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What Our Students have to say....

Sudeepta Benya

I took FR and AFM classes from 1FIN and secured good marks in both. I am deeply grateful to **Sriram Sir** and **Suraj Sir** for making my conceptual clarity very strong and making me fall in love with the subjects. I secured 70 marks in FR and 87 in AFM. Highly recommended.

AIR 27

Arun Kumar

I have watched SFM, FR and IDT classes from indigo learn I was using 1FIN platform from my CA Inter and I feel this platform is the only platform which focuses on concepts rather than focusing on only scoring marks.

Kanishka

Thank you so much Sir! I am excited to share that I have successfully cleared the CA Final exams and became A Chartered Accountant

Bhoomi Makhecha

Suraj Sir's classes were comprehensive & helped me score 76 (Exemption) in FR

Srinivasan

I really liked the way of teaching and conceptual clarity given by **Suraj Sir**

Venkata Naresh

Thank You Indigolearn for the Conceptual Clarity and well illustrated Examples of the faculties,making my concepts very strong and assisted me in clearing my exams

Yug Bhattad

From Foundation to Final, you have been a constant source of guidance. This journey would truly not have been possible without your support, belief, and mentorship. Your advice at every stage, whether academic or personal, gave me clarity and confidence when I needed it the most.

Himanshu Somani

Thank you so much to **Suraj and Sriram** sir for your support during my entire CA journey, will forever be grateful to you

Hannoch Matthew

1FIN is a perfect place for assistance in CA Exams. I had opted for FR and AFM. I found it well understandable and helped me to get through with the concepts. Their MCQ and material is very useful.

Priyanka Udeshi

Thank you **Suraj sir!** Have successfully cleared CA Final with exemption in 5 subjects

Our Rankers

AIR 1



Diksha Goyal
CA Final Jan-26

AIR 49



Hamsa Gayatri
CA Final Sep-25

AIR 27



Sudeepta Benya
CA Final Nov-24

AIR 5



Sarthak
CA Inter May-23

AIR 19



Aman Mahajan
CA Inter Dec-21

AIR 33



Sundar B
CA Inter Dec-21

Disclaimer

This book is designed for students pursuing CA Final course, who are appearing for the Financial Reporting exam in ***Nov-26 or afterwards****. The chapters in the book are not in the order provided by ICAI to ensure logical and comprehensive learning.*

Every effort has been made to avoid errors and omissions. Despite this, errors may still occur. Any mistake, error, or discrepancy may be brought to our attention by emailing us at support@indigolearn.com and we shall fix the same in the next edition of the book.

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Feb 2025 – 3rd Edition
Feb 2026 – 4th Edition
May 2026 - 5th Edition

Note from your Faculty

Dear Student,

We are pleased to present to you a comprehensive and simplified book on Financial Reporting for the CA Final examination. This subject is of utmost importance in the field of accounting and finance and mastering it will significantly enhance your professional competence.

Financial Reporting plays a crucial role in providing stakeholders with reliable and relevant information about the financial position, performance, and cash flows of an entity. We will delve into the conceptual framework, which serves as the foundation for accounting standards.

We will also cover the applicable Indian Accounting Standards that govern financial reporting. This includes standards related to revenue recognition, lease accounting, financial instruments, and consolidation of financial statements, among others.

It is essential to stay updated with the latest developments in financial reporting. Hence, we recommend referring to professional pronouncements, regulatory updates, and amendments to accounting standards issued by the relevant authorities. You should also read annual reports of listed entities to understand the practical application of what you learn in Financial Reporting.

Remember, financial reporting is not only a subject for examination but a vital skillset that will serve you throughout your professional career. Embrace this opportunity to strengthen your knowledge and practical application of financial reporting principles.

As you prepare for the examination ensure that you understand things conceptually and practice questions instead of just reading or watching the solutions. We wish you the best of luck in your studies and future endeavours.

CA Suraj Lakhotia
Director & Faculty,
1Fin by IndigoLearn

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF											
S. No.	**CHAPTER NAME**	**Jan-26**		**Sep-25**		**May-25**		**Nov-24**		**Average**	**Weightage**
		MCQ	**Des**	**MCQ**	**Des**	**MCQ**	**Des**	**MCQ**	**Des**		
1	Conceptual Framework		4		4					15.50 M	10-15 %
2	Ind AS on Presentation of General Purpose FS										
	Unit 1 - Ind AS 1		4	2			4	4	4		
	Unit 2 - Ind AS 34	2					4		4		
	Unit 3 - Ind AS 7	2			4	2					
3	Ind AS on Measurement based on Accounting Policies										
	Unit 1 - Ind AS 8				4				4		
	Unit 2 - Ind AS 10										
	Unit 3 - Ind AS 113		4			2	4				
	TOTAL	**4**	**12**	**2**	**12**	**4**	**12**	**4**	**12**		
4	Ind AS on Income Statement - Ind AS 115 - Revenue	2	5	2	5	2	5	2	5	7.00 M	5-10%
	TOTAL	**2**	**5**	**2**	**5**	**2**	**5**	**2**	**5**		
5	Ind AS on Assets of the Financial Statements									25.00 M	15-25 %
	Unit 1: Ind AS 2: Inventories			2		4	5				
	Unit 2: Ind AS 16: Property, Plant and Equipment		8				6	2	11		
	Unit 3: Ind AS 116: Leases										
	Unit 4: Ind AS 23: Borrowing Costs				6						
	Unit 5: Ind AS 36: Impairment of Assets	2			5		8				
	Unit 6: Ind AS 38: Intangible Assets	2		2							
	Unit 7: Ind AS 40: Investment Property			2		2			8		
	Unit 8: Ind AS 105: NCA held for Sale and Disc Operations		6								
6	Ind As on Liabilities of Financial Statements										
	Ind AS 19		5		8						
	Ind AS 37	2		2				2			
	Total	**6**	**19**	**8**	**19**	**6**	**19**	**4**	**19**		

CA FINAL PAPER 1 : FINANCIAL REPORTING 100 MARKS

CHAPTER WISE WEIGHTAGE BASED ON PAST EXAM & ANALYSIS THEREOF

S. No.	CHAPTER NAME	Jan-26		Sep-25		May-25		Nov-24		Average	Weightage
7	Other Indian Accounting Standards										
	Unit 1 - Ind AS 20		8					2			
	Unit 2 - Ind AS 102			2		2	8		8		
	Ind AS 41 - Agriculture			2							
8	Ind AS on Items impacting the Financial Statements										
	Ind AS 12 - Income Taxes		6						6	18.50 M	15-20 %
	Ind AS 21 - Foreign Exchange	2			8	2					
9	Ind AS on Disclosures										
	Unit 1: Ind AS 24: Related Party Disclosures										
	Unit 2: Ind AS 33: Earnings Per Share	2			6	2	6				
	Unit 3: Ind AS 108: Operating Segments							2			
	TOTAL	**4**	**14**	**4**	**14**	**6**	**14**	**4**	**14**		
10	Accounting & Reporting of Financial Instruments	6	10	6	10	2	10	2	10	14.00 M	10-15%
	TOTAL	**6**	**10**	**6**	**10**	**2**	**10**	**2**	**10**		
11	Business Combination & Corporate Restructuring			2			5	6		21.75 M	10-20 %
12	Consolidation & Separate Financial Statements	6	14	2	14	6	14	4	14		
	TOTAL	**6**	**14**	**4**	**14**	**6**	**19**	**10**	**14**		
13	Ind AS 101 - First Time Adoption of Ind AS		5	2	5	2		2		6.00 M	5-10 %
14	Analysis of Financial Statements								5		
	TOTAL	**0**	**5**	**2**	**5**	**2**		**2**	**5**		
15	Accounting & Technology				5	2	5	2	5	7.00 M	5-10 %
16	Professional Ethics	2	5	2							
	TOTAL	**2**	**5**	**2**	**5**	**2**	**5**	**2**	**5**		
	Grand Total	**30**	**84**	**30**	**84**	**30**	**84**	**30**	**84**		

CA FINAL PAPER 2: STRATEGIC FINANCIAL MANAGEMENT QUESTION WISE TOPICS BASED ON PAST EXAM PATTERN										
#	Jan-26		Sep-25		May-25		Nov-24		May-24	
	Topic	M	Topic	M	Topic	M	Topic	M	Topic	M
COMPULSORY										
1 (a)	CFS of Holding & Subsidiary	14	CFS of Holding & Subsidiary	14	CFS of Holding & Subsidiary	14	Consolidation under Ind AS	14	CFS of Holding, Subsidiary & Associate	14
1 (b)										
OPTIONAL (4 of 5)										
2(a)	Ind AS 109 - Int free loan repayable on demand	10	Ind AS 109 - Derivative	10	Ind AS 109 - Derivative	10	Ind AS 109 - Derivative	10	Derivatives - Contracts in FC	10
2(b)	Ind AS 1 - Classification of loan rollover	4	Ind AS 7 - Cashflows	4	Ind AS 34 - Interim Financial Reporting	4	Ind AS 34 - Tax Expense	4	Ind AS - 1, Loan repayable on Demand	4
2(c)						.				
3(a)	Ind AS 16 - PPE in case of exchange with FOC, insurance	8	Ind AS 19 - Employee Benefits	8	Impairment - CGU	8	Ind AS 40 - BS values & Disclosures	8	Lease Modifications - Ind AS 116	8
3(b)	Ind AS 12 - Deferred tax computation, Associate, revaluation cases	6	Ind As 33 - Earnings per Share	6	Ind AS 33 - Earnings per Share	6	Ind AS 12 - Deferred Tax	6	Compound financial Instruments	6
3(c)										
4(a)	Ind AS 105 - Asset held for sale	6	Ind AS 23 - Borrowing Cost	6	Ind AS 16 - Property, Plant & Equipment	6	Ind AS 16 - Decommisioning	6	Defined benefit plans - Comprehensive	8
4(b)	Ind AS 20 - Government Grants : Multiple Cases	8	Ind AS 21 - The Effects of Changes in Foreign Exchange Rates	8	Ind AS 102 - Share Based Payments	8	Ind AS 102 - Share based payment	8	Government Grants - Treatment	6
5(a)	Ind AS 115 - Revenue from contract with Customers	5	Ind AS 115 - Revenue from contract with Customers	5	Ind AS 115 - Revenue Recognition	5	Ind AS 115 - Reward Points	5	Ind As 115 - discount on subsequent pur.	5
5(b)	Ind AS 101- First time adoption of IND AS	5	Ind AS 101- First time adoption of IND AS	5	Ind AS 111 - Joint Arrangements	5	Analysis of FS - Ind AS Impact report	5	Ind As 101- Exchange fluctuation capitalisation	5
5(c)	Need for Ind AS / Board Report	4	Conceptual framework	4	General Purpose FR	4	Ind AS 1 - Offseting or Enhancing Qualitative characterstics	4	Theory - Conceptual framework de/recognition or entities covered for Ind AS	4
6(a)	Profesional ethics	5	Accounting and technology	5	Accounting & Technology	5	Accounting & Tech	5	Cloud Computing	5
6(b)	Ind AS 19 - Leaves and Bonus plans	5	Ind AS 36 - Impairement of Assets	5	Ind AS 2 - Inventories	5	Ind As 16 - Revaluation	5	Ind As 105 - Held for sale	5
6(c)	Ind AS 113 : Compute Fair value	4	Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors	4	Ind AS 113 - Measuring Fair Value	4	Ind AS 8- Errors/Estimates	4	Interim financial reporting - Computation of profit	4
6 (d)										
		84		**84**		**84**		**84**		**84**

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6	Ind AS 23 Borrowing Costs	6.1 - 6.8
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1 Introduction

1.1 Financial Statement

A set of Financial statements

key tool of communication about

Useful to stakeholders in making economic decisions

Financial position	Financial performance and	changes in financial position of an entity

1.2 Accounting Standard (AS)

- AS provides principles and rules that must be followed to ensure accuracy, consistency, standardize the diverse accounting policies and comparability of financial statements
- ensure that FS should be understandable, relevant, reliable and comparable.
- set of documents that lay down the principles covering various aspects, such as, recognition, measurement, presentation & disclosure of accounting transaction in the FS
- AS enables stakeholders to get the reliable and comparable accounting data and investors to make more informed economic decisions.

1.3 Accounting Standard Board (ASB)

ASB of the ICAI:

- Established - 1977
- involved in the formulation of AS and standard setting process of the country.

ASB Recommends draft of AS post incorporating the public comments on exposure draft to → National Financial Reporting Authority (**NFRA**) and then → **Government of India, through MCA** notifies AS or Ind-AS for corporate entities under Companies Act and → **ICAI** issues AS for non-corporate entities

2 Prior to Introduction of IND AS in India - AS

2.1 Accounting Standards

- Ind AS are Accounting Standards converged with IFRS
- Prior to Ind AS, ASB issued AS to deal with reporting matters
- AS are applicable to
  a) companies other than those following Ind AS,
  b) SMCs (Small and Medium Sized Companies) and
  c) non-corporate entities.

Note:
IFRS - International Financial Reporting Standards
AS - Accounting standards
FS – Financial Statement

2.2 Limitations of Accounting Standards

With the increase in Globalisation, Cross border transactions, flow of foreign funds and internationalisation of business, Accounting Standards could not deal with increasing complexities.

a. Capital raised in the form of complex financial instruments like optionally convertible / compulsorily convertible shares / debentures etc.



b. Various derivative instruments embedded in the foreign currency bonds / equity instruments , commodity derivatives etc.
c. Group restructuring, business acquisitions, mergers, demergers, slump sale etc.
d. Complex revenue arrangements and business models with innovating emerging digital economy
e. Diverse stock-based compensation with innovative remuneration models for C-suite
f. Complex tax provisions and impact thereof in determination of current and deferred tax
g. Different ways to provide shareholders' return and various modes of shareholder's investments in kind in the event of group reorganisation.

The recognition and disclosure requirements in ASs for Aspects like revenue, related party transactions, segment reporting, business combinations are limited. Further Accounting standards did not have necessary guidance for complex transactions like financial instruments.

3 Emergence of Global Accounting standards

- **1973:** The International Accounting Standards Committee (IASC) is formed, consisting of professional accountancy bodies from various countries. Its goal is to harmonize global financial reporting practices.

- **Late 1990s**: After 25 years, the IASC recognizes the need for a change in structure to converge national accounting standards. The International Accounting Standards Board (IASB) is formed on July 1, 2000, operating under the new International Accounting Standards Committee Foundation (IASCF, now IFRS Foundation).

- **Early 2000s**: The International Organisation of Securities Commissions (IOSCO) recognizes the importance of internationally accepted standards for cross-border securities offerings. In 2000, IOSCO recommends the use of 30 IASC 2000 standards for multinational issuers.

- **July 19, 2002:** The European Parliament and the European Council of Ministers pass a regulation requiring the adoption of International Financial Reporting Standards (IFRS) for all EU listed companies from 2005.

- **Post-2002**: IFRS and US Generally Accepted Accounting Principles (US GAAP) emerge as two prominent and widely adopted accounting standards globally.

- **G20 Involvement**: The Group of 20 (G20) expresses interest in improving the global financial system and supports the convergence of accounting standards. The G20 includes major economies like the United States, China, India, and the European Union.

- **Joint Convergence Project (2002):** IASB and US Financial Accounting Standards Board (FASB) launch a joint convergence project to eliminate differences between IFRS and US GAAP. The project begins with the Norwalk Agreement in October 2002.

- **Present**: IFRS, along with US GAAP, is recognized as one of the two globally accepted financial reporting frameworks. According to IASB research, 167 jurisdictions now require the use of IFRS for all or most publicly listed companies, and an additional 12 jurisdictions permit its use. The goal of a single set of high-quality global accounting standards remains a work in progress.

4 Global Accounting Standards in India

- Modern economies rely on global transactions and free international capital flow.
- Investors seek diversification and investment opportunities worldwide.
- Companies engage in cross-border activities, raising capital, conducting transactions, and establishing international operations.
- Challenges for Indian companies in cross-border activities include increased compliance costs due to diverse national accounting standards.



- Adhering to local accounting standards results in significant differences in financial information presentation.
- Variations in national accounting standards add complexity and risk to financial statements preparation and decision-making.
- Detailed examination is required to address minor differences that impact reported financial performance and position.
    - Examples include differing approaches in the valuation of non-current investments under Accounting Standards (AS) and International Financial Reporting Standards (IFRS).
- Need to revamp Indian AS arises due to limitations in dealing with emerging business transactions and structures.
- International investors often prefer financial information produced under IFRS, reflecting concerns about the understanding of the Indian accounting framework.
- India committed to the convergence of its accounting standards with IFRS at the G20 summit in 2009, signaling a proactive move towards aligning with global financial reporting norms.

5 Benefits of Global Accounting standards

Global Accounting Standards

High-quality, Internationally recognised set of accounting standards to financial markets around the world.

Transparency

> by enhancing the international comparability and quality of financial information,

> enabling investors and other market participants to make informed economic decisions.

Accountability

> reducing the information gap between the providers of capital and the people to whom they have entrusted their money

Efficiency

> by helping investors to identify opportunities and risks across the world, thus improving capital allocation

Company which has operations in multiple countries, it became easy for them

- to consolidate their operations,
- track operational key performance indicators, and
- reduce the number of different reporting systems.

6 Convergence vs Adoption of IFRS

Adoption of IFRS

- applying IFRS in the same manner and would be 100% compliant with the guidelines issued by IASB.

Convergence with IFRS

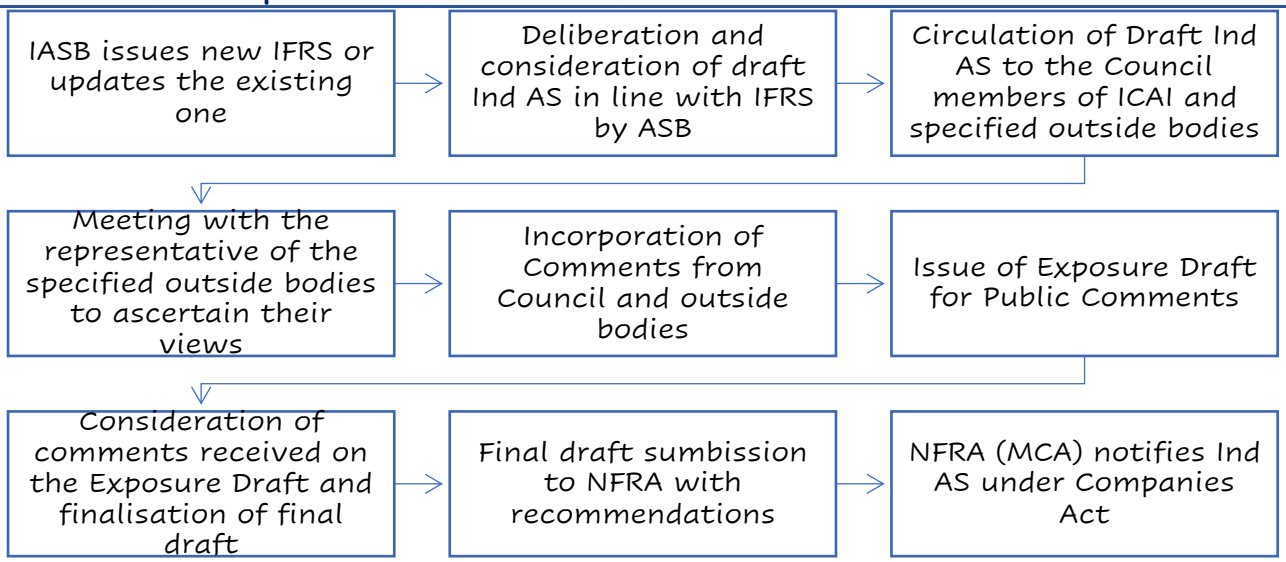
- Dictionary definition of Convergence → to move towards each other or meet at the same point from different directions
- The National accounting standards setter would work with IASB to develop high quality AS over the time.
- Adopted IFRS with some exceptions, and work with IASB towards those exceptions to reach at a point wherein there are no differences left.

Countries have choice to fully implement IFRS without any convergence. However, it is impossible for IASB to consider the individual factors of each country. Hence, such countries decide to converge to IFRS with limited exceptions. These exceptions are regularly looked upon and in order to meet at a point where no exceptions are left.



Countries like Canada, Bahrain, Cambodia etc have adopted IFRS while countries like India, China, Hongkong etc have converged with IFRS.

7 Process of development and finalization of Ind AS



8 Transition from AS to IND AS

Convergence of Ind AS with IFRS

↓

at the G20 summit in 2009.

↓

MCA issued a roadmap for implementation beginning April 2011.

↓

However, suspended due to unresolved tax and other issues.

↓

In the presentation of the Union Budget 2014 –15, the Honourable Minister for Finance, Corporate Affairs and Information and Broadcasting proposed the adoption of Ind AS.

↓

The Minister clarified that the respective regulators will separately notify the date of implementation for banks and insurance companies. Also, standards for tax computation would be notified separately.

↓

In accordance with the Budget statement, the MCA has notified the Companies (Ind AS) Rules 2015 vide its G.S.R dated 16th February 2015.

↓

The IASB issues new/revised IFRS on a regular basis.

Ind AS	IAS/IFRS	Title of Ind AS/ IFRS	AS/GN	AS/GN Title
101	IFRS 1	First Time Adoption of Indian Accounting Standards	-	-
102	IFRS 2	Share Based Payment	GN	Guidance Note on Accounting for Share-based Payments
103	IFRS 3	Business Combinations	AS 14	Accounting for Amalgamations
105	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations



Ind AS	IAS/IFRS	Title of Ind AS/ IFRS	AS/GN	AS/GN Title
106	IFRS 6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
107	IFRS 7	Financial Instruments: Disclosures	-	-
108	IFRS 8	Operating Segments	AS 17	Segment Reporting
109	IFRS 9	Financial Instruments	-	-
110	IFRS 10	Consolidated Financial Statements	AS 21	ConsolidatedFinancial Statements
111	IFRS 11	Joint Arrangements	AS 27	Financial Reporting of Interests in Joint Ventures
112	IFRS 12	Disclosure of Interests in Other Entities	-	-
113	IFRS 13	Fair Value Measurement	-	-
114	IFRS 14	Regulatory Deferral Accounts	GN	Accounting for Rate Regulated Activities
115	IFRS 15	Revenue from Contracts with customers	AS 7 AS 9	Construction Contract Revenue Recognition
116	IFRS 16	Leases	AS 19	Leases
117*	IFRS 17	Insurance Contracts		
1	IAS 1	Presentation of Financial Statements	AS 1	Disclosure of Accounting Policies
2	IAS 2	Inventories	AS 2	Valuation of Inventories
7	IAS 7	Statement of Cash Flows	AS 3	Cash Flow Statements
8	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	IAS 10	Events after the Reporting Period	AS 4	Contingencies and Events Occurring After the Balance Sheet date
12	IAS 12	Income Taxes	AS 22	Accounting for Taxes on Income
16	IAS 16	Property, Plant and Equipment	AS 10	Property, Plant and Equipment
19	IAS 19	Employee Benefits	AS 15	Employee Benefits
20	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants
21	IAS 21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates
23	IAS 23	Borrowing Costs	AS 16	Borrowing Costs
24	IAS 24	Related Party Disclosures	AS 18	Related Party Disclosures
	IAS 26	Accounting & reporting by Retirement benefit plans		
27	IAS 27	Separate Financial Statements	-	-
28	IAS 28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements



Ind AS	IAS/IFRS	Title of Ind AS/ IFRS	AS/GN	AS/GN Title
29	IAS 29	Financial Reporting in Hyperinflationary Economies	-	-
32	IAS 32	Financial Instruments: Presentation	-	-
33	IAS 33	Earnings per Share	AS 20	Earnings per Share
34	IAS 34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	IAS 36	Impairment of Assets	AS 28	Impairment of Assets
37	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets
38	IAS 38	Intangible Assets	AS 26	Intangible Assets
40	IAS 40	Investment Property	AS 13	Accounting for Investments
41	IAS 41	Agriculture	-	-

Ind AS 117 & 29 are not applicable for exams

Ind AS are numbered in line with IAS/IFRS

IAS 1-41 : Ind AS 1-41 [IAS were issued till 2000]

IFRS 1 onwards – Ind AS 101 onwards [IFRS issued post 1st July 2000]

Ind AS have following components and they are generally structured as follows:

I. Objective – Main purpose of Ind As
II. Scope – What standard intends to cover and not to cover
III. Definitions – Definition of various terms used in the standard
IV. Content of the Standard – Main principle of the standard
    a. Recognition,
    b. Measurement,
    c. Subsequent measurement
    d. along with any other standard specific contents
V. Disclosure
    a. Qualitative / Quantitative information of particular
        i. asset /
        ii. liability /
        iii. income /
        iv. expense should be presented in FS.
VI. Transitional provisions and effective date
VII. Appendices – Integral part of standard, mainly consist of:
    a. Explanation on industry specific issues which require detailed guidance. For e.g.: Appendix to Ind AS 16 contains treatment of stripping costs in the production phase of a surface mine
    b. Application Guidance – These are mainly in standards which are converged from International Financial Reporting Standards (Ind AS 101 and onwards). It contains detailed guidance in applying the principles mentioned in the standard
    c. Defined terms – It mentions definition of terms mentioned in the standard
    d. References to matters contained in other Ind AS - It lists the appendix which is a part of another Indian Accounting Standard and makes reference to the particular standard.
    e. Comparison with IFRS – Differences with IFRS are explained in this section
    f. IFRIC and SIC applicable and relevant for the respective Ind AS

9 Roadmap for Applicability of Ind AS

MCA has notified the Companies (Ind AS) Rules, 2015 vide its G.S.R dated 16 Feb, 2015.

- 39 Ind AS and has laid down an Ind AS transition roadmap for companies and non-banking finance companies excluding banking companies and insurance companies. proposed phase-wise approach for mandatory transition to Ind AS.



9.1 Applicability of Ind As for Listed Companies

Applicability of Ind AS to Listed entities in the following two phases:		
	Phase 1	Phase 2
Applicability:		
(a) Equity or Debt securities	listed or in process - on any stock exchange in India or outside India and NW≥500 Crs	listed or in process - on any stock exchange in India or outside India and NW<500 Crs)
(b) Net worth	500crs or more	250 crs or more, but less than 500 crs
(c) Includes	Holding, subsidiary, associate or Joint Venture of Companies already covered under sub clause (a) & (b) above	
Accounting period:		
Accounting Period beginning on or after	1st Apr, 2016	1st Apr, 2017
Opening balance sheet as on	1st Apr, 2015	1st Apr, 2016
Comparative for	31st Mar, 2016	31st Mar, 2017
Financial statement for the	FY 2016-17	FY 2017-18

The Companies (Ind AS) Rules, 2015 clarifies,

- Non-applicable of road map
  - companies whose securities are listed or are in the process of being listed
    - on SME (Small and Medium Enterprise) exchange as referred to in Chapter XB or
    - on the Institutional Trading Platform without initial public offering in accordance with the provisions of Chapter XC of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.
- Option for Early adoption of Ind AS
  - for their FS for accounting periods beginning on or after 1st April 2015, with the comparatives for the periods ending on 31st March 2015 or any time thereafter.

Non-applicable of Ind AS → Unlisted companies whose NW<250 Crs

- Follow AS as per its applicability discussed above.
- Can voluntary adopt Ind AS.

Net worth:

As per clause 57 of section 2 of the Companies Act, 2013

Net worth means

- the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account,
- after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet,
- but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation

For calculation of Net worth

- Consider stand-alone financial statements of the company as on 31st Mar 2014 or the first audited FS for accounting period which ends after that date;
- If Company is not in existence on 31st March 2014 or an existing company falling under threshold first time after 31st Mar, 2014



- Consider audited SFS ending after that date, in respect of which it meets the thresholds.

➢ If threshold is met at the end of accounting year, Ind AS is applied from next financial year. In other words check the threshold as at the end of previous accounting period.

9.2 Key Matters on Transition

Comparative Financial Information	All companies applying Ind AS are required to present comparative information as per Ind AS for one year. To comply with this requirement, Ind AS will be applicable from the beginning of the previous period
Ind AS Applicability	Companies shall prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period.
Consistent application of Ind AS	A Company shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in the Rules does not subsequently apply to it.
Applicability for Group Companies	If Ind AS is applicable to a company, it would also be applicable to its holding company, subsidiary company, associate company and joint venture.
Overseas group companies	Overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction. • provided that such Indian company shall prepare its consolidated financial statements in accordance with the Indian Accounting Standards (Ind AS)
SFS/CFS	Ind AS once required to be complied with in accordance with these rules, shall apply to both stand-alone financial statements and consolidated financial statements.

9.3 Applicability of Ind As for Non-Banking Financial Company

Non-Banking Financial Company as

➢ defined in clause (f) of sec 45-I of the RBI Act, 1934 and
➢ includes Housing Finance Companies, Merchant Banking companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies

Ind AS applicability to NBFC

<table>
<tr><td colspan="4">NBFCs to apply Ind AS in the following two phases:</td></tr>
<tr><td></td><td>Phase 1</td><td colspan="2">Phase 2</td></tr>
<tr><td colspan="4">Applicability:</td></tr>
<tr><td rowspan="2">(a) Net worth</td><td rowspan="2">500crs or more</td><td>Listed or in process</td><td>Unlisted</td></tr>
<tr><td>Less than 500 crs</td><td>250 crs or more, but less than 500 crs</td></tr>
<tr><td>(b) Includes</td><td colspan="3">Holding, subsidiary, associate or Joint Venture of NBFCs already covered under sub clause (a) above (other than companies already covered under Ind AS roadmap for Non-Financial companies)</td></tr>
<tr><td colspan="4">Accounting period:</td></tr>
</table>



Accounting Period beginning on or after	1st Apr, 2018	1st Apr, 2019
Opening balance sheet as on	1st Apr, 2017	1st Apr, 2018
Comparative for	31st Mar, 2018	31st Mar, 2019
Financial statement for the	FY 2016-17	FY 2017-18

Clarification on calculation of Net Worth:

- Consider stand-alone financial statements of the NBFCs as on 31st March 2016 or the first audited FS for accounting period which ends after that date;
- not in existence on 31st March 2016 or an existing NBFC falling first time
  - Consider SFS ending after that date, in respect of which it meets the thresholds.

Example:

NBFC meeting threshold for the first time as on	Ind AS applicable for FY
31st Mar, 2019	FY 2019-20 onwards
31st Mar, 2020	FY 2020-21 onwards

Voluntary application of Ind AS is not permitted for NBFCs.

Application of Ind AS to non-finance companies whose parent / subsidiary or associate or joint venture is a NBFC:

Standalone FS:

companies shall apply AS or Ind AS on the basis of respective standard applicable to them.

Preparation of Consolidated Financial Statements:

Parent Company	Its subsidiaries, associates and joint ventures (S/A/JV)	Required to provide FS data by S/A/JV (for consolidation purposes) in accordance with
NBFC → AS	Non-finance company → Ind AS	Accounting policies followed by the parent company i.e in line with AS
Non-finance company → Ind AS	NBFC	Accounting policies followed by the parent company i.e in line with Ind AS

9.4 Applicability of Ind As for Banking and Insurance Companies

- As per the Companies (Ind AS) (Amendment) Rules, 2016 → as notified by the RBI and Insurance Regulatory Development Authority (IRDA) respectively.
- As the same are yet to be notified, Ind AS is not applicable to Banking and Insurance Companies presently.
- Shall not be allowed to voluntarily adopt Ind AS.
- Ind AS compliant FS for the purpose of preparation of CFS by its parent/investor, as required by the parent to comply with the existing requirements of law.

9.5 Applicability of Ind As for Mutual Funds

- As per regulatory framework for operating and functioning of MFs by SEBI (MF) Regulations, 1996
- On 25 January 2022, SEBI (Mutual Funds) (Amendment) Regulations, 2022 notifies
  - FS and accounts of MF schemes will be prepared in accordance with Ind AS.
- Circular (dated 4 February 2022) provides
  - certain guidelines on accounting with respect to Ind AS for MFs.
  - specific formats of the FS to be prepared for the MF schemes under Ind AS
  - Applicable from 1 April 2023.



10 IND AS Relevant Statutory provisions

10.1 Relevant sections referring to Ind AS in the Companies Act, 2013 and rules

Ind AS

- initially notified under the Companies (Ind AS) Rules, 2015.
- Post that it includes the amendments / changes in the Ind AS.

Following are provisions of the Companies Act 2013, which gives reference to Ind AS:	
Section	States / suggests
Sec 133	CG may prescribe the standards of accounting or any addendum thereto, ➢ as recommended by the ICAI, constituted under section 3 of the CA Act, 1949 (38 of 1949), ➢ in consultation with and after examination of the recommendations made by the NFRA. Under the power given to the CG under section 133 → notified the Companies (Ind AS) Rules, 2015.
Sec 129	FS shall give a true and fair view of the state of affairs of the company or companies, comply with the AS notified under sec 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III
Sec 134 (5)	Statement that the applicable AS had been followed with proper explanation relating to material departures shall be given in the Director Responsibility statement - to be issued under sec 134 (3) (c) in the Director's report to be published in AGM
Sec 143	auditor has to opine whether the FS comply with the AS
Sec 230	Power to compromise or make arrangements with creditors and members and Sec 232 – Merger and amalgamation of Companies, the scheme of compromise or arrangement is to be sanctioned by the tribunal - only after obtaining a certificate from the company's auditor that the accounting treatment given proposed in the scheme of compromise or arrangement is in conformity with the AS mentioned in Sec 133.
Sec 66	Reduction of Share Capital, which states that no application for reduction of share capital shall be sanctioned by the Tribunal - unless the accounting treatment, proposed by the company for such reduction is in conformity with the AS specified in sec133 or any other provision of this Act and - a certificate to that effect by the company's auditor has been filed with the Tribunal.

10.2 Relevant SEBI Rules and Regulations

- Circular dated 30th November 2015 provides
  - ➢ Format for publishing quarterly FS.
  - ➢ Point 5 of the circular clarified that Companies adopting the Ind AS in terms of Companies (Ind AS) Rules, 2015 notified by the MCA on 16th Feb, 2015 while publishing quarterly / annual financial results under Regulation 33 of the Listing Regulations, 2015,
    - shall ensure that the comparatives filed along with such quarterly/annual financial results are also Ind AS compliant.
- Disclosures in offer documents under SEBI (ICDR) Regulations, 2018 → The applicability of Ind AS for financial information (last 3 years financials - year wise)

- Revised formats for financial results and implementation of Ind AS by Listed Entities applicable for period ending on or after 31st Marcy 2017.

11 Format of Division II to Schedule III to the companies Act – Structure

11.1 Schedule III to the Companies Act, 2013

- ➢ notified on 29th August



- Format of FS for every company registered under the Act

Financial Statements as defined under Companies Act, 2013 include
- Balance Sheet,
- Statement of Changes in Equity for the period if applicable,
- the Statement of Profit and Loss for the period,
- Cash flow statement for the period and
- Notes.

11.2 'Division II' to Schedule III

'Division II' – 'Ind AS Schedule III' → Newly inserted to Schedule III

- gives a format of FS for companies that are required to comply with the Companies (Ind AS Rules, 2015, as amended from time to time.
- would apply while preparing its first and subsequent Ind AS Financial Statements
- Non-applicability
  - any insurance or banking company or to any other class of company for which a form of BS and P&L has been specified in or under any other Act governing such class of company
  - NBFCs that adopt Ind AS of Companies (Ind AS) Rules, 2015 notified in Companies (Ind As) (Amendment) Rules, 2016 as amended from time to time.

'Division II' – 'Ind AS Schedule III' is divided into following three parts:		
Part I	Part II	Part III
Format of ○ Balance Sheet and ○ Statement of Changes in Equity and ○ notes related to them	Format of ○ Statement of Profit and Loss and ○ notes related to it	General Instructions for preparation of CFS

12 Guidance note on Division II to Schedule III to the Companies act, 2013

Guidance Note on Division II to Schedule III to the Companies act, 2013

- Latest → issued in January, 2022
- Aims
  - to provide guidance and
  - to deal with practical issues that may arise in implementation of Amended Division-II to Schedule III to the Companies Act, 2013

Following are the some of key guidance stated in guidance note, read in conjunction with Guidance Note issued on the subject:

12.1 Property, Plant and Equipment:

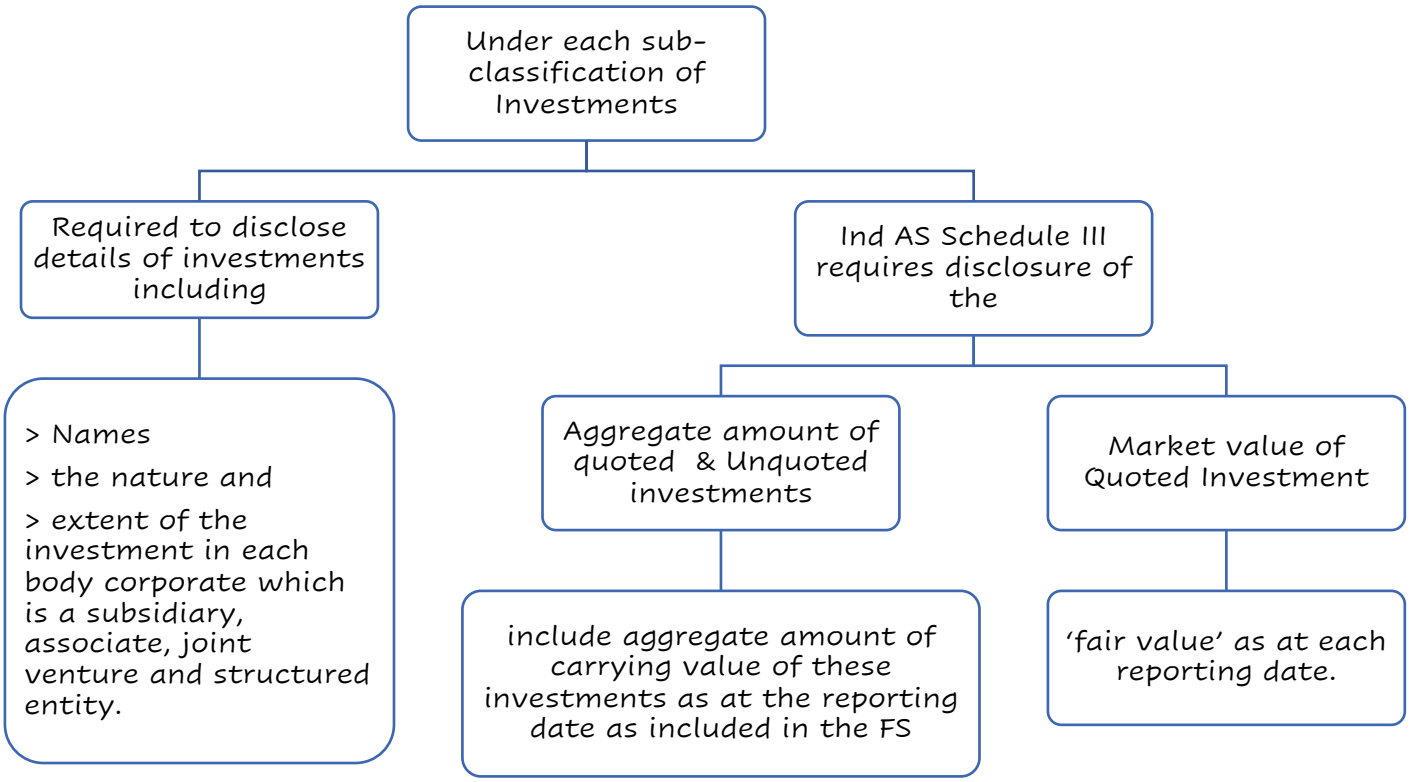
Land and Building		
Under the Ind AS Schedule III	paragraph 37 of Ind AS 16	Conclusion
presented as two separate classes of PPE	- grouping land and building under same class for revaluation purposes - states that a class of PPE is a grouping of assets of a similar nature and use in an entity's operations	present land and building separately as given in Ind AS Schedule III & such presentation needs to be followed consistently

Note: As per Ind AS Schedule III,

- capital advances/ advances for purchase of capital assets
  - should be included under other non- current assets
  - Not under capital work-in-progress



12.2 Non-current Investment:



In some cases the company may determine that the quoted price may not be fair value (for e.g due to reduction in volume). In such case, quote value would be disclosed as per Sch III even though the same may not be representative of Fair value.

As per Ind AS Schedule III, aggregate amount for impairment in value of investments should be disclosed separately. Investment in partnership firm would be disclosed separately. LLP investments would be clubbed with other investments.

Note: Any application money paid towards securities, where security has not been allotted on the date of the Balance Sheet, shall be disclosed as a separate line item under 'other non-current financial assets'. In case the investment is of current investment in nature, such share application money shall be accordingly, disclosed under other current financial assets

12.3 Trade Receivables:

A Receivable

classified as 'Trade Receivable', If it is

due on account of goods sold or services rendered in the normal course of business and

company has a right to an amount of consideration that is unconditional (Requires only passage of time)

Note: Amounts due, other than arising out of sale of goods or rendering of services → cannot be included within Trade Receivables. These are classified as other financial assets. For e.g insurance claims.

Amounts due under contractual rights

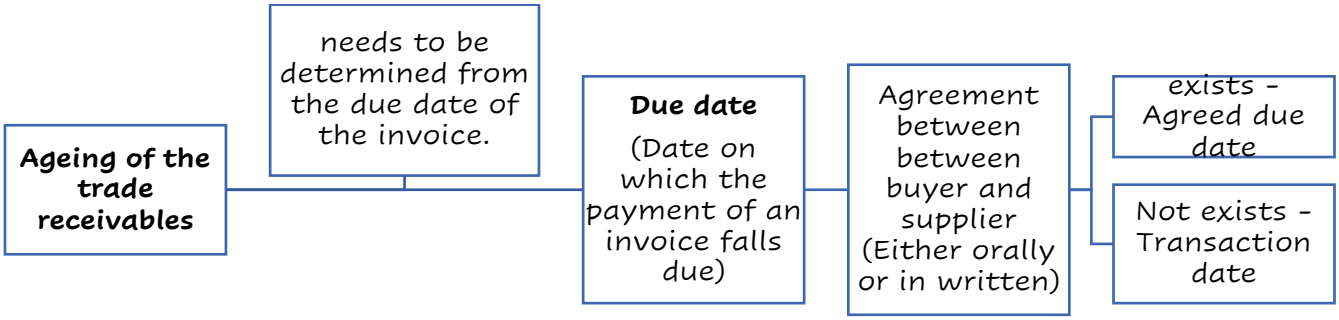
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classified as "other financial assets" and disclosed nature-wise

↓

Eg: insurance claims, sale of Property, Plant and Equipment, contractually reimbursable expenses, etc





Schedule III:

- Schedule III requires split of trade receivables between 'disputed' and 'undisputed'
- Dispute means disagreement between two parties demonstrated by some positive evidence which supports or corroborates the fact of disagreement
- It should be considered while assessing the credit risk associated with respective party while computing the impairment loss.

12.4 Other Non-Current Financial Assets

Finance lease receivables	
Ind AS Schedule III	Guidance note
does not specify about its presentation	Clarifies the presentation finance lease receivable ➢ Its Non - current portion under 'Other non - current financial assets' ➢ Its Current portion under 'Other current financial assets'.

12.5 Current Assets

As per Ind AS Schedule III

- all items of assets and liabilities are to be bifurcated between current and non-current portions.
- Some items presented under the "non-current, may not have a corresponding "current" head under the format given in Ind AS Schedule III.

Since Ind AS Schedule III permits the use of additional line items → in such cases classified under the "Current" category as a separate line item and other relevant disclosures should be made.

12.6 Cash and Cash Equivalents

Cash and cash equivalents	
Ind AS Schedule III	Ind AS 7
not defined	Cash is defined to include cash on hand and demand deposits with banks.

Cash Equivalents are defined as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

As per para 8 of Ind AS 7

- where bank overdrafts which are repayable on demand form an integral part of an entity's cash management
- bank overdrafts are included as a component of cash and cash equivalents.
- A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

Bank overdraft

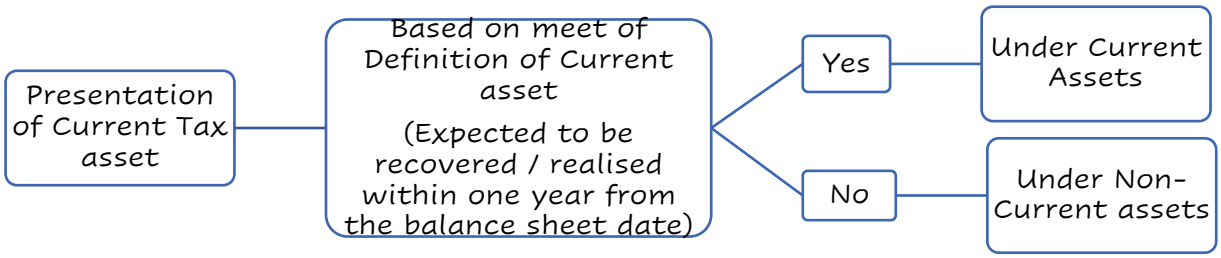
- It is not appropriate to include bank overdraft as a component of cash and cash equivalents for the purpose of presentation in the balance sheet, unless the offset conditions as given in paragraph 42 of Ind AS 32 are complied with.



- Bank overdraft, in the balance sheet, should be included as 'borrowings' under Financial Liabilities.

12.7 Current Tax Assets

Current Tax Asset (Excess Tax Paid) = Tax amount paid (Current & prior period) − Taxdue for those periods



12.8 Equity Share Capital

The accounting definition of 'Equity' is principle based as compared to the legal definition of 'Equity' or 'Share', such that any contract that evidences residual interest in an entity's net asset is termed as 'Equity' irrespective of whether it is legally recognized as a 'Share' or not.

Note:

- All instruments (including convertible preference shares and convertible debentures) → considered as 'Equity' for the purpose of Ind AS Schedule III & termed as 'Instruments entirely equity in nature', If that
  - meet the definition of 'Equity' as per Ind AS 32 in its entirety and
  - when they do not have any component of liability

12.9 Borrowings

- "Term loan" not defined in the Schedule III, normally have a fixed or pre-determined maturity period or a repayment schedule.
- Terms of repayment of term loans (unless the repayment terms of individual loans within a category are similar, in which case, they may be aggregated) and other loans (all categories listed under the heading 'Non – Current borrowings' as per Ind AS Schedule III) shall be disclosed.
- Ind AS Schedule III
  - Long-term debt - borrowing having a period of more than twelve months at the time of origination.
  - Current maturities of long-term debt
    - The portion of non-current borrowings, which is due for payments within twelve months of the reporting date is required to be classified under "current borrowings" while the balance amount should be classified under non-current borrowings.

12.10 Trade Payable

- Amount due on account of goods purchased or services received in the normal course of business → 'Trade payable'
- Amount due under contractual obligations or which are statutory payables → Not Trade Payables. (Eg: statutory obligations like contribution to provident fund or contractual obligations like contractually reimbursable expenses, amounts due towards purchase of capital goods, etc)

12.11 Current Borrowings

- Loans payable within a period of 12 months from the date of the loan & Loans payable on demand → treated as Current borrowings.
- the period and the amount of defaults of such loans are existing as at the date of the Balance Sheet should be disclosed (item-wise).



- In addition to Ind AS Schedule III requirements for presenting 'current maturities of long-term borrowings' under current borrowings → Companies shall provide the amount of non-current as well as current portion for each of the respective category of non-current borrowings either by way of a note or a schedule or a cross- reference, as appropriate.

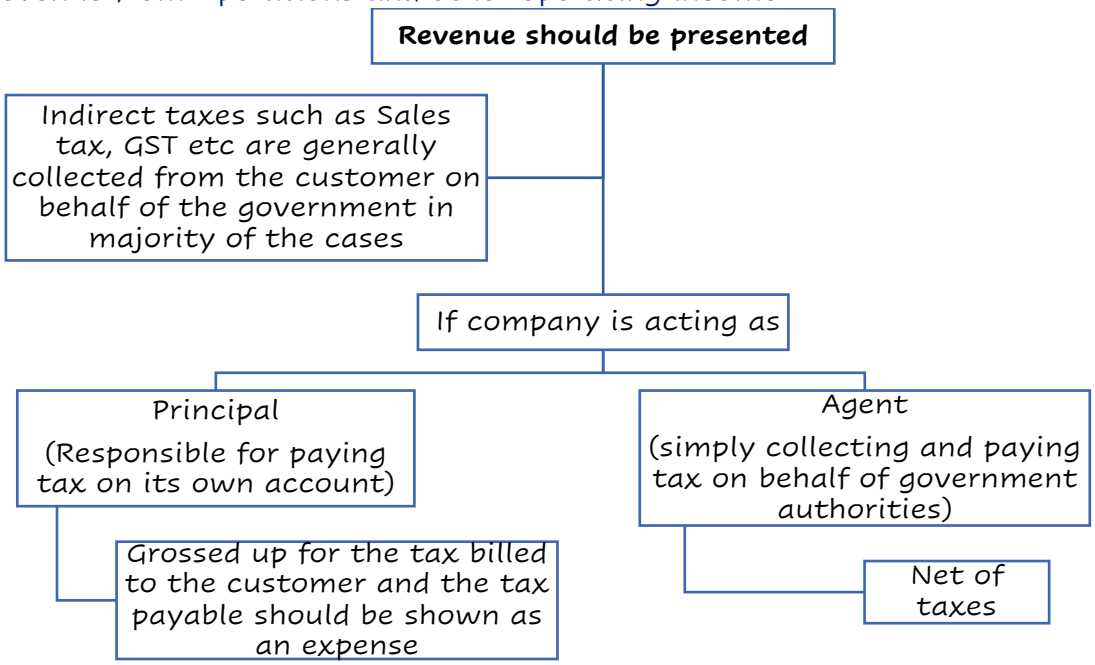
12.12 Other Current Liabilities

- Trade Deposits and Security Deposits, which do not meet the definition of financial liabilities, should be classified as 'Others' grouped under this head.
- Others may also include liabilities in the nature of statutory dues such as Withholding taxes, Service Tax, VAT, Excise Duty, Goods and Services Tax (GST), etc.

12.13 Contingent Liabilities and Commitments

- A contingent liability in respect of guarantees arises when a company issue guarantees to another person on behalf of a third party
  E.g. when it undertakes to guarantee the loan given to a subsidiary or to another company or gives a guarantee that another company will perform its contractual obligations.
- However, where a company undertakes to perform its own obligations, and for this purpose issues, what is called a "guarantee", it does not represent a contingent liability and it is misleading to show such items as contingent liabilities in the Balance Sheet.
  - For various reasons, it is customary for guarantees to be issued by Bankers e.g. for payment of insurance premium, deferred payments to foreign suppliers, letters of credit, etc.
  - For this purpose, the company issues a "counter-guarantee" to its Bankers.
    - Such "counter-guarantee" is not really a guarantee at all
    - but is an undertaking to perform what is in any event the obligation of the company, namely, to pay the insurance premium when demanded or to make deferred payments when due.
- Hence, such performance guarantees and counter guarantees should not be disclosed as contingent liabilities.

12.14 Revenue from Operations and other operating income



- "Other operating revenue" is not defined, but include
  - Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities,
  - but not revenue arising from sale of products or rendering of services.
- "other operating revenue" or "other income" is to be decided based on
  - the facts of each case and
  - detailed understanding of the company's activities.



12.15 Exceptional Items

- The term 'Exceptional items' is neither defined in Ind AS Schedule III nor in Ind AS.
- However, Ind AS 1 has reference to such items.
- An entity considers factors including materiality and the nature and function of the items of income and expense. It indicates circumstances that would give rise to the separate disclosures of items of income and expenses and include:
    - Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
    - restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
    - disposals of items of property, plant and equipment;
    - disposals of investments;
    - discontinued operations;
    - litigation settlements; and
    - other reversals of provisions.



Ind AS 2
INVENTORIES

1. Introduction

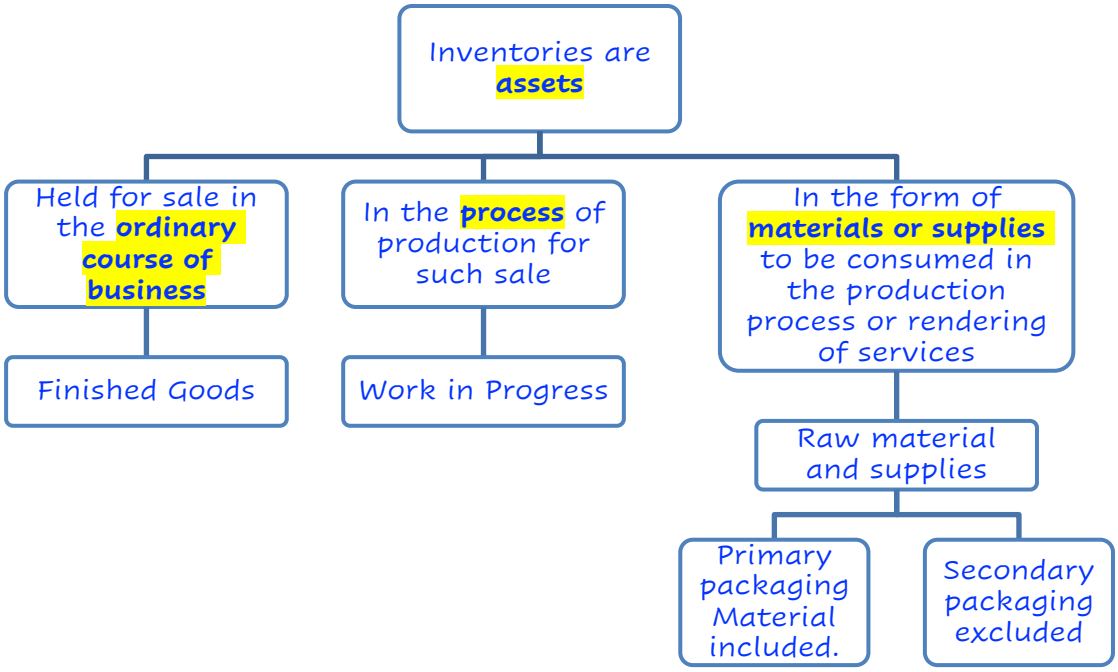
1.1 Scope

Standard applies to all inventories ***except***

(a)	Financial Instruments	IndAS 109
(b)	Biological Assets related to Agricultural activity & Agricultural Produce at the point of Harvest. **Note : Produce post harvest will be covered under IndAS-2 and cost for Ind AS 2 will be the value determined as per IndAS-41**	IndAS 41
(c)	**Measurement** of inventories held by - Producers of agricultural & forest products, minerals etc to the extent meausred at NRV in line with industry practice - Commodity broker-traders who measure inventories at FV less cost to sell	Recognition and disclosures criteria applies

2. Definitions

2.1 Inventories



2.2 Fair Value (More discussion in Ind AS 113)

Fair value is the **price that would be received to sell an asset** or **paid to transfer a liability** in an orderly transaction between market participants at the measurement date. FV may not be equal to Net Realisable Value.

3. Measurement

📌**Golden Rule – Inventories are measured at lower of cost and net realisable**



3.1 Cost of Inventories

PARTICULARS		AMOUNT
Cost of Purchases		
Purchase Price	10,000	
(+) Import duties & other taxes (non refundable)	2,000	
(+)Transport & handling charges	1,000	
(+) Other Costs to bring the inventory to present location & condition	500	
(-)Trade discounts, rebates & other similar items	(400)	
Cost of Direct Material		13,100
Cost of Conversion		
(+) Direct labour	5,000	
(+) Other direct costs	1,000	
(+) Overheads (Fixed* as well as variable overheads)	500	6,500
Other Costs		
Costs incurred to bring the inventories to their present location & condition	-	
(+) Borrowing Cost under Ind AS 23	300	300
Cost of Inventory		19,900

💡 **Note :**

1. If GST input is available, it does not form part of cost.
2. Cash discount is not deducted only Trade discount is deducted
3. If Inventory is acquired on deferred payment beyond normal credit terms, the excess is accounted as interest cost under Ind AS 23

3.2 Costs to be excluded

Category of Cost	Reason for Exclusion	Example
Abnormal wastage	These are not expected under normal operating conditions and do not enhance the value of inventory.	Wastage due to machine breakdown or human error
Storage costs	Excluded unless they are necessary in the production process.	Warehouse rent (except for wine aging)
Administrative overheads (non-production)	Indirect costs that do not help bring inventory to its current location and condition.	Office staff salaries, audit fees
Selling costs	Selling costs are incurred after production and do not relate to the inventory valuation.	Advertisement, sales commission
Distribution costs	These are related to delivery or logistics post-production, not to the creation of inventory.	Freight to customer, logistics charges

Examples of costs to be included / excluded

Included	Excluded
Handling costs related to imports	Trade discounts
Import duties	Salaries of accounting department
Cost of purchases	Sales commissions
Freight expenses	Warranty costs
Insurance on purchases	
Brokerage commission paid to indenting agents	



3.3 Overhead

Fixed overhead is allocated based on predetermined overhead recovery rate (ORR) computed as below.

$$\text{Pre Determined ORR} = \frac{\text{Budgeted Fixed OH}}{\text{Planned or Normal Production}}$$

Is Actual Production > Planned Production	Treatment
Yes	Recompute ORR
No	Use pre determined ORR

Example. – Fixed Production Overhead is estimated at Rs. 10,00,000 and Normal Planned Capacity is 20,000 Units.
Predetermined Fixed Overhead Recovery Rate per unit = Rs. 10,00,000 / 20,000 = Rs. 50 per unit

Scenario	I	II	III
Actual Production	15,000	20,000	25,000
Revise ORR	No	No	Yes
Rate to be used	Rs. 50	Rs. 50	**Rs. 40**

3.4 Net Realisable Value

Estimated Selling Price (In ord course of business)	20,000
(-) Estimated costs to complete (For WIPs)	(1,000)
(-) Estimated Costs to Sell (e.g sales commission)	(1,500)
Net Realisable Value	17,500

Value of Inventory = Lower of Cost and NRV i.e. Rs. 17,500

Note

- NRV is entity specific value wheras FV is market based mesaurement.
- Estimates of NRV should be based on **most reliable evidence available**.
- **Events occuring after balance sheet should be considered** to the extent they provide additional evidence of events existing on balance sheet date.
- **Price reductions in future should not be considered** to determine NRV.
- If inventory is held for a **firm contract to sell, the contracted price can be an evidence** of NRV.
- Expected **trade discounts would be reduced** to determine NRV. However, cash discounts would not be reduced.

Write down of inventories should be done on an item to item basis and not on global basis.

3.5 Joint Products & By Products

- **Definition**: Two or more products that are produced simultaneously from a **common process and common input**, where **each product has significant economic value**.
- **Example:** Crude oil refining results in **Petrol, Diesel, and Gas** — all are valuable joint products.

Allocation of Joint Costs:

- Joint costs are allocated **at the split-off point**.
- **Based on**
  - **Relative Sales Value** at the split-off point.
  - If not available, use **Net Realisable Value (NRV)**:

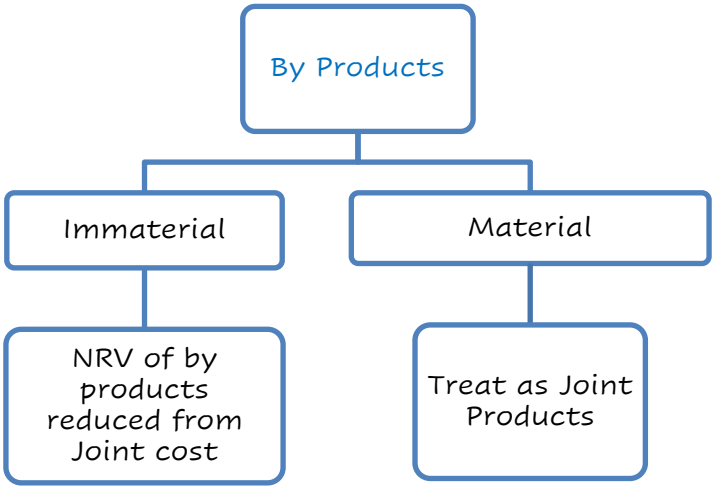


NRV=Final Selling Price–Further Processing Costs–Selling Expenses

By-Products

- **Definition:** Products that are also generated from a joint process but are of **low or insignificant value**, often considered **scrap**.
- **Example:** Molasses from sugar production, sawdust from timber processing.

Treatment of NRV of by products -

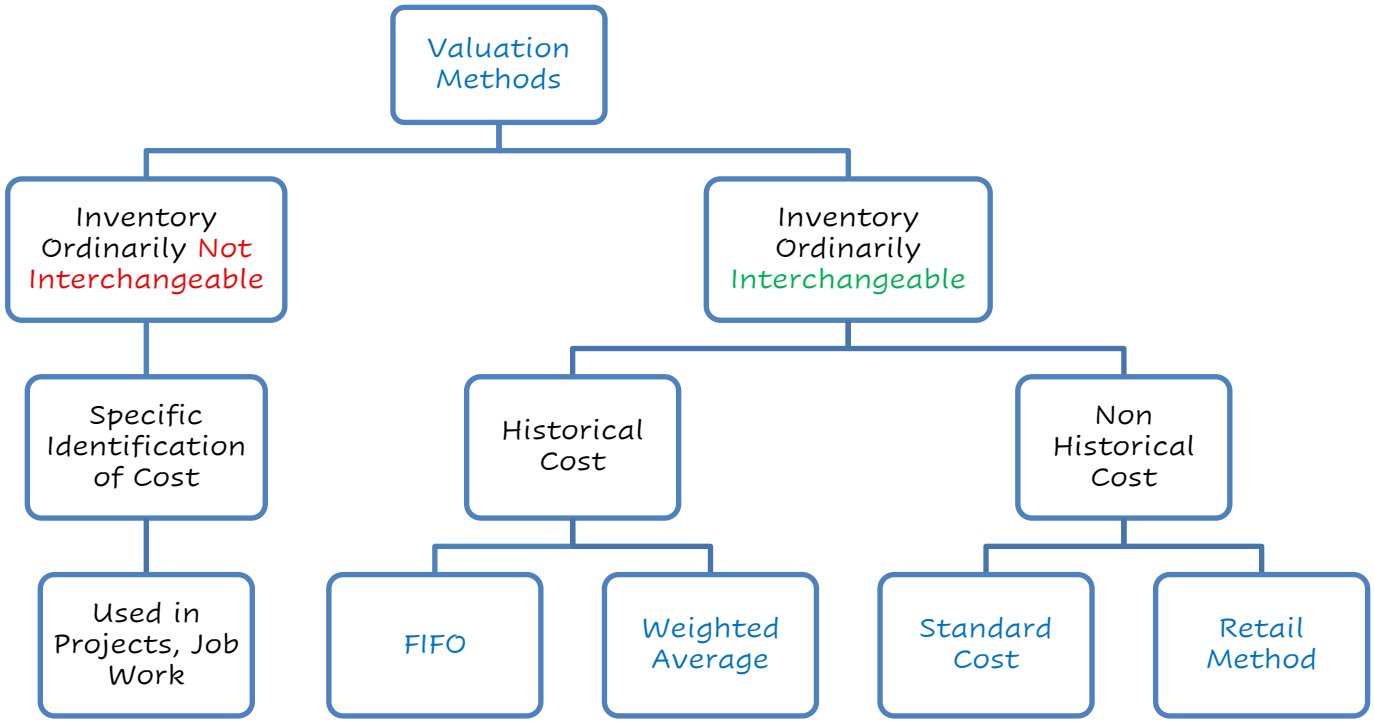


3.6 Cost measurement techniques

The following techniques may be used to approximate the cost of inventory.

Retail Method	Standard Cost Method
Cost of Inventory = Expected Sales Value (-) Normal Gross Profit Margin	Standard cost is set considering standard usage of - Material - Labour - Overhead - Capacity utilisation

3.7 Cost Formula





An entity shall use **same cost formula** for all inventories having a similar nature and use to the entity **even if located at different geographical locations**.
For inventories with a different use , different cost formula can be used.

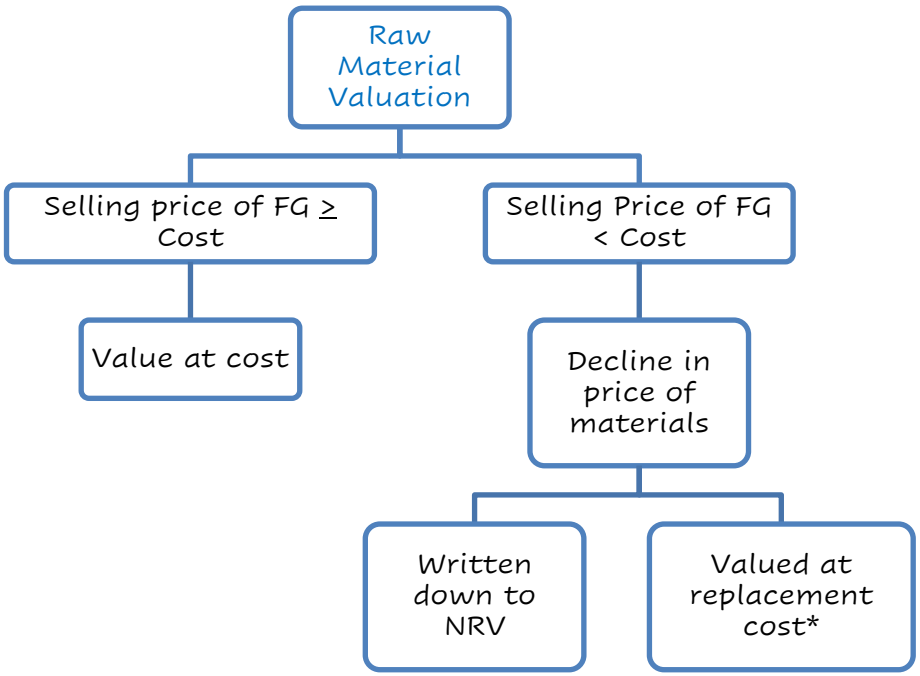
3.7.1 FIFO Method

- Assumption of cost flow : Inventory purchased first is sold first.
- Goods in Inventory are valued using the latest rates

3.7.2 Weighted Average Rate

- Cost is determined using a weighted average rate of goods received.
- The weighted average can be a periodic weighted average or a moving weighted average.

3.8 Raw Material Valuation – Generally valued at cost.



If Cost is lower than Replacement cost, raw material is valued at cost only.

4. Recognition of Expenses

Expense charged to P&L =
Carrying amount of inventories sold
+ write down of inventories
– reversals of write down.

The cost of some inventories may be allocated to other asset accounts. For example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset are recognised as an expense during the useful life of that asset through charging of depreciation on that asset (Ind AS 16)

5. Important Points

Agricultural produce	Valued as per Ind AS 41 at FV less cost to sell and the value becomes cost for the purpose of Ind AS 2
Firm Selling Contract	Consider Firm Selling Contract to determine NRV
Core Inventory – recoverable	Ind AS 2 – Inventory
Core Inventory – irrecoverable	Ind AS 16 – PPE
Pre payment	Record at cash price equivalent



Cost of transportation from plant to depot (if necessary to be ready for sale)	Form part of inventory
Publicity Material	Considered as part of selling cost and not inventory

6. Disclosures

Accounting policies including cost formula used.

- Analysis of carrying amount of inventory & carrying amount in classifications appropriate to the entity
- Carrying amount of inventories carried at fair value less cost to sell
- Carrying amount of inventories pledged as security
- Amounts recognised in profit or loss
    - Recognised as expense
    - Write down of inventory
    - Reversals of write down

7. IndAS 2 vs AS 2

There are no significant differences between the two standards

- IndAS 2 deals with recognition of expenses which is not dealt by AS-2
- AS 2 deals with treatment of spare parts
- Ind AS 2 is not applicable to inventories of brokers/traders
- IndAS 2 covers concept of Fair value which is not covered by AS-2
- Ind AS 2 provides guidance on subsequent reassment of NRV which is not provided by AS 2
- Agricultural produce are excluded from measurement aspects under IndAS-2. Under AS-2 these are fully excluded
- Ind AS 2 requires the use of consistent cost formula for all inventories having a similar nature and use to the entity. AS 2 provides that the formula used in determining cost of an inventory should reflect the fairest possible approximation of cost.



Ind AS 16
PROPERTY, PLANT AND EQUIPMENT

What will you learn?

Scope & Definitions	*Replacement of parts**
Recognition	*Depreciation*
Initial & Subsequent Measurement	*Decommissioning Cost**
*Acquired, Self constructed & Exchanged PPE**	*Disposal & Derecognition*
*Cost & Revaluation Model**	*Disclosures*

1. Introduction

1.1 Scope

This standard does NOT deal with the following.

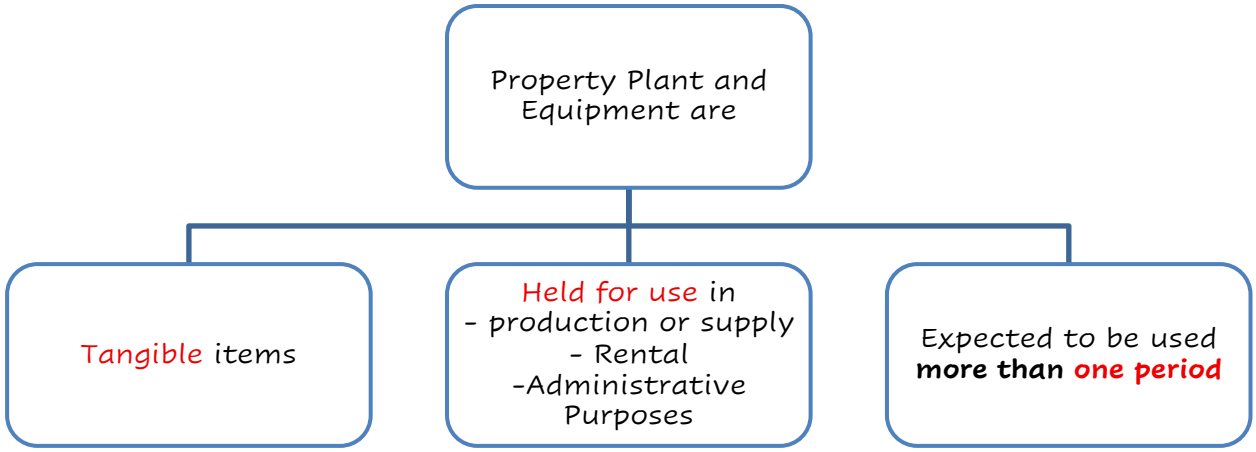
(a)	PPE classified **as held for sale**	Dealt as per **Ind AS 105**
(b)	**Biological assets** related to agricultural activity other than bearer plants	Dealt as per **Ind AS 41**
(c)	Recognition and measurement of **exploration and evaluation assets**	Dealt as per **Ind AS 106**
(d)	**Mineral rights and mineral reserves** such as oil, natural gas and similar non-regenerative resources	**No Ind AS exists**. Industry rules and regulations are followed.

This Standard applies to property, plant and equipment used to **develop or maintain** the assets described in (b)–(d).

Investment property under Ind AS 40 shall use the cost model under this standard for owned investment property.

2. Definitions

2.1 Property, Plant and Equipment



2.2 Bearer Plant

Bearer plant is a living plant that

(a) Is used in the **production/supply of agricultural produce**

(b) Is expected to **bear produce** for more than **one period**

(c) Has a **remote likelihood** of being sold as an **agricultural produce**, except for incidental scrap sales.



2.3 Carrying Amount

Gross Book Value	xxx
(-) Accumulated Depreciation	xxx
(-) Accumulated Impairment Loss	xxx
Carrying Amount	**xxx**



3. Recognition

The cost of an item of PPE would be **recognised as an asset**, if and only if,

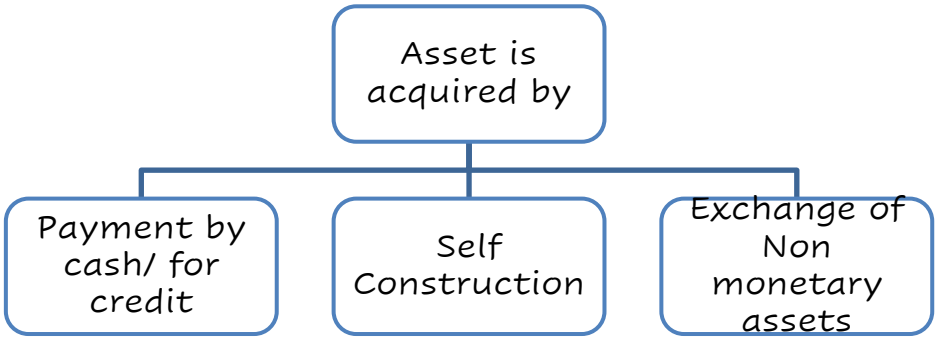
a. It is probable that **future economic benefits** [FEB] associated with the item will flow to the entity
b. The **cost** of item can be **measured reliably.**

! Important Points

Spare parts, stand-by equipment, and servicing equipment	**If recognition criteria met – PPE** **If recognition criteria not met - Inventory**
Individually insignificant items (moulds, tools and dies)	May be aggregated
Assets acquired for safety or environmental reasons (e.g. pollution control equipment)	Recognised as PPE since they give indirect benefit [Other assets cannot be operated if Environmental norms are not fulfilled]

4. Measurement at Recognition

An item PPE that qualifies for recognition as an asset should **be initially measured at its cost.**



4.1 If asset is purchased by payment of cash or credit.

The cost of an item of PPE comprises

Purchase Price	xxx
Add:	
Non-refundable taxes and duties (e.g import duty, entry tax)	xxx
Initial delivery and handling charges	xxx
Cost of site preparation	xxx
Installation & Assembly costs	xxx
Professional Fees	xxx
Borrowing costs (If permitted by Ind AS 23)	xxx
Costs of testing – Net Sale Proceeds *If net sale proceeds is greater than cost of testing, the amount is deducted from the cost.	xxx
Present Value of Decommissioning, restoration costs (In accordance with Ind AS 37)	xxx
Any directly attributable cost to bring the asset to the location and condition, necessary to **operate for its purpose intended** by the management	xxx
Less:	
Government grant received specific to the asset (Ind AS 20)	xxx
Trade discounts and rebates (If included in above costs)	xxx
Cost of PPE to be capitalised	**xxxx**



Exclusions from Cost of PPE

(a) Costs of conducting business in a new location or with a new class of customer (including costs of staff training)
(b) Costs incurred in introducing a new product or service.
(c) Cost of opening a new facility (Inauguration expenses)
(d) Administrative and other general overhead costs

4.2 Self – Constructed PPE

The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

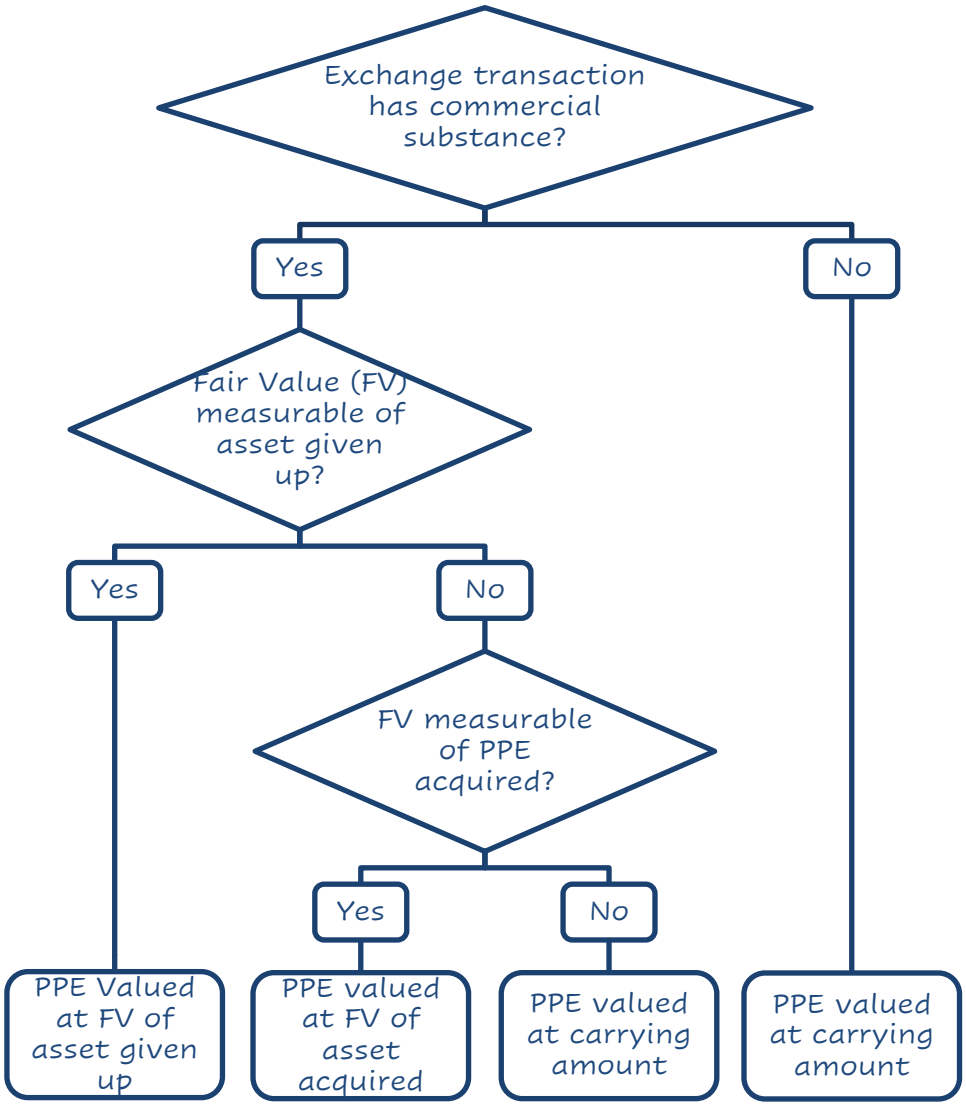
Inclusions:

- **Costs of construction** that directly relate to the specific assets
- Costs that can be **attributable or allocated** to the construction activity.
- **Borrowing costs** if PPE is a qualifying asset as per Ind AS 23

Exclusions:

- Internal profits (Always take cost of construction and not sale price)
- The cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset.

4.3 PPE is acquired by exchange of non-monetary assets



Examination Note : PPE is measured at

(a) Fair value of asset given up **(1st Preference)**



(b) Fair value of asset received

If both are available, consider whichever is more clearly evident.

If above conditions are not satisfied, PPE is measured carrying amount of the asset given up.

Commercial Substance	Fair value of Asset
An exchange transaction has commercial substance if: (a) The risk, timing, and amount of the cash flows of the **asset received are significantly different** from the cash flows of the asset transferred. (b) There is a **significant effect on the present value of the after tax cash flows** that an entity expects to arise from the continuing use and disposal of the asset due to exchange transaction.	The fair value of an asset is reliably measurable if: a) The **variability** in the range of reasonable fair value measurements is not significant for that asset b) The probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value.

4.4 Cost of Bearer Plants

All the cost of activities necessary to **cultivate the bearer plants** before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Costs incurred in using or redeploying an item are not included in the carrying amount of that item

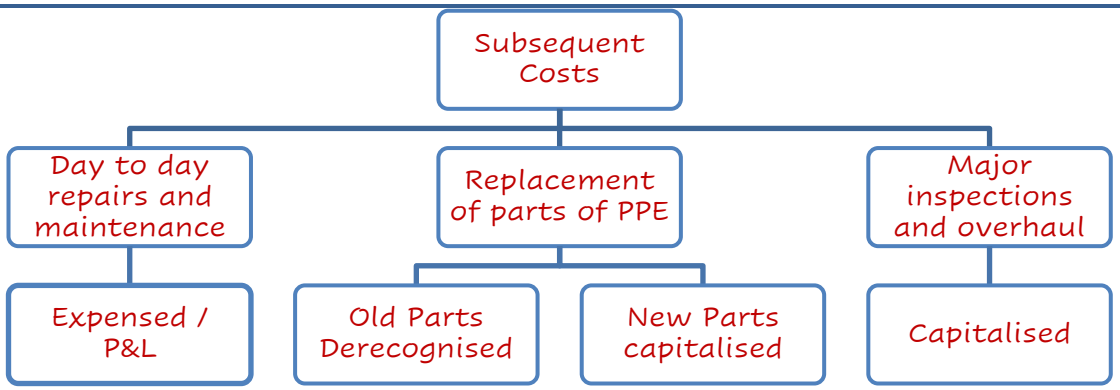
5. Cessation of Capitalisation

Recognition of costs to carrying amount of PPE ceases when the item is in the

- location and
- condition
- necessary for it to be capable of operating in the manner
- intended by management.

For Example, Initial operating losses, cost of relocating or reorganising entity's operations are not included in the cost of PPE.

6. Subsequent Costs



6.1 Replacement of parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

For e.g. Seats of Aircraft. The carrying amount of those parts that are replaced should be derecognised.

Entity should capitalise the cost of replacement as a component of PPE and depreciate such cost over its useful life.

6.2 Major Inspections or overhauls

A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing **regular major inspections for faults regardless of whether parts of the item are replaced.**

- For Each major inspection :
  - **Cost of major inspection is recognised as a part of PPE**
  - **Carrying amount of previous inspection is derecognised.**
- Cost is recognised even if it was not recognised in original transaction

Note : In a question, assume that the original cost paid for purchasing the asset includes the amount of major inspection or overhaul and accordingly split the cost for depreciation. Future estimates can be considered for determining the amounts.

7. Deferred credit period

- The cost of an item of property, plant and equipment is **the cash price equivalent at the recognition date.**
- The **difference between the cash price equivalent and the total payment is recognised as interest** over the period of credit unless such interest is capitalised in accordance with Ind AS 23.

8. Depreciation

The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

Historical cost/ Revalued Amount	xxx
Less: Estimated residual value	xx
Depreciable Amount	**xxx**

The depreciation charge for each period should be recognised in the statement of profit and loss unless it is included in the carrying amount of another asset.

Commencement of Depreciation	**When the asset is available to use.** i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.
Cessation of Depreciation	Ceases at the **earliest** of (a) The asset is classified as held for sale or included in disposal group (As per Ind AS 105) (b) Date on which the asset is derecognised.

Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.



8.1 Component Accounting for depreciation

An asset may consist of different and significant physical components.

If an item of PPE comprises

- two or more significant components,
- with substantially different useful lives, usage, or flow of economic benefits, then
- each component should be recognised and depreciated separately over its individual useful life.

For example in case of an aircraft the seats and engine are depreciated separately.

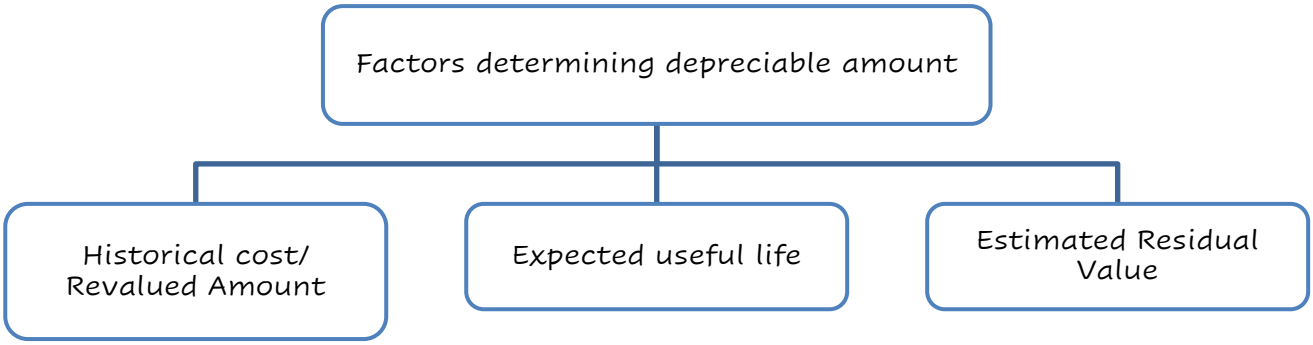
When significant component is replaced or restored, the old component is derecognised, and the cost of new component is capitalised.

> Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

Land & Buildings

- Land and buildings are separable assets and are **accounted for separately**, even when they are acquired together.
- If the cost of land includes the costs of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs.
- If land has a limited usfule life for the entity, it is depreciated over such useful life.

8.2 Factors Determining Depreciable Amount



Depreciable amount is determined based on the following three factors

(a) Historical cost/ Revalued Amount

(b) Expected useful life of the depreciable asset.

(c) Estimated residual value of the depreciable asset.

8.2.1 Useful life of an asset –

Useful life is

(a) the **period** over which an asset is expected to be available for use by an entity

(b) the **number of production** or similar units expected to be obtained from the asset by an entity.

Factors

- Expected **usage** of the asset.
- Expected **physical wear and tear** (Depends on operational factors)
- Technical or commercial **obsolescence** arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- **Legal or similar limits** on the use of the asset.



8.2.2 Residual Value

- It is an **estimated amount**, which can be recovered from the asset at the end of its useful life.
- Residual value is a **current estimate** based on similar assets which would have reached the end of their useful life.
- The estimation is made by the management at the time of acquisition.
- If the estimated residual value is insignificant, value is considered as NIL.
- **Residual value should be reviewed at least at the end of each FY. Any change is accounted for as change in estimates as per Ind AS 8 i.e Prospective depreciation.**

Residual value ≥ Carrying Amount	Depreciation = Nil
FV of Asset > Carrying Amount	Depreciation charged

8.3 Depreciation Method

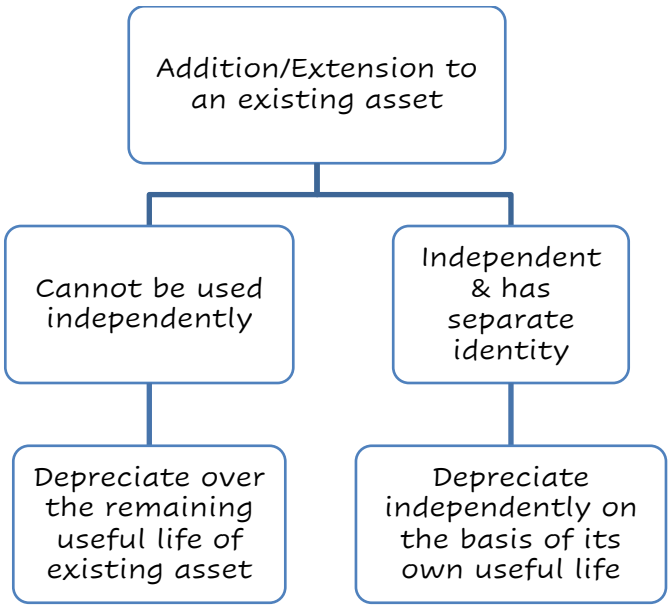
The depreciation method used shall **reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity**.

For Example:

Straight line depreciation	Constant charge over the useful life
Diminishing Balance Method	Decreasing charge over the useful life
Units of Production method	Charged based on expected use or output

- The management should consider **true & fair** view, **prudence**, **substance over form** and **materiality** while selecting depreciation method.
- Depreciation charge **can be zero** if the entity follows number of units production basis for depreciation and **if no production happens** in a particular year. (But needs to **test for impairment** as per Ind AS 36)
- Depreciation method should **not be based on** ratio of revenue as **revenue** generated depends upon demand, supply, inflation, sales volume, and prices.

8.4 Depreciation of an addition/ extension to an existing PPE



9. Impairment – Refer Ind AS 36

Entity must calculate the recoverable amount in accordance with Ind AS 36.

Compensation from third parties for items of PPE that were impaired, lost or given up

shall be included in profit or loss when the compensation becomes receivable.

10. Measurement After recognition

10.1 Cost Model

Initial Cost	xxx
(-) Accumulated Depreciation	xxx
(-) Accumulated Impairment Loss	xxx
Carrying Amount	**xxx**

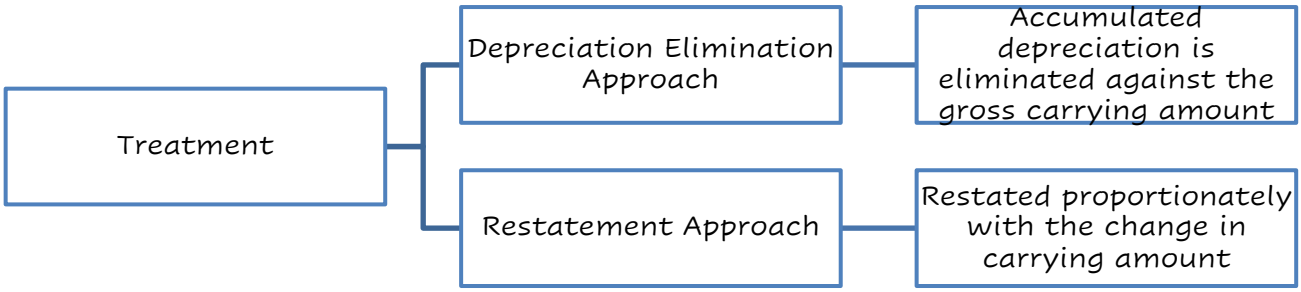
10.2 Revaluation Model

Fair Value at the date of revaluation	xxx
(-) Subsequent Accumulated Depreciation	xxx
(-) Subsequent Accumulated Impairment Loss	xxx
Carrying Amount	**xxx**

Frequency of revaluations

- Revaluations are required to be carried out with **sufficient regularity** to ensure that the carrying amount does not differ materially from fair value.
- The **frequency of revaluations depends upon the changes in fair values** of the items of property, plant and equipment being revalued.
- If PPE experience **significant and volatile changes in fair value, there must be annual revaluation.** Otherwise, it may be necessary to revalue the item only every three or five years.
-

Accumulated Depreciation at the date of revaluation



Limit on Revalued Amount –

The revalued amount should not be more than the recoverable amount (As per Ind AS 36)

Revaluation to be made for entire class of assets –

Revaluation should be performed for an **entire class of PPE.**

For Example: If the entity takes a decision to revalue its buildings, it should revalue all the buildings of the entity. i.e., revaluation of selective assets within a class is not permitted.

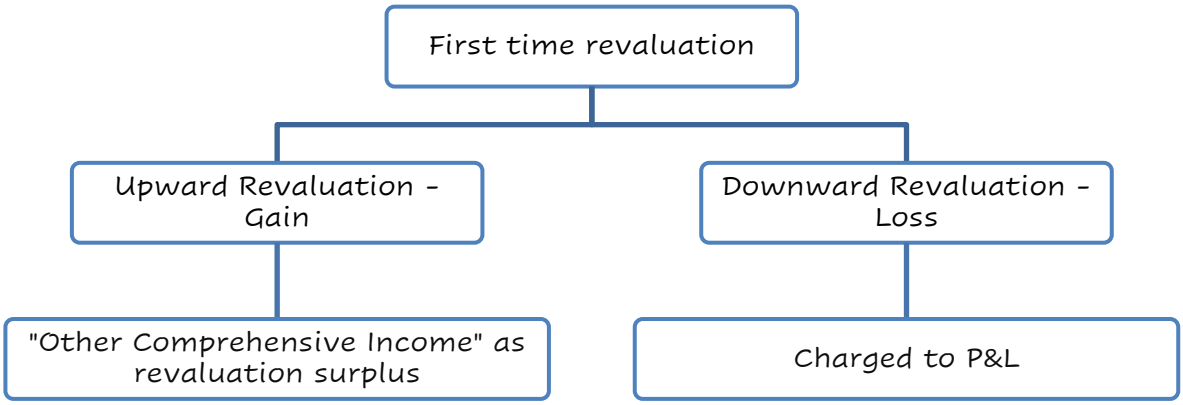
The entity can divide the PPE into classes based on the nature of items such as land, land and buildings, machinery, ships, aircraft, motor vehicles, furniture and fixtures, office equipment, bearer plants.

10.3 Revaluation Accounting

The entity can do revaluation any number of times and it can be upward or downward revaluation.



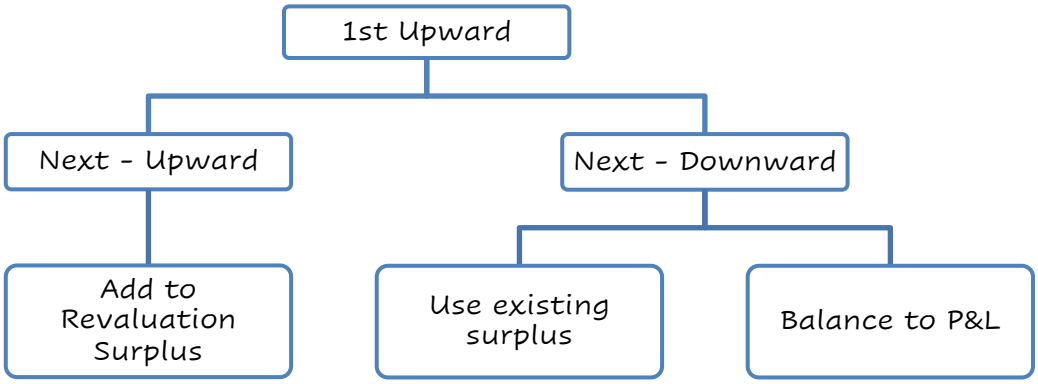
First Time Revaluation:



Upward Revaluation	PPE A/c To Revaluation Surplus A/c (OCI)	**Dr**
Downward Revaluation	Profit & Loss A/c To PPE A/c	**Dr**

Subsequent Revaluation:

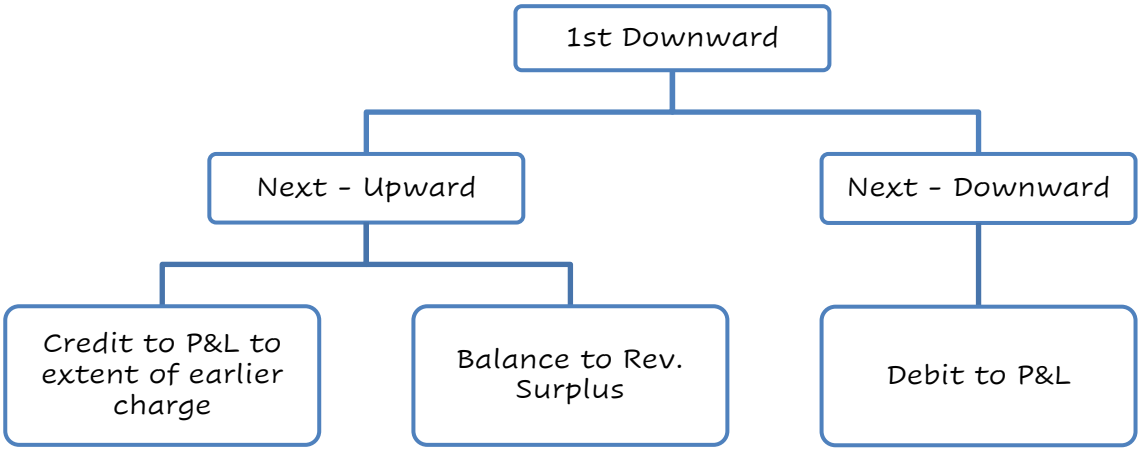
(a) If first time is upward revaluation



Subsequent upward revaluation	PPE A/c To Revaluation Surplus A/c (OCI)	**Dr**
Subsequent downward revaluation	Revaluation Surplus A/c Statement of Profit & Loss A/c To PPE A/c	**Dr** (OCI) **Dr** (Balancing Figure)

(Revaluation amount of same asset is to be utilised)

(b) If first time is downward revaluation



Subsequent upward revaluation	PPE A/c **Dr** To Profit & Loss A/c (To the extent charged earlier) To Revaluation surplus (balancing Figure) (OCI)
Subsequent downward revaluation	Profit and Loss A/c **Dr** To PPE A/c

Treatment of Revaluation Surplus:

Option 1	**Option 2**
The revaluation surplus may be transferred directly to retained earnings when the asset is derecognised.	The surplus may be trasnferred as the asset is used by an entity.
	Surplus = Depreciation based on the revalued carrying amount of the asset (-) Depreciation based on the asset's original cost
The revaluation surplus amount should not be transferred to P&L	

11. Derecognition

The carrying amount of an item of property, plant and equipment should be **derecognised**

(a) on **disposal**

(b) When **no future economic benefits** (FEB) are expected from its use or disposal.

Disposal Proceeds (Net)	Xxxxx
Less: Carrying Amount	Xxxx
Gain or (Loss) to be recognised in P&L	+ve : Gain / -ve : Loss

12. Disclosure

(i) The financial statements should disclose, **for each class** of property, plant, and equipment:

a. The **measurement bases** used for determining the gross carrying amount
b. The **depreciation methods** used
c. The **useful lives or the depreciation rates** used



d. The **gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses)** at the beginning and end of the period.

(ii) Entity is also required to provide a **reconciliation of the carrying amount at the beginning and end of the period showing:**

a. additions
b. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with Ind AS 105 and other disposals
c. Acquisitions through business combinations
d. Increases or decreases resulting from revaluations and from impairment losses recognised or reversed in other comprehensive income;
e. Impairment losses recognised in profit or loss in accordance with Ind AS 36;
f. Impairment losses reversed in profit or loss in accordance with Ind AS 36;
g. Depreciation;
h. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
i. Other changes

(iii) The financial statements should also disclose

a. The existence and amounts of **restrictions on title,** and property, plant and equipment **pledged as security** for liabilities
b. The amount of **expenditures recognised in the carrying amount** of an item of property, plant and equipment in the course of its construction;
c. The amount of **contractual commitments** for the acquisition of property, plant and equipment; and
d. If it is not disclosed separately in the statement of profit and loss, the amount of **compensation from third parties** for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.

(iv) If items of property, plant and equipment are **stated at revalued amounts**, the following should be disclosed

a. the effective date of the revaluation;
b. Whether an independent valuer was involved;
c. For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and
d. The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

(v) **Entities are encouraged but not required**, to disclose the following amounts:

a. The carrying amount of temporarily idle property, plant and equipment
b. The gross carrying amount of any fully depreciated property, plant and equipment that is still in use
c. The carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with Ind AS 105; and
d. When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

13. Changes in Existing Decommissioning Restoration & Similar Liabilities (Appendix A)



13.1 Applicability of Appendix A to Ind AS 16?

Applicable to changes in measurement of any existing de-commissioning, restoration or similar liability that is both

- Recognised as part of the cost of an item of PPE or As part of the cost of a right-of-use asset in accordance with Ind AS 116 (discussed later); and
- Recognised as a liability in accordance with Ind AS 37

This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

a. A change in the estimated outflow of resources embodying economic benefits required to settle the obligation
b. A change in the current market-based discount rate
c. An increase that reflects the passage of time (unwinding of the discount)

13.2 Accounting Guidance in Appendix A

Cost Model	Revaluation Model
Changes in liability is added / deducted from the cost of asset	Treat changes in amount as if it is arising out of revaluation.
If Decrease in liability > Carrying Amount, excess is recognised as income	If Decrease in liability > Carrying Amount, excess is recognised as income

14. Ind AS 16 vs AS 10

Ind AS 16	AS 10
Does not deal with Assets held for sale as they are governed by Ind AS 105	Deals with accounting for items retired from active use & held for sale
Provides guidance on measuring 'Stripping cost' of a production phase of a surface mine.	Does not have this guidance



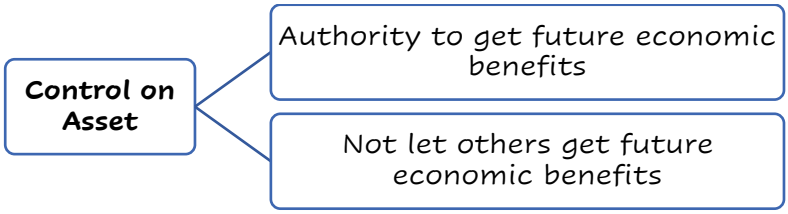
Ind AS 38
Intangible Assets

1 Introduction

IND AS 38 prescribes the accounting treatment for intangible assets that are not dealt with specifically by another Standard.

Intangible Asset An identifiable non-monetary asset without physical substance

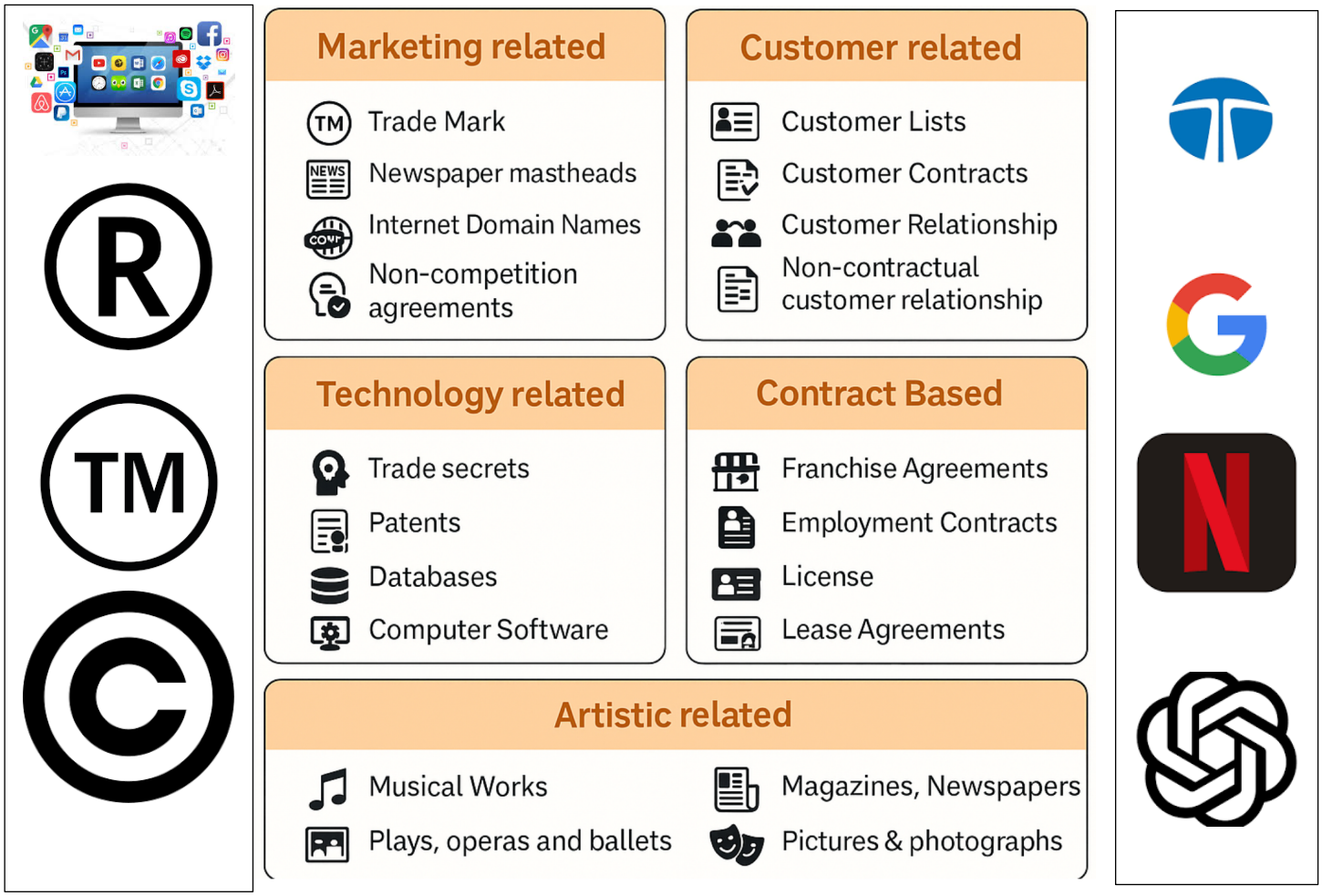
An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.



The future economic benefits include:

- Revenue from the sale of products or services;
- Cost savings; or
- Other benefits resulting from the use of the asset by the entity.

1.1 Examples of Intangible Items

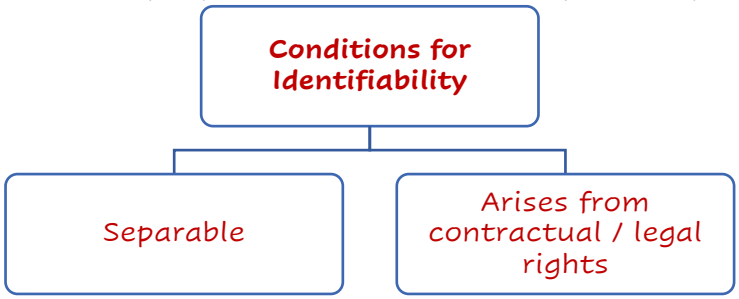


Intangible items like customer lists, market share, customer relationships can be considered as Intangible Assets only if the **entity can exercise control** over these to **generate future economic benefits**, which is very rare. They should be separable or contractual and able to be sold at a value independently.

2 Intangible Assets - Elements

2.1 Identifiability

An Intangible Asset (under Ind AS 38) should be **identifiable** to **distinguish it from goodwill**.
An entity must be able to **separate the intangible asset from other assets**.
Ex: A copyright of a movie is separable from the identity of a entertainment company or other assets in the company and it can be sold independently.



An asset is **identifiable** if its either:

- **separable**, from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, not considering the company's intention; or
- **arises from contractual or other legal rights**, even if such rights are not transferable or separable from the entity.

Goodwill is not separately identifiable asset unless purchased. (Refer Ind AS 103)

2.2 Non-monetary

The classification of monetary assets and non-monetary assets is based on respective realizability of the assets in terms of money.

Monetary assets are assets whose economic benefits are **determined in terms of currency units.** E.g. Account Receivable
Non Monetary Assets are those whose economic benefits will **not be received in the form of fixed determinable units of currency** e.g. PPE

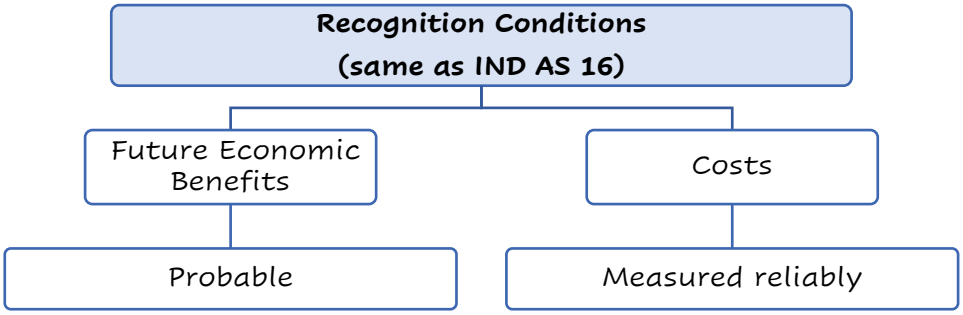
2.3 Non-physical substance

Aspect	Explanation	Example	Accounting Treatment
Definition	An **Intangible Asset** lacks physical substance (i.e., cannot be touched).		As per **Ind AS 38**
With Insignificant Physical Form	If the **physical form is only for storage or legal proof**, and not significant to the asset's value.	Software on a CD, Patent on paper	Treated as **Intangible Asset**
With Significant Tangible Component	If the **tangible part is significant** and contributes materially to value or use.	Smartphone with pre-installed operating system	Treated as **Property, Plant & Equipment (PPE)** under **Ind AS 16**

Monetary assets like Account Receivables, Deposits with Bank etc are not considered to be intangible assets under Ind AS 38 but as Financial Assets under Ind AS 32.



3 Recognition of Intangible Asset



An item to be recognised as Intangible Asset, it should

- **meet definition criteria**
  - o non-monetary,
  - o non-physical,
  - o identifiable
- **meet recognition criteria**
  - o future economic benefits to flow into the entity and control on benefits established
  - o costs measured reliably

	For	Treatment
Initial Costs	◆Acquisition of an intangible asset ◆ Internally generated intangible asset	Recognised as **Intangible Asset** if criteria under Ind AS 38 are met
Subsequent Costs	◆ Additions ◆ Replacements ◆ Servicing/Maintenance	Generally **expensed** unless: ✓ Future economic benefits are probable AND ✓ Costs can be reliably measured
Default Assumption	Most subsequent costs are for maintenance	**Expense** in Profit or Loss unless recognition criteria are clearly met. If future economic benefits are greater than existing assessed benefits, then capitalise.

4 Measurement of Intangible Assets

Intangible Assets may be acquired or self-generated.

- In case of independent / separate acquisition of an intangible asset, **it is assumed that future economic benefits will flow into the entity.**
- There is no requirement for checking the viability of the economic benefits from such independent acquisition of intangible asset.

4.1 Costs for Acquired Intangible Assets

Purchase Price	xxx
Add:	
Non-refundable taxes and duties	xxx
Installation costs	xxx
Professional Fees	xxx
Borrowing costs (If permitted by Ind AS 23)	xxx



Any directly attributable cost to bring the asset to the location and condition, necessary to **operate for its purpose intended** by the management	xxx
Less:	
Government grant received specific to the asset (Ind AS 20)	xxx
Trade discounts and rebates (If included in above costs)	xxx
Cost of Intangible Asset	**xxxx**

4.2 Costs for Internally Generated Assets

4.2.1 Goodwill

Internally generated goodwill is not recognised as an asset because it does not meet the definition criterion nor the recognition criterion of an intangible asset i.e.

- it is not separable nor
- doesn't arise from contractual or other legal rights
- cannot be measured reliably at cost.

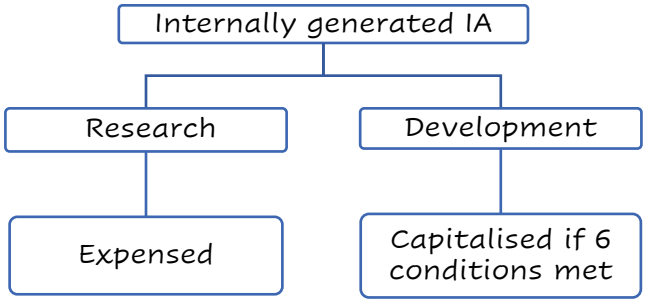
IND AS 38 prohibits the recognition of internally generated goodwill as an asset.

Internally generated goodwill cannot be measured reliably as there are many factors that affect the fair value.

Goodwill can also arise from business combination as per Ind As 103. In this case the accounting treatment prescribed by Ind AS 103 is followed.

Internally generated Brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets as per the standard.

4.3 Internally generated Intangible Assets other than Goodwill



Aspect	Research Phase	Development Phase
Purpose	To gain **new scientific or technical knowledge**	To apply research results and assess feasibility of **production/commercial use**
Activities Include	◆ Design & evaluation of alternatives ◆ Formulation of ideas	◆ Design, construction & testing of prototypes ◆ Development before commercial production begins
Asset Identification	No identifiable intangible asset with probable economic benefits	Potential to identify an intangible asset
Accounting Treatment	**Expense** the cost **when incurred**	**Capitalize** the cost **only if** recognition criteria are met
Recognition Criteria	Not met	Must meet all 6 criteria under Ind AS 38 para 57 to capitalize



Example	**Scenario**: Pharma Heal is investigating how a newly discovered plant compound can affect brain receptors. **Activities**: • Conducting laboratory experiments • Reviewing scientific journals • Formulating hypotheses • Evaluating multiple drug compounds ✅ **Outcome**: Still unsure whether any drug will work or generate benefits. ❌ **Accounting Treatment**: All costs **expensed** as incurred.	**Company**: *TechNova Pvt. Ltd.* **Scenario**: TechNova uses successful research to begin building a working prototype of a foldable solar panel. **Activities**: • Designing and building a working model • Testing under real conditions • Creating pilot production lines • Assessing technical feasibility and market potential ✅ **Outcome**: Demonstrable future economic benefits, costs identifiable and measurable. ✓ **Accounting Treatment**: Costs **capitalised** if all 6 criteria under Ind AS 38 para 57 are met.

If expense on Research and Development cannot be separated then it shall be expensed

Six Conditions for Capitalising Development Expenses:

Expenses arising out of development will be capitalised if an entity can demonstrate all of the following **(TIPFAM)**

Technical feasibility for completion of Intangible asset to make it available for use or sale
Intention of entity to complete the intangible asset and use or sell it
Ability to use or sell the intangible asset.
Demonstrate generation of **P**robable future economic benefits
Adequate resources (like technical, **F**inancial or others) are available to complete the development.
Measure reliably the expenditure attributable to the intangible asset during its development.

5 Costs – Intangible Asset – internally generated

The cost of an internally generated intangible asset comprises **all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.**

All costs **till the date of recognition of the intangible asset are expensed** to the statement of profit and loss.

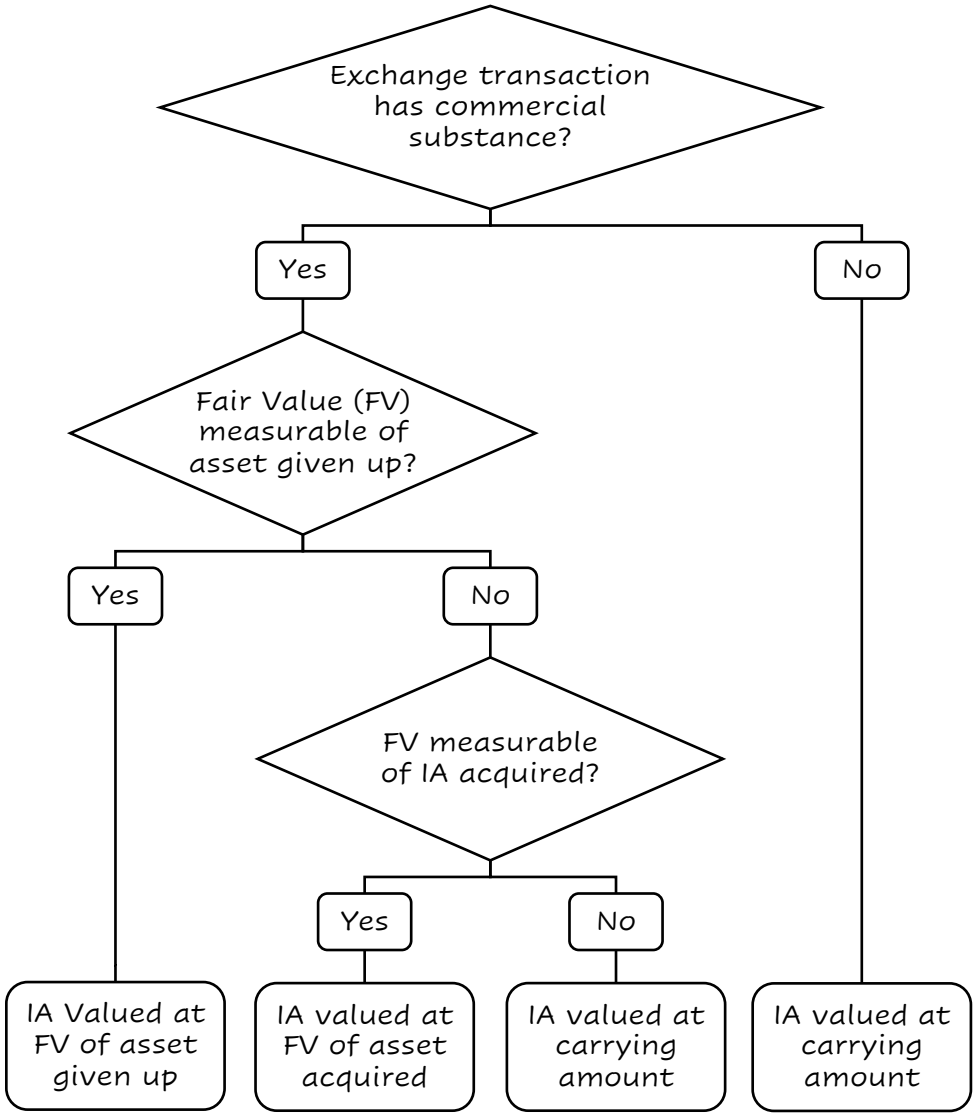
All cost from the date of recognition till the date the asset is ready to be put to use are capitalised.

Commencement ***Research Phase*** ***Development (Conditions met)***

Expensed	Capitalised

Included in Capitalisation	Excluded from Capitalisation
🔹 **Direct material**	🔸 Selling overheads
🔹 **Cost of services directly used**	🔸 Indirect costs
🔹 **Employee costs**	🔸 Initial operating losses
🔹 **Legal expenses essential for the asset (e.g., patent filing)**	🔸 Losses due to inefficiency
🔹 **Other intangible assets (e.g., patents & licenses used to create the new intangible asset)**	🔸 Staff training costs
🔹 **Borrowing costs (as per Ind AS 23)**	

6 Intangible Assets in exchange of non-monetary asset



7 Intangible Assets in the form of Govt. Grant

An intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant.

Such assets should be valued or capitalised in accordance with IND AS 20, i.e ***intangible assets received as grant at nominal consideration or free should be valued at nominal value or fair value.***



Any expenditure incurred in relation to such asset that is directly attributable to preparing the asset for its intended use can also be capitalised along with nominal or fair value.

8 Intangible Assets acquired as Business Combination (More in Ind AS 103)

When an **intangible asset is acquired in a business combination**, its **cost is measured at its fair value** on the **acquisition date**, in line with **Ind AS 103**.

Even if the acquiree had not recognised the intangible asset in its own books (due to not meeting recognition criteria under Ind AS 38), the **acquirer is required to recognise it separately from goodwill**, provided two conditions are met:

1. The intangible asset **meets the definition** under Ind AS 38 after the business combination, and
2. The asset is **identifiable**, i.e., it is either separable or arises from contractual/legal rights.

This applies even to **in-process research and development (R&D) projects** of the acquiree. If the R&D project meets the definition of an intangible asset and is separately identifiable, it shall be recognised by the acquirer at fair value, **even if it was expensed by the acquiree**.

9 Expenditure on Intangible Asset - Treatment

As per **Ind AS 38, expenditure on an intangible item must be expensed to the Statement of Profit and Loss** unless it satisfies all of the following:

- Meets the **definition** of an intangible asset (identifiable, non-monetary, no physical substance);
- Satisfies **recognition criteria**: probable future economic benefits and reliable cost measurement.

Once expensed or charged to P&L, an expenditure on Intangible Asset cannot be recapitalised.

9.1 Capitalisation Permitted When:

- The item **meets the definition and recognition criteria** under Ind AS 38 – the expenditure becomes part of the **cost of the intangible asset**.
- The item is acquired in a **business combination**, but cannot be recognised separately as an intangible asset – in such case, the amount is included in **goodwill** (as per **Ind AS 103**).

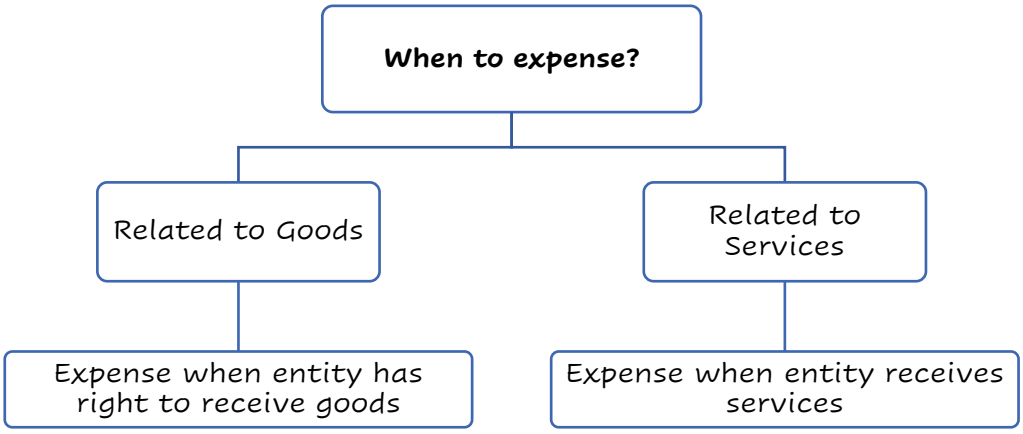
9.1.1 Expenditures Always Expensed

Nature of Expenditure	Reason
Research expenditure	No assurance of future economic benefits (unless acquired in business combination)
Start-up costs	Includes legal, secretarial, and incorporation costs – these do not meet recognition criteria
Costs for starting new products/operations	Treated as period costs – benefits are uncertain
Training costs	Do not create an identifiable asset
Advertising & promotional expenses	Intangible benefit is not reliably measurable nor identifiable
Reorganisation / relocation costs	Do not result in the creation of a new intangible asset



9.2 Expenses which do not create intangible Asset.

Any expense which does not create intangible assets should be expensed as below.



An entity need not expense advance paid for goods or prepaid expenditure related to services in the year of payment.

XYZ Ltd. pays ₹2,00,000 in March 20X5 to a consulting firm for software development services that will be rendered between **April and June 20X5**.

Accounting Treatment in FY 20X4–25 (ending 31 March 20X5):

- Although the cash is paid, the services have **not yet been received**.
- Therefore, ₹2,00,000 is recorded as a **Prepaid Expense (Asset)** in the balance sheet as on 31st March 20X5.

Subsequent Treatment:

- As and when the services are received (i.e., in FY 20X5–26), the cost is ***expensed*** or ***capitalised*** depending on whether it meets the criteria for intangible asset recognition.

10 Amortisation

Amortisation is

- Systematic allocation
- Of depreciable amount
- Over the useful life of the Intangible Asset

10.1 Residual Value

Residual value is usually the excess of current estimated realisable value over the estimated disposal costs assuming the asset is at its end of the useful life today.

Generally, Residual Value (RV) of an intangible asset is assumed to be zero

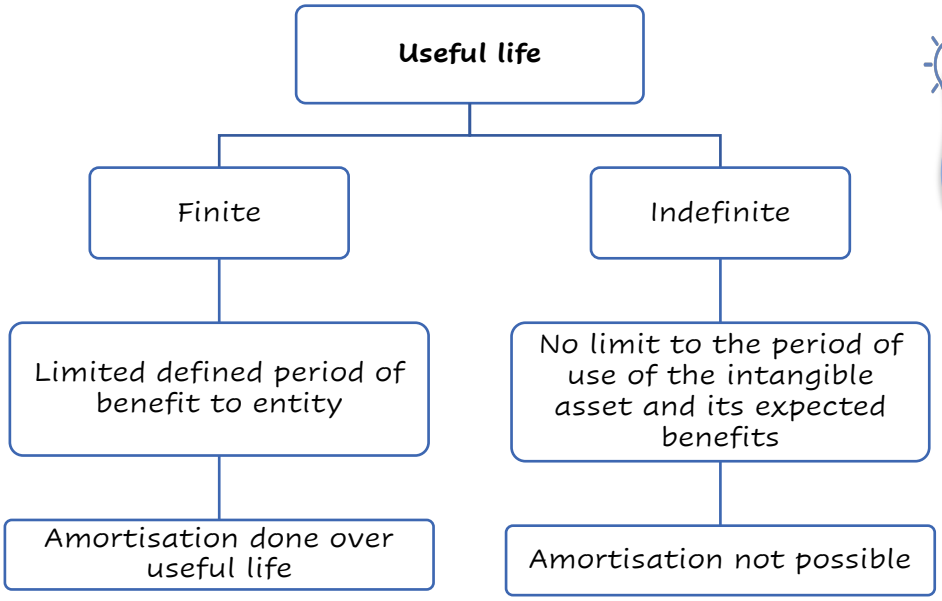
Exception – Third party commitment to purchase or an active market exists



Reviewed	End of each period
Change in estimate of RV	Account as per Ind AS 8
If RV is higher than carrying Amount	Amortisation amount = 0
If RV again falls below Carrying amount	Restart amortisation

10.2 Useful life of an Intangible Asset

The accounting for an intangible asset is based on its useful life.



'Indefinite' does not mean 'infinite'

An intangible asset is considered to have indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity

10.2.1 Factors to determine the useful life

Factor	Explanation
1. Usage	Expected pattern of use by the entity and whether usage can be transferred to or managed by others
2. Product Life Cycle	Life cycle of the product to which the asset contributes, based on industry trends or public data
3. Obsolescence	Potential for technical, technological, commercial, or other obsolescence
4. Industry & Market Changes	Nature of the industry, its volatility, and changes in demand for outputs derived from the asset
5. Competitors	Expected strategic actions by existing or potential competitors
6. Maintenance Expenditure	Required level of maintenance to derive benefits, and management's commitment to incur such cost
7. Control Over Asset	Duration of legal or contractual rights (e.g., leases, licenses)
8. Interdependence	Whether the asset's useful life is linked to or dependent on the useful life of another asset

10.2.2 Useful life dependent on Contracts

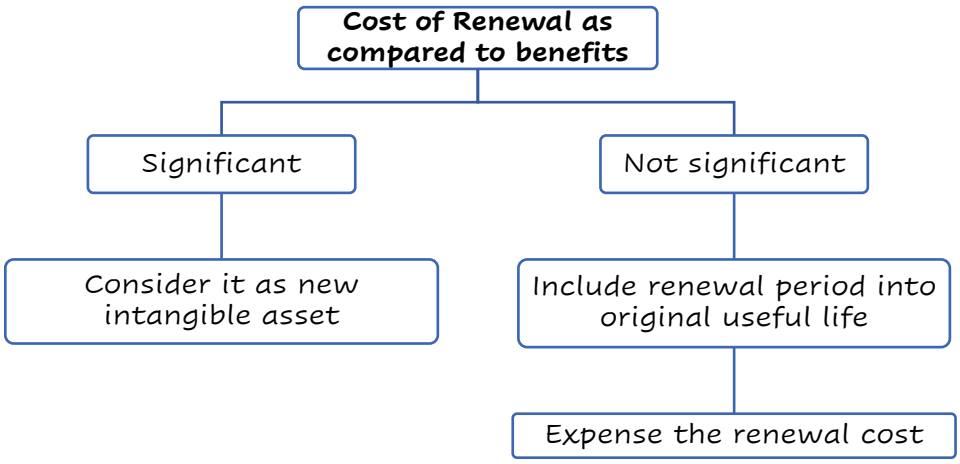
The useful life of an intangible asset arising from contractual or other legal rights

- **shall not exceed the period of the contractual or other legal rights,**
- may be shorter depending on the period over which the entity expects to use the asset.
- Shall include renewal periods if there is evidence to support renewal without significant costs



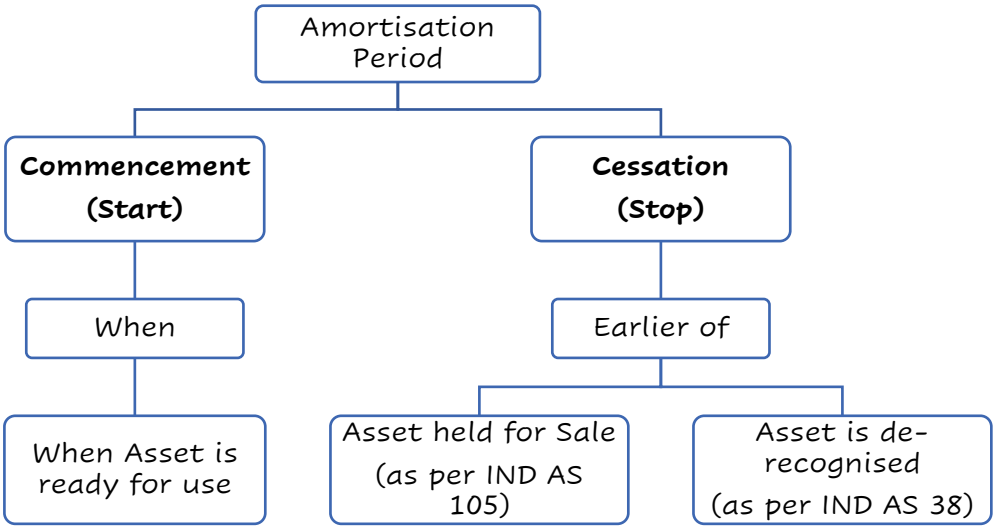
Useful life ≤ Contractual period

Renewal costs are considered significant or not-significant in comparison with the additional economic benefits received by the entity during the renewal period.



10.3 Amortisation Period

Amortisation is done for an intangible asset only if the intangible asset has finite useful life.



Aspect	Explanation
Continued Amortisation	Amortisation **does not stop** even if the intangible asset is **temporarily not in use**, unless: - The asset is **fully amortised**, or - The asset is classified as **held for sale** (or part of a **disposal group**)
Review of Useful Life	The **amortisation period** of an intangible asset with a **finite useful life** must be **reviewed at least annually**
	If the revised estimate of useful life differs from the earlier one, the amortisation period should be adjusted
Accounting for Change	A change in the **useful life estimate** is treated as a **change in accounting estimate**, not a change in policy



10.4 Amortisation Methods

- The amortisation method must **reflect the pattern** in which the asset's **future economic benefits are consumed** by the entity.
- The objective is to **match the amortisation expense** with the consumption of benefits over the asset's useful life.

Determining Amortisation Method

Method	When to Use
Straight-line Method	Benefits are consumed evenly over the useful life (Generally used)
Diminishing Balance Method	Higher benefits are expected in earlier years
Units of Production Method	Consumption is based on output or usage (e.g., number of units produced or hours used)

Revenue-based amortisation is considered inappropriate as **revenue does not reliably reflect consumption** of economic benefits.

Exceptions – Revenue can be used as basis only if:

1. The **contract explicitly links** asset usage to a revenue threshold (e.g., "asset can be used until ₹50 crore revenue is generated").
2. There is **strong evidence of correlation** between revenue and consumption pattern of the asset.

Review and Changes to Method

Requirement	Explanation
Annual Review	The amortisation method should be reviewed **at least at each financial year-end**
Change in Pattern of Consumption	If the expected pattern changes, the amortisation method should be revised
Accounting Treatment for Change	Treated as a **change in accounting estimate** under **Ind AS 8** – applied prospectively

Presentation and Recognition

Area	Treatment
Primary recognition	Amortisation is generally charged to **Profit or Loss**
Capitalised costs	In some cases, amortisation is **included in cost of inventories or other assets** under Ind AS 2
If asset not in use	**Amortisation does not cease** unless: 1. Asset is fully amortised, or 2. Classified as held for sale (Ind AS 105)

10.5 Intangible Assets with Indefinite Useful Lives

An entity is required to test an **intangible asset with an indefinite useful life for impairment** by comparing its recoverable amount with its carrying amount

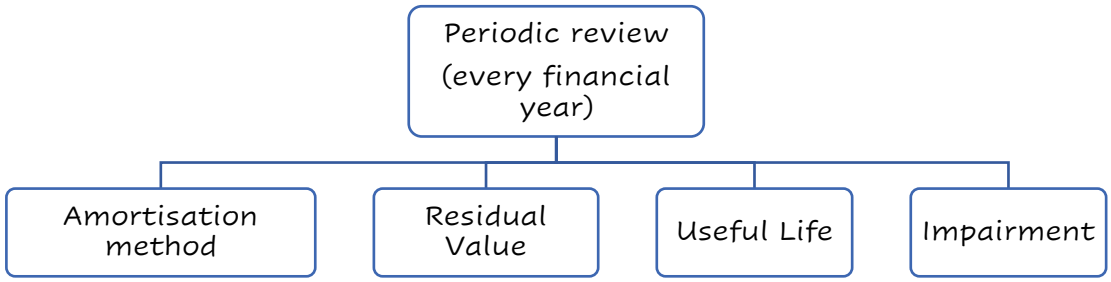
(a) annually; and

(b) whenever there is an indication that the intangible asset may be impaired.

The change from indefinite to finite is considered as a change in an accounting estimate in accordance with Ind AS 8.

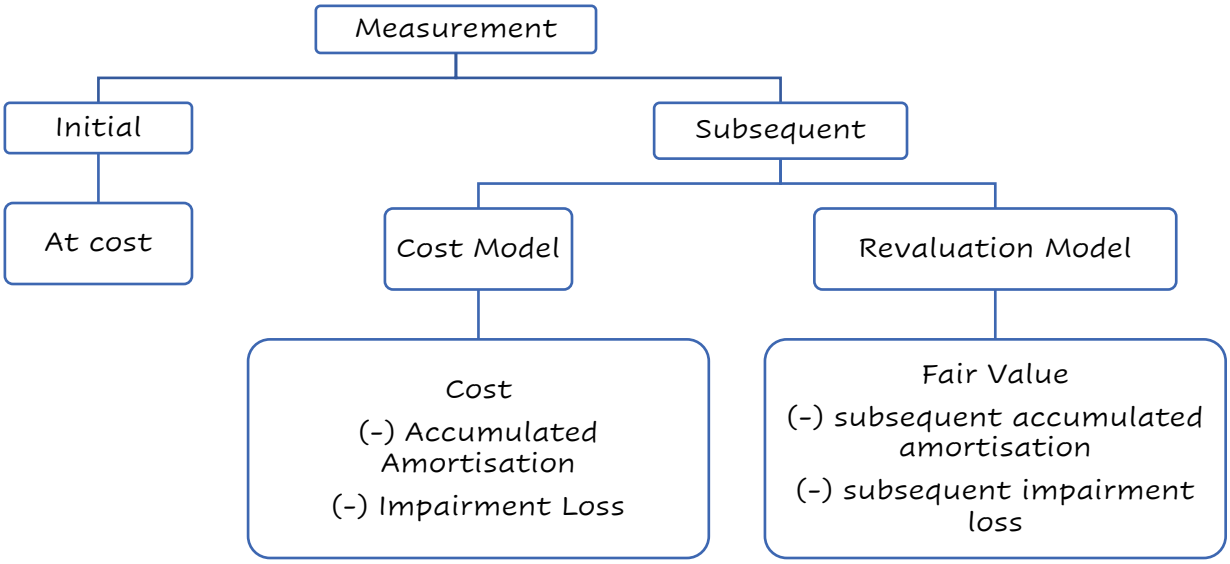
When the entity reassesses the useful life of an intangible asset as finite, it has to tests the asset for impairment and recognising any excess of the carrying amount over the recoverable amount as an impairment loss.





11 Measurement

Initial recognition is always at cost



11.1 Revaluation Model

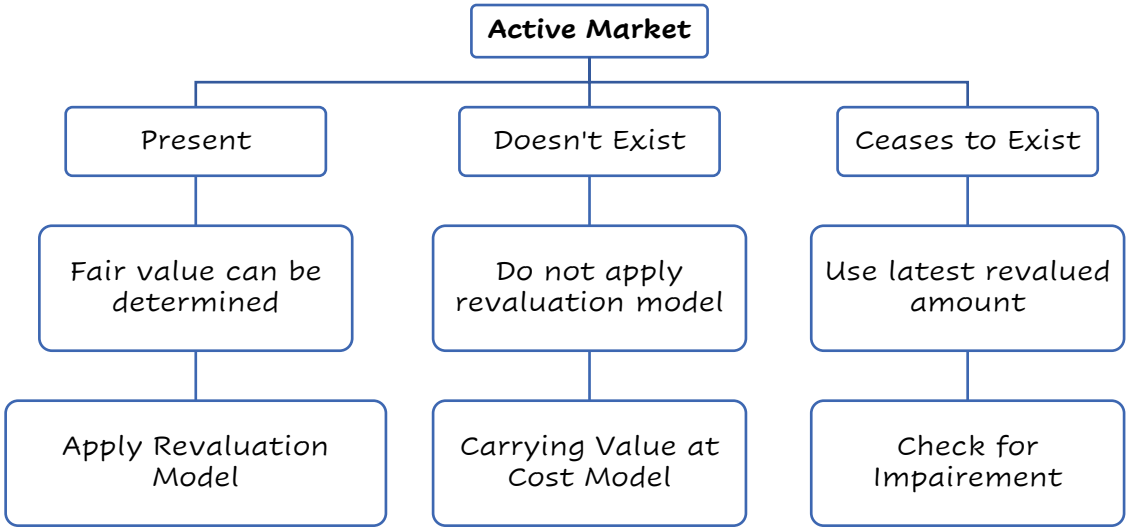
The revaluation model does not allow:
(a) the revaluation of intangible assets that have not previously been recognised as assets (i.e treated as expenses); or
(b) the initial recognition of intangible assets at amounts other than cost.

- Model must be followed by class of assets
- Carrying value should not differ significantly from the fair value
- Intangible assets received as government grants can be revalued.

11.2 Active Market

Fair value of the asset can be measured by reference to an active market at a subsequent measurement date. If there is no active market or the active market is unable to determine the fair value, then the IA will be revalued at earlier measured cost or earlier fair value.





11.3 Accounting under Revaluation Model

The increase in carrying amount shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss.

First Time Revaluation	
Increase in value **(Fair Value > Carrying Amount)**	Intangible Asset A/c Dr. To Revaluation Surplus A/c
Decrease in value **(Carrying amount > Fair value)**	P&L A/c (loss) A/c Dr. To Intangible Asset A/c
Subsequent Revaluation	
Increase in value **(Fair Value > Carrying Amount)**	***If no downward revaluation earlier:*** Intangible Asset A/c Dr. To Revaluation Surplus A/c
	If downward revaluation earlier, to the extent of loss: Intangible Asset A/c Dr. To P&L A/c
Decrease in value **(Carrying amount > Fair value)**	***If no upward revaluation earlier:*** P&L A/c (loss) A/c Dr. To Intangible Asset A/c
	If upward revaluation earlier, to the extent of upward revaluation : Revaluation Surplus A/c Dr. To Intangible Asset A/c

11.4 Presentation of Revaluation Amount

Revaluation amount can be presented either on

- Net basis – accumulated amortisation is adjusted to the gross carrying amount and the adjusted net carrying amount will be restated with the revaluation amount added.
- Gross basis – increase the gross carrying amount and the amortisation value proportionately.

12 Derecognition of Intangible Asset

- Intangible Asset is derecognised when
  - **no future economic benefits** are expected to flow into the entity or
  - the **asset is disposed** by the entity



- The **difference** between carrying amount and disposal proceeds is **recognised in P&L.**
- Disposal proceeds is determined in line with principles given under Ind AS 115
- If intangible assets are sold and leasedback, gain / loss is recognised as per IND AS 116, otherwise gain or loss are recognised in statement of profit or loss.

13 Disclosure

13.1 General Disclosures

An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) **Useful life of IA** - indefinite or finite (useful life, Amortisation rates)
(b) **Amortisation methods** – SLM, WDV, others;
(c) **Gross carrying amount, accumulated amortisation, accumulated impairment losses**
- beginning of the period
- end of the period;

(d) **Line item(s) of P&L** statement which includes amortisation
(e) **Reconciliation** (carrying amount) - beginning and end of the period showing:
(i) Additions
- Internal development additions,
- Acquired additions
  - separately
  - business combinations;

(ii) Disposals
- IA held for sale
- other disposals;

(iii) **increases or decreases** from
- revaluations
- impairment losses recognised or reversed in other comprehensive income

(iv) **impairment losses** recognised in P&L during the period
(v) impairment losses **reversed** in P&L during the period
(vi) any amortisation recognised during the period;
(vii) net **exchange differences arising on translation** (into presentation currency) of
- financial statements
- foreign operation;

(viii) other changes in the carrying amount during the period

Opening Balance	Movements (+ / -)						Closing Balance
	Additions	Disposal	Amortisation	Impairment	Revaluation	Exchange difference	

13.2 Specific Disclosures

(i) Intangible Assets with indefinite useful life
- carrying amount of that asset
- reasons supporting indefinite useful life.
  - factor(s) that played a significant role in determining so

(ii) Individual IA material to financial statements
- description,
- carrying amount and
- remaining amortisation period



(iii) IA acquired as Govt. Grant and initially recognised at fair value
- fair value initially recognised for these assets;
- their carrying amount; and
- measured after recognition under the cost/revaluation model

(iv) Title Restrictions & Capital Commitments
- existence
- carrying amounts

(v) Pledged as Securities – Carrying amounts

(vi) Contractual commitments for the acquisition of IA

(vii) IA under Revaluation Model
- Every class of IA
  - Effective date of revaluation
  - Carrying amount of revaluation
  - Carrying amount of revalued asset as per Cost model
- Revaluation Surplus
  - Beginning and ending amount
  - Changes
  - Restriction on distribution to shareholders
- Methods & assumptions for estimating fair values

(viii) Research and Development Expenditure - An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

13.3 Voluntary Disclosure

An entity can disclose the following information:

a) a description of any fully amortised intangible asset that is still in use; and

b) a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before this standard was effective.

14 Exclusions from IND AS 38

Exclusions	Ind As
Inventory	2
Deferred Tax Assets	12
Leases of Intangible Assets	116
Financial Assets	32
Assets arising out of employee benefits	19
Goodwill on business combination	103
Deferred acquisition cost and Intangible Asset from insurance contract	117
Non-current assets held for sale	105
Assets arising from contracts with customers	115
Mineral oils and ores	106
Amortisation method for intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of the first Ind AS financial reporting period as per the previous GAAP	



Rights under license agreement excluded under IND AS 116 will be dealt by IND AS 38

15 IND AS 38 vs AS 26

Basis of differences	AS 26	IND AS 38
Definition of IA	• Identifiable • non-monetary asset • without physical substance • held for ○ use in the production or supply of goods or services, ○ for rental to others, for administrative purposes	• identifiable • non-monetary asset • without physical substance Asset's purpose to hold for use is not a part of definition
Identifiability	Does not define 'identifiability'. Separability from goodwill not a necessary condition	Provides detailed guidance in respect of identifiability.
Recognition for Separately Acquired Intangible Assets	Criterion of probable inflow of expected future economic benefits is always considered satisfied	No such provision
Amortisation Method	No such guidelines	Revenue based amortisation not appropriate
Payment deferred beyond normal credit	No such consideration	Considered
IA under business combination	No such provision in AS 26 AS 14 deals with Amalgamation in nature of purchase	Dealt in detail
Subsequent expenditures on IA acquired under business combination	No such guidance	Guidance available for treatment
IA acquired under exchange	No mention of treatment	Specific mention of treatment
IA acquired free of cost or at nominal price	Use nominal value or cost of acquisition only. Fair value not considered.	Value IA at fair value or nominal value
Useful life of IA	Useful life always finite and presumption – use life cannot exceed 10 years	IA's useful life can be finite or indefinite.
Expenses to be recognised	No detailed guidelines	Detailed guidelines available
Contractual & Legal Rights	Does not include such a provision	Useful life may be less than legal life



Residual value	Residual value increase not available	Provision for increase in residual value available
IA held for sale / retired from use	Covered	Not covered (they are covered by Ind AS 105)
Exclusions	Paragraph 5 of AS 26, does not apply to accounting issues of specialised nature that arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares	Discount or premium relating to borrowings and ancillary costs are not considered as they are dealt with by other Ind AS
Exclusions	No such exclusion	Toll road service concession agreement excluded
Valuation Model as Accounting policy	Revaluation model is not permitted.	Either the cost model or the revaluation model



Ind AS 40
Investment Property

1. Introduction

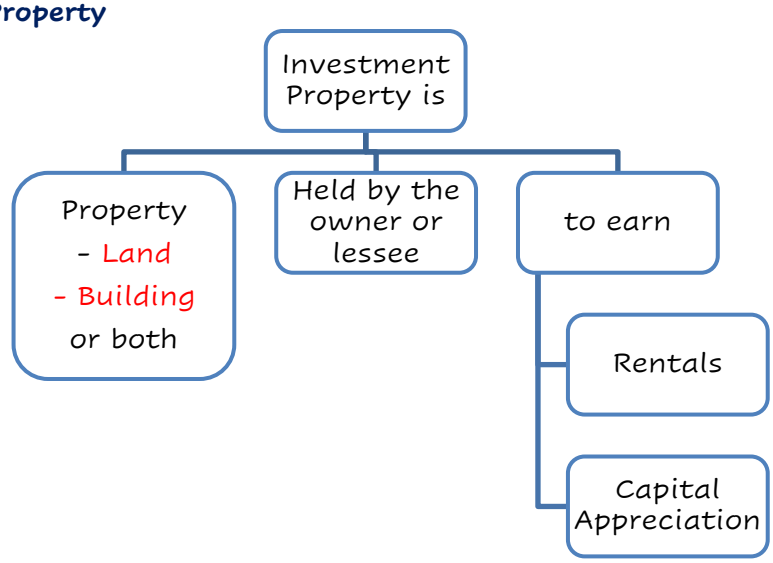
1.1 Scope

This standard does NOT deal with the following.

Biological assets related to agricultural activity	Dealt as per IndAS 16/ 41
Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources	No Ind AS exists. Industry rules and regulations are followed.

2. Definitions

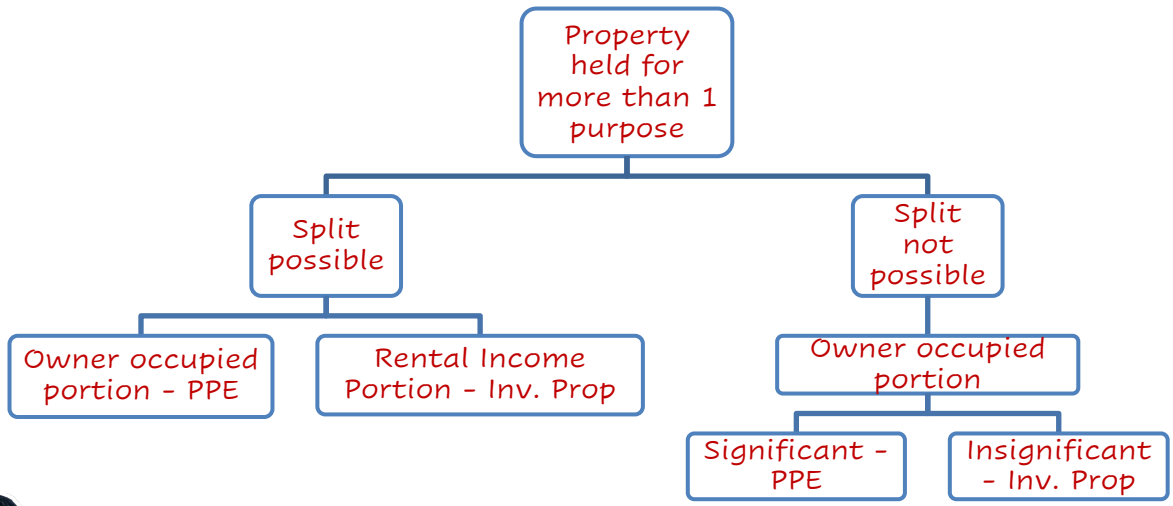
2.1 Investment Property



The following are not Investment Property

Property held for use in the **production or supply** of goods or for administrative purpose	PPE – Ind AS 16 / ROU Asset – Ind AS 116 (Including future owner occupied properties, property occupied by employees) This is called as **owner occupied property**.
Property held for sale in ordinary course of business	Inventory under Ind AS 2

2.2 Dual purpose property





Example – Splitting is possible:
A 10-storey building:

- **6 floors** used for office operations → classified as **PPE**
- **4 floors** rented out to others → classified as **Investment Property**

Impact of Additional Services on Classification

If significant services are provided	Property, Plant & Equipment	e.g., hotel with room service, housekeeping, etc
If services are insignificant	Investment property	e.g., only security provided with rented office space

2.3 Property given on rent to group companies

Standalone Financial Statements	Consolidated Financial Statements
Investment Property	Property, Plant & Equipment [The property is not given on rent outside the group]

2.4 Nature of Investment Property

- Investment property is held for earning rentals and/or capital appreciation
- It generates cash independently of other assets in an entity. Hence it can be an independent Cash Generating Unit on its own.

2.5 Examples

S. No.	Description of Property	IP?	Applicable Ind AS
1	Owned by a company and leased out under an **operating lease**	Yes	**Ind AS 40**
2	Held as a **right-of-use (ROU) asset** and leased out under an **operating lease**	Yes	**Ind AS 40**
3	Held as a **ROU asset** and leased out under a **finance lease**	No [Derecognised]	**Ind AS 116**
4	Acquired with an intention for **development and resale**	No	**Ind AS 2**
5	**Partly owner-occupied** and **partly leased out under an operating lease**	Depends on extent of use	**Ind AS 16 / Ind AS 40**
6	**Land held for currently undetermined use**	Yes	**Ind AS 40**
7	**Occupied by employees** at a **concessional rent (below market rate)**	No	**Ind AS 16**
8	Investment property that is **held for sale**	No	**Ind AS 105**
9	Existing investment property **under redevelopment for continued investment use**	Yes	**Ind AS 40**

2.6 Carrying Amount

Gross Book Value	xxx
(-) Accumulated Depreciation	xxx
(-) Accumulated Impairment Loss	xxx
Carrying Amount	**xxx**

3. Recognition

- Probable that **future economic benefits** associated with the item will flow to the entity
- **Cost** of the item can be measured **reliably.**

If investment property is held by a lessee then principles under Ind AS 116 would apply.



3.1 Measurement at Recognition

An owned investment property should **be initially measured at its cost.** The principles are same as those given under Ind AS 16. **Revaluation model is not permitted.**

3.2 If asset is purchased by payment of cash or credit.

The cost of an item of Investment Property comprises

Purchase Price	xxx
Add:	
Non-refundable taxes and duties	xxx
Cost of site preparation	xxx
Construction cost	xxx
Professional Fees	xxx
Borrowing costs (If permitted by Ind AS 23)	xxx
Any directly attributable cost to bring the asset to the condition, necessary to **operate for its purpose intended** by the management	xxx
Less:	
Government grant received specific to the asset (Ind AS 20)	xxx
Trade discounts and rebates (If included in above costs)	xxx
Cost of Investment Property to be capitalised	**xxxx**

Exclusions from Cost of IP

- Startup costs
- Operating losses incurred before the investment property achieves planned level of activity.
- Abnormal amounts of wasted material, labour and other resources.
- Costs incurred in introducing a new product or service.

The income and related expenses of incidental operations are recognised in profit or loss

3.3 Investment Property acquired on deferred credit terms

- Recognised at cash price equivalent
- Difference between cash price and total payments is treated as interest expense.

3.4 Self – Constructed IP

The cost of a self-constructed asset is determined using the same principles as for an acquired asset under Ind AS 16.

Aspect	Included in Cost	Excluded from Cost
1. Direct Costs	Costs directly related to construction (e.g., materials, labour, etc.)	–
2. Attributable Overheads	Costs that can be allocated to the construction activity	–
3. Borrowing Costs	Capitalised **only if** the asset is a qualifying asset under **Ind AS 23**	–
4. Internal Profits	–	Not allowed – use **actual construction cost**, not internal transfer price
5. Abnormal Wastage	–	Cost of **abnormally wasted** material, labour, or resources is **excluded**

3.5 IP is acquired by exchange of non-monetary assets – Refer Ind AS 16



3.6 Measurement after Recognition

An entity shall measure investment property as follows

- Ind AS 105 – If held for sale.
- Ind AS 116 – If held by a lessee as ROU Asset.
- Ind AS 16 – Under cost model in all other cases.
    - An entity is required to follow **COST MODEL** only. Revaluation model is not permitted.
    - An entity is required to measure the fair value for **DISCLOSURE** purpose.

4. Transfers

An entity shall transfer a property (reclassify) when there is a change in use.

From	To	When? (Trigger Event)
Ind AS 40	**Ind AS 16**	When the property is **now used for owner occupation** or development for own use
Ind AS 40	**Ind AS 2**	When the property is **being developed to sell** in the **ordinary course of business**
Ind AS 16	**Ind AS 40**	When **owner occupation ends** and property is now held to **earn rentals or capital appreciation**
Ind AS 2	**Ind AS 40**	When property is **leased out under an operating lease**

Transfers **do not** change:

- the **carrying amount** of the property
- the **cost** for measurement or disclosure

Note – If PPE is measured using revaluation model and subsequently reclassified, the carrying amount (revalued amount) will be considered as deemed cost for purpose of Ind AS 40.

5. Impairment – Refer Ind AS 36

Entity must calculate the recoverable amount in accordance with Ind AS 36.
Compensation from third parties for items of IP that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

6. Derecognition

The carrying amount of an item of investment property should be derecognised
(a) on disposal (**Sale or finance lease**)
(b) When the investment property is **permanently withdrawn** and **no future economic benefits** are expected from its use or disposal.

The gain or loss arising from the derecognition investment property is included in **profit or loss** when the item is derecognised.

7. Disclosure

- **Accounting policy** for Investment Property
- When classification is difficult, the criteria it uses to distinguish investment property from owner occupied property
- The **extent to which fair value is based on vauation by an independent valuer possessing requisite skill**.
- Amounts recognsied in P&L for
    - Rental income
    - Direct operating expenses related to IP generating rental income
    - Direct operating expenses related to IP which did not generate rental income.



- Existence and amount of **restrictions on the realisability of investment property** or remittance of income.
- Contractual obligations for purchase, repairs etc.
- **Depreciation method used.**
- **Useful lives and depreciation rates.**
- Gross carrying amount and accumulated depreciation at beginning and end of the reporting period.
- **Reconciliation of carrying amount of investment property at beginning and end of the period**
- **Fair value of Investment property**
  - A desrciption of IP
  - An explanation of why fair value cannot be measured reliably
  - Range of estimates within which fair value is likely to lie.

8. Inability to Measure Fair value

REBUTTABLE PRESUMPTION	By default, it's presumed that fair value of investment property can be measured **reliably**.
EXCEPTION TO PRESUMPTION	Exception allowed **only at initial recognition** when: - Comparable market is **inactive** - **DCF or alternative models** are also unreliable
UNDER CONSTRUCTION PROPERTY	If under construction and fair value not reliably measurable, measure when: (a) Fair value becomes reliably measurable **OR** (b) Construction completes – **whichever is earlier**
DISCLOSURE REQUIREMENT	If fair value not reliably measurable, **provide necessary disclosures**
POST-MEASUREMENT TRIGGER	Once reliable measurement becomes possible, **fair value must be measured**. After construction, fair value is **presumed** to be measurable.
NO REVERSAL ALLOWED	If fair value of under-construction investment property is once measured, entity **cannot later claim** it's not reliably measurable post-completion.
OTHER INVESTMENT PROPERTIES	Even if one property's fair value isn't reliably measurable (exceptional case), entity must still **fair value all other properties** for disclosure.
CONSISTENCY PRINCIPLE	If fair value was once measured, it must **continue till disposal**, **even if**: - Market becomes inactive - Prices are less available



Indian Accounting Standard 23
BORROWING COST

1 Introduction

Ind AS 23 deals with Borrowing Costs – costs associated with Borrowed funds. Normally, such costs are taken to Statement of Profit and Loss as they represent an expense for the entity. However, certain borrowing costs are added to the cost of an asset.

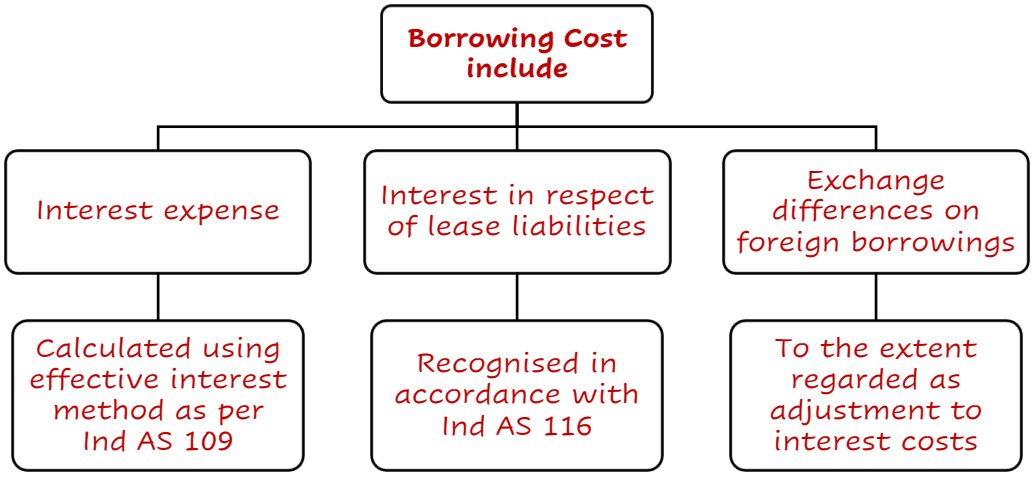
1.1 Core Principle of Ind AS 23

Borrowing Costs that are **directly attributable to the acquisition, construction or production of a qualifying asset** are included in the cost of that asset i.e., it is capitalised.
Other borrowing costs are recognised as an expense in the period in which they are incurred.

2 Important Terms

2.1 Borrowing Costs

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.



2.1.1 Effective Interest Method

This method is covered in detail in Ind AS 109 – Financial Instruments.

In short, this method considers discount, premium, fees associated with borrowings and involves finding a rate that exactly discounts estimated future cash payments to the amortised cost of borrowings. It is basically, an IRR for the borrowed amount.

Example: Company issues 10% debentures of ₹1,00,000 at 5% discount with a tenure of 3 years. Here, effective interest rate will be 12.12% (using IRR method) and interest expense for 3 years shall be as follows:

Year	Opening balance	Interest @12.12%	Payment	Closing balance
1	95,000	11,514	10,000	96,514
2	96,514	11,697	10,000	98,211
3	98,211	11,788	1,10,000	(0)

**The effective interest rate can be computed using rate function / IRR formula in excel*

2.1.2 Exchange differences on foreign borrowings

- A company may borrow in a foreign currency (e.g., an Indian company taking a loan in US dollars) to benefit from lower interest rates.
- However, this can lead to **exchange rate losses** due to currency fluctuations
- There is a saving in interest cost but increased losses due to currency fluctuations
- According to Ind AS 23, part of this **exchange loss can be treated as borrowing cost**— but only up to the amount **equal to the interest saving** from using foreign currency instead of local currency.

Example: Company borrows $ 20,000 @ 3% for 1 year on 1st Jan, 20x1 when $ 1 = ₹ 75,



Interest and loan are repayable on 31st Dec, 20x1.
On 31st Dec, 20x1, exchange rate is $ 1 coule be ₹ 78 or 76.
Company could borrow ₹ funds @ 6%.

Borrowing Cost and Exchange Difference Analysis (Ind AS 23 + Ind AS 21)

Date	$ Borrowed	Exchange Rate (₹)	₹ Equivalent	Exchange Rate (₹)	₹ Equivalent
1 Jan 20X1	20,000	₹ 75	₹ 15,00,000	₹ 75	₹ 15,00,000
31 Dec 20X1	20,000	₹ 78	₹ 15,60,000	₹ 76	₹ 15,60,000
Exchange Loss		**₹ 3**	**₹ 60,000**	**₹ 1**	**₹ 20,000**

Interest and Borrowing Cost Analysis

Particulars	Amount (₹)	Amount (₹)
Interest on Foreign Currency Loan (3% × $20,000 × ₹78/76)	₹ 46,800	₹ 45,600
Comparable ₹ Interest Cost (₹15,00,000 × 6%)	₹ 90,000	₹ 90,000
Difference	₹ 43,200	₹ 44,400
Exchange Loss treated as borrowing cost (Lower of exchange loss or difference)	₹ 43,200	₹ 20,000
Total Borrowing Cost to be Capitalised	₹ 90,000	₹ 65,600
Exchange Loss to be accounted as per Ind AS 21	₹ 16,800	Nil

➔ **The realised or unrealised gain to the extent of the unrealised exchange loss previously recognised as an adjustment should also be recognised as an adjustment to interest.**

Example: Company borrows $ 1,000 @ 4% on 1st Apr, 20x1 when $ 1 = ₹ 40. On 31st Mar, 20x2, exchange rate is $ 1 = ₹ 50. Company could borrow ₹ funds @ 12%.

Exchange Loss at end of year 1	$ 1,000 x (₹ 50 - ₹ 40)	₹ 10,000
Interest cost on $ borrowings	4% x $ 1,000 x ₹ 50	₹ 2,000
Interest on INR borrowings	₹ 40,000 x 12%	₹ 4,800
Savings due to $ borrowings		₹ 2,800

Company will treat exchange loss (unrealised) up to ₹ 2,800 (₹ 4,800 – ₹2,000) as a borrowing cost. So, total eligible borrowing cost for year 1 will be ₹ 4,800 (₹ 2,000 + ₹ 2,800).

At end of Year 2 (31st Mar 20x3)

	$ 1 = ₹ 48	**$ 1 = ₹ 44**
Interest cost for Year 2	$ 1,000 x 4% x ₹ 48 = ₹ 1,920	$ 1,000 x 4% x ₹ 44 = ₹ 1,760
Exchange gain	$ 1,000 x (₹ 50 – ₹48) = ₹ 2,000.	$ 1,000 x (₹ 50 – ₹44) = ₹ 6,000.
Exchange loss treated as borrowing cost in Year 1	₹ 2,800	₹ 2,800
Interest on INR borrowings	₹ 40,000 x 12% = ₹ 4,800	₹ 40,000 x 12% = ₹ 4,800
Exchange gain to be considered as reduction from borrowing cost	₹ 2,000	₹ 2,800
Net borrowing cost	(₹80)	(₹1040)

Part Payment [$ 600] – At end of Year 1 i.e., on 31st Mar, 20x2

Out of exchange difference of ₹ 2,800 regarded as borrowing costs, ₹ 1,680 $[\frac{2,800}{10,000} \text{ x } 6,000]$ relates to realised exchange loss and ₹ 1,120 $[\frac{2,800}{10,000} \text{ x } 4,000]$ pertain to unrealised exchange loss.

Thus, in future years, realised or unrealised exchange gain only to extent of ₹ 1,120 will be treated as adjustment to interest cost.



2.2 Qualifying Asset

Qualifying asset is an asset that necessarily takes a **substantial period of time** to get ready for its intended use or sale.

Asset Type	Qualifying Asset?	Reason
(a) **Inventories**	✅ *If production takes substantial time*	Inventories that are produced over a long period (e.g., wine, cheese, large aircraft) can be qualifying assets. Routine, repetitive inventories are excluded.
(b) **Manufacturing Plants**	✅ Yes	Construction of plants usually takes substantial time. Borrowing costs incurred during construction are capitalised.
(c) **Power Generation Facilities**	✅ Yes	These require a long construction period and meet the criteria of qualifying assets under Ind AS 23.
(d) **Intangible Assets**	✅ *If development takes substantial time*	Internally developed software, licenses, or R&D projects taking long time qualify. Readily available purchased intangibles don't.
(e) **Investment Properties**	✅ *If constructed or developed*	If developed over time (e.g., building an office complex), borrowing costs are capitalised. Direct purchases don't qualify.
(f) **Bearer Plants**	✅ Yes	These plants (e.g., tea bushes, grapevines) take time to mature before generating produce and hence qualify.

2.2.1 Substantial period of time

- Ind AS 23 does not provide any guidance on what constitutes a **substantial period of time**
- Specific facts and circumstances should be considered in each case

Period of 12 months or more might be considered 'substantial'

2.2.2 Qualifying assets - Exclusions

- Financial assets, and inventories that are manufactured, or otherwise produced, over a short period of time
- Assets that are ready for their intended use or sale when acquired are not qualifying assets.

Scenario	Is it a Qualifying Asset?	Explanation
A company deals in production of dairy products. It prepares and sells various milk products like ghee, butter and cheese. The company borrowed funds from bank for manufacturing operation. The cheese takes substantial longer period to get ready for sale. Q: Can borrowing costs incurred to finance the production of inventories (cheese) that have a long production period be capitalised?	✅ Yes (for cheese)	Ind AS 23 allows capitalisation for inventories that take substantial time to produce. Cheese qualifies, even though other products may not.
A company is in the process of developing computer software. The asset has been qualified for recognition purposes. However, the development of computer software will take substantial period of time to complete. (i) Can computer software be termed as a 'qualifying asset'? **(ii) Is management intention considered when assessing whether an asset is a qualifying asset?**	✅ Yes	Intangible assets such as software qualify if they take a long time to complete. Management's intention is relevant while assessing readiness for use.
A telecom company has acquired a 3G license. The licence could be sold or licensed to a third party. However, management intends to use it to operate a wireless network. Development of the network starts when the license is acquired.	✅ Yes	Although the licence is tradable, it is acquired specifically to build the wireless network. It



Q: Should borrowing costs on the acquisition of the 3G license be capitalised until the network is ready for its intended use?		forms part of a larger qualifying project.
A real estate company has incurred expenses for the acquisition of a permit allowing the construction of a building. It has also acquired equipment that will be used for the construction of various buildings. **Q: Can borrowing costs on the acquisition of the permit and the equipment be capitalised until the construction of the building is complete?**	✅ Yes (Permit) ❌ No (Equipment)	Permit is linked to a specific construction project and forms part of its cost. Equipment is general-purpose and ready for use; hence, it doesn't qualify.

3 Scope of Ind AS 23

- An entity shall apply this standard in accounting for borrowing costs.
- This standard does not apply to

➔ **actual or imputed cost of equity, including preferred capital not classified as a liability**
Example: Dividend paid on equity shares, cost of issuance of equity shares, cost of preference share capital (not classified as liability as per Ind AS 32)

➔ **qualifying assets that are measured at fair value**
Example: Biological asset accounted for under Ind AS 41
If the assets are measured under fair value model, then capitalisation would not affect measurement of the asset and would involve only reallocation between finance cost and fair value movement in the Statement of profit and loss.

➔ **inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis even if they take a substantial period to get ready for sale**
It becomes difficult in such situations to allocate borrowing costs to such inventories and monitoring those borrowing costs until the inventories are sold.

4 Recognition of Borrowing Costs

- Borrowing costs that are directly attributable to the acquisition, construction or production of a **qualifying asset** are capitalised as part of the cost of the qualifying asset
- Such borrowing cost are capitalised when below **two conditions are satisfied**:
  - ✓ it is probable that it will result in future economic benefits to the entity; and
  - ✓ costs can be measured reliably
- Other borrowing costs are recognised as an expense in the period in which they are incurred.

4.1 Borrowing Costs eligible for Capitalisation

This includes those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

A notional borrowing cost cannot be capitalised.

Example: If a company incurs an expenditure of ₹ 1 lakh on construction of qualifying asset by taking a 10% loan of ₹ 50,000 and using own funds of ₹ 50,000, then borrowing costs associated with loan shall only be capitalised, Opportunity cost of own funds are not capitalised.

4.1.1 Specific Borrowing Costs

- If an entity borrows funds **specifically to obtain a qualifying asset**, they are known as **specific borrowings**.
- An entity may obtain **borrowed funds** and incur associated **borrowing costs before** some or all of the funds are used for **expenditures on the qualifying asset**.



- In such circumstances, funds are often **temporarily invested** pending their expenditure on the qualifying asset.
- In determining the amount of **borrowing costs eligible for capitalisation** during a period, any **investment income earned** on such funds is **deducted** from the **borrowing costs incurred**.

Actual borrowing cost incurred (Compute from date of borrowing)
Less: Investment income on temporary investment of those borrowings
Borrowing cost eligible for capitalisation

For specific borrowing entire borrowing cost from date on which conditions are met are considered.

4.1.2 General Borrowing Costs

- All borrowings that are **not specific** represent **general borrowings**.
- If a **specific borrowing** remains outstanding **after** the related asset is **ready for its intended use or sale**, it becomes part of **general borrowings**.
- When **general borrowings** are used for **qualifying assets**, **Ind AS 23** requires that the **borrowing costs eligible for capitalisation** be calculated by applying a **capitalisation rate** to the **expenditures** on qualifying assets.

4.2 Calculation of capitalisation rate

Capitalisation rate is the **weighted average of the borrowing costs** applicable to all the general borrowings of the entity that are outstanding during the period.

$$\textbf{Capitalisation Rate} = \frac{\text{Total borrowing costs on outstanding general borrowings}}{\text{Total outstanding general borrowings of entity during the period}}$$

Things to Note (General Borrowings under Ind AS 23)

- The **amount of borrowing costs capitalised** during a period **shall not exceed** the **borrowing costs incurred** in that period.
- The **capitalisation rate** is calculated considering **all general borrowings outstanding during the financial year**, not just those during the construction period.
- In some cases, it's appropriate to include **all borrowings of the parent and its subsidiaries** to compute a **group-level weighted average borrowing rate**. In other cases, each **subsidiary should use its own rate** based on its borrowings.

4.3 Expenditure to which capitalisation rate is applied

The **amount of expenditure** on a qualifying asset includes only those outflows that result in:

- **Cash payments**,
- **Transfers of other assets**, or
- **Assumption of interest-bearing liabilities**.

Such **expenditures are reduced** by:

- Any **progress payments** received, and
- **Grants** received in connection with the asset.

The **average carrying amount** of the asset (including previously capitalised borrowing cost) is considered a **reasonable approximation** of the **expenditure** to which the **capitalisation rate** can be applied.



4.4 Excess of carrying amount over recoverable amount

If the carrying amount of asset including borrowing costs exceeds the recoverable amount or NRV, the excess is written off as per other standards (e.g Ind AS 36). Subsequently the amounts may be reversed if permitted by other standards.

5 Period of Capitalisation

5.1 Commencement of Capitalisation

Starts from date when entity first meets all of the following conditions

- It incurs expenditures for the asset
- It incurs borrowing costs
- It undertakes activities necessary to prepare asset for its intended use or sale

🛠 Activities Necessary to Prepare Asset for Intended Use or Sale

Includes	Excludes
Technical and administrative work prior to physical construction	Mere holding of an asset without production or development activity
Activities such as obtaining permits or clearances	Periods when no work is being done that changes the condition of the asset

5.2 Suspension of Capitalisation

- Capitalisation of borrowing costs shall be **suspended** during **extended periods** when **active development** of a qualifying asset is suspended.
- Such costs are considered **holding costs** of partially completed assets and **do not qualify** for capitalisation.
- **Capitalisation is not suspended** if the delay is **temporary** and a **necessary part** of the process of getting the asset ready.

Example: Capitalisation continues during an extended delay caused by **high water levels** if such delays are **common** during bridge construction in that geographical region.

5.3 Cessation of Capitalisation

- Capitalisation of borrowing costs **ceases** when **substantially all activities** needed to prepare the qualifying asset for its **intended use or sale** are **complete**.
- An asset is considered ready when **physical construction is complete**, even if **administrative work** is still ongoing.
- Minor pending work such as **decoration** to suit a buyer's or user's preference does **not prevent cessation**; it indicates the asset is substantially ready.

5.3.1 When construction of qualifying asset is completed in parts

If **each part** of a qualifying asset is **capable of being used independently** while construction continues on other parts, the entity shall **cease capitalising borrowing costs** when it completes **substantially all activities** necessary to prepare **that part** for its intended use or sale.

Example 1:

A **business park** comprising **several buildings**, each of which can be **used individually**, is a qualifying asset where borrowing cost capitalisation can **cease building-wise** once each building is ready.



Example 2:

An **industrial plant** like a **steel mill** involving **sequential processes** across different parts of the plant **cannot be used in parts**. Here, borrowing cost capitalisation continues **until the entire plant** is ready for use.

6 Disclosure Requirements

Entities are required to disclose:

(a) **amount of borrowing costs** capitalised during the period; and

(b) **capitalisation rate** used to determine the amount of borrowing costs eligible for capitalisation

7 Other Relevant Concepts

7.1 Dividends payable on shares classified as financial liabilities

Type of Preference Shares	Treatment
General Rule	**Dividends are not borrowing costs**, unless the shares are a **financial liability**
Financial Liability as per Ind As 32	Dividends are considered interest expense and hence part of borrowing cost

7.2 Cessation of capitalisation for maturing inventories

- For maturing inventories, it is sometimes difficult to determine when 'period of production' ends, i.e., when inventories are being held for sale as opposed to being held to mature.
  - Example: Whisky is 'mature' after three years but goes on improving with age for many more years.
- Borrowing costs are added to the value of such maturing inventories for as long as it can be demonstrated that the particular item of inventory **continues to increase in value on account of** increasing age, rather than because of market fluctuations or inflation.
- If this cannot be demonstrated, then the inventories should be regarded as held for sale and no further borrowing costs should be capitalised.

7.3 Capitalising borrowing cost in group financial statements

Scenario	Entity-level Financial Statements	Group Consolidated Financial Statements	Remarks
Borrowings by one group company; qualifying asset developed by another	❌ No capitalisation (developer has no borrowings)	✅ Yes, capitalise (group has third-party borrowings)	Developer cannot capitalise; group capitalises based on actual borrowings
Intra-group borrowings	✅ May capitalise (based on intra-group interest)	❌ Not capitalised (intra-group interest is eliminated)	Interest cost is real for standalone, but eliminated on consolidation
Amount of interest to be capitalised	✅ Should reflect **real third-party interest** that would have been avoided		Only the avoidable borrowing cost due to qualifying asset should be capitalised

8 Significant Differences between Ind AS 23 and AS 16

Basis of differences	Ind AS 23	AS 16
Qualifying Asset measured at Fair Value	Does not require entity to apply standard to qualifying asset measured at fair value	Does not provide for such scope relaxation



Calculation of interest expense	Calculation of interest expense using effective interest rate method as described in Ind AS 109	Borrowing costs to include: interest and other expenses, amortisation of discounts or premiums, amortisation of ancillary costs
Reporting in Hyperinflationary Economies	When Ind AS 29 is applied, part of the borrowing costs that compensates for inflation should be expensed	Does not contain similar clarification as no such standard on Hyperinflationary Economies
Substantial Period of Time	Explanation of 'Substantial Period of Time' is not included	Gives explanation for meaning of 'Substantial Period of Time'
Borrowings of the Parent and its Subsidiaries for Computing Weighted Average	Specifically provides that in some circumstances, it is appropriate to include all borrowings of parent and its subsidiaries when computing weighted average of borrowing costs while in other circumstances, it is appropriate for each subsidiary to use weighted average of the borrowing costs applicable to its own borrowings.	No specific provision
Applicability to Inventories	Excludes inventories that are manufactured/ produced in large quantities on a repetitive basis	Does not provide for such scope relaxation
Disclosure of Capitalisation rate	Requires disclosure of capitalisation rate	Does not have this disclosure requirement

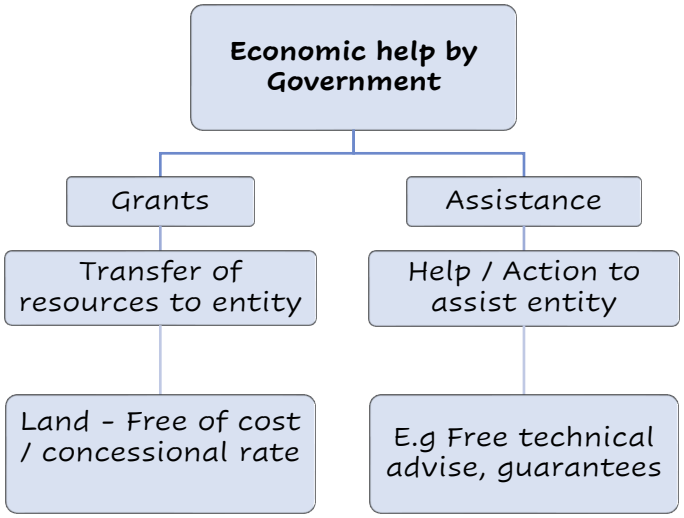
Other things to note:

- The **capitalisation rate** is calculated by considering **all general borrowings outstanding during the financial year**, not just those during the construction period.
- In some cases, it is appropriate to include **all borrowings of the parent and subsidiaries** when computing a **group-wide weighted average borrowing rate**. In other cases, **each subsidiary** should use the **weighted average of its own borrowings**.
- When an entity applies **Ind AS 29** (*Financial Reporting in Hyperinflationary Economies*), it must **expense** the portion of borrowing cost that **compensates for inflation** during the same period.
- **Borrowing costs** on **maturing inventories** (e.g., wine, whiskey) may be **capitalised** if the **inventory increases in value with age**.
- **Dividends payable** on instruments **classified as financial liabilities** under **Ind AS 32** are treated as **borrowing costs**



Ind AS 20
Accounting for Government Grants and Disclosure of Government Assistance

1 Introduction

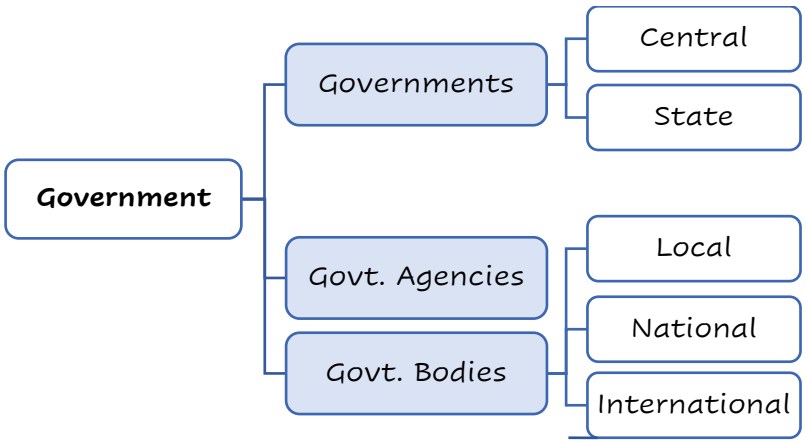


Importance of accounting Government grants

- It shows how much benefit the entity got from the government during the year.
- Helps users of financial statements (like investors and lenders) understand the impact of the grant on profit and financial position.
- Makes it easier to **compare**:
  - The company's performance with previous years, and
  - With other companies that didn't get such grants.
- Ind AS 20 ensures that grants are accounted for properly so that the financial statements show a **true and fair view**.

2 Important Terms

2.1 Government



2.2 Government Grant & Assistance

Basis of Difference	Government Assistance	Government Grant
Definition	**Action** by the government designed to provide an **economic benefit** specific to **an entity or group of entities** meeting certain criteria. *(Ind AS 20, Para 3)*	Assistance by government in the form of **transfers of resources to an entity** in return for **past or future compliance** with certain **conditions** relating to the **operating activities** of the entity. (e.g. subsidies, subventions, or premiums.)



Form of Benefit	Support / Help	Involves **transfer of resources** – monetary (e.g., cash subsidy) or non-monetary (e.g., free land)
Recognition in Accounts	**Not recognised** as income or liability, but is **disclosed**	**Recognised** in financial statements – either as deferred income or deducted from asset cost (as per grant type)
Examples	- Speedy approvals for production license (e.g., vaccine) - Technical Assistance	- 20% reimbursement of capital expenditure in backward area - Cash subsidy for employing rural workforce

Government Assistance does not include mere infrastructural development.

2.2.1 Exclusions from Government Grant

- assistance which cannot be reasonably valued and
- transactions with government which are in the course of normal trading transactions of the entity.

2.2.2 Government Assistance (Not Recognised as Government Grant)

Example No.	Scenario	Explanation
1. Free Technical Help / Guarantees	Govt provides free expert advice or guarantees loans.	These are **benefits**, but since **no monetary value can be reliably assigned**, they are **not recognised as grants**. Still, they are **government assistance**.
2. Govt Procurement Policy	Government buys products regularly from the company.	Even if a part of the company's sales comes from govt demand, it is treated as **normal trading activity**, and **not separated out** as a grant.
3. Priority Bidding / Reservation Quota	Small entities get preference in government contracts.	This helps the business grow, but the **benefit can't be measured**, so it's **assistance but not a grant**.
4. Loan at Market Rate	Government-owned banks offer a loan at **market rate**.	Since the rate is not concessional, the benefit is **not special**, and hence **not a grant**, though it still counts as **government assistance**.

2.2.3 Government Assistance – No Specific Link to Operating Activities

Sometimes, the government gives support to businesses to promote **a region** or **an industry**, even if the support isn't tied to any specific business activity like production, sales, or exports.

Examples:

- Grant given to entities just because they **belong to a particular industry** (e.g., renewable energy).
- Support given to **recently privatised companies** to keep them operational.
- Incentives for companies that **set up in underdeveloped or backward areas**.

Is this a Government Grant under Ind AS 20?

Yes – As per **Appendix A of Ind AS 20**, such assistance **is a government grant**, **even if not tied to a specific operating activity**, **as long as**:

- It is provided to encourage operations in a certain **region** or **industry**, and
- It involves transfer of resources and basic compliance.



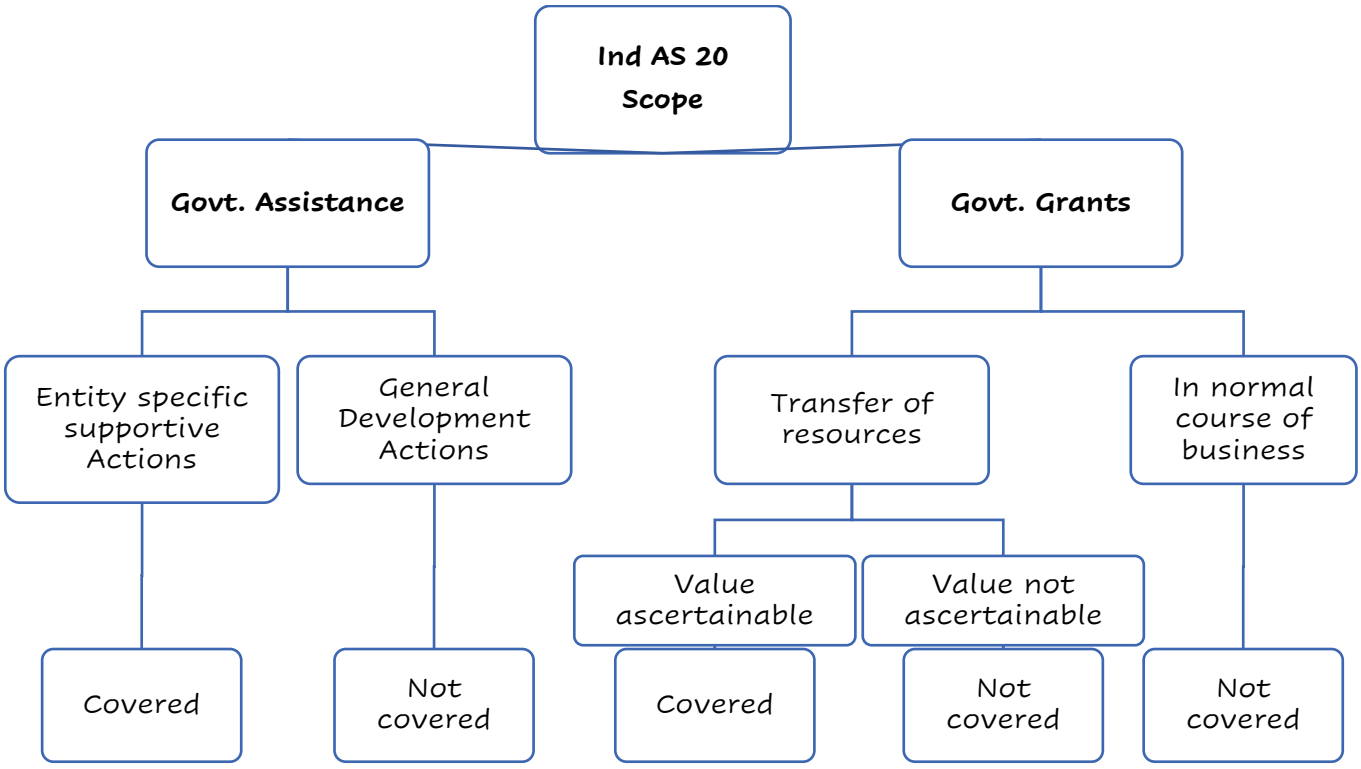
3 Scope / Applicability

3.1 Scope

Ind AS 20 is applied for:

(a) accounting and disclosure of government grants; and

(b) disclosure of other forms of government assistance.



3.2 Ind AS 20 – Exclusions

Nature of Exclusion	Explanation / Example
Government ownership in the entity	If the government takes an equity stake (e.g., buys shares in a PSU), it is not a grant.
Grants covered by Ind AS 41 – Agriculture	E.g., Government subsidies for biological assets like livestock or crops.
Price support mechanisms or supplementary pricing benefits	E.g., Minimum Support Price (MSP) schemes or inflation compensation schemes.*
Income tax-related benefits	like income tax holidays, investment tax credits, accelerated depreciation



For further Understanding

** Ind AS 20 excludes the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.*

*Governments provide **support linked to prices**, such as:*

- ***Minimum Support Price (MSP) schemes***
- ***Price stabilization subsidies***
- ***Inflation-adjusted reimbursements***
- ***Subsidies based on price benchmarks (e.g., cost-plus fuel pricing)***

*These types of support are **not considered government grants under Ind AS 20** because:*

- *Their **primary purpose is price regulation**, not targeted assistance based on specific compliance by entities.*
- *They are **macro-economic instruments**, not entity-specific grants.*

Important Note :

Sales tax exemption: Expert Advisory Committee (EAC) have opined that sales tax (now GST) foregone by government will be covered under Ind AS 20.

Reason : Sales tax is directly related to operations (sales) and the amount is reliably measurable whereas income tax is based on income.

4 Types Government Grants

Particulars	Grants Related to an Asset	Grants Related to Income
Definition	Grants given **primarily for purchase, construction, or acquisition** of long-term assets	Grants **not related to acquisition of assets**, but intended to compensate for expenses or losses
Purpose	To support capital investment	To support operating income, reduce cost, or promote certain business activities
Examples	- Reimbursement of capital expenditure for setting up a lab in a government-notified food processing zone	Lump sum payment on employing specified number of employees
Presentation in Financials	Presented in the **Balance Sheet**	Presented in the **Statement of Profit and Loss (P&L)**
Recognition Options (Ind AS 20)	- **Deducted** from the cost of the asset (netting method), or - **Presented as deferred income** and amortised systematically	- Either shown as **'Other Income'**, or - **Deducted from related expense** (e.g., salaries, utilities)



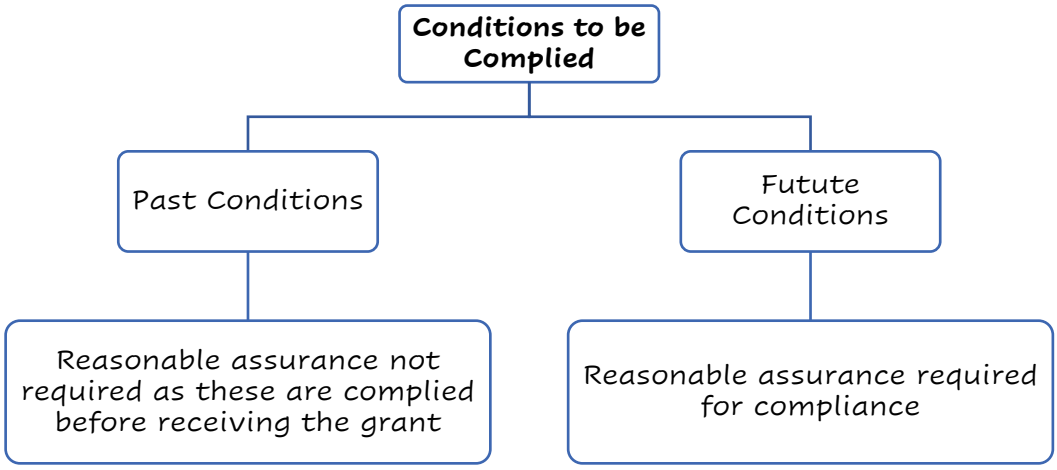
5 Recognition of Govt. Grant

5.1 Essentials for Recognition

Government grants including non-monetary grants should be **recognised** by an entity when, there is a **reasonable assurance** that:

- the entity will **comply with the conditions** attached to the grants &
- the grants will be **received**.

Manner of receipt of grant does not affect the accounting treatment.



A grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

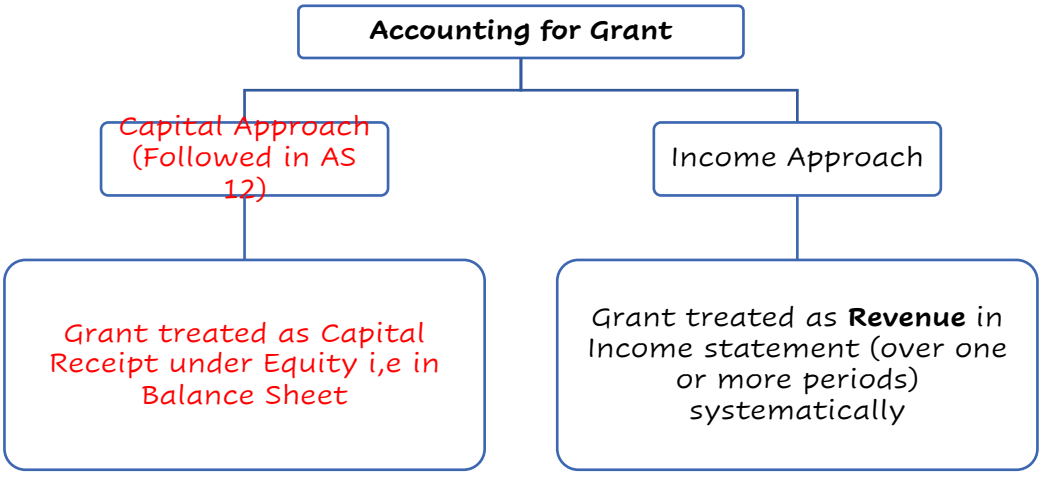
Receipt of a grant is not conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

So, till the point, the conditions are satisfied by the entity, the grant will not be recognised and may be disclosed as a liability in the financial statements.

5.2 Accounting Treatment for Grant

5.2.1 Recognition in the Statement of Profit and Loss

Ind AS 20 prescribes Income Approach.





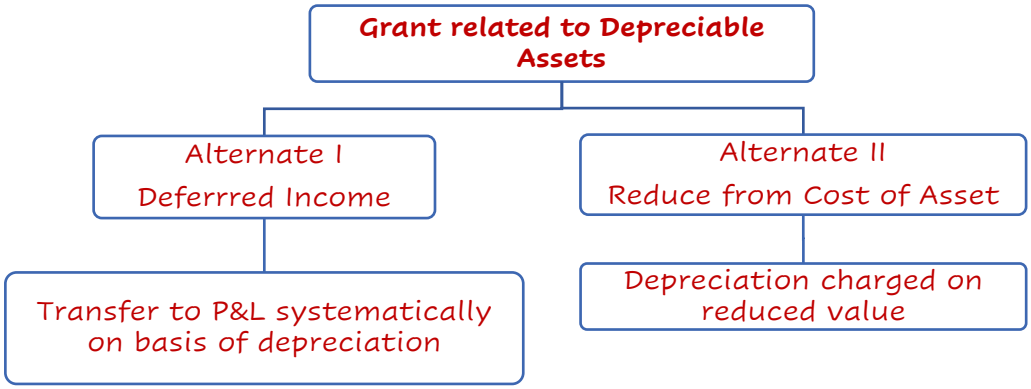
IND AS 20 – Accounting for Government Grants and Disclosure of Government Assistance

Government grants are **recognised on a systematic basis over the periods in which the entity recognises the related costs** for which the grants are intended to compensate.

For e.g., a grant received for purchase of a capital asset can be recognised over the estimated useful life of the capital asset over which depreciation would be charged.

Recognition of Government grant in most cases is the period(s) over which an entity recognises the costs or expenses related to a government grant.

5.2.2 Grants related to Assets



Example: Accounting for Grant received in Cash Rs.10 lakhs for purchase of Asset

Scenario	Approach I – Deferred Income Approach	Approach II – Capital Approach (Net-Off)
Asset Purchase Entry	Asset A/c Dr. ₹30 To Bank A/c ₹30	Asset A/c Dr. ₹30 To Bank A/c ₹30
Grant Received Entry	Bank A/c Dr. ₹10 To Govt. Grant (Def Inc) A/c ₹10	Bank A/c Dr. ₹10 To Asset A/c ₹10
Depreciation (5 Years SLM)	Depreciation A/c Dr. ₹6 To Acc. Depreciation A/c ₹6	Depreciation A/c Dr. ₹4 To Acc. Depreciation A/c ₹4
Grant Recognition in P&L (Year 1)	Govt. Grant (Def Inc) A/c Dr. ₹2 To P&L A/c ₹2	*No entry – Already adjusted against asset value*
Net Impact on P&L (Year 1)	**Depreciation ₹6 Lakhs** **Less: Grant Income ₹2 Lakhs** ➡️ **Net Debit ₹4 Lakhs**	**Depreciation ₹4 Lakhs** ➡️ **Net Debit ₹4 Lakhs**

- 🔹 **Both approaches result in same net impact on P&L**: ₹4 Lakhs
- 🔹 **Deferred Income Approach** keeps asset at full cost and shows grant separately.
- 🔹 **Capital Approach** reduces the carrying amount of the asset directly.

5.2.3 Non-Depreciable Assets

Grants related to **non-depreciable assets** can also be recognised in the same way,

- reduce from cost of asset
- recognise in P&L over the period of time,
  - based on conditions to be fulfilled over a period of time or
  - if there are related costs to be incurred in relation to such non-depreciable asset.

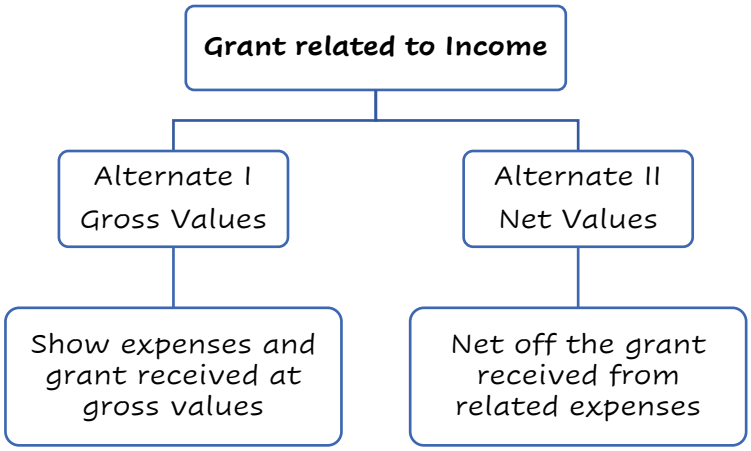
For example – If grant related to land is subject to the condition of construction of building, then the grant can be recognised in income statement over the life of building.

5.2.4 Cash Flows for Govt. Grant presentation

Cash flows from grants and the corresponding acquisitions of the capital assets have to be disclosed on gross basis under the Investing Activities.



5.3 Accounting for Grant Related to Income



5.3.1 Presentation of grant related to income

Government grants are **recognised under deferred Government grants A/c** and are subsequently recognised in profit and loss on the basis of expenditure incurred by

- **a credit** in the Statement of Profit and Loss, (separately or under a general heading such as 'Other income'); or
- **a reduction** in reporting the related expense. For e.g., grant received for employment can be deducted from the employment or the payroll cost.

5.4 Government grants cannot be recognised receipts basis

Govt. Grants are recognised **on accrual basis**.

Govt. grant can be **recognised on receipt if**

- Conditions to receive are already satisfied and
- No future related costs are to be incurred

Grant received by an entity from govt. as relief or to cover impact of losses can be recognised on receipt or when it becomes receivable, whichever is earlier as there are no other conditions associated with it and there are no further related costs.

5.5 Grants received in packages

When grants are received as part of packages i.e. a set of grants given to a single entity, each grant needs to be

- Identified as grant related to asset or grant related to income
- Apply the recognition criteria based on
  - Conditions attached to each grant
  - Nature of each grant

6 Non-Monetary Govt. Grant

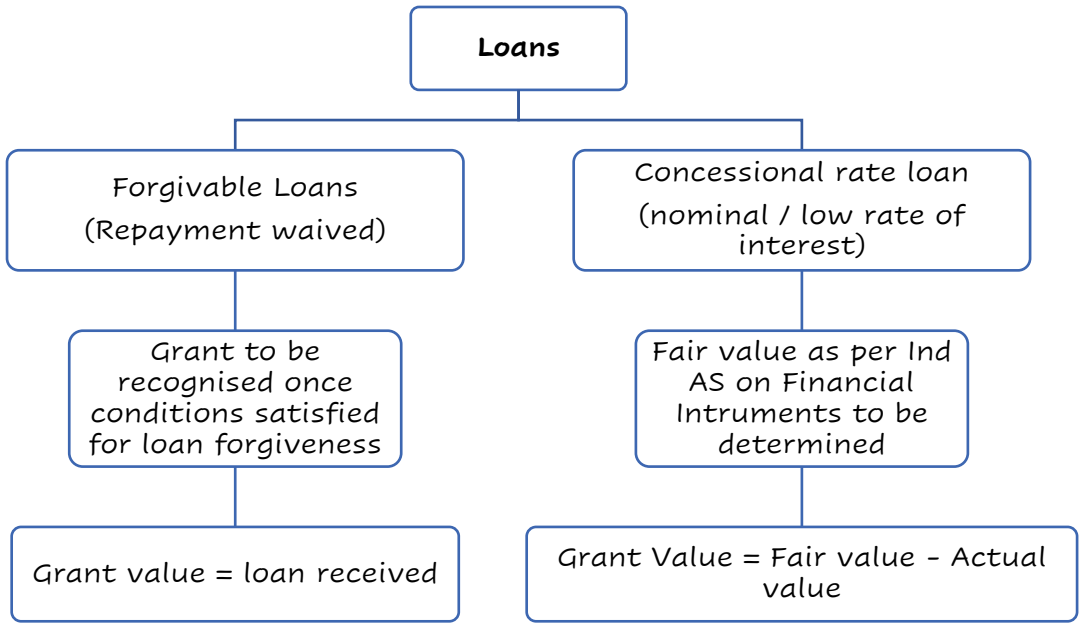
Non-monetary grants are those which do not involve transfer of cash or cash equivalents. Such grants are recognised using either the fair value approach or nominal value approach.

Accounting treatment – If government gives a grant in form of land (FV ₹ 10 lakhs) at a concessional rate of ₹2 lakhs



Aspect	Fair value	Nominal value
Asset Value (Land)	Recognized at **fair value** i.e. **₹10 lakhs**	Recognized at **concessional amount** paid i.e. **₹2 lakhs**
Grant Recognition	Government Grant of **₹8 lakhs** (10 - 2) is credited to **Deferred Income A/c**	No separate recognition of grant – asset is shown at amount paid.
Initial Journal Entry	Land A/c Dr. ₹10 lakhs To Bank A/c ₹2 lakhs To Deferred Grant A/c ₹8 lakhs	Land A/c Dr. ₹2 lakhs To Bank A/c ₹2 lakhs
If land given free of cost	Same treatment as above	Recognised at Nominal value of say ₹ 100.
Amortisation of Grant (if applicable)	If land has indefinite life, no depreciation. Otherwise, amortise grant over asset's life	Not applicable (no deferred grant exists)
Balance Sheet Impact	Land shown at **₹10 lakhs**, and **Deferred Grant ₹8 lakhs** shown as liability	Land shown at **₹2 lakhs**
P&L Impact	No impact initially. If amortised, grant income recognized over period	No P&L impact as grant not recognised separately

7 Grants related to Loans



For forgiveness of loan to be considered as a government grant, the entity should have reasonable assurance, that the conditions will be met.

What happens if the government grants a loan below the market rate of interest?

The benefit of a government loan at a below-market rate of interest is treated as a government grant.

Step 1 : Compute fair value of loan considering market rate of interest
Step 2 : Government grant = Loan Received – Fair value as per Step 1
Step 3 : Recognise grant as per Ind AS 20. Recognise Loan as per Ind AS 109

Here's an **illustrative example** explaining the accounting treatment **when a government loan is granted at a below-market interest rate**, as per **Ind AS 20** and **Ind AS 109**:

Scenario



- **Loan Amount:** ₹10,00,000
- **Term:** 3 years

- **Interest Charged by Government:** 3% p.a. (3% of ₹10,00,000 = ₹30,000)
- **Market Rate of Interest:** 9% p.a.
- **Repayment:** Principal and interest payable annually

1. Fair value of loan

Year	Cashflow (₹)	PV Factor @ 9%	Present Value (₹)
1	₹30,000	0.917	₹30,000 × 0.917 = ₹27,510
2	₹30,000	0.842	₹30,000 × 0.842 = ₹25,260
3	₹10,00,000 + ₹30,000 = ₹10,30,000	0.772	₹10,30,000 × 0.772 = ₹7,95,160
	Total PV (Fair value)		**₹8,47,930**
	Government Grant	₹10,00,000-**₹8,47,930**	**₹1,52,070**

Bank A/c Dr. ₹10,00,000
To Loan A/c ₹8,47,930
To Govt. Grant A/c ₹1,52,070

If the asset has a useful life of 5 years and entity follows SLM for depreciation, the entity will recognise ₹ 30,414 (₹1,52,070/5) in income statement every year.

Interest expense as per Ind AS 109

Year	Opening Bal (₹)	Interest Expense @ 9% (₹)	Payment Made (₹)	Closing Balance (₹)
Year 1	8,47,930	76,314	30,000	8,94,244
Year 2	8,94,244	80,482	30,000	9,44,726
Year 3	9,44,726	**55,274** (bal figure)	30,000	**10,00,000**

8 Repayment of Grant

Sometimes, a **government grant may be required to be returned** if the entity **fails to meet the conditions** attached to the grant or if **circumstances change**.

Example:

- The entity disagrees with the government over compliance
- The entity **winds up** operations **before the qualifying period ends**



Reverse the impact of grant received on repayment of Grant

Accounting Treatment

- If it is a **grant related to income**, then:
  - First, **adjust repayment** against any **unamortised balance** in the **deferred grant account**.
  - **Excess repayment** (if any) is charged to **Profit & Loss A/c** immediately.

Example: Repayment of Grant Related to Income

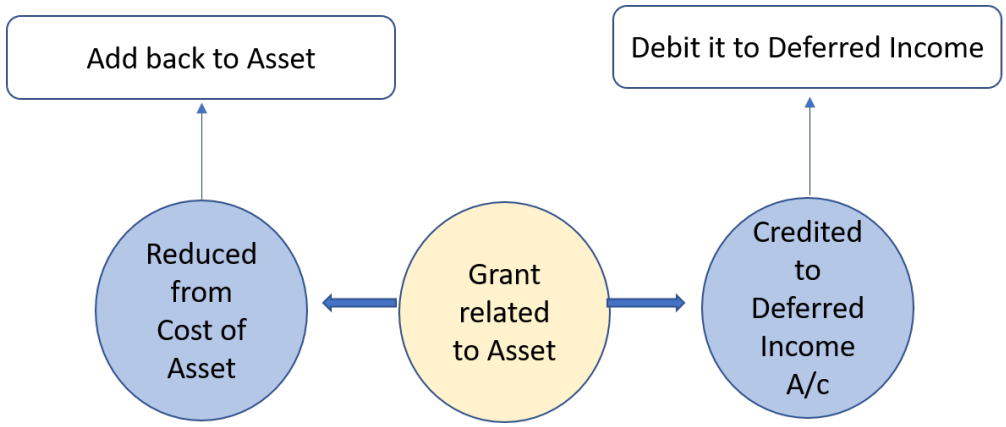
- Entity received **₹5 lakhs** grant
- At the end of **Year 2**:
  - **₹2 lakhs** already **recognised in P&L**
  - **₹3 lakhs** is the **balance in deferred grant account**
- Government demands **repayment** after 2nd year.

Accounting Treatment Summary

Case	Amount to be Repaid	Adjustment Against Deferred Grant A/c	Balance Debited to P&L A/c
(i) Full Repayment	₹5,00,000	₹3,00,000	₹2,00,000
(ii) Partial Repayment	₹2,00,000	₹2,00,000	Nil
	Cr. Bank	Dr. Deferred Grant A/c	Dr. Profit & Loss A/c



8.1 Treatment for refund of grant related to asset



If reduced from cost of asset	If recognised in deferred govt grant
- Add the amount refunded to carrying amount of asset - Shortfall in depreciation in earlier years to be charged immediately	- Debit the amount to deferred govt grant account - Excess balance to be transferred to P&L

A Ltd. acquired a plant for ₹5,00,000 and received a government grant of ₹2,00,000 towards the cost of the asset. As per its accounting policy under Ind AS 20, the company opted to reduce the grant from the cost of the plant.

Year	Opening WDV	Depreciation (SLM)	Closing WDV
1	₹3,00,000	₹60,000	₹2,40,000
2	₹2,40,000	₹60,000	₹1,80,000
		Refund	₹2,00,000
		Carrying Amt	**₹3,80,000**
		Dep on Cost basis	₹2,00,000
		Dep on reduced cost	₹1,20,000
		Shortfall	**₹80,000**
		Revised Carrying Amt	**₹3,00,000**

8.2 Change in Estimate

If a government grant becomes repayable, it shall be accounted for as a change in accounting estimate as per Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

9 Government Assistance disclosure

For those government assistance in the form of

- transactions on which value cannot reasonably placed or
- transactions with government which cannot be distinguished from the normal trading transactions of the entity,

the entity should disclose the

- nature,
- extent and
- duration

of such assistance / transaction.

Disclosure is important because the entity's performance is dependent on such assistance and non-disclosure in financial statements might be misleading for the stakeholders and investors.



10 Disclosures

The entity needs to disclose the following:

- accounting policy adopted for government grants,
- presentation methods adopted (the two approaches).
- nature and extent of government grants recognised in the financial statements
- government assistance from which the entity has directly benefited
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

11 IND AS 20 vs AS 12

Basis of differences	IND AS 20	AS 12
Title	Accounting for Government Grants and Disclosure of Government Assistance	Accounting for Government Grants
Govt. Assistance	Included in scope for the purpose of Ind AS	Does not include government assistance
Recognition	Prohibits recognition of grants directly in the shareholders' funds.	
Monetary grants related to non-depreciable assets	Cannot be credited to Capital Reserve Taken to P&L A/c systematically using Deferred Income A/c	Credited to Capital Reserve
Non-monetary govt. grant or assets given at a concessional price	Accounted for at • Fair value; or • Nominal value	• Nominal value for Non-monetary assets given free of cost • Acquisition cost for assets given at concessional price
Grants in the nature of Promoter's contribution	Not covered.	Credit to capital reserve and to be treated as shareholder's funds
Loan at concessional rate	Loan taken at fair value (determined as per Ind AS 109) Value of concession to be recognised as grant.	Not covered
Repayment of Govt. Grant	Treated as Change in accounting estimate	Treated as extra-ordinary item
Appendix Guidance	Guidance for Govt. assistance recognition	No guidance



Ind AS 36
IMPAIRMENT OF ASSETS

1. Introduction

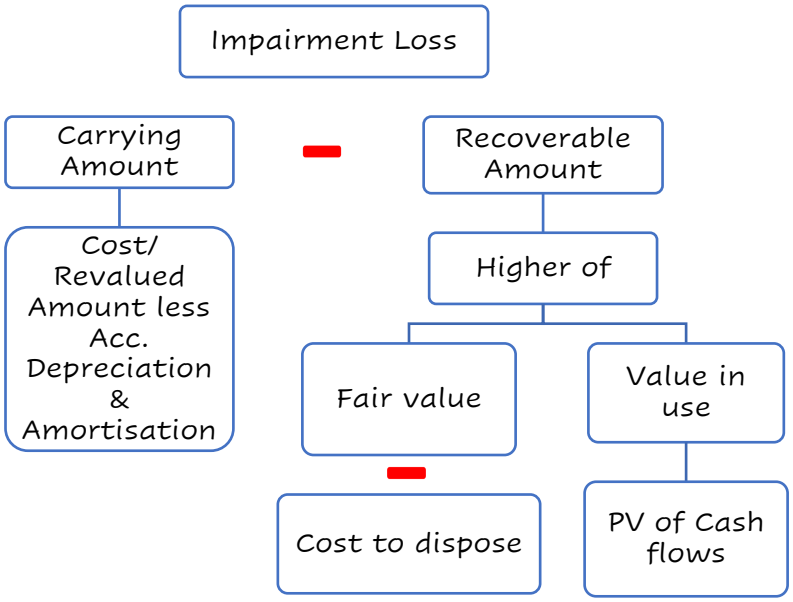
1.1 Scope

Applies to accounting for the impairment of all the assets **other than**

(a) Inventories	Ind AS 2
(b) Contract assets and assets arising from costs to obtain or fulfil a contract	Ind AS 115
(c) Deferred tax assets	Ind AS 12
(d) Assets arising from employee benefits	Ind AS 19
(e) Financial Assets	Ind AS 109
(f) Biological assets related to agricultural activity	Ind AS 41
(g) Deferred acquisition costs and intangible assets arising from insurance contracts	Ind AS 117
(h) Non-current assets (or disposal groups) classified as held for sale	Ind AS 105
(i) Financial Assets	Ind AS 109

This standard applies to financial assets classified as
(a) Subsidiaries (Ind AS 110)
(b) Associates (Ind AS 28)
(c) Joint Ventures (Ind AS 111)

2. Definitions



2.1 Key Terms

Impairment loss = Carrying Amount – Recoverable Amount

Term	Definition
Impairment Loss	The amount by which the **carrying amount** of an asset exceeds its **recoverable amount**.
Recoverable Amount	The higher of an asset's: (a) **fair value less costs of disposal**; and (b) **value in use**.



Value in Use	**Present value** of the **future cash flows** expected to be derived from an **asset** or **cash-generating unit (CGU)**.
Fair Value	**Price** that would be **received to sell** an asset or **paid to transfer** a liability in an **orderly transaction** between **market participants**.
Costs of Disposal	**Incremental costs** directly attributable to the **disposal** of an asset or CGU, excluding **finance costs** and **income tax expense**.
Carrying Amount	Amount at which an asset is **recognised** after deducting **accumulated depreciation (amortisation)** and **accumulated impairment losses**.
Cash Generating Unit	The **smallest identifiable group of assets** that generates **cash inflows** largely independent from other assets. *E.g., Hotel Division of ITC Group*
Corporate Assets	**Assets other than goodwill** that contribute to **future cash flows** of **multiple CGUs**. *E.g., Corporate Head Office, Shared Services Center*

3. Depreciation vs Impairment

Depreciation/ Amortisation	Impairment of Asset
(a) Reduction in the value of the asset	(a) Reduction in the value of the asset
(b) It is allocation of depreciable amount on a systematic basis.	(b) It is done only when there are indications that the asset was impaired.

4. Identifying an Asset that may be impaired

4.1 General Rule –

Assess at the end of each reporting period whether there is any indication that an asset may be impaired.

If any indication exists, estimate the recoverable amount of the asset.

4.2 Exceptions to the general rule

The following items are required to be tested for impairment at least annually

Item	***Reason***
Intangible assets with indefinite useful life	Since these assets are **not amortised**, there is a higher risk of overstatement. Hence, impairment testing is required annually to assess recoverability.
Intangible assets not yet available for use	These assets **do not generate cash flows** yet and cannot be amortised until ready for use. Annual impairment ensures they are not carried at excess value.
Goodwill acquired in a business combination	Goodwill is **not amortised** and its recoverability depends on the future performance of the business. Annual testing prevents **overstatement** of assets.

4.2.1 Impairment in respect to Intangible Assets referred above –

- Impairment test may be performed at any time during an annual period, but it should be performed at the **same time every year.**
- Different intangible assets may be tested for impairment at different times.
- If the above intangible assets were initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period.



5. Indications of Impairment

5.1 External source of Information

Impairment Indicator	Reason
Significant **decline in market value**	Reduces **fair value less cost of disposal**
Adverse changes **in** technology, market, economic, or legal environment	Negatively impacts the entity's **operations/profitability**
Increase in market interest rates **or** expected rate of return	Increases **discount rate**, lowering **value in use**
Carrying amount of net assets **exceeds the** market capitalisation **of the entity**	Suggests possible **overstatement of assets**

Sometimes the above indications **may not affect the specific company** and management may have their own strategies to overcome the challenges

For Example:

(i) Increase in short term interest rate may not have direct impact on the value in use in long run.

(ii) Increase in outflows may be compensated by increase in selling price

5.2 Internal sources of Information

Impairment Indicator	Reason
Obsolescence or **physical damage** of asset	Reduces asset's **service potential**
Significant adverse change in use or expected use of an asset	Affects **recoverable amount**
Worse-than-expected economic performance based on **internal reporting**	Indicated by **higher cash outflows**, **lower inflows**, or **operating losses**

5.3 Investment in Subsidiary, Joint Venture and Associates - Indicators

If the investor **recognises a dividend** from the investment and evidence is available that

Carrying amount of investment (in separate financial statements)	>	Carrying amount of investee's net assets (including associated goodwill) in the consolidated financial statements.
Dividend	>	Total Comprehensive income of investee.

6. Measurement of Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

6.1 It is not necessary to calculate both an asset's fair value less costs of disposal and its value in use if,

(a) **one of these amounts exceeds the asset's carrying amount**.

(b) there is **no basis for making a reliable estimate of fair value** less costs of disposal, recoverable amount is measured by reference to value in use alone.

(c) If earlier computations show that recoverable amount > carrying amount (**significantly**), it need not to perform the same immediately unless there are significant changes which affect it.



7. Cash Generating Unit (CGU)

If recoverable amount cannot be determined for an individual asset, it is determined for a CGU. An entity identifies the lowest aggregation of assets (CGU) that generate largely independent cash inflows, **monitored for internal management purpose.**
CGUs shall be **identified consistently** from period to period for the same asset or types of assets **unless a change is justified**.

7.1 Existence of active market for the output produced by asset/CGU

Scenario	Explanation	
Active market exists for output	If there is an **active market** for the **output of an asset or group of assets**, it shall be treated as a **separate CGU**, even if some or all output is used **internally**.	A **refinery** producing oil sold by other divisions, or **power plants** generating electricity for internal use.
Impact of internal transfer pricing	Where **internal transfer pricing** affects cash flows, use **management's best estimate** of **future market-based prices** in impairment calculations.	Applies to a) **Future cash inflows** for calculating the **value in use** of the asset/CGU. b) **Future cash outflows** for other CGUs affected by internal pricing.

8. Fair Value Less Cost of Disposal (FVLCD)

8.1 Fair Value

Fair value is the price that would be **received to sell** an asset or **paid to transfer a liability** in an orderly transaction between market participants at the measurement date.

8.2 Cost of Disposal

Costs of disposal are defined as the **incremental costs directly attributable** to the disposal of an **asset** or a **cash-generating unit (CGU)**. These costs are considered **only if they are directly incurred to bring the asset to a saleable condition**

Included in Costs of Disposal	Excluded from Costs of Disposal
Stamp duty directly related to the sale	**Finance costs**
Cost of removing the asset from its location	**Income tax expense**
Direct incremental costs to bring the asset into saleable condition (e.g., cleaning, repairs)	**Terminal benefits to employees**
Legal and regulatory fees incurred solely for the disposal	**Costs related to business reorganisation** post-disposal

If the **disposal** of an asset would require the **buyer** to **take over a liability** and **single fair value** less cost of disposal is available for both the asset and the liability, then
FVLCD = Price to sell asset and the liability **Less** cost of disposal

9. Value in Use

Value in use is the present value of the future cash flows expected to be derived from an asset or CGU

9.1 Estimation of Expected Future cash flows

(a) **Cash flow projections** should be based on **reasonable and supportable evidence**.



(b) The estimations must be based on **economic conditions** that will exist over the **remaining useful life** of the asset.

(c) **More weightage** should be given to **external evidence** compared to internal assumptions.

(d) Use the **most recent financial budgets and forecasts** approved by **management**.
Forecasts **should not include** cash flows from **future restructuring** or **performance enhancements**.
However, if the entity is **committed to restructuring**, then **cash flows from such restructuring should be included**.

(e) The **maximum period** for explicit cash flow projections is **five years**, **unless a longer period is justified**.

(f) For periods **beyond the budget**, projections should assume a **steady**, **declining**, **zero**, or **negative growth rate**.
An ***increasing growth rate*** *should be used* ***only when justified***.

(g) The **growth rate used** should not exceed the **long-term average growth rate** of the **product, industry, or country**, unless a **higher rate is justified**.

(h) **Estimated cash flows** can be developed using one of the following approaches:
(i) **Traditional approach** – considers the **best possible outcome**;
(ii) **Expected value approach** – based on **probability-weighted multiple outcomes**.

9.1.1 Inclusions and Exclusions from Future cash flows –

Inclusions	Exclusions
(i) Cash flows from the continuing use **of the asset**	(i) **Cash inflows from independent assets** not under review (e.g., **receivables**)
(ii) Net cash flows from disposal **of the asset at the end of its** useful life **(based on** arm's length **price)**	(ii) **Cash outflows relating to recognised liabilities** (e.g., **payables**)
(iii) Day-to-day servicing costs**, and** future overheads **attributable or reasonably allocable to the asset**	(iii) **Cash flows from uncommitted restructuring plans** – If **committed**, include via **provision under Ind AS 37**
(iv) Allocated corporate overheads**, provided they are** reasonable and consistent	(iv) **Internal charges** imposed on CGUs for use of **corporate assets**
	(v) **Cash flows for future enhancements** or **performance improvements** of the asset
	(vi) **Cash flows from financing activities**
	(vii) **Income tax inflows and outflows**

Note: Only **direct, attributable, and realistic operational cash flows** are included in VIU. Items relating to **financing**, **tax**, or **unrelated assets/liabilities** are excluded.

Other Important Points:
(i) To estimate **net cash flows on disposal**, the entity should use **current market prices** for **similar assets** that have reached the end of their **useful life** and were used in **comparable operating conditions**.
(ii) Future cash flows must be **consistent with assumptions used in determining the discount rate**.
Since the **time value of money** is incorporated through **discounting**, cash flows from **financing activities** are **excluded** from the estimation.
(iii) Future cash flow estimates should include **necessary outflows** to maintain the asset or CGU's **current level of performance**.



If an asset or CGU contains components with **different useful lives**, then the **replacement cost** of components with **shorter lives** should be included in the cash flow projections.

9.1.2 Foreign currency future cash flows

(i) Future cash flows are **estimated in the foreign currency** in which they will be generated and then discounted using the **discount rate appropriate for that currency.**

(ii) Entity translates the present value using the **spot exchange rate at the date of calculating value in use.**

9.2 Discount Rates

It is the rate of return that an investor requires to earn from the asset.

- **Discount Rate is the**
  - Pre Tax rate
  - Reflect current market assessment of
    - Time Value of Money
    - Risk specific to the asset for which future **cash flows** have **not been adjusted.**

Risk Specific to the asset –

(i) **If cashflows are adjusted for risks, then the same is not adjusted in discount rate.**

(ii) If the business with asset/CGU is risky, the entity's expectation of return is high and vice versa.

(iii) Entity should use different rates for different assets or CGUs considering risks associated.

(iv) This asset specific rate is estimated from the rate

- Implicit in current market transactions for similar assets **(or)**
- Weighted average cost of capital of a listed entity that has single asset (or a portfolio) similar in terms of service potential and risks to the asset under review.

When **asset specific rate is not directly available** from the market, an entity uses other bases such as

(a) Weighted average cost of capital (WACC) determined using CAPM technique

(b) Enterprise incremental borrowing rate

(c) Other market borrowing rates.

(v) The above rates can be adjusted by

- Adding specific risks associated with projected cash flows
- Excluding risks that are not relevant to the projected cash flows.
- Country risks, currency risks, price risks and cashflow risks are also considered.

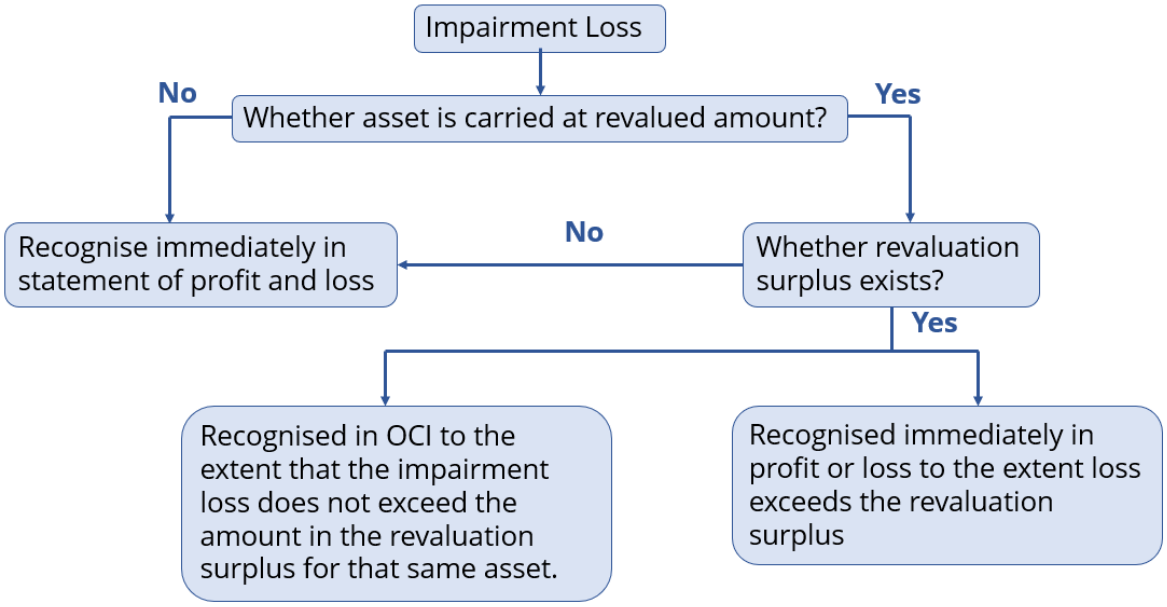
9.3 Adjustment to Inflation in cash flows and Discount rate

Condition	Treatment
If **discount rate includes** general inflation	**Estimate future cash flows in nominal terms** (i.e., includes inflation)
If **discount rate excludes** general inflation	**Estimate future cash flows in real terms**, but still include **specific price changes** (product/industry level)



10. Recognition and Measurement of Impairment Loss

10.1 Individual Assets

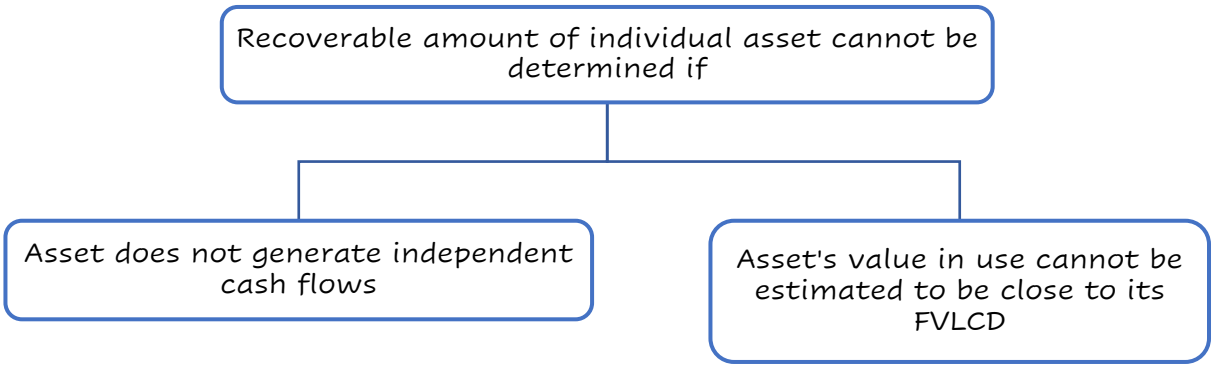


Other important points

(a) If the **impairment loss exceeds the carrying amount** of the asset, the entity shall **recognise a liability** only if required by another standard. Ind AS 36 does **not allow recognition of negative carrying amounts**.

(b) Once the **impairment loss is recognised**, any future **depreciation or amortisation** must be calculated based on the **revised carrying amount** over the asset's **remaining useful life**.

(c) After impairment, any related **deferred tax assets or liabilities** should be determined in accordance with **Ind AS 12**, by comparing the **revised carrying amount** of the asset with its **tax base**.



10.2 Cash Generating Unit

10.1.1 Carrying amount of CGU

Inclusions	Exclusions
(i) Carrying amount of only those assets that can be attributed **directly**, or allocated on a **reasonable and consistent** basis, to the CGU and will generate future cash flows.	(i) Carrying amount of any recognised liability **unless** the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.



If disposal of CGU would require the buyer to assume the liability,
FVLCD of CGU = Estimated selling price of assets & liability of CGU – cost of disposal.

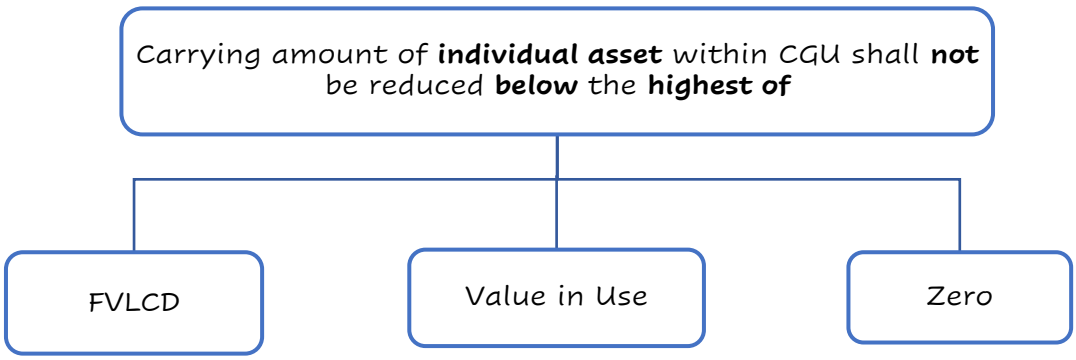
Carrying amount of liability is deducted in determining CGU's value in use and it's carrying amount to perform meaningful comparison.

Example
ABC Ltd. owns a **manufacturing CGU** consisting of machinery, inventory, and land with total carrying amout of ₹120 lakhs . This CGU includes an attached **site restoration obligation** of ₹10 lakhs, which any buyer would be required to assume on purchase. Hence the net carrying amount would be ₹110 lakhs.

Assume present value of cashflows of CGU is ₹90 lakhs and the liability has a value of ₹10 lakhs. The value in use would hence be ₹80 lakhs. The impairment loss would be ₹30 lakhs.

10.1.2 Order of allocating impairment loss to assets of CGU

Order	Allocated to	Remarks
I	Goodwill	Will never be reversed
II	Other Assets	On prorata basis in the ratio of carrying amount of each asset.



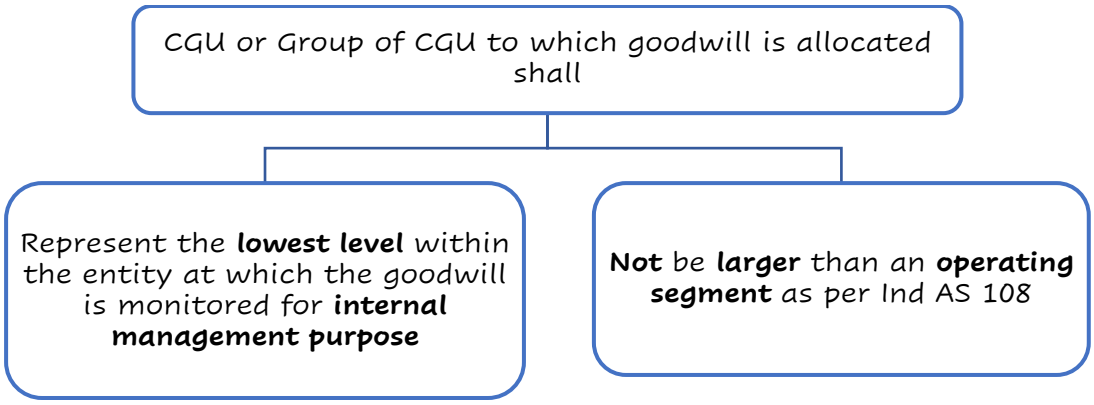
If any particular asset carrying amount becomes zero after impairment, the remaining impairment loss should be allocated to other assets on pro rata basis as if the asset does not exist.

11. Goodwill

- Goodwill acquired in a **business combination** must be **allocated** for impairment testing.
- Allocation is done **from the acquisition date**.
- It should be assigned to the **acquirer's CGUs or group of CGUs** that are **expected to benefit from the synergies** of the combination.
- The allocation must be done on a **non-arbitrary** and **reasonable basis**.
- This applies **regardless of** whether **other assets or liabilities** of the acquiree are assigned to those CGUs or not.



11.1 Size of CGU to which goodwill is allocated



Example –

PRIORITY	LEVEL	EXAMPLE	GOODWILL ALLOCATED HERE IF:
4	Entity	ABC Group Ltd.	Only if not monitored at lower levels
3	Operating Segment as per Ind AS 108	North, South, East & West Division	Only if not monitored at group/CGU level
2	Group of CGUs	All stores in Bengaluru	Monitored at this group (if appropriate)
1	Individual CGU	MG Road store, Bengaluru	Monitored at this CGU (most granular)

- If the entity has operating segment, it cannot allocate goodwill at Entity level.
- If Group of CGUs is being monitored, you cannot allocate at operating segment level.

11.2 Timing of impairment test of Goodwill

(a) The annual impairment test for a CGU to which goodwill has been allocated may be performed at **any time during an annual period**, provided the test is performed **at the same time** every year.

(b) Different CGUs may be tested for impairment at different times.

- If **goodwill cannot be allocated** to CGUs **before the end of the financial year** in which the acquisition occurred,
- initial allocation **shall** be **completed before** the **end of the first annual period** beginning after the acquisition date.

11.3 Disposal of operation with CGU to which goodwill has been allocated

Goodwill associated with the operation disposed shall be

(a) Included in the **carrying amount of the operation** when determining the gain or loss on disposal

(b) Measured on the basis of **relative values** of the operation disposed of and portion of CGU retained **unless** the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

11.4 Change in composition of CGU to which goodwill has been allocated

In some cases, the entity reorganises the composition of CGUs (i.e., merging and demerging of CGUs) for corporate reporting purpose. In such case,

(a) Goodwill shall be reallocated to the units affected.

(b) Reallocation shall be performed using a relative value apprroach unless the entity can demonstrate some other better method.



11.5 Testing CGU with goodwill for impairment

Situation	When to Test?
When goodwill is related to the CGU but not allocated	Only when there is an indication that it may be impaired.
When goodwill is allocated to the CGU	(a) Annually **&** (b) whenever there is an indication that CGU is impaired.

If CGU **includes** in carrying amount an **intangible asset** that has indefinite useful life or not yet available for use, that asset can be tested for impairment only as a part of CGU and unit also to be tested for impairment **annually**.

11.6 Priority for testing impairment

If the assets in CGU to which goodwill has been allocated are tested for impairment at the same time as the unit	Individual assets shall be tested before the unit
If the CGUs constituting a group of CGUs to which goodwill has been allocated are tested for impairment at the same time as the unit	Individual units shall be tested before the group of units

11.7 Two Step approach for goodwill allocated to a group of CGUs

- Sometimes, **goodwill cannot be allocated** to **individual CGUs** on a **non-arbitrary basis**.
- In such cases, goodwill is tested at the level of a **group of CGUs**.
- However, **before testing the group**, each **individual CGU** within the group must be tested for **impairment independently**.
- This ensures that **impairment losses** related to **specific CGUs** are recognised **first**, before assessing the **carrying amount of the group** that includes goodwill.

11.8 Rolling forward detailed calculations from a preceding period

Goodwill:

The entity may **reuse the most recent recoverable amount calculation** (from a prior period) for **current impairment testing** of a CGU containing goodwill **if all of the following are true**:
(a) The **assets and liabilities** in the CGU have **not changed significantly** since the last calculation.
(b) In the last calculation, the **recoverable amount was significantly higher** than the **carrying amount**.
(c) There is a **remote chance** that the **recoverable amount is now less** than the carrying amount.

Intangible Assets:

The entity may also **roll forward the previous recoverable amount** for an intangible asset **if all the following conditions are met**:
(a) The intangible asset is part of a **CGU** and does **not generate independent cash inflows**, and the **CGU's assets and liabilities haven't changed significantly**.

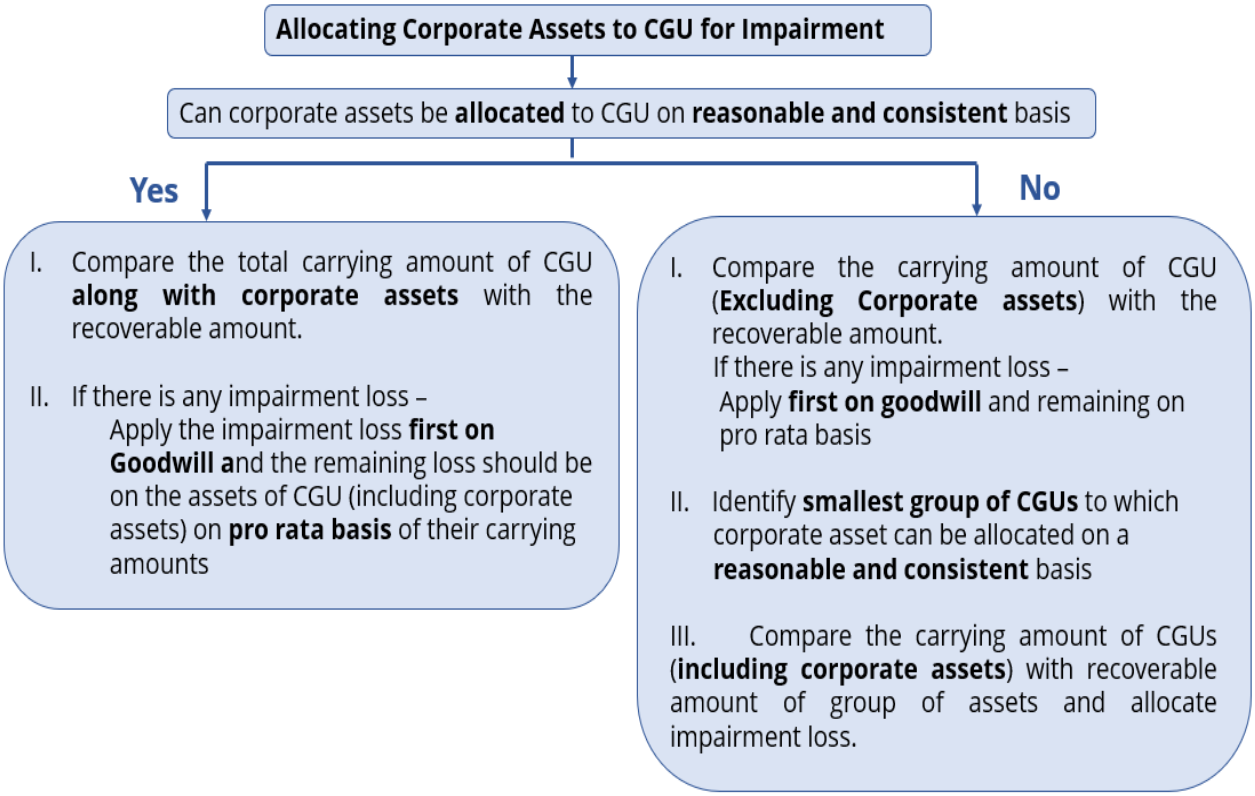


(b) The **previous recoverable amount** was **substantially higher** than the **carrying amount**.
(c) The **likelihood** that the **current recoverable amount is below** the carrying amount is **remote**.

12. Corporate Assets

Corporate assets include group or divisional assets. They do **not generate** cash inflows **independently** of other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.
Recoverable amount of individual corporate asset cannot be determined unless it is disposed off.
For Example:
Head office building, EDP equipment, research centre
Corporate assets are tested for impairment in the context of the CGU or group of CGUs to which asset belongs.

12.1 Allocation of corporate assets to CGUs for impairment



13. Reversal of an Impairment Loss

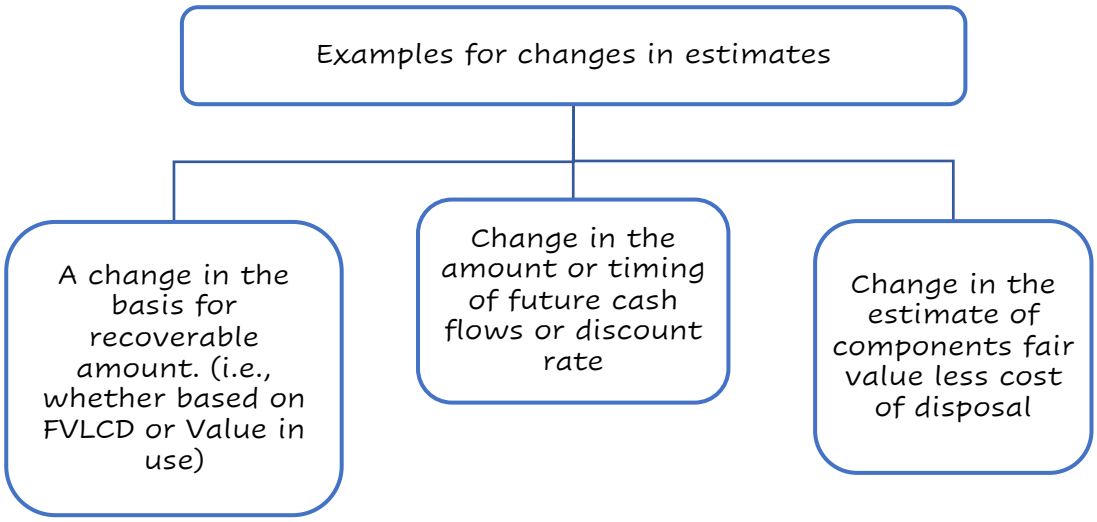
At every balance sheet date, entity should assess whether there is **any indication** that the impairment loss recognised in the previous years may be decreased or no longer exist.
Entity must estimate recoverable amount of that asset if any such indication exists.

Impairment loss recognised for goodwill shall not be reversed subsequently

13.1 Change in Estimates

Impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a **change in the estimates** used to determine the asset's recoverable amount since the last impairment loss was recognised





13.2 Unwinding of Discount

- Asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer.
- However, the service potential of the asset has not increased.
- In such cases, an **impairment loss is not reversed just because of the passage of time** even if the recoverable amount is > carrying amount.

13.3 Indicators of reversal of Impairment Loss

External Indicators	Internal Indicators
(i) Significant increase in market value	(i) Significant change in the way the asset is used or expected to be used.
(ii) Significant changes in technological, economic, legal, market environment which have positive effect on the entity.	(ii) Evidence from internal reporting that indicates that the economic performance of the asset is /will be better than expected.
(iii) Decrease in market interest rates and those are likely to affect discount rates	(iii) Withdrawal of commitment for restructuring, discontinuing operations etc, which gives positive effect to entity.

13.4 Reversal of Impairment in case of Individual Asset

13.4.1 If NO Revaluation done in prior periods:

(a) Reverse the impairment loss by recording below journal entry

Dr.	Asset A/c
Cr.	Impairment Loss (P&L)

- The **increased carrying amount** of an asset shall **NOT exceed** the carrying amount that would have been determined (net of amortisation or depreciation) **had no impairment loss** been recognised for the asset in prior years.
- **Maximum** impairment loss reversal = lower of
  - Impairment loss previously recognised
  - Difference between carrying amount (assuming no impairment) and current carrying amount



13.4.2 If Revaluation done in prior periods:

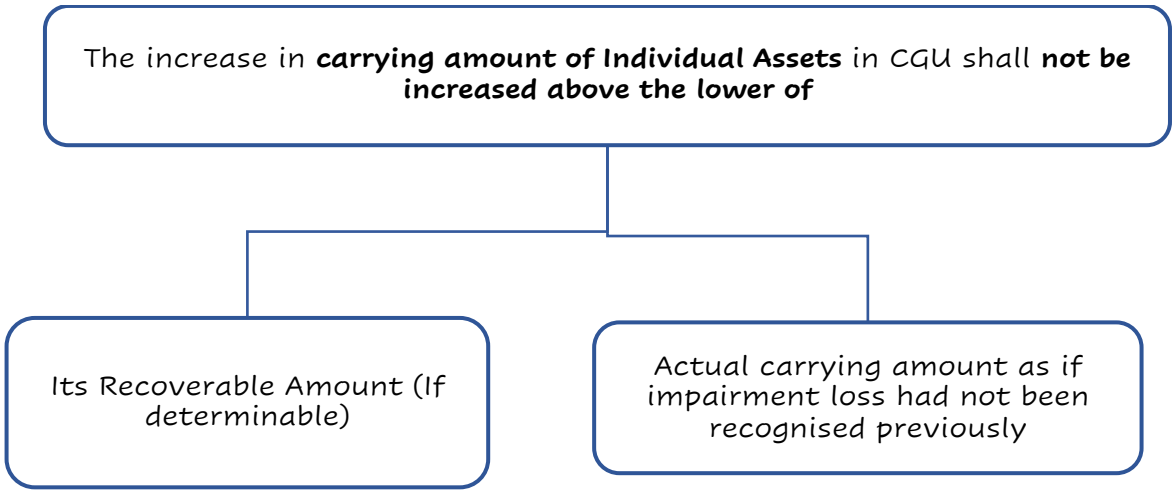
Any reversal of an impairment loss of a revalued asset shall be treated as **a revaluation increase. The treatment prescribed in Ind AS 16/38 shall be applie.**

Dr.	Asset A/c
Cr.	Impairment Loss (P&L) (to the extent recognised in P&L)
Cr.	Revaluation Surplus (Balancing figure)

Depreciation (Amortisation) charge for the asset should be computed prospectively i.e., on the revised carrying amount after deducting residual value, over the remaining useful life of the asset.

13.5 Reversal of Impairment in case of CGU

A reversal if an impairment loss for a CGU should be allocated to **all** assets in CGU **except goodwill** on a pro rata basis of the carrying amount



The amount of the reversal of the impairment loss should be allocated to each asset on a pro rata basis.

14. Non-Controlling Interests – The impact on goodwill impairment testing

Goodwill acquired in business combination is allocated to acquirer's CGU or group of CGUs which are expected to benefit from the synergies of the business combination.
Ind AS 103 prescribes two methods to measure Non-Controlling Interest on date of acquisition.

Fair Value Method:
If non-controlling interest is measured at its acquisition-date fair value, it means that NCI share of goodwill is recognised in consolidated in financial statements.

Proportionate interest in Net Identifiable Assets:
a) If **non-controlling interest (NCI)** is measured using the **proportionate share of net identifiable assets** at acquisition, then **goodwill attributable to NCI is not recognised** in the **consolidated financial statements** of the parent.

- However, such **unrecognised goodwill** is still considered while determining the **recoverable amount** of the **cash-generating unit (CGU)**.

(b) To ensure a **like-to-like comparison**, the acquirer must **gross up the carrying amount of goodwill** in the CGU to include the **portion related to NCI**.
(c) The **adjusted carrying amount** (including full goodwill) is then compared to the **recoverable amount** to assess **impairment** of the CGU.



15. Disclosures

15.1 General

- An entity is required to disclose the **amount of impairment losses** and **reversals of impairment losses** recognised in profit or loss and in OCI during the period **for each class of assets**.

15.2 Entities Reporting Segment Information

- An entity shall disclose the **amount of impairment losses** and **reversals of impairment losses** recognised in profit or loss and in OCI during the period **for each reportable segment**

15.3 Recognition / Reversal of material impairment losses

(a) An entity is required to disclose

- the **events and circumstances** that led to the recognition or reversal
- the **amount of the impairment loss** recognised or reversed
- Some additional disclosures w.r.t individual asset and CGU are as follows

For Individual asset	For CGU
• Nature **of the asset** • Reportable segment **to which the asset belongs** • Recoverable **amount**	• **Description** of CGU • Amount of impairment loss recognised or reversed by **class of assets** & by **reportable segment** • Description of the current and former way of **aggregating assets** and the **reasons** for changing • **Recoverable** amount

15.4 Other impairment losses/reversals material in aggregate to the financial statements

(a) An entity shall disclose

- **the main classes of assets** affected by impairment losses and reversals of impairment losses
- The **main events and circumstances** that led to the recognition of these impairment losses and reversals of impairment losses.

15.5 Unallocated Goodwill

An entity shall disclose the **amount of unallocated goodwill** along with **reasons**

15.6 Information to be disclosed for CGUs to which significant goodwill or indefinite – life intangible assets have been allocated

(a)An entity is required to disclose the following information

- **Carrying amount** of goodwill, intangible assets with indefinite useful life allocated to the unit (group of units)
- **Basis** on which the unit's (group of units') recoverable amount has been determined
- If the recoverable amount of unit is based on value in use / FVCD, disclose the following

Value in use	**Fair value less cost of disposal**
• Key assumptions **on cash flow projections**	• **Key assumptions** on determination of Fair value less cost of disposal



• **Description of** management's approach **to determining the values assigned to each key assumption**	• Description of **management's approach** to determining the values assigned to each key assumption
• Period **over which management has** projected cash flows **and explanations for why** longer period **(> 5 years) is** justified	• **Level** of the fair value hierarchy (Ind AS 113)
• Growth rates **used along with justifications if any**	• Any change in valuation techniques along with reasons
• Discount rates **applied**	• If FVCD is measured using discounted cash flow projections, disclose ✓ the period over which management has projected cash flows ✓ the growth rate used ✓ the discount rate(s) applied

(b) If a reasonably possible **change in a key assumption** would cause the unit's **carrying amount to exceed its recoverable amount**

- the **amount** by which recoverable amount exceeds its carrying amount
- the **value assigned** to the key assumption
- the amount by which the value assigned to the key assumption must change, after incorporating any **consequential effects of that change on the other variables** used to measure recoverable amount, in order for the unit's recoverable amount to be equal to its carrying amount.

15.7 Information to be disclosed for CGUs to which insignificant goodwill or indefinite-life intangible assets have been allocated

(a) The amount so **allocated** to each unit (group of units) is **not significant** in **comparison with** the entity's **total carrying amount** of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units).

(b) In addition, if the **recoverable amounts** of any of those units (groups of units) are based on the **same key assumptions** and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is **significant** in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:

- the **aggregate carrying amount** of goodwill, intangible assets with indefinite useful lives allocated to those units
- a description of the **key assumptions**
- Description of **management's approach** to determining the values assigned to each key assumption
- If a reasonably possible change in the key assumptions would cause the aggregate of the units carrying amounts to exceed the aggregate of their recoverable amounts
  - the amount by which the **aggregate** of the units **recoverable amounts exceeds** the aggregate of their **carrying amounts**
  - the **values assigned** to the key assumptions



- the amount by which the values assigned to the key assumptions must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units recoverable amounts to be equal to the aggregate of their carrying amounts.

16. Significant Differences between Ind AS 36 with AS 28

Particulars	Ind AS 36	AS 28
Applicability	Applies to financial assets classified as subsidiaries, associates, joint ventures.	Does not apply to the above assets
Biological Asset	Excludes biological assets related to agricultural activity.	Does not specifically exclude
Impairment testing for an intangible asset with an indefinite useful life	Annual impairment testing	No annual impairment testing
Reversal of Goodwill	Prohibits the recognition of reversal	Impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event
Allocation of Goodwill	Goodwill is allocated to CGUs that are expected to benefit from the synergies of the business combination.	When goodwill cannot be allocated reasonably and consistently to the CGU, two levels of impairment tests are carried out, viz., bottom-up test and top-down test.
Additional Guidance	Gives additional guidance on following aspects: (a) Estimating Value in use (b) Reasonableness of the assumptions on which cash flows are based (c) Present value techniques	Does not provide such guidelines.



Ind AS 105
NON- CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

1 Introduction

A fixed asset which was being used in the production, supply of goods and services, for administrative purposes or earn rentals or for capital appreciation kept aside for sale by the entity is called as **non-current asset held for sale.**

Ind AS 105 will be applicable for

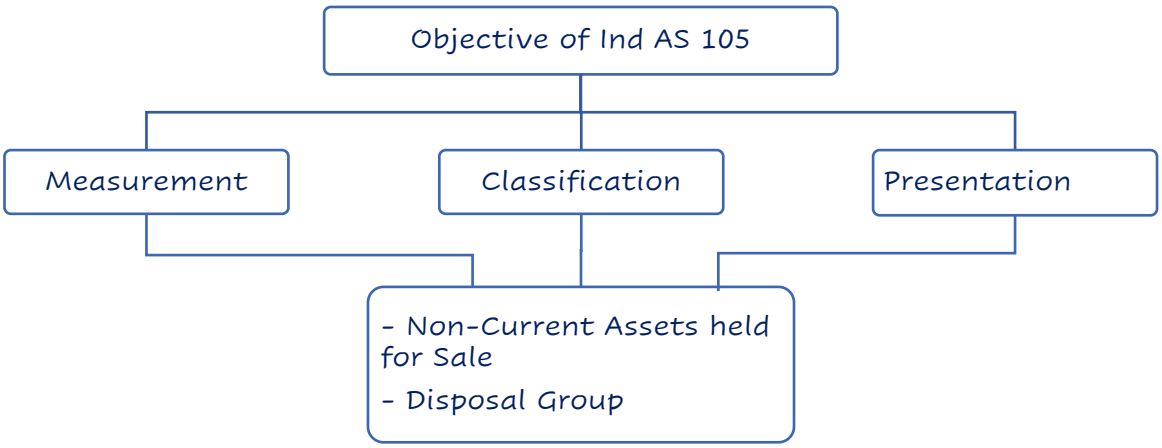
- Property, Plant and Equipment
- Intangible Assets
- Investment Property
- Investment in Other Companies

When the entity wants to sell group of assets like

- Unit of a Company
- Branch
- Division
- Cash Generating Unit
- Segment

Such group of assets is known as Disposal Group

1.1 Objective



1.2 Scope

- Classification & Presentation - All recognised non-current asset and all disposal groups
- Measurement – All recognised non-current asset and all disposal groups except few

1.2.1 Measurement Provisions not applicable (Scoped Out Non-Current Assets)

- Deferred tax assets under Ind AS 12
- Assets arising from Employee Benefits – Ind AS 19
- Financial Assets – Ind AS 109
- Non-Current Assets related to Agricultural – Ind AS 21
- Contractual Rights under Insurance Contract – Ind AS 104

1.3 Impairment of Assets vs Non-Current Assets held for Sale

Impairment	Non-Current Assets held for sale
Impairment happens when the asset is being used	These assets are determined only after the usage is stopped
Depreciation is charged even after impairment	Depreciation is not charged after such classification

2 Important Terms



2.1 Non-Current Asset
Asset which is not a Current Asset

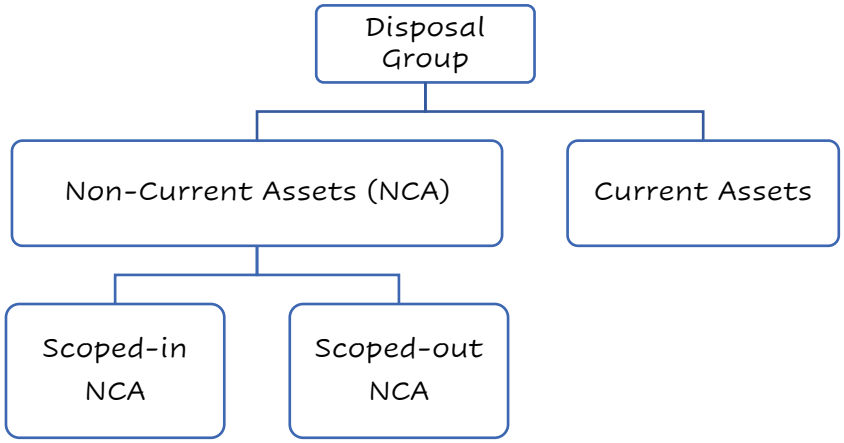
2.2 Current Asset
An Asset which
- expects to realise the asset, or intends to sell or consume it, in
  - its normal operating cycle
  - within 12 months after the reporting period;
- is held primarily for the purpose of trading;
- is cash or a cash equivalent, except
  - if it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

2.3 Disposal Group
A cash generating unit including the following
- Group of assets of a business combination
- liabilities directly associated with those assets
- Goodwill allocable to the business combination

disposed in a single transaction of sale / transfer

When entity decides to sell disposal group, it will be presented as disposal group held for sale.

A disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit.



3 When to Classify a NCA as "Held for Sale"

An entity is required to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use

As long as the future economic benefits to the entity are received from the usage of asset, the asset cannot be classified as "Held for Sale".

3.1 Conditions for classification
Asset must be
- available for immediate **sale in its present condition** and
- **Sale** must be highly **probable**

If asset is not saleable in the present condition (if an asset needs repair to sell it), then it cannot be classified as "Held for Sale"

Conditions
- The appropriate level of management must be committed to a plan to sell



- Active engagement to find the buyer should have been initiated – like advertisement for auction / sale
- Asset / disposal group should be actively marketed for sale at reasonable price
- Sale is expected to be completed within one year from date of classification
- Significant changes to or withdrawal from plan to sell are unlikely

> The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.

3.2 Events or circumstances may extend the period to complete the sale beyond one year.

Entity can continue to classify such asset as held for sale if

- delay is caused by events or circumstances beyond the entity's control and
- entity is committed to sell - sufficient evidence to exist.
  Examples for delay – regulatory approvals

3.3 Examples

Case	Conclusion
An entity is **committed to a selling plan** of a manufacturing facility classified as **held for sale**. After a **firm purchase commitment**, **environmental damage** is identified, requiring rectification that **extends the sale period beyond one year**. The entity has **initiated corrective actions**, and **successful rectification is highly probable**.	**Exception to the one-year requirement applies**. The asset **continues to be classified as held for sale**.
An entity in the **mining industry** plans to sell a **disposal group** forming a **significant part of regulated operations**. The sale requires **regulatory approval**, which may delay completion beyond one year. Actions to obtain approval start only after a **firm purchase commitment**, which is **highly probable within one year**.	**Exception to the one-year requirement applies**. The disposal group **remains classified as held for sale**.
A company classifies a **non-current asset as held for sale**. During the **initial one-year period**, **market conditions deteriorate**, and the asset is not sold despite **active marketing** and **price reduction** to a level reasonable under current conditions.	**Exception to the one-year requirement applies**. The asset **continues to be classified as held for sale** at the end of one year.

4 Other Aspects

4.1 Sale includes Exchanges

Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with Ind AS 16, Property, Plant and Equipment.

4.2 Asset acquired for subsequent disposal

Asset acquired exclusively with a view to subsequent disposal can be classified as "Held for Sale" as at the acquisition date, if

(i) The one year requirement is met (subject to exceptions above)

(ii) It is highly probable that any other condition that is not met at the time of acquisition, will be met within a short period (usually within three months).

4.3 Held for Distribution to Owners is "Held for Sale"

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners.
All the requirements of Ind AS 105 applicable to a non-current asset held for sale shall apply to a non-current asset held for distribution



Conditions

(i) assets must be available for immediate distribution in their present condition and

(ii) the distribution must be highly probable i.e.

a. actions to complete the distribution must have been initiated

b. distribution is expected to be completed within one year from the date of classification.

c. it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn.

d. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

4.4 Non-current assets to be abandoned

Non-current assets (or disposal groups) to be abandoned include

- non-current assets (or disposal groups) that are to be used to the end of their economic life and
- non-current assets (or disposal groups) that are to be closed rather than sold.

If the disposal group is to be abandoned, the entity shall present the results and cash flows of the disposal group as discontinued operations, if it meets the criteria prescribed in Ind AS 105, at the date on which it ceases to be used.

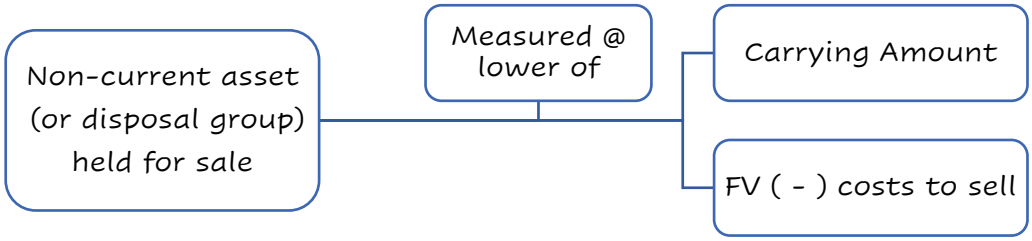
> An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned.

4.5 Non-current Asset temporarily taken out of use

A non-current asset that has been temporarily taken out of use will not be treated as

- Held for sale; or
- abandoned.

5 Measurement Principles



5.1 Steps

(i) Measure carrying amount (prior to classification) in accordance with applicable Ind AS i.e., AS 16 for PPE or AS 40 for Investments

(ii) Determine Fair value less cost to sell

(iii) Value of non-current asset (or disposal group) is lower of (i) or (ii)

Note: For Non-current asset held for distribution, fair value less cost to distribute is considered

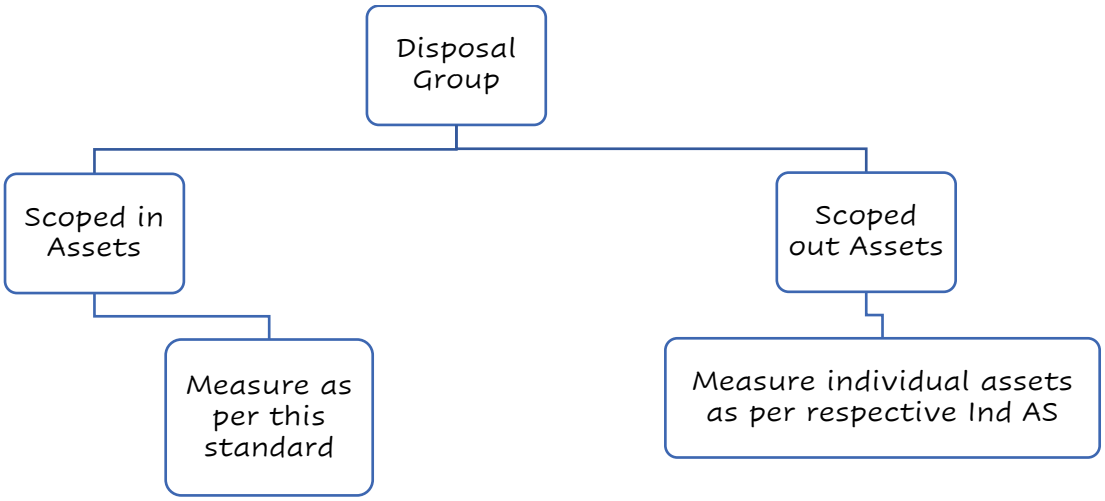
Cost to Sell

Cost to sell are the incremental costs excluding income taxes and finance costs. If sale or disposal is expected to happen after 1 year, then present value concept is to be applied to "costs to sell" i.e., in step (ii) consider "Fair Value – present value of costs to sell"

If a non-current asset is acquired as business combination for subsequent disposal, such asset is measured at Fair Value less costs of sell.



5.2 Disposal Group – Subsequent measurement



The carrying amount of disposal group is compared with the Fair value less costs to sell.

6 Recognition of Impairment losses and reversals

Loss - An entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell.
Gain - An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognised (under Ind AS 105 or Ind AS 36)
Disposal Group - The impairment loss (or any subsequent gain) recognised for a disposal group shall be allocated

- First to goodwill
- Next to other assets in the ratio to their carrying amounts.

A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition.

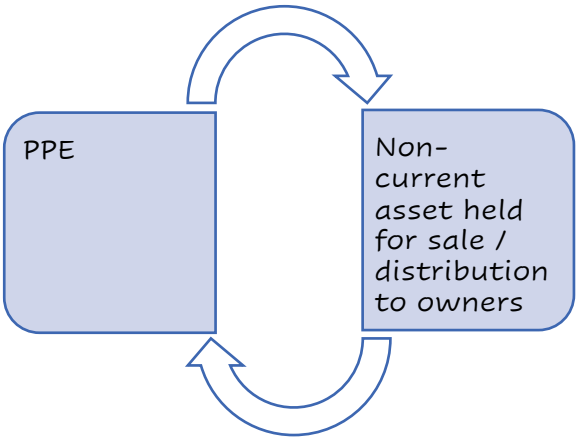
Reversal of impairment loss is not allowed on goodwill.

Depreciation on non-current assets held for sale

An entity shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.



7 Reclassification



Remeasure at lower of

- Carrying amount before classification after adjusting depreciation/ amortisation/revaluation, etc. (which would have been provided) and
- Recoverable amount (i.e., higher of value in use and FV less cost to sell)

The difference of carrying amount and remeasured value is adjusted to P&L A/c.
If the asset was measured at revaluation model, difference will be revaluation increase / decrease.

7.1 Held for sale to Held for distribution and vice-versa

If an entity reclassifies an asset (or disposal group) directly

- from being held for sale to being held for distribution to owners, or
- from being held for distribution to owners to being held for sale,

apply the classification, presentation and measurement requirements in this Ind AS that are applicable to the new method of disposal as per Ind AS 105.

7.2 Individual Assets in the group re-classified

If an entity removes an individual asset or liability from a disposal group classified as held for sale / distribution to owners, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group.
The remaining non-current assets of the group shall be measured individually at the lower of their carrying amounts and fair values less costs to sell (or costs to distribute) at that date.

8 Presentation and Disclosure Requirement

8.1 Presentation

- Non-current assets held for sale separately from other assets in the balance sheet
- Assets and Liabilities of disposal group should be presented separately from other assets and liabilities in balance sheet
- Income or expense recognised in OCI relating to non-current assets held for sale should be presented separately.

Presentation

Presentation is required only for major classes of assets and liabilities

Exception: Disposal group is a newly acquired subsidiary

Loss on Assets held for sale should be presented in P&L under "Profits from continuing operations"



8.2 Comparative Amounts

Comparative amounts for non-current assets (or disposal group) for prior periods are not to be reclassified or represented.

8.3 Disclosure

An entity should disclose the following in the notes to the financial statements in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

(a) Description of the non-current asset (or disposal group);

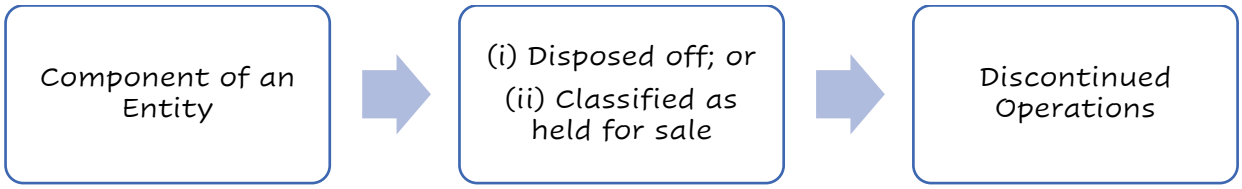
(b) Description of facts and circumstances (ex: decrease in demand, obsoletion, competition, etc.) of the sale, or leading to the expected disposal and the expected manner and timing of that disposal;

(c) Gain or loss recognised and if not presented separately on the face of the statement of profit and loss, the caption in the statement of profit and loss that includes that gain or loss.

(d) If applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance of Ind AS 108 Operating Segments.

(e) If there is a change of plan to sell, a description of facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.

9 Discontinued Operations



Discontinued Operation is a component of an entity that either has been disposed of or is classified as held for sale and:

(a) represents a separate **major line of business** or **geographical area** of operations; or

(b) is part of a **single co-ordinated plan** to dispose of a separate major line of business or geographical area of operations; or

(c) is a **subsidiary acquired** exclusively with a view to **resale**.

> A component of an entity is a cash generating unit or a group of cash-generating units while being held in use.

9.1 Separate Presentation

Profits and Losses from discontinued operations shall be presented separately to enable the users to evaluate the impact of discontinued operations.

An entity shall disclose a single amount in the statement of profit and loss comprising the total of:

(a) the post-tax profit or loss of discontinued operations; and

(b) 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(s) constituting the discontinued operation



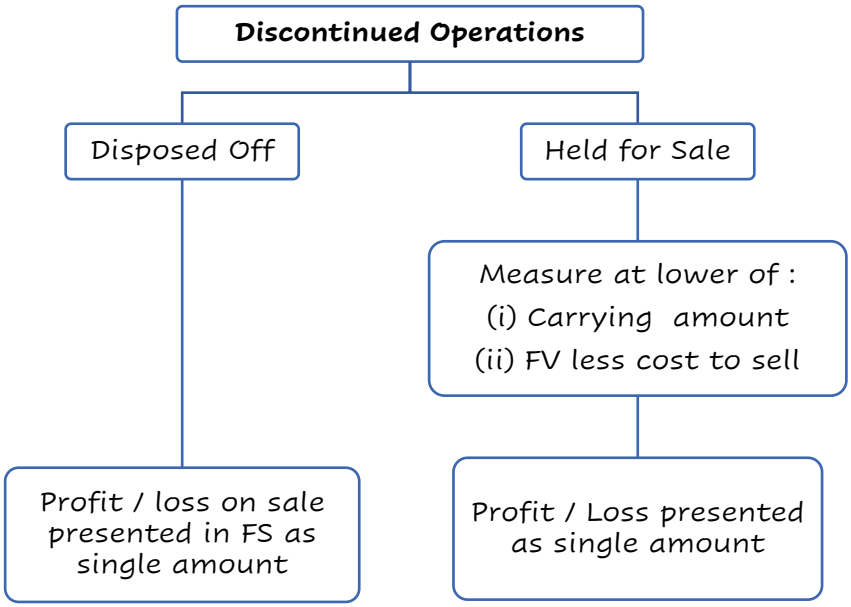
> Information related to discontinued operations shall be presented on the face of the FS.

Presentation in FS:

Particulars	Note No	20X2-20X3	20X1-20x2
Profit before tax			
Tax expense 1. Current tax 2. Deferred tax			



Profit(loss) for the period from continuing operation			
Profit(loss) for the period from discontinuing operations			
Tax expense of discontinuing operations			
Profit(loss) from discontinuing operations			



10 Disclosures – Discontinued Operations

Profit or loss from discontinued operations should be broken into the following in the notes or in the statement of profit and loss

(i) Revenue
(ii) Expense
(iii) Pre-tax profit
(iv) Gain or loss on disposal or on measurement
(v) Related tax expense

Analysis is not required for newly acquired subsidiaries classified as held for sale on the date of acquisition

10.1 Consolidated Financial Statements & Discontinued Operations

In CFS, entity must disclose amount attributable to owners of the parent from continuing operations and discontinued operations

10.2 Cash Flow Statement

Disclose attributable net cashflows of discontinued operations in the Cash Flow Statement under

(i) Operating Activities
(ii) Investment Activities
(iii) Financing Activities

Disclosure may be in notes or in cash flow statements

10.3 EPS

EPS of discontinued operation shall be disclosed separately.
EPS computed as per Ind AS 33 from discontinued operations shall be disclosed in addition to disclosure of EPS from continuing operations.

10.4 Previous Comparative Periods

When the amounts relating to discontinued operations are presented separately, the comparative figures for prior periods are also re-presented, so that the disclosures relate to all operations that have been discontinued.



Adjustment to Prior Period disposals

Adjustments in current period related to discontinued operation in prior period shall be shown separately

10.5 Reclassification of discontinued operations

When a discontinued operation is reclassified as continuing operation, profit and loss should be shown as part of continuing operation. Prior period amounts should be re-presented.

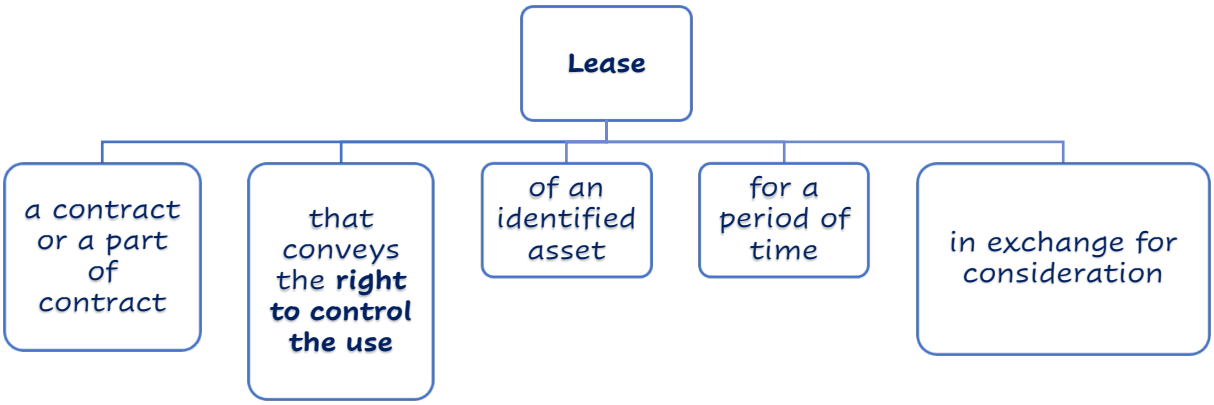
11 IND AS 105 vs AS 24

Basis of differences	AS 24	IND AS 105
Scope	(i) Talks about discontinuing operations (ii) Doesn't deal with non-current assets held for sale	(i) Talks about discontinued operations (ii) Deals with non-current asset held for sale
Initial disclosure event	Specifies about the initial disclosure event in respect to a discontinuing operation.	Doesn't mention about initial disclosure event.
Period for sale completion	Doesn't specify any time period with regards to expected sale completion	Sale is expected to be completed within 1year to classify as asset as held for sale
Measurement	Measurement referred to other relevant Ind AS	Non-current assets held for sale are measured at lower of • Carrying amount • Fair value less cost to sell
Abandonment of Assets	Can be classified discontinuing operation	Should not be classified as held for sale.
Change of plan to sell	Does not provide any specific guidance	Provides guidance regarding changes to the plan



Ind AS 116
LEASES

1 Identifying a Lease



An entity assess whether a contract is / contains a lease at inception of a contract. An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

1.1 Identified Asset

A contract contains a lease only if it relates to an identified asset. An asset can be either

- explicitly specified in a contract or
- implicitly specified at the time it is made available for use by the customer.

1.1.1 Substantive Substitution Rights (SSR)

A customer does not have right to use an identified asset if the supplier has **substantive substitution right** to substitute the asset throughout the period of use. SSR should be checked at inception of contract and should not be based on future events.

Conditions for SSR

- The supplier has practical ability to substitute alternative assets throughout the period of use and
- The supplier would benefit economically from the exercise of its right to substitute the asset.

Cases when SSR does not exist

- Right arises **after a period of time or on occurrence of an event** (say an asset breakdown)
- If the customer cannot determine whether or not the supplier has substantive substitution right

Note – AS 19 does not have any requirement of SSR.

1.1.2 Assets not physically distinct

An identified asset is generally physically distinct.

A portion or part of an asset or its capacity that is not physically distinct (e.g. in case of shared pipelines, tanks, optic fibres) is not an identified asset unless it represents significantly all (generally about 90%+) of the capacity of the asset.



1.2 Right to Control

A contract conveys the right to control the use of an asset to the customer if the customer has

- The **right to obtain substantially all of the economic benefits** from the use of an identified asset throughout the period of use **and**
- The **right to direct the use** of the identified asset.

Note – AS 19 does not provide guidance regarding right to direct and considers only right to use an identified asset.

An entity should consider all forms of service contracts, supply contracts and lease arrangements to evaluate right to control the use of an asset.
If customer has the right to control the use of an asset for only a portion of the term of the contract, then the contract contains lease for that portion of lease term.

1.2.1 Right to obtain substantially all of the economic benefits

A customer can obtain economic benefits either directly or indirectly by using, holding or subleasing the asset. An entity must consider economic benefits that arise from the defined scope of right to use the asset.
Economic benefits include

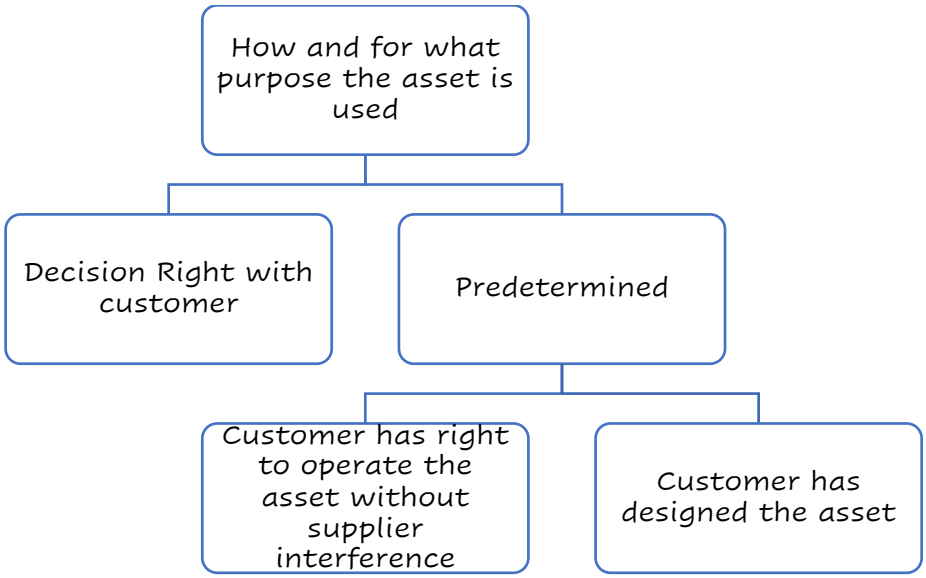
- asset's primary outputs (goods and service)
- by-products (including renewal credits generated)
- benefits from using the asset that is realised in a commercial transaction with a third party (e.g. sub-leasing)

Customer can obtain substantially all of the economic benefits even in case of following –

Supplier's protective clauses – A contract that contains a clause that protects supplier's interest (e.g to prevent unauthorised use of the asset) in the asset.

Supplier/Third party payment – A contract requiring payment of a variable amount to supplier or to a third party based on cash flows generated from the use of an asset does not prevent customer to obtain economic benefits.

1.2.2 Right to direct the use of the identified asset is with customer if





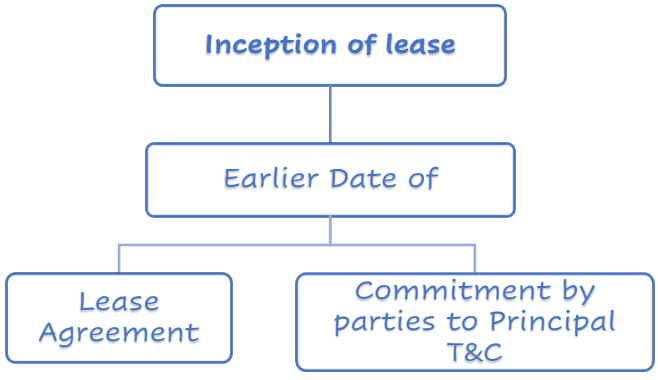
- If the customer has the **right to direct how** and for **what purpose** the asset is used throughout the period of use; or
- if the relevant **decisions** about how and for what purpose the asset is used are **predetermined** and:
  - the **customer has the right to operate the asset** (or to direct others to operate the asset in a manner that it determines) throughout the period of use, without the lessor having the right to change those operating instructions; or
  - the **customer designed the asset in a way** that predetermines how and for what purpose the asset will be used throughout the period of use.

Right to direct is more important than the right to use.

Rights	Examples
To change the output that is produced by the asset	• Deciding whether to use containers for transportation or storage • Deciding the mix of products to be sold from a retail outlet
Change when the output is produced	Deciding when an item of machinery would be used
Change where the output is produced	• Deciding the destination for a vehicle • Deciding the location of usage of machinery
Decide whether to produce the output	Whether to operate a particular asset to produce output.
Decide the quantity of output	How much of quantity of output to be produced

2 Inception and Commencement of Lease

Customers and suppliers must determine whether a contract contains a lease at the **inception of lease.**

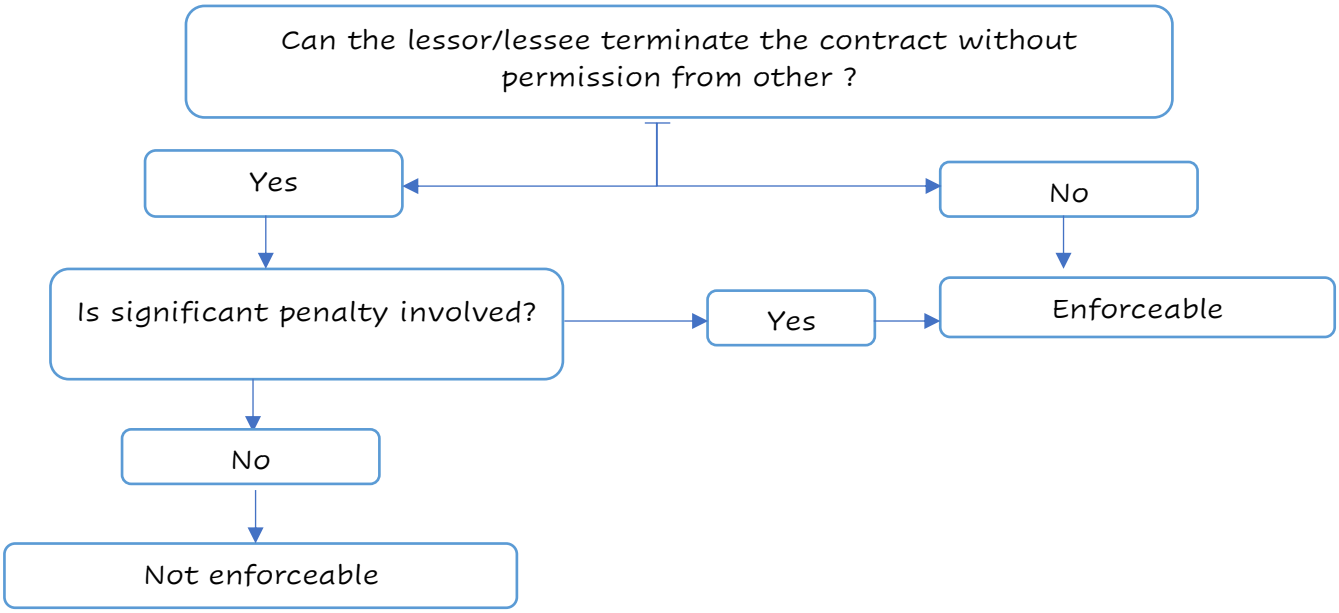


Commencement date is the date on which lessor makes an underlying asset available for use by the lessee (irrespective of whether the lessee has started operations or has started rental payments)

Inception date	Commencement Date
Entity assesses whether the contract contains lease	Entity recognises lease related transactions
	Lease period begins at this date

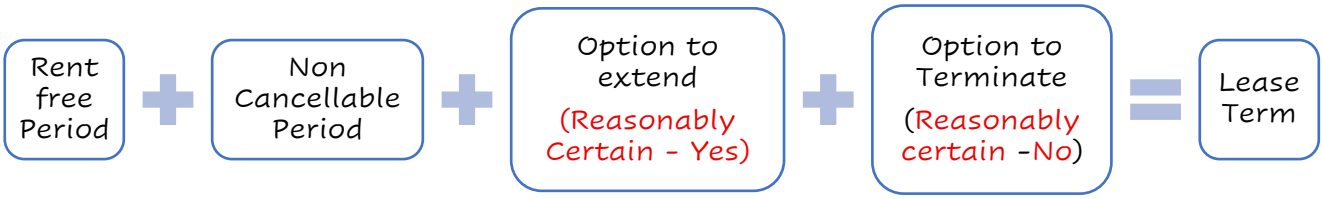


3 Lease term



3.1 Non-Cancellable Period

Non-Cancellable period is the period during which the contract is enforceable.



3.2 Relevant Factors

- Lease term begins at **lease commencement date**
- If only the lessor has the right to terminate the lease, the period covered by the option is considered as non-cancellable.
- Lease term is aggregate of non-consecutive period if the lease is taken for non-continuous period.
- Option to extend/terminate to be assessed at lease commencement date. Assessment is
    - based on facts and circumstances.
    - Not based on just intentions or past practices

Considerations to assess options

Contractual Terms	Asset Related Factors
Lease rentals in optional period	Specialised Asset
Variable or contingent payment	Location of underlying asset
T&C after initial optional period	Leasehold improvements
Cost of replacement	Availability of alternatives



- Longer the lease term, more difficult it is to assess whether the option would be exercised or not.
- Significance of underlying asset to the lessee's operation impacts the lessee's decision to extend the lease
- Option to extend or terminate might be linked with other contractual terms like residual value guaranteed

3.3 Reassessment of reasonable certainty by lessee

If a significant event or change in circumstance occurs which

- is within the control of the lessee and
- affects whether the lessee is reasonably certain
  - to exercise (the option to extend) or
  - not to exercise (the option to terminate)

3.4 Revision of the lease term

The entity will revise the lease term if there is a change in the non-cancellable period of a lease.

Option to extend (Not included*)	Option to Terminate (Included*)
Lessee exercises at a later date	Does not exercise at a later date
An event occurs which obliges the lessee to exercise	An event occurs which prevents the lessee to exercise

*In determining the lease term originally.

4 Lessee Accounting

Lessee is an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.

At the commencement of lease, the lessee recognises

- Right-of-use Asset (ROU Asset) and
- Lease Liability.

There is no distinction in accounting treatment irrespective of whether it is an operating lease or finance lease (Under AS 19, the accounting differs on whether the lease is an operating lease or finance lease)

4.1 ROU Asset & Lease Liability

Right of Use Asset =	
Lease Liability	PV of Lease payments to be paid discounted at rate implicit in the lease or incremental borrowing cost (if implicit rate is not known)
+ Lease payment made at / before commencement	Advance lease payments (If not included as a part of lease liability)
- Lease incentives received	
+ Initial Direct Cost	Incurred by lessee
+ PV of estimated dismantling, restoration cost	Similar to decommissioning costs under Ind AS 16. Liability accounted as per Ind AS 37

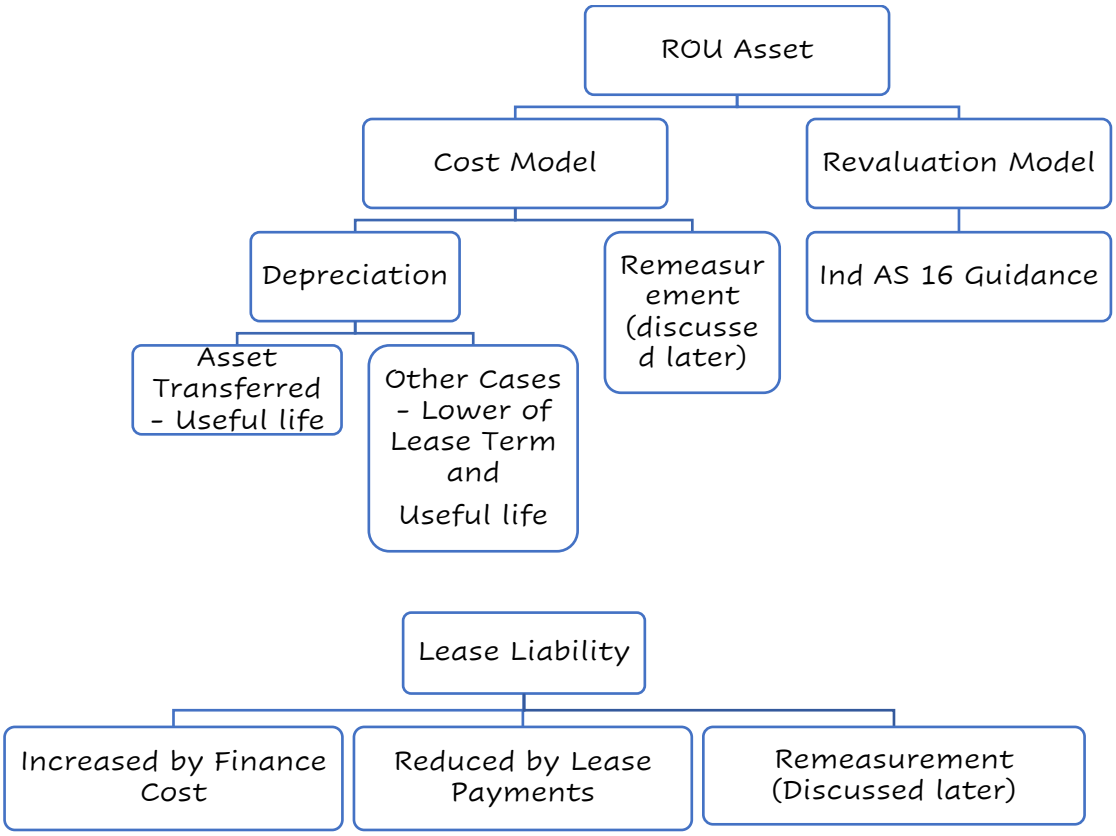


4.2 Lease Payments to be paid

Lease Payments =	
Fixed Lease payments	Generally determined in the contract
+ In substance fixed lease payments	Though variable, considered as fixed (like minimum variable payment) E.g Minimum of Rs. 10 per unit or Rs. 10,000 Rs. 10,000 is included in computing lease payments. Excess over Rs. 10,000 is considered as expense.
- Lease incentives received	Paid by lessor to lessee
+ Variable payments dependent on index or rate	Variable based on rates like SOFR, annual increment etc are considered. Performance based variable payments are excluded.
+ Residual value guaranteed by lessee	Lessee promises that this amount will be available to lessor at end of lease.
+ Exercise price of purchase option	If the lessee is likely to exercise the purchase option

For determining the liability only unpaid lease payments are considered.

4.3 Subsequent Measurement



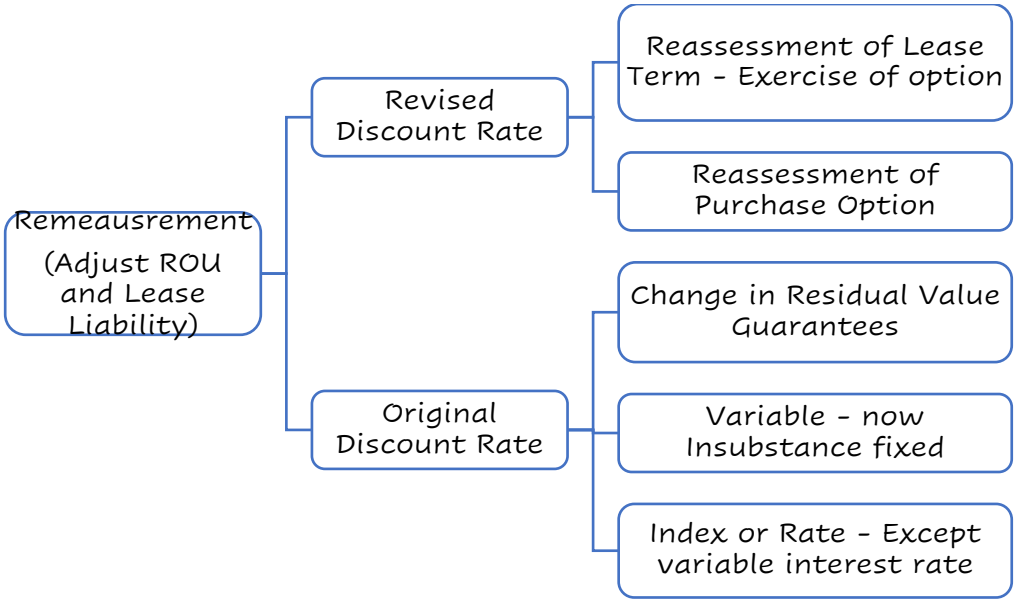
Opening Balance	Interest	Lease Payments	Closing Balance
A	B = A x Rate%	C	D = A + B - C



4.4 Important Points

- Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability (also referred to as interest rate implicit in the lease or IRR) – Refer example in class
- Amounts to be debited to Profit and Loss
  - Interest expense (unless it meets the capitalisation requirement)
  - Variable lease payment

4.5 Remeasurement of Lease Liability



- The remeasurement of lease liability is adjusted to ROU Asset (increase or decrease). There is no impact on P&L.
- If ROU asset has 'Nil' carrying amount, reduction in lease liability is recognised in P&L.

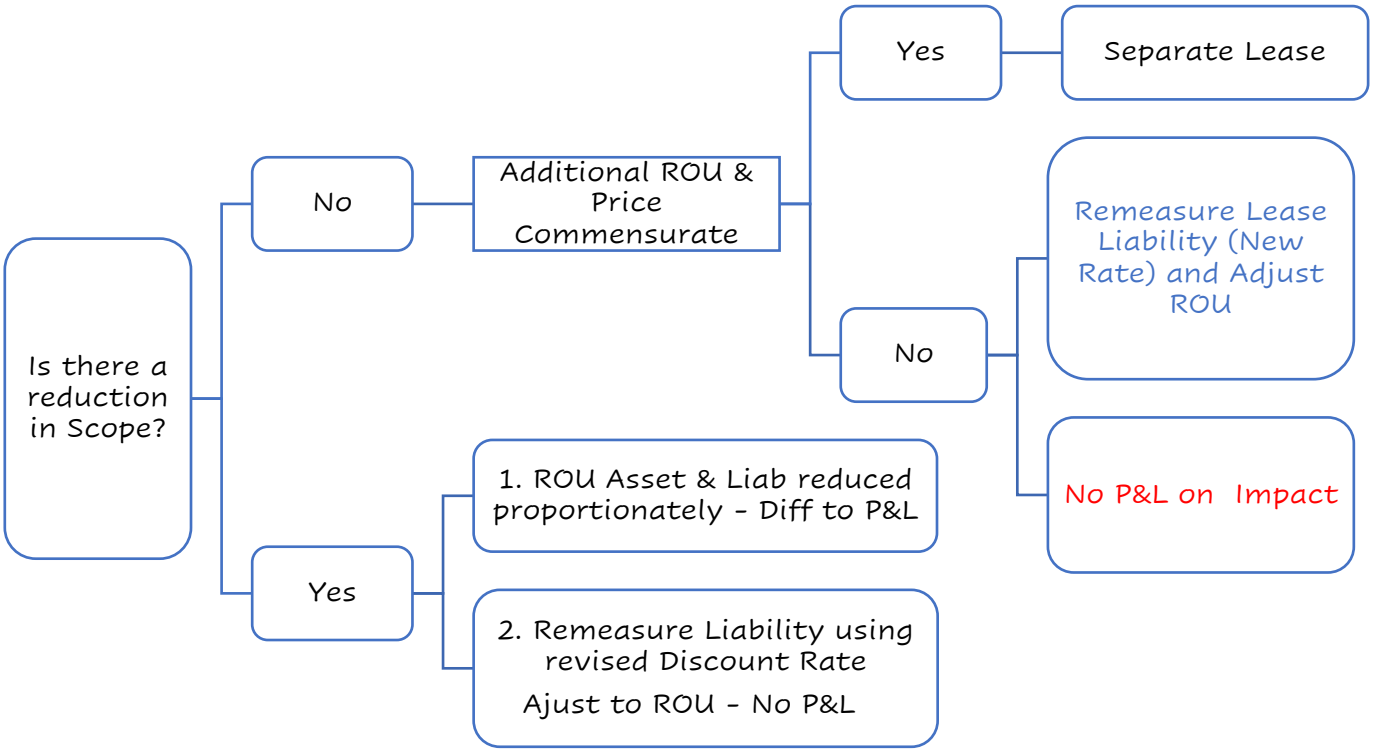
5 Lease Modifications

A Lease modification is a change in the **scope** of a lease or the **consideration** for a lease that was not a part of the original terms and conditions of the lease.

- Lease Extension
- Early termination of lease
- Change in timing of lease payment
- Additional space
- Surrendering part of asset

Accounting for lease modifications

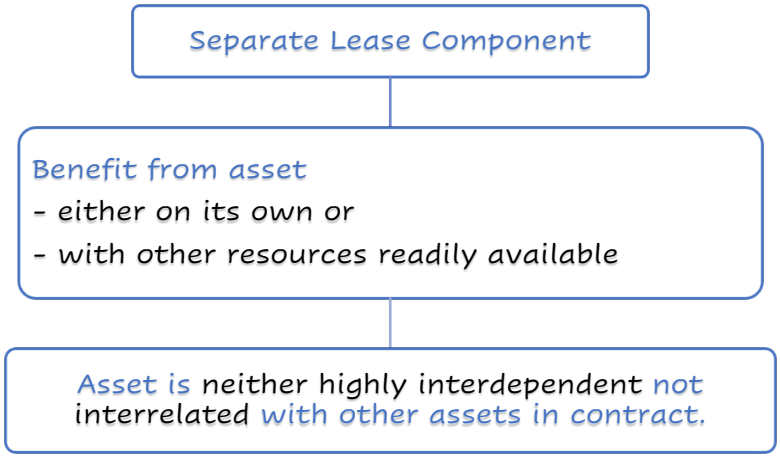




For any other lease modifications (e.g change in considerations) there is no impact to P&L. All adjustments are made to ROU Asset & Lease Liability Account.

6 Separation of Lease & Non-Lease components

6.1 Separate Lease components (More than one ROU asset in a single contract)



If both of above conditions are not satisfied, then the right to use multiple assets is considered as a single component.
E.g. A contract to lease computer monitor and cpu would be considered as a single ROU. A contract to lease a truck and a car would be considered as having two ROUs – one for truck and other for car.

6.2 Separating lease components from non-lease components

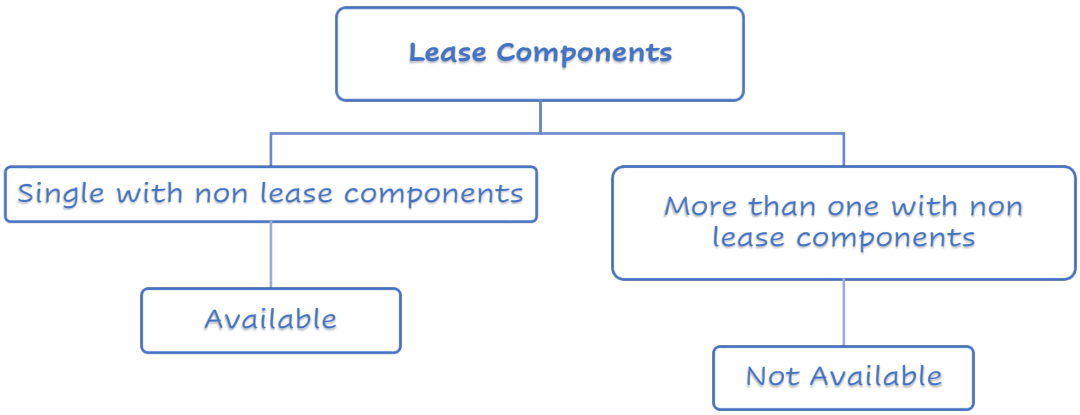
A contract may contain lease component (ROU Asset) and an agreement to supply other (related) goods and services (non-lease component).

Lease Component	Non Lease Component
Right to use Property	Maintenance services like utility, security, cleaning etc.
Right to use coffee machine	Supply of consumables like coffee beans
Right to use a Truck	Service of drivers

The non-lease component are identified and accounted for separately from lease component. The non-lease component should involve transfer of goods or services from the lessor to lessee.

6.3 Optional exemption (using practical expedient) – only to lessee

A **lessee** can make an accounting policy election by class of underlying asset to account for each separate lease component of a contract and any associated non-lease components as a **Single Lease Component.**



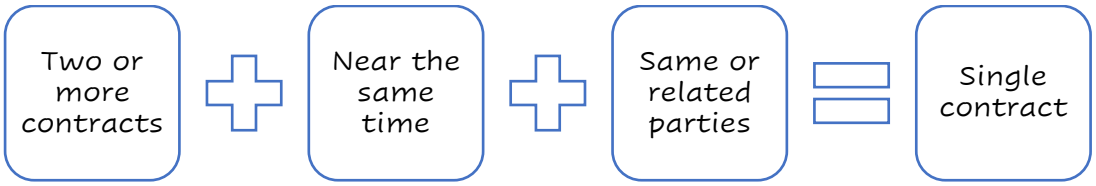
6.4 Determining and allocating the consideration in the contract - Lessee

Allocation of consideration in the contract are allocated to lease component(s) and non-lease component(s) on a relative stand-alone price basis.

Basis of Allocation :

- Observable/estimated lease consideration
- Observable/estimated fair value of components

6.5 Contract Combination



Two or more contracts entered into at or near the **same time** with the **same counterparty (or related parties of counterparty)** is considered as a single contract if any one of the following criteria is met.

Combination criteria

Negotiation	- Contracts are negotiated as a package - With overall commercial objective

Consideration	Consideration paid in one contract is dependent on consideration paid on another.
Lease Component	ROU assets under different contract are a single lease component

An entity may apply practical expedient to use portfolio approach for leases with similar characteristics if it is reasonably expected that the effects on financial statements would not differ materially.

AS-19 does not provide guidance on separation of lease and non lease component. Entire contract including the non-lease component would be accounted as leased under AS-19

7 Presentation

Balance Sheet ROU Assets & Lease Liabilities	- Separately from other assets/liabilities - If presented together with owned assets/other liabilities, disclosure about the line items - **Investment Property** is disclosed as Investment property (not as ROU) - ROU assets and lease liabilities are not netted off.
Profit & Loss	Separately disclose interest on expense and lease liability
Cashflow	Repayment of Lease Liabilities and Interest – Financing Activity Short term/low value lease payments – Operating Activity Variable lease payment – Operating Activity

8 Disclosure Requirements – Lessee

8.1 Quantitative disclosures for the following –

Balance Sheet	Profit & Loss
Additions to ROUs	Interest Expenses
Carrying value of ROUs by class	Short term/Low value lease expense
Maturity Analysis of lease liabilities separately from other liabilities	Variable lease payments expensed
	Income from subleasing
	Gains or losses arising from sale and leaseback

- If lessee has applied short term /low value lease exemption, the fact has to be disclosed.
- Lease commitments of short term lease if the portfolio of short term lease is different from the portfolio to which practical expedient is applied.
- If ROU asset meets the criteria of Ind AS 40, disclosures required by Ind AS 40
- If revaluation model is applied, disclosures required by Ind AS 16



8.2 Qualitative disclosures

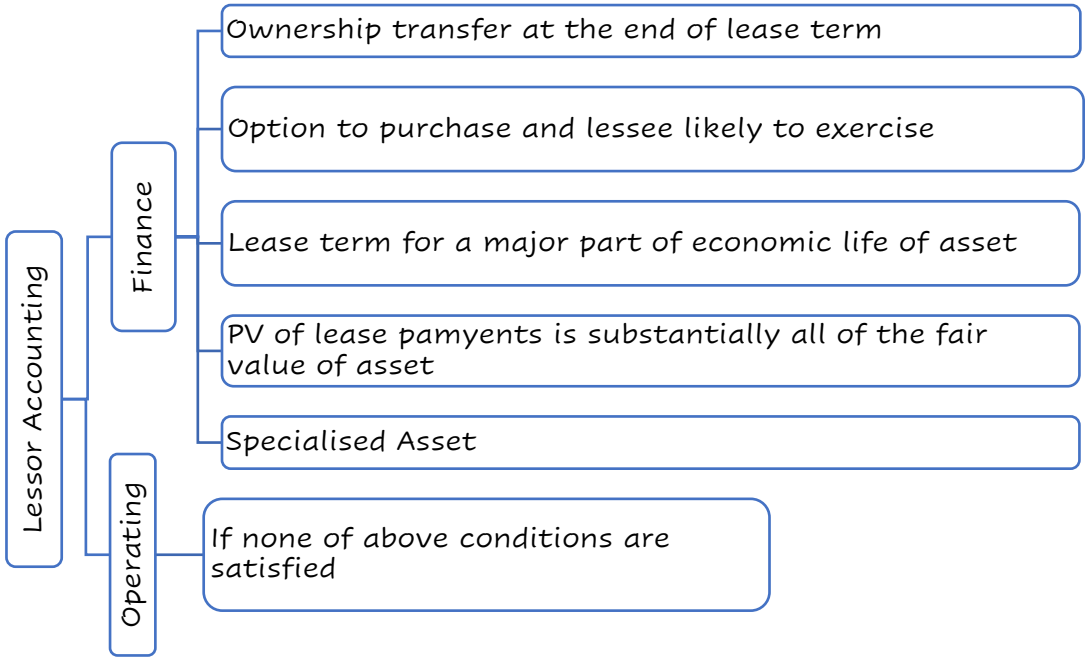
- A summary of the nature of the entity's leasing activities;
- Potential cash outflows the entity is exposed to that are not included in the measured lease liability, including:
  - Variable lease payments;
  - Extension options and termination options;
  - Residual value guarantees; and
  - Leases not yet commenced to which the lessee is committed.
- Restrictions or covenants imposed by leases; and
- Sale and leaseback transaction information.

9 Lessor Accounting – Lease Classification

Lease classification is done at inception and is not reassessed unless there is a lease modification.

A lease is classified as a **finance lease** if it ***transfers substantially all the risks and rewards*** incidental to ownership of an underlying asset.

A lease is classified as an **operating lease** if it ***does not transfer*** substantially all the risks and rewards incidental to ownership of an underlying asset.



9.1 Finance Lease Examples

- the lease **transfers ownership** of the underlying asset to the lessee by the end of the lease term;
- the lessee has the **option to purchase** the underlying asset at a **price** that is expected to be **sufficiently lower than the fair value** at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- the lease term is for the **major part of the economic life** of the underlying asset even if title is not transferred;
- at the inception date, the **present value of the lease payments** amounts to at least substantially all of the **fair value of the underlying asset**; and
- the underlying asset is of such a **specialised nature** that only the lessee can use it without major modifications.

If any one of the above criteria is met, the lease is classified as a finance lease.

Additional Conditions which can lead to a finance lease



- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Basically, these conditions indicate that lessee takes, in substance, the ownership of the asset for the lease term.

9.2 Classification for land and buildings

- The classification for land and buildings is done separately as land normally has an indefinite useful life.
- The lessor allocates lease payments between the land and the buildings elements in proportion to the relative fair values of the elements at the inception date.

9.3 Key Concepts for lessor accounting

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Gross Investment in Lease = Lease Payments + UGRV

Lease Payments =
Fixed Lease payments
+ In substance fixed lease payments
- Lease incentives paid
+ Variable payments dependent on index or rate
+ Residual value guaranteed by lessee
+ Residual value guaranteed by third party unrelated to lessor (capable of fulfilling the obligation)
+ Exercise price of purchase option

UGRV (Unguaranteed residual value) is that portion of the residual value of the underlying asset, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

9.4 Other Considerations

- Lease rentals based on a market rate for use of asset – Operating Lease
- Lease rentals based on a financing rate for use of funds – financing lease
- Put (option to sell) and call (Option to buy) options
  - Predetermined rate – Finance Lease
  - Market rate – Operating lease
- Lease of land and building – To be assessed separately.
- Lease classification is reassessed only in case of lease modification.

10 Lessor Accounting – Recognition

10.1 Finance Lease

At lease commencement a lessor accounts for a finance lease as follows

Dr. Lease Receivable	*Recognises net investment in the lease*
Cr. Asset	*Derecognises the carrying amount of the underlying asset.*

Profit / Loss (Bal figure)	*Recognises selling profit or loss in P/L*

10.1.1 Net investment in lease

Net Investment in Lease is the PV of Lease payments and UGRV discounted using the interest rate implicit in the lease (discount rate)

10.1.2 Interest Rate Implicit in the lease

The rate of interest which makes the following two equal

PV of	Sum of
•Lease payments •UGRV	•FV of asset •IDC* of lessor

*In case of manufacturer/dealer lessor, IDC is not considered to computed IRR. Since IDC is included in computation of IRR, the interest rate would be less and the finance income recognised would automatically be lesser.

Students are not required to compute IRR in exams and this would be provided.

10.1.3 Finance Lease – Subsequent Measurement

- Recognise finance income over the lease term (the pattern should reflect constant periodic return on the net investment in lease)
- Lease payment are applied to reduce the lease receivable and to recognise finance income.
- Derecognition and impairment requirements of Ind AS 109 are applied.
- If there is a reduction in estimated UGRV, the lessor shall revise the income allocation over the lease term.
- Variable lease payments that are not included in net investment in the lease are recognised in P&L.

10.2 Operating Lease – Initial & Subsequent

Recognise	***Explanation***
Cr. Income	*Lease payments on SLM basis or any other systematic basis*
	Variable lease payments
Dr. Depreciation	*On asset as per applicable Ind AS*
Dr. Asset	*Initial direct cost and recognise the cost as expense in same manner as lease income.*

11 Manufacturer – Dealer Lessor

Finance Lease

Recognise	***Explanation***
Revenue	*Lower of* *- Fair value of underlying asset and* *- PV of lease payments*



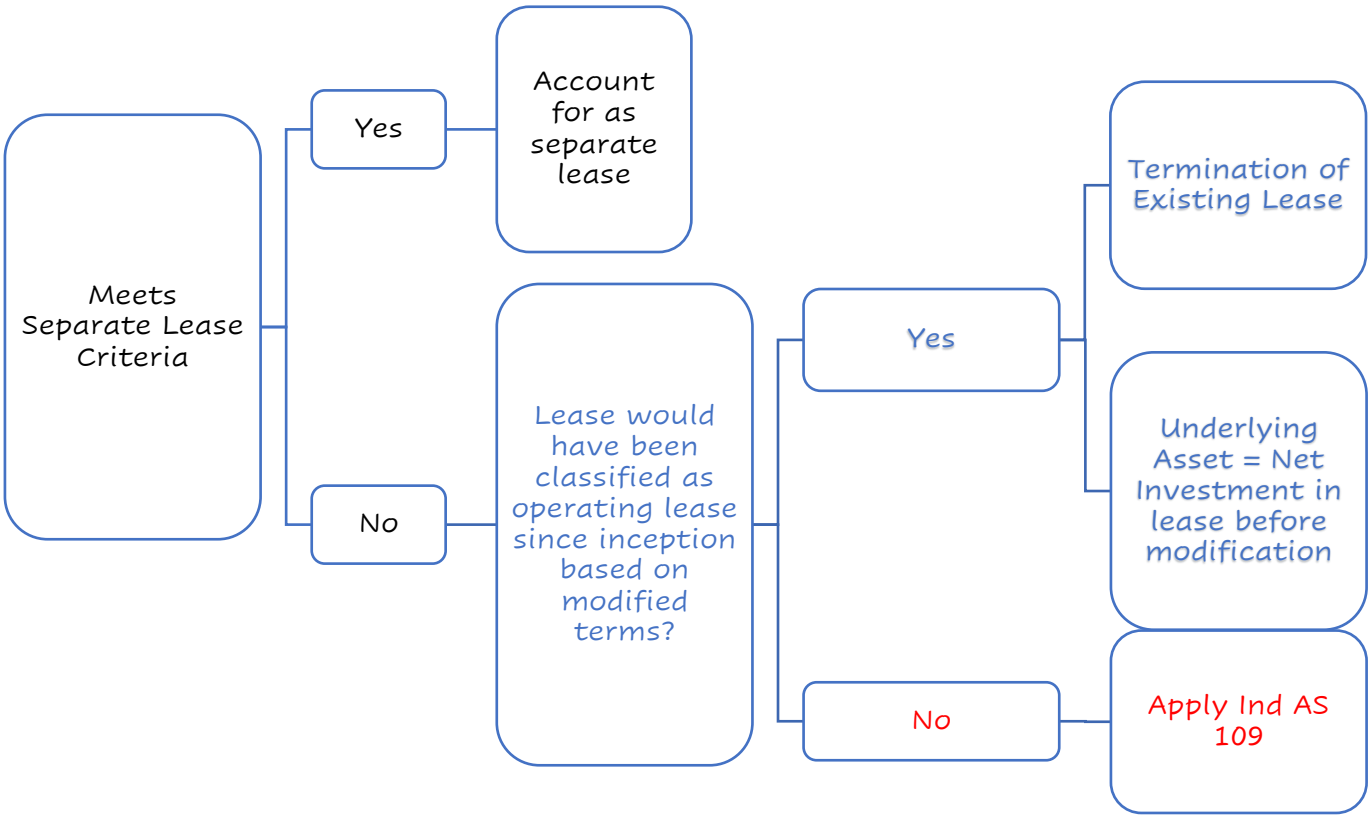
Cost of sale	Cost / carrying amount less PV of UGRV
Selling Profit or loss	Difference between Revenue and Cost of Sale

- Profit / Loss should represent profit/loss from an outright sale.
- If artificially low interest rates are quoted, Lessor recognises profit considering market rates of interest.
- Cost incurred by lessor are expensed at commencement and are not considered to be a part of Initial Direct Cost.

Operating Lease
No Profit / Loss is recognised in case of an operating lease.

12 Lease Modification

12.1 Finance Lease Modification



12.2 Operating Lease Modification

- Accounted as a new lease
- Any prepaid or accrual of lease payments – treated as payment for new lease

13 Lessor – Presentation and Disclosure

13.1 Presentation

Finance Lease	Operating Lease
Receivable - Net Investment in Lease - Classification as current and non-current	Follow principles given under Ind AS 16/38



13.2 Disclosures

Finance Lease	Operating Lease
– Selling profit or loss; – Finance income on the net investment; – Income from variable lease payments; – Qualitative and quantitative explanation of changes in the net investment; and – Maturity analysis of lease payments receivable.	– Lease income, separately disclosing variable lease payments; – Disclosure requirements of Ind AS 16 for leased assets, separating leased assets from non-leased assets; – Other applicable disclosure requirements based on the nature of the underlying asset (eg. Ind AS 36, Ind AS 38, Ind AS 40 and Ind AS 41); and – Maturity analysis of lease payments.

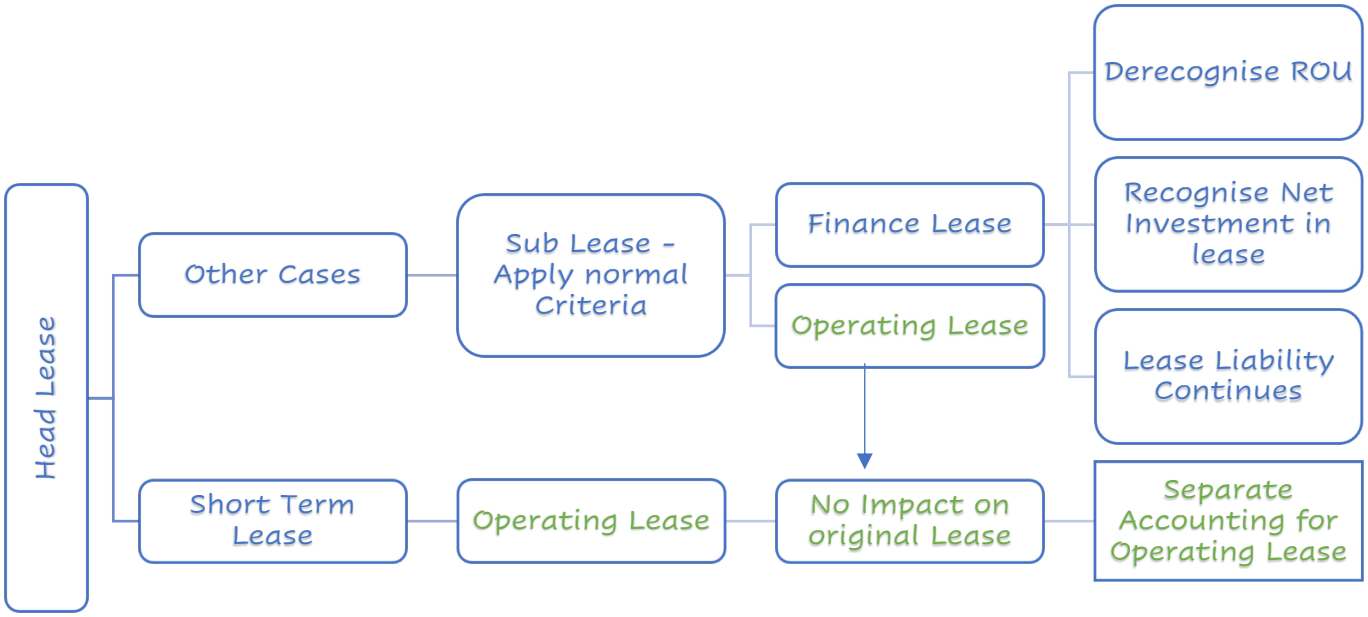
14 Sub-Leases



14.1 A 'Sub-lease' is defined as a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the original lease ('head lease') between the head lessor and lessee remains in effect.

14.2 Accounting for Sub-Lease

- Intermediate lessor uses interest rate implicit in lease. If the same cannot be determined, the interest rate in head lease can be used after adjusting for initial direct cost.
- Combination criteria to be checked.
- Exemption under low value lease cannot be applied.





15 Sale and Leaseback transactions

A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and the leaseback of the same asset by the seller-lessee.

The seller-lessee and buyer-lessor should apply principles under IndAS 115 to determine whether the transaction qualifies as a sale transaction – Test of transfer of control.

15.1 Fair Value Adjustments

Sale proceeds are adjusted if the transaction is not at fair value i.e,

- The value of consideration for sale of an asset does not equal to the fair value of asset or
- The payment for lease are not at market rates.

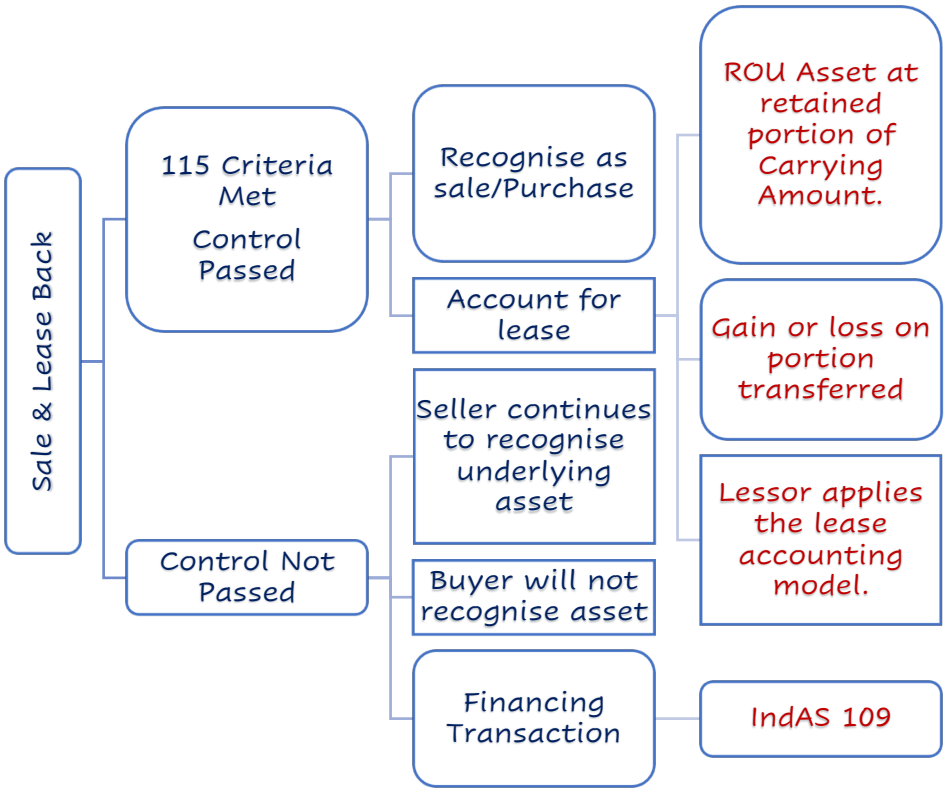
How to adjust for fair value differences?

Step 1 – Check which is more determinable

- Difference between sale consideration and Fair value of Asset
- Difference between PV of lease rentals and PV of market lease rentals

Step 2 – Treatment of difference

- Sale price is less or PV of lease rentals is less
  - Difference added to sale consideration and
  - Considered as prepayment for measurement of ROU asset
- Sale price is greater or PV of lease rentals is greater
  - Difference reduced from sale consideration and
  - Considered as additional financing received.



15.2 Disclosures

- Additional quantitative and qualitative disclosures.
- Gains and losses from sales and lease back separately
- Lessee's reason for sale and lease back transactions
- Key terms and conditions of sale and leaseback
- Payments not included in measurement of lease liability
- Cash flow effect of sale and lease back transactions.



16 Transition Approach

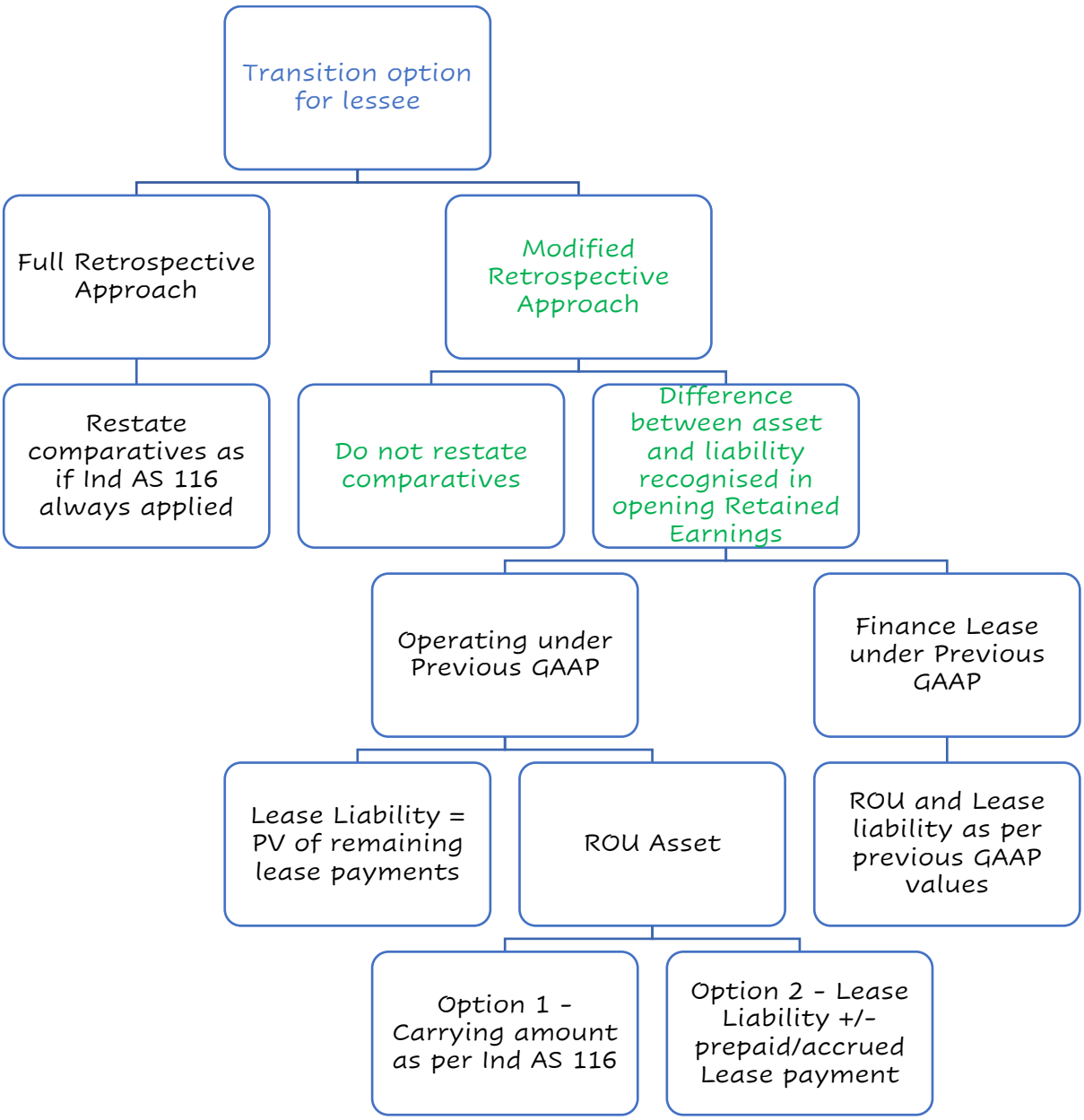
16.1 Definition

The Lessee can choose either of the following

- Apply the lease definition to all contracts (old and new)
- Apply the lease definition to only new contracts (Practical expedient)

A single choice has to be made for all contracts. Disclosures to be made as per Ind AS 8

16.2 Transition approach - Lessee



16.3 Transition approach - Lessor

A lessor is not required to make any adjustments on transition for leases except in case of intermediate lessor for sub leases.

In case of subleases which were classified as operating leases applying Ind AS 17 but finance leases applying Ind AS 116, the sublease will be accounted as a new finance lease on the date of initial application.

Gain or loss arising is included in cumulative catch-up adjustment to retained earnings.

16.4 Other points



- An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements under Ind AS 115.

17 Scope and Exclusions

Ind As 116 applies to all leases including leases of ROU assets in a sublease except for

Exclusions	Covered by
Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	Ind AS 106
Leases of biological assets held by lessee	Ind AS 41
Service concession arrangements	Appendix D of Ind AS 115
Licences of Intellectual Property	Ind AS 115
Rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights	Ind AS 38

18 Recognition Exemptions

A lessee can elect not to apply Ind AS 116's recognition requirements to:

1. Short-term leases (Option to be taken by class of asset)
   A lease that has a lease term of 12 months or less and does not include an option to purchase the underlying asset.

2. Leases for which the underlying asset is of low-value (entity's judgement) [E.g – Mobile phone]

   Conditions for low-value exemption
   - Lessee can benefit from the use of underlying asset on its own or together with resources that are readily available to lessee
   - Underlying asset is not highly dependent on or highly interrelated with other assets.

   Head lease do not qualify as low value assets.

18.1 Accounting Treatment

The lease payments shall be recognised as an expense on either a Straight-line basis over the lease term or another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

If a lessee accounts for "short-term leases" as per the approach mentioned above, it shall consider the lease to be a "new lease" for the purposes of Ind AS 116 if:

(a) there is a lease modification; OR

(b) there is any change in the lease term



Ind AS 37
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1 Objective

The objective of Ind AS 37 is to ensure that

- appropriate ***recognition*** criteria and ***measurement*** bases are applied to
  - -provisions,
  - -contingent liabilities and
  - -contingent assets and
- ***sufficient information*** is disclosed in the notes to enable users to understand their
  - -nature,
  - -timing and
  - -amount.

2 Scope

Ind AS 37 should be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:

1) for **executory contracts**, except where the contract is onerous; and
2) **financial instruments** that are within the scope of Ind AS 109, Financial Instruments;
3) those covered by another Standard such as:

Exclusion	Covered by
Revenue from contracts with customers	Ind AS 115 (Onerous contracts covered under Ind AS 37)
Income Taxes	Ind AS 12
Leases	Ind AS 116 (Onerous contracts covered under Ind AS 37)
Employee Benefits	Ind AS 19
Insurance Contracts	Ind AS 117
Contingent consideration in a business combination	Ind AS 103

3 Important Terms

3.1 Executory Contract

- Executory contracts are contracts under which
  - neither party has performed any of its obligations or
  - both parties have partially performed their obligations to an equal extent

Ind AS 37 is applied to executory contracts only if they are onerous.

3.2 Onerous Contract

- is a contract in which the unavoidable costs of meeting the obligation
- exceed the economic benefits expected to be received under the contract

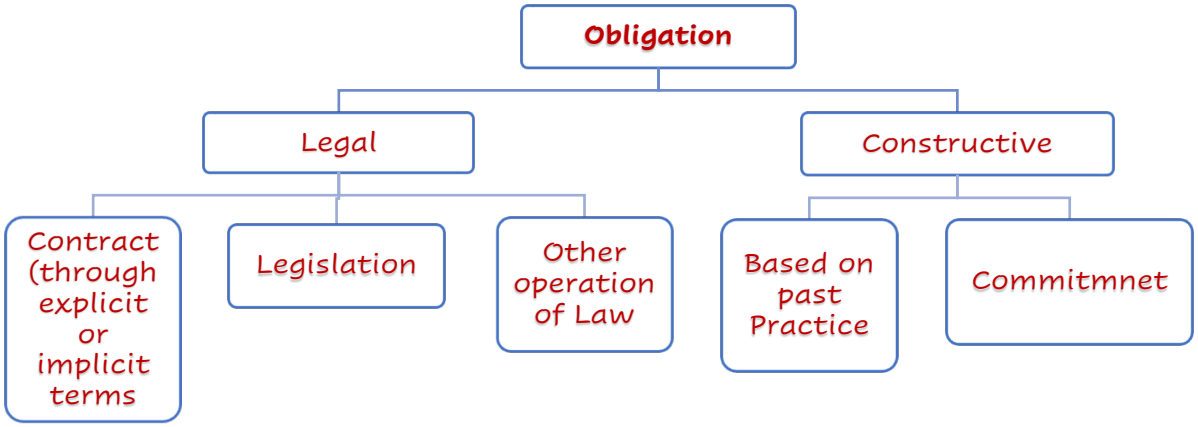
3.3 Liability

- 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.

3.4 Obligating Event

- is an event that creates a legal or constructive obligation
- that results in an entity having no realistic alternative to settling that obligation.

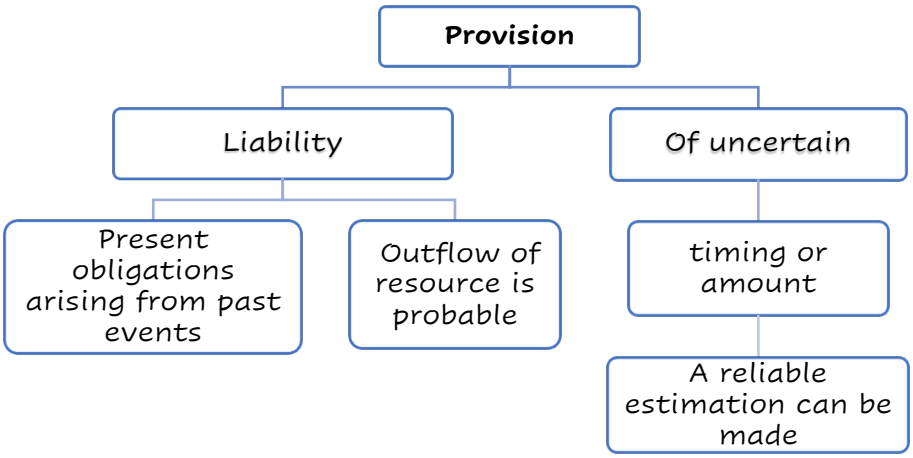




Example: X Ltd. is engaged in the manufacture of fertilisers. Effluents discharged in the manufacturing process have polluted the river near the manufacturing plant. The residents of the nearby locality launched a massive agitation against the pollution as a result X Ltd. agreed to their demands to reduce the water pollution by installing the necessary Effluent Treatment Plant.
However, during the year no steps are taken to install the plant. No legislation requiring the company to reduce its pollution is in existence.
In this case, though there is no law but by promising to take steps to reduce pollution, X Ltd. has created a valid expectation on the part of public that it will discharge its responsibilities. So, the obligation in this case is a **constructive obligation.**

4 Provisions

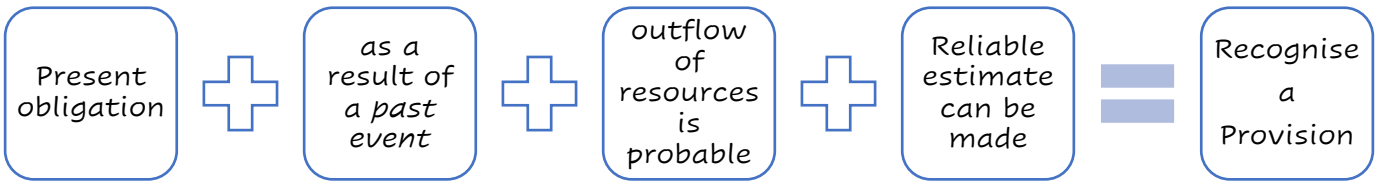
A *provision* is a liability of uncertain ***timing*** or ***amount.***



4.1 Recognition of Provision

provision should be recognised when all the conditions are satisfied

a) an entity has a *present obligation* (legal or constructive) as a result of a *past event;*
b) it is *probable that an outflow of resources embodying economic benefits* will be required to settle the obligation; and
c) a *reliable estimate* can be made of the amount of the obligation.

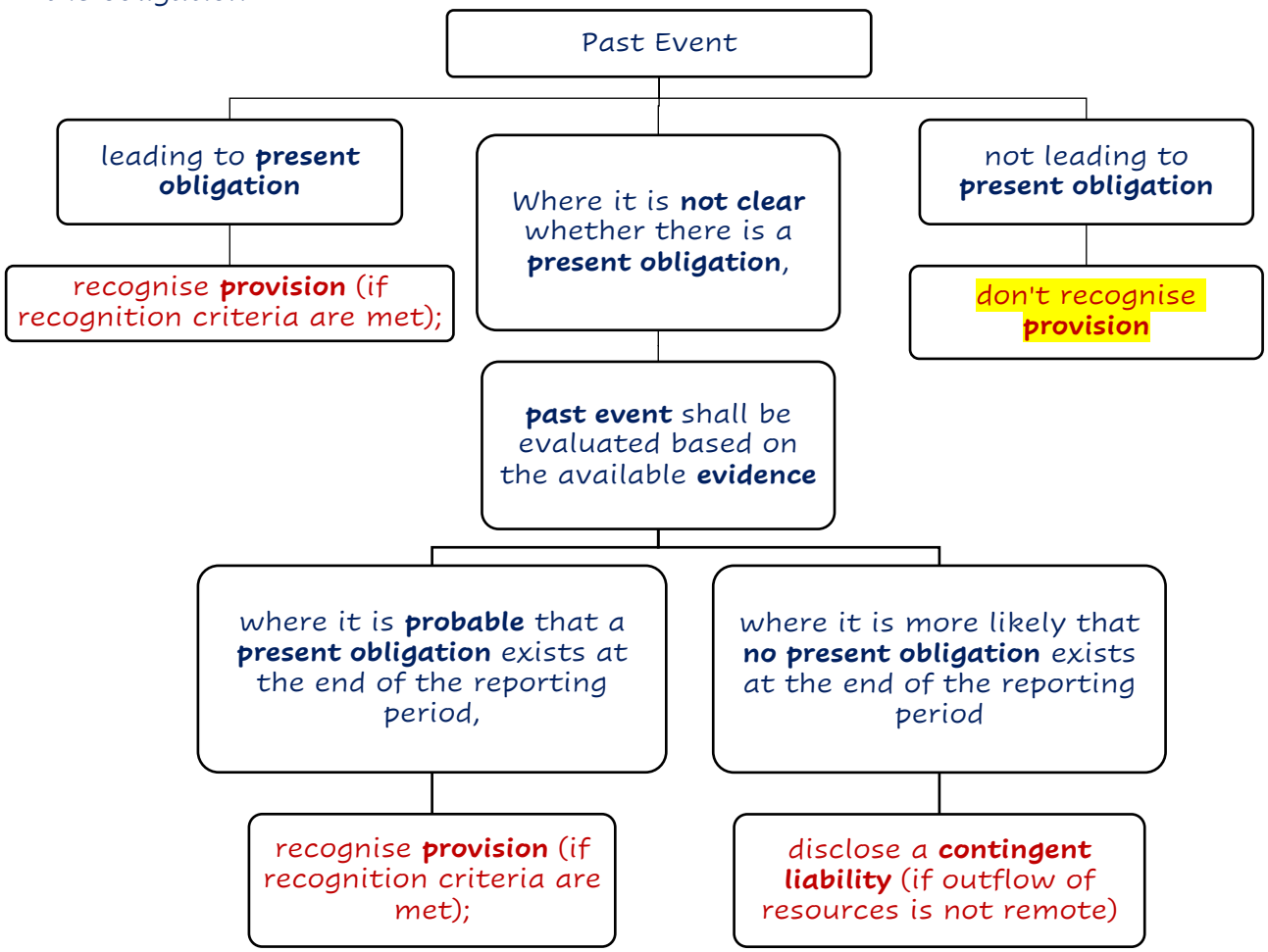




4.1.1 Past Event and Present Obligation

- A ***past event*** that leads to a ***present obligation*** is called an ***obligating event***.
- ***Obligating event***, is the event where the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

a) where the settlement of the obligation can be enforced by law; or
b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.



- ***No provision is recognised for costs that need to be incurred by an entity to operate in the future.***
- ***Only those obligations arising from past events existing independently of an entity's future actions (i.e., the future conduct of its business) that should be recognised as provisions***

Example 1: Refurbishment costs
Case(i): No legislative requirement
A furnace has a lining that needs to be replaced every five years for technical reasons. At the end of the reporting period, the lining has been in use for three years. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event – No present obligation
Conclusion – No provision is recognised.



Note: The cost of replacing the lining is not recognised because, at the end of the reporting period, no obligation to replace the lining exists **(even if the company has plans to replace the linings)**

Case(ii): legislative requirement
An airline is required by law to overhaul its aircraft once every three years. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event – There is no present obligation.
Conclusion – No provision is recognised.
Note: The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in Case(i) on refurbishment costs.
Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft - the entity could avoid the future expenditure by its future actions, for example by selling the aircraft.

➔ ***The entity can avoid the future expenditure by its future actions. In such a case, it has no present obligation for that future expenditure and no provision is recognised.***

Example 2: Legal requirement to fit smoke filters

Under new legislation, an entity is required to fit smoke filters to its factories by September 30, 20X1. The entity has not fitted the smoke filters. It is assumed that a reliable estimate can be made of any outflows expected.

(a) At March 31, 20X1, the end of the reporting period

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.

Conclusion – No provision is recognised for the cost of fitting the smoke filters.

(b) At March 31, 20X2, the end of the reporting period

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).

An outflow of resources embodying economic benefits in settlement – Assessment of probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion – No provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed.



4.1.2 Probable Outflow of Resources Embodying Economic Benefits

- For a liability to qualify for recognition
  - there must be not only a ***present obligation***
  - but also, the probability of an ***outflow of resources*** embodying economic benefits to settle that obligation.
- Where it is not probable that a present obligation exists,
  - an entity discloses a ***contingent liability***,
  - unless the possibility of an outflow of resources embodying economic benefits is ***remote***.

For the purpose of Ind AS 37, an outflow of resources or other event is regarded as probable, if the event is more likely than not to occur, i.e., the probability that the event will occur is greater than the probability that it will not.

Example 3: Refurbishment costs – legislative requirement An entity in the oil industry causes contamination but cleans up only when required to do so under the laws of the particular country in which it operates.

One country in which it operates has had no legislation requiring cleaning up, and the entity has been contaminating land in that country for several years.
At March 31, 20X1, it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year-end. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.
An outflow of resources embodying economic benefits in settlement – Probable.
Conclusion – A provision is recognised for the best estimate of the costs of the clean-up.

Example 4: Contaminated land and constructive obligation
An entity in the oil industry (having 31 March year-end) causes contamination and operates in a country where there is no environmental legislation.
However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event- The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.
An outflow of resources embodying economic benefits in settlement- Probable.
Conclusion- A provision is recognised for the best estimate of the costs of clean-up.

Example 5: Offshore oilfield
An entity operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. 90% of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and 10% arise through the extraction of oil.
At the end of the reporting period, the rig has been constructed but no oil has been extracted. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event – The construction of the oil rig creates a legal obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event.
At the end of the reporting period, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.
An outflow of resources embodying economic benefits in settlement – Probable.
Conclusion – A provision is recognised for the best estimate of 90% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.



The 10% of costs that arise through the extraction of oil are recognised as a liability when the oil is extracted.

4.2 Changes in Provisions

- Provisions should be reviewed at the end of each reporting period and adjusted to reflect the current best estimate
- If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provision should be reversed.
- Where discounting is used, the carrying amount of a provision increases in each year. This increase is recognised as borrowing cost / finance cost.

4.3 Use of Provisions

A provision should be used only for expenditures for which the provision was originally recognised. Repurposing of the provisions is not allowed.

4.4 Provisions & Other Liabilities

Since there is uncertainty about the timing or amount of the future expenditure required in settlement of the provisions, they are different from liabilities. By contrast:

a) trade payables are liabilities to pay for goods or services that have been received or supplied.
b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid.

4.4.1 Examples on provisions and other liabilities:

Nature of obligation	Recognition as provision (Yes/No)	Reasons
Amount payable for utilities like electricity, gas, etc.	No	It represents an accrual of liability to pay for services that have been received and the amount and timing of payment can be determined with a reasonable certainty.
Goods or services received, but not invoiced	No	It represents trade payables even if invoice has not been received and the amount and timing of payment would be driven by the terms agreed with the supplier.
Financial guarantee given by the parent to lenders for loan taken by its subsidiary	No	Financial guarantees are within the scope of Ind AS 109 *Financial Instruments*
Warranty obligations	Yes	It is additional cost that the seller may have to incur to rectify product defects. This is in the nature of provision as there is an uncertainty associated with the amount and timing of the liability.

5 Contingent Liabilities

- A Contingent Liability is



- *a possible obligation* that arises from *past events* and
- whose existence will be confirmed only by the *occurrence or non-occurrence* of one or more uncertain *future events* not wholly within the control of the entity.

(or)

- *a present obligation* that arises from *past events* but is not recognised because:
- *Outflow of resources* embodying economic benefits to settle the obligation are *not probable*; or
- Reliable estimation cannot be made.

An entity should not recognise a contingent liability, it should be ***disclosed***, unless possibility of an outflow of resources embodying economic benefits is not remote

Example:
A tax case pending before the court, the liability for payment arising or not in respect of which depends on the outcome of court decision is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The principles describing provisions and contingent liabilities is as follows:

There is a present obligation that probably requires an outflow of resources.	A provision is recognised.	Disclosures are required for the provision.
There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources..	No provision is recognised.	Disclosures are required for the contingent liability.
There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.	No provision is recognised.	No disclosure is required.

- If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision should be recognised in the financial statements of the period in which the change in probability occurs.

6 Contingent Assets

- Contingent Asset is
  - *a possible asset* that arises from *past events* and
  - whose existence will be confirmed only by the *occurrence or non-occurrence* of one or more uncertain *future events* not wholly within the control of the entity
- An entity should not recognise a contingent asset
- A contingent asset should be disclosed, where an inflow of economic benefits is probable.
- Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.
- If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Likelihood of outcome	Probability	Contingent liability	Contingent asset
Virtually certain	> 95%	Recognise provision	Recognise asset
Probable	50% - 95%	Recognise Provision	Disclose
Possible but not probable	5% - 50%	Disclose the contingency	No disclosure
Remote	< 5%	Ignore	Ignore

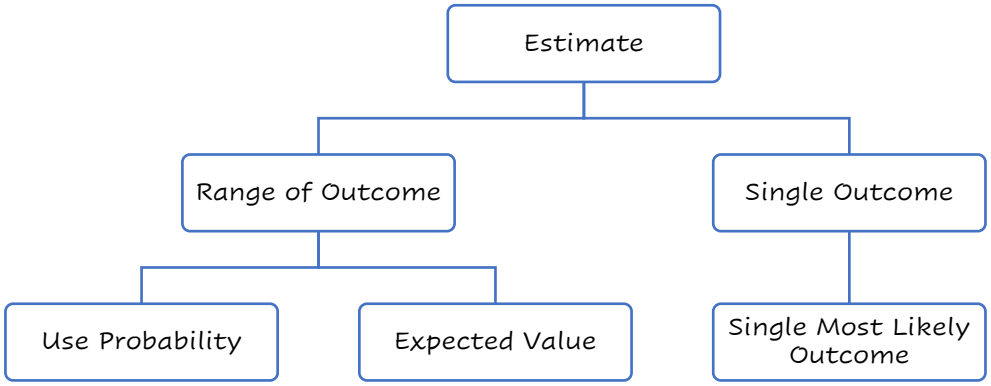


Example: X Ltd. filed a legal suit against a supplier of goods for compensation against damages on non–supply of contracted goods.
This meets the definition of a ***contingent asset*** since there is a possible asset (compensation against damages) that arises from past event (contract with the supplier) and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future event not wholly within the control of the entity (i.e., the outcome of the legal suit)

7 Measurement

7.1 Best Estimate

- The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- The estimates of outcome and financial effect are determined using
  - the judgement of the management of the entity,
  - experience of similar transactions,
  - reports from independent experts,
  - Subsequent events



Example 1:
An entity faces a single legal claim, with a 40 per cent likelihood of success with no cost and a 60 percent likelihood of failure with a cost of ₹1 million.
Expected value is not valid in this case because the outcome will never be a cost of ₹600,000 (60 percent x ₹1 million); the outcome will either be nil or ₹1 million.
Ind AS 37 indicates that the provision may be estimated at the individual most likely outcome. In this case, it is more likely that a cost of ₹1 million will result and, therefore, a provision for ₹1 million should be recognised.

Example 2:
An entity is required to replace a major component of an asset under warranty. Each time replacement costs ₹ 1 million. From experience, there is a 30 per cent chance of a single failure, a 50 per cent chance of two failures, and a 20 per cent chance of three failures.
In the given case the most likely outcome is two failures, costing ₹ 2 million. The expected value is ₹ 1.9 million [(30 percent x ₹ 1 million) + (50 per cent x ₹ 2 million) + (20 per cent x ₹ 3 million)].

The expected value supports the provision 2 million.

7.2 Risk and Uncertainties

- Risks and uncertainties should be taken into account in reaching the best estimate of a provision.
- 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.



- 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.

7.3 Present value

- The amount of a provision should be the **present value** of the expenditures expected to be required to settle the obligation.
- **The discount rate (or rates) should be a pre-tax rate (or rates)** that reflect(s) current market assessments of the time value of money and the risks specific to the liability.

7.4 Future Events

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

7.5 Expected Disposal of Asset

Gains on the expected disposal of assets should not be taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision.

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

	20X2	20X3
Committed closure costs	₹ 10,00,000	
Gain from sale of property		₹ 2,00,000

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

8 Reimbursements

- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is **virtually certain** that reimbursement will be received if the entity settles the obligation.
- The reimbursement should be treated as a **separate asset**.
- The amount recognised for the reimbursement should **not exceed** the amount of the provision.
- In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

9 Application of Recognition & Measurement Rules

9.1 Future Operating Losses

- Provisions should not be recognised for future operating losses
- as future operating losses do not meet the definition of a liability

9.2 Onerous Contracts

- contract in which unavoidable cost of meeting the obligation exceed the economic benefits expected to be received from such contract
- Provision to be created at Lower of:
  - Damages payable if exited from the contract or
  - Net loss that arises if the contract is executed



Example 1: Contract not onerous
An entity has a contract to purchase one million units of gas at 23p per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16p per unit, giving a price of ₹ 1,60,000.
The gas will be used to generate electricity, which will be sold at a profit. The economic benefits from the contract include the benefits to the entity of using the gas in its business and, because the electricity will be sold at a profit, the contract is not onerous.

Example 2: Impairment of assets
The contract's terms and market prices are the same as in example 1.
However, the electricity is sold at a loss, and the entity makes an overall operating loss. All of the gas purchased by the entity is used to generate electricity using dedicated assets. The electricity is sold to a wide range of customers. The entity first considers whether the assets used to generate electricity are impaired.
To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.

Example 3: Sale to third party at below purchase price
The contract terms and market price are the same as in example 1.
However, in this example, the entity sells the gas under contract, which it no longer needs, to a third party for 18p per unit (5p below cost). The entity determines that it would have to pay ₹ 55,000 to exit the purchase contract.
The only economic benefit from the purchase contract costing ₹ 2,30,000 are the proceeds from the sales contract, which are ₹ 1,80,000.
Therefore, a provision should be made for the onerous element of ₹ 50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (₹ 55,000).

9.3 Restructuring

- is a programme that is planned and controlled by management, and materially changes either
  a) the scope of a business undertaken by the entity; or
  b) the manner in which that business is conducted.

Examples,
  a) sale or termination of a line of business;
  b) closure of business locations in a country or region or the relocation of business activities from one country or region to another;
  c) changes in management structure, for example, eliminating a layer of management; and
  d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations

- A provision for restructuring costs should be recognised only when the general recognition criteria for provisions set out the standard are met.
- A constructive obligation to restructure arises only when an entity:
  a) has a detailed formal plan for the restructuring identifying at least:
     i. business or part of a business concerned;
     ii. principal locations affected;
     iii. location, function, and approximate number of employees who will be compensated for terminating their services;
     iv. expenditures that will be undertaken; and
     v. when the plan will be implemented; and
  b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

- A restructuring provision should include only **include the direct expenditure arising from the restructuring,** which are:
  - necessarily entailed by the restructuring; and
  - **not associated with the on-going activities** of the entity.



- A restructuring provision does not include such cost as:
  - retraining or relocating continuing staff;
  - Marketing; or
  - Investment in new system and distribution networks.

Example 1: Closure of a division – no implementation before end of the reporting period
On March 12, 20X1 the board of an entity decided to close down a division. Before the end of the reporting period (March 31, 20X1) the decision was not communicated to any of those affected and no other steps were taken to implement the decision. it is assumed that a reliable estimate can be made of any outflows expected.

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.
Conclusion – No provision is recognised.

Example 2: Closure of a division – communication/implementation before end of the reporting period
On March 12, 20X1, the board of an entity decided to close down a division making a particular product. On March 20, 20X1 a detailed plan for closing down the division was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division. It is assumed that a reliable estimate can be made of any outflows expected.
Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.
An outflow of resources embodying economic benefits in settlement – Probable.
Conclusion – A provision is recognised at March 31, 20X1 for the best estimate of the costs of closing the division.

10 Disclosure Requirements

- For each class of provision, an entity should disclose:
  - the carrying amount at the beginning and end of the period;
  - additional provisions made in the period, including increases to existing provisions;
  - amounts used (i.e., incurred and charged against the provision) during the period;
  - unused amounts reversed during the period; and
  - the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.
- An entity should disclose the following for each class of provision:
  - a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
  - an indication of the uncertainties about the amount or timing of those outflows.
  - the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.
- Unless the possibility of any outflow in settlement is remote, an entity should disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:
  - an estimate of its financial effect, measured in the standard;
  - an indication of the uncertainties relating to the amount or timing of any outflow; and
  - the possibility of any reimbursement.
- When an entity is creating a class of provisions, the entity should aggregate similar items
- Where an inflow of economic benefits is probable, an entity should disclose a brief description of the **nature of the contingent assets** at the end of the reporting period, and, where practicable, **an estimate of their financial effect**, measured using the principles set out for provisions in the standard.



11 Levies- Appendix C of Ind AS 37

11.1 What is Levy?

- A charge imposed by governments on entities in accordance with laws and/or regulations. It leads to outflow of resources embodying economic benefits

It excludes,

- outflows of resources that are within the scope of other Ind AS
- fines or other penalties that are imposed for breaches of the legislation
- payment made to the government for acquiring assets or for rendering services as per the contractual agreement
- liabilities that arise from emissions trading schemes.

Other relevant examples:

Example 1: A Court case

After a wedding in 20X1-20X2, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings are started seeking damages from the entity but it disputes liability.

Up to the date of approval of the financial statements for the year to31 March 20X2 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 March 20X3, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable. It is assumed that a reliable estimate can be made of any outflows expected.

(a) At 31 March 20X2

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – No provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) At 31 March 20X3

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the amount to settle the obligation.

Example 2: Warranty

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale.

On past experience, it is probable (i.e., more likely than not) that there will be some claims under the warranties. It is assumed that a reliable estimate can be made of any outflows expected.

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement – Probable for the warranties as a whole.

Conclusion – A provision is recognised for the best estimate of the costs of making good under the warranty products sold before the end of the reporting period.

12 Significant differences in IND AS 37 & AS 29

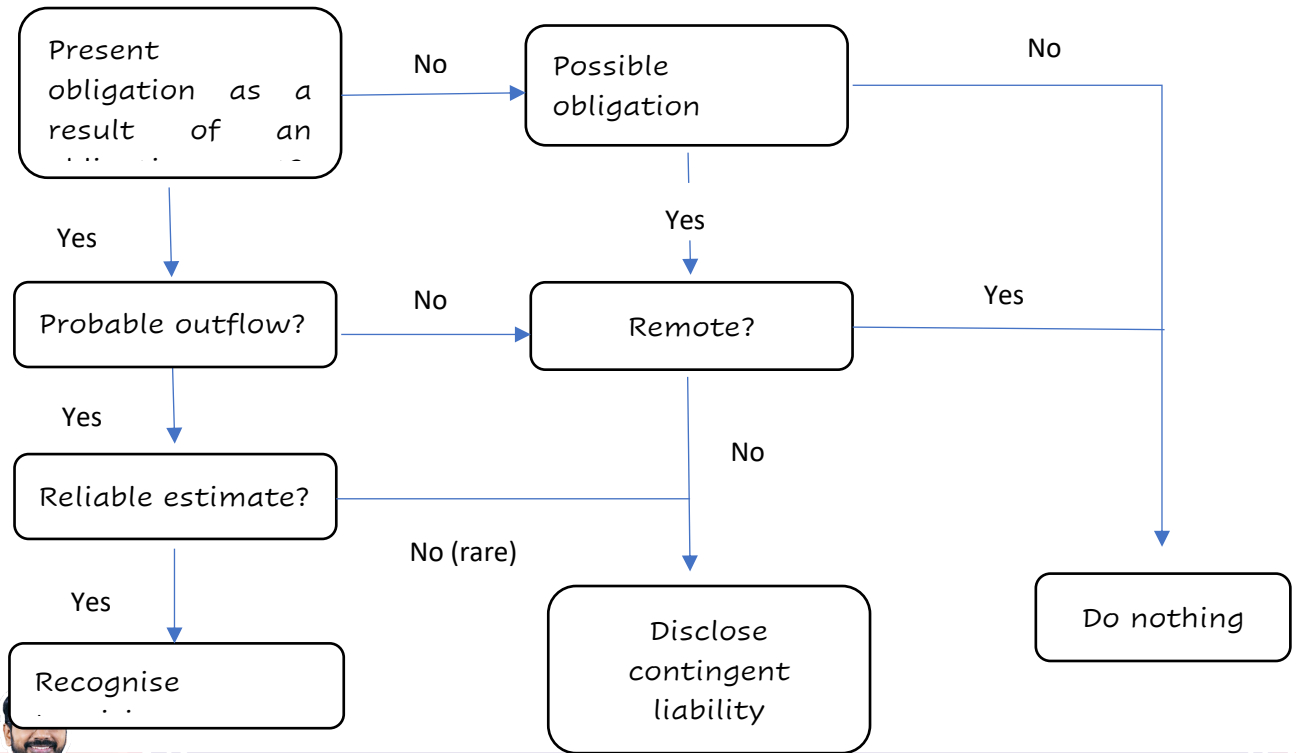
Basis of differences	IND AS 37	AS 29
Definition Constructive Obligations, Provision and Obligating Event	Specifically defines "constructive obligation". A provision is a liability uncertain amount or timing.	doesn't define specifically. Provision is a liability which can be measured only by using



	Specifically talks about obligating event.	substantial degree of estimation. Doesn't talk about obligating event.
Discounting	When the effect of time value of money is material, discounting is required.	Discounting is not permitted except for decommissioning, restoration and similar liabilities associated with PPE
Contingent asset	Not recognised but disclosed in the financial statements when an inflow of economic benefits is probable.	Neither recognised nor disclosed in the financial statements and are usually disclosed in the report of the approving authority.
Onerous Contracts	Makes it clear that before a separate provision for an onerous contract is established, an entity should recognise any impairment loss that has occurred on assets dedicated to that contract in accordance with Ind AS 36.	There is no such specific provision
Additional guidance	gives guidance on: (a) Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (b) Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (c) Levies (imposed by government).	Does not give such guidance.

13 Summary

Decision tree:



Important Points:

No provision is recognised for costs that need to be incurred by an entity to operate ***in the future.***

Only those obligations arising from past events existing independently of an entity's future actions (i.e., the future conduct of its business) ***that should be recognised as provisions***

- The amount of a provision should be the **present value** of the expenditures expected to be required to settle the obligation.
- The discount rate should be a **pre-tax rate.**

Provisions should not be recognised for future operating losses as future operating losses do not meet the definition of a liability

- Provisions should be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.
- Provision should be reversed, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation

Gains on the expected disposal of assets should not be taken into account in measuring a provision



Ind AS 19
Employee Benefits

1 Objective

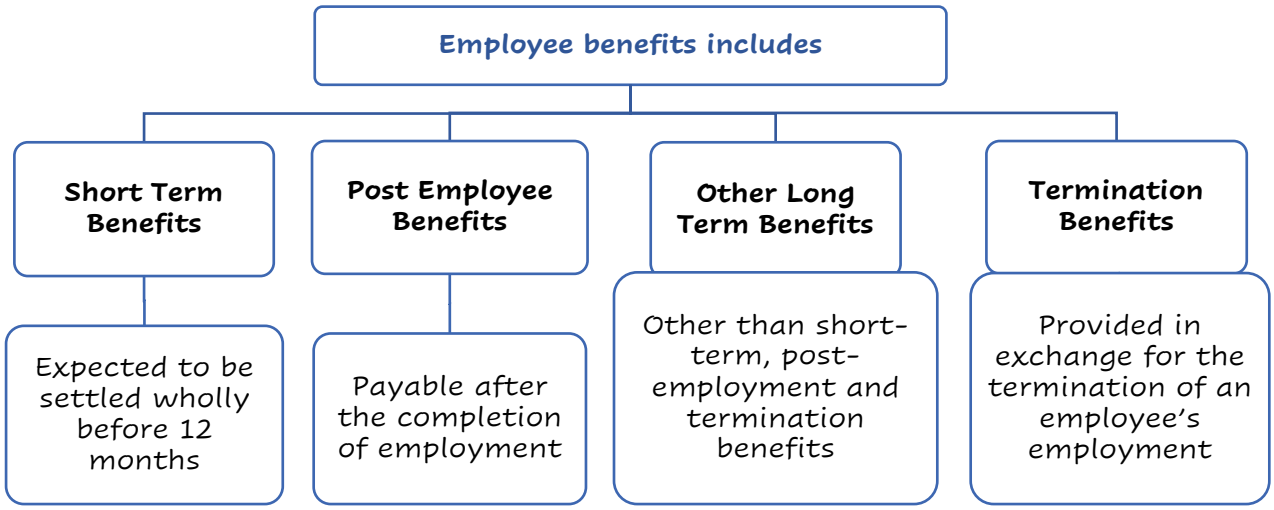
- to prescribe the ***accounting*** and ***disclosure*** for employee benefits.
- Ind AS 19 requires an entity to recognise:
  - a liability for advance services received from an employee; and
  - an expense for consumption of economic benefits raised from the service provided by an employee in exchange for employee benefits.

2 Scope

- The employee benefits to which this Standard applies include those provided:
  - under ***formal plans or other formal agreements*** between an entity and individual employees, groups of employees or their representatives;
  - under ***legislative requirements***, or through industry arrangements; or
  - by those ***informal practices*** that give rise to a constructive obligation.
- This Standard does not deal with reporting by employee benefit plans (e.g by provident fund trusts)
- This Standard shall be applied by an employer in accounting for all employee benefits, **except those to which Ind AS 102, Share-based Payment**, applies

3 Employee benefits

- ***Employee benefits*** means all forms of consideration given by an entity
  - in exchange for **service rendered** by employees or
  - for the **termination** of employment.



Employee benefits Include benefits provided either to	Employee benefits may be settled by payments made either-	An employee may provide services to an entity on a-
employees; or	directly to the employees; or	full-time; or
their dependants; or	their spouses; or	part-time; or
their beneficiaries.	their children; or	permanent; or
	their other dependants; or	casual; or



	others, such as insurance companies	temporary basis.

4 Short term employee benefits

- Short-term employee benefits include items expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services.

- Short term employee benefits include
  - wages, salaries and social security contributions;
  - paid annual leave and paid sick leave;
  - profit-sharing and bonuses; and
  - non-monetary benefits

- Reclassification of a short-term employee benefit is not required if the entity's expectations of the timing of settlement of such benefits changes temporarily.

4.1 Short-term paid absences

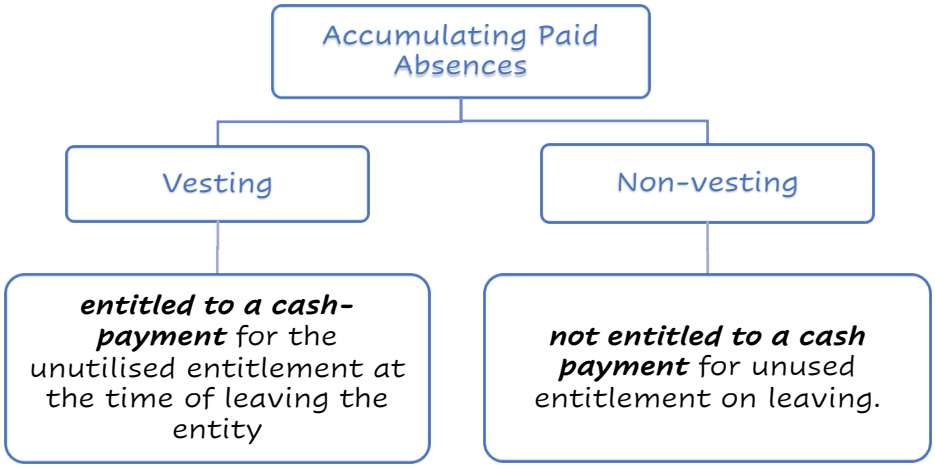
An employer may compensate an employee for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity
Entitlement to paid absences fall into two categories as follows:

4.1.1 Non-accumulating Paid Absences

- These are the absences that ***do not carry forward*** and they will lapse if the current period's entitlement is not used in full by the employee.
- They do not entitle employees to a cash payment for unused entitlement on leaving the entity.
- No specific accounting treatment is needed.

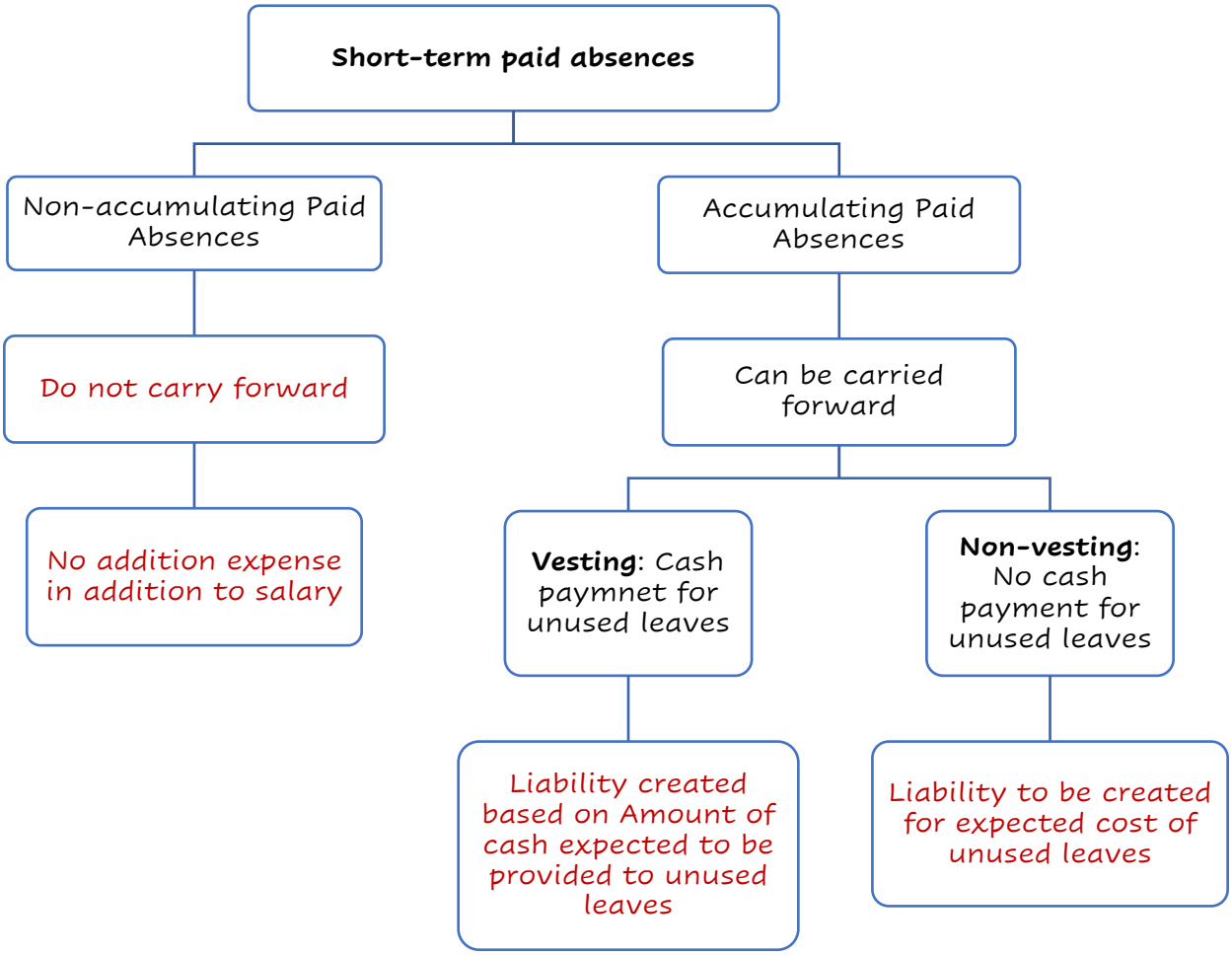
4.1.2 Accumulating Paid Absences

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



- An entity shall measure the expected cost of accumulating compensated absences as the **additional amount that the entity expects to pay as a result of the unused entitlement** that has accumulated at the end of the reporting period





4.2 Profit-sharing and Bonus Plans

- An entity may pay employees a percentage of profits as remuneration (generally called as bonus)
- Expected costs of profit-sharing and bonus plans shall be recognised when,
  - the entity has a ***present obligation*** (legal or constructive) to make such payments as a result of past events; and
  - a ***reliable estimate*** of the obligation can be made by the entity.
- An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners.
- An entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

4.3 Recognition and Measurement of Short-term Benefits

- Accounting for short term benefits has two characteristics:
  - Measured on an **undiscounted basis;** and
  - Do not require any actuarial valuation for their measurement.
- The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service shall be recognised:
  - ***As a liability*** after deducting any amount already paid.
  - ***As an asset*** (if amount paid exceeds the undiscounted amount of the benefits for the period)
  - ***as an expense***, if it doesn't form part of the cost of an asset as per any other Ind AS.

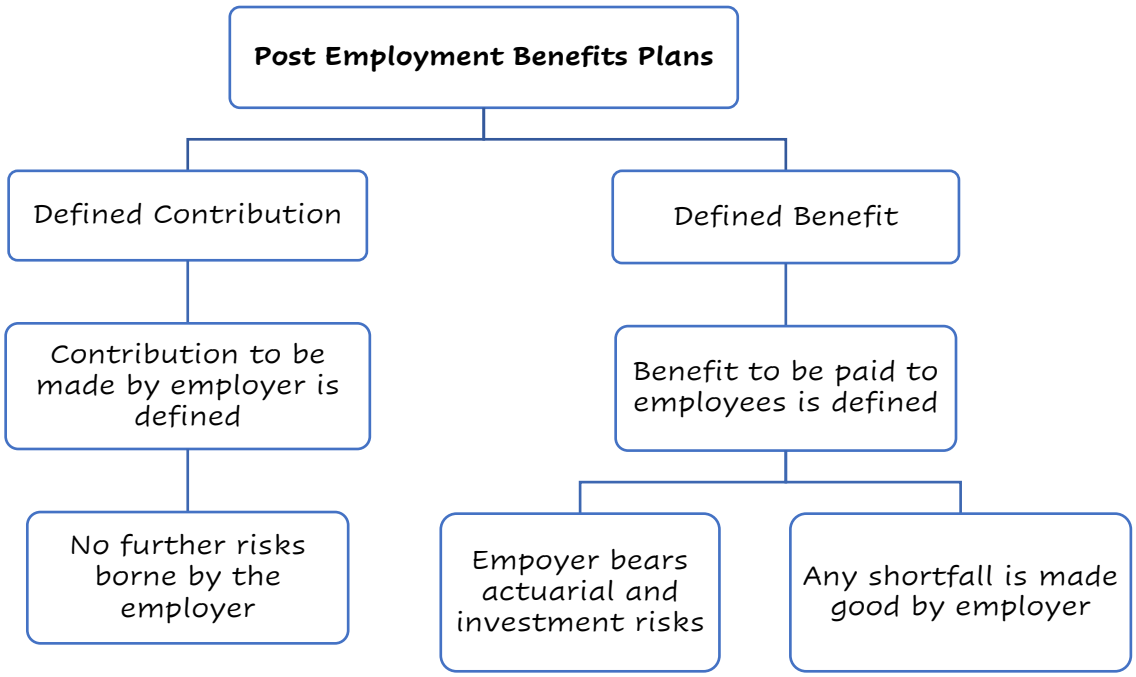


4.4 Disclosure of Short-term employee benefits

Ind AS 19	does not require specific disclosures
Other Ind AS	may require disclosures.
Examples	**Ind AS 24:** Requires disclosures about employee benefits for key management personnel **Ind AS 1:** Presentation of Financial Statements, requires disclosure of employee benefits expense.

5 Post-employment benefits

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



5.1 Defined contribution plans

- The entity's ***obligation*** (legal or constructive) is limited to the ***amount that it agrees*** to contribute to the fund.
- The amount of the post-employment benefits received by the employee is determined by the amount of contribution paid by an entity
- Under defined contribution plan
  - ***actuarial risk*** *(that benefits will cost more than expected)* and
  - ***investment risk*** *(assets invested will be insufficient to meet expected benefits)*
  - will fall on the ***employee***
- ***Discounting*** should be done if contribution is payable after ***12 months*** from reporting date

5.2 Defined Benefit plans

- The entity's ***obligation*** is to provide the ***agreed benefits*** *(Benefits are defined)* to current and former employees;
- The ***actuarial risk*** and ***investment risk*** fall on the ***entity***
- If actuarial or investment experience are worse than expected, the entity's obligation may be increased.



Differences

Particulars	Defined Contribution Plans	Defined Benefit Plans
Entity's obligation	Limited to the amount that it agrees to contribute to the fund.	To provide the agreed benefits to current and former employees.
Determination of the amount of post-employment benefit	determined by the amount of contribution paid by an entity and employee + return on it	Pre-determined / as agreed
Risk bearer	Actuarial risk and investment risk fall on the employee	These risks fall on entity

5.3 Accounting for Defined Contribution Plans

- The reporting entity's obligation for each period is determined by the amounts to be contributed for that period.

Particulars	Debit	Credit
Compensation Expenses Dr.	XXXX	
To Liability / Bank (Payable/Paid)		XXXX

- No actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.
- The obligations are measured on an undiscounted basis, except where the obligation falls due after twelve months after the end of the annual reporting period

5.3.1 Recognition and measurement

- When an employee has rendered service to an entity during a period, the entity shall

Recognise the contribution payable to a defined contribution plan in exchange for that service

As a liability (accrued expense), after deducting any contribution already paid	As an asset (prepaid expense) if contribution already paid under a defined contribution plan exceeds the contribution due for service before the end of the reporting period Asset to be recognised at the PV of any economic benefits available in the form of a ***cash refund*** or a ***reduction in future payments***	As an expense if not included in the cost of an asset as per other Ind AS

5.3.2 Disclosure

An entity shall disclose	the amount recognised as an expense for defined contribution plans.
	information about contributions to defined contribution plans for key management personnel (as per Ind AS 24).

5.4 Accounting for Defined Benefit Plans

Accounting for defined benefit plans is complex because –

- ***actuarial assumptions*** are required to measure the obligation and the expense;
- there is a possibility of ***actuarial gains and losses***;
- the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

5.4.1 Recognition and measurement

- Defined benefit plans can be:
  - unfunded or
  - funded.



- The payment of funded benefits when they **fall due depends** on
  - the financial position and the investment performance of the fund; and
  - an entity's ability to make good any shortfall in the fund's assets.
- The entity underwrites the actuarial and investment risks associated with the plan i.e. the entity assumes ultimate liability.
- The expense recognised for a defined benefit plan is not always equal to the amount of the contribution due for the period.

5.4.2 Actuarial Assumptions

- The benefit payable to beneficiaries depends on multiple factors (variables)
- Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits
- Actuarial assumptions shall be ***unbiased*** and ***mutually compatible***.

Actuarial assumptions comprise of	
Demographic Assumptions	• Average age of employees • Mortality- during and after employment • Rate of employee turnover, disability & early retirement • Proportion of plan member with dependants • Length of service etc.
Financial Assumptions	• Discount rate • Future salary & benefit levels • Inflation rates • In case of medical benefits, future medical cost, including claim handling costs etc.

5.4.3 Discount rate

Situation	Discount Rate
Post-employment benefit obligations in India	**market yields on government bonds** at the **end of the reporting period**
Post-employment benefit obligations of subsidiaries / associates / joint ventures / branches domiciled outside India	**market yields on high-quality corporate bonds** at the **end of the reporting period**

5.4.4 Defined Benefit Obligation (DBO)

Defined Benefit Obligation	Obligation under a defined benefit plan
PV of Defined Benefit Obligation	PV of obligation resulting from employee service in current and prior periods

How to calculate DBO?

Particulars	***Amount (Rs.)***	***Presented in***
Opening Balance- DBO	**XXXX**	**BS**
(+) Current Service cost	XXXX	PL
(+) Interest cost	XXXX	PL
(+/-) Past Service Cost	XXXX	PL
(+) Actuarial Loss	XXXX	OCI
(-) Actuarial Gain	XXXX	OCI
(-) Benefit Payment	XXXX	BS
(-) Gain on Settlement	XXXX	PL
(+) Loss on Settlement	XXXX	PL



Closing balance- DBO	XXXX	BS

5.4.5 Current service cost

Current service cost is an increase in present value of DBO resulting from employee service during the current period.

Increase in the present value *of defined benefit obligation:*

Particulars		Debit	Credit
Employee Benefit Cost A/c	Dr.	XXXX	
To Defined Benefit Obligation			XXXX

5.4.6 Interest Cost

Interest cost is the increase in DBO due to passage of time. Interest is computed by multiplying opening balance of DBO with the discount rate.

Particulars		Debit	Credit
Employee Benefit Cost A/c (Interest)	Dr.	XXXX	
To Defined Benefit Obligation			XXXX

5.4.7 Past service cost

Change in the present value of the defined benefit obligation for employee service in prior periods resulting from a ***plan amendment*** or ***curtailment*** is known as past service cost

Plan amendment	the introduction or withdrawal of, or changes to, a defined benefit plan
Curtailment	a significant reduction by the entity in the number of employees covered by a plan

- An entity shall recognise past service cost as an expense at the earlier of the following dates:
  - when the plan amendment or curtailment occurs; and
  - when the entity recognises related restructuring costs
- Past service cost may be,
  - ***Positive***- when benefits are introduced or changed so that the present value of the defined benefit obligation increases or
  - ***Negative***- when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases.

Increase in the present value *of defined benefit obligation:*

Particulars		Debit	Credit
Employee Benefit Cost A/c	Dr.	XXXX	
To Defined Benefit Obligation			XXXX

Decrease in the present value *of defined benefit obligation:*

Particulars		Debit	Credit
Defined Benefit Obligation A/C	Dr.	XXXX	
To Employee Benefit Cost A/c			XXXX

5.4.8 **Gain or loss on settlement**

- 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
- 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.
- Gain or loss on the settlement of a defined benefit plan is recognised by the entity when the settlement occurs in the P&L

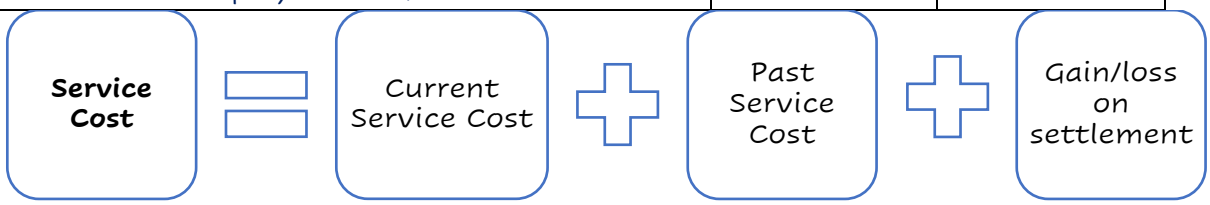


Loss on Settlement

Particulars		Debit	Credit
Employee Benefit Cost A/C	Dr.	XXXX	
To Defined benefit liability A/c			XXXX

Gain on Settlement

Particulars		Debit	Credit
Defined benefit liability A/C	Dr.	XXXX	
To Employee Benefit Cost A/C			XXXX



5.4.9 Actuarial gains and losses

- Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from:
  - experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
  - the effects of changes in ***actuarial assumptions.***

Actuarial gain/loss will be recognised in ***Other Comprehensive Income***

Actuarial Loss

Particulars		Debit	Credit
Other Comprehensive Income A/c	Dr.	XXXX	
To Defined Benefit Liability A/C			XXXX

Actuarial Gain

Particulars		Debit	Credit
Defined Benefit Liability A/C	Dr.	XXXX	
To Other Comprehensive Income A/c			XXXX

5.4.10 Benefit Payment

Payment of Employee benefits

Particulars		Debit	Credit
Defined Benefit Obligation A/C	Dr.	XXXX	
To Bank A/c			XXXX

5.4.11 Steps involved in accounting by an entity for defined benefit plans

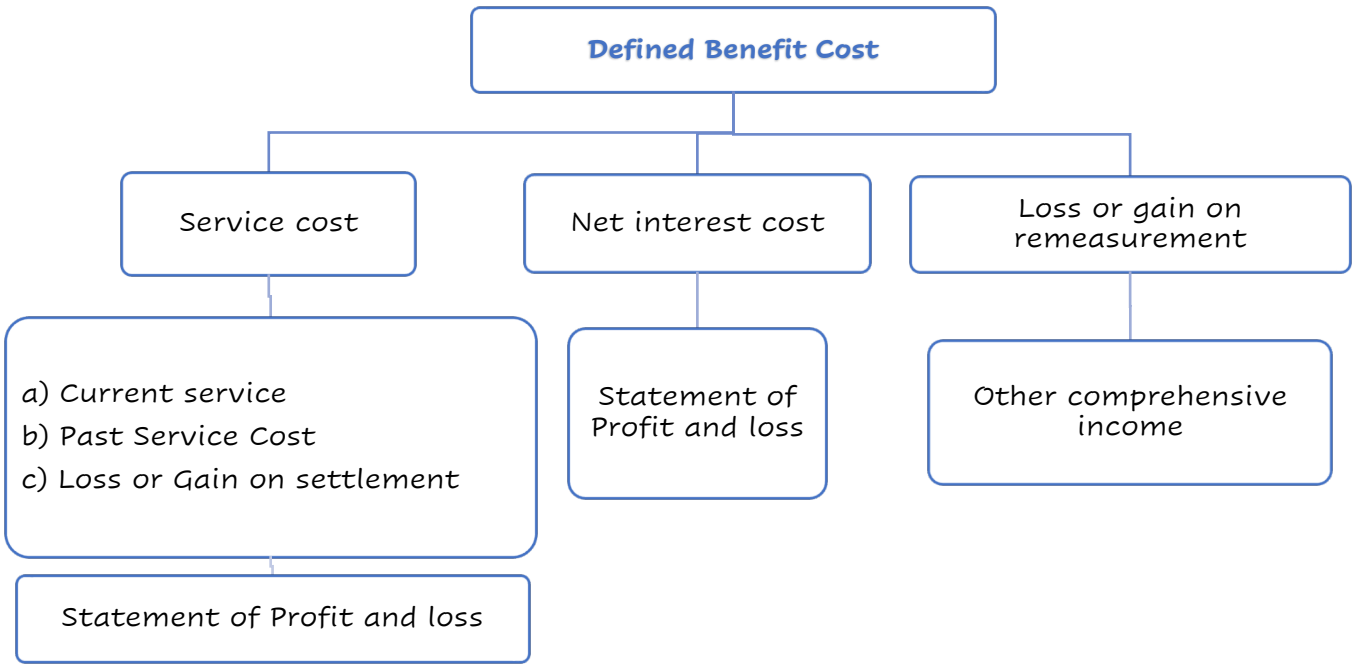
Determine the deficit or surplus	PUCM (Projected Unit Credit Method) Discounting Fair value of plan assets
Determine the amount of the net defined benefit liability (asset)	As the amount of the deficit or surplus
Determine the amounts to be recognised in Profit or Loss	Current service cost Past service cost Net interest
Determine the remeasurements of the net defined benefit liability (asset)	Actuarial Gain or Loss Return on Plan Assets Any Change in effect of Asset Ceiling



Final Salary	Start with **Year 1 salary**. & Increase salary each year using **compound growth rate**
Determine Total Benefit Payable	Total Benefit = Final Year Salary × amount or % per year × Number of Years
Allocate Benefit Attributed Each Year	**Annual Attributed Benefit = Total Benefit ÷ Number of Years**
Discount Future Benefits to Present Value	Use **discounting** to find present value of each year's cumulative benefit. **Number of year for discounts = Total period – period completed**
Compute Year-on-Year Obligation Movement using the below table	

Year	Opening Obligation	Interest Cost (Opening × Rate)	Service Cost (Benefit attributed)	Closing Obligation
1	0	0	PV of Year 1 benefit	Closing = Opening + Interest + Service Cost
2	Previous Closing	Previous × Rate	PV of Year 2 benefit	Closing = Opening + Interest + Service Cost

5.5 Components of Defined Benefit Cost



5.6 Net interest on the net defined benefit liability (asset)

- The change during the period in the net defined benefit liability (asset) that arises from the passage of time
- Interest = Net Defined Benefit Liability x discount rate
- If an entity remeasures the net defined benefit plan (asset), the entity shall determine interest for the remainder of the annual reporting period after plan amendment.

5.7 Remeasurements of the net defined benefit liability (asset)

Remeasurements of the net defined benefit liability (asset) comprise:

- actuarial gains and losses;
- Actual Return – Expected Return (of plan assets)
  - the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset);

any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).



How to compute gain or loss on remeasurement?

Particulars	***Net Liability***
Opening Balance	XXXX
Add:	
Current Service cost	XXXX
Past Service Cost	XXXX
Net Finance Cost	XXXX
Loss on Settlement	XXXX
Less:	
Gain on Settlement Benefits Paid	**XXXX**
Contributions received by the plan	**XXXX**
Expected Closing Balance	XXXX
Actual Closing Balance	XXXX
Gain/(Loss) on remeasurement	**XXXX**

6 Plan Assets

Plan assets comprise

a) assets held by a long-term employee benefit fund and
b) qualifying insurance policies

6.1 Assets held by a long-term employee benefit fund

Assets (other than non-transferable financial instruments issued by the reporting entity) that:

- are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, ***unless either:***
  - i. the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
  - ii. the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

6.2 Qualifying insurance policies

- Insurance policy issued by an insurer that is not a related party of the reporting entity
- if the proceeds of the policy:
  a) can be used only to pay or fund employee benefits under a defined benefit plan; and
  b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, ***unless either***:
    - i. the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
    - ii. the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Contribution by an employer to the fund

Particulars		***Debit***	***Credit***
Plan Asset A/C	Dr.	XXXX	
To Bank A/c			XXXX

Payments to employees by the fund

Particulars	***Debit***	***Credit***

Employee Benefit Obligation A/C Dr.	XXXX	
To Plan Asset A/c		XXXX

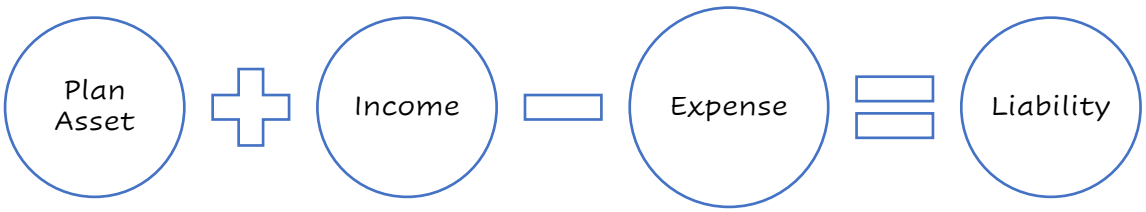
6.3 Return on plan assets

Interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

- any costs of managing plan assets; and
- any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

Return on plan assets

Particulars	**Debit**	**Credit**
Plan Asset A/C Dr.	XXXX	
To Employee Benefit Cost A/c		XXXX



How to compute actual return on plan assets?

Particulars	***Plan Asset***
Opening Balance	XXXX
Add/(Less)	
Contributions received	XXXX
Benefits paid / Settlements	(XXXX)
Expected Closing Balance	XXXX
Actual Closing Balance @ FV	XXXX
Actual Return [Actual CB – Expected CB]	***XXXX***

6.4 Deficit or surplus in benefit plan

PV of DBO > Fair value of Plan Assets	Deficit	→	Net liability
PV of DBO > Fair value of Plan Assets	Surplus	→	Net Asset

Asset > Obligation	Overfunded plan
Asset < Obligation	Underfunded plan

An entity shall recognise the net defined benefit liability (asset) in the balance sheet at Lower of

- the surplus in the defined benefit plan; and
- the asset ceiling, determined using the discount rate

Asset ceiling: PV of any economic benefits available in the form of a ***refunds from the plan*** or a ***reduction in future contributions to plan***

6.5 Net defined benefit liability (asset)

The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling



7 Types of Defined Benefit Plan / Defined Contribution Plan

7.1 State Plan

- Established by legislation
- Operated by government (CG/SG/Autonomous)

Examples

- Statutory Provident Fund
- National Pension Scheme

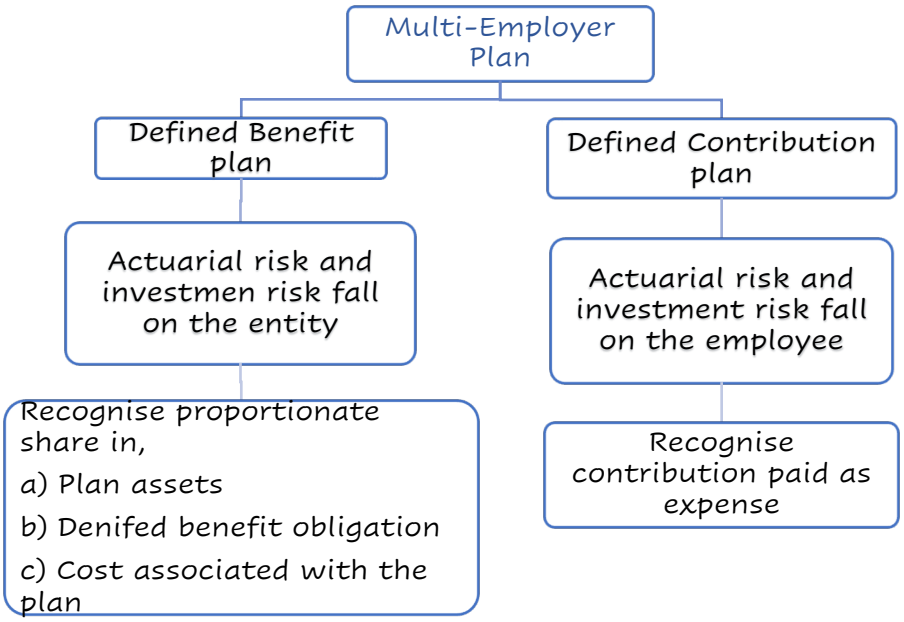
Generally, State plans are defined contribution plans

7.2 Multi-Employer Plan

Plans **other than** state plans

- Pool of assets are contributed by various entities that are ***not under common control***
- Use those assets to provide benefits to employees of ***more than one entity,*** on the basis that contributions and benefits are determined without regard to ***the identity of the entity*** that employs the employees

7.3 Accounting for Multi-Employer Plan



- Sufficient ***information*** is ***not available*** to use defined benefit accounting, account for the plan as if it were a defined contribution plan

7.4 Group Administration Plan

- Aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes
- Reduce investment management and administration costs.
- Group administration plans are classified as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan

7.5 Defined Benefit Plans that Share Risks between Entities under Common Control

7.5.1 For Defined Benefit plan

Particulars	Debit	Credit
Employee benefit cost A/C Dr.	XXXX	
To Contribution Payable A/c		XXXX

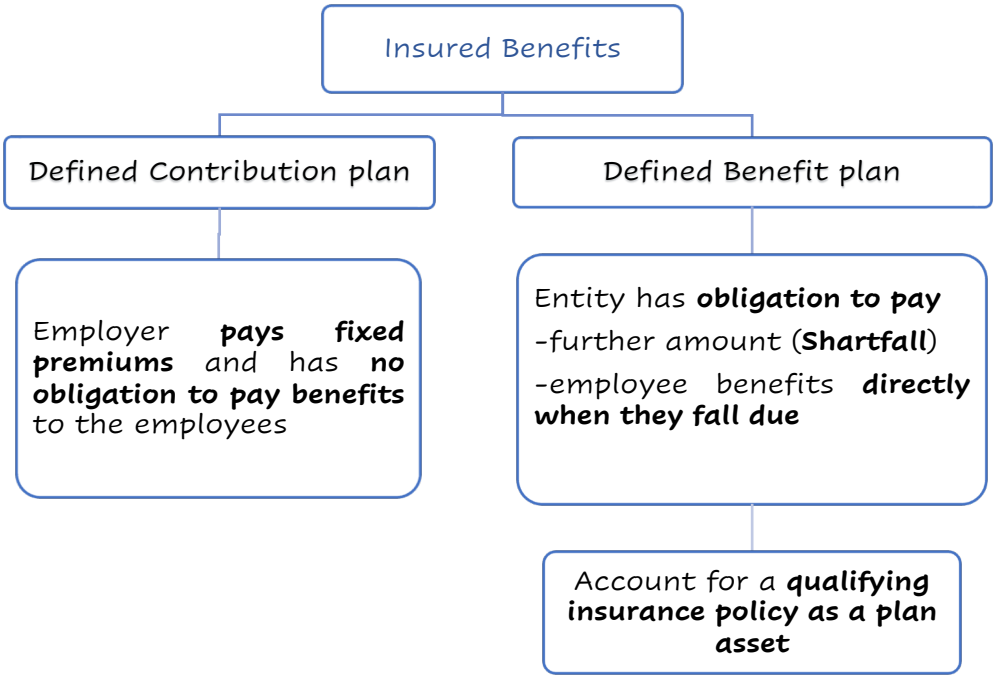
7.5.2 For Defined Contribution plan

There is a contractual agreement	Recognise cost in the statement of Profit and loss in individual financial statements
If no such agreement	➢ Recognise cost in financial statements of sponsoring employer for the plan (group entity)



	➢ Other group entities recognise cost equal to contribution payable

7.6 Insured Benefits



8 Presentation of Post-Employment Benefits.

8.1 Offset

An asset relating to one plan will be offset against a liability relating to another plan when, and only when, the entity:

- has a ***legally enforceable right*** to use a surplus in one plan to settle obligations under the other plan; and
- there is ***an intention*** either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

8.2 Current/Non-current

Ind AS 19 does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

9 Disclosures

9.1 Disclosures of Defined Benefit plan

An entity shall disclose information that:

a) explains the characteristics of its defined benefit plans and risks associated with them;
b) identifies and explains the amounts in its financial statements arising from its defined benefit plans; and
c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

9.2 Disclosures of Multi-employer plans

If an entity participates in a multi-employer defined benefit plan, it shall disclose:

a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements;
b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan;
c) a description of any agreed allocation of a deficit or surplus on:
   i. the entity's withdrawal from the plan.
   ii. if wind-up of the plan; or



d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following,
   i. the fact that the plan is a defined benefit plan.
   ii. the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
   iii. the expected contributions to the plan for the next annual reporting period
   iv. information about any deficit or surplus in the plan that may affect the amount of future contributions,
   v. an indication of the level of participation of the entity in the plan compared with other participating entities.

9.3 Disclosures of Defined Benefit Plans that share risks between entities under common control

If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
b) the policy for determining the contribution to be paid by the entity.
c) Disclosure of defined benefit cost (reconciliation etc) or defined contribution payable as applicable
d) Cross reference to another entity's financials statements can be done if the information about plan is available and group's entity financial statements are available

10 Other Long Term Employee Benefits

Settlement	>12 months from the end of financial reporting period
Benefits	Other than ➢ Short-term employee benefits ➢ Post-Employee benefits ➢ Termination benefits
Example	➢ Long-term paid absences ➢ Jubilee/Long term service benefits ➢ Long-term disability benefits ➢ profit-sharing and bonus plan ➢ deferred remuneration.

10.1 Accounting for other long-term employee benefits

For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss,

a) service cost;
b) net interest on the net defined benefit liability (asset); and
c) remeasurements of the net defined benefit liability (asset).

11 Termination benefits

Termination benefits result from either:

- an entity's decision to terminate the employment or
- an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Termination benefits does not Include,

- Employee benefits resulting from termination of employment ***at the request of the employee without an entity's offer***
- as a result of mandatory retirement requirements

11.1 Recognition of termination benefits

- Recognise a liability and expense for termination benefits



Expected to be settled before 12 months	Apply the requirements for ***short-term*** employee benefits
Expected to be settled before 12 months	Apply the requirements for ***long-term*** employee benefits

- An entity is required to recognise a liability and expense for termination benefits at the ***earlier*** of the following dates:
  a) when the entity can no longer withdraw the offer of those benefits; and
  b) when the entity recognises costs for a restructuring which is within the scope of Ind AS 37 and involves the payment of termination benefits.

12 Appendix B

Issues addressed are
a) Refund from a plan
b) Reduction in future contributions
c) Minimum funding requirement

Right to refund	➢ Available only if the entity has unconditional ***right to a refund*** ➢ The amount of refund is determined as the full amount or a proportion of the surplus → ***no adjustment for time value of money*** ➢ If the refund if fixed amount → ***consider time value of money***
Economic benefit available as a contribution reduction	➢ No minimum requirement ➢ Economic benefits → Reduction in future cost
Minimum funding requirement	The ***minimum amount*** or the level of contribution that ***must be given to a plan*** over the given period **Prepayment** → reduces future minimum funding requirement contributions

13 Significant differences between Ind AS 19 and AS 15

Basis of differences	IND AS 19	AS 15
Constructive Obligations	In Ind AS 19, employee benefits arising from constructive obligations are also covered	AS 15 does not deal with the same
Definition of Employee	Ind AS 19 the term 'employee' includes directors	As per AS 15, the term 'employee' includes whole-time directors
Other Definitions	Definitions of short-term employee benefits, other long-term employee benefits, and past service cost is different in Ind AS 19	Different definitions are given in AS 15
Contractual Agreement between a Multi-employer Plan and its Participants	Deals with contractual agreement	AS 15 does not deal with it
Participation in a Defined Benefit Plan Sharing Risks Between Various Entities under Common Control	Covered	Not covered



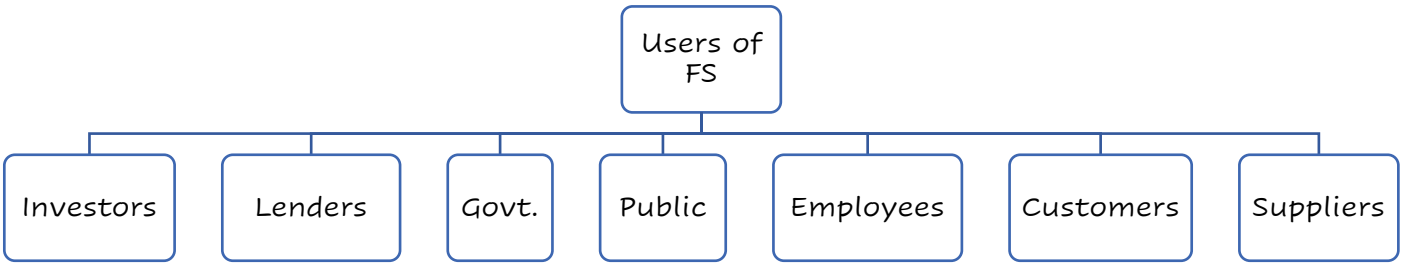
Recognition of Past Service Cost	Past service should be recognised immediately	Recognise past service cost as an expense on a **straight-line basis** over the average period **until the benefits become vested.** To the extent that the **benefits are already vested** immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should **recognise** past service cost **immediately**.
Frequency of Actuarial valuation	Ind AS 19 does not specify sufficient regularity	Detailed actuarial valuation to determine the PV of DBO Is carried out at least once every 3 years and fair value of plan assets are determined at each balance sheet date.
Recognition of Actuarial Gains and Losses	Shall be recognised in other **comprehensive income**	Recognise immediately in the statement of profit and loss
Financial Assumptions	shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled	AS 15 does not clarify the same
Discounting of Post-employment Benefit Obligations	Special guidance on the discount rate for subsidiaries associates joint ventures and branches **domiciled outside India**	Rate used to for discounting should always be determined by **reference to** market yields at the balance sheet date on **government bond**.
Contribution from employee or third parties to defined benefit plans	Specific guidance under Ind AS 19	No specific guidance
Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement	Specific guidance under Ind AS 19	No specific guidance



Conceptual Framework for Financial Reporting under Ind AS

1 Objective of General Purpose Financial Reporting

- The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to
  - existing and potential investors,
  - lenders and
  - other creditors in making decisions relating to providing resources to the entity.
- Those decisions involve decisions about:
  - buying, selling or holding equity and debt instruments;
  - providing or settling loans and other forms of credit; or
  - exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.



2 Limitation of General Purpose Financial Reporting

- Do Not provide all information that the users require. An improvement to address this issue is integrated reporting.
- Do not provide specific information required by users like regulators, members of public etc.
- Do not show value created
- Based on historical information

3 Information Provided by General Purpose Financial Reporting

Financial Position	Economic Resources - Assets
	Claims or Obligations - Liabilities
Effects of transactions and other events	Financial Performance - Income
	Cash flows
	Changes not resulting from financial performance

3.1 Economic Resources and Claims

Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to:

- assess the reporting entity's:
  - liquidity and solvency,
  - its needs for additional financing and
  - how successful it is likely to be in obtaining that financing
- assess management's stewardship of the entity's economic resource
- predict how future cash flows will be distributed among those with a claim against the reporting entity

3.2 Changes in Economic Resources and Claims

Changes in a reporting entity's economic resources and claims result from:

- that entity's financial performance and
- other events or transactions such as issuing debt or equity instruments.

3.3 Changes in economic resources and claims not resulting from financial performance

A reporting entity's economic resources and claims may also change for reasons other than financial performance, such as issuing debt or equity instruments. Information about this type of change is necessary to give users a complete understanding of why the reporting entity's economic resources and claims changed and the implications of those changes for its future financial performance.

4 Financial Statements

The objective of financial statements is to provide financial information about the reporting entity's:

- assets, liabilities and equity; and
- income and expenses

The information is provided in

- in the balance sheet, by recognising assets, liabilities and equity;
- in the statement of profit and loss, by recognising income and expenses; and
- in other statements and notes, by presenting and disclosing information about:
  - recognised assets, liabilities, equity, income and expenses, including information about their nature and about the risks arising from those recognised assets and liabilities;
  - assets and liabilities that have not been recognised, including information about their nature and about the risks arising from them;
- cash flows;
- contributions from holders of equity claims and distributions to them; and
- the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements

5 Elements of Financial Statements

Information provided by general purpose financial reports	Element of financial statements	Definition or description
Economic Resources	Asset	A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.
Claim	Liability	A present obligation of the entity to transfer an economic resource as a result of past events.
	Equity	The residual interest in the assets of the entity after deducting all its liabilities.
Changes in economic resources and claims,reflecting financial performance	Income	Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
	Expenses	Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims
Other Changes in resources and		Contributions from holders of equity claims, and distributions to them.



claims		Exchanges of assets or liabilities that do not result in increases or decreases in equity.

Meaning of Control

- It is the present ability to direct the use of the economic resource
- obtain the economic benefits that may flow from it
- if one party controls an economic resource, no other party controls that resource.

Obligation

- To pay cash
- To deliver goods or services
- To exchange economic resources with another party on unfavourable terms
- To transfer economic resource if an event occurs
- To issue financial instrument which will oblige the entity to transfer economic resource

Asset = Liability + Equity

	Income	**Expense**
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Equity	Increase	Decrease
Exclusion	Contribution from holders of equity	Distribution to holders of equity

6 Recognition Process

6.1 Meaning of Recognition

Recognition is the process of capturing for inclusion in the balance sheet or the statement of profit and loss an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses.

6.2 Recognition Criteria

- Only items that meet the definition of an asset, a liability or equity are recognised in the balance sheet.
- Only items that meet the definition of income or expenses are recognised in the statement of profit and loss.
- An asset or liability is recognised only if recognition provides users of financial statements with information that is useful, i.e. with:
  - relevant information; and
  - a faithful representation
  - of the asset or liability and of any resulting income, expenses or changes in equity.

6.3 Derecognition

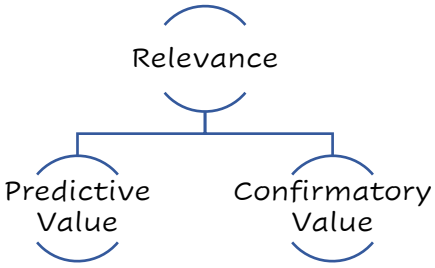
Derecognition is the removal of all or part of a recognised asset or liability from an entity's balance sheet. Derecognition normally occurs when that item no longer meets the definition of an asset or of a liability:

7 Qualitative Characteristics of Financial Statements

If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.



7.1 Relevance



- Financial information is relevant if it is capable of making a difference in decisions made by users.
- Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes.
- Financial information with predictive value is employed by users in making their own predictions.
- Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.
- The characteristic of 'relevance' also includes the concept of materiality. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity

7.2 Faithful Representation

The financial information must faithfully present the substance of the events and transactions.

Fundamental Characterstics

- Complete - A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations
- Neutral - A neutral depiction is without bias in the selection or presentation of financial information.
- Free from Error - Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects.

Enhancing Qualitative Characterstics

- **Comparability**: Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

- **Verifiability**: Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Verification can be direct or indirect.

- **Timeliness**: Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is.

- **Understandability**: Classifying, characterising and presenting information clearly and concisely makes it understandable. Excluding information about complex events from financial reports might make the information in those financial reports easier to understand.



8 The Cost Constraint on Useful Financial Information

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

Both the providers and users of financial information incur costs in reporting and analysing financial information.

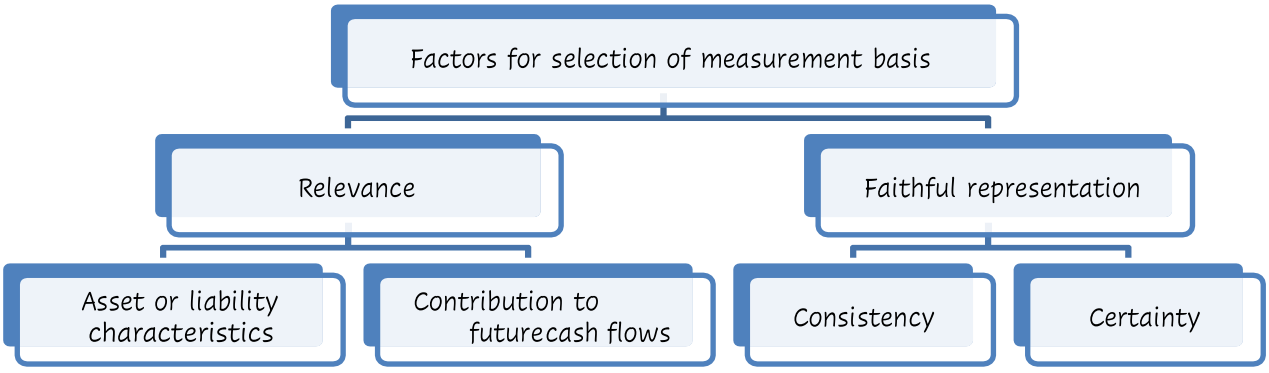
In applying the cost constraint, the ICAI assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information.

Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. ICAI seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.

9 Measurement of Elements

Measurement is the process of determining money value at which an element can be recognised in the balance sheet or statement of profit and loss. The framework recognises four alternative measurement bases.

- **Historical Cost**
  - Asset – Consideration Paid + Transaction Price
  - Liability – Consideration Received – Transaction Cost
- **Current Value**
  - Entry Value – Current Cost
  - Exit Value
    - Fair value
    - Value in use for assets /Fulfilment value for liabilities



10 Capital Maintenance

Capital refers to net assets of a business.

$$P = (CA - CL) - (OA - OL) - C + D$$

Where: Profit = P

- Opening Assets = OA and Opening Liabilities = OL
- Closing Assets = CA and Closing Liabilities = CL
- Introduction of capital = C and Drawings / Dividends = D
- Retained Profit = P – D = (CA – CL) – (OA – OL) – C

A business should ensure that Retained Profit (RP) is not negative, i.e. closing equity should not be less than capital to be maintained, which is sum of opening equity and capital introduced.



IND AS 1
PRESENTATION OF FINANCIAL STATEMENTS

1 Objective

- Prescribes the basis for presentation of general purpose financial statements to ensure comparability with the previous years of the entity and with other entities.
- Overall requirements for the presentation of financial statements
- Structure and minimum requirements for the content of financial statements

2 Scope

This Ind AS is applicable to

- All types of entities preparing and preparing and presenting general purpose financial statements. This includes both consolidated and separate financial statements. (but does not apply to structure and content of condensed interim financial statements prepared in accordance with Ind AS 34 except few points.)
- All types of entities including profit and non profit oriented and entities whose share capital is not considered as equity.
- This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities.
- If any non profit oriented entity is preparing Ind AS financial statements, it needs to modify the terminology as needed.

3 Definitions

3.1 General purpose financial statements

General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

3.2 Owners

Owners are holders of instruments classified as equity. It means a holder of redeemable preference share capital cannot be called as owner, as redeemable preference share capital is a liability but not equity.

3.3 Other Comprehensive Income

The other comprehensive income section should present line items for the amounts of other comprehensive income classified by nature and grouped into those that, in accordance with other Ind AS:

- Will not be reclassified subsequently to profit or loss; and
- Will be reclassified subsequently to profit or loss when specific conditions are met.

4 Complete set of financial statements

A complete set of financial statements comprises:

- a **balance sheet** as at the end of the period
- a **statement of profit and loss** for the period
- **statement of changes in equity** for the period
- a statement of **cash flows** for the period
- **notes**, comprising Material Accounting Policies and other explanatory information
- **comparative information** in respect of the preceding period
- **a balance sheet as at the beginning of the preceding period** when
  - an entity applies an accounting policy retrospectively or
  - makes a retrospective restatements of items in its financial statements, or
  - when it reclassifies items in its financial statements.



An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

Many entities present reports and statements (generally in annual reports) such as financial reviews by management, environmental reports, and value added statements that are outside the financial statements. Such reports and statements that are outside the financial statements are outside the scope of Ind AS.

5 General features of financial statements

5.1 Presentation of True and Fair view and compliance with Ind AS

Financial statements shall present a true and fair view of the financial position and financial performance and cash flows of the entity.

Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.

The application of Ind AS, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

Presentation of a true and fair view also requires an entity:

- To **select and apply accounting policies** in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item.
- To present information, including accounting policies, in a manner that **provides relevant, reliable, comparable and understandable information.**
- To provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

5.1.1 Departure from compliance of Ind AS

In the extremely rare circumstances in which management concludes that compliance of an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the Framework. An entity shall depart from Ind AS requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

When an entity departs from a requirement of an Ind AS, it shall disclose:

(a) that the financial statements present a true and fair view as per management conclusion.

(b) that it has complied with applicable Ind AS, except the departure.

(c) Departed Ind AS information. Such as

- 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 in the circumstances that it would conflict with the objective of financial statements set out in the Conceptual Framework, and the treatment adopted; and

(d) For each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement

5.2 Going Concern

While preparing the financial statements, management is required to assess, the entity's ability to continue as a going concern, and this assessment should cover the entity's prospects for at least 12 months from the end of the reporting period.



In general, an entity is assumed to be a going concern unless there is significant information to the contrary or there is no realistic alternative.
In making such assessment, they should consider all material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The entity should disclose such uncertainties.

When an entity does not prepare financial statements on a going concern basis, disclose

- The fact that entity does not have going concern.
- Basis of preparation of the financial statements.
- The reason why the entity is not regarded as a going concern.

If the management believes that an entity may no longer be a going concern,

- The entity should account for all its assets at net realizable value or a liquidation basis but not on the historical cost basis.
- It should disclose the basis of preparation of financials.
- The difference between the carrying amount and net realizable value should be taken to P&L a/c.

5.3 Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. It means to record the transaction whenever transaction occurs irrespective of flow of cash.

When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the framework.

5.4 Materiality and aggregation (Clubbing the items as one)

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.
An entity need not provide a specific disclosure required by an Ind AS if the information is not material except when required by law.

5.5 Offsetting

- An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.
- An entity reports separately both assets and liabilities, and income and expenses. Measuring assets net of valuation allowances — for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.
- Ind AS 115, 'Revenue from Contracts with Customers', requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services.
  For example:
  The amount of revenue recognized reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction.



- An entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

5.6 Frequency of reporting

An entity shall present a complete set of financial statements (including comparative information) at least annually.

When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

- the reason for using a longer or shorter period, and
- the fact that amounts presented in the financial statements are not entirely comparable

5.7 Comparative information

Minimum comparative information

- An entity should present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements except when Ind AS permit or require otherwise.
- Comparative information for narrative and descriptive information should be included if it is relevant to understand the current period's financial statements.
- An entity shall present, as a minimum:
  - ✓ 2 Balance Sheets
  - ✓ 2 Statement of Profit and Loss
  - ✓ 2 Statement of Cash Flows
  - ✓ 2 Statement of Changes in Equity and
  - ✓ Related Notes

Additional comparative information

An entity may present comparative information in addition to the minimum comparative financial statements required by Ind ASs, as long as that information is prepared in accordance with Ind AS. This comparative information may consist of one or more statements referred to in 'Complete set of financial statements' but need not comprise a complete set of financial statements. When this is the case, the entity shall present related note information for those additional statements.

Third Balance Sheet date

If current year ended is 31-03-20X8, previous year comparative is 31-03-20X7 & opening balance sheet of previous year is 01-04-20X7.

An entity shall present a third balance sheet as at the beginning of the preceding period in addition to the minimum comparative financial statements required if:

- It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- The retrospective application, retrospective restatement or the reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period.

An entity shall reclassify the comparative amounts also unless it is impracticable. If it reclassifies, it should disclose the following

- The nature of reclassification
- The amount of each item or class of items that is reclassified
- The reason for reclassification

In case of impracticability, disclose the reason and nature of adjustments that would have been reclassifies.

5.8 Consistency of Presentation

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

- it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification



would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or
- an Ind AS requires a change in presentation

6 Identification of Financial Statements

An entity shall clearly identify the financial statements and distinguish them from other information in the same published document. Ind AS apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document though they may be useful to users.
An entity shall display the following information prominently:
- the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period
- whether the financial statements are of an individual entity or a group of entities;
- reporting date or the reporting period
- the presentation currency
- the level of rounding used in presenting amounts in the financial statements.

Usage of any unit of the presentation currency is acceptable as long as the entity discloses the level of rounding and does not omit material information.
An entity meets above requirements by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information.
An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

7 Balance Sheet

At a minimum, the balance sheet shall include following items:
a) Property, plant and equipment
b) Investment property
c) Intangible assets
d) Financial assets (excluding amounts shown under (e, h &i)
e) Investments accounted for using the equity method
f) Biological assets
g) Inventories
h) Trade and other receivables
i) Cash and cash equivalents
j) The total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations
k) Trade and other payables
l) Provisions
m) Financial liabilities (excluding amounts shown under k and l)
n) Liabilities and assets for current tax, as defined in Ind AS 12 Income Taxes
o) Deferred tax liabilities and deferred tax assets, as defined in Ind AS 12
p) Liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105
q) Non-controlling interests, presented within equity
r) Issued capital and reserves attributable to owners of the parent

Additional line items, headings and subtotals in the balance sheet should be presented when such presentation is relevant to an understanding of the entity's financial position.
The descriptions of the line items, and the order in which they are shown, can be adapted according to the entity's nature and its transactions.

8 Current/Non-current distinction

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.

8.1 Current Assets

An entity shall classify an asset as current when:



- It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- It holds the asset primarily for the purpose of trading;
- It expects to realise the asset within twelve months after the reporting period; or
- The asset is cash or a cash equivalent (as defined in 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.

Operating Cycle:
The operating cycle of an entity is the time between the acquisition of assets (raw materials) for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading.

An entity shall classify all other assets as non-current.
This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

9 Current Liabilities

9.1 A. Classify as CURRENT — if ANY one condition is met

• **Normal operating cycle — Expected to be settled within the entity's normal operating cycle — even if this exceeds 12 months.**
• **Held for trading — The liability is held primarily for the purpose of trading.**
• **Due within 12 months — The liability is due to be settled within 12 months after the reporting period.**
• **No unconditional right to defer — The entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period.**

Important Note:
Terms that allow the counterparty (not the entity) to settle the liability by issuing equity instruments do NOT affect its classification as current or non-current.

9.2 Classify as NON-CURRENT

• **Does not meet any current criterion — All liabilities that do not satisfy any of the four current triggers are classified as non-current.**
• **Long-term financing liabilities — Financial liabilities providing long-term financing (not part of working capital) and not due within 12 months after the reporting period.**

9.3 Operating Cycle



The operating cycle is the time between a business **paying for materials** and **collecting cash** from selling the finished goods.

It covers four stages:

1. Buying materials or goods
2. Producing goods (manufacturer) or stocking shelves (retailer)
3. Selling the goods
4. Collecting payment

The length varies by industry : a supermarket has a much shorter cycle than a furniture retailer.

1	**Trade payables, employee accruals and other operating costs** are generally classified as **CURRENT** even if they are due to be settled more than 12 months after the reporting period because they form part of working capital in the entity's normal operating cycle.
2	The **same operating cycle** applies to both the classification of the entity's assets and liabilities.
3	When the entity's normal operating cycle is **not clearly identifiable**, it is assumed to be **twelve months**.

10 Classification Principles in case of some liabilities

10.1 Change in Classification Principle of Non Current Liability

An entity will classify a liability as non current if the entity has a substantial right to defer the settlement beyond 12 months at reporting date. The earlier requirement of rights being unconditional has been removed vide notification in August 2025.

10.2 Core Classification Rule

A liability is **non-current** if the company has the right to defer settlement for more than 12 months after the reporting date. If that right doesn't exist, the liability is **current**.

Role of Covenants

Loan covenants can affect this classification as below

- **Covenants due on or before the reporting date** affect classification. If the company breaches such a covenant, it may lose the right to defer settlement, making the liability current.
- **Covenants due after the reporting date (future covenants)** — these ***do not* affect** the classification at the reporting date. The liability can still be classified as non-current even if there's a risk of future breach.

10.3 Breach of Covenant —



Where there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date following rules are applicable.

	Periods beginning 1 Apr 2025	Periods beginning 1 Apr 2026
Rule	Carve-out retained under Ind AS 1	Carve-out removed (aligned with IAS 1)
Breach before reporting date	Liability becomes **Current**	Liability **must** be classified as **Current**
Lender waiver before period end	**Classify as Non-Current**	**Classify as Non-Current**
Lender waiver after period end before approval of FS	Can reclassify as **Non-Current**	**No effect** — stays Current regardless

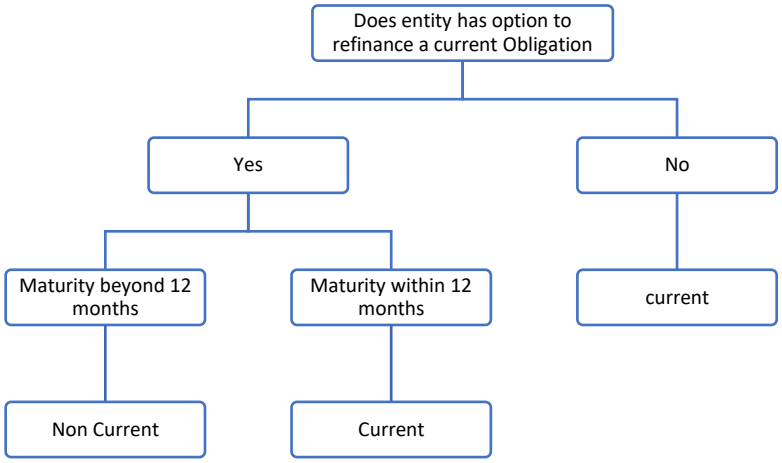
In case of periods beginning after 1 Apr 2026 - An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.

10.4 No Refinancing Arrangement

When refinancing or rolling over the obligation is **not at the discretion of the entity** (e.g., no arrangement for refinancing exists), the entity **does not consider the potential to refinance** and must classify the obligation as **CURRENT**.

The following events are considered as non-adjusting events as per Ind AS 10

Event (occurring after period end, before approval)
Refinancing a current liability on long-term basis
Rectification of a breach on a current liability
Lender grants grace period to rectify breach on a current liability
Settlement of a non-current liability



11 Information to be presented either in balance sheet or in notes

An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

The detail provided in sub-classifications depends on the requirements of Ind AS and on the size, nature and function of the amounts involved.

An entity shall disclose the following, either in the balance sheet or in the statement of changes in equity which is part of the balance sheet, or in the notes:

- for each class of share capital:
  - ✓ the number of shares authorised;
  - ✓ the number of shares issued and fully paid, and issued but not fully paid;
  - ✓ par value per share, or that the shares have no par value;
  - ✓ a reconciliation of the number of shares
  - ✓ the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
  - ✓ shares in the entity held by the entity or by its subsidiaries or associates; and
  - ✓ shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- a description of the nature and purpose of each reserve within equity.

An entity whose capital is not limited by shares e.g., a company limited by guarantee, shall disclose information, showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

12 Statement of Profit and Loss

The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:

(a) profit or loss;
(b) total other comprehensive income;
(c) Comprehensive income for the period, being the total of profit or loss and other comprehensive income.

An entity shall present (in case of consolidated statement of profit and loss) the following items as allocation of profit or loss and other comprehensive income for the period:

(a) profit or loss for the period attributable to:
  - Non-controlling interests, and
  - Owners of the parent.

(b) Comprehensive income for the period attributable to
  - Non-controlling interests, and
  - Owners of the parent.

13 Information to be presented in the profit or loss section of the statement of profit and loss

In addition to items required by other Ind AS, the profit or loss section of the statement of profit and loss should include line items that present the following amounts for the period:

(a) revenue, presenting separately interest revenue calculated using the effective interest method
(b) gains and losses arising from the derecognition of financial assets measured at amortised cost
(c) finance costs
(d) impairment losses (including reversals of impairment losses or impairment gains)
(e) share of the profit or loss of associates and joint ventures accounted for using the equity method
(f) If financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date
(g) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognized in other comprehensive income that is reclassified to profit or loss
(h) tax expense
(i) a single amount for the total discontinued operations



14 Information to be presented in Other Comprehensive Income Section

The other comprehensive income section should present line items for the amounts of other comprehensive income classified by nature and grouped into those that, in accordance with other Ind AS

- will not be reclassified subsequently to profit or loss; and
- will be reclassified subsequently to profit or loss when specific conditions are met.

An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

When an entity presents subtotals, those subtotals shall:

- be comprised of line items made up of amounts recognised and measured in accordance with Ind AS;
- be presented and labelled in a manner that makes the line items that constitute the sub total clear and understandable;
- be consistent from period to period; and
- not be displayed with more prominence than the subtotals and totals required in Ind AS for the statement of profit and loss.

An entity shall present the line items in the statement of profit and loss that reconcile any sub totals presented with the subtotals or totals required in Ind AS for such statement.
An entity shall not present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes

15 Profit and Loss for the period

With regard to profit or loss for the period, the Standard requires the recognition of all items of income and expense in a period in profit or loss unless an Ind AS requires or permits otherwise.

16 Other Comprehensive income for the period

With regard to other comprehensive income for the period, the Standard requires to disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.
An entity may present items of other comprehensive income either:

(a) net of related tax effects, or
(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

The Standard further prescribes that an entity should disclose reclassification adjustments relating to components of other comprehensive income.
Other Ind AS specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments.
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.

17 Information to be presented in the statement of Profit and Loss or in notes

When items of income or expense are material, an entity shall disclose their nature and amount separately.
Circumstances that would give rise to the separate disclosure of items of income and expense include:

- Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs.
- restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- disposals of items of property, plant and equipment;
- disposals of investments;
- discontinued operations;
- litigation settlements; and



- Other reversals of provisions.

An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

18 Statement of Changes in Equity

An entity shall present a statement of changes in equity which includes all changes in equity. It includes both - relating to performance and owner changes in equity (from transactions and events that increase or decrease equity but are not part of performance). The statement of changes in equity includes the following information:

a. total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests.
b. for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with Ind AS 8.
c. for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change resulting from:
    - profit or loss
    - each item of other comprehensive income
    - Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control; and
    - Any item recognised directly in equity such as amount recognised directly in equity as capital reserve with Ind AS 103.

19 Information to be presented in the statement of changes in equity or in the notes

An entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item.
An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

Ind AS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another Ind AS require otherwise. Ind AS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an Ind AS requires retrospective adjustment of another component of equity.

Disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

20 Statement of Cash Flows

Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
An entity should present a statement of cash flows in accordance with Ind AS 7, Statement of Cash Flows.

Structure

The notes shall:

a. Present information about the basis of preparation of the financial statements and the specific accounting policies used.
b. Disclose the information required by Ind AS that is not presented elsewhere in the financial statements; and
c. Provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

An entity shall present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements.



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

21 Disclosures

21.1 Disclosure of accounting policies

An entity shall disclose its Material Accounting policies. Accounting policy information is material if it can reasonably be expected to influence decisions made by users of financial statements. Accounting policies related to immaterial transactions are not required to be disclosed.

Accounting policy information would be considered to be material if –

- The events related to material transactions, events or conditions
- Entity changed its accounting policy during the reporting period and this has resulted in a material change to the information in FS.
- Entity chose accounting policy from options permitted by Ind AS
- Accounting policy was developed in accordance with Ind AS in the absence of applicable Ind AS
- It relates to an area where entity is required to make significant judgement or assumptions
- Accounting required for the items is complex and would be difficult for the users to understand.

If a disclosure is required by a specific Ind AS it must be disclosed even if the management considers it to be immaterial

An entity must disclose along with its Material Accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Sources of estimation uncertainty:

An entity must disclose, in the notes, information about the assumptions made concerning the future, and other important sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Disclosures about nature of such assets and their carrying amount as at the end of the reporting period should also be made.

Capital

An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

21.2 Puttable financial instruments classified as equity (You will understand this after learning Financial Instruments)

For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):

a. Summary quantitative data about the amount classified as equity
b. Its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period.
c. The expected cash outflow on redemption or repurchase of that class of financial instruments; and
d. Information about how the expected cash outflow on redemption or repurchase was determined.

21.3 Other Disclosures

An entity must disclose the amount of dividends proposed or declared before the financial statements were approved for issue but not recognised as a distribution to owners during



the period, and the related amount per share and the amount of any cumulative preference dividends not recognised.

Ind AS 1 requires certain other disclosures, if not disclosed elsewhere in information published with the financial statements:

a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office)
b) a description of the nature of the entity's operations and its principal activities
c) the name of the parent and the ultimate parent of the group; and
d) if it is a limited life entity, information regarding the length of its life.

22 Comparison with AS-1

The following are not covered in AS-1

- Complete set of financial statements
- Purpose and general features of FS
- Off-setting requirement (Specific AS prescribe requirement)
- Frequency of reporting
- Structure and content of FS
- Balance Sheet line items
- Statement of P&L line items
- Reclassification of items
- Statements of changes in equity
- Comparative information
- Classification of long-term loan arrangement
- Rectification of accounting policies (not covered by AS-1)
- Sources of estimation uncertainty

AS 1 requires disclosures if the fundamental accounting assumption of going concern, consistency and accrual are not followed in preparation of FS. Ind AS 1 does not have such requirement. Ind AS 1 requires entity to follow accrual basis of accounting and compliance with all Ind AS.

23 Carve Out from IAS1

IAS 1 required that in case of a loan liability, if any condition of the loan agreement which was classified as non-current is breached on or before the reporting date, such loan liability should be classified as current even if the breach is rectified after balance sheet date.

Ind AS 1 requires that where there is such breach and the lender agreed before the approval of financial statements for issue not to demand payment as a consequence of breach, the entity shall not classify such loan as current.



Ind AS 7
Cash Flow Statement

1. Introduction

1.1 Objective

- Provides information about historical changes in cash and cash equivalents.
- Assess the ability to generate cash and cash equivalents.
- Understand timing and certainty of cash flow generation.

1.2 Benefits of cash flow information

- Provides information enabling evaluation of changes in net assets and financial structure.
- Assesses the ability to manage the cash.
- Assess and compare the present value of future cash flows.
- Compares the efficiency of different entities.

1.3 Scope

The standard requires all the entities to present a statement of cash flows.

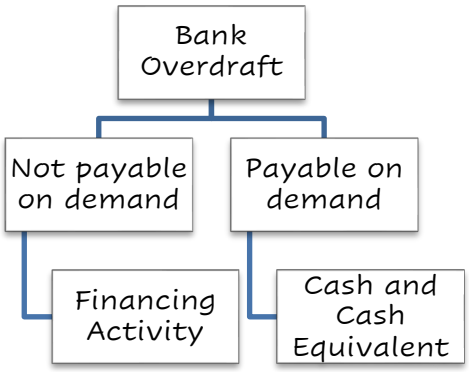
2. Definitions

2.1 Cash

Comprises cash on hand and demand deposits.

2.2 Cash equivalents

Short- term, high liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



3. Classification of Cash Flows

3.1 Operating activities

Cash flows from operating activities are primarily derived from the principal revenue producing activities of the entity and other activities that are not investing or financing activities.

Operating Cash Inflows	Operating Cash Outflows
• Cash receipts from sale of goods and rendering services • Cash receipts from royalties, fee, commission and other revenue • Cash receipts and cash payments of an insurance entity from premiums and claims, annuities and other policy benefits • Cash receipts and payments from	• Cash payments to suppliers for goods and services • Cash payments to and on behalf of employees • Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities



contracts held for dealing or trading purposes	

3.2 Investing activities

Activities that result in the acquisition and disposal of long-term assets and other investments that are not included under cash or cash equivalents.

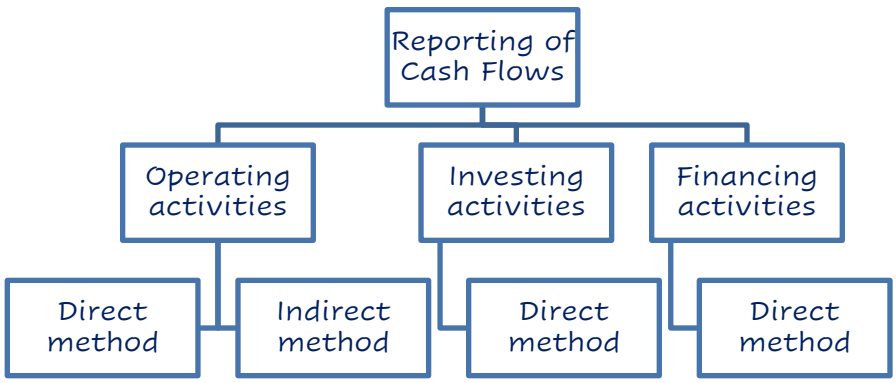
Cash Inflow from Investing Activities	Cash Outflow from Investing Activities
• Cash receipts from sale of property, plant and equipment, intangibles and other long-term assets • Cash receipts from sale of equity or debt instruments (other than those considered to be cash equivalents or those held for dealing or trading purposes) • Cash receipts from repayment of advances and loans (other than advances and loans of financial institution) • Cash receipts from future contracts, forward contracts, option contracts and swap contracts (except when held for dealing or trading purposes, or the receipts are classified as financing activities)	• Cash payments to acquire property, plant and equipment, intangibles and other long-term assets • Cash payments to acquire equity or debt instruments (other than those considered to be cash equivalents or those held for dealing or trading purposes) • Cash advances and loans made (other than advances and loans made by financial institution) • Cash payments from future contracts, forward contracts, option contracts and swap contracts (except when held for dealing or trading purposes, or the receipts are classified as financing activities)

3.3 Financing activities

Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Cash Inflows from Financing Activity	Cash Outflows from Financing Activity
• Cash proceeds from issuing shares or other equity instruments • Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long- term borrowings	• Cash payments owners to acquire or redeem the entity's shares • Cash repayments of amount borrowed • Cash payments by a lessee for the reduction of the outstanding liability relating to finance lease

4. Reporting of Cash Flows





4.1 Reporting of cash flows from operating activities

Direct Method	Indirect Method
•In the method major classes of gross cash receipts and gross cash payments are disclosed. •Non-cash expenses , losses, gains not to be considered	•Profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferals or accruals of past or future operating cash receipts or payments, and items of income or expenses associated with investing or financing cash flows

Cash flow from operating activities	xxx
	xxx
Cash flow from investing activities	xxx
Cash flow from financing activities	xxx
Increase or decrease in cash and cash equivalent	xxx
Add: opening cash and cash equivalent	
Closing cash and cash equivalent	xxx

Profit after tax	xxx
Add/(less)- Adjustments	
a. Non-cash transactions	xxx
b. Items associated with investing and financing activities	xxx xxx
c. Working capital adjustments	
Cash generated from operating activities	xxx

4.2 Reporting of cash flows from investing and financing activities

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

4.3 Reporting of cash flows on gross basis

If nothing is specifically mentioned, then the cash flows will be presented on gross basis. Gross basis means the receipts would be shown separately and payments will be shown separately.

Example: If in the year 20X1-20X2, some machinery is purchased for Rs 8 crore and another machinery is sold for Rs 5 crore then while presenting the information, the entity shall show separately outflow of Rs 8 crore and inflow of Rs 5 crore.

4.4 Reporting of cash flows on net basis

4.4.1 Cash flows arising from the following operating, investing or financing activities may be reported on net basis:

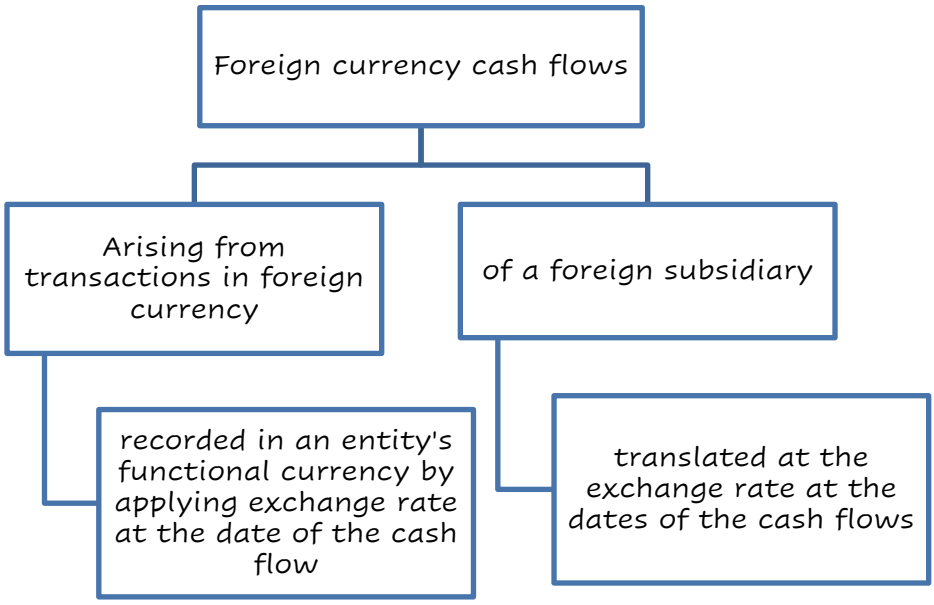
Category	Description	Examples
(a) Cash receipts and payments on behalf of customers	Cash flows that **reflect the activities of the customer** rather than those of the **entity itself**	• **Acceptance and repayment of demand deposits** by a bank • **Funds held for customers** by an investment entity • **Rents collected and paid over** to property owners
(b) Cash receipts and payments for items with quick turnover	Cash flows relating to items where **turnover is quick**, **amounts are large**, and **maturities are short**	• **Principal amounts** relating to **credit card customers** • **Purchase and sale of investments** • **Short-term borrowings** with a **maturity of three months or less**



4.4.2 Cash flows arising from each of the following activities of a financial institutions may be reported on net basis:

- cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date
- the placement of deposits with and withdrawl of deposits from other financial institutions
- cash advances and loans made to customers and the repayment of those advances and loans.

5. Foreign currency cash flows



- Unrealized exchange gain or loss from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalent held or due in a foreign currecy is reported in the statement of cash flows in order to reconcile cash and cash equivalent at the beginning and at the end of the period.

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

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

6. Interest and Dividends

	Financing company	Other company
Interest paid	Cash flow from operating activity	Cash flow from financing activity
Interest received	Cash flow from operating activity	Cash flow from investing activity
Dividend received	Cash flow from operating activity	Cash flow from investing activity
Dividend paid	Cash flow from financing activity	Cash flow from financing activity

7. Taxes on income



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

Example:

Capital gain tax	Investing activity
Tax on business income	Operating activity
Dividend distribution tax (not applicable in India)	Financing activity

8. Non-Cash Transactions

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

Examples of non-cash transactions:

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

9. Investments in subsidiaries, associates and joint ventures

When an investment in an associate or joint venture is **accounted for using the equity method**, the investor includes in its **statement of cash flows only the cash flows between itself and the investee**, such as **dividends and advances**. The **cash flows of the associate or joint venture itself are not included** on a gross basis.

10. Changes in ownership interests in subsidiaries

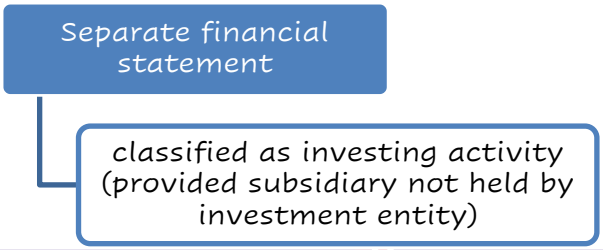
10.1 Classification of cash flows as investing activity

- The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.
- An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:
  - The total consideration paid or received
  - The portion of the consideration consisting of cash and cash equivalents
  - The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost
  - The amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

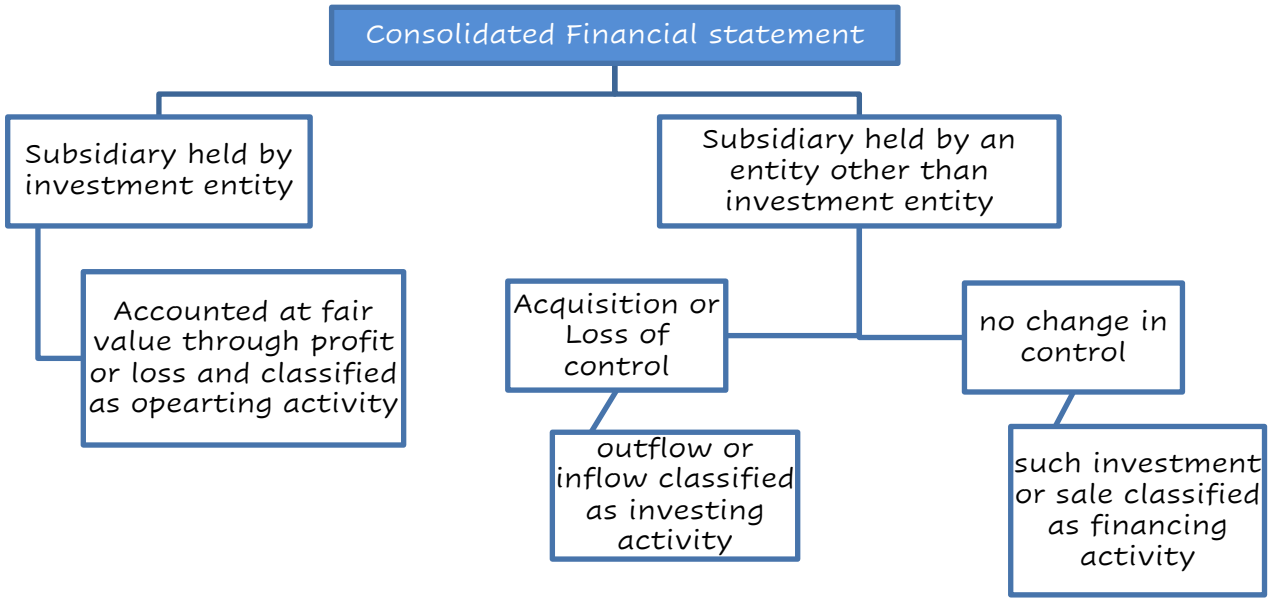
10.2 Classification of cash flows as financing activity

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

Changes in ownership interests in subsidiaries and other businesses







11. Changes in liabilities arising from financing activities

An entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values
- Other changes

12. Disclosures

- An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in the statement of cash flows with the equivalent items reported in the balance sheet.
- An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.
- Additional information may be relevant to users in understanding the financial position and liquidity of an entity. It may include:
  - The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.
  - The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity it will help the stakeholders to know whether entity is paying proper attention for maintenance also.
  - The amount of the cash flows arising from the operating, investing, and financing activities of each reportable segment (Ind AS 108 Operating Segments).

13. Difference between Ind AS 7 and IAS 7

Particulars	Ind As 7	IAS 7
Dividend paid	Classified as a part of financing activity only	Gives an option to classify the dividend paid as an item of



		operating activity
Dividend received	Financial Institutions- operating activity Other entities-investing activity	Gives an option to classify the dividend received as an item of operating activity
Interest paid	Financial Institutions- operating activity Other entities-financing activity	Gives an option to classify the interest paid as an item of operating activity
Interest received	Financial Institutions- operating activity Other entities-investing activity	Gives an option to classify the interest received as an item of operating activity

14. Difference between Ind AS 7 and AS 3

Particulars	Ind AS 7	AS 3
Bank overdraft repayable on demand	Includes as a part of cash and cash equivalents	AS 3 is silent on this aspect
Cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale in the ordinary course of business	Cash flow from operating activity	AS 3 does not contain such requirements
Profit or loss for the effects of undistributed profits of associates and non controlling interest	Adjustment while determining net cash flow from operating activities using indirect method	AS 3 does not contain such requirements
Cash flows relating to an investment in joint ventures, subsidiaries, and associates	Guidance available	No specific guidance
Cash flows associated with Extraordinary Activities	Does not contain this requirement	Separately classified as arising from operating, investing, and financing activities



Ind AS 115
Revenue from Contracts with Customers

1 Objective

- To establish the principles that an entity shall apply to report useful information about
  - Nature
  - Amount
  - Timing
  - Uncertainty

  of *revenue* and cashflows arising from *contract* with *customers* .
- Entity shall recognise revenue to depict
  - Transfer of goods and services to the customer
  - In an amount (consideration in exchange)

2 Five Step Model

An entity shall apply the five step model to recognise revenue.

Identify the contract with customer	•Approved contract •Identify each party rights •Identify the payment terms •Commercial Substance •Collection of consideration - Probable
Identify Performance obligations	•Performance Obligation - Promise •Each promise to transfer goods or services to the customer
Determine the transaction price	•amount of consideration which an entity expects to be entitled to receive in exchange of the goods or performance of services to a customer.
Allocate the transaction Price	•Allocate the transaction price to each performance obligation.
Recognise Revenue	•When the entity satisfies a performance obligation •by transferring promised goods or services •Customer obtains control of the asset

3 Step 1 – Identify the *contract* with the *customer*

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.
Contract - An *agreement* between two or more parties that creates *enforceable rights and obligations*. Contract can be oral, written or as per customary business practices.
Recognising a contract

An entity shall account for a contract with customer only if all the following conditions are satisfied (Paragraph 9)

Condition	Explanation	Note
Approval by parties	Both parties have approved the contract, either in writing, orally, or through established business practice.	Approval ≠ only written
Identifiable rights	The entity can clearly identify what goods or services it must deliver and what the customer will receive.	Rights must be clear



Identifiable payment terms	The entity can determine *how and when* it will be paid for the goods or services.	Payment clarity
Commercial substance	The contract changes the entity's future cash flows in terms of risk, timing, or amount.	Cash flows must change
Probable collection	It is probable that the entity will collect the consideration it is entitled to.	Focus on customer's ability & intention to pay

C – Contract ✔
R – Rights ✔
P – Payment terms ✔
C – Commercial Substance ✔
C – Collectability ✔

An entity shall not reassess Step 1 once the criteria under Para 9 are met. This is the case even if the ability of customer to pay the consideration deteriorates subsequently. *If collectability is uncertain subsequently, the entity will test receivable for impairment as per Ind AS 109. Revenue is not reversed in such a case.*

- *A contract does not exist if any of the party has a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other parties. If both parties can mutually agree and terminate the contract (even without penalty), a contract exists for the purpose of Ind AS 115.*

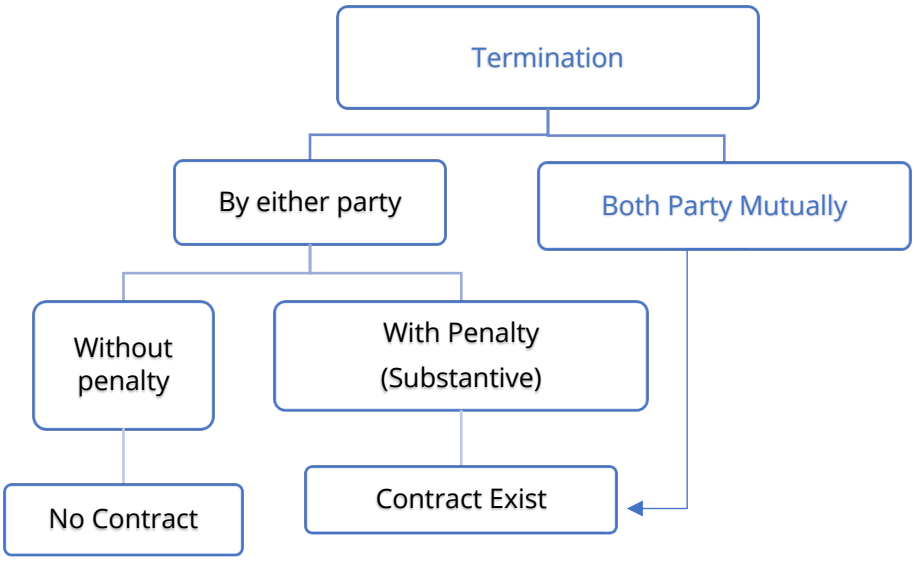
- A contract is wholly unperformed if
  - The entity has not yet transferred any promised goods or services and
  - The entity has not yet received or is entitled to receive any consideration in exchange for goods and services.

An entity shall apply Ind AS 115 to the duration of contract (contractual period) in which the parties have enforceable rights and obligations. Hence it is important to determine the duration of contract.

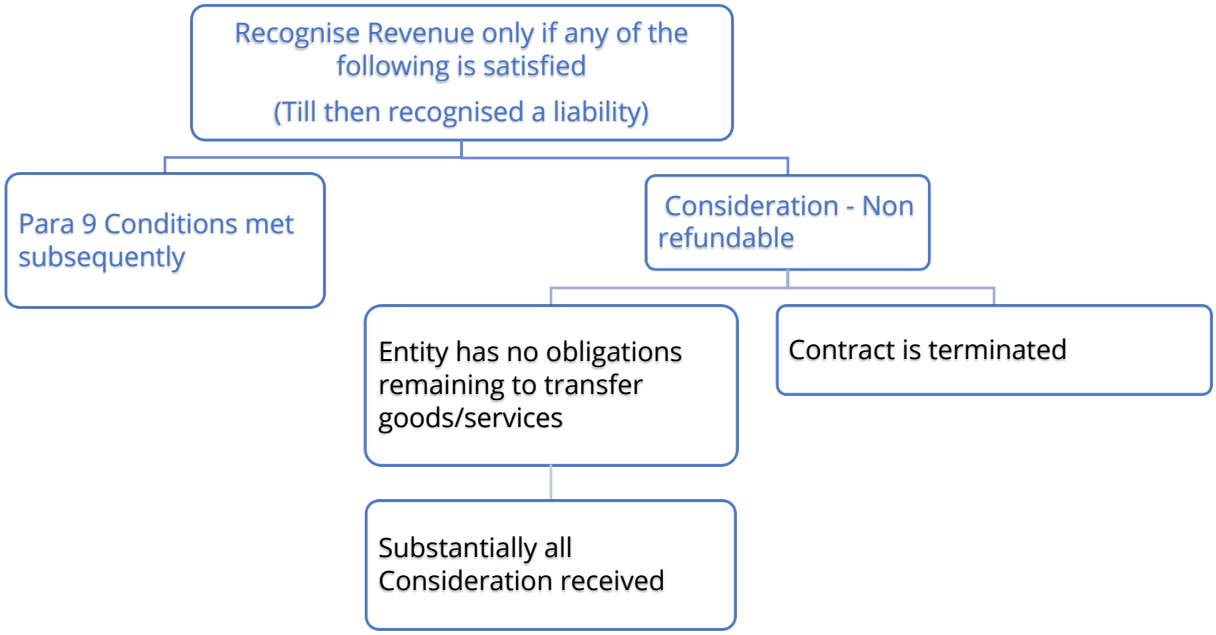
Examples – Whether a contract exists or not?

Case	Answer
Either party can terminate the contract without penalty	*Contract does not exist*
Both parties can mutually agree and terminate the contract	*Contract exists*
Two parties have entered into a four year contract. Neither party can terminate the contract in the first year. Either party can terminate the contract after first year without penalty.	*Contract exists and is enforceable for the first year.*
Contract is for 4 year and customer can terminate at each year end with substantive penalty	*Contract exists for 4 years*
Contract can be terminated at each month end at option of customer without penalty	*Contract exists and is considered as a month on month contract [e.g. Netflix subscription]*
Contract is for 1 year and customer can terminate the contract with penalty in the first year.	*Contract exists for 1 year*





Consideration received from customer but Step 1 criteria not met



Reassessment of Step 1

If a contract with a customer meets the criteria in paragraph 9 at contract inception, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances.

Example - If a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer.

Combination of contracts

Two or more contracts may need to be accounted for as a single contract if they are entered into at or near the same time with same customer if any of the following is satisfied:

- Contracts are negotiated as a package with a single commercial objective
- Amount of consideration in one contract depends on price or performance of another
- Goods and Services promised are single performance obligation

Contract Modifications



A contract modification exists if three conditions are satisfied:

- There is a change in the scope, price, or both in a contract
- That change is approved by both the entity and the customer
- The change is enforceable

Accounting for Contract Modification

Separate contract

Treated as a seperate contract if both the conditions are satisfied:

- Increases the scope by adding **new goods or services.**
- Increase in the contract price reflects the **stand-alone price** of the additional goods and services.

Not a Separate contract

If goods or services to be provided after modification are distinct from goods or services that were already provided.

Account for the modifiction **prospectively**

Other cases

Account for the modification on a **cumulative catch-up basis** (retrospectively)

4 Step 2 – Identifying performance obligation

Criteria for identifying performance obligation

At contract inception, an entity shall assess:

- The **goods and services promised** in a contract with a customer, and
- Shall **identify performance obligation** under each promise to be transferred to the customer.

- Promises under the contract can be
  - Explicit- which are promised to be provided in the future.
  - Implicit- which are implied by the customary business practice.

Performance obligation

It is a promise to transfer 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

Performance Obligation

- Satisfied over a period of time
- Satisfied at point of time

Distinct performance obligation

A good or service that is promised to a customer is distinct if both of the following criteria are met:



Criteria	Explanation	Example
Customer can benefit on its own (or with readily available resources)	The customer is capable of using the good or service on its own or along with resources that are easily available in the market.	A software licence that can run on standard computers available in the market. Customer can benefit even without the seller's further services.
Separately identifiable from other promises	Separately identifiable means that the good or service promised to the customer is distinct in the context of the contract. In simple words, it is not just a part of a bigger combined promise	Sale of machinery and annual maintenance service. If maintenance is routine and not essential to make the machine work, both are separately identifiable.
No significant integration service	The entity is not required to integrate multiple goods or services into a single combined output.	Supply of hardware and basic installation. If installation is simple and does not combine items into one output, goods and services are distinct.
No significant modification or customisation	One good or service does not significantly modify or customise another good or service in the contract.	Standard software sold with training. Training does not modify the software, so both are distinct.
Not highly interdependent or interrelated	The goods or services do not significantly affect each other's performance. Each can function independently.	Mobile handset and SIM card. The handset can work with SIMs from other providers, hence not highly interdependent.

Promise to transfer a series of distinct goods or services

There might be cases, where distinct goods or services are provided continuously over a period of time. For e.g. security services, or bookkeeping services.

A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

- each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria to be a performance obligation satisfied over time; and
- the same method would be used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

5. Step 3 – Determination of transaction price

Transaction price-

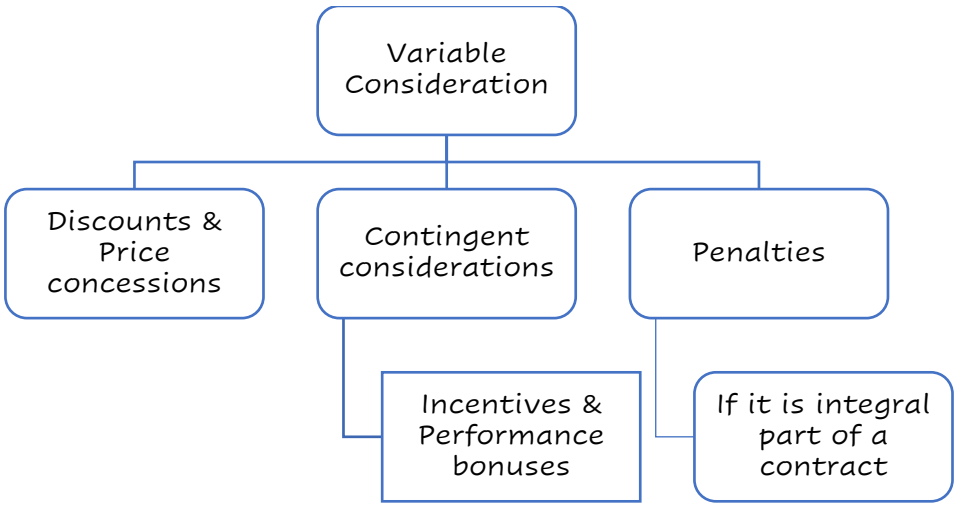
- is the amount of consideration
- to which an entity expects
- to be entitled
- in exchange for transferring promised goods or services to a customer,
- excluding amounts collected on behalf of third parties (for example, sales taxes).

Consideration promised in a contract may be fixed or variable or both.
When determining the transaction price, an entity shall consider the effects of all of the following:

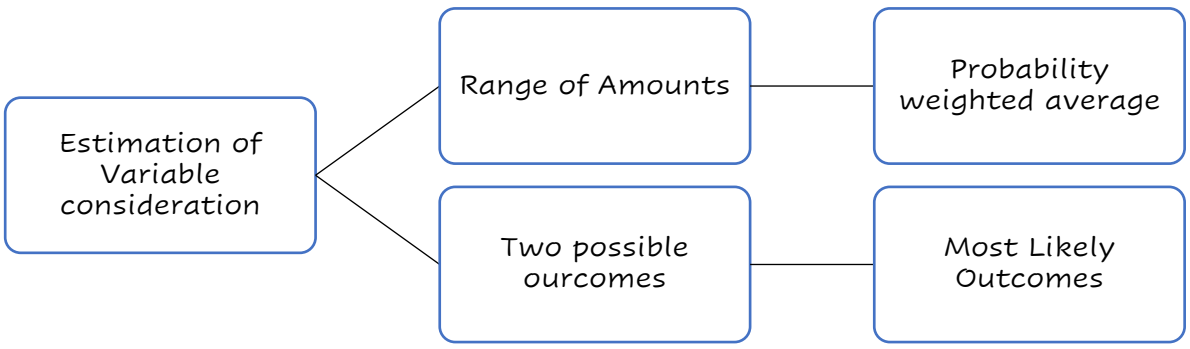


- **Variable consideration**
  Consideration whose amount is **not fixed** and depends on future events, such as **discounts, rebates, refunds, incentives, bonuses, penalties**, etc.
- **Constraining estimates of variable consideration**
  Variable consideration is included in revenue **only to the extent it is highly probable** that a **significant reversal will not occur** when uncertainty is resolved.
- **Significant financing component**
  Exists when the **timing of payment** provides a **significant benefit of financing** to either the customer or the entity (advance payments or deferred payments).
- **Consideration payable to customer**
  Amounts paid or payable to the customer (e.g. **coupons, rebates, credits**) are generally treated as a **reduction of transaction price**, unless received for a **distinct good or service**.
- **Non-cash consideration**
  Consideration received in a form **other than cash** (e.g. **shares, assets, services**), measured at **fair value** at contract inception.

5.1 Variable consideration



- An entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.
- An entity shall include in the transaction price some or all of 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



5.1.1 Penalties

Where the penalty is inherent in determination of transaction price, it **shall form part of variable consideration**.

5.1.2 Estimating the amount of variable consideration

An entity shall **estimate the amount of variable consideration** using **one of the following methods**:

Expected Value Method

- The **expected value** is the **sum of probability-weighted amounts** in a range of possible consideration amounts.
- This method is **appropriate when there are a large number of contracts** with **similar characteristics**.

Most Likely Amount Method

- The **most likely amount** is the **single most likely outcome** in a range of possible consideration amounts.
- This method is **appropriate when the contract has only two possible outcomes**.

An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled.

5.1.3 Refund liabilities

An entity shall recognise a refund liability if

- the entity receives consideration from a customer and
- expects to refund some or all of that consideration to the customer.

A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e. amounts not included in the transaction price).

5.1.4 **Constraining estimates of variable consideration**

An entity shall include variable consideration, in the transaction price only to the extent that it is highly probable that a significant reversal will not occur.

Factors that could increase the likelihood of a revenue reversal include –

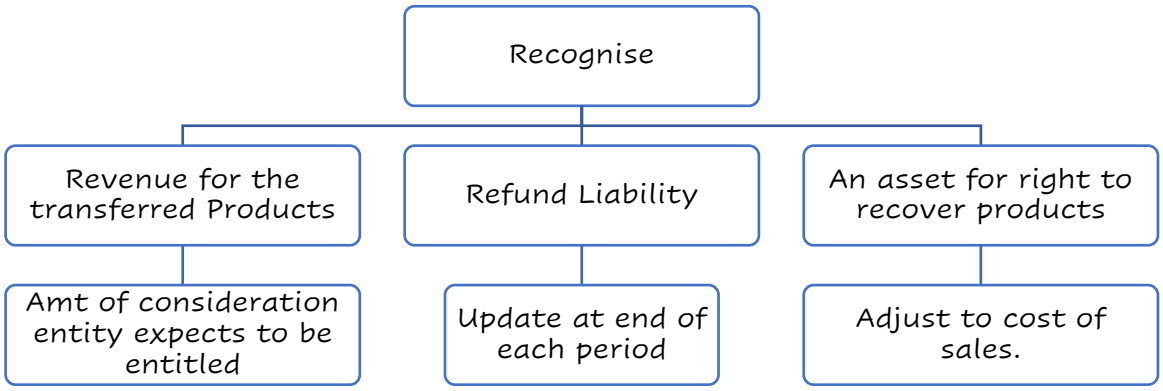
- the amount of consideration is highly susceptible to factors outside the entity's influence.
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time
- The entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value
- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances
- The contract has a large number and broad range of possible consideration amounts

5.1.5 Reassessment of variable consideration

At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

5.2 Sale with a right of return





- For the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise :
  - **revenue for the transferred products** in the amount of consideration to which the entity expects to be entitled;
  - **a refund liability**; and
  - **an asset** (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.
- Exchanges by customers of one product for another of the same type, quality, condition, and price (for example, one colour or size for another) are not considered returns for the purposes of applying this Standard.

5.3 **Significant financing component**

- If there is a significant component financing, time value of money is adjusted from the agreed amount of consideration.
- Either party may benefit from financing:
  - customer may pay before the entity performs its obligation (a customer loans to the entity)
  - customer may pay after the entity performs its obligation (a loan by the entity to the customer
- Recognise revenue at the expected cash price.
- Financing component is recognised separately from revenue.
- Factors to determine whether financing component is significant
  - The difference, if any, between the amount of promised consideration and the cash selling price; and
  - The combined effect of both of the following:
    - the expected length of time between when the entity transfers the promised goods or services and when the customer pays; and
    - the prevailing interest rates in the relevant market.
- Entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.
- After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances.
- An entity need not adjust the the effects of a significant financing component if the entity expects, at contract inception, that the period between:
  - When the entity transfers a promised good or service to a customer and
  - When the customer pays for that good or service
  - will be one year or less.

Situations where a Significant Financing Component does NOT exist

A contract does **not** contain a **significant financing component** in the following cases:

1. **Customer pays in advance**, and the **timing of transfer of goods or services** is at the **discretion of the customer**.
2. A **substantial portion of consideration is variable**, and the amount depends on a **future event** that is **not within the control** of either the **customer or the entity**.



3. The **difference between promised consideration and cash selling price** arises for **reasons other than financing**, such as **performance-based pricing, risk allocation, or discounts**.

Under AS-9, there is no specific requirement to identify and separate the significant financing component.

5.4 Non-cash consideration

- Sometimes a customer promises to pay for a good or service in a form other than cash, such as shares of common stock or other equity instruments, advertising, or equipment.
- To determine the transaction price, an entity shall:

In the first instance, measure the non-cash consideration at fair value

If it cannot estimate fair value , it shall measure at standalone selling price of goods or services given

- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers are outside the scope of Ind AS 115.

5.4.1 Subsequent measurement of non-cash consideration

1. **If the fair value of non-cash consideration varies due to the form of consideration** (e.g. change in prices of shares):
   - The entity **does NOT adjust the transaction price** for such changes.
2. **If the fair value of non-cash consideration varies for reasons other than the form of consideration**
   (e.g. performance conditions, future uncertainty):
   - The entity shall **treat it as variable consideration** and
   - **Apply the constraint on variable consideration** while determining the **transaction price**.

5.4.2 Customer-provided goods or services

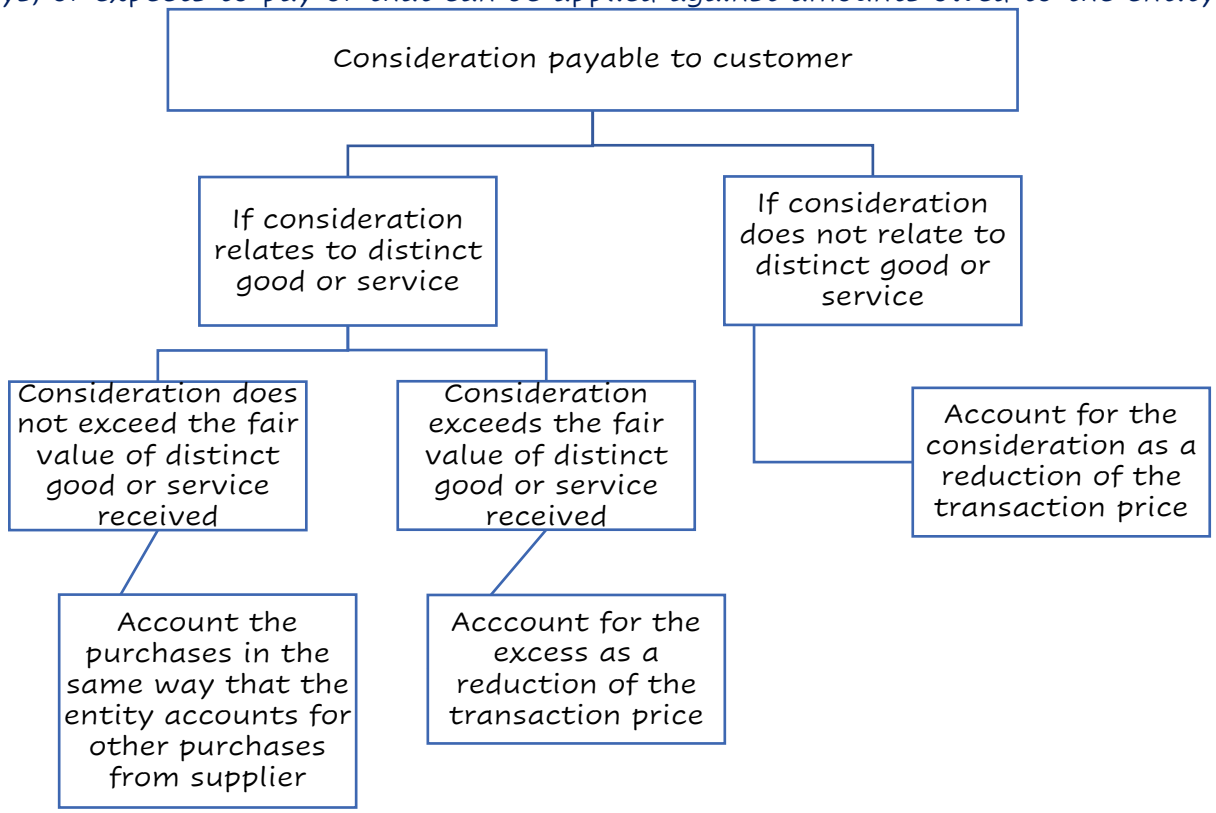
- If a customer contributes goods or services (for example, materials, equipment or labour) to facilitate an entity's fulfilment of the contract, the entity shall assess whether it obtains control of those contributed goods or services.
- If entity obtains control fair value of goods or services supplied by customer will be added to transaction price

.

5. 5 Consideration payable to a customer



Consideration payable to a customer includes cash amounts, credit or other items that an entity pays, or expects to pay or that can be applied against amounts owed to the entity.



6. Step 4 – Allocating the transaction price to performance obligations

The entity shall allocate the transaction price to each performance obligation identified in the contract on a **relative stand-alone selling price** basis except-

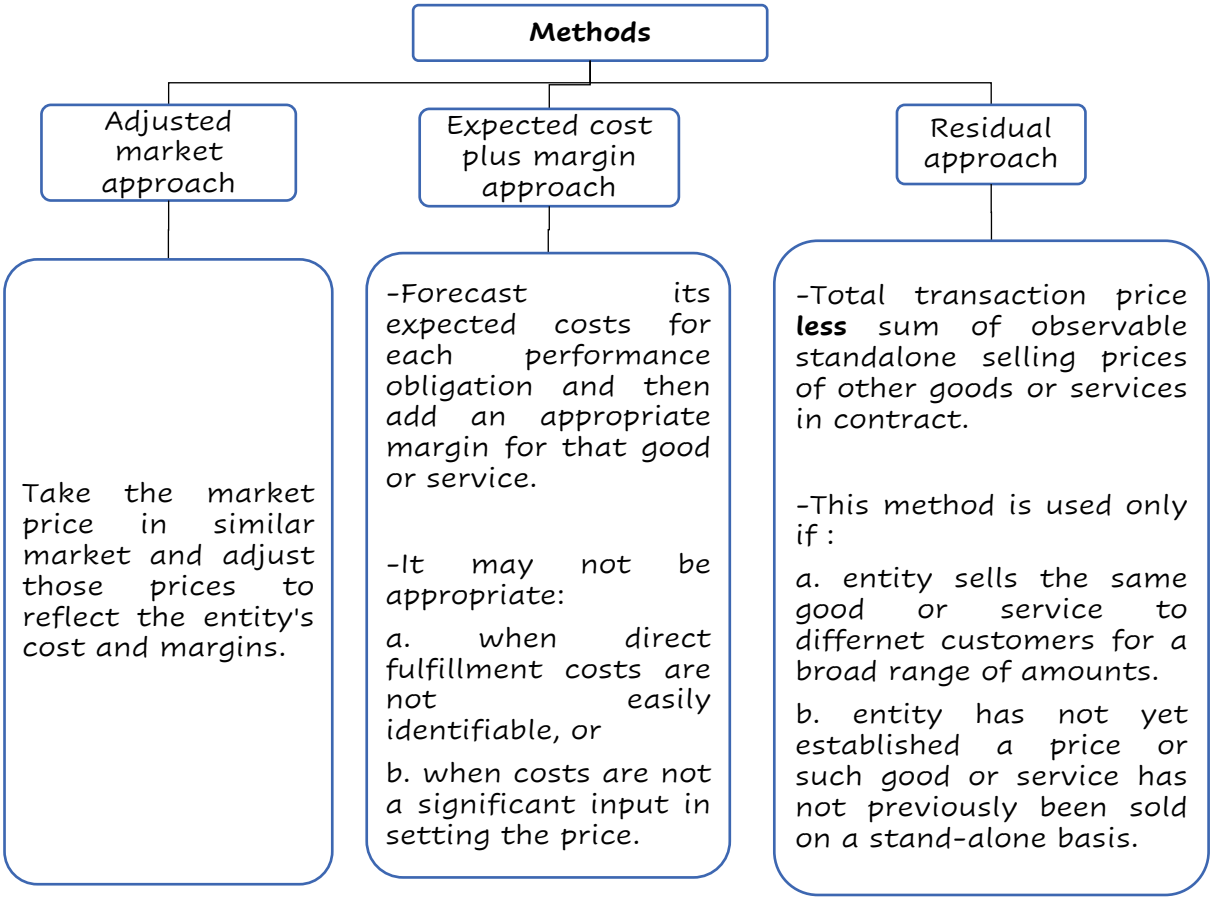
- For allocating discounts
- For allocating variable consideration

6.1 Determining stand-alone selling price

- **Stand-alone selling price** - the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.
- If **stand-alone selling price is not directly observable**, an entity shall consider all information (including market conditions, entity-specific factors and information about the customer or class of customer) that is reasonably available to the entity.
- An entity shall maximise the use of observable inputs and apply estimation methods consistently in similar circumstances.

Methods for estimating the stand-alone selling price of a good or service include the following:





- 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.

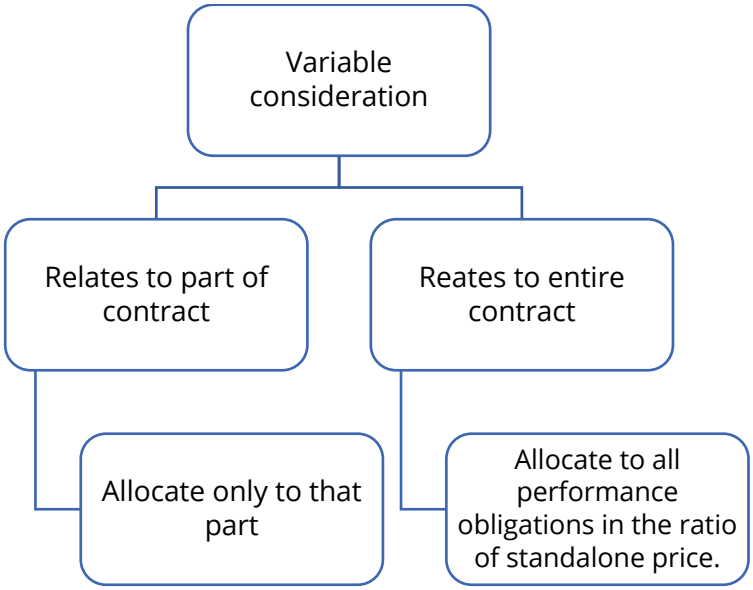
6.1.1 Allocation of a discount

- Discount relates to all performance obligations – Proportionately based on stand alone selling price
- Discount relates to one or more (but not all) performance obligation – Allocate to only specific performance obligation
- When to allocate discount to 'less than all' performance obligations?
    - The entity regularly sells each distinct or each bundle of those distinct goods or services;
    - Entity also regularly sells a bundle (or bundles) of some of those distinct goods or services at a discount; and
    - Discount attributable to each bundle of goods or services is substantially the same as the discount in the contract and an analysis provides evidence of performance obligations to which the entire discount belongs.

6.1.2 Allocation of variable consideration

- Variable consideration may be attributable to
    - the entire contract or
    - a specific part of the contract
- How to allocate variable consideration?





- An entity shall allocate a variable amount entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation if both of the following criteria are met:
    - The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service.
    - allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective

6.2 Changes in transaction price

- An entity shall allocate to the performance obligations any subsequent changes in the transaction price on the same basis as at contract inception.
- An entity shall not reallocate the transaction price to reflect changes in standalone 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.
- If the change in transaction price is the result of a contract modification, the entity should follow the contract modification guidance.

7. Step 5 – Satisfying performance obligation

- An entity shall recognise revenue as and when 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 the customer obtains control of that asset.
- Questions that need to be answered at contract inception to determine if the seller has satisfied its performance obligation are:

Establish what does **transfer of control mean** in the context of the arrangement between the parties?

Does the customer acquire **control over a period of time or at a point**

7.1 What does transfer of control mean?

Control of an asset refers to the ability to direct the use and obtain substantially all of the benefits from the asset or ability to prevent other entities from directing the use of, and obtaining the benefits from an asset.

An entity shall consider indicators of the transfer of control which are as follows:

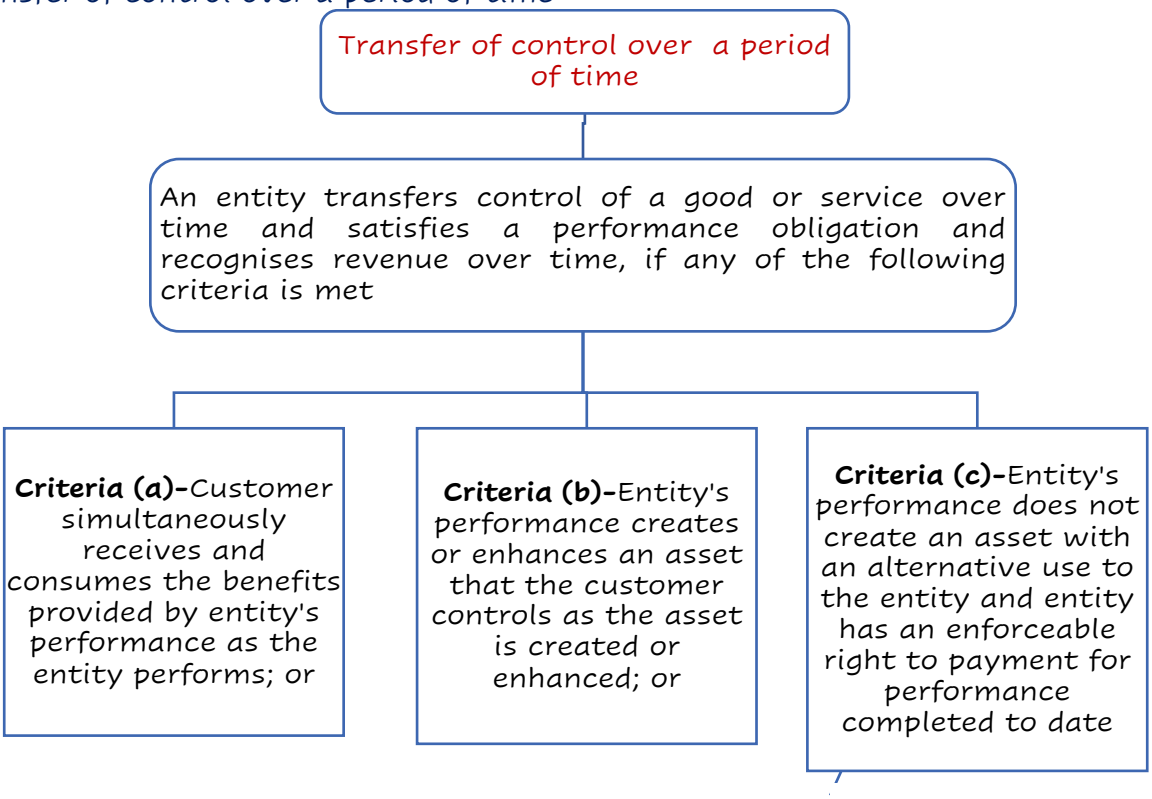
- The entity has a present right to payment for the asset;
- The customer has legal title to the asset;
- The entity has transferred physical possession of the asset;



- The customer has the significant risks and rewards of ownership of the asset;
- The customer has accepted the asset.

7.2 Does the customer acquire control over a period of time or at a point in time?

7.2.1 Transfer of control over a period of time



- **Criteria (a)-** Applied in situations where benefit of seller's performance are immediately consumed by customer e.g security service.
- **Criteria (b)-** Applied in situations Where the customer ordinarily obtains control of the asset whose work is in progress – ***construction done on customer's land***
- **Criteria (c)-** Applied in situations in which an asset is created at customer's discretion, which the seller is restricted from using for any other purpose and at the same time, the seller entity reserves a right to seek payment for work in process.

  Conditions for (c)
  - Asset does not have an alternative use to seller - This can arise due to contractual restrictions or practical limitations.
  - There is a Legally enforceable right to receive payment for performance completed to date. This payment should compensate the supplier for costs incurred plus a profit margin.

- Methods of measuring progress of a performance obligation satisfied over time:

Output based method

- Recognise revenue on the basis of fair value of goods or services transferred to date relative to remaining goods or services.
- Example: Surveys of performance completed to date,appraisals of results achieved etc.

Input based method

- Recognise revenue based on the entity's efforts or inputs to the satisfaction of a performance obligation.
- Example: Resources consumed labour hours expended, cost incurred, time elapsed or machine hours used



Method	What it means	How revenue is recognised	Examples
Output-based method	Focuses on **what is delivered to the customer**	Based on value of goods/services transferred till date	Milestones achieved, units delivered, survey of work done
Input-based method	Focuses on **effort put in by the entity**	Based on inputs used till date compared to total inputs	Labour hours, costs incurred, time elapsed, machine hours

7.2.2 Cost not proportionate to progress

When a cost incurred is not proportionate to the entity's progress in satisfying the performance obligation, the input method is adjusted for cost of assets delivered to the customer.

Conditions

1. The good is not distinct
2. The customer is expected to obtain control of the goods significantly before receiving services
3. The cost of the transferred goods is significant relative to the total expected costs to completely satisfy the performance obligation
4. The entity procures the good from a third party and is not significantly involved in designing and manufacturing the good

To solve such question in exam follow the following steps -

Step	Explanation
1. Identify nature of costs	- Two components: **Goods (e.g lifts)** and **Other construction costs**. - Goods delivered are **not a distinct performance obligation** (part of overall project).
2. Assess control transfer	- Customer **acquires control** of the asset upon delivery at site. - No significant modification by entity; entity acts as **principal**.
3. Apply input method	- Use **input method** based on **costs incurred** relative to **total expected costs**.
4. Exclude asset cost for measuring progress	- Since the good is delivered early and customer controls it separately, **exclude its cost** when calculating % completion.
5. Measure progress of construction work	- Progress % = **Actual other costs incurred ÷ Total expected other costs**.
6. Recognize revenue	- (a) For goods delivered: **Recognize revenue equal to cost incurred**. - (b) For construction: **% Completion x (transaction price – asset cost)**

7.2.2 Transfer of control at a point in time

If none of the criteria of over a period of time is met, the performance obligation is considered to be discharged at a point in time.

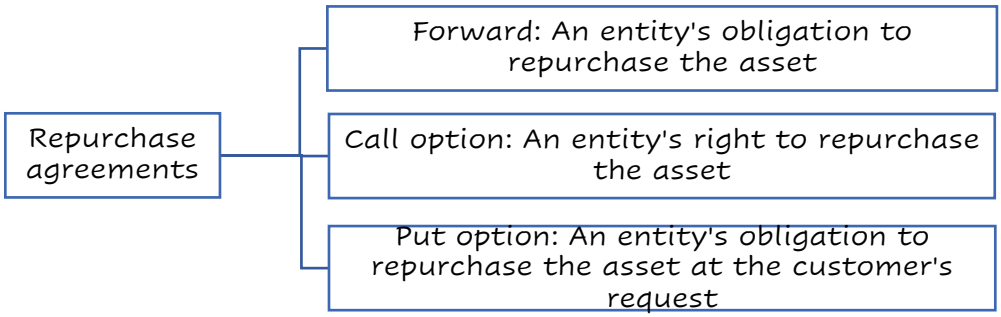
Indicators to imply the point of time at which control of goods has been passed to the customer includes:

- A present obligation to pay
- Physical possession
- Legal title
- Risks and rewards of ownership
- Accepted the asset

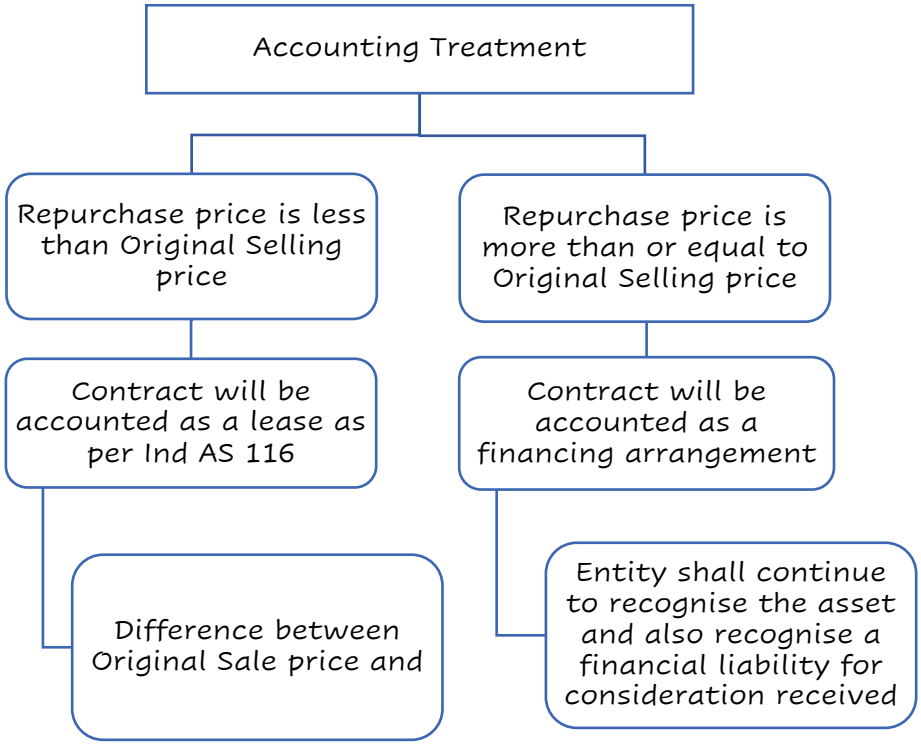


7.3 Repurchase agreements

A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option to repurchase the asset.



7.3.1 Forward or call option:



- A customer does not obtain control of the asset
- If the option lapses unexercised, an entity shall derecognise the liability and recognise revenue.

7.3.2 Put option: Put option gives the right to customer to sell the goods back to the entity

Situation	Key Question	Accounting Treatment
Repurchase price < Original selling price	Does the customer have significant economic incentive to exercise the right?	**Yes - Ind AS 116 (Lease)**
		No - Sale with right to return
Repurchase price ≥ Original selling price	Is repurchase price **greater than expected market price**?	**Yes - Financing arrangement**
	Repurchase price ≤ expected market price	Check economic incentive
	Customer has significant economic incentive	**Financing arrangement**
	Customer does not have significant economic incentive	**Sale with right to return**



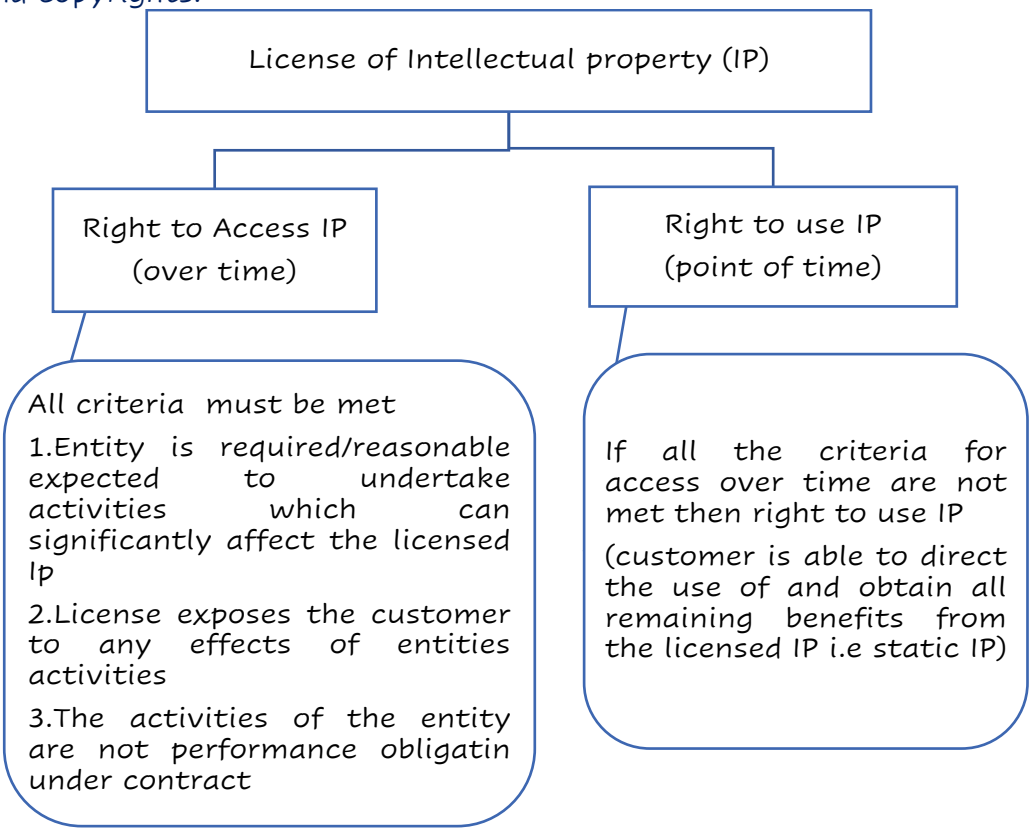
7.4 Bill-and-hold

- 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.
- In such arrangement, the entity shall recognise revenue at the point of time when control is transferred to the customer.
- For few cases, a customer may obtain control of a product even though that product remains in an entity's physical possession if all the following criteria is met:
    - There must be a **genuine / substantive business reason** for holding the goods on behalf of the **customer**.
    - The goods must be **clearly and separately identified** as **belonging to the customer**
    - The goods must be **complete** and **ready for immediate physical transfer** to the customer.
    - The seller must **not have the ability to use** the goods or **redirect / sell them to another customer**.

- Where an entity recognises revenue on bill-and-hold basis, the entity shall determine if it has any additional performance obligations and allocate a portion of transaction price to each performance obligation.

7.5 Licenses of intellectual property

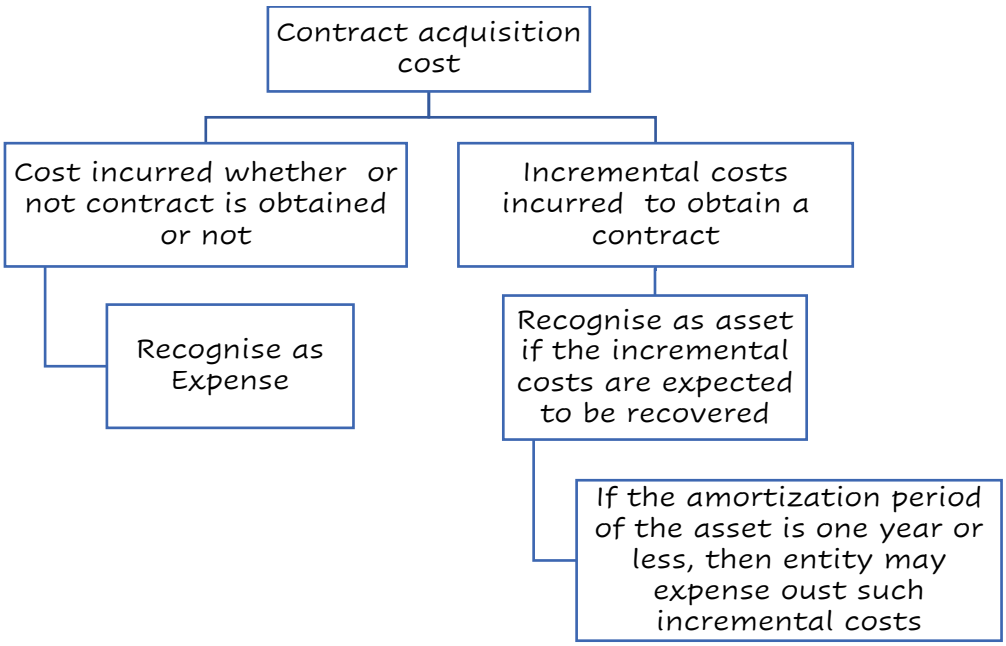
Licences of intellectual property establish a customer's rights to the intellectual property of an entity and may include licences for any of the following: software and technology, media and entertainment (e.g. motion pictures and music), franchises, patents, trademarks and copyrights.





8. Contract Costs

8.1 Costs to obtain a contract (contract acquisition costs)

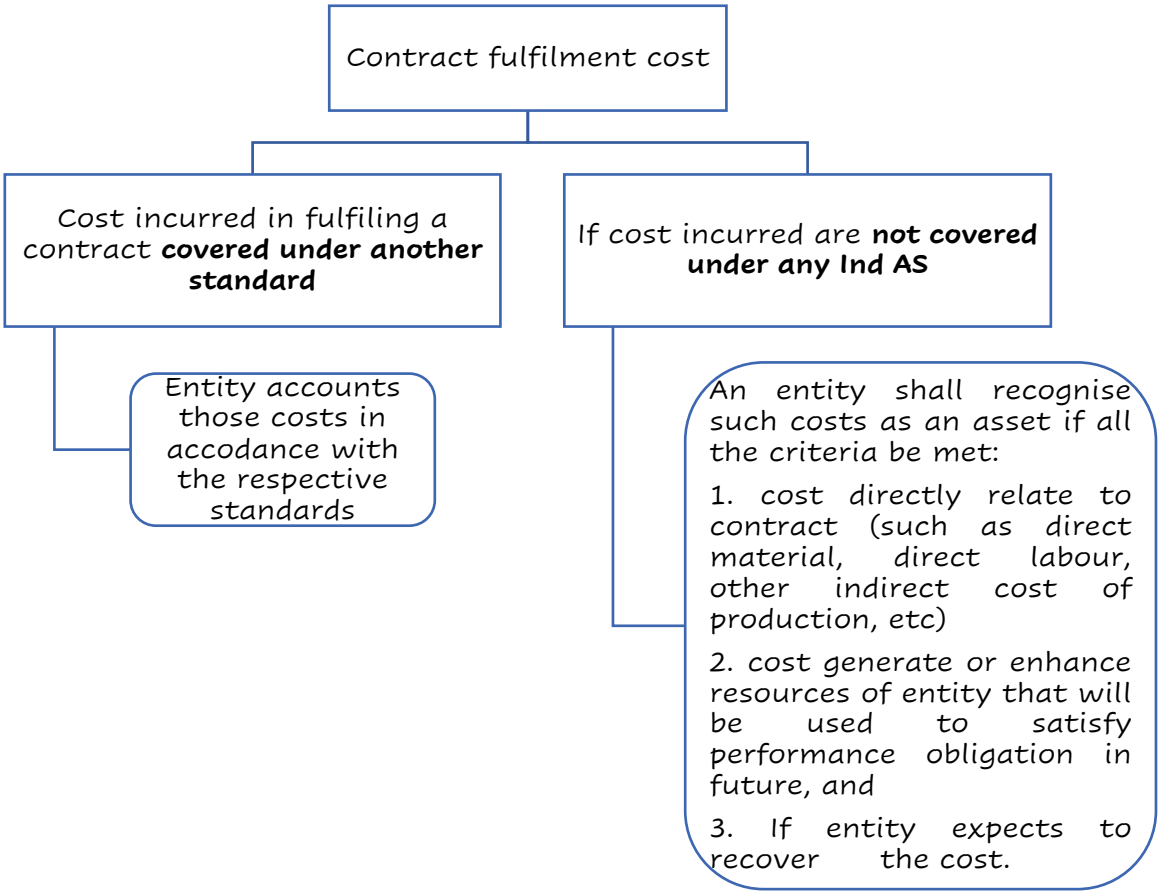


Examples of Contract Acquisition costs:

Cost	Capitalize Or Expense	Reason
Commission paid only upon successful signing of a contract	Capitalize	Assuming the entity expects to recover the cost, the commission is incremental since it would not have been paid if the parties decided not to enter into the arrangement just before signing.
Travel expenses for sales persons pitching a new client contract	Expense	Because the costs are incurred regardless of whether the new contract is won or lost, the entity expenses the costs, unless they are expressly reimbursable.
Legal fees for drafting terms of arrangement for parties to approve and sign	Expense	If the parties walk away during negotiations, the costs would still be incurred and therefore are not incremental costs of obtaining the contract.
Salaries for sales people working exclusively on obtaining new clients	Expense	The salaries are incurred regardless of whether contracts are won or lost and therefore are not incremental costs to obtain the contract.
Bonus based on quarterly sales target	Capitalize	Bonuses based solely on sales are incremental costs to obtain a contract.
Commission paid to sales manager based on contracts obtained by the sales manager's local employees	Capitalize	The commissions are incremental costs that would not have been incurred had the entity not obtained the contract. Ind AS 115 does not differentiate costs based on the function or title of the employee that receives the commission.



8.2 Costs to fulfil a contract (contract fulfilment costs)



Following costs should be expensed as incurred :

- general and administrative costs that are not explicitly chargeable to the customer
- costs of wasted materials, labour, or other resources that were not reflected in the contract price
- costs that relate to satisfied performance obligations
- costs related to remaining performance obligations that cannot be distinguished from costs related to satisfied performance obligations.

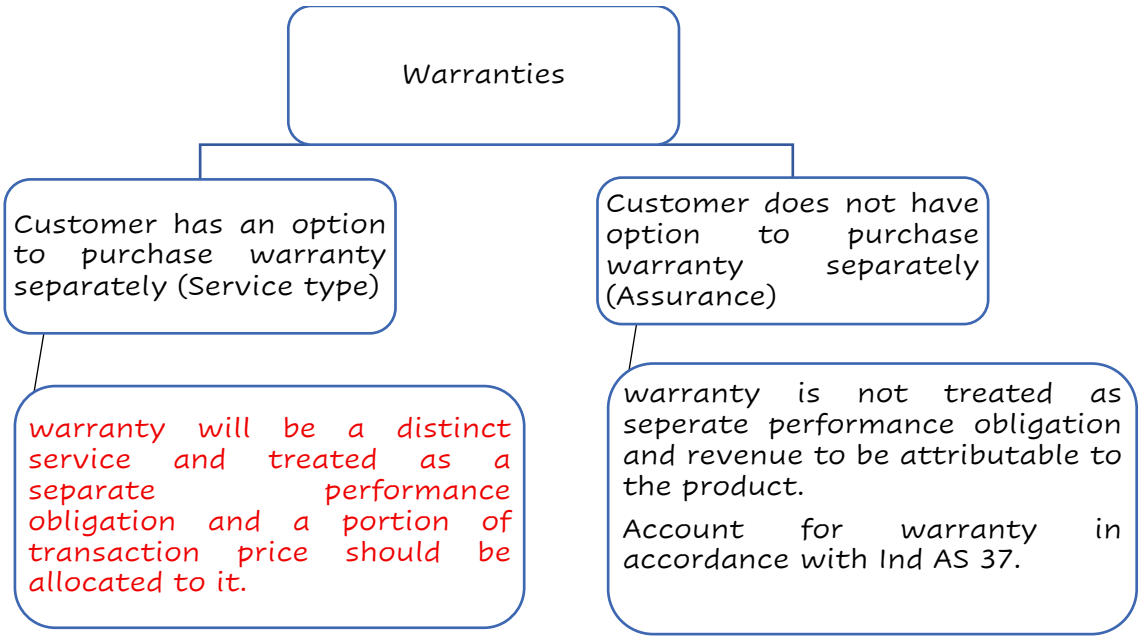
8.3 Amortisation and impairment

- Amortize capitalised contract costs on a systematic basis consistent with the pattern of transferring the goods or services. Any change in expected pattern, is accounted as a change in accounting estimate as per Ind AS 8.
- recognises an impairment loss in earnings if the carrying amount of an asset exceeds the remaining amount of consideration less any directly related contract costs yet to be recognised.
- Before recognising an impairment loss under the revenue recognition guidance, an entity recognises 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)
- Reversal of impairment loss is allowed when the impairment conditions no longer exist or have improved. The increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.



9. Misc Matters

9.1 Warranties



In assessing whether a warranty is a separate performance obligation or not, an entity shall consider factors such as:

Factors	Conclusion
Whether the warranty is mandated by law	Not a performance obligation
Whether the coverage period is unusually long	Longer period : more likely a performance obligation
Whether tasks only assure quality of the product	Assurance only : not a performance obligation

9.2 Customer options for additional goods or services

- An entity may grant a customer the option to acquire additional goods or services in form of coupons, gift cards and customer award credits etc;
- Such option is treated as 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 recognises revenue when those future goods or services are transferred or when the option expires.
- Entity shall allocate the transaction price to performance obligations on a relative stand-alone selling price basis.
- If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it.
- Estimate shall reflect the discount that the customer would obtain when exercising the option, adjusted for both of the following:
  - any discount that the customer could receive without exercising the option; and
  - the likelihood that the option will be exercised.



9.3 Long term arrangements

Entities enter into arrangements to provide services on a long-term basis it shall be accounted for its rights and obligations s for each period in which the contract cannot be cancelled by either party.

In long-term service agreements when the consideration is fixed, the accounting generally will not change regardless of whether a single performance obligation or multiple performance obligations are identified.

9.4 Consignment arrangements

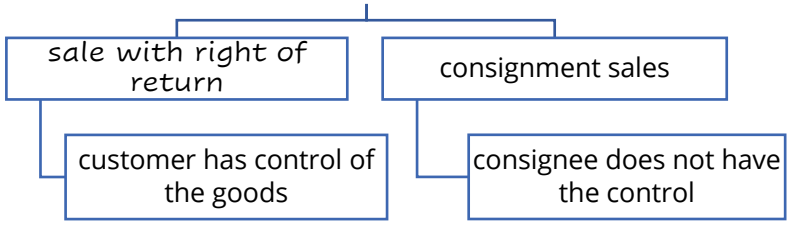
Consignment agreement – It is an agreement between a consignee and consignor for the storage, transfer, sale or resale and use of the goods.

Indicators for evaluating the arrangement as a consignment arrangement:

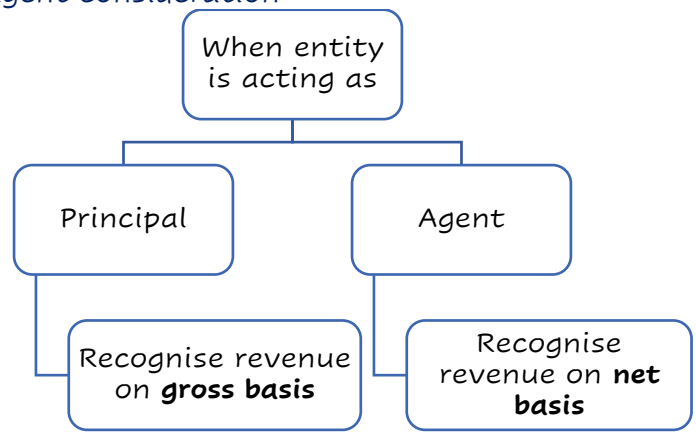
- The **entity controls the product** until a **specified event** occurs (for example, **sale to end customer** or **expiry of a time period**).
- The **entity can require return** of the product or **direct the product to another party**.
- The **dealer has no unconditional obligation to pay** for the product (except possibly a **refundable deposit**).

9.5 Revenue is recognized when the entity has transferred control of the goods to the consignor or the end consumer.

A consignment sale differs from a sale with a right of return



Principal vs agent consideration



Indicators that an entity is a principal include the following:

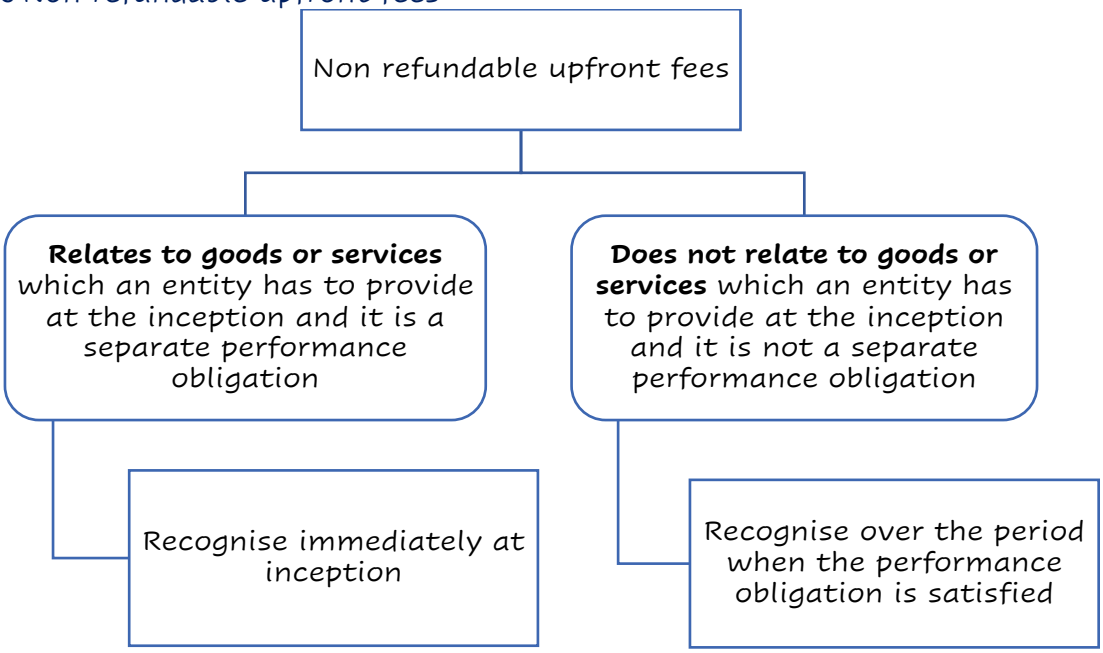
- The **entity is primarily responsible** for **fulfilling the contract** with the customer.
- The **entity bears inventory risk before** or **after transfer of control** of the goods or services.
- The **entity has discretion in setting prices** for the goods or services.



After an entity identifies its promise and determines whether it is the principal or the agent, the entity recognises revenue when it satisfies that performance obligation.

In some contracts in which the entity is the agent, control of the goods or services promised by the agent might transfer before the customer receives the goods or services from the principal.

9.6 Non refundable upfront fees



9.7 Sales-based or usage-based royalties

An entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

- The subsequent sale or usage occurs; and
- The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

10. Presentation

Balance Sheet	As a contract liability, a contract asset or a receivable - contract liability: If the customer has paid consideration, or if payment is due on reporting date but the entity has not yet satisfied a performance obligation. - contract asset or a receivable: If its right to consideration is conditioned on something other than the passage of time; otherwise, an entity recognises a receivable.
Profit & Loss	Recognise revenue

11. Disclosure

Disclosure area	Summary of requirements
General	• revenue recognised from contracts with customers, separately from its other sources of revenue. • impairment losses on receivables or contract assets.



Disaggregation of revenue	• categories that depict the nature, amount, timing, and uncertainty of revenue and cash flows. • sufficient information to enable users of financial statements to understand the relationship with revenue information disclosed for reportable segments under Ind AS 108.
Information about contract balances	• including opening and closing balances of contract assets, contract liabilities, and receivables (if not separately presented)
Information about performance obligations	• when the entity typically satisfies performance obligations • significant payment terms • nature of goods and services • obligations for returns, refunds and similar obligations • types of warranties and related obligations
Transaction price allocated to the remaining performance obligations	• that are unsatisfied and an explanation of when the entity expects to recognise such revenue.
Timing of satisfaction of performance	• performance obligations that an entity satisfies over time. • performance obligations satisfied at a point in time.
Information about significant judgements	• judgements impacting the expected timing of satisfying performance obligations transaction price and amounts allocated to performance obligations.
Transaction price and the amount allocated to performance obligations	• determining the transaction price, estimating variable consideration, adjusting the consideration. • estimate of variable consideration is constrained . • measuring obligations for returns, refunds, and other similar obligations. • allocating the transaction price, discounts, and variable consideration.
Assets recognised from the costs to obtain or fulfil a contract	• judgments made in determining costs amount of the costs incurred to obtain or fulfil a contract with a customer. • amortisation method used for closing balances by main category and amortisation expense.
Practical expedients	• existence of a significant financing component. • incremental costs of obtaining a contract.

12. Service Concession Arrangements

12.1 About Service Concession Arrangement

- Service Concession Arrangement involves a private sector entity (an operator) constructing the infrastructure used to provide the public service. It also involves operating and maintaining infrastructure for a specified period of time.
- It is often described as a 'build-operate-transfer', a 'rehabilitate-operate-transfer' or a 'public-to-private' service concession arrangement.



Operator- An entity constructing and operating the infrastructure, the operator is responsible for the management of infrastructure and do not merely act as an agent. The operator is paid for its services over period of arrangement.

Grantor- It is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved .

12.2 Accounting Principles

12.3 Treatment of the operator's rights over the infrastructure

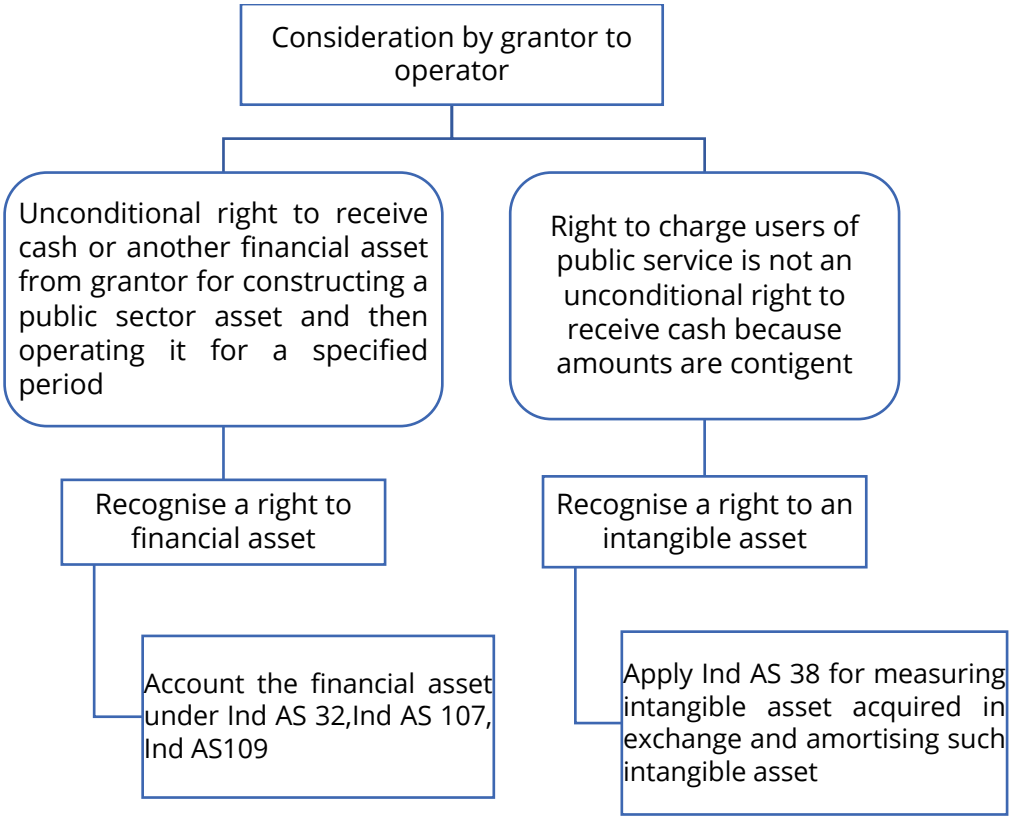
Infrastructure shall not be recognised as property, plant and equipment of the operator because the operator has no right to control the use of the public service infrastructure to the operator, however operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

12.4 Recognition and measurement

- Operator acting as a service provider, shall recognise and measure revenue in accordance with Ind AS 115.
- If the operator performing more than one service (i.e, construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated on the fair values of the services rendered.

12.5 Consideration given by the grantor to the operator

- If the operator provides construction or upgrade services, the consideration received or receivable by the operator shall be recognized at its fair value.



- If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of operator's consideration.

12.6 Contractual obligations to restore the infrastructure to a specified level of serviceability

The operator may have contractual obligations it must fulfil as a condition of its licence, like to maintain or restore infrastructure, except for any upgrade element, which shall be recognised and measured in accordance with Ind AS 37.



12.7 Borrowing costs incurred by the operator

- Operator has a contractual right to receive an intangible asset: capitalise
- Operator does not have a contractual right to receive an intangible asset: expense

13.Differences, Carve-outs

Aspect	Ind AS 115	AS 7 & AS 9
Core principle	Revenue depicts transfer of promised goods or services to customers at an amount reflecting consideration expected to be entitled	No single, unified core principle prescribed
Multiple elements in a contract	Detailed and comprehensive guidance on identifying and separating performance obligations	No specific or comprehensive guidance
Coverage	Applies to **all contracts with customers** (interest and dividends excluded)	AS 7: Construction contracts AS 9: Sale of goods, services, interest, royalties and dividends
Measurement of revenue	Measured at **transaction price** – consideration expected to be entitled, excluding amounts collected on behalf of third parties	AS 9: Gross inflow of cash/receivables arising from ordinary activitiesAS 7: Consideration received or receivable
Basis of revenue recognition	Revenue recognised **when control of goods or services transfers** to the customer	AS 9: When **significant risks and rewards** transferAS 7: Based on **stage of completion**, if outcome can be reliably estimated
Service concession arrangements	Specific guidance available	No specific guidance available

Carve Out IFRS 15

IFRS 15 provides that all types of penalties which may be levied in the performance of a contract should be considered in the nature of variable consideration for recognising revenue.

Carve out

Ind AS 115 has been amended to provide that penalties shall be accounted for as per the substance of the contract. Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price shall be considered as fixed.

13.Exclusions from Ind AS 115

- lease contracts within the scope of Ind AS 116, Leases;
- insurance contracts within the scope of Ind AS 117, Insurance Contracts
- financial instruments and other contractual rights or obligations within the scope of
    - Ind AS 109, Financial Instruments,
    - Ind AS 110, Consolidated Financial Statements,
    - Ind AS 111, Joint Arrangements,
    - Ind AS 27, Separate Financial Statements and
    - Ind AS 28, Investments in Associates and Joint Ventures; and



- *non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Standard would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.*

Important Point – To apply Ind AS 115 , Counterparty must be a customer.



Ind AS 8
Accounting Policies, changes in Accounting Estimates and Errors

1. Introduction

1.1 Objective

- To prescribe the criteria for selecting and changing accounting policies.
- To prescribe the accounting treatment and disclosure of
  - changes in accounting policies
  - changes in accounting estimates
  - corrections of errors.
- To provide better base for inter-firm and intra-firm comparison.

1.2 Scope

The standard shall be applied in

- selecting and applying accounting policies
- accounting for changes in accounting policies
- accounting changes in accounting estimates
- accounting for corrections of prior period errors.

The standard does not deal with the following

(a)	Tax effects of changes in accounting policy and correction of prior period errors	Dealt as per Ind AS 12
(b)	Disclosure of accounting policies	Dealt as per Ind AS 1

2. Definitions

2.1 Accounting policies

Accounting policies are the **specific principles**, **bases**, **conventions**, **rules** and **practices applied by an entity** in **preparing and presenting financial statements**.

2.2 Accounting Estimate

Accounting estimates are monetary amounts in financial statements that are subject to material uncertainty.

2.3 Prior period errors

Errors are **omissions** from, or **misstatements** in, an entity's **financial statements of prior periods**, arising from **failure to use** or **misuse of reliable information** that:

- was **available** when the financial statements for those periods were **authorised for issue**, and
- could **reasonably be expected** to have been **obtained and considered** in preparing those financial statements.

Errors include

- Mathematical mistakes
- Mistakes in applying accounting policies
- Oversights or misrepresentations of facts
- Fraud

2.4 Retrospective application

Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.



2.5 Retrospective restatement

Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

2.6 Prospective application

Change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed; and
- recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

2.7 Impracticable

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- The **effects** of retrospective application or restatement are **not determinable**.
- Retrospective application or restatement would require **assumptions about management's intent** in a **prior period**.
- Retrospective application or restatement would require **significant estimates**, and it is **impossible to distinguish**:
    - **Objective information** that **provides evidence of circumstances existing at that date**, from
    - information that **would have been available** when the **prior period financial statements were approved for issue**.

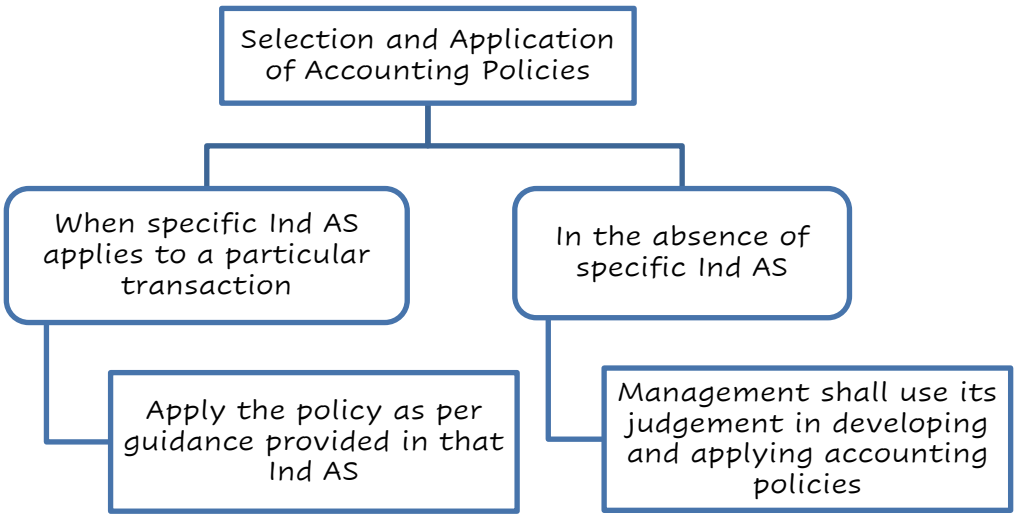
2.8 Material

- As per Ind AS 1 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.
- Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information.
- The following are examples of circumstances that may result in material information being obscured:
    - information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear,
    - information regarding a material item, transaction or other event is scattered throughout the financial statements,
    - dissimilar items, transactions or other events are inappropriately aggregated,
    - similar items, transactions or other events are inappropriately disaggregated, and
    - the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.



3. Accounting Policies

3.1 Selection and Application of Accounting Policies



3.2 Selection and Application of Accounting Policies when specific Ind AS not available

Management shall use its judgement in developing and applying accounting policies that results in information that is:

- Relevant to the economic decision-making needs of users; and
- Reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the entity
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form
  - are neutral
  - are prudent
  - are complete in all material respects.

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

1. **Ind AS dealing with similar and related issues**
2. **Conceptual / Basic Framework of Ind AS** (general principles)
3. **Pronouncements of the International Accounting Standards Board (IASB)**
4. **Pronouncements of other Standard Setting Bodies**
5. **Other accounting literature** and **accepted industry practices**

3.3 Consistency of accounting policies

Ind AS not specifically requires or not permits categorisation of items for which different policies are apropriate	•An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions
Ind AS specifically requires or permits categorisation of items for which different policies are apropriate	•An appropraiate accounting policy shall be selected and applied consistently to each category

3.4 Changes in accounting policies

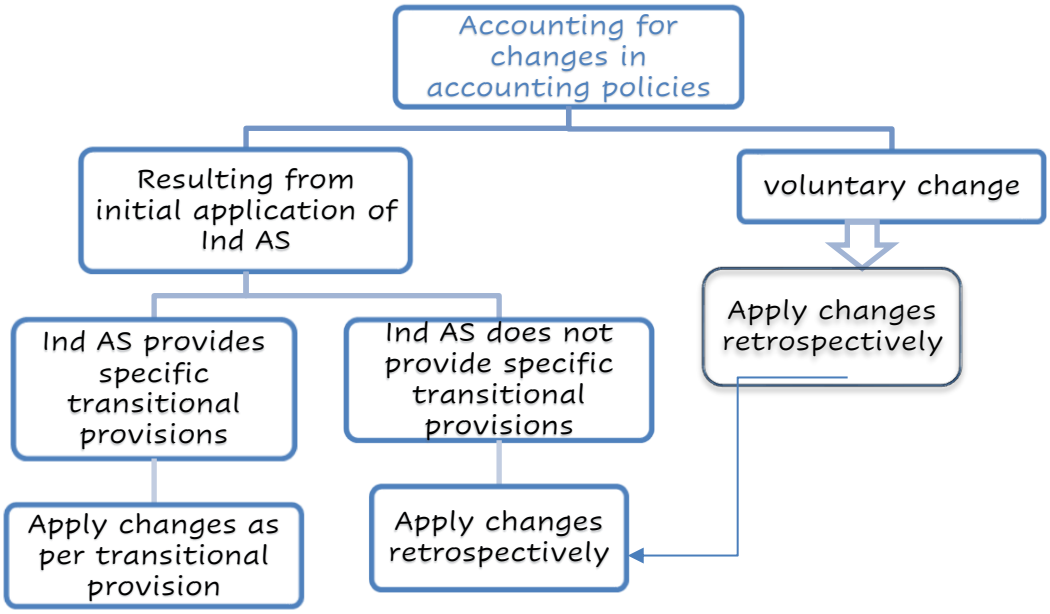
An entity shall change an accounting policy only if the change:

- Required by an Ind AS, or
- Results in the financial statements providing reliable and more relevant information.

Following are not changes in accounting policy:

- The application of an accounting policy for transactions, other events or conditions that-
  - Differ in substance
  - Did not previously occur
  - Are immaterial .

3.5 Accounting for changes in accounting policies



- Early application of Ind AS is not a voluntary change in accounting policy.
- In the absence of any specific Ind AS that specifically applies to a transaction, other event or condition, accounting policy applied from relevant IFRS, or the most recent pronouncements of International Accounting Standards Board, and subsequently there is an amendment in such IFRS or pronouncements, company may change its accounting policy, that change is considered as voluntary change and accordingly it shall apply the change retrospectively.

3.5.1 Retrospective application

- when a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.
- As per Ind AS1 present a third balance sheet as at the beginning of previous year if it applies accounting policy retrospectively.



3.5.2 Limitations of Retrospective application

Changes in accounting policy shall not be applied retrospective if it is impracticable to determine either the period specific effects or the cumulative effect of the change

↓

The entity shall apply the accounting policy as at the beginning of the earliest period for which retrospective application is practicable

3.6 Disclosure regarding the changes in Accounting Policies

Initial application of Ind AS	•Title of Ind As •changes made in accordance with transitional provision •Natue of change in accounting policy •Transitional provision that may have effect on future periods •Description of transitional provision •Adjustments to each financial line item affected and Ind AS 33 •If retrospective application is impracticable the circumstances led to that condition and description from when changes applied
Voluntary change in accounting policy	•Nature of change •Reasons for change and whether it is reliable and relevant •Adjustments to each financial line item affected and Ind AS 33 •If retrospective application is impracticable the circumstances led to that condition and description from when changes applied

- When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose:
  - This fact, and
  - Known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

4. Accounting Estimate

4.1 Meaning

As a result of uncertainities inherent in business activities → Items in financial statements cannot be measured but can only be estimated → Estimation involves judgements based on latest available, reliable infomation



Accounting estimates are used when monetary amounts cannot be observed directly and must be estimated.

Examples:

- Loss allowance for expected credit losses as per Ind AS 109 (Bad debts),
- NRV of Inventory under Ind AS 2
- Fair value of financial assets or financial liabilities,
- Useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets,
- Depreciation expense
- Warranty obligations etc.

4.2 Change in accounting estimate

change in accounting estimate results from	•new information •more experience
Can change in estimate be related to prior periods?	•does not relate to prior periods and is not the correction of an error.
change in the measurement basis?	•change in an accounting policy, and it is not a change in an accounting estimate.
When it is difficult to distinguish a change in an accounting policy and accounting estimate	•change is treated as a change in an accounting estimate.

4.3 Accounting treatment for a change in estimate

The effect of change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

- The period of the change, if the change affects that period only
- The period of the change and future periods, if the change affects both.

4.4 Disclosure of changes in estimates

- Effect of change in estimate on the current period
- If applicable and practicable, effect of change in estimate on future periods
- If applicable but impracticable, the fact it is impracticable to estimate the effect on future periods.



5. Errors

5.1 Common types of Errors

Mathematical Mistakes	•Errors are called as error of commission •Examples: Wrong calculations, Carry forward of wrong balances, Errors in totals.
Mistakes in applying policies	•Assets and Liabilities and income and expenses should not be offset, unless otherwise specifically required or permitted in an Ind AS.
Misrepresentations of facts	•Whether the event is an adjusting event or a non-adjusting event if not dealt it properly may result into misrepresentation of fact.
Omissions	•The mistakes that happened due to omission to record a material transaction, perhaps, due to oversight.
Frauds	•Major theft undetected in the past.

5.2 Accounting treatment for Errors

Errors of the current period

- **Correct before** the financial statements are **approved for issue**.

Prior period errors discovered later – Unless Impracticable

(a) Error relates to a comparative prior period

- **Correct retrospectively** by **restating comparative figures** of the period in which the error occurred.

(b) Error relates to a period before the earliest comparative period presented

- **Restate opening balances** of **assets, liabilities and equity** of the **earliest period presented**.
- Prepare **opening balance sheet** as required under **Ind AS 1**.

5.3 Limitations on retrospective restatement

A prior period error shall be corrected by retrospective restatement if it is practicable to determine both the period specific effects or the cumulative effect of the change

↓

The entity restates the comparative information prospectively from the earliest date practicable



5.4 Disclosure of prior period errors

- Nature of prior period error.
- Adjustments to each financial line item affected and Ind AS 33.
- If retrospective restatement is impracticable the circumstances, led to that condition and description from when errors has been corrected.

6. Difference between Ind AS 8 and AS 5

Particulars	Ind AS 8	AS 5
Objective	To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors	To prescribe the classification and disclosure of certain items in the statement of profit or loss for uniform preparation and presentation of financial statements
Extraordinary items	Does not deal with extraordinary items	Deals with extraordinary items
Definition of Accounting policies	Broadens the definition to include bases, conventions, rules and practices	Restricts the definition to specific accounting principles and methods of applying those
Change in accounting policies	Does not deal	Allows if required by statute
Accounting for changes in accounting policies	Retrospective effect with limited exceptions	Does not specify
Errors	States that errors include frauds	Silent
Rectification of material prior period errors	Retrospective effect with limited exceptions	Prospective effect
Disclosure requirements	More	Less



Ind AS 10
EVENTS AFTER THE REPORTING PERIOD

1 Objective & Scope

The objective of **Ind AS 10 – Events after the Reporting Period** is to **prescribe**:

- **when** an entity should **adjust** its financial statements for events after the reporting period, and
- **what disclosures** are required about events after the reporting period.

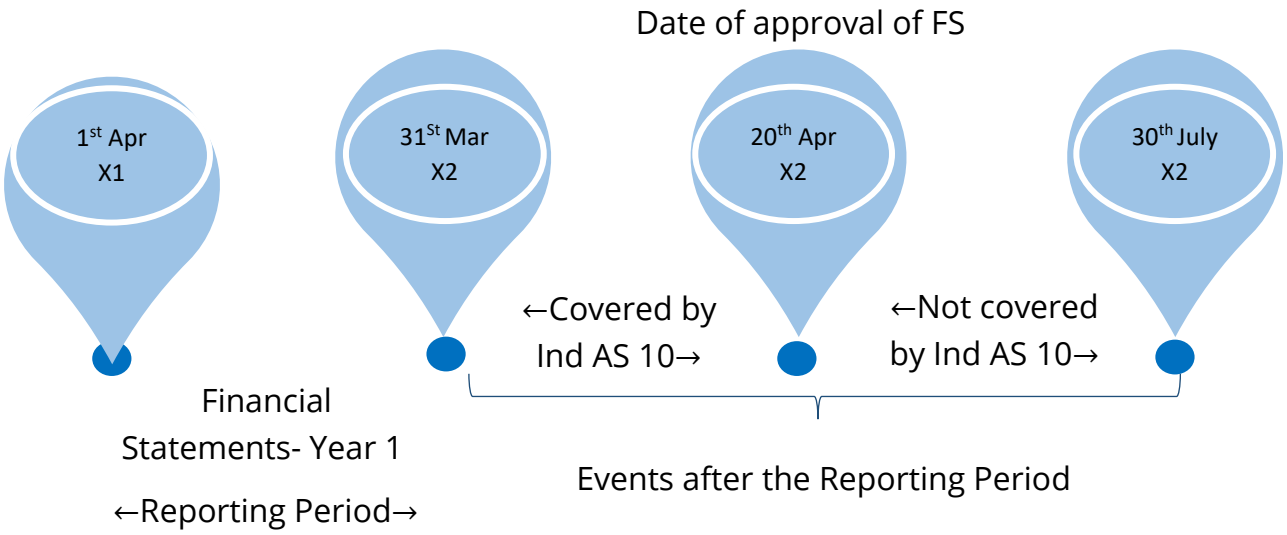
The Standard -shall be applied in,

- **Accounting** for events after reporting period and
- **Disclosure** of events after the reporting period.

2 Events after the Reporting Period

Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved

- by the **Board of Directors** in case of a **company** and
- by the **corresponding approving authority** in case of any **other entity** for issue.



2.1 Date of approval Financial Statements

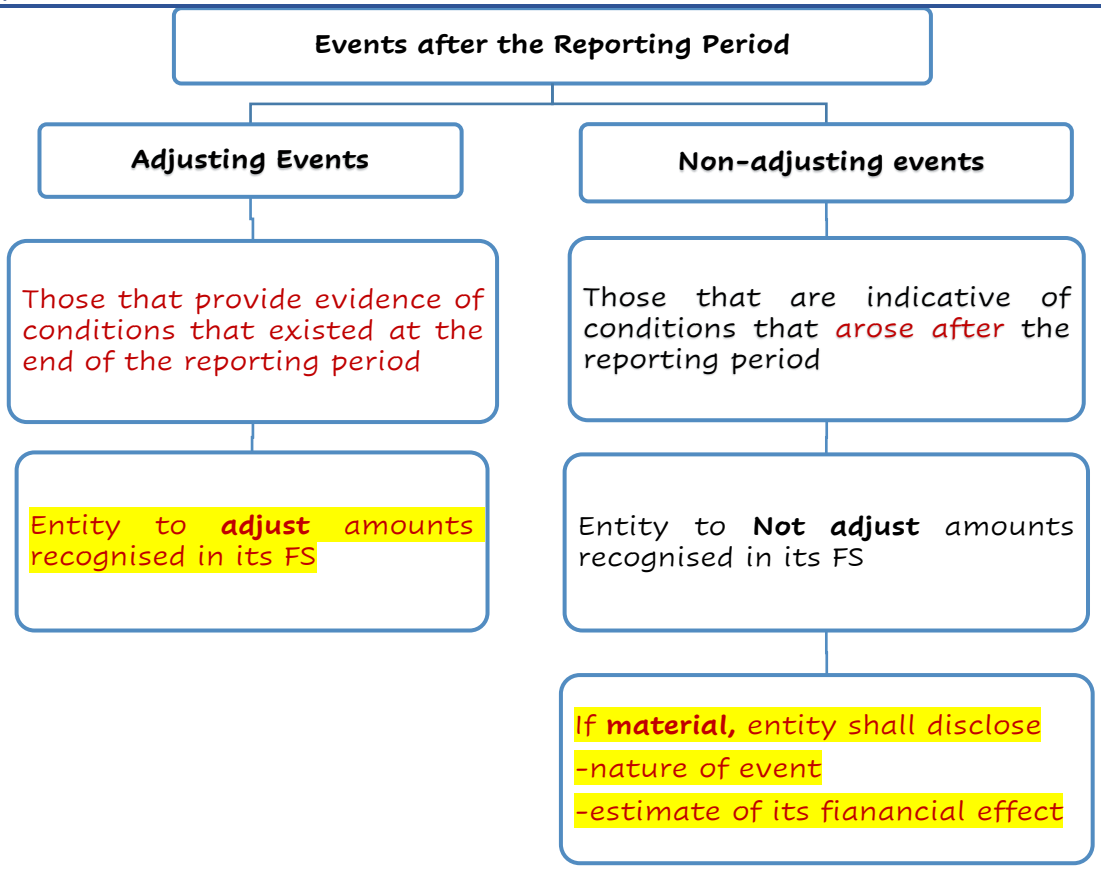
In case of a company	•The FS will be treated as approved when board of directors approves the same.
In the case of any other entity	•The FS will be treated as approved when the corresponding approving authority approves the same.

In some cases,

- the management of an entity is required to issue its financial statements to a **supervisory board** (made up solely of non-executives) for approval.
- in such cases, the financial statements are approved for issue when the **management approves** them for issue to the supervisory board.



3 Types of Events



3.1 Examples

Adjusting Events	✓ Contingent liability becomes an actual liability ✓ The receipt of information after the reporting period indicating that an asset (for e.g an Account Receivable) was impaired at the end of the reporting period. ✓ The sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period. ✓ The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period. ✓ The determination after the reporting period of the amount of **profit-sharing or bonus payments**
Non-Adjusting Events	✓ Decline in fair value of investment ✓ Declaration of dividend after the end of reporting period

4 Special Cases

4.1 Long-term Loan Arrangements

- Where there is a breach of a covenant of a long- term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date,
- The agreement by lender before the approval of the financial statements for issue, **to not demand payment** as a consequence of the breach,
- Shall be considered as an **adjusting event**.
- In such cases, the long term loans would be classified as non-current

For financial year beginning on or after 1st April 2026, the agreement after FY end will not be considered to be an adjusting event. However, if the lender has agreed before FY end to not demand payment, it will be considered as non-current.



4.2 Going Concern

- An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period
  - either that it intends to liquidate the entity **or**
  - to cease trading **or**
  - that it has no realistic alternative but to do so.

- Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate.

5 Dividends

- If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.
- Such dividends are disclosed in the notes in accordance with Ind AS 1, Presentation of Financial Statements.

6 Disclosures

- Approvals,
  - Date of approval?
  - Who approved?
  - Do owners or others have power to amend the financial statements?

- Updating disclosure about conditions at the end of the reporting period
- Material Non-adjusting events,
  - Nature of the event.
  - An estimate of the financial effect or a disclosure that an estimate cannot be made.

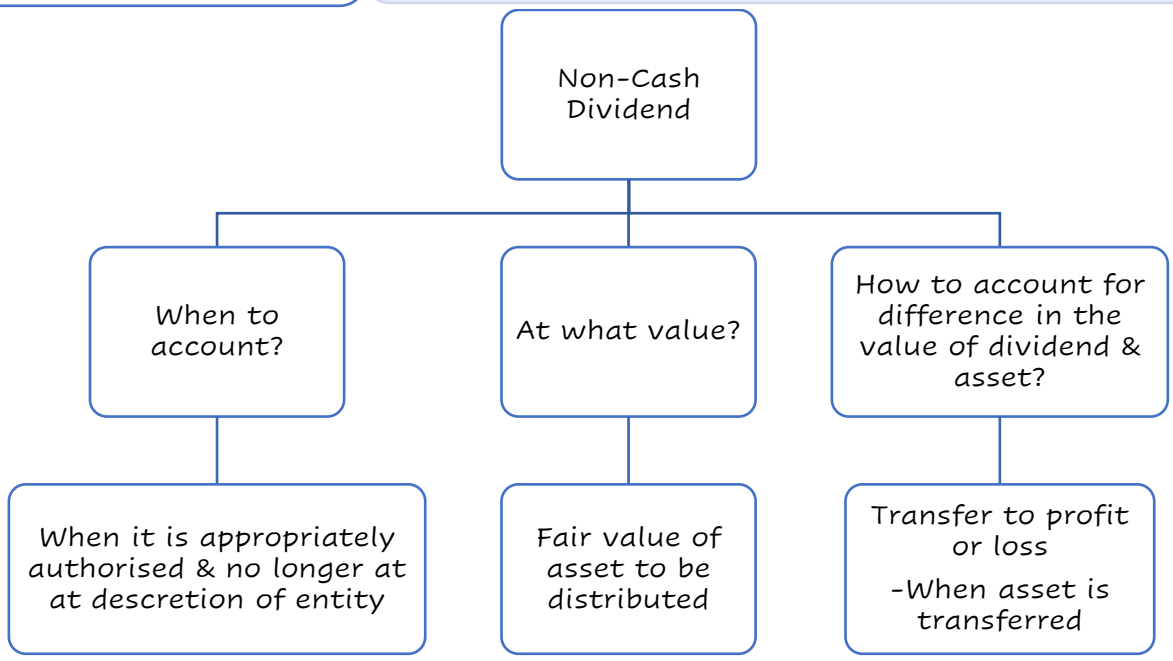
Examples of Material Non-adjusting events:

1) A major business combination after the reporting period
2) Announcing a plan to discontinue an operation
3) Major purchases of assets, classification of assets as held for sale
4) The destruction of a major production plant by a fire after the reporting period
5) Announcing, or commencing the implementation of, a major restructuring
6) Major ordinary share transactions and potential ordinary share transactions after the reporting period
7) Abnormally large changes after the reporting period in asset prices or foreign exchange rates
8) Changes in tax rates or tax laws
9) Entering into significant commitments or contingent liabilities
10) Commencing major litigation arising solely out of events that occurred after the reporting period.

7 Distribution of Non-Cash Assets to Owners (Appendix A to Ind AS 10)



Applicability of Ind AS 10	•Distributions of non-cash assets •Distributions that give owners a choice of receiving either non-cash assets or a cash alternative
Non-applicability of Ind AS 10	•Does not apply to Distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution.



7.1 Journal Entries

a) On the date of declaration of dividend

Particulars		Debit	Credit
Retained Earnings	Dr.	XXXX*	
To Dividend Payable			XXXX*

*At the fair value of asset to be distributed

b) On distribution of asset as dividend

Particulars		Debit	Credit
Dividend Payable	Dr.	XXXX	
To PPE			XXXX

At the end of each reporting period and on the date of settlement

- Entity to review and adjust carrying amount of dividend payable,
- with any changes in carrying amount of dividend payable recognised as adjustment to retained earnings.

7.2 Appendix A – Disclosures

➢ An entity shall disclose the following information, if applicable:

- carrying amount of the dividend payable at the beginning and end of the period;
- increase or decrease in the carrying amount recognised in the period as result of a change in the fair value of the assets to be distributed.

➢ If after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

- the nature of the asset to be distributed;
- the carrying amount of the asset to be distributed as of the end of the reporting period and



- the fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount.

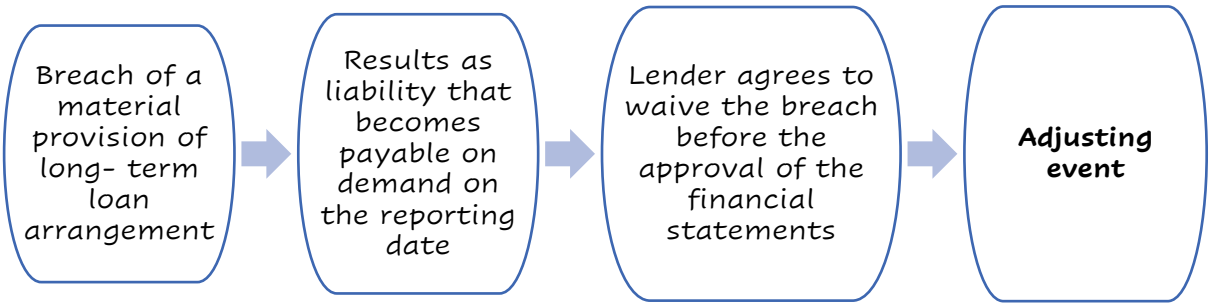
8 Significant difference between Ind AS 10 and AS 4

Basis of differences	IND AS 10: Events after the Reporting Period	AS 4- Contingencies and Events Occurring After the Balance Sheet Date
Material non-Adjusting events	To be disclosed in financial statements	To be disclosed in report of approving authority
Breach of a material provision of a long-term loan arrangement	Provide guidance under definition of "Events after the reporting period"	No guidance
Distribution of non-cash assets to owners	Includes Appendix A - Distribution of Non-cash Assets to owners	No guidance

9 Carve Out in Ind AS 10 from IAS 10 – Not Applicable for Financial Year beginning 01-04-26

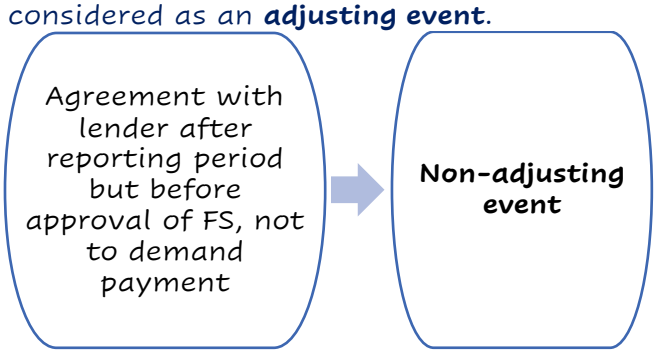
9.1 Ind AS 10 Carve Out

- In case of breach of a material provision of a long-term loan arrangement on or before the end of the reporting period
- such liability becomes payable on demand on the reporting date
- if the lender, before the approval of the financial statements for issue, agrees to waive the breach,
- it shall be considered as an **adjusting event**.



9.2 IAS 10

- An agreement with the lender after the reporting period but before the approval of the financial statements for issue, not to demand payment
- is **not** considered as an **adjusting event**.





Ind AS 113

FAIR VALUE MEASURMENT

1 Scope

This standard will cover **requirements of all** other standards where fair value measurement and disclosure is needed.

1.1 Measurement exclusion

- Ind AS 102- Share based Payments
- Ind AS 116- Leases
- Ind AS 2- Inventories
- Ind AS 36- Impairment

1.2 Disclosure exclusion

- Ind AS 19- Employee benefits
- Ind AS 36- Impairment

2 What is fair value?

Fair value= market price

Fair value

- ✓ The price that would be received to sell an asset or
- ✓ Paid to transfer a liability
- ✓ On an orderly transaction
- ✓ Between market participants
- ✓ At the measurement date

- Fair value is the value to **exit** the asset or liability
- But **not to buy** an asset or a liability

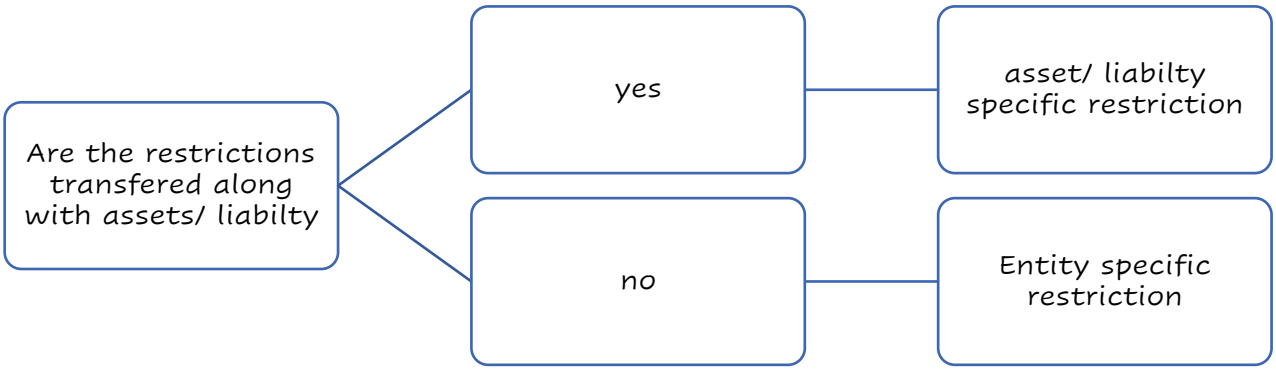
3 Assets or liability specific value

While determining **fair value**, we consider **restrictions that are attached to the asset or liability itself**, but we **ignore restrictions that are specific only to the entity**.

Restriction	Whether considered for Fair Value?	Reason	Example
Entity-specific restriction	❌ **Not considered**	Restriction applies only to a particular entity, not to the asset itself.	A company cannot sell land due to its internal policy. This does not affect fair value.
Asset / liability-specific restriction	✅ **Considered**	Restriction travels with the asset or liability and applies to any market participant.	Land restricted by law to be used only for agricultural purposes. Fair value reflects this restriction.



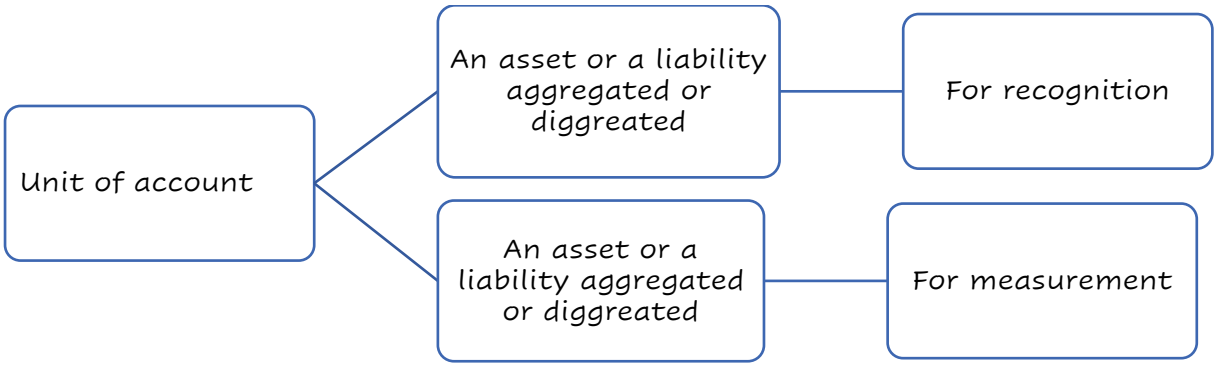
3.1 How to identify restrictions are entity specific or not?



4 Unit of Account

Means how to measure fair value-

a. Refer to respective Ind AS to measure such fair value
   Example-
   a) Securities – valued security by security at an individual level
   b) Cash generating unit-valued as per Ind AS 36 Impairment of assets after taking all the assets and liabilities
b. Aggregation or disaggregate the assets for valuation, observe and do as per other market participants.



5 Market

- ✓ Places where we buy and sell assets and liabilities
- ✓ Consider he **principal market** to determine the fair value
- ✓ In case of no principal market or multiple principle market, consider the **most advantageous market**
- ✓ Different entity can have different principal market for the same asset
- ✓ Entity may or may not sale in that market

5.1 Principal market

is a market having **highest volume** of trade with highest level of activities as compared to any other market available for similar transaction.

Example- Share of a company which is listed at BSE and NSE has different closing prices at the year end.

The price at BSE has greatest volume and activity whereas at NSE it is less in terms of volume transacted in the period. Since BSE has got highest volume and significant level of activity comparing to other market although the closing price is higher at NSE, the closing price at BSE would be taken.

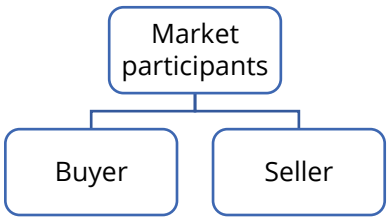


5.2 Most advantageous market

Is a market where entity realises the **highest sales proceeds** after deducting transaction cost if any, or cost to reach that market (transportation cost)

These markets are used in valuation only if principal market can't be identified

6 Market participants



- ✓ An entity measure the fair value of asset / liability using assumption that market participant would use if it is in their **best economic interest**
- ✓ Market participants should **not be related.** If related then transaction should be at **arm's length price**
- ✓ They are **aware of the information**, restrictions, usage and other details of assets/ liabilities
- ✓ The parties are **not under any stress** or force to enter into these transactions

7 Price

Fair value is the price that is

- received when an entity sells the asset
- paid when an entity transfers the liability
- in an orderly transaction in principal market (or most advantageous) market at
- Measurement date under current market conditions.

Note- consider the price in most advantageous market

7.1 Transaction cost

- Are not characteristics of assets or liability but characteristics of transactions.
- Hence, it would not appropriate to consider any transaction cost further while assessing fair value

Note- transaction cost do not include transportation cost

7.2 Transport cost

- Cost that would be incurred to transport the asset from its current location to principal (or most advantageous) market.

Cost	Used to identify most advantageous market	Included in fair value measurement
Transaction cost	✅ Yes	❌ No
Transport cost	✅ Yes	✅ Yes *(if location is a characteristic of the asset)*



8 Application and determination of fair value

8.1 Non-financial assets

8.1.1 Difference between financial and non-financial assets

Basis	Financial Assets	Non-Financial Assets
Market availability	Usually have an **active market** with observable prices.	Often **no active market**; prices may not be directly observable.
Fair value determination	Fair value is generally determined using **market prices**.	Fair value is determined using **valuation techniques** prescribed by the Standard.
Characteristics	Asset **does not change its characteristics** based on use by different market participants.	Asset **may have multiple uses** and its value can change based on **highest and best use**.
Measurement complexity	**Relatively straightforward** due to observable inputs.	**More judgement involved** due to unobservable inputs.
Examples	Investments, trade receivables, debentures.	Property, land, plant & equipment, machinery.

8.1.2 Highest and best use

- A **valuation concept** used **only for non-financial assets**.
- It represents the use of the asset that **maximises its value** from the perspective of **market participants**.

Conditions for Highest and Best Use

The use must be:

- **Physically possible** – feasible given the asset's physical characteristics
- **Legally permissible** – allowed under laws and regulations
- **Financially feasible** – generates adequate economic return

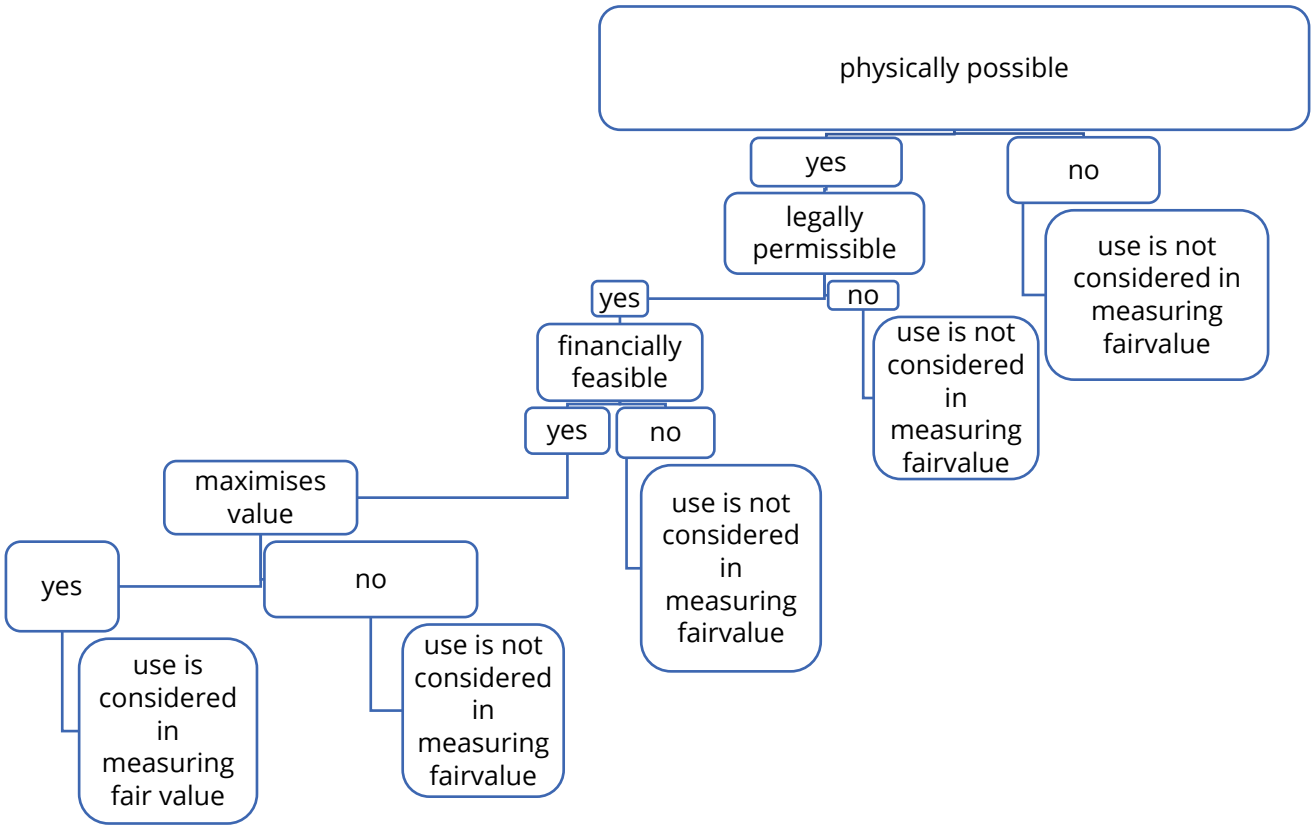
8.1.3 Valuation premise

Fair value measurement of non-financial assets would be based on either

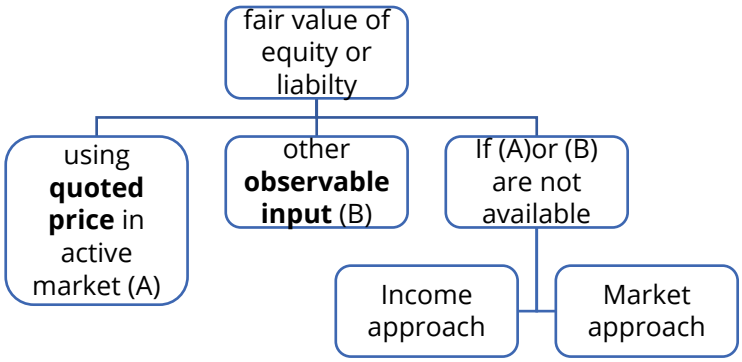
- In combination with other assets, or
- At stand-alone basis

In case of no alternate use / best use is determined - Assume that current use is best and highest use





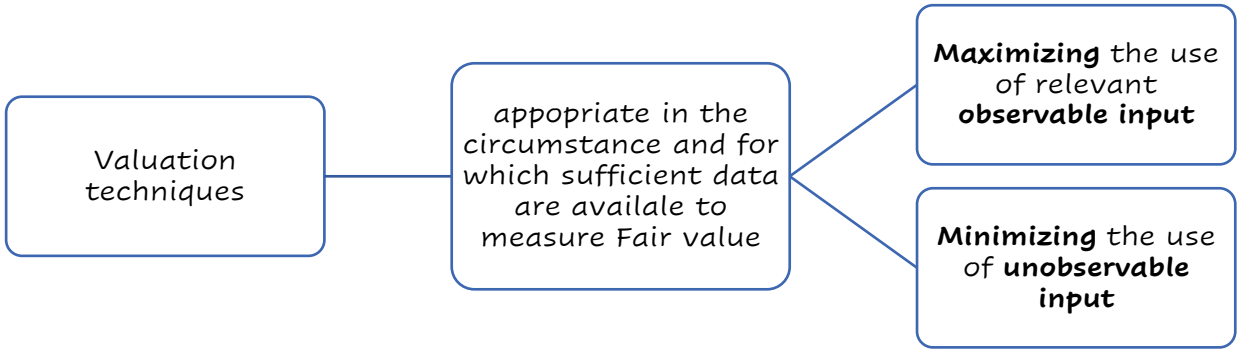
8.2 Applying fair value rules on liabilities and equity instruments



9 Valuation techniques for determining fair value

Observable input: inputs that are developed using market data such as publicly available information about actual events or transactions

Unobservable input: inputs for which market data are not available and they are developed using best information available



9.1 Approaches to measure fair value

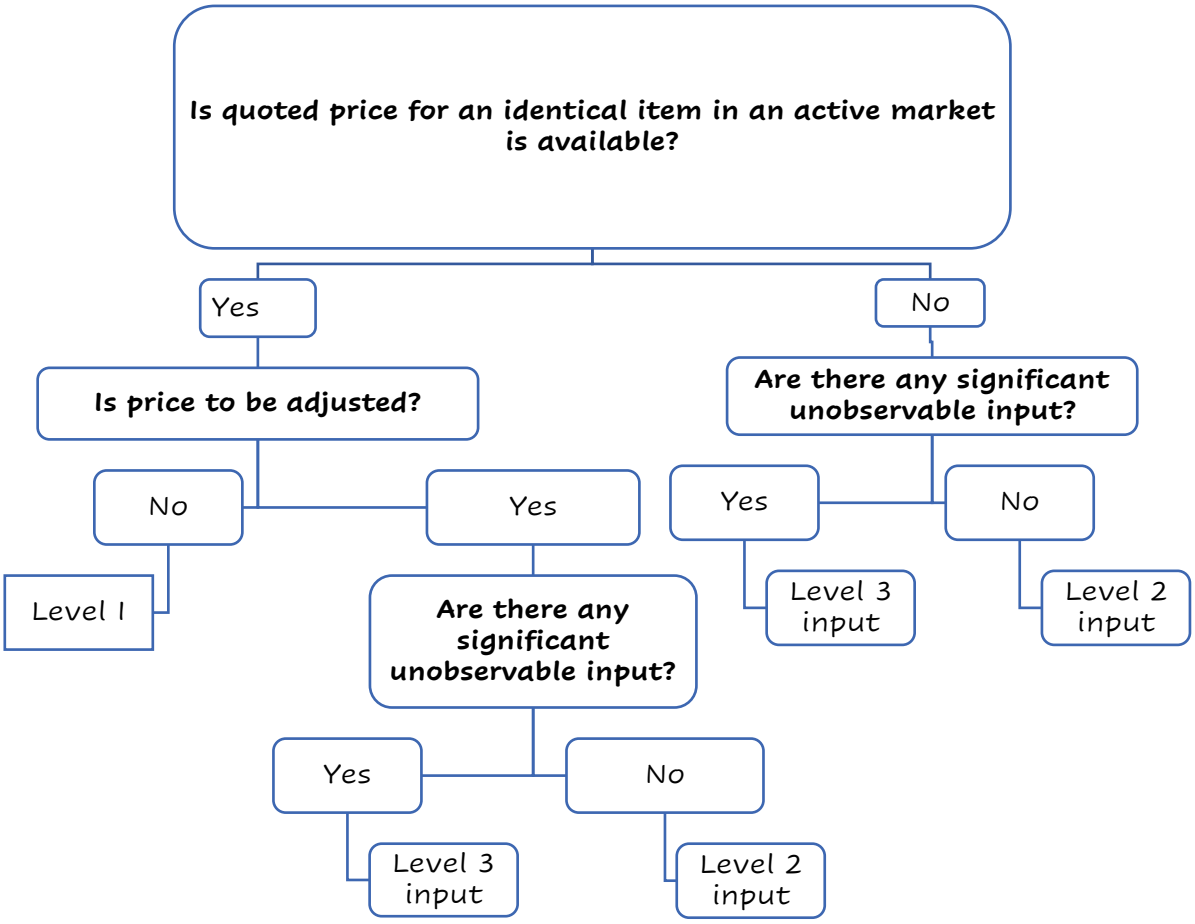


Market approach	Income approach	Cost approach
Use prices and other information generated by market	Converts future amounts (cash flows or incomes and expenses) to a single current amount.	Describes how much cost is required to replace existing asset/ liability in order to make it in a working condition
Quoted prices are indicative values of business if it exchanges in active market	Future cash flows to be discounted at current date to get fair value of the asset/ liability	All related cost will be fair value
Valuation technique specified by standard- **Matrix pricing** normally used to value debt securities	Valuation technique specified by standard- ➢ **Present value** techniques ➢ Option pricing modals e.g. **Black-Scholes Merton modal or Binomial modal** ➢ The multi period excess earning method.	



10 Hierarchy of inputs

Inputs



11 Disclosure requirements

An entity shall disclose information that helps users of its financial statements assess both of the following

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurement
- for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

	Fair Value Measurement						Disclosure		
	Recurring			Non-Recurring					
Level	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**
Fair value at each reporting date	✓	✓	✓	✓	✓	✓			
Reasons for measurement				✓	✓	✓			
Level of hierarchy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers	✓	✓	✓						



Valuation techniques		✓	✓		✓	✓		✓	✓
If changes in valuation techniques		✓	✓		✓	✓		✓	✓
Quantitative information about significant unobservable inputs			✓			✓			
Reconciliation of opening and closing			✓						
Unrealized gains/losses from remeasurement			✓						
Valuation process and policies			✓			✓			
Sensitivity to changes in unobservable inputs			✓						
If highest and best use different from actual	✓	✓	✓	✓	✓	✓	✓	✓	✓



Ind AS 102
Share Based Payments

1. Introduction

When an entity procures goods or services, the entity can settle the transaction by

- Paying cash/ Bank payment
- Transfer of other asset (Exchange of assets)
- Assuming a liability (trade payable)
- Issuing its equity instruments or assets equivalent value of equity instruments [Share based payments]

When an entity issues shares or agrees to pay / transfer cash/asset equivalent of shares, it is called share based payment and is covered under Ind AS 102.

1.1 Share based payment arrangement

It is an agreement between the entity or another group (parent, subsidiary etc) entity (including shareholder) and another party (including an employee) that entitles the other party to receive –

- **cash or other assets** of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, **Or**
- **equity instruments** (including shares or share options) of the entity or another group entity, provided the specified **vesting conditions**, if any, are met.

1.2 Share based payment transaction

It is a transaction in which the entity –

- receives **goods or services** from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or
- incurs an obligation to **settle the transaction** with the supplier in a share-based payment arrangement when **another group entity receives those goods or services**.[E.g Parent agrees to settle the transaction for goods purchased by subsidiary]

1.3 Important Points

- Share based payment should be formed with an agreement between an entity & a party (includes employees)
- Share based payments should be made for goods/ services and should be with an external person e.g. supplier including employee.
- A transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction. E.g. employee subscribing to rights issue.
- For receiving goods / services, an entity needs to settle the transaction either
  - by issuing its own equity shares / or group entity's shares (**equity settled**) or
  - by paying cash amount equivalent against such shares (**cash settled**) or
  - a combination of these two where settlement option rests either with an entity or with the counterparty.
- Equity instruments, which means a residual interest in asset & liability of the company will include –
  - Ordinary shares
  - Redeemable preference shares
  - Written call option or warrants over such ordinary shares.



- Vesting conditions means the criteria which is to be fulfilled (if it is required as per the share based agreement) in order to get such Shared based payment

2. Scope

2.1 Applicability

An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

- equity-settled share-based payment transactions,
- cash-settled share-based payment transactions, and
- transactions where either party has choice of settling in equity or cash

2.2 Non Applicability

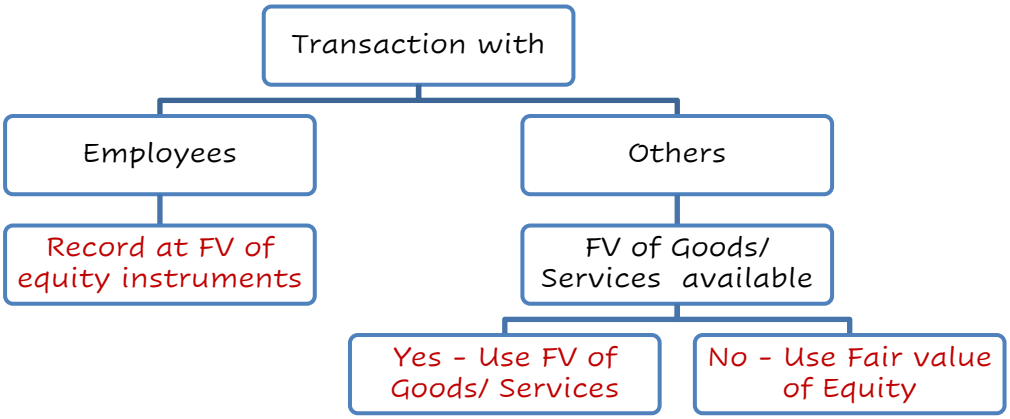
- Transaction with employee or suppliers in their capacity as shareholders
- Acquisition of goods as part of assets at the time of business combination.
- Transactions covered under Ind AS 32 – Financial Instruments

2.3 Equity Settled Share Based Payments

It is a share-based payment transaction in which the entity

- receives goods or services as consideration for its own equity instruments (including shares or share options), or
- receives goods or services but has no obligation to settle the transaction with the supplier.
  (This happens in cases where another group entity settles the transaction

Measurement



- In case of transactions with employees, it is difficult to estimate FV of employee servies received and hence FV of equity instruments granted is considered.
- In other cases, the first preference is the FV of Goods/Services received.

Examples

An entity has agreed to issue 100 shares to each of its 500 employees if they remain in service for next 3 years. In this case 3 years is a service period for which shares will be issued the entity, however, since this is share based payment plan with employees of the entity, hence the fair value of equity instruments issued will be used for calculating transaction value of the share based payments.

An entity agreed to issue 100 shares to a supplier for providing some consultancy services for next 2 years. There is similar contract in the market which has a value of Rs. 20,000. The similar value of the contract will be used as fair value of this share based payment transaction unless there is no reliable fair value is available.



Counterparty	Measurement basis	Measurement date	Recognition date
Employee	Fair value of equity instruments awarded	Grant date	Date goods or services received
Non-employee	Fair value of goods or services received	Date goods or services received	Date goods or services received

2.4 Equity settled SBP

Vesting condition: A condition that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement.

Vesting period: The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Grant date : The date on which both the parties (entity and counterparty) agreed to the share based payment arrangement. If the agreement is subject to an approval process (e.g approval by shareholders), then the grant date is when the approval is obtained.

Example

A company grants Employee Stock Options to its employees. The employees have an option to subscribe to 1,000 shares of the company if they complete 3 years of service. In this case completion of 3 years of service is the service condition and the period of 3 years is the vesting period.

A company grants Employee Stock Options to its employees. The employees have an option to subscribe to 1,000 shares of the company if they achieve Rs. 50 lakhs of sales each year over a 3 year period. In this case achievement of sales target is the performance condition and the period of 3 years is the vesting period.

Equity Instruments vest immediately

In this case there is on vesting condition and it is assumed that services have been received.

A company grants 1,000 share options to its employees which vest immediately. The employees can purchase shares of the company at an exercise price of Rs. 50 per share [face value of Rs.10]. The FV of options on grant date is Rs. 15 per share.

On Date of Grant

Employee Benefit Expense Dr. [FV = 15 x 1,000]	15,000	
To Share based payment reserve		15,000

On subscription by Employees

Share based payment Reserve Dr.	15,000	
Bank Dr. [Rs.50 x 1,000]	50,000	
To Share capital [10 x 1,000]		10,000
To Securities Premium		55,000

Employee received 1,000 shares by providing services worth 15,000 and paying cash of Rs. 50,000

Equity Instruments vest after completion of vesting period.



- **Determine the value of services to be received which is the FV of equity instruments granted**
- **Recognise employee benefit expense over the vesting period**
- **Consider the expected vesting at the end of each period considering the employees expecte to leave.**
- **When employees subscribe to shares, account for issue of shares. The consideration is cash paid and services received.**

A company grants 1,000 share options to its employees which carries a service condition of 2 years. The employees can purchase shares of the company at an exercise price of Rs. 50 per share [face value of Rs.10]. The FV of options on grant date is Rs. 20 per share. The estimated vesting at the end of each year is given below :
Year 1 – 96%
At the end of Year 2 – 95% of shares are vested and are subscribed by the employees.

The FV of options granted is Rs. 20,000.

On Date of Grant – No entry is passed

End of year 1	
Expected Vesting	96%
FV expected to Vest [96% x 20,000]	19,200
Vesting period	2 Years
Expense to be recognised in Year 1[19,200 x1/2]	9,600

Accounting Entry

Employee Benefit Expense Dr.	9,600	
To Share based payment reserve		9,600

End of year 2	
Actual vesting	95%
FV Vested [95% x 20,000]	19,000
Vesting period	2 Years
Cumulative Expense to be recognised at end of Year2 [19,000 x 2/2]	19,000
Less: Expense already recognised	9,600
Expense to be recognised in Year 2	9,400

Accounting Entry

Employee Benefit Expense Dr.	9,400	
To Share based payment reserve		9,400

No of shares vested = 950 [95% of 1,000]
Total amount to be paid by employees = 950 x 50 = 47,500

Share based payment Reserve Dr.	19,000	
Bank Dr. [Rs.50 x 1,000]	47,500	
To Share capital [10 x 1,000]		10,000
To Securities Premium		56,500

Employee received 950 shares by providing services worth 19,000 and paying cash of Rs. 47,500

Summary –

- Recognise amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest Revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.



- On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.
- Fair value of grant date is considered and is not revised.

2.5 Cash settled – Share based payments

For cash-settled share-based payment transactions,

- the entity shall measure the goods or services acquired and
- the liability incurred at the fair value of the liability.

- the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement,
- any changes in fair value recognized in profit or loss for the period
- It can also take form of share appreciation rights.

[In case of equity settled transactions, there is no remeasurement. This means that the amount recognised under equity is based on FV on the grant date]

Journal Entries – in case of immediate vesting

On Date of Grant

Expense	Xxx	
To Share based payment liability		Xxx

End of each year

In case of loss		
Expense Dr.	Xxx	
To Share based payment liability		Xxxx
In case of gain		
Share based payment liability	Xxx	
To expense		Xxxx

2.6 Share based payment with cash alternative

In this case either the entity or the other party has the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

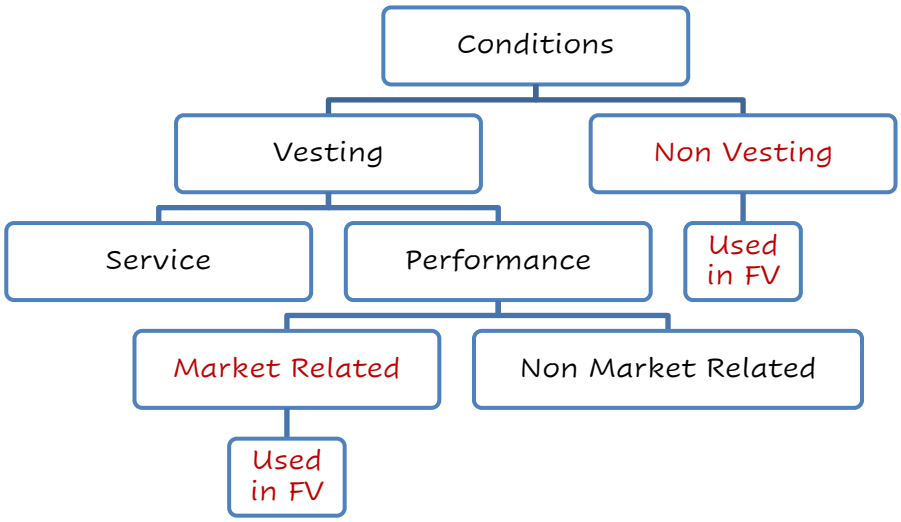
Choice with counter-party
Treated as compound financial instrument [debt + equity] (Refer Ind AS 109)
FV of goods/services measured directly - Difference between FV of goods/services and FV value of debt component is considered as equity component. **If FV of Goods/Services not available or in case of employees** **FV of Compound Financial Instrument is used to measure the value of goods and services.** - Measure FV of debt - Measure FV of equity assuming cash alternative is surrendered FV of Compound Financial Instrument = FV of debt + FV of equity.
Liability component is fair valued
On Settlement Cash Paid – Dr. Liability & Cr. Cash. The equity component is not impacted. Equity issued – Dr. Liability & Cr. Equity



Choice is with the entity
Accounted as Cash settled or Equity Settled
Entity checks whether it has present obligation - Intention to settle - Past practice - Ability to settle in equity instruments [If restriction to issue equity, it is considered to be a cash settled]
Settlement - Accounted as equity and settled by issuing shares : Account for issue of shares - Accoutned as Equity settled but settled in cash : Treated as buy back of equity interest - Accounted as liability & Settled in cash – Dr. Liability & Cr. Cash - Accounted as liability but settled in equity : Transfer liability to equity - Settled at higher value – Differential portion is treated as additional expense.

3. Type of Conditions

Conditions in SBP can be vesting and non-vesting. A vesting condition is either a service condition or a performance condition.



Only Market based condition & Non vesting conditions will be considered to determine the fair value of SBP.

Remaining conditions are adjusted while estimating number of equity instruments which would vest. For e.g service condition is considered to estimate % of employees who would complete the number of years of service requirement.

Service condition: A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

An entity has issued 100 shares each to its 1,000 employees under share based payment if they remain in the organization for next 3 years. This would be considered to be a service condition; 3 years being the period over which employee would be required to be in service as a condition.

Service condition does not impact the FV of SBP.



Performance condition: A vesting condition that requires:

- the counterparty to complete a specified period of service (ie a service condition); the service requirement can be explicit or implicit; and
- specified performance target(s) to be met while the counterparty is rendering the service required above. Performance targets could be profit target, sales target, market price of shares etc.

Market related condition

When one of the conditions is to achieve target price/ value of the share by an entity, it is called as market-related performance condition. If the performance condition is a market condition, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised.

An entity issues stock options to its employees who will serve the organization for next 2 years and till the time the share price reaches to Rs. 100. The target price to reach Rs. 100 is one of the market related condition.

If the options vest earlier than expected due to market condition, expenses will be recognised immediately. If options vest later than expected due to market condition, it is ignored.

Non-market related condition

When the condition is not market driven but linked with some internal performance/ operations or activities of the entity, it will be considered as non-market related conditions. If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

An entity issued some stock options to employees with a condition that they have to remain in the organisation for next 2 years and EBITA of the entity should rise to Rs. 10 lakhs. Here, the EBITA target is non-market related condition.

Non vesting Condition

In case of non-vesting condition, the condition does not impact vesting. For e.g. The employees cannot sell the shares for 2 years after the shares have been allotted.

4. Reload Feature

Reload feature: A feature that provides for an automatic grant of additional share options whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.

Reload option: A new share option granted when a share is used to satisfy the exercise price of a previous share option.

Treatment of a reload feature

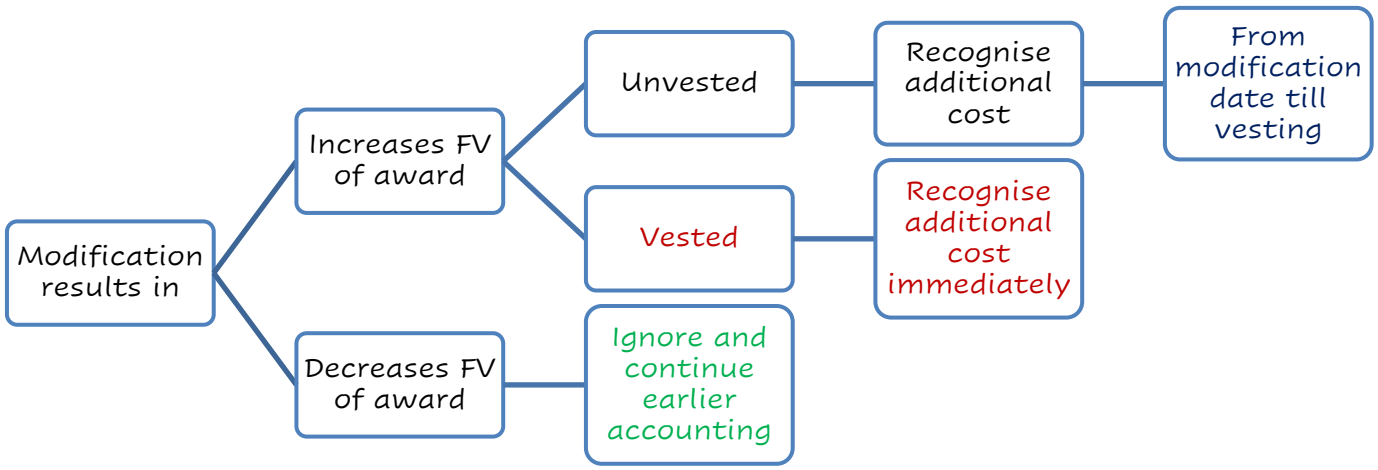
For options with a reload feature, the reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, a reload option shall be accounted for as a new option grant, if and when a reload option is subsequently granted.



5. Modification, Cancellation & Settlements

An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (i.e. reprice the options), which increases the fair value of those options.

5.1 Modification



- If the modification results in increase in number of shares, recognise additional cost from date of modification till date of vesting.

5.2 Cancellation

- recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period [acceleration of vesting]
- 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. If amount paid is in excess of FV of equity instrument, the excess is treated as expense.

5.3 Grant of new equity instruments & cancellation of existing instruments

- Treated as replacement for cancelled instruments
- Consider as modification of the original grant and account as per above.

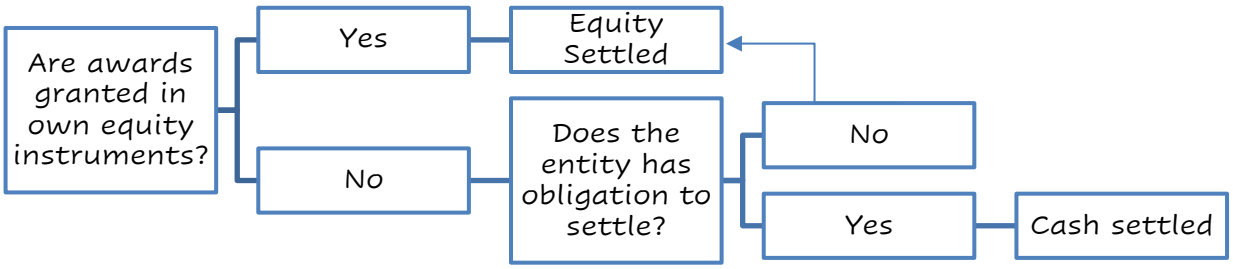
A	**FV of the replaced equity instruments**		XXXX
B	**(-)Net FV of cancelled instruments [C-D]**		
C	FV of cancelled instruments	xxxx	
D	(-) Amount paid to the employee on cancellation	xxxx	XXXX
A-B	**Incremental FV Granted**		**xxx**

6. Group Share based payment plans

There are instances where goods or services are received by one group entity and another group entity has the obligation to settle the share based payment transaction. For e.g. Reliance Industries Limited grants stock options on its shares to the employees of Reliance Jio (Subsidiary).

Check the following for entity receiving goods and services to determine whether the plan is cash settled or equity settled.





Scenario	I	II
Who receives goods/ services?	Subsidiary	Parent
Who settles?	Parent	Subsidiary
Settlement by	Issuing shares of parent	Issuing shares of subsidiary
Type	Equity (Since subsidiary does not have obligation to settle)	Equity (Since parent does not have obligation to settle)
Accounting – Parent	Dr. Investment in subsidiary Cr. Equity	Dr. Expenses Cr. Dividend Income
Accounting Subsidiary	Dr. Expenses Cr. Equity	Dr. Retained Earnings Cr. Equity

7. Calculation of FV

The fair value of options can be determined using models like binomial model, Black Scholes Model etc. All option pricing models take into account the following factors:

- the exercise price of the option;
- the life of the option;
- the current price of the underlying shares;
- the expected volatility of the share price;
- the dividends expected on the shares (if appropriate); and
- the risk-free interest rate for the life of the option

If FV of options is not determinable, intrinsic value can be taken. Intrinsic value = Market Price – Exercise price.

8. Disclosures

Standard requires an entity to disclose the following-

- Type and scope of agreement existing during the reporting period.
- Describing general terms & conditions of each type of share-based payment plans.
- The number of weighted average price of share option as outstanding with a movement of granted, vested, expired, exercised, cancelled and closing balance of share-based payment plans.
- The average share price of exercised options.
- The range of exercise prices and weighted average remaining contractual life of options outstanding at the end of reporting period.
- The valuation method used to estimate the fair value of the awards.
- The impact on Statement of Profit and Loss and Balance Sheet for such share-based payments.



Ind AS 41
AGRICULTURE

1. Introduction

1.1 Objective

- To prescribe accounting for agricultural activity
- This standard requires biological assets (living animal or plant) to be measured at fair value less costs to sell.

1.2 Scope

1.2.1 This standard shall be applied for the following when they relate to agricultural activity:

a. Biological assets;	b. Agricultural produce at the point of harvest;	c. Government grants

1.2.2 Ind AS 41 does not apply to:

Exclusions	Covered by
Land relating to agricultural activity: (e.g the land on which biological assets grow, regenerate and/or degenerate)	Ind AS 16, Ind AS 40
Bearer plants related to agricultural activity (this standard applies to produce on those bearer plants)	Ind AS 16
Government grants related to bearer plants.	Ind AS 20
Intangible assets associated with agricultural activity (e.g licences & rights)	Ind AS 38

1.2.3 Examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

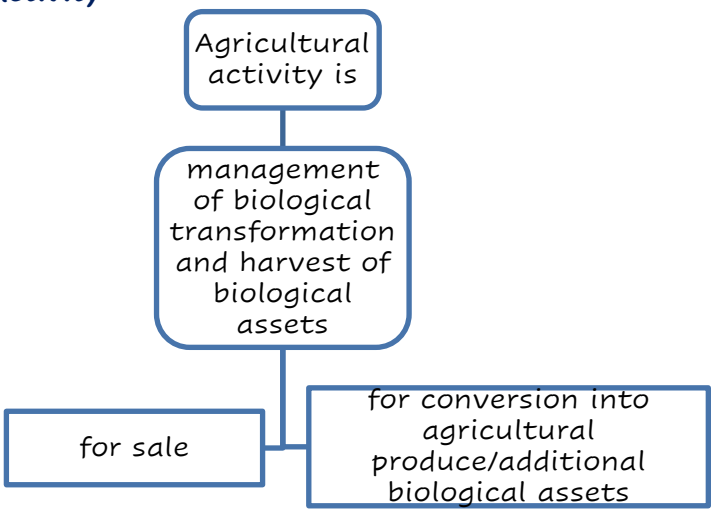
Biological assets	**Agricultural produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, carpet
Trees in timber plantation	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Rubber trees	Harvested latex	Rubber products

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope of Ind AS 41 and these are covered under Ind AS 16.

2. Definitions



2.1 Agricultural activity



2.2 Biological Asset

Biological Asset is defined as living animal or plant.

2.3 Biological transformation

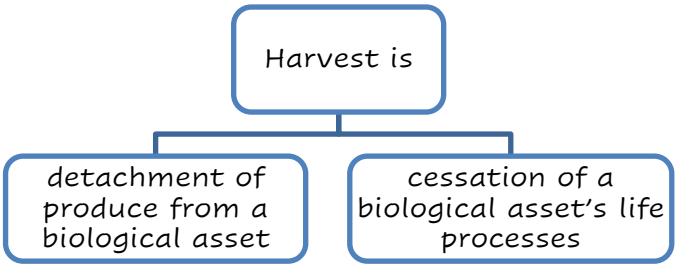
Biological transformation comprises the process of-

Growth	Degeneration	Production	procreation
Increase in quantity/improvement in quality of an animal or plant	Decrease in quantity or deterioration in quality of an animal or plant	Of agricultural produce such as milk, latex,wool, and tea leaf etc	Creation of additional living animals or plants

2.4 Agricultural produce

Agricultural produce is the harvested product of the entity's biological assets.

2.5 Harvest



2.6 Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2.7 Cost to sell

Cost to sell are incremental costs directly attributable to disposal of asset. Finance cost and income tax expenses are not considered to be costs to sell.

2.8 Bearer plant

Bearer plant is defined as living plant that:

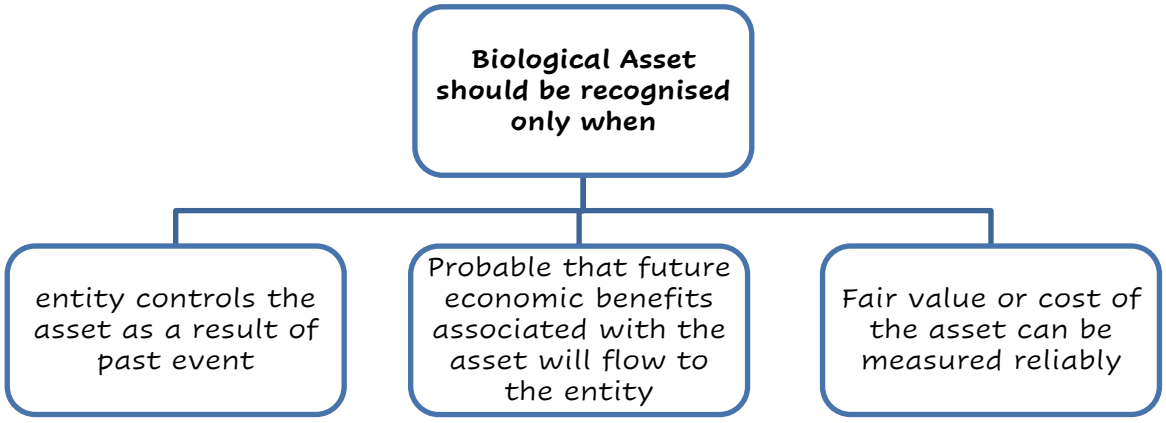
- is used in the production or supply of agricultural produce;
- is expected to bear produce for more than one period; and
- has a remote likelihood of being sold as agricultural produce, expect for incidental scrap sales.

(Bearer plants are covered by Ind As 16)



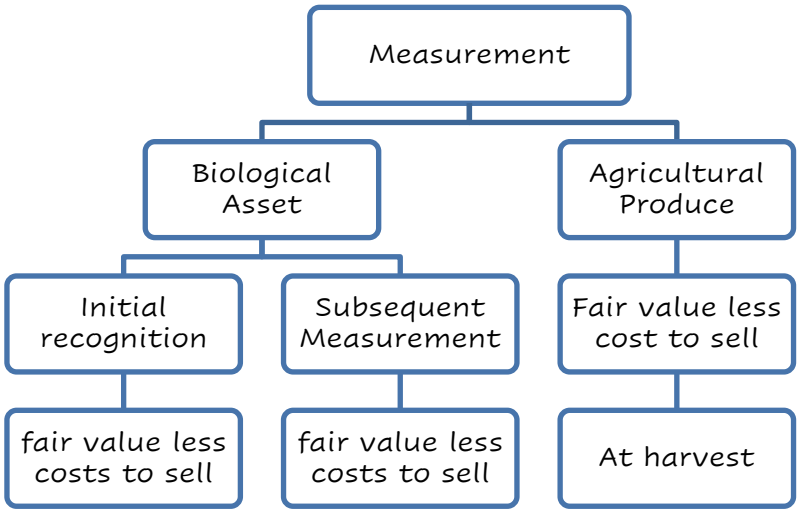
3 Recognition

3.1 Criteria for recognition



3.2 Measurement

I. Biological Asset



Exception:
Biological assets measured at Cost less accumulated depreciation/impairment when

- quoted market prices are not available for the biological assets
- alterntive fair value measurements are determined to be clearly unreliable.

II. Agricultural produce

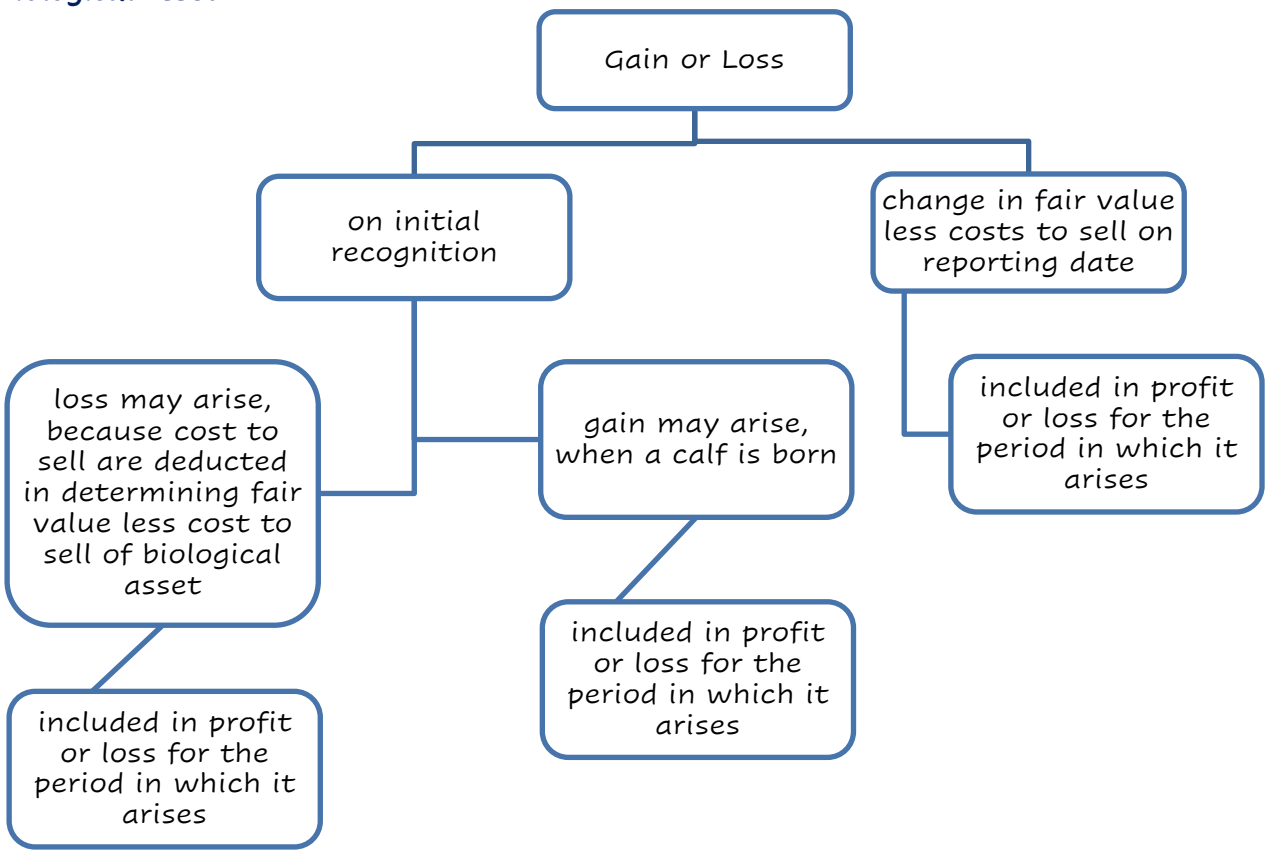
Agricultural produce harvested from an entity's biological assets should be measured at its fair value less cost to sell at the point of harvest.

- Fair value is not adjusted even if there are contract to sell the agricultural produce in future.
- When fair value is available for a biological assets along with another asset (say land), then in such cases, the fair value of another asset (land) is deducted from the combined fair value to arrive at fair value of agricultural produce.



4 Gains and Losses.

I. Biological Asset



II. Agricultural produce

Gain or loss on initial recognition is recognised in P&L in the period in which it arises.

5 Government Grants

Biological Asset measured at fair value less cost to sell:

Unconditional Grant	Conditional Grant
An unconditional government grant related to a biological asset measured at its fair value less costs to sell **Recogntion**: In profit or loss when, and only when, the government grant becomes receivable.	A conditional government grant related to a biological asset measured at its fair value less costs to sell **Recogntion**: In profit or loss when, and only when, the conditions attaching to the government grant are met.

*Terms and conditions of government grants vary

Biological Asset measured at its cost:

In case of inability to measure fair value reliably, then a government grant which relates to Biological Asset is measured at its cost less any accumulated depreciation and any accumulated impairment loss, i.e. Ind AS 20 is applied.

6 Disclosure

- Description of Biological Assets and activities.
- Gains and losses recognised during the period.
- Reconciliation of changes in biological assets
  - Gain or loss from changes in fair value less costs to sell;



  - Increases arising from purchases;
  - Decreases attributable to sales and biological assets classified as held for sale in accordance with Ind AS105;
  - Decreases due to harvest;
  - Increases resulting from business combinations;
  - Net exchange differences ;
  - Other changes.
- Restricted assets, commitments and risk management strategies.
- Additional disclosureswhen fair value cannot be measured reliably:
  - A description of the Biological Assets;
  - An explanation of why fair value cannot be measured reliably;
  - The range of estimates within which fair value is highly likely to lie;
  - The depreciation method used;
  - The useful lives or the depreciation rates used;
  - The gross carrying amount and the accumulated depreciation and impairment losses at the beginning and end of the period.
- Government grants
  - Nature and extent of government grants recognised;
  - Unfulfilled conditions and other contingencies attaching to government grants; and
  - Significant decreases expected in the level of government grants.



Ind AS 12

Income Taxes

1. Introduction

1.1 Objective

The objective of this Standard is to prescribe the accounting treatment for income taxes. Income taxes for the purpose of this Standard includes:

- all domestic and foreign taxes which are based on taxable profits;
- taxes, such as withholding taxes (Tax Deducted at Source), which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity

1.2 Key Terms

- **Accounting profit** is profit or loss for a period before deducting tax expense.
- **The tax base** of an asset or liability is the amount attributed to that asset or liability for tax purposes.
- **Taxable profit (tax loss)** is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).
- **Tax expense (tax income**) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
- **Current tax** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
- **Deferred tax liabilities** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- **Deferred tax assets** are the amounts of income taxes recoverable in future periods in respect of:
    - deductible temporary differences;
    - the carry forward of unused tax losses; and
    - the carry forward of unused tax credits.

2. Recognition

2.1 Current Tax Liability

- Current tax for current and prior periods shall, to the extent unpaid, be recognised as a liability.
- The liability is estimated at the time of preparation of financial statement and actual liability is known once the assessment is completed.
- Any excess of this liability over the prepaid taxes (advance tax) and withhold taxes (TDS) is to be treated as current liability.
- This liability may be for the current reporting period or may relate to earlier reporting periods.

2.2 Current Tax Asset

If the amount paid for taxes by way of advance taxes and withholding taxes (tds), the excess is recognised as an asset.

2.3 Measurement

Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted (e.g budget approved)



3. Deferred Taxes

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
  - At the time of the transaction does not give rise to equal taxable and deductible temporary differences.

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is **probable that taxable profit will be available** against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- At the time of the transaction, does not give rise to equal taxable and deductible temporary differences

Deferred Tax is not recognised for permanent differences.

4. Carrying Amount & Tax Base

4.1 Computation of carrying amount

Carrying amount is the amount as computed in the books i.e ledger account balance. All adjustments like depreciation, impairment, revaluation must be given effect to.

4.2 Computation of Tax Base of an asset

- Tax base is the amount attributed to the asset or liability as per income tax for tax purposes.
- 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.

  Example
  - WDV of a capital asset would be the tax base which would be deductible subsequently as depreciation. If an asset is sold, the WDV would be deductible while computing capital gains.
  - Carrying amount of an inventory is deductible as cost of goods sold when inventory is sold.
- If economic benefit from an asset is not taxable then the tax base is equal to the carrying amount. Hence in such cases difference would be zero and there would not be any deferred tax.

4.3 Computation of 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.

  Example
  - Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense will be deducted for tax purposes on a cash basis. The tax base of the accrued expenses is nil.



- Current liabilities include accrued expenses with a carrying amount of Rs. 100. The related expense has already been deducted for tax purposes.The tax base of the accrued expenses is Rs. 100.

- If liabilities are not deductible, the tax base of liability is equal to carrying amount.

4.4 Computation of Tax base where carrying amount is Nil

In such cases the tax base is the amount that would be allowed as deduction in future. Preliminary expenses are expensed fully in accounts but are allowed over a period of 5 years under Income Tax Act, 1961. So the carrying amount would be Nil and the tax base at end of first year would be 4/5th of the amount.

5. Temporary Differences

Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Temporary differences may be either:

Taxable	Deductible
that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled;	that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled
Carrying Amount of Asset > Tax Base	Carrying Amount of Asset < Tax Base
Carrying Amount of Liability < Tax Base	Carry Amount of Liability > Tax Base
Deferred Tax Liability	Deferred Tax Asset

Differences may arise due to –

- Difference in depreciation calculation
- Expenses being allowed differently under tax provisions
- Revaluation of assets in books but the income tax reporting is done using historical cost
- Income being taxed on cash basis or expenses being allowed on cash basis.
- Fair valuation during business combination (Refer Ind AS 103)
- Goodwill arising due to business combination

Single Table to remember DTA & DTL

Situation	Deferred Tax	Example
More gain in books than tax (Due to Revaluation or if Asset value is higher in books)	**DTL**	Depreciation lower in books than tax : book profit higher
More loss in books than tax	**DTA**	Provision recognised in books, not allowed for tax
Disallowed expense (allowed later)	**DTA**	Provision for gratuity disallowed currently
Tax loss carry forward	**DTA**	Business loss eligible for set-off
Asset: CA > Tax Base	**DTL**	PPE CA ₹1,00,000; Tax base ₹70,000
Asset: CA < Tax Base	**DTA**	Debtors CA ₹80,000; Tax base ₹1,00,000
Liability: CA > Tax Base	**DTA**	Provision recognised in books, not yet allowed for tax
Liability: CA < Tax Base	**DTL**	Amortised cost of Loan is less than the Tax Base.



5.1 Exceptions

5.1.1 Goodwill arising on business combination

- No deferred Tax Liability is recognised on taxable temporary differences which arises on Goodwill which is not tax deductible
- If Goodwill is tax deductible, deferred tax liability or asset is recognised.

5.1.2 Initial recognition of asset or liability

Deferred Tax Asset/Liability is not recognised in case of

- A transaction which is not a business combination &
- It does not affect accounting profit or taxable profit.

Example - Entity A acquires a foreign made vehicle for Rs. 1,00,000 directly from the vehicle manufacturer. The transaction is not a part of any business combination. The tax laws do not permit any depreciation thereon. Also, any profits at the time of sale are not taxable or losses are not tax deductible. This vehicle thus has a tax base of Nil. There is a taxable temporary difference of Rs. 1,00,000. Assuming a tax rate of 30%, the entity should create a deferred tax liability of Rs. 30,000. But the Standard does not permit recognition of DTA/DTL in such cases.

5.1.3 Temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures

Temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint ventures (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest.

No DTL recognised if	DTA is recognised if
the parent, investor or venturer is able to control the timing of the reversal of the temporary difference	the temporary difference will reverse in the foreseeable future;
it is probable that the temporary difference will not reverse in the foreseeable future.	Taxable profit will be available against which the temporary difference would be utilised.

5.2 Assessment of future profits for DTA

An entity should recognise deferred tax assets only when it is probable (> 50% chance) that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. This is based on the principle of prudence and conservatism.

5.3 Unused Tax Losses and Tax Credits

- A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

- The reason for recognising deferred tax asset is that the tax liability would be lesser in future
- the existence of unused tax losses is strong evidence that future taxable profit may not be available.
- If the entity has history of losses, deferred tax asset should be recognised only to the extent of amount that the entity has as taxable temporary differences or strong evidence that there would be taxable profits in future.



- At the end of each reporting period, the entity should reassess unrecognised deferred tax assets. It may need to recognise a previously unrecognised deferred tax asset to the extent it has now become probable that future taxable profits will be available for deferred tax assets to be recovered

6. Tax Rates

Deferred tax assets and liabilities shall be measured:

- at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled;
- based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
- Enacted – Already in force
- Substantively enacted – Formalities are completed but not yet enacted. Like budget presented and passed but president has not yet assented.
- If different tax rates are applicable for different types/slabs of income, use the appropriate tax rates at which recovery would be done.

7. Accounting Entries

Current Tax	Dr. Income Tax expense – Current Cr. Income Tax Payable
Deferred Tax Asset	Dr. Deferred Tax Asset Cr. Income tax benefit – Deferred
Deferred Tax Liability	Dr. Income Tax expense – Deferred Cr. Deferred Tax Liability
Tax Expense (PL)	Current Tax + Deferred Tax Expense – Deferred Tax Benefit
Deferred Tax (BS)	Shown at Net Amount

- Deferred Taxes are not discounted.
- Deferred Taxes are always shown as non current
- Deferred Tax expense/benefit are reported in P&L or OCI depending upon the items which have resulted the deferred tax.

8. Offsetting Deferred Tax Asset & 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 current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

9. Practical Application

9.1 Business Combination

- an entity recognises any resulting deferred tax assets (to the extent that they meet the recognition criteria) or deferred tax liabilities as identifiable assets and liabilities at the acquisition date.



- an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill (because of circular computation)
  [Recognising DTL will reduce net assets which will again increase goodwill]
- As a result of a business combination, the probability of realising a pre-acquisition deferred tax asset of the acquirer could change. An acquirer may consider it probable that it will recover its own deferred tax asset that was not recognised before the business combination.
- The potential benefit of the acquiree's income tax loss carry forwards or other deferred tax assets might not satisfy the criteria for separate recognition when a business combination is initially accounted for but might be realised subsequently.
  - If the new information is obtained in the measurement period (refer IndAS 103), adjustments would be made in assets/liabilities and goodwill/bargain purchase capital reserve.
  - All other adjustments are recognised in P&L or OCI subsequently.

9.2 Share Based Payments

- Share based payments are recognised as expense as per Ind AS 102.
- The deduction for the purpose of taxation would be available when employees exercise the share options.
- The amount that would be available as deduction in the future would be the tax base and carrying amount would be Nil.
- An entity recognises deferred tax asset for the temporary difference.
- If the deductible amount is greater than the expense recognised in P&L, the balance reprsents amount attributable to equity. Deferred tax should be recognised in P&L and Equity accordingly.

9.3 Change in Tax Status

- A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised outside profit or loss.
- The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period,
  - unless those consequences relate to transactions and events that result,in the same or a different period,
  - in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income.
- Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity.
- Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income

10. Presentation

10.1 Presentation - Offset

An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:

- has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities



simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

10.2 Tax **expense**

- The tax expense (income) related to profit or loss from ordinary activities shall be presented as part of profit or loss in the statement of profit and loss
- the aggregate current and deferred tax relating to items that are charged or credited directly to equity
- the amount of income tax relating to each component of other comprehensive income

11. Pillar TWO Taxes

Background

Pillar Two refers to the OECD's framework for a global minimum corporate tax rate, including qualified domestic minimum top-up taxes (QDMTT). This amendment provides an exception and disclosure requirements for Pillar Two taxes.

Key Exception

CRITICAL RULE	*Entities shall NEITHER recognise NOR disclose deferred tax assets and liabilities relating to Pillar Two income taxes. This is a mandatory exception to Ind AS 12's normal deferred tax requirements.*

Mandatory Disclosures

- Disclose that the exception has been applied (i.e., no deferred tax recognised for Pillar Two).
- Disclose current tax expense (or income) related to Pillar Two income taxes separately.
- **In periods where Pillar Two legislation is enacted (or substantively enacted) but not yet in effect, disclose:**
  - Known or reasonably estimable information about exposure to Pillar Two taxes
  - Qualitative and quantitative information about exposure at the end of the reporting period
  - If not estimable, a statement to that effect and description of progress in assessing exposure

12. Disclosures

The major components of tax expense (income) shall be disclosed separately.

(a) current tax expense (income);

(b) any adjustments recognised in the period for current tax of prior periods;

(c) the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;

(d) the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;

(e) the amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce current tax expense;

(f) the amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense;



(g) deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and

(h) the amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with Ind AS 8, because they cannot be accounted for retrospectively

Relationship between tax expense (income) and accounting profit in either or both of the following forms:

- a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s)
- a numerical reconciliation between the average effective tax rate and the applicable tax rate

Other Disclosures

- an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
- the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the balance sheet;
- the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised
- in respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:
- the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
- the amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the balance sheet;
- in respect of discontinued operations, the tax expense relating to:
- the gain or loss on discontinuance; and
- the profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented;
- the amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were approved for issue, but are not recognised as a liability in the financial statements;
- if a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre- acquisition deferred tax asset, the amount of that change; and
- if the deferred tax benefits acquired in a business combination are not recognised at the acquisition date but are recognised after the acquisition date, a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

(b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

13. Ind AS 12 vs AS 22

Ind AS 12 is based on balance sheet	AS 22 is based on income statement

approach. It requires recognition of tax consequences of differences between the carrying amounts of assets and liabilities and their tax base.	approach. It requires recognition of tax consequences of differences between taxable income and accounting income. For this purpose, differences between taxable income and accounting income are classified into permanent and timing differences.
As per Ind AS 12, current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised outside profit or loss, either in other comprehensive income or directly in equity, in those cases tax is also recognised in other comprehensive income or in equity, as appropriate.	AS 22 does not specifically deal with this aspect.
Ind AS 12 provides guidance as to how an entity should account for the tax consequences of a change in its tax status or that of its shareholders.	AS 22 does not deal with this aspect.
Since the concept of virtual certainty does not exist in Ind AS 12, this explanation is not included.	AS 22 explains virtual certainty supported by convincing evidence.
Ind AS 12 does not provide guidance on tax holiday	AS 22 specifically provides guidance regarding recognition of deferred tax in the situations of Tax Holiday



Ind AS 21
THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

➢ Introduction

Ind AS 21 deals with accounting for change in foreign currency of transactions or foreign operations.
Ind AS 21 corresponding to AS 11, but there is Fundamental difference. There is a concept of Functional Currency under in Ind AS 21.

➢ Presentation vs Functional vs Foreign currency

1.1 Presentation Currency is the currency in which financial statements are presented

For Eg: Amazon in USA is Holding company of Amazon in India, So Amazon in India is required to prepare F.S in $. Here $ is the Presentation Currency.

1.2 Functional Currency is the currency of primary economic environment in which entity operates

For Eg: Amazon in India has 95% of business in UK based. Here £ is the functional currency.
Note: Generally, Presentation/ reporting currency = Functional Currency. But It can differ.
In above example Presentation currency is ₹, but Functional currency is £.

1.3 Foreign Currency is a currency other than functional currency of the entity

➢ Scope of Ind As 21

1.4 Applicability of Ind AS 21

- Accounting for transactions and balances in foreign currencies, except for derivatives transactions and balances covered by Ind AS 109
- Translating the results and financial position of foreign operations that are included in the financial statement of the entity.
- Translating an entity's results and financial position into a presentation currency

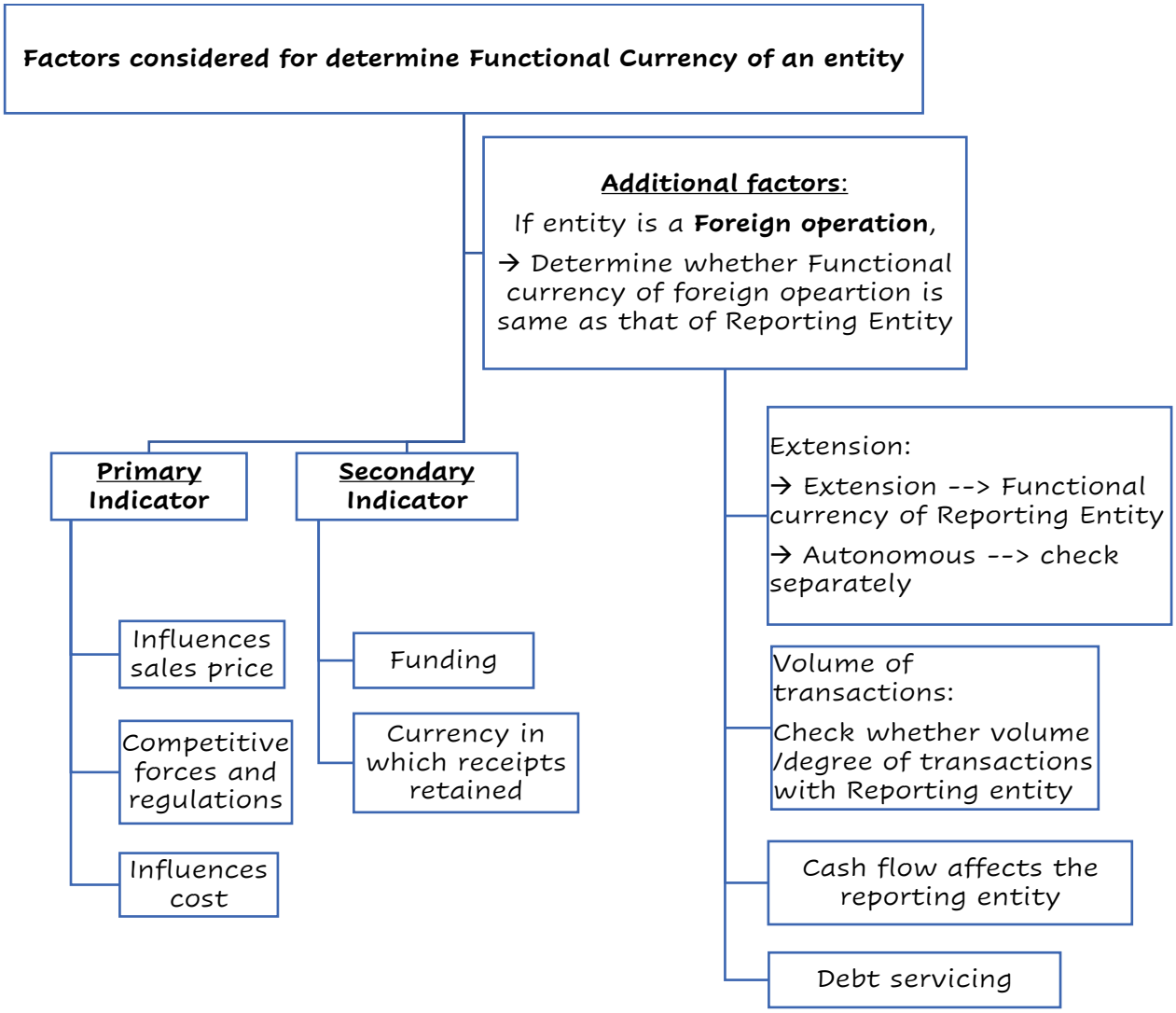
1.5 Non-Applicability of Ind AS 21

- Hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. Applicable Ind AS 109
- Presentation of cash flows from transactions in a foreign currency or a to translations of cash flows of a foreign operation. Applicable Ind AS 7
- Long term foreign currency items for which an entity has opted for the exemption as per Ind AS 101

➢ Functional Currency

Ind As 21 requires each entity to determine its functional currency. All the transactions must be recorded in Functional currency





Note:

- Primary indicators/ factors are in one currency (For eg: USD), but the settlement can be in another currency (Eg: local currency – INR). We have to consider the primary factors indicating currency for deciding functional currency.
- As there may be a chance of conflicting between one factor to another, those factors are not conclusive rules to decide the functional currency.
- Deciding Functional currency based on Judgement considering all the above factors.

Important Points

1. A currency used for pricing purpose may not always represent functional currency.
2. To check whether functional currency is local currency or other → check Primary & Secondary factors
3. Importing products from foreign and payment for the same in foreign currency does not imply foreign currency is functional currency
4. When functional currency is not obvious, management uses its judgement to determine functional currency that most faithfully represents economic effects of underlying transactions, events and conditions.



➢ Foreign Currency transaction

1.6 Meaning - What is a Foreign Currency Transaction?

A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency.

Requires Settlement in Foreign Currency	Denominated in Foreign Currency
When settlement is made in foreign currency, even if: • Invoiced in local currency but actual payment made in foreign currency • Any transaction that is ultimately settled in a foreign currency	Includes transactions when an entity • Buys/sells goods or services priced in foreign currency • Borrows/lends funds with amounts denominated in foreign currency • Acquires/disposes of assets, or incur/settle liabilities in foreign currency

5.2 Initial Measurement

Rule: On initial recognition, record at Functional Currency using the Spot Exchange Rate on the date of the transaction. Average rate can also be used if it is an approximation.

Step 1: Determine Functional Currency

The initial recognition is always in the entity's Functional Currency (not Presentation/Reporting Currency). The example below illustrates the currency hierarchy:

Reporting Currency	Functional Currency	Transaction Currency
INR *(Presentation)*	USD *(Initial Recognition)*	GBP *(Original)*

Flow: Transaction (GBP) → Initial Recognition in Functional Currency (using USD GBP at spot rate on transaction date) → Presentation/Reporting in INR

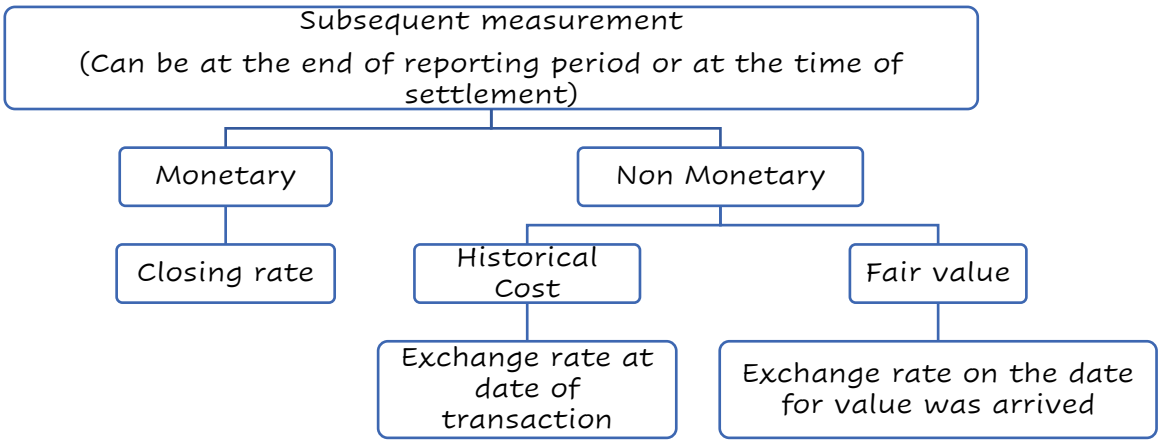
Step 2: Identify the Exchange Rate on Transaction Date

Exchange Rate Type	When to Use / Notes
Spot Rate	Standard rate - used at the date of each transaction for initial recognition.
Average Rate	Permitted for a day/week/month — ONLY if exchange rate fluctuations are insignificant during the period.
Reference / Policy Rate	Companies may use rates published by associations/banks or pre-defined rates (closing/average) as per their accounting policies.



	⚠ **If exchange rate fluctuates significantly, use of average rate is INAPPROPRIATE.**

Subsequent measurement



For Eg:
Foreign branch purchased PPE $ 10,000 & Fair value on Reporting date is $ 11,000

Exchange rate: On Purchase date is 1 USD = INR 85 & Reporting date is 1 USD = INR 83

PPE measured at	Cost Model	Fair value model
Value (A) [As per IND AS 16]	Historical cost = $ 10,000	Fair/Revalued value = $ 11,000
Exchange rate (B) [As per IND AS 21]	On date of purchase = Rs.85	On date of revaluation = Rs.83
Value of PPE (A×B)	Rs.8,50,000 ($ 10,000 * Rs.85)	Rs.9,13,000 ($ 11,000 * Rs.83)

Foreign branch purchased Inventory $ 20,000 & Fair value on Reporting date is $ 20,500
Exchange rate: On Purchase date is 1 USD = INR 85 & Reporting date is 1 USD = INR 82

Inventory measured at	Lower of Cost or NRV	
Value (A) [As per IND AS 2]	Cost = $ 20,000	NRV = $20,500
Exchange rate (B) [As per IND AS 21]	On date of purchase = Rs.85	On date of revaluation = Rs.82
(A×B)	Rs.17,00,000 ($ 20,000 * Rs.85)	Rs.16,81,000 ($ 20,500 * Rs.82)
Value of Inventory	Rs. 16,81,000	

Note:
Ind As 21 explains only in which currency Foreign currency transaction to be recognised, not how to measure.



Monetary items vs Non-Monetary items

Monetary Items

Units of currency held and assets & liabilities to be received paid are in fixed or determinable number of units of currency

Non-Monetary items

There is no fixed or determinable number of units of currency

Examples of monetary items:

> Pension and other employee benefits to be paid in cash

> Provision that are to be settled in cash

> lease liabilities

> Cash dividends that are recognised as a liability

> Debt security

> Contract to receive/deliver variable no.of entity's own equity instruments/ assets in which fair value equals fixed or determinable no.of units of currency

> Sundry Debtors & Accounts receivables, Cash & cash Equavalent, Fixed Deposits, Creditors & Loans

Examples of Non-monetary items:

> Inventory

> Fixed Assets

> Equity

> Investments in shares

> Goodwill, Intangible assets, Inventory, property, plant & equipment, right-of-use assets, provisions to be settled by delivery of non- monetart asset, amounts prepaid for goods & services and income received in advance

Example:

Infosys exports a Service for $ 10,000 on 01-01-X1
Functional Currency – INR
Foreign Currency – USD

Initial Measurement:

Date	Particulars	Debit	Credit	Currency	Rate
01-01-X1	Receivables/customers A/c Dr To Revenue/Sales A/c	9,00,000	9,00,000	Functional Currency - INR	1 USD = INR 90

Subsequent Measurement: (As it is monetary item – Closing rate)

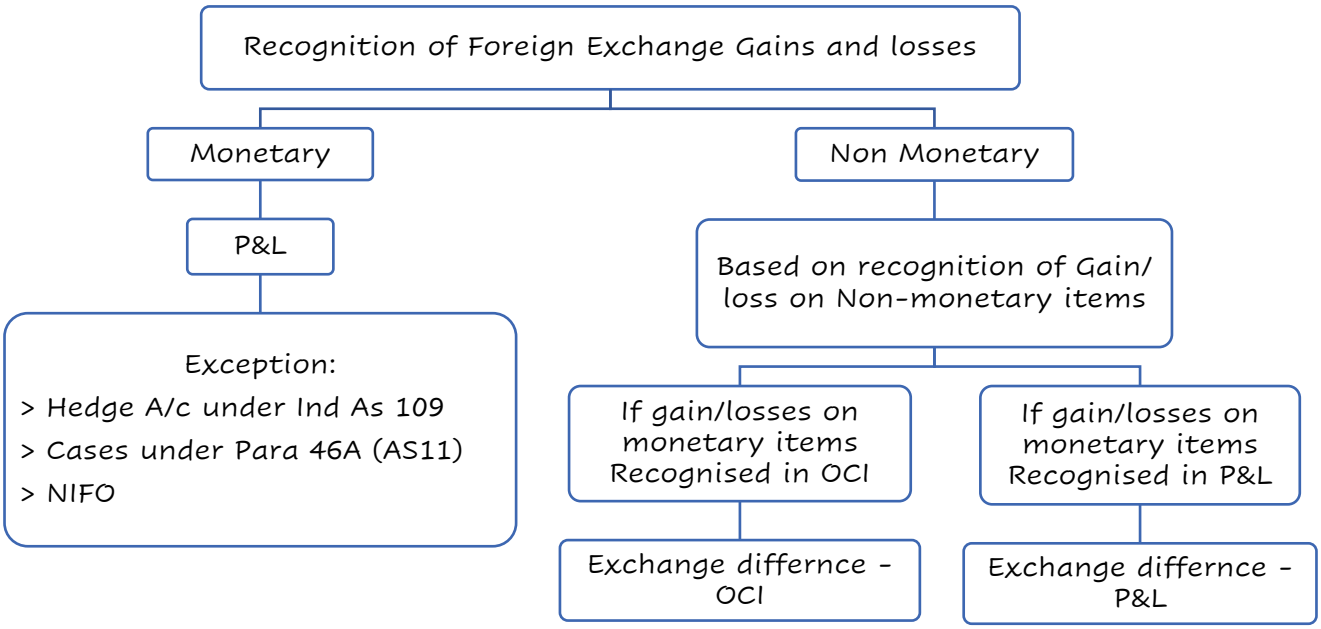
Date	Particulars	Debit	Credit	Currency	Exchange rate
31-03-X1	Foreign Exchange loss A/c Dr To Receivables/customers A/c	20,000	20,000	Functional Currency - INR	1 USD = INR 88

If It is settled on 31-03-X1:
(Loss or Gain are recognised based on the exchange rate on date of settlement)

Date	Particulars	Debit	Credit	Currency	Exchange rate
31-03-X1	Bank A/c Dr Foreign Exchange loss A/c Dr To Receivables/customers A/c	8,80,000 20,000	9,00,000	Functional Currency - INR	1 USD = INR 88



1.7 Recognition of Foreign Exchange Gains and losses



Exception:

- If Exchange differences arises out of an item, which qualifies for Hedge accounting under IND AS 109, then IND AS 109 will apply for recognition instead of IND AS 21.
- IND AS 101 allows an entity to continue to apply Para 46A under AS 11, (Optional) Exchange difference on Foreign currency of Long term monetary Item
  - If it is Depreciable asset → Add/Less from carrying amount
  - If it is Non-depreciable asset → Transferred to Foreign Currency Monetary Item Translation Difference Account (FCMITDA - Component of equity) → Amortise over the remaining life

Example: Long term loan in foreign currency - $ 100,000 to acquire PPE. Exchange rate on that day 1 USD = INR 80. Closing Exchange rate → 1USD = INR 85

Particulars	PPE	Long-term Loan
Cost	Rs.80,00,000 ($ 100,000 × Rs.80)	Rs.80,00,000 ($ 100,000 × Rs.80)
Item	Non-Monetary Item	Monetary Item
Closing balance	Rs.80,00,000	Rs.85,00,000 ($ 100,000 × Rs.85)

Difference between loan balance (Rs.85,00,000 – Rs.80,00,000 = Rs.5,00,000) will be Transferred to Foreign Currency Monetary Item Translation Difference Account (FCMITDA - Component of equity) → Amortise over the remaining life

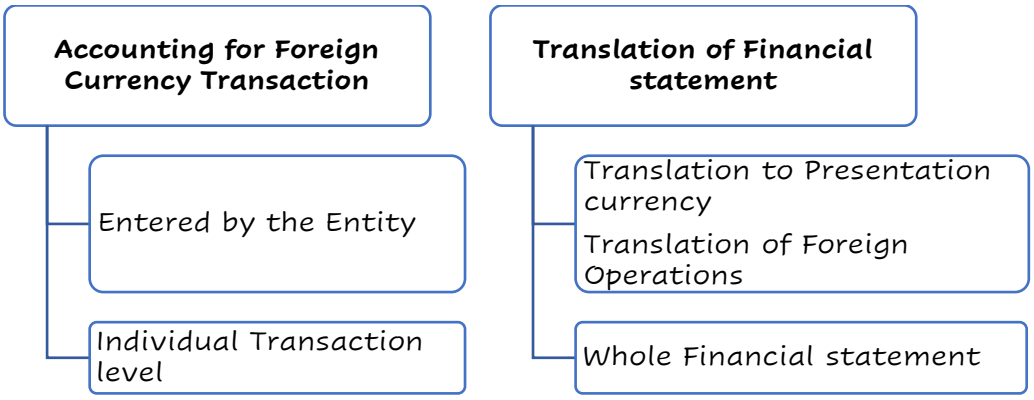
An entity cannot avail option of Para 46A for new loans taken after the beginning of first Ind AS reporting period

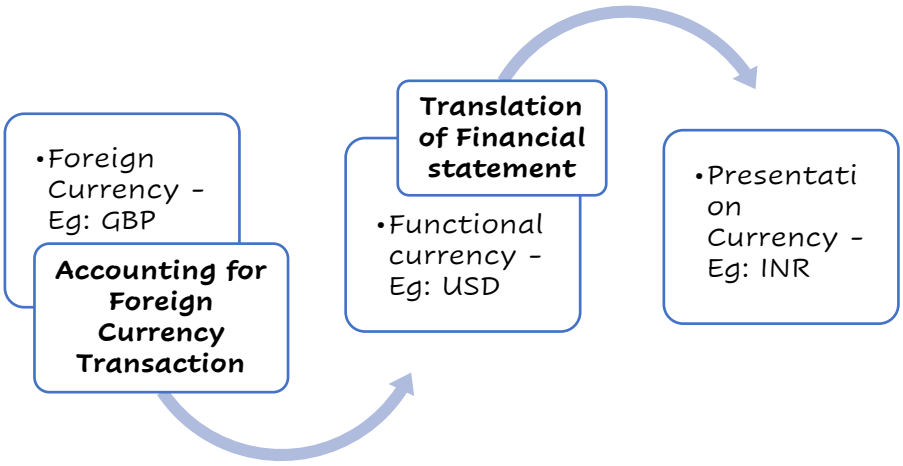
➢ Translation of Financial statement

Translation of Financial Statement from one currency to another currency



1.8 Distinguish between Accounting for Foreign Currency Transaction vs. Translation of Financial statement





1.9 Foreign Operation

Foreign Operation

Subsidiary	Associate	Joint venture	Branch

of reporting entity,
activity of which are based/conducted in a country/currency other that those of reporting entity

Note:

- Branch/ Subsidiary/ Associate/ Joint venture having different functional currency from the functional currency of reporting entity will be considered as Foreign Operation. Even though Both reporting entity & its associate company is in same country.

Translation of Foreign Operations:

Functional currency Foreign Operations → To → Functional Curreny of Parent Company → To → Presentation Currency

1.10 Translation to Presentation currency

Particulars	Exchange rate	Date
Assets & Liabilities	Closing Rate	Balance sheet
Profit & loss items	Individual rate or Average rate (If there exist Insignificant Fluctuation)	Transaction date
Equity	Historical Cost/ Historical Value	

Note:



- All resulting exchange difference recognised in Other Comprehensive Income (OCI) → FCTR (Foreign Currency Translation Reserve)
- In CFS, Goodwill raised from the acquiring shares of Subsidiary company will be treated as Asset i.e., Goodwill of the Foreign Operation and should follow the translation principle @ Closing rate.

➢ Net Investment in a foreign operation

NIFO is

- The amount of the reporting entity's interest
- in the net assets of that operation
- An item (Long term Monetary item) for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation.

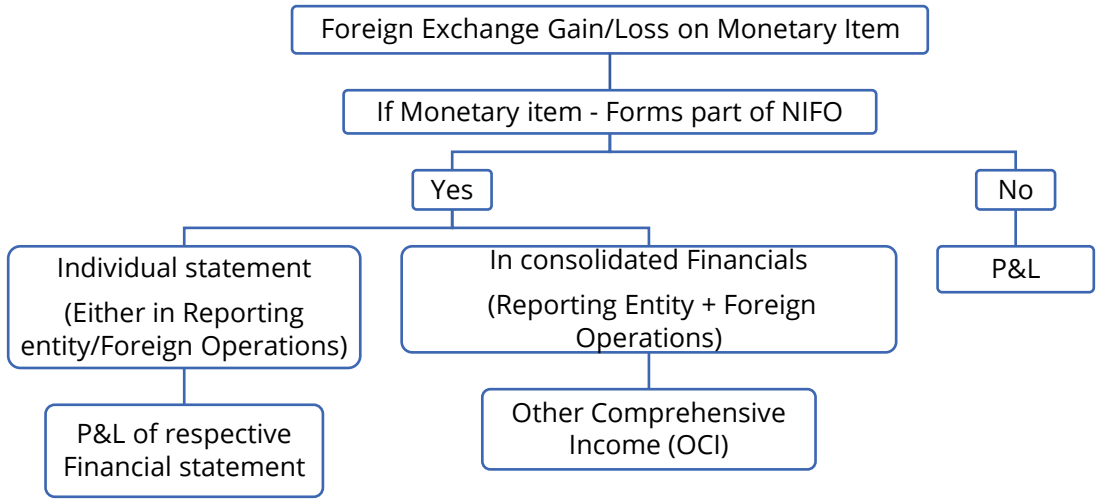


Illustration Summary:

- Gain or loss on monetary item is generally recognised in P&L. If monetary item forms part of NIFO, then in CFS it is recognised in OCI.
- Trade receivables & Trade payable will not be form part of NIFO, While Long term loans, receivables & payables will form part of NIFO.
- If Subsidiary company of reporting entity gives loan to another Subsidiary of reporting entity
  - If the given loan forms part of NIFO, then it should be recognised in OCI of Consolidated Financial statement of group companies.

➢ Intra group transactions

Effect of Intra group transactions in Consolidated Financial Statement	• Intra group balances - Eliminate • Unrealised gain - Eliminate • Exchange gain/ loss recognised in standalone statements - Recognise in CFS

Exchange Gain/Loss on Monetary item

- Forming part of NIFO → OCI of CFS
- Not forming part of NIFO → Consolidated P&L

Example 1:

Exchange rate: Opening 1 USD = INR 50 & Closing 1 USD = INR 55

Year	Holding Company		Subsidiary Company	
	Asset	Amount (INR)	Liability	Amount (USD)
Beginning	Loan given to Subsidiary	1,00,000.00	Received Loan	2,000.00



End	Loan given to Subsidiary	1,00,000.00	Received Loan	1,818.18
			Exchange Gain	181.82

- In Consolidated Financial statement, Loan given & received will set off &
- Exchange Gain = Rs.10,000 (181.82 × 55) recognised

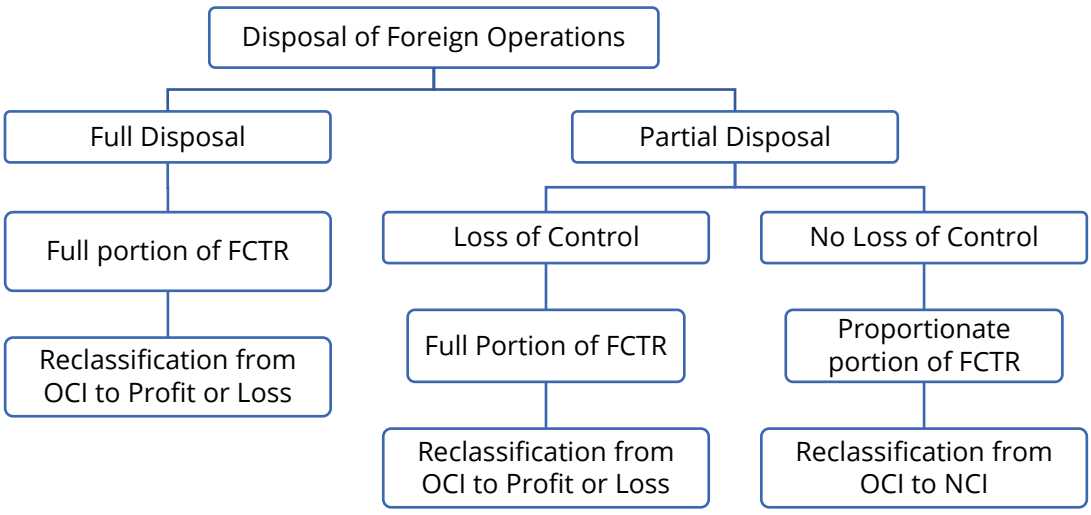
Example 2:

Holding company sold goods to Subsidiary worth $ 1,000. Profit element in sale = Rs.10,000
Inventory not sold & transaction not settled by Subsidiary.
Exchange rate: Opening 1 USD = INR 80 & Closing 1 USD = INR 85.

Holding Company:			
Date	**Particulars**	**Debit**	**Credit**
01-01-X1	Account Receivable - Subsidiary A/c Dr To Sales A/c	80,000	 80,000
31-03-X1	Account Receivable - Subsidiary A/c Dr To Exchange Gain A/c	5,000	 5,000
Subsidiary Company:			
Date	**Particulars**	**Debit**	**Credit**
01-01-X1	Inventory A/c Dr To Account Payable – Holding Company A/c	80,000	 80,000

- Exchange Gain on Account receivable = Rs.5,000 (Rs.85,000 - Rs.80,000) (This gain is recognised in Separate Financial Statement when restatement of Monetary items at closing rate). This will be offset by Account payable in Subsidiary.
- Inventory is a non-monetary item and it would not be restated in subsidiary financial statements. However, in CFS, inventory will be recognised at cost to holding company by eliminating unrealised gain.
- Subsidiary will recognise loss on account payable due to change in exchange rate.

➢ Disposal of Foreign Operations.





Foreign branch → Not a subsidiary/associate/ Joint venture → Proportionate share transfer from OCI to P&L

➢ Change in Functional Currency

Change in Functional Currency

↓

Can be changed unless there is a change in the relevant underlying transactions, events and conditions

↓

The change is accounted for prospectively from the date of the change

↓

All the items are translated into the new functional currency using the exchange rate of the date of the change

↓

Exchange difference arising previously recognised in the other comprehensive income are not reclassified from equity to profit or loss until the disposal

- Non-Monetary items measured @ historical cost → Exchange rate at the date of change of functional currency will be used for arriving historical value in new functional currency.

➢ Currency of a Hyperinflationary Economy as a Functional Currency

When an entity's Functional currency is currency of a hyperinflationary economy, the entity shall restate its financial statement in accordance with Ind As 29 before applying the translation method as explained below:

- If both the Functional and Reporting currencies are Hyperinflationary, translate using the closing rate at the end of reporting period.

  Example:

Year	20X3	20X2
Exchange Rate	31-03-20X3	31-03-20X3

- If Functional currency is Hyperinflationary & Reporting currencies is Non-hyperinflationary, then translate using closing rate at the end of respective period of Financial statement.

  Example:

Year	20X3	20X2
Exchange Rate	31-03-20X3	31-03-20X2

➢ Disclosure

Ind AS 21 requires following disclosures:

- amount of exchange differences recognised in profit or loss
  - except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 109;
- net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity,



- along with the reconciliation of the amount at the beginning and end of the period

- when the presentation currency is different from the functional currency –
  - that fact shall be stated, together with disclosure of the
    - functional currency and
    - the reason for using a different presentation currency;

- in case of change in functional currency of either the reporting entity or a significant foreign operation:
  (i) fact of such change;
  (ii) reason for the change and;
  (iii) date of change in functional currency;
- if presentation currency is different from functional currency, the financial statements can be described as complying with Ind AS only if all Ind AS including the translation method of this Standard is complied with.

  However, if an entity presents its financial statements or supplementary financial information in a currency other than its functional or presentation currency:
  - the information should be clearly identified as supplementary information to distinguish it from the information that complies with Ind AS;
  - the currency in which the supplementary information is displayed should be disclosed; and
  - the entity's functional currency and the method of translation used to determine the supplementary information should be disclosed.

13. Lack of Exchangeability

Source: G.S.R. 291(E), dated 7 May 2025 | Effective: Annual periods beginning on or after 1 April 2025

Background

Ind AS 21 requires entities to use the spot exchange rate to translate foreign currency transactions. However, in rare cases, a currency may not be exchangeable into another — this amendment provides guidance on what to do in such situations, aligning Ind AS 21 with IAS 21.

Key Definition: When is a Currency 'Exchangeable'?

A currency is exchangeable into another when an entity can obtain the other currency within a time frame allowing for normal administrative delay, through a mechanism that creates enforceable rights.

Two-Step Approach

Step I – Assess Whether a Currency is Exchangeable

Five key factors to consider:

Time Frame: Normal administrative delays (legal/regulatory) are acceptable; they do not make a currency non-exchangeable.



- Ability to Obtain: Consider ability (not intention) to obtain the other currency — directly or via an intermediate currency.
- Markets / Mechanisms: Only consider markets that create enforceable rights and obligations.
- Purpose of Obtaining: Different exchange rates may apply for different purposes, affecting exchangeability.
- Limited Amounts: If only an insignificant amount can be obtained vs. total required, the currency is not exchangeable. Compare amount obtainable with total required for the specified purpose.

Step II – Estimating Spot Rate (when currency is NOT exchangeable)

Objective: Estimate the rate that reflects what an orderly transaction would yield at the measurement date, under prevailing economic conditions. Two methods:

- **Method A –**
  Observable Exchange Rate (without adjustment): Use if it meets the estimation objective.
  Consider: number of observable rates, purpose, nature of rate, frequency of updates. Examples: rate for a different purpose; first rate available once exchangeability resumes (adjusted for time and inflation).
- **Method B –**
  Another Estimation Technique: Use any observable rate and adjust it. May include rates from markets that do not create enforceable rights, adjusted appropriately.

Disclosure Requirements

When a currency is NOT exchangeable, disclose:

- Identity of currency and description of restrictions
- Description of affected transactions
- Carrying amount of affected assets and liabilities
- Spot exchange rates used and basis (observable / estimated)
- Description of estimation technique with qualitative and quantitative inputs
- Qualitative information on each type of risk and the nature/carrying amount of exposed assets/liabilities

Additional disclosures when a foreign operation's functional currency is not exchangeable into presentation currency:

- Name, type (subsidiary/JV/associate/branch) and principal place of business of foreign operation
- Summarised financial information of the foreign operation
- Nature and terms of contractual arrangements that may require financial support

AS 11 vs Ind AS 21

S.No	Particulars	AS 11	Ind AS 21



1	Functional Currency	Not exist	Exist
2	Foreign currency	Currency other than Reporting currency	Currency other than Functional currency
3	Presentation currency	Silent	It can be different from local currency, functional currency
4	Approach for Translation – Foreign Operation	Based on →Integral foreign operation and → Non-integral foreign operation (NIFO)	Based on Functional currency approach → Determining an entity's functional currency similar to indicators to determine Non-Integral FO in AS 11 → Despite of difference in terms there is no substantive difference in respect of accounting of a foreign operation.
5	NIFO	Non-integral foreign operation	Net Investment in foreign operation
6	Long term monetary items	→ No exemption given under Ind AS 21 → Ind AS 101 gives an exemption of Para 46A under Ind AS 11 - either recognise in P&L or adjust the carrying amount of asset	AS 11 itself explains about accounting LTMI
7	Exclusion of Forward exchange contract and other similar financial instrument	No specific mention	Excludes from its scope



Indian Accounting Standard 24
RELATED PARTY DISCLOSURE

1 Introduction

Ind AS 24 → Disclosure based transaction

Ind AS 24 deals with Identifying & disclosure of:

Related party relationships → Related party transactions → Outstanding balances → Disclosure requirements

2 Related party

2.1 Related party

A Related party is

i. A Person or
ii. An entity

that is related to the reporting entity

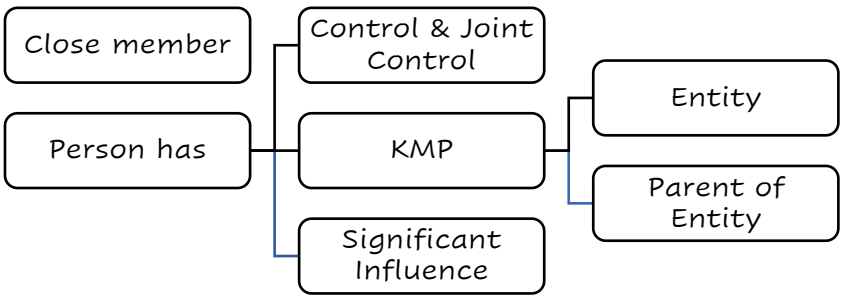
2.2 Person related to Reporting Entity

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

a) Has **control or joint control** over the reporting entity
b) Is a member of the **key managerial personnel** of
   - The reporting entity or
   - A parent of the reporting entity
c) Has significant influence over the reporting entity

For Eg:

- In Indigo learn, Suraj owns 51% of shares OR is Director of Indigo learn → then Mr.Suraj & Mrs. Suraj are related parties to Indigo learn
- If Mr.A is director of Parent Company → He will be Related party of Subsidiary company.
- If Mr.A is director of Subsidiary → He cannot be Related party of Parent company.



As per Ind AS 110 – Consolidated Financial statement, Investor **Controls** over an investee if –

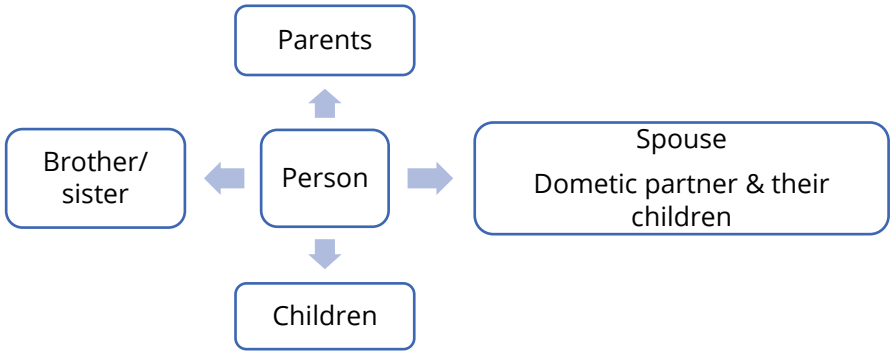
a) Power over the investee
b) Exposure, or rights to variable returns from its involvement with the investee and
c) Ability to use its power over the investee to affect the amount of the investor's returns

Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control

Significant influence over the reporting entity

- power to participate in the financial statement and operating policy decisions of the investee
- but is not control of those policies

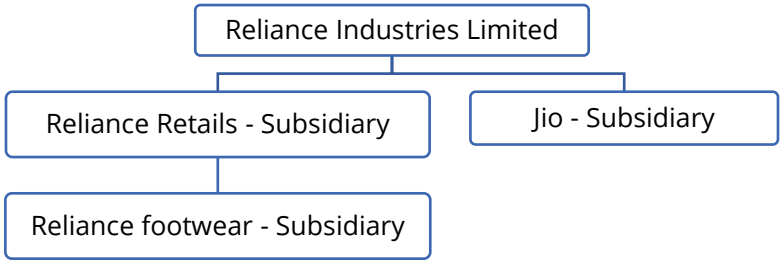
Close members of the family:



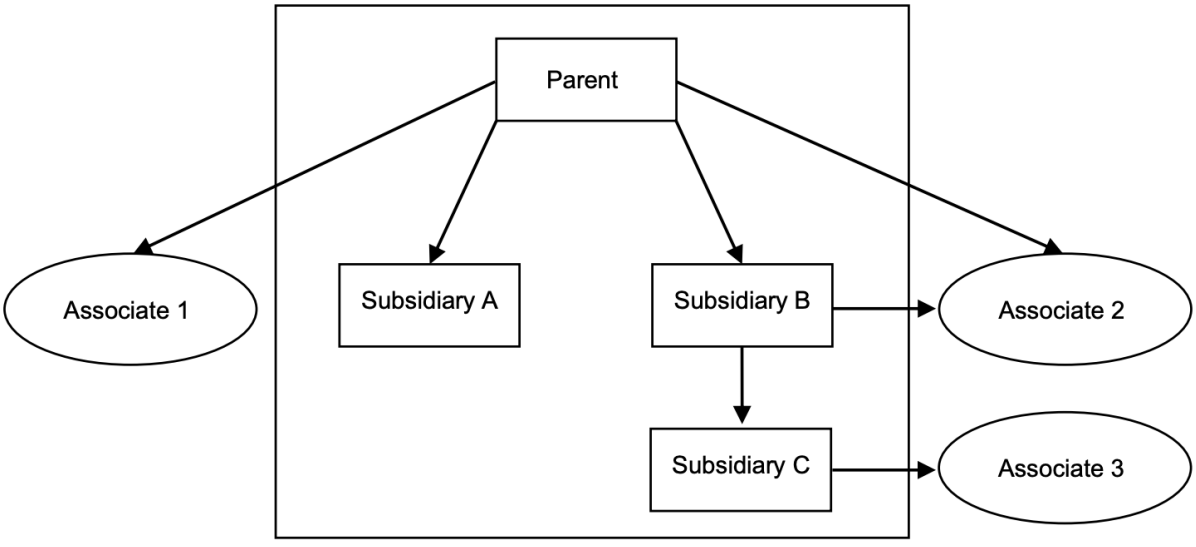
2.3 Entity related to Reporting Entity

An entity is related to a reporting entity if:

a) The entity and the reporting entity are **members of the same group** (which means that each parent, subsidiary and fellow subsidiary are related to the others)
Eg: All companies in the below group are Related to each other



b) **One entity is an associate or joint venture of the other entity** (or an associate or joint venture of a member of a group of which the other entity is a member)

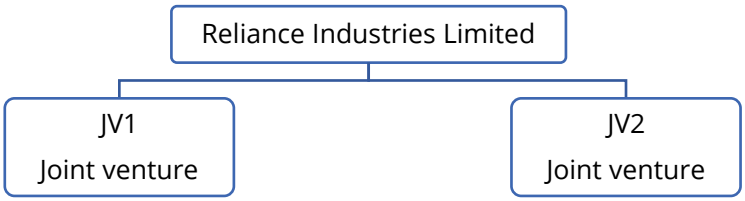


Financial Statements of	Related Parties
Parent	Subsidary A, B, C & Associate 1,2,3
Subsidiary A	Parent, Subsidiary B&C, Associate 1,2,3
Subsidiary B	Parent, Subsidiary A&C, Associate 1,2,3
Subsidiary C	Parent, Subsidiary A&B, Associate 1,2,3
Associates 1,2,3	Parent, Subsidiary A,B,C

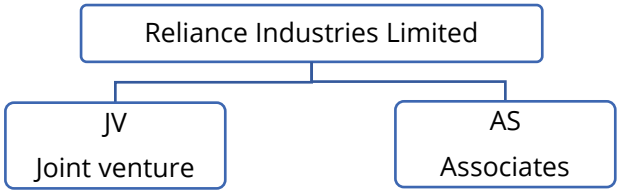
Associates 1,2,3 are not related to one another.



c) Both entities are joint ventures of the same third party
Eg: In the below table, JV1 & JV2 are related parties to each other



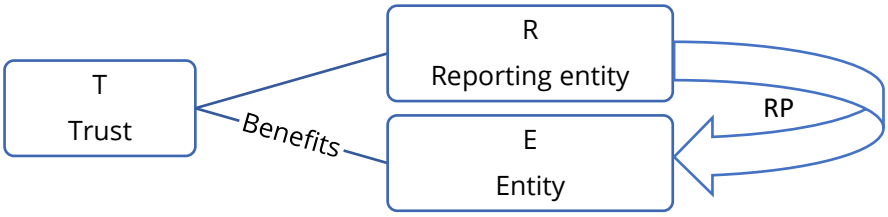
d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity
Eg: JV & AS are Related parties to each other



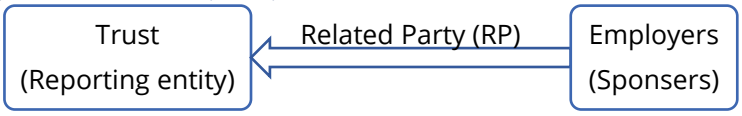
Note:

- If Both are associates, then they are not related party, as there is no control element in associates.
- Either both should be joint venture or one is Joint venture & other should be associate, then only they can be related parties.

e) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
Eg: T are Related party to R, where T provides benefits to E



If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
Eg: Employer is Related party to trust



f) The entity is controlled or jointly controlled by a person who is a related party to entity (by control, significant influence or KMP)

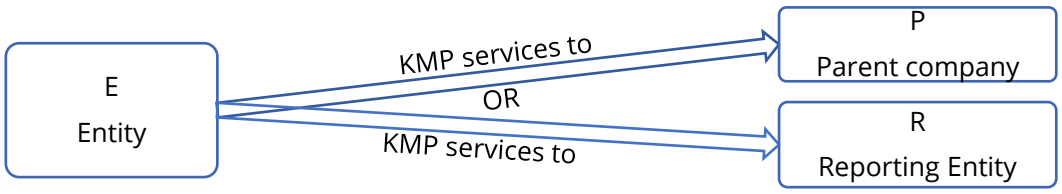
g) A person who is related party to the entity (vide control or joint control) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

Person (Eg: Suraj)		Entity/ Joint venture (Eg: 1Fin)		
		Control/Joint control	**Key Managerial Personnel**	**Significant Influence**
Reporting Entity (Eg: Indigo learn)	**Control/Joint control**	Related parties	Related parties	Related parties
	KMP	Related parties	Not RP	Not RP
	Significant Influence	Related parties	Not RP	Not RP



If a person has significant influence over both entities or is KMP in both entities, then the entities are not related.

h) 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.
Eg: E is related party to R



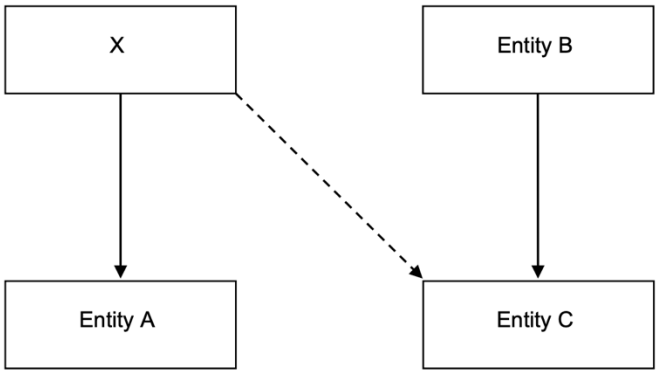
Note:

- The aforesaid definition is wide and exhaustive.
- The standard lays emphasis on the substance of the relationship rather than legal form

Example: Mukesh Ambani controls Reliance Industries and Anil Dhiru bhai Ambani controls Reliance Capital. Here We cannot conclude that Reliance Industries and Reliance Capital are Related party, because the persons who control are brothers.
We have to look into

- Substance of the relationship → neither of their decisions are dependent with each other nor influencing each other.
- Not just a legal form of Relationship → Brothers

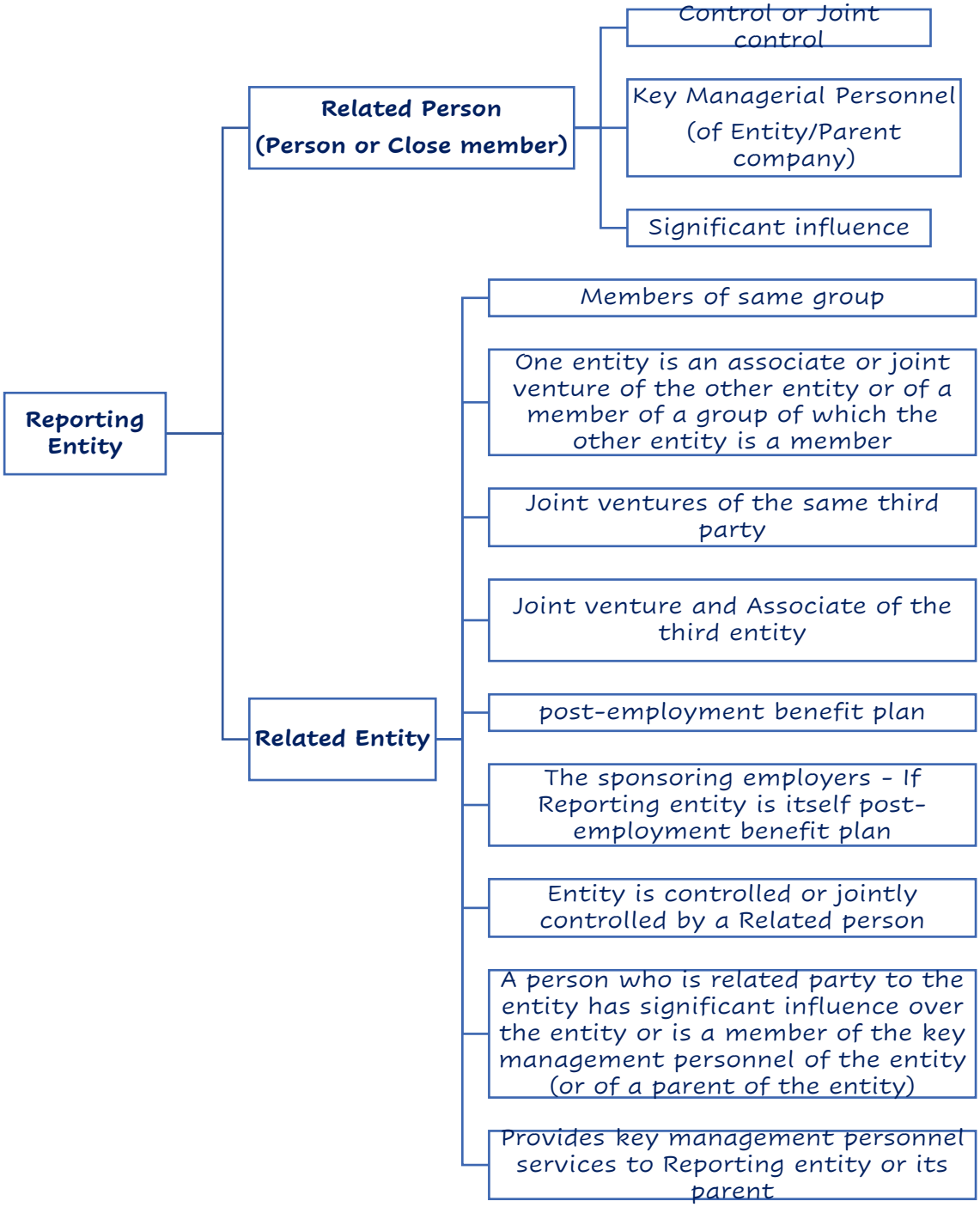
Example



In the example X holds 100% of share capital of Entity A and hence controls it. X is also the KMP in Entity C. Entity B owns 100% of Entity C

Financial Statements of	Related Party
Entity C	Entity B(Parent) X (KMP) Entity A (Controlled by KMP)
Entity A	X (Control) C (X controls A and is KMP of C)
Entity B	Entity C

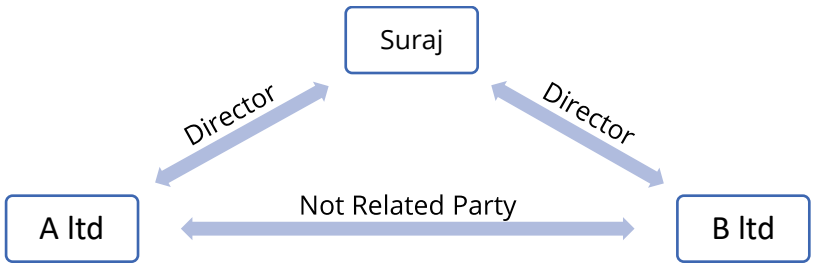




3 Who are Not Related party ?

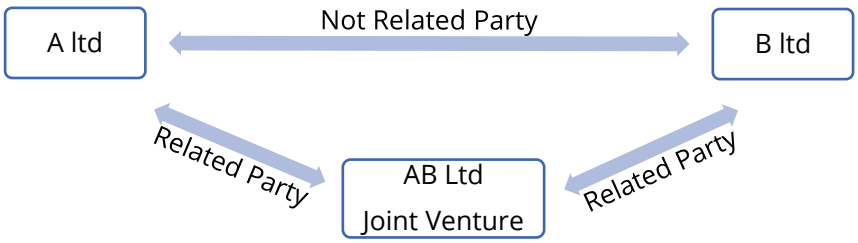
The Following are not Related parties:

1. Two Entities → because they have a **common director or other member of Key management personnel**.
   Example:



2. Two Joint venturers → because they **share joint control of a joint venture**.
   Example:





3. **Stakeholders** like
   i. Provider of Finance
      Eg: Kingfisher Airlines depends on State Bank of India for funds. SBI → Not RP
   ii. Trade unions
      Eg: Maruti – Suzuki workers struggle for trade union rights
   iii. Public Utilities
      Eg: Electricity Supply board, Water board. Pollution control board
   iv. Department and Agencies of a government
      Eg: Company works with government like Road contracts, Liquor business

   that does not control, joint control or significant influence the reporting entity, simply by virtue of their normal dealings with an entity

4. Customer, supplier, franchisor, distributor or general agent → with whom an entity transacts a **significant volume of business** → simply by virtue of the resulting **economic dependence**.

4 Related party Transactions

A Related party Transaction is a

- Transfer of resources, Services or obligations
- between a reporting entity and a related party,
- regardless of whether a price is charged

Examples of Related party transactions:

- purchases or sales of goods (finished or unfinished);
- purchases or sales of property and other assets;
- rendering or receiving of services;
- leases;
- transfers of research and development;
- transfers under licence agreements;
- transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- provision of guarantees or collateral;
- commitments to do something if a particular event occurs or does not occur in the future, including executory contracts1 (recognised and unrecognised);
- settlement of liabilities on behalf of the entity or by the entity on behalf of that related party; and
- management contracts including for deputation of employees.

5 Disclosure

5.1 The following are Categories of disclosure as per Ind AS 24:

- **Category 1:** Disclosure of Related parties with their Relationship
- **Category 2:** Disclosure of Related party transactions



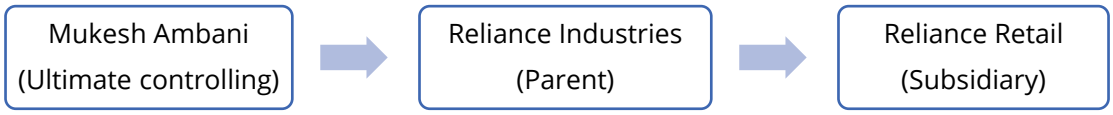
Note: Additional Disclosure can be done if required by the company or other regulations like companies act, SEBI act etc

5.2 Category 1:

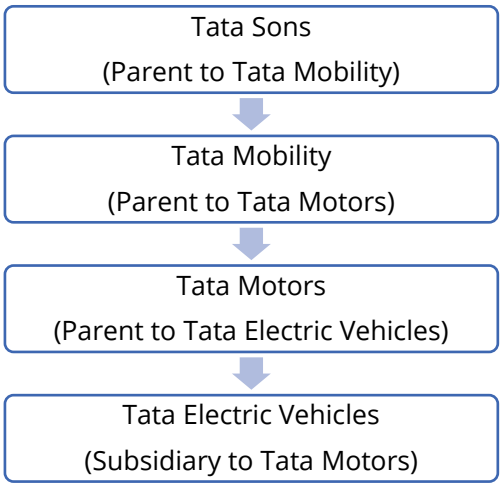
Category 1: Disclosure of **Relationship** irrespective of the fact whether there have been Related party transactions by the entity.

Example: Parent – Subsidiary relationship

- Relationship between a Parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them.
- An entity is required to disclose the name of its parent and, if different, the ultimate controlling party.
  Example: Reliance Retail should disclose both Reliance Industries and Mukesh Ambani with their Relationship



- If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
  Example:
  - If All Tata Electric Vehicles, Tata Motors, Tata Mobility and Tata Sons provides Consolidated Financial statement, then Tata Electric Vehicles should disclose Tata Motors, and Tata Sons with their Relationship.
  - If Only Tata Mobility provides Consolidated Financial statement, then Tata Electric Vehicles should disclose Tata Motors, Tata Mobility and Tata Sons with their Relationship.



5.3 Category 2:

Category 2: Disclosure of Transaction and Relationship only when there have been **Related party transactions**

Related Party Transactions:

- Nature of Relationship
- Information about
  - Transactions
  - Outstanding balances
  - Commitments
- Necessary for users to understand the potential effect of the relationship on the financial statements

Minimum Disclosures:

- The amount of the transactions
- The amount of outstanding balances, including commitments,



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

- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Disclosure bifurication:

a) the parent;
b) entities with joint control or significant influence over the entity;
c) subsidiaries;
d) associates;
e) joint ventures in which the entity is a joint venturer;
f) key management personnel of the entity or its parent; and
g) other related parties.

5.4 Compensation to Key Managerial Personnel:

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

An entity is required to disclose

i. Total compensation to Key managerial personnel and
ii. Compensation for each of the following categories:
    a. Short-term employee benefits
    b. Post-employment benefits
    c. Other long-term benefits
    d. Termination benefits
    e. Share-based payments

6 Exemption from Disclosure

Exemption to Government – Related entities

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

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

In case the reporting entity opts to apply the exemption, it **shall disclose**:

a) the name of the government;
b) the nature of the government's relationship with the entity (whether the government has control, joint control or significant influence over the entity);

Significant transaction to be disclosed:

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

Consider following while applying judgment to determine the level of details required to be disclosed:

i. Size of transaction
ii. Transactions carried out on non-market terms
iii. One-time transactions



Illustration summary:

- When transaction done at off-market (Not @ Market rate). Hence Separate disclosure is required for the difference amount between Market rate and transaction amount as Government grant not as profit.
- When transaction done @ market term, but the size of transaction is huge or significant individually or in aggregate → disclosure of Government assistance by Ind As 20, Accounting for government Grants and disclosure of Government assistance is required.

7 Ind AS 24 vs AS 18

Difference	Ind AS 24	AS 18
Domestic partner	Definition of "Close member of the family of a person" includes domestic person	No scope for domestic partner in definition
State-controlled enterprises	Government refers to government, government agencies and similar bodies whether local, national or international	Defines state-controlled enterprises as "an enterprise which is under the control of the central government and/ or any state governments"
Key managerial personnel	Covers KMP of the parent	Cover Key managerial personnel of the entity only
Co-venturers or co-associates	Related parties	Not related parties to each other
Entities that are post-employment benefit plans	Related parties	Not covered
Disclosure of next most senior parent	Additional Disclosure as to the name of the next most senior parent which produces consolidated financial statement for public use	No requirement
KMP Compensation	Disclosure requirement for KMP compensation	No Disclosure requirement for KMP compensation
Disclosure of 'amount of transaction vs Volume of the transaction'	Amount of the transaction need to be disclose	Gives an option to disclose the "Volume of the transactions either as an amount or as an appropriate proportion"
Government related entities	Requires Disclosure of certain information by the government related entities	Presently exempts the disclosure of such information



Ind AS 33
Earning Per Share

1. Introduction

1.1 Objective

- To prescribe principles for the determination and presentation of earning per share.
- To facilitate performance comparisions between different entities in the same reporting period and between different reporting periods for the same entity.

Earnings per share data, may have limitations because of different accounting policies that companies might have used for determining 'earnings'.

1.2 Scope

- This standard requires that if an entity computes earnings per share then it must calculate and disclose the same as per this standard.
- EPS related information to be disclosed both in consolidated financial statements and separate financial statements.

Type of Financial statements	EPS disclosure	EPS computation should be based on
Consolidated	Yes	Information given in consolidated financial statements only (Consolidated EPS)
Separate	Yes	Information given in separate financial statements only (Separate EPS)

2. Definitions

2.1 Ordinary share (Referred to as equity shares in India)

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

- An entity may have more than one class of ordinary shares.
- Ordinary shares of the same class have the same rights to receive dividends.

2.2 Potential ordinary share

A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares.

Examples of potential ordinary shares are:

a. Financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares;
b. Options and warrants;
c. Shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

2.3 Options, warrants and their equivalents

Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.

2.4 Put options

Put options on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

2.5 Dilution

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.



2.6 Antidilution

Antidilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

2.7 Contingent share agreement

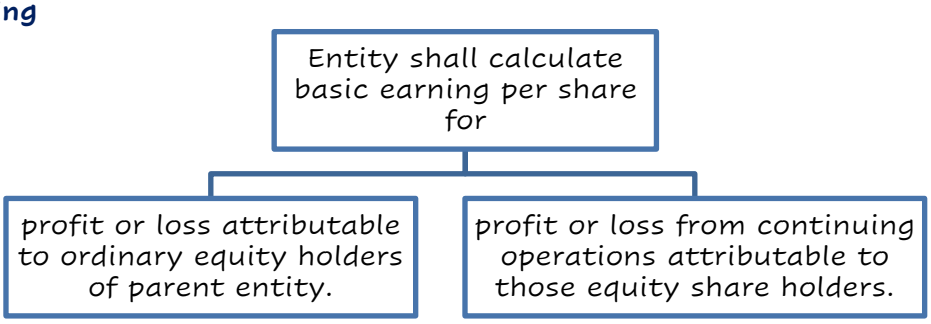
A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

2.8 Contingently issuable ordinary shares

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

3. Measurement of Basic Earnings Per Share

3.1 Meaning



3.2 Formula

Computation of Basic earnings per share =

$$\frac{\text{Profit/Loss attributable to Equity share holders}}{\text{Weighted average number of Equity shares outstanding during the period}}$$

3.3 Calculation of Profit attributable to Equity Share Holders

Earnings Before Interest & Taxes	**xxx**
Less: Finance cost (including dividend on Preference shares classified as Liability) [You will understand this after Ind AS 109]	xxx
Earnings before Taxes	**xxx**
Less: Taxes	xxx
Profit after tax	**xxx**
Less: Dividend on Cumulative Preference shares whether or not declared	xxx
Less: Dividend on Non-cumulative Preference shares only if declared	xxx
Less: Deemed dividend on increasing rate preference shares	xxx
Less: Redemption/Repurchase of Preference shares at premium	xxx
Less: Early conversion of Preference shares at premium	xxx
Profit attributable to Equity share holders	**xxx**



3.3.1 Treatment of certain items in computation of profit attributable to equity share holders

1. Increasing rate Preference shares

Meaning	Treatment
Preference shares that provide for: - Low initial dividend to compensate an entity for selling the preference shares at a discount, or - An above-market dividend in later periods to compensate investors for purchasing Preference shares at a premium.	An original issue discount or premium on increasing rate preference shares is: - Amortised to retained earnings using the effective interest method, and - Treated as a preference dividend for the purposes of calculating earnings per share.

2. Redemption of Preference shares at premium

Amount	Treatment
The excess of the fair value of the consideration paid to the preference shareholders over the carrying amount of the preference shares represents: - A return to the holders of the preference shares, and - A charge to retained earnings for the entity.	This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

3. Early conversion Of Preference shares at premium

Amount	Treatment
The excess of the fair value of the ordinary shares or other consideration paid over the fair value of the ordinary shares issuable under the original conversion terms is a return to the preference shareholders.	This amount is deducted in calculating profit or loss attributable to ordinary equity holders of the parent entity.

4. Excess payment to Preference share holders

Excess of the carrying amount of preference shares over the fair value of the consideration paid to settle them is added in calculating profit or loss attributable to ordinary equity holders of the parent entity.

5. After tax amounts of Preference dividends

Includes	Excludes
- After-tax preference dividend declared in respect of the period, on Non-cumulative preference shares. - After-tax preference dividend required for current period on Cumulative preference shares, whether or not dividends have been provided for.	Dividends on Cumulative preference shares paid or declared during the current period, in respect of previous periods.



3.4 Shares

3.4.1 Calculation of Weighted Average Number of Shares

Ordinary shares outstanding at the beginning of the period	xxx
Add: Ordinary shares issued during year (weighted)	xxx
Add: Bonus issue (no time weightage factor)	xxx
Add: Right issue (time weighted)	xxx
Less: Ordinary shares bought back during the year (weighted)	xxx
Weighted average number of shares	**xxx**

Bonus shares are assumed to have been issued at the beginning of earliest period reported or date of issue of original shares during the year.

3.4.2 Deciding the date for issue of shares

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

When ordinary shares are issued	Timing effective from the date
In exchange for cash	When cash is receivable
On voluntary reinvestment of dividends on ordinary or preference shares	When dividends are reinvested
As a result of conversion of a debt instrument to ordinary shares	When Interest ceases to accrue
In place of interest or principal on other financial instruments	When Interest ceases to accrue
In exchange for the settlement of a liability	On settlement date
As consideration for the acquisition of an asset other than cash	When the acquired asset is recognised
For rendering of services to the entity	When the services are rendered
As a part of the consideration transferred in a business combination	From the date of the acquisition
Issuable upon the conversion of a mandatorily convertible instrument	From the date of entering into the contract. This will be considered in Basic EPS

3.4.3 Contingently issuable shares

- Treated as outstanding and included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied.
- Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.

3.4.4 Contingently returnable shares

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

3.4.5 Change in the number of shares without change in value of capital

Example	Treatment
- A capitalisation or bonus issue - A share split	- The number of ordinary shares outstanding is increased without an increase in resources. - The number of shares outstanding shall be adjusted as if the event occurred at the beginning of the earliest period presented.
- A reverse share split	- The number of ordinary shares outstanding is reduced without a reduction in resources. - The number of shares outstanding shall be adjusted as if the event occurred at the beginning of the earliest period presented.



3.4.6 Right issues

- Entities might raise additional capital by issuing shares to existing shareholders, on a pro rata basis to their existing holdings, in the form of a rights issue.
- The right shares can either be offered at the current market price or at a price that is below the current market price.
- A right issue usually includes a bonus element.

EPS Computation in case of Right shares:

Theoretical ex-rights (TERP) fair value per share=

$$\frac{\textit{FV of all outstanding shares before rights} + \textit{Total amount received from rights}}{\textit{No of original shares} + \textit{rights shares}}$$

Adjustment factor=
Fair value before rights issue
Theoretical ex-rights price
*Adjusting factor should be applied to adjust the shares outstanding before the right issue, both for the current and previous year.

Example
Rights issue 1:5 (1 shares for 5 issued)
Rights issue price – Rs. 15
Cum Rights Price – Rs. 20 [FV before rights]

TERP = (20x5)+(1x15)/(5+1)

$$\frac{(20x5) + (1x15)}{5 + 1} = 19.16$$

4. Measurement of Diluted Earnings Per Share

4.1 Meaning

Potential equity shares should be treated as dilutive when, and only when their conversion to equity shares would decrease net profit per share from continuing ordinary operations.

4.2 Formula

Computation of Diluted earnings per share =

Profit/Loss attributable to Equity share holders when dilutive potential shares are converted into ordinary shares
Weighted average number of Equity shares+ Weighted average number of dilutive potential ordinary shares

4.3 Calculation

- Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares **at the beginning of the period or the date of issue of the potential ordinary shares, whichever is later.**
- Potential ordinary shares that are canceled or lapsed during the period are included in the calculation of diluted earnings per share for the portion of the period during which they are outstanding.
- Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period till the date of conversion.



From the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.

- The conversion of the potential ordinary shares into ordinary shares should assume the most advantageous conversion rate or exercise price from the standpoint of the holder.
- Only potential ordinary shares that are dilutive are considered in the calculation of diluted earnings per share.

4.4 Steps for computing Diluted EPS

Step1 Compute Incremental EPS for each potential Ordinary share

- Incremental EPS=Effect of potential share on earnings to equity holders
- Effect of potential share on weighted average number of shares

Step2 Ranking

- Rank the various types of potential ordinary shares based on step1 above.First rank is given for least earning per incremental ordinary share and so on, in ascending order.

Step3 Compute Diluted EPS

- compute Basic EPS
- Add net profit and additional shares for each type of potential ordinary share, in ascending order.
- calculate Diluted EPS at each stage
- Select least Diluted EPS, which to be reported.If Diluted EPS increases at any point it will be considered Anti-Dilutive.

4.5 Shares of subsidiary, joint venture or associate

If the potential ordinary shares of the subsidiary, joint venture or associate have a dilutive effect on the basic earnings per share of the reporting entity, they are included in the calculation of diluted earnings per share.

4.6 Options, warrants and their equivalents

- The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration and should be included in the calculation of diluted earning per share.
- when the average market price of ordinary shares during the period exceeds the exercise price, Options and warrants have a dilutive effect, and Previously reported earnings per share are not retroactively adjusted to reflect changes in prices of ordinary shares.

4.7 Employee Stock Options

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

Dilutive effect on ESOP:

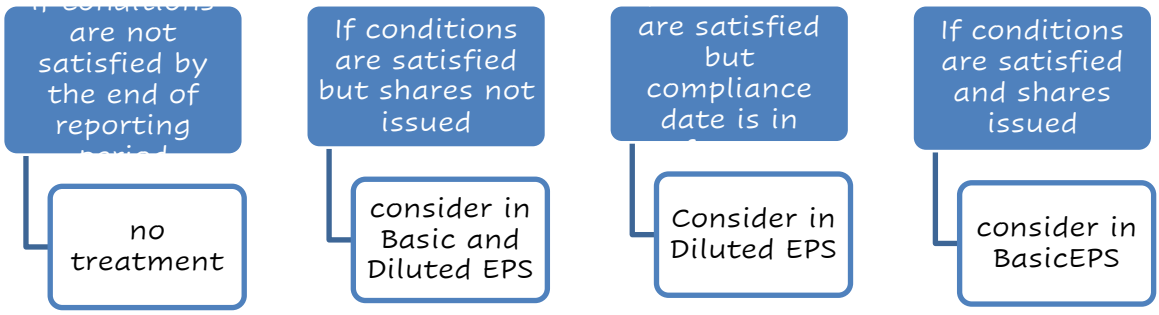
In case of vested ESOPs, potential equity shares will be calculated as:



Total ESOP - (exercise price x Number of options/average fair value)

4.8 Contingently issuable shares

Contingency involves some amount of uncertainty, it depends on happening or not happening of a particular event. If all the conditions which were uncertain become certain, one can include contingently issued shares in the calculation of Basic and diluted EPS.



4.9 Entity with discontinued operations

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

4.10 Convertible instruments

Convertible preference shares	Convertible debt
- The dilutive effect of convertible preference shares shall be reflected in diluted EPS. - Convertible preference shares are anti-dilutive when the amount of the dividend on such shares obtainable on conversion exceeds basic earnings per share (Incremental EPS>Basic EPS)	- The dilutive effect of convertible debt shall be reflected in diluted EPS. - Convertible debt is anti-dilutive whenever its interest (net of tax) per ordinary share obtainable on conversion exceeds basic earnings per share.

4.11 Contracts that may be settled in ordinary shares or cash

- When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.
- If contracts may be settled in ordinary shares or cash at the holder's option, the more dilutive cash settlement and share settlement shall be used in calculating diluted earnings per share.

4.12 Purchased options

Contracts such as purchased put options and purchased call options are not included in the calculation of diluted earnings per share because including them would be antidilutive.

4.13 Written put options



- Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive.
- If the exercise price is above the average market price, then-
  - It shall be assumed that at the beginning of the period sufficient ordinary shares will be issued and the proceeds from the issue are used to satisfy the contract.
  - Incremental ordinary shares shall be included in the calculation of diluted earnings per share.

5. Retrospective Adjustments

- If the number of ordinary or potential ordinary shares outstanding increases due to capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.
- If the changes occur after the reporting period but before the financial statements are approved for the issue, the per-share calculation for those and any prior period shall be based on the new number of shares.
- Basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

6. Participating equity instruments and two-class ordinary shares

1. The equity of some entities includes:
   - Instruments that participate in dividend with ordinary shares according to a predetermined with, at times, an upper limit on the extent of participation.
   - a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

2. Profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights:
   - profit or loss attributable to ordinary equity holders of the parent entity is adjusted by the amount of dividend for each class of shares.
   - the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed.
   - The total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

7. Presentation

- An entity shall present in the statement of profit and loss basic and diluted earnings per share.
- An entity shall present basic and diluted earnings per share with equal prominence for all periods.
- An entity shall present basic and diluted earnings per share even if it is negative.
- If the company does not have any potential ordinary shares, the company need not mention basic earnings per share and diluted earnings per share separately on two different lines. It can just mention on one line.
- One should not misunderstand that earnings per share have to be presented only when the company has profits.

8. Disclosure

- The amounts used as the numerators in calculating basic and diluted earnings per share and a reconciliation to the profit or loss.
- The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share and a reconciliation of the denominators to each other.
- Instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but not included in the calculation of diluted earnings per share.



- Description of ordinary share transactions or potential ordinary share transactions.



Indian Accounting Standard 34
INTERIM FINANCIAL REPORTING

1 Introduction

Ind AS 34

- Is largely Disclosure based standard
- Deals with how and what should be presented in Interim Financial statement

The objective of Ind AS 34:

- The minimum content of an interim financial report
- The principles for recognition and measurement in complete or condensed financial statements for an interim period.

2 Definition

2.1 Interim Financial Report

Interim Financial Report is a Financial report containing

- Complete set of Financial statement as per Ind AS 1 or
- Condensed set of Financial statement as described in Ind AS 34 for an Interim Period

2.2 Interim Period

Interim Period is a financial reporting period shorter than full financial year

$$Interim\ period\ < Yearly\ Reporting\ Period$$

As per Clause 41 of Listing agreement → Listed company required to submit quarterly unaudited Financial statement.

Example: Listed company - Interim Financial Report

1st Quarter (Q1)	2nd Quarter (Q2)	3rd Quarter (Q3)	4th Quarter (Q4)	Annual Financial Report
Apr, May & June	July, Aug & Sep	Oct, Nov & Dec	Jan, Feb & Mar	Apr to mar

Note:

- Ind AS 34 does not provide the Interim Period, it is determined by the listed agreement or any other statutory requirement.
- If an entity's interim financial report is described as complying with Ind AS, it must comply with all of the requirements of this Standard.

3 Complete set of Financial statement vs Condensed set of Financial statement

Content of Interim Financial Report can be either in	
Complete set of Financial statement	**Condensed set of Financial statement**
Balance sheet	Condensed balance sheet
Statement of Profit and loss	Condensed Profit and loss
Statement of Cash Flows	Condensed Cash flow statement
Statement of changes in equity	Condensed Statement of changes in equity
Full explanatory notes and other information	Selected noted and explanatory information
As per Ind AS 1	As per Ind AS 34 - Use headings from the latest annual financial statement - Present EPS - Include items whose omission would make the report misleading



Note:

- Ind AS 34 does not discourage or prohibit to provide Interim Financial statement in complete set.
- It intends that Interim FS has minimum disclosure/requirement as per Condensed set - Minimum requirement of Interim Financial statement

4 Period of Interim Financial statement

Period for which Interim Financial statement are required to be presented

Interim Financial Statement		Example: Interim Financial Statement for	
		Q2 ended 30-Sep-X2	**Q3 ended 31-Dec-X2**
Statement of P&L	For the Interim period	For July to Sep X2 (3Ms)	For Oct to Dec X2 (3Ms)
	On a Year to Date basis	For Apr to Sep X2 (6Ms)	For Apr to Dec X2 (9Ms)
	Comparative Information for both period	Comparative for Interim: For July to Sep X1 (3Ms)	Comparative for Interim: For Oct to Dec X1 (3Ms)
		Comparative for YTD: For Apr to Sep X1 (6Ms)	Comparative for YTD: For Apr to Dec X1 (9Ms)
Balance Sheet	At end of Interim period and comparative end of Previous Financial Year	As on 30-Sep-X2	As on 31-Dec-X2
		Comparative: As on 31-Mar-X2	Comparative: As on 31-Mar-X2
Cash Flow Statement	Cumulative YTD basis till end of Interim period & comparatives	For Apr to Sep-X2 (6Ms)	For Apr to Dec-X2 (9Ms)
		Comparative: For Apr to Sep-X1 (6Ms)	Comparative: For Apr to Dec-X1 (9Ms)
Statement of change in Equity	Cumulative YTD basis till end of Interim period & comparatives	For Apr to Sep-X2 (6Ms)	For Apr to Dec-X2 (9Ms)
		Comparative: For Apr to Sep-X1 (6Ms)	Comparative: For Apr to Dec-X1 (9Ms)

5 Significant Event and transaction occurred in the Interim Period

Significant Event and transaction occurred in the Interim Period

- Explain significant events and transaction
- Events and transaction having impact on Financial performance are only reported



The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive
•The write-down of inventories to net realisable value and the reversal of such write-down; •Recognition of a loss from the impairment of financial assets, property, plant and Equipment, intangible assets, assets arising from contracts with customers, or other assets, and the reversal of such an impairment loss; •The reversal of any provisions for the costs of restructuring; •Acquisitions and disposals of items of property, plant and equipment; •Commitments for the purchase of property, plant and equipment; •Litigation settlements •Corrections of prior period errors; •Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost; •Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period; •Related party transactions; •Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; •Changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and •Changes in contingent liabilities or contingent assets.

6 Recognition and Measurement

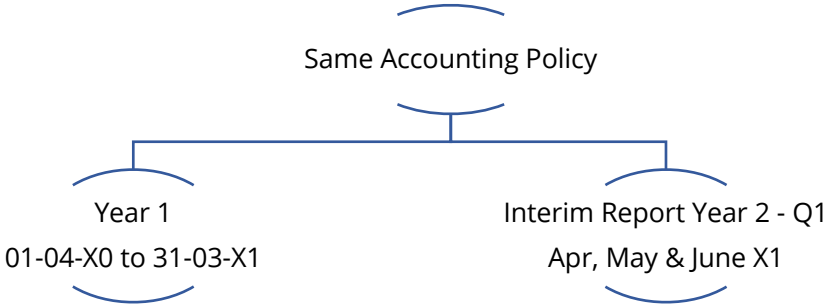
6.1 Recognition and measurement

- **Accounting policy:**
- **Valuation of specific head:**
  - Revenue, Cost and expense
  - Tax Expense Recognition
  - Allocation of Fixed Overhead

Note:
In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.

6.2 Accounting policy to prepare Interim Financial statement

- Same accounting policy has to apply same as applied in its annual financial statement.
- Policy can be changed provided the policy for interim and annual period is same.
- Change in estimate can be done.
- Measurement principal for Annual period should not be impacted by measurements in Interim reports.



6.3 Revenue, cost and Expense

- Take each Interim period as annual reporting period and account Revenue, Cost and expense incurred in respective period accordingly
- Revenue (received cyclically, occasionally or seasonally) → cannot be deferred or anticipated in advance.



- Cost and Expenses (Incurred unevenly during the financial year) → cannot be deferred or anticipated in advance.

Example:

	Q1	Q2	Q3	Q4
Revenue	110	50	45	55
Less: Expense	40	40	90	40
Profit/loss	70	10	(35)	15

In the above example,

- Revenue for Q1 is high due to seasonal revenue and it cannot be deferred to Q2, Q3 & Q4. It should be accounted in Q1 only.
- Expense for Q3 is high due to advertisement and it cannot be deferred to Q1, Q2 & Q4. It should be accounted in Q1 only.

6.4 Tax Expense Recognition

- Income tax expense is recognised in each interim period based on the best estimate of weighted average annual income tax rate expected for the full financial year.
- Amount accrued for income tax expenses in one interim period may have to be adjusted in the subsequent interim period of that financial year, if the estimate of annual income tax rate changes.

Example 1:

Quarters	Profit	Tax @ 20%	PAT
Q1	60	-12	48
Q2	-15	3	-12
Q3	-15	3	-12
Q4	-15	3	-12
Expected annual profit	15		
Tax rate	20%		
Income Tax	3		
Effective annual tax rate	3/15 = 20%		

Example 2:

Brought forward loss	600
Quarterly	900
Total Expected profit	3600 (900 X 4)
Less: Brought forward loss	-600
Taxable Income	3000
Tax Rate @ 40%	1200
Effective tax rate	33.33 % (1200/3600)

	Q1	Q2	Q3	Q4
Profit	900	900	900	900
Tax @ 33.33%	-300	-300	-300	-300
PAT	600	600	600	600

Assumption: There is no Deferred Tax Asset for the losses of previous period.
The Standard follows an Integral approach for Tax purpose → As we calculate Effective annual tax rate, considering overall annual period. Not discrete approach, Where each quarter independently. Hence Brought forward loss deducted from Total expected annual profit.

Case: Different Tax rate for different category of income

Example 1:

QUESTION:	
Estimated Taxable income (Includes capital gain of 8,00,000)	33,00,000
Capital gain	8,00,000



Other Income		25,00,000
	Other Income	**Capital Gain**
Q1	7,00,000	-
Q2	8,00,000	-
Q3	4,00,000	8,00,000
Q4	6,00,000	-
Total	**25,00,000**	**8,00,000**
Tax rates		
Capital gain	12%	
Others up to 5,00,000	30%	
Above 5,00,000	40%	

ANSWER:		
Tax payable		
Upto 5,00,000	5,00,000 X 30%	1,50,000
Balance 20,00,000	20,00,000 X 40%	8,00,000
Total Tax		9,50,000
Total of Income (Excluding capital gain)		25,00,000
Effective Tax rate	9,50,000/25,00,000	38%
Tax Expense on	**Other income @ 38%**	**Capital gain @ 12%**
Q1	2,66,000	
Q2	3,04,000	
Q3	4,00,000	96,000
Q4	2,28,000	
Total	9,50,000	96,000

Example 2:

	Profit	**Tax expense**
Q1	1,50,000	45,000
Q2	(50,000)	(15,000)
Q3	(50,000)	(15,000)
Q4	(50,000)	(15,000)
Total	0	0
Effective tax rate/ Prevailing tax rate		30%

Note:

- We have to calculate tax expense for Interim period by applying Effective tax rate/ Prevailing tax rate/ Estimate tax rate, even though tax expense for the whole annual period is zero.

Case: Financial period is different from the tax period → Different effective rate will be used for respective tax periods.

Example:

Financial year end: 31st Dec X1

Tax year end: 31st Mar X1

	Q1	**Q2**	**Q3**	**Q4**
End	31st Mar X1	30th June X1	30th Sep X1	31st Dec X1
Profit	10,000	10,000	10,000	10,000
Effective tax rate	25%	30%	30%	30%
Tax expense	2,500	3,000	3,000	3,000



6.5 Allocation of Overhead:

- Over Absorption of allocated Fixed Overhead → will be charged/debited to P&L
- Under Absorption of allocated Fixed overhead → will be credit to P&L

6.6 Restatement of previously reported interim periods

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

- Restating
  - The financial statements of prior interim periods of the current financial year and
  - the comparable interim periods of any prior financial years

  that will be restated in the annual financial statements in accordance with Ind AS 8; or
- If it is impracticable → Apply the new accounting policy prospectively from the earliest date practicable.

7 Disclosure

7.1 Disclosure of compliance with Ind AS

- If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed.
- An interim financial report shall not be described as complying with Ind ASs unless it complies with all of the requirements of Ind ASs.

7.2 Disclosure in Annual Financial Statements

- If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year
- but a separate financial report is not published for that final interim period
- the nature and amount of that change in estimate shall be disclosed
- in a note to the annual financial statements for that financial year.

7.3 Other Disclosures

The following should be disclosed either in

- Interim FS or
- Incorporated by cross-reference from the interim FS to other statement → that is available to users of FS

  On the same terms as the Interim FS and at the same time.

If Users of FS doesn't access to that cross-reference → then the Interim FS is incomplete

a. A statement that the same accounting policies and methods of computation are followed in the interim financial statements. If those recently used policies or methods have been changed, a description of the nature and effect of the change should also be given.
b. Explanatory comments about the seasonality or cyclicality of interim operations.
c. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.
d. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial year
e. Issues, repurchases and repayments of debt and equity securities.
f. Dividends paid (aggregate or per share) separately for ordinary shares and other shares.
g. The following segment information (disclosure of segment information is required in an entity's interim financial report only if Ind AS 108, Operating Segments, requires that entity to disclose segment information in its annual financial statements):
   - Revenues from external customers,
   - Inter segment revenues,
   - Measure of segment profit or loss.
   - Measure of total assets and liabilities for a particular reportable segment



- Description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.
- Reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations.

h. Events after the interim period that have not been reflected in the financial statements for the interim period.
i. The effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. Ind AS 34 1Fin by IndigoLearn 6 In the case of business combinations, the entity shall disclose the information required by Ind AS 103, Business Combinations.
j. For financial instruments, the disclosures about fair value of Ind AS 113, Fair Value Measurement, and Ind AS 107, Financial Instruments: Disclosures
k. For entities becoming, or ceasing to be, investment entities, as defined in Ind AS 110, Consolidated Financial Statements, the disclosures in Ind AS 112, Disclosure of Interests in Other Entities
l. The disaggregation of revenue from contracts with customers required by Ind AS 115.



Ind AS 108
OPERATING SEGMENTS

1 Core principle

An entity shall disclose information

- ✓ to users of financial statements to evaluate
  - a) The nature and
  - b) Financial effects of business activities in which
    - it engages
    - the economic environment in which its operates

2 Scope

Ind AS 108 applies to –

- ✓ Companies to which Ind AS is applicable
- ✓ If an entity is not required to apply with Ind AS 108 -
  - ✓ Chooses to disclose information about segments that does not comply with Ind AS 108
  - ✓ Shall not describe information as segment information.
- ✓ If Financial report contains -
  - ✓ both consolidated financial statement as well as parent's separate financial statements
  - ✓ segment information is required only in consolidated financial statements

3 Operating segments

1. Not every part of an entity is necessarily an operating segment or
2. part of an operating segment.

3.1 Identification of operating segments

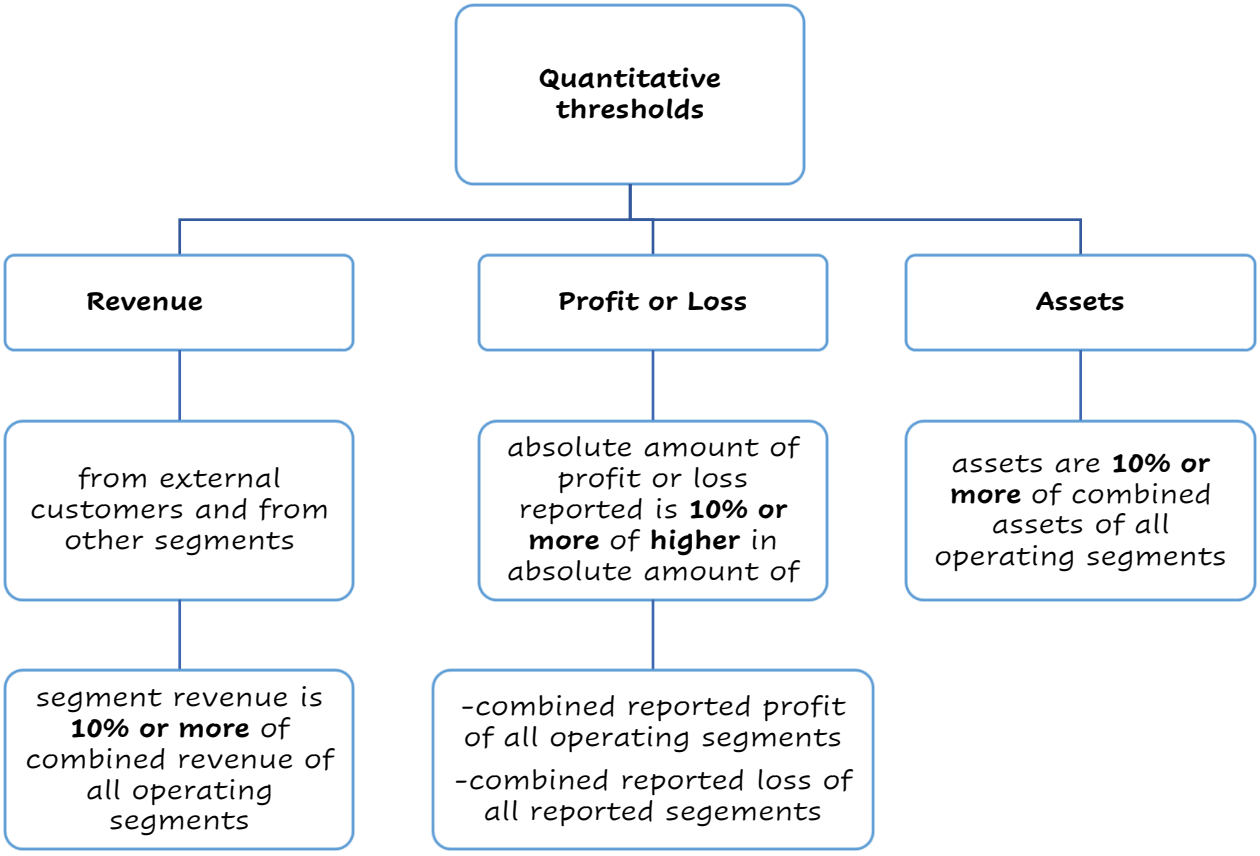
An operating segment is **component of entity**

- That engages in business activities
- from which it may earn revenues and incur expenses (including from transactions with other components of the entity)
- may engage in business activities for which it has yet to earn revenues
- Whose operating results are regularly reviewed by the entity's chief operating decision maker [CODM] (CEO, COO, Group of Directors of operations/production/ geographical area)
- to make decisions about resources to be allocated to the segment and assess its performance
- For which **discrete** financial information is available

3.2 Identification of Reporting segments- Quantitative threshold

A reportable segment is an operating segment or aggregation of operating segments that meets any one of the three quantitative thresholds.





Points to Remember

- ✓ If above quantitative threshold (at least 10%) criteria are satisfied, then such segment has to be reported separately.
- ✓ After identifying reportable segments, if the **total external revenues of all reportable segments < 75%** of the entity's total external revenues, additional segments must be designated as reportable (even if they fail the 10% tests) until the 75% threshold is met.
- ✓ Even if a segment does not satisfy the criteria but management believes that information about segment would be useful to users of financial statements, such segment should be reported separately.
- ✓ Operating segments that do not meet any threshold and are not separately reported are combined and disclosed as **"All Other Segments"**.

3.3 Aggregation Criteria

Two or more operating segments may be aggregated into single operating segment if aggregation is consistent with the **core principle** of Ind AS 108

Segments are similar in each of following respects-

a) Nature of product and services
b) Nature of production process
c) Type or class of customer for their product and services
d) Method use to distribute their products and services
e) If applicable, nature of regulatory requirement

4 Disclosure requirements

4.1 General information

- Factors used to identify the entity's reportable segments, including the basis of organisation

a) Product and services



b) Geographical areas
c) Regulatory requirement
d) A combination of factors and whether operating segments have been aggregated

- Judgments made by management in applying aggregation criteria

- Types of products and service from which each reportable segment derives its revenue

4.2 Information about profit or loss

- Revenues from external customer
- Revenues from transaction with operating segments of the same entity
- Interest revenue
- Interest expense
- Depreciation and amortisation
- Material items of income an d expenses disclose in accordance with Ins AS 1 presentation and disclosure
- The entity's interest in profit or loss of associate and joint venture accounted by equity method
- Income tax expense or income
- Material non-cash items other than depreciation and amortisation

4.3 Information about assets and liabilities

- The amount of investment in associates and joint venture accounted for by the equity method.
- The amounts of addition to on-current assets other than financial instrument, deferred tax assets, net defined benefit assets and rights arising under insurance contracts.

4.4 Measurement- Segment information

An entity should provide an explanation of the measurement of segment profit or loss, segment assets and liabilities for each reportable segment.

At a minimum, an entity should disclose following

✓ **Basis of accounting** for any transactions between reportable segments
✓ Nature of any difference between the measurements of the reportable segments , **profit or losses** and the entity's profit or loss before income tax expense or income and discontinued operation
✓ Nature of any difference between measurement of reportable segments **assets and liabilities** and the entity's assets and liabilities
✓ Nature of any changes from **prior period** in the measurement methods used to determine reported segment profit or loss and effect, if any of those changes on the measurement of segment profit or loss
✓ Nature and effect of any **asymmetrical allocation** to reportable segment

4.5 Reconciliations

- the total of the reportable segments' revenues to the entity's revenue;
- the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations.
- the total of the reportable segments' assets to the entity's assets if the segment assets are reported;
- the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported; and
- the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

4.6 Restatement of previously reported information



When an entity **restructures its internal organisation**, causing its reportable segments to change, it must **restate segment information of prior periods** (including interim periods) to reflect the new structure.

Exception: Restatement is not required if the information is unavailable or the cost to develop it is excessive.

If restatement is not done, the entity must, in the year of change, disclose segment information for the **current period on both the old and new basis**, unless doing so is unavailable or excessively costly.

4.7 Entity wide disclosures

Some entities do not organise their business around products/services or geography. As a result, their reportable segments may cut across multiple products or regions or multiple segments may deal in the same products or operate in the same geography.

In such cases, certain additional information must still be disclosed **but only to the extent it is not already covered** in the reportable segment disclosures.

4.8 Information about products and services

An entity must report **revenues from external customers** for each product/service (or group of similar products/services).

- Amounts must be based on the **financial information used in preparing the financial statements**.
- If the information is **unavailable or excessively costly** to develop, that fact itself must be disclosed.

4.9 Information about geographical areas

Unless unavailable or excessively costly, an entity must disclose:

A. Revenues from external customers:

- Revenues from the entity's **home country (country of domicile)**
- Revenues from **all foreign countries combined**
- If revenue from any **individual foreign country is material**, disclose it separately
- The **basis used to attribute revenues** to individual countries must also be disclosed

B. Non-current assets *(excluding financial instruments, deferred tax assets, post-employment benefit assets, and rights under insurance contracts)*:

- Assets located in the **home country**
- Assets located in **all foreign countries combined**
- If assets in any **individual foreign country are material**, disclose separately

All amounts must be based on the financial information used in preparing the financial statements. The entity may also voluntarily provide subtotals for **groups of countries**.

4.10 Information about major customers

If revenue from **a single external customer ≥ 10%** of the entity's total revenues, the entity must disclose:



- That fact (i.e., such a customer exists)
- The **total revenue** from each such customer
- The **segment(s)** that report those revenues

⚠️ The entity does **not** need to name the customer or break down revenue segment-by-segment for that customer.

Who counts as a "single customer"?

- A **group of entities under common control** = one customer
- **Government entities** - judgment is required. Whether a government and entities under its control are treated as a single customer depends on the **degree of economic integration** between them.

Significant differences in Ind AS 108 Vis-à-vis AS 17

#	Particulars	Ind AS 108	AS 17
1	Approach for Identification of Segments	Identification is based on the 'management approach' where operating segments are identified based on internal reports regularly reviewed by the chief operating decision maker (CODM).	Segments are identified based on related products/services and geographical areas using the risks and returns approach, with primary and secondary segments.
2	Basis for Reporting the Segments	Amounts reported for each segment are measured on the same basis as used by the CODM for allocating resources and assessing performance. Terms like segment revenue, expense, assets, and liabilities are not specifically defined.	Segment information must conform to the accounting policies used for preparing financial statements. Terms like segment revenue, expense, assets, and liabilities are defined.
3	Aggregation Criteria	Specifies criteria for aggregation of segments and requires related disclosures.	No specific provisions for segment aggregation.
4	Disclosure in Case of Single Reporting Segment	Certain disclosures are required even for entities with a single reportable segment.	If there is only one business or geographical segment, segment information is not required, but this fact must be disclosed via a footnote.
5	Disclosure of Interest	Requires separate disclosures about interest revenue and expense for each reportable segment but does not specifically address interest as part of segment expenses.	Interest expense on overdrafts and operating liabilities identified with a segment should not be part of segment expense. If interest is included as a cost of inventory in segment assets, it should be treated as segment expense. These aspects are specifically covered.
6	Disclosure Basis	Requires disclosures of revenues from external customers for each product/service, geographical revenues (domestic and foreign), non-current assets (domestic and foreign), and major customer details.	Disclosures depend on whether segments are primary or secondary, with more detailed requirements for primary segments.



IND AS 101

FIRST TIME ADOPTION OF INDIAN ACCOUNTING STANDARDS

1 Objective

The purpose of this Ind AS 101 is

- To explain the process of transition to Ind AS from different GAAP's (Indian GAAP)
- To remove the difficulties of retrospective applications as specified under each Ind AS
- This standard also provides guidance to prepare the opening balance sheet to get suitable starting point for accounting as per Ind AS.

The objective of this Ind AS is to ensure that an entity's first Ind AS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- Is transparent for users and comparable over all periods presented
- Can be generated at a cost that does not exceed the benefits

2 Scope

An entity shall apply this Ind AS in:

- Its first Ind AS financial statements; and
- Each interim financial report, if any, that it presents in accordance with Ind AS 34, Interim Financial Reporting, for part of the period covered by its first Ind AS financial statements.

3 Definitions

3.1 First time adopter

An entity that presents its first Ind-AS financial statements, that entity is known as first time adopter.

3.2 Date of Transition

The beginning of the earliest period for which an entity presents full comparative information under Ind AS in first Ind AS financial statements.

3.3 Opening Ind AS Balance Sheet

The entity's balance sheet at the date of transition to Ind AS

4 Recognition and Measurement

4.1 Opening Ind AS Balance Sheet

An entity shall prepare and present an opening Ind AS balance sheet at the date of transition to Ind AS. This is the starting point for its accounting in accordance with Ind AS.

4.2 Accounting policies

Entity uses the same accounting policies in its opening Ind AS Balance Sheet and through all periods presented in its first Ind AS financial statements. Those accounting policies shall comply with each Ind AS effective at the end of its first Ind AS reporting period, subject to:

- Mandatory exceptions and
- Optional exemptions.

An entity shall, in its opening Ind AS balance sheet:

- Recognise all assets and liabilities whose recognition by Ind AS
- Not recognise as assets or liabilities if Ind AS does not permit such recognition
- Reclassify items that it recognised in accordance with previous GAAP as one tupe of assets, liability or component of equity, but are different type of asset, liability or component of equity in accordance with Ind AS
- Apply Ind AS in measuring all recognised assets and liabilities



It means, we have to prepare First Ind AS financial statements as if we were following Ind AS from the date of incorporation. i.e., retrospective application except the exemptions provided and additional guidance given in the standard. There will be few differences due to difference in accounting policies followed in previous GAAP and under Ind AS. Those differences related to a period till the date of transition to Ind AS should be recognised directly in retained earnings (or if appropriate, another category of equity) at the date of transition to Ind AS

5 Comparative Information

The first Ind AS financial statements of any entity shall include atleast

- Three Balance Sheets. (i.e., Current Year, Previous Year and Opening balance sheet of Previous year)
- Two statements of profit and loss
- Two statements of cash flows
- Two statements of changes in equity
- Related notes, including comparative information

6 Historical summaries and comparative information

Any financial statements containing historical summaries or comparative information in accordance with previous GAAP – Actually these are not required by Ind AS. If the entity is presenting, it shall:

- Label the previous GAAP information prominently as not being prepared in accordance with Ind AS and
- Disclose the nature of the main adjustments that would make it to comply with Ind AS. An entity need not to quantify those adjustments

7 Explanation of transition of Ind AS

An entity shall explain how the transition from previous GAAP to Ind AS affected its reported Balance sheet, financial performance and cash flows.
As part of explanation of transition, it should provide the following:

- Sufficient detail to understand adjustment to each line item
- Present reconciliation of Equity
  - ✓ Date of transition to Ind AS and
  - ✓ Latest period presented financials in with previous GAAP
- If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- If the entity recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet, the disclosures that Ind AS 36- Impairment of Assets, would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Ind AS.
- If an entity changes its accounting policies or its use of the exemptions contained in this Ind AS, it shall explain the changes in each such interim financial report and update the reconciliations required.
- If adopted first time exemption option, disclose the fact and accounting policy until such time those PPE, intangible asset, investment properties or intangible assets significantly depreciated/impaired/derecognised.

8 Estimates

An entity estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP, (after

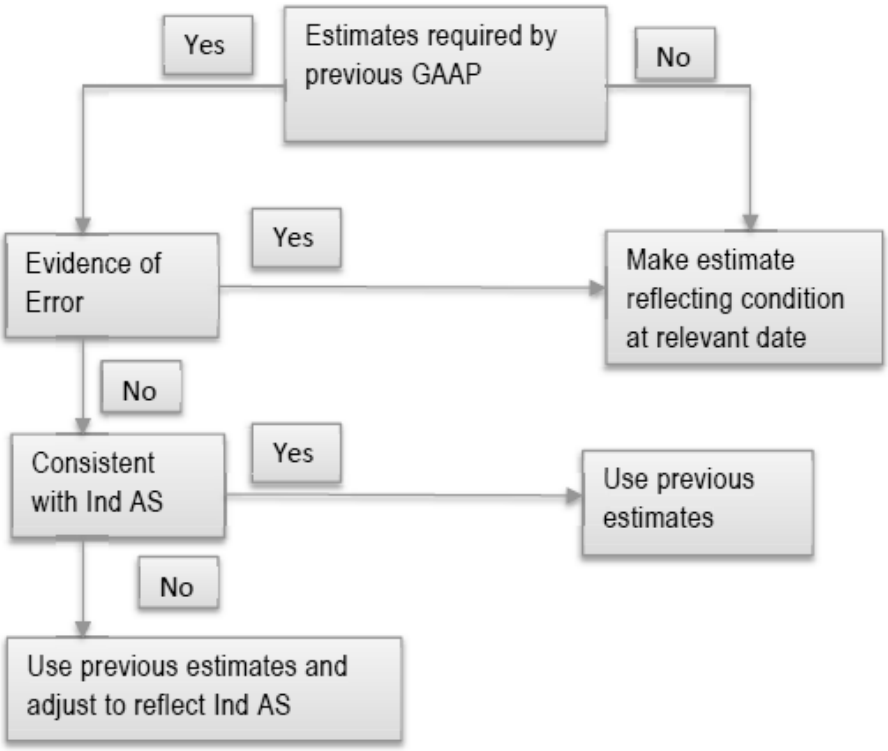


adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

The entity should consider the information as on date of transition. Any information received subsequently should be considered as non-adjusting and it should not be considered for estimation.

For Example:
Date of transition is 1st April 2015 and entity received new information on 15th July 2015, which required the revision of an estimate made in accordance with previous GAAP at 31st March, 2015. The entity shall not consider the new information in its opening Ind-AS Balance Sheet, unless the estimate made in error on 31st March 2015 or the estimates need adjustment for any differences in accounting policies.

If under previous GAAP, few estimates are not required but these may be required in Ind AS – Such estimates should reflect the conditions that existed at the date of transition to Ind AS.
For Example:
Market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.



9 Mandatory Exemptions

First Ind AS financials should be prepared as if Ind AS followed from the date of incorporation. It leads to retrospective restatement but there are some exemptions.

- Mandatory exemptions to retrospective application and
- Optional exemptions i.e., an entity may elect to use one or more of the exemptions given.

An entity shall not apply these exemptions by analogy (similar) to other items.

The following are the **mandatory exceptions** to retrospective application i.e., follow prospectively the accounting treatment mentioned in the respective standards.



9.1 De-recognition of financial assets and financial liabilities

A first-time adopter shall apply the de-recognition requirements in Ind AS 109 **prospectively** for transactions occurring on or after the date of transition to Ind AS.

An entity may apply the de-recognition requirements in Ind AS 109 **retrospectively** from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions

9.2 Hedge accounting

At the date of transition to Ind AS an entity shall:

(a) measure all derivatives at fair value; and

(b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.

If the hedge relationship:

(a) is of a type that qualifies for hedge accounting and

(b) is designated under Indian GAAP

then:

(i) the hedge relationship is required to be reflected in the opening Ind AS Balance Sheet, irrespective of whether other conditions for applying hedge accounting (i.e. documentation and effectiveness) are met; and

(ii) If those conditions are not met, requirements of Ind AS 109 with respect to discontinuance of hedge accounting are applied subsequently.

9.3 Non-Controlling interests

A first-time adopter shall apply the following requirements of Ind AS 110 prospectively from the date of transition to Ind AS:

(a) Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

(c) Accounting for a loss of control over a subsidiary, and the related requirements of Ind AS 105, Non-current Assets Held for Sale and Discontinued operations i.e. classification of all the assets and liabilities of that subsidiary as held for sale.

However, if a first-time adopter elects to apply Ind AS 103 retrospectively to past business combinations, it shall also apply Ind AS 110 from that date.

9.4 Classification and measurement of financial assets

Ind AS 109 requires assessment of classification of financial asset as on date of its initial recognition.

Ind AS 101 provides an exception to this general principle by requiring that such assessment should be done on the date of transition to Ind AS.

Ind AS 101 further provides that if it is impracticable to assess the below mentioned features of a financial asset as at the date of transition to Ind AS, the "contractual cash flow characteristics test" shall be done without taking into account those features:

(i) Modified time value of money element

(ii) Significance of the fair value of a prepayment feature

An entity shall disclose the carrying amount of such financial assets until those financial assets are derecognized.



Ind AS 109 requires the measurement of amortised cost of a financial asset or a financial liability using effective interest method. As an exception to this general measurement principle, Ind AS 101 provides that if it is impracticable (as defined in Ind AS 8) for an entity to apply retrospectively the effective interest method in Ind AS 109, the fair value of the financial asset or the financial liability at the date of transition to Ind AS shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to Ind AS.

9.5 Impairment of financial assets

At the date of transition to Ind AS, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised

An entity is not required to undertake an exhaustive search for information when determining, at the date of transition to Ind AS, whether there have been significant increases in credit risk since initial recognition.

If, at the date of transition to Ind ASs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised, unless that financial instrument is low credit risk at a reporting date.

9.6 Embedded derivatives

A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of

(a) the date it first became a party to the contract and
(b) the date a reassessment is required by Ind AS 109 i.e. when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

9.7 Government loans

A first-time adopter shall apply the requirements in Ind AS 109, Financial Instruments, and Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to Ind AS and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.

An entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the date of transition to Ind ASs, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.

10 Optional Exemptions

The following are the optional exemptions from retrospective application of other Ind AS

10.1 Exemptions for business combinations – Ind AS 103

- Ind AS 103 is not required to be applied to business combination before the date of transition.

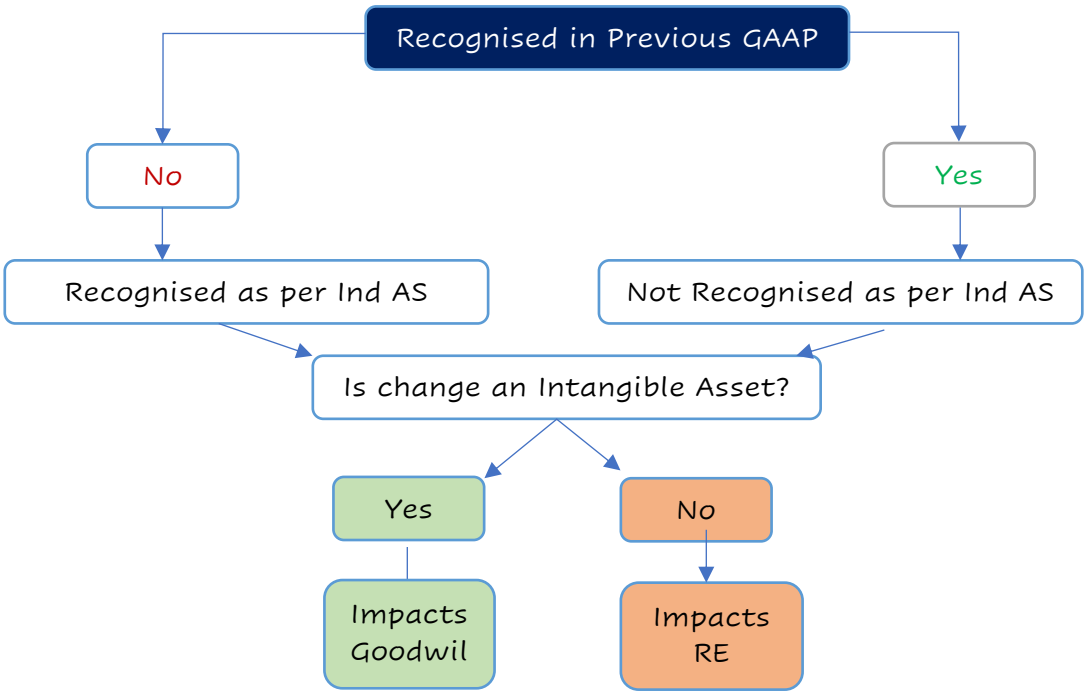


- If one business combination is restated to comply with Ind AS 103, all subsequent business combinations are restated.

Recognition Exemptions

a. If an Asset or Liability was not recognised as per Previous GAAP and would not be recognised as per Ind AS, these are ignored.
b. If an Asset or Liability is recognised in previous GAAP, then decision is as below





Measurement Exemptions

a. If an asset acquired or liability assumed was not recognized in previous GAAP but would have been recognised in Ind AS, it shall not have a deemed cost of zero and shall be measured at the amount at which Ind AS would require it to be measured. The resulting change is recognised in retained earnings.

b. If an asset acquired or liability assumed was recognized in previous GAAP but Ind AS would require its subsequent measurement at other than original cost (for example, investments in certain equity instruments as per Ind AS 109), it shall be measured at such basis (as per Ind AS) and not its original cost. The resulting change is recognised in retained earnings.

10.2 Share based payments – Ind AS 102

A first-time adopter is encouraged, but not required, to apply Ind AS 102, Share-based Payment, to equity instruments that vested before date of transition to Ind AS.

However, a first-time adopter may apply Ind AS 102 to equity instruments, if it has disclosed publicly the fair value of those equity instruments, determined at the measurement date.

It is encouraged to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind AS.

10.3 Deemed cost for PPE, intangible assets and right of use assets – Ind AS 16, Ind AS 38, Ind AS 116

- Measurement basis as per the respective standards applied retrospectively. This measurement option can be applied on an item-by-item basis.

- Fair value at the date of transition to Ind AS. This measurement option can be applied on an item-by-item basis

- Previous GAAP revaluation, if such revaluation was, at the date of revaluation, broadly comparable to (a) fair value or (b) cost or depreciated cost in accordance with other Ind AS adjusted to reflect changes in general or specific price index. This measurement option can be applied on an item-by-item basis in similar fashion.



- Previous GAAP carrying amounts (provided there is no change in functional currency). This measurement option can be applied only if applied to "all" of the assets classes and items therein. In addition, this measurement option can be applied to investment property (Ind AS 40) as well.

10.4 Cumulative translation differences – Ind AS 21

There is no need to

- Recognise some translation differences in other comprehensive income.
- Reclassify cumulative translation differences for foreign operation from entity to profit or loss as part of gain or loss on its disposal

If first time adopter uses this exemption

- Cumulative translation differences set to zero for all foreign operations.
- Gain / loss on subsequent disposal of a foreign operation shall exclude these differences that arose before transition

10.5 Other Optional Exemptions

- **Investments in subsidiaries, joint ventures & associates – Ind AS 27**
  IND AS 27 requires measurement of investments in subsidiaries, joint ventures and associates either at (a) cost or (b) in accordance with IND AS 109

  IND AS 101 permits a first time adoptor to measure such investments at:
  - ❖ Cost determined in accordance with IND AS 27 or
  - ❖ Deemed cost:
    - Fair value at the date of transition or
    - Previous GAAP carrying amount at the date of transition.

- **Compound financial instruments – Ind AS 109**
  A first time adoptor need not split the compound financial instruments into separate liability and equity component, if liability component is not outstanding as at transition date.

- **Designation of previously recognised financial instruments – Ind AS 109**
  All financial instruments are initially measured at fair value. Ind AS 109 allows entities to subsequently measure these at fair value.

  Normally, designation of financial instruments at **FVTPL or FVTOCI** should be done at initial recognition retrospectively. However, a first-time adopter gets a **one-time relief** to make this designation **on the transition date** based on facts and circumstances existing at that point - meaning they need not go back and redesignate from the original date. This exemption covers both **designation of any financial asset or liability at FVTPL** and **designation of equity investments at FVTOCI**, making the transition practically easier.

- **Fair value measurement of financial assets or financial liabilities at initial recognition – Ind AS 109**
  As per IND AS 109, if:
  - ➢ The fair value of the financial asset or financial liability at initial recognition differs from the transaction price, and
  - ➢ Such fair value is not based on:
    - ❖ Level 1 inputs or
    - ❖ Valuation technique that uses only data from observable markets

  then, such difference is deferred and amortised in profit or loss on the basis stated in IND AS 109.

  Ind AS 101 permits application of these principles prospectively.

- **Decommissioning liabilities included in the cost of PPE – Ind AS 16**
  - ➢ Measure the liability as at the transition date as per IND AS 37



- If the liability is in the scope of Appendix A to IND AS 16, roll-back that liability to the date that liability first arose using best estimate of historical risk-adjusted discount rate and include it in the cost of the asset , and
- Calculate accumulated depreciation on the transition date on the basis of estimated useful life as at that date.

- **Extinguishing financial liabilities with equity instruments – Ind AS 109**
  Appendix D of IND AS 109 provides for accounting principles to be applied when an entity's equity instruments are issued to extinguish all or part of its financial liability. A first time adopter may apply Appendix D of IND AS 109 from the date of transition to IND AS

- **Joint arrangements – Ind AS 28**

  From Proportionate Consolidation to Equity Method

  - Investment = total carrying amount of earlier assets + liabilities (including goodwill)
  - Check for impairment
  - Any loss or negative balance is adjusted in **retained earnings**

  From Equity Method to Assets & Liabilities (Full Recognition)

  - Remove (derecognise) the investment
  - Recognise underlying assets and liabilities separately
  - Difference : adjust first in **goodwill**, then in **retained earnings**
  - Give reconciliation in **separate financial statements**

- **Non current assets held for sale and discontinued operations – Ind AS 105**
  - Measure non-current assets held for sale or discontinued operation at the lower carrying value and fair value less cost to sell at the date of transition to IND AS in accordance with IND AS 105,
  - Recognize directly in retain earnings any difference between that amount and the carrying amount of those assets at the date of transition to Ind AS determined under the entity's previous GAAP

- **Stripping cost – Ind AS 16.**
  A first-time adopter may apply Appendix B to IND AS 16 on stripping costs in the production phase of a surface mine prospectively from the date of transition to IND AS. Any previously recognised stripping asset balance as at the transition date shall be reclassified as part of an existing asset to which the stripping activity relates, to the extent an identifiable component of the ore body can be associated with the predecessor stripping asset..

- **Insurance Contracts**
  Ind AS 117 will apply for annual periods beginning on or after date of transition to Ind AS.
  If an insurer changes its accounting policies for insurance liabilities, it is permitted to reclassify some or all of its financial assets as fair value through profit or loss.

- **Long-term foreign currency monetary items**
  Paragraph 46A of AS 11 notified under the Companies (Accounting Standards) Rules, 2006 permitted companies to recognise foreign currency exchange gain / loss arising on long-term foreign currency monetary items in either of the following ways:



- In profit or loss
- If it is related to depreciable asset – adjust in cost of such asset.
- If for any other purpose - accumulated in foreign currency monetary item translation difference account (FCMITDA)

The entity can continue to apply para 46A of AS 11 for long term foreign currency monetary items originated till the date of transition. The exemption is not available for new items.

- **Severe Hyperinflation**
  In a hyperinflationary economy, where the date of transition to IND AS falls on or after the functional currency normalisation date, all assets and liabilities held before that date may be measured at fair value on the transition date, which may be used as deemed cost in the opening IND AS statement of financial position. Where the functional currency normalisation date falls within the 12-month comparative period, the comparative period may be shorter than 12 months, provided a complete set of financial statements as required by IND AS 1 is presented for that shorter period.

- **Leases**

a. **Identify Lease** :Check whether arrangement contains a lease **based on facts at transition date**
b. Recognition at Transition

Lease Liability

- Measure at **PV of remaining lease payments**
- Discount using **Incremental Borrowing Rate (IBR) at transition**

ROU Asset – Two Options

- **Option 1 (Full retrospective):**
  Carrying amount as if Ind AS 116 applied from beginning (using transition date IBR)
- **Option 2 (Simplified):**
  Equal to lease liability
  ± adjust for **prepaid / accrued lease payments**
- Apply **Ind AS 36 (impairment)** to ROU asset

c. **Practical Expedients (Lease-by-lease choice)**

- Single discount rate for **similar leases**
- Leases ending within **12 months : treat as short-term**
- **Low-value leases** exemption allowed
- Ignore **initial direct costs**
- Use **hindsight** for extension/termination options

- **Financial asset or intangible assets accounted for in accordance with Appendix D to Ind AS 115, Service Concession Arrangements**
  Changes in accounting policy under this Appendix must be applied retrospectively, except for the amortization policy of toll road intangible assets adopted under previous GAAP.



Where retrospective application is impracticable, the operator may recognise both financial assets and intangible assets at their previous GAAP carrying amounts as at the date of transition to Ind AS.

- **Designation of contracts to buy or sell a non-financial item**
  Ind AS 109 allows certain contracts to buy or sell non-financial items to be designated at fair value through profit or loss (FVTPL), and on first-time adoption, an entity may apply this designation to contracts already existing at the transition date, provided they meet the requirements of paragraph 2.5 of Ind AS 109 at that date and the entity designates all similar contracts consistently.

- **Revenue from Contract with customers**
  On retrospective application of Ind AS 115, an entity may avail any of the following practical expedients:

  Completed contracts beginning and ending in the same annual reporting period need not be restated; completed contracts with variable consideration may use the final transaction price at completion rather than re-estimating it for comparative periods; and for all periods before the first Ind AS reporting period, disclosure of transaction price allocated to remaining performance obligations and expected recognition timing is not required.

d. Presentation and Disclosure

a. Comparative Information

Ind AS does not require historical summaries to comply with the recognition and measurement requirement of Ind AS.
In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

- Label the previous GAAP information prominently as not being prepared in accordance with Ind AS; and
- Disclose the nature of the main adjustments that would make it comply with Ind AS. An entity need not quantify those adjustments

b. Explanation of transition to Ind AS

- Reconciliation of
  (a) Equity from previous GAAP to Ind AS at transition and last year end;
  (b) Last year's total comprehensive income under previous GAAP to Ind AS.
- Sufficient detail to understand adjustments to each line item.
- Reconciliation to distinguish correction of errors identified during transition from change in accounting policy.
- Fair value as deemed cost and the amount of the adjustment.
- Ind AS 36 disclosures for impairment during transition.
- If adopted first time exemption option, to disclose the fact and accounting policy until such time those PPE, Intangible Assets, investment properties or intangible assets significantly depreciated/impaired/derecognized.
- Interim financial reports to include reconciliation with equity and profit or loss under previous GAAP.
- Further information to comply with Ind AS 34.

e. Carve outs in Ind AS 101 from IFRS 1

a. Definition of previous GAAP under Ind AS 101

As per IFRS

- IFRS 1 defines previous GAAP as the basis of accounting that a first - time adopter used immediately before adopting IFRS.

Carve out



Ind AS 101 defines previous GAAP as the basis of accounting that a first-time adopter used for its reporting requirement in India immediately before adopting Ind AS. The change made it mandatory for Indian entities to consider the financial statements prepared in accordance with notified Accounting Standards as was applicable to them as previous GAAP when it transitions to Ind AS.

Reason

The change makes it mandatory for Indian companies to consider the financial statements prepared in accordance with Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 as previous GAAP when it transitions to Ind AS as the law prevailing in India recognises only the financial statements prepared in accordance with the Companies Act, 2013.

b. Allowing the use of carrying cost of Property, Plant and Equipment (PPE) on the date of transition of Ind AS 101

As per IFRS

IFRS 1 First time Adoption of International Accounting Standards provides that on the date of transition, either the items of Property, Plant and Equipment shall be determined by applying IAS 16 Property, Plant and Equipment retrospectively or the same should be recorded at fair value or a previous GAAP revaluation, subject to certain requirements.

Carve out

Paragraph D7AA of Ind AS 101 provides an additional option to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

Reason

In case of old companies, retrospective application of Ind AS 16 or fair values at the date of transition to determine deemed cost may not be possible for old assets. Accordingly, Ind AS 101 provides relief to an entity to use carrying values of all items of property, plant and equipment on the date of transition in accordance with previous GAAP as an acceptable starting point under Ind AS.

c. Long Term Foreign Currency Monetary Items

As per IFRS

No provision in IFRS 1.

Carve out

Ind AS 101 provides that a first-time adopter may continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Consequently, Ind AS 21 also provides that it does not apply to long-term foreign currency monetary items for which an entity has opted for the exemption given in Ind AS 101. Such an entity may continue to apply the accounting policy so opted for such long-term foreign currency monetary items.

Reason

AS 11 provides an option to recognise long term foreign currency monetary items as a part of the cost of property, plant and equipment or to defer its recognition in the statement of profit and loss over the period of loan in case the loan is not related to acquisition of fixed assets. To provide transitional relief, such entities have been given an option to continue the capitalisation or deferment of exchange differences, as the case may be, on foreign currency borrowings obtained before the beginning of first Ind AS reporting period.

d. Intangible assets arising from service concession arrangements related to toll roads accounted for in accordance with Appendix D, Service Concession Arrangements to Ind AS 115, Revenue from Contracts with Customers

As per IFRS

No provision in IFRS 1.

Carve Out

Ind AS 101 permits a first-time adopter to continue with the policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately



before the beginning of the first Ind AS financial reporting period as per the previous GAAP.

As a consequence to the above, paragraph 7AA has been inserted in Ind AS 38 to scope out the entity, to apply amortisation method, that opts to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period as per the exception given in Ind AS 101.

Reason:

Schedule II to the Companies Act, 2013, allows companies to use revenue based amortisation of intangible assets arising from service concession arrangements related to toll roads while Ind AS 38, Intangible Assets, allows revenue based amortisation only in the circumstances in which the predominant limiting factor that is inherent in an intangible asset is the achievement of revenue threshold. In order to provide relief to such entities, Ind AS 38 and Ind AS 101 have been amended to allow the entities to continue to use the accounting policy adopted for amortization of intangible assets arising from service concession arrangements related to toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial statements. In other words, Ind AS 38 would be applicable to the amortisation of intangible assets arising from service concession arrangements related to toll roads entered into after the implementation of Ind AS.

e. Land and building element in lease contracts

As per IFRS

No provisions under IFRS 1.

Carve Out

An entity which is a lessor can use the transition date facts and circumstances for lease arrangements which includes both land and building elements to assess the classification of each element as finance or an operating lease at the transition date to Ind AS. Also, if there is any land lease newly classified as finance lease then the first time adopter may recognise assets and liability at fair value on that date; any difference between those fair values is recognised in retained earnings.

Reason

This aspect is quite common in the Indian environment and it was felt that the first time adopters may face hardship if they were to retrospectively assess the two elements of the contract.



Indian Accounting Standard 32, 109 & 107
FINANCIAL INSTRUMENTS

1 Introduction

Ind AS 107 – Financial Instruments: Disclosures
> Disclosure

FINANCIAL INSTRUMENT

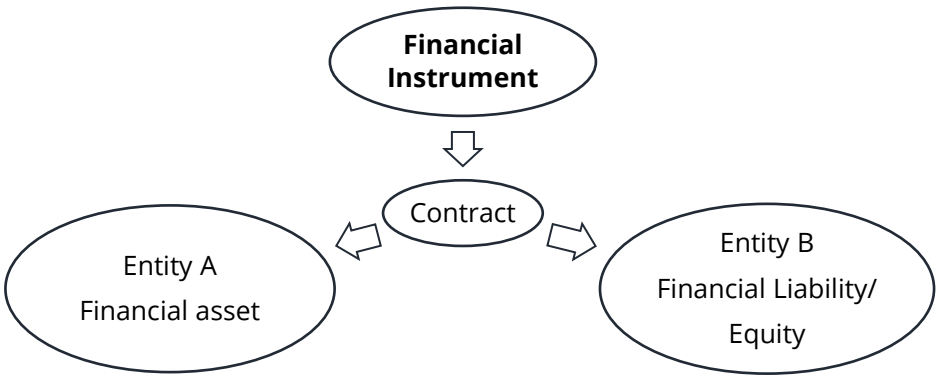
Ind AS 32 – Financial instruments: Presentation
> Definition
> Clasification as Liability v/s Equity
> Compound Financial instrument
> Offsetting financial asset & Liability
> Presentation of Interest, dividend, losses & gains

Ind AS 109 – Financial instruments:
> Classification of Financial asset & Financial liabilities
> Measurement of Financial asset & Financial liabilities
> Impairment Recognition & derecognition of financial asset & Liability
> Derivatives & Hedge accounting

2 Important Terms

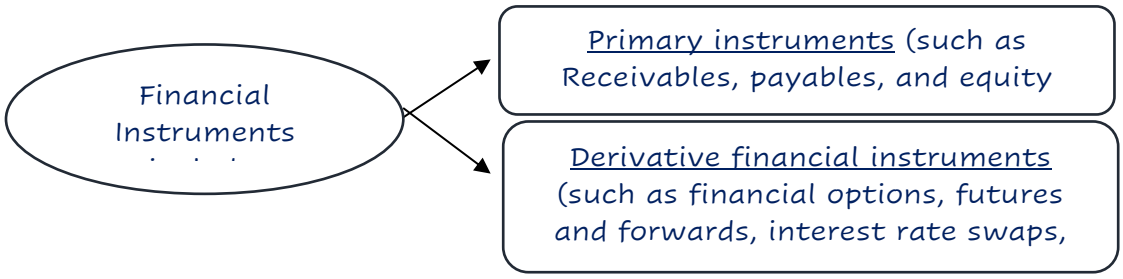
2.1 Financial Instrument

A financial instrument is any **contract** that gives rise to a **financial asset** of one entity and a **financial liability or equity instrument** of another entity



Note:
- Contract can be Oral/Written/Implied and may take a variety of forms.
- Not contractual Assets/Liabilities ⟹ Not financial liabilities or financial assets
  Eg: Income taxes (Statutory obligation), Deferred tax asset, Constructive Obligation as defined in Ind as 37.





Summary of Definition (For remembering and exam)

Item	Financial Asset	Financial Liability	Equity
Cash	Cash	-	Residual Int.
Equity Instrument of another entity	Yes	-	-
Contractual	**Right**	**Obligation**	
- Cash/FA	Receive	Deliver	Not Equity
- Exchange FA/FL terms	Favourable	Favourable	Not Equity
Own Equity Instrument			
ND – Variable no of Equity	Receive	Deliver	-
ND – Fixed no of Equity	-	-	Delivers
Derivative			
- Cash/FA	Variable	Variable	Fixed
- Own Equity	Fixed	Fixed	Fixed

2.2 Financial Asset

Financial Asset:

Cash	• Currency • Deposit of cash with Bank/ other financial institution.
Equity Instrument	• Invested in Equity shares of another Entity
Contractual Right.	• To **receive cash or another financial asset** from another entity; or • To **exchange financial assets or financial liabilities** with another entity under conditions that are potential **favourable** to the entity; or
Contract that will or may be settled in entity's own equity instrument and is	• a non-derivative - receive a **variable number of entity's own** equity instruments; or • a derivative - settled **other than** by exchange of fixed amount of cash or another financial asset for a fixed number of entity's own equity instruments.

Note:

Contract settled in Own equity, can either be

- ➔ Non-derivative (receive variable no of entity's own equity instrument) or
- ➔ Derivative – which is not a fixed to fixed contract.
- ➔ If a contract involves exchange of fixed number of equity instruments against fixed consideration – it is classified as equity.
- ➔ In case of a derivative asset, the entity gains in the contract.

Following are examples to evaluate Financial Asset:

S.No	Particulars	Whether FA or not	Remarks
1	Investment in bonds/ debentures	FA	Contractual right to receive cash.
2	Loans and receivables		
3	Deposits given		
4	Trade & other receivables		
5	Bank balance		
6	Security Deposit paid		
7	Cash and cash equivalents		Specifically covered in the definition.
8	Investments in equity shares		Equity instrument of another entity
9	Perpetual debt instruments Eg. perpetual bonds, debentures and capital notes.		contractual right • to receive interest for indefinite future or • to return of principal
10	Physical assets Eg. inventories, property, plant and equipment etc.	No	Control of such assets does not create a present right to receive cash or another financial asset.
11	Right to use assets Eg. Lease vehicle etc.		
12	Intangibles Eg. Patents, trademark etc.		
13	Gold		
14	Prepaid expenses Eg. Prepaid insurance, prepaid rent etc.		Future economic benefit in the form of goods or services, rather than the right to receive cash
15	Advance given for goods and services		



2.3 Financial liability

Financial Liability:

Any liability that is

- Contractual Obligation
  - To deliver cash or other financial asset to another entity; or
  - To exchange financial assets or financial liabilities with another entity under conditions that are potential unfavourable to the entity; or
- Contract that will or may be settled in entity's own equity instrument and is
  - a non-derivative - obliged to deliver a variable number of entity's own equity instruments; or
  - a derivative - settled **other than** by exchange of fixed amount of cash or another financial asset for a fixed number of entity's own equity instruments.

Note:

- Contract settled in Own equity, either be
  - ➔ Non-derivative (variable no of entity's own equity instrument) or
  - ➔ Derivative – Not a fixed to fixed contract.
- In case of a derivative liability, the entity loses in the contract.

Following are examples to evaluate Financial Liability:

S.No	Particulars	Whether FL or not	Remarks
1	Loans payable or bank loan	FL	Contractual obligation to pay cash/bank.
2	Trade and other payables		
3	Bills payable /acceptance		
4	Deposits received		
5	Redeemable preferences shares		
6	Financial guarantee given		
7	Call option (Writer/seller)		Contractual obligation that are unfavorable to the entity
8	Future/Forward		

2.4 Equity Instrument

Equity is the residual interest in the assets of an entity after deducting all its liabilities. A contract that will be settled by the entity issuing a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument

Exception: FL treated as Equity



1. Puttable Financial Instrument with conditions	•For Eg: Mutual Funds, Units of trust, Puttable instrument of Venture capital Funds
2.Obligation to deliver pro-rata shares in Net asset at the time of liquidation subject to conditions (When Redemption/liquidation time is known)	•A business - Construction of Bridge (Liquidate in 2yrs) , Obligation to pay back the capital to the investor

Puttable Instrument is a Financial Instrument that gives the holder:

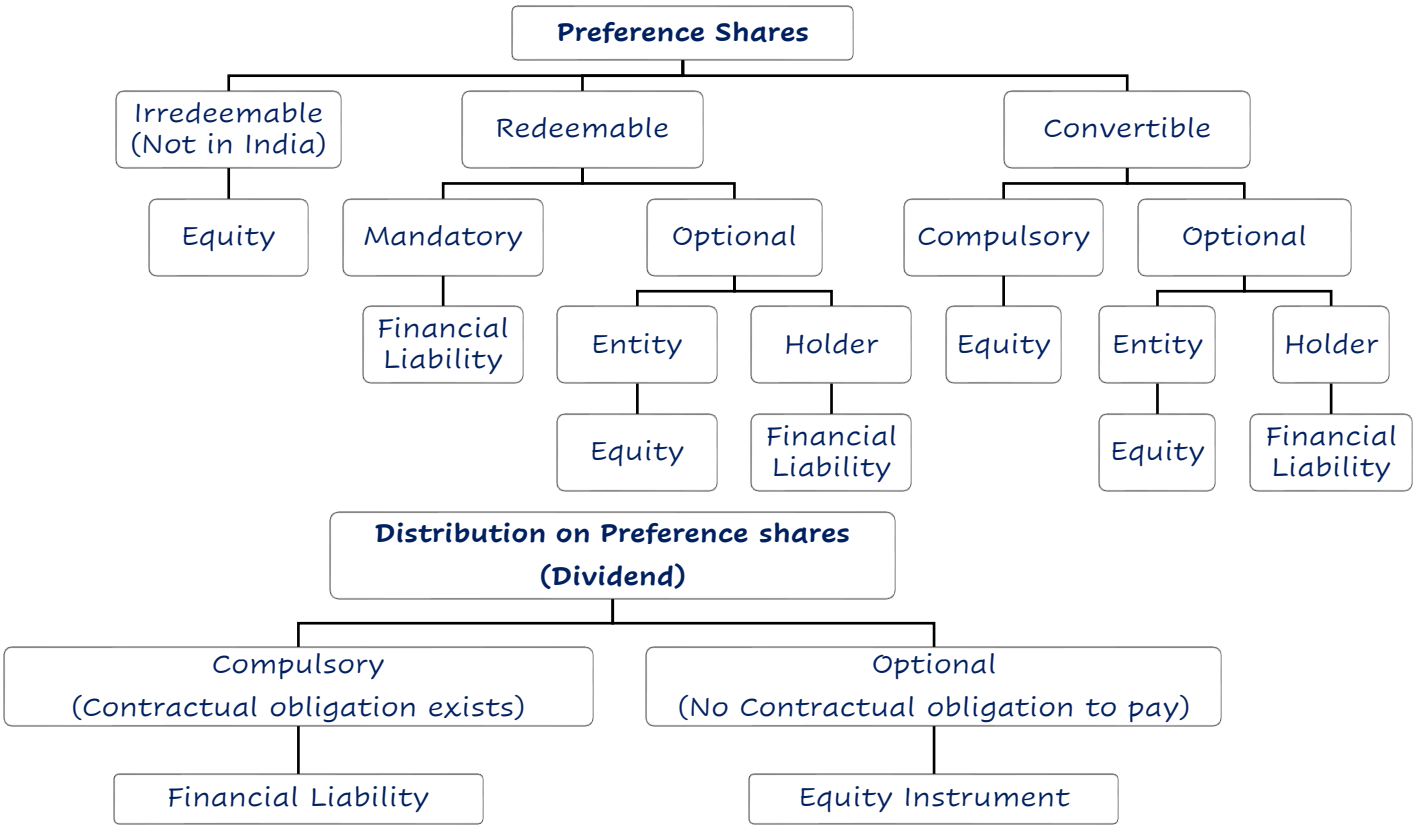
- the right to put the instrument back to the issuer for cash or another FA, or
- is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

Normally, a **puttable instrument** is a **financial liability** because the holder can demand cash. However, **Ind AS 32 allows equity classification** if **ALL the following conditions are satisfied**.

Condition	Brief Explanation
Pro-rata share in net assets on liquidation	On liquidation, the holder receives a proportionate share of the entity's net assets after settling all liabilities.
Most subordinate instrument	The instrument has the lowest priority and is settled only after all other classes of instruments on liquidation.
Identical features within the class	All instruments in the most subordinate class have the same contractual rights and obligations.
Only obligation is redemption on put	Issuer's only obligation is to repurchase or redeem the instrument for cash or another financial asset when the holder exercises the put option.
No other contractual obligations	The issuer has no obligation to deliver cash or another financial asset, or to settle in a variable number of its own equity instruments.
Returns linked to entity performance	Expected cash flows are substantially based on profit or loss, changes in recognised net assets, or changes in fair value of recognised and unrecognised net assets.
No other instrument restricting residual return	The issuer does not have any other financial instrument or contract that fixes or substantially restricts the residual returns of puttable instrument holders.



Treatment of Preference Shares



3 Important Points

- Rights, Warrants, Options are issued -> Fixed Equity instrument to Fixed Consideration (can be any Currency) -> treated as Equity.
  Eg: Right Issue for Foreign Investor – Pay $20 per Share for subscription, Here Consideration ($20) is fixed – Currency doesn't matter
- Right issue must be made pro-rata based on existing share holding
- When No of Equity instrument varies (Conversion ratio changes):
  - Corresponding to underlying variable (Eg: based on Market value, Valuation), classified as Financial Liability.
  - in response to passage of time (which is a certain event), classified as Equity.
  - To protect right of convertible instrument holders (eg: bonus shares), classified as Equity
  - If issuer subsequently issues shares to others at a lower price, classified as Financial liability.
  - In a narrow range (eg: convertible at fair value not going below 15% & not going above 40%), classified as Financial Liability.

4 Scope of Financial Instrument

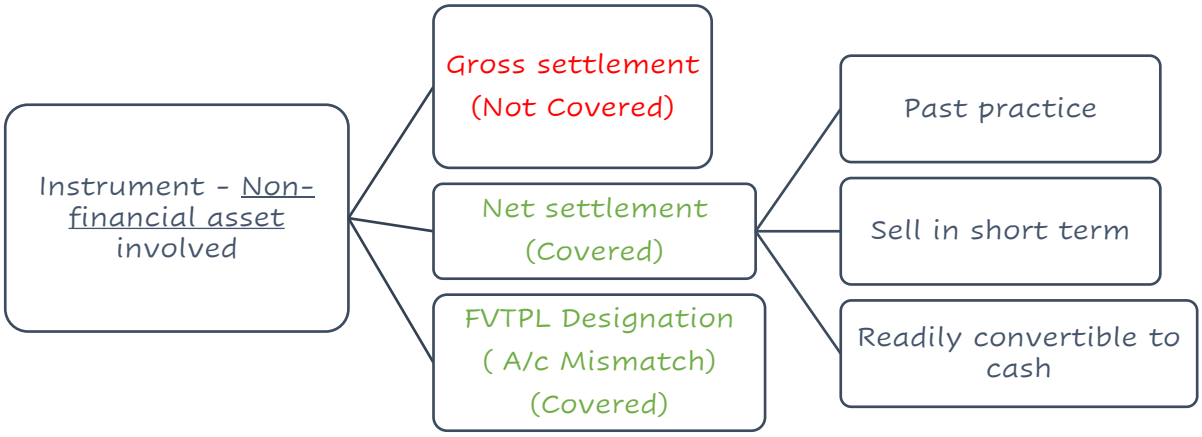
S.No	Particulars	Applicable Ind As
1	Interest in Subsidiaries (At Cost)	Ind As 27 Ind As 28 Ind As 111
2	Interest in Associates (At Cost)	
3	Interest in Joint ventures (At Costs)	
4	Rights and obligations under leases	Ind As 116
5	Employers rights & obligations under employee benefit plans	Ind As 19
6	Rights and Obligations under an insurance contract	Ind As 117
7	Forward contract arising in case of business combination	Ind As 103



8	Loan commitment other than covered under Ind as 109 and Ind As 32	Ind As 37
9	Share-based payments	Ind As 102
10	Reimbursement right in respect of provision	Ind As 37
11	Rights and obligations under revenue for contracts with customers	Ind as 115

Own Use Exemption:
Normally, a contract to buy or sell a **non-financial item** (like commodities – wheat, oil, copper, etc.) that can be settled net in cash, or where the item is readily convertible to cash, falls within the scope of Ind AS 32 / Ind AS 109 and must be treated as a **derivative** measured at fair value.

To qualify for the **own-use exemption**, a contract to buy or sell a non-financial item must be **entered into and held for the purpose of receiving or delivering that item**, in line with the entity's **expected purchase, sale, or usage requirements**.



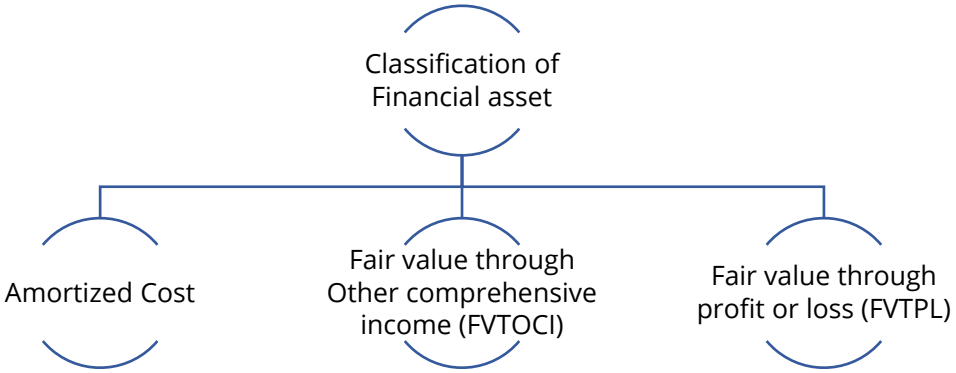
Example: Forward contract entered on 01-01-2022 to buy 1000 tons of oil on 30-06-2022 @$100/ton. On 30-06-2022, Oil price per ton increased to $110.

- On 30-06-2022, If Fully physically settlement (1000 tons of oil),
  - ➔ If it is sale in short time or designated as FVTPL to avoid accounting mismatch - covered under Financial Instrument
  - ➔ Otherwise - not covered under Financial Instrument. [Gross settlement]
- On 30-06-2022, If (1000 tons* $(110-100) = $1000) net settlement either by cash/ exchanging Financial instrument - then Financial Instrument [Net settlement]

5 Classification and Measurement of Financial asset

5.1 Initial measurement and subsequent measurement

- Initial recognition at Fair value.
- Subsequent measurement depends on how we classify of Financial instrument.



5.2 Test for classification of Financial Asset

Business Model: How Financial Assets are managed
Factors to determine Business model are:

- How the performance of business model & Financial assets evaluated & reported to Entity's KMP
- Risk that affects BM & FA and, way in which those risks are managed
- How Managers are compensated (compensation based on profit, Fair Value of asset managed)

Example for business model:

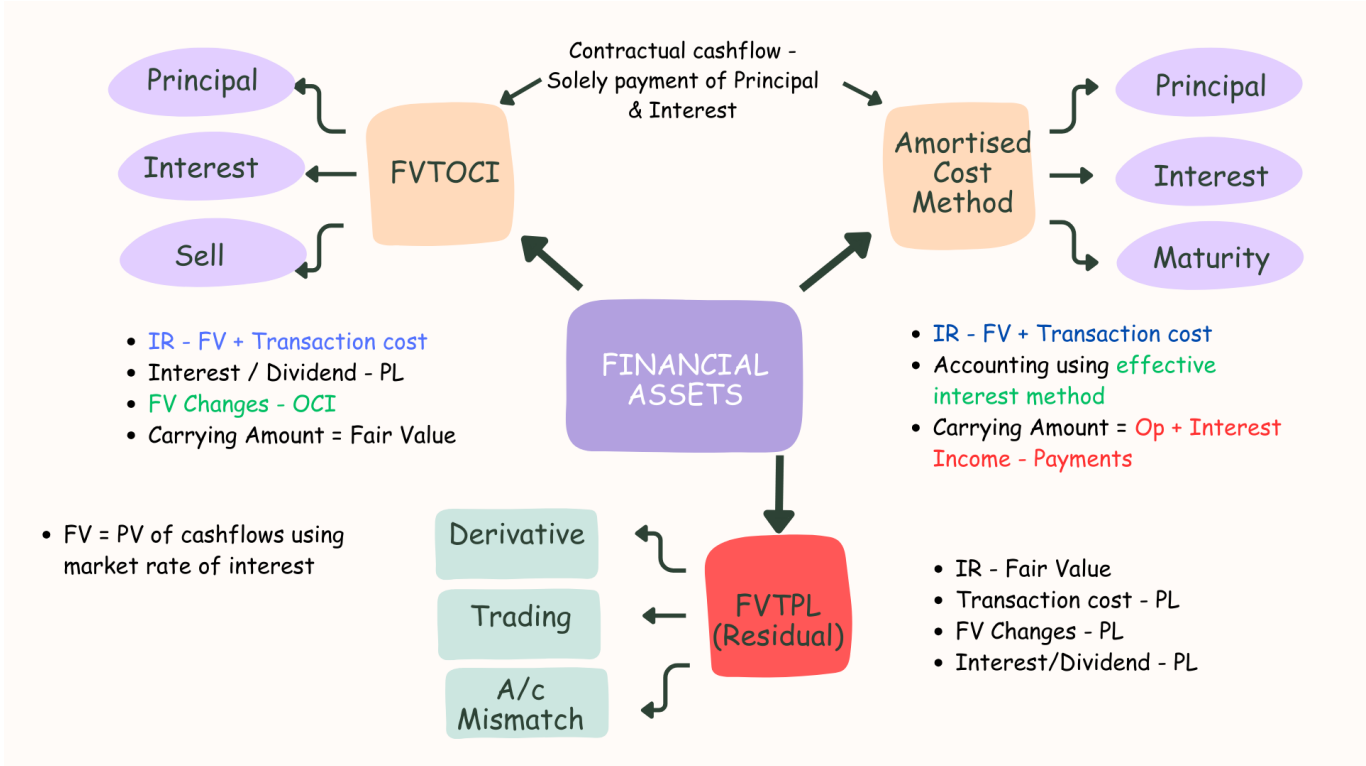
Business Model: Lend money and collect interest and loan at the end of tenure

Cases of Loan default (Risk): Entity may try to sell these receivables to ARCs (Risk managed)

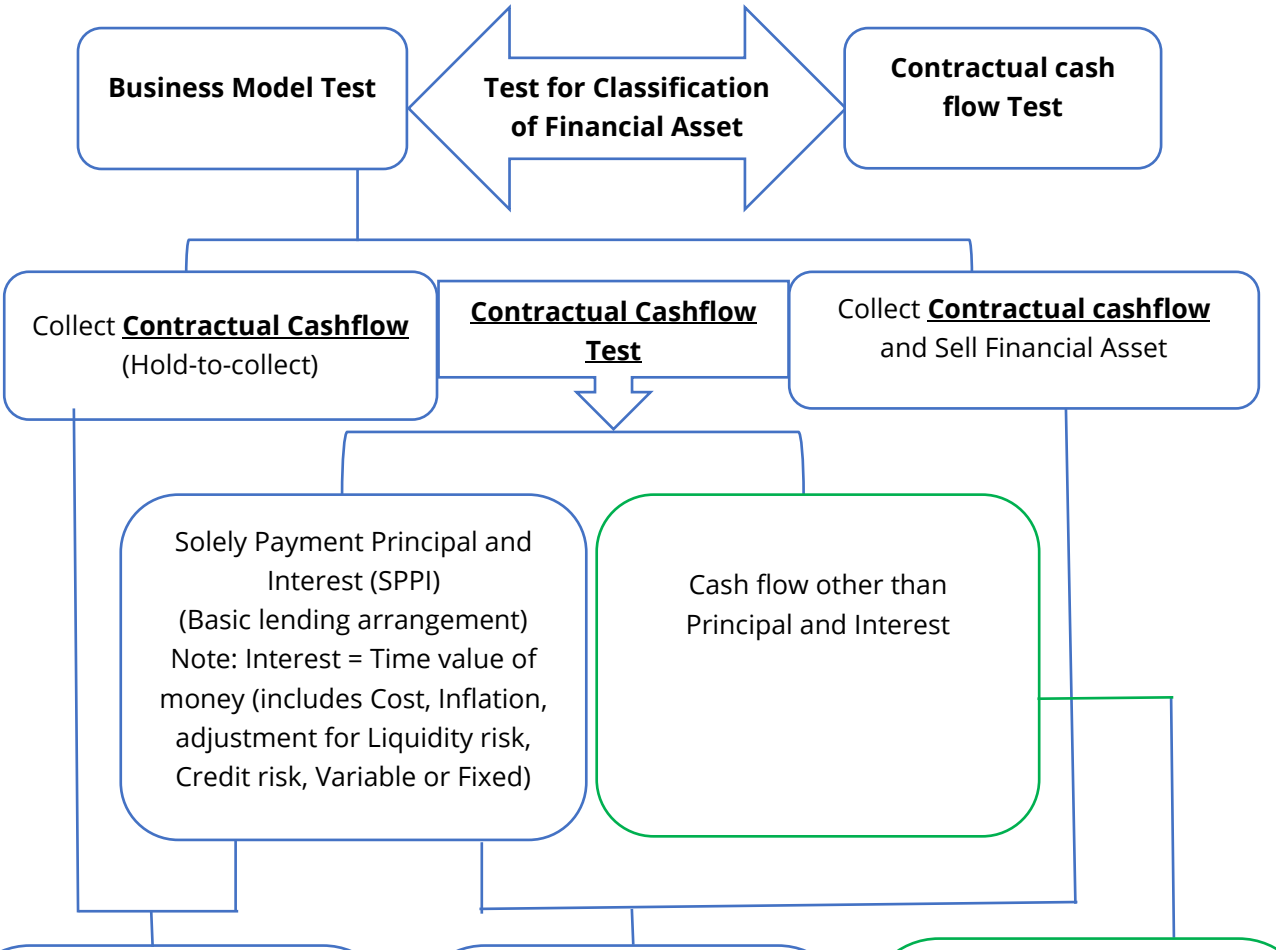
Business model Type: Hold the asset till its maturity.

Business Model: Buy loans from Bajaj Finserv like companies and Recovery/sell it subsequently

Business model Type: Sell by taking advantage of Market Volatility.







Amortized Cost

- Business Model: Collect Contractual Cashflow
- Collect Contractual Cashflow = Payment of interest and principal only (SPPI)

Initial Measurement:

- Fair value (adjusted for transaction cost)

Subsequent Measurement:

- Carrying cost adjusted as follows
  Add: Interest using Effective Interest Rate
  Less: Principal Repayment
- Interest income recorded in P&L

FVTOCI

- Business Model: Collect Contractual Cashflow and selling Financial Asset
- Collect Contractual Cashflow = Payment of interest and principal only (SPPI)

Initial Measurement:

- Fair value (adjusted for transaction cost)

Subsequent Measurement:

- Debt Instrument-
  - Interest/Divi in PL
  - FV gain/loss recorded in OCI
- Equity Instrument –
  - Interest/Dividend recorded in P&L
  - FV gain/loss -

FVTPL

- Business model: Make short term profits from trading (Held for trading – Frequently buying & selling)
- Collect Contractual Cashflow = Cash flow other than Principal and Interest
- Residual category (Investment in Shares & Derivative Investments)

Initial Measurement:

- Fair value
- Transaction cost charged to P&L

Subsequent Measurement:

- Interest/Dividend & FV gain/loss recorded in P&L



Important points

- Fair value is determined by discounting future contractual cash flows by reference to market rate of interest.
- The following table must be prepared while solving questions

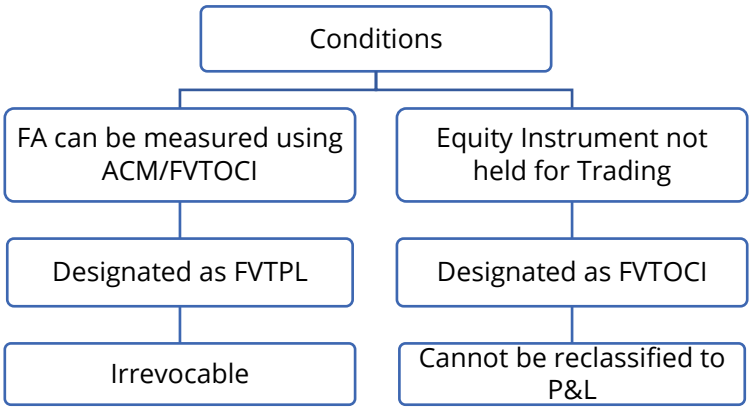
Year	Op bal	Int @ Mkt rate	Receipt @ coupon rate	Closing balance

- Interest income = op bal x effective interes rate (EIR) or the market rate.

Amortised Cost Method

Accounting entry on	Entry to be passed
Date of Acquistion	Dr. Financial Asset (FV + Transaction cost) Cr. Bank
Year End	Dr. Financial Asset Cr Interest income
Receipt of Interest	Dr. Bank Cr. Financial Asset
Redemption	Dr. Bank Cr. Financial Asset

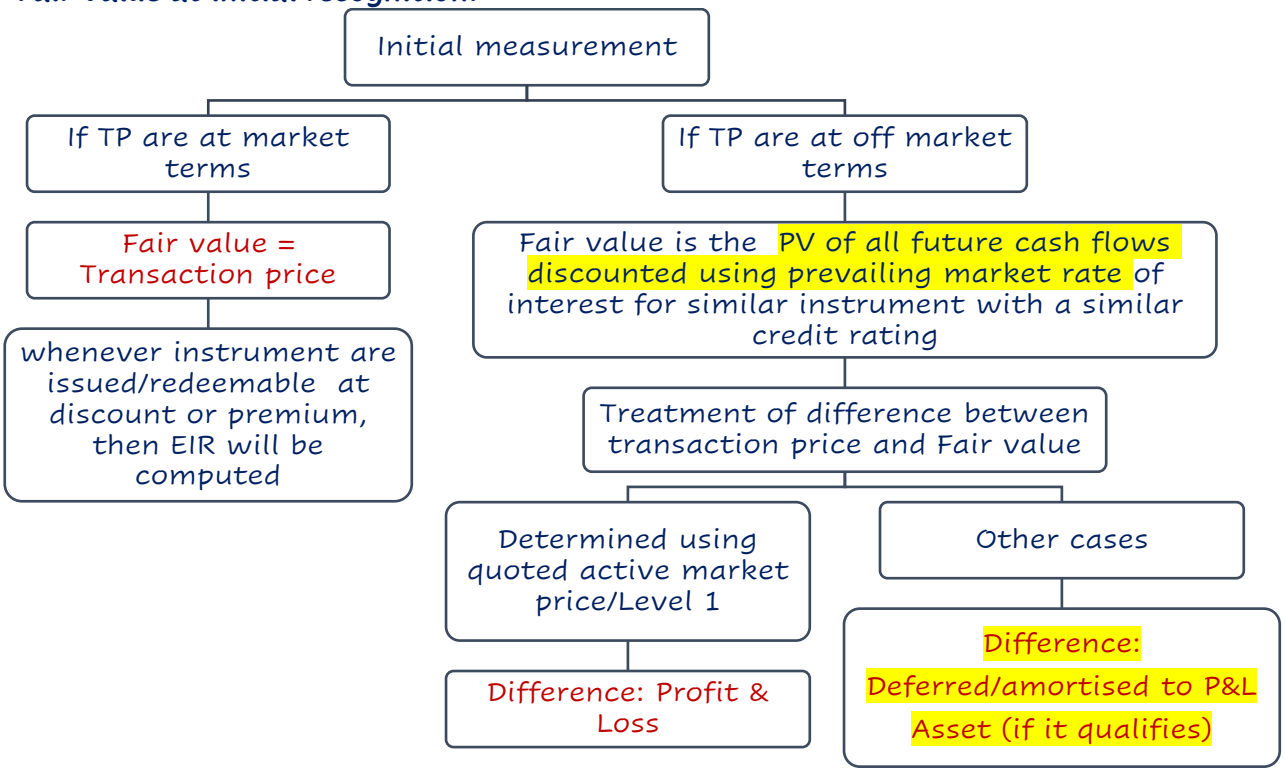
5.3 Exception to Classification of assets:



- If equity instruments are held for trading, they are classified as FVTPL.



5.4 Fair Value at initial recognition:



Note: Look at substance over form, while difference is accounted.

Parties to the Contract	Accounting Treatment
Related parties (e.g., Parent & Subsidiary, Employer & Employee)	Treated as Investment **in lender's books** and **Equity in borrower's books**
Not related parties	Treated through **Profit & Loss if Level 1 else amortised through PL**

5.5 Loan between group companies

Present value (PV) of cash flows is recognised as a **Financial Liability/Financial Asset**, and the **remaining amount is treated as equity or investment**.

Situation	Accounting Treatment
Interest-free and repayable on demand	Fair value should **not be less than the amount payable on demand** in the lender's books. Loan is generally recorded at repayment value and **No interest is accrued**.
No fixed maturity	The entity must **estimate the repayment date** and measure the instrument based on that estimated repayment period.

5.6 Equity instrument where FV not determinable

- Consider all the facts and try to establish Fair value
- If FV cannot be determined, Cost may be a representative of Fair value (Invested in Start-up Co.)
- Cost is never the best estimate of fair value for investments in quoted equity instruments (or contracts on quoted equity instruments). It cannot be assumed Cost = Fair value.
- Instrument are at market terms: FV will be transaction price.
- Instrument at off-market terms: Exchanged at off market terms.
- FV measured as present value of all future cash flows discounting using prevailing market rate of interest for similar instrument with a similar credit rating.
- Then Fair value ≠ Transaction price.

Note:



- Selling assets due to unanticipated funding needs, worst case or stress case scenarios would not affect the entity's assessment of the business mode & classification of Financial asset, there is no retrospective reclassification.
- Principal = Fair value of Financial Asset at initial recognition PV of Cash flow discounted at appropriate rate.
- Accounts Receivables: Recognise as per Ind as 115 –> Initial measurement at Transaction price. IF any interest/loss allowance (Financial component) –> Refer Financial Instrument.
- If Value of Asset turns Negative
  Eg: Derivative Contract: Future of Xltd
  - Current Position: Financial Asset (Favorable). In Future, share price falls: Financial Liability (Pay the money)

6 Classification and Measurement of Financial Liability

6.1 Initial and Subsequent measurement

- Initially recognised at Fair value
- Subsequent measurement depends on classification

Case	*Initial Measurement*	*Subsequent Measurement*
Amortised Cost Method	FV (Adjusted for Transaction Cost)	Interest – P&L [EIR] Carrying Amt = Op bal + Interest – Payment *Interest rate will not be changed due to change in market interest rate.
FVTPL (Held for trading)	Fair value Transaction cost charged to P&L	Fair value (gain or loss in PL)
FVTPL (Irrevocable) Avoid A/c mismatch	FV Transaction cost to PL	FV – Gain loss in PL along with the underlying asset/liability

In case of change in FV due to interest rate changes on account of change in own credit risk – the difference will be recognised in OCI.

Note:

- Equity Instrument initially recorded at 'Cost' and carried at 'Cost'
- The following table must be prepared while solving questions involving financial liability

Year	Op bal	Int @ Mkt rate/EIR	Payment @ coupon rate	Closing balance

- Interest Expense = op bal x effective interes rate (EIR) or the market rate.

Amortised Cost Method

Accounting entry on	Entry to be passed
Date of issue	Dr. Bank Cr. Financial Liability (FV – Transaction cost)
Year End	Dr. Interest cost Cr. Financial liability
Payment of interest	Dr. Financial liability Cr. Bank
Redemption	Dr. Financial Liability Cr. Bank

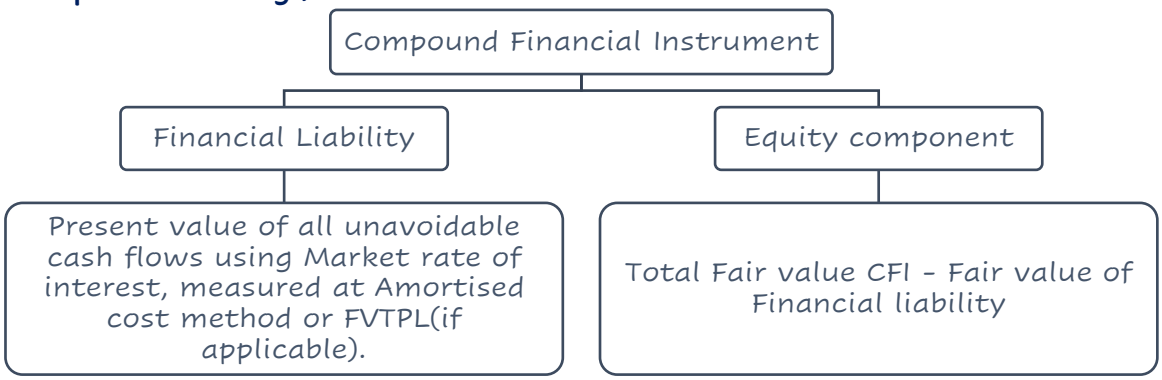


7 Compound Financial Instrument

7.1 Definition

Those instruments which have features of both a financial liability and equity instrument are called "compound financial instruments"

7.2 Split Accounting for CFI

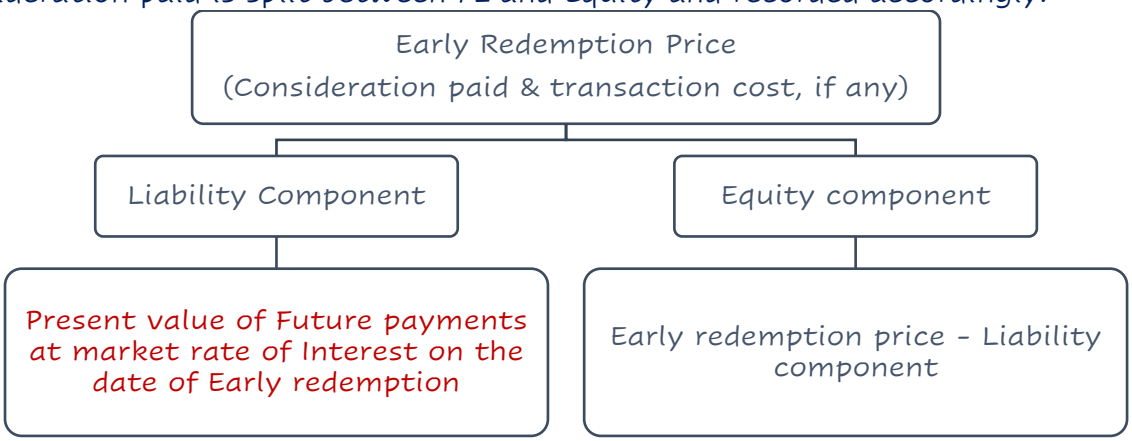


- Allocate the Transaction cost based on the ratio of gross carrying Value, after allocation of fair value.
- No gain/loss at time of initial recognition
- Fair value of FL is measured at Amortised cost method or FVTPL (if applicable).

Accounting entry –
Dr. Bank
Cr. Financial Liability
Cr. Equity

7.3 Early Settlement/ Redemption:

Consideration paid is split between FL and Equity and recorded accordingly.

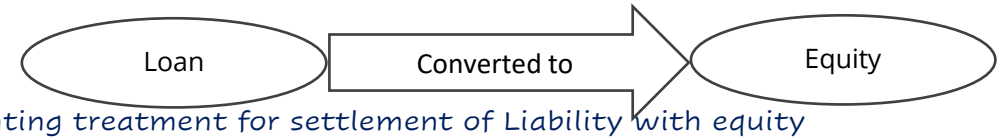


Note: Amount of gain or loss relating to the liability component is recognised in Profit and loss.

- Difference between original share and revised issue (as incentive to early conversion) is recognised in P&L account. (that incentive can be made in cash)
- Early Conversion: Transfer the liability part to Equity
- Early Repayment: consideration paid is split between FL and Equity and recorded accordingly.
- Any incentive paid in early conversion is recognised in P&L.
- If it is optionally convertible, Principal value and Interest/dividend will be discounted. If it is compulsory convertible, only interest / dividend will be discounted.
- For calculating fair value of Liability component initially, market rate of interest will be considered instead of EIR considering transaction cost.



7.4 Settlement of Liability with equity



Accounting treatment for settlement of Liability with equity

1. Derecognize the Financial Liability and credit equity
2. Valuation = Fair value of consideration given
3. Any difference in consideration is recognised in Profit and loss
4. Carrying amount of Financial liability is considered as fair value of equity, when fair value of equity cannot be determined.

Exception to the above accounting treatment:

- Creditors directly/ indirectly is a shareholder and acting to be shareholder.
- Entity and creditor are controlled by the same party
- It is convertible instrument from the beginning

8 Accounting treatment of Interest, Dividend, Gain or loss and Transaction cost

Dividend

Instrument	Accounting Treatment (Key Points)
Financial Liability	**Dividend payment** is recognised as **interest expense** using **EIR method**. If measured at **FVTPL**, **gain / loss** is charged to **P&L A/c**.
Financial Asset	**Interest income** is recognised in **P&L A/c** using **EIR method**.
Equity	**Any income** paid is treated as **dividend** and **adjusted in equity** (not P&L).

Transaction Cost

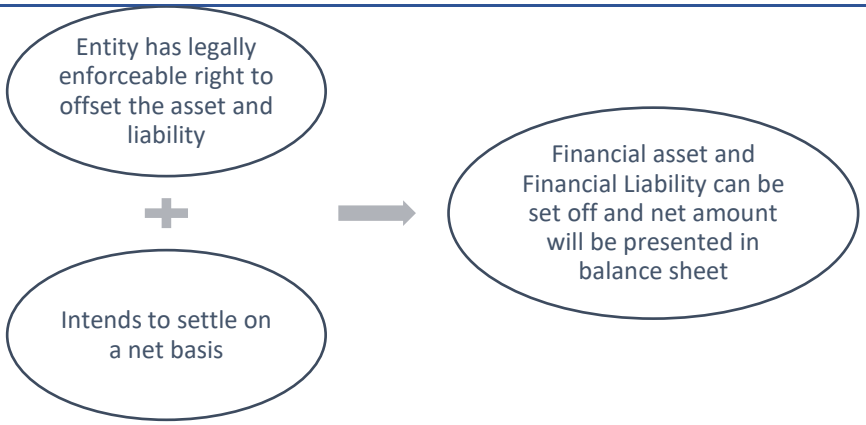
Instrument	Accounting Treatment (Key Points)
Financial Asset / Financial Liability	**Adjusted to the cost** of the instrument, **unless measured at FVTPL**.
Instrument measured at FVTPL	**Transaction costs are charged to P&L A/c immediately**.
Equity instruments	**Reduced from equity** (only costs directly attributable to issue/acquisition of equity). **Charged to P&L** if **issue fails** or **costs are incurred after issue**.

9 Treasury shares

- Company buys its own equity shares
- They are Equity instrument, but not Financial Asset.
- Accounting: Adjusted against equity and presented separately in line with Ind As 1
- No profit or loss is recognised on acquiring of treasury shares.

Note: In India under Companies act & SEBI regulations, a company cannot hold its own shares as investment. Hence It has to be extinguish within the stipulated time.

10 Offsetting





Note:

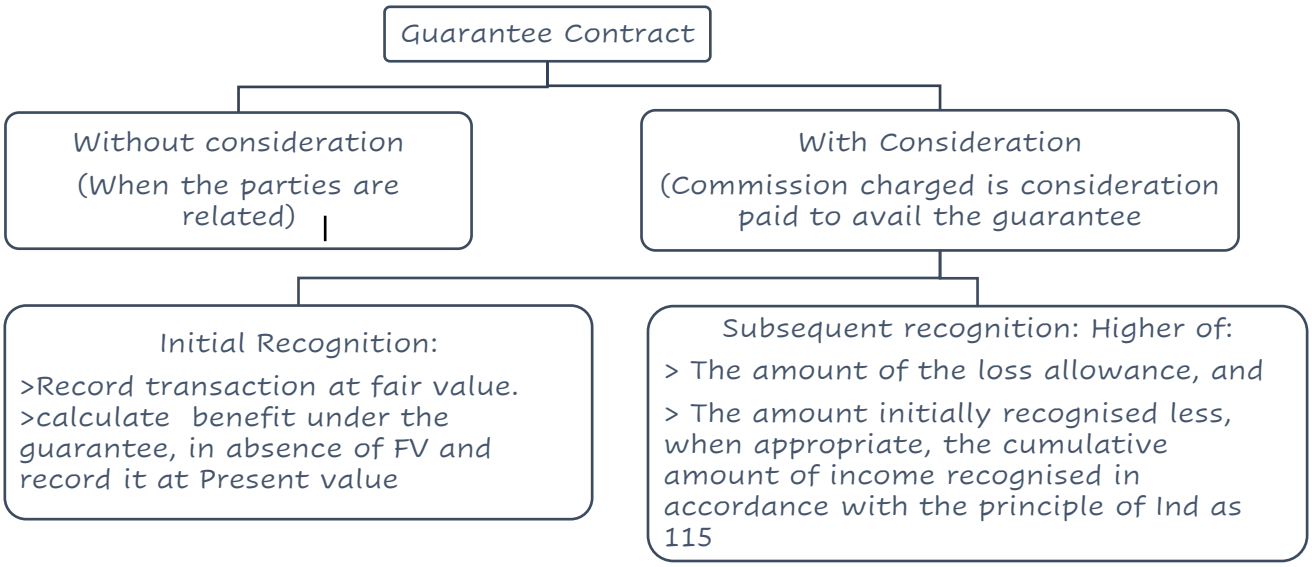
- Legally enforceable right should be current right, not contingent right
- Net presentation is not derecognition
- Example for legally enforceable right: If due dates for FA & FL is different, then no legally enforceable right.

11 Accounting for Financial guarantee Contract

Financial guarantee contracts and commitments to provide a loan at a below market interest rate are subsequently measured at higher of:

- The amount of the loss allowance, and
- The amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principle of Ind as 115

Apart from disclosure of guarantee given as Contingent liability, we have check whether there is any amount received for guarantee given or any liability need to pay should be accounted under Financial liability.



Note:

- For Eg: Interest on Unguaranteed loan = 10% and Interest on Guarantee loan = 9%
  Benefit under guarantee: (10% - 9%) 1%.
  FV of Guarantee: PV of benefit discounted at market rate of interest.
- If Financial contract meet the definition of Insurance contract, Ind AS 104 will be applicable instead of Ind AS 109.

12 Derivative Financial Instrument

12.1 Derivative

A Financial instrument or other contract with all of the following three characteristics:

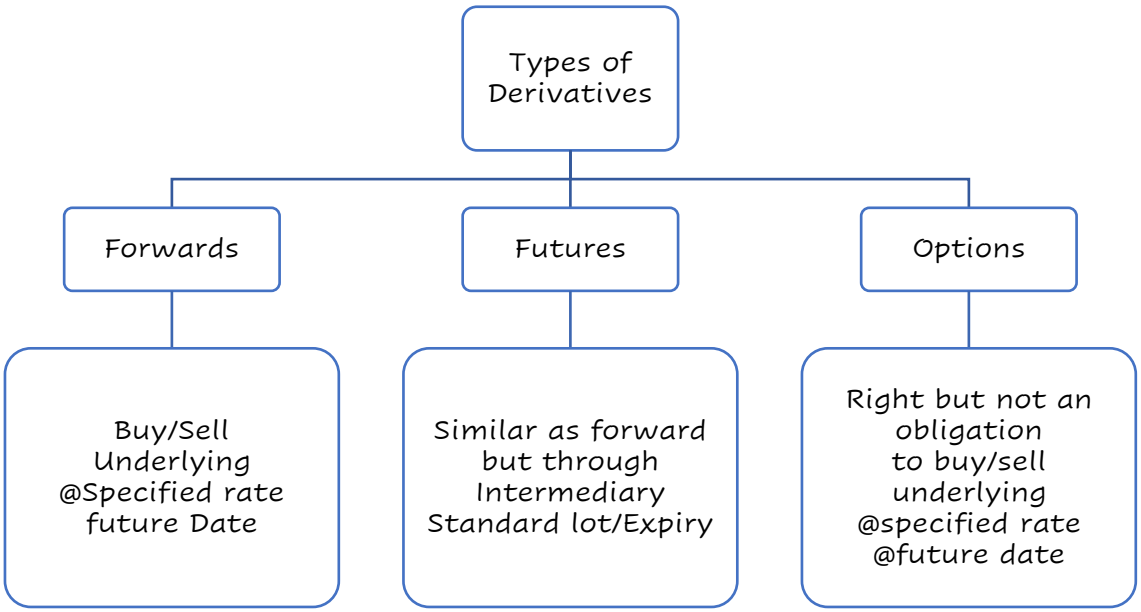
- Value changes due to underlying factor (Eg: specified interest rate, FI price, Commodity price, FE rate, index of prices or rates, credit rating or credit index, or other variable)
- No or Little initial net investment
- Future settlement

Contract with following two features are not Derivatives:

- Value of the contract changes with reference to one or more non-financial variable: and
- That non-financial variable (Temperature, earthquake or rainfall index) specific to one of the party to the contract



- All derivatives have to be accounted at FV through P&L. If it qualifies as hedging => Apply Hedge accounting principles.



12.2 Forward contract

@ Future Date, @Agreed price

Eg: Forward Contract – 1000 Dollars @ Rs.82 after 6 months

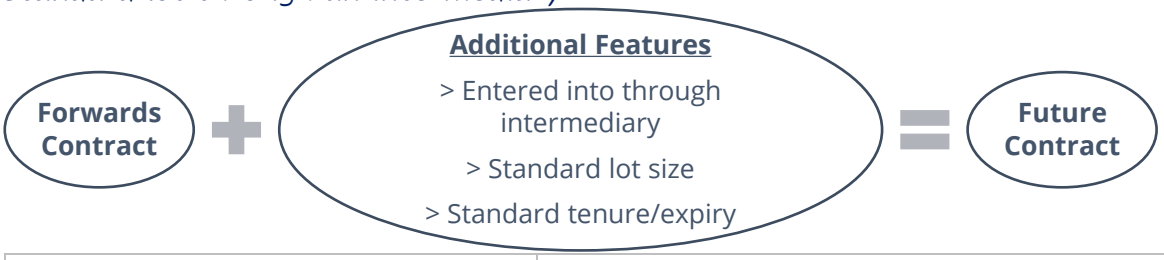
Dollar ($) rate	For the Seller	For the Buyer
Increase – Rs.85	Unfavourable	Favourable
Decrease – Rs.75	Favourable	Unfavourable

Favourable – Derivative Asset

Unfavourable – Derivative Liability

12.3 Future contract:

Contract to buy or sell an underlying asset/ instrument @ future date @ specified price for standard lot through an intermediary



Forward Contract	Future Contract
Sell any Quantum (eg:732 dollars)	Sell Standard lot (eg:1000/2000 dollars)
No standard expiry	Expires on standard time
Contract directly between buyer & seller	There will be intermediate between buyer and seller
Flexible	Standard in terms of Tenure, expiry, quantity, Value



12.4 Options

- Strike price is predetermined
- Time is predetermined
- For taking Risk, Option premium for writer



12.5 Swap

Payment on Exchange of Interest rate (Fixed & Floating rate) on notional Principal

- Prepayment of Fixed interest rate, Variable Interest payment in Future → Derivative
- Prepayment of Variable Interest payment, Fixed interest rate in Future → Not derivative

Note: Share Warrant – Classified as Equity under Financial Instrument

12.6 Accounting for Derivatives

- All derivatives are measured at FV at initial recognition and at the end of each period.
- The FV gain or loss are recognised in P&L except in case of hedge accounting.

Position	Explanation	Expectation of price
Long	Buy	Go up
Short	Sell	Go down
Buy Call	Option to buy	Go up
Sell Call	Obligation to deliver/sell	Not go up
Buy Put	Option to sell	Go down
Sell Put	Obligation to buy	Not go down

12.7 Accounting Entries for future & fowards

Scenario	Journal Entry
Initial Margin Deposit	Deposit / Margin A/c Dr. To Bank A/c
Subsequent Gain	Derivative Financial Asset A/c Dr. To Profit & Loss A/c
Subsequent Loss	Profit & Loss A/c Dr. To Derivative Financial Liability A/c

Before creating a liability or asset, first reverse existing balance in asset or liability account.

13 Embedded Derivatives

13.1 Embedded Derivative:

- 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.

An embedded derivative causes some or all of the cashflows to be modified according to an underlying.



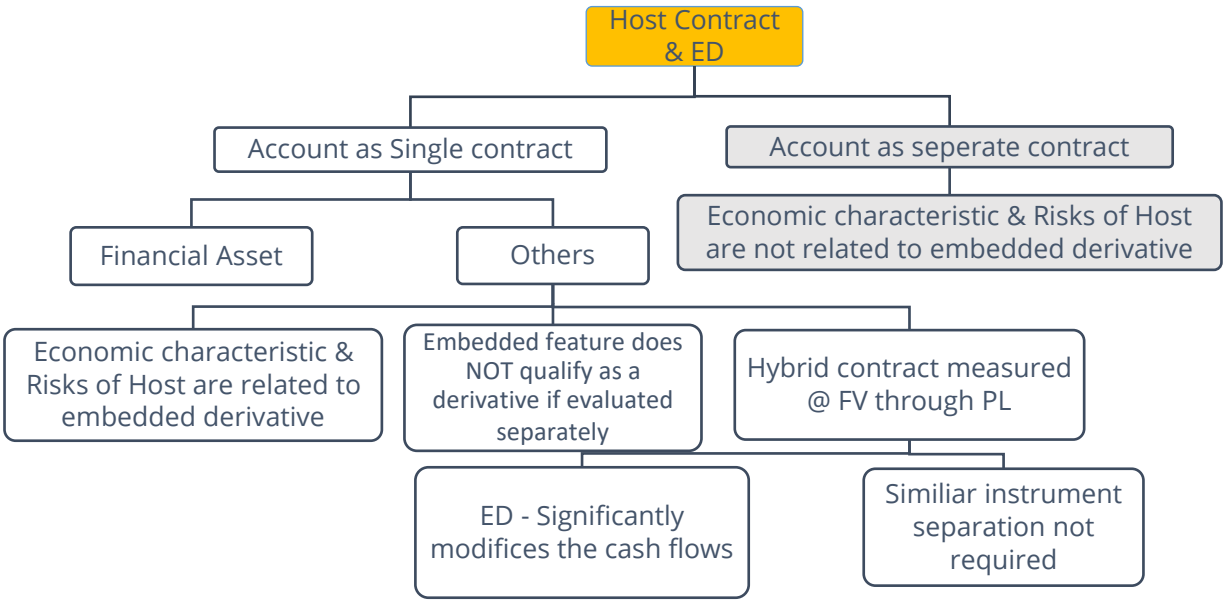


Example – Convertible Bond is a hybrid contract which has a host contract (non – derivative) in form of a bond and the conversion option in form of a derivative contract.

13.2 Accounting of Embedded Derivative:

Derivatives are accounted as FVTPL. In case of a hybrid contract, the host contract and embedded derivative is separated for accounting purpose if certain conditions are met.

Rules for Separation of Host & ED

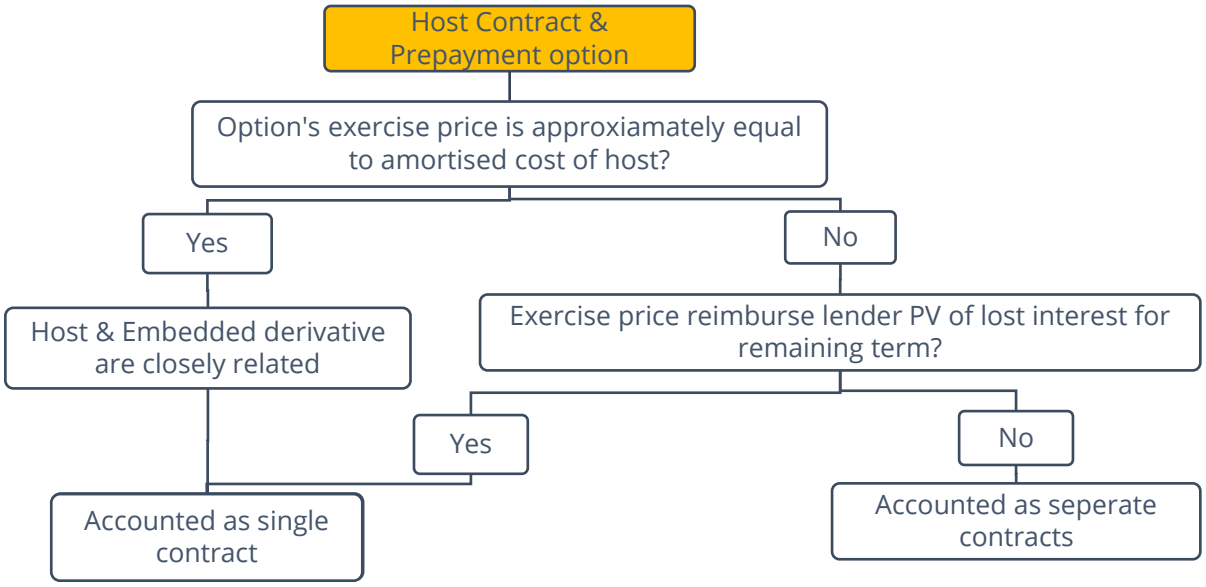


Explanations

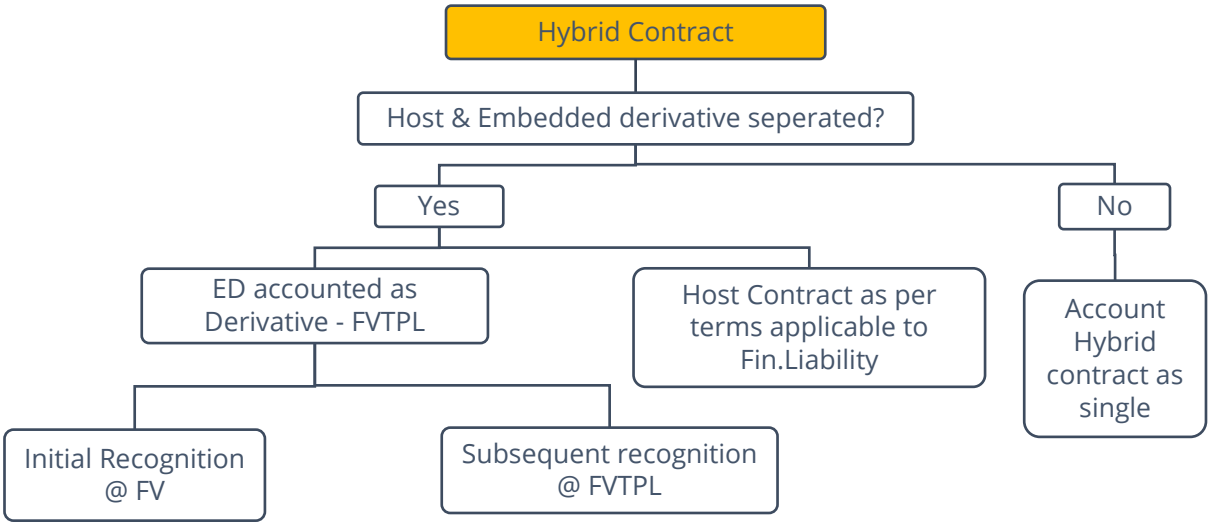
Financial Assets	**are not separated as inclusion of embedded derivative results in failure of SPPI test.**
Embedded feature does not qualify as derivative	Lease rent increases annually based on **general inflation index**. Inflation indexation is part of normal commercial terms. Standalone increase feature **does not meet derivative criteria**.
Embedded derivative significantly modifies the cash flows	This is a case where the embedded feature is dominant and hence separation does not make accounting sense. A loan agreement states: Principal and interest are repayable based on **gold price** on repayment date. Linkage to Gold prices is fundamental to contract and hence entire contract is accounted as FVTPL



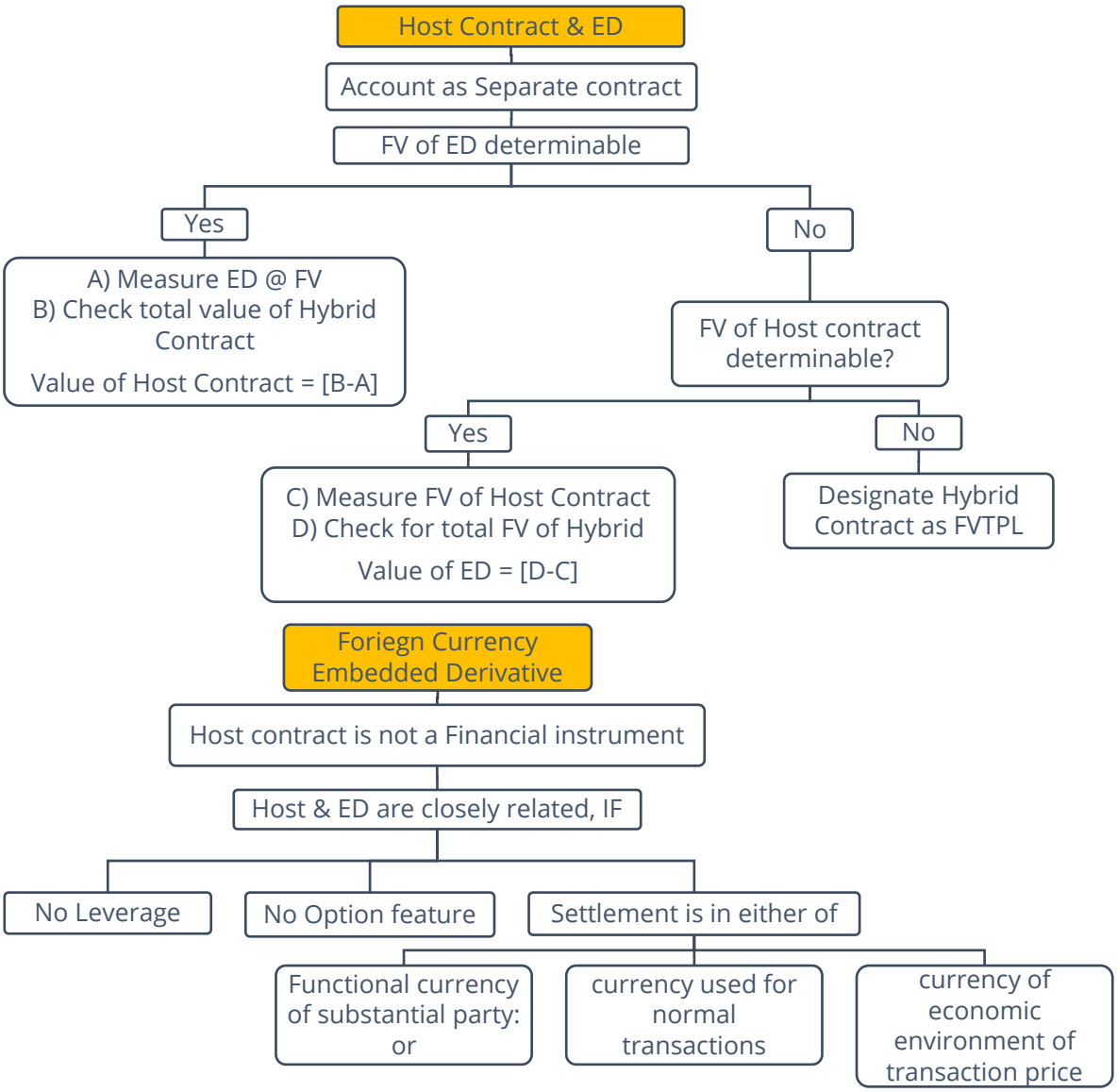
Evaluation of whether option is closely related to host contract?



Check Whether there is a need for Separation required of Host & ED?





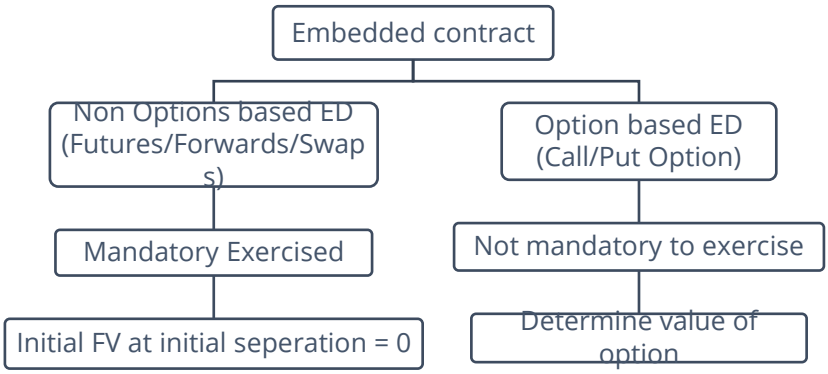


Steps for solving illustrations:

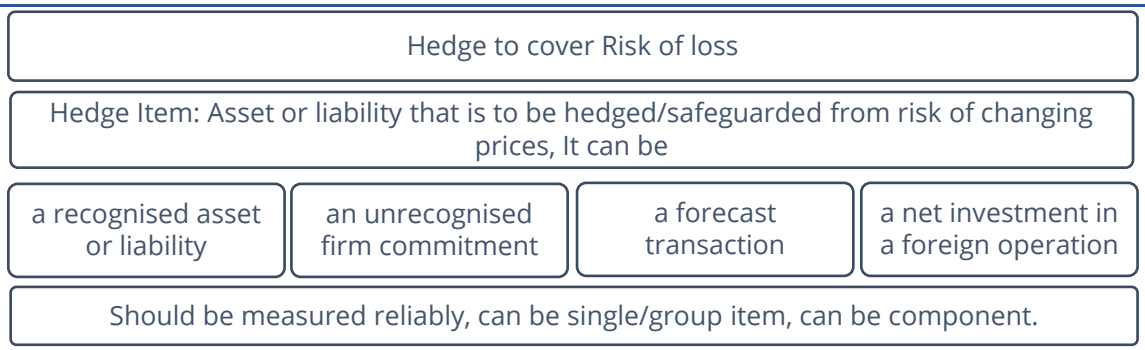
- Separate the host and ED if required
- At inception, if ED is a
  - Forward contract, then initial value = 0
  - Option contract, account derivative at the given value in the question
- At the end of each reporting period – recognise gain or loss on forward contract
  - If gain – increase the derivative asset
  - IF loss – reduce the derivative asset/ create derivative liability

- At settlement date
  - Determine the FV
  - Arrive the gain or loss
  - Adjust the derivaive asset or liability
- On contract of purchase/sale of non-financial item
  - Account for amount received or paid through bank
  - Derivative asset or liability will be adjusted against the contract to sell/buy the non- financial item

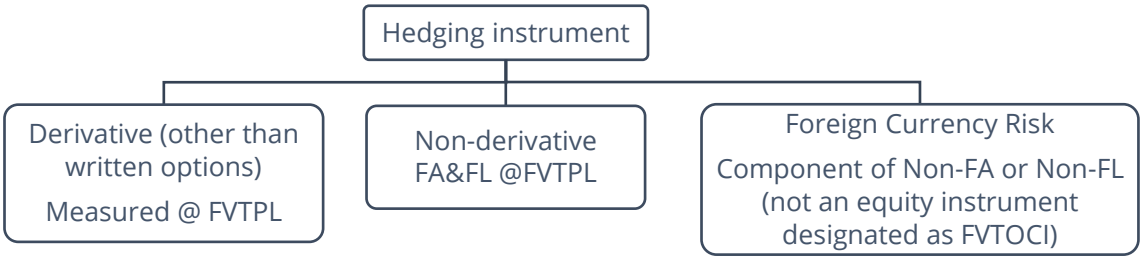




14 Hedging



14.1 Hedging Instrument



Note:

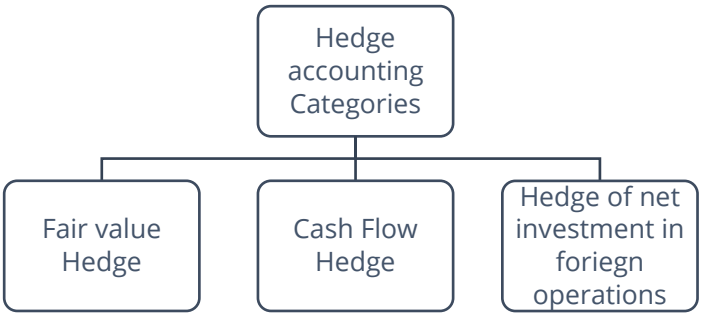
- If there is purchased option and also Written (sold) option and net impact is purchased option, then it can be considered as Hedging Instrument.
- Hedging instrument should be with the External party (Not with Group companies or related companies)
- Entire Instrument should designate as Hedge instrument, not in parts.
- Hedge accounting is not mandatory
- Once hedge accounting is started, till the time of qualification criteria is met, entity has to follow the hedge accounting.



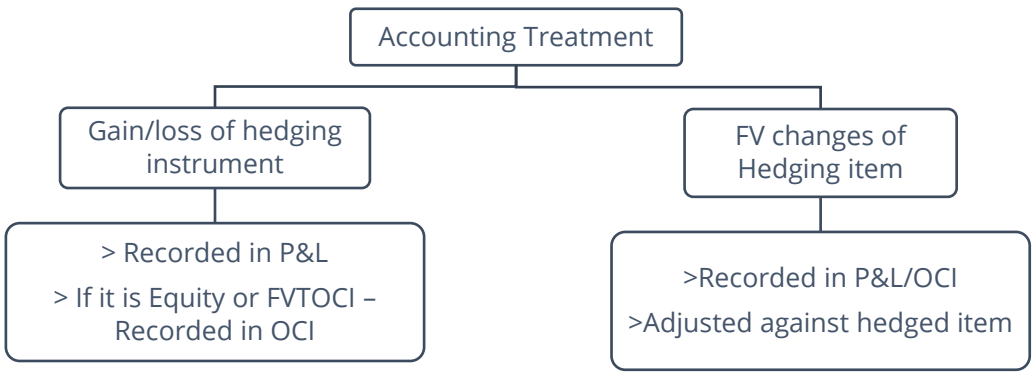
14.2 Conditions for Hedge Accounting

Hedged items & instrument	Eligible Hedged item & Hedging instrument should exist
Proper formal documentation at inception	Risk Management policy with purpose and details
	Hedge item?
	Hedging Instrument?
	Hedge effectiveness?
	Measurement of effectiveness & ineffectiveness
	Hedge ratio?
	Risk management?
Meet Hedge effectiveness requirement	Economic relationship between item & instrument
	Credit risk should not dominate the changes in value of relationship
	Hedge Ratio = Hedging Instrument / hedged Item

14.3 Hedging Accounting



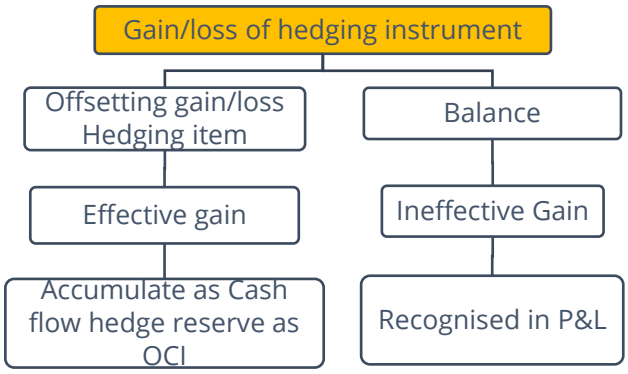
A Fair value Hedge is a hedge of the exposure changes in fair value of a recognized asset/liability or a unrecognized firm commitment or component of any such item that is attributable to a particular risk and could affect profit or loss

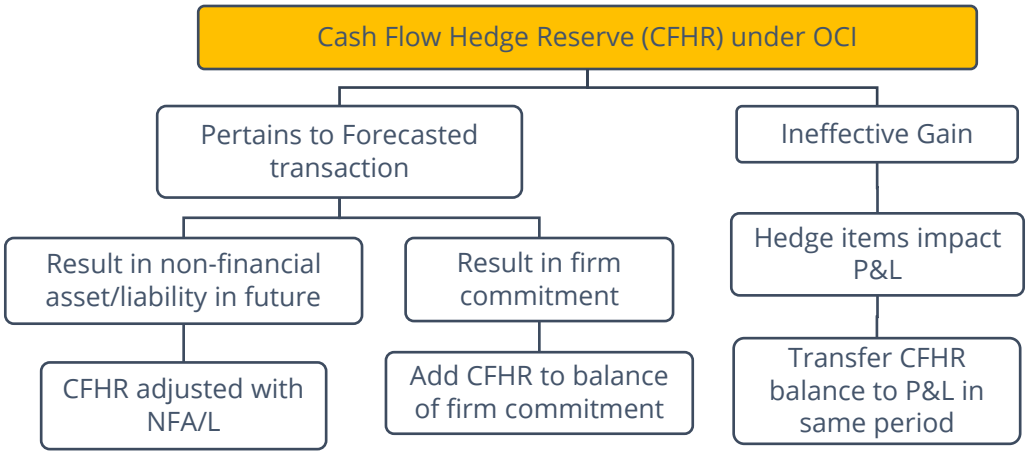


A Cash Flow Hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with on or a component of recognized asset/liability or a highly probable forecast transaction and could affect the PL.

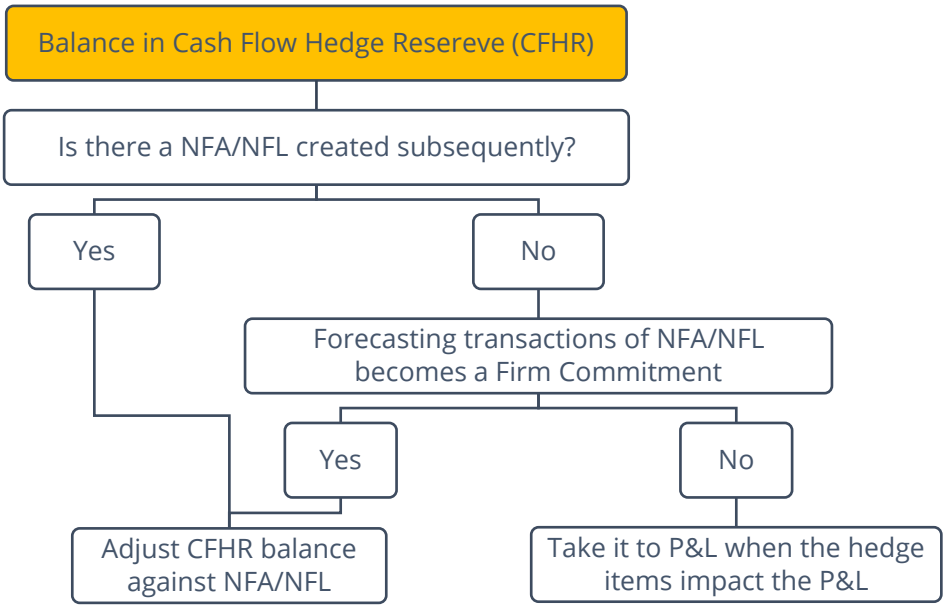


Uncertain future payments → Cash Flow Hedge.
Changing value of today's balance → Fair Value Hedge.



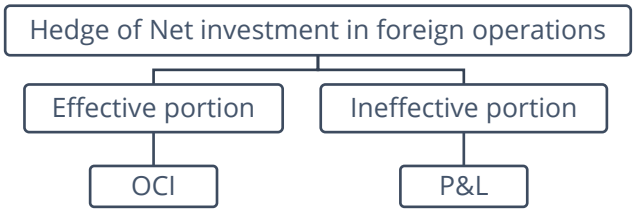


Note: Loss, which cannot be recovered should be reclassified to P&L



A Hedge of Net investment in foreign operations, including a hedge of a monetary item that is accounted for as part of the net investment, shall be accounted for similarly to cash flow hedges





15 Recognition of Financial Instrument

Entity has to recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument.
Eg: Trade receivable recognised on sales happened (after delivery of goods), instead of sale agreement.

Examples for applying recognition principle

Nature of contract	Recognition Principle
Receivables and payables	When entity becomes party to contract & has legal right to receive /legal obligation to pay cash
Firm commitment to purchase/ sell goods or service	When at least one of the parties has performed under the agreement i.e., ordered goods or services have been shipped/delivered/rendered
Firm commitment to purchase/ sell goods or services designated as measured at fair value through P&L	Net fair value recognised as asset or liability @ commitment date
Forward & Future contracts	On commitment date, No recognition
Option contract	Holder/ Writer becomes party to contract. As premium/ amount will be paid upfront

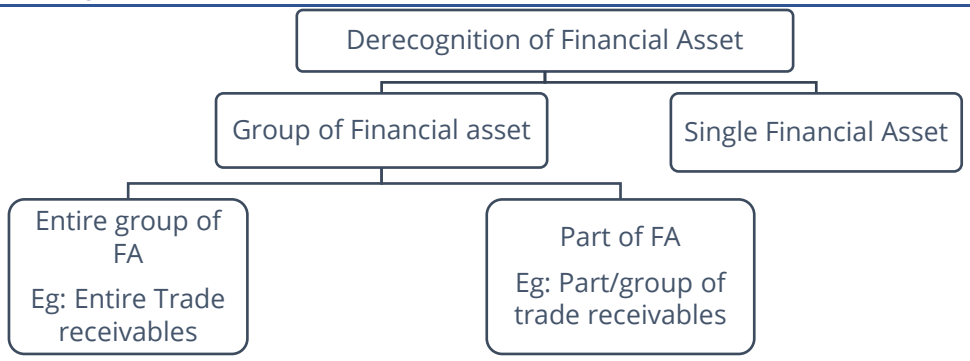
Ind AS 109 defines a regular way purchase or sale as,

> A purchase or sale of a financial asset
> Under a contract
> Whose terms require deliver of the asset
> Within the time frame
> Established generally by regulation or convention in the marketplace concerned

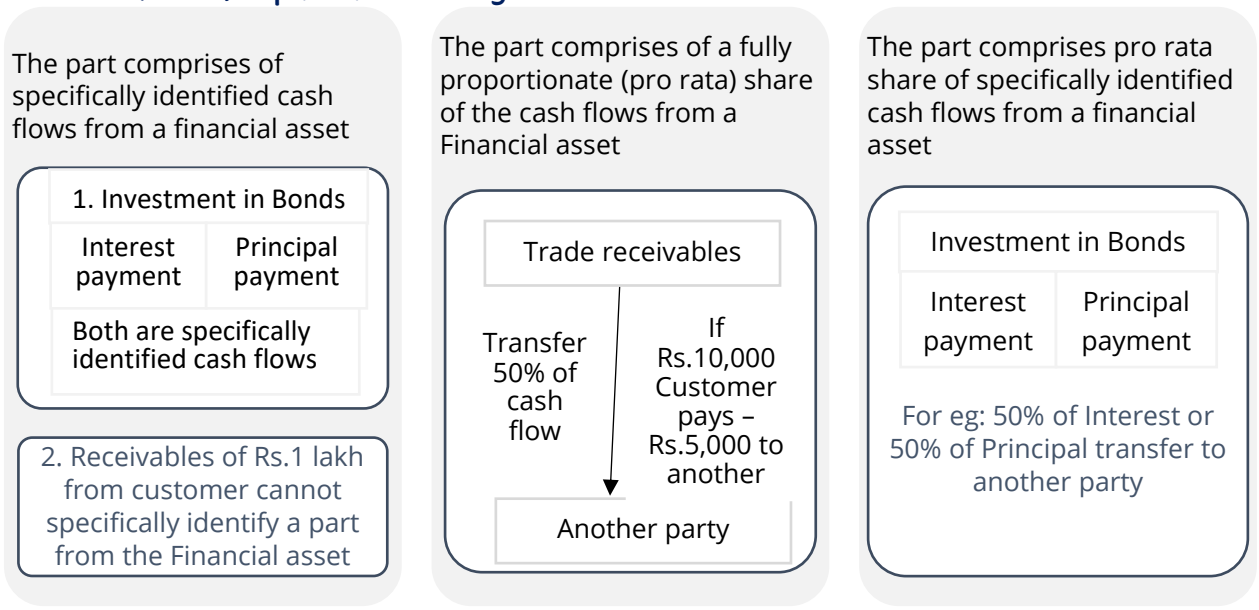
- Trada date accounting
- Settlement date accounting

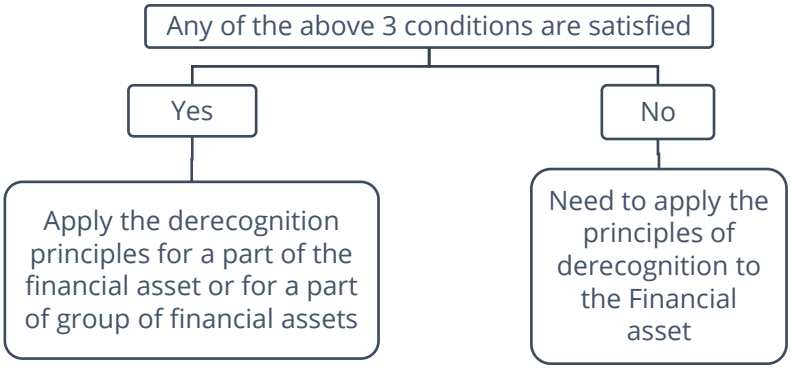


16 De-recognition of Financial Asset



16.1 Condition for partial De-recognition



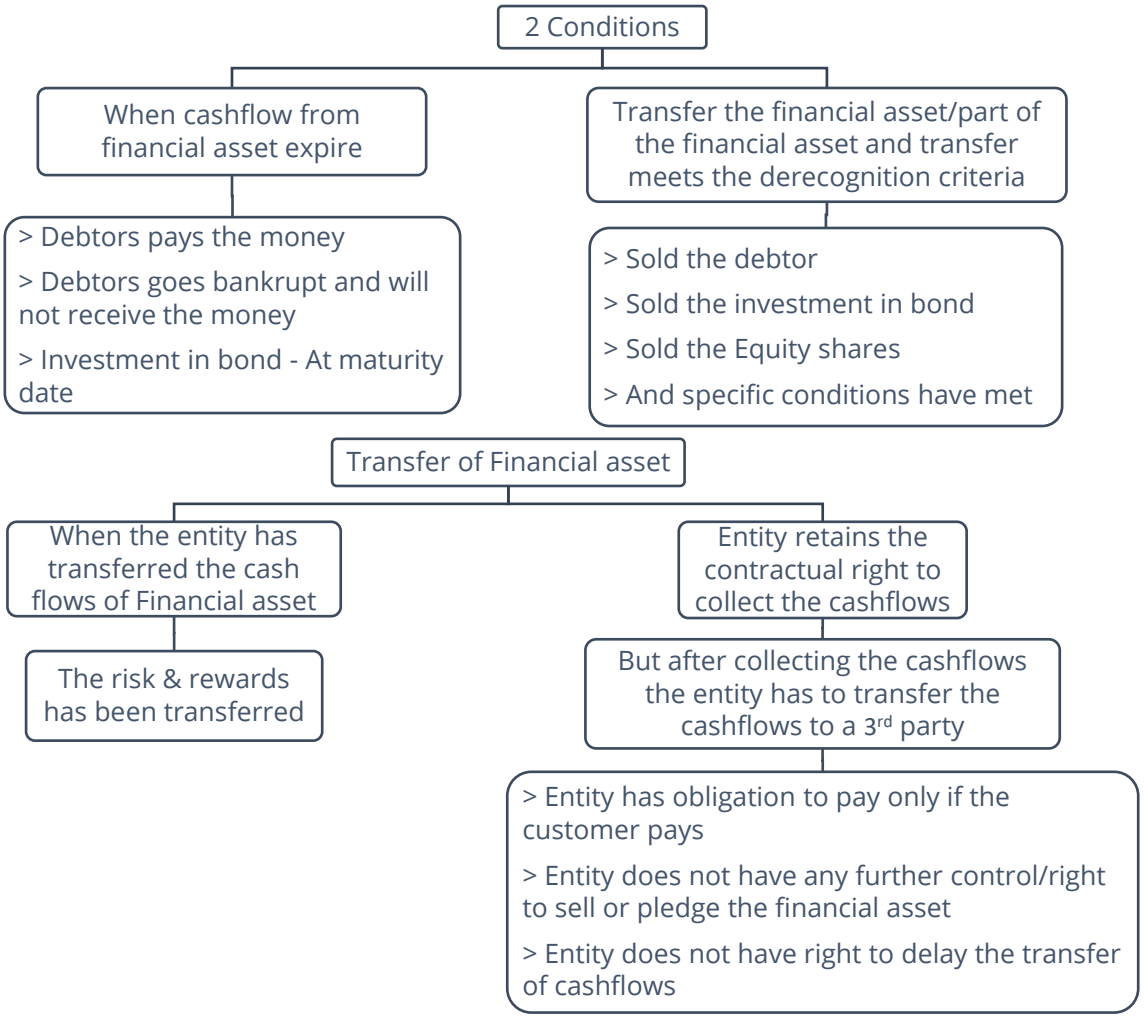


Note:

- If any Financial asset (For eg: Trade receivable) agreed to transfer first some percentage (eg:60%) of the cashflows to another party, then it is not a pro rata share of cash flow. So, need to apply principles of derecognition to the Financial asset.
- Financial asset can be transferred to multiple parties, but pro rata share should be transferred & pro rata share should be received
  (For eg: Trade receivable - agreed to transfer 20% to one party, 30% to another party & 50% retained on every cashflow received)



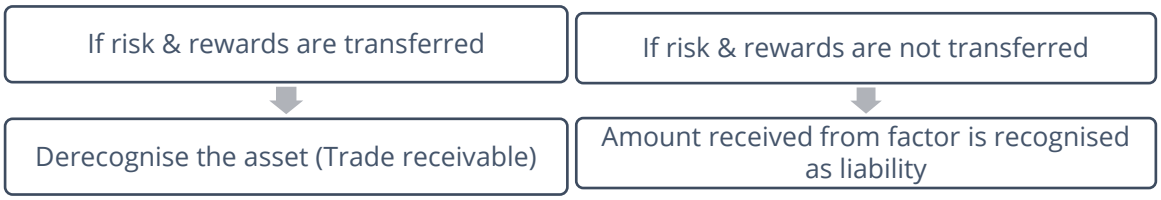
16.2 Specific derecognition principles



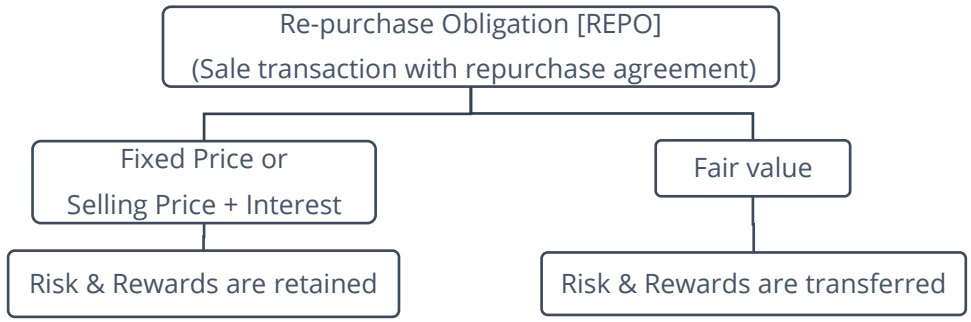
Additional conditions to be checked for transfer of financial asset

Whether substantially risk & rewards(If there is unconditional sale of financial asset) has been transferred

- Eg: Entity sold the cashflows from customer to 3rd party factor,
- If the customer does not pay -> Entity has to pay. Financial asset has not been transferred.

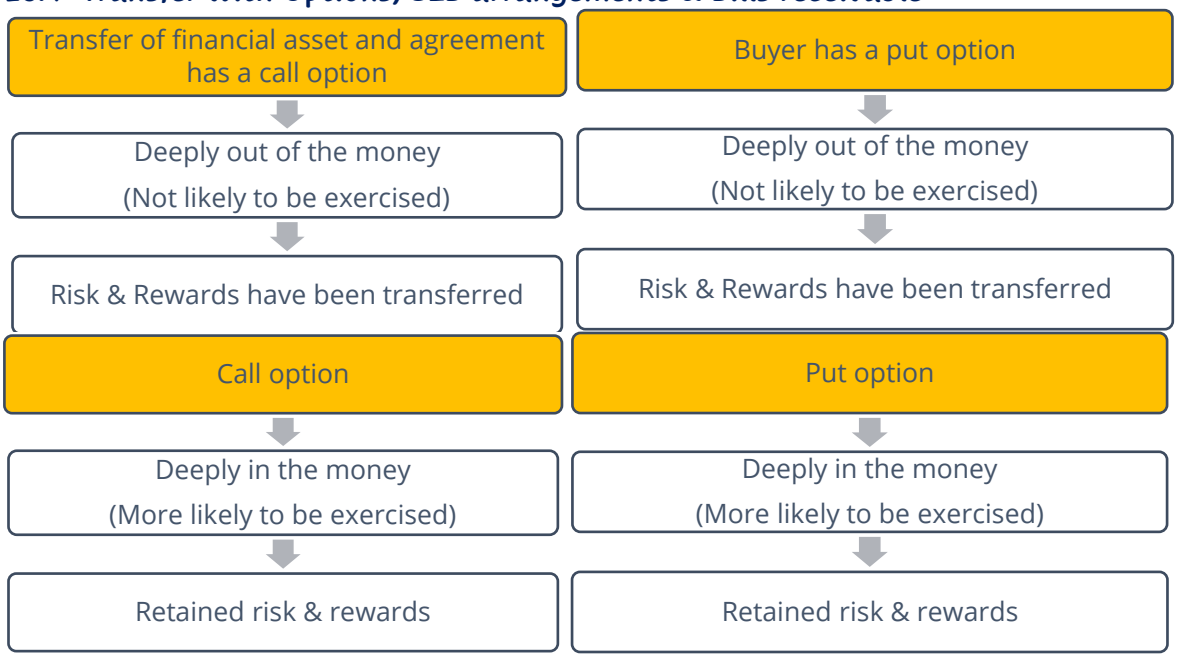


16.3 Sale transaction with repurchase agreement



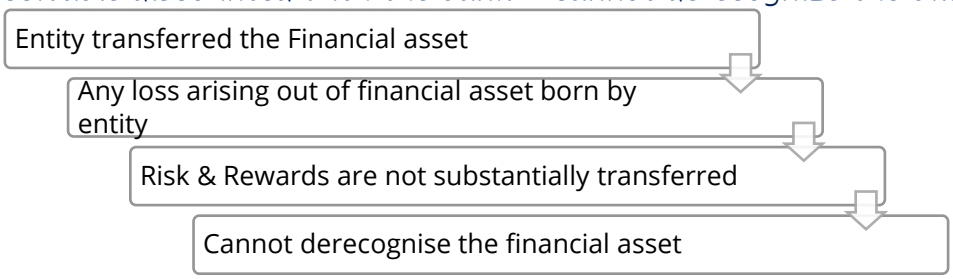


16.4 Transfer with Options, SLB arrangements & Bills receivable



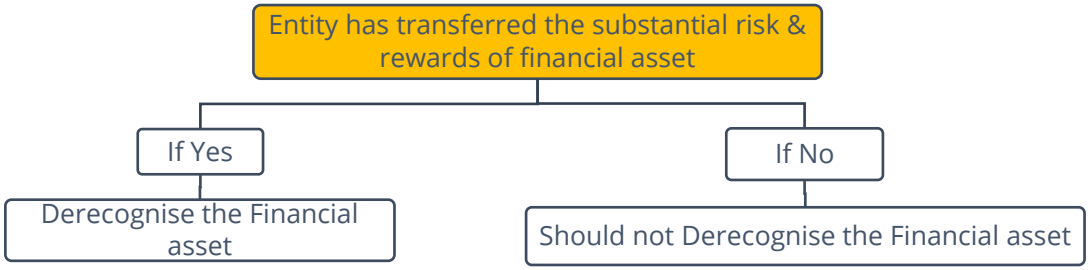
Note:

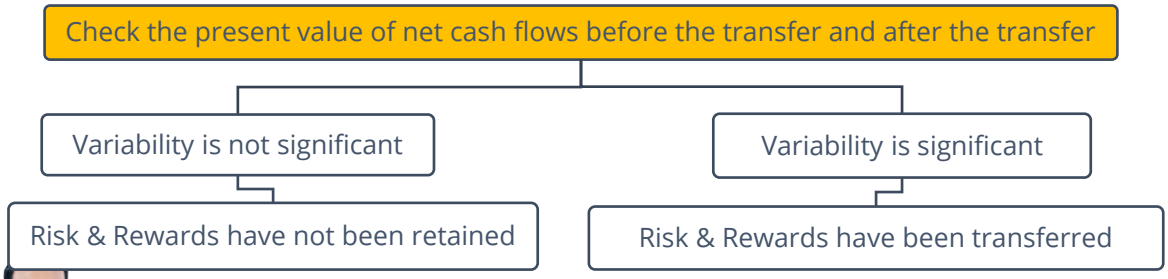
- ➔ Securities lending and borrowing arrangement: Not transferred the risk & rewards
- ➔ Bills receivable discounted with the bank – cannot derecognize the bills receivable



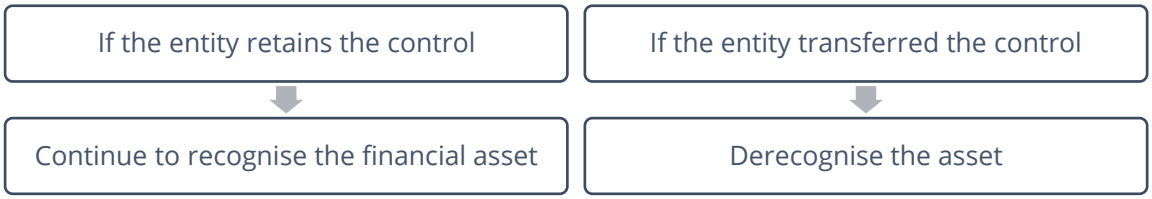
Bills receivable discounted with the bank

Amount received from the bank at the time of discoutng -> Create a Liability
Continue to recognise the bills receivable
On the due date if drawee pays to the bank -> Derecognise the Bills receivable

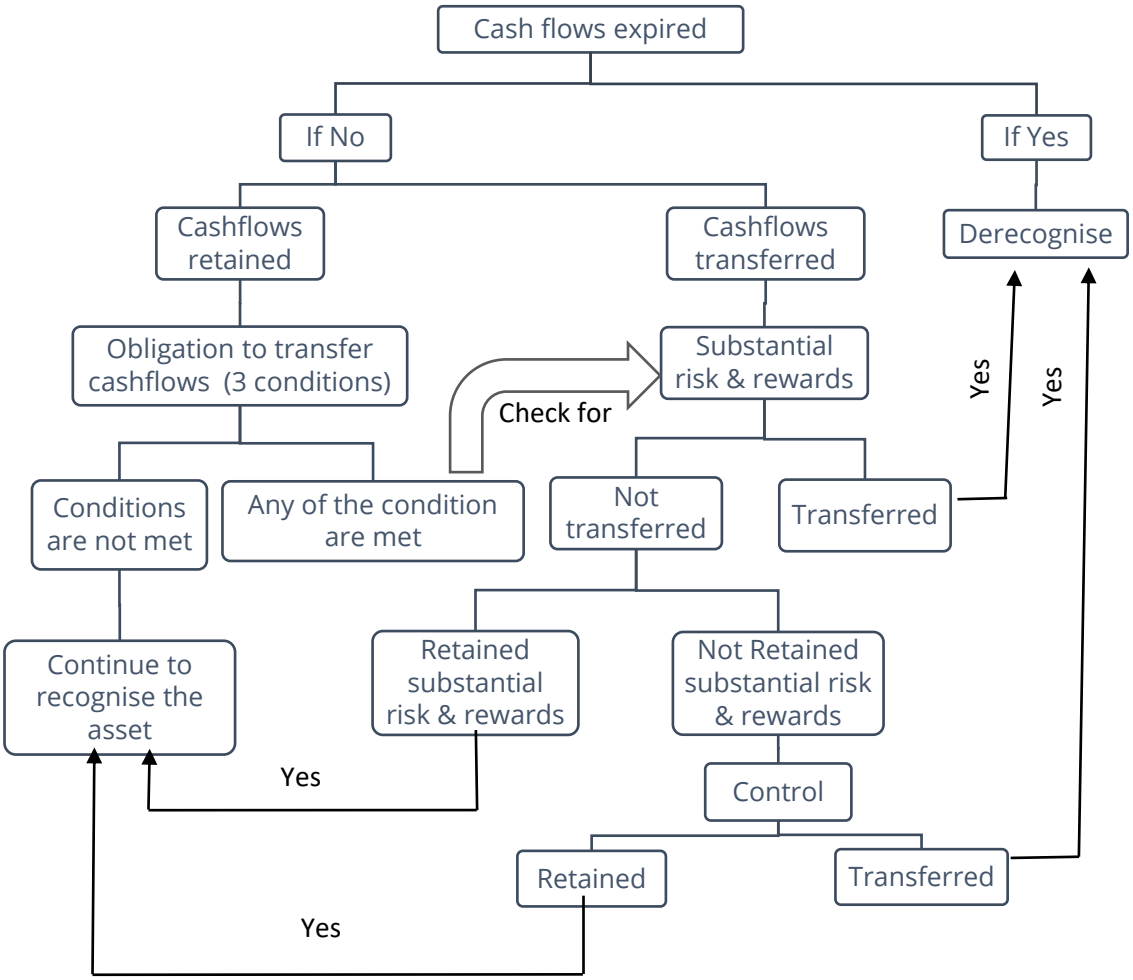


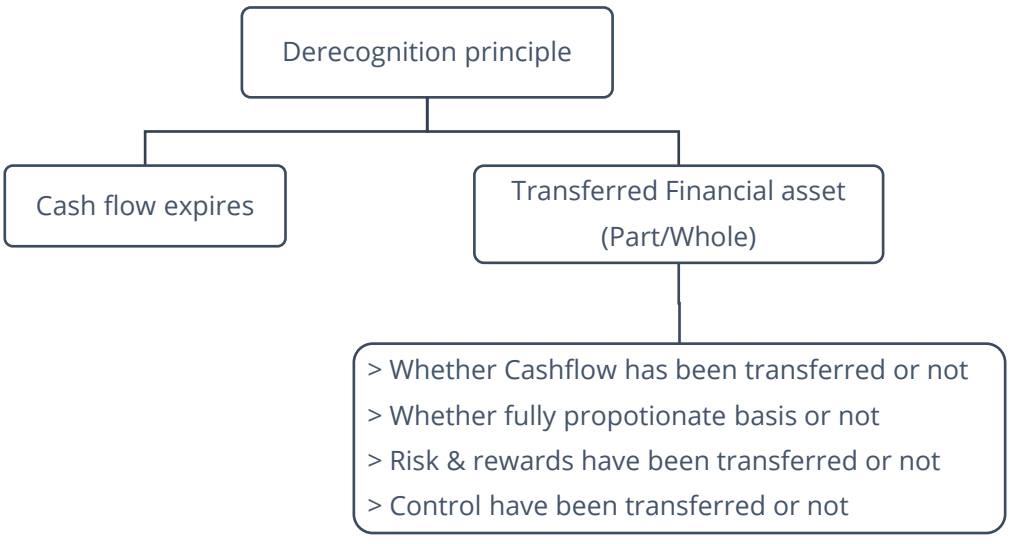




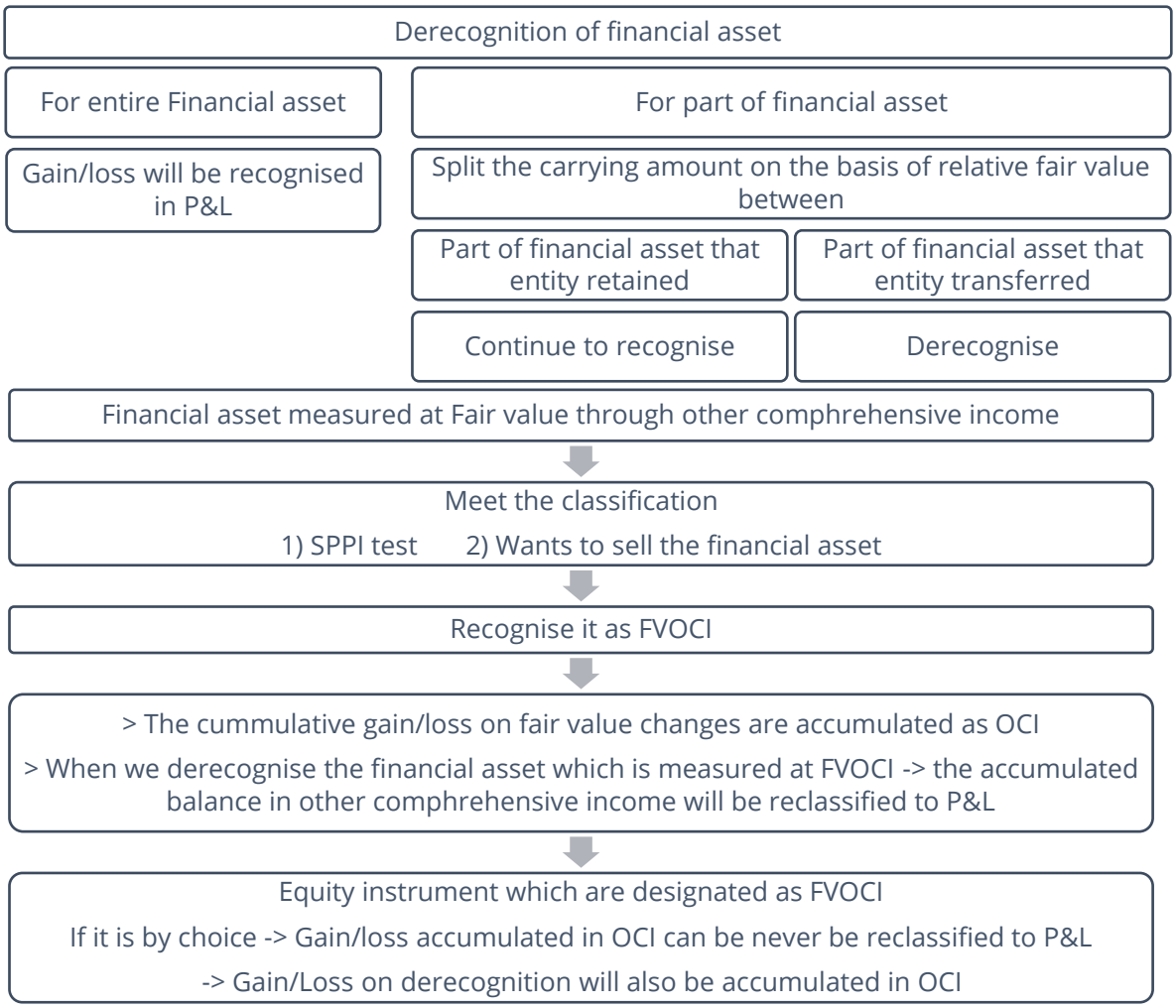

If the entity retains the control
If the entity transferred the control
Continue to recognise the financial asset
Derecognise the asset

16.5 Summary


Cash flows expired
If No
If Yes
Cashflows retained
Cashflows transferred
Derecognise
Obligation to transfer cashflows (3 conditions)
Substantial risk & rewards
Check for
Yes
Yes
Conditions are not met
Any of the condition are met
Not transferred
Transferred
Continue to recognise the asset
Retained substantial risk & rewards
Not Retained substantial risk & rewards
Yes
Control
Retained
Transferred
Yes


Derecognition principle
Cash flow expires
Transferred Financial asset (Part/Whole)
> Whether Cashflow has been transferred or not
> Whether fully propotionate basis or not
> Risk & rewards have been transferred or not
> Control have been transferred or not



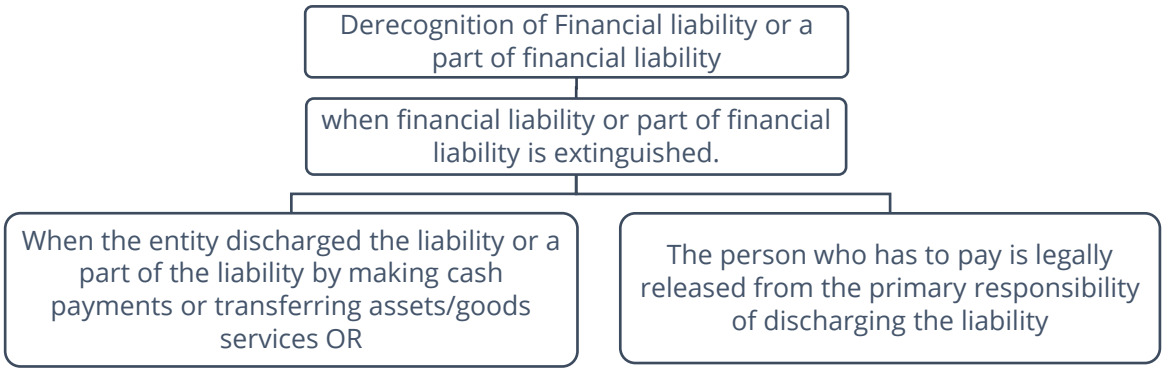


Continuous involvement in the financial asset: Entity involved in the financial asset even after transfer of financial asset.

17 De-recognition of Financial Liability

17.1 Derecognition of FL

Derecognition of Financial liability or a part of financial liability -> only when financial liability or part of financial liability is extinguished.

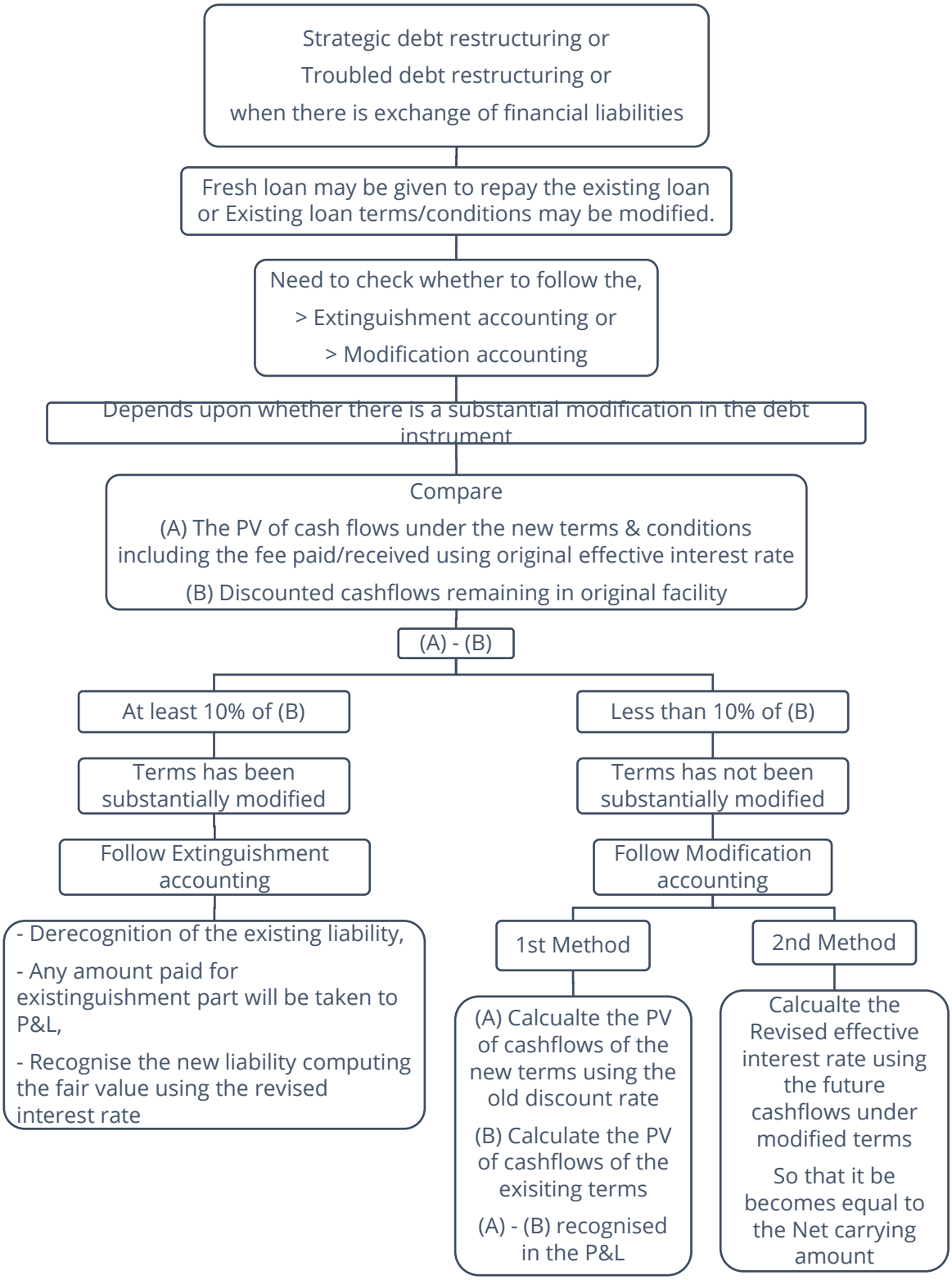


Eg:

- *Advance received from customers (Financial liability) → Extinguished when customer is provided with goods or services*
- *Entity A has to receive Rs.1000 from Entity B & Entity B taken over by Entity C. Then Entity C is responsible for making payment to Entity A. Now Entity released from the primary responsibility of discharging the liability*



17.2 Modification of cashflows (Debt restructuring)



Transaction cost

- is adjusted from the carrying amount of FL if there is no substantial modification.
- Is transferred to P&L if there is substantial modification



17.3 Conversion of debt to equity (Debt for Equity swap)

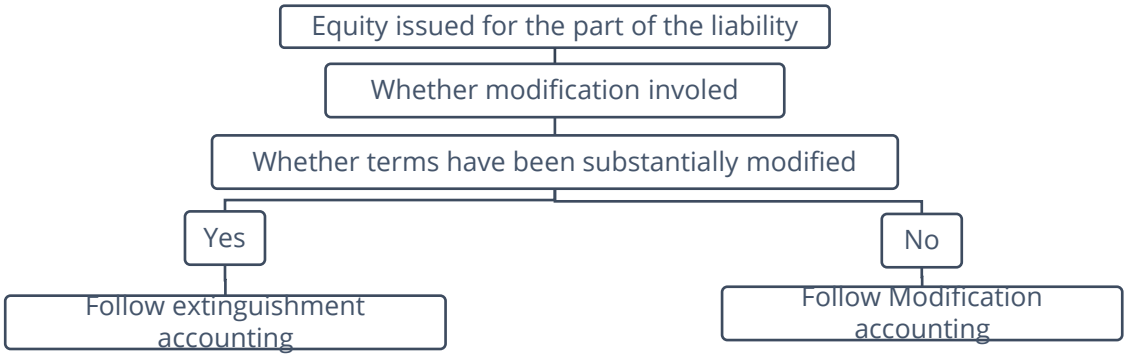
Financial liability will be derecognised only when derecognition principles are met

↓

Equity instrument which is issued is measured at the fair value. If FV of Equity cannot be measured reliably, then consider FV of liability which is being exchanged.

↓

Difference between carrying amount of liability and consideration received is recognised in P&L.

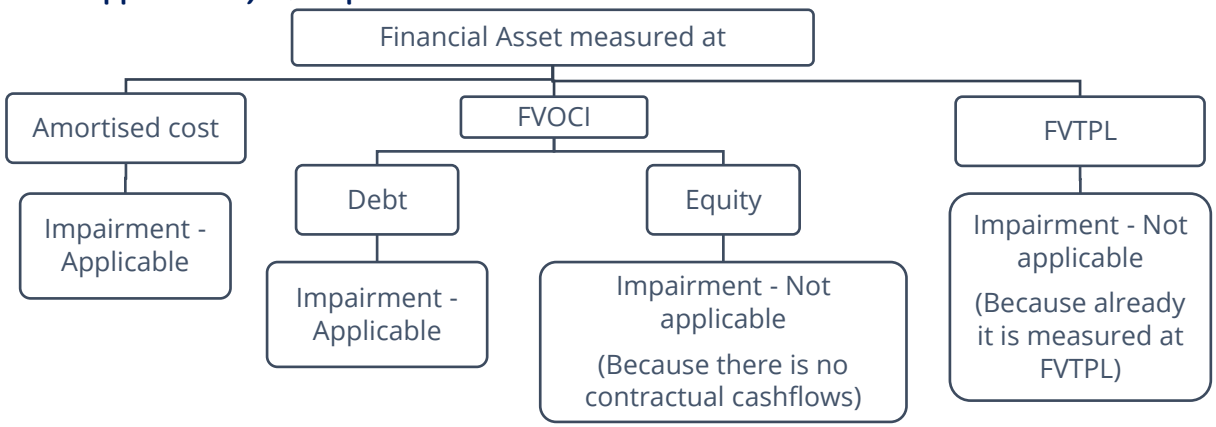


Accounting for debt for equity swap is not applicable in 3 situation

1) Where the creditor is acting in capacity of a shareholder
2) Where the borrower and lender are controlled by the same entity before and after modification. The substance of the transaction either to issue equity or take back the equity
3) Where equity is been issued as a part of the original agreement.

18 Impairment of Financial Asset

18.1 Applicability of Impairment



Note:
Impairment applicable to the following, if it is Financial asset

- Lease receivables
- Trade receivables
- Contract assets
- Financial guarantee / Loan commitment



18.2 Expected Credit loss

Contractual cashflows (A):
Payment of Principle &
Payment of interest

Expected Cashflows (B):
Expected payment/
Collection from selling of assets/
Collection from invoking the guarantee

Difference between (A) and (B) discounted to its PV is called the **Expected credit loss**

Discounting rate --> Effective interest rate

Exception: If there are purchased or originated credit impaired assets --> Discounted at credit adjusted discount rate

Expected credit loss

12 months Expected credit loss	Life time Expected credit loss
Expected credit loss over the next 12 months period	Expected credit loss over the entire life time of financial asset
	Higher when compare to 12 months Expected Credit loss

Note: Entity has to make provisions for Expected Credit loss either of the above based on the condition of the financial asset.

Criteria to decide the stage of the financial asset:

1) Credit risk of the financial asset
2) How are the financial assets priced in the market?
3) Pricing of credit default swaps

Depending on the stage that the financial asset falls → calculate the Expected Credit loss

Simplified Approach	**Approach for purchase or originated credit impaired assets**	**3 Stage Model (General approach)**		
		Stage 1	Stage 2	Stage 3
For trade receivables, lease receivables and contract assets	Compute the effective interest rate considering the FV on the date of transaction and expected cashflow IF the Expected cashflows deteriorate provide for impairment	Financial asset where there has not been any significant increase in the credit risk	There is significant increase in the credit risk, but there is no credit impairment which is visible	There is significant increase in the credit risk and there is clear evidence of credit impairment
Compute the Expected life time Credit losses		Provide for 12 months Expected credit loss & recognise income on the gross carrying amount of the financial asset	Provide for life time Expected credit loss & recognise income on the gross carrying amount of the financial asset	Provide for life time Expected credit loss & recognise income on the net carrying amount of the financial asset
Carrying Amount x Loss % x Probability				



When can an entity consider that the credit risk has increased significantly?

If the payment is not received for the period for 30 days after due date
--> Presume that the credit risk has increased significantly

Above presumption can be rebutted if the entity can demonstrate that this credit risk has not increased significantly

Whether the asset is credit impairment

>> Significant financial difficulty
>> Breach of contract
>> Borrower has received concession from other lenders
>>Probability of the borrower that they will file for bankruptcy
>> Disappearance of an active market for the financial asset because of financial difficulty
>> Borrower has issued further bonds at deep discounted prices

Whenever measuring Expected credit loss

Calculate various loss case scenarios

Assign probability

Accordingly determine the expected credit loss

Note:

- *Whenever entity is looking at different outcomes it should not spend undue amount of efforts, time and cost to determine the ultimate outcome.*
- *An entity may use practical experience in case of calculation of expected credit losses*
- *Simplified approach will not be applied when the trade receivables has a significant financing component*
- *Even if the trade receivable, lease receivables or contract assets have significant financial component but as a matter of accounting policy, entity decides to provide for life time expected loss*

19 Reclassification of Financial Instrument

Financial liabilities cannot be reclassified

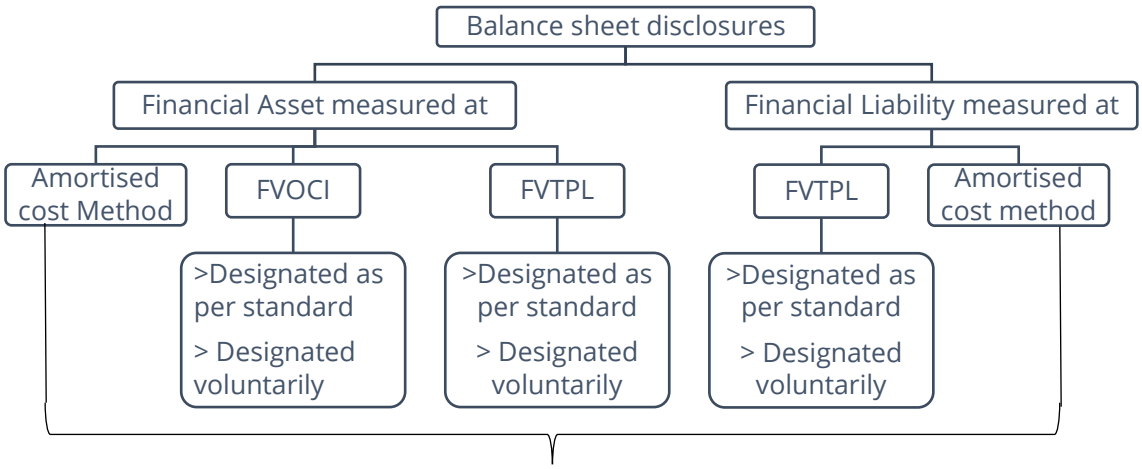
Financial assets can be reclassified
only if there is a change in the business model

	From ACM	From FVTOCI	From FVTPL
To ACM	-	Transfer @ Fair Value (+/-) Adjust Accumulated balance in OCI	Transfer @ Fair Value Calculate new EIR
To FVTOCI	Transfer @ Fair Value Difference recognized in OCI	-	Transfer @ Fair Value Calculate New EIR
To FVTPL	Transfer @ Fair Value	Transfer @ Fair Value	-



	Difference recognized in P&L	Transfer Accumulated balance in OCI to P&L	

20 Financial Instrument Disclosure



Separate disclosure for each

Financial asset could have been Amortised cost/ FVTPL Entity opted to designated as FVTPL Additional disclosure:	Financial liability designated as FVTPL Separate Disclosure:	Investment in Equity instruments designated as FVTOCI Additional Disclosures:
•Credit Risk Exposure • Derivatives entered into?	•Changes in FV •Changes attributable to Credit risk •Amount recognised at derecognition	•Instruments designated as FVTOCI •Reason for designated so •FV of such investment at end of reporting period •Dividend recognised during the period •Gain/loss reclassified within equity

Reclassification Disclosure – Financial Assets

1. Disclosures for each reclassification

- Date of reclassification
- Detailed explanation of the **change in business model**
- Qualitative description of the **effect on financial statements**
- Amount **reclassified into and out of each category**

2. Financial asset reclassified from FVTPL to FVTOCI / Amortised Cost

- **Effective Interest Rate (EIR)** determined on the **date of reclassification**
- **Interest revenue recognised** after reclassification



3. Financial asset reclassified from FVTPL to FVTOCI / Amortised Cost and from FVTOCI to Amortised Cost

- **Fair value of the financial asset** at the **end of the reporting period**
- **Fair value gain or loss** that **would have been recognised in P&L or OCI** if **reclassification had not occurred**

Offsetting Financial Asset & Financial Liability - Additional Disclosures (Ind AS 32)

- Entity shall disclose the **effect or potential effect of netting arrangements** on its **financial position**.
- The disclosure shall include:
  - **Gross amount** of recognised **financial assets and financial liabilities**
  - **Amount set-off** in accordance with **Ind AS 32**
  - **Net amount** presented in the **Balance Sheet**

Financial Asset given as Security (Collateral)

- Entity shall disclose details of **financial assets pledged as collateral**.
- The disclosure shall include:
  - **Carrying amount** of financial assets **pledged as collateral** for **liabilities or contingent liabilities**, including amounts **reclassified under Ind AS 109**
  - **Terms and conditions** relating to the **pledge of the financial assets**

Defaults & Breaches

- Entity shall disclose information relating to **defaults and breaches** at the **end of the reporting period**.
- The disclosure shall include:
  - **Details of any defaults during the period** in payment of **principal, interest, sinking fund or redemption terms** of loans payable
  - **Carrying amount of loans payable in default** at the **end of the reporting period**
  - **Whether the default was remedied** or **loan terms were renegotiated before the financial statements were approved for issue**
- **Defaults during the period** require **specific disclosure**, even if **remedied before year-end**.

Other Disclosures

Hedge Accounting

- Entity shall disclose its **risk management strategy** for **each category of hedge**, explaining:
  - **What risks are being hedged**
  - **How hedge accounting is applied**
- Entity shall disclose the **effect on future cash flows**, including:
  - **Amount** of cash flows
  - **Timing** of cash flows
  - **Uncertainty** relating to those cash flows
- Entity shall disclose the **effect of hedge accounting** on:
  - **Balance Sheet**
  - **Statement of Profit and Loss**
  - **Statement of Changes in Equity**

Disclosure – Statement of Profit & Loss

Income, Expense, Gains or Losses

- An entity shall disclose the following items **either in the Statement of Profit & Loss or in the Notes**:



- **Net gains or net losses**
- **Total interest revenue and total interest expense** (calculated using the **Effective Interest Rate (EIR) method**) for:
  - Financial assets measured at **Amortised Cost**
  - Financial assets measured at **FVTOCI**
  - Financial liabilities measured at **FVTPL**
- **Fee income and fee expense**, **excluding** amounts already included in the **EIR calculation**

Separate Disclosures (Mandatory)

- **Financial assets and financial liabilities measured at FVTPL**, including:
  - Instruments **mandatorily designated** at FVTPL as per Ind AS 109
  - Instruments **voluntarily designated** at FVTPL
- **Financial liabilities measured at Amortised Cost**
- **Financial assets measured at Amortised Cost**
- **Investments in equity instruments designated at FVOCI**
- **Financial assets measured at FVTOCI**

Fair Value – Disclosure Requirements

- For **each class of financial assets and financial liabilities**, an entity shall:
  - **Disclose the fair value** of that class of assets and liabilities
  - Present it **in a manner that allows comparison with the carrying amount**
- **Offsetting rule**:
  - Fair values shall be **offset only to the extent** that the **carrying amounts are offset** in the **Balance Sheet**

Cases where Fair Value disclosure is NOT required

- When the **carrying amount is a reasonable approximation of fair value**
- For a **contract containing a discretionary participation feature** (as per **Ind AS 104**), **if fair value cannot be measured reliably**
- For **lease liabilities**

Disclosure – Risk arising from Financial Instruments

General Requirement

An entity shall disclose **information that enables users of financial statements**:

- To **evaluate the nature and extent of risks** arising from financial instruments
- To which the entity is **exposed**
- **At the end of the reporting period**

Qualitative Disclosures

(For each type of risk)

- **Exposure to risk** and **how the risk arises**
- **Objectives, policies and processes** for **managing the risk**
- **Methods used to measure the risk**
- **Changes** in exposure, objectives, policies or processes **from the previous period**



Quantitative Disclosures

(For each type of risk)

- **Summary quantitative data** about the entity's **exposure** at the **end of the reporting period**
- Disclosures shall cover the following risks:
  - **Credit Risk**
  - **Liquidity Risk**
  - **Market Risk**

Financial Liabilities – Disclosure Requirements

Classification

- **Non-derivative financial liabilities**
- **Derivative financial liabilities**

Maturity / Ageing Analysis

- For **non-derivative financial liabilities**:
  - Disclose a **maturity (ageing) analysis**
  - Show the **remaining contractual maturities**
- For **derivative financial liabilities**:
  - Disclose a **maturity analysis**
  - Show the **timing of expected cash flows**

Liquidity Risk Management

- Provide a **description of how the entity manages liquidity risk** inherent in its **financial liabilities**

Market Risk – Disclosure Requirements

- Entity shall disclose **sensitivity analysis** for **each type of market risk** to which it is exposed **at the end of the reporting period**.
- Sensitivity analysis shall show:
  - How **profit or loss** and **equity** would have been affected
  - Due to **reasonably possible changes** in the **relevant risk variables** (e.g. interest rate, foreign exchange rate, price risk)
- Entity shall disclose:
  - **Methods used** in preparing the sensitivity analysis
  - **Key assumptions** used in the analysis
- Entity shall disclose:
  - **Changes from the previous period** in methods and assumptions
  - **Reasons for such changes**



Contents

- Terms used in "Business Combination"
- Differences between Ind AS 103 and AS 14
- Purchase Consideration
- Goodwill
- Contingent payments to employee shareholders and acquirer share-based payment awards exchanged for awards held by the acquiree's employees.
- Subsequent measurement and accounting principles for reacquired rights, contingent liabilities, indemnification assets and contingent consideration
- Disclosure requirements under Ind AS 103

1 Introduction

Business combination occurs when an entity obtains control of a business by acquiring net assets or acquiring its significant equity interest. The entity acquiring the business is called the acquirer and the entity transferring/selling the business is called acquiree.

A business combination may be structured in a variety of ways for legal, taxation or other reasons :

Case	Description	Real-Life Example
(a)	One or more businesses become subsidiaries of an acquirer	**Tata acquired 1mg** – 1mg became a subsidiary of Tata Digital
(b)	The net assets of one or more businesses are legally merged into the acquirer	**Kotak Mahindra Bank acquiring ING Vysya Bank** – ING Vysya's net assets were merged into Kotak
(c)	Owners transfer their equity interests to another combining entity or its owners	**Flipkart founders (Sachin & Binny Bansal) transferring their stakes to Walmart** as part of Walmart's majority acquisition
(d)	All combining entities transfer net assets, or owners transfer their equity to a newly formed entity	**Vodafone + Idea Merger → Vodafone Idea (VI)** – Both companies contributed their net assets to form a new entity
(e)	A group of former owners of one combining entity obtains control of the combined entity	HDFC Ltd (parent) merged into HDFC Bank, The *shareholders of HDFC Ltd* became majority shareholders of the combined entity,

Control means the acquirer can direct the financial and operating policies of the other business (to be discussed in Ind AS 110)

2 Scope of Ind AS 103

Ind AS 103 is applicable to a transaction or other event that meets the definition of a business combination.

It is not applicable to

a. The formation of a **joint arrangement**.
b. The acquisition of an asset or a group of assets that does not constitute a business i.e. it is an **asset acquisition**.

3 Control of a business

An entity **obtains control of a business** by

a. Acquiring net assets or acquiring its significant equity interest
b. Contract in which case the acquirer would neither have acquired net assets nor equity interest. (Controlling interest = zero and non-controlling interest = 100%).

4 Definition and Elements of Business

4.1 Definition of Business

Ind AS 103 defines business as

- an **integrated set of activities** and assets
- that is capable of being conducted and managed
- for the **purpose of providing goods or services** to customers,
- generating **investment income** (such as dividends or interest) or
- generating **other income** from ordinary activities.



Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as business

4.2 Elements of Business

The three elements of a business are defined as follows:

(a) Input: Any economic **resource that creates outputs** or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
For Example:
Non-current Assets, intellectual property, ability to obtain access to necessary materials or rights and employees.

(b) Process: Any **system, standard, protocol, convention or rule** that when applied to an input or inputs, creates output or has the ability to contribute to the creations of outputs.
For Example:
Strategic management processes, operational processes and resource management processes

(c) Output: The **result of inputs and processes** applied to those inputs that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities.

4.3 Acquisition of Shell Company

The **shell company does not contain an integrated set of activities** and assets and so does not constitute a business. Consequently, acquirer should account for the purchase of the shell company in the same way as the incorporation of a new subsidiary. No goodwill is recognised.

4.4 Further Assessment – Substantive Process

To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—**inputs and a substantive processes** applied to those inputs.

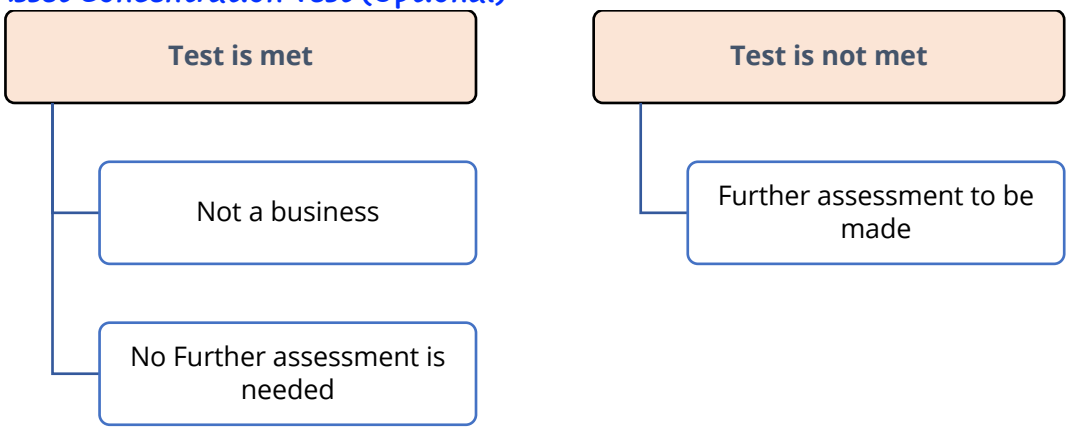
To determine whether **acquired process is substantive**, following has to be considered:

No Output	Output is present
(i) It is critical to the ability to develop or convert an acquired input or inputs into outputs.	(i) It is critical to the ability to continue producing outputs.
(ii) The inputs acquired include a. Organised workforce that has the necessary skills, knowledge, or experience to perform that process b. Other inputs that the organised workforce could	(ii) The inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process



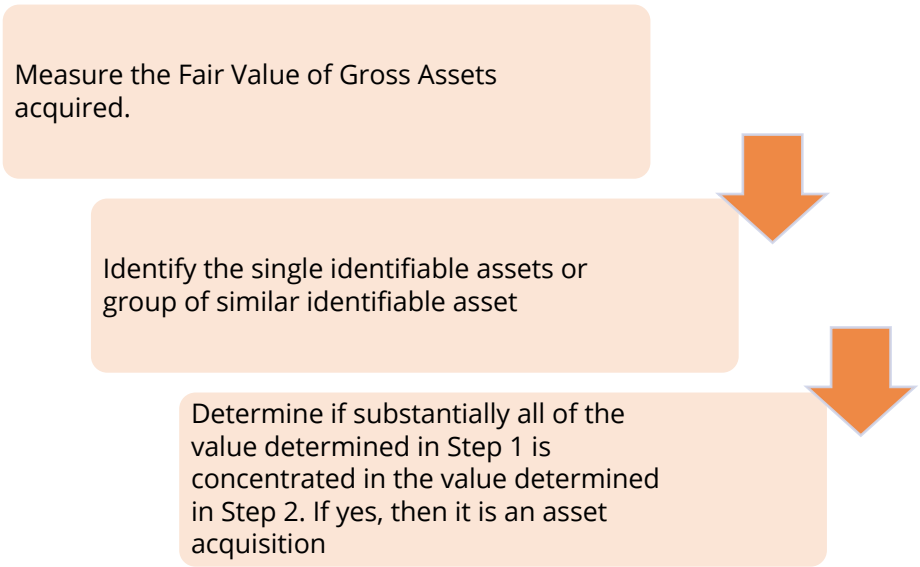
develop or convert into outputs.	
	(iii) Activities when applied to an applied inputs, significantly contributes to the ability to continue producing outputs and a. Is considered unique or scarce b. Cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs

4.5 Asset Concentration Test (Optional)



This test has been introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. This test is optional and the decision to apply is made on a transaction-to-transaction basis.

Conditions:
The concentration test is met **if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets**.
Three Step process for concentration test:



For the concentration test –
(a) Gross assets acquired shall
- **Exclude** cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities
- In fair value of the gross assets acquired shall **include** any consideration transferred (plus the fair value of any non-controlling interest and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired.



(b) a single identifiable asset shall include
- Any asset or group of assets that would be recognized and measured as a single identifiable asset in a business combination
- A tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in Ind AS 116, Leases), without incurring significant cost, or significant diminution in utility or fair value to either asset

(c) When assessing whether assets are similar, an entity shall consider the nature of each single identifiable asset and the risks associated with managing and creating outputs from the assets

(d) The following shall not be considered similar assets:
(i) a tangible asset and an intangible asset
(ii) tangible assets in different classes unless they are considered a single identifiable asset
(iii) identifiable intangible assets in different classes
(iv) a financial asset and a non-financial asset
(v) financial assets in different classes; and
(vi) Identifiable assets that are within the same class of asset but have significantly different risk characteristics.

Fair Value of gross asset:

(a) Fair value of consideration transferred (including fair value of non-controlling interest and fair value of previously interest held)
(b) Fair value of liabilities assumed.
(c) Cash and cash equivalent and deferred tax assets and goodwill resulting from DTL's.

5 Differences between Business Combination and Acquisition of group of assets

A business combination is different from acquisition of group of assets. A group of assets may not meet the definition of business as explained above.

Particulars	Business Combination	Acquisition of group of assets
Intangible Assets	Recognise at fair value, if they are separately identifiable	Recognised and measured based on an allocation of the overall cost of the transaction with reference to their relative fair values
Goodwill	Recognised as a separate asset	No goodwill would be recognised
Acquisition related costs	Expensed in the period in which such costs are incurred.	Capitalised as a component of the cost
Deferred Tax Accounting	Deferred taxes are recorded on temporary differences of assets acquired (other than goodwill) and liabilities assumed in a business combination.	No deferred taxes are recognised for temporary differences on asset acquisitions (on initial recognition).
Gain on bargain purchases	Gain is recognised by the acquirer in other comprehensive income and accumulates the same in equity as capital reserve.	No gain is recognised for a bargain purchase.
Contingent liabilities assumed	To be recognised if represents present obligation that arises from past events and its fair value can be measured reliably with subsequent changes to profit or loss.	Not recognised, subject to Ind AS 37.



6 Acquisition Accounting for Business Combinations

The following key steps are involved in the acquisition accounting for business combinations

Step 1	Step 2	Step 3	Step 4
•Identifying the acquirer	•Determining the acquisition date.	•Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI)in the acquiree	•Recognising and measuring goodwill or a gain from a bargain purchase

7 Identifying Acquiring Enterprise

7.1 The Acquiring enterprise / Acquirer

The acquiring enterprise is the enterprise which obtains control (control is defined in Ind AS 110)

As per Ind AS 110 'Consolidated Financial Statements', an investor controls an investee if and only if the investor has **all** the following:

(a) power over the investee
(b) exposure, or rights, to variable returns from its involvement with the investee.
(c) The ability to use its power over the investee to affect the amount of the investor's returns.



In order to ascertain control do not look at the voting rights only. Evaluate otherfactors also like board control, potential voting rights etc.

Control assessment does not depend only on voting rights. It also depends upon the following

(a) Potential voting rights
(b) Rights of non-controlling shareholders; and
(c) Other contractual right of the investor if those are substantive in nature.

7.2 Acquisitions through payment of cash or incurring of liability

In these cases, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

7.3 Acquisitions through issue of equity instrument

In these cases, the acquirer is usually the entity that issues its equity interests. However, in case of "reverse acquisitions" the issuing entity is acquiree.

Other Relevant facts and circumstances in identifying the acquirer effected by exchanging equity interests

Facts and Circumstances	Acquirer
Relevant voting rights **in the combined entity after the business combination**	Combining entity whose owners as a group **retain or receive the largest portion of the voting rights** in the combined entity Consider **unusual or special voting arrangements**, and **options, warrants, or convertible securities**
Existence of a large minority voting interest **in the combined entity when no other owner/group has significant voting interest**	Combining entity whose single owner or organised group of owners holds the **largest minority voting interest**



Composition of the governing body **of the combined entity**	Combining entity whose owners have the ability to **elect / appoint / remove** a **majority of the governing body**
Composition of senior management **of the combined entity**	Combining entity whose **former management dominates** the management of the combined entity
Terms of exchange **of equity interests**	Combining entity that **pays a premium** over the pre-combination fair value of the equity interests of the other combining

7.4 Acquisitions involving Shell Company and Reverse Acquisition

A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. For e.g Entity A legally acquires Entity B by issuing shares to owners of Entity B. Post acquisition, the shareholders of B hold 70% of stake in combined entity. Though for legal purpose, Entity A is the acquirer, for accounting purpose Entity B is considered as the acquirer since in substance owners of B controls the combined entity.

Reverse acquisitions sometimes occur when a private operating entity wants to become a public entity but does not want to register its equity shares. To accomplish that, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. The public entity is the legal acquirer because it issued its equity interests, and the private entity is the legal acquiree because its equity interests were acquired.

Public Entity	Acquiree for the accounting purpose. It must meet the definition of a business for the transaction to be accounted for as a reverse acquisition. (Ind AS 103 will apply)
Private Entity	Acquirer for accounting purposes

8 Determining the Acquisition Date

Acquisition date is

(a) The date on which the acquirer obtains control of the acquire.

(b) Acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquire

(c) Acquiree's results are consolidated from this date

9 Determination of the Purchase Consideration

Purchase consideration is

Component	Description
(a) Assets transferred & liabilities incurred	Fair value of assets (including cash) transferred to the former owners **plus** any liabilities incurred by the acquirer.
(b) Fair Value of contingent consideration	Present value/Fair value of any contingent consideration agreed as part of the purchase.
(c) Equity interests issued	Fair value of equity shares or other equity interests issued by the acquirer to obtain control.

Situation	Treatment (Simplified & Highlighted)
1. Consideration includes assets or liabilities of the acquirer that have different CA and FV	• **Remeasure to *Fair Value* on acquisition date** • **Recognise gain or loss in P&L** (because control over these items is effectively transferred out of the acquirer's books).
2. Transferred assets or liabilities remain within the combined group (acquirer still controls them)	• **Measure at *Carrying Amount* (not FV)** • **No gain or loss in P&L** (as there is no real change in control)



	• **Carrying amount used as part of purchase consideration → affects *Goodwill and NCI***

9.1 Business Combination achieved in stages (Step Acquisition)

When an entity acquires another entity step by step through series of purchase, then the acquisition date will be the date on which the acquirer obtains control.

Concept	Simplified & Highlighted Explanation
Remeasure previously held interest	Acquirer must **remeasure earlier shareholding at *acquisition-date fair value***.
Recognise gain or loss	Any difference between **carrying amount vs. FV** is recorded as a **gain or loss** in **P&L or OCI**, depending on earlier classification.
Reclassification of earlier OCI	Any amount earlier recognised in **OCI** must now be **reclassified as if the investment was directly disposed**. [This is for when the investment is eliminated in consolidated financial statements]
Joint operation becoming a subsidiary	When a party in a **joint operation obtains control**, it is treated as a **business combination achieved in stages**, and the **previous interest must also be remeasured at FV**.

9.2 Business Combination achieved without the transfer of Consideration

These circumstances include

(a) The acquiree **repurchases a sufficient number of its own shares** for an existing investor (the acquirer) to obtain control
(b) **Minority veto rights lapse** that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
(c) The acquirer and acquiree agree to combine their businesses by **contract** alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously.

> The equity interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest.

9.3 Direct Cost of Acquisition

Any direct cost of acquisition should be recorded directly in profit and loss account and should not be included in purchase consideration

For Example: finder's fees, due diligence cost accounting, legal fees, investment banker fees, bonuses paid to employees for doing a successful acquisition

9.4 Contingent Consideration

The acquirer shall recognise the acquisition-date **fair value** of **contingent consideration** as part of the consideration transferred in exchange for the acquire.

The acquirer shall classify an obligation to pay contingent consideration as a liability or as equity on the basis of the definitions of an equity instrument and a financial liability (or) shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met.



10 Purchase Price Allocation

The acquirer shall and measure all the assets and liabilities acquired on the acquisition date at FV.

10.1 Recognition

(a) Identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities at the acquisition date.
(b) Assets and liabilities which have been assumed as a part of the business combination deal should only be recorded. Any other assets which are not related to the acquisition should be accounted as per applicable Ind As.
(c) Assets / Liabilities not recognised by acquiree would also be recognised if it meets the recognition criteria.
For example:
The acquirer recognises the acquired identifiable intangible assets, such as a brand name, a patent or a customer relationship, that the acquiree did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

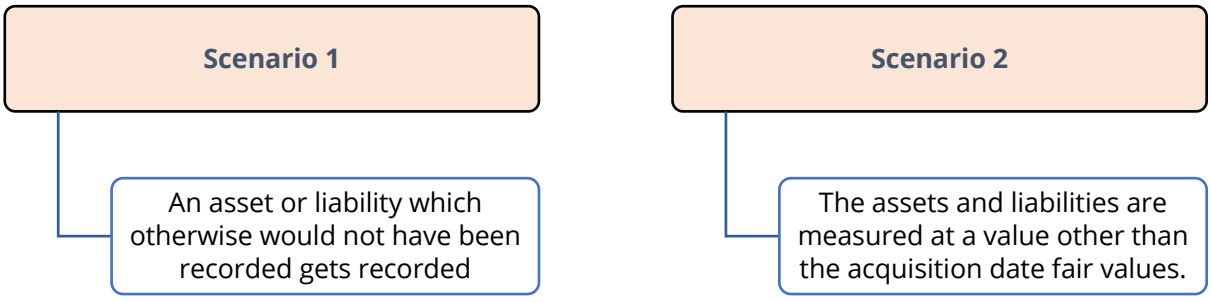
10.2 Measurement

(a) The acquirer shall measure the ***identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.***
(b) For each business combination, the acquirer shall measure at the acquisition date components of ***non-controlling interest in the acquiree*** that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either

(i) fair value; or
(ii) proportionate share in the recognised amounts of the acquiree's identifiable net assets

10.3 Exception to the recognition and measurement principle

These exception principles are only limited to acquisition date accounting and may be different than the requirements of other accounting standards. This will result in



Recognition Exceptions

Contingent Liability

Scenario	Ind AS 37 Treatment	Ind AS 103 (Business Combination) Treatment	Explanation / Example
Possible obligation	Not recognised	Not recognised	A lawsuit filed against acquiree with unclear basis; still under investigation – not

				recorded under either standard.
	Present obligation – outflow not probable	Not recognised	**Recognised** if fair value can be measured reliably	If a customer has made a legal claim against the acquiree, and it's a valid claim but unlikely to result in cash outflow – it is still **recorded at FV**.
	Present obligation – outflow probable but cannot be reliably measured	Not recognised	Not recognised	If a tax dispute is expected to result in outflow, but no reliable estimate of amount is possible – not recognised under both standards.
	Note: Ind AS 103 considers **fair value** of contingent liabilities on acquisition date, regardless of probability of outflow.			Acquirer recognises a contingent liability **only** if it is a **present obligation** and can be **measured at fair value**.

Both Recognition and Measurement Exceptions	
Income Taxes	(a) Recognise deferred tax consequences on assets and liabilities acquired during business combination as per Ind AS 12 (b) The acquirer shall account for the potential tax effects of temporary differences and carry forwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with Ind AS 12.
Post retirement obligation	Acquirer recognises fair value of defined benefit obligations as per Ind AS 19.
Indemnification Assets	In a business combination, the **seller may agree to compensate** the acquirer for certain **future losses** related to a **specific asset or liability**. This is called **contractual indemnification**. If such an arrangement exists, the **acquirer must recognise**: • The **indemnified liability** (e.g., a legal claim), and • A **matching indemnification asset**, measured on the **same basis**. The amount of indemnification asset cannot exceed the amount of liability recognised.
Leases	**Acquiree is a lessee:** (i) The acquirer shall recognise right-of-use assets and lease liabilities for leases as per Ind AS 116. (ii) The acquirer shall measure the lease liability at the present value of the remaining lease payments as if the acquired lease were a new lease at the acquisition date.



	(iii) The ROU is measured at same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms. (iv) The acquirer is not required to recognise right-of-use assets and lease liabilities for - leases for which the remaining lease term ≤ 12 months of the acquisition date; or leases for which the underlying asset is of low value. **Acquiree is a lessor:** In measuring the acquisition-date fair value of an asset, the acquirer shall take into account the terms of the lease. The acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms.
Assembled workforce	The acquirer subsumes into Goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date.
Measurement Exceptions	
Reacquired rights	Reacquired rights are those rights that **the acquirer had previously granted to the acquiree** to use certain assets, such as trademarks, technology, or distribution rights, **prior to the acquisition**. • Upon acquisition, these rights **return to the acquirer**, and therefore, must be recognized separately as **intangible assets** at **its fair value.** • Since the business combination **settles an existing contract**, a gain or loss on settlement of contract is recognised

If contract terms are favourable for the acquirer i.e. contract terms are better than current market terms	Recognise a gain
If contract terms are unfavourable	Recognise a loss at lower of ➢ Amount by which the contract is unfavourable to the acquirer **[i.e. FV of the reacquired portion – unamortised portion**) ➢ Settlement penalty

Intangible Assets	The acquirer shall record separately from Goodwill, the identifiable intangible acquired in a business combination. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal criterion.
Share based transactions	Measured in accordance with the method in Ind AS 102, Share-based Payment, at the acquisition date.
Assets held for sale	Measured in accordance with Ind AS 105, at fair value less costs to sell in accordance with that Ind AS.

10.4 Intangible Assets



Recognition of Intangible Asset in Business Combination	Transaction meets the definition of Asset
	Asset is identifiable either by Contractual/Legal criteria or separability Criteria

Contractual Legal Criteria:
An intangible asset that meets the contractual-legal criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations.
For Example:
Technology patent, nuclear power plant

Separability Criteria:
Sometimes, an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability.

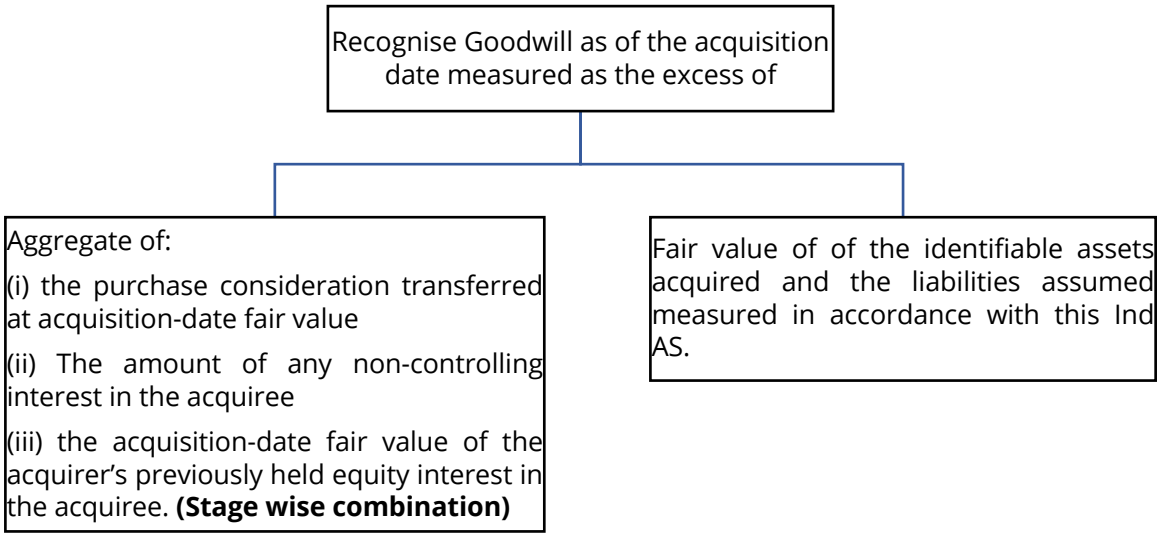
Assembled Workforce and other items that are not identifiable:
Assembled workforce is not an identifiable asset to be recognised separately from goodwill. Any value attributed to it is subsumed into goodwill.
An assembled workforce does not represent the intellectual capital of the skilled workforce—the knowledge and experience that employees of an acquiree bring to their jobs.

Reacquired Rights
A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill.If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognise a settlement gain or loss.

10.5 Goodwill recognition and measurement

Fair value of	
- **Purchase consideration** (Including contingent consideration)	1
- **Existing Stake**	2
Value of NCI	
- **Fair value** - **Proportion of net assets**	3
Total [A]	1+2+3
Fair value of identifiable Net Assets (Including FV of contingent liabilities)	4
Total [B]	4
Goodwill (If A > B)	**A-B**
Bargain Purchase (If A < B)	**B-A**





10.6 Goodwill Vs Bargain Purchase

Bargain purchase is a circumstance where the value of net assets acquired in a business combination exceeds the purchase consideration.

The acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve, if the reason for bargain purchase gain is clear and evidence exist. If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve.

The gain shall be attributed to the acquirer and there will no allocation to the non-controlling shareholders.

A bargain purchase might happen, for example, in a business combination that is a forced sale in which the seller is acting under compulsion.



If consideration paid ≥ Net assets, the difference is called as Goodwill
If consideration paid ≤ Net assets, the difference is called gain on bargain purchase

10.7 Measurement period

Information not available on the acquisition date:

- Do the purchase price allocation on a provisional basis.
- Adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date retrospectively
- Recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

The measurement period shall not exceed one year from the acquisition date. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:

- the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquire
- the consideration transferred for the acquiree (or the other amount used in measuring goodwill); • in a business combination achieved in stages, the equity interest in the acquire previously held by the acquirer; and



- The resulting goodwill or gain on a bargain purchase.

Any change i.e. increase or decrease in the net assets acquired due to new information available during the measurement period which existed on the acquisition date will be adjusted against goodwill. However, after the measurement period ends, any change in the value of assets and liabilities due to an information which existed on the valuation date will be accounted as an error as per Ind AS 8, Accounting policies, Changes in Accounting Estimates and Errors.

10.8 Determining what is part of the business combination transaction

In the course of a business combination, the acquirer and the acquiree may have **pre-existing relationships** or may enter into arrangements **during negotiations** that are **separate from the business combination** itself.

Ind AS 103 requires that the acquirer **identify and exclude** from the consideration transferred **any amounts that are not part of the exchange** for the acquiree. These **separate transactions** must be accounted for **in accordance with their relevant Ind AS** (e.g., Ind AS 37 for settlement of legal claims, Ind AS 19 for employee benefits, etc.)

The following are commonly encountered separate transactions:

Type of Transaction	Description	Example	Treatment
(a) Settlement of pre-existing relationship	Settles obligations that existed prior to the combination	Acquirer was suing the acquiree for breach of contract; the claim is settled as part of the deal	The amount attributable to settlement is accounted for separately under Ind AS 37 and not as a part of purchase consideration.
(b) Remuneration for future services	Payment to employees or sellers contingent on continued service	Earn-out payable only if the seller remains as CEO for 3 years	Recognized as employee expense over the service period under Ind AS 19
(c) Reimbursement of costs	Acquiree pays the acquirer's transaction costs	Acquirer reimburses due diligence costs incurred by acquiree	Not a part of purchase consideration

10.9 Contingent Payment to Employees or Selling Shareholders

Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the business combination or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

Post acquisition compensation	Contingent Consideration for acquisition
Selling shareholders become employees and payment will not be made if service terminated.	Selling shareholders become employees and payment will be made even if service terminated.
Duration of employment equal or greater than contingent payment period	Duration of employment is shorter than the contingent payment period.
Compensation is reasonable	Compensation is not reasonable (excess)
	Selling shareholders who do not become employees receive less payment. In such cases the excess compensation represents consideration for acquisition



Shareholders holding few shares continue as employees	*Shareholders holding high number of shares continue as employees*
Valuation is appropriate	*Valuation for the purpose of combination is at the lower end*
Contingent payment based on profit sharing arrangement	*Contingent payment based on multiple of earnings to determine valuation*

10.10 Acquirer SBP awards exchanged for Awards held by Acquiree's employees

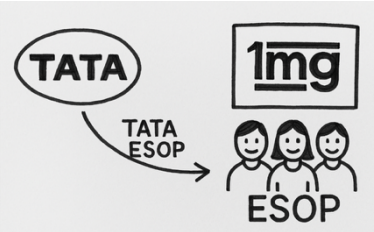
Students are required to complete Ind AS 102 to understand this section better.

Meaning of Replacement Awards

During a business combination, the acquirer may **exchange its own share-based payment (SBP) awards** for the **SBP awards that employees of the acquiree already hold**.
These exchanged awards are called **replacement awards**.

Example:

Tata acquires 1mg. Employees of 1mg hold ESOPs granted earlier by 1mg. Tata may replace these ESOPs with **new Tata ESOPs**.
These awards could be **vested or unvested** at the acquisition date.



Key Point

Exchanges of ESOPs or share options **in connection with a business combination** are **accounted for as a modification** of the original SBP award as per **Ind AS 102**.

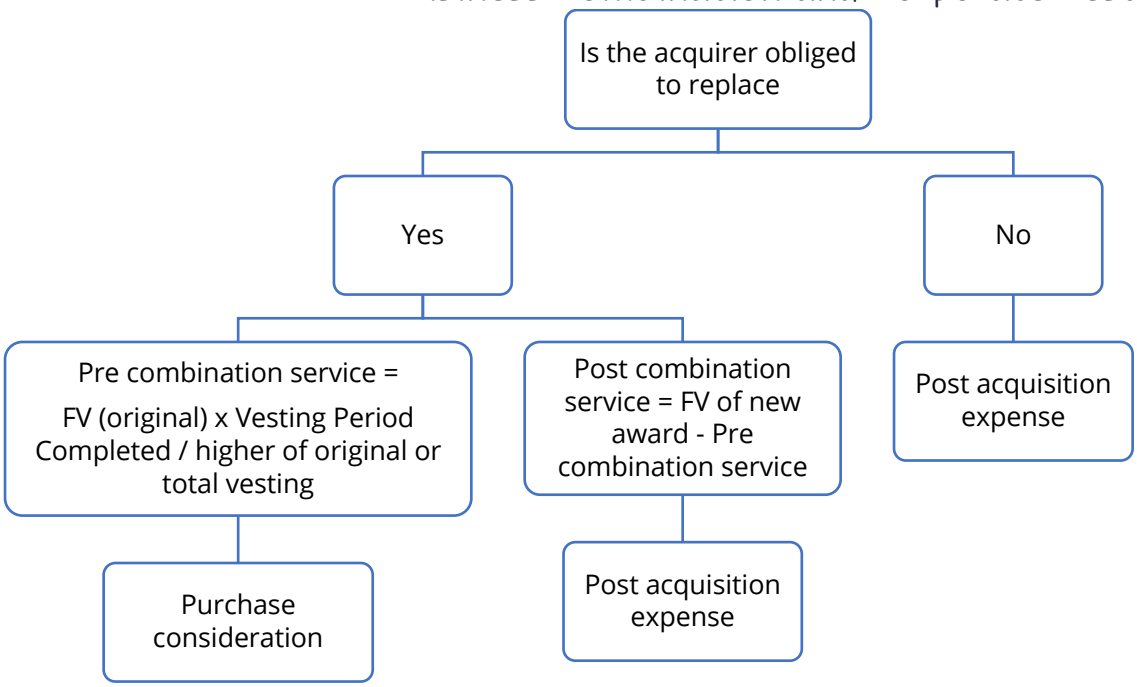
Replacement awards may form **part of the purchase consideration** in calculating **goodwill**.

Ind AS 103 requires a split between:

Component	Accounting Treatment	Reasoning / Explanation
Portion relating to pre-combination service	**Included in purchase consideration transferred** (Only when acquirer is obliged to replace the awards)	Since employees have already rendered service, the related portion of awards is **vested**. Employees are effectively entitled to equity. Acquirer is indirectly transferring value to future shareholders → hence treated as **part of purchase consideration**.
Portion relating to post-combination service	**Recognised as employee remuneration expense** under Ind AS 102	Payment is for **future employee service**, not for acquiring the business. Therefore, it cannot be part of consideration and is treated as **post-combination cost** in P&L.

- If acquiree SBP expire due to acquisition, then the replacement awards are considered to be post acquisition expenses.





Total vesting period = Vesting Completed + New Vesting period

10.11 Non Replacement Awards

In some cases, the acquiree's awards are not replaced.

- In case shares are vested – These represent NCI and are measured at their market based measure.
- In case shares are unvested – Treat as per 11.10

11 Subsequent Measurement and Accounting

In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination in accordance with other applicable Ind AS for those items, depending on their nature. However, Ind AS 103 provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:

Asset acquired	Action point
Reacquired rights	Amortise over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.
Contingent Liabilities	Recognise at higher of (a) the amount that would be recognised in accordance with Ind AS 37 (b) the amount initially recognised less, if appropriate, the cumulative amount of income recognised.
Indemnification Asset	At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.
Contingent consideration	The acquirer shall account for changes in the fair value of contingent consideration as follows:



	(a) Contingent consideration classified as equity shall not be re-measured and its subsequent settlement shall be accounted for within equity. (b) Other contingent consideration that is measured at fair value with gain or loss recognised in P&L.

12 Common Control Business Combinations

- Common control business combination means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.
- Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group.
- The extent of non-controlling interests in each of the combining entities before and after the business combination is not relevant to determining whether the combination involves entities under common control. This is because a partially-owned subsidiary is nevertheless under the control of the parent entity.
- The fact that one of the combining entities is a subsidiary that has been excluded from the consolidated financial statements of the group in accordance with Ind AS 27 is not relevant to determining whether a combination involves entities under common control.
- An entity can be controlled by an individual, or by a group of individuals acting together under a contractual arrangement, and that individual or group of individuals may not be subject to the financial reporting requirements of Ind ASs. Therefore, it is not necessary for combining entities to be included as part of the same consolidated financial statements for a business combination to be regarded as one having entities under common control.
- A group of individuals are regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory.

13 Method of accounting for common control business combinations

Business combinations involving entities or businesses under common control shall be accounted for using the **pooling of interest method.**

The pooling of interest method is considered to involve the following:

(i) The assets and liabilities of the combining entities are reflected at their carrying amounts.

(ii) No adjustments are made to reflect fair values or recognise any new assets or liabilities. The only adjustments that are made is to harmonise accounting policies.

(iii) The financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the earliest period presented in the financial statements, irrespective of the actual date of the combination. However, if business combination had occurred after that date, the prior period information shall be restated only from that date.

Consideration:

The consideration may consist of securities, cash or other assets. Securities shall be recorded at nominal value. In determining the value of the consideration, assets other than cash shall be considered at their fair values.



Balance of the retained earnings:

Balance appearing in the financial statements of the transferor is aggregated with the corresponding balance appearing in the financial statements of the transferee. Alternatively, it is transferred to General Reserve, if any.

The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor.

Difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes.

14 Disclosures

The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:

a) during the current reporting period; or
b) after the end of the reporting period but before the financial statements are approved for issue.

Ind AS 103 requires detailed disclosures on Business Combination. The acquirer shall disclose the following information for each business combination that occurs during the reporting period:

a. the name and a description of the acquiree.
b. the acquisition date.
c. the percentage of voting equity interests acquired.
d. the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.
e. a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors.
f. the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
   I. cash;
   II. other tangible or intangible assets, including a business or subsidiary of the acquirer;
   III. liabilities incurred, for example, a liability for contingent consideration; and
   IV. equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.
g. for contingent consideration arrangements and indemnification assets:
   i. the amount recognised as of the acquisition date;
   ii. a description of the arrangement and the basis for determining the amount of the payment; and
   iii. an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

h. for acquired receivables:
   i. the fair value of the receivables;
   ii. the gross contractual amounts receivable; and
   iii. the best estimate at the acquisition date of the contractual cash flows not expected to be collected. The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.



i. the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

j. for each contingent liability recognised, the information required in paragraph 85 of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets. If a contingent liability is not recognised because its fair value cannot be measured reliably, the acquirer shall disclose:

   i. the information required by paragraph 86 of Ind AS 37; and
   ii. the reasons why the liability cannot be measured reliably.

k. the total amount of goodwill that is expected to be deductible for tax purposes.

n. in a bargain purchase
   i. the amount of any gain recognised in other comprehensive income in accordance with paragraph 34;
   ii. the amount of any gain directly recognised in equity in accordance with paragraph 36A; and
   iii. a description of the reasons why the transaction resulted in a gain in case of (i) above.

o. for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
   i. the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and
   ii. for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

p. in a business combination achieved in stages:
   i. the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and
   ii. the amount of any gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (see paragraph 42) and the line item in the statement of profit and loss in which that gain or loss is recognised.

If the acquisition date of a business combination is after the end of the reporting period but before the financial statements are approved for issue, the acquirer shall disclose the information required as above unless the initial accounting for the business combination is incomplete at the time the financial statements are approved for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

To meet the objective of the Ind AS 103 disclosure requirements, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

a) if the initial accounting for a business combination is incomplete for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognised in the financial statements for the business combination thus have been determined only provisionally
   i. the reasons why the initial accounting for the business combination is incomplete;

   ii. the assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and

   iii. the nature and amount of any measurement period adjustments recognised during the reporting period.



b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
   i. any changes in the recognised amounts, including any differences arising upon settlement;
   ii. any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
   iii. the valuation techniques and key model inputs used to measure contingent consideration.

c) for contingent liabilities recognised in a business combination, the acquirer shall disclose the information required by paragraphs 84 and 85 of Ind AS 37 for each class of provision.

d) a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

i. the gross amount and accumulated impairment losses at the beginning of the reporting period.

ii. additional goodwill recognised during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.

iii. adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period

iv. goodwill included in a disposal group classified as held for sale in accordance with Ind AS 105 and goodwill derecognised during the reporting period without having previously been included in a disposal group classified as held for sale

v. impairment losses recognised during the reporting period in accordance with Ind AS 36. (Ind AS 36 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

vi. net exchange rate differences arising during the reporting period in accordance with Ind AS 21, The Effects of Changes in Foreign Exchange Rates.

vii. any other changes in the carrying amount during the reporting period.

viii. the gross amount and accumulated impairment losses at the end of the reporting period.

e) the amount and an explanation of any gain or loss recognised in the current reporting period that both:
   i. relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and
   ii. is of such a size, nature or incidence that disclosure is relevant to understand the combined entity's financial statements.

Students are advised to read the disclosure couple of times to gain an understanding.

15 Significant difference between Ind AS 103 and AS 14

Basis	Ind AS	AS 14
Primary guidance	Ind AS 103 – Business Combination	AS 14 – Amalgamation AS 21 – Consolidated Financial Statements
Amalgamation methods	• Acquisition method only. • Pooling of interest method is applicable only when there is combination of entities which are under common control	• Purchase method • Pooling of interest method
Fair value	The consideration, identifiable assets,	No specific guidance under AS 14



	identifiable liabilities have to be fairly valued	
Non-controlling interest	Provides guidance. It is measured either at fair value or proportionate share in the fair value of net assets	No specific guidance in AS 14. AS 21 provides guidance to be measured at share in the net assets method.
Acquisition related costs	Acquisition related costs such as finder's fee, due diligence costs, etc. are expensed as incurred.	There is no specific guidance, but they are generally capitalised.
Goodwill or capital reserve (gain on bargain purchase)	Gain on bargain purchase is recognised in OCI if there is sufficient evidence that shows the appropriateness of bargain purchase gain. Goodwill is not amortised but tested for impairment annually	Difference between the purchase consideration and the net assets acquired is recorded as goodwill or capital reserve (presented as equity) as the case may be. Goodwill arising on amalgamation is amortised over its useful life not exceeding five years unless a longer period is justified. There is no specific guidance on goodwill arising on subsidiaries acquired which are not amalgamations. In practice, such goodwill is not amortised but tested for impairment.
Asset acquisition	Similar to Indian GAAP	The transactions that do not meet the definition of amalgamation / acquisition of a subsidiary, are accounted as asset acquisitions without any goodwill or capital reserve recognised separately and the consideration is apportioned to the various assets on a fair value basis as determined by competent valuers.
Contingent consideration	Initially recognised at acquisition date fair value **Subsequent measurement:** • Contingent consideration classified as equity is not remeasured. • Contingent consideration classified as liability generally remeasured at fair value with changes at every reporting period end until settlement, with changes in fair value recognised in profit or loss.	Contingent consideration is included in the purchase consideration as at the date of amalgamation, if payment is probable and a reasonable estimate of the amount can be made. In other cases, the adjustment is recognised in the profit and loss account as and when it becomes determinable. Others: □ There is no specific guidance. In practice, contingent consideration is recognised when the contingency is resolved.
In-process research and development	• Initially recognised at acquisition date fair value.	There is no specific guidance.



	• Subsequently measured in accordance with Ind AS 38	
Measurement period	Ind AS 103 provides for a measurement period after the acquisition date for the acquirer to adjust the provisional amounts recognised to reflect the additional information that existed as at the date of acquisition. The measurement period is limited to one year from the acquisition date.	There is no specific guidance
Step Acquisition	Any equity interest in the acquiree held by the acquirer immediately before obtaining the control over the acquiree is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss	If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment is generally determined on a step-by-step basis.
Transactions between entities under common control	Appendix C to Ind AS 103 provides detailed guidance which is very similar to the pooling of interest method as specified by AS 14.	There is no specific guidance.

16 Carve-in and Carve-out from IFRS

	IFRS-3	Ind AS 103
Carve-out	Bargain purchase gain arising on business combination to be recognised in profit or loss as income	Bargain purchase gain to be recognised in other comprehensive income and accumulated in equity as capital reserve
Carve-in	Excludes from its scope business combinations of entities under common control.	Appendix C of Ind AS 103, Business Combinations gives guidance in this regard.



CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF GROUP ENTITIES

1 Introduction

Consolidated financial statements provide a complete overview of the operations and profitability of the entire group which is controlled by the parent. Separate financial statements present the financial position of a single entity for which the financial statements are prepared.

2 Requirement to prepare Consolidated Financial Statements

Section 129(3) of Companies Act, 2013 requires a company having subsidiary(s) to prepare consolidated financial statement of all the subsidiary(s) in the same form and manner as that of its own and to lay such consolidated financial statement before the Annual General Meeting of the company for adoption.

Ind AS 110 'Consolidated Financial Statements' provides the criteria for evaluation of whether an entity controls one or more other entities to treat them as subsidiaries of the entity. It also explains the procedures for preparation of consolidated financial statements including the requirements for elimination of inter-company transactions, accounting of non-controlling interests, accounting of loss of control over subsidiaries etc.

3 Consolidation Process

- Determine date of obtaining control. (Goodwill/ Capital reserve under Ind AS 103)
- Identify parent's stake and non-controlling interest
- Analysis of reserves (both pre-acquisition and post acquisition)
- Calculate goodwill/ bargain on purchase
- Determine carrying amount of non-controlling interest
- Determine parent's consolidated reserve balance
- Eliminate Inter-company balances & Unrealised profits
- Prepare consolidated balance sheet

4 Calculation of Goodwill/Capital reserve

Determine the fair value of consideration transferred
Determine the amount of non-controlling interest
Determine the fair value of subsidiary's identifiable net assets as per Ind AS 103
Determine goodwill / gain on bargain purchase (i.e. capital reserve)

5 Calculation of Goodwill/ Capital reserve in case of step acquisition

In a business combination achieved in stages, the acquirer shall

(a) remeasure its previously held equity interest (investment) in the acquiree at its acquisition-date fair value and

(b) recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income (depending classification as per Ind AS 109).

(c) the acquirer derecognises its investment asset in an entity in its consolidated financial statements when it achieves control.

6 Control obtained without transfer of consideration

These include –

(a) The acquiree **repurchases** a sufficient number of its own shares for an existing investor (the acquirer) to obtain control. For e.g. if the acquiree buy backs shares from other investors, the acquirer's % holding would increase and control is obtained.

(b) **Minority veto rights lapse** that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.

(c) The acquirer and acquiree agree to combine their businesses **by contract** alone.



The acquirer shall remeasure its existing equity interest in the acquiree at its acquisition date fair value (and recognise the gain or loss on such remeasurement in profit or loss or other comprehensive income, as the case may be) and use that to compute goodwill or gain on bargain purchase.

In a business combination achieved by contract alone, the equity interests in the acquiree held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the equity interests (100%) in the acquiree are attributed to the non-controlling interest.

7 Measurement of Non Controlling Interest

The acquirer shall **measure at the acquisition date** components of non-controlling interest that give the holder ownership interest in the acquiree at either:

a) Fair value or
b) The present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

8 Consolidation Adjustments

8.1 Elimination of intra group transactions

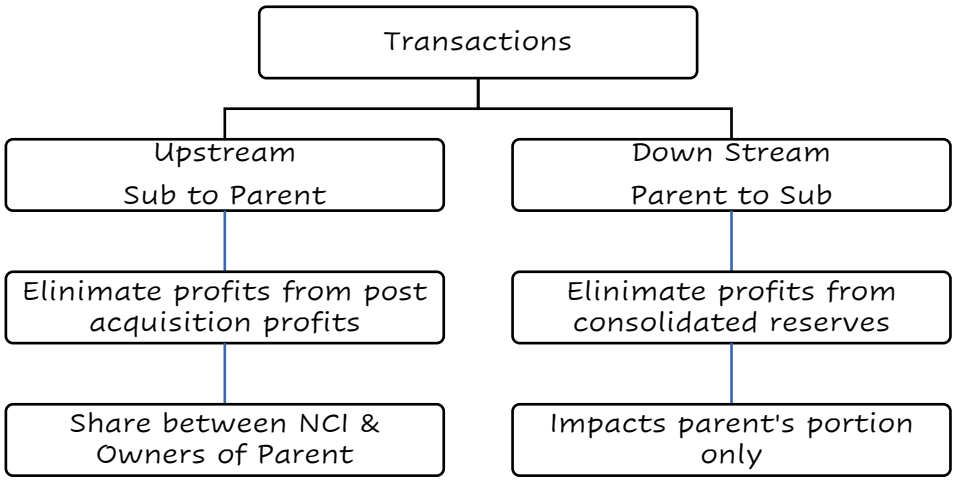
Intra – group balances and intra – group transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intra – group transactions should also be eliminated unless cost cannot be recovered.

For Example:

(a) Liabilities due to one group entity by another will be set off against the corresponding asset in the other group entity.
(b) Sales made by one group entity to another should be excluded from turnover and from purchase

8.2 Unrealised profit on transfer of assets

Unrealized profits resulting from intra-group transactions that are included in the carrying amount of assets, such as inventories and Property, Plant and Equipment, Intangible Assets and Investment Property, are eliminated in full.
The requirement to eliminate such profits in full applies to the transactions of all subsidiaries that are consolidated – even those in which the group's interest is less than 100%.



In case non current assets like PPE are sold by one group company to another group company, the depreciation in stand alone financial statements is charged based on the acquisition price by the buyer. In consolidated financial statements, the difference in depreciation (calculated based on selling price and cost) should be adjusted



8.3 Dividends declared by subsidiary

Dividend as per Ind AS will be recognized only when approval by the shareholder is received in the annual general meeting. Dividend is recognised in statement of profit and loss by holding when it obtains right to receive

8.4 Negative balance – Non Controlling Interest

(i) Do not adjust the loss of minority interest from parent company share
(ii) Show it as negative balance under equity

8.5 Impairment of Goodwill

Partial Goodwill vs Full Goodwill

Under Ind AS 103, there are two methods for measuring goodwill on acquisition:

Method	How Goodwill is Measured	NCI Measurement	Impact on Impairment
Partial Goodwill Method	Consideration paid – Acquirer's share of net assets at FV	At proportionate share of net assets	Only acquirer's share of goodwill recognised; impairment relates to parent only
Full Goodwill Method	Consideration paid + FV of NCI – 100% of net assets at FV	At fair value	Full goodwill of subsidiary recognised; impairment allocated between parent & NCI

Treatment of NCI in Impairment Testing (Partial Goodwill)

Where goodwill is measured using the partial goodwill method, the goodwill recognised does NOT include the portion attributable to NCI. However, the recoverable amount includes amount attributable to NCI as well. Hence, for impairment testing purposes, the carrying amount of the goodwill must be 'grossed up' to include the hypothetical goodwill for NCI.

Steps for Partial Goodwill Impairment Test

1. Determine carrying amount of CGU net assets
2. Gross up goodwill to 100%: Recognised GW ÷ Parent's % = Notional full goodwill
3. Carrying Amount = Net Assets + 100% Goodwill (A)
4. Compare (A) with Recoverable Amount (B)
5. Impairment loss = (A) – (B). Attribute only the PARENT'S SHARE to impairment of goodwill
6. NCI's share of impairment is NOT recognised (as that goodwill was not recognised)

9 Uniform accounting policies

A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.
If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.



10 Chain holding under consolidation

10.1 Meaning:

Chain-holding refers to situations wherein a parent is controlling a subsidiary indirectly, i.e., having a controlling interest over a company indirectly.

For Example:

Parent company (P Ltd.) holding controlling interest in a subsidiary (S1 Ltd.).
S1 Ltd is holding a controlling interest in another company (S2 Ltd.).
In this case, P Ltd. is having an indirect control over S2 Ltd. through its direct subsidiary S1 Ltd.

10.2 Consolidation procedure in case of chain-holding

Situation 1 – Sub subsidiaries

Parent P 80% Subsidiary 1 60% Sub-subsidiary (S2)
In the above case,

- P owns 80% of 60% = 48% of S2
- The non-controlling interest (NCI) in S1 owns 20% of 60% = 12% of S2
- The non-controlling interest (NCI) in S2 itself owns the remaining 40% of the S2 equity.

The date the sub-subsidiary (S2) comes under the control of the holding company is either

- The date P acquired S1 if S1 already holds shares in S2, or
- If S1 acquires shares in S2 later, i.e. after the acquisition by P in S1, then such date of acquisition by S1.

Situation 2 – Direct holding in sub-subsidiaries:

Parent P holds 80% of shares in Subsidiary 1 and 10 percent of shares in subsidiary 2.
Subsidiary 1 holds 75% of shares in Subsidiary 2.

Particulars	Percentage
Direct non-controlling share (NCI) in S1	80%
Direct non-controlling share (NCI) in S2 (25-10)	15%
Indirect non-controlling share (NCI) in S2 of 20% x 75%	15%

The effective interest in sub-subsidiary is

Group (80% x 75%)	60%
Direct holding	10%
Control	70%

11 Loss of control in subsidiary

A parent can lose control over a subsidiary in a number of ways. These include:

(a) Loss of control due to outright sale **(entire stake is sold off)**
(b) Loss of control due to partial sale **(parent retains interest as an associate, jointly controlled entity or a financial asset)**
(c) Deemed loss of control where no consideration is received but the parent's interest is diluted in some other manner such as
  - voting rights issued to a new investor
  - control on relevant activities
  - consolidation of voting rights of other shareholders
  - an investor acquiring substantial stake from the stock exchange.

11.1 Accounting treatment on loss of control of a subsidiary

Derecognise	Recognise	Reclassify	Recognise gain/loss



• The assets including any goodwill) and liabilities of the subsidiary • The carrying amount of any non-controlling interests in the former subsidiary	• The fair value of the consideration received • If loss of control involves a distribution of shares of the subsidiary to owners, then that distribution; and • any investment retained in the former subsidiary at its fair value at the date when control is lost	To profit or loss, or transfer directly to retained earnings if required by other Ind ASs, the amounts recognised in other comprehensive income in relation to the subsidiary.	Recognise any resulting difference as a gain or loss in profit or loss attributable to the parent
	The fair value at which the retained interest is recognized shall be regarded as • The fair value on initial recognition of a financial asset in accordance with Ind AS 109 or, • When appropriate, the cost on initial recognition of an investment in an associate or joint venture.	The parent shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the parent had directly disposed of the related assets or liabilities	

11.2 Loss of control of a subsidiary in two or more arrangements

The above requirement is relevant because Ind AS 110 requires an entity to record gain / loss on disposal of investment in subsidiary in profit or loss only when the control is lost.
A parent might lose control of a subsidiary in two or more arrangements (transactions). However, sometimes circumstances indicate that the multiple arrangements should be accounted for as a
single transaction.

One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

(i) They are entered into at the same time or in contemplation of each other.
(ii) They form a single transaction designed to achieve an overall commercial effect.
(iii) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.
(iv) One arrangement considered on its own is not economically justified, unless it is considered together with other arrangements.

For Example:
When a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market.

12 Preparation of consolidated financial statements after applying consolidation principles

12.1 Preparation of consolidated balance sheet

- Assets and outside liabilities of the subsidiary company are combined with those of the parent company.
- Appropriate intra group elimination adjustments are recognised.
- The equity share capital of the subsidiary and investment of parent company are eliminated and goodwill / capital reserve and non-controlling interest are recognised.



- The parent's share in post-acquisition profits of the subsidiary company (added to appropriate concerned account of the parent company) are accounted in consolidated balance sheet.

12.2 Preparation of consolidated profit & loss

- The items of income and expenses are added on line by line basis.
- Intra-group transactions are eliminated in full

12.3 Preparation of consolidated profit & loss

- Items of cash flow from various activities are to be added on line by line basis and from the consolidated items, inter-company transactions should be eliminated.

13 Ind AS 110 – Theory concepts

13.1 Introduction

A parent that controls one or more subsidiaries should prepare consolidated financial statements.

However, the parent entity that meets all of the following conditions **need not present consolidated financial statements:**

(i) The entity is a **wholly owned or partly owned subsidiary** of another entity and all the **owners** of the entity are **informed, and they do not object** to the entity not preparing consolidated financial statements

(ii) The **debt or equity instruments of the entity are not traded** in a public market (whether domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)

(iii) The entity **has not filed nor is it in the process of filing** its financial statements with a securities commission or other regulatory organisation for the **purpose of issuing any class of instruments in a public market**

(iv) The entity's **ultimate or any intermediate parent** produces financial statements that are **available for public use** and comply **with Ind AS**, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110

13.2 Exceptions to consolidation

(i) Post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19 'Employee Benefits' applies.

(ii) An investment entity that is required to measure all of its subsidiaries at fair value through profit or loss need not present consolidated financial statements

13.3 Investment Entity

An entity is an investment entity if it fulfils all the following conditions:

(i) **Obtains funds** from one or more investors for providing those investor(s) with investment management services.

(ii) Commits to its investor(s) that its business purpose is **to invest funds solely for returns** from capital appreciation, investment income, or both

(iii) Measures and evaluates the performance of substantially all of its investments on a **fair value basis.**

An entity is **not an investment entity**, if the entity or another member of the group containing the entity obtains, or has the objective of obtaining, other benefits from the entity's investments that are **not available to other parties that are not related to the investee.** Such other benefits includes

a. Acquisition, use, exchange or exploitation of the processes, assets or technology of an investee.

b. Joint arrangements or other agreements between the entity or another group member and an investee to develop, produce, market or provide products or services.



c. Financial guarantees or assets provided by an investee for borrowing arrangements of the entity or another group member.
d. An option held by a related party of the entity to purchase, from that entity or another group member, an ownership interest in an investee of the entity
e. Transactions between the entity or another group member and an investee that are
   - On terms that are unavailable to unrelated parties; or
   - Not at fair value; or
   - Represent a substantial portion of the investee's or the entity's or other group entities' business

Characteristics of an Investment Entity

(i) More than one investment
(ii) More than one investor
(iii) Investors are not related parties of the entity
(iv) Entity has ownership interests in the form of equity or similar interests

13.4 Control Evaluation

An entity controls another entity when all the 3 conditions are satisfied

(i) Power over the investee
(ii) Exposure, or rights, to variable returns from the investee
(iii) Ability to use power over the investee to affect the investor's returns

13.5 Power over the investee

An investor gets power over an investee if

(i) Existing rights that give it
(ii) the current ability
(iii) to direct the relevant activities of the investee

13.6 Identification of relevant activities

Relevant activities are activities of the investee that significantly affect the investee's returns. Relevant activities includes but not limited to

(i) Selling and purchasing of goods and services
(ii) Managing financial assets during their life (including upon default)
(iii) Selecting, acquiring or disposing of assets
(iv) Researching and developing new products or processes
(v) Determining a funding structure or obtaining funding
(vi) Establishing operating and capital decisions of the investee, including budgets
(vii) Appointing, terminating and remunerating an investee's key management personnel or service providers

13.7 Rights that give power to an investor

(i) Rights in the form of voting rights (or potential voting rights)
(ii) Rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities
(iii) Rights to appoint or remove another entity that directs the relevant activities
(iv) Rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor
(v) Other rights (such as decision-making rights specified in a management contract)

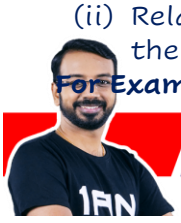
13.8 Substantive Vs Protective Rights

Protective rights:

Protective rights are the rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate

(i) These rights do not give investor power over the investee.
(ii) Relate to protect the interest of the party holding those rights without giving the holder the right over the relevant activities of the investee.

For Example:



(a) A right exercisable by an investor only in the event of a fraud or default by other investors having power to take decisions about relevant activities.
(b) A lender's right to appoint its nominee director in the Board of a borrower to ensure the borrower do not engage in any activities that significantly increase the credit risk of borrower
(c) Rights held by minority shareholders to approve decisions related to capital expenditure greater than required in normal course of business or to approve issue of equity or debt instruments
(d) Rights of investors to approve or block decisions related to change in the name of the investee, amendment to constitutional documents of the investee to enter into a new business, change in the registered office of the investee, etc.

Substantive rights:
The general rule is that Substantive rights come from voting rights.
Substantive rights give the investor power over the investee and relate to the relevant activities of the investee. Holder must have the practical ability to exercise that right.
Factors to be considered while assessing whether the rights are substantive:

(i) Whether there are any barriers that prevent the holder from exercising the rights. Such barriers include
(a) Financial penalties and incentives
(b) High exercise or conversion price
(c) Terms and conditions that make it unlikely that the rights would be exercised
(d) The absence of an explicit, reasonable mechanism in the founding documents of an investee or in applicable laws or regulations that would allow the holder to exercise its rights.
(e) The inability of the holder of the rights to obtain the information necessary to exercise its rights.
(f) Operational barriers or incentives. For example, in case of a venture capital fund managed by an asset manager, there is absence of other managers willing or able to provide specialised services or provide the services and take on other interests held by the existing manager.
(g) Legal or regulatory requirements.

(ii) When the exercise of rights requires agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so. The lack of such a mechanism is an indicator that the rights may not be substantive.
(iii) Whether the party or parties that hold the rights would benefit from the exercise of those rights. **For example,** the holder of potential voting rights in an investee shall consider the exercise or conversion price of the instrument. The potential voting rights are more likely to be substantive when the exercise price is lower than the market price or when there are other synergies anticipated between the investor and the investee.

13.9 Evaluation of right

Rights held by the Investor	Rights held by other party	Conclusion on Power
Substantive	Protective	Investor has power
Protective	Substantive	Other parties have Power
Substantive	Substantive	Further evaluation

13.10 Franchises
In a franchise agreement, the investee i.e., the franchisee usually give the franchisor the rights that are related to protect the franchise brand.
Salient features of a franchise agreement that indicate that rights of franchisor are protective rights:
(a) Franchisor's right do not give it ability to direct the relevant activities of franchisee
(b) Other parties have current ability to direct the relevant activities of the franchisee



(c) Franchisor's rights do not affect the rights of others to take decisions about relevant activities
(d) Franchisee operates the business for its own account

The lower the level of financial support provided by the franchisor and the lower the franchisor's exposure to variability of returns from the franchisee the more likely it is that the franchisor has only protective rights.

13.11 Power without a majority of voting rights

The general rule is that substantive rights come from voting rights. There can be certain cases where an investor can have power even if it holds less than a majority of the voting rights of an investee.

For Example:

(a) Purpose and design of investee.
(b) Rights from other contractual arrangements
(c) The investor's voting rights. **(De-facto control)**
(d) Special relation between investor and investee.

De-facto control:

There may be certain situations where even though an investor is not holding majority of the voting rights, but the voting rights held by it are sufficient to give it practical ability to have power over the investee unilaterally. In assessing the sufficiency of the voting rights of an investor, one should consider the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders

Particulars	Higher number or size	Lower number or size
Number of voting rights held by investor	More likely to have power	Less likely to have power
Size of investor's voting rights relative to voting rights held by other holders	More likely to have power	Less likely to have power
Number of parties required to outvote the investor	More likely to have power	Less likely to have power

Special relation between investor and investee:

Ind AS 110 provides guidance to enable the assessment of power whereby the investor shall consider evidence of whether it has the practical ability to direct the relevant activities unilaterally. Following are some of the examples of such evidences

- The investor can appoint or approve the investee's key management personnel who can direct the relevant activities
- The investor can direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor
- The investor can dominate either the nominations process for electing members of the investee's governing body or the obtaining of proxies from other holders of voting rights.
- The investee's key management personnel are related parties of the investor
- The majority of the members of the investee's governing body are related parties of the investor

Exposure or rights to Variable returns from Investee:

Variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be only positive, only negative or both positive and negative.



An investor assesses whether returns from an investee are variable and how variable those returns are on the basis of the substance of the arrangement and regardless of the legal form of the returns.

Variable returns include

- Dividends, other distributions of economic benefits from an investee
- Changes in the value of the investor's investment in that investee
- Remuneration for servicing an investee's assets or liabilities
- Fees and exposure to loss from providing credit or liquidity support
- Residual interests in the investee's assets and liabilities on liquidation
- Tax benefits
- Access to future liquidity
- Returns that are not available to other interest holders

Link between power and returns:
An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee. Thus, an investor with decision-making rights shall determine whether it is a **principal or an agent.** An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor.
An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties.
An investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an investee, the investor shall treat the decision-making rights delegated to its agent as held by the investor directly.
A decision maker shall consider the all the factors below, in determining whether it is an agent

- The scope of the decision-making authority
- Rights held by other parties **(Removal rights/Other substantive rights)**
- **Remuneration from the investee** – If the magnitude of, and variability associated with, the decision maker's remuneration relative to the returns expected from the activities of the investee is higher, then decision maker is principal. If the magnitude is lower, then decision maker is an agent.
- **Exposure to variable returns from other interests in the investee** - The magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate is higher, then decision maker is principal. If the magnitude is lower, then decision maker is an agent.

14 Ind AS 111 – Joint Arrangements

14.1 Assessment of Joint Arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. The characteristics of joint arrangement are

- The parties are bound by a contractual arrangement
- The contractual arrangement gives two or more of those parties joint control of the arrangement

14.2 Contractual Arrangement

One of the essential elements of a joint arrangement is that there has to be a contractual arrangement between the parties to the arrangement. The contractual arrangement generally deals with such matters as

- Purpose, activity and duration of the joint arrangement
- How the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
- Decision making process such as matters requiring decisions from the parties, voting rights of parties and the required level of support for those matters.
- Capital or other contributions required of the parties
- How the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.



14.3 Joint Control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In order to assess the joint control, an entity that is a party to an arrangement should first assess
that whether the contractual arrangement gives all the parties or a group of the parties control
over the arrangement. All the principles of control assessment, would be relevant while doing the assessment of joint control by the parties

- Power over the relevant activities of the investee
- Exposure to returns
- Ability to use the power to affect the returns of the investee

14.4 Types of Joint Venture

The entity needs to determine whether the joint arrangement is a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement to determine the way the joint arrangement is accounted for i.e. whether it is a consolidation of assets, liabilities, income and expenses or use of equity method specified under Ind AS 28.

Joint Operation:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators

Joint Venture:

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

If the joint arrangement is structured through a separate vehicle, then the entity shall consider

- The legal form of the separate vehicle
- The terms of the contractual arrangement
- When relevant, other facts and circumstances

15 Ind AS 28 – Investments in Associates and Joint Ventures

15.1 Scope

Ind AS 28 shall be applied by all entities that are

- investors with joint control of an investee (i.e. the investee is a joint venture of the investor) or
- significant influence over an investee (i.e. the investee is an associate of the investor)

15.2 Significant Influence

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

15.3 Presumption of significant influence

- If an entity holds (directly or indirectly through a subsidiary) 20% or more of the voting rights of an investee then it is presumed that the entity has significant influence, unless it can be clearly demonstrated that it is not the case.
- If the entity holds, (directly or indirectly through a subsidiary), less than 20% of¬ the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated.

15.4 Judgement required in assessment of significant influence

The investor shall consider following factors which generally demonstrate the existence of significant influence:



- Representation on the board of directors or equivalent governing body of the investee
- Participation in policy-making processes, including participation in decisions about dividends or other distributions
- Material transactions between the entity and its investee
- Interchange of managerial personnel
- Provision of essential technical information

15.5 Consideration of potential voting rights

- Potential voting rights that are currently exercisable are considered when assessing whether an entity has significant influence.
- Potential voting rights that are currently not exercisable are not considered for the assessment.
- In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances except
    - the intentions of management and
    - the financial ability to exercise those potential rights.

15.6 Loss of Significant Influence

An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee.
The loss of significant influence can occur with or without a change in ownership levels.

16 Equity method of Accounting in CFS

Investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income

16.1 Application of equity method

Under the equity method of accounting, an investor shall pass following entries at various stages of investment:

- Initial entry to record investment done in associate or joint venture at cost
- Recording of investor's share in the profit / loss of the associate or joint venture after the date of acquisition
- Recording of investor's share in the other comprehensive income of the associate or joint venture after the date of acquisition
- Distributions received from an investee (dividends/share of profit)

16.2 Potential voting rights

The possible effect of exercise or conversion of any potential voting rights are not considered for applying equity method. Instruments with such potential voting rights are accounted for as per Ind AS 109.
But, if potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture. In such cases, the investor shall account for instruments with such potential voting rights as per equity method

16.3 Exemptions from Equity Method

Exemption 1

- Entity is wholly owned or partly owned subsidiary of another entity and all the owners of entity are informed and they do not object to entity not applying equity method.
- The entity's ultimate or any intermediate parent produces financial statements that are available for public use and comply with Ind ASs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with Ind AS 110.

Public trading of instruments of the entity

- The debt or equity instruments of the entity are not traded in a public market (whether domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- The entity has not filed nor is it in the process of filing its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.



Exemption 2
When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS 109. Such election shall be made separately for each associate or joint venture at time of its initial recognition.

Exemption 3
When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS 109 If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation.

16.4 Outstanding Preference shares classified as equity
If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity should compute its share of profit or loss after adjusting for dividend on such shares, whether or not the dividends have been declared. No treatment is required if the shares are non cumulative.

16.5 Group's share in an associate or a joint venture

For applying the equity method, an entity shall consider the share held by it directly or indirectly (through a subsidiary) in an associate or a joint venture. The holding by the entity's associate or joint venture in another associate or joint venture of the entity is ignored for this purpose.

When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements which include the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures.

16.6 Upstream and Downstream transactions
The entity shall record such gain / loss in its financial statements only to the extent of the unrelated investors' interests in the associate or joint venture. In other words, the portion of gain / loss attributable to the entity will be eliminated.

16.7 Long term interests in associate or joint venture
An entity might hold financial instruments in an associate or joint venture other than the investments accounted for using the equity method.

These include preference shares and long term receivables or loans but do not include trade receivables, trade payables any long-term receivables for which adequate collateral exists, such as secured loans.

An entity shall account such long-term interest in accordance with Ind AS 109.



16.8 Interest in share of losses

- In case of a loss making associate or joint venture, an entity's share of losses of such associate or joint venture may equal or exceed its interest in the associate or joint venture.
- In such case, the entity discontinues recognized its share of further losses.
- The interest in the associate or joint venture not only includes the carrying amount of the investment in the associate or joint venture determined using the equity method but also includes any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture.
- An entity should first apply Ind AS 109 to long-term interests and then apply the above requirement of allocating to such long-term interest any share in loss of associate or joint venture.
- An entity shall not take account of any adjustments to the carrying value of long-term interests that arise from applying Ind AS 28.
- Losses recognized using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e. priority in liquidation).
- After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.
- If the associate or joint venture subsequently reports profits, the entity resumes recognized its share of those profits only after its share of the profits equals the share of losses not recognized.

17 Impairment of Joint Venture/ Associate

An entity shall determine whether there is an objective evidence that the entity's net investment in an associate or a joint venture is impaired.

The evidence of impairment arise as a result of

- One or more events that occurred after the initial recognition of the net investment (a 'loss event') and
- Loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated.

17.1 Objective evidences of impairment

- Significant financial difficulty of the associate or joint venture
- Breach of contract, such as a default in payments by the associate or joint venture
- The entity granting a concession to associate or joint venture (because of its financial difficulties)
- It becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation
- Disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture
- Adverse effect in the environment (technological, market, economic or legal) in which associate or joint venture operates
- Significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

17.2 Impairment of goodwill included in carrying value of associate/JV

Goodwill is not tested separately for impairment, rather the entire carrying amount of the investment is tested for impairment as a single asset when there is objective evidence of impairment as mentioned above. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture.

18 Discontinuance of Equity method of Accounting

An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture.

Investment becomes subsidiary



Ind AS 103 requires revaluation of the previously held interest in the equity accounted investment at its acquisition date fair value, with recognition of any gain or loss in profit or loss.

Retained interest in the former associate or joint venture is a financial asset

It shall be measured at fair value. The entity shall recognise in profit or loss any difference between:

- the fair value of any retained interest and any proceeds from disposing of a part interest in¬ the associate or joint venture; and
- the carrying amount of the investment at the date the equity method was discontinued.

19 Accounting of Joint Operations

19.1 Accounting of Interest in Joint operations in separate and consolidated financial statement of joint operator

A joint operator shall recognise in its separate and consolidated financial statements in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

In case of joint operation, equity method is not applied and share of income, expenses, assets & liabilities are recognised.

19.2 Accounting for sales or contributions of assets to a joint operation in separate and consolidated financial statement of joint operator

When a joint operator sells or contributes any asset to the joint operation, it is in effect transacting with the other parties to the joint operation and hence the joint operator shall recognise gains and losses resulting from such transactions only to the extent of the other parties' interest in the joint operation.

19.3 Accounting for purchases of assets from a joint operation in separate and consolidated financial statement of joint operator

When a joint operator purchases any asset from the joint operation, it shall not recognise its share of the gains and losses until it resells those assets to a third party.

19.4 Accounting by an entity that is a party to the joint operation but does not have joint control

A party that participates in, but does not have joint control of, a joint operation,

- Account as per requirements mentioned in the standard for a joint operator if the party has rights to the assets, and obligations for the liabilities relating to the joint operations.
- Account as per the Ind AS applicable to that interest if the party does not has rights to the assets, and obligations for the liabilities relating to the joint operations.

20 Accounting of Joint Ventures

20.1 Accounting in the consolidated financial statements

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28, unless the entity is exempted from applying the equity method as specified in that standard.

20.2 Accounting in the separate financial statements

In its separate financial statements, a joint venturer shall account for its interest in a joint venture in accordance Ind AS 27.

20.3 Accounting by an entity that is a party to the joint venture but does not have joint control

A party that participates in, but does not have joint control of, a joint venture shall also account for its interest in the arrangement in its separate and consolidated financial statements as follows:



- If the party do not have significant influence over the joint venture, account as per Ind AS 109.
- If the party has significant influence over the joint venture, account in separate and consolidated financial statements.

21 Ind AS 27 – Separate Financial Statements

The objective of Ind AS 27 is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

21.1 Scope

Ind AS 27 shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity

- elects, or
- is required by law,

to present separate financial statements.

It is to be noted that Ind AS 27 does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Ind AS.

21.2 Separate Financial Statements

Separate financial statements are those presented by:

- a parent (i.e. an investor with control of a subsidiary) or
- an investor with investment in an associate or a joint venture,

in which the investments are accounted for at cost or in accordance with Ind AS 109 'Financial Instruments'.

How are separate financial statements are presented?

Separate financial statements are presented:

- in addition to consolidated financial statements or
- in addition to financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which investments in associates or joint ventures are accounted for using the equity method.

There are two more scenarios in which separate financial statements are prepared:

Scenario 1

An entity that is exempted from:

- preparation of consolidated financial statements in accordance with Ind AS 110 (
- applying equity method as per Ind AS 28

may present separate financial statements as its only financial statements.

Scenario 2

As Ind AS 110, an investment entity that has one or more subsidiaries and the purpose and activities of all those subsidiaries is not to provide services that relate to the investment entity's investment activities then such investment entity shall not prepare consolidated financial statements. Instead, such investments in subsidiaries are to be accounted at fair value through profit or loss as per Ind AS 109.

In such case, investment entity presents separate financial statements as its only financial statements.

21.3 Preparation of Separate Financial Statements

An entity shall prepare its separate financial statements in accordance with all the applicable Ind ASs except that it shall account for investments in subsidiaries, associates and joint ventures in one of the following ways:

- At cost, or
- In accordance with Ind AS 109 (i.e. either at fair value through profit or loss or at fair value through other comprehensive income)

The entity shall apply the same accounting for each category of investments.

Investments held by investment entities and similar entities

Ind AS 110 requires an investment entity to measure its investment in subsidiaries at fair value through profit or loss as per Ind AS 109. Then the investment entity shall account for



those investments in the same i.e. at fair value through profit or loss in the separate financial statements.

21.4 Accounting

When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

When an entity ceases to be an investment entity

In such case, the entity shall account for an investment in a subsidiary in either of the following ways:

- Account at cost - The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date
- Continue to account in accordance with Ind AS 109

When an entity becomes an investment entity

In such case, the entity shall account for an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109.

In that case, the difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognized as a gain or loss in profit or loss.

The cumulative amount of any fair value adjustment previously recognized in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.

21.5 Reorganisation of Group Structure

A parent may reorganise the structure of its group by establishing a new entity as its parent. Ind AS 27 provides guidance on how to calculate the cost of investment when a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:

- the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation,

If above conditions are fulfilled and the new parent elects to account for its investment in the original parent at cost then the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.



Analysis of Financial Statements

1 Key Features

- **True and fair view of the affairs of the enterprise**
- **Relevance:** The financial statements should provide the relevant information for the period it is presented.
- **Understandability:** The financial statements should be readable and content lucid to digest.
- **Consistency**: The users of the financial statements will be benefitted only if the statements are released in periodic intervals and in standard formats.
- **Regulatory Compliance**:
- **Universality:** The financial statements should be comparable both within the industry and outside.

2 Best Practices

- **Compliance**
  Financial reporting is a regulated activity and compliance with the requirements is a must. Comply with the standards and regulations but also ensure your financial statements are an effective part of your wider communication with your stakeholders.

- **Complete**
  The information disclosed in the financial statements should be complete and should not lead to any further cross questioning in the mind of the users.

- **Simple and specific**
  Draft your notes, accounting policies, commentary on more complex areas in simple and plain English. Reduce generic disclosures and focus on company specific disclosures that explain how the company applies the policies.

- **Transparency**
  In preparation of financial statements many a times certain assumptions, or other bases are taken. Disclose those assumptions and bases transparently, so that they users are not misled.

- **Materiality**

  Information should only be disclosed if it is material. It is material if it could influence users' decisions which are based on the financial statements.

- **Integration of Notes**
  Notes cover the largest portion of the financial statements. They are an effective tool of communication and have the greatest impact on the effectiveness of your financial statements. Group notes into categories, place the most critical information more prominently or a combination of both.
  Integrate your main note of a line item with its accounting policy and any relevant key estimates and judgements.

  Ensuring that the accounting policies are disclosed in one place and not scattered across various notes.

- **Disclosure of Significant Accounting Policies**

  The financial statements should disclose your significant accounting policies. Disclose only your significant accounting policies – remove your non-significant disclosures that do not add any value. The disclosures should be relevant, specific to your company and explain how you apply your policies.



- **Disclosures of Key Estimates and Judgements**

Effective disclosures about the most important estimates and judgements enable investors to understand your financial statements.

- **Integrated Approach**
  Financial statements are just one part of your communication with the stakeholders. An annual report typically includes financial statements, a management commentary and information about governance, strategy and business developments, CSR Reporting, Business Responsibility Reporting etc. There is also a growing trend towards integrated reporting.



PROFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT

Introduction

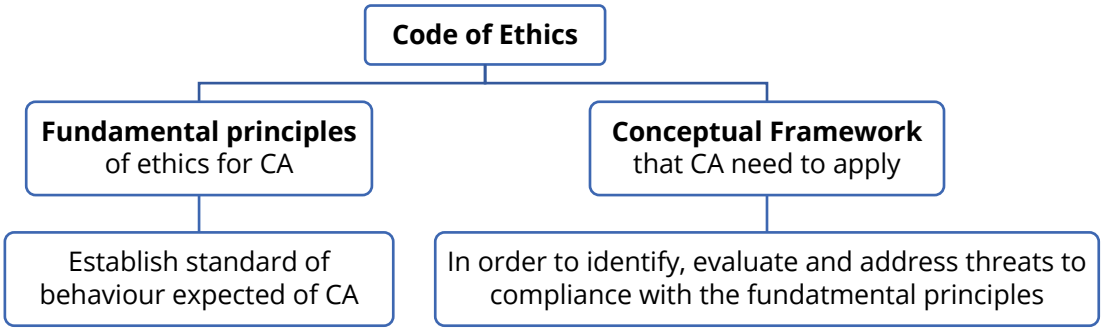
1.1 Ethics

Set of moral principles/ values or discipline dealing with what is good and bad

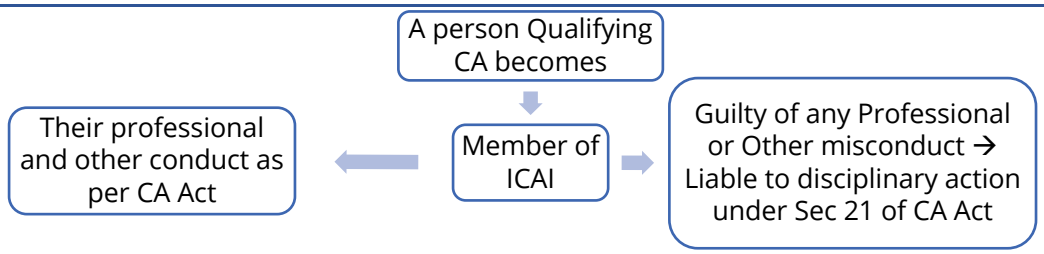
1.2 Code of Ethics

ICAI's Code of Ethics (2019)

- Applicable from 1st July 2020
- Derived from International Ethics Standard Board for Accountants (IESBA) issued by International Federation of Accountants (IFAC).



The Chartered Accountant Act, 1949



Note:

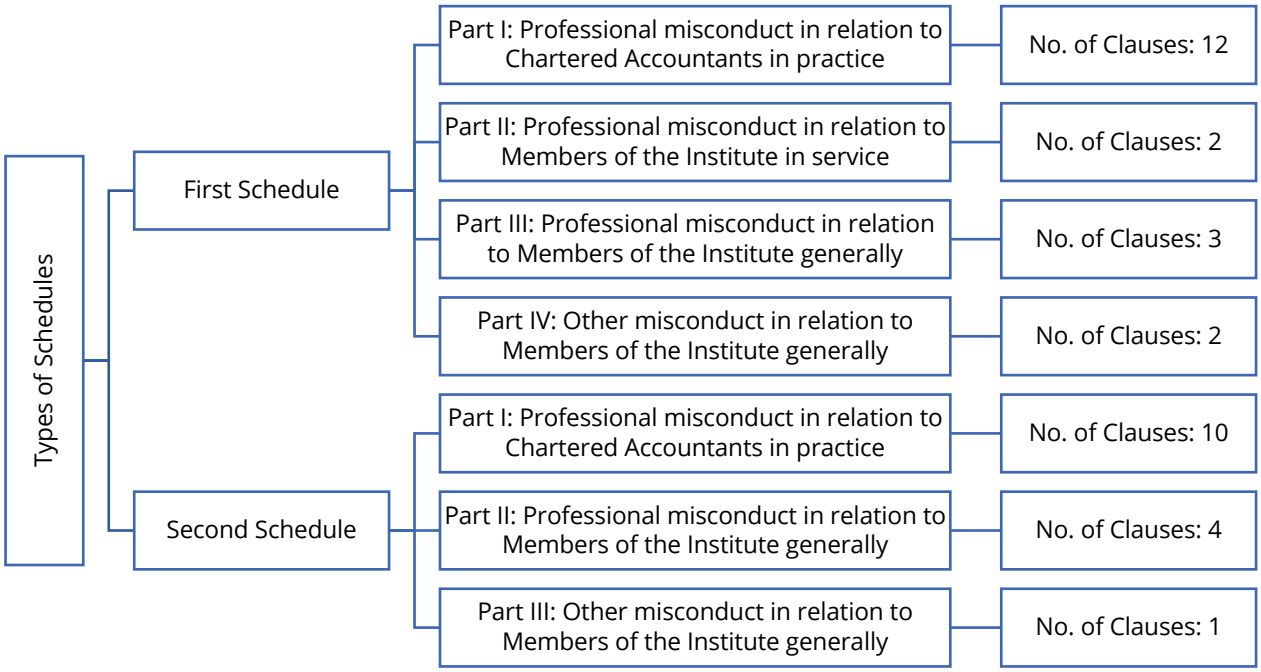
- Chartered Accountants (CA) → hereinafter also called as "accountants"
- Those charged with Governance → hereinafter also called as "TCWG"

Professional or Other Misconduct for a CA

Professional or Other misconduct → Any act or omission provided in any of the Schedules

Particulars		Professional misconduct	Other misconduct
Defined in	First Schedule	Part I, II and III	Part IV
	Second Schedule	Part I and II	Part III
Found guilty of any act or omission in any respective parts of Schedule		In Professional Capacity – Professional capacity	In his personal affairs (non-professional work) – Other misconduct





Note:

- CA is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action
- Council Guidelines in its Appendix 34 of the CA Act, 1949, states that
  A member of the Institute who is an employee → shall exercise due diligence and shall not be grossly negligent in the conduct of his duties.
- The following part of the Code of Ethics shall be dealt with in Financial Reporting: Complying with the Code, Fundamental Principles and Conceptual Framework (applicable to all Chartered Accountants)

Complying with the code, fundamental principles and Conceptual Framework

1.3 Complying with the Code

- The principle of professional behaviour requires a CA to comply with Code & relevant laws and regulations.
- Accountant shall comply with all other parts of the Code, where laws or regulations preclude an accountant from complying with certain parts of the Code.
- Accountants need to be aware of differences in local regulations from the provisions as set out in the Code and comply with the more stringent provisions unless prohibited by law or regulation.

Accountant's (CA) responsibility:

- to act in public interest, not exclusively to satisfy individual client or employing organisation's need.
- Prioritize the Public Interest above their own interest.

1.4 Fundamental Principles

A CA shall comply each of the following **Fundamental Principles**:

a) Integrity
b) Objectivity
c) Professional Competence and due care
d) Confidentiality
e) Professional behaviour

A CA might consider **consulting with the following people**, when he found conflict while applying one with one or more fundamental principles:

- Others within the firm or employing organization
- Those charged with governance
- Institute



- Legal counsel

Unless prohibited by law or regulation → Disassociate from the matter creating the conflict, if necessary or such consultation does not relieve accountant from resolving the conflict.

Integrity:

CA requires to be straightforward and honest in all professional and business relationships
A CA shall not knowingly be associated with reports, returns, communications or other information where he believes that the information contains:

- **materially false or misleading** statement;
- statements or information provided **negligently**; or
- Omits or obscures required information where such **omission or obscurity** would be misleading.

Objectivity:

A CA requires not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others.

Professional competence and due care:

A CA required to

- attain and maintain professional knowledge and skill at the level

  → to ensure that client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

- act diligently and in accordance with applicable technical and professional standards.

Maintain professional competence → requires a continuing awareness and an understanding of relevant technical, professional and business developments.

Diligence → Responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Confidentiality:

CA requires to respect the confidentiality of information acquired as a result of professional and employment relationships

An accountant shall:

a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and to a close business associate or an immediate or a close family member;
b) Maintain confidentiality of information
   - within the firm or employing organization
   - disclosed by a prospective client or employing organization;
c) Not disclose or use of confidential information acquired as a result of professional and employment relationships
   - outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
   - for the personal advantage of the accountant or for the advantage of a third party;
   - after that relationship has ended; and



d) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

CA required to disclose confidential information in following circumstances:

a) Disclosure is required by law,
   for example: legal proceedings; or Infringement (violation) of law
b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
c) There is a professional duty or right to disclose, when not prohibited by law:
   (i) To comply with the requirements of peer review or quality review of the Institute
   (ii) To respond to an inquiry or investigation by a professional or regulatory body;
   (iii) To protect the professional interests of a CA in legal proceedings; or
   (iv) To comply with technical and professional standards, including ethics requirements.

Note:

- Maintain confidential ethical principle, when providing payroll services to clients, unless required by law or authorized by the client
- CA must avoid using or sharing material information of the entity for personal gain (Eg: Insider trading)
- CA have an ethical duty to report fraudulent or manipulative activities that could impact the end users. Such disclosure does not breach the confidentiality.

Professional Behaviour:

To comply with relevant laws and regulations and avoid any conduct that discredit the profession

A CA shall be honest and truthful and shall not make:

a) Exaggerated/ High claims for the services offered by, or the qualifications or experience of, the accountant; or
b) Disparaging/ down grade references or unsubstantiated comparisons to the work of others.
c) Any direct or indirect measures to advertise any professional/other facts which are in violation of Advertisement Guidelines issued by the Council of the Institute from time to time.

1.5 Conceptual framework:

CA shall apply the conceptual framework to

a) Identify threats to compliance with the fundamental principles
b) Evaluate identified threats and
c) Address the threats by eliminating or reducing them to an acceptable level

When applying the conceptual framework, the CA shall:

i. Exercise professional judgment;
ii. Remain alert for new information and to changes in facts and circumstances; and
iii. Use the reasonable and informed third party test

Professional Judgement:

Involves application of relevant training, professional knowledge, skill, and experience commensurate with the facts and circumstances

The exercise of professional judgement is required when –

- CA applies the conceptual framework to make informed decisions about the courses of actions available, and
  to determine whether such decisions are appropriate in the circumstances.



- To understand of known facts and circumstances, which is prerequisite to proper application of conceptual framework.
- whether the fundamental principles have been complied

In exercising professional judgment to obtain this understanding, the CA might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The information provides a reasonable basis on which to reach a conclusion.
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.
- There might be other reasonable conclusions that could be reached from the available information.

Reasonable and informed third party Test:

- Consideration by the CA about whether the same conclusions would likely be reached by another party

Reasonable and informed third party

- who can weigh all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made
- Who possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

CA In Service

Conflict with Interest

A CA shall not allow a conflict of interest to compromise professional or business judgment.

Examples of circumstances that might create a **conflict of interest** include:

a) Serving in a management for two organizations and use of confidential information from one organization by the CA to the advantage or disadvantage of the other organization.

b) Undertaking a professional activity for each of two parties in a partnership → to assist them to dissolve their partnership.

c) Preparing financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.

d) Misuse of selecting responsibility - By selecting an immediate family member of the accountant as vendor to benefit them financially from the transaction

e) Misuse of governing capacity of approving certain investments for the company to their own & their family member's portfolio

1.6 Conflict Identification

A CA shall take reasonable steps

- to identify circumstances that might create a conflict of interest, and
- therefore, a **threat to compliance** with one or more of the fundamental principles.



Such steps shall include identifying:

- The nature of the relevant **interests and relationships** between the parties involved; and
- The **activity and its implication** for relevant parties.

1.7 Threats created by Conflict of Interest

In general, the **more** direct the **connection** between the professional activity and the matter on which the parties' interests conflict → the **more** likely the level of the **threat** is not at an acceptable level.

Example of an action

To eliminate threats created by conflicts of interest

- withdrawing from the decision-making process related to conflict of interest matters

safeguards to address threats created by conflicts of interest

- Restructuring or segregating certain responsibilities and duties
- Obtaining appropriate oversight (Eg: acting under the supervision of an executive or non-executive director)

1.8 Disclose and Consent

It is generally necessary to:

(a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties and

(b) Obtain consent from the relevant parties for the CA to undertake the professional activity when safeguards are applied to address the threat.

- When addressing a conflict of interest, the CA is encouraged to seek guidance
  - from within the employing organization or
  - from the Institute,
  - legal counsel or
  - another accountant.
- When making such disclosures or sharing information within the employing organization and seeking guidance of third parties, the principle of confidentiality applies.

Preparation and presentation of Information

A CA shall prepare and present the information

a) In accordance with a relevant reporting framework, where applicable
b) in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately
c) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately

Exercise professional judgment to:

i. Represent the facts accurately and completely in all material respects;
ii. Describe clearly the true nature of business transactions or activities; and
iii. Classify and record information in a timely and proper manner

1.9 Use of Discretion in Preparing or Presenting Information

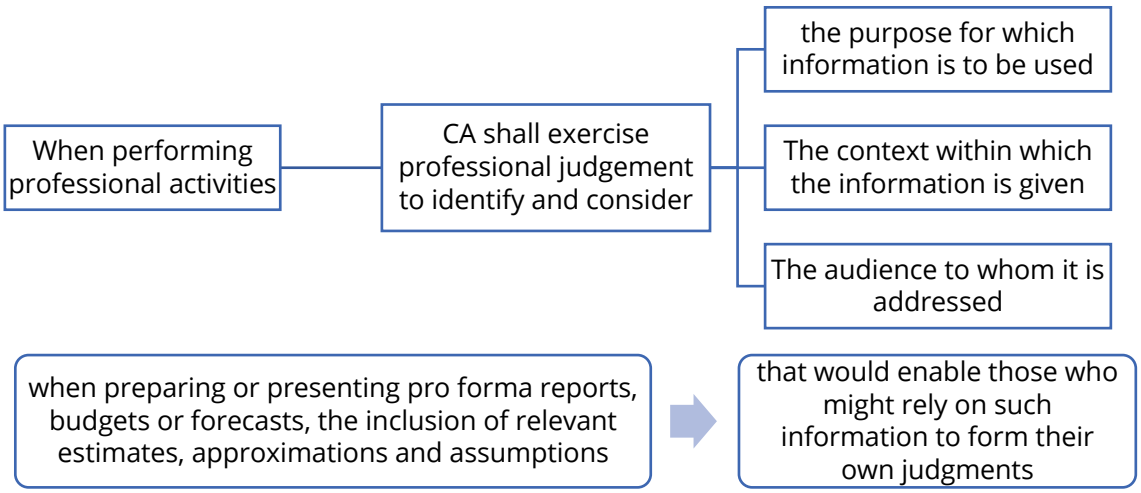
CA shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately

Example:

- Determining **Estimates** - Determining fair value estimates in order to misrepresent profit or loss.



- Selecting or changing an **accounting policy or method** - selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss
- Determining the **timing of transactions** - timing the sale of an asset near the end of the fiscal year in order to mislead
- Determining the **structuring of transactions** - structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting **disclosures** - omitting or obscuring information relating to financial or operating risk in order to mislead.



1.10 Relying on the Work of Others

Exercise professional judgment to determine what steps to take whether rely on the work of other will fulfill the responsibilities. Factors to consider:

- The **reputation and expertise** of the other individual or organization and **resources available** to them
- Whether the other individual is subject to applicable **professional and ethics standards**.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

1.11 Addressing Information that is or Might be Misleading

If CA believes that the **information** with which the accountant is associated is **misleading**, then he shall take **appropriate actions** to seek to resolve the matter. Such action includes:

- **Discussing** concerns that the information is misleading with the
  - CA's superior and/or
  - the appropriate level(s) of management within the accountant's employing organization or
  - TCWG
- and **requesting** such individuals to take appropriate action like
  - Having the information corrected
  - If the information has already been disclosed to the intended users, informing them of the correct information

Note: Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally

If the employing organization **has not taken appropriate action** → then **further actions** might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
  - The Institute
  - The internal or external auditor of the employing organization
  - Legal counsel.



- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

If after exhausting all feasible options, information is still misleading → then the accountant shall refuse to be or to remain associated with the information or to resign from the employing organization, if necessary.

Acting with sufficient expertise

A CA shall not intentionally mislead an employing organization as to the level of expertise or experience possessed.

A **self-interest threat** to compliance with the principle of professional competence and due care might be created if a CA has:

- Insufficient **time** for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate **information** & Inadequate **Resources** for performing the duties.
- Insufficient **experience**, **training** and/or **education**.

Safeguards to address such a self-interest threat include:

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

Threat to compliance **cannot be addressed** → If the accountant determines that declining is appropriate, the accountant shall communicate the reasons.

Financial interests, compensation and incentives linked to financial reporting and decision making

Financial interests include those arising from compensation or incentive arrangements linked to financial reporting and decision making.

A CA shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

Financial interests by CA or immediate or close family members → might create threats to compliance with the fundamental principles.

Examples of self-interest threat situations in which the CA or an immediate or close family member:

- Has a motive and opportunity to manipulate **price- sensitive information** in order to gain financially.
- the value of which might be affected by decisions made by the accountant, Where they
  - Holds a **direct or indirect financial interest** in the employing organization
  - Is eligible for a **profit-related bonus**
  - Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain performance conditions being met.



Inducements, including gifts and hospitality

An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

leagues → result in non-compliance with laws and regulations.

An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges

Immediate or Close Family Members

A CA shall remain alert to potential threats to the accountant's compliance with the fundamental principles created by

offering of an inducement

By OR To

an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship

CA shall advise the immediate or close family member not to offer or accept the inducement, if he aware that there is actual or perceived intent to improperly influence the behaviour of the CA or of the counterparty.

One of the Factor to determine the same is the nature or closeness of the relationship, between:

a. The accountant & the immediate or close family member;
b. The immediate or close family member & the counterparty; and
c. The accountant & the counterparty.

Responding to Non-compliance with Laws and Regulations in case of employment with listed entities

Non-compliance or suspected non-compliance with Laws and regulations

Whether Direct effect on the determination of material amounts and disclosures in the employing organization's financial statements

Direct effect | Indirect effect

but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties



When responding to non-compliance or suspected noncompliance, the objectives of the CA are:

a) To comply with the principles of integrity and professional behaviour;

b) By alerting management or, where appropriate, TCWG of the employing organization, to seek to:

- Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
- Deter the non-compliance where it has not yet occurred; and
- To take such further action as appropriate in the public interest.

Non-compliance with laws and regulations comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) The CA's employing organization;

(b) Those charged with governance of the employing organization;

(c) Management of the employing organization; or

(d) Other individuals working for or under the direction of the employing

Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

1.12 Responsibilities of All Chartered Accountants

If protocols and procedures exist within the CA's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.

1.13 Responsibilities of Senior Chartered Accountants in Service

Senior Chartered Accountants in service ("senior Chartered Accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources

- There is a greater expectation for such individuals to take whatever **action is appropriate in the public interest** to respond to non- compliance or suspected noncompliance than other CAs within the employing organization.



- This is because of senior Chartered Accountants' roles, positions and spheres of influence within the employing organization.

1.14 Addressing the Matter

If Senior CA dentifies or suspects that non-compliance has occurred or might occur

discuss the matter with

- accountant's immediate superior
- The next higher level of authority within the employing organization, If the accountant's immediate superior appears to be involved in the matter

The senior CA shall also take appropriate steps to

- Have the matter communicated to TCWG
- Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority
- Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated
- Reduce the risk of re-occurrence
- Seek to deter the commission of the non-compliance if it has not yet occurred
- Disclosure: to provide all information necessary to enable the External auditor to perform the audit, if any is needed

1.15 Determining Whether Further Action Is Needed

The senior CA shall assess the appropriateness of the response of the accountant's superiors, if any, and TCWG.

Examples of circumstances that might cause the senior CA no longer to have confidence in the integrity of the accountant's superiors and TCWG include situations where:

- The accountant suspects or has evidence of **their involvement** or intended involvement in any non-compliance.
- **Contrary to legal or regulatory requirements**, they have **not reported**, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

Further action that the senior CA might take includes:

- **Informing** the management of the **parent entity** of the matter if the employing organization is a member of a group.
- **Disclosing** the matter to an **appropriate authority** as specified under respective law.
- **Resigning** from the employing organization, If limitations as to the further actions available to the accountant

1.16 Seeking Advice

If it is **complex analysis and judgments matter**, the senior Chartered Accountant might **consider**:

- Consulting internally.
- Obtaining legal advice to understand the accountant's options and the professional or legal implications of taking any particular course of action.



- Consulting on a confidential basis with the Institute.

1.17 Determining Whether to Disclose the Matter to an Appropriate Authority

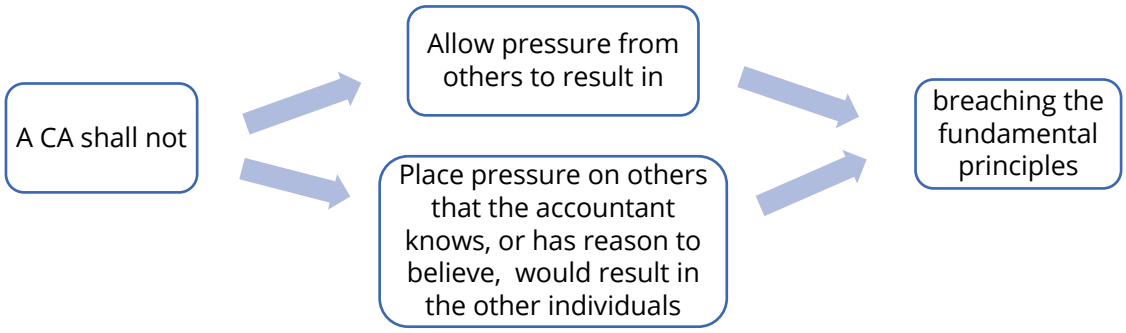
Disclosure of the matter to an appropriate authority would be done, if the matter to be investigated and action to be taken in the public interest. Otherwise disclosure is precluded.

1.18 Responsibilities of CAs Other than Senior Chartered Accountants

The accountant shall seek to obtain an understanding of the matter & Its nature.
CA identifies or suspects that noncompliance has occurred or might occur

- inform an immediate superior to enable the superior to take appropriate action
- If the accountant's immediate superior appears to be involved in the matter, the accountant shall inform the next higher level of authority within the employing organization.
- disclosure of the matter to an appropriate authority is an appropriate course of action and the accountant shall act in good faith and exercise caution when making statements and assertions.

Pressure to Breach the Fundamental Principles



Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

Example:

- Pressure related to conflicts of interest
- Pressure from a family member to select them in CA's employing organization's bidding

1.19 Discussion

Discussion of the matter with:

- Individual who is exerting the pressure to seek to resolve it.
- Accountant's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
  - Higher levels of management.
  - Internal or external auditors.
  - TCWG

1.20 Consulting

Consulting with:

- A colleague, superior, human resources personnel, or another Chartered Accountant;
- Institute or industry associations; or
- Legal counsel.



1.21 Disclosing

Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.

Note:

- Discussion and consultation, which requires being alert to the principle of confidentiality
- An example to eliminate threats created by pressure → CA's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.



ACCOUNTING AND TECHNOLOGY

1 Introduction

1.1 Introduction

Accounting is a critical function for all businesses, as it enables them to track and manage their financial transactions, budgets, and investments.

This chapter deals with

- the various technologies that have had a significant impact on the accounting profession. Eg: cloud computing, artificial intelligence, and cybersecurity etc.
- Benefits of each technology and how they have changed the way accountants perform their tasks. Eg: cloud computing has made it possible for accountants to access financial data from anywhere in the world.
- the challenges that accounting professionals face in adapting to new technologies. Eg: the implementation of new technologies can be costly, and many businesses may not have the resources to invest in them. Additionally, some accounting professionals may be resistant to change, preferring to stick with the traditional methods they are comfortable with.
- Concludes with the importance of accounting professionals staying up-to- date with the latest technologies
- the need for ongoing education and training to ensure that accounting professionals have the skills they need to succeed in an increasingly digital world

1.2 Evolution of Accounting

Early Accounting System

- Accounting originated in ancient civilizations like Egypt, Greece, and Rome, focusing on tax record-keeping and managing government resources.
- Early accounting systems were manual and paper-based, requiring labor-intensive processes.
- In India, Chanakya's 'Arthashastra' during the Mauryan Empire detailed aspects of maintaining accounts for a sovereign state.
- Luca Pacioli, an Italian, is recognized as The Father of accounting; he introduced double-entry bookkeeping in Italy.
- Double-entry bookkeeping allowed businesses to create balance sheets, marking a significant milestone in the history of accounting.
- Pacioli's contributions laid the foundation for modern-day accounting practices.
- Accounting originated in ancient civilizations like Egypt, Greece, and Rome, focusing on tax record-keeping and managing government resources.
- Early accounting systems were manual and paper-based, requiring labor-intensive processes.

Industrial Revolution

- Accounting underwent significant changes due to machines and mass production, necessitating more detailed financial transaction records.
- The accounting profession rose with the establishment of the first professional organizations, starting with the Institute of CA of Scotland in 1854.
- Other 19th-century organizations include the Institute of CA in England and Wales, CPA Australia, American Institute of CPA, and Chartered Accountants Ireland.
- In the 20th century, the Association of Chartered Certified Accountants was established, followed by organizations like the ICAI and the Institute of Singapore CA.

Post Industrial Revolution

- Technological advancements, particularly computers, transformed accounting by automating manual processes, improving speed, and accuracy.
- Examples include the automation of interest calculations in banks, once done manually, now system-driven, reducing time and minimizing errors.

Current State

- Cloud computing and artificial intelligence are further revolutionizing the accounting profession, enhancing efficiency and accuracy.



- Despite benefits, these technologies pose challenges for accountants, requiring adaptation to new systems and processes to stay competitive.

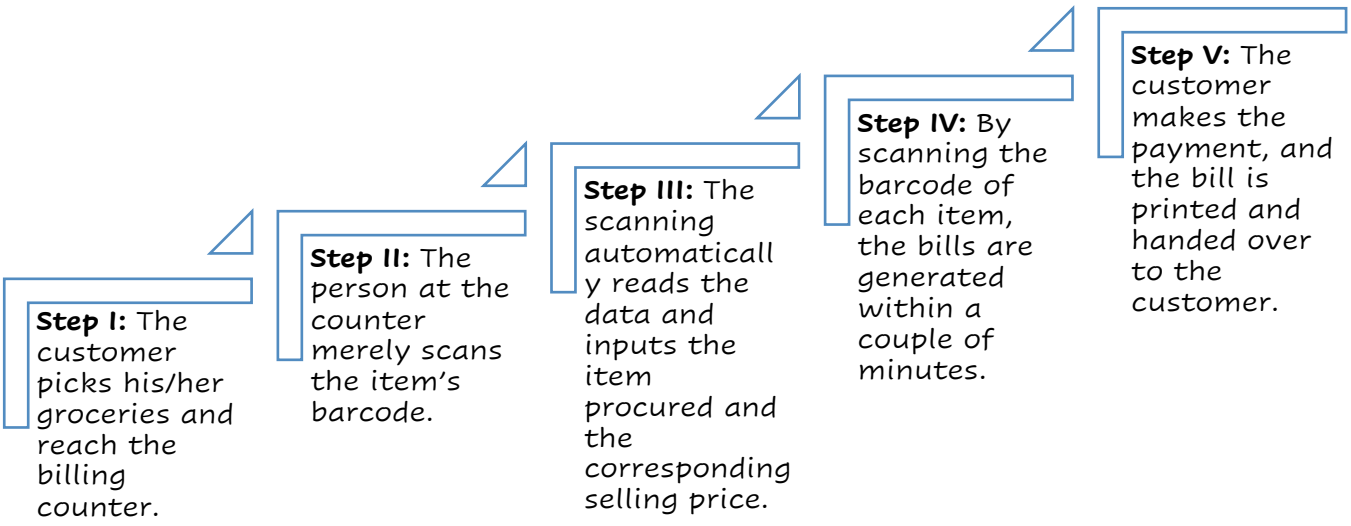
2 Current State of Technology in Accounting

It discusses the various technologies used in accounting and their impact on the profession, including

- Automation,
- Cloud computing, and
- Artificial intelligence

2.1 Automation Process

Automation is the use of software and other tools to automate manual processes, making them faster and more accurate. We can understand this with the help of the below example: For instance, let us consider the activities involved in the process of procuring groceries from a departmental store such as Walmart or Reliance Smart Bazaar **at the Front-End.**



However, **at the backend, the below activities take place:**

Action	Simultaneous effect	Impact on Books of accounts	Reconciliation
As and when the barcode of an item is scanned at the billing counter	the inventory of the said item at the departmental store is simultaneously updated recording the issue/sale of the same.	This ensures accuracy in maintenance of inventory data.	A periodical physical check of inventory will give conclusive evidence of the correctness of data generated by the system, thereby giving comfort on the management assertions of accuracy, valuation and existence of the inventory
In certain cases, the software is so programmed to calculate taxes	that the indirect taxes (GST) levied on the sale value as per the invoice is updated simultaneously,	which can get uploaded on the GST portal at the end of the day by the accounting team in the backend.	This ensures accuracy in returns uploaded, thereby minimizing the need for manual reconciliation and data maintenance.



Action	Simultaneous effect	Impact on Books of accounts	Reconciliation
Software are also programmed	to ensure that the bill amount is automatically displayed on the Point of Sale Machine, through which the customer makes the payment either through debit/credit card or through UPI.	In case the customer opts to make payment in cash, entering the amount on the Screen will open the cash drawer in which the cash paid is deposited.	Since the cash drawer is opened through the system only after logging in by the concerned person, in case of mismatch in cash balances, the concerned person can be identified, thereby reducing the chances of misappropriation of cash.

Benefits of Automation Process

1. **Streamlining Data Entry:**

Automation tools (such as optical character recognition (OCR) or barcode recognition technology)

- can help to automate the entry of data from source documents such as receipts and invoices,
- reduce the time and effort required for manual data entry &
- minimise for human error.

2. **Accelerating Data Processing:**
   - Automation helps to process large amounts of data / large volumes of transactions more quickly and accurately than manual methods.
   - Eg: software can automatically categorize transactions into the appropriate accounts, calculate tax amounts, and generate financial statements (FS), among other tasks.

3. **Enhancing Accuracy:**
   - By automating tasks such as data entry and calculations
     - reduce errors and discrepancies in accounting processes.
     - Improving the accuracy and reliability of their financial data.

4. **Improving Decision-Making**

By Providing real-time insights into financial data,

- Time spent on routine tasks is greatly minimized and
- enabling businesses
  - to make informed decisions more quickly
  - to gain deeper insights into their financial performance,
  - identify trends and patterns, and
  - adjust their strategies accordingly.

5. **Saving Time and Money:**

Saving on staffing costs and increases productivity and enabling accountants to focus on higher-level tasks such as analysis and planning by automating data entry and reconciliations.

6. **Facilitating Compliance:**
   - Compliant with regulations and standards by ensuring accounting practices meet necessary requirements.
   - Automation ensures accurate data for the purposes of return filing.
   - Further, in case the systems are so programmed, reporting tools can generate FS that meet the criteria of Ind AS or Indian GAAP as the case may be.
   - This would ensure minimizing the risk of non-compliance and potential penalties.

Challenges in Automation Process



- Need for ongoing training and education to keep up with the latest technology.
- Risk of data breaches and cyber-attacks → compromise the security and confidentiality of financial data.
- Potential loss of jobs → mitigated by ensuring appropriate training to the workforce to remain updated with the technology.
- Note: To summarize, automation helps businesses achieve efficiency, accuracy and decision-making in accounting while saving time and money and facilitating compliance with regulations and standards.

Robotic Process Automation

- RPA is an emerging technology that revolutionizes financial reporting processes.
- It utilizes software robots or "bots" to automate manual and repetitive tasks in financial data processing, analysis, and reporting.
- By mimicking human interactions with digital systems, RPA bots can extract and consolidate data, perform calculations, generate reports, and ensure compliance with accounting standards.
- The adoption of RPA in financial reporting improves accuracy, enhances efficiency, and frees up valuable time for finance professionals to focus on more strategic activities.
- It enables organizations to achieve timely reporting, cost savings, and increased data integrity, ultimately leading to more reliable and insightful financial information.

2.2 Cloud Computing

Cloud computing refers to the delivery of computing services over the internet. It allows accountants to access their data and software from any device with an internet connection.

In the COVID-19 pandemic,

- The continuous lockdowns severely impacted businesses, and operations
- led to viewing cloud computing as a serious alternative compared to traditional client-server architecture in physical locations controlled by the entities themselves.
- With the advent of **cloud computing**, persons could
  - access the systems from their respective locations,
  - work remotely during the lockdown and
  - ensure that the accounting process and reporting requirements did not suffer adversely.

Common Applications / Cases of Cloud Computing

1. **Cloud Storage:**
   - Services (like Dropbox, Google Drive, and Microsoft OneDrive) offer cloud storage solutions that allow users to store and access their files and data from anywhere with an internet connection.
   - Users can save documents, photos, videos, and other files in the cloud and synchronize them across multiple devices.
2. **Software as a Service (SaaS):**
   - SaaS platforms provide cloud-based software applications that users can access and utilize via the internet.
   - Eg: Salesforce for customer relationship management (CRM), Slack for team collaboration, and QuickBooks Online for accounting and financial management.
3. **Infrastructure as a Service (IaaS):**
   - IaaS providers offer virtualized computing resources, including servers, storage, and networking infrastructure, on a pay-as-you-go basis.
   - Eg: Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform.
   - These platforms allow businesses to scale their IT infrastructure based on demand without the need for physical hardware.
4. **Platform as a Service (PaaS):**
   - PaaS providers offer cloud-based platforms that enable developers to build, deploy, and manage applications without the complexity of infrastructure management.
   - Eg: Microsoft Azure App Service, and Google App Engine.



5. **Cloud-based Communication and Collaboration:**
   - Applications (like Microsoft Teams, Google Workspace (formerly G Suite), and Zoom) provide cloud-based communication and collaboration tools that facilitate real-time messaging, video conferencing, file sharing, and project management.
6. **Cloud-based E-commerce:**
   - Few platforms enable businesses to set up and manage online stores using cloud infrastructure.
   - These platforms provide features like product catalogues, payment processing, inventory management, and customer analytics.
7. **Big Data Analytics:**
   - Cloud computing enables organizations to process and analyse large volumes of data efficiently.
   - Services (like Amazon Redshift, Google BigQuery, and Microsoft Azure Data Lake Analytics) provide scalable infrastructure for big data processing and analytics, empowering businesses to derive valuable insights from their data.

Benefits of Cloud Computing (Cloud-based accounting software)

a. **Improved accessibility:**
   - It allows users to access their financial data from any location with an internet connection.
   - increased accessibility and flexibility for accountants and business owners, allowing them to work remotely and collaborate in real-time.

b. **Enhanced security:**
   - It providers typically offer advanced security features such as encryption, firewalls, and multi-factor authentication helping in the protection of sensitive financial data from cyber threats and data breaches.

c. **Increased scalability:**
   - It allows businesses to easily scale up or down based on their changing needs.
   - As a business grows, it can easily add new users and features without having to invest in additional hardware or software.

d. **Reduced costs:**
   - It requires less upfront investment in hardware and software, also ongoing maintenance costs.
     - Which helps businesses save money on IT expenses and redirect those funds to other areas of the business.
     - Eg: the costs of installing Microsoft Office Suite on a laptop or desktop is far more expensive than subscribing to the Office 365 Suite, which is a web-based download, (provides the options of continuous free updates unlike its Office Suite offline counterpart.)

e. **Streamlined collaboration:**
   - It allows multiple users to collaborate in real-time, reducing the need for manual data entry and communication.
   - This can help to streamline workflows and reduce errors caused by miscommunication.\

f. **Improved reporting and analytics:**
   - Cloud-based accounting software often includes powerful reporting and analytics tools that allow businesses to gain deeper insights into their financial performance.
   - This can help businesses make more informed decisions and identify areas for improvement.

Challenges in Cloud Computing

- Prone to hackers who could 'steal' data or passwords or compromise the integrity of the processed data, thereby causing disruptions to the businesses.
- Strong net connectivity is a must for cloud-computing to be a success.



- Though there has been a huge surge in network and mobile connectivity in the past decade → connectivity in non-metros, tier-2 or tier-3 cities is not well-developed, which could create accessibility issues to the users of the cloud-based accounting software.

2.3 Enterprise Resource Planning (ERP)

ERP is a type of software that organizations use for managing day- to-day business activities like procurement, project management, accounting, risk management, compliance, and supply chain operations.

It connects and corelates a multitude of business processes and enable the flow of data between them. It collects an organization's shared transactional data from multiple sources and thus eliminate data duplication and provide data integrity with a single source of authentication.

Nowadays, ERP systems are used by many organisations as it is critical for managing thousands of businesses of varied sizes covering all industries. Cloud-based ERP applications are embedded with next-generation technologies, such as AI, machine learning (ML), and digital assistants.

ERP systems are designed around a single, defined data structure (schema) that typically has a common database. This helps to ensure that the information used across the enterprise is normalized and based on common definitions and user experiences.

These core constructs are then interconnected with business processes driven by workflows across business departments (e.g. finance, human resources, engineering, marketing, and operations), connecting systems and the people who use them.

Since data is the lifeblood of every modern company, ERP makes it easier to collect, organize, analyze, and distribute this information to every individual and system that needs it to best fulfill their role and responsibility. ERP also ensures that these data fields and attributes roll up to the correct account in the company's general ledger so that all costs are properly tracked and represented.

A key ERP principle is the central collection of data for wide distribution. With a secure and centralized data repository, everyone in the organization can be confident that data is correct, up- to-date, and complete. Data integrity is assured for every task performed throughout the organization, from a quarterly financial statement to a single outstanding receivables report.

Benefits of ERP

As enterprise data and processes are caged into ERP systems, businesses can align separate departments and improve workflows, resulting in significant bottom-line savings.

Examples of specific business benefits include:

- Improved business insight from real-time information generated by reports
- Less operational costs through streamlined business processes and best practices
- Enhanced collaboration of users sharing data in contracts, requisitions, and purchase orders
- Better efficiency through a common user experience across many business functions and well-defined business processes
- Consistent infrastructure from the back office to the front office
- Increased user-adoption rates from a common user experience and design
- Reduction in risk through improved data integrity and financial controls
- Less management and operational costs through uniform and integrated systems

How does an ERP system work?

ERP systems work by using a defined, standard data structure. Information entered by one department is immediately available to authorized users across the business. This uniform structure helps keep everyone on the same page.

Real-time data is then woven into business processes and workflows across departments. Managers check if one location is doing significantly better than another site and can figure out why. Finance department can use ERP for comparison of sales, profits and other financial data to help executives in understanding the performance of the organisation and also for setting new targets.



ERP systems deliver the most value when a company has modules for each major business function and ensures timely and accurate data entry. When a company uses business systems from multiple vendors, integrations are generally possible to make data automatically flow into the ERP. This real-time data can then be used throughout the ERP instance to benefit any process or workflow.

Illustrative steps for Integrating Internal Control Over Financial Reporting with an ERP

- ICOFR with an ERP system offers the key advantage of streamlining financial processes, ensuring data integrity, and promoting effective internal controls.
- By automating and standardizing procedures, the ERP system reduces manual effort and minimizes the risk of errors.
- It enables segregation of duties, real-time visibility into financial data, comprehensive audit trails, enhanced reporting capabilities, and proactive risk mitigation.
- This integration strengthens financial control, accuracy, and compliance, ultimately enabling better decision-making and reducing the likelihood of fraud or errors.

The following are illustrative steps for integrating ICOFR within ERP:

S.no	ICOFR with an ERP	Review by Finance team	Example
1	Verify that the process includes identification and updating of internal and external financial reporting requirements and deadlines	The finance team regularly reviews the regulatory guidelines and reporting requirements set by the regulators and ensures that the ERP system's financial closing process is aligned with these requirements.	Listed companies to declare quarterly results as per LODR, Filing of periodical returns under GST, Income Tax, Labour laws, etc.,
2	Review the documented process to ensure it aligns with the organization's financial reporting policies and regulatory guidelines.	The finance team reviews the documented process in the ERP system and cross-checks it with the organization's financial reporting policies and regulatory guidelines to ensure consistency.	Accounting polices relating to Property plant and equipment, depreciation, Inventory etc.,
3	Use the ERP system's change management functionality to track and validate changes made to the financial closing and reporting process	> When changes are made to the financial closing and reporting process, the finance team uses the ERP system's change management functionality to track and record these changes. > They review system logs and audit trail for changes made to the financial closing and reporting process are as per defined roles and responsibilities for change control, including change initiators, approvers, and change management teams.	
4	Verify that changes to the process are authorized by designated individuals with appropriate authority using system logs.	The finance team reviews the system logs, audit trail and confirms that any changes to the financial closing and	



S.no	ICOFR with an ERP	Review by Finance team	Example
		reporting process were authorized by designated individuals with the appropriate authority, such as the CFO or finance manager.	
5	Review the change requests, approvals, and documentation within the ERP system to ensure proper authorization and validation of process changes.		
6	Validate that roles and responsibilities in the financial closing and reporting process are clearly defined within the ERP system by reviewing users access matrix configurations and system logs.	> Review system logs and audit trail with Responsibility assignment matrix (RAM). > RAM is a tool used in project management and enterprise resource planning (ERP) implementations to define and communicate the roles and responsibilities of individuals or teams involved in a project or process. > The matrix clarifies who is responsible, accountable, consulted, and informed for each task or deliverable within the ERP implementation.	
7	Assess the qualifications and training records of individuals assigned to financial reporting roles within the ERP system.		
8	Validate that individuals responsible for financial reporting have the necessary understanding of the organization's operations and appropriate accounting knowledge.	The finance team validates that individuals responsible for financial reporting within the ERP system have a comprehensive understanding of the organization's operations and possess appropriate accounting knowledge.	verify HR records of those involved in accounting have appropriate knowledge
9	Validate that decisions on alternative accounting treatments for significant events or transactions are	> Reviewing the Journal vouchers listing by identifying non routine transactions.	



S.no	ICOFR with an ERP	Review by Finance team	Example
	documented and approved by management.	> Review the system of Standardizing voucher types. > This involves defining a set of predefined templates or formats for different types of journal entries to ensure consistency and accuracy in recording financial data.	
10	Review the ERP system for documentation of accounting treatment decisions, including approvals and communication to the audit committee.	Documentation of accounting treatment decisions refers to the process of recording and maintaining comprehensive documentation regarding the rationale, analysis, and conclusions related to accounting treatments chosen for specific transactions or events like recognising long term construction projects.	
11	Review the ERP system's user administration functionality to ensure appropriate individuals have access to the financial reporting process.	Review system logs and audit trail with Responsibility assignment matrix (RAM).	
12	Review whether proper KYC validation controls are in place for creating account masters and review the process for identifying related party transactions	Separate ledger coding for related parties for auto tabulating transactions to present as per Schedule III of Companies Act, 2013.	
13	Validate that the ERP system captures and documents the appropriate accounting treatment for each non-routine event, transaction, and account balance by reviewing Journal Vouchers listing.		
14	Use the ERP system's audit trail and reporting capabilities to validate that all postings have occurred in the correct accounting period reviewing accounting period configuration controls.	> In an ERP system, the accounting date and transaction date are captured and stored as part of the transactional data. > They are used in various processes, such as journal entry creation, financial statement generation, period-end closing activities, and audit trails.	



S.no	ICOFR with an ERP	Review by Finance team	Example
		> Understanding the distinction between these dates is important for accurate financial reporting, compliance, and analysis of business transactions within the ERP system.	
15	Review the system's controls for preventing backdating or unauthorized adjustments to postings by reviewing the posting date and transactions date of entries.		

3 Cybersecurity in Accounting

3.1 Cybersecurity in Accounting

- The impact of cybersecurity breaches on accounting firms and their clients which may range
  - from accessing the financial data of the firm or client,
  - to an extent of modifying the financial statements without the knowledge of the management.
- Protecting financial information is crucial to prevent unauthorized access and data breaches.
- Legal and regulatory frameworks,
  - like the Information Technology Act, 2000 (Amended in 2008), govern the collection, storage, and transmission of financial data.
  - Reporting guidelines of various regulators such as SEBI, RBI etc., address the disclosure of cybersecurity incidents in financial statements.
  - Non-compliance with data protection laws → lead to financial penalties and reputational damage.
- Cybersecurity incidents
  - It can affect financial reporting through
    - financial losses,
    - reputational damage,
    - loss of sensitive client data and
    - legal consequences.
  - Legal and ethical obligations for Organisations to disclose cybersecurity incidents with financial implications

3.2 Common cybersecurity threats

a) **Phishing attacks:** A common cybersecurity threat that involves tricking users into clicking on malicious links or providing sensitive information.

b) **Malware attacks:** It involve infecting computers or networks with malicious software that can steal data or disrupt operations.

c) **Ransomware attacks:** It involve encrypting files or locking users out of systems and demanding a ransom payment in exchange for restoring access.

d) **Insider threats:** It involve malicious actions by employees or other insiders who have access to sensitive data.

e) **Denial of Service (DoS) attacks:** It involve overwhelming a system or network with traffic to disrupt operations.

f) **Supply chain attacks:** It involve compromising third-party software or hardware to gain access to system or network.



Note: In all the above cases, the aim of the attack would be either stealing sensitive financial data or disrupting operations or demand ransom money

3.3 Proactive measures to mitigate cybersecurity risks

a. Password management:

- Strong passwords are critical for protecting sensitive financial data.
- Accounting professionals should ensure that all passwords are complex and changed regularly.

b. Encryption:

- Encryption can be used to protect sensitive data during transmission and storage.
- The IT Team of an organization should ensure that all sensitive data is encrypted using appropriate methods.

c. Access control:

- Access control is critical for preventing unauthorized access to financial data.
- Accounting professionals should ensure that access to sensitive data is limited to authorized personnel and that appropriate access controls are in place.
- The access controls should be continuously reviewed and updated based on any changes in the management or employee structure.

d. Network security:

- Network security is critical for protecting financial data from cyberattacks.
- It should be ensured that firewalls and other security measures are in place to prevent unauthorized access to the network.

e. Employee training:

- Employee training is critical for ensuring that all staff members are aware of the importance of cybersecurity and understand how to protect sensitive financial data.

f. Data backup:

- Regular data backups are critical for ensuring that financial data is not lost in the event of a cyberattack.
- Accounting professionals should ensure that data backups are performed regularly and that backups are stored securely.

g. Incident response planning:

- Accounting professionals should have a clear incident response plan in place in the event of a cyberattack.
- This plan should include procedures for detecting, containing, and mitigating the impact of a cyberattack.

Note: Overall, cybersecurity is a critical concern for accounting professionals, and it is essential to take appropriate measures to protect sensitive financial data

4 The Future of Technology in Accounting

4.1 Blockchain technology

- It is revolutionizing the financial landscape, and its impact on financial statement preparation is undeniable.
- As a CA involved in financial reporting, understanding blockchain is crucial for staying ahead in this rapidly evolving digital era.

Key impacts of blockchain on financial reporting

1. Enhanced Transparency:

- It provides a decentralized and immutable ledger, where transactions are recorded and stored in a transparent and tamper-proof manner.
- This increased transparency ensures that financial data is accurately captured and can be easily audited, promoting trust and reliability in financial reporting.

2. Improved Data Integrity:

- Blockchain's distributed ledger ensures that each transaction is verified and encrypted, preventing unauthorized modifications or tampering.



- enhances data integrity, reducing the risk of fraudulent activities and errors in financial reporting.

3. **Streamlined Audit Processes:**
   - It enables real-time access to financial data, eliminating the need for time-consuming and manual data reconciliation processes.
   - Auditors can directly access the blockchain ledger to verify transactions, reducing audit time and enhancing efficiency in financial reporting.
4. **Enhanced Security:**
   - It incorporates advanced cryptographic algorithms, making it highly secure against unauthorized access or data breaches.
   - Financial data stored on the blockchain is encrypted and protected, minimizing the risk of data manipulation or unauthorized disclosure, thus strengthening the security of financial reporting
5. **Simplified Reconciliation:**
   - Blockchain's decentralized ledger eliminates the need for reconciling multiple versions of data across different systems.
   - With a single shared source of truth, financial reporting processes become more streamlined, reducing reconciliation efforts and potential errors.
6. **Cost Reduction:**

By eliminating the need of following, Blockchain reduces the costs associated with traditional financial reporting processes.

- third-party verification and reconciliation,
- intermediaries and
- central authorities,

7. **Enhanced Audit Trail:**
   - It maintains a comprehensive and immutable audit trail of all transactions, providing a transparent and traceable record of financial activities.
   - This audit trail simplifies the identification and investigation of any irregularities or discrepancies, improving the accuracy and reliability of financial reporting.
8. **Real-time Financial Reporting:**
   - With blockchain's real-time data availability and consensus mechanism, financial reporting can be performed more frequently and with greater accuracy.
   - Organizations can generate up-to-date financial statements, enabling stakeholders to make informed decisions based on the most current financial information.

4.2 Artificial Intelligence (AI)

Artificial Intelligence (AI) and Machine Learning (ML)

- Technologies that enable computers to learn and perform tasks without being explicitly programmed to do so.
- Simulation of human intelligence in machines, enabling them to perform tasks that would typically require human intervention.
- To analyse large amounts of data and make predictions about future trends (forecasting financial performance and identifying potential risks)

While AI has the potential to **transformed the Accounting Profession** by enabling accountants

- to provide more accurate and timely financial information to their clients,
- automate routine tasks,
- improve decision-making processes, and
- reduce errors.

It also presents **Challenges to Accounting Profession**:

- the need for ongoing training and education,
- the risk of data breaches, and
- the potential loss of jobs due to automation.

It also presents **Opportunities for Accounting Profession:**

- to expand their skill sets,



- offer new services to clients, and
- automate routine activities thereby freeing up human resources for tasks requiring greater application of knowledge and skill sets.

Benefits of AI and ML when used in accounting

1. **Automated Data Entry:**
   - AI and ML algorithms can process and extract data from invoices, receipts, and other documents, reducing the need for manual data entry.
   - If programmed, AI and ML algorithms can also review bank statements and pass entries in the system, followed by a bank reconciliation, thereby automating the entire process, saving time and improving efficiency.
2. **Fraud Detection:**
   - AI can help detect fraud by analysing large amounts of data and identifying patterns that may indicate fraudulent activity.
3. **Financial Forecasting (Predictive Analysis):**
   - ML can be used to develop predictive models
     - that can forecast financial performance based on historical data, market trends, and other factors,
     - Highly advantage - where estimates are required to be made in financial reporting.
   - Example:

     where a store sells goods and offers a voucher giving the customer a discount on subsequent purchases,
     - Ind AS 115 requires a degree of estimation of the likelihood of availing such discount to record Revenue.
     - Predictive models can track customers' preferences and likelihood of availing the voucher, in which case the estimation of revenue as required under Ind AS 115 becomes more realistic.

4. **Accounting Automation:**
   - AI can analyse financial statements and other data to identify errors or inconsistencies, making accounting more efficient and accurate.
5. **Tax Compliance:**
   - AI can help automate tax compliance by analysing financial data and identifying tax obligations, ensuring that businesses remain compliant with tax regulations.

Challenges with Artificial Intelligence

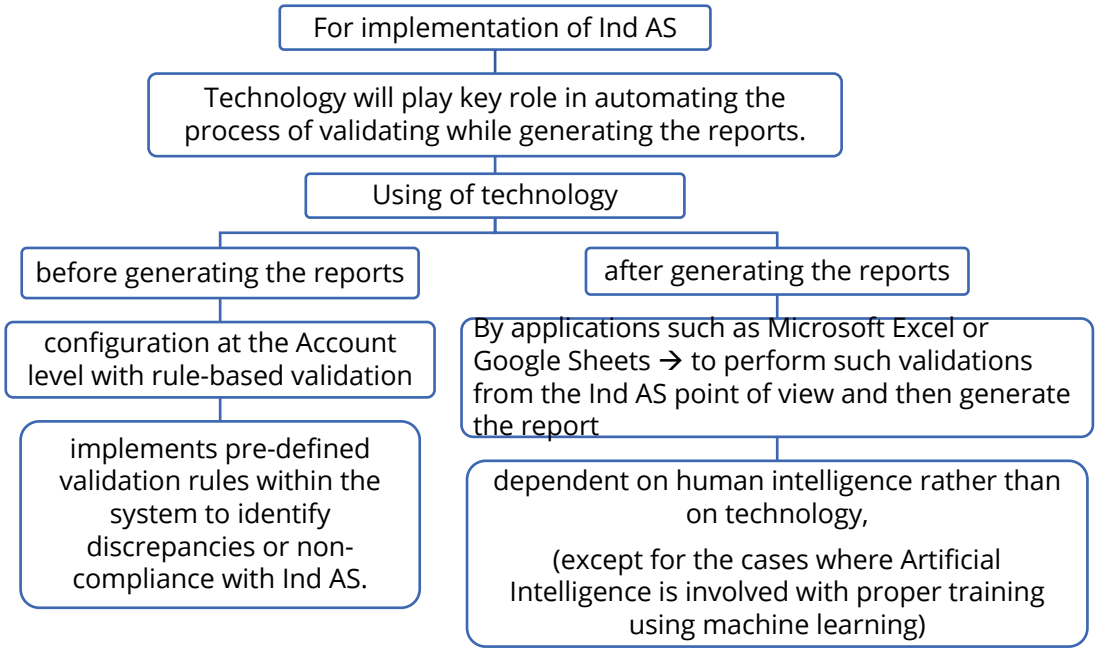
1. Data privacy
2. Security concerns
3. Technical complexity
4. Need to train employees in an organization to extract capabilities of AI from the system

5 Indian Accounting Standards (Ind AS) and Information Technology

Ind AS

- principle-based framework.
- consists of specific principles for various accounting topics, such as revenue recognition, leasing, financial instruments, employee benefits, consolidation, and many more.
- These principles provide detailed guidance on how to account for transactions in accordance with the principles of measurement and recognition.




For implementation of Ind AS
Technology will play key role in automating the process of validating while generating the reports.
Using of technology
before generating the reports
after generating the reports
configuration at the Account level with rule-based validation
By applications such as Microsoft Excel or Google Sheets → to perform such validations from the Ind AS point of view and then generate the report
implements pre-defined validation rules within the system to identify discrepancies or non-compliance with Ind AS.
dependent on human intelligence rather than on technology,
(except for the cases where Artificial Intelligence is involved with proper training using machine learning)

