24-27 of Ind AS 20, Government grants related to assets, including non- monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

A Ltd. has adopted first method of recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. Here, deferred income is recognised in profit or loss in the proportion in which depreciation expense on the asset is recognised.

Depreciation for the year (20X1-20X2) = ₹ 50,00,000 / 5 years = ₹ 10,00,000

As the loan is to finance a depreciable asset, ₹ 10,82,500 will be recognized in Profit or Loss on the same basis as depreciation.

Since the depreciation is provided on straight line basis by A Limited, it will credit ₹ 2,16,500 (10,82,500 / 5) equally to its statement of profit and loss over the 5 years.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X2	Depreciation (Profit or Loss A/c) Dr.	10,00,000	
	To Property, Plant & Equipment		10,00,000
	(Being depreciation provided for the year)		
	Deferred grant income Dr.		
	To Profit or Loss	2,16,500	
	(Being deferred income adjusted)		2,16,500

Impact on profit or loss due to revocation of government grant as on 31st March 20X3

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Amount payable to Government on account of principal loan = ₹ 25,00,000

Amount payable to Government on account of penalty = ₹ 10,00,000 Journal Entries

Journal Entries

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Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X3	Deferred grant income Dr.	2,16,500	
	To Profit or Loss		2,16,500
	(Being deferred income adjusted)		
	Loan account (W.N.1) Dr.	17,78,112	
	Deferred grant income (W.N.2) Dr.	6,49,500	
	Profit or Loss Dr.	72,388	
	To Government grant payable		25,00,000
	(Being refund of government grant)		
	Profit or Loss Dr.	10,00,000	
	To Government grant payable		10,00,000
	(Being penalty payable to government)		

Therefore, total impact on profit or loss on account of revocation of government grant as on 31st March, 20X3 will be ₹ 10,72,388 (10,00,000 + 72,388).

Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Working Notes:

1. Amortisation Schedule of Loan

Year	Opening balance of Loan	Interest @ 12%	Closing balance of Loan
31.03.20X2	14,17,500	1,70,100	15,87,600
31.03.20X3	15,87,600	1,90,512	17,78,112

2. Deferred Grant Income

Year	Opening balance	Adjustment	Closing balance
31.03.20X2	10,82,500	2,16,500	8,66,000
31.03.20X3	8,66,000	2,16,500	6,49,500

MT 9. M Limited had constructed another factory few years ago with the assistance of yet another government grant, 'Innovative Product'. The grant is non-repayable and, following the construction of the factory, cannot be clawed back by the government. There are no further conditions attached to the grant that the Company is required to satisfy. The grant received has been treated as deferred income and is being credited to the income statement over the same period as the factory is being depreciated. Following an adverse change in the demand of the product the factory manufactures, during the year at the reporting date, the directors have concluded that the factory's carrying value is no longer recoverable in full and that a write down for impairment is required. The write down is more than covered by the amortized deferred income balance related to the grant.

Discuss, in the context of Ind AS framework and Ind AS 20, the impairment of the factory for which 'Innovative Product' government grant, has been received. Would your answer be different, if there are further conditions attached to grant beyond construction of factory? **[MTP-May-2022]**

Ans.

Accounting treatment for Government Grant:

Government grants, related to assets, including non-monetary grants at fair value should be presented in the Balance Sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the asset's carrying amount. (Para 24 of Ind AS 20)

Government grants should be recognised as income over the periods in which the entity recognises as expenses the related costs that they are intended to compensate, on a systematic basis. The outcome should be same in the Profit and Loss account statement regardless of whether grants are netted or deferred.

In case the grant had been offset against the acquisition cost of the factory and net carrying value is less than the recoverable amount, there would be no need for an impairment write-down. The Profit and Loss account would be charged with annual depreciation on the net acquisition cost.

Government grant relating to 'Innovative Product':

To match the same result for the grant 'Innovative Product' which has been shown as deferred income and the factory is initially recorded at its cost, it is reasonable to release an amount of deferred income to the Profit and Loss account to compensate for the impairment write-down.

Treatment in case of further conditions attached:

If there are further conditions attached to the grant beyond construction of the factory, it may not be appropriate to release an amount of the deferred income to compensate for the impairment write down. An entity would need to assess those further conditions to determine the amou nt, if any, of deferred income to release.

SM 10. **CONCESSIONAL INTEREST RATE LOAN**

A Limited received from the government a loan of ₹ 50,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized.

Ans.

The fair value of the loan is calculated at ₹ 37,38,328.

Year	Opening Balance Interest	Interest paid @ 12%	Interest paid @ 5% on ₹ 50,00,000 + principal paid	calculated @
(a)	(b)	(c) = (b) x 12%	(d)	(e) =(b) + (c) – (d)
1	37,38,328	4,48,600	2,50,000	39,36,928
2	39,36,928	4,72,431	2,50,000	41,59,359

3	41,59,359	4,99,123	2,50,000	44,08,482
4	44,08,482	5,29,018	2,50,000	46,87,500
5	46,87,500	5,62,500	52,50,000	Nil

A Limited will recognise ₹ 12,61,672 (₹ 50,00,000 – ₹ 37,38,328) as the government grant and will make the following entry on receipt of loan:

Bank Account Dr. 50,00,000
To Deferred Income 12,61,672
To Loan Account 37,38,328

₹ 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate. (see questions 5 in this regard)

SM 11. **CONCESSIONAL INTEREST RATE LOAN**

Continuing with the facts given in the question, state how the grant will be recognized in the statement of profit or loss assuming:

(a) the loan is an immediate relief measure to rescue the enterprise

(b) the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years

(c) the loan is to finance a depreciable asset.

Ans.

₹ 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

Assuming (a), the loan is an immediate relief measure to rescue the enterprise. ₹ 12,61,672 will be recognised in profit or loss immediately.

Assuming (b), the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years. ₹ 12,61,672 will be recognised in profit or loss over a period of 4 years.

Assuming (c), the loan is to finance a depreciable asset. ₹ 12,61,672 will be recognised in profit or loss on the same basis as depreciation.

Example

A grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building once the building is constructed and put to use.

SM 12. **FTA**

ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters contribution have been recognised in capital reserve and treated as part of shareholders funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters" contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS. **[RTP-May-2018]**

Ans.

Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 "First Time Adoption of Ind AS". Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders funds.

Where it is concluded that the contributions are in the nature of shareholder contributions and are recognised in capital reserve under previous GAAP, the provisions of paragraph 10 of Ind AS 101 would be applied which states that except in certain cases, an entity shall in its opening Ind AS Balance Sheet:

(a) recognise all assets and liabilities whose recognition is required by Ind AS;
(b) not recognise items as assets or liabilities if Ind AS do not permit such recognition;
(c) 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; and
(d) apply Ind AS in measuring all recognised assets and liabilities.

Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under „Other Equity" at the date of transition to Ind AS.

PE 13. **FTA**

Government of India provides loans to MSMEs at a below – market rate of interest to fund the set - up of a new manufacturing facility. Sukshma Limited's date of transition to Ind AS is 1st April 2020.

In financial year 2014-15, the Company had received a loan of ₹ 2.0 crores at a below -market rate of interest from the government. Under Indian GAAP, the Company had accounted for the loan as equity and the carrying amount was ₹ 2.0 crores at the date of transition. The amount repayable on 31st March 2024 will be ₹ 2.50 crores.

The Company has been advised to recognize the difference of ₹ 0.50 crores in equity by correspondingly increasing the value of various assets under property plant & equipment by an equivalent amount on proportionate basis. Further, on 31st March 2024 when the loan has to be repaid, ₹ 2.50 crores should be presented as a deduction from property, plant & equipment.

Discuss the above treatment and share your views as per applicable Ind ASs. **[July-2021]**

Ans.

Requirement as per Ind AS:

A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32. A first-time adopter shall apply the requirements in Ind AS 109 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.

Treatment to be done:

Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with Ind AS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to Ind AS as the carrying amount of the loan in the opening Ind AS Balance Sheet. An entity shall apply Ind AS 109 to the measurement of such loans after the date of transition to Ind AS.

In the instant case, the loan meets the definition of a financial liability in accordance with Ind AS 32. Company 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 1st April 2020 as below: EIR = Amount / Principal(1/t) i.e. 2.50/2(1/4) i.e. 5.74%. approx.

At this rate, ₹ 2 crore will accrete to ₹ 2.50 crore as at 31st March 2024.

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 (₹)
31st March 2021	2,00,00,000	11,48,000	2,11,48,000
31st March 2022	2,11,48,000	12,13,895	2,23,61,895
31st March 2023	2,23,61,895	12,83,573	2,36,45,468
31st March 2024	2,36,45,468	13,54,532	2,50,00,000

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.

The accounting treatment is to be done as per above guidance and the advice which the company has been provided is not in line with the requirements of Ind AS 101 .

ADDITIONAL PRACTICE QUESTIONS

SM 14.

RECOGNITION: UNCONDITIONAL GRANT

Government gives a grant of ₹ 10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited. There is no condition attached to the grant. Examine how the Government grant be realized.

Ans.

The entire grant should be recognised immediately in profit or loss.

SM 15.

RECOGNITION : CONDITIONAL GRANT

Government gives a grant of ₹ 10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited even though similar vaccines are available in the market but are expensive. The entity has to ensure by developing a manufacturing process over a period of 2 years that the costs come down by at least 40%. Examine how the Government grant be realized.

Ans.

The entire grant should be recognised immediately as deferred income and charged to profit or loss over a period of two years.

SM 16.

RECOGNITION: PAST CALAMITY

A village of artisans in a district got devastated because of an earthquake. A Limited was operating in that district and was providing employment to the artisans. The government gave a grant of ₹ 10,00,000 to A Limited so that 100 artisans are rehabilitated over a period of 3 years. Government releases ₹ 2,00,000. Examine how the Government grant be realized.

Ans.

A Limited will recognise ₹ 10,00,000 as government grant and set it up as a deferred income and will recognise it in its profit or loss over the period of three years as per the principles enunciated in Ind AS

20. Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government or in the form of a non-monetary asset.

SM 17. **RECOGNITION**

A Limited wants to establish a manufacturing unit in a backward area and requires 5 acres of land. The government provides the land on a leasehold basis at a nominal value of ₹ 10,000 per acre. The fair value of the land is ₹ 100,000 per acre. Calculate the amount of the Government grant to be recognized by an entity.

Ans.

A limited will recognise ₹ 450,000 [(₹ 100,000 – ₹ 10,000) x 5)] as government grant.

SM 18. **RECOGNITION & PRESENTATION**

A Limited establishes solar panels to supply solar electricity to its manufacturing plant. The cost of solar panels is ₹ 1,00,00,000 with a useful life of 10 years. The depreciation is provided on straight line method basis. The government gives ₹ 50,00,000 as a subsidy. Examine how the Government grant be realized.

Ans.

A Limited will set up ₹ 50,00,000 as deferred income and will credit ₹ 5,00,000 equally to its statement of profit and loss over next 10 years.

SM 19. **RECOGNITION & PRESENTATION**

Continuing with the facts given in the above question, state how the same will be disclosed in the Statement of cash flows.

Ans.

A Limited will show ₹ 1,00,00,000 being acquisition of solar panels as outflow in investing activities. The receipt of ₹ 50,00,000 from government will be shown as inflow under financing activities.

SM 20. **REVENUE RELATED : ACCOUNTING**

A Ltd. received a government grant of ₹ 10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

Ans.

As per paragraph 29 of Ind AS 20, Grants related to income are presented as part of profit or loss, either separately or under a general heading such as "Other income"; alternatively, they are deducted in reporting the related expense.

In accordance with the above, presentation of grants related to income under both the methods are as follows:

Method 1: Credit in the statement of profit and loss

The entity can recognise the grant as income on a straight line basis i.e., ₹ 2,00,000 per year in the statement of profit and loss either separately or under the head "Other Income".

The supporters of this method consider it inappropriate to present income and expense items on a net basis and that "separation of the grant from the expense facilitates comparison with other expenses not affected by a grant".

Method 2: As a deduction in reporting the related expense

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of ₹ 1,00,000 (i.e., net expense ₹ 3,00,000 – ₹ 2,00,000).

The supporters of this method are of the view that „the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading".

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

RT 21. PAST LOSSES COMPENSATION

A Ltd. has been conducting its business activities in backward areas of the country and due to higher operating costs in such regions, it has collectively incurred huge losses in previous years. As per a scheme of government announced in March 20 X1, the company will be partially compensated for the losses incurred by it to the extent of ₹ 10,00,00,000, which will be received in October 20 X1. The compensation being paid by the government meets the definition of government grant as per Ind AS 20. Assume that no other conditions are to be fulfilled by the company to receive the compensation.

When should the grant be recognised in statement of profit and loss? Discuss in light of relevant Ind AS.

[RTP-Dec-2021]

Ans.

Paragraph 7 of Ind AS 20 states that, Government grants, including non -monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

Further, paragraphs 20 and 22 of Ind AS 20 state as follows:

"A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable".

"A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood."

In accordance with the above, in the given case, as at March 20 X1, A Ltd. is entitled to receive government grant in the form of compensation for losses already incurred by it in the previous years. Therefore, even though the compensation will be received in the month of October 20X1, A Ltd. should recognise the compensation receivable by it as a government grant in the profit or loss for the period in which it became receivable, i.e., for the financial year 20 X0-20X1 with disclosure to ensure that its effect is clearly understood.

SM 22. ANALYSIS OF FS

Mercury Ltd. is an entity engaged in plantation and farming on a large scale diversified across India. On 1st April, 20X1, the company has received a government grant for ₹ 10 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of five years and accordingly it recognises

proportionate grant for ₹ 2 lakhs in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.
Analyse whether the above accounting treatment made by the management is in compliance of the Ind AS. If not, advise the correct treatment alongwith working for the same.

Ans.

As per given facts, the company is engaged in plantation and farming. Hence Ind AS 41 Agriculture shall be applicable to this company.
The above facts need to be examined in the light of the provisions given in Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance' and Ind AS 41 'Agriculture'.

Para 2(d) of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance' states:
"This Standard does not deal with government grants covered by Ind AS 41, Agriculture".

Further, paragraph 1 (c) of Ind AS 41 'Agriculture', states:
"This Standard shall be applied to account for the government grants covered by paragraphs 34 and 35 when they relate to agricultural activity".

Further, paragraph 1 (c) of Ind AS 41 'Agriculture', states:
"If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met".

Understanding of the given facts, The Company has recognised the proportionate grant for ₹ 2 lakhs in Statement of Profit and Loss before the conditions attaching to government grant are met which is not correct and nor in accordance with provision of Ind AS 41 'Agriculture'.
Accordingly, the accounting treatment of government grant received by the Mercury Ltd. is governed by the provision of Ind AS 41 'Agriculture' rather Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance'.
Government grant for ₹ 10 lakhs shall be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met i.e. after the expiry of specified period of five years of continuing engagement in the plantation of eucalyptus tree.

Balance Sheet extracts showing the presentation of Government Grant as on 31st March, 20X2 ₹

Liabilities	₹
Non-Current liabilities	
Other Non-Current Liabilities	
Government Grants	10,00,000

RT 23. To encourage entities to expand their operations in a specified development zone, the government provides interest-free loans to fund the purchase of manufacturing equipment.
In accordance with the development scheme, an entity receives an interest -free loan of ₹ 5,00,000 from the government for a period of three years. The market rate of interest for similar loans for 3 years is 5% per year.

There are no future performance conditions attached to the interest -free loan.
Discuss how to account for the above loan. Pass necessary journal entries in the entity'sbooks of accounts from year 1 to year 3, as per relevant Ind AS. **[RTP-Nov-2022]**

Ans.

The entity measures the loan on initial recognition at ₹ 4,32,000, which is the present value of the loan (financial liability) – ₹ 5,00,000/(1.05)3. ₹ 68,000, the difference between the loan proceeds received ₹ 5,00,000 (the loan's face value) and present value of the loan ₹ 4,32,000, is a government grant and is recognised immediately as there are no specified future performance conditions.

The amount recognised on day one will accrete to ₹ 5,00,000 over the three-year term using the effective interest method.

Jornal Entries

On initial recognition:

	₹	₹
Cash/Bank (financial asset) Dr.	5,00,000	
To Loan (financial liability)		4,32,000
To Income (profit or loss)		68,000
(Being interest-free loan recognised at fair value and the receipt of a government grant)		

At the end of

Year 1:

	₹	₹
Finance cost (profit or loss) Dr.	21,600	
To Loan (financial liability)		21,600
(Being accretion of time value recognised on the financial liability)		

Year 2

	₹	₹
Finance cost (profit or loss) Dr.	22,680	
To Loan (financial liability)		22,680
(Being accretion of time value recognised on the financial liability)		

Year 3

	₹	₹
Finance cost (profit or loss) Dr.	23,720	
To Loan (financial liability)		23,720
(Being accretion of time value recognised on the financial liability)		

Immediately after all the accretions are recognised, the carrying amount of the loan is equal to its face value of ₹ 5,00,000, which is also the amount payable to the government.

	₹	₹
Loan (financial liability) Dr.	5,00,000	
To Cash/Bank		5,00,000
(Being loan repaid to the government)		

Working Note:

Calculation of Amortised Cost

Year	Opening balance (A)	Interest at 5% (B) = (A) x 5%	Cash flow (C)	Closing balance (A) + (B) – (C)
1	4,32,000	21,600	–	4,53,600
2	4,53,600	22,680	–	4,76,280
3	4,76,280	23,720*	(5,00,000)	–

*** Difference is due to approximation.**

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CHAPTER 5 OTHER INDIAN ACCOUNTING STANDARDS

UNIT 2 Ind AS 102 SHARE BASED PAYMENT

BASIC TERM

MT 1. GRANT DATE AND MEASUREMENT DATE

New Age Technology Limited has entered into following Share Based payment transactions:

a. On 1st April, 20X1, New Age Technology Limited decided to grant share options to its employees. The scheme was approved by the employees on 30th June, 20X1. New Age Technology Limited determined the fair value of the share options to be the value of the equity shares on 1st April, 20X1.

b. On 1st April, 20X1, New Age Technology Limited entered into a contract to purchase IT equipment from Bombay Software Limited and agreed that the contract will be settled by issuing equity instruments of New Age Technology Limited. New Age Technology Limited received the IT equipment on 30th July, 20X1. The share-based payment transaction was measured based on the fair value of 'the equity instruments as on 1st April, 20X1.

c. On 1st April, 20X1, New Age Technology Limited decided to grant the share options to its employees. The scheme was approved by the employees on 30th June, 20X1. The issue of the share options was however subject to the same being approved by the shareholders in a general meeting. The scheme was approved in the general meeting held on 30th September, 20X1. The fair value of the equity instruments for measuring the share-based payment transaction was taken on 30th September, 20X1.

Identify the grant date and measurement date in all the 3 cases of Share based payment transactions entered into by New Age Technology Limited, supported by appropriate rationale for the determination?

[MTP-May-2021, RTP-May-2022]

Ans.

Ind AS 102 defines grant date and measurement dates as follows:

i. **Grant date:** The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

ii. **Measurement date:** The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

Applying the above definitions in the given scenarios following would be the conclusion based on the assumption that the approvals have been received prospectively:

Scenario	Grant date	Measurement date	Base for grant date	Base for measurement date
(i)	30th Jun, 20X1	30th June, 20X1	The date on which the scheme was approved by the employees	For employees, the measurement date is grant date
(ii)	1st April, 20X1	30th July, 20X1	The date when the entity and the	The date when the entity obtains the

			counterparty entered a contract and agreed for settlement by equity instruments	goods from the counterparty
(iii)	30th September, 20X1	30th September, 20X1	The date the approval by shareholders was obtained	For employees, the measurement date is grant date

EQUITY SETTLED PLAN.

SM 2. BASIC - ACCOUNTING

An entity issued 100 shares each to its 1,000 employees subject to service condition of next 2 years. Grant date fair value of the share is ₹ 195 each. There is an expectation 97% of the employees will remain in service at the end of 1st year. However, at the end of 2nd year the expected employees to remain in service would be 91% of the total employees. Calculate expense for the year 1 & 2?

Ans.

Year end	% Vest	Expense (current period)
FIRST	97%	100 x 1,000 x 195 x 97% x 1/2 = 94,57,500
SECOND	91%	100 x 1,000 x 195 x 91% x 2/2 – 94,57,500= 82,87,500

SM 3. NON-MARKET VESTING CONDITION - CHANGING VESTING PERIOD

Ankita Holding Inc. grants 100 shares to each of its 500 employees on 1st January, 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year	if the company's earnings increase by 12%;
Second year	if the company's earnings increase by more than 20% over the two-year period;
Third year	if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is ₹ 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Therefore, the shares did not vest. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries?

Ans.

Since the earnings of the entity is non-market related, hence it will not be considered in fair value calculation of the shares given. However, the same will be considered while calculating number of shares to be vested.

Workings:

	20X1	20X2	20X3
Total employees	500	500	500
Employees left (Actual)	(29)	(58)	(79)
Employees expected to leave in the next year	(31)	(23)	-
Year end – No of employees	440	419	421
Shares per employee	100	100	100
Fair value of share at grant date	122	122	122
Vesting period	1/2	2/3	3/3
Expenses-20X1 (Note 1)	26,84,000		
Expenses-20X2 (Note 2)		7,23,867	
Expenses-20X3 (Note 3)			17,28,333

Note 1:

Expense for 20X1 = Number of employees x Shares per employee x Fair value of share x Proportionate vesting period

= 440 x 100 x 122 x ½ = 26,84,000

Note 2:

Expense for 20X2 = (Number of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1

= (419 x 100 x 122 x 2/3) – 26,84,000

= 7,23,867

Note 3:

Expense for 20X3 = (No of employees x Shares per employee x Fair value of share x Proportionate vesting period) – Expense recognized in year 20X1 and 20X2

= (421 x 100 x 122 x 3/3) – (26,84,000 + 7,23,867)

= 17,28,333.

Journal Entries

31st December, 20X1		
Employee benefits expenses Dr.	26,84,000	
To Share based payment reserve (equity)		26,84,000
(Equity settled shared based payment expected vesting amount)		
31st December, 20X2		
Employee benefits expenses Dr.	7,23,867	
To Share based payment reserve (equity)	7,23,867	
(Equity settled shared based payment expected vesting amount)		
31st December, 20X3		
Employee benefits expenses Dr.	17,28,333	
To Share based payment reserve (equity)		17,28,333
(Equity settled shared based payment expected vesting amount)		
Share based payment reserve (equity) Dr.	51,36,200	
To Share Capital		51,36,200
(Share capital Issued)		

SM 4. **NON-MARKET VESTING CONDITION**

ACC limited granted 10,000 share options to one of its manager. In order to get the options, the manager has to work for next 3 years in the organization and reduce the cost of production by 10% over the next 3 years.

Fair value of the option at Grant date was 95

Cost reduction achieved-

Year 1	12%	Achieved
Year 2	8%	Not expected to vest in future
Year 3	10%	Achieved

How the expenses would be recorded?

Ans.

It is a non-market related condition. Hence, the target to achieve cost reduction would be taken while estimating the number of options to be vested.

Year	Options	Fair value		FV of the options vested
Year 1	10,000	95	1/3	3,16,667
Year 2	10,000	95	0	(3,16,667)
Year 3	10,000	95	3/3	9,50,000

The condition to achieve 10% cost reduction each was not fulfilled in the year 2 and there was no expectation to vest this non-market condition in future as well and hence earlier expense amount was reversed in year 2. Since in the year 3 the non-market condition again met, hence all such expense will be charged to Profit and Loss.

SM 5. MARKET VESTING CONDITION

Apple Limited has granted 10,000 share option to one of its directors for which he must work for next 3 years and the price of the share should be 20% on an average over next 3 years.

The share price has moved as per below details –

Year 1	22%
Year 2	19%
Year 3	25%

At the grant date, the fair value of the option was INR 120. How should we recognize the transaction?

Ans.

The share price movement is a market based vesting condition hence its expectations are being taken into consideration in calculating fair value of the option.

Even the required market condition does not meet, so there is no requirement to reverse the expense previously booked.

Irrespective of the outcome of the market price (as it is already taken care in fair value of the option), each period an amount of (120 x 10,000)/3 = INR 4,00,000 will be charged to profit and loss.

SM 6. MARKET CONDITION - ACCELARATION AND LAPSE

An Entity P issues Share based payment to its employees based on the below details –

No. of employees	100 nos.
Fair value at Grant date	INR 25
Market condition	Share price to reach at INR 30
Service condition	To remain in service until market condition meets
Expected completion of market condition	4 years

Define expenses related to such Share based payment in each year subject to the below scenarios-

a) Market condition meets in the year 3, OR

b) Market condition meets in the year 5

Ans.

Market conditions are being taken care while calculating fair value at grant date. However, service conditions will be considered as per the expected vesting right to be exercised by employees and would be re-estimated during vesting period. However, if the market related condition meets before it is expected then all remaining expenses would immediately be charged off, however if it goes longer than the expected then original expected period will follow.

(a) Market condition meets in the year 3

Year 1	2,500/4 = 625
Year 2	2,500/4 = 625
Year 3	2,500-625-625=1,250
Year 4	NIL

(b) Market condition meets in the year 5

Year 1	2,500/4 = 625
Year 2	2,500/4 = 625
Year 3	2,500/4 = 625
Year 4	2,500/4 = 625
Year 5	NIL

SM 7. MODIFICATIONS

Marathon Inc. has issued 150 share options to each of its 1,000 employees subject to the service condition of 3 years. Fair value of the option given was calculated at INR 129. The below are the details and activities related to the SBP plan-

Year 1: 35 left, further 60 are expected to leave

Share options re-priced (as MV of shares has fallen) as the FV had fallen to INR 50. After the re-pricing they are now worth INR 80, hence expense is expected to increase by INR 30

Year 2: 30 left, further 36 expected to leave

Year 3: 39 left

How the modification/ re-pricing will be accounted?

Ans.

The re-pricing has been done at the end of year 1, and hence the increased expense would be spread over next 2 years equally.

Total increased value due to modification is	INR 30	(1/2 weight each years)

	Year 1	Year 2	Year 3
No. of employees	1,000	1,000	1,000
Employee left	(35)	(65)	104
Expected to leave	(60)	(36)	
Net employees	905	899	896
Options/ employee	150	150	150
Fair value of option	129	129	129
Period weight	1/3	2/3	3/3
Modification		30	
Expense (original)	58,37,250	57,59,850	57,40,500
Modification	nil	20,22,750	20,09,250
		(899x150x30x1/2)	(896x150x30x2/2)-20,22,750)

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RT 8. REPRICING

QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees.

The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.

On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31st March, 20X2 and further amended to 1,840 employees on 31st March, 20X3.

On 1st April, 20X1, the fair value of an option was ₹ 1.20. The fair value increased to ₹ 1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was ₹ 0.90, the Directors repriced the option and this caused the fair value to increase to ₹ 1.05. Trading conditions improved in the second half of the year and by 31 st March, 20X3 the fair value of an option was ₹1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 20X3. **[RTP-Nov-2019, MTP-Nov-2022]**

Ans.

Paragraph 27 of Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for t he equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

Accordingly, the amounts recognised in years 1 and 2 are as follows:

Year	Calculation	Compensation expense for period ₹	Cumulative compensation expense ₹
1	[1,850 employees× 1,000 options × ₹ 1.20] × 1/3	7,40,000	7,40,000
2	(1,840 employees × 1,000 options × [(₹ 1.20× 2/3)+ {(₹ 1.05 - 0.90) ×0.5/1.5}] – 7,40,000	8,24,000	15,64,000

Note: Year 3 calculations have not been provided as it was not required in the question.

SM 9. **CANCELLATION**

Anara Fertilisers limited has issued 2000 Share options to its 10 directors for an exercise price of INR 100.The directors are required to stay with the company for next 3 years.

Fair value of the option estimated	130
Expected Directors to vest the option 8	

During the year 2, there was a crisis in the company and Management decided to cancel the such scheme immediately, it was estimated further as below-

Fair value of option at the time of cancellation was	90
Market price of the share at the cancellation date was	99

There was a compensation which was paid to directors and since only 9 directors were currently in employment. During the date of cancellation of such scheme hence amount of 95 per option has been given to each of 9 directors.

How the cancellation would be recorded?

Ans.

		Year 1	Year 2	
(A)	Expected directors to vest	8	9	
	Fair value of option	130	130	
	No. of options	2,000	2,000	
	Total	20,80,000	23,40,000	Full, as it is cancelled
	Expense weightage	1/3		Remaining amount since cancelled
	Expense for the year	6,93,333	16,46,667	

B)	**Cancellation compensation**	
	No. of directors	9
	Amount agreed to pay	95
	No. of options/ director	2,000
	Compensation amount Refer W-1 & W-2 (9 x 95 x 2,000)	17,10,000

Working Notes:

1. Amount to be deducted from Equity

No. of directors	9
Fair value of option (at the date of cancellation)	90
No. of options/ director	2,000
Total	16,20,000

2. Amount transferred to Profit and Loss

Total cancellation compensation	17,10,000
Less: To deduct from Equity	(16,20,000)
Balance transferred to Profit and Loss	90,000

PE 10. CANCELLATION

1,000 share options to each of its 200 employees for an exercise price of ₹ 10. The employees are required to stay in employment for next 3 years. The fair value of the option is estimated at ₹18.

90% of the employees are expected to vest the option.

The Company faced severe crisis during the 2nd year and it was decided to cancel the scheme with immediate effect. The market price of the share at the date of cancellation was ₹15.

The following information is available:

- Fair value of the option at the date of cancellation is ₹ 12.
- The company paid compensation to the employees at the rate of ₹13.50. There were only 190 employees in the employment at that time.

You are required to show how cancellation will be recorded in the books of the Company as per relevant Ind AS. **[July-2021]**

Ans.

(A) Calculation of employee compensation expense

	Year 1	**Year 2**	
Expected employees to remain in the employment during the vesting period	180	190	
Fair value of option	18	18	
Number of options	1,000	1,000	
Total	32,40,000	34,20,000	
Expense weightage	1/3	2/3	Balance 2/3rd in full, as it is cancelled
Expense for the year	10,80,000	23,40,000	Remaining amount since cancelled

(B) Cancellation compensation to be charged in the year 2

Cancellation compensation			
Number of employees	(A)	190	
Amount agreed to pay	(B)	13.50	
Number of options/ employee	(C)	1,000	
Compensation amount (A x B x C)			25,65,000

Less: Amount to be deducted from Equity			
Number of employees	(D)	190	
Fair value of option (at the date of cancellation)	(E)	12	
Number of options / employee	(F)	1,000	
Amount to be deducted from Equity	(D x E x F)		(22,80,000)
Balance transferred to Profit and Loss			2,85,000

CASH SETTLED PLAN

SM 11. SAR - BASIC

ABC limited granted to its employees, share options with a fair value of INR 5,00,000 on 1 April 20X0, if they remain in the organization upto 31st March 20X3. On 31st March 20X1, ABC limited expects only 91% of the employees to remain in the employment. On 31st March 20X2, company expects only 89% of the employees to remain in the employment. However, only 82% of the employees remained in the organisation at the end of March, 20X3 and all of them exercised their options. Pass the Journal entries?

Ans.

Period	Proportion A	Fair value b	To be vested c	Cumulative expenses d= b x c x a	Expenses e = d-previous period (d)
Period 1	1/3	5,00,000	91%	1,51,667	1,51,667
Period 2	2/3	5,00,000	89%	2,96,667	1,45,000
Period 3	3/3	5,00,000	82%	4,10,000	1,13,333
					4,10,000

Journal Entries

30-Jun-20X1			
Employee benefits expenses	Dr.	1,51,667	
To Share based payment reserve (equity)			1,51,667
(1/3 of expected vested equity instruments value)			
30-Jun-20X2			
Employee benefits expenses	Dr.	1,45,000	
To Share based payment reserve (equity)			1,45,000
(2/3 of expected vested equity instruments value)			
30-Jun-20X3			
Employee benefits expenses	Dr.	1,13,333	
To Share based payment reserve (equity)			1,13,333
(Final vested equity instruments value)			
Share based payment reserve (equity)	Dr.	4,10,000	
To Share Capital			4,10,000
(re-allocated and issued shares)			

SM 12. BASIC - ACCOUNTING

An entity issued 50 shares each to its 170 employees subject to service condition of next 2 years. The settlement is to be made in cash. Grant date fair value of the share is ₹ 85 each, however, the fair value as at end of 1st year, 2nd year were ₹ 80 & ₹ 90 respectively. Calculate expense for years 1 and 2?

Ans.

Year end	% Vest	Expense (current period)
FIRST	1/2	50 x 170 x 80 x 1/2 = 3,40,000
SECOND	2/2	50 x 170 x 90 x 2/2 – 3,40,000 = 4,25,000

- Liability will be re-measured at each reporting date.
- Fair value at the end of the year will be used.

MT 13. BASIC

Ryder, a public limited company is reviewing certain events which have occurred since its year-end 31st March, 20X4. The financial statements were authorized for issue on 12th May, 20X4. The following events are relevant to the financial statements for the year ended 31st March, 20X4.

The company granted share appreciation rights (SARs) to its employees on 1st April, 20X2 based on 10 million shares. At the date the rights are exercised, the SAR's provide employees with the right to receive cash equal to the appreciation in the company's share price since the grant date. The rights vested on 31st March, 20X4 and payment was made on schedule on 1st May, 20X4.

The FV of the SAR's per share at 31st March, 20X3 was ₹ 6, at 31st March, 20X4 was ₹ 8 and at 1st May, 20X4 was ₹ 9. The company has recognized a liability for the SAR's as at 31st March, 20X2 based upon Ind AS 102 'Share-based Payments' but the liability was stated at the same amount at 31st March, 20X4.

Discuss the accounting treatment of the above events in the financial statements of the Ryder Group for the year ending 31st March, 20X4 taking into account the implications of events occurring after the reporting period. **[MTP-Dec-2021]**

Ans.

Ind AS 102 'Share-based Payments' requires a company to remeasure the fair value of a liability to pay cash-settled share-based payments at each reporting date and the settlement date until the liability is settled. Share Appreciation rights fall under this category. Hence, the company should recognize a liability of ₹ 80 million (₹ 8 x 10 million) at 31st March, 20X4, the vesting date.

The liability recognised at 31st March, 20X4 was in fact based on the share price at the previous year-end and would have been shown at ₹ 6 x ½ x 10 million shares – half the cost as the SARs vest over 2 years. This liability at 31st March, 20X4 has not been changed since the previous year- end by the company.

The SARs vest over a two-year period and hence on 31st March, 20X4 there would be a weighting of the eventual cost by 1 year / 2 year. Therefore, an additional liability of ₹ 50 million (30 million + 20 million) should be accounted for in the financial statements at 31st March, 20X4.

The SARs would be settled on 1st May, 20X4 at ₹ 90 million (₹ 9 x 10 million). The increase of ₹ 10 million (over and above ₹ 80 million) in the value of the SARs is a non-adjusting event. Hence, the change in the fair value of ₹ 10 million during the year 20X4-20X5 would be charged to profit and loss for the year ended 31st March, 20X5 and not 31st March, 20X4.

PE 14. VESTED SAR

Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) to its employees on April 1st, 2017. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is 100. SAR will vest onto employees working with company March 31st 2020. It is expected that out of the total employees, 94% at the end of period on March 31st, 2018, 91% at the end of next year will exercise the option.

Finally, when these were vested i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.

Fair value of SAR	₹
March 31st, 2018	132
March 31st, 2019	139
March 31st, 2020	141

You are required to pass the above transaction Journal entries to show the effect of the above transaction. **[Nov-2020]**

Ans.

Table showing amount of expense to be charged each year

Period	Fair value	To be vested	Cumulative	Expense
	a	b	c= a x b x 10,000	d = c-prev. period c
1 April 2017	100	100%	10,00,000	10,00,000
31 March 2018	132	94%	12,40,800	2,40,800
31 March 2019	139	91%	12,64,900	24,100
31 March 2020	141	85%	11,98,500	(66,400)
				11,98,500

Journal Entries

1 April 2017			
Employee benefits expenses	Dr.	10,00,000	
To Share based payment liability			10,00,000
(Fair value of the SAR recognized)			
31 March 2018			
Employee benefits expenses	Dr.	2,40,800	
To Share based payment liability			2,40,800
(Fair value of the SAR re-measured)			
31 March 2019			
Employee benefits expenses	Dr.	24,100	
To Share based payment liability			24,100
(Fair value of the SAR re-measured)			
31 March 2020			
Share based payment liability	Dr.	66,400	
To Employee benefits expenses			66,400
(Fair value of the SAR remeasured and reversed)			
Share based payment liability	Dr.	11,98,500	
To Cash/Bank			11,98,500
(Settlement of SAR)			

SM 15. IMMEDIATE VESTING

XYZ issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1 April 20X0. The SARs will be settled in cash. At that date it is estimated, using an option pricing model, that the fair value of a SAR is INR 95. SAR can be exercised any time up to 31 March 20X3. At the end of period on 31 March 20X1 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be only exercise at the end of the 3rd year. Fair Values at the end of each period have been given below:

Fair Value of SAR	INR
31 Mar 20X1	112
31 Mar 20X2	109
31 Mar 20X3	114

Pass the Journal entries?

Ans.

Period	Fair value A	To be vested B	Cumulative c= a x b x 10,000	Expense d= c-prev. period (c)
Start	95	100%	9,50,000	9,50,000
Period 1	112	95%	10,64,000	1,14,000
Period 2	109	92%	10,02,800	(61,200)
Period 3	114	89%	10,14,600	11,800
				10,14,600

JOURNAL ENTRIES

1-Apr-20X0			
Employee benefits expenses	Dr.	9,50,000	
To Share based payment liability			9,50,000
(Fair value of the SAR recognized)			
31-Mar-20X1			
Employee benefits expenses	Dr.	1,14,000	
To Share based payment liability			1,14,000
(Fair value of the SAR re-measured)			
31-Mar-20X2			
Share based payment liability	Dr.	61,200	
To Employee benefits expenses			61,200
(Fair value of the SAR re-measured & reversed)			
31-Mar-20X3			
Employee benefits expenses	Dr.	11,800	
To Share based payment liability			11,800
Fair value of the SAR recognized)			
Share based payment liability	Dr.	10,14,600	
To Cash			10,14,600
(Settlement of SAR)			

PE 16. **REPRICING**

On April 01, 2017 Kara Ltd. granted an award of 150 share option to each of its 1,000 employees, on condition of continuous employment with Kara Ltd. for three years and the benefits will then be settled in cash of an equivalent amount of share price. Fair value of each option on the grant date was ₹ 129

Towards the end of March 31, 2018, Kara Ltd.'s share price dropped; so April 01, 2018 management chose to reduce the exercise price of the options.

At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 50 and the fair value of each re-priced option was ₹ 80. Thus, the incremental fair value of each modified option was ₹ 30.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (i.e.. 900 awards would vest). During F.Y. 2018-2019, it became apparent that fewer employees than expected were leaving, so management revised its estimate of the number of leavers to only 5% (i.e. 950 awards would vest). At the end of March 31, 2020, awards to 930 employees actually vested.

Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS.

[Jan-2021]

Ans.

Note: The first para of the question states that "benefits will then be settled in cash of an equivalent amount of share price." This implies that the award is cash settled share-based payment. However, the second and third para talks about repricing of the option which arises in case of equity settled share-based payment.

Hence, two alternative solutions have been provided based on the information taking certain assumptions.

1st Alternative based on the assumption that the award is cash settled share-based payment.

In such a situation, the services received against share-based payment plan to be settled in cash are measured at fair value of the liability and the liability continues to be remeasured at every reporting date until it is actually paid off.

There is a vesting condition attached to the share-based payment plans i.e. to remain in service for next 3 years. The recognition of such share-based payment plans should be done by recognizing fair value of the liability at the time of services received and not at the date of grant. The liability so recognized will be fair valued at each reporting date and difference in fair value will be charged to profit or loss for the period.

Calculation of expenses:

For the year ended 31st March 2018

= ₹ 50 x 150 awards x 900 employees x (1 year /3 years of service)

= ₹ 22,50,000

For the year ended 31st March 2019

Note: It is assumed that the fair value of ₹ 80 each of repriced option continues at the end of the remaining reporting period ie 31st March, 2019 and 31st March, 2020

= [₹ 80 x 150 awards x 950 employees x (2 year / 3 years of service)] - ₹ 22,50,000

= ₹ 7,60,00,000 – ₹ 22,50,000 = ₹ 53,50,000

For the year ended 31st March 2020

= [₹ 80 x 150 awards x 930 employees] - ₹ 22,50,000 - ₹ 53,50,000

= ₹ 1,11,60,000 – ₹ 22,50,000 - ₹ 53,50,000= ₹ 35,60,000

Journal Entries

31st March, 2018			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized)	Dr.	22,50,000	22,50,000
31st March, 2019			
Employee benefits expenses To Share based payment liability (Fair value of the liability re-measured)	Dr.	53,50,000	53,50,000
31st March, 2020			
Employee benefits expenses To Share based payment liability (Fair value of the liability recognized)	Dr.	35,60,000	35,60,000
Share based payment liability To Bank (Being liability for awards settled in cash)	Dr.	1,11,60,000	1,11,60,000

2nd Alternative based on fair value at the grant date (ignoring the fact that the award has to be settled in cash).

Calculation of expenses:

For the year ended 31st March 2018

= [₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]

= ₹ 58,05,000

For the year ended 31st March 2019

Ind AS 102 requires the entity to recognise the effects of repricing that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

If the repricing increases the fair value of the equity instruments granted standard requires the entity to include the incremental fair value granted (ie the difference between the fair value of the repriced equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If the repricing occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the repricing date until the date when the repriced equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. Accordingly, the amounts recognised are as follows:

Year ended	Calculation	Compensation expense for period	Cumulative compensation expense
		₹	₹
31 March, 2018	[₹ 129 x 150 awards x 900 employees x (1 year /3 years of service)]	58,05,000	58,05,000
31 March, 2019	[₹ 129 x 150 awards x 950 employees x (2 year /3 years of service)] + (80-50) x 150 awards x 950 employees x (1 year / 2 years of service) - 58,05,000	85,87,500	1,43,92,500
31 March, 2020	[(₹ 129 + 30) x 150 awards x 930 employees] - 1,43,92,500	77,88,000	2,21,80,500

Journal Entries

31st March, 2018		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	58,05,000	58,05,000
31st March, 2019		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability re-measured)	85,87,500	85,87,500
31st March, 2020		
Employee benefits expenses Dr. To Outstanding Share based payment option (Fair value of the liability recognized)	77,88,000	77,88,000
Outstanding Share based payment option Dr. To Equity share capital (Being award settled)	2,21,80,500	2,21,80,500

MT 17. CS PLAN WITH MODIFICATIONS

ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 20X1 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows:

31st March, 20X2	₹ 110
31st March, 20X3	₹ 120
31st March, 20X4	₹ 115
31st March, 20X5	₹ 130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e. at 31st March, 20X3), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS. **[MTP-May-2022]**

Ans.

Number of SARs = 80 Employees x 500 SARs = 40,000 SARs

1. When the term of the awards is 4 years of service

Period	Fair value	To be vested	Cumulative	Expense in proportion to the award earned	Cumulative expenses recognized
	a	b	c = 40,000 x a x b	d = [{(c / no. of total years) x years completed} – e of pvs year]	e
1st April, 20X1	100	100%	40,00,000	- 11,00,000	-
31st March, 20X2	110	100%	44,00,000	13,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	10,50,000	24,00,000
31st March, 20X4	115	100%	46,00,000	17,50,000	34,50,000
31st March, 20X5	130	100%	52,00,000		52,00,000

Journal Entries

31st March, 20X2		
Employee benefits expenses/Profit and Loss A/c Dr.	11,00,000	
To Share based payment liability		11,00,000
(Fair value of SARs has been recognised)		
31st March, 20X3		
Employee benefits expenses/Profit and Loss A/c Dr.	13,00,000	
To Share based payment liability		13,00,000
(Fair value of SARs has been re-measured)		
31st March, 20X4		
Employee benefits expenses/Profit and Loss A/c Dr.	10,50,000	
To Share based payment liability		10,50,000
(Fair value of SARs has been recognized)		
31st March, 20X5		
Employee benefits expenses A/c Dr.	17,50,000	
To Share based payment liability		17,50,000
(Fair value of SARs has been recognized)		

2. When the term of the awards is modified to 3 years of service instead of 4 years of service

Period	Fair value a	%age of vesting b	Cumulative c = 40,000 x a x b	Expense in proportion to the award earned d = [{(c / no. of total years) x years completed} – e of pvs year]	Cumulative expenses recognized e
1st April, 20X1	100	100%	40,00,000	-	-
31st March, 20X2	110	100%	44,00,000	11,00,000	11,00,000
31st March, 20X3	120	100%	48,00,000	21,00,000	32,00,000
31st March, 20X4	115	100%	46,00,000	14,00,000	46,00,000

Journal Entries

31st March, 20X2			
Employee benefits expenses	Dr.	11,00,000	
To Share based payment liability			11,00,000
(Fair value of SARs has been recognised)			
31st March, 20X3			
Employee benefits expenses	Dr.	21,00,000	
To Share based payment liability			21,00,000
(Fair value of SARs has been re-measured)			
31st March, 20X4			
Employee benefits expenses	Dr.	14,00,000	
To Share based payment liability			14,00,000
(Fair value of SARs has been recognized)			

EQUITY OR CASH SETTLED (ES OR CS) PLAN

SM 18. **BASIC - ACCOUNTING**

On 1 January 20X1, ABC limited gives options to its key management employees to take either cash equivalent to 1,000 shares or 1,500 shares. The minimum service requirement is 2 years and shares being taken must be kept for 3 years.

Fair values of the shares are as follows:	**INR**
Share alternative fair value (with restrictions)	102
Grant date fair value on 1 Jan 20X1	113
Fair value on 31 Dec 20X1	120
Fair Value on 31 Dec 20X2	132

The key management exercises his cash option at the end of 20X2.

Pass the journal entries.

[MTP-Dec-2021]

Ans.

	1-Jan-20X1 INR	**31-Dec-20X1 INR**	**31-Dec- 20X2 INR**
Equity alternative (1,500 x 102)	1,53,000		
Cash alternative (1,000 x 113)	1,13,000		
Equity option (1,53,000 - 1,13,000)	40,000	(1,000 x 120 x ½)	1,32,000
Cash Option (cumulative) (using period end fair value)		60,000	
Equity Option (cumulative)		(40,000 x ½) 20,000	40,000
Expense for the period			
Equity option		20,000	20,000
Cash Option		60,000	72,000
Total		80,000	92,000

JOURNAL ENTRIES

31-Dec-20X1			**INR**
Employee benefits expenses	Dr.	80,000	
To Share based payment reserve (equity)			20,000
To Share based payment liability			60,000
(Recognition of Equity option and cash settlement option			
31-Dec-20X2			
Employee benefits expenses	Dr.	92.000	
To Share based payment reserve (equity)			20,000
To Share based payment liability			72,000
(Recognition of Equity option and cash settlement option)			
Share based payment liability	Dr.	1,32,000	
To Bank/ Cash			1,32,000
(Settlement in cash)			

SM 19. BASIC - ACCOUNTING

Tata Industries has issued a share based option to one of its key management personal which can be exercised either in cash or equity and it has following features:

Option I	**Period**	**INR**
Cash settled shares		74,000 no.
Service condition	3 years	
Option II		
Equity settled Shares		90,000
Conditions:		
Service	3 years	
Restriction to sell	2 years	
Fair values		
Equity price with a restriction of sale for 2 years		115
Fair value grant date		135
Fair value 20X0		138
20X1		140
20X2		147

Pass the Journal entries?

Ans.

Fair value of Equity option component:	
Fair value of a share with restrictive clause	INR 115
No. of shares	90,000
Fair Value A	INR 1,03,50,000
Fair value of a share at the date of grant	INR 135
No. of cash settled shares	74,000
Fair Value B	INR 99,90,000
Fair value of Equity component in Compound Instrument (A-B)	INR 3,60,000

JOURNAL ENTRIES

31/12/20X0		**INR**
Employee benefit expenses Dr.	35,24,000	
To Share based payment reserve (equity) (3,60,000/3)		1,20,000
To Share based payment liability (138 x 74,000) / 3		34,04,000
(Recognition of Equity option and cash settlement option)		
31/12/20X1		
Employee benefits expenses Dr.	36,22,667	
To Share based payment reserve (equity) (3,60,000/3)		1, 20,000
To Share based payment liability (140 x 74,000) 2/3-34,04,000		35,02,667
(Recognition of Equity option and cash settlement option)		
31/12/20X2		
Employee benefits expenses Dr.	40,91,333	
To Share based payment reserve (equity) (3,60,000/3)		1,20,000
To Share based payment liability (147 x 74,000) 3/3- (34,04,000 + 35,02,667)		39,71,333
(Recognition of Equity option and cash settlement option)		
Upon cash alternative chosen		
Share based payment liability (147 x 74,000) Dr.	1,08,78,000	
To Bank/ cash		1,08,78,000
(Being settlement made in cash)		
Upon equity alternative chosen		
Share based payment liability (147 x 74,000) Dr.	1,08,78,000	
To Share Capital		1,08,78,000
(Being settlement made in Equity)		

SBP - OTHER THAN EMPLOYEES

SM 20. **SHARE BASED PAYMENT- PURCHASE OF GOODS**

Indian Inc. issued 995 shares in exchange for a purchase of Office building. The title has been transferred in the name of Indian Inc. on Feb 20X1 and shares were issued. Fair value of the office building was INR 2,00,000 and face value of each share of Indian Inc was INR 100.

Pass the journal entries?

Ans.

1 February, 20X1		**INR**
Office Building Dr.	2,00,000	
To Share capital (995 x 100)		99,500
To Securities premium (balance)		1,00,500

SM 21. **SHARE BASED PAYMENT- SERVICES**

Reliance limited hired a maintenance company for its oil fields. The services will be settled by issuing 1,000 shares of Reliance. Period for which the service is to be provided is 1 April 20X1 to 31 July 20X1 and fair value of the service was estimated using market value of similar contracts for INR 1,00,000. Nominal value per share is INR 10.

Record the transactions?

Ans.

Fair value of services	1,00,000
No. of months	4
Monthly expense	25,000

1-Apr-20X1			**INR**
Repair & Maintenance	**Dr.**	25,000	
To Share based payment reserve (equity)			25,000
(Recognition of Equity settled SBP using fair value of services rendered)			
1-May-20X1			
Repair & Maintenance	**Dr.**	25,000	
To Share based payment reserve (equity)			25,000
(Recognition of Equity settled SBP using fair value of services rendered)			
1-Jun-20X1			
Repair & Maintenance	**Dr.**	25,000	
To Share based payment reserve (equity)			25,000
(Recognition of Equity settled SBP using fair value of services rendered)			
1-Jul-20X1			
Repair & Maintenance	**Dr.**	25,000	
To Share based payment reserve (equity)			25,000
Recognition of Equity settled SBP using fair value of services rendered)			
Share based payment reserve (equity)	**Dr.**	1,00,000	
To Equity Shares (1000 x 10)			10,000
To Securities premium (balancing figure)			90,000

SPECIAL ISSUES.

RT 22. **GROUP PLANS**

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ₹ 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement. **[RTP-May-2019]**

Ans.

As required by paragraph B53 of the Ind AS 102, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance, the requirements applicable to equity-settled share-based payment transactions as given in paragraph 43B. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.

The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1		₹	₹
Remuneration expense (200 x 100 employees x ₹ 30 x 80% x ½) To Equity (Contribution from the parent)	Dr.	2,40,000	2,40,000
Year 2			
Remuneration expense [(200 x 81 employees x ₹ 30) – 2,40,000] To Equity (Contribution from the parent)	Dr.	2,46,000	2,46,000

SM 23.

GROUP PLANS

Company P is a holding company for company B. A group share-based payment is being organized in which Parent issues its own equity-shares for the employees of company B. The details are as below –

Number of employees of company B	100
Grant date fair value of share	₹ 87
Number of shares to each employee granted	25
Vesting conditions	Immediately

Pass the journal entry in the books of company P & company B?

Ans.

Books of Company P

Investment in Company B	Dr.	₹ 2,17,500	
To Equity (Issue of Shares)			₹ 2,17,500

Books of Company B

Expense	Dr.	₹ 2,17,500	
To Capital contribution from Parent P			₹ 2,17,500

SM 24.

GROUP PLANS

A parent, Company P, grants 30 shares to 100 employees each of its subsidiary, Company S, on condition that the employees remain employed by Company S for three years. Assume that at the outset, and at the end of Years 1 and 2, it is expected that all the employees will remain employed for all the three years. At the end of Year 3, none of the employees has left. The fair value of the shares on grant date is ₹ 5 per share.

Company S agrees to reimburse Company P over the term of the arrangement for 75 percent of the final expense recognised by Company S. What would be the accounting treatment in the books of Company P and Company S?

Ans.

Company S expects to recognise an expense totalling ₹ 15,000 (30 shares x 100 employees x ₹ 5 per share) and, therefore, expects the total reimbursement to be ₹ 11,250 (₹ 15,000 x 75%). Company S therefore reimburses Company P ₹ 3,750 (₹ 11,250 x 1/3) each year.

Accounting by Company S

In each of Years 1 to 3, Company S recognises an expense in profit or loss, the cash paid to Company P, and the balance of the capital contribution it has received from Company P.

Journal Entry		₹	
Employee benefits expenses	Dr.	5,000	
To Cash/Bank			3,750
To Equity (Contribution from the parent)			1,250
(To recognise the share-based payment expense and partial reimbursement to parent)			

Accounting by Company P

In each of Years 1 to 3, Company P recognises an increase in equity for the instruments being granted, the cash reimbursed by Company S, and the balance as investment for the capital contribution it has made to Company S.

Journal Entry			₹
Investment in Company S	Dr.	1,250	
Cash/Bank	Dr.	3,750	
To Equity			5,000
(To recognise the grant of equity instruments to employees of subsidiary less partial reimbursement from subsidiary)			

ADDITIONAL PRACTICE QUESTIONS

EQUITY SETTLED (ES) PLAN

SM 25. **BASIC**

Entity X grants 10 shares to its 1000 employees on the conditions as below-

- Service condition to remain in service & Entity's PAT will reach to INR 100 Million,
- Expected to reach PAT of INR 100 Million by end of 3 years
- Fair value at Grant date is INR 100
- Expected for vesting right by 1st year 97%, then it revises to 95% by 2nd year and finally to 93% by 3rd year,

Calculate expenses for next 3 years on account of Share-based payment?

Ans.

Entity's PAT is one of the non-market related condition and hence would be included while making an expectation of vesting shares and there is no requirement to make any changes in the non-market condition if it meets or not because it has already been considered in the expectation of vesting rights at the end of each year.

Year -1	1,000 x 10 x 100 x 97% x1/3	= 3,23,333
Year-2	1,000 x 10 x 100 x 95% x 2/3 - 3,23,333	= 3,10,000
Year -3	1,000 x 10 x 100 x 93% x 3/3 - 6,33,333	= 2,96,667

AD 26. **MARKET VESTING CONDITION**

An entity has a number of equity settled share-based payment schemes for its employee across different categories. During last financial year i.e. 2018-19, the entity had granted equity shares to senior management which will vest on April 30, 2021, and one of the conditions for final eligibility of equity shares is based on target market price of the entity's share by the end of the financial year 2020-21 i.e. March 31, 2021. Considering the current scenario affected by global pandemic, the entity expects to experience a severe depressed economic environment in its business sector and substantial decline in its financial performance and cash flows over next two years and, therefore, consequential decline in the market price of its equity shares. As of March 31, 2020, the share price of the entity's equity share is much below the target price required under the employees' sharebased payment scheme. How should the entity consider this development in the accounting for its equity settled share-based payments for the current financial year 2019-20?

Quick Answer: Continue to recognise expense irrespective of non-satisfaction of market conditions

Ans.

Equity settled share-based payments are subject to the accounting requirements of Ind AS 102 Share-based Payments. The eligibility condition of the scheme mentioned above i.e. condition of the equity shares of the entity reaching a target price at the financial year March 31, 2021, is part of a vesting condition which is market condition as defined in Appendix A of Ind AS 102.

According to paragraph 21 of Ind AS 102, Market Conditions such as a target share price upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. The standard further states that the entity shall continue to recognise the services received, provided other vesting conditions are satisfied, irrespective of whether the market condition is satisfied at each reporting date.

Journal Entries

31 December 20X5			
Employee benefits expenses	Dr.	2,16,000	
To Share based payment liability			2,16,000
(Fair value of the SAR recognized)			
31 December 20X6			
Employee benefits expenses	Dr.	72,000	
To Share based payment liability			72,000
(Fair value of the SAR re-measured)			
31 December 20X7			
Employee benefits expenses	Dr.	1,62,000	
To Share based payment liability			
(Fair value of the SAR recognized)			1,62,000
Share based payment liability	Dr.	60,000	
To Cash			60,000
(Settlement of SAR)			
31 December 20X8			
Share based payment liability	Dr.	30,000	
To Employee benefits expenses			
(Fair value of the SAR recognized)			30,000
Share based payment liability	Dr.	3,60,000	
To Cash			3,60,000
(Settlement of SAR)			

Note: Last two entries can be combined.

CASH SETTLED (CS) PLAN .

AD 27. SAR - BASIC

An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1 st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to the appreciation in the entity's share price since the grant date. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is ₹ 11; and it estimates that overall 10% of the employees will leave during the two -year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31 st December 20X7 (when the intrinsic value of each SAR was ₹ 10), six employees exercised their options; and the remaining 30 employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of ₹ 12).

How much expense and liability is to be recognized at the end of each year? Pass Journal entries.

[May-2020]

Ans.

The amount recognized as an expense in each year and as a liability at each year e nd) is as follows:

Year	Expense ₹	Liability ₹	Calculation of Liability
31 December 20X5	2,16,000	2,16,000	= 36 x 1,000 x 12 x ½
31 December 20X6	72,000	2,88,000	= 36 x 1,000 x 8
31 December 20X7	1,62,000*	3,90,000	= 30 x 1,000 x 13
31 December 20X8	(30,000)**	0	Liability extinguished

* Expense comprises an increase in the liability of ₹ 102,000 and cash paid to those exercising their SARs of ₹ 60,000 (6 x 1,000 x 10).

** Difference of opening liability (₹ 3,90,000) and actual liability paid [₹ 3,60,000 (30 x 1,000 x 12)] is recognised to Profit and loss ie ₹ 30,000.

EQUITY OR CASH SETTLED (ES OR CS) PLAN

SM 28. **BASIC**

At 1 January 20X1, Ambani Limited grants its CEO to take either 990 shares or equivalent cash amount on 800 shares. The minimum service requirement is 2 years. There are some 3 years restriction if shares are being taken and must be kept for 3 years.

Fair values of the shares	INR
Share alternative fair value (with restrictions)	212
Grant date fair value on 1 January, 20X0	213
Fair value on 31 December, 20X0	220
Fair value on 31 December, 20X1	232

The key management exercises his cash option at the end of 20X2

Ans.

	1-Jan-20X0	31-Dec-20X0	31-Dec-20X1
Equity alternative (990 × 212)	2,09,880		
Cash alternative (800 × 213)	1,70,400		
Equity option (2,09,880 – 1,70,400)	39,480		
Cash Option (cumulative) (using period end fair value)		88,000	1,85,600
Equity Option (cumulative)		19,740	39,480
Expense for the period			
Equity option		19,740	19,740
Cash Option		88,000	97,600
Total		**1,07,740**	**1,17,340**

31-Dec-20X0		**INR**
Employee benefits expenses Dr.	1,07,740	
To Share based payment reserve (equity)		19,740
To Share based payment liability		88,000
(Recognition of Equity option and cash settlement option)		
31-Dec 20X1		
Employee benefits expenses Dr.	1,17,340	
To Share based payment reserve (equity)		19,740
To Share based payment liability		97,600
(Recognition of Equity option and cash settlement option)		
Share based payment liability Dr.	1,85,600	
To Bank/ Cash		1,85,600
(Settlement in cash)		

PE 29. **JOURNAL ENTRIES**

Georgy Ltd. gave its key management an option to take either 810 equity shares or cash amount equivalent to 650 equity shares on 1st April, 2020. The minimum service requirement is 2 years. If shares are opted then they are to be kept for at least 4 years.

Fair value of the shares	₹
Fair value for share alternative (with restrictions)	460
Grant date fair value on 1st April, 2020	480
Fair value on 31st March, 2021	530
Fair value on 31st March, 2022	560

Pass the necessary Journal Entries for the years ended 31st March, 2021 & 2022 if the key management exercises the cash option at the end of 2022. **[Dec-2021]**

Ans.

	1st April, 2020	**31st March, 2021**	**31st March, 2022**
Equity alternative (810 x 460)	3,72,600		
Cash alternative (650 x 480)	3,12,000		
Equity option (3,72,600 – 3,12,000)	60,600		
Cash Option (cumulative) (using period end fair value)		[(650 x 530) x 1/2] 1,72,250	[650 x 560] 3,64,000
Equity Option (cumulative)		30,300	60,600
Expense for the period			
Equity option		30,300	30,300
Cash Option		1,72,250	1,91,750
Total		2,02,250	2,22,050

Journal Entries

31st March, 2021		
Employee benefits expenses Dr.	2,02,250	
To Share based payment reserve (equity)		30,300
To Share based payment liability		1,72,250
(Recognition of Equity option and cash settlement option)		
31st March, 2022		
Employee benefits expenses Dr.	2,22,050	
To Share based payment reserve (equity)		30,300
To Share based payment liability		1,91,750
(Recognition of Equity option and cash settlement option)		
Share based payment liability Dr.	3,64,000	
To Bank/ Cash		3,64,000
(Settlement in cash)		

RT 30. The following particulars in respect of stock options granted by a company are available:

No. of Employees covered	400	Nominal Value per share	₹ 100
No. of options per Employee	60	Exercise price per share	₹ 125

Shares offered were put in three groups. Group 1 was for 20% of shares offered with vesting period one-year. Group II was for 40% of shares offered with vesting period two- years. Group III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was ₹ 10 for Group I, ₹ 12.50 for Group II and ₹ 14 for Group III.

Position on 1st Year	Position on 2nd Year	Position on 3rd Year
- No. of employees left = 40 - Estimate of employees to leave in Year 2 = 36 - Estimate of employees to leave in Year 3 = 34 - Employees exercising Options in Group I = 350	- Employees left = 35 - Estimate of employees to leave in Year 3 = 30 - Employees exercising Options in Group II = 319	- Employees left = 28 - Employees exercising Options in Group III = 295

Options not exercised immediately on vesting, were forfeited. Compute expenses to recognise in each year and show important accounts in the books of the company. **[RTP-Nov-2022]**

Ans.

Total number of Options per employee = 60

Group I - 20% vesting in Year 1	**Group II - 40% vesting in Year 2**	**Group III - 40% vesting in Yr. 3**
= 12 options, Vesting period = 1 Yr.	= 24 options, Vesting period = 2 Yrs.	= 24 options, Vesting period = 3 Yrs.

Computation of Expenses for all the years

Group = No. of Options	**Group I = 12 Options**	**Group II = 24 Options**		**Group III = 24 Options**		
	Year 1	**Year 1**	**Year 2**	**Year 1**	**Year 2**	**Year 3**
(a) Employees at year end = [Opening No. of Employees - Forfeiture]	400 – 40 = 360	400 – 40 = 360	360 – 35 = 325	400 - 40 = 360	360 – 35 = 325	325 – 28 = 297
(b) Expected to leave in future	NA	36	NA	36 + 34 = 70	30	NA
(c) No. of employees eligible (a - b)	360	324	325	290	295	297
(d) Options expected to Vest = [(c) x No. of Shares]	(360 x 12 sh.) 4,320	(324 x 24 sh.) 7,776	(325 x 24 sh.) 7,800	(290 x 24 sh.) 6,960	(295 x 24 sh.) 7,080	(297 x 24 sh.) 7,128
(e) FV per option =	₹ 10	₹ 12.50	₹ 12.50	₹ 14	₹ 14	₹ 14
(f) Value of Total Options = [d x e]	₹ 43,200	₹ 97,200	₹ 97,500	₹ 97,440	₹ 99,120	₹ 99,792
(g) Total Cumulative Cost of Options = [(f) x Completed Yrs/ Total Yrs)	₹ 43,200	[(f) x 1/2] ₹ 48,600	[(f) x 2/2] ₹ 97,500	[(f) x 1/3] ₹32,480	[(f) x 2/3] ₹66,080	[(f) x 3/3] ₹ 99,792
(h) Less: Recognized in last years	0	0	₹ 48,600	0	₹32,480	₹ 66,080
(i) Expenses to be recognized	**₹ 43,200**	**₹ 48,600**	**₹ 48,900**	**₹32,480**	**₹33,600**	**₹ 33,712**
(j) Employees not exercising ESOP	10 Employees	325 - 319 = 6 Employees		297 - 295 = 2 Employees		
(k) Total Expenses for- **Year 1**	₹ 43,200 (Gr. 1) + ₹ 48,600 (Gr. 2) + ₹ 32,480 (Gr. 3) = ₹ 1,24,280					

Year 2	₹ 48,900 (Gr. 2) + ₹ 33,600 (Gr. 3) = ₹ 82,500				
Year 3	₹ 33,712 (Gr. 3 only)				

Employees Benefit Expenses A/c

Year 1

	₹		₹
To Share-based Payment Reserve A/c	1,24,280	By Profit and Loss A/c	1,24,280
	1,24,280		1,24,280

Year 2

To Share-based Payment Reserve A/c	82,500	By Profit and Loss A/c	82,500
	82,500		82,500

Year 3

To Share-based Payment Reserve A/c	33,712	By Profit and Loss A/c	33,712
	33,712		33,712

Share-based Payment Reserve A/c

Year 1

	₹		₹
To Retained Earnings [(360 - 350) Emp x 12 Options x ₹ 10]	1,200	By Employees Benefit Expenses A/c	1,24,280
To Share Capital (350 Emp x 12 Options x ₹ 100)	4,20,000	By Bank A/c (350 Emp x 12 Options x ₹ 125)	5,25,000
To Securities Premium (350 Emp x 12 Options x ₹ 35)	1,47,000		
To Balance c/d	81,080		
	6,49,280		**6,49,280**

Year 2

To Retained Earnings [(325 - 319) Emp x 24 Options x ₹ 12.50]	1,800	By Balance b/d	81,080
To Share Capital (319 Emp x 24 Options x ₹ 100)	7,65,600	By Employees Benefit Expenses A/c	82,500
To Securities Premium (319 Emp x 24 Options x ₹ 37.50)	2,87,100	By Bank A/c (319 Emp x 24 Options x ₹ 125)	9,57,000
To Balance c/d	66,080		
	11,20,580		**11,20,580**

Year 3

To Retained Earnings [(297 - 295) Emp x 24 Options x ₹ 14]	672	By Balance b/d	66,080
To Share Capital (295 Emp x 24 Options x ₹ 100)	7,08,000	By Employees Benefit Expenses A/c	33,712
To Securities Premium (295 Emp x 24 Options x ₹ 39)	2,76,120	By Bank A/c (295 Emp x 24 Options x ₹ 125)	8,85,000
	9,84,792		**9,84,792**

Working Note:

Calculation of Securities Premium			
	Group I	**Group II**	**Group III**
	Year 1	**Year 2**	**Year 3**
Exercise Price received per share	125.00	125.00	125.00
Value of service received per share, being the FV of the Options	10.00	12.50	14.00
Total Consideration received per share	135.00	137.50	139.00
Less: Nominal Value per share	(100.00)	(100.00)	(100.00)
Securities Premium per share	35.00	37.50	39.00

NOTES

CHAPTER 6 Ind AS 101 : FIRST-TIME ADOPTION OF INDIAN ACCOUNTING STANDARDS

SM 1. COMPOUND FI

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31 March 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1 April 20X3. Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition. The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

[RTP-May-2020, MTP-May-2022]

Ans.

The carrying amount of the debenture on the date of transition under previous GAAP, assuming that all interest accrued other than premium on redemption have been paid, will be ₹ 31,20,000 [(30,000 x 100) + (30,000 x 100 x 10/100 x 2/5)]. The premium payable on redemption is being recognised as borrowing costs as per para 4(b) of AS 16 ie under previous GAAP on straight-line basis.

As per para D18 of Ind AS 101, Ind AS 32, Financial Instruments: Presentation, requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of Ind AS 32 would involve separating two portions of equity. The first portion is recognised in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this Ind AS, a first -time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition t o Ind AS.

In the present case, since the liability is outstanding on the date of transition, Sigma Ltd. will need to split the convertible debentures into debt and equity portion on the date of transition. Accordingly, we will first measure the liability component by discounting the contractually determined stream of future cash flows (interest and principal) to present value by using the discount rate of 10% p.a. (being the market interest rate for similar debentures with no conversion option).

	(₹)
Interest payments p.a. on each debenture	6
Present Value (PV) of interest payment for years 1 to 4 (6 3.17) (Note 1)	19.02
PV of principal repayment (including premium) 110 0.68 (Note 2)	74.80
Total liability component per debenture	93.82
Equity component per debenture (Balancing figure)	6.18
Face value of debentures	100.00
Total equity component for 30,000 debentures	1,85,400
Total debt amount (30,000 x 93.82)	28,14,600

Thus, on the date of initial recognition, the amount of ₹ 30,00,000 being the amount of debentures will be split as under:

Debt	₹ 28,14,600
Equity	₹ 1,85,400

However, on the date of transition, unwinding of ₹ 28,14,600 will be done for two years as follows:

Year	Opening balance	Finance cost @ 10%	Interest paid	Closing balance
1	28,14,600	2,81,460	1,80,000	29,16,060
2	29,16,060	2,91,606	1,80,000	30,27,666

Therefore, on transition date, Sigma Ltd. shall –

a. recognise the carrying amount of convertible debentures at ₹ 30,27,666;

b. recognise equity component of compound financial instrument of ₹ 1,85,400;

c. debit ₹ 93,066 to retained earnings being the difference between the previous GAAP amount of ₹ 31,20,000 and ₹ 30,27,666 and the equity component of compound financial instrument of ₹ 1,85,400; and

d. derecognise the debenture liability in previous GAAP of ₹ 31,20,000.

Notes:

1. 3.17 is present value of annuity factor of ₹ 1 at a discount rate of 10% for 4 years.
2. On maturity, ₹ 110 will be paid (₹ 100 as principal payment + ₹ 10 as premium)

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SM 2. **BUSINESS COMBINATION**

A Ltd. acquired B Ltd. in a business combination transaction. A Ltd. agreed to pay certain contingent consideration (liability classified) to B Ltd. As part of its investment in its separate financial statements, A Ltd. did not recognise the said contingent consideration (since it was not considered probable) A Ltd. considered the previous GAAP carrying amounts of investment as its deemed cost on first-time adoption. In that case, does the carrying amount of investment required to be adjusted for the this transaction?

Ans.

In accordance with Ind AS 101, an entity has an option to treat the previous GAAP carrying values, as at the date of transition, of investments in subsidiaries, associates and joint ventures as its deemed cost on transition to Ind AS. If such an exemption is adopted, then the carrying values of such investments are not adjusted. Accordingly, any adjustments in relation to recognition of contingent consideration on first time adoption shall be made in the statement of profit and loss.

SM 3. **CONSOLIDATION**

Ind AS requires allocation of losses to the non-controlling interest, which may ultimately lead to a debit balance in non-controlling interests, even if there is no contract with the non- controlling interest holders to contribute assets to the Company to fund the losses. Whether this adjustment is required or permitted to be made retrospectively?

Ans.

In case an entity elects not to restate past business combinations, Ind AS 101 requires the measurement of non-controlling interests (NCI) to follow from the measurement of other assets and liabilities on transition to Ind AS. However, Ind AS 101 contains a **mandatory exception** that prohibits retrospective allocation of accumulated profits between the owners of the parent and the NCI. In case an entity elects not to restate past business combinations, the previous GAAP carrying value of NCI is not changed other than for adjustments made (remeasurement of the assets and liabilities subsequent to the business combination) as part of the transition to Ind AS.

As such, the carrying value of NCI in the opening Ind AS balance sheet cannot have a deficit balance on account of recognition of the losses attributable to the minority interest, which was not recognised under the previous GAAP as part of NCI in the absence of contract to contribute assets to fund such a deficit.

However, the NCI could have a deficit balance due to remeasurement of the assets and liabilities subsequent to the business combination as part of the transition to Ind AS

SM 4. **CONTROL**

A Ltd. had made certain investments in B Ltd's convertible debt instruments. The conversion rights are substantive rights and would provide A Ltd. with a controlling stake over B Ltd. A Ltd. has evaluated that B Ltd. would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS consolidated financial statements. B Ltd. was not considered as a subsidiary, associate or a joint venture under previous GAAP. How should B Ltd. be consolidated on transition to Ind AS assuming that A Ltd. has opted to avail the exemption from retrospective restatement of past business combinations?

Ans.

Ind AS 101 prescribes an optional exemption from retrospective restatement in relation to past business combinations. Ind AS 101 prescribes that when the past business combinations are not restated and a parent entity had not consolidated an entity as a subsidiary in accordance with its previous GAAP (either because it was not regarded as a subsidiary or no consolidated financial statements were required under previous GAAP), then the **subsidiary's assets and liabilities would be included in the parent's opening consolidated financial statements at such values as would appear in the subsidiary's separate financial statements if the subsidiary were to adopt the Ind AS as at the parent's date of transition**

The deemed cost of goodwill equals the difference at the date of transition between:

(a) the parent's interest in those adjusted carrying amount; and

(b) the cost in the parent's separate financial statements of its investment in the subsidiary.

SM 5. **CONSOLIDATION**

A Ltd. has a subsidiary B Ltd. On first time adoption of Ind AS by B Ltd., it availed the optional exemption of not restating its past business combinations. However, A Ltd. in its consolidated financial statements has decided to restate all its past business combinations. Whether the amounts recorded by subsidiary need to be adjusted while preparing the consolidated financial statements of A Ltd. considering that A Ltd. does not avail the business combination exemption? Will the answer be different if the A Ltd. adopts Ind AS after the B Ltd?

Ans.

As per Ind AS 101: "A first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind AS). However, if a first-time adopter restates any business combination to comply with Ind AS 103, it shall restate all later business combinations and shall also apply Ind AS 110 from that same date.

If A Ltd. restates past business combinations, it would have to be applied to all business combinations of the group including those by subsidiary B Ltd. for the purpose of Consolidated Financial Statements.

Ind AS 101 states, "However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary." Thus, in case where the parent adopts Ind AS later than the subsidiary then it **does not change the amounts already recognised by the subsidiary.**

AD 6. BUSINESS COMBINATION

Whether the following transactions undertaken by Company A prior to its Ind-AS transition date will be covered within the first-time adoption exemption for business combinations?

- Acquisition of Company B prior to transition date
- Acquisition of Company C, which was fully owned by group companies
- Acquisition of Company D, which does not meet the definition of business combination (i.e. it is an asset acquisition)
- Acquisition of additional stake in a subsidiary Company E, after acquiring controlling interest

Ans.

Ind AS 101 states that a first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to Ind-ASs). It needs to be noted here that the exemption extends to all past transactions that are 'business combinations' under Ind-AS 103. Thus, it follows that the exemption extends to all transactions that meet the definition of business combination as prescribed under Ind AS 103.

Accordingly, the exemption will be available for

- Acquisition of Company B prior to transition date presuming the acquisition met the definition of 'business combination'
- Acquisition of Company C, which was fully owned by group companies

Acquisition of an entity that represents an asset acquisition rather than a business and acquisition of additional stake in a subsidiary company (after acquiring controlling interest) do not meet the definition of business combination. Accordingly, the business combination exemption under Ind-AS 101 does not apply to asset acquisition transactions and acquisition of additional stake.

SM 7. STOCK OPTIONS

X Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 20X1. It has given 200 stock options to its employees. Out of these, 75 options have vested on November 30, 20X0 and the remaining 125 will vest on November 30, 20X1. What are the options available to X Ltd. at the date of transition?

Ans.

Ind AS 101 provides that a first-time **adopter is encouraged, but not required**, to apply Ind AS 102 on 'Share-based Payment' to equity instruments that vested before the date of transition to Ind-AS. However, if a first time adopter elects to apply Ind AS 102 to such equity instruments, **it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.**

Having regard to the above, X Ltd. has the **following options**:

- For 75 options that vested before the date of transition:

  (a) To apply Ind AS 102 and account for the same accordingly, provided it has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in Ind AS 102.

  (b) Not to apply Ind AS 102.

  However, for all grants of equity instruments to which Ind AS 102 has not been applied, i.e., equity instruments vested but not settled before date of transition to Ind AS, X Ltd. would still need to disclose the information.

- For 125 options that will vest after the date of transition: X Ltd. will need to account for the same as per Ind AS 102.

SM 8. **COMPREHENSIVE**

Mathur India Private Limited has to present its first financials under Ind AS for the year ended 31st March, 20X3. The transition date is 1 st April, 20X1.

The following adjustments were made upon transition to Ind AS:

(a) The Company opted to fair value its land as on the date on transition.
The fair value of the land as on 1st April, 20X1 was ₹ 10 crores. The carrying amount as on 1st April, 20X1 under the existing GAAP was ₹ 4.5 crores.

(b) The Company has recognised a provision for proposed dividend of ₹ 60 lacs and related dividend distribution tax of ₹ 18 lacs during the year ended 31 st March, 20X1. It was written back as on opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition.
The increase on account of fair valuation of shares is ₹ 75 lacs.

(d) The Company has an Equity Share Capital of ₹ 80 crores and Redeemable Preference Share Capital of ₹ 25 crores.

(e) The reserves and surplus as on 1 st April, 20X1 before transition to Ind AS was ₹ 95 crores representing ₹ 40 crores of general reserve and ₹ 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on 1 st April, 20X1 after transition to Ind AS? Show reconciliation between total equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1 st April, 20X1.

Ignore deferred tax impact. **[RTP-Nov-2019]**

Ans.

Computation of balance total equity as on 1st April, 20X1 after transition to Ind AS

			₹ in crore
Share capital- Equity share Capital			80
Other Equity			
General Reserve		40	
Capital Reserve		5	
Retained Earnings (95-5-40)	50		
Add: Increase in value of land (10-4.5)	5.5		
Add: De recognition of proposed dividend (0.6 + 0.18)	0.78		
Add: Increase in value of Investment	0.75	57.03	102.03
Balance total equity as on 1st April, 20X1 after transition to Ind AS			182.03

Reconciliation between Total Equity as per AS and Ind AS to be presented in the opening balance sheet as on 1 st April, 20X1

		₹ in crore
Equity share capital		80
Redeemable Preference share capital		25
		105
Reserves and Surplus		95
Total Equity as per AS		200
Adjustment due to reclassification		
Preference share capital classified as financial liability		(25)
Adjustment due to derecognition		
Proposed Dividend not considered as liability as on 1st April 20X1		0.78

Adjustment due to remeasurement		
Increase in the value of Land due to remeasurement at fair value	5.5	
Increase in the value of investment due to remeasurement at fair value	0.75	6.25
Equity as on 1st April, 20X1 after transition to Ind AS		182.03

SM 9. **COMPREHENSIVE**

1. Company A intends to restate its past business combinations with effect from 30 June 2010 (being a date prior to the transition date). If business combinations are restated, whether certain other exemptions, such as the deemed cost exemption for property, plant and equipment (PPE), can be adopted?

2. Y Ltd. is a first time adopter of Ind AS. The date of transition is April 1, 2015. On April 1, 2010, it obtained a 7 year US $ 1,00,000 loan. It has been exercising the option provided in Paragraph 46/46A of AS 11 and has been amortising the exchange differences in respect of this loan over the balance period of such loan. On the date of transition to Ind AS, Y Ltd. wants to discontinue the accounting policy as per the previous GAAP and follow the requirements of Ind AS 21, The Effects of Changes in Foreign Exchange Rates with respect to recognition of foreign exchange differences. Whether the Company is permitted to do so?

3. A company has chosen to elect the deemed cost exemption in accordance with Ind AS 101. However, it does not wish to continue with its existing policy of capitalising exchange fluctuation on long term foreign currency monetary items to fixed assets i.e. it does not want to elect the exemption available as per Ind AS 101. In such a case, how would the company be required to adjust the foreign exchange fluctuation already capitalised to the cost of property, plant and equipment under previous GAAP?

Ans.

1. Ind-AS 101 prescribes that an entity may elect to use one or more of the exemptions of the Standard. As such, an entity may choose to adopt a combination of optional exemptions in relation to the underlying account balances.

   When the past business combinations after a particular date (30 June 2010 in the given case) are restated, it requires retrospective adjustments to the carrying amounts of acquiree's assets and liabilities on account of initial acquisition accounting of the acquiree's net assets, the effects of subsequent measurement of those net assets (including amortisation of non- current assets that were recognised at its fair value), goodwill on consolidation and the consolidation adjustments. Therefore, the goodwill and equity (including non-controlling interest (NCI)) cannot be computed by considering the deemed cost exemption for PPE. However, the entity may adopt **the deemed cost exemption for its property, plant and equipment other than those acquired through business combinations.**

2. Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of 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 the previous GAAP. Ind AS 101 gives an option to continue the existing accounting policy. Hence, Y Ltd. may opt for discontinuation of accounting policy as per previous GAAP and follow the requirements of Ind AS 21. The cumulative amount lying in the FCMITDA should be derecognised by an adjustment against retained earnings on the date of transition.

3. Ind AS 101 permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first time adoption of Ind AS. Accordingly, the carrying value of property, plant and equipment as per previous GAAP as at the date of transition need not be adjusted for the exchange fluctuations capitalized to property, plant and equipment. Separately, it allows a company to continue with

its existing policy for accounting for exchange differences arising from translation of 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 the previous GAAP. Accordingly, given that Ind AS 101 provides these two choices independent of each other, it may **be possible for an entity to choose the deemed cost exemption for all of its property, plant and equipment and not elect the exemption of continuing the previous GAAP policy of capitalising exchange fluctuation to property, plant and equipment. In such a case, in the given case, a harmonious interpretation of the two exemptions would require the company to recognise the property, plant and equipment at the transition date at the previous GAAP carrying value (without any adjustment for the exchanges differences capitalized under previous GAAP) but for the purposes of the first (and all subsequent) Ind AS financial statements, foreign exchange fluctuation on all long term foreign currency borrowings would be recognised in the statement of profit and loss.**

SM 10. COMPREHENSIVE

H Ltd. has the following assets and liabilities as at March 31, 2016, prepared in accordance with AS.

Particulars	Notes	Amount (₹)
Fixed assets	1	1,34,50,000
Investments in S. Ltd.	2	48,00,000
Debtors		2,00,000
Advances for purchase of inventory		50,00,000
Inventory		8,00,000
Cash		49,000
Total assets		**2,42,99,000**
VAT deferral loan	3	60,00,000
Creditors		30,00,000
Short term borrowing		8,00,000
Provisions		12,00,000
Total liabilities		1,10,00,000
Share capital		1,30,00,000
Reserves:		2,99,000
Cumulative translation difference	4	1,00,000
ESOP reserve	5	20,000
Retained earnings		1,79,000
Total equity		1,32,99,000
Total equity and liabilities		**2,42,99,000**

The following GAAP differences were identified by the Company on first-time adoption of Ind AS with effect from April 1, 2016:

1. In relation to tangible fixed assets (property, plant and equipment), the following adjustments were identified:
   - Fixed assets comprise land held for capital appreciation purposes costing ₹ 4,50,000 and was classified as investment property as per Ind AS 40.
   - Exchange differences of ₹ 1,00,000 were capitalised to depreciable fixed assets on which accumulated depreciation of ₹ 40,000 was recognised.
   - There were no asset retirement obligations.

- The management intends to adopt deemed cost exemption for using the previous GAAP carrying values as deemed cost as at the date of transition for PPE and investment property.

2. The Company had made an investment in S Ltd. (subsidiary of H Ltd.) for ₹ 48,00,000 that carried a fair value of ₹ 68,00,000 as at the transition date. The Company intends to recognise the investment at its fair value as at the date of transition.

3. Financial instruments:

- **VAT deferral loan ₹ 60,00,000 :**

  The VAT deferral loan of ₹ 60,00,000 was obtained on March 31, 2016, for setting up a business in a backward region with a condition to create certain defined targets for employment of local population of that region. The loan does not carry any interest and is repayable in full at the end of 5 years. In accordance with Ind AS 109, the discount factor on the loan is to be taken as 10%, being the incremental borrowing rate. Accordingly, the fair value of the loan as at March 31, 2016, is ₹ 37,25,528. The entity chooses to exercise the option given in paragraph B11 of Ind AS 101, i.e., the entity chooses to apply the requirements of Ind AS 109, Financial Instruments and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, retrospectively as required information had been obtained at the time of initially accounting for VAT deferral loan

4. The retained earnings of the Company contained the following:

- **ESOP reserve of ₹ 20,000:**

  The Company had granted 1,000 options to employees out of which 800 have already vested. The Company followed an intrinsic value method for recognition of ESOP charge and recognised ₹ 12,000 towards the vested options and ₹ 8,000 over a period of time as ESOP charge and a corresponding reserve. If fair value method had been followed in accordance with Ind AS 102, the corresponding charge would have been ₹ 15,000 and ₹ 9,000 for the vested and unvested shares respectively. The Company intends to avail the Ind AS 101 exemption for share-based payments for not restating the ESOP charge as per previous GAAP for vested options.

- **Cumulative translation difference :**

  ₹ 1,00,000 The Company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 1,00,000 as part of reserves. On first-time adoption of Ind AS, the Company intends to avail Ind AS 101 exemption of resetting the cumulative translation difference to zero.

Ans.

Adjustments for opening balance sheet as per Ind AS 101

1. **Fixed assets:** As the land held for capital appreciation purposes qualifies as investment property, such investment property should be reclassified from property, plant and equipment (PPE) to investment property and presented separately; As the Company has adopted the previous GAAP carrying values as deemed cost, all items of PPE and investment property should be carried at its previous GAAP carrying values.

   As such, the past capitalised exchange differences require no adjustment in this case.

2. **Investment in subsidiary**: On first time adoption of Ind AS, a parent company has an option to carry its investment in subsidiary at fair value as at the date of transition in its separate financial statements. As such, the Company can recognise such investment at a value of ₹ 68,00,000.

3. **Financial instruments:** As the VAT deferral loan is a financial liability under Ind AS 109, that liability should be recognised at its present value discounted at an appropriate discounting

factor. Consequently, the VAT deferral loan should be recognised at ₹ 37,25,528 and the remaining ₹ 22,74,472 would be recognised as deferred government grant.

4. **ESOPs:** Ind AS 101 provides an exemption of not restating the accounting as per the previous GAAP in accordance with Ind AS 102 for all options that have vested by the transition date. Accordingly, out of 1000 ESOPs granted, the first-time adoption exemption is available on 800 options that have already vested. As such, its accounting need not be restated. However, the 200 options that are not vested as at the transition date, need to be restated in accordance with Ind AS 102. As such, the additional impact of ₹ 1,000 (i.e., 9,000 less 8,000) would be recognised in the opening Ind AS balance sheet.

5. **Cumulative translation difference** : As per paragraph D 12 of Ind AS 101, the first-time adopter can avail an exemption regarding requirements of Ind AS 21 in context of cumulative translation differences. If a first-time adopter uses this exemption the cumulative translation differences for all foreign operation are deemed to be zero as at the transition date. In that case, the balance is transferred to retained earnings. As such, the balance of ₹ 1,00,000 should be transferred to retained earnings

6. **Retained earnings should be increased by ₹ 20,99,000 on account of the following:**

	₹
Increase in fair value of investment in subsidiary (note 2)	20,00,000
Additional ESOP charge on unvested options (note 4)	(1,000)
Transfer of cumulative translation difference balance to retained earnings (note 5)	1,00,000

After the above adjustments, the carrying values of assets and liabilities for the purpose of opening Ind AS balance sheet of Company H should be as under:

Particular	Notes	Previous	Adjustments	Ind AS GAAP
Non-Current Assets				
Fixed assets	1	1,34,50,000	(4,50,000)	1,30,00,000
Investment property	1	0	4,50,000	4,50,000
Investment in S Ltd.	2	48,00,000	20,00,000	68,00,000
Advances for purchase of inventory		50,00,000		50,00,000
Current Assets				
Debtors		2,00,000		2,00,000
Inventory		8,00,000		8,00,000
Cash		49,000		49,000
Total assets		2,42,99,000	20,00,000	2,62,99,000
Non-current Liabilities				
Sales tax deferral loan	3	60,00,000	(22,74,472)	37,25,528
Deferred government grant	3	0	22,74,472	22,74,472
Current Liabilities				
Creditors		30,00,000		30,00,000
Short term borrowing		8,00,000		8,00,000
Provisions		12,00,000		12,00,000
Total liabilities		1,10,00,000		1,10,00,000
Share capital		1,30,00,000		1,30,00,000
Reserves:				
Cumulative translation difference	5	1,00,000	(1,00,000)	0

ESOP reserve	4	20,000	1,000	21,000
Other reserves	6	1,79,000	20,99,000	22,78,000
Total equity		1,32,99,000	20,00,000	1,52,99,000
Total equity and liabilities		**2,42,99,000**	**20,00,000**	**2,62,99,000**

SM 11. **COMPREHENSIVE**

Shaurya Limited is the company having its registered and corporate office at New Delhi. 60% of Shaurya Limited's shares are held by the Government of India and rest by other investors.

This is the first time that Shaurya limited would be applying Ind AS fo r the preparation of its financials for the current financial year 2019 -2020. Following balance sheet is prepared as per earlier GAAP as at the beginning of the preceding period along with the additional information:

Balance Sheet as at 31 March 2018

(All figures are in '000, unless otherwise specified)

Particulars	Amount
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	10,00,000
(b) Reserves & Surplus	25,00,000
(2) Non-Current Liabilities	
(a) Long Term Borrowings	4,50,000
(b) Long Term Provisions	3,50,000
(c) Deferred tax liabilities	3,50,000
(3) Current Liabilities	
(a) Trade Payables	22,00,000
(b) Other Current Liabilities	4,50,000
(c) Short Term Provisions	12,00,000
TOTAL	**85,00,000**
ASSETS	
(1) Non-Current Assets	
(a) Property, Plant & Equipment (net)	20,00,000
(b) Intangible assets	2,00,000
(c) Goodwill	1,00,000
(d) Non-current Investments	5,00,000
(e) Long Term Loans and Advances	1,50,000
(f) Other Non-Current Assets	2,00,000
(2) Current Assets	
(a) Current Investments	18,00,000
(b) Inventories	12,50,000
(c) Trade Receivables	9,00,000
(d) Cash and Bank Balances	10,00,000
(e) Other Current Assets	4,00,000
TOTAL	**85,00,000**

Additional Information (All figures are in '000) :

1. Other current liabilities include ₹ 3,90,000 liabilities to be paid in cash such as expense payable, salary payable etc. and ₹ 60,000 are statutory government dues.
2. Long term loans and advances include ₹ 40,000 loan and the remaining amount consists Advance to staff of ₹ 1,10,000.

3. Other non-current assets of ₹ 2,00,000 consists Capital advances to suppliers.
4. Other current assets include ₹ 3,50,000 current assets receivable in cash and Prepaid expenses of ₹ 50,000.
5. Short term provisions include Dividend pay able of ₹ 2,00,000. The dividend payable had been as a result of board meeting wherein the declaration of dividend for financial year 2017-2018 was made. However, it is subject to approval of shareholders in the annual general meeting.

Chief financial officer of Shaurya Limited has also presented the following information against corresponding relevant items in the balance sheet:

a) Property, Plant & Equipment consists a class of assets as office buildings whose carrying amount is ₹ 10,00,000. However, the fair value of said office building as on the date of transition is estimated to be ₹ 15,00,000. Company wants to follow revaluation model as its accounting policy in respect of its property, plant and equipment for the first annual Ind AS financial statem ents.

b) The fair value of Intangible assets as on the date of transition is estimated to be ₹ 2,50,000. However, the management is reluctant to incorporate the fair value changes in books of account.

c) Shaurya Ltd. had acquired 80% shares in a company, Excel private limited few years ago thereby acquiring the control upon it at that time. Shaurya Ltd. recognised goodwill as per erstwhile accounting standards by accounting the excess of consideration paid over the net assets acquired at the date of acquisition. Fair value exercise was not done at the time of acquisition.

d) Trade receivables include an amount of ₹ 20,000 as provision for doubtful debts measured in accordance with previous GAAP. Now as per latest estimates using hindsights, the provision needs to be revised to ₹ 25,000.

e) Company had given a loan of ₹ 1,00,000 to an entity for the term of 10 years six years ago. Transaction costs were incurred separately for this loan. The loan carries an interest rate of 7%. The principal amount is to be repaid in equal installments over the period of ten years at the year end. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 50,000 as against the carrying amount of loan which at present amounts to ₹ 40,000. However, Ind AS 109 mandates to recognise the interest income as per effective interest method after the adjustment of transaction costs. Management says it is tedious task in the given case to apply the effective interest rate changes with retrospective effect and hence is reluctant to apply the same retrospectively in its first time adoption.

f) In the long-term borrowings, ₹ 4,50,000 of component is due towards the State Government. Interest is payable on the government loan at 4%, however the prevailing rate in the market at present is 8%. The fair market value of loan stands at ₹ 4,20,000 as on the relevant date.

g) Under Previous GAAP, the mutual funds were measured at cost or market value, whichever is lower. Under Ind AS, the Company has designated these investments at fair value through profit or loss. The value of mutual funds as per previous GAAP is ₹ 2,00,000 as included in 'current investment'. However, the fair value of mutual funds as on the date of transition is ₹ 2,30,000.

h) Ignore separate calculation of deferred tax on above adjustments. Assume the net deferred tax income to be ₹ 50,000 on account of Ind AS transition adjustments.

Requirements:

- Prepare transition date balance sheet of Shaurya Limited as per Indian Accounting Standards
- Show necessary explanation for each of the items presented by chief financial officer in the form of notes, which may or may not require the adjustment as on the date of transition.

[MTP-Nov-2020]

Ans.

Transition date (opening) IND -AS BALANCE SHEET of SHAURYA LIMITED As at 1 April 2018

(All figures are in "000, unless otherwise specified)

Particulars	Previous GAAP	Transitional Ind AS adjustments	Opening Ind AS Balance Sheet
ASSETS			
Non-current assets			
Property, plant and equipment (Note 1)	20,00,000	5,00,000	25,00,000
Goodwill (Note 2)	1,00,000	-	1,00,000
Other Intangible assets (Note 3)	2,00,000	-	2,00,000
Financial assets:			
Investment	5,00,000	-	5,00,000
Loans (Note 4)	40,000	10,000	50,000
Other financial assets	1,10,000	-	1,10,000
Other non-current assets	2,00,000	-	2,00,000
Current assets			
Inventories	12,50,000	-	12,50,000
Financial assets			
Investment (Note 5)	18,00,000	30,000	18,30,000
Trade receivables (Note 6)	9,00,000	-	9,00,000
Cash and cash equivalents/Bank	10,00,000	-	10,00,000
Other financial assets	3,50,000	-	3,50,000
Other current assets	50,000	-	50,000
TOTAL ASSETS	**85,00,000**	**5,40,000**	**90,40,000**
EQUITY AND LIABILITIES			
Equity			
Equity share capital	10,00,000	-	10,00,000
Other equity	25,00,000	7,90,000	32,90,000
Non-current liabilities			
Financial liabilities			
Borrowings (Note-7)	4,50,000	-	4,50,000
Provisions	3,50,000	-	3,50,000
Deferred tax liabilities (Net)	3,50,000	(50,000)	3,00,000
Current liabilities			
Financial liabilities			
Trade payables	22,00,000	-	22,00,000
Other financial liabilities	3,90,000	-	3,90,000
Other current liabilities	60,000	-	60,000
Provisions (Note-8)	12,00,000	(2,00,000)	10,00,000
TOTAL EQUITY AND LIABILITIES	**85,00,000**	**5,40,000**	**90,40,000**

OTHER EQUITY

	Retained Earnings (₹)	Fair value reserve	Total
As at 31 March, 2018	27,90,000 (W.N.1)	5,00,000	32,90,000

Working Note 1:

Retained earnings balance:

Balance as per Earlier GAAP Transitional adjustment due to loans fair value Transitional adjustment due to increase in mutual funds fair value Transitional adjustment due to decrease in deferred tax liability Transitional adjustment due to decrease in provisions (dividend)	25,00,000 10,000 30,000 50,000 2,00,000
Total	**27,90,000**

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and should not recognized as liability as at the Balance Sheet date.

Note 1: Property, plant & Equipment:

As per para D5 of Ind AS 101, an entity may elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date.

Para D7AA has to be applied for all items of property, plant and equipment. So, if D5 exemp tion is taken for buildings, Ind AS will have to be applied retrospectively for other assets as well. Since, an entity elect to measure an item of property, plant and equipment at the date of transition to Ind AS at its fair value and use that fair value as its deemed cost at that date , it is assumed that the carrying amount of other assets based on retrospective application of Ind AS is equal to their fair value of ₹ 10 lakhs.

Note 2: Goodwill:

Ind AS 103 mandatorily requires measuring the assets and liabilities of the acquiree at its fair value as on the date of acquisition. However, a first time adopter may elect to not apply the provisions of Ind AS 103 with retrospective effect that occurred prior to the date of transition to Ind AS.

Hence company can continue to carry the goodwill in its books of account as per the previous GAAP.

Note 3: Intangible assets:

Para D7 read with D6 of Ind AS 101 states that a first -time adopter may elect to use a previous GAAP revaluation at, or before, th e date of transition to Ind AS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost in accordance with Ind AS, adjusted to reflect, f or example, changes in a general or specific price index.

However, there is a requirement that Intangible assets must meet the definition and recognition criteria as per Ind AS 38.

Hence, company can avail the exemption given in Ind AS 101 as on the date of transition to use the carrying value as per previous GAAP.

Note 4: Loan:

Para B8C of Ind AS 101 states 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 ASs 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.

Accordingly, ₹ 50,000 would be the gross carrying amount of loan and difference of ₹ 10,000 (₹ 50,000 – ₹ 40,000) would be adjusted to retained earnings.