



**CHIRANJEEV JAIN**  
**CLASSES**

**SUMMARY BOOK FOR REVISION**

**CA FINAL**

**FINANCIAL REPORTING**

**Applicable for**

**NEW SYLLABUS**

## ABOUT THE AUTHOR



CA Chiranjeev Jain has qualified Chartered Accountancy Course in 2005 and has completed all the levels of this course in his very first attempt. He is among the top rank holders Delhi University having done his graduation from Sri Ram College of Commerce. He scored more than 90% in accounts at all levels of CA and university examinations. He has done Diploma in Information System Audit conducted by the ICAI. He has also done Masters in Business Administration (MBA) with specialization in Finance.

After completing Academic & Professional Education, he has worked with Deloitte Haskin & Sells as a chartered accountant and developed immense skills in the practical application of various accounting standards. Finally he exposed himself to the practice as chartered accountant and adapted to teaching accounts (the subject he loves the most) as his career.

He possesses a vast experience in teaching accountancy to students of CA CPT, IPCC & Final. He is also into Corporate Training in the industry and has addressed a number of courses and seminars organized by Professional Institutions. He has served as an examiner of accounts at CA IPCC and Final level. He is an expert in both Indian Accounting Standards and IFRS.

He has conducted face to face classes at Hyderabad, Bangalore, Kolkata and Ahmadabad apart from VSAT classes in the Southern region with ETEN CA. His easy way of teaching Accountancy from the very basic and his motivational lectures are very famous among CA students' fraternity.

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- 100% IND AS will be covered as PER NEW SYLLABUS
- SPECIAL BOOKLET COVERING Summary of ALL IND AS will be issued FOR LAST TIME REVISION

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Thanks  
Chiranjeev Jain TEAM

## FEEDBACK ABOUT SIR'S CLASSES

<p><b>Shalaka Tiwari - Shastri, Hyderabad</b>          I have taken the classes for CA Final FR from Chiranjeev Jain sir and I believe he is an great teacher and a amazing mentor. His methodology of teaching is unique, while in class there's no concept untaught. He teaches whole heartedly and makes sure that you get your basics right.          I have no other words to express this better.          I will say, just join him and u will see the results !!          CJ sir ROCKS !!!!!</p>	<p><b>Amit Jain, Kolkata</b>          Hi Students, I am CA Amit Kumar Jain, practicing in Gurgaon. I am one of the old students of CA Chiranjeev Sir, and belong to his first CA final batch in kolkata. Today, on Teacher's Day, I would love to convey my gratitude to him for his wonderful coaching classes. The learnings shared by him both related to course and related to practical life after CA, has been very useful in my journey. He is one of the best CA Final teacher in India and I recommend all students to join him.</p>
<p><b>Navneet Singh, Hyderabad</b>          When I started my journey to become a Chartered accountant, the only fear I had was will I be able to have that conceptual knowledge which is needed the most in a profession like ours.!!          Now after completing my CA I can tell you that starting from Accounts in CPT then with Accounts in IPCC and to end with Financial reporting in CA Final, the conceptual understanding of the subject which I gained from you helped me become what I am now.. Thank you Sir once again to be available whenever asked for and help me achieve my dream of becoming a CA.</p>	<p><b>Obaid Khan, Hyderabad</b>          To begin with a quote "It takes a big heart to help shape little minds."          Thank You Sir, for being an Amazing faculty throughout CA journey. Now that I completed my journey, I feel immensely honoured for being your student and learning the concepts precisely in a manner that helps in application too.          Words might fall short to express the gratitude, for you have been an Amazing teacher, mentor and a friend.          Just a small appreciation post from a student, moreover from a Fan of your ideas and teaching.</p>
<p><b>Isan Singh, Kolkata</b>          i have taken FR classes from CA Chiranjeev Jain Sir....He is best in this subject.... It's because of Sir I get to know so much about accounts especially IND AS,          I have also taken accounts from him in CA IPCC and I scored very good marks in IPCC even though I was average in accounts subject. He teach from base which makes easy for average students to score high in exams. He gives through conceptual knowledge do that students will able to write worst paper in exams with ease.          Thanks sir for ur valuable teaching.</p>	<p><b>Arihant Kothari, Hyderabad</b>          Thanks to the man with great caps,a perfect guide who has really helped us at every point and gave his helpful hands without any complaints .. You be the best sir 😊😊😊          It is to thankyou for those priceless teachings 😊 I m really thankful for all you good words that kept me motivated and focussed towards my goal . I feel lucky to get a place under your umbrella .. Whatever be the results your imprints will always be there sir .Thanks a lot sir 😊</p>
<p><b>Ashutosh Lahoti, Hyderabad</b>          Thank you sir for providing us the best lectures with an ease. It was an amazing time spending with you. I'm very lucky to learn the subject of Accountancy that too of IPCC level under your guidance. You made this subject very easy with your experience and teaching quality. Actually your friendly nature towards the students made it more easier to understand the subject. Even your scoldings were like roses without thornes.          Thank you so much sir for helping us get through our targets. Will be missing those class fun but hope to see you soon in CA final classes.          😊Proud to be CHIRANJEEVIAN 😊</p>	<p><b>Niharika Phalod, Hyderabad</b>          "A good teacher can inspire hope, ignite the imagination and instill a love of learning"          I would truly like to appreciate the great effort you have put into tutoring and enlightening my way. Because of your guidance and patience, I've come this far in my CA journey. Thankyou for always being there in all my confusions and helping me deal with all the stress during ipcc days!          Accounts couldn't be more easier and all the credit goes to your easy techniques.          Thankyou for being my mentor. I'm truly blessed to be your student! Wish you a very happy teachers day Sir. 😊</p>
<p><b>Nikita Simran, Hyderabad</b>          I'm so grateful to be your student. Thank you for instilling in me the passion for learning. You've put in selfless efforts in shaping our career! We're truly blessed to have a mentor like you 😊 Lastly I would like to say-Now I see the world in a different light          I can discriminate between wrong and right, I perceive things in a different style, I have learnt to go the extra mile, I have a deeper understanding of things Dear teacher you have truly given me wings 🦋          Thank you for everything sir 🙏</p>	<p><b>Shalaka Tiwari - Shastri, Hyderabad</b>          I have taken the classes for CA Final FR from Chiranjeev Jain sir and I believe he is an great teacher and a amazing mentor.          His methodology of teaching is unique, while in class there's no concept untaught. He teaches whole heartedly and makes sure that you get your basics right.          I have no other words to express this better.          I will say,just join him and u will see the results !!          CJ sir ROCKS !!!!!</p>

**Chinna Poojari , Bangalore**  
 Sir,. It's very glad to have these words to you..u r d person who stands with me not only as my guru but as a family member during my tough times.. The way you teach us makes ourself to Mold towards subject conceptually...Coz of u only I have got AIR's in IPCC and CMA.... Being ur student makes me proud...gives me confidence that I can achieve all thru success.....finally thank you is not enough for ur services...Just will show thanks in the form of results in our exams....  
 Not only the subject your personality as a Chartered Accountant tis the Perfect Example for all Budding CA's. One word about my guru ."CA Chiranjeevi sir is the BAADSHAH OF IND AS " in india.

**Venkata Sumanth, Vijaywada**  
 Teachers usually make us study... Chiranjeev Jain sir made us enjoy the subject...We stepped out of the class with tonnes of confidence and belief .....  
 Thank you very much sir....  
 We never found in your class, a teacher- student relationship...We always felt that we are being taught by a best friend and well-wisher...  
 We will be grateful forever sir....  
 With tonnes of love...  
 One word about Chiranjeevi Jain sir ....  
 You taught us from your Heart...not from book...

**Afsar Shaik, Hyderabad**  
 Sir...trust me...before starting of this batch....I wondered how ur gonna complete this in 70 days...wr as other faculies r taking for 3 or 4 mnths....but finally I got my answer....u gave us the main thing what we want actually i.e, conceptual clarity....thank u soo much sir

**Chaitanya, Hyderabad**  
 Your way of teaching is something different that we will be in a thought that you are teaching slow but we'll get to know your fast once we missed your class and seeing the notes the next day. Really loved the class very much sir. Thankuuuuu so much sir.

**Ashish Soni, Hyderabad**  
 Sir you can inspire hope, ignite the imagination, and instill a love of learning..motivating...Thank You Sir ## CJ Sir the Best#

The real life stories you teaches in class are inspired. Sir, we will go through many teachers in life sir. But only few we can remember lifelong. You're one among them and one you got the position with 70 days time while with everyone I spent not less than 2 years. Once again Thank you sir.

**Ankitha Baldwa, Hyderabad**  
 Thank you so much sir u be the best lecturer of my life 🥰  
 Apka padane ka style baat karne ka style Apki shyaris Kya baat sir, missing all my memorable moments of ur class 😊

Sir, I may not score 90+ in exam, But I'm sure I'll give my 200% for getting 90+. Because we have only two options. Either 90+ or 90+.

**Sakshi Sharma, Hyderabad**  
 I have been taught by so many teachers but amongst them all you made the greatest impact by not only teaching by guiding us too. The loving ways of teachers like you is difference between teaching and educating thanks for teaching us, educating us, and empowering us thanks a lot sir

**Soujanya V M, Bangalore**  
 I have attended his classes and he is very knowledgeable..He teaches the complex things in a very simple manner...He is a good guide for a student ...Because of him I got exemption in IPCC accounts...Students who are interested in conceptual learning can join his classes without any second thought...!

**Khushi Srivastava, Hyderabad**  
 I pursued 61 in accounting just because of Chiranjeev Jain Sir. His notes are not less than a face to face teaching...he covers each and every minute stuff...lucky to be his student.

The chart prepared by him is simple and easily understandable...Very much useful for the students for last minute revision...  
 Thank you sir for all the teaching and guidance...!!

**Rakhi Jha, Hyderabad**  
 #SIR Ji # THANK YOU, I joined Yeshas just because you were teaching us ACCOUNTS #Your the most coolest & friendly faculty #You always motivated us #You always guided us on right path #Yet I can't believe that today was our last IPCC class # I personally never ever saw a great faculty like YOU # We all gonna miss you so much 😞 #You always helped us SIR Ji # You were just like our friend's #A BIG BIG THANK YOU SIR Ji # See you soon in CA-FINAL #WILL MISS YOU SIR Ji #LOVE YOU TONS & TONS ❤️

**Shams Afaq, Hyderabad**  
 I have done my schooling from science stream,so at the start of CPT only I was nervous, if I will be able to do accounts. But my whole nervousness was transformed into interest of learning by Chiranjeev Sir. He created a strong foundation for me with conceptual clarity. It was his easy going approach even when the concepts were challenging, I scored 44/60 in CPT and then 76/100 in IPCC. I will always be grateful to you. You are phenomenal. Keep up the good work!

**Nithin Mundada, Hyderabad**  
 The way you teach.. The knowledge you share.. The care you take..The love you shower..Makes you.. The world's best sir....It's my pleasure to have such a nice sir with charming smile..and I have never seen such a sir like.....

**Naveen Pspk , Hyderabad**  
 Scored 75 in Accounts..its just because of Mr.CA chiranjeevjain sir...initially I was bothered about DAT subject as I was from science background... But then I met with sir classes it changed whole scenario ....&d result is dis....tq sir tq so much....

**Jaya Chandra, Visakhapatnam**  
 Sir's notes is very helpful during revision and he teaches from basics on which we generally don't pay much attention. The way he links each topic is good and he has much clarity in how to teach complex topics.

*This book is due to blessings of and Dedicated to  
My Father Sri Mool Chand Jain  
and  
My Mother Smt. Sarala Devi Jain*

*Every effort has been made to avoid errors or omissions in this publication. In spite of this, errors may creep in. Any mistake, error or discrepancy noted may be brought to our notice which shall be taken care of in the next edition. It is notified that none of the parties (including the authors) will be responsible for any damage or loss of action to any one, of any kind, in any manner, therefrom. It is suggested that to avoid any doubt the reader should cross-check all the IND AS, facts, and contents of the publication with ICAI publication or notifications.*

*If you find any error including typo error, please do forward at [hello@cachiranjeevjain.com](mailto:hello@cachiranjeevjain.com)*

*Thanks in advance for helping us!*



# INDEX WITH ABC ANALYSIS

ABC Analysis	Name of Chapter	No. of Hrs to Revise		Page No
		1st revision (Required)	1st Revision (Actual)	
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C	IND AS 2	2		20
B	IND AS 16	5		27
B	IND AS 38	3		43
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**Note: For scoring 90+ marks at least two-time revision is required before last revision immediately before exam.**

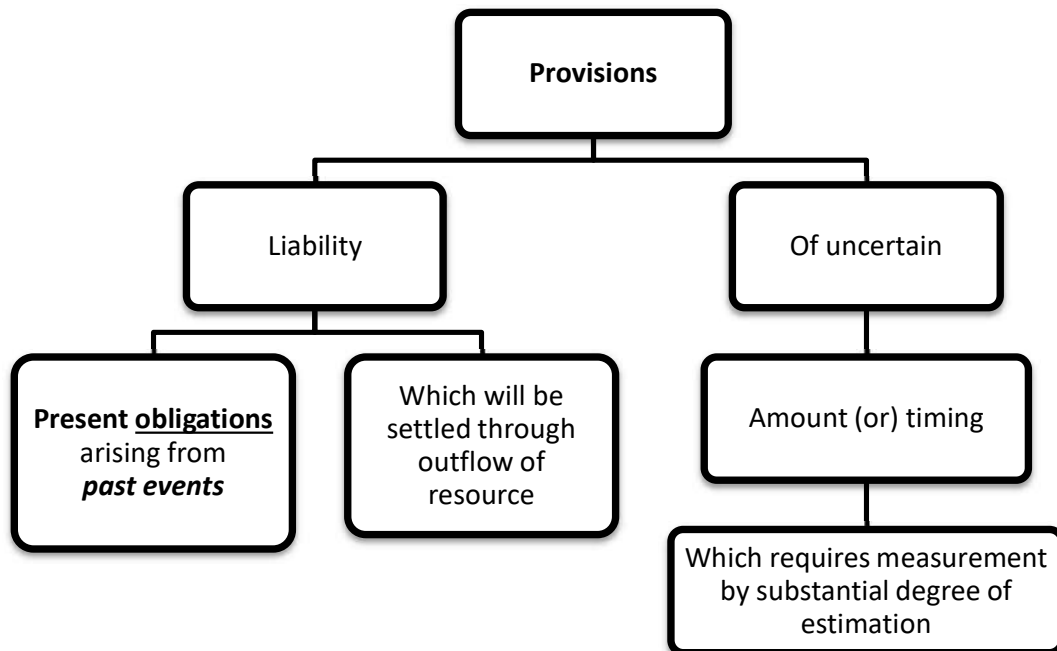
## IND AS-37

### PROVISION, CONTINGENT LIABILITY & CONTINGENT

#### I) Provisions

##### (a) Meaning

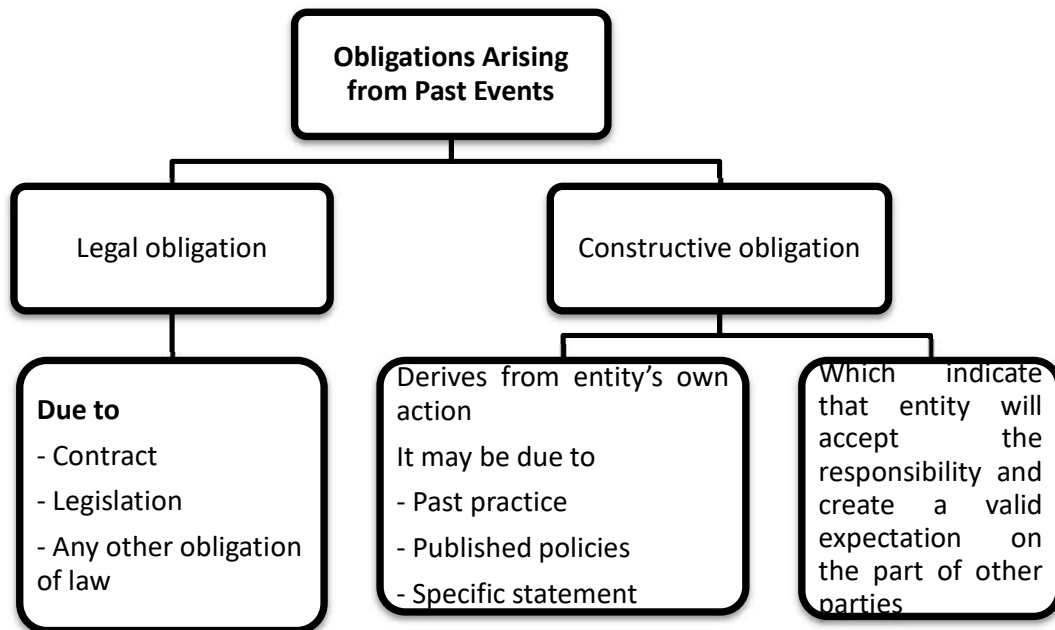
*Provisions are liability of uncertain timing or amount.*



(b) *A past event is deemed to give rise to a present obligation if it is probable i.e. more likely than not.*

*If chances of occurrence are more than chance of non-occurrence, it is probable.*

(c) *Those which give rise to obligation on balance sheet are obligating event.*



- (d) **Recognition of provision:** If **ALL THE** conditions are satisfied
- 1) There must be **present obligation** Arising from past event
  - 2) **Outflow of resource** which is required to settle the obligation is probable
  - 3) A reliable estimation can be made for the **amount or timing** of obligation
- (e) Only those obligations **which exist independently** from entity's future conduct of business should be recognized  
(In other words, obligations which are dependent on future conduct of business should not be recognized as provision because outflow of resource is not probable) - Disclose it as contingent liability
- (f) **All obligations involve other party.** It is not essential to know the identity of the other party for recognition of provision.

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(g) *Legal obligation arises only when legislations are enacted or it is "virtually certain" that it will be enacted.*

**II) Contingent liability**

1. *Meaning: Contingent Liability are*

(a) *Present obligation from past event which cannot be recognized because either*

▪ *Outflow of resource to settle the obligation is not probable*

*(or)*

▪ *Reliable estimation cannot be made*

*(or)*

(b) *Possible obligation arising from past event*

2. *Recognition*

*Not recognized but requires disclosure in financial statements unless outflow of resource is 'REMOTE'*

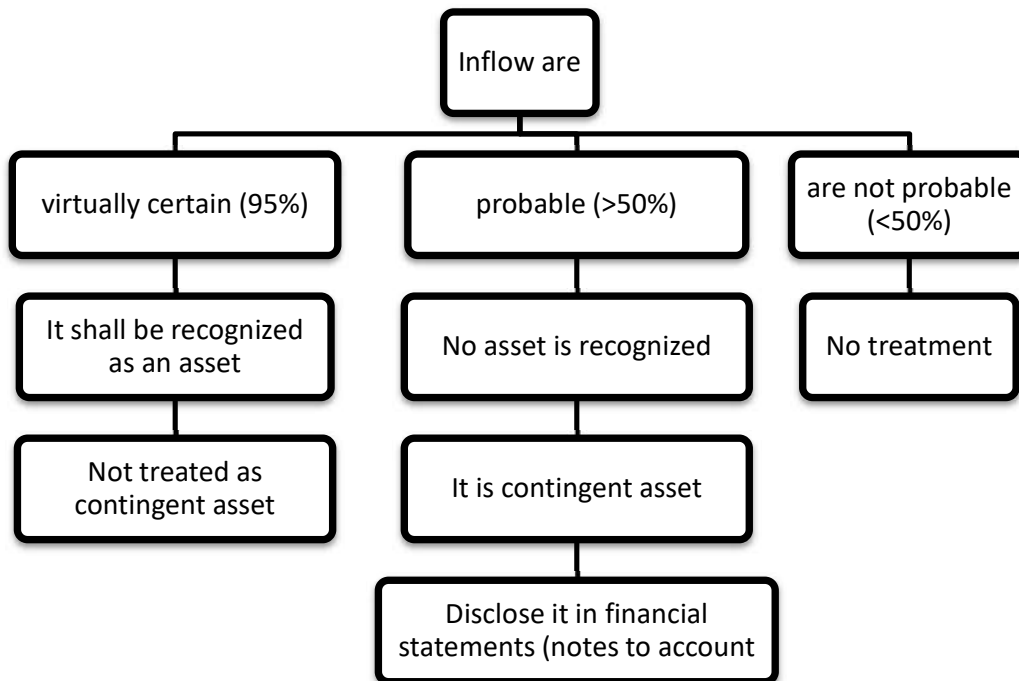
3. *Following disclosures are required*

(a) *Nature of event*

(b) *Effect on financial statement (if effect is not determinable, fact must be disclosed)*

**III) Contingent asset**

*Are possible assets (inflow) arising from past events*



### Summary

<i>Particulars</i>	<i>Outflow</i>	<i>Inflow</i>
<b>100%</b>	<i>Liability</i>	<i>Asset</i>
<b>&gt; 95% &lt; 100%</b>	<i>Provision</i>	<i>Asset</i>
<b>&gt; 50% &lt; 95%</b>	<i>Provision</i>	<i>CA</i>
<b>&lt; 50% &gt; 5%</b>	<i>Contingent Liability</i>	<i>No treatment</i>
<b>&lt; 5%</b>	<i>No treatment</i>	<i>No treatment</i>

#### **IV) Measurement of provision and contingent liability**

- (a) *Best estimate of expenditure required to settle the obligation at the end of reporting date.*
- (b) *Estimations are determined by managements judgement. It needs to be supported by*
  - *Experience of past transactions or*
  - *Report of an expert or*

## BEST FR CLASSES

- Any additional evidence provided by event occurring after reporting date (as per Ind AS-10)

(c) *How to measure?*

- *When obligation involve large population*  
Determine expected value of obligation i.e. weighted average of all possible outcomes
- *When there is single obligation*  
Provision is created based on most likely outcome

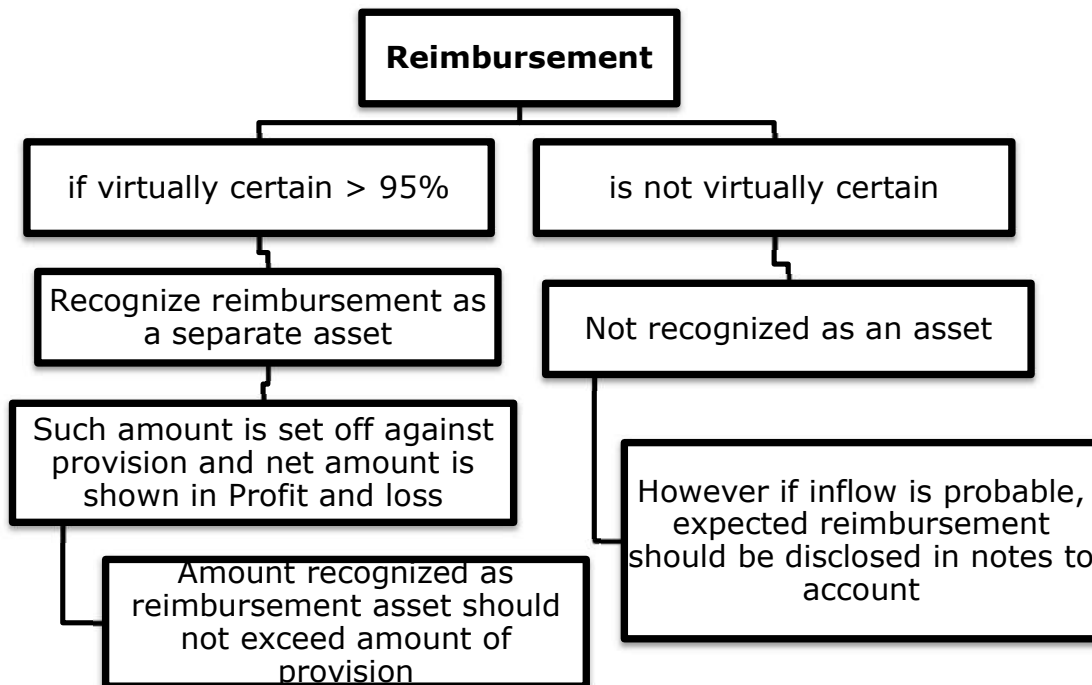
(d) *Note*

- 1) *Provision should be measured "before tax"*
- 2) *Amount o provision / Contingent Liability shall be PV of expenditure if the effect of Time Value Money (TVM) is material*
- 3) *Discount rate should be "pre-tax"*
- 4) *Gain from expected sale of asset shall not be taken into account for measurement of provision*

(e) *Risks and uncertainties:*

- 1) *The risks and uncertainties that surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.*
- 2) *A risk adjustment should be made for the amount that the entity would pay in excess of the expected present value of outflows due to uncertainty attached with the actual outcome.*
- 3) *Risk adjustment can be accounted for in number of ways such as:*
  - *Adding it to the expected present value of future outflows.*
  - *Adjusting the estimates of future outflows.*
  - *Adjusting the discount rate.*

- V) **Reimbursement:** *When expenditure required to be settled is expected to be reimbursed by a third party.*



- VI) **Future operating loss**

*Neither provision nor contingent liability as it is related to future event.*

- VII) **Executory contract:** *Ind AS-37, not applicable except it is applicable for “onerous contract”*

**Onerous Contract:**

*Executory contract in which unavoidable cost of meeting the obligation exceed the economic benefits expected to be received from such contract*

*In this case, amount of provision = unavoidable cost*

*= Lower of*

- ✍ Cost of fulfilling the obligation (or)*
- ✍ Penalty payable to exist from the contract.*

## Summary

Case	Obligation	Outflow of resource	Estimation	Remarks
I	Present	Probable	Can be made	Provision
II	Present	Not Probable	Made (or) not made	CL
III	Present	Remote	Made (or) not made	No treatment
IV	Possible	(Probable)	Made (or) not made	CL
V	Possible	Not Probable	Made (or) not made	CL
VI	Possible	Remote	Made (or) not made	No treatment
VII	Remote	N/A	N/A	No treatment

### VIII) Changes in provision

- 1) Provision must be reviewed at each reporting date and adjusted to reflect best current estimate.
- 2) If provision is no longer required as it is not probable, Amount of provision must be reversed.

### IX) Unwinding of Provisional amount:

When discounting is used, carrying amount of provision increases every year. That increased amount is treated as "borrowing cost".

### X) Use of Provision:

A provision should be used only for the expenditure for which it was originally recognized.

In other words, it cannot be used for any other purpose.



**XI) Accounting Treatment:**

	<i>If Related to Expense</i>	<i>If Related to acquisition or construction of assets</i>
<i>1) For recognition of Provisions</i>	<i>P/L Accounts Dr. To Provisions</i>	<i>Assets Dr. To Provisions</i>
<i>2) For Reversal of Provisions</i>	<i>Provisions A/c Dr. To P/L</i>	<i>Provisions A/c Dr. To Assets</i>

**XII) Restructuring**

(a) *It is a programme which materially changes the scope of business*

(b) *For example*

- 1) Sale of division (component)*
- 2) Termination of a division*
- 3) Closing of a business location (or) relocating*

(c) *A provision for restructuring costs is required when recognition criteria of provisions are satisfied*

(d) *A constructive obligation for restructuring arises when*

- 1) Entity has detailed formal plan of restructuring and*
- 2) Entity has started to implement such plan or announced the main features of restructuring plan to those affected by it.*

(e) **Measurement of Provisions:** *A restructuring provision should include only the direct expenditures arising from the restructuring which are those that are both:*

- (a) necessarily entailed by the restructuring; and*
- (b) not associated with the ongoing activities of the enterprise.*

*A restructuring provision does not include such costs as:*

- (a) retraining or relocating continuing staff;*
- (b) marketing; or*
- (c) investment in new systems and distribution networks.*

*These expenditures relate to the future conduct of the business.*

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(f) Future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract.

**XIII) Scope: Ind AS-37: Not applicable**

- (a) Executory contracts unless onerous
- (b) Financial Instrument (Ind AS-32 / 109)
- (c) Income Tax (Ind AS-12)
- (d) Employee benefits (Ind AS-19)
- (e) Insurance Contract (Ind AS-104)
- (f) Contingent consideration arising in business combination (Ind AS-103).

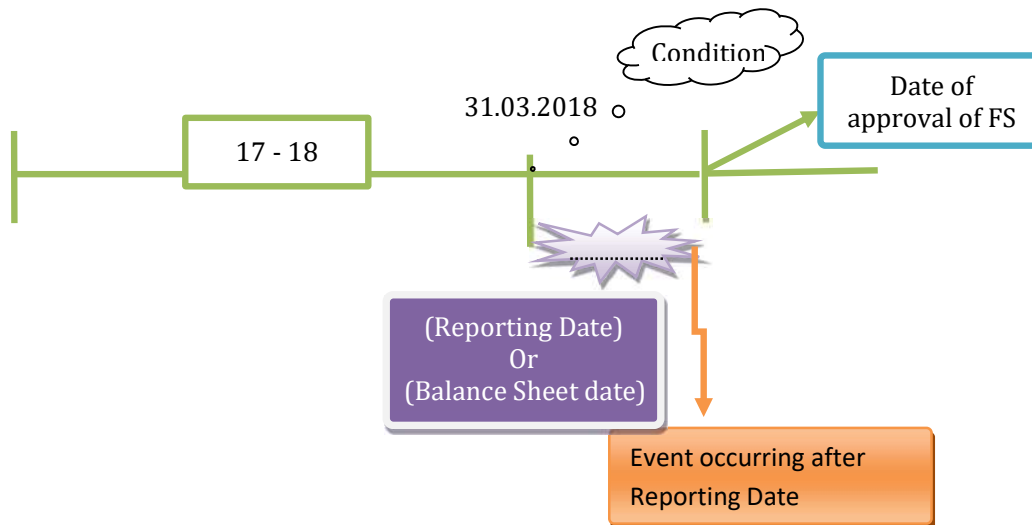
**XIV) Difference b/w Ind AS-37 & AS-29**

	<i>Ind AS-37</i>	<i>AS-29</i>
<i>Constructive obligation</i>	<i>Deals</i>	<i>Silent</i>
<i>Discount</i>	<i>Allowed if TVM is material</i>	<i>Not allowed (Exception)</i>
<i>Contingent asset</i>	<i>Requires disclosure in Financial Statement</i>	<i>Requires disclosure in the report of approving authority</i>
<i>Onerous contract</i>	<i>It requires recognition of impairment loss on the asset dedicated to such contract before any provision created as per Ind AS-37</i>	<i>Silent</i>



STUDENT NOTES

## IND AS-10 EVENTS AFTER THE REPORTING DATE



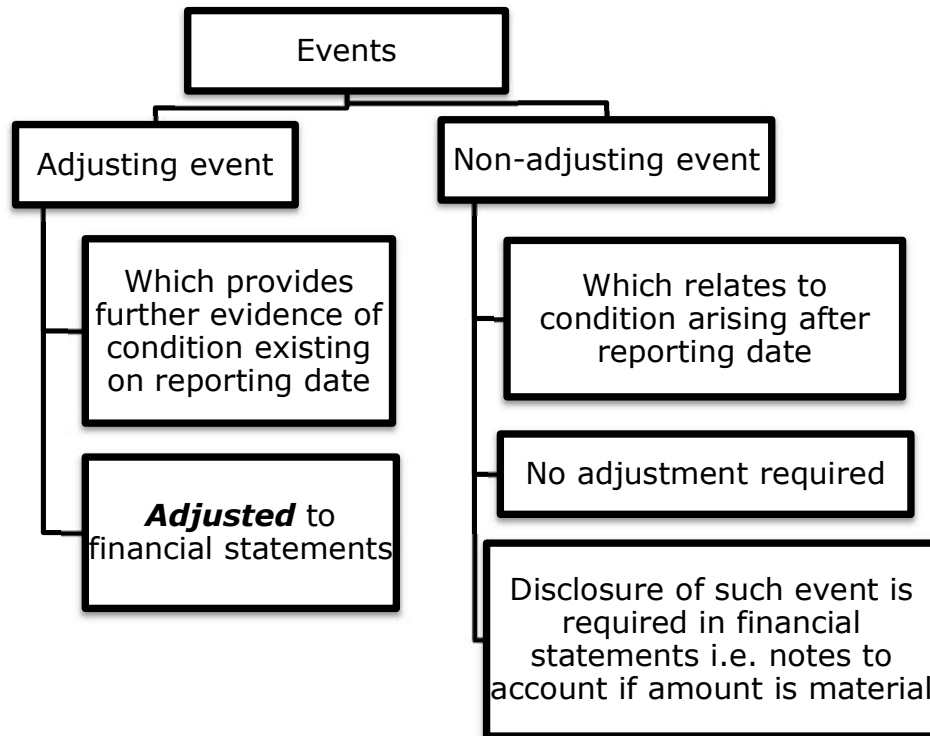
### 1. EVENTS AFTER REPORTING DATE

<i>Are those events</i>	<i>Which are favourable or unfavourable &amp; which occur between reporting date and the date when financial statements are approved for issue</i>
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### 2. Clarification on DATE OF APPROVAL

- (a) F.S. are to be approved by SHs after FS are approval by BOD  
FS are approved for issue on Date of approval by BOD
- (b) F.S. are to be issued to supervisory board (of non-executive directors) for approval after management approves F.S.  
F.S. are approved for issue when management (BOD) approve F.S.
- (c) If FS are approved by BOD after public announcement of profit or other financial information.  
FS are approved for issue on Date of approval by BOD.

### 3. TYPES OF EVENTS



#### *Examples of adjusting events*

- (a) the settlement of a court case after the reporting period.
- (b) the bankruptcy of a customer that occurs after the reporting period
- (c) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.
- (d) the determination after the reporting period of the amount of profit-sharing or bonus payments.
- (e) the discovery of fraud or errors that show that the financial statements are incorrect.

#### *Examples of non-adjusting event*

- (a) Decline in market value of investment
- (b) Major business combination
- (c) Announcement of plan to discontinue a operation
- (d) Major purchase of asset

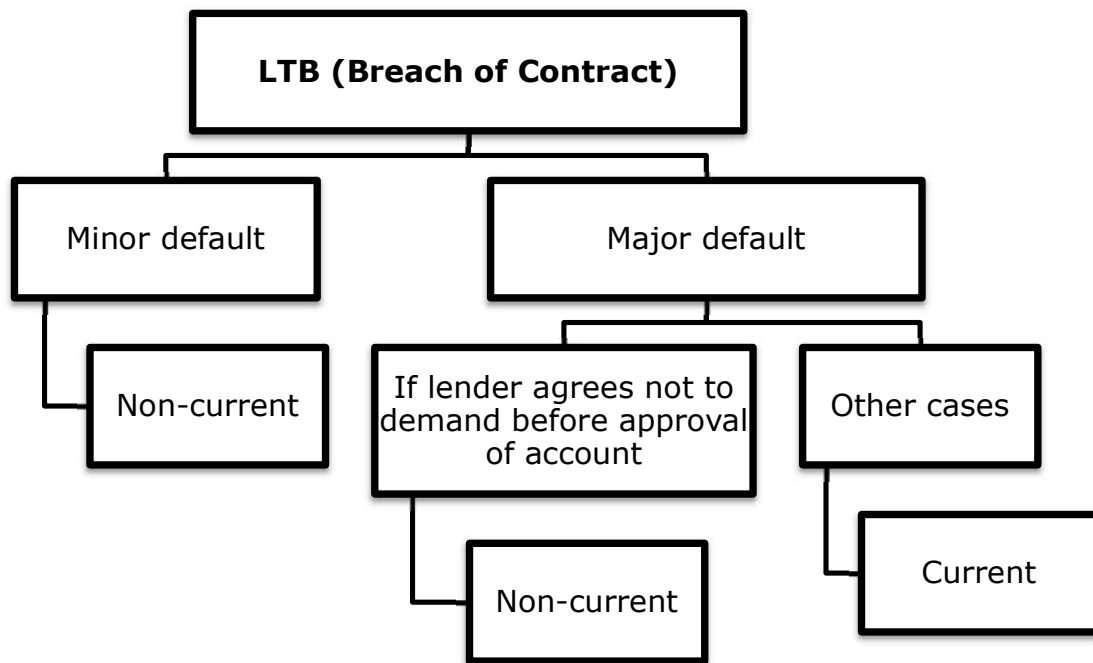
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- (e) Classification of Non-current asset as held for sale after reporting date
- (f) Changes in Forex rate
- (g) Major litigation after reporting date.

**4. SPECIAL CASE**

**(a) Long-term loan (NCL)**

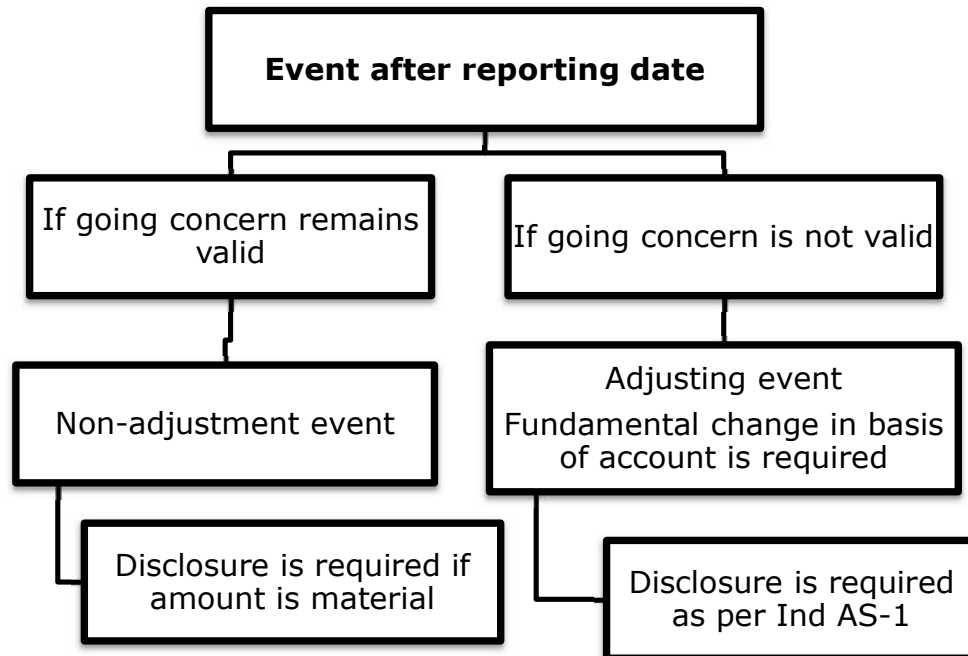
- Whenever there is a breach of material provision in case of long-term borrowing on or before Reporting Date with the effect that such loan become payable on demand (current liability).
- Such loan shall be classified as 'NCL' if lender agrees not to demand payment before approval of FS for issue.



- **Carve Out**  
As per IAS 10 Events after the Reporting Period: Rectification of any breach after the end of the reporting period is a **non-adjusting event**.

**(b) Going concern**

- 1) An entity shall not prepare financial statements as per going concern if
  - ✍ it intends to liquidate (or) ceases trading (OR)
  - ✍ Has no realistic alternative but to liquidate
- 2) If going concern assumption is not appropriate i.e. become invalid after reporting date, Ind AS-10 requires a **fundamental change in the basis of accounting** rather than adjustment to financial statements
- 3) Ind AS-1 requires following disclosures if FS are not prepared on going concern
  - ✍ Fact
  - ✍ Basis of preparing Financial Statement
  - ✍ Reason why entity is not regarded as going concern



### (c) PROPOSED DIVIDEND

- If an entity declares dividend to holders of equity instruments after R/D, the entity shall not recognize it as a liability at the end of reporting period.
- However, such dividends are disclosed in notes in accordance with Ind AS-1 and requirement of Sch-III.

## 5. DISCLOSURE REQUIREMENT

### (a) Date of approval of financial statements for issue

Who gave the approval?

Entity's owner or other who has power to amend Financial Statements after issue

### (b) Updating disclosure about conditions existing on reporting date for adjusting event

### (c) Non-adjusting event → If they are material following disclosures are required

1) Nature of event

2) Estimate of financial effect (if can't be estimated, fact must be disclosed)

## 6. DIFFERENCE

	Ind AS-10	AS-4
Non-adjustment event	Disclosure in Financial Statements	Disclosure in report of approving authority
Going concern	Requires fundamental changes in basis of accounting, if GC becomes invalid. Ind AS-1 also requires additional disclosure	Requires adjustments to assets and liabilities
Disclosure	More	Less



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<i>Distribution of non-cash asset to owners.</i>	<i>Deals in Appendix - 'A' to Ind AS-10</i>	<i>Silent</i>
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## 7. DISTRIBUTION OF NON-CASH ASSET TO OWNER (HOLDER OF EQUITY INSTRUMENT) - As par appendix 'A' to Ind AS-10)

1. **Non applicability of appendix A to Ind AS-10**
  - ✍ It is not applicable to accounting in the books of SHs who receive such distribution.
  - ✍ It is not applicable to distribution of non-cash asset to entity which is ultimately controlled by same party before and after distribution (Refer Ind AS-103).
  
2. **Applicability:** It applies to following types of non-reciprocal transactions between entity & owner
  - ✍ Distribution of non-cash asset
  - ✍ Distribution that gives owner an option of non-cash asset (or) cash alternative.
  
3. **Accounting Treatment:**
  - a) On the date of proposal or announcement of such distribution
    - ➡ No entry
  
  - b) On the date of declaration and approval of such dividend

<i>Retained Earnings A/c.</i>	<i>Dr.</i>	<i>With the fair value of Non cash assets held for distribution</i>
<i>To Dividend payable A/c.</i>		

**c) On reporting date before distribution**

*Dividend payable will be reassessed with any changes in the fair value of Non cash assets held for distribution*

**d) On the date of distribution**

Dividend payable A/c. To Non cash assets (Any difference will be recognise in Profit or loss)	Dr.	
---	-----	--

**Example 1:**

- (a) Entity proposed distribution of one pen to all shareholders on 15/1/2017
- (b) Entity declared and approved the dividend for distribution of one pen to all shareholders on 15/2/2017.
- (c) It was actually distributed on AGM which was held on 15/05/2017
- (d) FV of each pen on 15-02-2017 is Rs.500
 

15-02-2017	500/-
31-03-2017	520/-
15-05-2017	515/-
- (e) Cost price of each pen is Rs.400
- (f) Number of SH = 1,000

**Journal Entries**

16-17

**15-02-2017**

Retained Earning A/c. To Dividend payable A/c. (1,000 x 1 x Rs.500)	Dr.	5,00,000	
			5,00,000



**31-03-2017**

Retained Earning A/c.	Dr.	20,000	
To Dividend payable A/c.			5,00,000
[1,000 x (520-500) x 1]			

17-18

**15-05-2017**

Dividend payable A/c.	Dr.	5,000	
To Retained earning			5,000
[1,000 x (520-515) x 1]			
Dividend payable A/c.	Dr.	5,15,000	
To Inventory account			4,00,000
To Profit & Loss A/c			1,15,000

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## IND AS-2 INVENTORIES

### 1. MEANING OF INVENTORIES

*Inventories are assets which are*

- (a) *Held for sale in ordinary course of business*
- (b) *Held in the process of production*
- (c) *Held in the form of material or supplies to be consumed in the process of production or rendering of services.*

### 2. VALUATION OF INVENTORY (ON REPORTING DATE)

*Lower of*

- (a) *Cost*
- (b) *NRV*

### 3. COST PRICE

Inclusions (Recovered from customer)		Exclusions
<b>(a) Cost of purchase</b>		<ul style="list-style-type: none"> <li>Administrative expenses.</li> <li>S &amp; D expenses</li> <li>Abnormal loss</li> <li>Storage cost (unless it is necessary for production)</li> <li>Borrowing cost (subject to Ind AS-23)</li> </ul>
Invoice price	XXX	
(-) Trade discount	(XXX)	
(+) Non-refundable duties & taxes (credit is not available)	XXX	
(+) Direct expenses to bring Inventories in present location	XXX	
<b>Cost of purchase</b>	<b>XXX</b>	
<b>(b) Cost of conversion</b>		<b>(c) Other costs</b> Expenses to bring the inventory to condition eligible for sale Example: Packing cost, Transportation cost from factory to warehouse, modification expenses
Direct labour (Manu. Wages)	XXX	
Production OH (Ind material / labour / Indirect cost)		
<ul style="list-style-type: none"> <li>Variable OH → Allocated to each unit on the basis of actual production</li> <li>Fixed OH → Allocated to each unit on the basis of normal production (or) actual production whichever is higher</li> </ul>		

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#### 4. SPECIAL CASES

##### (a) Joint product and By-Product

- 1) *Joint cost is allocated on the basis of "sales ratio of each joint product either*
  - ✍ At the time of split-off (or)*
  - ✍ On completion of production*
- 2) *By Product: If the amount is immaterial it must be measured at NRV and deducted from the cost of main product or joint products.*

##### (b) Deferred settlement terms

- *If inventories are purchased on deferred settlement terms → Purchase price for normal credit terms will be the cost price = PV of all future payments*
- *Interest = [Deferred settlement amount (Future payment) - PV of future payment]*
- *Recognized it as an expense over the period of credit and will not be added to the cost price of Inventory.*

*Example: A Ltd. purchased inventory at Rs. 60,00,000 on 01-04-2016 on 2 years credit. Rate of interest for similar transaction is 10%. Calculate cost price of inventory and pass Journal Entries.*

**Solution:**

01-04-2016

Purchase A/c.	Dr.	49,58,400	
To Creditor A/c.			49,58,400

31-03-2017

Interest expenses	Dr.	4,95,840	
To Creditor A/c.			4,95,840

31-03-2018

Interest expenses A/c	Dr.	5,45,760	
To Creditor A/c			5,45,760
Creditor A/c	Dr.	60,00,000	
To Bank A/c			60,00,000

**(c) COST OF AGRICULTURAL PRODUCE HARVESTED FROM BIOLOGICAL ASSET**

As per Ind AS-41 agricultural produce at the point of harvest are measured at Fair Value less Cost to sell

This is the cost price of such agricultural produce for application of IND AS 2.

**5. NET REALISABLE VALUE (At each reporting Date)**



**(a) For finished goods / stock in trade**

$NRV = [Estimated\ selling\ price - estimated\ selling\ expense]$

**(b) For WIP**

$NRV = [Estimated\ selling\ price - estimated\ selling\ expense] - Estimated\ costs\ to\ complete$

**Formula:**

Estimated selling price of finished good XXX

(-) Estimated selling expenses of FG XXX

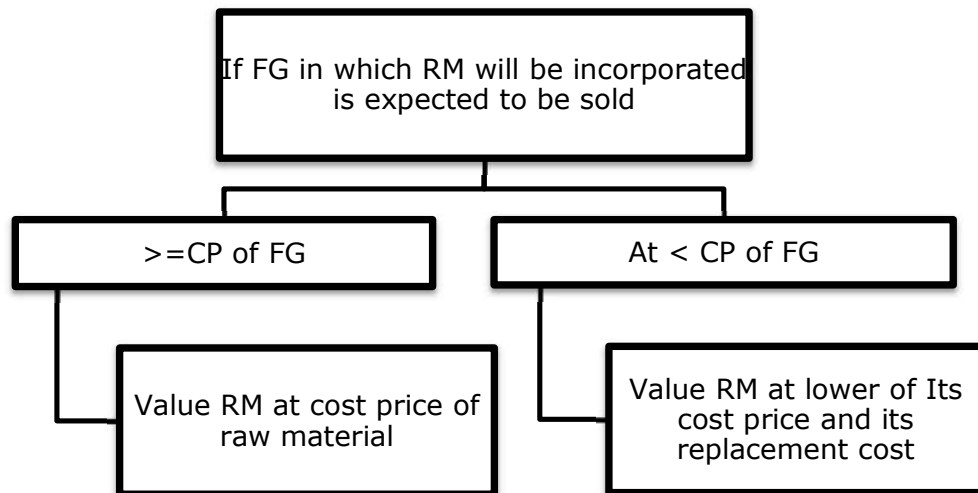
**NRV of FG** **XXX**

(-) Cost to complete (estimated) XXX

**NRV of WIP** **XXX**

**(c) Raw material**

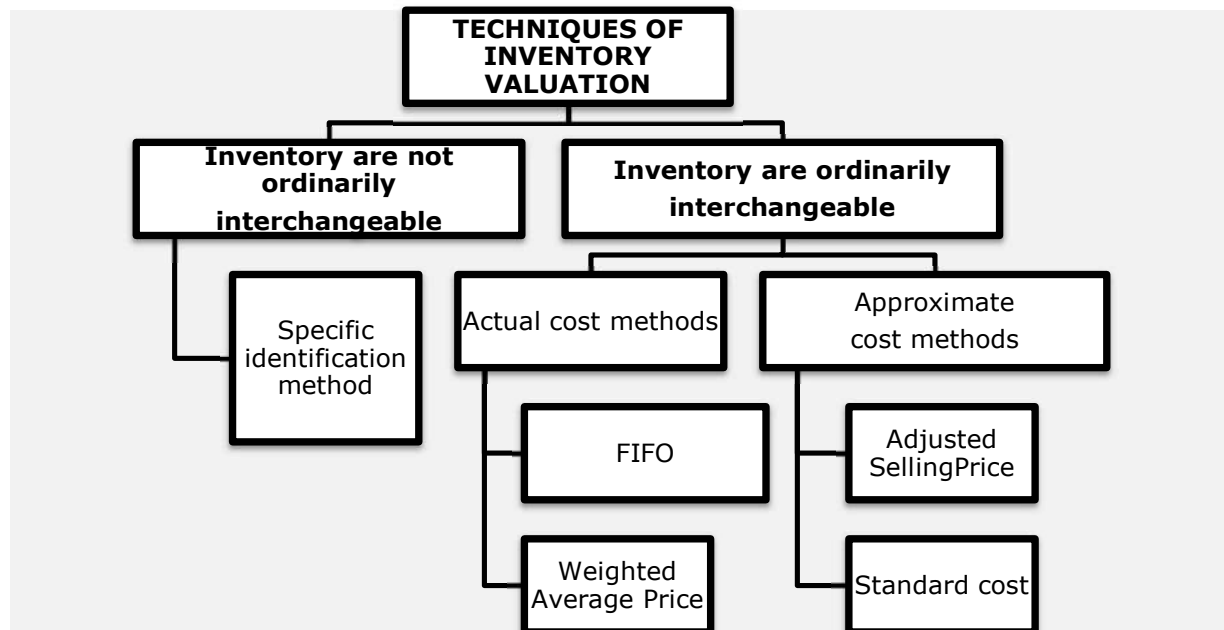
If FG in which RM will be incorporated is expected to be sold



**6. How to determine NRV**

- 1<sup>st</sup> Preference* → *Binding agreement on reporting date*
- 2<sup>nd</sup> Preference* → *Sale agreed before approval of FS for issue*
- Last Preference* → *Fair estimation given by management*

**7. COST FORMULA**





## 8. Comparison of NRV & Cost price –

*Item by Item Basis or (group basis if circumstances require)*

## 9. Reversal of write down

- a) *NRV should be reassessed at each reporting date*
- b) *If NRV increases, the amount of previous write down is reversed so that new carrying amount of inventory is lower of*
  - 1) *Cost price*
  - 2) *Revised NRV*

## 10. Recognition of expense

- (a) *When inventories are sold → Recognise the carrying amount of inventory sold as an exp. In the period in which related revenue has been recognized.*
- (b) *When inventory is written down to NRV → Recognize such write down as expense in the period in which write down occurred.*
- (c) *When Reversal of write down → Recognize as a “reduction in the amount of inventory recognized as expense in the period in which reversal occur.”*

## 11. Scope:

*This section applies to all inventories, except:*

- a) *financial instruments (Ind AS 32 and Ind AS 109); and*
- b) *Biological assets related to agricultural activity (Ind AS 41)*
- c) *Agricultural produce at the point of harvest (Ind AS 41)*

*This section does not apply to the measurement of inventories held by:*

- a) *producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at NRV.*

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*When such inventories are measured at NRV, changes in that value are recognised in PL in the period of the change.*

- b) *commodity broker-traders who measure their inventories at fair value less costs to sell.*

*When such inventories are measured at FVCS, changes in FVCS are recognised in PL in the period of the change.*

**12. DIFFERENCE BETWEEN IND AS-2 & AS-2**

	<i>IND AS-2</i>	<i>AS-2</i>
<i>Subsequent recognition as expenditure</i>	<i>Deals</i>	<i>Silent</i>
<i>Reversal of W/D</i>	<i>Deals</i>	<i>Silent</i>
<i>NRV Vs. FV</i>	<i>Explanation given</i>	<i>Silent</i>
<i>Deferred settlement terms</i>	<i>Guidance given</i>	<i>Do not Deals</i>
<i>Machinery spares</i>	<i>Silent</i>	<i>Guidance given</i>

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## IND AS-16

### PROPERTY, PLANT & EQUIPMENT (PPE)

1. **Meaning:** PPE are tangible items which are
- (a) Held for
- 1) Use in production of goods or supply of goods or services
  - 2) Rental to others
  - 3) Administrative purposes

AND

- (b) Expected to be used for more than one period

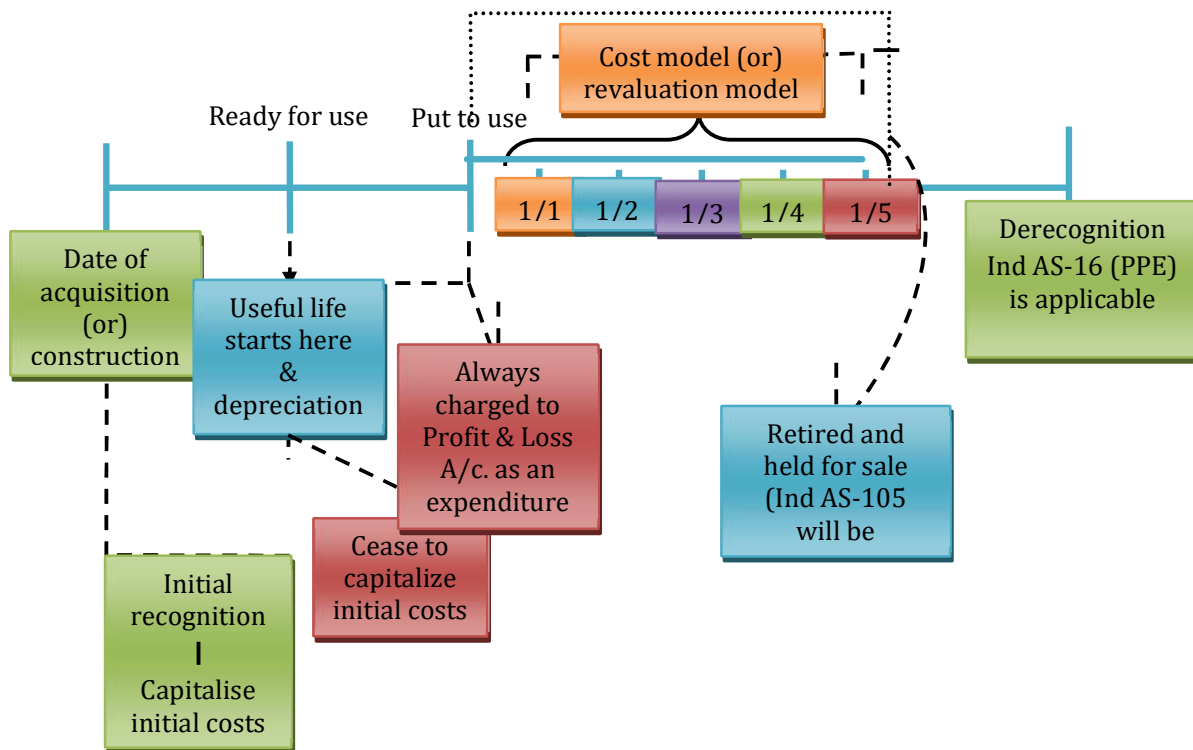
**Note:**

1. Administrative Purpose includes selling and distribution, marketing and other purposes (other than sale)
2. Investment properties are covered under Ind AS-40 but valued as per cost model given Ind AS 16 (PPE)
3. Treatment of spare parts, stand by equipment and servicing equipment
  - If it meets definition of PPE, then, recognize as PPE & apply Ind AS-16
  - If it does not meet definition of PPE, then recognize it as 'Inventory' & apply Ind AS-2.  
Such inventory will be charged to PL account when consumed

## 2. Recognition Criteria

The cost of an item of PPE should be recognized as an asset **IF AND ONLY IF** following conditions are satisfied

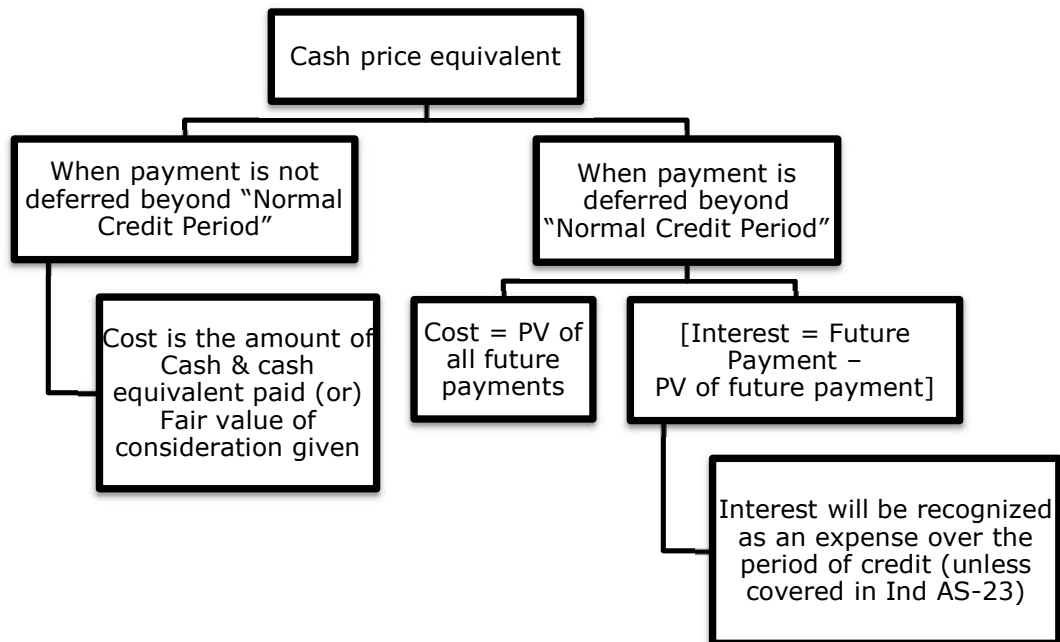
- a. It is Probable (more likely than not) that FEB will flow to the entity from use of such asset
- b. Cost of such item can be measured reliably.



## 3. INITIAL RECOGNITION

### (i) Measurement at "Initial Recognition"

"AT ITS COST" that is cash price equivalent



**Example:** An entity acquired a plant for Rs. 20,00,000 on two-years interest-free credit. An appropriate discount rate is 10 per cent per year. Calculate the cost of Plant.

Cost of PPE as on today = 20 Lakhs x 0.8264	16,52,893
(+) Interest for 1 <sup>st</sup> year	1,65,289
Amount payable at Year end 1	18,18,182
(+) Interest for 2 <sup>nd</sup> year	1,81,818
Amount payable at Year end 2	20,00,000

**(ii) Elements of Initial costs**

a. **Purchase price**

Invoice price

Less: Trade discount/Rebate

Add: Non-refundable duties & taxes

b. **Directly attributable costs** i.e. cost incurred to bring the asset in present location and condition for its intended use

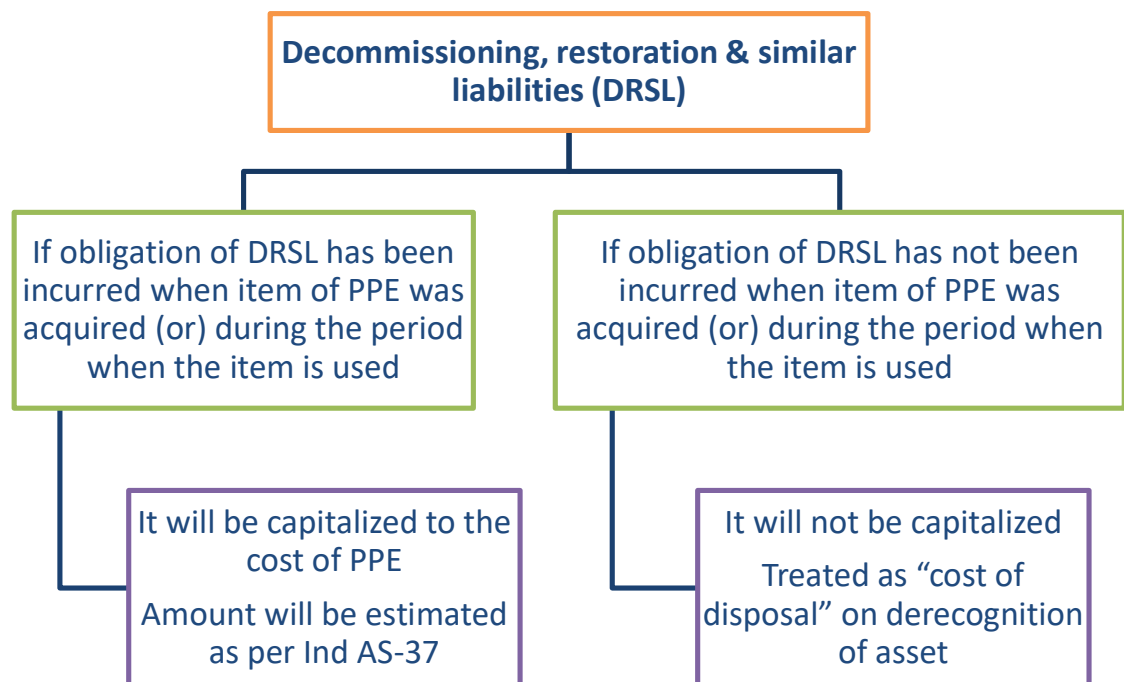
Example:

- Transportation costs,

- Installation expenses,
- site preparation,
- professional technical fee,
- cost of testing (trial run expenditure) - Reduced by sale proceeds from sale of units produced

**Note:** Recognition of costs in the carrying amount of an item of PPE ceases when the item is ready for intended use.

- c. Initial estimated cost of dismantling and removing the item or restoring the site on which it has been located.



**Note:**

- a) Borrowing costs will be capitalized as per the requirement of Ind AS-23
- b) Government Grant received may deducted from cost of PPE as per IND AS 20

**Example:**

On 01-04-2017, a PPE was acquired for Rs.50,00,000 subject to trade discount of 10% and GST of 18% (credit of GST is not available). Other

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directly attributable costs is Rs.5,00,000. Useful life of PPE = 5 years.  
As per applicable law, PPE needs to dismantle at the end of useful life.  
Estimated cost of dismantling = Rs.6,00,000

Appropriate discount rate = 10%

**Solution:** Calculation of cost price

Invoice price	50,00,000
(-) Trade discount	(5,00,000)
	<b>45,00,000</b>
+ GST (18%)	8,10,000
Purchase price	<b>53,10,000</b>
(+) Initial estimated cost of DRSL (PV)	3,72,540
(+) Directly attributable cost	5,00,000
Cost price of PPE	<b>61,82,540</b>

**(iii) Self-constructed asset - cost**

Cost will be calculated as **same principle** as discussed above.

However, the component of cost will be specific cost and allocable cost of construction

**Note:**

- 1) Abnormal loss during construction activity should be "excluded"
- 2) Any internal profit included in cost should be eliminated
- 3) The income and related expense of any incidental operation during construction or development of an item of PPE are recognised in Profit or Loss.

**(iv) Excluded from cost price**

- 1) Cost of opening new facility (inauguration cost)
- 2) Costs of conducting business in a new location or with a new class of customer (Relocation cost and Staff training costs)
- 3) costs of introducing a new product or service (Any advertisement and promotional expenditure)

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- 4) Initial operating loss
- 5) Costs incurred after asset is ready for its intended use till the asset is put to use
- 6) Administrative and other general OH

**(v) PPE acquired in exchange of non-monetary asset (or) a combination of non-monetary & monetary asset**

Cost price of PPE acquired will be equal to

- Fair value of asset given up  $\pm$  cash adjustment  
(or)
- Fair value of asset received (or) acquired  
Whichever is clearly evident

However, if Fair value of asset are not reliably measurable (or) exchange transaction lacks commercial substance then,

**Cost price of PPE acquired**

= Carrying amount (net book value) of asset given up  $\pm$  cash adjustment

**Example: Car (old) = BV = 2,00,000**

	1	2	3
<b>FV (old car)</b>	3,00,000	3,00,000	6,00,000
<b>FV (new car)</b>	3,00,000	6,00,000	3,00,000
<b>Cash paid</b>	-	3,00,000	-
<b>Cash received</b>	-	-	3,00,000
<b>CP of new car</b>	3,00,000	6,00,000	3,00,000
<b>J/E</b>			
<b>i)</b>	New car	Dr. 3,00,000	
	To old car		2,00,000
	To Profit		1,00,000
<b>(ii)</b>	New car account	Dr. 6,00,000	
	To old car		2,00,000

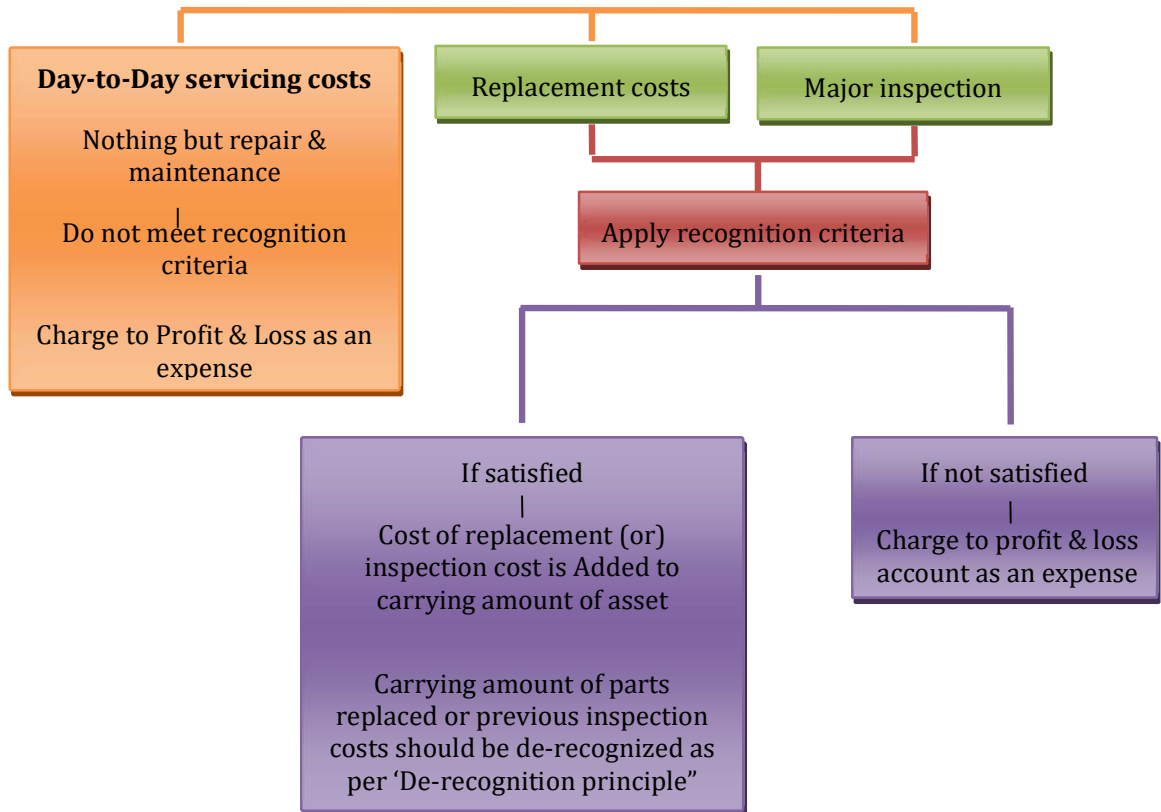
**BEST FR CLASSES**

	To cash			3,00,000
	To profit			1,00,000
(iii)	New car account	Dr.	3,00,000	
	Cash account	Dr.	3,00,000	
	To old car			2,00,000
	To Profit & Loss account			4,00,000

**Example:** Lacks commercial substance or Fair Value is not determinable  
Car (old) = BV = 4,00,000

	1	2		3
Cost of New car	4,00,000	7,00,000		1,00,000
J/E				
New car Dr	4,00,000	7,00,000		1,00,000
Old car CR	4,00,000	4,00,000		4,00,000
Cash Cr	-	3,00,000		-
Cash Dr	-	-		3,00,000

#### 4. SUBSEQUENT COSTS (COSTS INCURRED AFTER INITIAL RECOGNITION)



**Note:**

*If it is not possible to determine carrying amount of replaced part, cost of replacement will be used as an indication of cost of replaced part which was at the time when it was acquired.*

#### 5. Subsequent recognition

*Measurement after initial recognition at each Reporting Date*

Cost model		Revaluation model	
Cost	XXX	Fair value on revaluation date	XXX
(-) Accumulated depreciation	(XXX)	(-) Subsequent acc. depreciation	(XXX)
(-) Accumulated impairment loss	(XXX)	(-) Subsequent impairment loss	(XXX)
<b>Carrying amount</b>	<b>XXX</b>	<b>Carrying amount</b>	<b>XXX</b>

### 6. Revaluation Model

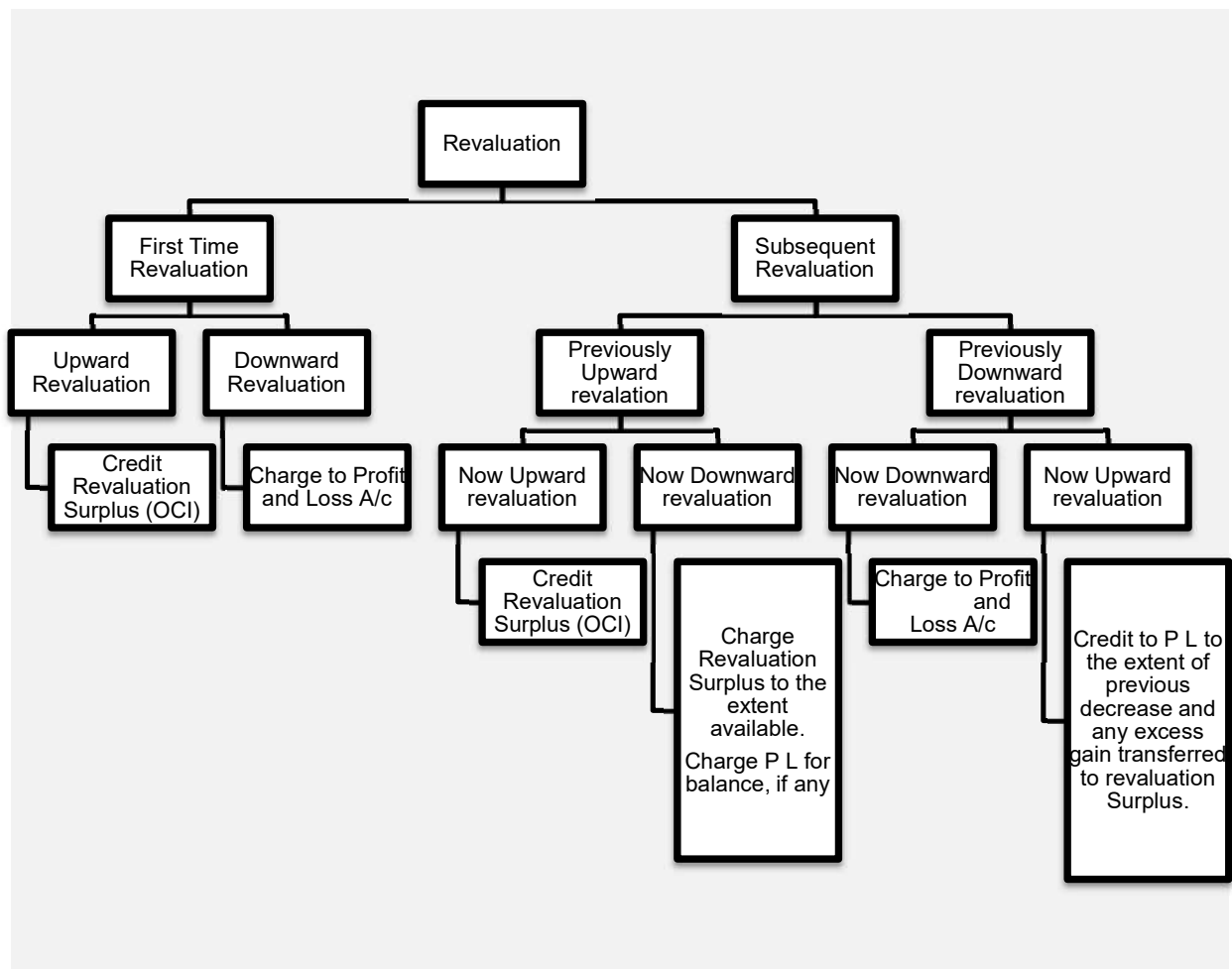
1) If an item PPE is revalued, then entire class of PPE to which such item belongs should be revalued. In other words revaluation should be applied "class wise".

2) Frequency of revaluation

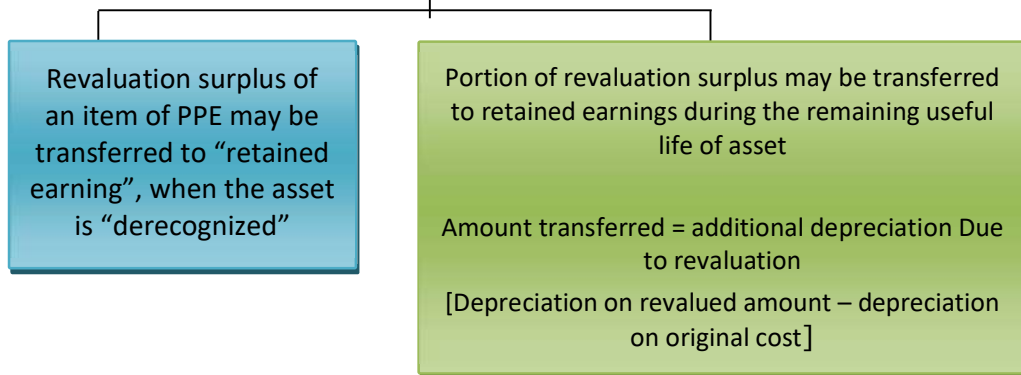
✍ If the items of PPE experience significant change in fair value:  
Annual Revaluation

✍ In other cases: Revaluation after every 3-5 years

### 3) Accounting treatment for revaluation



#### 4) Accounting treatment of revaluation surplus (item wise)



#### 5) Adjustment of carrying amount of asset due to revaluation – expected

*Technique 1: Accumulated depreciation is eliminated against the Gross Carrying amount of the asset*

	<i>GBV</i>	<i>A/D</i>	<i>NBV</i>
<i>Before Revaluation</i>	<i>1,00,000</i>	<i>60,000</i>	<i>40,000</i>
<i>Adjustment</i>	<i>(60,000)</i> <i>80,000</i>	<i>(60,000)</i>	<i>80,000</i>
<i>After Revaluation</i>	<i>1,20,000</i>	<i>----</i>	<i>1,20,000</i>
<i>Accumulated depreciation account Dr. To PPE</i>		<i>60,000</i>	<i>60,000</i>
<i>PPE Dr. To OCI</i>		<i>80,000</i>	<i>80,000</i>

*Technique 2: Gross carrying amount is restated proportionately to the change in the carrying amount.*

*Accumulated depreciation at the date of the revaluation is Adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses*

	<i>GBV</i>	<i>A/D</i>	<i>NBV</i>
<i>Before Rev</i>	<i>1,00,000</i>	<i>60,000</i>	<i>40,000</i>
<i>Adj.</i>	<i>2,00,000</i>	<i>1,20,000</i>	<i>80,000</i>
<i>After Rev.</i>	<i>3,00,000</i>	<i>1,80,000</i>	<i>1,20,000</i>
<i>PPE account</i>	<i>Dr.</i>	<i>2,00,000</i>	
<i>To OCI (R/S)</i>			<i>80,000</i>
<i>To Accumulated Depreciation</i>			<i>1,20,000</i>

## 7. Depreciation

- i. It is systematic allocation of depreciable amount of an asset over its useful life*
- ii. Depreciation should commence from the date when asset is "ready or available" for intended use*
- iii. Depreciation should cease from*
  - ▶ Date when asset is classified as held for sale - IND AS 105*
  - ▶ Data when asset is derecognised -IND AS-16**Whichever is earlier*
- iv. Component accounting*
  - ▶ IND AS 16 mandates component accounting for depreciation*
  - ▶ Each part (component) of an item of PPE with cost which is significant in relation to total cost of item of PPE should be depreciated separately*

*Note: As per Schedule II of Companies Act, 2013 part of PPE (i-e; component) should be depreciated separately if they have -*

- ▶ Significant cost and*
- ▶ Different useful life*

*From remaining part of the asset*

- v. Residual value: it is the estimated amount that an entity would currently obtain or realise from disposal of asset if the asset is same age as at the end of useful life.*

*Note: - As per Schedule II residual value = 5% of cost price*

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**vi• Depreciable amount**

- ▶ If Cost model = Cost - Residual value
- ▶ If Revaluation model = FV - Residual value

**vii• Useful life: It is**

- ▶ The period over which asset is expected to be used - SLM/RBM
- ▶ No of production expected to be obtained from the use of asset - Production unit method

**Note:-**

- ▶ Under PUM depreciation can be 'zero' when there is no production
- ▶ If residual value > carrying amt, then, depreciation can be 'zero'
- ▶ However, the above situation will not be considered as ceasing of depreciation

**viii• Depreciation method**

Method used should reflect the pattern in which future economic benefits is expected to be consumed by entity - SLM, RBM & PUM

**ix• Changes in useful life, residual value and depreciation method**

The RV, UL & DEP method should be reviewed at least "at the end of each financial year and any change should be accounted as changes in A/c estimate -> Refer IND AS-8 - Prospectively

**x• Land & Building**

Land → it is not a depreciable asset =it has unlimited life

**Exception:** If land has limited life, it will be depreciated as per IND AS-16. Eg: - Land development → (Parking area road) → limited life

Building → It is separate asset therefore depreciate it as per its useful life

**BEST FR CLASSES**
**8. Impairment loss**

- *Impairment loss is recognised as per IND AS-36*
- *IL = Carrying amt - recoverable amt*
- *Compensation from 3rd party for item of PPE that is impaired should be included in PL when compensation become relievable*

**9. De-Recognition**

- *An entity shall derecognise an item of PPE either*
  - (a) *On Disposal - Sale or Given on finance lease*
  - (b) *When no future economic benefit is expected to flow (when it is fully impaired as per IND AS-36)*

- *Calculation of gain / loss on DE recognition*

<i>Sale proceeds</i>	<i>xxx</i>
<i>(-) Cost of disposal</i>	<i>(xxx)</i>
<b><i>Net sale proceeds</i></b>	<b><i>(xxx)</i></b>
<i>(-) Carrying amt of asset On data of sale</i>	<i>xxx</i>
<b><i>Gain / loss</i></b>	<b><i>xxx</i></b>

*It is not considered as revenue as per IND AS 115.*

- (c) ***Special Point:***

*If an entity transferred an item of PPE which was held for rental to inventory when it ceases to be rented and become held for sale in ordinary course of Business carrying amount of such PPE will be considered as cost price of inventory*

**Journal Entry**

*Inventory a/c ----- Dr*  
*To PPE*

*Sale of such inventory will be recognised as revenue as per IND AS -115*

**10. Scope :-**

*Not applicable to -*

- (a) *PPE classified as HFS (IND AS-105)*



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- (b) Biological assets other than bearer plant
- (c) Recognition and measurement of exploration and evaluation of mineral resources - Refer IND AS -106
- (d) Mineral rights & Mineral reserve (Natural gas oil etc)

**Note:** Bearer plant is a plant

- (1) Which is used in production or supply of agricultural produce
- (2) Which is expected to bear produce for more than one period
- (3) Which are not held for sale as agricultural produce

Cost of bearer plant are be determined by using the principles of self - constructed PPE.

11. **Disclosures:** Refer book

**12. Changes in Existing Decommissioning, Restoration and Similar Liabilities (Appendix A)**

*If the related asset is measured using the cost model:*

- a) *If Increase in liability - Changes should be added to the cost of the related asset.*
- b) *If decrease in liability - Changes should be deducted from the cost of the related asset.*

**Note:**

- ✓ *If a decrease in the liability exceeds the carrying amount of the asset, the excess should be recognised immediately in the PL.*
- ✓ *The adjusted depreciable amount of the asset is depreciated over its useful life.*

*If the related asset is measured using the revaluation model:*

- (i) *If Increase in liability - Changes should be debited directly to revaluation surplus (OCI) to the extent available and balance loss in the PL.*



**BEST FR CLASSES**

- (ii) *If decrease in liability - Changes should be credited directly to OCI as revaluation surplus.*
- (iii) *If earlier the assets are revalued downward, it should be credited to the profit and loss to the extent of previous decrease and balance gain credited to OCI as revaluation surplus;*

**STUDENT NOTES**



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## IND AS-38 INTANGIBLE ASSETS

(1) **Meaning:** Intangible assets are assets which are

- ✓ Identifiable
- ✓ Non - monetary
- ✓ Without physical substance
- ✓ Held for
  - 1) Use in **production** of goods or supply of goods or services
  - 2) **Rental** to others
  - 3) **Administrative purposes**

### Condition

(i) **Identifiable** An asset is identifiable if anyone of the following conditions satisfied

- (a) Asset is separable i.e., Capable of being separately sold, transferred, licensed, rented or exchanged.
- (b) Assets arises from contractual rights even if these rights are non-transferable

(ii) **Asset**

- (a) Control - Power to obtain future economy benefits and has a right to restrict other to use such asset
- (b) Probable FEB

(iii) **Non-monetary:** These are assets other than monetary asset  
Monetary Assets are those assets

- (a) Which has fixed or determinable number of units of currency  
(+)
- (b) Which are realisable in terms of money

## BEST FR CLASSES

**(iv) Without physical substance**

IA are stored in storage devices which are tangible but cost of tangible part is insignificant as compared to cost of intangible part therefore entire asset will be intangible asset

**(2) Recognition criteria**

An intangible asset should be recognised if and only if following conditions are satisfied

- If it is probable that future economic benefits will flow to entity from the use of such intangible asset
- Cost can be measured reliably

**(3) Initial Measurement of Intangible Assets:**

An intangible asset should be measured initially at cost.

**Separate acquisition:** The cost of a separately acquired intangible asset comprises:

- Purchase price
- Directly attributable cost of preparing the asset for its intended use.

**Deferred settlement Terms:**

- Similar to Ind AS 16

**Acquired in Exchange of Non-monetary assets:**

- Similar to Ind AS 16

**Acquisition as part of a business combination:**

- Refer IND AS 103

**Acquired through government grant: Refer IND AS -20**

Recognise at fair value or

Recognise at Nominal value or Concessional Value

**Internally generated intangible asset**

- **Treatment of expenditure during Research Phase:**

Recognised as an expense when it is incurred.

## BEST FR CLASSES

- **Treatment of expenditure during Development Phase:**  
Recognised as an IA if and only if an entity can demonstrate all of the following:
    - (a) the technical feasibility of completing the IA
    - (b) its intention to complete the IA
    - (c) its ability to use or sell the intangible asset;
    - (d) existence of a market for the output of the intangible asset or the intangible asset itself
    - (e) the availability of adequate technical, financial and other resources and
    - (f) its ability to measure the expenditure reliably.
- Note:** Past expenses which are already charged to profit or loss cannot be reversed and recognised as an intangible Asset

**(4) Subsequent recognition**

- Similar to IND AS 16

**(5) Amortisation**

IF FINITE USEFUL LIFE

**I. Depreciable Amount**

Under cost model = Cost - Residual value

Under FV model = FV on the date of revaluation - Residual value

**II. Residual value:**

It is assumed to be 'zero' unless

(a) There is commitment by third party to purchase the asset at the end of 'useful life

(or)

(b) There is an active market

**III. Amortisation period**

➤ It will Commence from the date Int. asset is available for its intended use.

➤ It will cease from

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(a) Date when asset is classified as held for sale

(b) Date when asset is derecognised

Whichever is earlier

**IV. Amortisation method:** Method should reflect the pattern of FEB expected to be consumed by entity from the use

(a) SLM

(b) RBM

(c) PUM

If pattern cannot be estimated - SLM

**V. Review of residual value (or) useful life and depreciation method**

Reviewed atleast at the end of each financial year

Such change is accounted as changes in Accounting estimate - Refer IND AS - 8

	IND AS -38	AS -26
Residual value	AE	AE
UL	AE	AE
Dep. Method	AE	AP
	IND AS -16	AS - 10 (Revised)
Residual value	AE	AE
UL	AE	AE
Dep. Method	AE	AE

**VI. Amortisation based on revenue**

There is rebuttable presumption that amortisation method based on revenue is inappropriate. However, if Predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold then revenue to be generated can be an appropriate basis for amortisation

Eg: Right to explore and extract natural resources, right to operate toll roads

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**IF INDEFINITE USEFUL**

- ◆ Such asset will not be amortised
- ◆ Such asset will be tested for impairment
  - (a) Annually And
  - (b) Whenever there is an indicator
- ◆ Entity should review Useful from indefinite to finite and such change will be changes in Accounting estimate

**(6) Derecognition**

- Similar to IND AS -16

**(7) Scope: Not applicable to**

- a. Intangible assets 'HFS' in ordinary course of business - IND AS 2
- b. Deferred tax asset - ND AS 12
- c. Finance lease:
  - Initial recognition will be as per IND AS 116
  - Subsequent recognition - IND AS 38
- d. Goodwill arising in business combination - IND AS 103
- e. Asset arising from employee benefits - IND AS 19
- f. Financial asset - IND AS 32/109
- g. Intangible asset arising under insurance contract - IND AS 104
- h. IA Classified as held for sale - IND AS 105
- i. Exploration and evaluation Assets - IND AS 106

**(8) Disclosures: Refer book**
**(9) Difference between IND AS - 38 & AS -26**

No.		IND AS - 38	AS -26
1.	Definition	Silent regarding useful	Include use
2.	Scope	Silent regarding these will be covered in IND AS - 109	Not applicable to (a) Discount on issue of deb

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**BEST FR CLASSES**

			(b) Premium on redemption of deb (c) Ancillary cost in connection with borrowing (d) Share issue exp
3.	Deferred settlement Terms	Deals	Silent
4.	IA acquired through GG	Recognise at FV Or Recognise at nominal value (or) Concessional rate	Recognise at nominal value (or) Concessional rate
5.	Subsequent recognition	CM (or) RM	Revaluation is not permitted
6.	Changes in amortisation method	Changes in A/C estimate	Changes in A/C Policy
7.	Useful life	Can have indefinite life	A rebuttable presumption that IA Useful should not exceed 10 years unless longer life is justified.
8.	Intangible Asset classified as HFS	Not covered	Covered

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STUDENT NOTES

## IND AS-40 INVESTMENT PROPERTY

1. **Meaning:** Investment property is property [Land or Building or Part of building or Land & building]
- Held by
    - ✓ Owner
    - ✓ Lessee under finance lease
  - for
    - ✓ Earning rental income
    - ✓ Capital appreciation
    - ✓ Both

**Example:** Identify which IND AS is applicable

1	Land held for capital appreciation	
2	Land held for sale in ordinary course	
3	Land whose current use is not determined	
4	Agricultural land	
5	Building owned and leased out under operating lease	
6	Building owned and leased out under FL	
	For property	
	For lease relievable	
7	Building taken on FL and sublease as OL	
8	Building taken on FL and sublease as FL	
9	Building which is vacant	
10	Property which is being constructed for future use as IP	
11	Building held for sale in ordinary course	
12	Owner occupied property	
13	Property constructed on behalf of 3 <sup>rd</sup> party	

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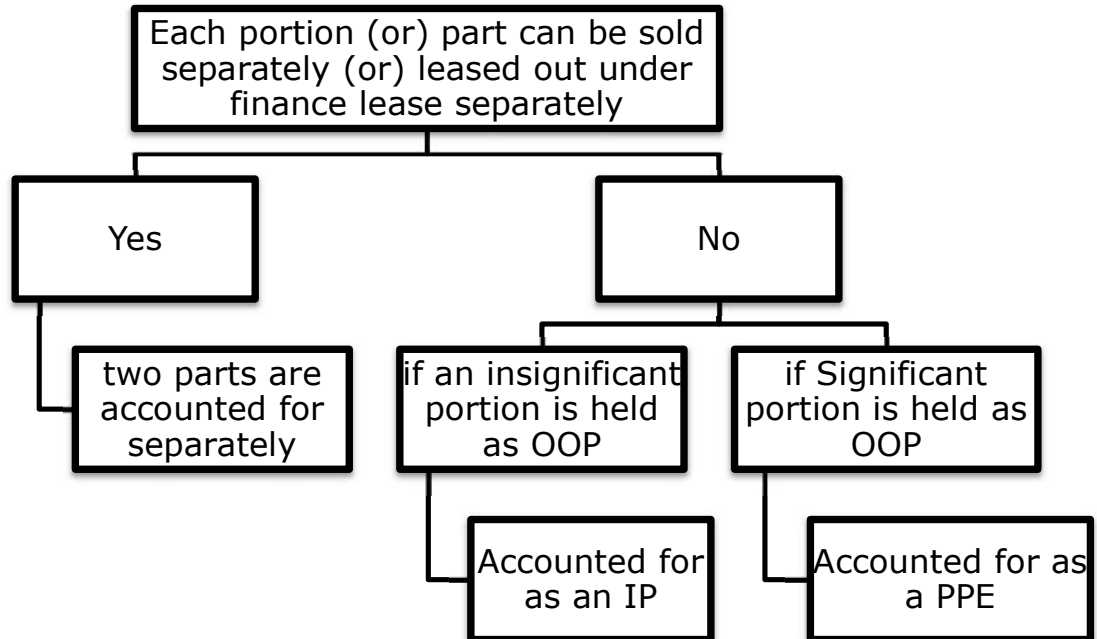
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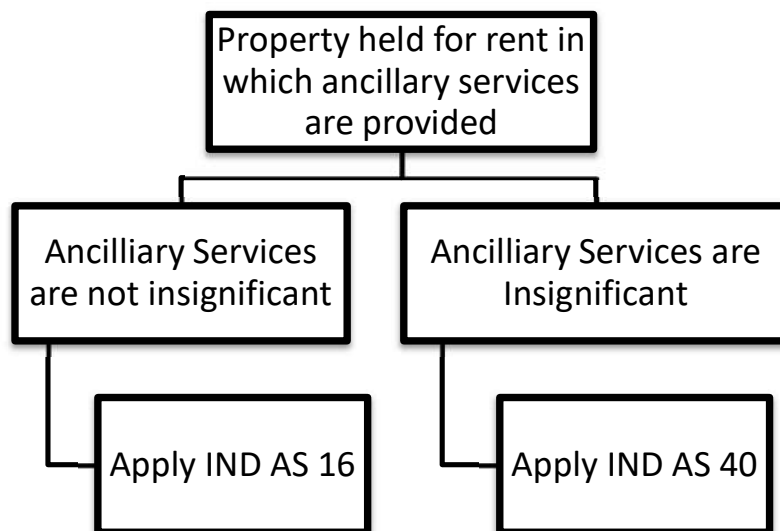
14	Property occupied by employee at concessional Rates	
15	IP classified as held for sale	

2. Special cases

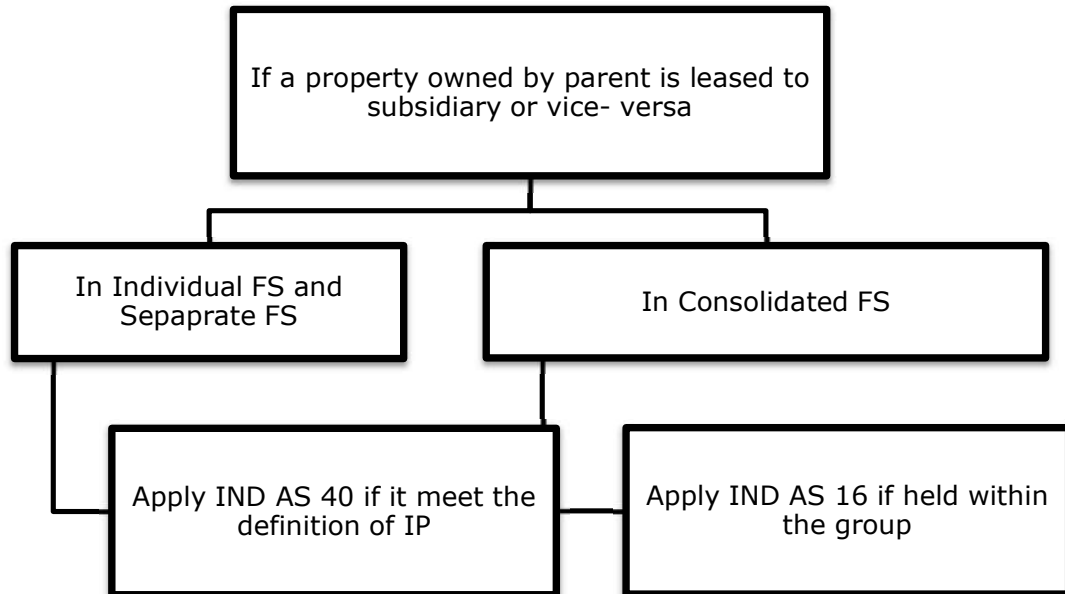
(a) Dual use property = Property held for more than one purpose



(b) Ancillary services = Property held for rent in which ancillary services are provided



(c) *Property leased to group entity*



**3. Recognition and measurement**

(a) *Recognition criteria*

*Recognition as an asset if and only if*

- *it is probable that the FEB will flow to the entity; and*
- *the cost of the IP can be measured reliably.*

(b) *Measurement at initial recognition*

*An investment property should be measured initially at its cost*

*i. Acquired investment property*

*Cost include*

- (a) Purchase price*
- (b) Directly attributable expenses (e.g. professional fees for legal services, property transfer taxes and other transaction costs).*

*Cost will not include*

- a) Start-up costs*
- b) Initial operating losses*
- c) Abnormal loss etc*

## BEST FR CLASSES

**ii. Acquired at deferred credit**

Investment property is measured at cost = PV of all future payments

Interest will be equal to [ Total FP - PV of all FP ]

Interest will be recognised as an exp over the period of credit unless covered under IND AS - 23

**iii. Acquired under Finance Lease**

Recognise IP at lower of

✓ Initial FV

✓ PV of MLP from the point of lessee

**iv. IP acquired through exchange**

CP of IP =

a) FV of asset given up +/- cash adjustment

b) FV of asset received

Whichever is clearly evident

If FV is not measured reliably (or) exchange transaction lacks commercial substance

CP of IP = Carrying amt. of asset given up +/- cash adjustment

**4. Subsequent recognition (measurement at Reporting Date)**

IP is accounted under cost model as per IND AS - 16

IND AS - 40 only requires disclosure of fair value IND AS - 113

If FV cannot be measured, fact should be disclosed

**Note:** As per IAS 40, IP is subsequently recognised either by Cost Model or revaluation model.

**5. Transfer (Reclassification)**

(1) IP - OOP

(2) OOP - IP

(3) IP - Inventory

(4) Inventory - IP

## BEST FR CLASSES

*Transfer from one category to another category will be recognised at carrying amt of asset transferred.*

- *CP of property transferred will not change for disclosure purpose*
- *If IP becomes inventory then no depreciation will be charged subsequently*

**6. Derecognition:** *IP should be derecognised*

*(a) On disposal*

*(b) when the IP is permanently withdrawn from use and no FEB are expected from its disposal*

*Gains or losses arising from the retirement or disposal of investment property should be calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss.*

**7. Disclosures:** *Refer Book*

STUDENT NOTES

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## IND AS-23 BORROWING COST

1. **Borrowing cost:** Borrowing cost are interest and other cost in connection with Borrowing of funds

**Note:**

- Cost of equity instrument is not covered.
- Cost of redeemable prefer shares will be covered Borrowing costs

**Borrowing Cost include**

- Interest exp calculated by using effective interest method (Refer IND AS-109)
- Finance charges in respect of finance lease (Refer IND AS-116)
- Exchange difference arising from foreign currency borrowing to the extent it is regarded As an adjustment to interest cost

**Note:** As per AS-16 following are considered as borrowing cost

- ▶ Discount on issue of debentures (or) bonds
  - ▶ Premium on redemption of debentures or bonds
  - ▶ Any ancillary cost incurred in connection with Borrowing
- Now above items are adjusted while calculating effective rate

**Note:** Penalty (or) prepayment fine is not borrowing cost

2. **Accounting treatment:**

**Capitalised to the cost of asset:** If borrowing cost is directly Attributable for

- (a) Construction
- (b) Acquisition
- (c) Production of a qualifying Asset

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## BEST FR CLASSES

**Qualifying Asset:**

Those assets which take **substantial period of time** for getting ready for its intended use (or) sale

**Specifically exclude:**

- (a) Assets which are measured at FV on initial recognition Eg: Biological assets
- (b) Assets which are ready for its intended use (or) sale on acquisition
- (c) Inventories which are routinely manufactured in large quantities in smaller period of time.

**3. Amount of capitalisation****(a) Specific Borrowing**

Actual borrowing cost incurred	xxx
Less: Income Earned from temporary Investment	xxx
<b>Amount of Capitalisation</b>	<b>xxx</b>

**(b) Non-specific / General Borrowing**

Following steps will be applied

(a) Calculate Total borrowing cost (based on EIR) on Specific Borrowing and on Non-specific Borrowing

(b) Calculate Capitalised rate for non-specific borrowing

$$CR = \frac{\text{Actual BC on Non Specific Borrowing}}{\text{Time weighted average borrowing funds}} \times 100$$

(c) Calculate Average expenditure on qualifying asset during the year

(d) Amount of capitalisation (i.e., borrowing cost to be capitalised)

$$\text{Exp from specific borrowing} = \text{Exp} \times \text{Actual rate[EIR]} \quad \text{xxx}$$

$$\text{Exp from general borrowing} = \text{Exp} \times \text{Capitalisation Rate} \quad \text{xxx}$$

$$\text{Amt of capitalisation} \quad \text{xxx}$$

Amt of borrowing cost capitalised cannot exceed actual borrowing cost.

(d) Borrowing cost charged to PL = [Actual B/C - B/C capitalised]

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**BEST FR CLASSES**
**4. Commencement, suspension and cessation of capitalisation**
**a) When to commence capitalisation?**

*If all the following conditions are satisfied*

- i) *Borrowing cost is being incurred*
- ii) *Expenditure on qualifying asset is being incurred*
- iii) *Activities which are necessary to construct/produce/acquire QA are undertaken.*

**b) When to suspend?**

*If active development is interrupted due to unnecessary activities*

**c) When to cease?**

- i) *When asset is ready for intended use or for sale Or*
  - ii) *When Borrowing is repaid*
- Whichever is earlier*

**5. Exchange difference arising from FC Borrowing is allowed as adjustment to Interest cost:**
**a) Amount of BC adjusted will be Lower of**

- (a) *Actual foreign exchange loss or*
- (b) *Borrowing cost in functional currency - Borrowing cost in foreign currency.*

**b) If subsequently there is a realised or unrealised gain in respect of the settlement or translation of the same borrowing, the gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.**
**6. Difference between IND AS - 23 & AS - 16**

No.		IND AS - 23	AS -16
1.	Asset measured at fair value Ex: Biological Asset	Excluded	Silent



**BEST FR CLASSES**

2.	<i>Explanation of substantial period of time</i>	<i>Not given</i>	<i>Given</i>
3.	<i>Examples of B/Cost</i>	<i>Int. expense by using "Effective interest method"</i>	<i>Interest cost as per agreement.</i>

STUDENT NOTES

## IND AS-41 AGRICULTURE

### (1) Scope: Ind AS 41 is applicable to

(a) *Biological Asset:*

- *Living animal*
- *Plant other than bearer plant*

(b) *Agriculture produced at the point of harvest*

(c) *Government grant:*

- *Related to living animal - IND AS - 41*
- *Related to plant other than bearer plant - IND AS - 41*

### **IND AS 41 is not applicable to:**

- (a) Bearer Plant – IND AS 16
- (b) Government grant related to bearer plant – IND AS 20
- (d) Any land related to agriculture activity – IND AS – 16
- (e) Intangible asset related to agriculture activity – IND AS – 38

### (2) Meaning

**(a) Agriculture activity: It refers to**

- ▶ *Management*
- ▶ *By an entity*
- ▶ *Of biological transformation and*
- ▶ *Harvest of biological asset*
- ▶ *For*
  - *Sale or*
  - *Conversion into agriculture produce or*
  - *Conversion into additional biological asset.*

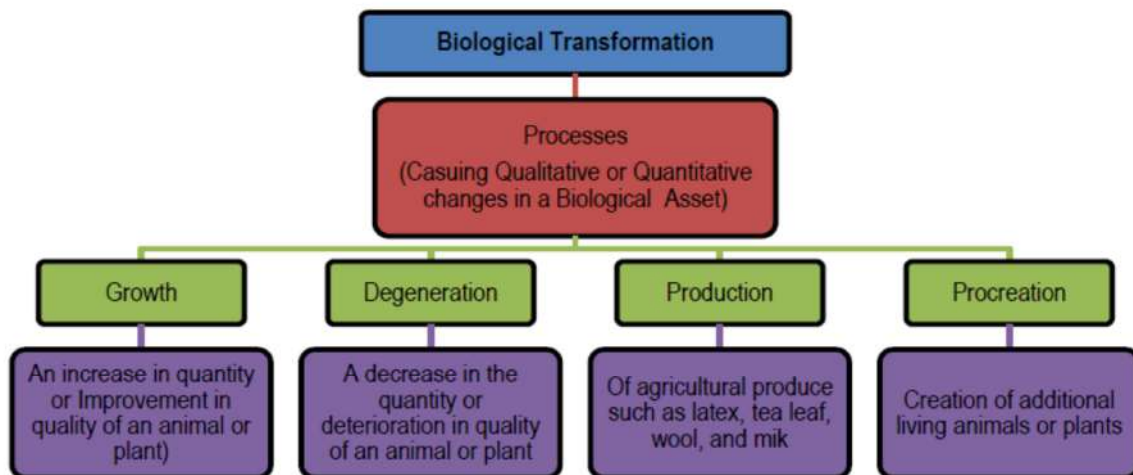
**(b) Biological transformation:** *It consists of*

i. *Process of*

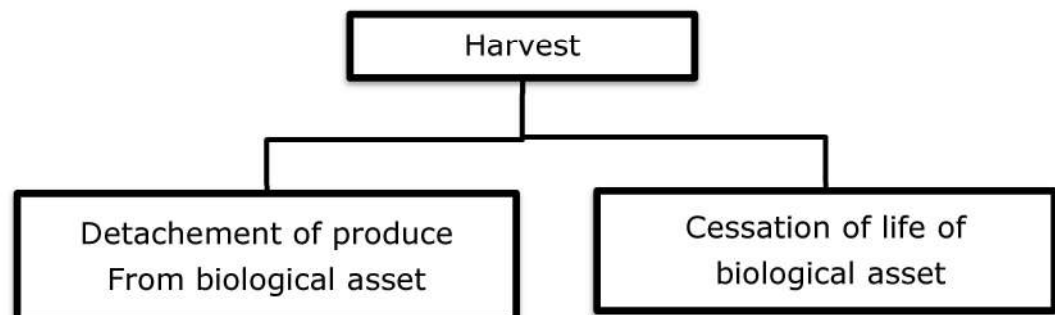
- *Growth - Increase quality/quantity*
- *Degeneration - decrease quality/quantity*
- *Procreation - Creation of additional biological asset*
- *Production - of agriculture produce*

ii. *That causes*

- *Qualitative changes*
- *Quantitative changes of biological asset*



**(c) Harvest:-** *Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.*





**(d) Biological asset:-**

- ◆ Living animal and
- ◆ Plant

**(e) Bearer plant:-** *It is a plant that is*

- ◆ Used in production and supply of agriculture produce
- ◆ Expected to bear produce for more than one period
- ◆ Not held for sale as agricultural produce during its life (except for incidental scrap sales).

**Example:** *Identify whether IND AS 41 is applicable or not*

1	Managed breeding program of animal	
2	Growing plant for producing drugs	
3	Maintaining livestock	
4	Forestation	
5	Deforestation	
6	Annual cropping or perennial cropping	
7	Cultivating or chide	
8	Floriculture	
9	Aquaculture	
10	Managing animal related recreational activity	
11	Natural breeding of animal in Zoo	
12	Managing animal shelter	

**(3) Recognition and measurement :-****(a) Recognition criteria:** *Biological asset are recognised if and only if following condition are satisfied*

- (i) Entity has control of such asset
- (ii) It is probable that future economic benefit associated with the asset will flow to entity
- (iii) Fair value or cost can be measured reliably

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**(b) Measurement criteria:****FOR BIOLOGICAL ASSET**

- *Initial recognition* - at fair value less cost to sell
- *Subsequent recognition* - at fair value less cost to sell

*There is a presumption that fair value can be measured reliably for a biological asset.*

Exception:- *If FV of Biological asset cannot be measured reliably It will be measured as per cost Model*

<i>Cost</i>	<i>XXX</i>
<i>Less: Accumulated Depreciation</i>	<i>XXX</i>
<i>Less: Accumulated Impairment loss</i>	<i>XXX</i>
<i>Carrying Amount</i>	<i>XXX</i>

**Note:-**

- Once fair value of such biological asset become measurable, then it will be measured at FVCS*
- The presumption can be rebutted only on initial recognition. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.*
- The fair value less cost to sell of a biological asset can change due to both physical changes and price changes in the market.*
- Cost may sometimes approximate to fair value in following situation*
  - *There is little biological transformation since the date of acquisition Ex:- Newly acquired livestock immediately before R/Date*
  - *The impact of Biological transformation on price is very less (Immaterial) Ex:- Pine plantation 30 year life cycle*

**FOR AGRICULTURE PRODUCE:-**

- (a) *Measurement at FVCS at the point of harvest*
- (b) *This FVCS will become cost price for applying IND AS - 2*

**(4) GAINS AND LOSSES**

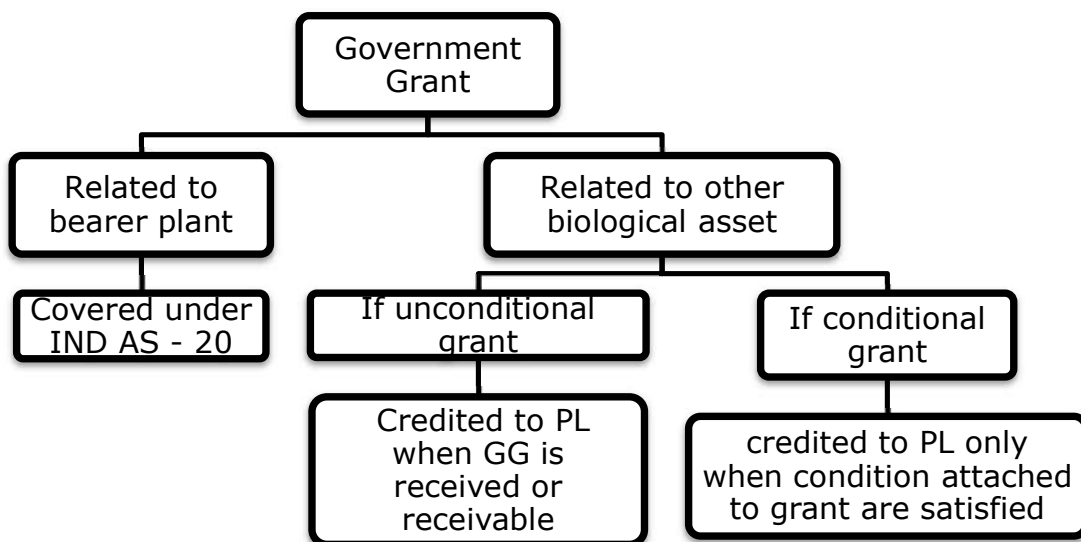
**i) Biological Asset:**

- + *A gain or loss arising on initial recognition of a Biological Asset at FVCS and from a change in FVCS of a biological asset shall be included in Profit or Loss for the period in which it arises.*
- + *A loss may arise on initial recognition of a biological asset, because cost to sell are deducted in determining fair value less cost to sell of a biological asset.*
- + *A gain may arise on initial recognition of a biological asset, such as when a calf is born.*

**ii) Agriculture Produce:**

- + *A gain or loss arising on initial recognition of Agricultural produce at FVCS shall be included in Profit or Loss for the period in which it arises.*

**(5) Government Grant**





**Note:** If a government grant relates to a Biological Asset measured at **COST Model** i.e. (i.e. inability to measure fair value reliably), Ind AS 20 is applied for government grant.

**(6) Disclosure:-**

**(a) General disclosure:**

- (1) Entity shall disclose the aggregate gain or loss arising in current period
- ▶ On initial recognition of biological asset and agriculture produce
  - ▶ From changes in fair value less cost to sell on subsequent recognition of biological asset
- (2) Entity shall present a reconciliation statement of changes in carrying amount of biological asset

Carrying amount as at beg	XXX
(+ ) Any purchase during the year	XXX
(- ) Any sale during the year	XXX
(+ / -) Fair value Gain/Loss	XXX
(- ) Any decrease in FV due to harvest	XXX
Carrying amount as at end	XXX

**(b) Additional disclosure:** If biological asset are measured at cost then following disclosure are require

- (1) Description of such biological asset
- (2) Explanation why fair value cannot be determined
- (3) Depreciation method use
- (4) Useful life and depreciation rate
- (5) The gross carrying amount and the accumulated depreciation and impairment losses at the beginning and end of the period.

**(c) Government grants:**

- (1) The nature and extent of government grants recognised;



**BEST FR CLASSES**

*(2) Unfulfilled conditions and other contingencies attaching to government grants.*

**STUDENT NOTES**

## IND AS-20

### ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURES OF GOVERNMENT ASSISTANCE

**(1) Scope:**

- (a) Accounting and disclosure of Government grants.
- (b) Disclosure of other forms of Government Assistance.

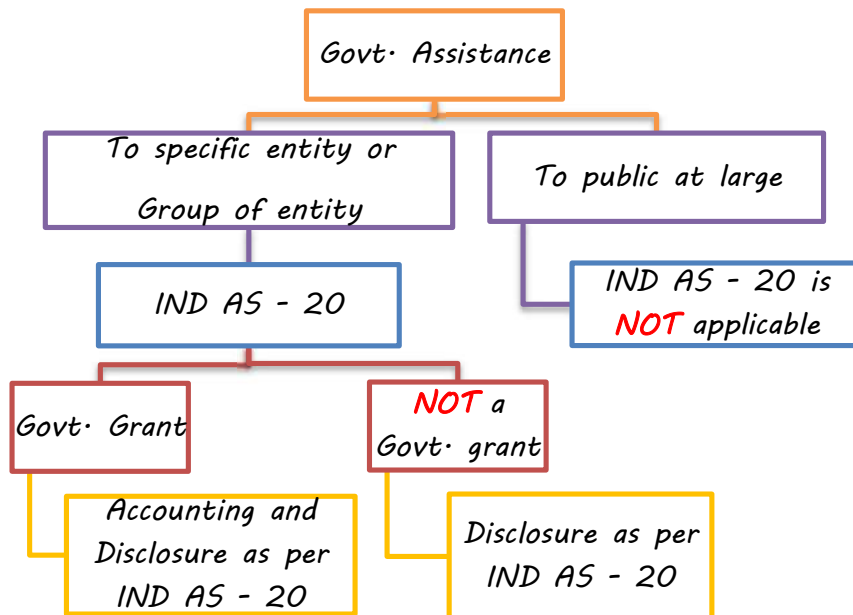
**(2) Meaning**

**(a) Government Grants:** These are

- Assistance from government
- In the form of transfer of resources
- to an entity
- For past or future compliance
- With certain conditions relating to operating activities

**(b) Government assistance:** It is

- an action by Government
- Designed to provide economic benefit
- to a specific entity or group of entity



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**(c) Govt. Grant do not include:**

- 1) Govt. assistance to which monetary value cannot be placed  
*Example: Free technical/marketing advice by Govt.*
- 2) Normal trading transaction with Govt.

*Example: Identify whether IND AS 20 is applicable or not*

a)	Govt. Participation in ownership of an entity	
b)	GG related to biological asset other than bearer plant	
c)	GG related to bearer plant	
d)	Free technical advice from Govt.	
e)	Government Assistance to public at large eg provision of infrastructure by improvement to the general transport and communication network	
f)	Tax holiday, Investment tax credit, additional depreciation - Not application - In IND AS - 12	

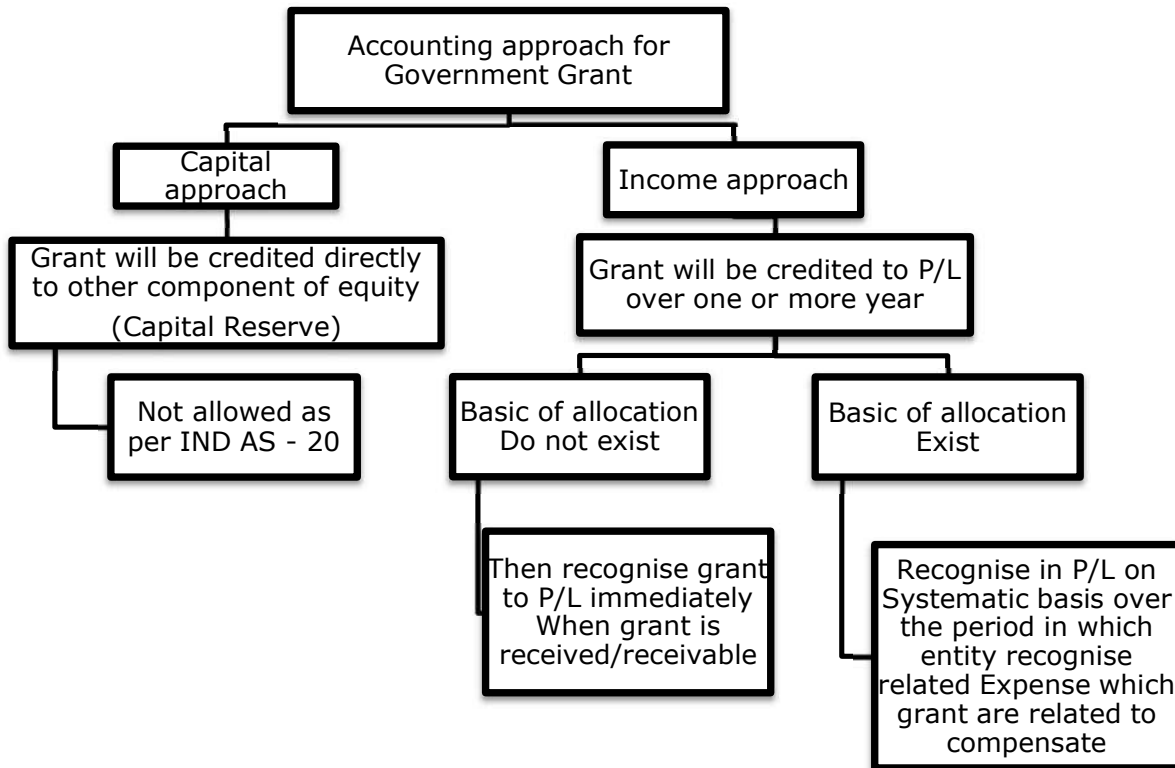
**(3) Recognition of Government Grant:-**

*GG should be recognised only when there is reasonable assurance that*

- *the entity will comply with the conditions attaching to them; and*
- *the grants will be received.*

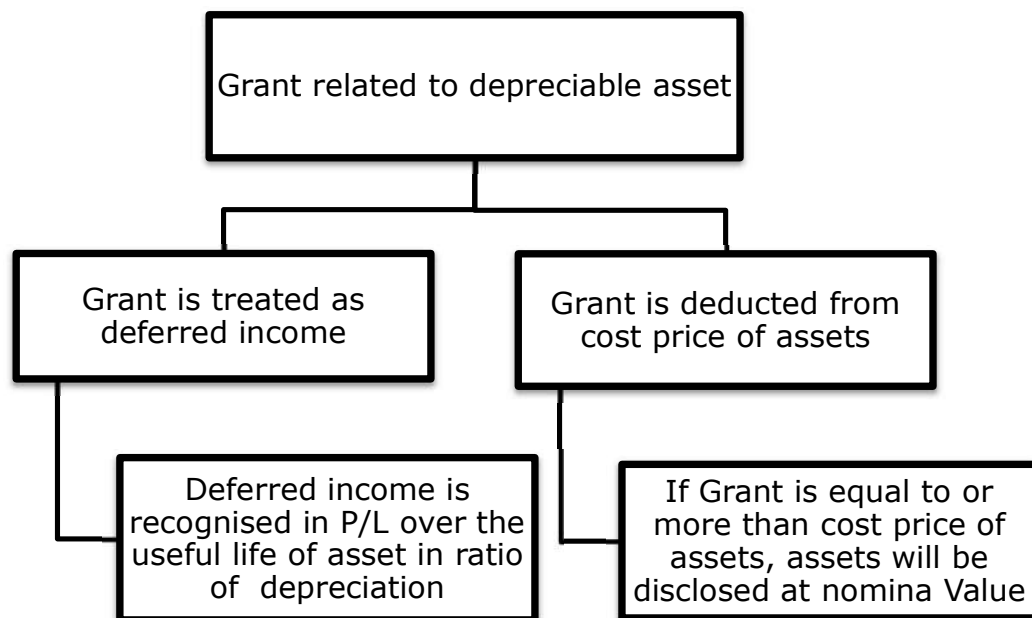
*Note: Only receipt of GG is not conclusive evidence that condition attaching to the grant have been or will be fulfilled.*

**(4) Accounting approach for Govt. Grant**

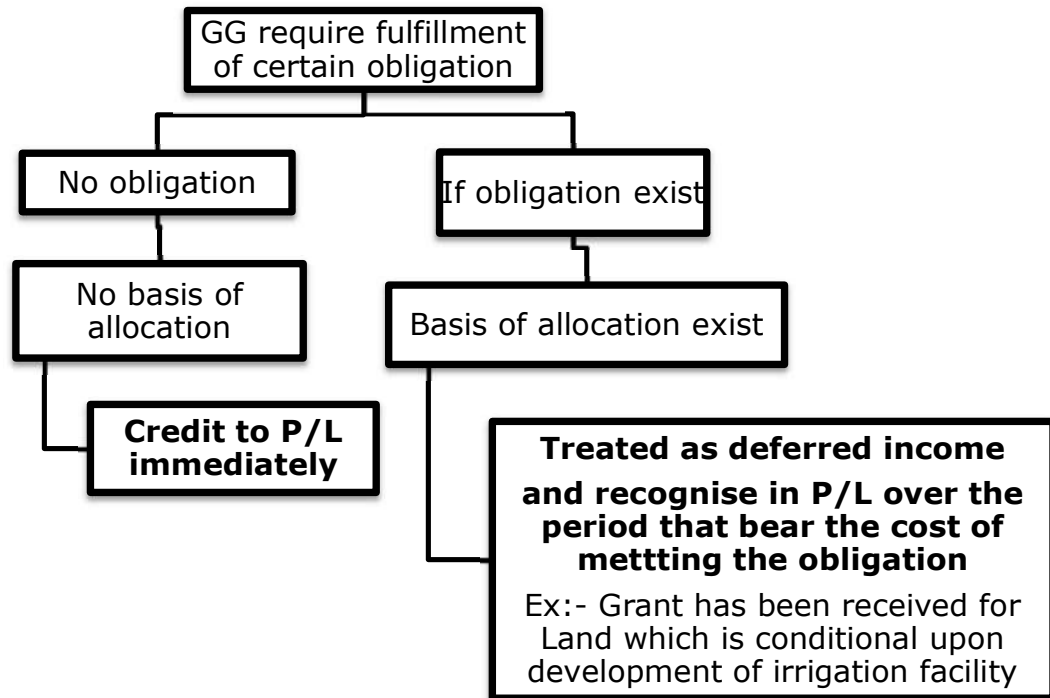


**(5) Accounting treatment:-**

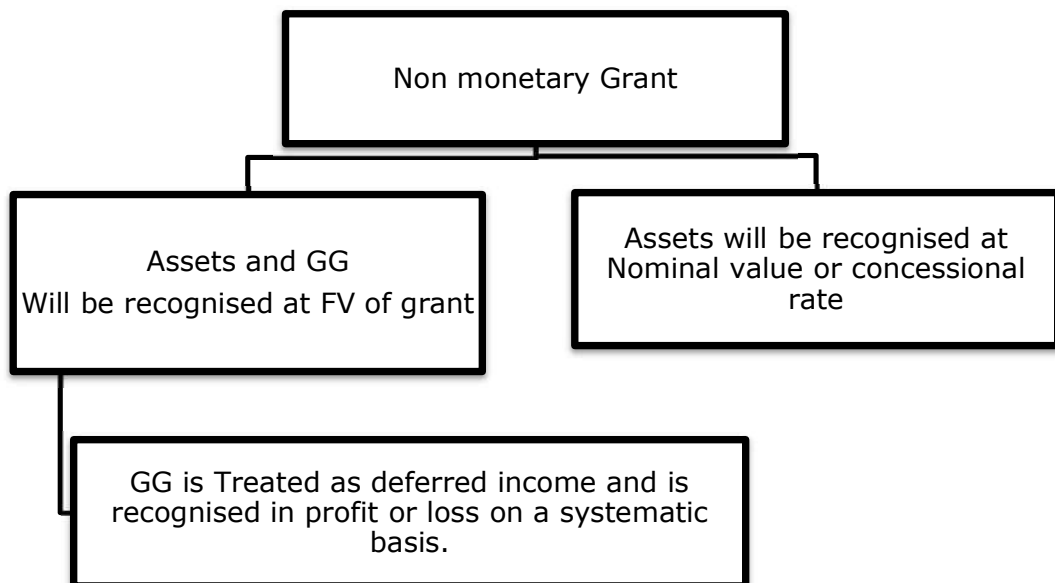
**(a) Grant related to depreciable asset:**



**(b) Grant related to non- depreciable asset:**

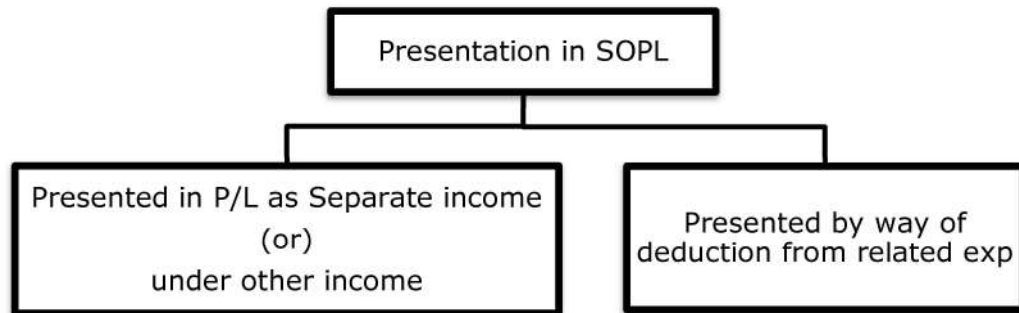


**(c) Non – monetary GG (in kind)**



**(d) Grant related to INCOME:- (Revenue exp)**

- ➔ Treated as deferred income
- ➔ Recognised in P/L on Systematic basis over the period necessary to match with related exp which they are intended to compensate.


**(e) Forgivable loan (Waiver of loan):-**

A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

1	Loan account	Dr	
	To Grant		
2	Grant account	Dr	
	To P/L		

**(f) Concessional loan:-**

- Recognise and measure as per IND AS 109
  - Government Grant
- |                                    |     |
|------------------------------------|-----|
| Amount of proceeds receive         | xxx |
| Less: FV of loan as per IND AS 109 | xxx |
| Amount of Government grant         | xxx |

	Bank account	Dr	
	To loan payable		
	To Govt. Grant		

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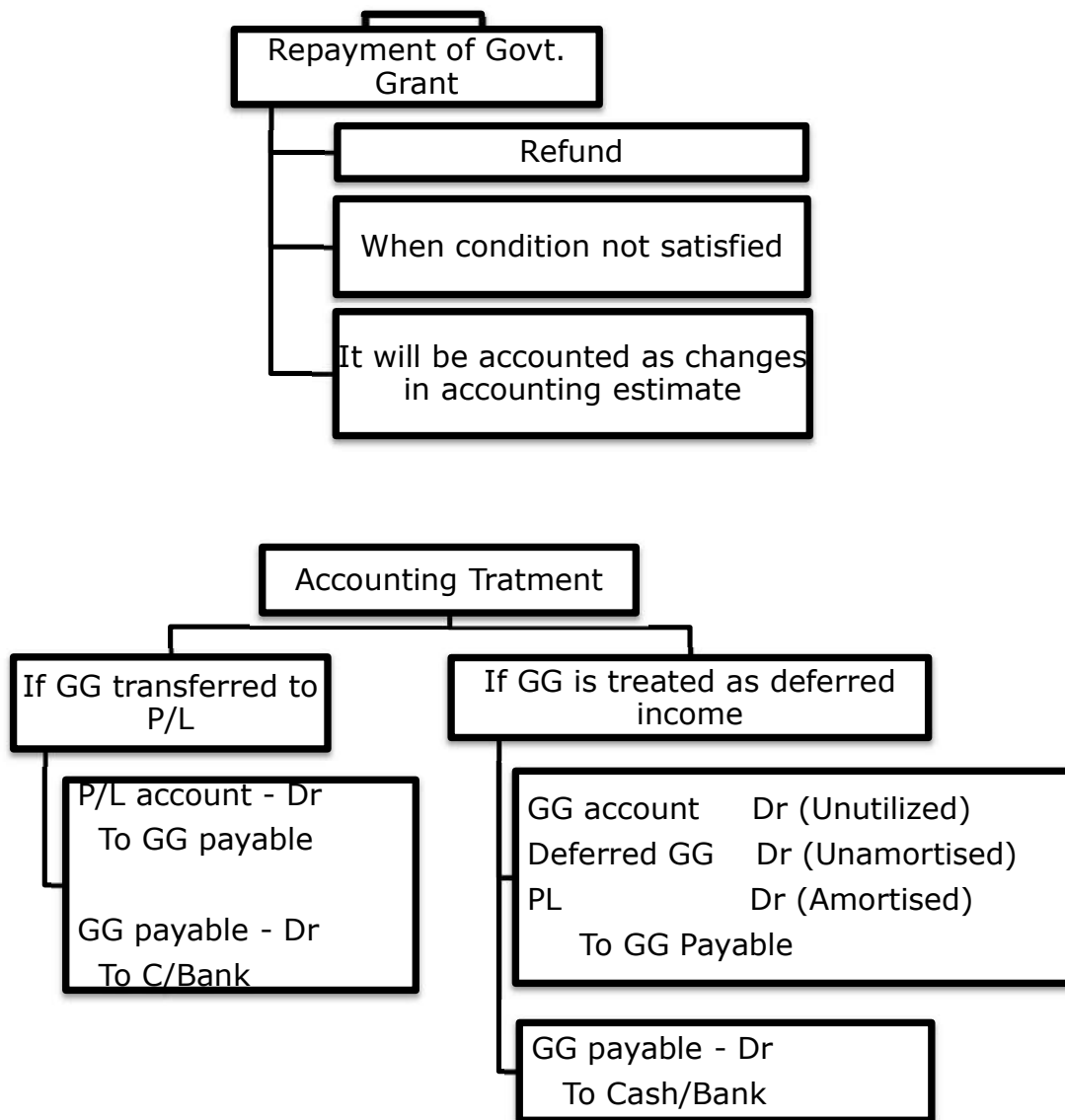
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**(g) Exception:-** *In the following cases, Grant should be recognised in PL of the period in which it is received or receivable*

- (a) *GG received or receivable to compensate past losses/expenses*
- (b) *GG received or receivable as a reward for the purpose of giving immediate financial support with no further related cost.*

**(6) Repayment of Government Grants**





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**(7) Disclosure requirement:-**

- (a) *Accounting policies adopted*
- (b) *Method of presentation*
  - *Equity*
  - *Deferred Government Grant*
  - *Non-Current Liability*
  - *Current liability*
- (c) *Nature and amount of GG recognised in financial statement and other form of Govt. assistance by assistance by which entity has been benefited*
- (d) *Unfulfilled conditions*

**(8) Difference between IND AS 20 & AS – 12**

No.		IND AS – 20	AS - 112
1.	Govt. assistance	Deals	Silent
2.	Capital approach and Income approach	Only Income approach	Both
4.	GG related to Non – Depreciable asset	If no obligation exists – grant transferred to P/L	Grant credit to capital reserve
5.	Non-monetary Govt. Grant	Recognised at fair value or recognised at nominal value or concessional rate	Recognised at nominal value or concessional rate
6.	Concessional & forgivable loans	Deals	Not deals
7.	Refund	Change in accounting estimate	Extra-ordinary item

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8.	GG in the nature of promoter's contribution	Silent. Guidance has been given in Appendix A to IND AS 20	Credited to CR
----	---	---	----------------

**Example:** X Ltd. Purchased a machinery of Rs. 25,00,000 which has estimated useful life of 10 years with residual value of Rs. 5,00,000. On purchase government pays a grant of Rs. 10,00,000. Pass journal entry if grant become refundable during third year.

STUDENT NOTES

## IND AS-36 IMPAIRMENT OF ASSETS

7. *Scope: Not applicable to*

- ✍ Inventory (IND AS - 2)*
- ✍ Construction contract asset in the books of contractor*
- ✍ DTA - (IND AS -12)*
- ✍ Plan asset arising from employee benefits ( As per IND AS - 19)*
- ✍ Financial asset (IND AS 109)*

*Note: Investment in associate, JV or subsidiaries are not covered under IND AS - 109. Therefore, their impairment loss is calculated as per IND AS - 36*

- ✍ Biological asset (IND AS - 41)*
- ✍ Insurance contract (IND AS - 104)*

*IND AS - 36 will be applicable to*

- ✍ PPE*
- ✍ Intangible asset*
- ✍ Investment property*
- ✍ Investment in associate, Joint Venture or Subsidiaries*
- ✍ Subsequent recognition of asset acquired under finance lease*

*IND AS 36 is applicable to both cost and revaluation models.*

*This Standard applies to assets that are carried at revalued amount in accordance with other Ind AS.*

*The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset.*

*(a) If the disposal costs are negligible*

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The RA of the revalued asset is either close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.

**(b) If the disposal costs are not negligible,**

The fair value less costs of disposal of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.

**2. General principle**

If recoverable amount (RA) is less than carrying amt (CA), entity should reduce CA of asset to its recoverable amount

Impairment loss = CA - RA

**Carrying amount of asset on the date of impairment**

Either cost (or) FV	XXX
(-) Accumulated Dep (or) Amortisation	XXX
(-) Accumulated Impairment loss	XXX
Carrying amt	XXX

**Recoverable amount**

Higher of

- (a) Fair value Less cost to sell (FVCS)
- (b) Value in Use (VIU)

**Value - in - use**

- i. PV of future cash flows expected to be derived from the asset
- ii. Estimation of future cash flow (FCF)
  - (a) Estimated FCF is based on reasonable and supportable assumption of economic condition

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- (b) *Estimation should be based on most recent financial budget or forecast which has been approved by management*
- (c) *Projection should cover a maximum period of 5 years unless longer period is justified.*
- (d) *Cash flow beyond the period covered by most recent forecast should be estimated by using growth rate which should not exceed long term average growth rate of industry.*
- iii. ***Estimates of future cash flow will exclude -***
  - (1) *FCF that are expected to arise from future restructuring to which entity is not yet committed*
  - (2) *Estimated FCF that are expected to arise from future capital expenditure*
  - (3) *Cash flow from financing activities*
  - (e) *Income tax receipt refund and payment*
- iv. ***Net CF in foreign currency rate***  
*PV should be determined in Foreign currency which should be converted in Functional currency by using exchange rate on the date of impairment.*
- v. ***Discount rate should be pre-tax. Following discount rate may be used***
  - (a) *Weighted average cost of capital (By CAPM)*
  - (b) *Incremental borrowing rate*

***Fair value - cost to sell***

- (a) *FV is measured as per IND AS 113*
- (b) *Cost of sale is incremental costs directly attributable to disposal of an asset.*

*Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.*

*However, it will not include finance cost and income tax expenses*

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**3. Indicator for impairment****(a) Internal indicator**

- (a) Physical damage of asset or group of assets.
- (b) Any restructuring activity (eg: Discontinued operations)
- (c) Economic performance of asset is worst than expected.

**(b) External indicator**

- (a) Market value of asset has declined substantially
- (b) There is adverse effect flowing to entity due to technology, market, economic (or) legal conditions
- (c) Market rate of interest has increased
- (d) Total market capitalisation is less than carrying amt of net assets

**4. Indicator for impairment of investment in associate, JV and subsidiaries:**  
If any one of the following indicators exists Apply IND AS - 36 for calculation of impairment loss

- (a) Dividend declared by associate, JV (or) Subsidiary exceeds total comprehensive Inc. of Ass, JV (or) Subsidiary.
- (b) Carrying amt. of Investment in SFS is more than net asset of subsidiary, JV or associate including associated Goodwill in CFS.

**5. Exception:** For the following asset an entity is required to test for Impairment every year irrespective of indicator

- + Goodwill acquired in business combination
- + Intangible asset with indefinite life
- + Intangible asset not yet available for use (During development phase)

**Note:**

- (1) The impairment test for such IA may be performed at any time during an annual period provided it is performed at same time every year
- (2) Different IA may be tested for impairment at different times.



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- (3) However, if there is indicator that asset may be impaired, impairment testing should be performed at the end of reporting period.
- (4) If such Intangible asset has been acquired in current period then also impairment testing is required before the end of current annual period

**General Notes:**

- Presence of indicator will not always lead to I/Loss
- If there is indicator, this may indicate that remaining U/L, residual value and depreciation method need to be reviewed as per applicable IND AS (even if no impairment loss is recognised)

**6. Cash Generating Units:**

- (a) **Meaning:** CGU is the smallest group of asset or single asset that can generate cash flow from its continuing use which are independent of cash flow from other CGU
- (b) If any active market exist for the output produced by an asset (or) group of asset shall be identified as CGU (even if all the output are used internally)  
If active market exists - identify as separate CGU
- (c) Sometimes aggregation of CGU is necessary even if cash flow of each CGU can be determined independently if each CGU cannot be sold separately
- (d) **Carrying amount of CGU:**
- ✓ The carrying amount of CGU is determined on the basis of consistent with the way the recoverable amount of CGU is determined
  - ✓ CA of CGU includes CA of assets that can be attributed directly on a reasonable and consistent basis to CGU
  - ✓ It will not include CA of any recognised liability unless RA of CGU can't be determined without considering such liability

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**(e) Allocation of goodwill to CGU**

- ✓ Goodwill can neither be sold nor it can generate CF to an entity, hence Goodwill will be allocated to CGU on reasonable and consistent basis
- ✓ GW will be allocated to different CGU in the ratio specified in the question. If ratio is not specified, it will be allocated in following ratio
  - (a) FV of CGU on acquisition of business
  - (b) If (a) is not given then relative ratio of CGU i.e., Ratio of product Carrying amt. and its useful life
  - (c) If (b) is not given then the ratio of carrying amount of CGU on the date of impairment.
- ✓ CGU to which GW is Allocated is tested for impairment
  - ➔ Annually and
  - ➔ When there is indicator for impairment

**(f) Allocation of corporate asset**

- ✓ If corporate asset can be allocated on reasonable and consistent basis then calculate Impairment Loss for smaller CGU
- ✓ If corporate asset cannot be allocated then perform two stage impairment test
  - 1<sup>st</sup> stage - Identify Smallest group of assets ie Smaller CGU and apply impairment testing on that
  - 2<sup>nd</sup> stage - Identify smallest group of CGU to which corporate asset can be allocated i.e., form Larger CGU and apply impairment testing on that.

**(g) Allocation of impairment loss:**

- ✓ Impairment Loss of smallest CGU (i.e., 1st Stage) is allocated in following order
  - First to Goodwill (if any)
  - Balance loss will be allocated to other assets of CGU including corporate asset in the ratio of their CA



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- ✓ Impairment Loss of larger CGU (i.e., 2nd stage) will be allocated to unallocated corporate asset in the ratio of their CA
- ✓ However, an entity shall not reduce the carrying amount of any asset below the highest of
  - (1) FV less Cost to sell
  - (2) Value in use
  - (3) Zero
- ✓ Any excess amount of impairment loss that cannot be allocated to an asset due to above restriction shall be allocated to other asset of CGU in the ratio of their CA

**7. Reversal of impairment loss****a) Indicator for Reversal****External**

- (a) Market value of asset has increased substantially
- (b) There is significant favourable effect flowing to entity due To technology, market, economic (or) legal condition
- (c) Market rate of interest has declined

**Internal**

- (a) Significant change in the method of production (or) use of asset (i.e., Capital expenditure)
- (b) Economic performance of asset is now better than expected

**b) Reversal of Impairment loss for Individual asset**

- ▶ If there is an indicator of reversal on Reporting Date the carrying amt of asset should be increased with the amount equal to RA of asset (-) CA of asset
- ▶ However, due to reversal CA of asset should not exceed CA of asset that could have been determined (Net of Dep (or) amortisation) had there been no Impairment Loss has been recognised for asset in prior accounting period

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- ▶ In other words, maximum reversal allowed is calculated as under
 

CA of asset on R/D if no imp loss was ever recognised	xxx
Less: Actual carrying amt on R/Date	xxx
Maximum reversal allowed	xxx
  - ▶ In other word after reversal of I/L, CA of asset will be lower of
    - (a) RA of asset on R/D
    - (b) CA of asset on R/D (if no imp loss was ever Recognised)
- c) **Reversal of Impairment Loss for CGU asset**
- ▶ The entity shall allocate the amt of reversal to Asset of CGU (except goodwill) in the ratio of CA of each asset
  - ▶ The reversal shall not increase the CA of any asset above the lower of
    - a. Its recoverable amt
    - b. Its CA as if no Imp loss has been recognised in prior years.
  - ▶ Unallocated amount of reversal due to above restriction shall be allocated to another asset (except G/W) in the ratio of their CA.

**8. Disclosures: Refer book**

**9. Differences**

	IND AS - 36	IND AS - 28
1. Applicability	Applies to Investment in subsidiary, joint venture and associates	Do not applies to such investment
2. Excludes	Biological asset	Silent
3. Annual impairment Test	Annual impairment test (even if no indicator) is required for <ul style="list-style-type: none"> <li>▶ IA with indefinite life</li> <li>▶ IA not yet available for use</li> </ul>	No such requirement

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	▶ Goodwill arising in Business Combination	
4. Reversal of I/Loss for G/W	Not permitted	Allowed in Special circumstances
5. Two stage impairment testing for goodwill	GW is allocated to CGU (or) Group of CGU No two stages impairment testing is required	If G/W cannot be allocated apply BUA & TDA

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## IND AS 102 Share based payments

### 1. Meaning of share Based payment arrangement

*It is an agreement between two parties*

- Entity (or) Group entity &
- Another party

*Which entities another party to receive*

- Cash (or) Other asset which is based on the price of equity instrument of entity (or) group entity  
or
- Equity instrument of entity or group entity

*Provided specific vesting conditions (if any) are made.*

### 2. Meaning of SBP transaction

*It is a transaction in which entity*

- Receives goods or services from another party
- Incurs an obligation to settle the transaction with another party when goods or services are received by group entity.

### 3. Not covered by IND AS – 102

- Agreements which are related to business combination – IND AS – 103
- Agreement between entity and another party in the capacity of SH
- E.g. Right shares, Bonus shares etc.
- Financial instrument to buy (or) Sell non – Financial asset which can be settled on net basis (IND AS – 32 & 109).

### 4. Employee share based payment

- Equity settled share based payments [ESOP/ESPP] Sweat equity shares
- Cash settled share based payment [SAR] – Stock appreciation right
- SBP with cash alternative.

**5. Equity settled SBP: Accounting treatment**

(1) *On grant date :- No entry*

(2) *During vesting period*

*For recognition of option exp at the end of each accounting period*

(a) Employee benefit expense a/c	Dr
----- To SBP reserve a/c	
(b) For writing off EB exp	
P&L a/c	Dr
To EB expense a/c	

**Note**

→ *SBP reserve is shown under "other equity"*

→ *Calculation of option expense at the end of each reporting period*

<i>Cumulative FV of option till reporting date</i>	<i>x</i>
<i>Less: FV of option already recognised as expense during prior year</i>	<i>x</i>
<i>Expense to be recognised during current reporting period</i>	<i>x</i>

**Where,**

(a) *Cumulative FV of option till reporting date*

$$= \text{Total FV option} \times \frac{\text{Expired vesting period}}{\text{Total vesting period}}$$

(b) *Total FV of option = [Number of option expected to be vested on vesting date × FV of each option]*

(c) *Number of option expected to be vested on vesting date = [No of employees expected to vest option × option per Employee]*

→ *All share based payments are recognised by using fair value of option on Grant date, which is calculated by using valuation techniques such as*

(a) *Black - Scholes Model*

(b) *Binomial pricing model*

→ *All option pricing model depends on following factors*

a) *Exercise price*

b) *Life of option (VP+EP)*

c) *Current market price of shares on grant date*

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- d) *Expected volatility of share price*
- e) *Expected Dividend*
- f) *Rate of interest*

→ *Mathematically*

*FV of option = PV of {expected market price on exercise Date - Exercise price}*

→ *Subsequent changes in fair value of option is not relevant for equity settled SBP*

→ *If FV of option is not determinable = Then intrinsic value of option may be used*

*IV of option = [Market price of shares on grant date - EP]*

**(3) During exercise period**

(a) *On exercise day i.e., when options are exercised by employee*

(1) *For receipt of exercise money*

<i>Bank a/c</i>	<i>Dr</i>
<i>----- To SBP reserve a/c</i>	
<i>[with exercise price]</i>	

(2) *For allotment of equity shares*

<i>SBP reserve a/c [FV + EP]</i>	<i>Dr</i>
<i>----- To ESC a/c [Nominal value]</i>	
<i>----- To Securities premium a/c</i>	

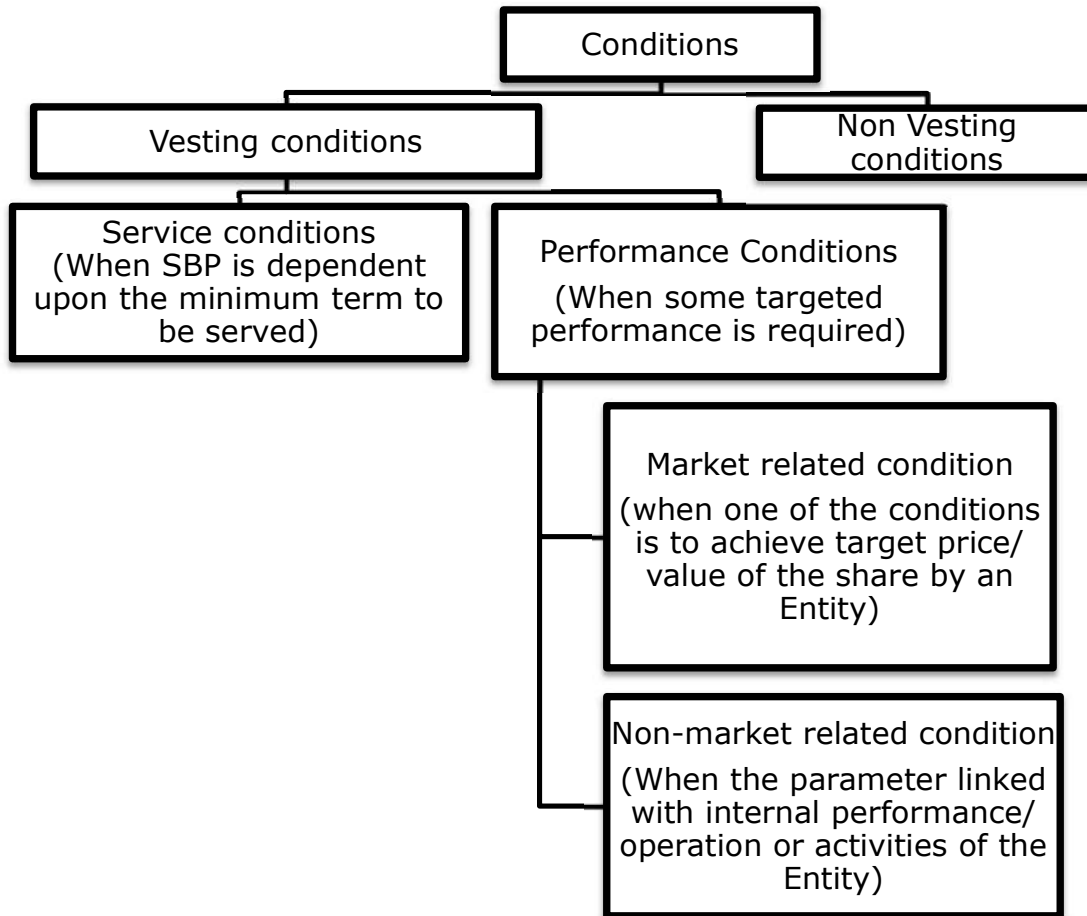
(b) *For cancellation of vested option at the end of exercise period*

<i>SBP reserve a/c -----</i>	<i>Dr</i>
<i>----- To Retained Earning a/c</i>	
<i>[With FV of option cancelled]</i>	

**Note:** *There is no separate journal entry for cancellation of unvested option because option expense will be reassessed at the end of each a/c period during vesting period.*

## 6. Conditions

*There are two types of conditions for share based payments*



<i>Conditions</i>	<i>To include in fair value of SBP (refer note-1)</i>	<i>To include expected equity shares which meet conditions (refer note-2)</i>
<i>Service condition</i>	<i>No</i>	<i>Yes</i>
<i>Performance- Market related</i>	<i>Yes</i>	<i>No</i>
<i>Performance- Non-market related</i>	<i>No</i>	<i>Yes</i>
<i>Non- vesting conditions</i>	<i>Yes</i>	<i>No</i>

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*Note 1: Share based payment will be measured at fair value on initial recognition which will include the effect of these conditions.*

*Note 2: this condition will have no impact on fair valuation of share based payments. However, they will be considered while estimating the expected number of equity shares at the end of each period for recognition of the share based payment.*

*Note 3: Market condition*

- If due to market condition, option vested earlier than expected, then all future exp will be recognised in the year of vesting*
- If due to market condition, option vested later than expected, then option exp will be recognised as planned and there for no changes in recognition of option expense*

## **7. Cash Settled SBP**

- 1. SAR entitle the employee to claim cash payment to the extent of MP of shares on exercise day over EP*
- 2. SAR will not be exercised if  $MP < EP$*
- 3. The accounting treatment of SAR is similar to ESOP with following diff*
  - SBP liability a/c will be opened instead of SBP reserve a/c*
  - FV of SAR should be reassessed at the end of each reporting date during vesting period*
- 4. For SAR, FV of option on grant date is not relevant.*

## **8. Share based payment with cash settlement**

*1) When settlement choice is with employee*

- This plan consists of two components*
  - (a) Liability component I,e; obligation to pay the price differential in cash*
  - (b) Equity component I,e; obligation to allot equity shares at exercise price*
- For the purpose of a/c treatment, entity should assume that all employees will opt for cash settlement*

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- For this purpose, FV of plan on grant date will be split into two parts which is calculated as under  
**FV of liability component**

= FV of plan under cash alternative = Option granted × FV of plan under cash Alternative.

**FV of equity component**

= [FV of plan under equity settlement] - [FV of liability component].

Notes:

1. FV of equity component per option = FV of equity component/Option granted under equity alternative

2. If FV of equity component is nil (Or) ve, then ignore

- Accounting treatment of equity component will be similar to ESOP whereas for liability component will be similar to SAR
- In other words, FV of plan under cash alternative will be reassessed at the end of each year where as no reassessment is required for equity component
- Accounting treatment on settlement or exercise date

**(a) If employee opts for cash settlement**

- SBP reserve a/c will be closed by transferred to retained earning
- SBP liability will be settled at intrinsic value per option on exercise date
- Any difference in will be treated EB expense

**(b) If employee opt for equity settlement**

- SBP liability a/c will be closed by transfer to SBP reserve a/c at its carrying amount.
- ES will be allotted to employee at EP and any difference in SBP reserve a/c will be considered as securities premium.

**II) When settlement choice is with entity**

- Entity should recognize SBP as liability if it has present obligation to settlement in cash in other words, if there is no present

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*obligation for settlement in cash, entity should recognise SBP as equity*

- *Present obligation to settle in cash exists if any one of the following conditions is satisfied*
  - *There is no commercial substance to issue equity shares*
  - *There is past history for settlement in cash.*

**9. Modification:** *Whenever modification is made in plan, such modification may be favourable or Unfavourable to entity*

**Situation 1:** *If modification reduces the fair value of option*

- *This situation will arise if EP of plan is increased*
- *Such modification should be ignored for accounting purpose*

**Situation 2:** *If modification increases the fair value of option*

- *In this case the incremental fair value of option due to modification is recognised as an expense over the remaining vesting period*
- *This situation may arise due to*

A) **Decrease in original EP:** *in this case incremental FV of calculated as under*

*FV of modified plan on modification date* xx

*FV of original plan on modification date* xx

*Incremental fair value of option* xx

B) **Increase in number of options granted:** *In this case incremental FV of calculated as under*

*Additional option granted X FV of modified plan on modification date.*

## **10. Cancellation**

- *Original option exp is minimum exp to be recognised. Therefore, entity recognize immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.*
- *If cancellation is without settlement, then SBP reserve a/c will be transferred to other component of equity i.e., Retained Earning*



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- *If cancellation is with settlement then Gain or loss on settlement will be recognised in PL will be calculated as under*

<i>Compensation paid per option</i>	<i>xxx</i>
<i>Less: FV of option on the date of cancellation</i>	<i>xxx</i>
<i>Gain/Loss per option</i>	<i>xxx</i>

- *Any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent of gain or loss on settlement.*

*Following J/E will be recorded*

<i>SBP reserve a/c</i>	<i>Dr</i>
<i>Loss on cancellation</i>	<i>Dr</i>

*To bank [Compensation]*  
*To profit on cancellation*

*(Any difference will be transferred to Retained Earning).*

**11. Non-employee - SBP**

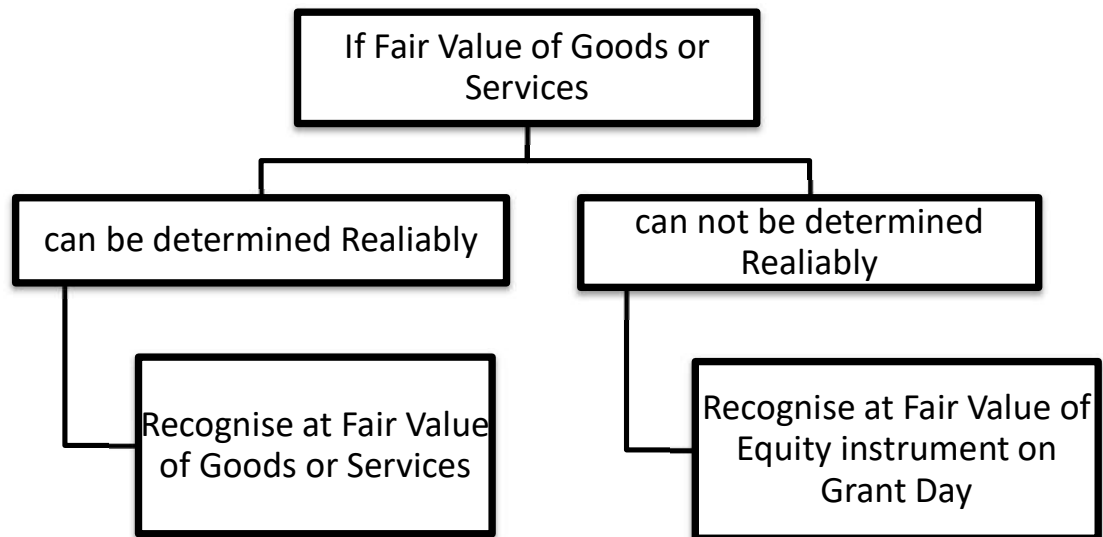
1. *An entity shall recognize the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received.*
2. *Whenever any agreement is between Entity and Non-employee to receive either cash based on the price of equity shares or equity shares, following journal entry will be recognised*

*Asset/Expense Account Dr*

*To SBP Liability Account (If Cash Settled)*

*To SBP Reserve Account (if Equity Settled)*

*At the time of recognition of Goods or services Fair value is determined as under:*



## 12. GROUP SHARE BASED PAYMENT PLAN

*Parent issue its own shares for the SBP issued by its subsidiary*

- ⇒ *Parent would debit these shares as "Investment in Subsidiary" and credit its Equity.*
- ⇒ *Subsidiary will treat the amount as Equity settled SBP and will debit its expenses (employee related cost) and credit the capital contribution from Parent.*

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## Framework for Preparation & Presentation of Financial Statement

1. **Framework:** - Framework provides a road map and approach which will be considered as a broadline within which all IND AS will be applied.

**Note:** - IND AS will be prevail over this framework.

2. **Users of financial statements** -

- (a) Investors:
- (b) Employees:
- (c) Lenders:
- (d) Suppliers and other trade creditors:
- (e) Customers:
- (f) Governments and their agencies:
- (e) Public:

3. **Fundamental accounting assumption**

- ✓ Going concern
- ✓ Consistency
- ✓ Accrual

4. **Qualitative characteristics of FS**

- ✓ Understand ability
- ✓ Relevance
- ✓ Materiality
- ✓ Reliability
  - ⇒ Faithful representation of all the information
  - ⇒ Substance over form
  - ⇒ Neutral - Free from over from personal bias
  - ⇒ Prudence
  - ⇒ Completeness
- ✓ Comparability

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## 5. Elements of FS

- **Assets:** *An asset is a resource*
  - *controlled by the entity as a result of past events and*
  - *From which future economic benefits are expected to flow to the entity.*
  
- **Liability:** *A liability is*
  - *a present obligation of the entity arising from past events,*
  - *The settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.*
  
- **Equity:** *Equity is the residual interest in the assets of the entity after deducting all its liabilities.*
  
- **Income:** *Income is*
  - *increase in economic benefits during the accounting period*
  - *in the form of*
    - ⇒ *inflows or enhancement of assets or*
    - ⇒ *decreases of liabilities*
  - *that result in increases in equity*
  - *Other than those relating to contributions from equity participants.*
  
- **Expense:** *Expense is defined as*
  - *decrease in economic benefits during the accounting period*
  - *in the form of*
    - ⇒ *outflows or depletions of assets or*
    - ⇒ *incurrence of liabilities*
  - *that result in decrease in equity*
  - *Other than those relating to distributions to equity participants.*



**6. Measurement of elements**

- ✓ *Historical cost*
- ✓ *Current Cost (Replacement Cost)*
- ✓ *Realisable value*
- ✓ *Present value*

**7. Concept of capital** *There are two ways of maintaining Capital*

- (a) *Financial capital maintenance*
- (b) *Physical capital maintenance*

**Financial capital maintenance:** - Financial profit will be calculated as under

<i>Closing capital Including Reserves &amp; Surplus</i>	<i>XXX</i>
<i>(Net asset as on the closing date)</i>	
<i>Less: - Initial capital Contribution (Including Premium)</i>	<i>XXX</i>
<i>Less: - Additional capital Contribution (Including Premium)</i>	<i>XXX</i>
<b><i>Financial profit</i></b>	<b><i>XXX</i></b>

**Physical capital maintenance** - *Physical profit will be calculated as under*

<i>Closing capital Including Reserves &amp; Surplus</i>	<i>XXX</i>
<i>Less: Indexed Capital</i>	
<i>(Initial + Additional Capital including premium)</i>	<i>XXX</i>
<b><i>Physical profit</i></b>	<b><i>XXX</i></b>

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## IND AS Introduction

### 1. Application of AS & IND AS in India

#### I For Non-Corporate entity (Other than Co.)

*As issued by ICAI is applicable*

*[Members of ICAI performing attestation function need to comply requirements of AS]*

*Issued: AS - 1 to AS - 32*

*AS 30, 31, 32 were withdrawn*

*AS - 6 & AS - 8 has been deleted.*

#### **Applicability of AS**

*(a) Level - 1 - All AS are mandatory*

*(b) Level - 2*

*Full exemption - AS 3 & AS 17*

*Partial exemption - AS 15, AS 19, AS 20, AS 25, AS 28, AS 29*

*(c) Level - 3*

*Full exemption - AS 3 AS 17, AS 18, AS 24*

*Partial exemption - AS 15, AS 19, AS 20, AS 25, AS 28, AS 29*

*Note: - AS - 21, AS - 23 and AS - 27 are applicable as per Regulation*

#### II For corporate entity

##### A) Company for which AS are applicable

*AS notified by Companies (Accounting standards) Rules, 2006*

*Notified AS: AS 1 to AS 7 & AS 9 to AS 29*

*AS - 6 is deleted.*

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## Applicability of AS notified by Companies (Accounting standards) Rules, 2006

### (i) Non SMS – All AS are mandatory.

#### Meaning

- ✍ Listed Co and Co which are in the process of listing*
- ✍ Banking companies*
- ✍ Insurance companies*
- ✍ Financial institution (NBFC)*
- ✍ Any Co. whose turnover exceed 50cr during previous financial years*
- ✍ Any Co. whose burrowing exceed 10cr at any time during previous FY*
- ✍ Any holding company or subsidiary company of a Non - SMC will be also Non-SMC.*

### (ii) SMC: Companies which are not Non – SMC

*Full exemption - AS 3 and AS 17*

*Partial exemption - AS 15, AS 19, AS 20, AS 25, AS 28, AS 29*

*Note: AS 21, 23, 27, are applicable as per regulation.*

**Note:** *As per Companies Act 2013, cash flow statement is mandatory to all except*

- ✍ One person companies*
- ✍ Dormant companies*
- ✍ Small Companies*
- ✍ Start-up Companies.*

**B) Company for which IND AS are applicable:**

AS notified Companies (Indian Accounting Standard) Rules 2015

*ROADMAP FOR IMPLEMENTATION OF THE INDIAN ACCOUNTING STANDARDS (IND AS)*

*1. For Companies other than banks, NBFCs and Insurance Companies*

**Phase I:** *1st April 2015 or thereafter: Voluntary Basis for all companies.*

**Phase II:** *1st April 2016: Mandatory Basis*

(a) *Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth > INR 500 Crore*

(b) *Unlisted Companies having net worth > 500 Crore*

(c) *Parent, Subsidiary, Associate and J.V. of above.*

*Note: Net worth shall be checked for the previous three Financial Years (2013-14, 2014-15, and 2015-16).*

**Phase III:** *1st April 2017: Mandatory Basis*

(a) *All companies which are listed/or in process of listing inside or outside India on Stock Exchanges not covered in Phase I (other than companies listed on SME Exchanges)*

(b) *Unlisted companies having net worth > INR 250 Crore*

(c) *Parent, Subsidiary, Associate and J.V. of Above*

*Note: Net worth shall be checked for the previous four Financial Years (2013-14, 2014-15, 2015-16, and 2016-17)*

## 2. For Scheduled Commercial Banks (Excluding RRBs), Insurers/Insurance Companies and Non-Banking Financial Companies (NBFC's)

### Scheduled Commercial banks (excluding RRB's)

- (a) *From 1st April, 2018 (with comparatives)*
- (b) *Holding, subsidiary, JV and Associates companies of scheduled commercial banks (excluding RRB's) shall also apply from the said date*
- (c) *Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.*

### Insurers/Insurance companies

- (a) *From 1st April, 2020 (with comparatives):*
- (b) *Holding, subsidiary, JV and Associates companies of Insurance Companies shall also apply from the said date.*

### Non-Banking Financial Companies (NBFC's)

#### Phase I: *From 1st April, 2018 (with comparatives)*

- (a) *NBFCs (whether listed or unlisted) having net worth 500 crore or more*
- (b) *Holding, Subsidiary, JV and Associate companies of above NBFC*

*Note: Net Worth shall be checked for the past 3 financial years (2015-16, 2016-17, and 2017-18)*

#### Phase II: *From 1st April, 2019 (with comparatives)*

- (a) *NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than 500 crore.*
- (b) *NBFCs that are unlisted having net worth 250 crore or more but less 500 crore.*

(c) Holding, Subsidiary, JV and Associate companies of above other than those already covered under corporate roadmap shall also apply from said date.

Note: Net Worth shall be checked for the past 4 financial years (2015-16, 2016-17, 2017-18 and 2018-19)

**Notes:-**

1. IND AS is Applicable for both Consolidated and individual Financial Statements.

2. Net worth - As per Co. s act 2013

**Net worth means**

Paid-up share capital xxx

Add: All reserves created out of the profits xxx

(But does not include reserves created out of Revaluation of assets and amalgamation)

Add: Securities premium account xxx

Less: Accumulated losses xxx

Less: Deferred expenditure and miscellaneous expenditure not written off. xxx

Net worth xxx

3. Net worth should be calculated based on Stand-alone FS prepared as per existing AS

4. Companies whose securities are listed or in the process of listing in SME stock exchange are not required to comply IND AS  
However, they may voluntarily apply IND AS

5. Companies not covered by the roadmap shall continue to apply the existing accounting standards.

6. Once a company voluntarily follows IND AS, it is irrevocable

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7. Law will prevail over AS and IND AS. However AS (or) IND AS will prevail over the requirement of Schedule - III of Companies Act, 2013
8. It is a relief that an overseas subsidiary, associate or joint venture of an Indian company is not required to prepare its stand-alone financial statements as per the Ind AS.  
However, these entities will still have to report their Ind AS adjusted numbers for their Indian parent company to prepare consolidated Ind AS accounts.
9. Company cannot adopt IFRS as a substitution for IND AS.

**Case study:-**

1.

A Ltd		B Ltd
(Parent Co.) Listed		(Subsidiary Co.)
IND AS applicable from 1/4/16		NBFC/ Banking/Insurance Co

*For NBFC/Banking company/Insurance Company (B Ltd) IND AS will be applicable as per their applicability.*

2.

H Ltd (Holding)		S Ltd (Subsidiary)	
IND AS applicable		As applicable	
SFS	IND AS	IFS	AS
Consolidated FS	IND AS		

*S ltd will provide information based on IND AS to H ltd for consolidation purpose*





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3.

H Ltd (Holding)		S Ltd (Subsidiary)	
AS applicable		IND AS applicable	
SFS	AS	IFS	IND AS
Consolidated FS	AS		

*S Ltd will provide information based on AS to H Ltd for consolidation purpose.*

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## IND AS – 1 Presentation of Financial Statement

### I General purpose financial statement

#### (1) Meaning:-

- *These are financial statement which are intended to meet the need of its users*
- *FS are structured representation of financial position and financial performance of an entity*
- *FS provide information about*
  - ✓ *Asset*
  - ✓ *Liability*
  - ✓ *Equity*
  - ✓ *Income & Expense*
  - ✓ *Contribution by & Distribution to Owners*
  - ✓ *Cash flow*

#### (2) A complete set of FS include

- (a) *balance sheet as at the end of the period ;*
- (b) *a statement of profit and loss for the period;*
- (c) *a statement of changes in equity for the period;*
- (d) *a statement of cash flows for the period;*
- (e) *notes, comprising a summary of significant accounting policies and other explanatory information; and*
- (f) *comparative information in respect of the preceding period and*
- (g) *a balance sheet as at the beginning of the preceding period when an entity applies*
  - *an accounting policy retrospectively or*
  - *makes a retrospective restatement of items in its financial statements, or*
  - *When it reclassifies items in its financial statements.*

### (3) General features of FS

#### a) Presentation of true & fair view and compliance with IND AS

- *An entity shall make an explicit and unreserved statement of such compliance with IND AS in the notes.*
- *An entity shall not describe financial statements as complying with Ind AS unless they comply with all the requirements of Ind AS.*
- *Entity cannot rectify inappropriate accounting policy by disclosure.*

#### → Departure from IND AS

- ✓ *Extremely rare circumstances.*
- ✓ *If management concludes that compliance of IND AS would be so misleading that it would conflict with the objective of FS, then entity can depart from the requirement of IND AS.*

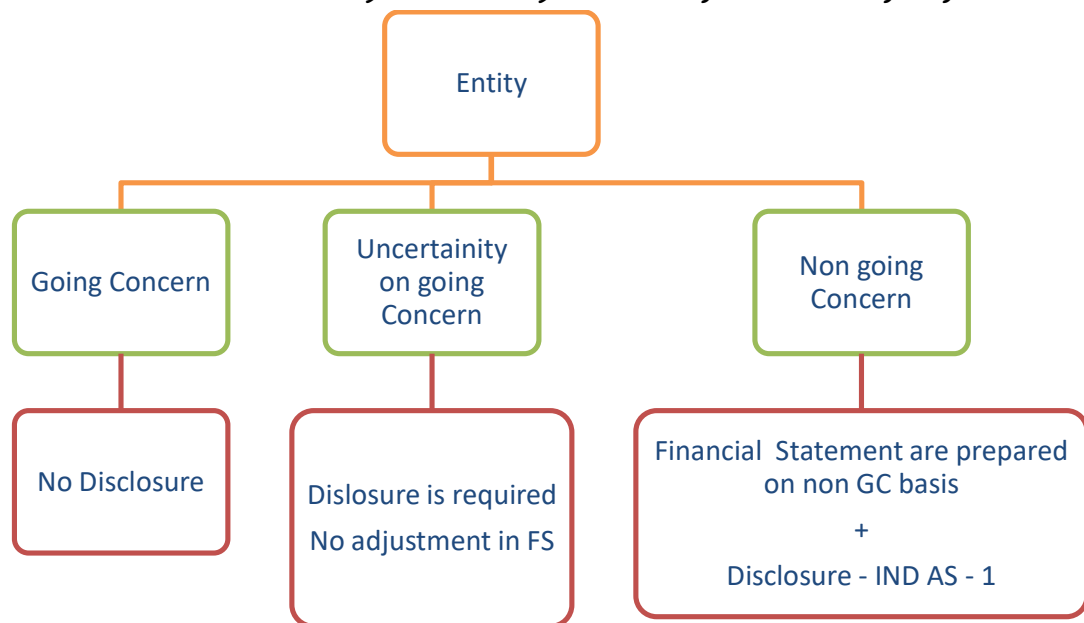
#### → *Entity shall disclose:*

- *Management has concluded that the FS are true & fair*
- *the title of the Ind AS from which the entity has departed,*
- *the nature of the departure, including the treatment that the Ind AS would require,*
- *the reason why that treatment would be so misleading*
- *the treatment adopted*
- *Financial effect of such deviation in current & future years.*

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**b) Going concern**

- ➔ FS prepared under Ind AS should be prepared on a going concern basis.
- ➔ FS are not prepared on a going concern basis IF management either
  - intends to liquidate the entity or
  - to cease trading, or
  - has no realistic alternative but to do so.
- ➔ It is the responsibility of management to assess GC.
- ➔ If management has significant doubt of the entity's ability to continue as a going concern, the uncertainties should be disclosed.
- ➔ While assessing the going concern assumption, an entity is required to take into consideration all factors covering at least 12 months from the end of reporting period.
- ➔ In case the FS are not prepared on a going concern basis, the entity should disclose:
  - The basis of preparation of financial statements and
  - The reason why the entity is not regarded as a going concern.



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**c) Accrual basis**

→ An entity shall prepare its FS using the accrual basis of accounting except SOCF.

**d) Materiality & Aggregation**

→ Present separately each material class of similar item.

→ Present separately items of dissimilar nature or functions unless they are immaterial.

→ Immaterial item should be disclosed separately if required by law or specific IND AS.

**e) Offsetting**

→ Don't offset assets & liabilities (or) Income & Expense unless required (or) permitted by IND AS (or) Law

→ Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables — is not offsetting.

**f) Frequency of reporting – At least annually**

→ An entity shall present a complete set of FS at least annually.

→ When an entity changes the end of its reporting period an entity shall disclose:

(a) The reason for using a longer or shorter period, and

(b) The fact that amounts presented in FS are not entirely comparable.

**g) Comparative Information:**

→ An entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements.

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**h) Consistency of presentation**

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

- *Another presentation or classification would be more appropriate; or*
- *An Ind AS requires a change in presentation.*

*If an entity changes the presentation or classification of items in its FS, it shall reclassify comparative amounts unless reclassification is impracticable.*

**(4) Structure and content of FS :-**

*(i) This standard requires particular disclosure in B/S or SOPL or in SOCE and require disclosure of other line item either*

- *On the face of B/S or SOPL or SOCE Or*
- *In notes to account.*

*(ii) An entity shall display the following information prominently*

- *the name of the reporting entity;*
- *the nature of financial statements*
- *the period covered by the set of financial statements or notes;*
- *the presentation currency, as defined in Ind AS 21; and*
- *the level of rounding used in presenting amounts in the FS.*

**(5) Balance sheet**

- *IND AS 1 has given a list of line items to be disclosed in Balance sheet.*
- *An entity shall present current and Non-current items as a separate classification in Balance sheet.*
- *Deferred tax asset & Deferred tax liability should always be classified Non- Current*
- *However when presentation base on liquidity, provider reliable and more relevant info, an entity shall present all assets & Liabilities in the order of liquidity.*

**→ Meaning of Current Asset & Current Liability**

No.	Current Asset	Current Liability
1.	It is Expected to be realised (or) Consumed (or) Sold within normal operating cycle	It is expected to be settled within normal operating cycle
2.	It is Expected to be realised within 12m from Reporting Date	It is due to be settled within 12m from Reporting Date
3.	It is Held for the purpose of trading	It is Held for the purpose of trading
4.	It is cash & cash equivalent (IND AS - 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.	Entity does not have unconditional right to defer settlement of liability for at least 12 months after reporting date Eg; Loan repayable on Demand

**→ Operating cycle**

Average Holding period of RM xxx

(+) Average Holding period of WIP xxx

(+) Average Holding period of FG xxx

(+) Average realisation period of debtor xxx

Operating cycle xxx

If OC cannot be identified, then OC will be assumed to be 12m

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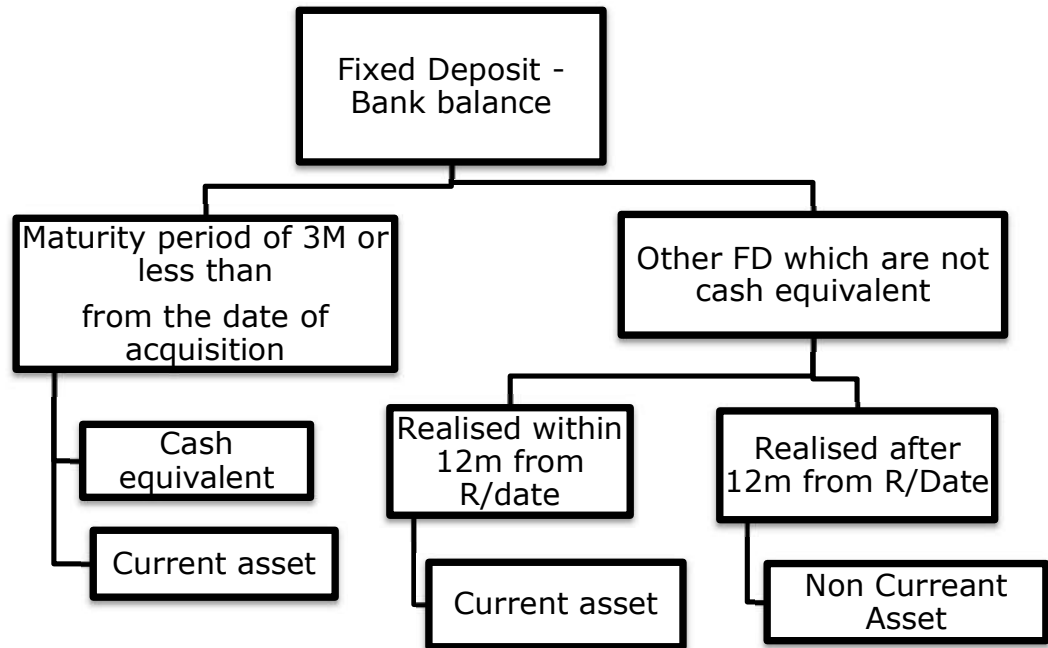
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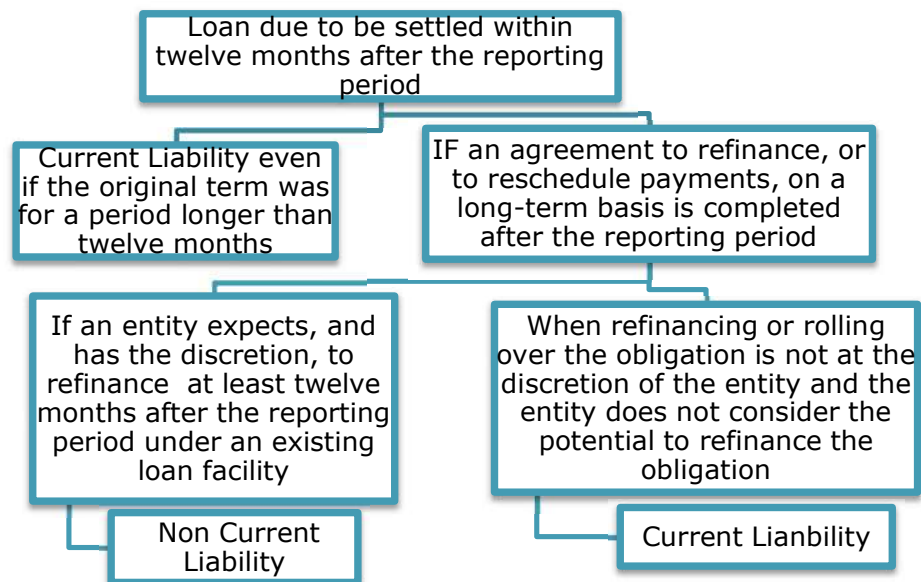
*If multiple business identifies operating cycle for each business.*

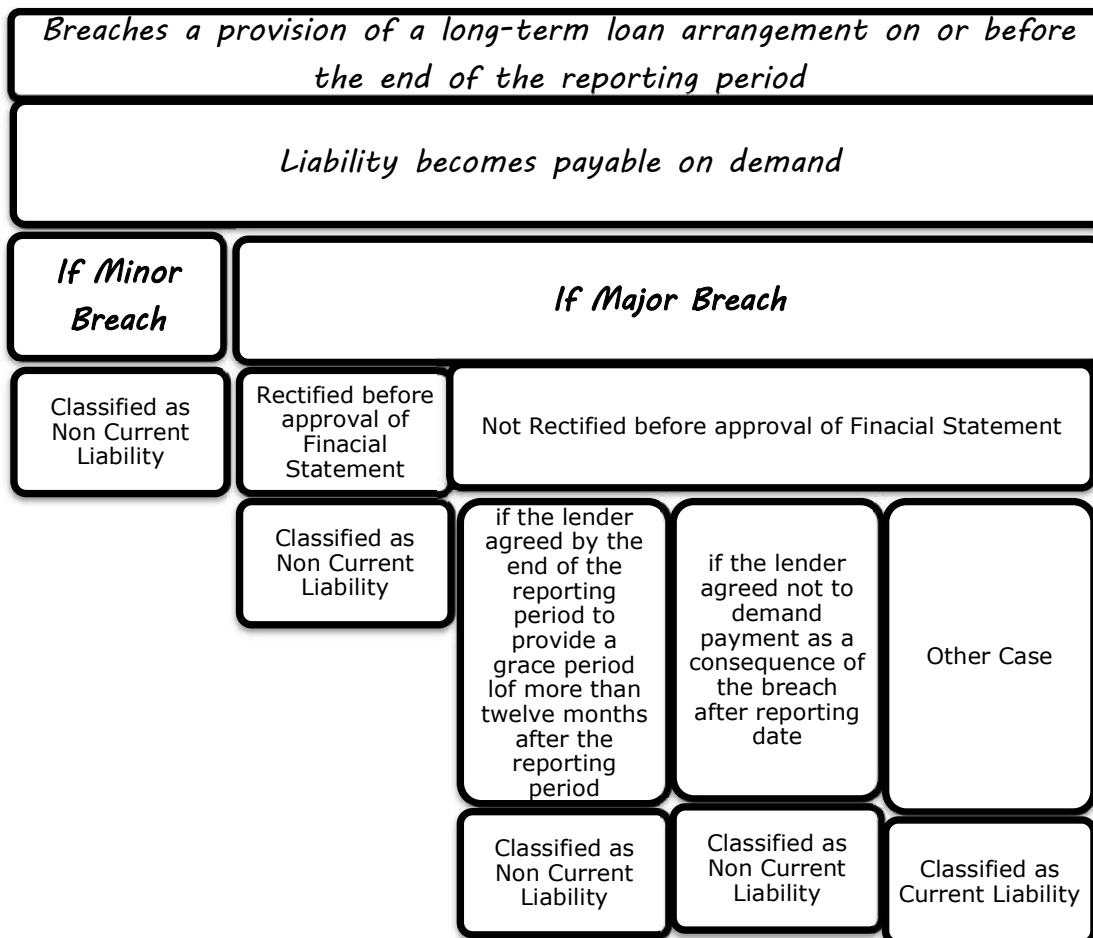
→ **Special case:-**

**1. Fixed Deposit with bank**



**2. Bank loan payable within 12 Month from Reporting date:**



**3. Breaches a provision of a long-term loan arrangement:**


→ *Format as per Schedule III - Division II of Companies Act*

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end previous reporting period
<b>(1)</b>	<b>ASSETS</b>			
	Non-current assets			
	(a) Property, Plant and Equipment			
	(b) Capital work-in progress			
	(c) Investment Property			
	(d) Goodwill			
	(e) Other Intangible assets			

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	(f)	Intangible assets under development			
	(g)	Biological Assets other than bearer plants			
	(h)	Financial Assets			
	(i)	Investments			
	(ii)	Trade receivables			
	(iii)	Loans			
	(iv)	Others (to be specified)			
	(i)	Deferred tax assets (net)			
	(j)	Other non-current assets			
	Current assets				
	(a)	Inventories			
	(b)	Financial Assets			
	(i)	Investments			
	(ii)	Trade receivables			
	(iii)	Cash and cash equivalents			
	(iv)	Bank balances other than (iii) above			
	(v)	Loans			
	(vi)	Others (to be specified)			
	(c)	Current Tax Assets (Net)			
	(d)	Other current assets			
	Total Assets				
	<b>(2) EQUITY AND LIABILITIES</b>				
	Equity				
	(a)	Equity Share capital			
	(b)	Other Equity			
	LIABILITIES				
	Non-current liabilities				
	(a)	Financial Liabilities			
	(i)	Borrowings			
	(ii)	Trade payables			
	(iii)	Other financial liabilities			
	(b)	Provisions			
	(c)	Deferred tax liabilities (Net)			
	(d)	Other non-current liabilities			
	Current liabilities				
	(a)	Financial Liabilities			
	(i)	Borrowings			
	(ii)	Trade payables			

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	(iii)	Other financial liabilities			
	(b)	Other current liabilities			
	(c)	Provisions			
	(d)	Current Tax Liabilities (Net)			
	Total Equity and Liabilities				

**(6) Statement of profit and loss**

- (a) *SOPL will be a single statement*
- (b) *SOPL shall present*
-  *Profit or Loss*
  -  *Total OCI*
  -  *Total CI for the period*
- (c) *SOPL shows profit or Loss and OCI attributable to*
-  *Non-controlling interest and*
  -  *Owner of parent*
- (d) *Item of SOPL will be classified as per its Nature.*
- (e) *An entity shall not present any items of income or expense as extraordinary items, in the SOPL or in the notes.*
- (f) *An entity may present items of other comprehensive income either:*
-  *net of related tax effects, or*
  -  *before related tax effects with one amount shown for the aggregate amount of income tax relating to those items*
- (g) *An entity shall disclose reclassification adjustments relating to components of other comprehensive income.*

*A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.*

- (f) *However following exceptional items should be disclosed separately*

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- Write down of inventory to its NRV & reversal of such write down
  - Write down of PPE(or) IA to be recognised amount and reversal of such write down
  - restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
  - Profit and loss on disposal of PPE
  - Profit and loss on disposal of Investments
  - Discontinued operation
  - Litigation settlements
  - Other reversal of provision
- (g) **OCI will be classified into two parts**
- (a) **Items which will not be reclassified to PL**
- Changes in Revaluation Surplus
  - Re-measurements of the defined benefit plans;
  - Equity instrument through OCI
- (b) **Items which will classified to PL**
- Exchange diff in translating the FS of Foreign operations
  - Debt instrument through OCI
  - Cash flow hedge reserve

## h) Format as per Schedule III – Division II of Companies Act

### PART II - STATEMENT OF PROFIT AND LOSS

	Particulars				
<b>I</b>	Revenue from operations				
<b>II</b>	Other Income				
<b>III</b>	Total Income (I + II)				
<b>IV</b>	EXPENSES				
	Cost of materials consumed				
	Purchases of Stock-in-Trade				

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	Changes in inventories of finished goods, Stock-in -Trade and work-in-progress				
	Employee benefits expense				
	Finance costs				
	Depreciation and amortization expenses				
	Other expenses				
	<b>Total expenses (IV)</b>				
<b>V</b>	Profit/(loss) before exceptional items and tax (I-IV)				
<b>VI</b>	Exceptional Items				
<b>VII</b>	Profit/ (loss) before tax(V-VI)				
<b>VIII</b>	Tax expense: (1) Current tax (2) Deferred tax				
<b>IX</b>	Profit (Loss) for the period from continuing operations (VII - VIII)				
<b>X</b>	Profit/(loss) from discontinued operations				
<b>XI</b>	Tax expenses of discontinued operations				
<b>XII</b>	Profit/(loss) after tax from Discontinued operations (X-XI)				
<b>XIII</b>	Profit/(loss) for the period (IX+XII)				
<b>XIV</b>	Other Comprehensive Income A. (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B. (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or Loss				
<b>XV</b>	Total Comprehensive Income for the period (XIII+XIV)				

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<b>XVI</b>	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted				
<b>XVII</b>	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted				
<b>XVIII</b>	<b>Earning per equity share (for discontinued &amp; continuing operation)</b> (1) <b>Basic</b> (2) <b>Diluted</b>				

**(7) Statement of changes in equity**

a) For each component of equity following reconciliation is required

<i>Particulars</i>	<i>Amount</i>
<i>Balance at the beginning</i>	
<i>Changes in accounting policy or prior period errors</i>	
<i>Restated balance at the beginning</i>	
<i>Total comprehensive Income</i>	
<i>Dividends</i>	
<i>Transfer to retained earnings</i>	
<i>Any other change (to be specified)</i>	
<i>Balance at the end</i>	

b) **Component of equity to be shown in SOCE are**

A. *Equity Share Capital*

B. *Other equity*

*Share application on money pending allotment*

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-  *Equity component of compound financial instrument*
-  *Reserve and Surplus*
  -  *Capital Reserve*
  -  *Securities Premium Reserve*
  -  *Other Reserve (Specify nature)*
  -  *Retained Earning*
-  *Debt Instrument through other Comprehensive Income*
-  *Equity Instrument through Other Comprehensive Income*
-  *Effective portion of Cash Flow*
-  *Hedges*
-  *Revaluation Surplus*
-  *Exchange difference on translation the financial statement*
-  *Money received against share capital*

**(8) Statement of Cash Flows**

*An entity should present a statement of cash flows in accordance with Ind AS 7,*

**(9) Notes to Financial Statements**

- *Statement of compliance with IND AS*
- *Summary of significant accounting policies applied*
- *Supporting information for items presented in financial statements*
- *Disclosure regarding contingent liabilities and unrecognised contractual commitments*
- *Measurement basis used in preparing FS*
- *Information about judgement and assumptions that management has made in the process of applying the entity's accounting policies*
- *Disclosure regarding dividend*

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*An entity shall present notes in a systematic manner. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.*

**Schedule III of Companies Act**

*The MCA on 6 April 2016 amended Schedule III to include general instructions for preparation of financial statements of a company whose financial statements are required to comply with Ind AS. The amendment divides Schedule III into two parts i.e. Division I and II*

- *Division I is applicable to a company whose financial statements are required to comply with the current accounting standards*
- *Division II is applicable to a company whose financial statements are drawn up in compliance with Ind AS (Other than Non Banking Financial Companies (NBFCs))*
- *Division III is Applicable to Non-Banking Financial Companies whose financial statements are prepared under Ind AS*

**Applicability**

- *It is applicable to every company to which Ind AS apply in preparation of its financial statements.*
- *The provisions of Schedule III also apply when a company is required to prepare consolidated financial statements, in addition to the disclosure requirements specified under Ind AS.*
- *Division - II is not applicable to following companies:*
  - (a) *Banking company*
  - (b) *Insurance company*
  - (c) *Electricity company*
  - (d) *NBFC that adopt IND AS*

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## *Main principles*

### **Compliance with Ind AS and 2013 Act:**

- + Requirement of Companies Act and IND AS will prevail over IND AS SCH - III. In other words, IND AS Schedule - III can be modified.
- + The disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS.  
Companies would be required to make additional disclosures specified in Ind AS and Companies Act either in the notes or by way of additional statement(s) unless required to be disclosed on the face of financial statements.

### **Materiality**

- + It requires financial statements to disclose all 'material' items, i.e., the items if they could, individually or collectively, influence the economic decisions that users make on the basis of financial statements.
- + Materiality depends on the size and nature of the item judged in particular circumstances.
- + The definition of what is material is similar to that given in Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
- + However, while preparing the statement of profit and loss, it specifies that a company should disclose a note for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or INR10,00,000, whichever is higher, in addition to the consideration of materiality.

### **Liquidity Order**

- + Schedule III does not permit companies to avail the option of presenting assets and liabilities in the order of liquidity, as provided by Ind AS 1, Presentation of Financial Statements.

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- ✚ Companies may elect to present assets and liabilities in the Order of liquidity as additional information in Notes to accounts

**Terms used in IND AS – Schedule III the meaning as**

- ✚ The terms used in the Ind AS Schedule III will carry the meaning as defined by the applicable Ind AS.
- ✚ For any terms which are not specifically defined in Ind AS, attention may also be drawn to the Framework for the preparation and presentation of Financial Statements in accordance with Indian Accounting Standards ('Ind AS Framework') issued by ICAI.
- ✚ However, if any term is not defined in the Ind AS Framework, the entity may give consideration to the principles described in Ind AS 8 for the purpose of developing and applying an accounting policy.

STUDENT NOTES

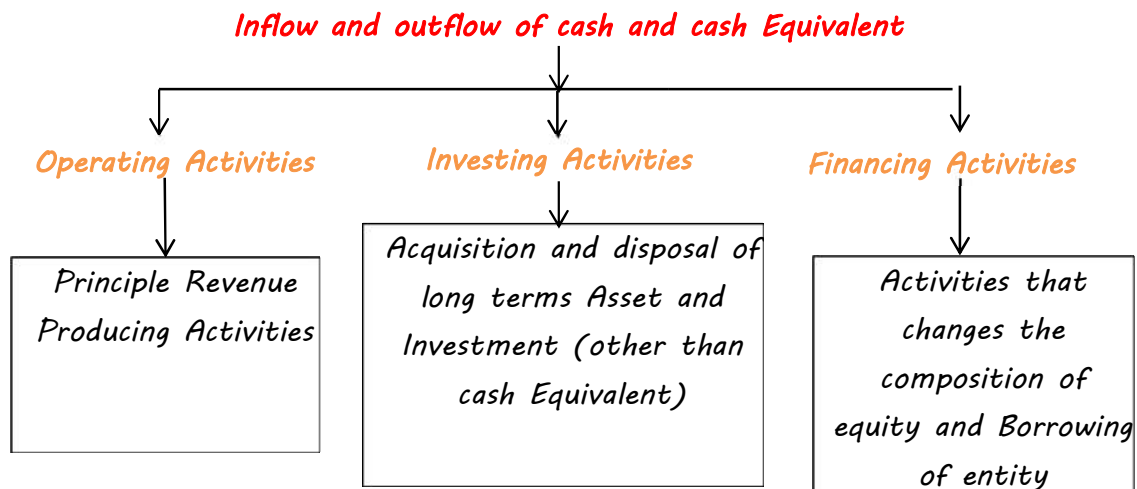


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## IND AS – 7 Cash Flow Statement

### I. Cash Flows:



### II. Cash and Cash Equivalent

#### 1) Cash Includes

- Cash in hand (including foreign currency)
- Demand Deposit with Bank (current A/c)
- Bank Overdraft which are repayable on demand are part of Cash & Cash Equivalent

\* However, Bank overdraft facility or cash credit which are not repayable on demand are financing activities.

#### Balance sheet

Current liability:	IND AS - 7
- Current OD balance	→ C & CE
- Bank OD / CC	→ FA

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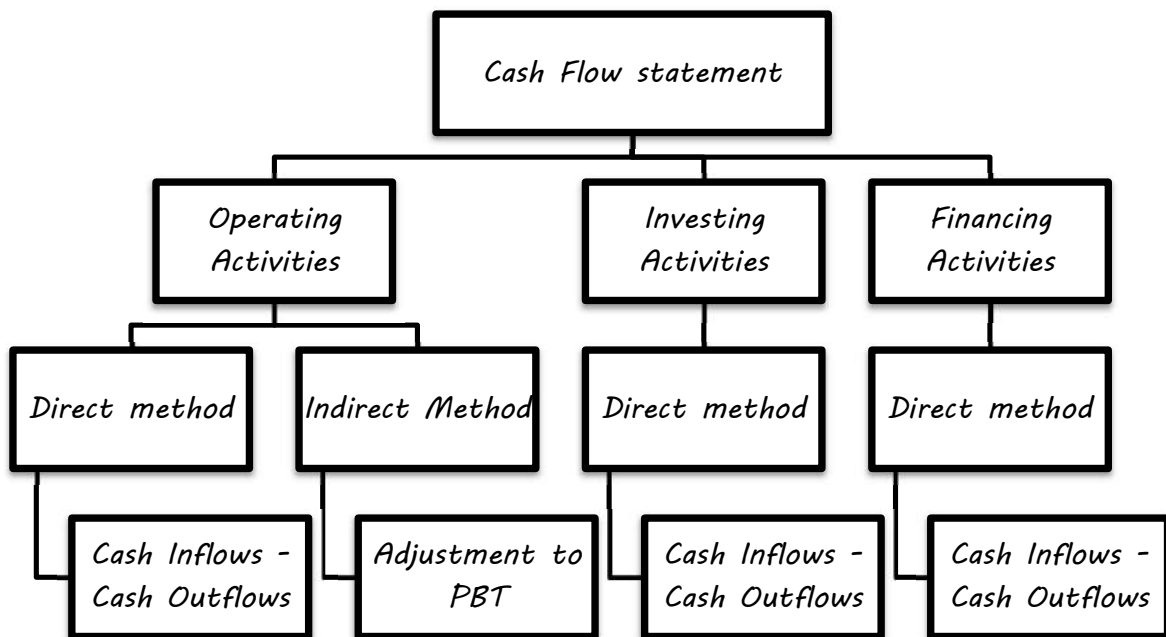
**Cash Equivalent:**

- Short term (3 month or less than 3 months from Date of acquisition)
- Highly liquid investment
- That are readily convertible to known amount of cash
- Which are subject to in significant risk of charges in value

**Example:**

- i) FD having maturity of 3 months or less than 3 months from DOA - CE
- ii) FD having Maturity of more than 3 M - IA
- iii) Any investment in redeemable Preference shares which are redeemable within 3 months from DOA - CE
- iv) Investment in Equity shares which are realizable with 3 months - Not a CE

**III. Cash Flow Statement**





**FORMAT:**

<i>Cash Flow from Operating Activities</i>	<i>XXX</i>
<i>Cash Flow from Investing Activities</i>	<i>XXX</i>
<i>Cash Flow from Financing Activities</i>	<i>XXX</i>
<i>Increase or Decrease in Cash &amp; Cash Equivalent</i>	<i>XXX</i>
<i>Add: Opening Cash &amp; Cash Equivalent</i>	<i>XXX</i>
<i>Closing Cash &amp; Cash Equivalent</i>	<i>XXX</i>

<i>Cash Flow from Operating Activities by Indirect Method</i>	
<i>PBT</i>	
<i>Adjustment for</i>	
<i>Non cash Item (Operating)</i>	<i>XXX</i>
<i>Non-Operating Item (IA or FA)</i>	<i>XXX</i>
<i>Operating profit before working capital charges</i>	<i>XXX</i>
<i>(-) Increase in Operating CA</i>	
<i>(+) Decrease in Operating CA</i>	
<i>(+) Increase in Operating CL</i>	
<i>(-) Decrease in Operating CL</i>	<i>XXX</i>
<i>Cash generated from OA</i>	<i>XXX</i>
<i>(-) Income tax paid (Net)</i>	<i>XXX</i>
<i>Cash Flow from Operating Activities (Net)</i>	<i>XXX</i>

**NOTE:** Examples of Non-Operating CA and CL

- a) Interest Receivable - Interest Received - IA
- b) Interest Payable - Interest Paid - FA
- c) Fixed Deposit - Inflow or outflow - IA
- d) Short Term Borrowing (including Bank OD) - FA
- e) Loan and advances given - IA

*NOTE: PFT and Advance Tax (TDS) should not be considered for WC charges as IT payment (net) should be shown as a separate item under CFFOA.*

#### IV. Special Points (IMP)

**A) PPE purchased or constructed for let out and subsequently held for sale in ordinary course of business.**

- |   |    |
|---|----|
| i) Acquisition and construction of such PPE | OA |
| ii) Rent Received from such Asset           | OA |
| iii) Sale of such Asset                     | OA |

**B) Operations of Financial Companies (Bank, NBFC etc.)**

- |  |    |
|--|----|
| i) Purchase and sale of Investment in shares or other securities | OA |
| ii) Cash advances or loan given                                  | OA |
| iii) Any Interest received on such investment or loan given      | OA |

**Clarification: Deposits from Public - FA**

Interest paid on deposit → OA

**C) Interest and Dividend**

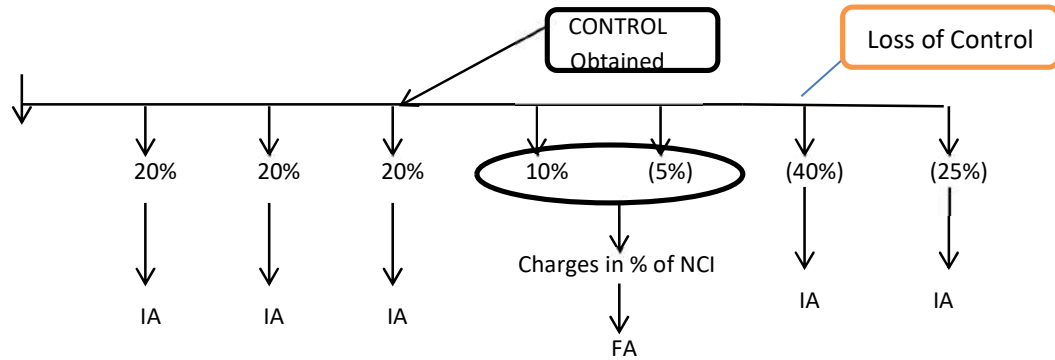
	Financial Co.	Other Co.
Interest paid	OA	FA
Interest Received	OA	IA
Dividend Received	OA	IA
Dividend Paid	FA	FA

**D) Taxes on Income:** Taxes on Income is usually classified as OA unless they can be specifically identified as FA or IA.

**Example:**

Dividend Distribution Tax paid	FA
TDS on Interest Received or Dividend Received	IA
Tax Paid on Long Term Capital Gain	IA

**E) Changes in Ownership interest in subsidiaries and other Business - (CFS)**



- i) CF arising from obtaining or loss of control in subsidiary → IA
- ii) CF arising from changes in ownership interest in subsidiary that does not result in loss of control → FA.

**F) Non-Cash Transaction:** Investing or Financing Activities that does not involve the movement of cash and CE shall be excluded from SOCF.

**Examples:**

- a) Conversion of Debenture into Equity
- b) Finance Lease on Commencement of lease term
- c) Acquisition of Asset or Business by Issue of shares or debentures.

INA (including cash) - - - - -	Dr
G/W - - - - -	Dr
To share capital	Non Cash
To Cash	Cash
To Gain on Bargain Purchase	

IA = Cash paid - Cash Received included in INA

**Notes:** Non cash transaction should be disclosed by way of Notes to SOCF.

**G) Foreign Currency Cash Flows:**

- i) Cash Flow arising from transactions are recorded at *Transaction Date Exchange Rate*.
- ii) *Unrealized Exchange Gain or loss from changes in Foreign Exchange Rate are not Cash Flows*

**H) Component of cash and cash Equivalent and their Reconciliation with Balance Sheet**

	<i>Opening</i>	<i>Closing</i>
<i>Cash in hand</i>	<i>XX</i>	<i>XX</i>
<i>Cash at Bank (current)</i>	<i>XX</i>	<i>XX</i>
<i>Short term Investment (CE)</i>	<i>XX</i>	<i>XX</i>
<i>Foreign Currency</i>	<i>XX</i>	<i>XX</i>
<i>(-) Bank OD repayable on demand</i>	<i>XX</i>	<i>XX</i>
<i>Cash &amp; Cash Equivalent for SOCF</i>	<u><i>XX</i></u>	<u><i>XX</i></u>

**Reconciliation of Cash and CE**

	<i>Opening</i>	<i>Closing</i>
<i>As per SOCF</i>	<i>XX</i>	<i>XX</i>
<i>(+) Unrealised Ex. Gain</i>	<i>XX</i>	<i>XX</i>
<i>(-) Unrealised Ex. Loss</i>	<i>XX</i>	<i>XX</i>
<i>(+) Bank OD repayable on demand</i>	<i>XX</i>	<i>XX</i>
<i>As per Balance Sheet</i>	<i>XX</i>	<i>XX</i>

**STUDENT NOTES**



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## IND AS 34 – INTERIM FINANCIAL REPORTING (IFR)

**I. Meaning:**

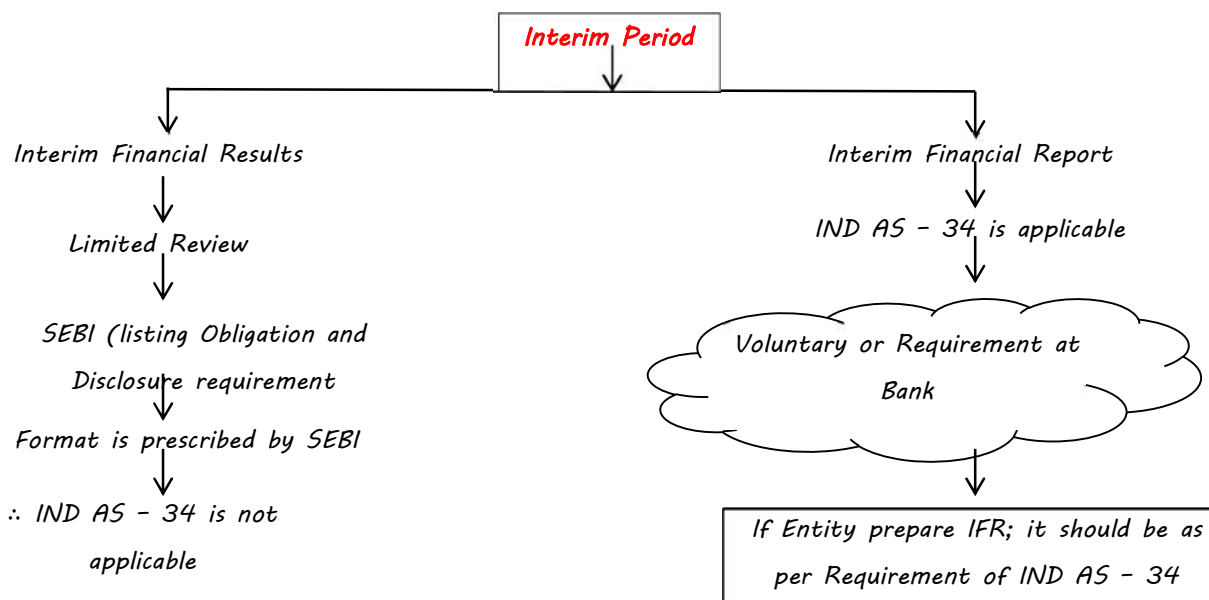
*Interim Financial Report is a Financial Report (FR) containing:*

- a) *A complete set of Financial Statement (or)*
- b) *A condensed set of Financial Statement*

*For an Interim Period.*

*Interim period is a Financial Reporting Period less than full financial year (12 months).*

**Note:** *1<sup>st</sup> Annual Financial Report may be for less than 12 months.*



**Clarification:**

*Recognition of Revenue and Expense for Interim Financial Results will be as per AS - 25 will be applicable as per **Guidance Note on applicability of AS - 25 for Interim Financial Results***

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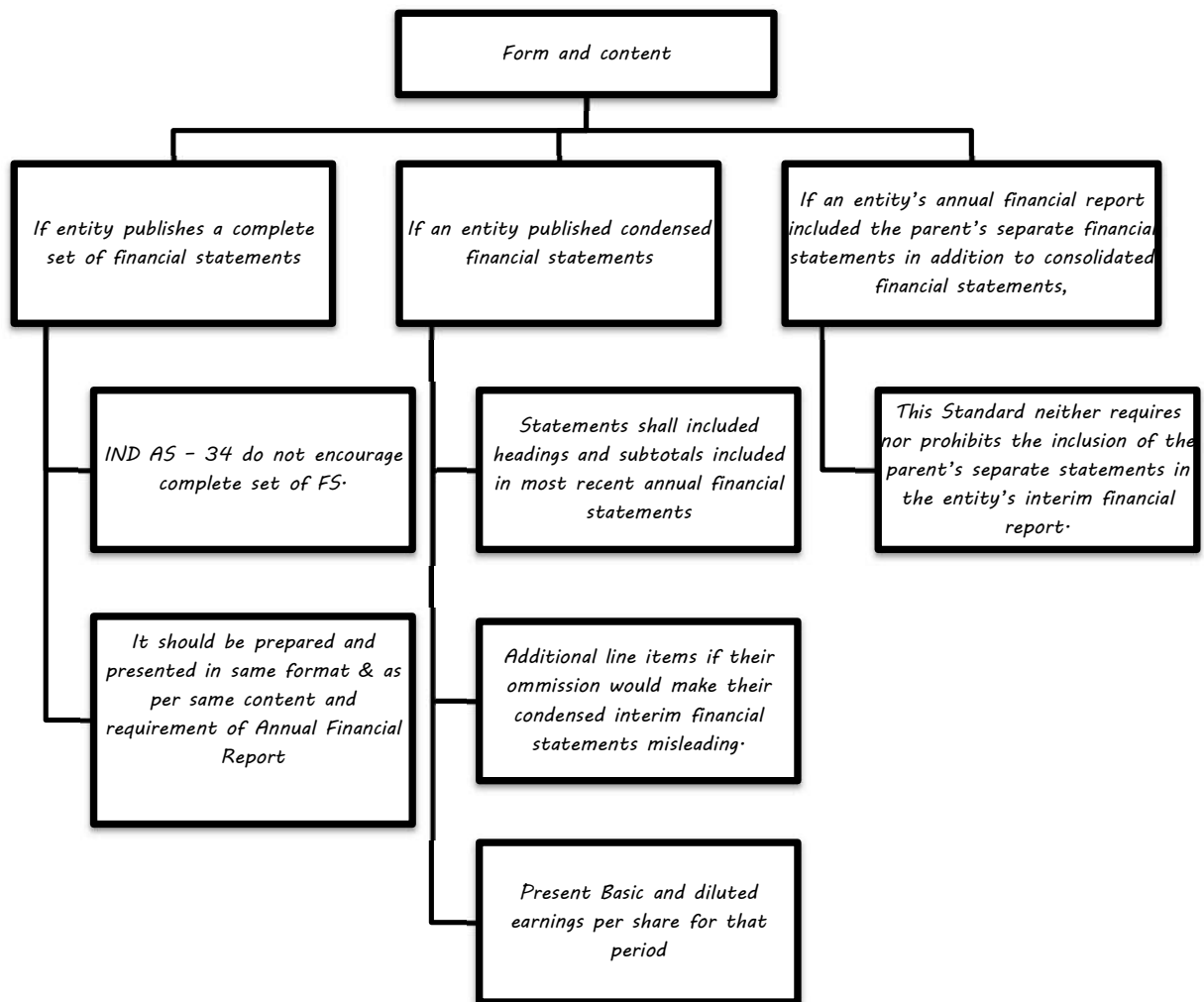
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**II. Interim Financial Report:**

	<i>Complete set of Financial Statement</i>	<i>Condensed Financial Statement</i>
<i>A</i>	<i>Balance sheet</i>	<i>Condensed balance sheet</i>
<i>B</i>	<i>SOCE</i>	<i>Condensed SOCE</i>
<i>C</i>	<i>SOPL</i>	<i>Condensed SOPL</i>
<i>D</i>	<i>SOCF</i>	<i>Condensed SOCF</i>
<i>E</i>	<i>Notes to Accounts (if Required)</i>	<i>Selected Explanatory Notes</i>

**III. Form and Content of Interim financial report**



**IV. Minimum Information for selected Explanatory Notes for condensed Interim Financial Report:**

- a) *A statement that same accounting policies (AP) and Method of computation followed.*  
*If there are changes in AP, Nature and Effect of the change should be disclosed.*
- b) *Seasonal and cyclic Nature of Business.*
- c) *Nature and amounts of items affecting asset, liability, Equity, Income, Expense that are unusual (exceptional)*
- d) *Nature and amount of changes in Accounting Estimate.*
- e) *Any changes in the composition of debt and equity shares need to be disclosed - Issue, Buy back, Redemption.*
- f) *Dividend paid (aggregate or per share) for Equity shares and other shares.*
- g) *Selected segment Information as per IND AS - 108.*
- h) *Events after Interim period that have not been reflected in IFS - Non Adjusting Event*
- i) *The effect of changes in the composition of entity due to Business Combination.*
- j) *Contingent liabilities and contingent Assets if any material changes from last Interim Financial Report.*

**V. Periods for which interim financial statements are required to be presented**

**A. For Non-Seasonal Business:** *An enterprise whose financial year ends on 31 March, presents financial statements (condensed or complete) for following periods in its interim financial report for the second quarter ending 30 September 2001:*

<b>Balance Sheet:</b>		
<b>As at</b>	<b>30 September 2001</b>	<b>31 March 2001</b>
<b>Statement of Profit and Loss:</b>		
<b>6 months ending</b>	<b>30 September 2001</b>	<b>30 September 2000</b>
<b>3 months ending</b>	<b>30 September 2001</b>	<b>30 September 2000</b>

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<i>Statement of Changes in equity:</i>		
<i>6 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>Cash Flow Statement:</i>		
<i>6 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>

B. *Seasonal Business:* An enterprise whose financial year ends on 31 March, may present financial statements (condensed or complete) for the following periods in its interim financial report for the second quarter ending 30 September 2001:

<b>Balance Sheet:</b>		
<i>As at</i>	<i>30 September 2001</i>	<i>31 March 2001</i>
		<i>30 September 2000</i>
<i>Statement of Profit and Loss:</i>		
<i>6 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>3 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>12 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>Statement of Changes in equity:</i>		
<i>6 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>12 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>Cash Flow Statement:</i>		
<i>6 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>
<i>12 months ending</i>	<i>30 September 2001</i>	<i>30 September 2000</i>

**VI. Recognition and Measurement of Income-Tax:**

- a) *Calculate Estimated weighted Average Tax Rate for current Interim Period-  
Estimated Weighted Average Tax Rate (Effective Tax Rate)*

$$= \frac{\text{Estimated Total Tax Expense for current FY}}{\text{Total Estimated Accounting Income (PBT) for current FY}}$$

*Where Tax Exp = Current Tax ± Deferred Tax*

- b) *Calculate Tax Expense for current Interim Period:*

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<i>Tax Expense for current Interim Period</i>	
<i>Cumulative Tax Expense up to End of current Interim Period</i>	
<i>[Actual Accounting Income X Weighted Average Tax Rate]</i>	<i>XXX</i>
<i>Less: Tax Expense already recognized for Previous IP</i>	<i>XXX</i>
<i>Tax Expense of current Interim Period (IP)</i>	<i>XXX</i>

**Example 1:-**

From the following information of A Limited calculate Tax Expense of Q<sub>1</sub> and Q<sub>2</sub> for year 2017-18.

	<i>Accounting Income</i>	<i>Q<sub>1</sub></i>	<i>Accounting Income</i>	<i>Q<sub>2</sub></i>
<i>Q1</i>	<i>Actual</i>	<i>1,00,000</i>	<i>Actual</i>	<i>1,00,000</i>
<i>Q2</i>	<i>Estimated</i>	<i>1,20,000</i>	<i>Actual</i>	<i>1,50,000</i>
<i>Q3</i>	<i>Estimated</i>	<i>1,50,000</i>	<i>Estimated</i>	<i>2,00,000</i>
<i>Q4</i>	<i>Estimated</i>	<i>90,000</i>	<i>Estimated</i>	<i>1,00,000</i>

**Other information:**

	<i>Q<sub>1</sub></i>	<i>Q<sub>2</sub></i>
<i>Estimated Deductible temporary difference originated during the year (due to disallowance of Exp)</i>	<i>10,000</i>	<i>40,000</i>

*Brought forward Tax losses from P.Y → 20,000.*

*(for which DTA was not recognized during P.Y. subject to prudence limit)*

*Tax Rate = 30%*

*Education Cess = 4%*

**Solution:**
**Calculation of Tax Exp**

	<i>Q<sub>1</sub></i>	<i>Q<sub>2</sub></i>
<i>Total Estimated Accounting Income for 2017-18 (12M) (A)</i>		
<i>(+) Expense disallowed</i>		

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(-) B/f Tax losses		
Taxable Income		
CT@ 31.2%		
DT [10,000 X 31.2%]		
Estimated Tax expense (B)		
Weighted Avg Tax Rate = [B ÷ A]		
Cumulative Tax Exp [1,00,000 X 29.84%]		
(-) Tax Exp already recognized during PIP		
Tax Expense of Current Interim Period		

**Example 2:**

Suppose in above Q, DTA was already recognized on carry forward Tax losses of P.Y.

Solution:

	Q <sub>1</sub>	Q <sub>2</sub>
Taxable Income		
CT@ 31.2%		
DTA created on Exp disallowed		
DTA reversed for used Tax losses [20,000 X 31.2%]		
Tax Exp		
A/c Income		
Weighted Average Tax Rate		

**VII. Recognition of Revenue and Expense:**

- 1) **Revenue:** Revenue that are received seasonally or occasionally within a Financial Year should not be anticipated and deferred if anticipation and deferral would not be appropriate at the end of Entity's Financial Year.

**Examples:**

Dividend Income, Royalty Income, Uneven sales etc. cannot be anticipated or deferred.

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However, Government grant received can be deferred if treated as deferred income as per IND AS - 20.

2) Expense:

Expense or cost that are incurred unevenly during the Financial year should be anticipated or deferred if and only if it is appropriate to anticipate or defer that type of cost at the end of FY.

Example:-

Advertisement Expense, Commission Exp; Bad debt should not be anticipated or deferred

However, provision for gratuity, Deferred loss in case of sale and lease back can be anticipated or deferred.

Note: Cost that does not meet the definition of asset at the end of (IP) should not be deferred.

Example:

Development Exp which does not meet recognition criteria.

## VIII. Changes in accounting Policy:

- a) The effect related to current Interim period should be recognized in the P/L of current Interim Period.
- b) The effect of such changes relating to Prior Interim Period shall be adjusted in Year to Date column of SOPL.
- c) Even comparative amount of PY need to be adjusted

## IX. Reversal of Impairment Loss:

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



STUDENT NOTES

## IND AS – 8 Changes in Accounting Policies, Changes in Accounting Estimates and Errors

### (1) Scopes & objectives

*IND AS - 8 will be applied for*

- (a) Criteria for selecting accounting policy*
- (b) Criteria for changes in accounting policy*
- (c) accounting for*
  - *changes in accounting policies,*
  - *changes in accounting estimates and*
  - *Corrections of prior period errors.*

### Exclusions

- (a) Disclosure of accounting policies - IND AS - 1*
- (b) Tax effect of corrections of prior period errors & changes in accounting policies - IND AS - 12*

### (2) Accounting policies

*(a) Definition - Accounting policies are*

- *Specific accounting principles*
- *Bases*
- *Convention*
- *Rules & Practice*
- *Applied in preparation & presentation of FS.*

*(b) Selection criteria of accounting policies*

- (i) When specific IND AS applies to a particular transactions or events - apply specific IND AS*

## BEST FR CLASSES

*(ii) In the absence of specific IND AS*

*Management shall use its judgement in developing and applying accounting policies*

*Sources of judgement: In making the judgement, management shall refer to, and consider the applicability of, the following sources in descending order:*

*Mandatory sources:*

- *IND AS dealing with similar and related issues*
- *Framework for preparation & presentation of FS*

*Optional source*

- *Most Recent pronouncement of IASB*
- *Other AS setting bodies [FASB]*
- *Other Accounting literatures [US GAAP]*
- *Accepted industry practice*

*E.g.:*

- ✓ *Entity received grant from Non Govt agencies: AS per IND AS 8 apply IND AS 20*
- ✓ *Entity acquired ancient painting with an intention of capital appreciation: AS per ND AS 8 apply IND AS 40*

*(c) Consistency of accounting policies*

*(1) Entity shall select and apply accounting policies consistently for similar*

- *Transactions*
- *Events*
- *Conditions*

*(2) Different accounting policies can be selected and applied consistently for different category if IND AS permit.*

**(d) Changes in accounting policies**

An entity can change accounting policy only if

(a) Change is required by IND AS - Mandatory change

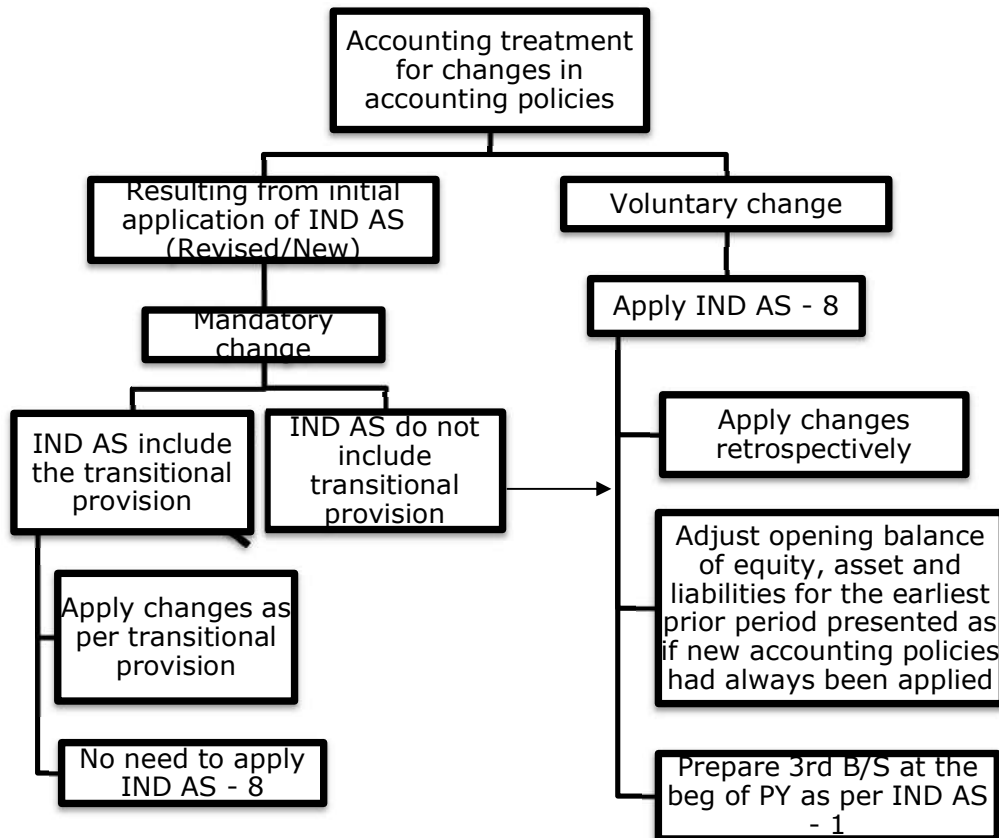
(b) Change will result in FS providing reliable and more relevant information - Voluntary change

Note:- IND AS - 8 is silent regarding the situation where changes are required by law

**(e) Not a change in accounting policy**

- Application of accounting policy which differ in substance
- Application of New accounting policy for a transaction which did not occur previously
- Application of new accounting policy for a transaction which were immaterial previously.

**(f) Accounting for changes in accounting policies**





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**(g) Exception to retrospective application**

- *Changes in Accounting Policy shall not be applied retrospective if it is impracticable to determine*
  - (a) *Period specific effect or*
  - (b) *Cumulative effect*

*Eg: An entity started business in 2006 In 2017 management changes inventory valuation from FIFO to WAP. It is a Voluntary change.*

**Situation - 1**

*All records from 2006 are available - Full Retrospective application will be applied from 2006*

**Situation - 2**

*All records are available except for 2009 which was destroyed by fire: Impracticable to determine period specific effect for 2009 - Partial retrospective application will be applied from 2010*

**Situation - 3**

*No records of earlier years are available as virus attack on server has destroyed all past records - Impracticable to determine cumulative effect of change and Changes in accounting policy will be applied from 2017 i.e., Prospectively*

**(h) Disclosures**

No.		Initial application	Voluntary change
1.	<i>Title of IND AS</i>	<i>Yes</i>	<i>No</i>
2.	<i>Changes made as per transitional provision</i>	<i>Yes</i>	<i>No</i>
3.	<i>Nature of change</i>	<i>Yes</i>	<i>Yes</i>

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4.	Reason Of change	No	Yes
5.	Description of transitional provision	Yes	No
6	Transitional provision that might have an effect in FY	Yes	No
7.	Adjustment to EPS	Yes	Yes
8.	If retrospective application is impracticable - reason	Yes	Yes

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

- (a) This fact; and
- (b) The possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

**(3) Changes in accounting estimates**

**(a) Meaning:-** A change in accounting estimate is an adjustment of

- ✎ Carrying amt of asset (or) Liability or the amount of periodic consumption of an asset
- ✎ That result from assessment of
- ✎ Present status of asset and liabilities and
- ✎ Expected future benefit and obligations associated with assets and liabilities

**Note:-**

- ✓ Changes in accounting estimate result from new information (or) new development
- ✓ A change in measurement base is change in accounting policy
- ✓ When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

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- ✓ *the revision of an estimate does not relate to prior periods and is not the correction of an error.*

**(b) Accounting treatment**

*The effect of changes in accounting estimate shall be recognised prospectively (i.e., from the date of change) by including it in profit or loss in:*

- (a) *The period of the change, if the change affects that period only; or*
- (b) *The period of the change and future periods, if the change affects both.*

**(c) Disclosure**

- (a) *Effect of change in accounting estimate in Current period*
- (b) *If practicable, effect of change in future period should be disclosed in the year of change*
- (c) *If impracticable to estimate the effect of change in future year, disclose the fact*

**(4) Prior period error****(a) Meaning: - Errors are**

- *Omission or*
- *Misstatement*

*In financial statements of one (or) more prior period*

**Note:-**

- (1) *Error arises from failure to use or misuse of reliable information that was*
- *Available when FS are approved and*
  - *Could have been obtained and taken in to account with reasonable effort*

**(b) Type of errors**

- (a) *Mathematical mistake*
- (b) *Mistakes in applying of AP*
- (c) *Misinterpretation of fact*

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- (d) Omission
- (e) Fraud

**(c) Correction of error**

Material errors are corrected retrospectively i.e. these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

Two Situations

**(1) Error relates to earliest prior period presented**

- (a) Restate the comparative amt of previous year SOPL
- (b) Restate the asset, liability and equity in Previous year B/S
- (c) Restate the opening balance in SOCE
- (d) 3<sup>rd</sup> Balance Sheet is not required

**(2) Error relates to period before earliest prior period presented**

Restate Opening balance of asset, liability and equity sheet for the earliest prior period presented.

3<sup>rd</sup> Balance Sheet is required as per IND AS 1.

**(d) Exception to retrospective restatement**

A prior period error shall be corrected by retrospective restatement except it is impracticable to determine

- (a) Period Specific effect or
- (b) Cumulative effect of error

**(e) Disclosure**

- (a) Nature of errors
- (b) Adjustment to EPS
- (c) If retrospective restatement is impracticable, to apply - reason should be disclosed

**(5) Difference between IND AS – 8 & AS – 5**

		<i>IND AS - 8</i>	<i>AS - 5</i>
<b>1.</b>	<i>Objective</i>	<i>Broad</i>	<i>Narrow</i>
<b>2.</b>	<i>Extra-ordinary item</i>	<i>No Reference</i>	<i>Deals</i>
<b>3.</b>	<i>Definition of accounting policies</i>	<i>Includes</i> - <i>Accounting Principles</i> - <i>Bases</i> - <i>Convention</i> - <i>Rules &amp; Practices</i>	<i>Includes</i> - <i>Accounting principles and</i> - <i>Accounting Method</i>
<b>4.</b>	<i>Changes in accounting policies required by Law</i>	<i>Not mentioned</i>	<i>Mentioned</i>
<b>5.</b>	<i>Accounting of changes in accounting policies</i>	<i>Retrospective application with limited exception</i>	<i>Silent</i>
<b>6.</b>	<i>Error</i>	<i>Includes frauds</i>	<i>Silent</i>
<b>7.</b>	<i>Accounting for correction of error</i>	<i>Retrospective restatement with limited exception</i>	<i>Prospective</i>

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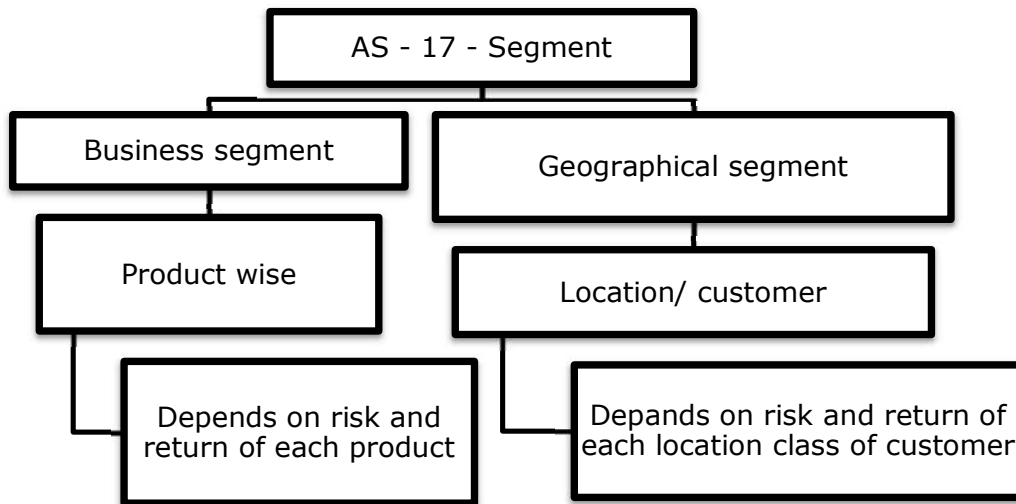
## IND AS-108 OPERATING SEGMENT

- (1) **Operating Segment:** *A operating segment is component of an entity*
- (a) *That is engaged in business activity for which it may earn revenue and incur expense.*
  - (b) *Whose operating results are reviewed by entities CODM (Chief operating design maker)*
  - (c) *For which discrete financial information are available.*

**Note:**

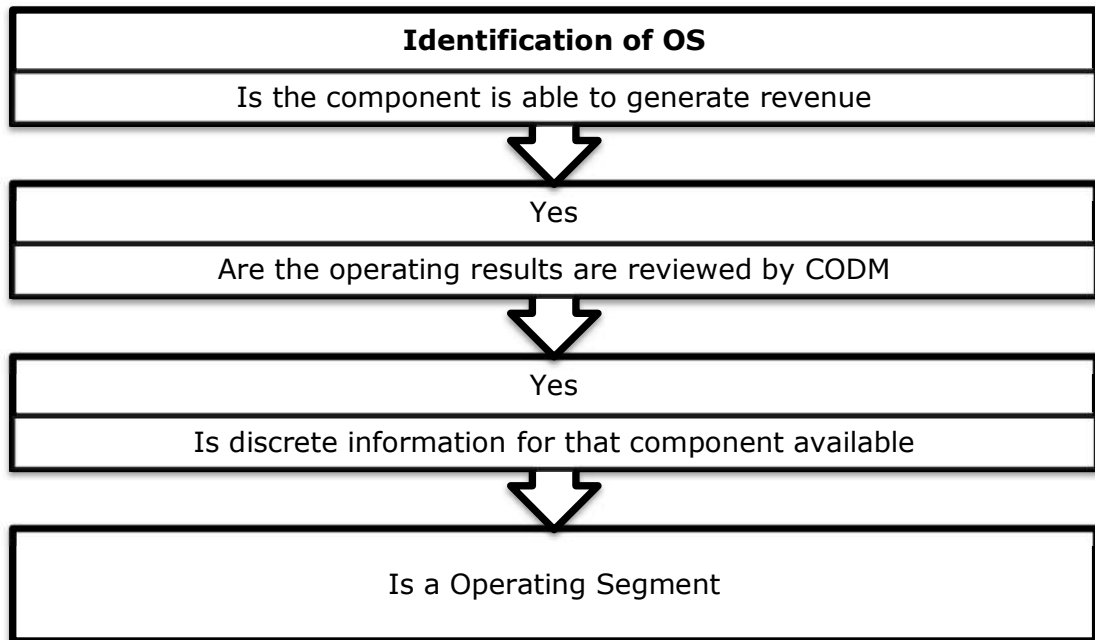
- ➔ *Business activity of segment can be with*
  - ✓ *External parties - external sales*
  - ✓ *Other segment - Inter segment sales*
- ➔ *Operating segment can be identified on different basis -*
  - ✓ *Based on product*
  - ✓ *Based on location*
  - ✓ *Based on customer*
- ➔ *Every component of entity is not a OS (or) Part of OS*  
*Ex:- Corporate head office may not earn revenue, Research & Development dept*
- ➔ *An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations.*
- ➔ *AS - 17 follow the approach of risk & reward for determination of business and geographical segment.*

*However IND AS 108 follows management approach i.e whatever may be business activity is considered by management as a separate source of revenue will be considered as operating segment whereas AS 17 follows Risk and return approach.*



**(2) Identification of OS:-**

- *CODM has to identify OS of an entity*
- *CODM can be a person or group of persons whose function is to allocate resource and assess the performance of entity. In other words, he is responsible for operating performance*
- *CODM may be chief executive officer or chief operating officer or a group of executive directors.*





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**(3) Matrix form of organisation:**

- *In some entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical areas*
- *This structure is referred as **matrix form of organisation**.*
- *In such circumstances, management should determine which set of components constitute OS by reference to **CORE PRINCIPLE** of entity*
- *The core principle is that the entity should disclose information to enable the user to understand the nature of financial effect of business activity.*

**(4) Aggregation criteria –**

*Two (or) more operating segment may be aggregated in single operating segment if the segments have similar economic characteristics and segment are similar in each of following aspects:*

- (a) Nature of Product/Services*
- (b) Nature of production process*
- (c) Class of customer*
- (d) Method used to distribute that product*
- (e) Nature of regulatory environment*

**(5) Reportable segments: -****(a) Quantitative thresholds (QT)**

*An entity shall report separately information about each operating segment that that meets any of the following quantitative thresholds:*

- 1. Based on segment revenue :**  
*Segment Revenue is 10% (or) more of total Segment Revenue*
- 2. Based on segment result:** *(Operating P/L before interest, exceptional item & tax)*



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*Segment result is 10% (or) more of*  
✓ *Combined result in terms of profit*  
✓ *Combined result in terms of loss*  
*Whichever is greater in absolute terms.*

**3. Based on segment asset**

*Segment Assets is 10% (or) more of total segment asset*

**(b) Management discretion:**

*OS that do not meet any one of the QT may be considered OS reportable at the discretion of management*

**(c) Previous FY Reportable segments:**

*Any OS which was reportable during preceding financial year as if meet QT, should be reportable during current financial year even if it no longer meets QT criteria.*

**(d) Entity's Revenue criteria:**

*If total external revenue reported by OS constitute less than 75% of entity's revenue, than additional OS shall be Identified as Reportable segment until at least 75% of entity's revenue is Included in reporting segment.*

**Note:** *Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by IND AS 108*

**(6) Preparation of segment report (Disclosure requirement)**

*Segment report may have 2 parts if there is matrix form of organisation*

- (1) Primary segment report
- (2) Secondary segment report

	Primary segment	RS	RS	All other Reconciling segments	Total
<b>1.</b>	<b><u>Revenue</u></b>				
	External revenue	XXX	XXX	XXX	XXX
	Inter segment revenue	XXX	XXX	XXX	XXX
	Other operating Revenue	XXX	XXX	XXX	XXX
	Segment revenue	XXX	XXX	XXX	XXX
	Less: Inter segment revenue				XXX
	<b>Entity revenue as per SOPL</b>				<b>XXX</b>
<b>2.</b>	<b><u>Results</u></b>				
	Segment revenue	XXX	XXX	XXX	XXX
	Less: Segment Expense	XXX	XXX	XXX	XXX

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	<b>Segment results</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
	(operating PBIT, exceptional items)				XXX
	Less: Interest expense				XXX
	Less: HO expense				XXX
	Add/less: Exceptional items				XXX
	<b>Profit before tax</b>				
	Less: Tax expense				XXX
	(a) Current tax				XXX
	(b) Deferred tax				
	<b>Profit for the period</b>				<b>XXX</b>
<b>3.</b>	<b><u>Asset</u></b>				XXX
	Segment fixed asset	XXX	XXX	XXX	XXX
	Segment current asset	XXX	XXX	XXX	XXX
	<b>Segment assets</b>				<b>XXX</b>
	Add: DTA				XXX
	Add; Investment				XXX
	Add: Unallocated assets				XXX
	<b>Total Assets</b>				<b>XXX</b>
<b>4.</b>	<b>Equity &amp; Liability</b>				
	Segment borrowing	XXX	XXX	XXX	XXX
	Segment current liability	XXX	XXX	XXX	XXX

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Segment liability	XXX	XXX	XXX	XXX
Add: DTL				XXX
Add: Unallocated liabilities				XXX
<b>Total liability</b>				<b>XXX</b>
Add: Equity share capital				XXX
Add: Other equity				XXX
<b>Equity &amp; liabilities</b>				<b>XXX</b>
<b>5. <u>Other disclosures</u></b>				
Capital expenditure	XXX	XXX	XXX	XXX
Dep& amortization	XXX	XXX	XXX	XXX
Other non-cash exp	XXX	XXX	XXX	XXX

	<b>Secondary Segment</b>	<b>RS</b>	<b>RS</b>	<b>All other Reconciling segments</b>	<b>Total</b>
	External sale	XXX	XXX	XXX	XXX
	Segment assets	XXX	XXX	XXX	XXX
	Segment capital expenditure	XXX	XXX	XXX	XXX

**(7) Other disclosure:-**

- (a) *Name & nature of product or service*
- (b) *Major customer*

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*If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact,*

- *the total amount of revenues from each such customer, and*
- *the identity of the segment or segments reporting that revenues.*

(c) *Other disclosure - Refer book*

*Note: If a financial report contains both CFS and SFS then segment information is required only in CFS*

**(8) Difference between IND AS - 108 & AS - 17**

		<b>IND AS - 108</b>	<b>AS - 17</b>
1.	Identification of segment	Management approach	Risk and return approach
2.	Classification of segment	<ul style="list-style-type: none"> <li>• No classification</li> <li>• Only operating segment</li> </ul>	Classification in to business and geographical segment
3.	Interest income and expense	Requires separate disclosure for each reporting segment	Silent
4.	Single reportable segment	Require certain disclosure if entity has single reportable segment	No such requirement
5.	Major customer	Requires disclosure	No such requirement

**Solution:** *Segment report of X Ltd for the year ended 31-3-02*

(1) *Primary segment*

		Coating	Other	Total
<b>1</b>	<b>Revenue</b>			
	External sale			
	Other operating income			
	Segment revenue			
<b>2</b>	<b>Result</b>			
	Segment revenue			
	Add: Unallocated revenue (Net of exp)			
	Less: Interest and bank charges			
	PBT			
	Less: Tax expense			
	Current tax			
	Deferred tax			
	Profit for the period			
<b>3</b>	<b>Asset</b>			
	Segment asset			
	Add: Investment			
	Add: Unallocated asset			
	Total Assets			
<b>4</b>	<b>Equity and liability</b>			
	Segment liability			
	Add: Unallocated liability			
	Total liability			
	Add: Equity Share capital			
	Other equity			
	Total Equity and liabilities			
<b>5</b>	<b>Other disclosure</b>			
	Capital exp			
	Depreciation and amortization			



*(2) Secondary Segment (Based on location)*

		<i>India</i>	<i>Outside India</i>	<i>Total</i>
<i>1.</i>	<i>External Revenue</i>			
<i>2.</i>	<i>Segment asset</i>			
<i>3.</i>	<i>Capital expenditure</i>			

*STUDENT NOTES*



## IND AS-105

### NON-CURRENT ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS

#### A. Scope: IND AS 105 deals with

- (a) *Non-current asset (NCA) or disposal group (DG) held for sale (HFS)*
- (b) *Non-current asset or disposal group held for distribution to owner*
- (c) *Discontinued operation (DCO)*
- (d) *Abandoned asset*

#### IND AS 105 is not applicable to following

- (a) *Deferred tax asset*
- (b) *Asset arising from Employee benefit*
- (c) *Financial asset which are covered under IND AS 109*
- (d) *Non-current asset which are measured at fair value*  
*Ex:- Biological asset (other than bearer plant)*

#### B. Non-current asset or disposal group held for sale

- 1) *Non-current assets are those assets which are not current asset*
- 2) *Disposal group: DG is a group of asset and liabilities*

- *To be Disposed off*
- *by sale*
- *Together as a group in a single transaction*

*Disposal group may be a single CGU (Cash generating unit) or group of CGU or part of CGU.*

*If a subsidiary (which is not a discontinued operation) is held for sale then it will be also classified as disposal group held for sale.*

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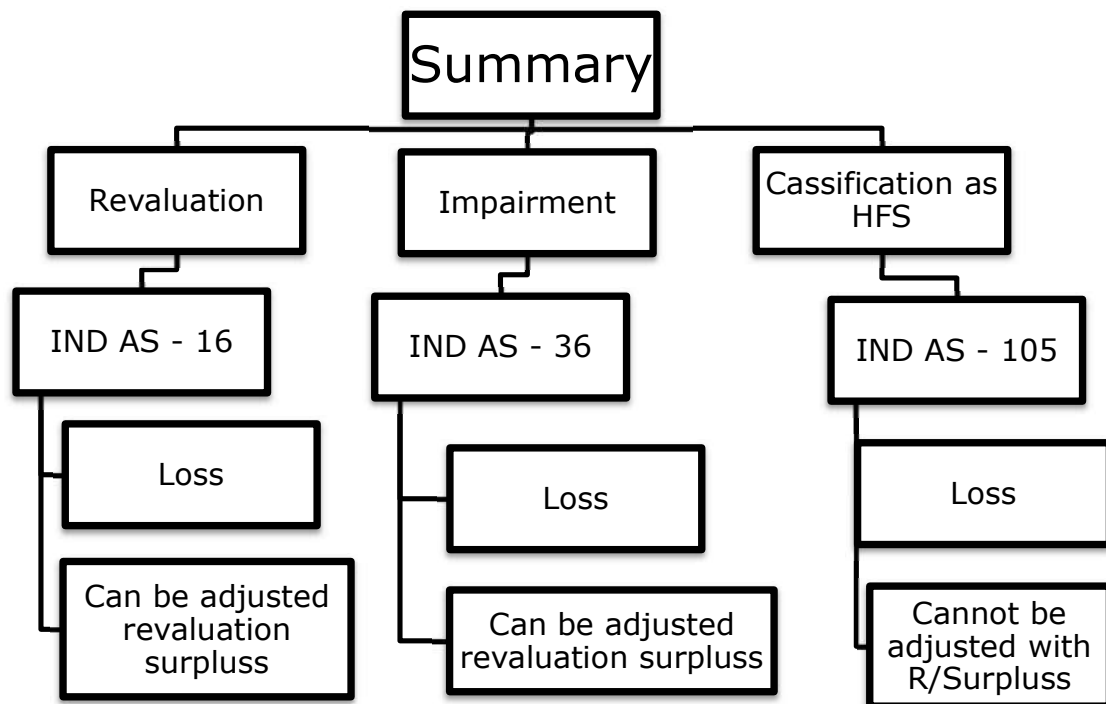
- 3) **Classification:** An entity shall classify NCA or disposal group as HFS if its carrying amount will be recovered principally through a sale transaction and not through its continuing use.
- 4) NCA or disposal group is classified as HFS if following conditions are satisfied
- (i) NCA or disposal group must be available for immediate sale in its present condition  
If sale is subject to certain condition or activities to be performed before sale then such asset is not available for immediate sale
  - (ii) Sale must be **highly probable:** If following conditions are satisfied, then sale will be highly probable
    - (a) Management must be committed for sale
    - (b) Management has initiated an active program to find out potential buyer
    - (c) Sale price is reasonable in relation to current fair value.
    - (d) The sale transaction is expected to be completed within one year from the date of classification.
    - (e) Management is not expected to change or with draw from its plan

5) **Measurement:-** It will be measured at lower of

- (a) Carrying amount (or)
- (b) Fair value less cost of disposal

Note:

- ✓ CA should be calculated on the date of classified as per applicable IND AS
- ✓ FV is based on management estimation and will be measured as per IND AS - 113
- ✓ Any loss (impairment loss) due to classification will be recognise in PL (should not be adjusted with revaluation surplus)



- ✓ Depreciation and amortization shall be ceased from the date of classification.
- ✓ If a newly acquired asset meet the criteria for held for sale, it will be measures on initial recognition at lower of cost or FVCS
- ✓ When a loss is recognised for disposal group, it will be allocated between non-current asset (to which IND AS - 105 is applicable) in following order
  - (a) First to goodwill (if any)
  - (b) Balance loss to other non-current asset (within the scope of IND AS 105) of disposal group in the ratio of their carrying amount.
- ✓ Any subsequent increases in fair value less cost to sell of an asset can be recognized in profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognized in accordance with IND AS 105 or previously in accordance with IND AS 36.

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**6) Extension of the period required to complete a sale**

*Events or circumstances may extend the period to complete the sale beyond one year. In this case, the asset could still be classified as held for sale if*

- *the delay is caused by events or circumstances beyond the entity's control and*
- *the entity is still committed to selling the asset.*

**7) Presentation of a non-current asset or disposal group classified as held for sale**

*The presentation of disposal group in entity's Balance Sheet is as follows:*

<b>Assets:</b>		
Non –Current Assets		
Current Assets		
Non-Current Assets or Disposal group Classified as Held for Sale		
<b>Total Assets</b>		
<b>Equity and Liabilities:</b>		
Equity		
Non-Current Liabilities		
Current Liabilities		
Liabilities directly associated with disposal group classified as held for sale		
<b>Total Equity and liabilities</b>		

**8) CHANGE OF PLANS**

1. *If criteria for an asset to be classified as held for sale are no longer met, then the non-current asset or disposal group ceases to be held for sale.*



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2. *In this case, the asset or disposal group should be valued at the lower of:*
  - a) *its carrying amount had the asset (or disposal group) not been classified as held for sale, and*  
*CA of Assets immediately before classification*  
*Less: Depreciation till the date of change in Plan*
  - b) *its recoverable amount at the date as per IND AS 36.*
3. *Any adjustment to the value should be shown in profit or loss from continuing operations for the period.*

**9) Post balance Sheet Items**

- *If the criteria for classifying a non-current asset as held for sale occur after the reporting period but before the approval of the financial statements for issue,*  
*The noncurrent asset should not be shown as held for sale. However, certain information should be disclosed about the non-current assets as per IND AS 10.*
- *If Non-current assets or DG is classified as HFS before reporting date but after reporting date and before approval of FS, Management changes or withdraw the plan,*  
*Then NCA or DG will be shown in balance sheet as HFS with disclosure of changes in plan as per IND AS 10.*

**C. Non-current asset (or disposal group) classified as held for distribution** *are also measured on same line as non-current asset (or disposal group) classified as held for sale.*

**D. Discontinued operations**

1. **Meaning:** *A discontinued operation is a component of an entity that either*

- *has been disposed of or*
- *is classified as held for sale*  
*and:*
- *represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan;*  
*or*
- *is a subsidiary acquired exclusively with a view to resale.*

**2. Presentation in the statement of profit and loss:**

*IND AS 105 requires the presentation of a single amount in the statement of profit and loss comprising the total of:*

- (i) the post-tax profit or loss of discontinued operations; and*
- (ii) the post-tax gain or loss recognised*
  - *on the measurement to fair value less costs to sell or*
  - *on the disposal of the assets or disposal group.*

**3. Reclassification from DCO to CO**

*If an entity ceases to classify a component of an entity as held for sale, the results of operations of the component previously presented in discontinued operations in accordance shall be reclassified and included in income from continuing operations for all periods presented.*

*The amounts for prior periods shall be described as having been re-presented.*

4. *Gains or losses relating to continuing operations*



*Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.*

**E. Non-Current assets or Disposal group that are abandoned**

- ✓ *Non-current assets (or disposal group) that are expected to be abandoned do not meet the definition of held for sale.*
- ✓ *Non-current assets (or disposal group) that are abandoned are not covered under IND AS 105.*
- ✓ *However, a disposal group that are abandoned may meet the definition of a discontinued operation.*
- ✓ *“Abandonment” means that the non-current asset (disposal group) will be used to the end of its economic life, or the noncurrent asset (disposal group) will be closed rather than sold. The reasoning behind this is because the carrying amount of the non-current asset will be recovered principally through continued usage.*

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## IND AS 19 Employee Benefits

### (1) Scope:

- (a) *This standard is applicable for all employee benefit expenses except employee share base payment - IND AS - 102*
- (b) *Employee benefit means all form of consideration payable by entity to its employee for the services rendered by employee (Either consideration is payable in cash or kind)*
- (c) *Entity is required to recognise employee benefit arising from*
- *Formal practice (Contractual obligation)*
  - *Informal practice (Constructive obligation)*
  - *Legislative requirement (Legal obligation)*
- (d) *Employee will include*
- *Un skilled employee*
  - *Semi-skilled employee*
  - *Skilled employee*
  - *Full time employee*
  - *Part time employee*
  - *Directors*
  - *Other managerial personal*
- (e) *It will not include contract labour and trainee*
- (f) *E-benefit will include any benefit provided to spouse, children or dependent*

### (2) Types of employee Benefit

- (1) *Short term employee benefit*
- (2) *Long term employee benefit*
- (3) *Post-employment benefit*
- (4) *Termination benefit*

**(3) Short term employment benefit:-**

(a) Meaning:- STEB include employee benefit expected to be settled wholly before 12M after the end of reporting period in which employee render the service

(b) It will include

- Wages and salaries
- Profit sharing bonus
- Short term compensated absence (leave)
- Other short term employee benefit

(c) Recognise as expense and liability when employee has rendered services at undiscounted amount

(d) Accounting treatment:

i. **Benefit received and amount paid**

STEB To cash/bank	Dr
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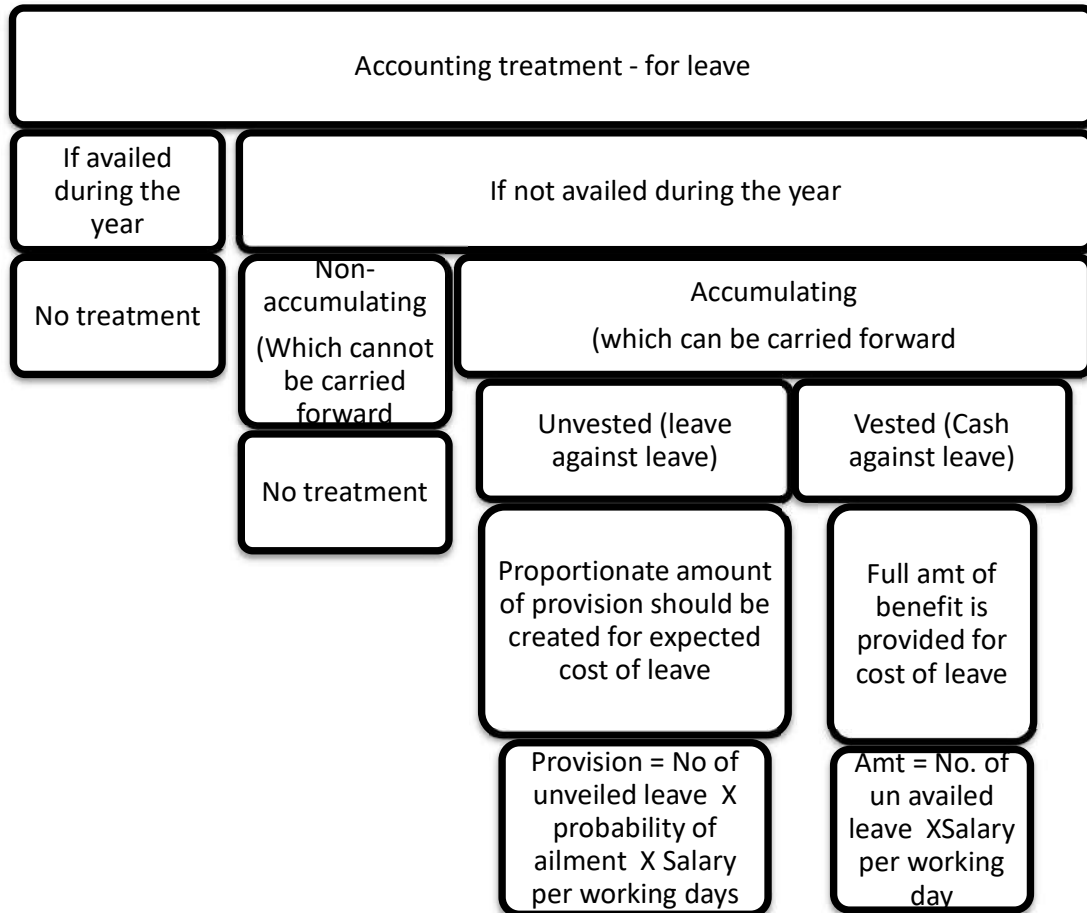
ii. **Benefit received and amount not paid**

STEB To payable	Dr
--------------------	----

iii. **Benefit not received but amount paid**

Prepaid EB To cash/bank	Dr
----------------------------	----

**Note:** STEB will be recognised as an expense unless included in the cost price of asset due to the requirement of other IND AS

**(e) Accounting Treatment of Short term compensated absences:-**

**Journal entry**
**1) For Unvested (leave against leave)**

*Current year:-*

<i>EBE Account</i>	<i>Dr</i>
<i>To provision for STCA</i>	

*Next year:-*

<i>Provision for STCA</i>	<i>Dr</i>
<i>To EBE</i>	

## 2) For Vested (Cash against leave)

*Current year:-*

<i>EBE</i>	<i>Dr</i>
<i>To payable</i>	

*Next year:-*

<i>Payable</i>	<i>Dr</i>
<i>To cash</i>	

(f) **Profit sharing bonus plan:-** *Expected cost of profit sharing bonus shall be recognised as expense and liability if following condition are satisfied*

- *Entity has present obligation to make such payment as a result of past event*
- *A reliable estimation can be made*

### (4) Post-employment benefit (PEB):

**a) Meaning:** *Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment*

#### **b) Types of PEB**

(1) *Defined contribution plan (DCP): PF, ESI*

(2) *Defined benefit plan (DBP): Gratuity, Pension*

#### **(c) Defined contribution plan**

(i) *Defined contribution plan is a plan under which entity pay a fixed contribution to a separate entity i,e; plan asset and will have no obligation to further contribute if plan asset do not have sufficient fund to pay employee*

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- (ii) Under defined contribution plan obligation of employer is limited to fixed contribution and investment risk and actuarial risk will fall on employee
- (iii) Employer contribution to defined contribution plan is recognised as an expense and liability (if not paid) when employer is liable to contribute.
- (iv) If contribution is payable after 12M from reporting date then such amount should be discounted

**d) Defined benefit plan**

1. Under defined benefit plan entity's obligation is to provide defined benefit to current and future employee
2. Defined benefit plan is a plan where benefit is defined but amount of obligation/contribution is not defined
3. In this plan, employee contribution is not required however such plan can be funded or unfunded.
4. Investment risk and actuarial risk will fall on entity.
5. To determine current service cost and PV of DBO Projected unit credit method (PUCM) is applied.
6. To calculate PV discount rate should be determine by reference to market yield of Govt bonds as on reporting date
7. Actuary will estimate the amount of obligation under various uncertainties on the basis of actuarial assumptions there are two types of actuarial assumptions.
  - Demographic assumption  
Eg:- Labour turnover rate, mortality rate, retirement rate, med claim rate
  - Financial assumption  
Eg:- Discount rate, Escalation rate in salary

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**Accounting Treatment of DBO**

- a) *Current service cost (CSC) is an increase in present value of DBO resulting from employee service during the current period.*

CSC A/c (PL)	Dr
To PV of DBO	

- b) *Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:*

(a) *experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and*

(b) *the effects of changes in actuarial assumptions.*

*Actuarial gain/loss will be recognised in OCI without recycling it to P/L as Remeasurement gain or loss*

<i>If Actuarial Loss</i>	
<i>Actuarial Loss on DBO (OCI)</i>	Dr
<i>To PV of DBO</i>	
<i>If Actuarial Gain</i>	
<i>PV of DBO</i>	Dr
<i>To Actuarial Gain on DBO (OCI)</i>	

- c) *Interest cost is calculated by applying discount rate on opening balance of DBO after changes in actuarial assumption.*

Interest Cost (PL)	Dr
To PV of DBO	

**Accounting treatment of plan asset:**

- i) *For contribution to plan asset*

Plan asset a/c	Dr
To cash/bank	

**i) For benefit paid out of plan asset**

*For amount withdrawn from plan asset*

<i>Cash/Bank</i>	<i>Dr</i>
<i>To plan asset</i>	

*For benefit paid to employee*

<i>PV of DBO</i>	<i>Dr</i>
<i>To cash/bank</i>	

**ii) For recognition of interest income on plan asset by using the discount Rate**

<i>Plan asset a/c</i>	<i>Dr</i>
<i>To Interest Income on PA</i>	

**Note:** Under IND AS-19 there is no concept of expected return on plan asset. However discount rate measured at the beginning of the year should be used. IND AS - 19 has given the concept of net interest cost. IND AS - 19 replace the interest cost on DBO and expected return on plan asset with net interest cost (income) and discount rate measured at the beg of year is used.

<b>Ex:-</b>	<i>FV of PA at the beg</i>	<i>2700</i>
	<i>Expected return on PA</i>	<i>5.5%</i>
	<i>DBO</i>	<i>2040</i>
	<i>Discount rate</i>	<i>6%</i>
	<i>Net defined benefit asset (2700 - 2040)</i>	<i>660</i>

<b>Sol:-</b>	<i>As per AS - 15</i>	
	<i>Expected return on PA (2700×5.5%)</i>	<i>148</i>
	<i>Interest cost on DBO (2040×6%)</i>	<i>122</i>
	<i>Net charge to P/L - Income</i>	<i>26</i>
	<b><i>As per IND AS - 19</i></b>	

$$\text{Net interest income} = 660 \times 6\% = 40$$

iii) **Remeasurement gain or loss**

The actual return on plan asset excluding amount included in net interest on defined benefit liability or asset will be part of remeasurement.

**For actuarial gain**

Plan asset a/c Dr

To remeasurement gain (OCI)

**For actuarial loss**

Remeasurement loss (OCI) Dr

Plan asset a/c

**Note:-**

**Actual Return on plan will be calculated as under**

FV of plan asset at year end	XXX
Less: CA of PA at year beg	
FV of PA at year beg	XXX
Add: Contribution received	XXX
Less: Benefit paid	<u>XXX</u>
<b>Actual Return on PA</b>	<b><u>XXX</u></b>
<b><u>Re-measurement gain/loss on PA</u></b>	
Actual return (Gain/loss) on PA	XXX
Less: Interest income included in net interest cost	<u>XXX</u>
<b>Re-measurement Gain or Loss</b>	<b><u>XXX</u></b>



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**Past service cost:**

- (1) *Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from*
- *a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or*
  - *a curtailment (a significant reduction by the entity in the number of employees covered by a plan)*
- (2) *IND AS-19 requires an entity to recognise PSC as an expense as and when plan is modified or amended or curtailment occur.*
- (3) *Past service cost may be either positive or negative*

PSC a/c To PV of DBO	Dr
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**Gain or loss on settlement:**

- (a) *A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan*
- (b) *The gain or loss on a settlement is the difference between:*
- *the present value of the defined benefit obligation on the date of settlement; and*
  - *the settlement price.*
- (c) *Gain or loss on the settlement of a defined benefit plan is recognised by the entity when the settlement occurs.*

PV of DBO	Dr
Loss on settlement	Dr
To cash/bank	
To gain on settlement	

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**Presentation of DBO and Plan asset in balance sheet**

<i>PV of DBO</i>	<i>XX</i>
<i>Less FV of plan asset (if funded)</i>	<i>XX</i>
<i>Net liability of DBO</i>	<i>XXX</i>

**Note:-**

- *If PV of DBO is less than FV of plan asset, then plan asset has surplus.*
- *When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:*
  - a) The surplus in the defined benefit plan; and*
  - b) The asset ceiling, determined using the discount rate.*
- *Asset ceiling: The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.*

**Remeasurement gain/loss comprise:**

- *Actuarial Gain/Loss on DBO*
- *Difference B/W actual return on plan asset & Int income on plan asset included in net int. Cost*
- *Changes in plan asset ceiling.*

**Example 1:**

*A ltd announced a defined benefit long term bonus plan to pay benefit at the end of five years. Amount of Bonus will be 40% of last drawn monthly salary for each year completed year of service.*

*Salary of 2018-19 is Rs. 40,000 pm. Growth in salary is expected to increase by 8% p.a compounded annually. Discount rate as on 31-3-2019 is 10%*



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*Calculate Current Service cost, Interest cost and PV of Defined benefit Obligations for each years.*

**Example 2:**

*Suppose in the above example discount rate is 13% at year end 3 and growth rate in salary is expected to increase to 10 % compounded annually during year 3.*

*Prepare revised liability statement at year end*

**Example 3:**

*X Ltd has a plan asset having FV at year beg of 1,00,000 during the year plan asset paid benefit of 10,000 and received contribution of 40,000. Discount rate is 10% p.a and expected rate of return on plan assets is 15%. FV of plan asset at year end = 1,25,000*

*Calculate:*

- a) Actual return on plan asset*
- b) Interest Income on plan asset*
- c) Calculate actuarial gain/loss on PA*

**(5) Long term employee benefit (LTEB):-**

*Other long-term benefits include the following items (if not expected to be settled within 12 months after the end of the period in which the employee renders the related service):*

- long-term paid absences such as long-service or sabbatical leave;*
- jubilee or other long-service benefits;*
- long-term disability benefits;*
- profit-sharing and bonuses; and*
- deferred remuneration.*

*Recognition and measurement of LTEB is similar to defined benefit plan for post-employment benefit with following difference:-*



*Remeasurement gain/loss arising on LTEB will be recognised in P/L instead of OCI*

**(6) Termination benefit:**

(a) *TB is due entity decision to terminate any employee or Employee decision to opt for voluntary retirement*

(b) *Entity should recognise termination benefit as an expense and liability when following conditions are satisfied*

*(1) There must be present obligation of termination*

*(2) Amount of obligation can be measured reliably*

(c) *How to account for termination benefits*

*The primary question here is **WHEN** to recognize the liability and expense for termination benefits. It is at the earlier of:*

- when the company can no longer withdraw the offer of those benefits (either the termination plan exists or employee accepts the offer of benefits) and*
- when the company recognizes cost for a restructuring (Ind AS 37) and involves the payment of termination benefits.*

*The next question is **HOW** to recognize termination benefits. This depends on the specific terms of the benefits:*

- if the termination benefits are expected to be settled wholly before 12 months after the end of the reporting period, then we should apply the requirements for short-term employee benefits (so recognize it as an expense to profit or loss on undiscounted basis)*
- if the termination benefits are not expected to be settled wholly before 12 months after the end of the reporting period, then we should apply the requirements for other long-*

*term employee benefits (so recognize it as an expense to profit or loss on discounted basis)*

**(7) Difference between IND AS – 19 and AS – 15**

No.		IND AS - 19	IND AS - 15
1.	<i>Constructive obligation</i>	<i>Deals</i>	<i>Silent</i>
2.	<i>Employee</i>	<i>Includes Directors</i>	<i>Includes WTD</i>
3.	<i>Contractual agreement B/W multiple employer plan and its participants for distribution of surplus to its participants.</i>	<i>Discussed</i>	<i>Not discussed in AS - 15</i>
4.	<i>Qualified actuary</i>	<i>Encourage the use of qualified actuary</i>	<i>Does not require involvements of qualified actuary. It does not encourage the same</i>
5.	<i>Actuarial Gain/Loss</i>	<i>Transferred to OCI</i>	<i>Transferred to PL</i>
6.	<i>Financial Assumptions</i>	<i>It based on market expectations, at the end of the reporting period</i>	<i>AS 15 does not clarify the same</i>
7.	<i>Discounting of Post-employment Benefit Obligations</i>	<i>Subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment</i>	<i>As per AS 15, the rate used to discount post-employment benefit obligations should always be determined by</i>

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		<i>benefit obligations using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds.</i>	<i>reference to market yields at the balance sheet date on government bond.</i>
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**STUDENT NOTES**



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## Revenue from Contract with Customers (IND AS 115)

### 1. Objective:

*To establish the principles to report information about*

- ➔ *Nature*
- ➔ *Amount*
- ➔ *Timing and*
- ➔ *Uncertainty of Revenue and*
- ➔ *Cash flows arising from a contract with a customer.*

### 2. Scope

*It is applicable to all types of Revenue except*

- *Non-contractual income*  
*Ex) Fair value of agricultural produce recognised under Ind AS 41, Agriculture*
- *Leases contract - IND AS 116*
- *Insurance Contracts - IND AS 104*
- *Financial Instruments Contract - IND AS 109*
- *Contracts that are not with customers (e.g. some risk and benefit sharing contracts)*
- *Non-monetary exchanges between entities in the same line of business to facilitate sales to customers*

### 3. Definition

*(a) Revenue: Income arising in the course of ordinary activities of entity.*

*(b) Income: Income is*

- *increase in economic benefits during the accounting period*
- *in the form of*
  - ✍ *inflows or*
  - ✍ *enhancement of assets or*
  - ✍ *decrease of liabilities*
- *That result in increases in equity other than those relating to contributions from equity participants.*

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#### 4. FIVE STEP MODEL FOR REVENUE RECOGNITION

- ➔ Identify the contract(s) with a customer.
- ➔ Identify the performance obligations in the contract.
- ➔ Determine the transaction price.
- ➔ Allocate the transaction price to the performance obligations in the contract.
- ➔ Recognise revenue when or as an entity satisfies performance obligations.

#### 5. Step 1: Identify the contract(s) with a customer

##### (a) Meaning of Customer

*A party*

- ✚ *that has contracted with an entity*
- ✚ *to obtain goods or services*
- ✚ *that are an output of the entity's ordinary activities*
- ✚ *in exchange for consideration*

Note: Counterparty to the contract would not be a customer

*A counterparty has contracted with the entity to participate in an activity or process in which the parties in the contract shares in the risk and return and other benefits that resulted from the activities (rather than to obtain the output of entity's ordinary activities.*

*Example: Development of an asset in a collaboration arrangement.*

##### (b) Meaning of Contract

- *An agreement between two or more parties that creates enforceable rights and obligations.'*
- *A contract can be written, oral, or implied by an entity's customary business practices.*
- *Enforceability is a matter of law, so an entity needs to consider the local relevant legal environment to make that determination.*

##### (c) Criteria for recognizing a contract:

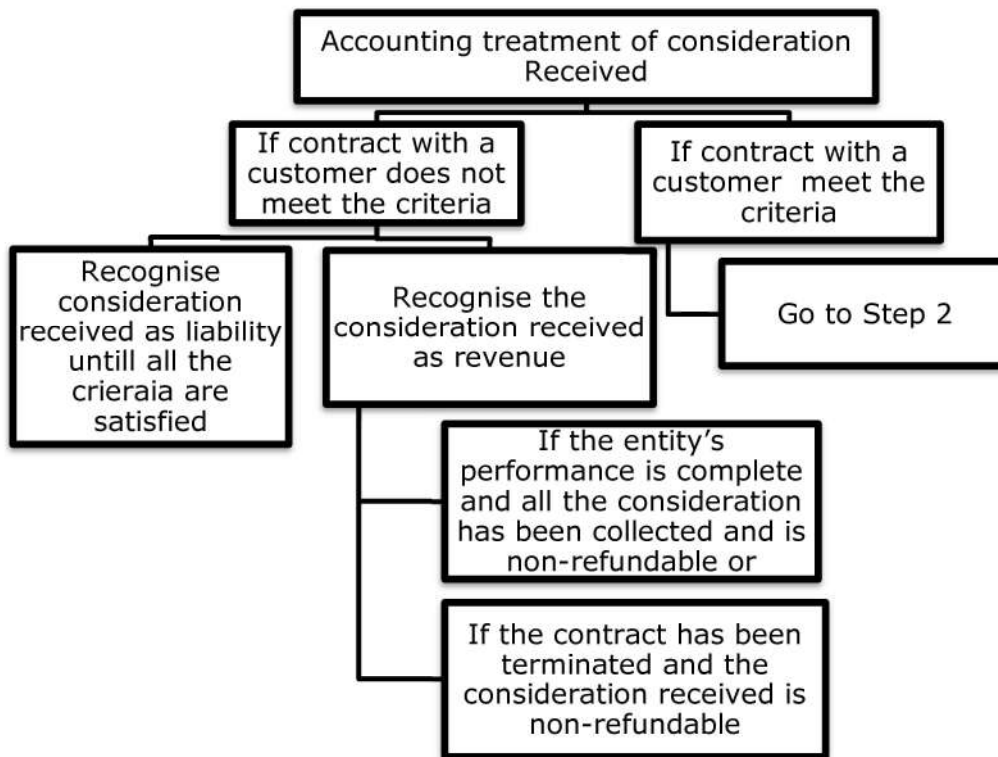
*An accounting contract exists only when an arrangement with a customer meets each of the following five criteria:*

- ➔ *The parties have approved the contract and are committed to perform their respective obligations*

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- *The entity can identify each party's rights regarding the goods or services to be transferred*
- *The entity can identify the payment terms for the goods and services to be transferred*
- *The contract has commercial substance*
- *It is probable the entity will collect the substantially all of the consideration to which it expects to be entitled.*

**(d)** *If the arrangement does not meet the five criteria at inception, an accounting contract does not exist, and the entity should continue to reassess whether the five criteria are subsequently met.*



*Note: When a contract passes Step 1, entity should not reassess contract existence unless there is an indication of a significant change in facts and circumstances.*

**(e) Contract term**

*An entity applies Ind AS 115 to the contractual period over which the parties to the contract have present enforceable rights and obligations.*

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*Some contracts with customers may have no fixed duration and can be terminated or modified by either party at any time.*

**Case:**

1	<i>The contract can be terminated by the either party at any time without penalty</i>	<i>This contract is not enforceable</i>
2	<i>Parties can terminate contract without penalty within one month. After one month contract cannot be terminated</i>	<i>The contract is enforceable after one month</i>
3	<i>Parties can terminate contract at any time without penalty. However during prior year similar contract have never been terminated.</i>	<i>Contact is enforceable from the beginning</i>
4	<i>Contract can be terminated after approval of both party without penalty</i>	<i>Contact is enforceable from the beginning</i>
5	<i>Contract is cancellable after 3 month without penalty</i>	<i>Contact is enforceable for 3 month</i>

**(f) The contract has commercial substance**

*A contract has commercial substance if the risk, timing, or amount of the entity's cash flows is expected to change as a result of the contract. In other words, the contract must have economic consequences.*

**(g) Combining contracts**

*Two or more contracts should be accounted for as a single contract if they are entered into at or near the same time with the same customer (or with related parties), and if one of the following conditions exists:*

- *The contracts are negotiated as a package with a single commercial objective;*
- *The amount of consideration paid in one contract depends on the price or performance in the other contract; or*
- *The goods or services promised in the contract are a single performance obligation.*

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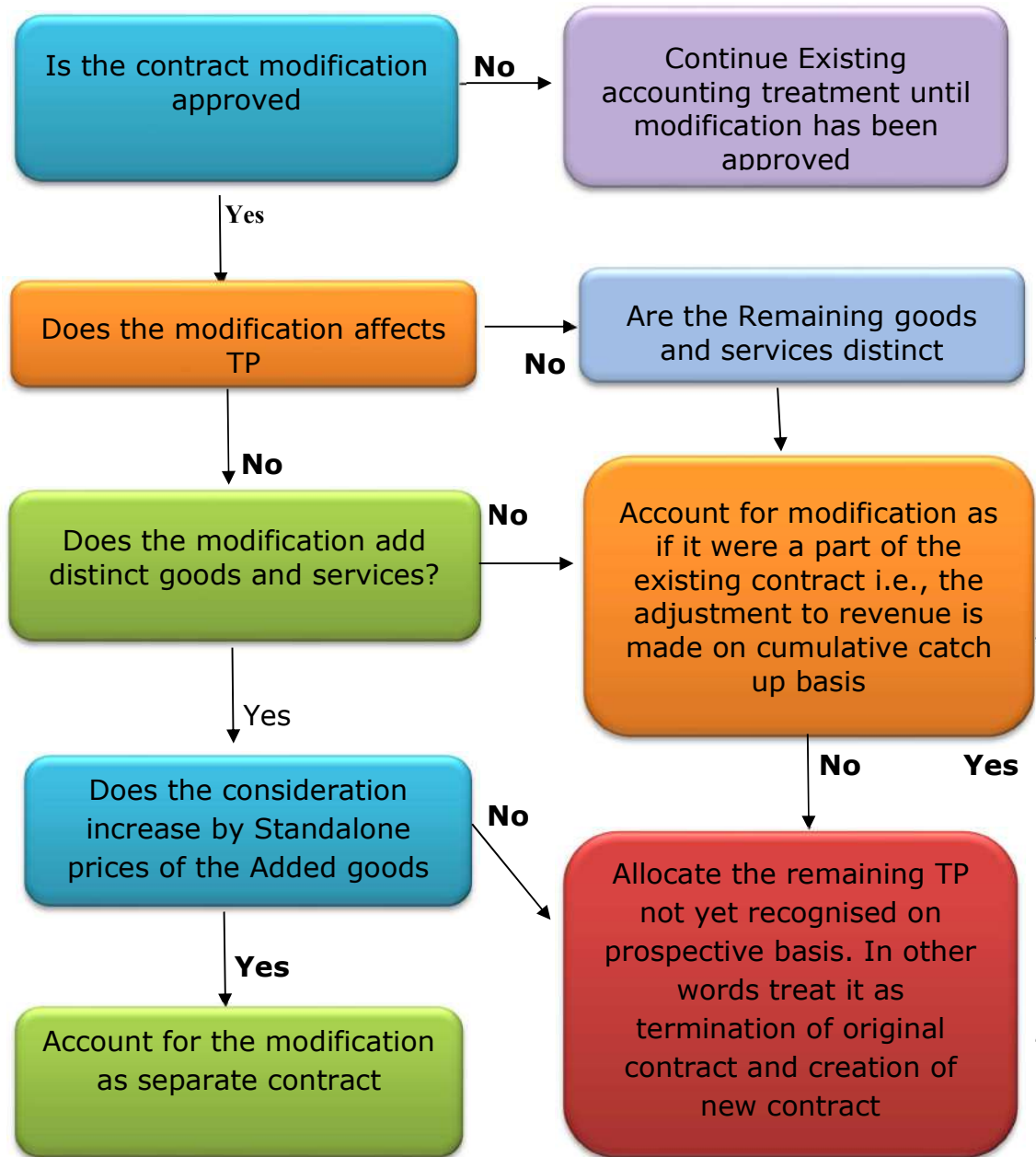
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**(h) Contract Modifications**

*A contract modification exists if three conditions are met:*

- (a) *There is a change in the scope, price, or both in a contract.*
- (b) *That change is approved by both the entity and the customer.*
- (c) *The change is enforceable.*





## 6. STEP 2: IDENTIFYING PERFORMANCE OBLIGATIONS

### a) Performance obligation

*A promise in a contract with a customer to transfer to the customer either:*

- + A good or service (or a bundle of goods or services) that is distinct; or*
- + A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.*

### b) Criteria for identifying performance obligation

*At contract inception, an entity shall assess*

*(a) The goods or services promised in a contract with a customer and*

*(b) Shall identify performance obligation under each promise to be transferred to the customer.*

*Promises under the contract can be explicit or implicit if the same creates a valid expectation by the customer that the entity will provide those good or service based on*

- the customary business practices,*
- published policies, or specific,*
- Statements.*

### c) Distinct performance obligations

*A good or service that is promised to a customer is distinct if both of the following criteria are met:*

#### *i) Customer can benefit either alone or with other readily available resources*

- The customer can benefit from the good or service either on its own or with other resources readily available to them.*
- A readily available resource is a good or service that is sold separately (by the entity or by another entity) or that the customer has already obtained from the entity or from other transactions or events.*
- A customer can benefit from a good or service if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits.*

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## ii) Separately identifiable from other promises in the contract

Factors that indicate that an entity's promise to transfer a good or service to a customer is separately identifiable include, but are not limited to, the following:

- Significant integration service is not provided
- No Significant modification or customization
- Not Highly interdependent or highly interrelated

In other words, two or more promises to transfer goods or services are not separately identifiable from other goods or services in the contract

- If the entity provides significant integration services.
- If one or more of the goods or services significantly modifies or customizes other promised goods or services in the contract.
- If the goods or services are highly interdependent or highly interrelated.

## d) Promise to transfer a series of distinct goods or services:

Where distinct goods or services are provided continuously over a period of time, this will be considered as single performance obligation, if the consumption of those services by the customers is symmetrical.

For e.g.: security services, or book keeping services.

## e) Customer options for additional goods or services

- ✍ The option to purchase additional goods or services can be in many forms, including
  - sales incentives (e.g., coupons with a limited distribution, gift cards issued by a retailer as a promotion) and
  - Customer award credits (e.g., loyalty or reward programs).
- ✍ These option is a separate performance obligation if it provides a material right to the customer.
- ✍ The right is material if it results in a discount that the customer would not receive without entering into the contract.
- ✍ If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity

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recognises revenue when those future goods or services are transferred or when the option expires.

- ✎ An entity to allocate the transaction price to performance obligations in the ratio of their relative stand-alone selling price basis.
- ✎ If the stand-alone selling price is not directly observable, an entity shall estimate it.

**Accounting Treatment**

a) For Consideration received or receivable on Initial Sale

Receivable/Bank A/c Dr.

To Sales A/c

To Liability under Customer Loyalty programme

- ✓ The transaction price will be allocated to performance obligations in the ratio of their relative stand-alone selling price basis
- ✓ Standalone selling price of Award credit = No of award credit expected to be redeemed X Fair value of Each award credit

b) For recognition of Revenue from Customer Loyalty award credit: It will be recognised when award credit is redeemed

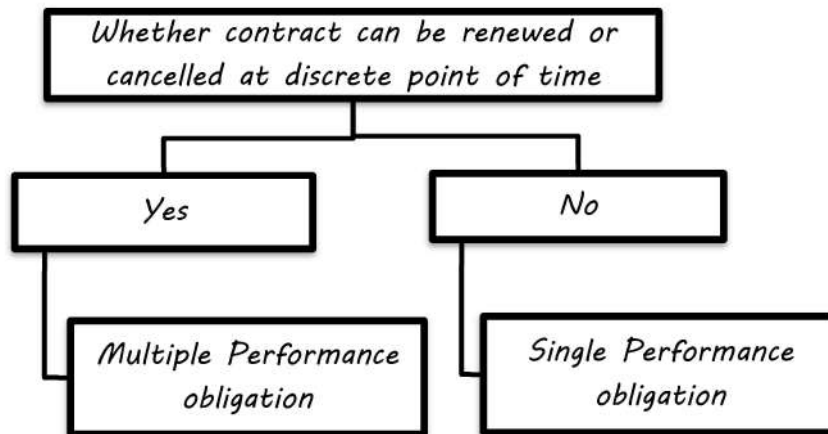
Liability under Customer Loyalty programme Dr.

To Revenue

Revenue to be recognised
$= \frac{\text{No of Award credit Redeemed}}{\text{Total NO of award credit expected to be redeemed}} \times \text{Amount of Advance Received}$

f) Long term arrangements such as maintenance services to be provided over a long period of time.





### 7. STEP 3: DETERMINING THE TRANSACTION PRICE

- a) *What is transaction price: The transaction price is*
- + the amount of consideration to which an entity expects to be entitled
  - + in exchange for transferring promised goods or services
  - + to a customer,
  - + Excluding amounts collected on behalf of third parties (for example GST).
- b) *For the purpose of determining the transaction price, an entity shall assume that*
- + The goods or services will be transferred to the customer as promised in accordance with the existing contract and
  - + That the contract will not be cancelled, renewed or modified.
- c) *When determining the transaction price, an entity shall consider the effects of all of the following:*
- Variable consideration
  - Significant financing component
  - Non-cash consideration
  - Consideration payable to a customer
- d) *Variable consideration*
- If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration.



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*For Example: discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, or other similar items.*

- *Variable consideration may be fixed in amount, but the entity's right to receive that consideration is contingent on a future outcome.*
- *The variable consideration promised by a customer may be*
  - *Explicitly stated in the contract*
  - *it arises from valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract.*
- *Estimating the amount of variable consideration*
  - a) *If an entity has a large number of contracts with similar characteristics*  
*Variable consideration = The expected value =*  
*The expected value is the sum of probability (Less) weighted average all possible consideration amounts.*
  - b) *If the contract has only two possible outcomes*  
*Variable consideration =*  
*The most likely amount (Less) The most likely amount is the single most likely outcome of the contract*
- *Constraining estimates of variable consideration*  
*An entity shall include in the transaction price an amount of variable consideration estimated only to the extent that*
  - + *it is highly probable that*
  - + *a significant reversal*
  - + *in the amount of cumulative revenue recognised will not occur*
  - + *when the uncertainty associated*
  - + *With the variable consideration is subsequently resolved.*
- *Reassessment of variable consideration*  
*At the end of each reporting period, an entity shall update the estimated transaction price to represent the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.*

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e) *Significant financing component*

- *In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money.*
- *Either party may benefit from financing*
  - *That is, the customer may pay before the entity performs its obligation (a customer loan to the entity) or*
  - *The customer may pay after the entity performs its obligation (a loan by the entity to the customer).*
- *A significant financing component may exist regardless of whether the promise of financing is*
  - *explicitly stated in the contract or*
  - *Implied by the payment terms agreed to by the parties to the contract.*
- *The objective is to recognise revenue at an amount that reflects the cash selling price.*
- *The discount rate should be*
  - ✓ *Incremental borrowing rate*
  - ✓ *Interest rate implicit in transaction*
- *Overriding Provision Significant financing component: A contract with a customer would not have a significant financing component if any of the following factors exist:*
  - (a) *the customer paid in advance and the timing of the transfer of those goods or services is at the discretion of the customer.*
  - (b) *a substantial amount of the consideration is variable and it varies on the basis of the occurrence or non- occurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).*
  - (c) *the difference between the promised consideration and the cash selling price arises for reasons other than the provision of finance.*  
*For example, the payment terms might provide the entity or the customer with protection from the other party failing to complete some or all of its obligations under the contract.*
    - *As a practical expedient, an entity need not adjust the amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between:*

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- (a) When the entity transfers a promised good or service to a customer and
- (b) When the customer pays for that good or service  
Will be one year or less.

**f) Non-cash consideration**

- To determine the transaction price for contracts the non-cash consideration shall be measured at fair value.
- If the fair value of the non-cash consideration cannot be reasonably estimated, it shall measure the consideration by reference to the stand-alone selling price of the goods or services promised.
- The entity does not adjust the transaction price for any subsequent changes in the fair value of the consideration.

**➤ Customer-provided goods or services**

If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services.

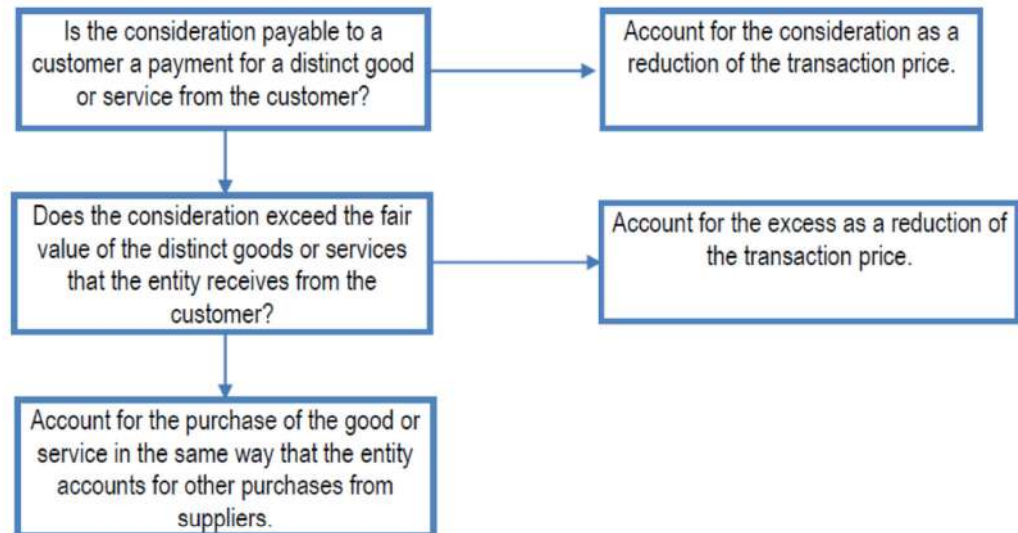
If so, the entity shall account for the contributed goods or services as non-cash consideration received from the customer.

**g) Consideration payable to a customer**

- Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer).
- Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity.



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## 8. STEP 4: ALLOCATING THE TRANSACTION PRICE TO PERFORMANCE OBLIGATIONS

- a) *Allocation objective - An entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis, except*
- *For allocating discounts and*
  - *For allocating consideration that includes variable amounts.*
- b) *Determining stand-alone selling price*
- *The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.*
  - *The best evidence of a stand-alone selling price is The observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.*
  - *An entity shall determine the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract.*
  - *A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the stand-alone selling price of that good or service.*

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- c) *Method to determine stand-alone selling price: If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price by using following method*
- (i) *Adjusted market assessment approach: An entity should estimate the price that a customer in that market would be willing to pay for those goods or services. That approach might also include referring to prices from the entity's competitors for similar goods or services.*
  - (ii) *Expected cost plus a margin approach: An entity should forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.*
  - (iii) *Residual approach: An entity may estimate the stand-alone selling price by reference to*
    - (1) *The total transaction price, less*
    - (2) *The sum of the observable stand-alone selling prices of other goods or services promised in the contract.*

*Note: An entity shall allocate the discount before using the residual approach to estimate the stand - alone selling price of a good or service where the discount is allocated entirely to one or more performance obligations in the contract.*
- d) *Allocation of a discount*
- ➡ *A customer receives a discount for purchasing a bundle of goods or services if the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract.*
  - ➡ *The entity shall allocate a discount proportionately to all performance obligations in the contract unless an entity has evidence that the entire discount relates to only one or more, but not all, performance obligations in a contract.*

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e) *Allocation of variable consideration*

- *Variable consideration is allocated to all performance obligation in the contract on relative standalone prices.*
- *However variable consideration may be attributable to one or more, but not all, performance obligations in the contract then entity shall allocate variable consideration to one or more, but not all, performance obligations if following criteria exist:*
  - *The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or to a specific outcome from satisfying the performance obligation; and*
  - *Allocating the variable amount of consideration entirely to the performance obligation is consistent with the allocation objective.*

f) *Changes in the transaction price*

- *After contract inception, the transaction price can change for various reasons.*
- *An entity shall allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception.*
- *Consequently, an entity shall not reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception.*
- *Amounts allocated to a satisfied performance obligation shall be recognised as revenue, or as a reduction of revenue, in the period in which the transaction price changes.*

**9. STEP 5: SATISFYING PERFORMANCE OBLIGATION**

- ✚ *An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.*
- ✚ *An asset is transferred when (or as) the customer obtains control of that asset.*



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✚ In other words, the transfer of 'control' is the key determinant under Ind AS 115. This 'control model' is different from and replaces the 'risk & rewards model' under Ind AS 18.

✚ **What does transfer of control mean?**

Control of an asset refers to -

(i) The ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

(ii) Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

✚ For each Performance obligation an entity shall determine at contract inception whether the customer acquire control

● over a period of time or

● at a point in time?

✚ **Transfer of control over a period of time:**

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if any of the following criteria is met:

**Criteria (a)** - The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

✓ This criterion is ordinarily applied in situations in which the benefits of seller's performance are immediately consumed by the customer,

✓ In other words, the customer obtains control of seller entity's output as soon as the entity performs.

✓ These criteria can also be applied if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

**Criteria (b)** - The entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced;

✓ Example: Construction of building in customer's land.

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- ✓ *In such cases, the customer ordinarily obtains control of the asset whose work is in progress and therefore, the entity carrying out the work can recognise revenue over a period of time.*

**Criteria (c)** - *The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.*

- ✓ *This criterion refers to situations in which an asset is created at customer's discretion, which the seller is restricted from using for any other purpose.*
- ✓ **Therefore, this criterion is met if two factors exist simultaneously**
  - (i) *The asset so created does not have an alternate use to the entity; and*
  - (ii) *Seller entity has a legally enforceable right to payment for performance completed to date.*
- ✓ *An entity has a right to payment for performance completed to date if the entity would be entitled to an amount that at least compensates the entity for its performance completed to date in the event that the customer terminates the contract for reasons other than the entity's failure to perform as promised.*
- ✓ *The compensation should include costs incurred by the entity for work completed to date, plus a reasonable profit margin.*

**✚ Methods of measuring progress of a performance obligation satisfied over time**

*An entity shall apply a single method of measuring progress for each performance obligation satisfied over time, and*

*The entity shall apply that method consistently to similar performance obligations and in similar circumstances.*

**There are two method of measuring progress:**

<i>Output Methods</i>	<i>Input Methods</i>
<i>Recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative</i>	<i>Recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation.</i>

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to the remaining goods or services promised under the contract.	
<b><u>For Example:</u></b> Surveys of performance completed to date, appraisals of results achieved	<b><u>For Example:</u></b> Resources consumed labour hours expended, costs incurred, time elapsed or machine hours used

- ✚ At the end of each reporting period, an entity shall remeasure its progress towards complete satisfaction of a performance obligation satisfied over time. Such change will be accounted as change in accounting estimates as per IND AS 8.
- ✚ While applying input method, following adjustment may be required when cost-based input method is used-
  - (a) **When any cost incurred does not contribute to an entity's progress in satisfying performance obligation**  
 Such cost must be ignored for measuring progress of work. For Eg: cost of wasted materials, labour or other resources, etc.
  - (b) **When cost incurred is not proportionate to entity's progress in satisfying its performance obligation.**  
 In such cases, revenue should be recognised only to the extent of costs incurred.  
 Such recognition of revenue to the extent of costs incurred is appropriate, if at contract inception, all the following conditions exist:
    - (i) The goods do not represent a distinct performance obligation;
    - (ii) Customer is expected to obtain control of the goods significantly before receiving the services;
    - (iii) Cost of such goods is significant in relation to the total expected costs; and
    - (iv) The entity purchases the goods from a third party and does not significantly involve in designing / manufacturing the goods.

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- ✦ *A straight-line revenue attribution resulting from a time-based measure of progress may be appropriate in the following cases*
  - a) *when an entity expects the customer will receive and consume the benefits of the entity's promise equally throughout the contract period, or*
  - b) *if the entity does not know and cannot reasonably estimate how and when the customer will request performance.*
- ✦ *Transfer of control at a point in time:*  
*Where a company does not meet any of the aforementioned criteria for recognising revenue over a period of time, then revenue shall be recognised at a point in time.*  
*The following are the indicators which may exist to imply the point of time at which control of goods has been passed to the customer. This is not an exhaustive list.*
  - ✓ *The entity has a present right to payment;*
  - ✓ *The customer has a legal title to the asset;*
  - ✓ *The customer has physical possession of the asset;*
  - ✓ *The customer has assumed significant risks & rewards of owning the asset;*
  - ✓ *The customer has accepted the asset.*

## 10. Guidance on Special Aspects

- A) Sale with a right of return**
- ➡ *In such contract, an entity transfers control of a product to a customer with an unconditional right of return.*
  - ➡ *In such cases, the recognition of revenue shall be as per the substance of the arrangement.*
  - ➡ *To account for the transfer of products with a right of return, an entity shall recognise all of the following:*
    - (a) *Revenue for the transferred products to which the entity expects to be entitled*
    - (b) *A refund liability for the products expected to be returned; and*

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(c) An asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

- Subsequently, at the end of each reporting period,
  - ✓ update the measurement of the refund liability for changes in the amount of refunds and
  - ✓ a corresponding adjustments as revenue (or reductions of revenue).
- An asset recognised for right to recover products from a customer on settling a refund liability shall initially be measured by reference to the carrying amount of the product (for example, inventory) less any expected costs to recover those products

*Note: Exchanges by customers of one product for another of the same type, quality, condition and price are not considered returns for the purposes of applying this Standard.*

**B) Consignment arrangements**

*An arrangement is a consignment arrangement if following indicator exists:*

- a) *The product is controlled by the entity until a specified event occurs.*
- b) *The entity is able to require the return of the product or transfer the product to a third party*
- c) *The dealer does not have an unconditional obligation to pay for the product (although it might be required to pay a deposit).*

*In consignment arrangements, revenue is not recognised when the products are delivered to the consignee because control is not transferred. Revenue is generally recognised on sale to end customer.*

**C) Principal vs. agent considerations:**

- i. *An entity is a principal if it controls a promised good or service before transferring that good or service to the customer.*

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*An entity is an agent if its role is to arrange for another entity to provide the goods or services.*

ii. *Principal records revenue on a gross basis*

*Agents records as revenue the net amount that it retains for its agency services.*

iii. *Following are the indicators that an entity is a principal:*

(a) *The entity is responsible for fulfilling the contract;*

(b) *The entity have inventory risk before or after the goods have been ordered by a customer, during shipping or on return;*

(c) *The entity have discretion in establishing prices for the goods or services.*

(e) *The entity is exposed to credit risk for the amount receivable from a customer.*

**D) Sales-based or usage-based royalties on licenses of IP**

*Royalties received in exchange for licenses of IP to be recognised at the later of when:*

a) *The subsequent sale or usage occurs*

b) *The performance obligation is satisfied (or partially satisfied).*

**E) Bill-and-hold arrangements**

● *A bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future.*

● *An entity should determine when a customer obtains control of that product.*

● *However, for some contracts, a customer may obtain control of a product even though that product remains in an entity's physical possession.*

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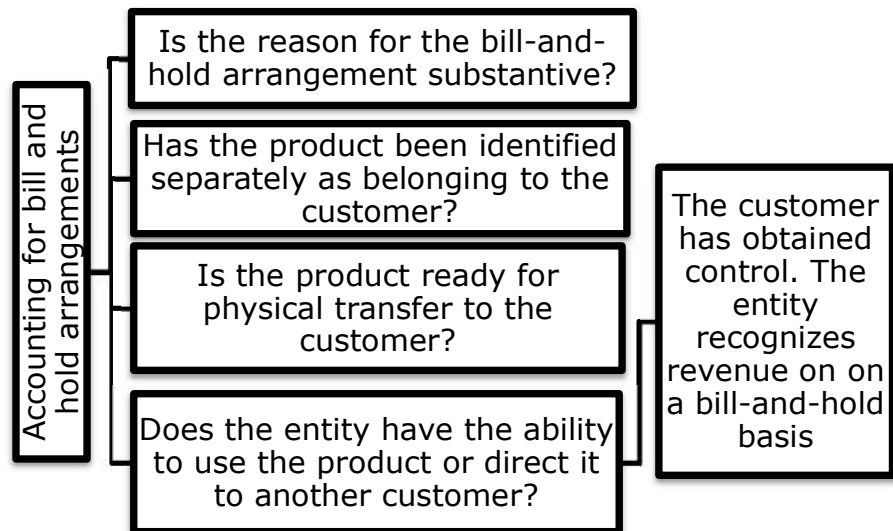
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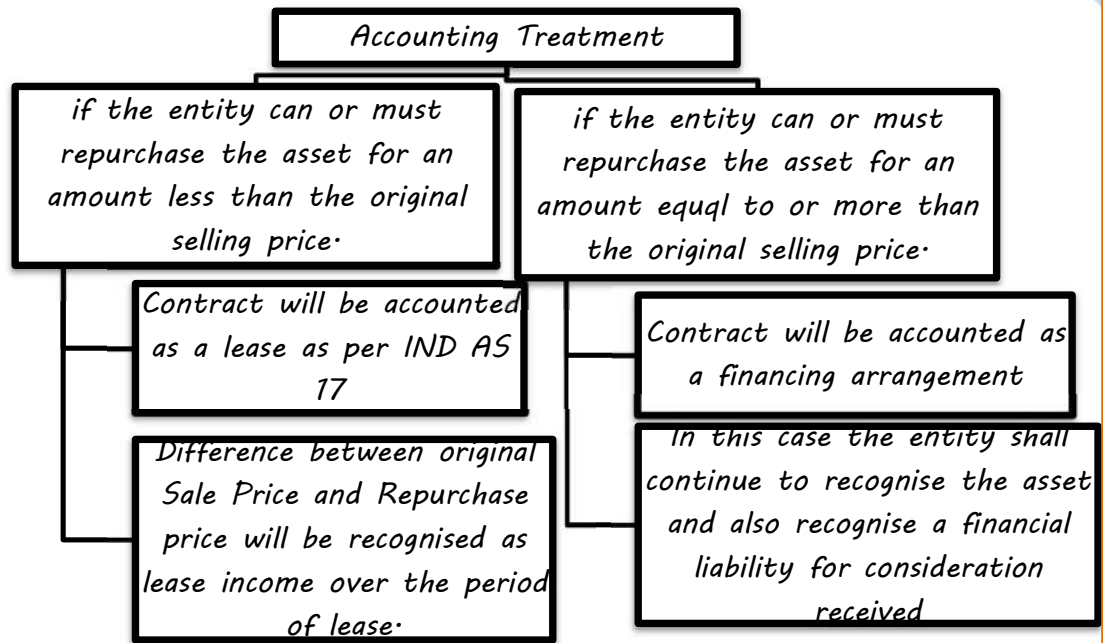
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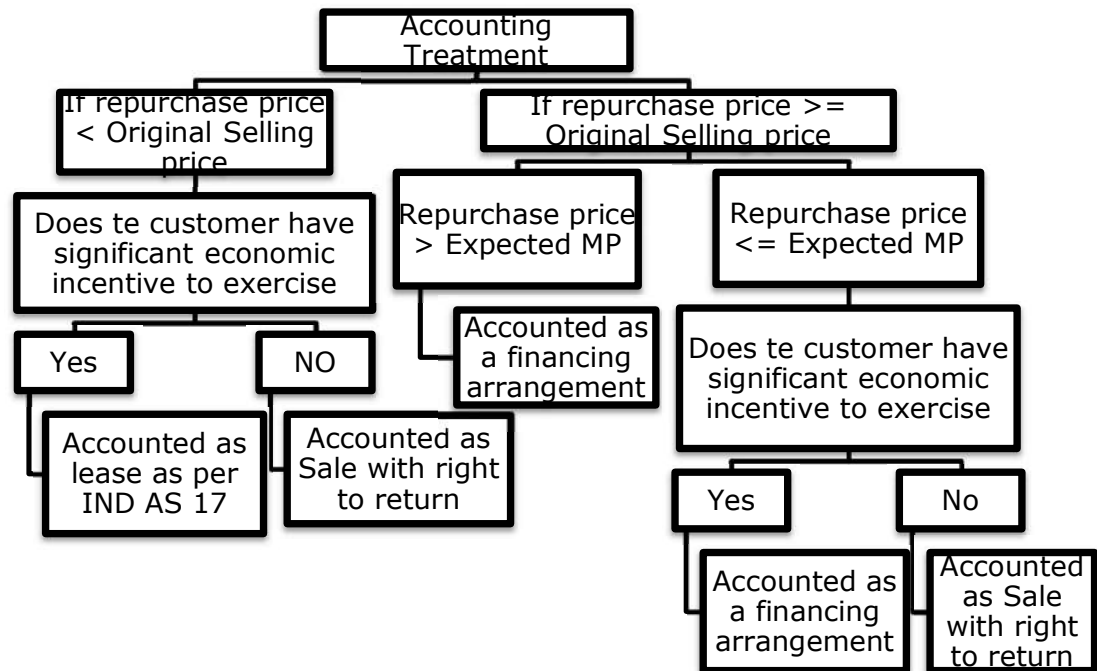
### F) Repurchase agreements

- ✚ *A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset.*
- ✚ *The repurchased asset may be*
  - *The asset that was originally sold to the customer or*
  - *An asset that is substantially the same as that asset that was originally sold.*
- ✚ *Repurchase agreements generally come in three forms*
  - (i) *Forward or call option: An entity has an obligation or a right to repurchase the asset (a forward or a call option)*  
*In this situation a customer does not obtain control of the asset*



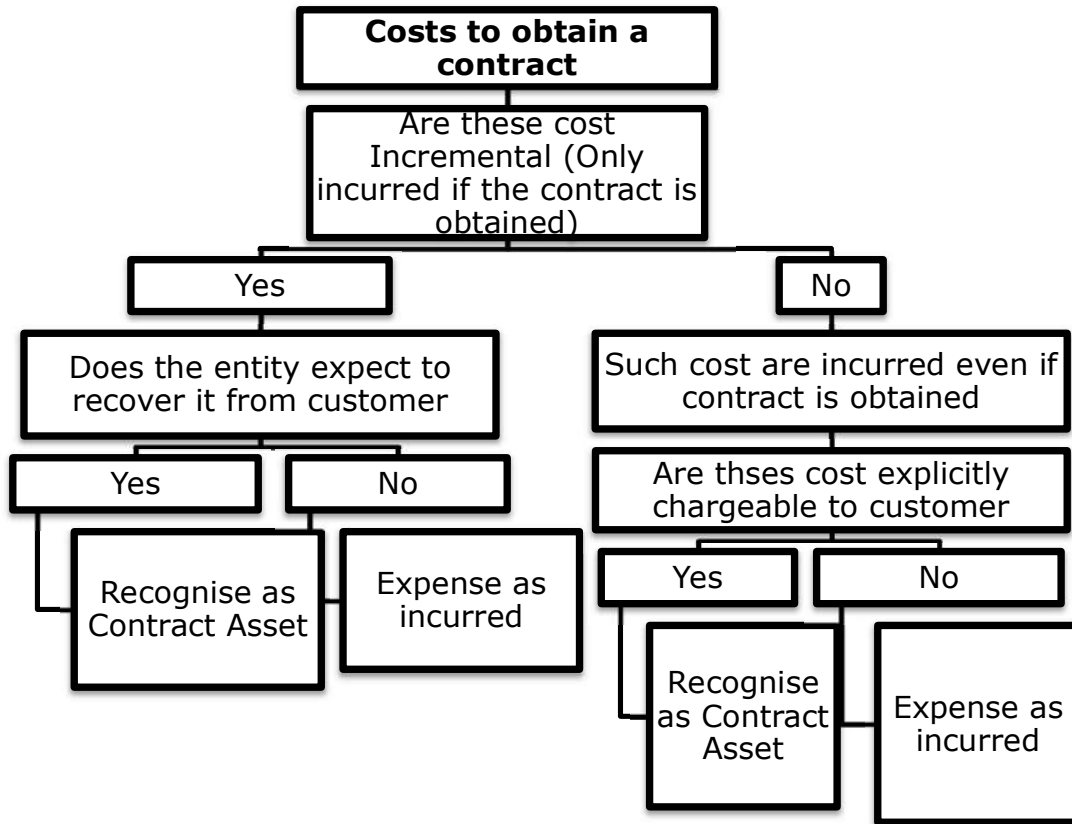
**Note:** If the option lapse unexercised, the entity shall derecognise Financial Liability and recognise revenue.

**(II) Put option:** An entity has an obligation to repurchase the asset at the request of customer.



**11. CONTRACT COSTS**

1) *Costs to obtain a contract (contract acquisition costs)*



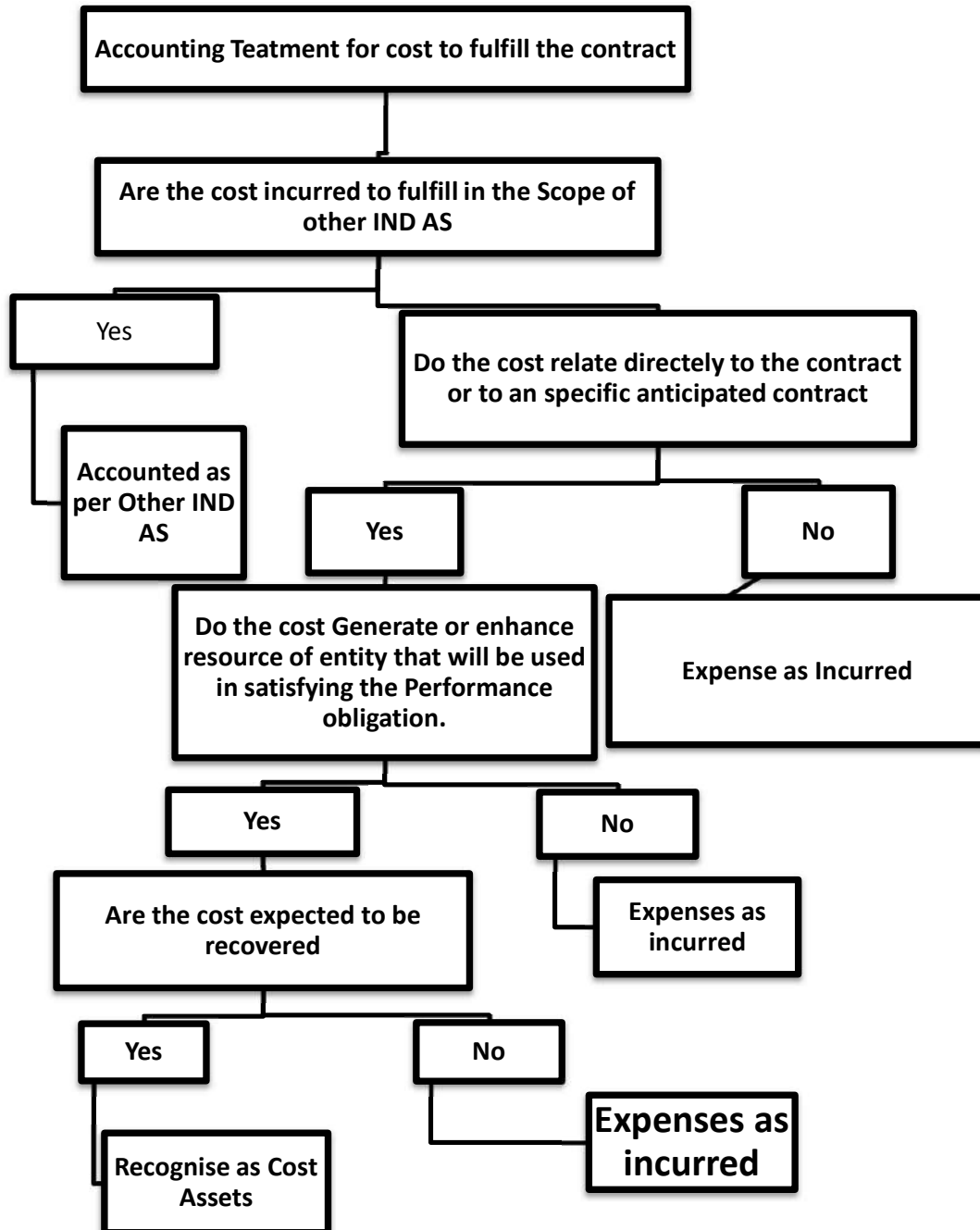
Cost	Capitalize or expense
<i>Commission paid only upon successful signing of a contract</i>	<b>Capitalize</b>
<i>Travel expenses for sales persons pitching a new client contract</i>	<b>Expense</b>
<i>Legal fees for drafting terms of arrangement for parties to approve and sign</i>	<b>Expense</b>
<i>Salaries for sales people working exclusively on obtaining new clients</i>	<b>Expense</b>



*Bonus based on Sales Target*

*Capitalize*

**2) Costs to fulfill a contract (contract fulfilment costs)**



### Costs to fulfil a contract

#### Chargeable cost

- direct labour
- direct materials
- allocable cost that relate directly to the contract or contract activities
- costs that are explicitly chargeable to the customer
- other costs that the entity incurs only because it entered into the contract

#### Not Chargeable

- general and administrative costs that are not explicitly chargeable to the customer
- costs of wasted materials, labour, or other resources
- costs that relate to satisfied performance obligations

## 12. Amortization and impairment

### *Amortization*

*Under Ind AS 115, an entity amortizes capitalized contract costs on a systematic basis consistent with the pattern of transferring the goods or services related to those costs.*

### *Impairment*

*Assets recognised are subject to impairment testing*

**Step 1:** *An entity recognizes impairment losses associated with assets related to the contract that are accounted in accordance with another Standard (for example, Ind AS 2, Ind AS 16 and Ind AS 38).*

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*Step 2: Entity should apply impairment guidelines in IND AS 115 to the contract cost assets:*

*An entity shall recognize an impairment loss in earnings if the carrying amount of an asset exceeds the remaining amount of consideration that the entity expects to receive less any directly related contract costs yet to be recognised.*

### 13. SERVICE CONCESSION ARRANGEMENTS

1. *Meaning: Service Concession Arrangement involves*

- *a private sector entity (an operator)*
- *constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and*
- *operating and maintaining that infrastructure*
- *For a specified period of time.*

*The operator is paid for its services over the period of the arrangement.*

*Such an arrangement is often described as*

- *a 'build-operate-transfer',*
- *a 'rehabilitate operate-transfer' or*
- *a 'public-to-private' service concession arrangement.*

2. *Accounting Treatment:*

*Step 1: Determine Transaction Price*

*Step 2: Allocate TP to*

- *Performance obligation of construction or upgradation of infrastructure*
- *Performance obligation of period of right to operate*

*Step 3: Recognize Revenue*

- *from construction or upgradation of infrastructure in the proportion of construction completed*
- *from operation and maintenance of infrastructure in the proportion of period of right to operate*



STUDENT NOTES

## Financial Instruments

### 1. Meaning

**Financial instrument:** It is a contract which gives rise to

- Financial asset of one entity and
- Financial liability or equity instrument of another entity

**Financial asset (FA) It includes**

- (a) Cash
- (b) Equity investment of another entity  
Eg:- Investment in equity shares
- (c) Contractual right to receive cash or another financial asset from another entity  
Eg:- Trade receivable, Investment in debentures, loan given to employee, Bills receivable etc
- (d) Contractual right to exchange financial asset (or) Financial liability with another entity under condition that are potentially favourable to the entity.  
Eg:- Derivative financial instrument

**Financial liability: It Includes**

- a) Contractual obligation to deliver cash (or) another financial asset to another entity  
Eg:- Trade payable, Borrowing, Bill Payable etc
- b) Contractual obligation to exchange FA (or) FL with another entity under conditions that are potentially unfavourable to the entity.  
Eg:- Derivative financial instrument

**Equity instrument**

It means any contract that entitle the residual interest in the asset of entity after deducting all of its liabilities

E.g. Ordinary shares of co, irredeemable PS of company, partners' capital in partnership firm.

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*Identify Financial Asset or Financial Liability*

<i>S.No.</i>	<i>Items Financial Instrument</i>	<i>Whether (FA) or (FL)</i>
1.	<i>Cash</i>	
2.	<i>Cash Equivalents</i>	
3.	<i>Bank Balance</i>	
4.	<i>Deposits given</i>	
5.	<i>Deposits received</i>	
6.	<i>Trade and other Receivables</i>	
7.	<i>Trade and other Payables</i>	
8.	<i>Bills Receivable</i>	
9.	<i>Bills Payable</i>	
10.	<i>Loans including Bank Loan</i>	
11.	<i>Investments in Equity Shares</i>	
12.	<i>Investment in Debentures</i>	
13.	<i>Promissory Note to receive Government bonds</i>	
14.	<i>Promissory Note payable in Government Bonds</i>	
15.	<i>Perpetual Debt instrument held</i>	
16.	<i>Prepaid Expenses</i>	
17.	<i>Inventory</i>	
18.	<i>Property, Plant and Equipment</i>	
19.	<i>Intangible Assets</i>	
20.	<i>Advances given for goods and services</i>	
21.	<i>Advances received for goods and services</i>	
22.	<i>Deferred Revenue</i>	
23.	<i>Warranty obligations</i>	
24.	<i>Income Taxes</i>	
25.	<i>Financial Guarantee received</i>	
26.	<i>Financial Guarantee given</i>	
27.	<i>Finance Lease - Lessor</i>	
28.	<i>Finance Lease - Lessee</i>	

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29.	Operating Lease - Lessor	
30.	Operating Lease - Lessee	
31.	Gold	
32.	Gold bond held	

**2. Rules for classification of financial liability and equity instrument**

- (1) If the Issuer of instrument can be forced to redeem the principal amount and to pay Interest (or) Dividend  
- **Classified as financial liability**
- (2) If the Issuer has an unconditional right to refuse the payment of principal Amount and payment of Interest (or) Dividend  
- **Classified as equity instrument**
- (3) If the settlement of financial instrument is Contingent on the outcome of circumstances which is beyond the control of either parties  
- **Classified as financial liability.**

**3. Compound financial instrument (CFI) :-**

CFI contains elements of both financial liability and equity instrument in a single contract

AS per IND AS -32, FV of CFI i.e., Proceeds received should be split into financial liability and equity instrument element on initial recognition.

**4. Identify FL/EI or CFI from the following**

No.	Particulars	FL/EI/CFI
1.	Redeemable PS with fixed dividend per annum	
2.	Redeemable PS with cumulative (or) non-cumulative dividend	
3.	Compulsory convertible PS with discretionary dividend	
4.	Compulsory convertible PS with fixed dividend	
5.	Irredeemable PS with Cumulative/ Non-cumulative dividend	
6.	Irredeemable PS with fixed dividend	
7.	Redeemable Deb with fixed interest	
8.	Irredeemable Deb with fixed interest	

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9.	Redeemable Deb with discretionary Int	
10.	Irredeemable Deb with no guarantee of interest	
11.	Zero coupon Bond/Deep Disc Bonds	
12.	Optionally convertible redeemable Debenture	
13.	Participating Redeemable preference shares with fixed dividend	

**5. How to split compound financial instrument**

<i>FV of CFi i.e., Proceeds received</i>	<i>xxx</i>
<i>Less: FV of liability component</i>	<i>xxx</i>
<i>[PV of contractual cash Outflow discounted at market rate of interest of similar instrument without equity component]</i>	
<i>FV of equity component</i>	<i>xxx</i>

**6. Early settlement**

*When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchases the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction.*

*In other words, the issuer:*

- *Liability component = Fair value of the remaining CCO using a discount rate that is based on market rate of interest on settlement date, and*
- *Equity component = Fair value of compound instrument - Fair value of liability component*

**Accounting treatment of gain or loss**

- a) *the amount of gain or loss relating to the liability component is recognised in profit or loss; and*
- b) *the amount of consideration relating to the equity component is recognised in equity.*

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**7. Accounting treatment of interest, Dividend, gain (or) loss and transaction cost**

- (a) Interest, Dividend, Gain or Loss related to financial liability shall be recognised as income or Exp in profit/ loss a/c
- (b) Dividend classified as expense may be presented either with "Interest expense" or as a "Separate item" in profit/loss
- (c) Distribution to holder of EI shall be recognised directly to equity i.e. retained earnings.
- (d) Transaction cost of an equity instrument or financial liability shall be deducted from respective amount
- (e) Transaction costs that are related to CFI shall be allocated to liability component & equity components in the ratio of their fair value.

**8. Treasury shares (Buyback of EI)**

If an entity repurchases its own equity instrument, these EI are known as "Treasury shares which will be deducted from equity.  
No gain (or) loss should be recognised in PL for purchase/sale/cancellation of entity's own EI.

**9. Offsetting:**

Financial asset and financial liability can be set off and net amount will be presented in Balance sheet if following conditions are satisfied

- (a) Entity has current legally enforceable right to set off the recognised amount
- (b) Entity intends to settle on net basis.

**10. Financial asset****1. Classification of financial assets**

- (a) FA at amortized cost
- (b) FA at FVTOCI
- (c) FA at FVTPL

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**2. Classification of FA is based on**

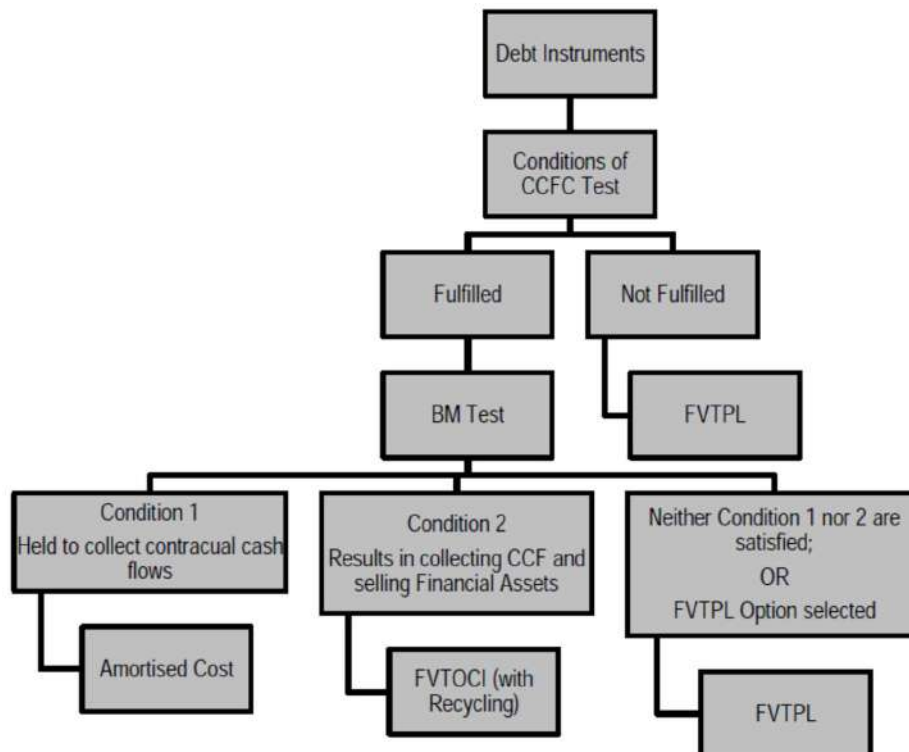
(a) Contractual cash flow characteristics (CCFC) of Financial asset

- CCF which are solely payment of principal and interest amount
- CCF which are not solely payment of principal and interest amount

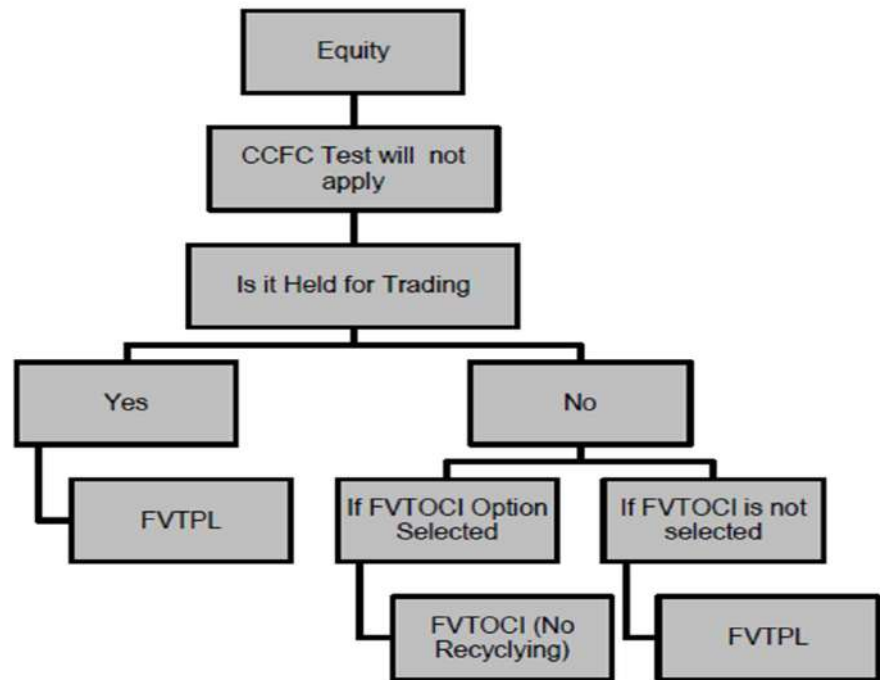
(b) Entity's business model for managing FA

- Hold to collect CCF till maturity
- Hold to collect CCF and selling FA
- Held for trading (or) any other business model.

**3. Classification of Debt Instruments (Financial Assets):**



#### 4. Classification of Equity (Financial Asset):



#### 5. Initial and subsequent recognition & measurement of FA

		AC	FVTOCI (with recycling)	FVTOCI (Without recycling)	FVTPL
<b>1</b>	Initial recognition	FV + TC	FV + TC	FV + TC	FV [transaction costs will be charged to PL]
<b>2</b>	Subsequent recognition (on R/D)	At AC by applying EIR	FV	FV	FV
<b>3</b>	FV Gain/loss	Not applicable	T/R to OCI (FV reserve)	T/R to OCI (FV reserve)	TR to P&L
<b>4</b>	Interest & Dividend	P&L (By applying EIR)	P&L (By applying EIR)	P&L (when received)	N/A

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<b>5</b>	<i>Gain/loss on De-recognition</i>	<i>P&amp;L</i>	<i>PL</i>	<i>OCI</i>	<i>P&amp;L</i>
<b>6</b>	<i>Cumulative gain/loss in accumulated in Equity</i>	<i>N/A</i>	<i>(Cumulative gain/ loss in equity (FV reserve) will be recycled from OCI to P&amp;L on Derecognition)</i>	<i>(Cumulative gain/loss will not be recycled. Remains in equity-T/R to Retained earnings)</i>	<i>N/A</i>

**6. Initial recognition of FA**

- (a) *An entity should recognize FA in balance sheet only when - the entity becomes party to contractual provision of instrument*
- (b) *A financial asset will be recognised at either trade date or settlement date on initial recognition.*

**7. Reclassification of FA**

*If an entity reclassifies the financial asset, it shall apply reclassification prospectively from re-classification date*

**Reclassification of AC**

<i>No.</i>		<i>To FVTPL</i>	<i>To FVTOCI</i>
<i>1.</i>	<i>Measured at</i>	<i>Fair value on reclassification date</i>	<i>FV on reclassification date</i>
<i>2.</i>	<i>Gain/loss on reclassification</i>	<i>To P&amp;L</i>	<i>To OCI</i>
<i>3.</i>	<i>EIR</i>	<i>N/A</i>	<i>No adjustment due to reclassification, it means use original EIR</i>

**Reclassification of FVTPL**

No.		To AC	To FVTOCI
1.	Measured at	Fair value on reclassification date	FV on Reclassification date
2.	Gain/loss	P&L	P&L
3.	EIR	Calculate EIR based on FV on reclassification date	Calculate EIR based on FV on reclassification date

**Reclassification of FVTOCI**

No.		To AC	To FVTPL
1.	Measured at	FV on reclassification date	FV on reclassification date
2.	Gain/loss	OCI	OCI
3.	Cumulative gain/loss in OCI	Remove from equity and adjusted against FV on reclassification date. Due to such adjustment, FA is measured at AC on reclassification date as if it has been always measured at AC	Entirely recycled from equity to P&L as reclassification adjustment
4.	EIR	No adjustment due to reclassification, it means use original EIR	N/A

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**8. Derecognition of FA**

*FA will be derecognized if any one of the following conditions is satisfied*

(a) *Contractual right to receive cash has been expired.*

*OR*

(b) *Entity has transferred contractual right to receive cash flows from FA and also transfer substantially all the risk and reward of ownership of such FA*

*OR*

(c) *Entity retains the contractual right to receive CF but assume contractual obligation to pay CF arising from such asset and also transfer substantially all the risk and reward of ownership of such asset.*

*OR*

(d) *The entity has not retained control of financial assets.*

**Note:**

*If the entity has retained substantially all the risk and reward of the FA transferred, the entity should continue to recognize, the transferred asset in its entirety.*

*In this situation, a FL shall be recognised for the consideration received and it will be subsequently recognised at amortized cost.*

*In subsequent year, entity should recognize any income on transferred asset and exp on financial liability.*

**Accounting Treatment for Derecognition of FA**

a) **For complete Derecognition**

Bank Account                                      Dr.                                      [Consideration received]

To Financial Assets A/c    [Carrying Amount]

**Note:**

a) *Any difference should be recognised in the statement of profit and loss.*

b) *Any cumulative gain or loss that had been recognised directly in an equity account will be reclassified to PL (if debt*



instrument) or transferred to retained earnings (If Equity Instrument)

- b) **For partial derecognition** i.e., When a portion of contractual right to receive cash flows is transferred.

**Step 1:** Calculate Fair value of transferred and retained portion by applying expected yield rate of transferee (if not given in the question)

Fair Value of transferred portion	xxx
Fair Value of retained portion	xxx
<b>Total fair value of FA</b>	<b>xxx</b>

**Step 2:** Allocate the carrying amount of FA in the ratio of their fair value

	<u>FV</u>	<u>CA</u>
Transferred portion	xxx	xxx
Retained portion	xxx	xxx
<b>Total fair value of FA</b>	<b>xxx</b>	<b>xxx</b>

**Accounting Treatment**

- a) **For transferred portion**

Bank Account	Dr.	[Consideration Received]
To Financial assets		[CA of portion transferred]

- b) **For retained portion**

Principal Strip A/c	Dr.	( Allocated CA )
Interest Strip A/c	Dr.	
Servicing Assets A/c	Dr.	
To Financial Asset		[CA of portion Retained]

**Note:**

- Any difference should be recognised in the statement of profit and loss.
- A cumulative gain or loss that had been recognised in the equity account is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.

*Any cumulative gain or loss allocated to transferred portion will be reclassified to PL (if debt instrument) or transferred to retained earnings (If Equity Instrument)*

**c) Continuing involvement of entity in transferred asset**

*If an entity neither transfers nor retains risk and reward of asset and retained the control of transferred asset, then entity continue to recognize the transferred asset to the extent of its continuing involvement which is equal to lower of*

*(a) CA of asset transferred*

*(b) The guaranteed amount*

*The entity also recognises the associated liability which is initially measured at*

*(a) The guaranteed amount plus*

*(b) The FV of guarantee (i.e., consideration revived for guarantee)*

*Note: The guarantee liability ie FV of guarantee shall be amortized to P&L over the guarantee period*

*The journal entry passed by Entity C on the date of DE recognition is as below:*

<i>Cash</i>	<i>Dr.</i>
<i>Continuing involvement asset</i>	<i>Dr.</i>
<i>To Receivables</i>	
<i>To Associated liability</i>	

- *Any difference should be recognised in the statement of profit and loss.*

## **9. IMPAIRMENT OF Financial Asset**

- **Scope of impairment**

*An entity shall recognise a loss allowance for **expected credit losses [ECL]** on the following:*

- (a) a financial asset that is measured at amortised cost*

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- (b) a financial asset that is measured at fair value through OCI
- (c) a lease receivable

*Note: FA measured at FVTPL and FA measured at FVTOCI (equity instrument) are not required to be tested for impairment*

- **What is a credit loss allowance?**

- ◆ For financial assets, a credit loss is the present value of the difference between:

- (a) the contractual cash flows that are due to an entity under the contract; and

- (b) the cash flows that the entity expects to receive discounted at original effective interest rate.

- ◆ Amount of credit loss allowance

- i) If 12month ECL

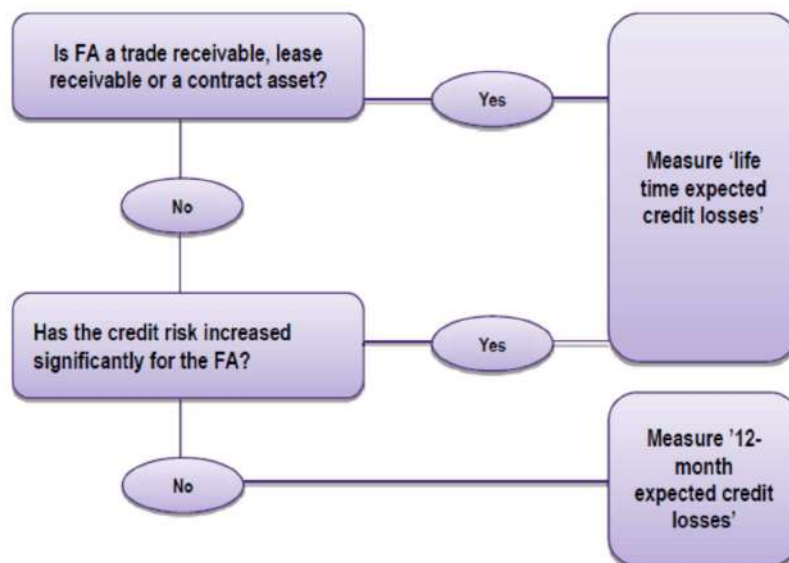
$$\text{Credit loss allowance} = \text{ECL} \times \text{PD in next 12 month}$$

- ii) If Life time ECL

$$\text{Credit loss allowance} = \text{ECL} \times \text{PD in over life time}$$

- **How is loss allowance to be provided?**

Entity needs to provide for 12-month expected credit losses or life time expected credit losses is applied as follows:



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- **General Three stage Approach (not applicable to trade receivable, lease receivable and other contract assets for which life time ECL is measured:**
  - Stage 1: Credit Risk has not increased significantly since initial recognition**
    - Recognise 12 Month ECL
    - Interest income will be recognised on gross amount
  - Stage 2: Credit Risk has increased significantly since initial recognition**
    - Recognise Life time ECL
    - Interest income will be recognised on gross amount
  - Stage 3: Credit Impaired Financial assets**
    - Recognise Life time ECL
    - Interest income will be recognised on net amount

**Determining whether credit risk has increased significantly:**

**Credit risk** as 'the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation'.

- ◆ When determining whether the recognition of lifetime expected credit losses is required, an entity shall consider reasonable and supportable information that is available without undue cost or effort and that may affect the credit risk on a financial instrument.
- **30 days past due rebuttable presumption:**  
There is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

## ◆ Accounting Treatment

a) IF FA are measured at AC

PL A/c                      Dr.

To Credit Loss allowance

b) IF FA are measured at FVTOCI (debt Instrument)



designate a financial liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because it eliminates or significantly reduces a measurement or recognition inconsistency (*sometimes referred to as “an accounting mismatch”*) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

**b) Financial liability at amortised cost: Other liability**

S.NO	Particulars	Amortised Cost	Held for Trading	Designated as FVTPL
1.	On Initial recognition	Fair Value - TC	Fair Value	Fair Value
2.	On Balance Sheet Date	Amortised Cost	Fair Value	Fair Value
3.	Transaction Cost - on Initial Recognition	Deducted	Charged to P&L	Charged to P&L
4.	Fair Value gain or loss	NA	P&L	P&L
5.	Interest	P&L (calculated by using EIR)	NA	NA

**2. Reclassification of Financial Liabilities**

An entity shall not reclassify any financial liability.

**3. Derecognition of financial liability**

✚ An entity shall DE recognition F·L (or) a part of FL when and only when it is extinguished i.e., when obligation is

- discharged (or)
- cancelled (or)

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- *exchanged (or)*
- *modified.*

**+ Strategic debt restructuring (Modification)**

*If modification of terms of borrowing*

*(a) Substantially differ from original terms - Follow extinguishment accounting*

*(b) Not substantially differ from original terms - Follow modification accounting.*

**+ The terms are substantially different if:**

*(A) Present value of:*

- *cash flows under the new terms,*
- *any fees paid*
- *discounted using the original effective interest rate*

**LESS:**

*(B) Present value of the remaining cash flows of the original financial liability discounted by using original EIR.*

*Is greater than or equal to 10% of (B)*

**+ Extinguishment accounting**

*(1) It will be followed when modified terms of borrowing substantially differ from original terms*

*(2) It is Derecognition of existing liability and recognition of new liability at its FV.*

*(3) FV of new liability will be present value of future CCF as per modified terms discounted at Market rate of interest for similar loan on the date of modification.*

*(4) Recognition of Gain/loss*

*Fair Value of new Liability xxx*

*Add: Any fee Paid xxx*

*Less: CA of existing liability xxx*

*Gain or loss recognised in PL xxx*

**+ Modification accounting: Ind AS 109 is not clear as to the accounting treatment if the 10% test is failed.**



***Approach 1: Recognition of gain or loss on date of modification***

- Any fees or costs incurred will also be recognized in profit or loss.
- The liability will be restated at discounted present value of the remaining cash flows of the new financial liability by using original effective interest rate.
- Any difference between the CA of liability and restated amount is recognized in profit or loss

***Approach 2: Amortization of gain or loss on date of modification***

- The fees or costs incurred are netted against the existing liability.
- The effective interest rate is recalculated. This is the rate which discounts the future cash flows as per modified contractual terms to the adjusted carrying amount mentioned above.

***Debt for equity swaps***

- Equity instruments issued to a creditor to extinguish a financial liability are recognised initially at the fair value of the equity instruments issued unless that fair value cannot be reliably measured.
- If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished.
- The difference between the carrying amount of the financial liability extinguished, and the consideration paid shall be recognised in profit or loss.

**12. Derivative financial instrument**

1. Derivative Financial Instrument is a contract which derives its value from underlying asset (or) Liability
2. Underlying can be
  - Shares

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- Index
  - Currency
  - Commodity (Gold, Copper, Iron etc)
  - Anything
3. **Derivative financial instrument (DFI):** DFI is a FI which satisfies following conditions
- (a) Its value changes on response to change in the value of underlying
  - (b) If requires no (or) very low investment
  - (c) It is settled at future date
4. **Classification of DFI**
- (a) DFI held for trading (to earn speculative profit) - Accounted as FVTPL
  - (b) DFI held for hedging (to manage risk) - Accounted under hedge accounting.
5. **DFI (Held for trading)**
- Initial recognition at FV
  - Subsequent recognition at FV
  - FV gain or loss is transferred to P&L
6. **Accounting treatment of future contract (Same for both the parties)**
- (a) For entering into future contract (i.e;) initial recognition  
No entry (as no consideration)
  - (b) At year end  
Recognise derivative financial instrument at FV as per IND AS - 109
    - (1) If Favourable  
Derivative financial asset a/c ----- DL  
-----To P&L
    - (2) If unfavourable  
P&L a/c ----- Dr  
----- To Derivative financial liability

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**Note:**

- If it is a buy contract - when expectations is high  
Favourable = when Closing price > Exercise price  
Unfavourable = when Closing Price < Exercise price
- If it is a sale contract - when expectation is low  
Favourable = When Closing Price < Exercise price  
Unfavourable = When Closing Price > Exercise price

**(c) On settlement date**

- Restate DFI at its FV on settlement date
- Pass settlement journal entry
  - If DFI is asset  
Cash a/c ----- Dr  
----- To DF asset a/c
  - If DFI is a liability  
DF liability a/c ----- Dr  
----- To Cash a/c

**7. Accounting treatment for option**

No.	Option holder (Buyer right)	Option holder (Seller of right)
1.	For initial margin paid Initial margin a/c ----- Dr ----- To bank	Same
2.	For entering into option contract DFA a/c ----- Dr ----- To Bank a/c (With premium paid)	Bank a/c -----Dr ----- To DFL a/c (With premium received)
3.	At year end Recognise DFI at FY (a) For increase in the value of premium DFA a/c ----- Dr ----- To P&L (b) For decrease in the value of premium P&L a/c ----- Dr	P&L ac ----- Dr ----- To DFL a/c  DFA a/c ----- Dr

	----- To DFA a/c <i>*Only derivative financial asset will be recognised ie loss cannot be more than premium paid</i>	----- To P&L a/c <i>*Only derivative financial liability will be recognise ie gain cannot be more than premium received</i>
4.	On settlement date (a) Recognise DFA at its FV and by comparing contract price & Closing Price (b) Record settlement J/E If favourable Cash A/c -----Dr -----To DFA A/c If Unfavourable No entry	On settlement date Recognise DFL at its FV and by comparing contract price & Closing Price Record settlement J/E If favourable (point of holder) DFL A/c -----Dr -----To Cash A/c If Unfavourable (point of holder) No entry

### 13. Hedge Accounting

1. Hedging means covering any risk arising from recognised assets and liabilities  
(or) firm commitment or highly probable forecasting transaction
2. Hedging can be of two types
  - (a) FV hedge
  - (b) CF hedge
3. There are four aspects for hedge accounting
  - (a) There must be hedged item
    - Either recognised asset (or) liability (or)
    - Unrecognised firm commitment (or)
    - Highly probable forecasting transaction
  - (b) There must be hedging instrument
    - Normally derivative financial instrument
  - (c) There must be relationship b/w hedged item and hedging instrument with formal documentation
  - (d) The relationships must be effective

**Note:-**

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If any one of the above aspects is not satisfied, then follow FVTPL accounting for hedging instrument.

**4. Fair value hedge**

- Hedging instrument should be measured at FVTPL. Any gain (or) loss should be transferred to P&L. The changes in FV of Hedged item (FA (or) FL) should also transferred to P&L
- However, if hedged item is a financial asset (equity instrument) which is measured at FVTOCI. Then any gain/loss on hedging instrument and hedged item will be transferred to OCI

No.	Hedged item	Hedging instrument	Fair value Gain/Loss
1.	AC	DFI	P&L
2.	FVTPL	DFI	P&L
3.	FVTOCI (Debt)	DFI	P&L
4.	FVTOCI (Equity)	DFI	OCI

**Example:**

A ltd. has purchased a machinery whose Carrying amount is Rs. 10,00,000 as on 31.03.19 by applying Ind AS 16.

A ltd. is expecting a decline in the value of machinery and therefore has entered into forward contract on 1/03/19 to sell machinery at Rs. 9,00,000 after 3 months.

At year end 31.03.19 fair value of machinery is Rs. 8,00,000.

Pass necessary journal entries if all the conditions of Hedge accounting.

**Example:**

Suppose in the above example hedged item is investment in equity shares which are measured at FVTPL.

Also, on 31/5/19 fair value of equity shares is Rs. 12,00,000.

**Example:**

Suppose in the above example hedged item is investment in equity shares which are measured at FVTOCI.

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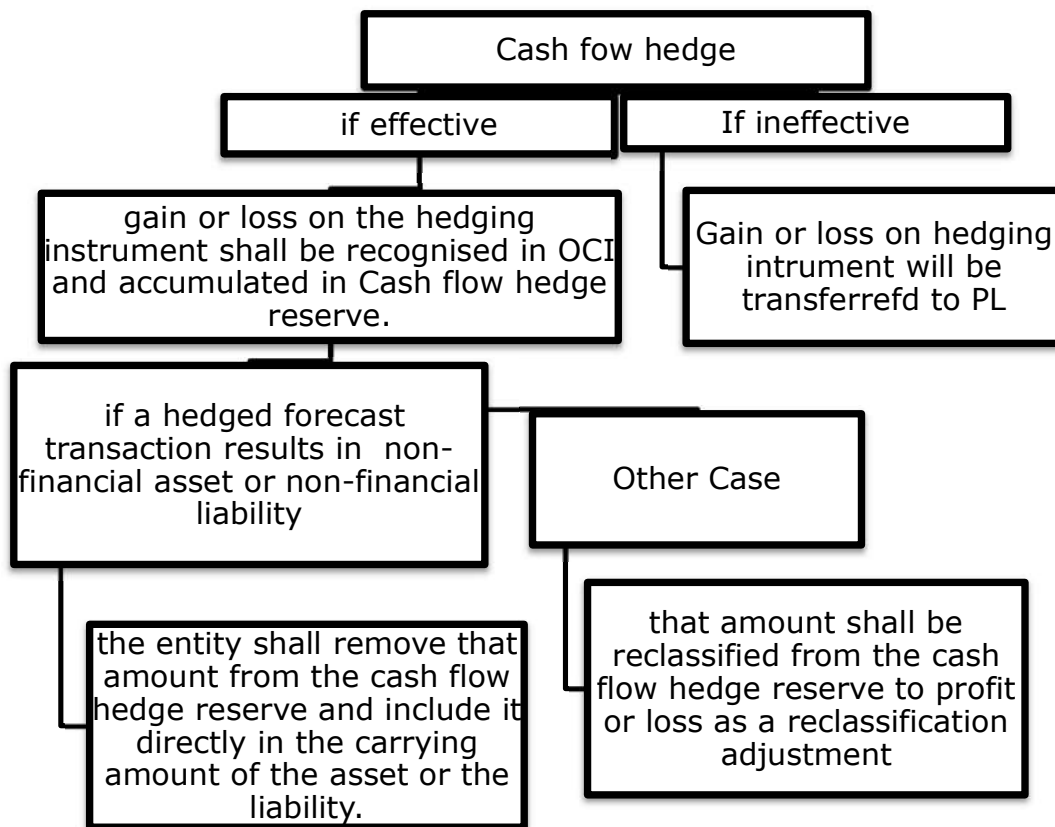
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**Example:**

X Ltd. Has entered into binding contract to buy inventory at Rs. 15,00,000 on 1/4/19 after 6 months. On 1/5/19 X Ltd. is expecting that price of inventory may decline and therefore to cover the risk of fall in the value of inventory due to above commitment X Ltd. entered into forward contract to sell the inventory at Rs. 14,50,000. On 30/09/19 the fair value of inventory is Rs. 13,00,000.

**5. Cash Flow Hedge**



**6. Hedging of foreign debtor/creditor (CFH)**

Following Journal Entry will be recorded

(1) Calculate forward point

It means calculate difference between spot rate and forward rate on the date of forward exchange contract.

Forward point will be amortised over the period of contract

Journal Entry

P&L a/c ----- Dr

----- To OCI (CFHR)

(2) Calculate changes in FV of forward contract and gain (or) loss will be transferred to OCI

If Gain: Derivative Asset/Liability a/c ----- Dr

----- To OCI (CFHR)

If Loss: OCI (CFHR) a/c ----- Dr

----- To Derivative Asset/Liability a/c

(3) Calculate the value of foreign receivable (or) Payable at the end of each reporting date as per spot rate

(a) Increase in value of receivable or Decrease in value of payable

Receivable/Payable A/c ----- Dr

----- To OCI (CHFR)

(b) Decrease in Value of receivable or Increase in value of payable

OCI (CHFR) A/c -----Dr

----- To receivable/ payable

(4) Upon settlement on settlement date

(1) Receivable/Payable will be settled as agreed on settlement date.

(2) DFI will be settled as per its FV on settle date

(3) CHFR will automatically become '0'.

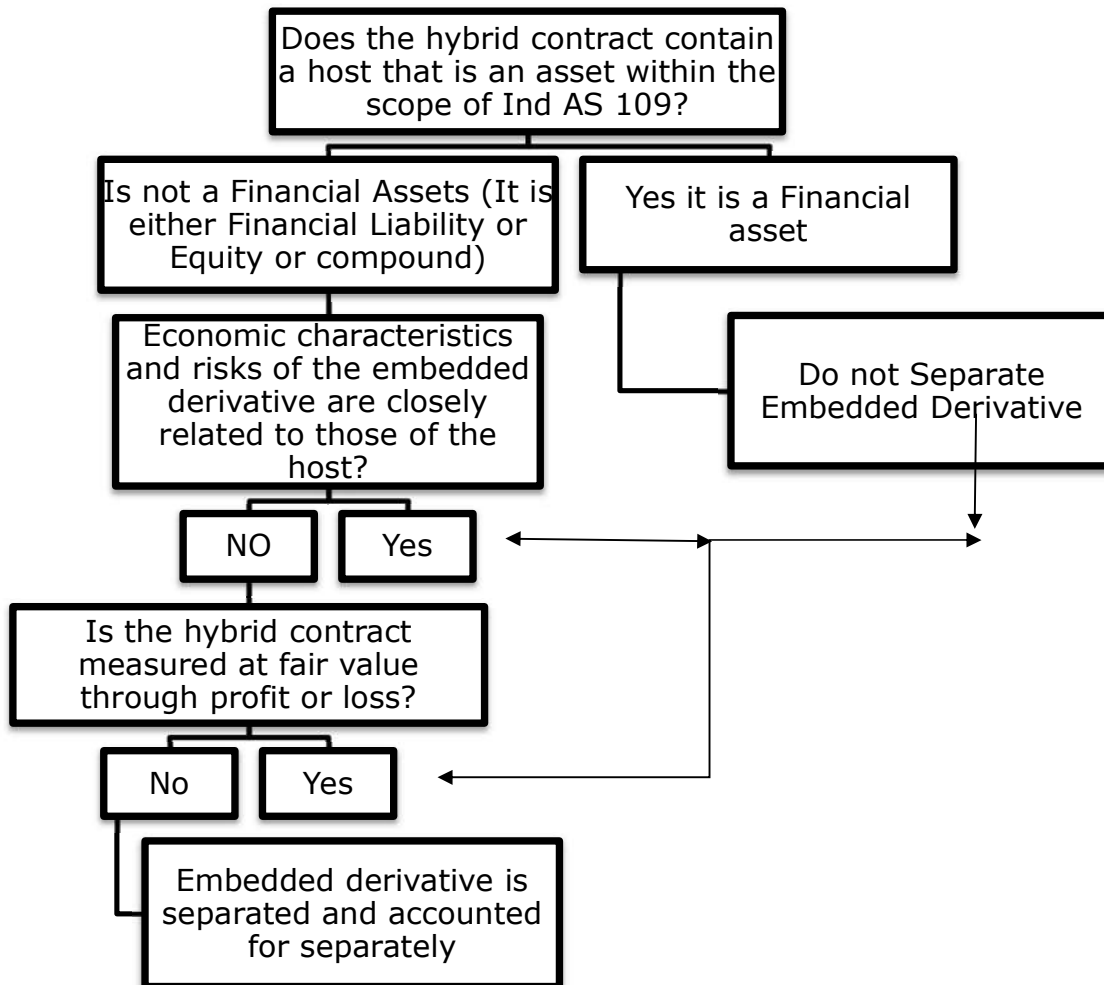


14. **Embedded derivative;** *An embedded derivative is:*

- *A component of a hybrid contract*
- *That also includes a non-derivative host*
- *With the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.*

**Example:**

- *Callable Convertible Debentures*
- *Callable Preference Shares*
- *Contract to Buy or Sale in Foreign currency with an entity having same functional currency*



**Example:** A Ltd. Issued 10% Rs. 10,00,000 Callable convertible debentures on 1/4/10 which are convertible at the option of holder on 31/03/13. Similar debentures without call option and conversion carry interest of 14%. Fair Value of Call option on inception is Rs. 10000 as per option pricing model. Determine the value of equity and liability on 1/4/10.

### 15. Executory Contract

*Contract that provides for settlement only by receipt (or) delivery of non-financial asset are not financial instrument*

*For eg:*

*Forward contract on gold/silver or any other commodity*

*However, if such contracts are to be*

(a) *Net settled in cash*

*Or*

(b) *Settled by taking delivery and selling it within a short period with an intention to earn short term profits,*

*then such contract is accounted as "Derivative Contract" Under IND AS 109.*

### 16. Instrument that will (or) may be settled in own equity instrument (Refer Definition)

No.	Non - Derivative	Derivative Contract
1.	<p><i>It is a Non - Derivate contract for which entity is or may be obliged</i></p> <ul style="list-style-type: none"> <li><i>- to receive variable number of entity's own equity instrument</i></li> <li><i>- deliver a variable number of entity's own equity instrument.</i></li> </ul> <p><i>Classified As FA</i></p> <p><i>Classified As FL</i></p>	<p><i>It is a Derivative contract that will (or) may be settled for a fixed number of entity's own equity instrument other than by exchange of fixed amount of cash (or) other financial asset.</i></p> <p><i>Classified As FA foe one entity and FL for other entity</i></p>
2.	<p><i>It is a Non - Derivative contract for which entity is (or) may be obliged</i></p>	<p><i>It is a Derivative contract which will (or) may be settled for fixed number of entity's own equity instrument in</i></p>

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- to receive a fixed number of entity's own equity instrument Classified As FA	exchange of fixed amount of cash (or) other FA. Classified As FA for one entity and
- to deliver a fixed number of entity's own equity instrument Classified As EI	EI for other entity

**Conclusion:**

Consideration	No of ES	Issuer Co
Fixed	Fixed	EI
Variable	Fixed	FL
Fixed	Variable	FL
Variable	Variable	FL

**17. Puttable Instrument**

- a) Puttable instrument is a financial instrument that gives the holder:
- The right to put the instrument back to the issuer for cash or another financial asset, or
  - is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.
- b) Financial instruments that contain an obligation of the issuer to deliver cash or another financial asset are classified as financial liabilities
- c) However, Ind AS 32 contains an exception whereby such instruments are classified as "equity", despite the fact that they otherwise meet all the conditions for "financial liability". This exception applies if all of the following conditions are fulfilled by the instrument (Ind AS 32-16A, 16B, 16C and 16D):
1. It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.
  2. It is in the class of instruments that is subordinate (lower in rank) to all other classes of instruments.



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3. *In case of puttable instruments, all financial instruments in the most subordinate class have identical features.*

**STUDENT NOTES**



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## IND AS-12 INCOME TAXES

### 1. Scope

- (a) IND AS -12 is applied in accounting for income tax
- (b) Income tax will include
  - ✓ Domestic tax on taxable profit
  - ✓ Foreign tax on taxable profit
  - ✓ Dividend distribution tax
  - ✓ MAT credit and other tax credit

### 2. Definition

- (1) **Accounting income** - Profit (or) Loss before tax as per SOPL
- (2) **Taxable income** - Profit (or) Loss as per income tax Act, 1961
- (3) **Tax expense** - Current tax +/- Deferred Tax
- (4) **Current tax** - Income tax payable (or) recoverable in respect of taxable profit/loss
- (5) **Deferred tax** - Income tax payable (or) recoverable in respect of temporary difference
- (6) **Temporary difference** - CA of Asset/Liability - Tax Base
- (7) **Carrying amt** - Value of assets (or) liabilities as per accounting books
- (8) **Tax base** - Value of assets (or) liabilities as per income tax books
- (9) **Types of Temporary Difference**
  - (a) **Taxable TD (TTD)** - TD which will result in taxable Amount in determining taxable profit of future
  - (b) **Deductible TD (DTD)** - TD which will result in deductible amount in determining taxable profit of future

### 3. Accounting for current tax

- (a)  $\text{Current tax} = [\text{Taxable Income} \times \text{Rate of Tax}]$
- (b) CT will be recognised in profit (or) loss

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- (c) If CT is more than prepaid taxes = CT liability will be created
- (d) If CT is less than prepaid taxes = CT asset will be created
- (e) An entity shall set-off CTA and CTL if and only if
- ✓ Entity has legal enforceable right to Set - off
  - ✓ Entity has intention to settle on net basis
- (f) Whenever tax losses of an accounting period could be carried backward, entity is eligible for tax benefit In the period in which tax losses occur. Such benefit is recognised as Current Tax Assets

**4. Accounting for deferred tax**Following steps are applied

- Step - 1 Calculate CA of Asset and liability
- Step - 2 Calculate tax base
- Step - 3 Calculate temporary Diff and identify
- (a) Taxable TD
  - (b) Deductible TD
- Step - 4 Principles for recognition of DTA and DTL
- Step - 5 Determine Tax rate
- Step - 6 Calculation of and recognition of DTA & DTL
- Step - 7 Accounting Treatment of deferred tax
- Step - 8 Offsetting of DTA and DTL

**Step - 1: Calculation of CA of asset & liability**

Apply respective IND AS

**Step - 2 Calculation of Tax base****(a) Tax base of an asset:**

- ▶ The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.



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- ▶ If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

**(b) Tax base of a liability**

- ▶ The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods.
- ▶ In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.
- ▶ If those liabilities are not tax deductible, the tax base of that liability is equal to its carrying amount.

**Note:-**

In simple words, if there are permanent Difference as defined in AS 12 , then Tax base = Carrying amt

**Example:**

No.	Particulars	CA	TB	TTD/DTD	DTL/DTA
1.	Machinery CP 1,00,000 Dep as per books 20,000 IL as per Books 10,000 Dep as per IT = 50,000				
2.	Interest receivable 1,00,000 It will be taxed on cash basis as per IT act				
3.	Inventory CP = 1,00,000 NRV = 80,000 As per IT valued at CP				

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4.	Debtor 1,00,000 is already included in taxable profit				
5.	Debtor 1,00,000 PDD 10,000				
6.	Debtor 1,00,000 BD = 10,000 (Not yet recorded)				
8.	Debtor 1,00,000 which will be taxable on cash basis				
9.	Preliminary Exp 1,00,000 Written off in 5y as per IT Act				
10.	Research expenditure 1,00,000 fully allowed as per IT act				
11.	Development expenditure 1,00,000 Amortisation during 1 <sup>st</sup> Year 10,000 Fully allowed as per IT Act				
12.	Scientific exp on Purchase of machinery 1,00,000 Dep as per books = 10,000 125% Deduction as per IT act				
13.	Dividend receivable from subsidiary Company 1,00,000				

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	Not taxable as per IT act				
14.	Loan receivable 1,00,000				
15.	Outstanding exp 1,00,000 Related exp allowed on cash basis				
16.	Outstanding exp 1,00,000 Allowed as per IT ACT				
17.	Outstanding exp 1,00,000 allowed if paid before due date ✓ Paid Before Due Date ✓ Not Paid Before Due Date				
18.	Int received in advance 1,00,000 will be taxed on cash basis				
19.	Outstanding fines & penalties 1,00,000 not allowed as per IT act				
20.	Investment CP = 1,00,000 Measured at FVTPL FV on Reporting date = 1,20,000				
21.	Loan received at market rate of interest 10% 1,00,000				
22.	Loan received 1,00,000 TC = 1,000 Measured at AC by applying EIR				

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**Step - 3: Calculate TD & Identify TTD or DTD**
**(a) Taxable temporary difference -**

TD which will result in taxable amount in determining taxable profit in future

It will arise in following situation

- (1)  $CA > TB$  for asset
- (2)  $TB > CA$  for liability

TTD will arise in following situations

- ◆ Expense is allowed in Current Year & Disallowed in Future Year
- ◆ Income is disallowed in Current Year & will be taxable in Future Year

**(b) Deductible temporary difference -**

TD which will result in deductible amount in determining taxable profit of future

It will arise in following situation

- (1)  $TB > CA$  for asset
- (2)  $CA > TB$  for liability

DTD will arise in following situations

- ◆ Expense is disallowed in Current Year & allowed in Future Year
- ◆ Income is taxable in Current Year & will be disallowed in Future Year

**Step 4: Principle for recognition of DTA and DTL**

No.	DTL	DTA
1.	DTL should be recognised for all TTD	DTA should be recognised for all DTD to the extent it is probable that future taxable profit will be available against which DTD can be utilised

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2.	<p><i>Exception:-</i></p> <p><i>DTL will not be recognised if it arises from</i></p> <p><i>(a) Initial recognition of Goodwill in business combination (or)</i></p> <p><i>(b) Initial recognition of asset or liability in a transaction (which is not a business combination) and which do not affect either accounting profit or taxable profit.</i></p>	<p><i>DTA shall be recognised for carry forward unused tax losses and tax credit to the extent if it is probable that future taxable profit (Supported by convincing evidence) will be available against which such tax losses and tax credit can be utilised</i></p>
3.	<p><i>Eg:-</i></p> <p><i>(1) Purchase of asset from foreign country in which no dep is allowed as per IT and P/L on sale is not taxable/deductible</i></p> <p><i>(2) GOVT grant received which are not taxable</i></p>	<p><i>Exception</i></p> <p><i>DTA will not be recognised if it arises from Initial recognition of Assets and Liabilities in a Transaction (which is not a business combination) and which do not affect either accounting profit (or) Taxable Profit</i></p>

**Assessment of DTA and Reassessment of unrecognised DTA**

- (1) At the end of each reporting date, entity should reassess recognised and recognised DTA as per prudence limit
- (2) It is possible that DTA which was
  - (a) Earlier recognised, now requires Derecognition
  - (b) Earlier not recognised, now requires recognition

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(3) For assessment or reassessment of DTD (or) Tax losses (or) Tax credit following criteria should be applied in serial order

- (a) Existence of TTD whose reversal pattern matches with reversal pattern of DTD
- (b) Probability of future taxable profit
- (c) Availability of tax planning opportunity

Eg:-

- ✓ Interest income taxed either on receipt basis (or) on accrual basis
- ✓ Deferring the claims of certain deductions from taxable profit

**Step 5: Determination of tax rate**

(1) DTA/DTL shall be measured at

- (a) At tax rates that are expected to be applicable for the period when asset will be realised (or) liability will be settled and
- (b) Based on tax rate that have been enacted or substantively enacted by the end of reporting period

**Note:-**

- (a) Deferred tax should not be discounted
- (b) When different tax rate apply to different level of income- DTA/DTL shall be measured by using average tax rate
- (c) Rate of tax is based on expected manner of recovery of asset (or) settlement of liability

**Step - 6 Calculation of and recognition of DTA & DTL**

$$DTL = TTD \times \text{Tax rate}$$

$$DTA = DTD \times \text{Tax rate}$$

(or)

$$\text{Unused Tax losses} \times \text{Tax rate}$$



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**Step - 7 Accounting treatment of DT**

The accounting of deferred tax effects of a transaction of an event is consistent with the accounting for that transaction or event

A transaction and the deferred tax effects of a transaction may be accounted for in:

- ▶ Profit and loss;
- ▶ Outside profit and loss account:
- ✚ In OCI such as revaluation amount in accordance with Ind AS 16
- ✚ Directly in equity such as correction of an error as per Ind AS 8

**Step 8: Offsetting deferred tax assets and deferred tax liabilities**

An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

- ▶ the entity has a legally enforceable right to set off CTA against CTL; and
- ▶ DTA and DTL relate to income taxes levied by the same taxation authority.

**5. Special Issues:****(a) Revaluation**

- (a) If PPE is revalued as per revaluation model any upward Revaluation is credited to OCI as Revaluation Surplus. Due to Revaluation, DTL will be credited and adjusted in OCI
- (b) Revaluation surplus is shown in Balance Sheet in other equity net of tax.
- (c) Subsequently additional depreciation on revalued amount is transferred to PL, Due to this DTL will be reversed and adjusted through PL.
- (d) Accounting treatment of Revaluation Surplus



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*If any entity opts to transfer revaluation surplus to retained earnings during the useful life, such transfer should be “Net of related deferred tax” as per IND AS - 12.*

**(b) Business Combination (Refer IND AS - 103)**

- (a) Assets and liabilities taken over In business combination are recognised at their FV on acquisition date*
- (b) Temporary difference will arise when tax base of assets and liabilities taken over are not affected due to business combination*
- (c) Tax base of such assets & liabilities will remain at cost of previous owner (as per IT act)*
- (d) DTA (or) DTL will be recognised on such temporary difference and adjusted with goodwill or gain on Bargain purchase (Capital reserve)*

*Note: If question has not provided information about tax base of previous owner then CA of Previous owner will be assumed to be tax base*

**Initial recognition of goodwill in business combination**

*IND AS - 12 does not allow recognition of DTL on initial recognition of goodwill if G/W is not tax deductible.*

**(c) Share based payment**

- (a) In India, SBP expense is permanently disallowed as per IT act therefore, no deferred tax is created on such transaction*
- (b) However, in some countries, tax deduction is allowed for SBP expense arising due to ESOP (or) SAR. The amount of such deduction differs from related cumulative employee benefit expense recognised as per IND AS - 102, and may arise in later accounting period.*

The entity may not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

(c) In this case, DT is calculated as under

Carrying amount	Nil
Tax base	Expected future tax deduction
DTD	Expected future tax deduction
DTA	= DTD* Rate of Tax

- If the amount of the estimated future tax deduction < the amount of cumulative remuneration expense, the associated deferred tax will be recognised in pl
- If the amount of the estimated future tax deduction > the amount of cumulative remuneration expense, the excess of the associated deferred tax should be recognised directly in equity.

(d) **Employee Benefit Expenses as per IND AS - 19**

As per IND AS - 19, remeasurement gain/loss is recognised in OCI. Therefore, DT effect on such transaction will be through OCI

(e) **Tax holiday:**

IND AS - 12 does not deal with tax holiday ICAI has given following suggestion

- (a) TD which are originated during tax holiday and are expected to reverse during tax holiday should not be considered in calculation of DT
- (b) Temporary difference which are expected to be reversed after tax holiday should be considered for calculation of deferred tax
- (c) Reversal will be made on FIFO basis

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- (f) **Distribution of dividend (not applicable for Indian tax law)**  
 Sometime income tax is payable at higher rate if net profit is not distributed to SH as dividend  
 It will be refundable if part of net profit is declared (or) paid as dividend to SH in subsequent year  
 Such refund will affect calculation of current tax whereas calculation of deferred tax will not be affected due to variation in tax rate
- (g) **Withholding tax on dividend (CDT/DDT)**
- ✚ Withholding tax is not attributable to entity paying dividend.
  - ✚ Entity paying dividend is effectively acting as an agent in collecting tax. The total amount of dividend inclusive of DDT will be shown as dividend in the books of entity paying dividend.

**6. Disclosures:**

The Standard requires an explanation to be disclosed of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

<b>Reconciliation between tax expense and Tax rate applicable rate</b>	<b>Amount (Rs.)</b>
Accounting profit	
Tax at the applicable tax rate	
Tax effect	
Tax expense as per SOPL	
<b>Reconciliation between the average effective tax rate and the applicable tax rate</b>	<b>%</b>
Applicable tax rate	
Tax effect	
Average effective tax rate	



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## IND AS - 24

### Related Party Disclosure

#### 1. Scope

*IND AS - 24 shall be applied in identifying*

- *Related Party relationship (RPR)*
- *Related party transaction (RPT)*
- *Disclosure requirement in*
  - (a) *IFS*
  - (b) *CFS and SFS*

#### 2. Related party (Para 9): *A related party is a*

- *Person or*
- *Entity*
  - Related to Reporting Entity*

#### 3. Types of related party relationship

- (a) *Reporting entity and person*
- (b) *Reporting entity and other entity*

#### 4. Relationship Between Reporting entity and Person [Para 9(a)]

- i) *A person or close family member of that person is related to R/E, If that person*
  - *Has control or joint control of the R/E*
  - *Has significant influence over R/E*
  - *Is a member of KMP of either R/E or parent of R/E*

**Note:-**

- (1) *KMP - KMP are those persons having authority & responsibility for planning, directing and controlling the activities of R/E.*

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*Example: Executive Director, Manager, Non-Executive director (if they have authority and responsibility) are KMP.*

(2) *Close family member - It includes*

- *Scope*
- *Domestic partner*
- *Brother*
- *Sister*
- *Father*
- *Mother*
- *Person's Children*
- *Children from spouse*
- *Children from domestic partner*
- *Dependent of person*
- *Dependent of person Spouse*
- *Dependent of Domestic partner*

#### 5. Relationship Between Reporting entity and other entity [Para 9(b)]

*An entity is related to R/E if any one of the following criteria satisfies*

- (i) *The entity and R/F are members of same group it includes -*
- *Parent company*
  - *Subsidiary company*
  - *Fellow subsidiary*
- (ii) *One entity is an Associate or Joint Ventures of*
- *Other entity or*
  - *Member of group of which other entity is a member.*
- (iii) *Both entities are Joint Ventures of the same third party.*
- (iv) *One entity is a Joint Venture of a third entity and the other entity is an Associate of the third entity.*
- (v) *The entity is a Post-Employment Benefit Plan for the benefit of employees of either*
- *the reporting entity or*

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- *an entity related to the reporting entity.*
- (vi) *The entity is controlled or jointly controlled by a person identified in Para 9(a) above.*
- (vii) *A person identified in Para 9(a)(i) above has*
  - *significant influence over the entity or*
  - *is a member of the KMP of the entity (or of a parent of the entity).*
- (viii) *The entity or any member of a group of which it is a part provides key management personnel services*
  - *to the reporting entity or*
  - *to the parent of the reporting entity.*

**6. Excluded from the purview of Related party relationships**

- (a) *Two entities are not related party simply because they have common director*
- (b) *Two entities are not related parties simply because member of KMP of one entity has significant influence over other entity*
- (c) *Two Joint Venturer (Co. Venture) are not related simply because they share joint control of JV*
  - 1. *Provider of finance*
  - 2. *Trade union*
  - 3. *Public utilities company*
  - 4. *Government department and their agencies*
- (d) *with whom an entity transacts a significant volume of business*
  - 1. *Single customer*
  - 2. *Supplier*
  - 3. *Any franchisee*
  - 4. *Agent*
  - 5. *Distributor*



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**7. Related party transactions**

*A related party transaction is a transfer of*

- *Resource*
- *Services*
- *Obligations*

*between a reporting entity and a related party, regardless of whether a price is charged.*

**8. Disclosures**

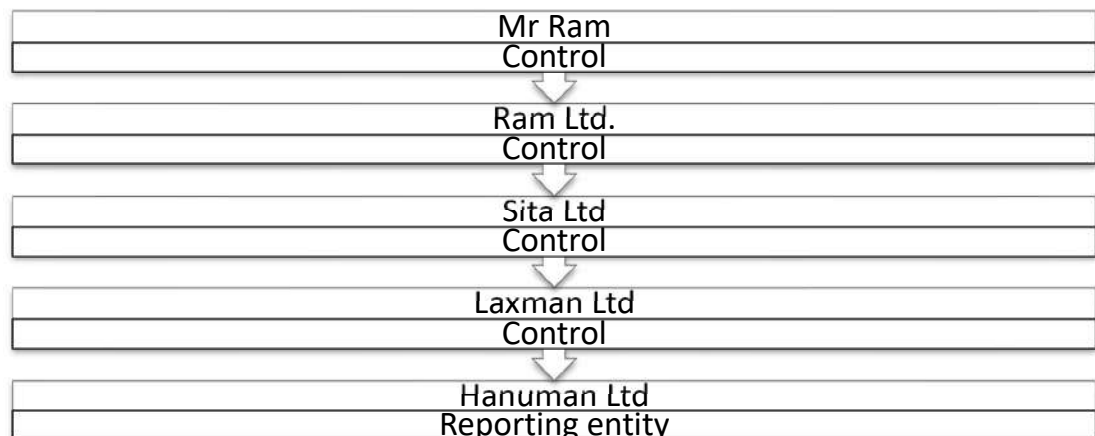
**a) For all entities**

*Relationship between parent and its subsidiaries shall be disclosed irrespective of RPT*

*Entity shall disclose*

- *Name of its parent and the ultimate controlling party.*
- *If neither its parent nor the ultimate controlling party prepare CFS, then name of next most senior party who prepares CFS will be disclosed*

**Example**



**Disclosure for Hanuman Ltd**

- *Name of parent Co. - Laxman Ltd*
- *Name of ultimate controlling party - Ram*



- Name of next most senior parent - Sita Ltd if it prepares CFS otherwise Ram Ltd if Sita Lts is exempted.

**b) Disclosure of KMP compensation**

*An entity shall disclose KMP compensation in total and for each of the following*

- For STEB
- For LTEB
- For PEB
- For TB
- For SBP

**c) Disclosure of RPT (Para 18)**

*If an entity had RPT during the period, it shall disclose the following*

- Nature of RPR
- Nature of RPT
- Amount of Transaction
- Amount of Outstanding Balance
- Provision for doubtful debt related to amount of O/S balance
- Bad debt related to amount of outstanding balance & Doubtful debt due from related party charged to P/L

**Note:-**

*Above disclosure shall be made separately for each category.*

*Items of a similar nature may be disclosed in aggregate.*

**9. Circumstances under which disclosure of para 18 are not required**

- (a) RPT with government that has control or JC or SI over reporting entity
- (b) RPT with another entity that is RP because same govt controls  
(or) JC (or) SI over both R/E and other entity



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*However following disclosures are required for (a) & (b)*

- (1) Name of government*
- (2) Nature of relationship*
- (3) Nature and amount of each significant transactions*

**Note:** *Disclosures are not required when*

- (a) Such disclosure are in conflict of entity's duty of confidentiality*
- (b) Intra Co. transaction within group is not required to be disclosed in  
CFS*

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## IND AS-21

### THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

#### 1. Scope:-

*This IND AS is not applicable to*

- (a) Hedge accounting for foreign currency items [Forward exchange contract - IND AS -109*
- (b) Long Term foreign currency item for which entity has opted for exemption as per IND AS - 101*

#### 2. Functional currency [FUC]

- (a) Entity should Measure its assets, liability, equity, income & expense in its functional currency*
- (b) FUC means currency of primary economic environment in which entity operates*
- (c) Primary economic environment is the country in which it primarily generates and expends cash*

Note:- *FUC are normally local currency. [But not always]*

#### 3. How to identify FUC of an Entity

##### (a) Primary factors [Para-9]

- (1) Currency that influence sale price for goods and services*
- (2) Currency of country whose competitive forces and regulation mainly determine the sale price of goods and services*
- (3) Currency that influence labour cost, material cost and other cost [OH] of providing goods and services*

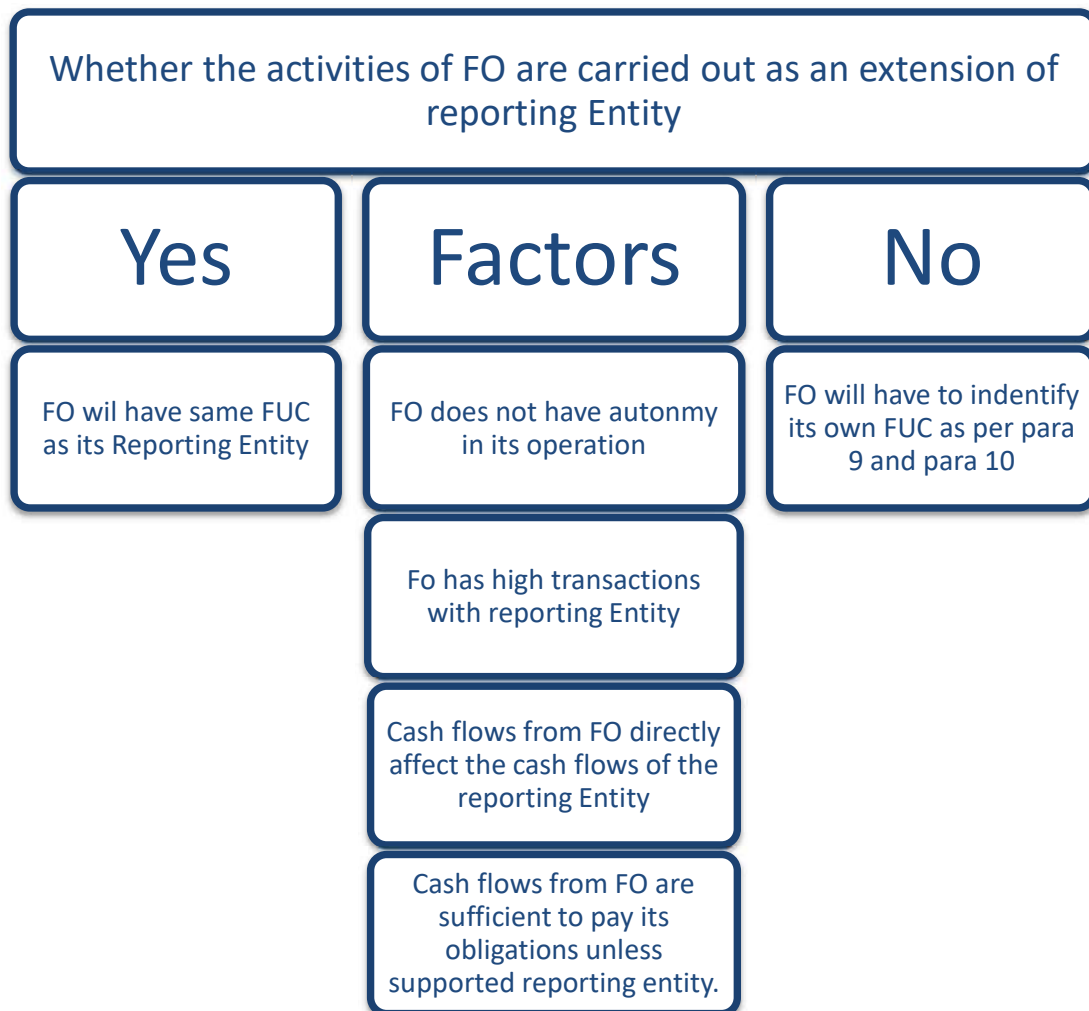
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**(b) Secondary factors [Para – 10]**

- (1) Currency in which funds from financing activity are generated
- (2) Currency in which receipt from operating activities are retained

Note:-Secondary factor provide supporting evidence of entity's functional currency. They are given less priority than primary factor

**4. How to identify FUC of an foreign operation (FO)**



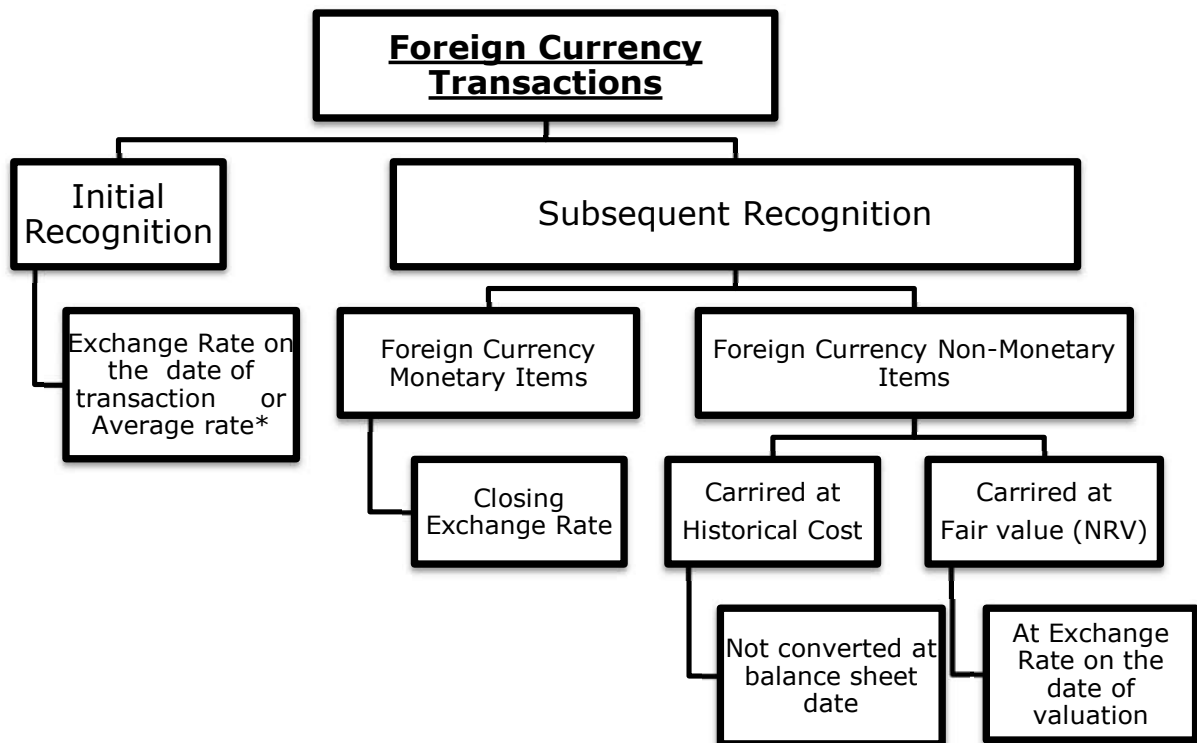
**5. Changes in FUC**

- (a) *Functional currency once determined cannot be changed unless there is change in underlying transactions*
- (b) *Such changes will be accounted as change in accounting estimate*
- (c) *Where there is a change in FUC, entity shall apply such change prospectively from the date of change.  
In other words, entity shall translate all items into new functional currency using exchange rate on the date of change*
- (d) *The resulting translation amount for Non-monetary items are treated as their cost*

**6. Foreign currency transaction (FC)**

*An FC transaction is transaction that are denominated in foreign currency i.e., Currency other than FUC*

**Recognition of foreign currency transaction:**





**Treatment of exchange difference due to translation**

- (a) **For FCMI** :- Exchange difference on settlement of MI or on Transaction of MI are recognised in profit and loss
- (b) **For FCNMI** :-
- (1) When gain or loss on revaluation of NMI is recognised in OCI-ED (if any) is also recognised in OCI
  - (2) When gain or loss on revaluation of NMI is recognised in PL - ED (if any) is also recognised in PL

**7. Meaning of FCMI and FCNMI**

- (a) **FCMI** are –
- (1) Assets (or) liabilities
  - (2) Which has fixed or determinable number of units of currency
  - (3) Realisable or payable in foreign currency
- (b) **FCNMI** are – Assets or liabilities which are not FCMI.

**Example: - Identify MI & NMI**

<b>1</b>	Cash at Bank	
<b>2</b>	Cash in Hand	
<b>3</b>	Bank Loan	
<b>4</b>	Fixed Deposit	
<b>5</b>	Debentures	
<b>6</b>	Convertible Debentures	
<b>7</b>	Expense Payable	
<b>8</b>	Prepaid Expense	
<b>9</b>	Redeemable PSC	
<b>10</b>	Equity Share Capital	
<b>11</b>	Investment in Debentures	
<b>12</b>	Investment in Equity Shares	

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<b>13</b>	Inventory	
<b>14</b>	PPE	
<b>15</b>	Provision for Warranty	
<b>16</b>	Provision for Legal Damages	
<b>17</b>	CFI - Liability Component	
<b>18</b>	CFI - Equity Component	
<b>19</b>	Advance from Customer	
<b>20</b>	Advance to suppliers	

**8. Foreign Operation:**

- (a) FO can be in the form of subsidiary, JV, Associate or Branch  
 (b) FO can have its own FUC or it may have same FUC as that of parent Co. /Investor/Venture/H.O

**9. Transaction rules from FUC to presentation currency (PC)**

No	ITEMS	TRANSLATION RATE
(i)	Assets and Liabilities	Exchange rate at the reporting date
(ii)	All income and Expenses	Exchange rate at transaction date or average rate
(iii)	Equity	
	✚ If FO	Exchange Rate on the date of acquisition
	✚ If other than FO	Transaction Date Exchange rate

**Note:-**

- Any difference due to such transaction will be transferred to **Foreign currency transaction reserve** which will be shown as a part of OCI
- FCTR will be reclassified to PL on disposal of FO
- It will be distributed between owner of parent and NCI in CFS

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**10. Special point for consolidation****(a) Intra group transaction**

- *Monetary items which are receivable and payable within group are translated at closing exchange rate in SFS/IFS of entity*
- *Any difference due to such translation is transferred to PL in SFS/IFS of the entity as the case may be.*
- *In CFS intra group transactions are eliminated but related exchange difference will not be eliminated in CFS.*

**(b) Net investment in FO**

- *It is the amount of Reporting Entity's interest in net asset of FO*
- *Any entity may have monetary item i.e., receivable or payable within group.*
- *An item of monetary item for which settlement is neither planned nor likely to occur in foreseeable future is treated as a part of entity's net investment in FO.*
- *Such monetary item may include long term receivable or payable*
- *Exchange difference arising on monetary item that forms part of net investment in FO will be recognised in P&L of SFS/IFS of reporting entity.*
- *In CFS such exchange difference is taken to OCI and accumulated in separate component of equity i.e., FCTR and will be reclassified to P&L on Disposal of FO.*

**(c) GOODWILL AND FAIR VALUE ADJUSTMENTS ARISING FROM A BUSINESS COMBINATION**

- *Goodwill and fair value acquisition accounting adjustments arising from a business combination are treated as assets and liabilities of the foreign operation.*

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

**(d) Disposal of FO**
**➔ Full Disposal and partial disposal with loss of control**

On disposal of FO, the cumulative exchange difference relating to that FO recognised in FCTR are reclassified from OCI to PL as reclassification adjustment when Gain/Loss on Disposal is recognised.

**➔ Partial Disposal without loss of control**

In case of partial disposal of subsidiary (without loss of Control) the entity should reattribute the proportionate share of FCTR to NCI in that FO.

**11. Difference between IND AS – 21 & AS -11**

		IND AS - 21	AS - 11
(a)	Forward exchange contract	Not covered	Covered
(b)	FUC	Based on FUC	Based on Reporting currency
(c)	Presentation currency	PC can be different from FUC	Silent
(d)	ED arising on Long term FCMI	Silent (However exception is given in Para D-13AA of IND AS - 101)	Para 46/46A

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## IND AS 103 BUSINESS COMBINATION

### 1) MEANING:

#### **Business Combination**

*It is a transaction in which acquirer obtain CONTROL of business of acquiree.*

#### **Acquirer:**

*Entity that obtain control of business of another entity.*

*Acquirer is also known as accounting acquirer*

*Accounting acquirer may or may not be legal acquirer*

#### **Control**

*As defined under Ind AS - 110*

#### **Acquiree**

*Entity whose business has been acquired by acquirer (accounting)*

#### **Business**

*A business is*

⇒ *an integrated set of activities and assets*

⇒ *that are conducted and managed*

⇒ *for the purpose of providing:*

(a) *a return to investors; or*

(b) *lower costs or*

(c) *other economic benefits*

*directly and proportionately to investors or other owners, members or participants.*

**Elements of Business:** *The three elements of a business are defined as follows:*

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- *Input: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.*
- *Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.*
- *Output: The result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.*

**Note:**

- ✓ *A business consists of Input and process that have ability to generate output.*
- ✓ *It means output is not required for integrated set of activities and asset to qualify for the definition of business.*

**2) SCOPE OF IND AS – 103:** *Applicable all Business Combination except*

- *Formation of joint arrangement (Ind AS 111)*
- *the acquisition of an asset or a group of assets that does not constitute a business i.e. it is an asset acquisition.*

**3) ASSETS ACQUISITION:**

- ⇒ *Ind AS - 105 is not applicable for assets acquisition. However, Ind AS - 105 has given guidance for accounting treatment on asset acquisition.*
- ⇒ *In such acquisition acquirer (buyer) shall identify and recognize identifiable net asset acquired. The purchase consideration paid (or) transferred should be allocated to individual asset in the ratio of Fair Value of asset in the date of acquisition. It Means no goodwill will arise in case of assets acquisition.*



**Note:**

*As per Ind AS 110, an entity must consolidate all entities that it control (either it constitute business acquisition or asset acquisition)*

**Example:**

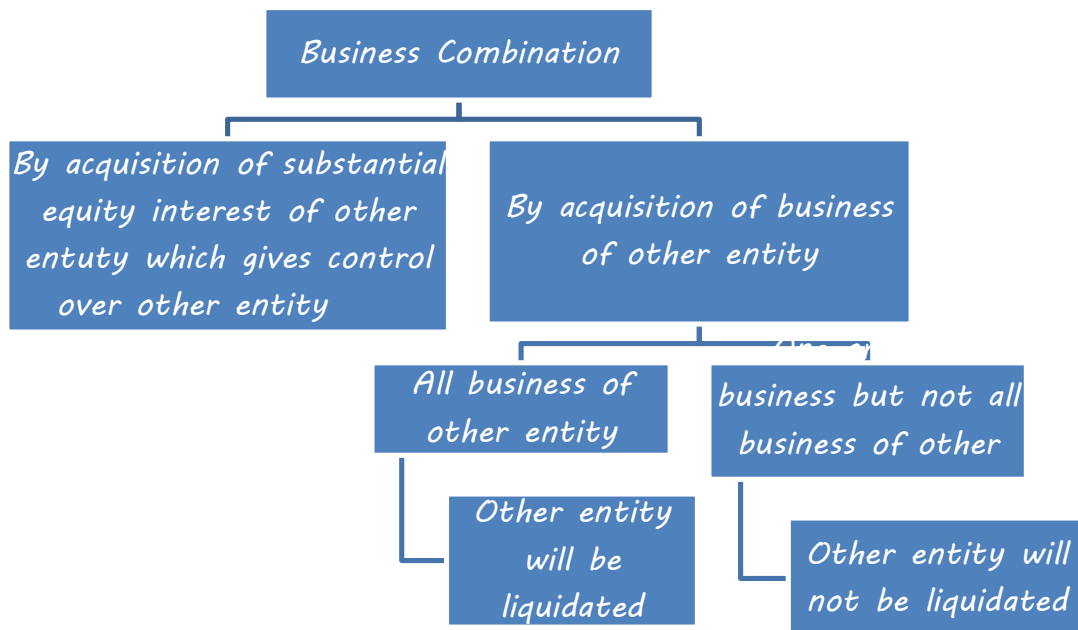
A Limited purchased following Assets & Liability from B Limited which do not constitute business.

	FV	CA in B Limited
PPE	3,00,000	2,00,000
IP	3,00,000	3,50,000
Inventory	1,20,000	1,00,000
Debtor	20,000	20,000
Creditor	90,000	90,000

Consideration paid in cash Rs. 1,00,000. Pass J/E in books of A Limited.

**4) BUSINESS COMBINATION:**

*Business combination occur when an entity control over business of another entity.*



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5) **ACCOUNTING TREATMENT FOR BUSINESS COMBINATION:** (from the point of accounting acquirer)

⇒ Business combination not under common control - IND AS 103 Applies

⇒ Business combination under common control - Appendix A to IND AS 103 Applies

6) **ACQUISITION METHOD:**

Following steps will be applied for acquisition method as per Ind AS - 103.

Step 1: Identify accounting acquirer

Step 2: Determine Date of Acquisition

Step 3: Determine FV of consideration paid / transferred

Step 4: Recognition and Measurement of INA of acquiree

Step 5: Measurement of NCI

Step 6: Recognition and measurement of goodwill (or) Gain on Bargain Purchase

7) **IDENTIFICATION OF ACCOUNTING ACQUIRER:**

Accounting acquirer (acquirer) is the entity that obtain CONTROL over business of acquiree.

**Example:** Share capital of A Limited = 20,000 ES of Rs. 10 each.

Share capital of B Limited = 10,000 ES of Rs. 10 each.

Identify accounting acquirer in the following situations:

1. A Limited absorb B Limited and has agreed to allot one ES of A Limited for every 2 ES held in B Limited to ESH of B Limited.

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2. *A Limited absorb B Limited and has agreed to allot 3 ES of A Limited for every 1 Equity Share held in B Limited to ESH of B Limited.*
3. *C Limited was formed to take over A Limited and B Limited. C Limited agreed to allot ES to the owner of A Limited in the ratio 3 : 2 and to owner of B Limited in the ratio of 1 : 2*
4. *C Limited (newly formed Co.) acquired A & B Limited and consideration paid in cash (C Limited was funded by venture capitalist).*

**GUIDANCE ON IDENTIFICATION OF ACCOUNTING ACQUIRER:**

⇒ *If acquisition is through payment of cash (or) transfer of other asset*

*Accounting acquirer is the entity who transfer cash or another asset.*

⇒ *If acquisition is through issue of Equity instrument*

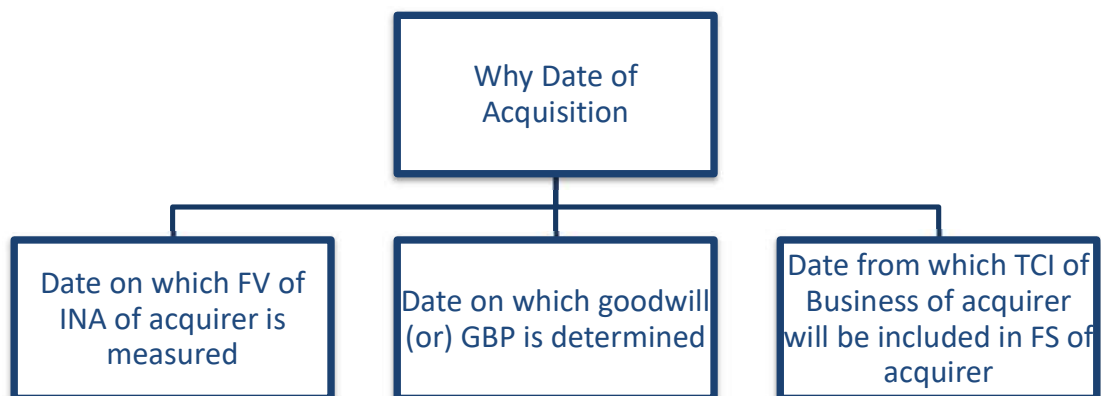
- *Entity whose owner receive the largest portion of the voting rights in the combined entity.*
- *Entity whose single owner or organised group of owners holds the largest minority voting interest in the combined entity.*
- *Entity whose owner has power to compose the governing body (BOI) of combined entity.*
- *Entity whose previous management dominates the management of combined entity.*
- *Entity that pays premium over the pre-combination fair value of equity interest of other combining entities.*
- *Entity whose relative (net worth) size is greater than other combining entities.*

**8) DETERMINATION OF DATE OF ACQUISITION:**

⇒ *It means the date on which acquirer obtain control of business of other entity.*

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- ⇒ *The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree — the closing date.*
- ⇒ *However, the acquirer might obtain control on a date that is either earlier or later than the closing date.*



- 9) **DETERMINATION OF PURCHASE CONSIDERATION:** *(When a legal acquirer and accounting acquirer are same)*

<i>Fair value of assets transferred (or) cash paid</i>	<i>XXX</i>
<i>Fair value of liability incurred (Deferred consideration)</i>	<i>XXX</i>
<i>Fair value of contingent consideration</i>	<i>XXX</i>
<i>Fair value of Equity instrument issued</i>	<i>XXX</i>
<i>Fair Value of original SBP awarded (replaced)</i>	<i>XXX</i>
<i>Total consideration</i>	<i>XXX</i>
<i>Adjusted with Consideration for separate transaction which is not a part of Business combination</i>	<i>XXX</i>
<i>Purchase consideration for Business combination</i>	<i>XXX</i>

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***Issue 1: Separate transaction which is not a part of Business combination.***

- ⇒ *Acquirer and acquiree may have pre-combination relationship and arrangement before negotiation for Business combination (or) they may enter into an arrangement for post combination period.*
- ⇒ *Such transactions are accounted as per relevant Ind AS*

*Example of such transactions are*

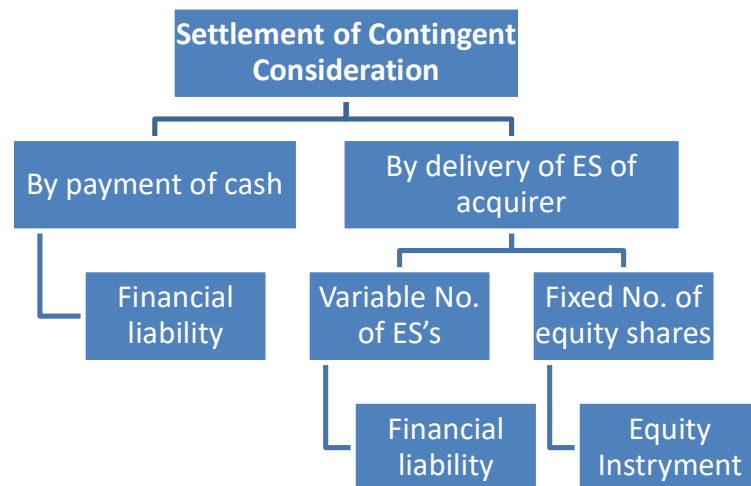
- a. *Settlement of pre-existing relationship (or) transactions*
- b. *Reimbursement to acquiree (or) owner of acquiree for payment of acquisition related cost of acquiree (Eg. Liquidation expenses)*
- c. *Remuneration of employee (or) owner of acquiree for future services during post combination period.*

***Issue 2: Direct cost of acquisition (Cost incurred by acquirer)***

- ⇒ *The direct cost of acquisition is not included in determination of the purchase consideration.*
- ⇒ *Cost which include like finder's fees, due diligence cost accounting, legal fees, investment banker fees, even bonuses paid to employees for doing a successful acquisition will not be included in the cost of acquisition.*
- ⇒ *Such cost will recognized as an expense in PL.*

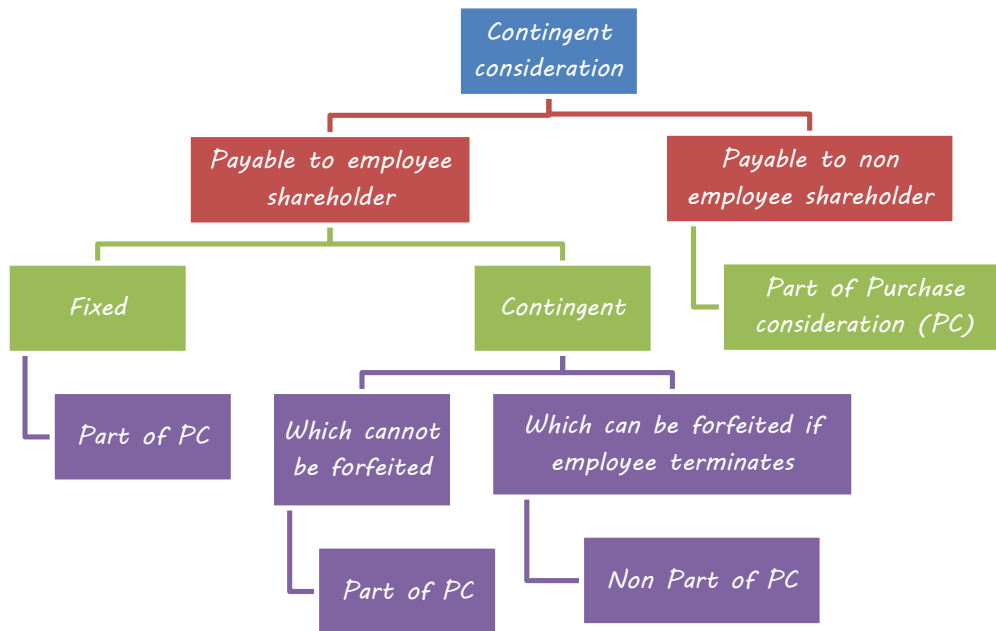
### Issue 3 Contingent Consideration

- ⇒ The consideration includes any asset or liability resulting from a contingent consideration arrangement.
- ⇒ The acquirer shall recognise fair value of contingent consideration on the date of acquisition as part of PC.
- ⇒ An obligation to pay contingent consideration is classified as a liability or as equity on the basis of IND AS 32.



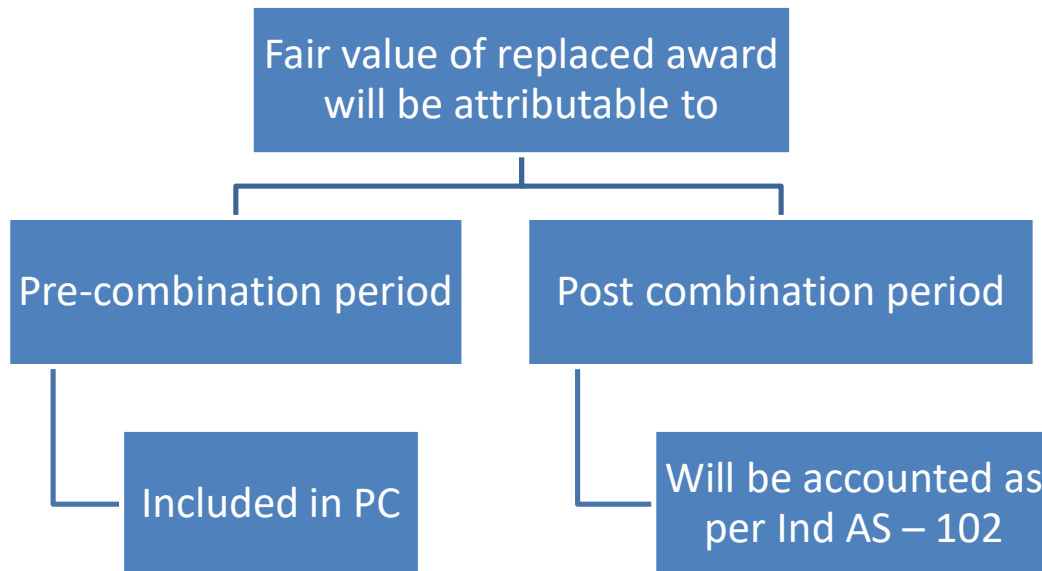
- ⇒ Contingent consideration classified as equity shall not be re-measured and its subsequent settlement shall be accounted for within equity.
- ⇒ Contingent consideration classified as liability shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with Ind AS 109.

**Issue 4 Contingent payments to employees or selling shareholders**



**Issue 5: Acquirer Share Based Payment Awards Exchanged for Awards held by the Acquiree's Employees**

⇒ An acquirer may exchange its share-based payment awards (replacement awards) for awards held by employees of the acquiree-





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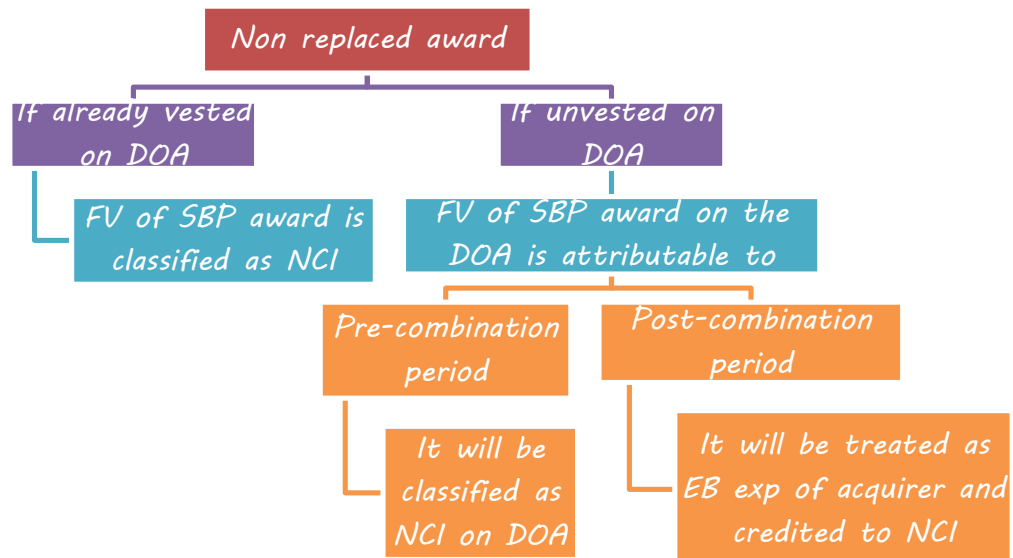
⇒ *Pre combination period: The portion of the replacement award attributable to pre-combination service is the Fair value acquiree award multiplied by the ratio of the portion of the expired vesting period to the greater of the total vesting period of replaced award or the original vesting period of the acquiree award.*

⇒ *Pre combination period: The portion of the replacement award attributable to post-combination service equals the total fair value of the replacement award less the amount attributed to pre-combination service.*

*Such amount will be recognised as remuneration cost in the post-combination financial statements*

**Issue 6 Non-replacement Awards of acquiree:**

⇒ *The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions.*



**10) RECOGNITION AND MEASUREMENT OF INA:** (*assets acquired and liabilities assumed*)

**A) RECOGNITION**

- ⇒ *INA of acquiree must meet the definition of assets and liabilities on DOA as per framework for preparation and presentation of FS.*
- ⇒ *It must be exchanged as a part of Business Combination.*
- ⇒ *It is recognised even if not recognized by acquiree Eg: Self-generated brand*

**B) MEASUREMENT:**

- ⇒ *INA will be recognized and measured at Fair Value (determined as per Ind AS - 113) on DOA.*

**Issue 7: Intangible Assets (other than goodwill)**

- ⇒ *All Intangible Assets are recognized at Fair Value (apart from goodwill)*
- ⇒ *Such Intangible Assets must be resulting from contractual or other legal rights if not separable.*
- ⇒ *Other Intangible Asset which are not resulting from contractual (or) other legal rights should be recognized if and only if they are capable of being separable from acquiree.*

**Issue 8: Contingent liability**

- ⇒ *Ind AS - 37 is not applicable for Initial Recognition of such liability on DOA.*

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- ⇒ *Contingent liability of acquiree is assumed (recognized in the books of acquirer) if following conditions are satisfied.*
  - a) *There must be present obligation from past event and*
  - b) *Fair Value can be measured on DOA*
- ⇒ *Such liability will be recognized even if outflow of resource requires to settle the obligation is not probable*
- ⇒ *Subsequent recognition of such liability will be as per Ind AS 37.*

**Issue 9: Reacquired right**

- ⇒ *An acquirer may re-acquire right that it had previously granted to acquiree to use acquirer's recognized (or) unrecognized assets.*
- Eg:- Trade name, Brand etc.*
- ⇒ *A reacquired right is an identifiable IA which should be recognized at FV on DOA.*
- ⇒ *Reacquired right should be amortised during post combination period on the basis of remaining contractual period of right.*
- ⇒ *Any settlement gain / loss is recognized as separate transaction which is not a part of Business combination.*
- ⇒ *It will be calculated as under:*

<i>FV recognized re-acquired right on DOA</i>	<i>XXX</i>
<i>Less: Settlement price paid</i>	<i>XXX</i>
<i>Gain / Loss on settlement (P/L)</i>	<i>XXX</i>



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⇒ PC will be adjusted for such gain / loss

Total consideration (as per agreement) XXX

Add: settlement gain XXX

Less: settlement loss (XXX)

⇒ PC for Business combination XXX

**Example:** FV of re-acquired right 25 Lacs

FV of consideration paid in cash 120 Lacs

FV of INA (excluding re-acquired rights) 80 Lacs

Compensation paid for settlement of re-acquired right (included in cash payment of 120 Lacs) 20 Lacs

Calculate gain or loss on settlement.

**Issue 10: Calculation of DTA / DTL**

DTA or DTL will be recognised on initial recognition of INA of acquiree on DOA as per Ind AS - 12

**11) MEASUREMENT OF NCI: Two method**

⇒ Fair Value method

⇒ Proportionate share in INA (PSINA) method

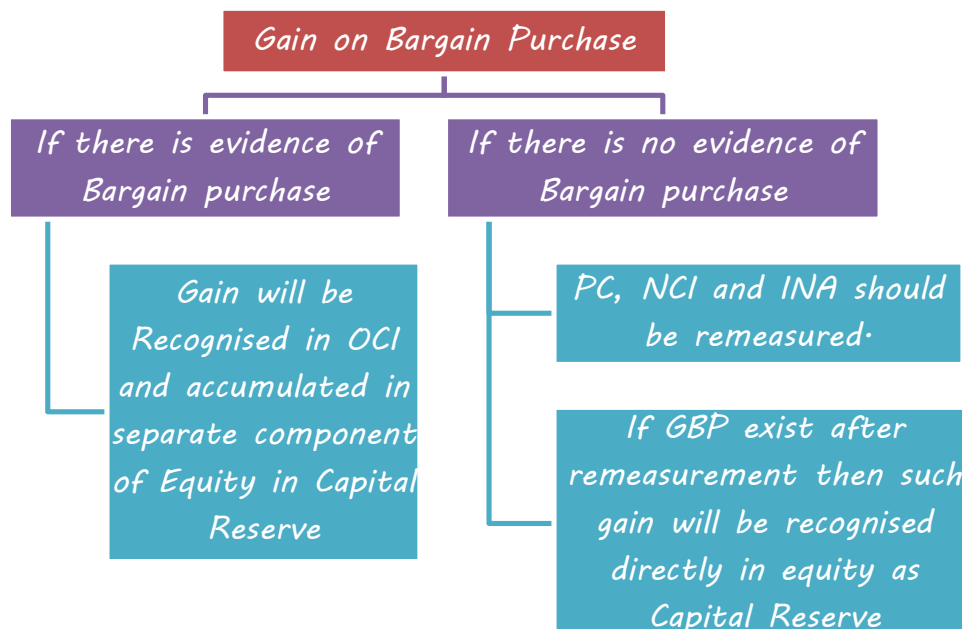
## 12) GOODWILL – RECOGNITION AND MEASUREMENT

⇒ It will be calculated as under:

<i>FV of consideration paid</i>	<i>XXX</i>
<i>FV of preciously held equity interest</i>	<i>XXX</i>
<i>FV (or) PSINA of NCI</i>	<i>XXX</i>
<i>Less: FV of INA of acquiree</i>	<i>(XXX)</i>
<i>Goodwill / gain on bargain purchase</i>	<i>XXX</i>

### Issue 11: Gain on Bargain purchase:

If Bargain purchase is due to sale in which acquiree is acting under compulsion of sale (e.g. acquisition of business in a bankruptcy sale, or sale of business due to a regulatory requirement) then Gain on Bargain purchase should be recognized.





### 13) MEASUREMENT PERIOD:

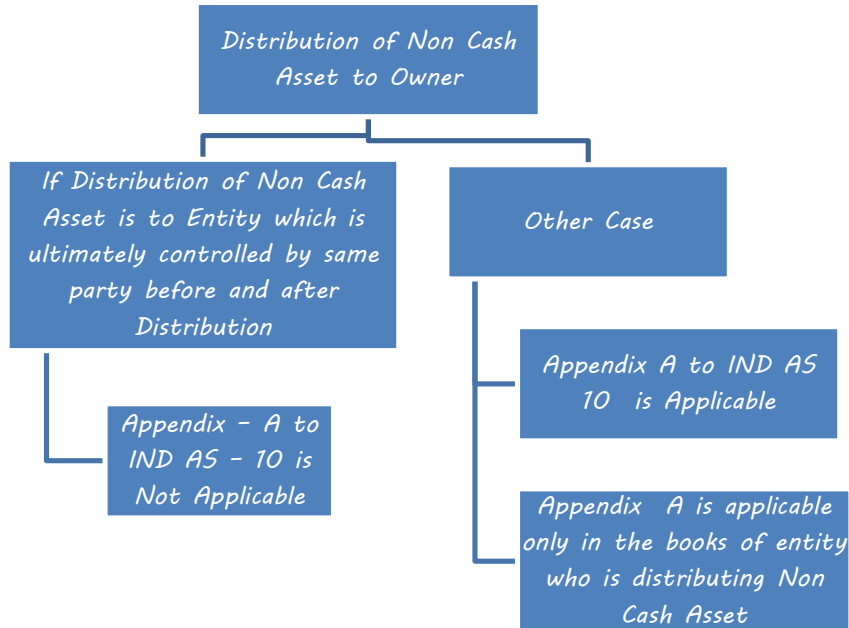
- ⇒ *If initial accounting for Business combination is incomplete by the end of reporting period in which Business combination occurred, FS should be prepared by using provisional value of INA.*
- ⇒ *Ind AS 103 permit adjustment to items recognized in original accounting to a measurement period of one year from DOA when new information about facts and circumstances existed on DOA is obtained.*
- ⇒ *Measurement period is the period after acquisition date during which acquirer may adjust the provisional amount of INA recognized which will complete as soon as acquirer receive new information which should not exceed beyond one year from DOA.*
- ⇒ *Any adjustment is made retrospectively and any changes will be adjusted in goodwill or GBP.*
- ⇒ *Adjustment can be made on following items.*
  - *INA*
  - *Consideration transferred*
  - *NCI*
  - *Previously held Equity interest.*
- ⇒ *Any change in FV of INA measured after measurement period due to new information of fact and circumstances existed on DOA will be accounted as per on error as per Ind AS 8.*

## 14) REVERSE ACQUISITION

1. *A Reverse Acquisition occur when entity that issued securities (legal acquirer) is identified as Accounting Acquiree and entity whose equity interest is acquired (legal acquiree) is identified as Accounting Acquirer.*
2. *Reverse Acquisition can be in the following form*
  - a) *If Business combination is in the form of amalgamation*
    - ⇒ *If PC is discharged in the form of ES of legal acquirer it will be always reverse acquisition. In this case, one of the legal acquiree will be identified as Accounting Acquiror.*
    - ⇒ *If PC is discharged in the form of cash then it will not be Reverse Acquisition.*
  - b) *If BC is in the form of absorption*
    - ⇒ *If legal acquiree is identified as accounting acquirer; then it will be a reverse acquisition.*
    - ⇒ *If legal acquirer is accounting acquirer, then it is not a Reverse Acquisition.*



## 15) APPENDIX A TO IND AS 10



### *Accounting Treatment as per Appendix A to IND AS 10:*

*a. When such Distribution is proposed or announced by BOD*

*No Entry*

*NOTE: However, such Asset will be classified as held for Distribution to owner if criteria given under IND AS 105 is satisfied*

*As per IND AS - 105, NCA or DG classified as held for Distribution should be measured at lower of*

- *CA or*
- *FVCS (Fair Value less Cost to Distribution)*

*Any loss of Disposal Group should be allocated*

- *First to Goodwill (if any)*

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- *Balance to other Non-CA to which IND AS - 105 applies in the Ratio of their earning amount.*
- b. *When such Distribution is declared*  
*Retained Earnings . . . . . Dr*  
*To Dividend payable (with Fair Value of Non Cash Asset).*
- c. *At each Reporting Date (before Actual Distribution)*  
*Remeasure dividend payable for any changes in Fair Value of Non-Cash Asset through Retained Earning*
- d. *On Distribution of Non Cash Assets*  
*Dividend payable . . . . . Dr*  
*To Non Cash Asset*  
*(Any diff will be recognised in PL)*

**16) BUSINESS COMBINATION UNDER COMMON CONTROL**

- ⇒ *It means Business Combination involving entities or Business in which all combining entities or Business are ultimately controlled by same party before and after BC.*
- ⇒ *An entity can be controlled by an individual or group of individual acting together under contractual agreement and that individual or group of individual are not subject to Financial Reporting Requirement as per IND AS.*
- ⇒ *Example:*
  - *Merge of Fellow subsidiary*
  - *Acquisition of entities under same group*
  - *Merger of subsidiary with Parent Co.*

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- *Demerge of Division of Subsidiary Co.*

⇒ *Accounting Method:*

- For BCUCC Pooling of interest Method will be applied*
- Asset and liabilities of transferor company are incorporated at Book Value.*
- No adjustment is made at Book Value of Assets & liabilities of transferor company and No new Asset or liability will be recognized.*

*Adjustments are allowed only to ensure Uniform Accounting policies.*

- Identify of Reserve of transferor company should be preserved i.e. Reserves & Surplus of Transferor Co. should be maintained in the books of transferee Co.*
- Difference Between Consideration transferred and share capital of transferor Co. will be transferred to Capital Reserve.*

**Example:**

	<b>A Limited</b>	<b>B Limited</b>
Asset	8,00,000	5,00,000
Cash	2,00,000	1,00,000
	10,00,000	6,00,000
Equity Share Capital (Rs. 10)	5,00,000	2,00,000
Reserve and Surplus	3,00,000	2,00,000
Liabilities	2,00,000	2,00,000
	10,00,000	6,00,000

**Additional Information:**

a)	FV of Assets	A	B
	Goodwill	2,00,000	2,00,000
	Asset (Other than cash)	18,00,000	9,00,000

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- b) A Limited absorb B Limited and agreed to allot shares to B Limited SH on the basis of Intrinsic Value of shares.
- c) Assume A Limited and B Limited are under Common Control  
Prepare Balance sheet of A Limited after Business Combination.

**17) DEMERGER :**

*A business combination is said to be demerger of all the following conditions satisfied:*

- *Resultant company will be Newly Incorporated Co.*
- *Demerged co. will transfer some of its division / business / Net Asset to Resultant co.*
- *Purchase consideration will be discharged by resultant co. to shareholders of demerged co. in the form of ES of Resultant co. Therefore, after demerge SH's of Resultant co. without any investment.*

**Accounting Treatment for Demerger:**

<i>BC Not UCC</i>	<i>BCUCC</i>
<p><i>1) Books of Demerged Co. / acquiree / Transferor co: <b>Appendix A to IND AS 10 applies</b></i></p> <p><i>a) On the date of proposal / announcement.</i></p> <p><i>If disposal Group (Division) is classified as Held for Distribution to owner then Disposal Group is measured as per IND AS 105 i.e. , lower of CA of Disposal Group and FVCS of Disposal Group</i></p> <p><i>Any loss is allocated</i></p>	<p><i>1) Books of Demerged Co. / acquiree / Transferor Co - Appendix A to IND AS - 10 is not applicable</i></p> <p><i>a) For transfer of Net Asset of a Division to Resultant Co.</i></p> <p><i>Liabilities . . . . . Dr [CA]</i></p> <p><i>Loss on Restructuring . Dr (B/f)</i></p> <p style="padding-left: 100px;"><i>To Asset [CA]</i></p> <p style="padding-left: 100px;"><i>To Gain on Restructuring</i></p> <p><b>Note:</b></p> <p><i>i) Gain / Loss on restructuring will be t/f to <b>Capital Reserve</b></i></p>

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<p>i) First to Goodwill (if any)</p> <p>ii) Balance to other Non CA to which IND AS 105 applies in the ratio of CA</p> <p>b) On the date when proposal of Demerger is approved by concerned authority</p> <p style="padding-left: 40px;">Retained Earnings . . . . Dr</p> <p style="padding-left: 80px;">To Dividend Distribution (with Fair Value of Disposal Group)</p> <p>c) On the date of Distribution</p> <p style="padding-left: 40px;">Liabilities . . . . . Dr (CA)</p> <p style="padding-left: 40px;">Dividend Distribution . . . Dr</p> <p style="padding-left: 80px;">To Asset A/c (CA)</p> <p style="padding-left: 40px;">(Any diff will be recognised in P/L)</p> <p>* From exam point of view; following points should be kept in mind:</p> <p>a) If no information about date of Announcement or proposal of demerger is given then ignore IND AS 105.</p> <p>b) If date of Approval &amp; Distribution are same; then following compound Entry can be recorded:</p> <p style="padding-left: 40px;">Retained Earnings . . . . . Dr</p> <p style="padding-left: 40px;">Liabilities . . . . . Dr</p> <p style="padding-left: 80px;">To Assets A/c</p> <p>c) If FV of Disposal Group is not given then use CA.</p> <p>d) Transfer of Non-Cash Asset (DG) to Resultant Co. is treated as Deemed dividend as Resultant Co. transfer consideration to owner of demerged Co.</p> <p>∴ Appendix A to IND AS 10 applies.</p>	<p>ii) In this case Disposal Group are not treated as held for sale or Distribution to Owner. Therefore, IND AS 105 is also Not Applicable</p>
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<p>II) Books of Resultant / acquirer / transferee Co. - <b>IND AS 103: Acquisition Method applies</b></p> <p>a) For incorporation of INA and Recognition of Goodwill or GBP Asset . . . . .Dr [Fair Value] Goodwill . . . . .Dr (b/f)     To Liability [Fair Value]     To Members of C. Co. [PC]     To Gain on BP [b/f]</p> <p>b) For allotment of ES     To Members of Demerged Co. ...Dr     To Equity Share capital     To Securities Premium</p>	<p>II) Books of Resultant / acquirer / transferee Co. - <b>Appendix C to IND AS 103: Pooling of Interest Method applies:</b></p> <p>a) For incorporation of Net Asset Book Value Asset (including G/W). ·Dr (BV)     To liabilities (BV)     To Members of D. Co (PC)     (Any diff will be t/f to <u>Capital Reserve</u>)</p> <p>b) For allotment of ES     To Members of D Co. ....Dr     To Equity Share capital     To Securities Premium</p>
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**18) MERGER (Amalgamation)**

1. Merger (not under common control)

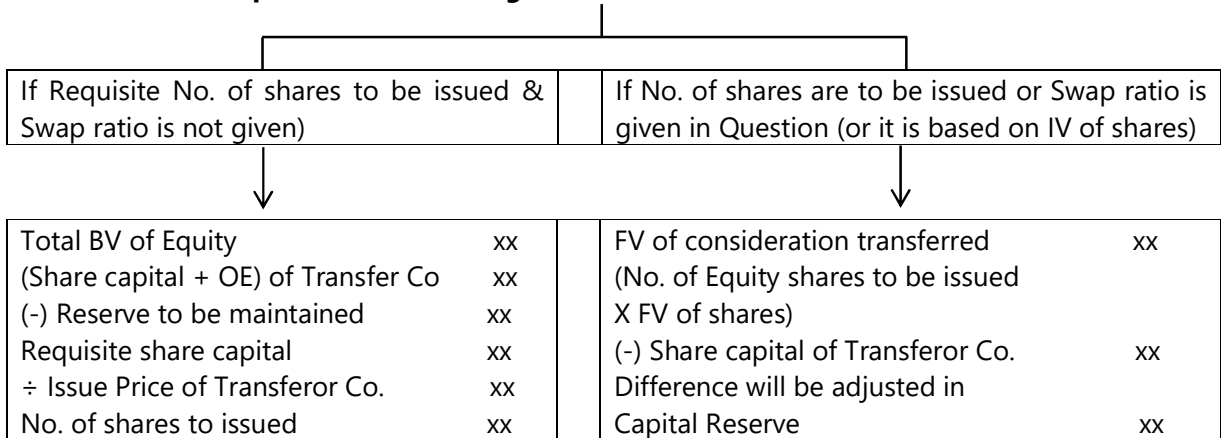
Ind AS 103 applies

2. Merger Under common Control:

Appendix C to IND AS - 103 applies in the Books of Transferee.

Note: In merger acquiree or Transferor Co. will be always liquidated.

**Special Note for Merger which are Under common control**



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↓		
Allocated to owner of transferor Co. in the ratio of FV of Net Asset of Transferor Co.		

**19) Miscellaneous Concepts:**
**1. Business Combination with No Consideration:**

*If One entity buyback shares from small shareholders which may eventually give control to another entity without involvement of consideration.*

*When another entity obtain control IND AS 103 will be applicable and Goodwill or GBP will be calculated as under:*

<i>FV of previously held equity interest</i>	<i>XXX</i>
<i>Add: FV or PSINA of NCI (if any)</i>	<i>XXX</i>
	<i>XXX</i>
<i>Less: FV of INA</i>	<i>XXX</i>
<i>G/W or GBP</i>	<i>XXX</i>

**2. Non-CA held for sale of acquiree:**

*Non CA or Disposal Group of acquiree will be measured on acquisition date as per IND AS - 105 (i.e., lower of CA or FVCS).*

**3. Identification Asset:**

*The acquiree may identify the acquirer for the outcome of contingency or uncertainty related to all liabilities assumed by acquirer. As a result the acquirer obtain an Indemnification asset which will be recognized*





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*at Fair Value on acquisition date (which should not exceed Fair Value of liabilities assumed).*

*4. Asset under Finance Lease is acquired*

*It will not be reclassified to operating lease if circumstances changes on acquisition date. (Classification is done based on circumstances prevailing on Inception of lease controlled).*

*5. Operating lease:*

*⇒ If acquiree is lesser:*

*Acquirer will not recognize any asset (Prepayment) or liabilities (payable) related to an operating lease where acquiree is a lessee. If the terms of operating lease are favourable then an Intangible Asset will be recognized on DOA.*

*If the terms of operating lease are unfavourable then a liability should be recognized on DOA.*

*⇒ If acquiree is lessor:*

*Acquiror will recognize asset given on OL at FV*

**STUDENT NOTES**

## IND AS – 101 – FIRST TIME ADOPTION OF IND AS

### 1) Scope:

*IND AS 101 applies to:*

- *First IND AS FS*
- *Each interim Financial Report for the part of the period covered by first IND AS FS.*

### NOTE:

- ✓ *The accounting under IND AS should be applied at time of transition to IND AS as it will result in changes in accounting policy.*
- ✓ *However, IND AS 101 has given certain exemption from retrospective application of IND AS.*
- ✓ *Such exemptions are of 2 types.*
  - *Mandatory Exemptions*
  - *Voluntary Exemptions*
- ✓ *IND AS - 101 do not provide any exemptions from discoveries requirement.*

### 2) DEFINITION:

- 1) *First IND AS FS: The first Annual FS in which entity adopt by an explicit and unreserved statement of compliance of IND AS*

*NOTE:*

*If Auditor Report contain a qualified opinion because of disagreement on application of IND AS, then also FS will be considered as First IND AS FS.*

- 2) *First Time Adoption (FTA): An entity that prepare its first IND AS FS.*

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3) **Date of Transition (DOT):** It is the beginning of Previous Year for which entity present full comparative information for First IND AS FS.

4) **Previous GAAP:**

It is the basis of Accounting that First Time Adopter used for statutory compliance in India before adopting IND AS.

If any entity has two set of previous GAAP FS, then set of FS that relate more to Indian context is applied for previous GAAP.

In other words, FS which is prepared on the basis of Companies Act, 2013 and AS notified under Companies (Accounting Standard) Rules, 2006 will be previous GAAP FS.

### 3) STEPS for application of IND AS for the first time

⇒ *Identify Date of transition*

⇒ *Prepare Opening IND AS balance sheet on Date of transition by availing Mandatory or Voluntary Exemptions provided under IND AS 101.*

⇒ *Identify Accounting Policies to be applied in preparation of First IND AS FS as per IND AS.*

### 4) Opening IND AS Balance Sheet: For preparing opening IND AS BS:

*Entity shall.*

a) *Recognize all Assets and liabilities whose Recognition is require as per IND AS.*

**Example:**

*DTA as per IND AS - 12*

*DBO as per IND AS - 19*

*Derivative FI as per IND AS - 109*

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*Provisions for constructive Obligation as per IND AS - 37*

*Share Based payment transactions as per IND AS - 102*

- b) *Derecognize items of Asset and liabilities if IND AS do not permit such recognition.*

**Example**

*DTA for which recovery is not probable (IND AS - 12)*

*Provision for proposed dividend*

*Self-generated Intangible Asset*

*Any provisions without present obligation*

- c) *Reclassify items of Assets and liabilities and other component of equity as per IND AS.*

**Example:**

*Investment as FVTPL / FVTOCJ / AC*

*Compound FI as equity & liability component*

*Discounted operations*

*Non CA held for sale*

- d) *Measurement of recognized Assets and liabilities as per IND AS after availing exemption as per IND AS 101*

*Any effect of re-measurement is adjusted in Retained Earning or other component of equity or goodwill as the case may be.*

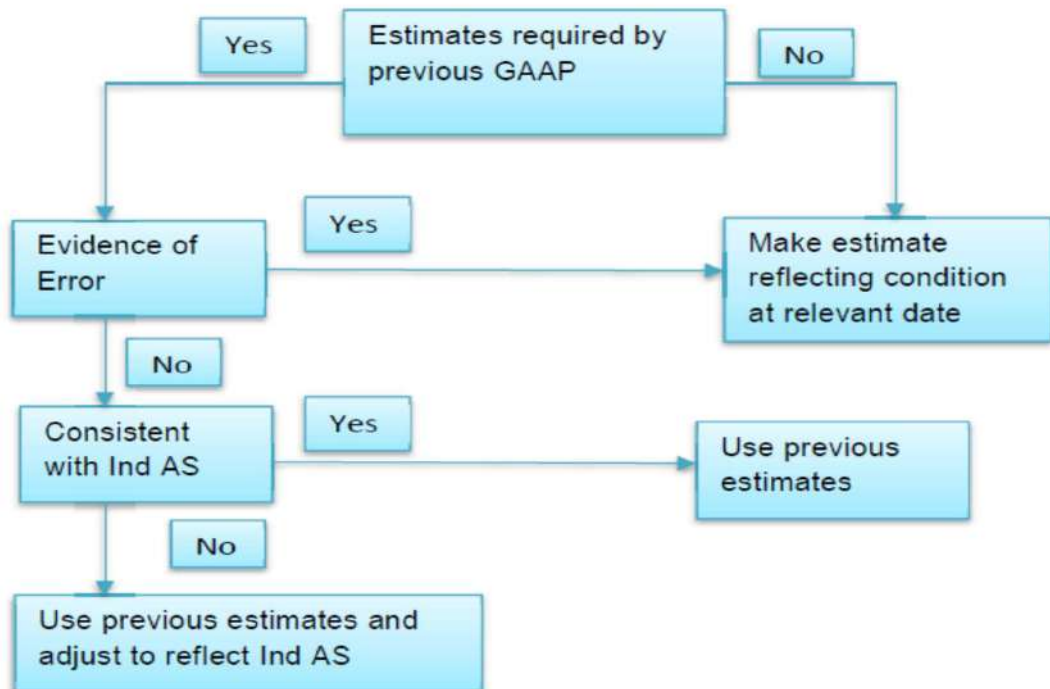
**NOTE:**

*If new IND AS is not mandatory but permit early adoption then it should not be applied in First IND AS FS.*

**5) EXEMPTION:**

**A. Mandatory Exemption:**

1. *Accounting Estimates:*



## 2. Derecognition of FA and FL:

A FTA shall apply derecognition requirement as per IND AS - 109 prospectively to transaction on or after DOT.

Any FA or FL which has been derecognised as previous GAAP before DOT shall not be recognized as per IND AS.

## 3. NCI:

It will be recognized as per IND AS 110 prospectively i.e. TCI is attributable to owner of parent company and NCI from DOT even if NCI may income Negative.

In other words, NCI cannot have Negative Balance in opening IND AS BS.

### Exception:

However, if FTA Elect to apply IND AS 103 retrospectively to past business combination then it shall apply IND AS 110 also

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retrospectively. In this situation NCI may have Negative Balance in opening IND AS BS.

**4. Government Loan:**

- ⇒ If any Government loan was received at concessional Rate of Interest, such loan should be re-measured as per IND AS - 109 on DOT & amount should be split into liability component and equity component (Government Grant) on prospective Basis.
- ⇒ Equity component is transferred to retained earning on the DOT i.e., it is not recognised as Deferred Income.
- ⇒ An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind AS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

Example: On 01/04/2016 A Limited received a Government loan of Rs. 20 Lakhs @ 6% p.a. which was payable on 31-03-2021. Market rate of similar loan on date of transition is 10% p.a. A Limited applies IND AS for First Time on 01-04-2018. Give accounting treatment on DOT.

**B. Voluntary Exemptions:****5. Business Combination:**

- ⇒ All Business combination executed before DOT does not require application of IND AS 103 retrospectively.
- ⇒ However, if an entity opts for retrospective application for one or more past Business combination then all subsequent Business combination are to be Restated Retrospectively.

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⇒ If Business combination is applied Retrospectively, then IND AS 110 will be also applied retrospectively.

⇒ If any contingent consideration has not been recognized as per previous GAAP, then it should be adjusted through Retained Earning on the DOT if Business combination are not restated retrospectively.

Retained Earnings                      Dr  
To contingent consideration (FV on DOT)

⇒ If any entity which was not a subsidiary as per previous GAAP but now become subsidiary as per IND AS and Business combination are not restated retrospectively, then Date of transition will be treated as deemed acquisition date and Goodwill or GBP (Gain on Bargain Purch) will be recognized on DOT.

For this purpose, subsidiary FS will be also prepared as if it is a FTA of IND AS after availing exemption as per IND AS 101

**6. Assets and liabilities of subsidiaries, associates and joint ventures**

⇒ If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall measure its assets and liabilities at either:

- ◆ The carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind ASs. or
- ◆ The carrying amounts required by Ind AS 101, based on the subsidiary's date of transition to Ind ASs.



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- ⇒ *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.*

**7. Deemed cost for PPE / IA/ IP**

- ⇒ *A FTA may adopt*
- *IND AS 16 / 38 / 40 Retrospectively*
- or
- *Deemed cost on Date of Transition which can be either*
- *CA (Not Book Value) as on DOT as per previous GAAP or*
  - *FV as on DOT (Not Available for IP)*
- ⇒ *If Deemed cost exemption is applied then such deemed cost will be considered for component accounting i.e., such cost will be allocated to various component based on Fair Value of Component on DOT.*
- ⇒ *If entity consider FV as deemed cost, it is not considered as changes in accounting policy.*

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⇒ If Business combination are related retrospectively; then deemed cost exemption for PPE / IA / IP of acquire etc. cannot be availed

However, the entity may adopt deemed cost exemption for its PPE etc. other than those acquired through B/C.

**8. Investment in subsidiary / Joint Venture / Associate: (In SFS)**

⇒ It is measured at

As per IND AS - 27 retrospectively or

Deemed cost which may be

- CA as per previous GAAT on DOT or
- FV on DOT

⇒ If such deemed cost exemption is availed; any adjustment in Relation to contingent consideration of First Time adoption will be through Retained Earnings.

**9. Share based payment**

⇒ For vested option on or before DOT:

It will be recognized either

- By applying IND AS 102 to equity Instrument that is already vested on or before DOT i.e., recognized SBP Reserve at FV of option as per IND AS 102.

or

- IND AS - 102 will not be applied i.e., No treatment is required on DOT and SBP reserve is carried as per previous GAAP.

⇒ For unvested option on or before DOT.

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- *If option are unvested SBP Reserve for unvested options should be Recognise as per IND AS 102 retrospectively i.e., at FV of option or Grant Day.*
- 10. Long Term FCMI (Para D-13AA of IND AS - 101)**
- *Entity has an option to continue accounting policies for treatment of ED on long term FCMI as per Previous GAAP (Para 46/46A of AS - 11)*
  - *It is applicable to long term FCMI on which option of para 46/4A was availed as per previous GAAP*
  - *If entity do not want to avail such exemption then balance of FCMITD A/c is transferred to Retained Earning on the DOT.*
- 11. Cumulative Transition Difference Account (FCTR)**
- *FCTR can be carried at CA as per previous GAAP or it can be transferred to on DOT.*
  - *If FTA adopt above Retained Earning exemption then FCTR as per previous GAAP will become zero for all OF on DOT and there is no need to reclassify such FCTR from OCT to P/L as a part of Gain or Loss on Disposal of FO.*
- 12. Compound Financial Instrument:**
- *A FTA need to split CFI in separate liability and Equity component if liability component is Outstanding on DOT.*
  - *In other words, there is no need to split if liability component is not outstanding as on DOT as per previous GAAP.*
- 13. Non-current Asset or Disposal Group held for sale:**
- *A FTA should measure NCA or DA held for sale at lower of CA and FVCS on DOT as per IND AS - 105.*



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- *Any gain or loss on remeasured will be transferred to Retained Earnings.*

**14. Joint Venture: Transition from proportionate consolidation Method to Equity Method:**

- *As per IND AS 101, when changes from PCM (Proportionate Consolidated Method) to EM is required; and entry shall recognize Investment in JV in CFS on DOT.*
- *The Initial investment shall be measured as the aggregate of CA of assets and liability that are previously proportionately consolidated including any goodwill arising from such acquisition.*
- *If goodwill previously belonged to larger CGU or to a group of CGU, the entity shall allocate goodwill to Joint Venture on the basis of relative CA of JV and the CGU or group of CGU to which it belong.*

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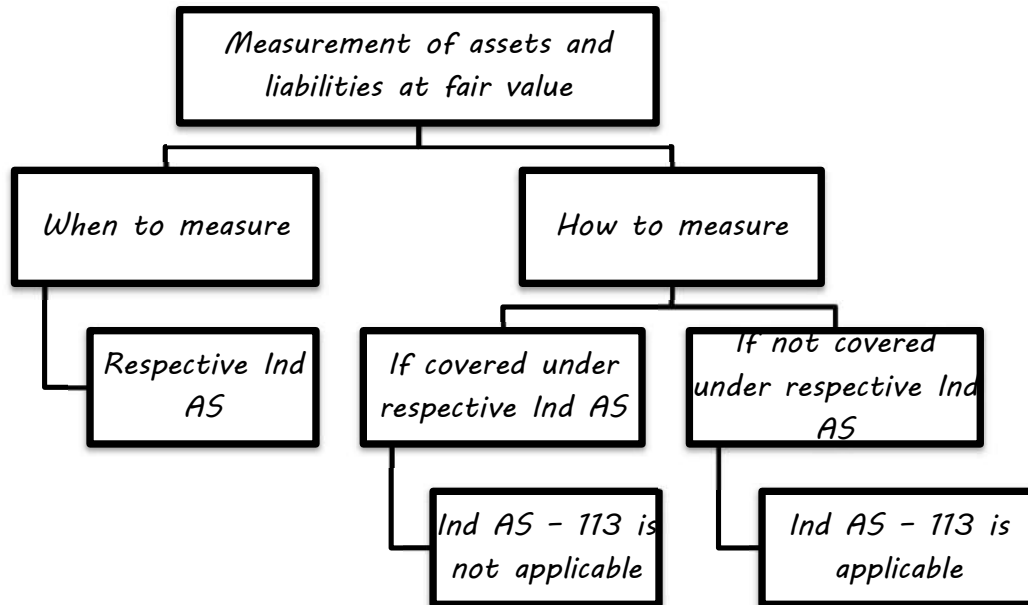
## Ind AS – 113 Fair Value Measurement

### 1) Objective:

- a) To define fair value
- b) To set a frame work for measurement of fair value in single Ind AS.
- c) Requires disclosure about fair value measurement.

### 2) Scope:

There are many Ind AS which require measurement of assets and liabilities at fair value.



<i>Ind AS - 113 is not applicable</i>	<i>Ind AS - 113 is applicable</i>
a) Ind AS - 102 share based payment	a) Ind AS - 105 - FVCS
b) Ind AS - 2 Inventories	b) Ind AS - 109 - FVTPL / FVTOCI
c) Ind AS - 17/116 lease	c) Ind AS - 16/38 - revolution model

d) Ind AS - 36 Impairment of assets	d) Ind AS - 41 - FVCS of biological asset
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### 3) Meaning of Fair Value:

Fair value is the price (exit price)

- That would be received to sell on asset (or)
- That would be paid to transfer a liability
- In an orderly transactions
- Between market participants
- At measurement date
- Under current market conditions

Note:

- a) Fair Value is market-based measurement
- b) Orderly transaction means height and best use price in
  - ✍ Principal market (or)
  - ✍ Most advantageous market

### 4) Assets and liabilities specific value

Fair value will be based on market participant assumptions rather to an entity specific conditions or restriction which usually will not affect fair valuation of an asset/ liability.

	To consider in Fair Value
Entity specific restrictions	NO
Asset/ liability specific restrictions	YES

### 5) Transactions:

A Fair Value measurement assume that transaction to sell on asset (or) transfer a liability takes place either in

- a. Principal market (or)



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- b. *Most advantageous market (in the absence of principal market) If we are not able to identify principal market than identify advantageous market.*

**Principal market:**

*Market with highest volume and high level of activities*

*Different entities may have different principal market.*

**Most advantageous market:**

*Market that either*

- *Maximizes the amount that would be received when an entity sells an asset or*
- *Minimize the amount that is to be paid while transferring the liability*

*Note:-*

- a. *In many cases principal market and most advantageous market will be same.*
- b. *Most advantageous market will be identified only when principal market is not identified.*
- c. *To determine*

	<i>Transaction cost</i>	<i>Transportation cost</i>
<i>Most advantageous price</i>	<i>Yes</i>	<i>Yes</i>
<i>Fair Value</i>	<i>No</i>	<i>Yes</i>

**6) Market participant: They are:**

- *Buyer or seller*
- *In principal or most advantageous market.*
- *For assets or liabilities.*

*Such market participants should have following features:*

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- They should be Independent (not related party)
- They should be knowledgeable
- They should be able and willing to enter the transaction.
- They should not be under any stress

**7) Valuation Techniques:**

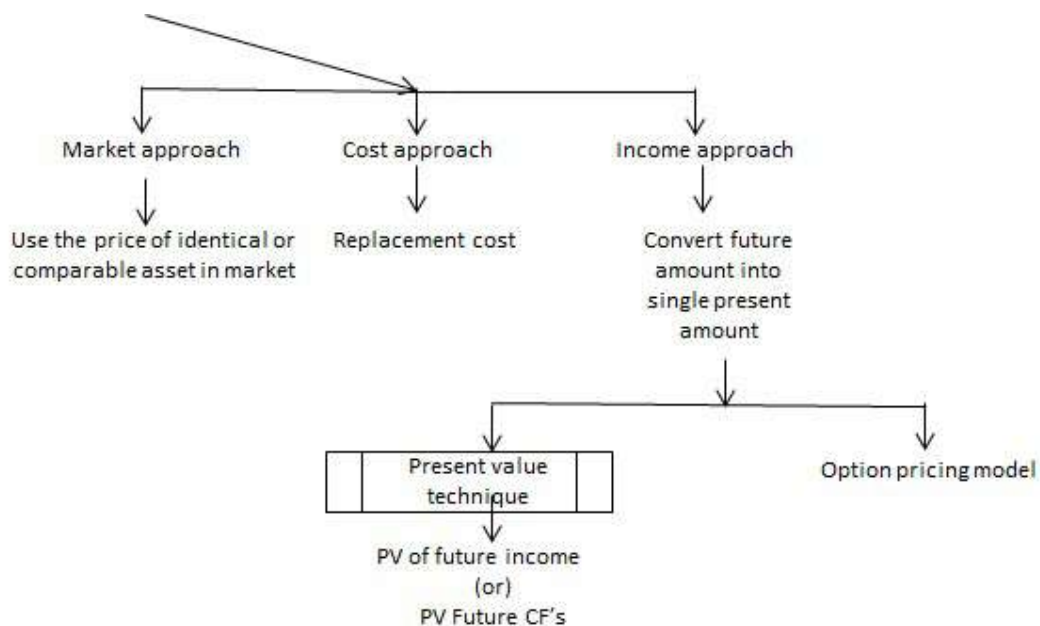
An entity is required to use appropriate valuation technique that **maximize observable inputs and minimize unobservable inputs**.

**Observable Inputs:**

Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

**Unobservable Inputs:**

Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability


**8) Fair Value Hierarchy:**


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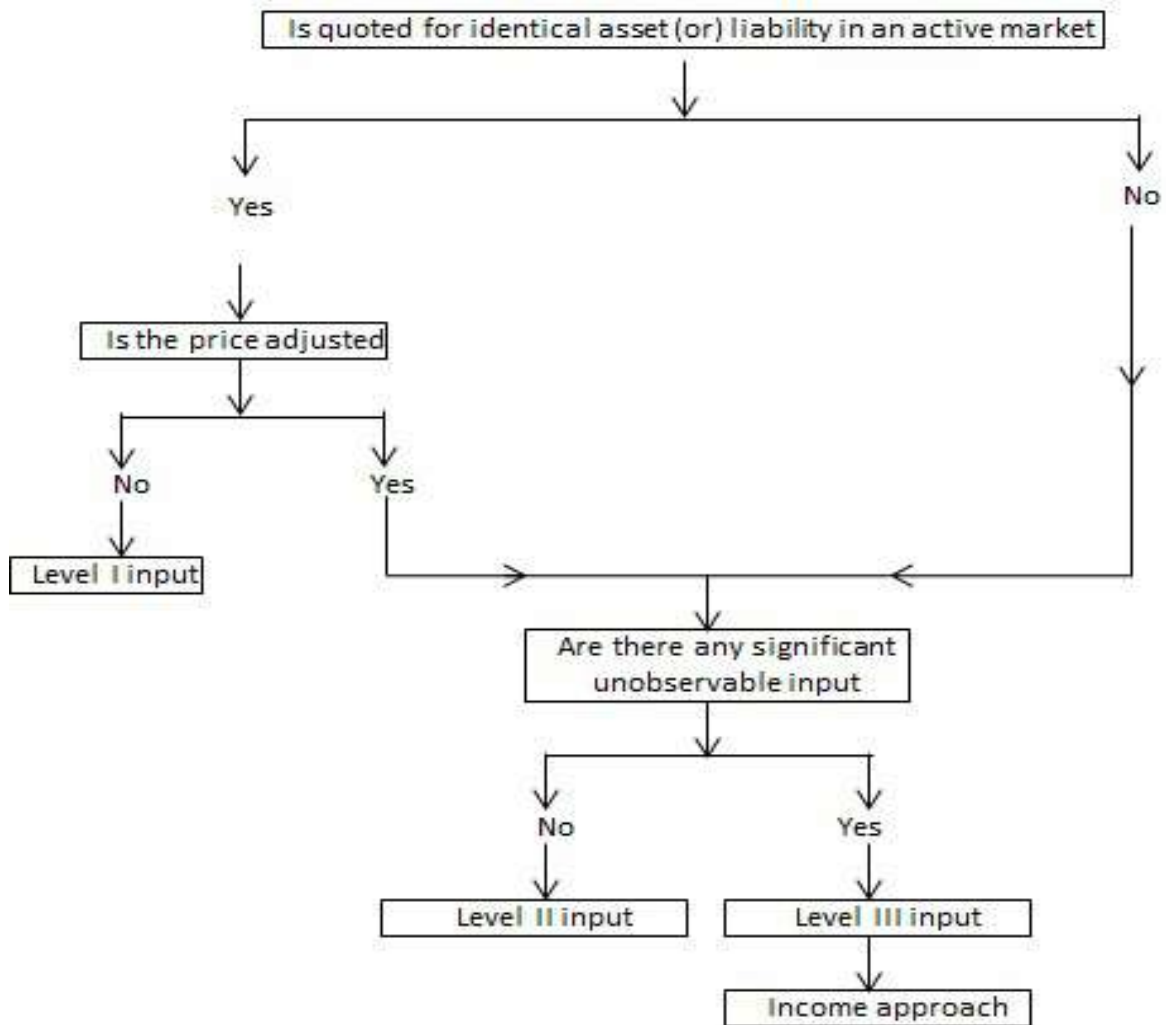
**Level I input:-** Quoted price (unadjusted) in active market for identical asset (or) liability on measurement date.

**Level II input:-** Input other than quoted price with level I input that are observable for asset (or) liabilities either directly (or) indirectly.

- a) Quoted price for similar asset (or) liabilities in active market
- b) Quoted price for similar assets (or) liabilities in inactive market
- c) Other observable input

**Level III input:-**

Unobservable input for asset or liability will be used





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## CORPORATE SOCIAL RESPONSIBILITY

### [Guidance Note on accounting of CSR]

- 1) CSR is governed by **Section 135 of Companies Act, 2013**
- 2) Every company including Foreign Company which fulfil the criteria specified in Section 135 shall perform CSR activities.  
*Note: The provision of CSR activities are also applicable to Section 8 companies.*
- 3) Every company having
  - a) **Turnover  $\geq$  1,000 Crores (or)**
  - b) **Net worth  $\geq$  500 Crores (or)**
  - c) **Net profit  $\geq$  5 Crores (or)**

During preceding FY shall constitute CSR committee of board consisting 3 or more Directors.

- 4) Every eligible company should spend in every Financial year at least 2% of average profit of immediately preceding Financial years of the company during preceding FY on CSR activities.
- 5) Profit is determined as per **Section 198 of Companies Act**

Profit before tax (as per SOPL)

XXX

→ Depreciation adjustment:

+ Dep as per books

(-) Dep as per Schedule II

→ Provision adjustment

+ Provision created during the year

(-) Actual expenses or loss

→ Fictitious asset

+ Fictitious asset written off

→ Sale of Fixed Assets

(-) Capital profit on sale of FA (sale proceeds - original cost)

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→ Sale of long term investment (or) Business:

(-) Profit on sale

+ Loss on sale

→ Government grant

+ Government grant not credited to P/L

*Profit as per Section 198 of C. Act*

XXX

## 6) Some important points:-

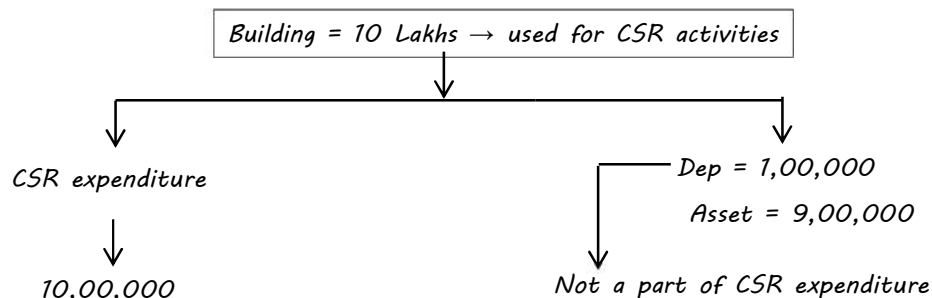
- a) CSR undertaken in India amounts to CSR expenditure.
- b) CSR expenditure that benefit only employee or their family member shall not be considered.  
Education to poor children → CSR exp  
Education to children of employee only → not CSR expenditure.  
Contribution of any amount to political party shall not be considered.
- c) If CSR expenditure is more than specified limit then excess will not be carried forward to next year.
- d) If CSR expenditure is less than specified limit, then company should give reason for not spending the specified amount in CSR report (i.e.) provision is not required.  
If the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project, transfer such unspent amount to **a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year**.  
Any amount remaining unspent, pursuant to any ongoing project, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company **within a period of thirty days from the end of the financial year** to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the **Unspent Corporate Social Responsibility**

**Account:** Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

e) *CSR expenditure on capital asset (PPE etc.)*

CSR expenditure include capital expenditure on which future economic benefit is not expected to flow to entity. Such expenditure is charged to P/L as part of CSR expenditure

In case the expenditure incurred by the company is of such a nature that give rise to an 'asset', it should be recognised by the company in its balance sheet, provided the control over the asset is with the Company and future economic benefits are expected to flow to the company. Such expenditure is recognized as on asset in B/s as CSR asset



f) *Revenue expenses made in current year towards CSR activities will be debited to P/L and shall be disclosed by way of notes.*

g) *Supply of manufactured goods / services by an entity.*

(1) *A company may supply goods manufactured by it (or) render services on CSR activities. In such case expenditure should be recognized when company have transferred the control of goods (or) services are performed by company.*



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- (2) *Goods manufactured should be valued as per AS - 2 and services rendered should be measured at cost.*
- (3) *If expenditure incurred is for activities in ordinary course of business then it will not be classified as CSR expenditure.*
- h) *When a company receive grant from other person for carrying out CSR activities then CSR expenditure should be measured net off grant received.*

**STUDENT NOTES**