

# इशरान्शे

Last Mile Referencer for

## INDIAN ACCOUNTING STANDARDS



**The Institute of Chartered  
Accountants of India**

(Setup by an Act of Parliament)

**Board of Studies (Academic)**

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## **Saransh – Last Mile Referencer for Indian Accounting Standards**

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While due care has been taken in preparing this booklet, if any errors or omissions are noticed, the same may be brought to the notice of the Director, BoS. The Council of the Institute is not responsible in any way for the correctness or otherwise of the matter published herein.

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**The Institute of Chartered Accountants of India**  
**'ICAI Bhawan' A-29, Sector-62,**  
**Noida 201 309**

# PREFACE

BOS (Academic), the student wing of the Institute, does not leave any stone unturned in providing best-in-class services to its students. It imparts quality academic education through its value added study materials, wherein concepts are explained in lucid language. Illustrations and Test Your Knowledge Questions contained therein facilitate enhanced understanding and application of concepts learnt. Booklet on MCQs & Case Scenarios contain a rich bank of MCQs and Case Scenarios to hone the analytical skills of students, by applying the concepts learnt in problem solving. Revision Test Papers contain updates and Q & A to help students update themselves with the latest developments before each examination and revise the concepts and provisions by solving questions contained therein. Suggested Answers containing the ideal manner of answering questions set at examination also helps students revise for the forthcoming examination. Mock Test Papers help students assess their level of preparedness before each examination. BoS (Academic) also conducts live virtual classes through eminent faculty for its students across the length and breadth of the country.

In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subjects, the Board of studies publishes crisp and concise capsules in its monthly Students' Journal "The Chartered Accountant Student" since the year 2017. Each issue of the journal includes a capsule relating to specific topic(s) in one subject at each of the three levels. In these capsules, the concepts and provisions are presented in attractive colours in the form of tables, diagrams and flow charts for facilitating easy retention and quick revision of topics.

To reach out to its students and members across the nation, the BoS (Academic) is now coming out with a comprehensive booklet 'Saransh - Last Mile Referencer for Indian Accounting Standards'. The syllabus of the Paper 1 : Financial Reporting at Final level largely covers almost all Indian Accounting Standards (Ind AS). Therefore, this booklet encapsulates significant provisions of these Indian Accounting Standards (Ind AS) in the form of diagrams, flow charts, tables and illustrated journal entries. This one stop repository, thus, consolidate the significant concepts of all relevant Indian Accounting Standards (Ind AS) at one place, by capturing the key points. This would help the readers appreciate the requirements contained in each of the Indian Accounting Standard (Ind AS) at a glance.

However, the readers are advised to refer the study material or bare text of these Indian Accounting Standards (Ind AS) for comprehensive study and revision. Under no circumstances, this booklet substitutes the detailed study of the material provided by the Board of Studies. Further, the readers are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

This booklet 'Saransh - Last Mile Referencer for Indian Accounting Standards' will facilitate the reader to grasp the essence of the subject as a whole by serving them as a ready reckoner. This booklet will surely enable the readers in easy retention and quick revision of Indian Accounting Standards (Ind AS).

Happy Reading!

## Message of Key ICAI Office Bearers



**CA. (Dr.) Debashis Mitra**

President, ICAI

The Board of Studies (Academic) of ICAI has always been at the forefront of providing quality education to aspiring CA students and handholding them in preparing for their exams. Saransh – Last Mile Referencer is a step in that direction. This pack of 3 booklets on Accounting, Auditing & Cost Management and Strategic Decision Making covers significant concepts of each chapter in precise form. This will not only help students for their reference for examinations but also Members can use it for their practice reference.



**CA. Aniket S. Talati**

Vice-President, ICAI

It has always been the endeavour of ICAI to provide updated information to its student to keep them abreast about the latest happenings in the accounting and related fields. The Board of Studies (Academic), the academic wing of ICAI, has come up with a series of booklets 'Saransh – Last Mile Referencer' with key points of different subjects. This will help facilitate effective revision of concepts in each subject.



**CA. Dayaniwas Sharma**

Chairman, Board of Studies (Academic)

Saransh – Last Mile Referencer is a compilation of capsules on different subjects of Foundation, Intermediate and Final levels of the chartered accountancy course. This series of booklets consolidates all significant topics of Accounting including Accounting Standards & Ind AS, Auditing with Auditing Standards and Cost Management and Strategic Decision Making at one place by capturing the key points. The concepts and provisions presented in attractive colours in the form of tables, diagrams and flow charts will facilitate quick revision of topics and easy retention.



**CA. Vishal Doshi**

Vice-Chairman, Board of Studies (Academic)

Among the many best-in-class services that the Board of Studies (Academic) provides to its students, Saransh – Last Mile Referencer is another initiative in that direction. These booklets on different subjects have been provided in a concise and precise form. It will facilitate understanding of the concepts better to students and grasp the essence of the subject. These capsules will enhance of level of preparedness before the examinations.



## The Institute of Chartered Accountants of India

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Board of Studies (Academic)

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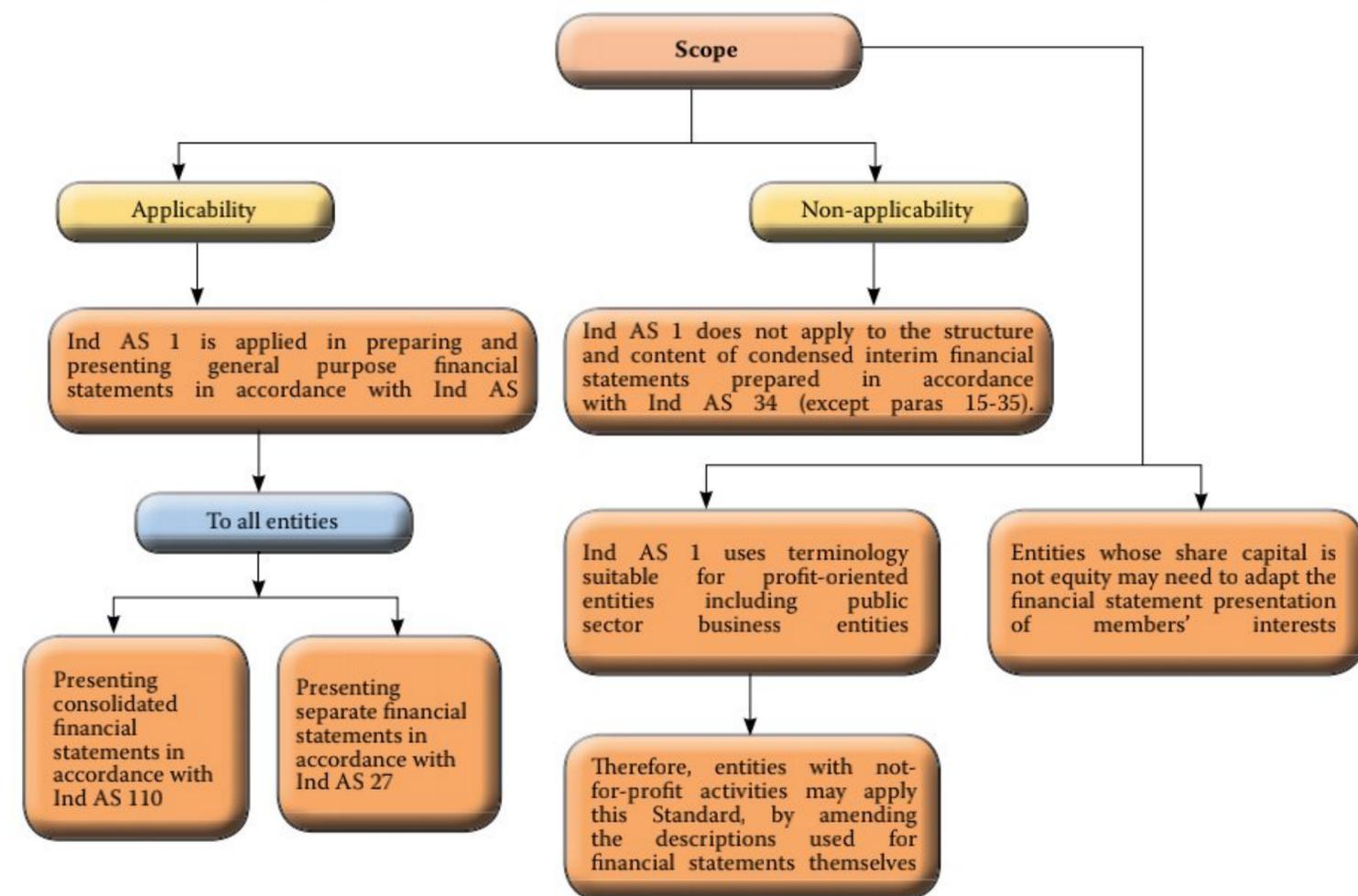
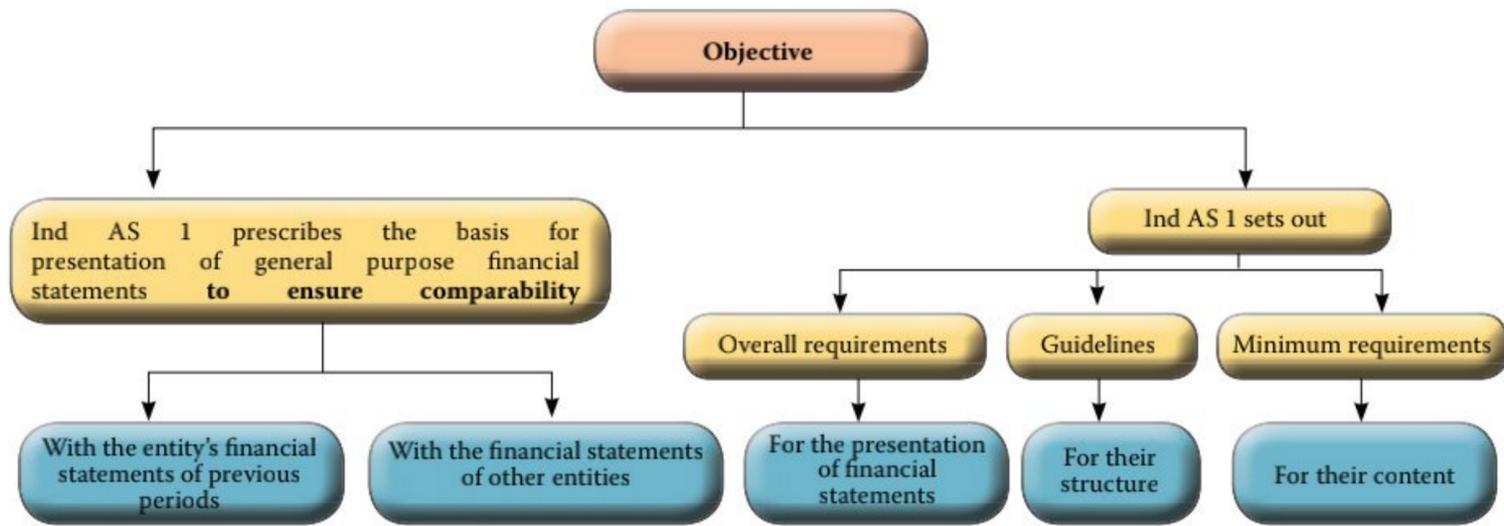
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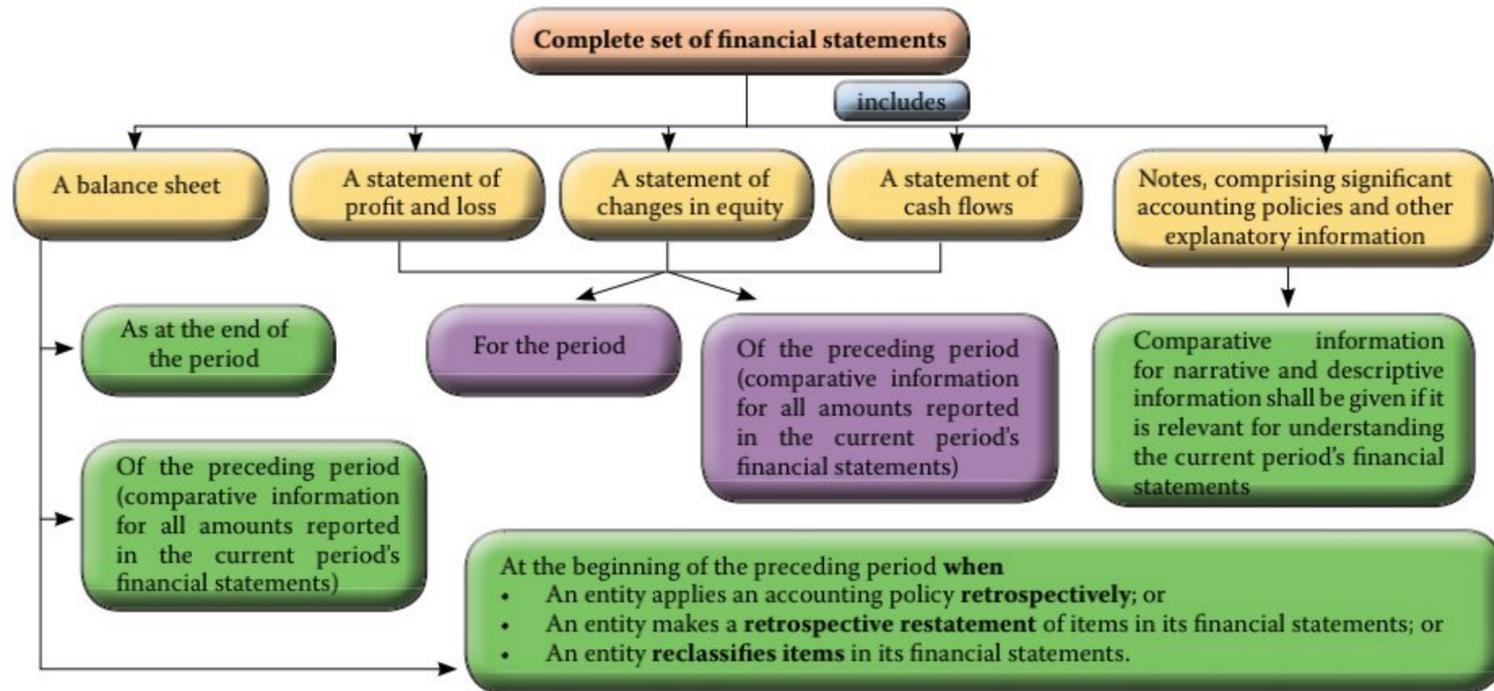
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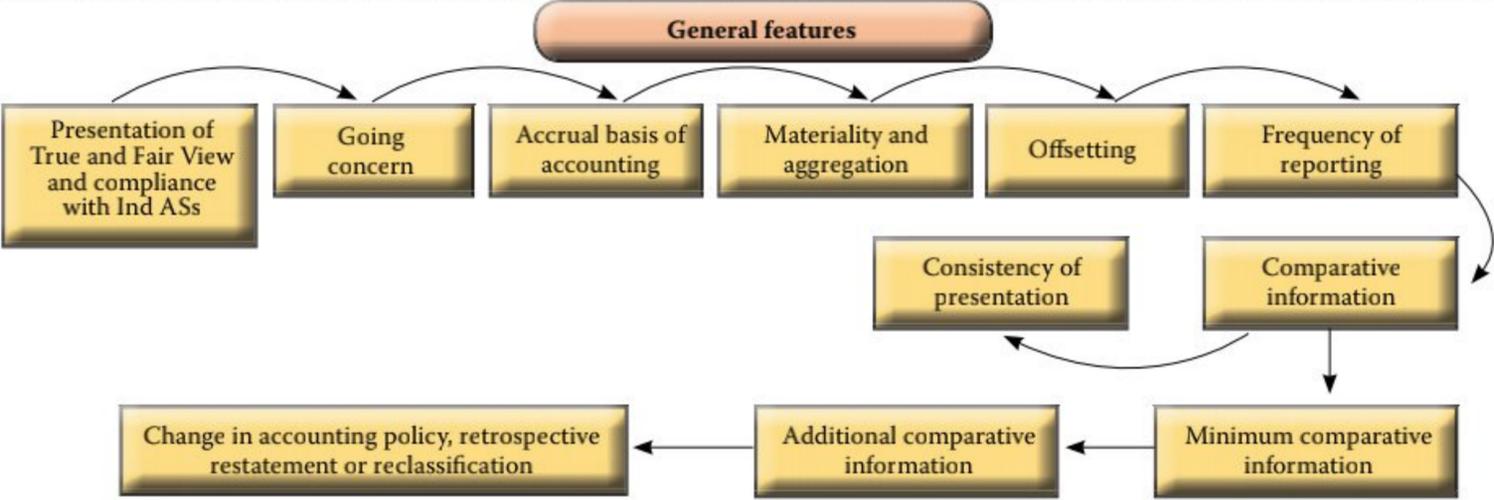
**INDIAN ACCOUNTING STANDARD (IND AS) 1:  
PRESENTATION OF FINANCIAL STATEMENTS**



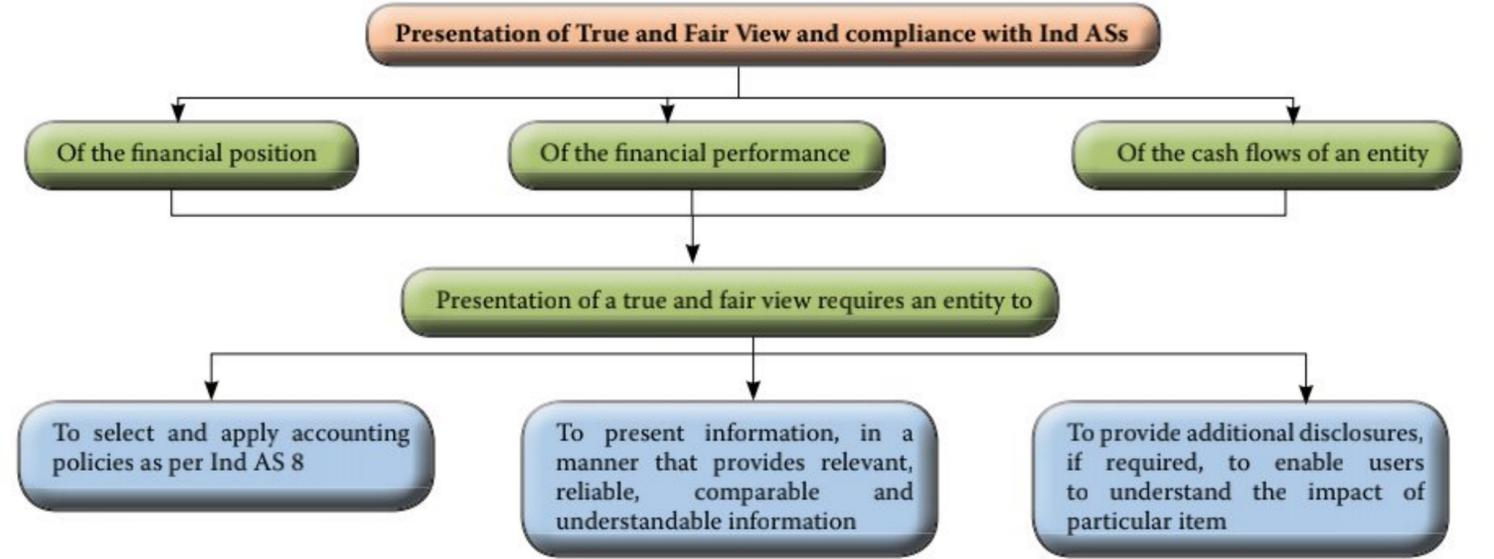


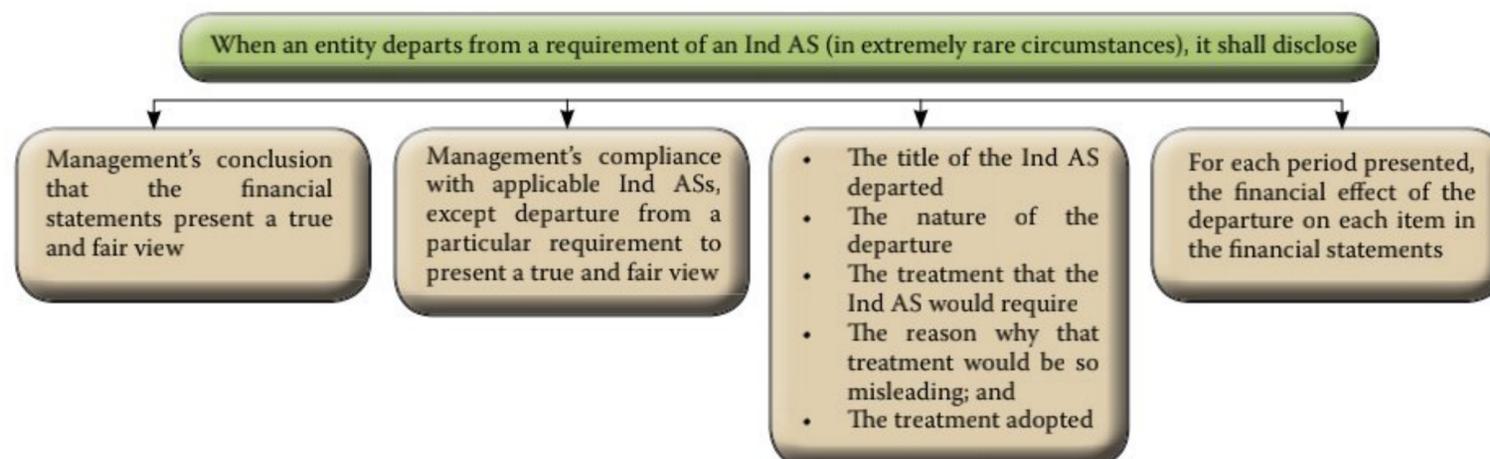
**Note:**

- An entity shall present a **single** statement of profit and loss, with profit or loss and other comprehensive income (OCI) **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.
- Reports and statements presented outside financial statements are outside the scope of Ind AS.
- An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.



**Note:** The above general features have been summarised below.





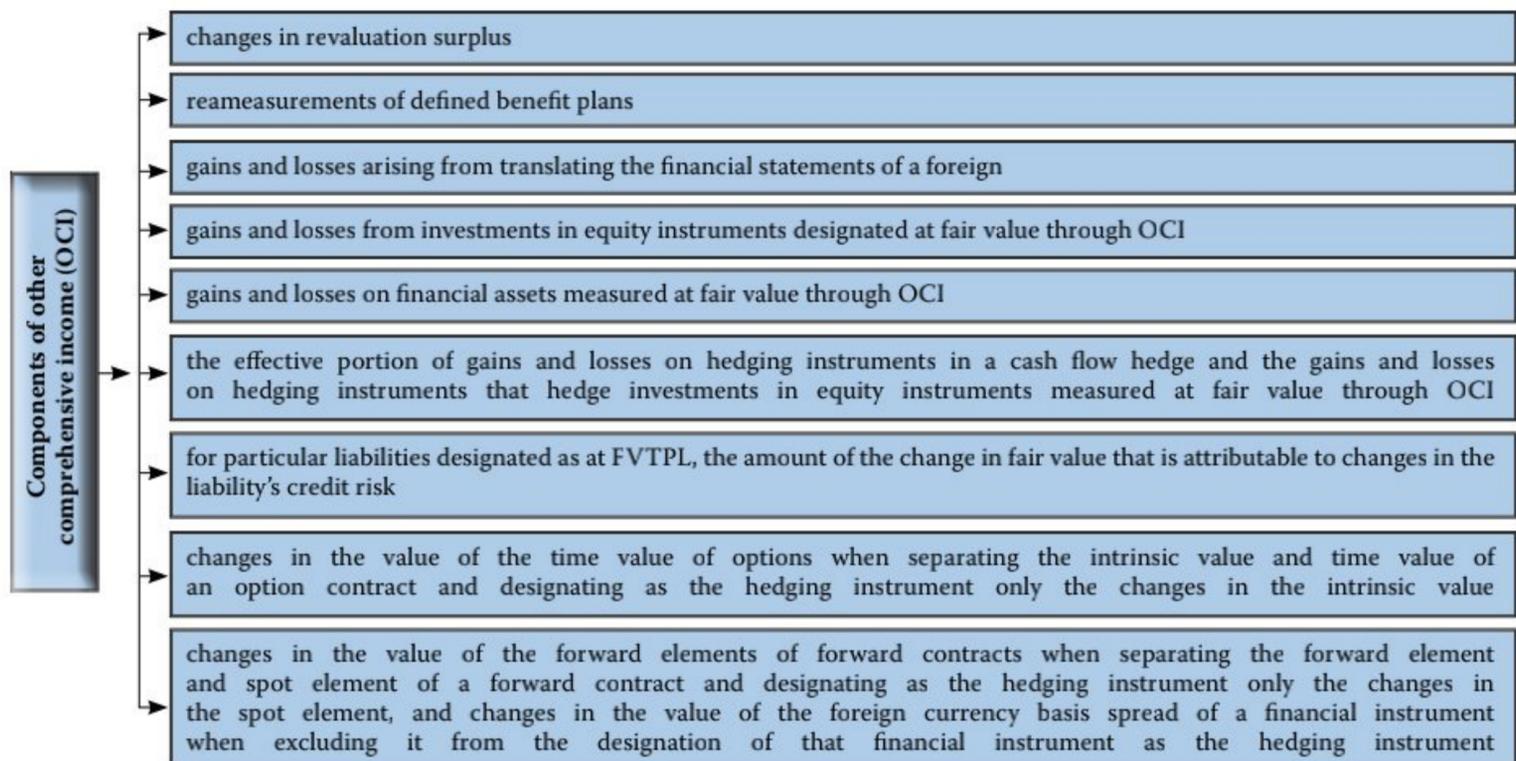
**Note:**

1. An entity shall make an explicit and unreserved statement of compliance of **ALL** Ind AS in the notes.
2. An entity shall not describe financial statements as complying with Ind ASs unless they comply with **all** the requirements of Ind ASs.
3. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

<b>Going concern</b>	<ul style="list-style-type: none"> <li>▶▶ An entity shall prepare financial statements on a going concern basis unless management                             <ul style="list-style-type: none"> <li><input type="checkbox"/> intends to liquidate the entity or</li> <li><input type="checkbox"/> to cease trading, or</li> <li><input type="checkbox"/> has no realistic alternative but to do so.</li> </ul> </li> <li>▶▶ When management has significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose                             <ul style="list-style-type: none"> <li><input type="checkbox"/> the basis on which it prepared the financial statements and</li> <li><input type="checkbox"/> the reason why the entity is not regarded as a going concern.</li> </ul> </li> </ul> <p>To assess going concern basis, management may need to consider a wide range of factors like</p> <ul style="list-style-type: none"> <li>▶▶ current and expected profitability,</li> <li>▶▶ debt repayment schedules and</li> <li>▶▶ potential sources of replacement financing</li> </ul>	<b>Change in accounting policy, retrospective restatement or reclassification</b>	<p>When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):</p> <ul style="list-style-type: none"> <li>(a) the nature of the reclassification;</li> <li>(b) the amount of each item or class of items that is reclassified; and</li> <li>(c) the reason for the reclassification.</li> </ul> <p>When it is impracticable to reclassify comparative amounts, an entity shall disclose:</p> <ul style="list-style-type: none"> <li>(a) the reason for not reclassifying the amounts, and</li> <li>(b) the nature of the adjustments that would have been made if the amounts had been reclassified.</li> </ul>
<b>Accrual basis of accounting</b>	<ul style="list-style-type: none"> <li>▶▶ An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.</li> <li>▶▶ When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses.</li> </ul>	<b>Consistency of presentation</b>	<p>An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:</p> <ul style="list-style-type: none"> <li>(a) 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</li> <li>(b) an Ind AS requires a change in presentation.</li> </ul>
<b>Materiality and aggregation</b>	<ul style="list-style-type: none"> <li>▶▶ <b>Present separately</b> each material class of similar items.</li> <li>▶▶ <b>Present separately</b> items of a dissimilar nature or function <b>only</b> if it is material or required by law (even if it is immaterial).</li> <li>▶▶ If a line item is not individually material, it is aggregated with other items either in those statements or in the notes.</li> <li>▶▶ Do not reduce the understandability of its financial statements by                             <ul style="list-style-type: none"> <li><input type="checkbox"/> obscuring material information with immaterial information; or</li> <li><input type="checkbox"/> aggregating material items that have different natures or functions.</li> </ul> </li> </ul>	<b>STRUCTURE AND CONTENT</b>	
<b>Offsetting</b>	Offsetting of assets and liabilities or income and expenses is not allowed unless required or permitted by an Ind AS or except when offsetting reflects the substance of the transaction or other event	<b>Identification of the financial statements</b>	<p>An entity shall clearly identify each financial statement and the notes.</p> <p>It shall display prominently:</p> <ul style="list-style-type: none"> <li>(a) 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;</li> <li>(b) whether the financial statements are of an individual entity or a group of entities;</li> <li>(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;</li> <li>(d) the presentation currency; and</li> <li>(e) the level of rounding used in presenting amounts in the financial statements.</li> </ul> <p>The rounding off is acceptable as long as the entity discloses it and does not omit material information.</p>
<b>Frequency of reporting</b>	An entity shall present a complete set of financial statements (including comparative information) at least annually.		
<b>Comparative information</b>	Refer chart 3 of Ind AS 1 for minimum and additional comparative information.		

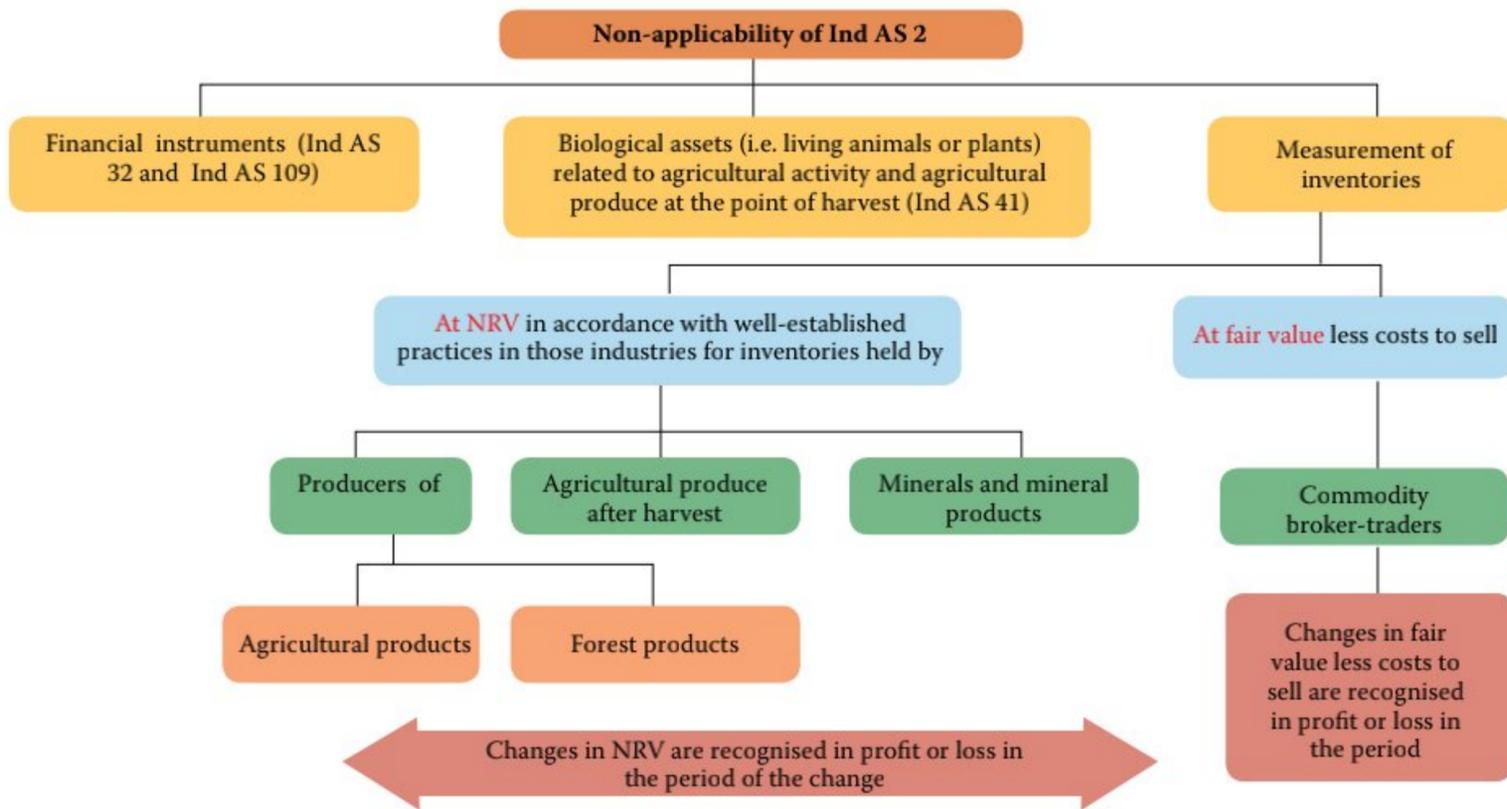
<p><b>Information to be presented in the balance sheet</b></p>	<ul style="list-style-type: none"> <li>▶▶ The balance sheet shall present line items and additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals.</li> <li>▶▶ Presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.</li> <li>▶▶ It shall not classify deferred tax assets (liabilities) as current assets (liabilities).</li> </ul> <p><b>Exception</b> An entity may present all assets and liabilities in order of liquidity but shall disclose the amount expected to be recovered or settled</p> <ul style="list-style-type: none"> <li>(a) no more than twelve months after the reporting period, and</li> <li>(b) more than twelve months after the reporting period.</li> </ul> <p>▶▶ An entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant.</p>		<ul style="list-style-type: none"> <li>▶▶ Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.</li> </ul>
<p><b>Current assets</b></p>	<ul style="list-style-type: none"> <li>▶▶ Classify an asset as current when:                         <ul style="list-style-type: none"> <li>(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;</li> <li>(b) it holds the asset primarily for the purpose of trading;</li> <li>(c) it expects to realise the asset within twelve months after the reporting period; or</li> <li>(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.</li> </ul> </li> <li>▶▶ Classify all other assets as non-current.</li> </ul> <p><i>Note: The term 'non-current' includes tangible, intangible and financial assets of a long-term nature.</i></p>	<p><b>Information to be presented either in the balance sheet or in the notes</b></p>	<p>Disclose sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.</p>
<p><b>Operating cycle</b></p>	<ul style="list-style-type: none"> <li>▶▶ It is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.</li> <li>▶▶ When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.</li> <li>▶▶ The same normal operating cycle applies to the classification of an entity's assets and liabilities.</li> </ul>	<p><b>Statement of Profit and Loss</b></p>	<ul style="list-style-type: none"> <li>▶▶ The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:                         <ul style="list-style-type: none"> <li>(a) profit or loss;</li> <li>(b) total other comprehensive income;</li> <li>(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.</li> </ul> </li> <li>▶▶ An entity shall <b>not</b> present any items of income or expense as extraordinary items.</li> <li>▶▶ An entity shall present an analysis of expenses recognised in profit or loss using a <b>classification based on the nature of expense method</b>.</li> <li>▶▶ 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.</li> </ul>
<p><b>Current liabilities</b></p>	<ul style="list-style-type: none"> <li>▶▶ An entity shall classify a liability as current when:                         <ul style="list-style-type: none"> <li>(a) it expects to settle the liability in its normal operating cycle;</li> <li>(b) it holds the liability primarily for the purpose of trading;</li> <li>(c) the liability is due to be settled within twelve months after the reporting period; or</li> <li>(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.</li> </ul> </li> <li>▶▶ An entity shall classify all other liabilities as non-current.</li> <li>▶▶ An entity classifies some operating items like trade payables and some accruals for employee and other operating costs (part of the working capital) as current liabilities even if they are due to be settled more than twelve months after the reporting period.</li> </ul>	<p><b>Information to be presented in the other comprehensive income (OCI) section</b></p>	<ul style="list-style-type: none"> <li>▶▶ Present line items for the amounts for the period of:                         <ul style="list-style-type: none"> <li>(a) items of OCI classified by nature and grouped into those that:                                 <ul style="list-style-type: none"> <li>(i) will not be reclassified subsequently to profit or loss; and</li> <li>(ii) will be reclassified subsequently to profit or loss when specific conditions are met.</li> </ul> </li> <li>(b) the share of OCI of associates and joint ventures accounted for using the equity method, separated into the share of items that:                                 <ul style="list-style-type: none"> <li>(i) will not be reclassified subsequently to profit or loss; and</li> <li>(ii) will be reclassified subsequently to profit or loss when specific conditions are met.</li> </ul> </li> </ul> </li> <li>▶▶ Disclose the amount of income tax relating to each item of OCI, including reclassification adjustments, either in the statement of profit and loss or in the notes.</li> <li>▶▶ Present items of OCI either                         <ul style="list-style-type: none"> <li>(a) net of related tax effects, or</li> <li>(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.</li> </ul> </li> <li>▶▶ If an entity elects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.</li> </ul>

<p><b>Reclassification adjustment</b></p>	<ul style="list-style-type: none"> <li>▶▶ When amounts previously recognised in other comprehensive income are reclassified to profit or loss they are referred as reclassification adjustments.</li> <li>▶▶ It is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss.</li> <li>▶▶ These amounts may have been recognised in OCI as unrealised gains in the current or previous periods.</li> <li>▶▶ Those unrealised gains must be deducted from OCI in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.</li> <li>▶▶ An entity may present reclassification adjustments in the statement of profit and loss or in the notes.</li> <li>▶▶ An entity presenting reclassification adjustments in the notes presents the items of OCI after any related reclassification adjustments.</li> <li>▶▶ Reclassification adjustments <b>do not</b> arise on changes in revaluation surplus or on remeasurements of defined benefit plans since they are recognised in OCI and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised.</li> <li>▶▶ Reclassification adjustments <b>do not</b> arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.</li> </ul>	<p><b>Information to be presented in the statement of changes in equity (SOCE) or in the notes</b></p>	<ul style="list-style-type: none"> <li>▶▶ Present, either in SOCE or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.</li> <li>▶▶ Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period <b>except</b> for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions.</li> <li>▶▶ 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.</li> <li>▶▶ Standard requires 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.</li> <li>▶▶ These adjustments are disclosed for each prior period and the beginning of the period.</li> </ul>
<p><b>Information to be presented in the statement of changes in equity (SOCE)</b></p>	<p>SOCE includes the following information:</p> <ul style="list-style-type: none"> <li>(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;</li> <li>(b) for each component of equity, the effects of retrospective application or retrospective restatement;</li> <li>(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from: <ul style="list-style-type: none"> <li>(i) profit or loss;</li> <li>(ii) other comprehensive income;</li> <li>(iii) 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</li> <li>(iv) any item recognised directly in equity such as amount recognised directly in equity as capital reserve.</li> </ul> </li> </ul>	<p><b>Notes -Structure</b></p>	<ul style="list-style-type: none"> <li>▶▶ The notes shall: <ul style="list-style-type: none"> <li>(a) present information about the basis of preparation of the financial statements and the specific accounting policies;</li> <li>(b) disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and</li> <li>(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.</li> </ul> </li> <li>▶▶ Present notes in a systematic manner</li> <li>▶▶ Cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statements of changes in equity and of cash flows to any related information in the notes.</li> </ul>
		<p><b>Notes - Disclosure of accounting policies</b></p>	<ul style="list-style-type: none"> <li>▶▶ An entity shall disclose its significant accounting policies comprising: <ul style="list-style-type: none"> <li>(a) the measurement basis (or bases) used in preparing the financial statements; and</li> <li>(b) the other accounting policies used that are relevant to an understanding of the financial statements.</li> </ul> </li> <li>▶▶ Additionally, it shall disclose, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</li> <li>▶▶ Disclosure of an accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material.</li> </ul>
		<p><b>Notes -Sources of estimation uncertainty</b></p>	<p>An entity shall disclose information about the assumptions it makes about the future, and other major 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. In respect of those assets and liabilities, the notes shall include details of:</p> <ul style="list-style-type: none"> <li>(a) their nature, and</li> <li>(b) their carrying amount as at the end of the reporting period.</li> </ul>



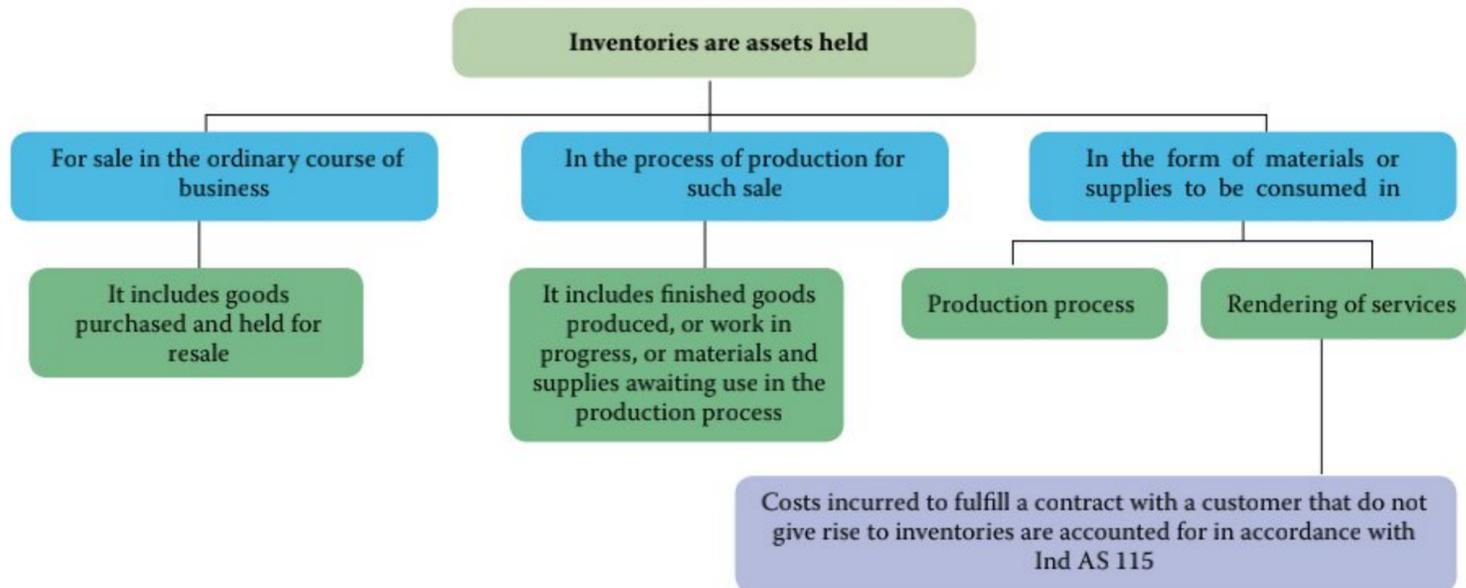
INDIAN ACCOUNTING STANDARD (IND AS) 2: INVENTORIES

Scope of Ind AS 2

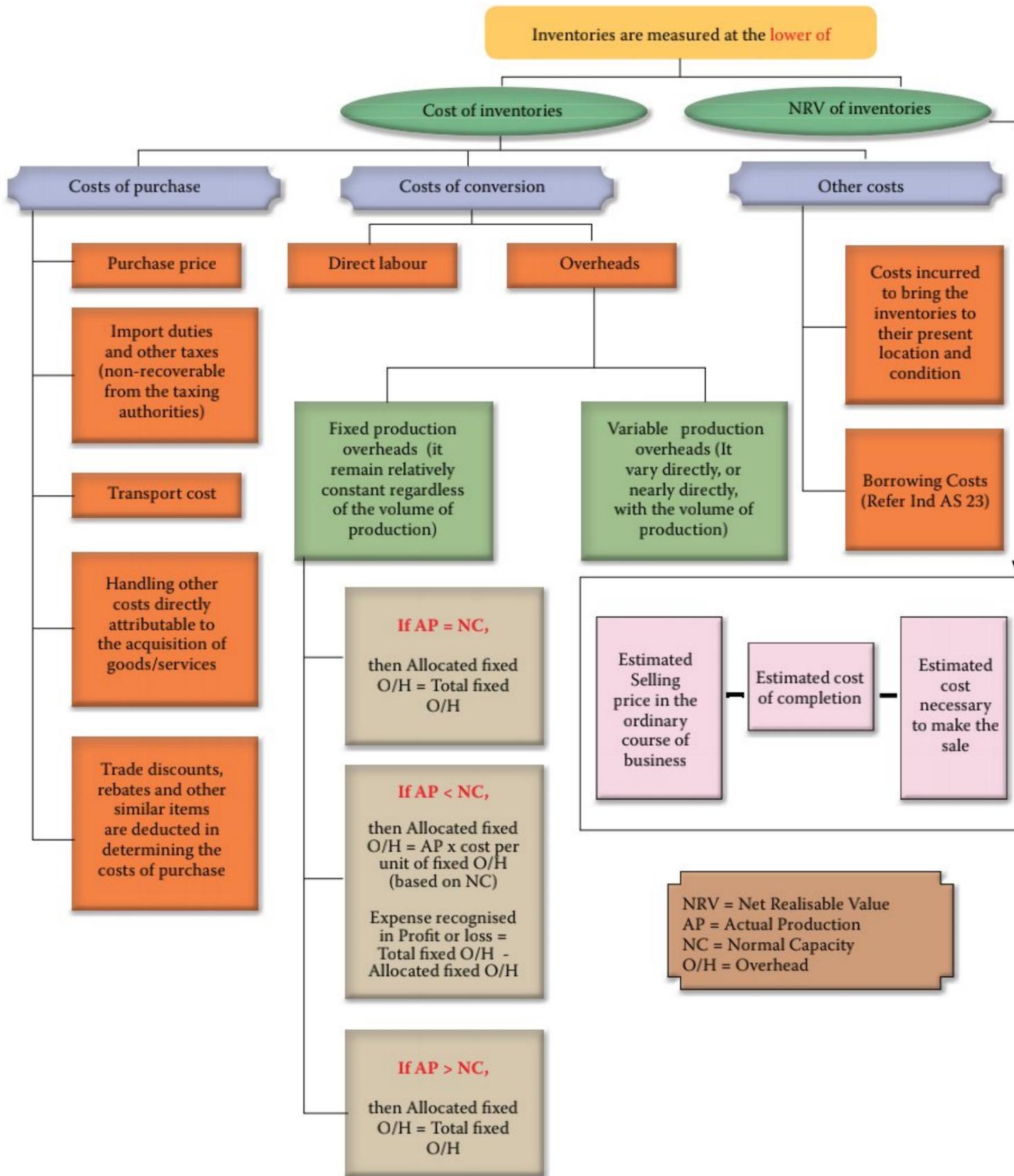


\* NRV- Net Realisable Value

Definition of Inventories



Measurement of Inventories



Other costs

- Costs incurred to bring the inventories to their present location and condition
- Borrowing Costs (Refer Ind AS 23)

Estimated Selling price in the ordinary course of business

Estimated cost of completion

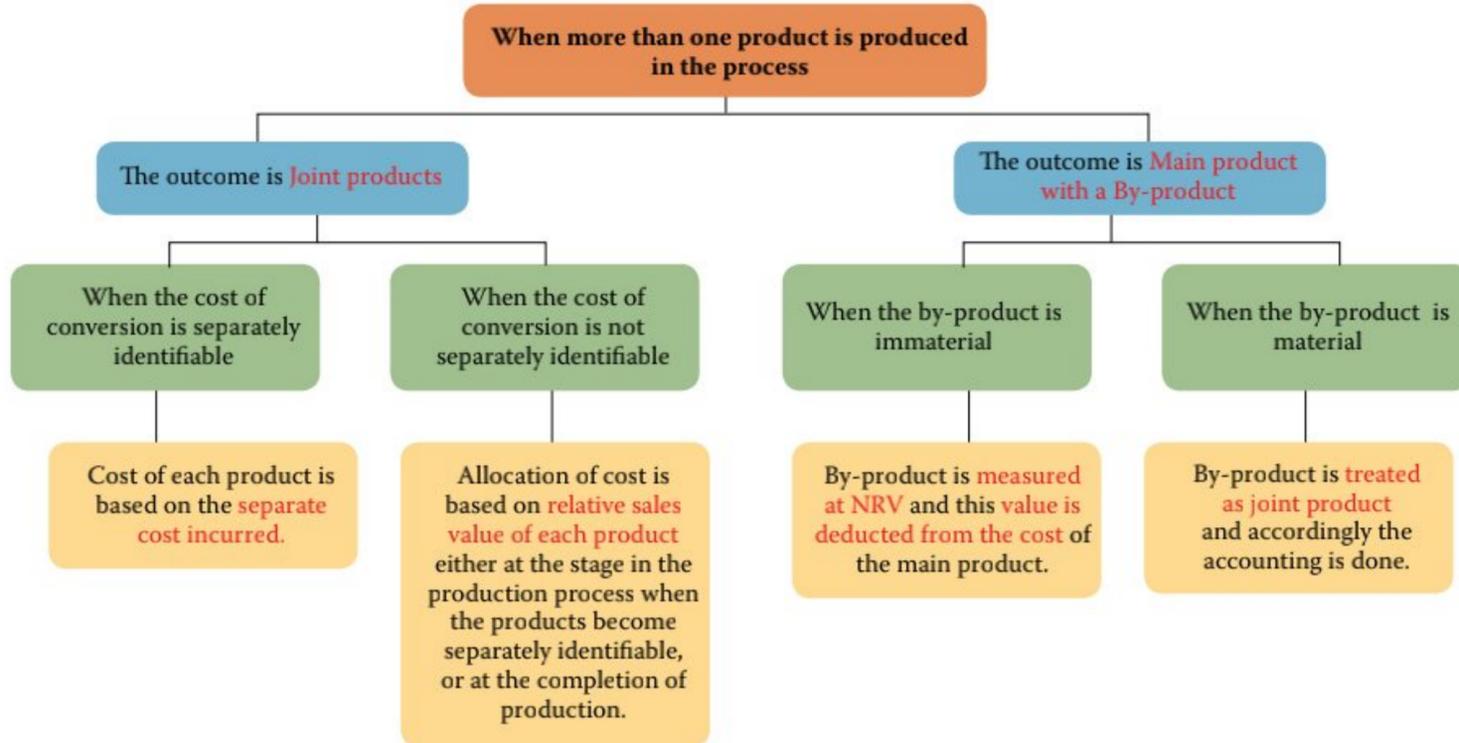
Estimated cost necessary to make the sale

NRV = Net Realisable Value  
AP = Actual Production  
NC = Normal Capacity  
O/H = Overhead

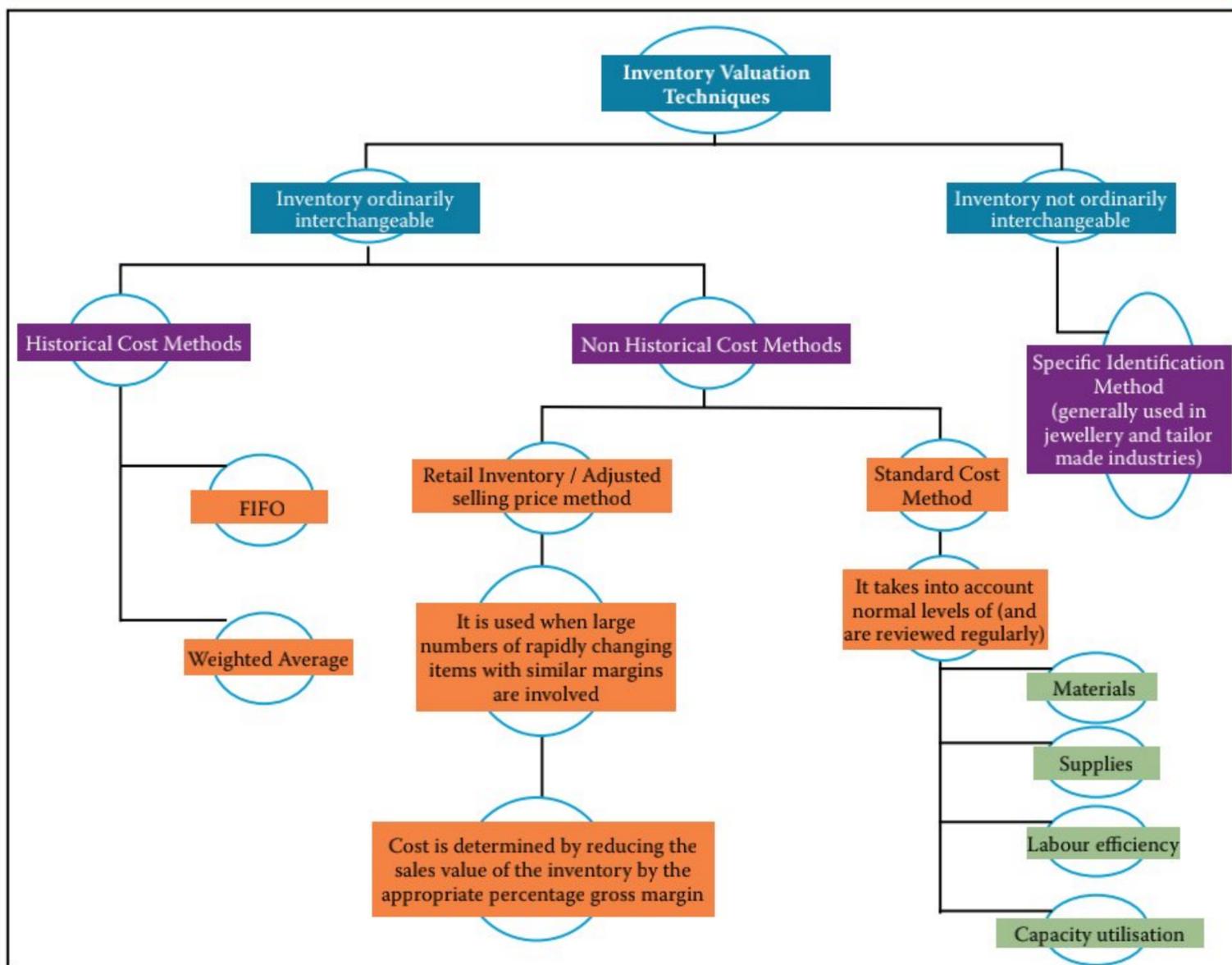
Costs excluded from the cost of inventories and recognised as expenses

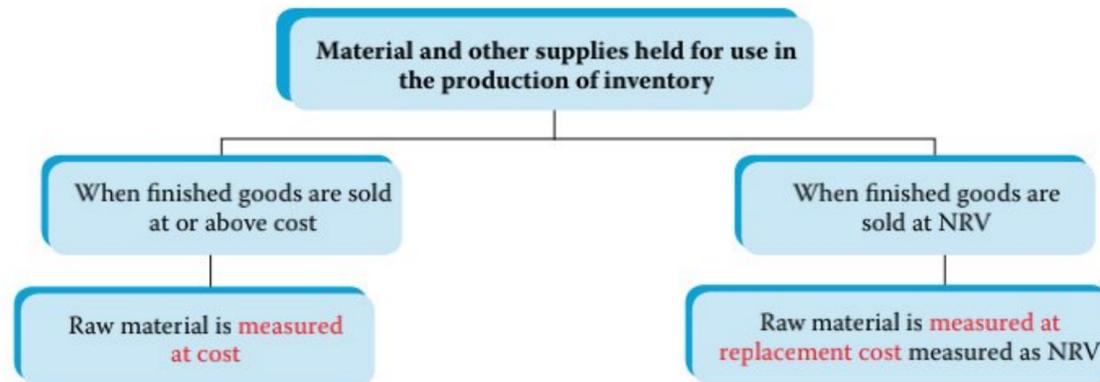
- Abnormal amounts of wasted materials, labour or other production costs.
- Storage costs (If those costs are not necessary in the production process before a further production stage).
- Administrative overheads that do not contribute to bringing inventories to their present location and condition.
- Selling costs.
- Interest expenses (financial element in deferred settlement terms).

Allocation of cost to joint products and by-products



Cost Formulas

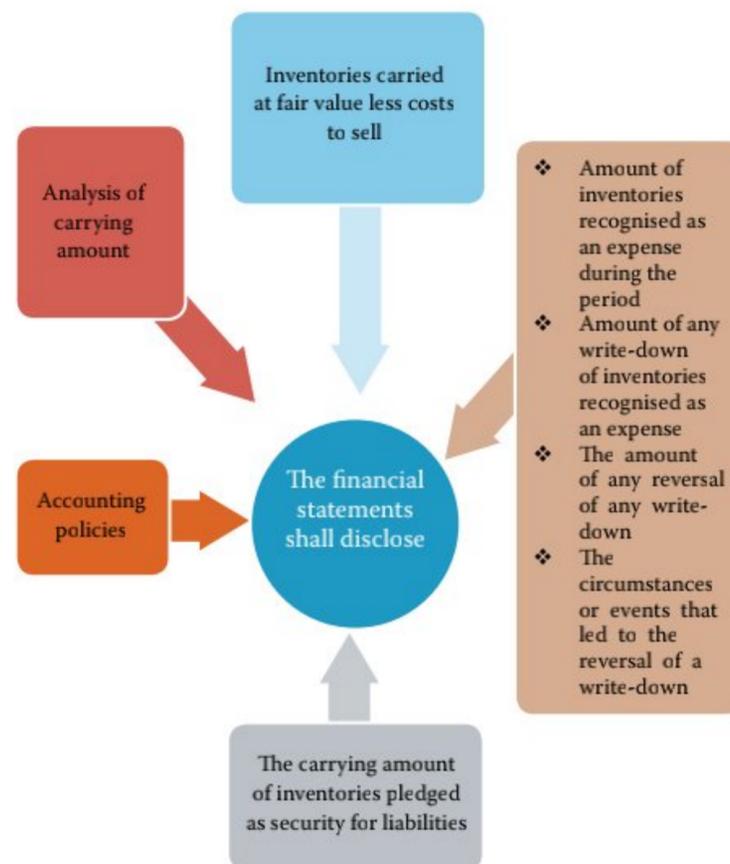




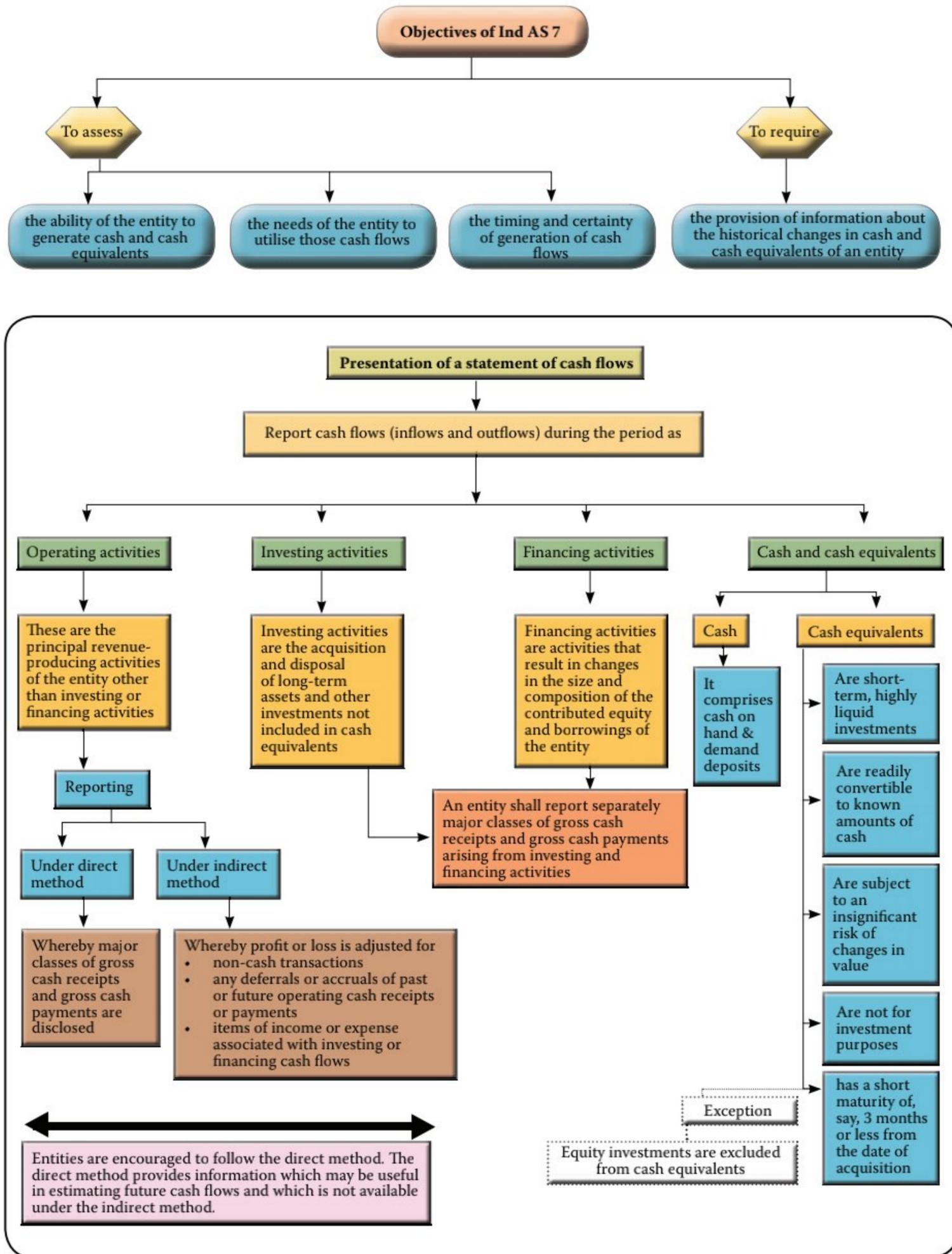
Important points of Ind AS 2 to be remembered

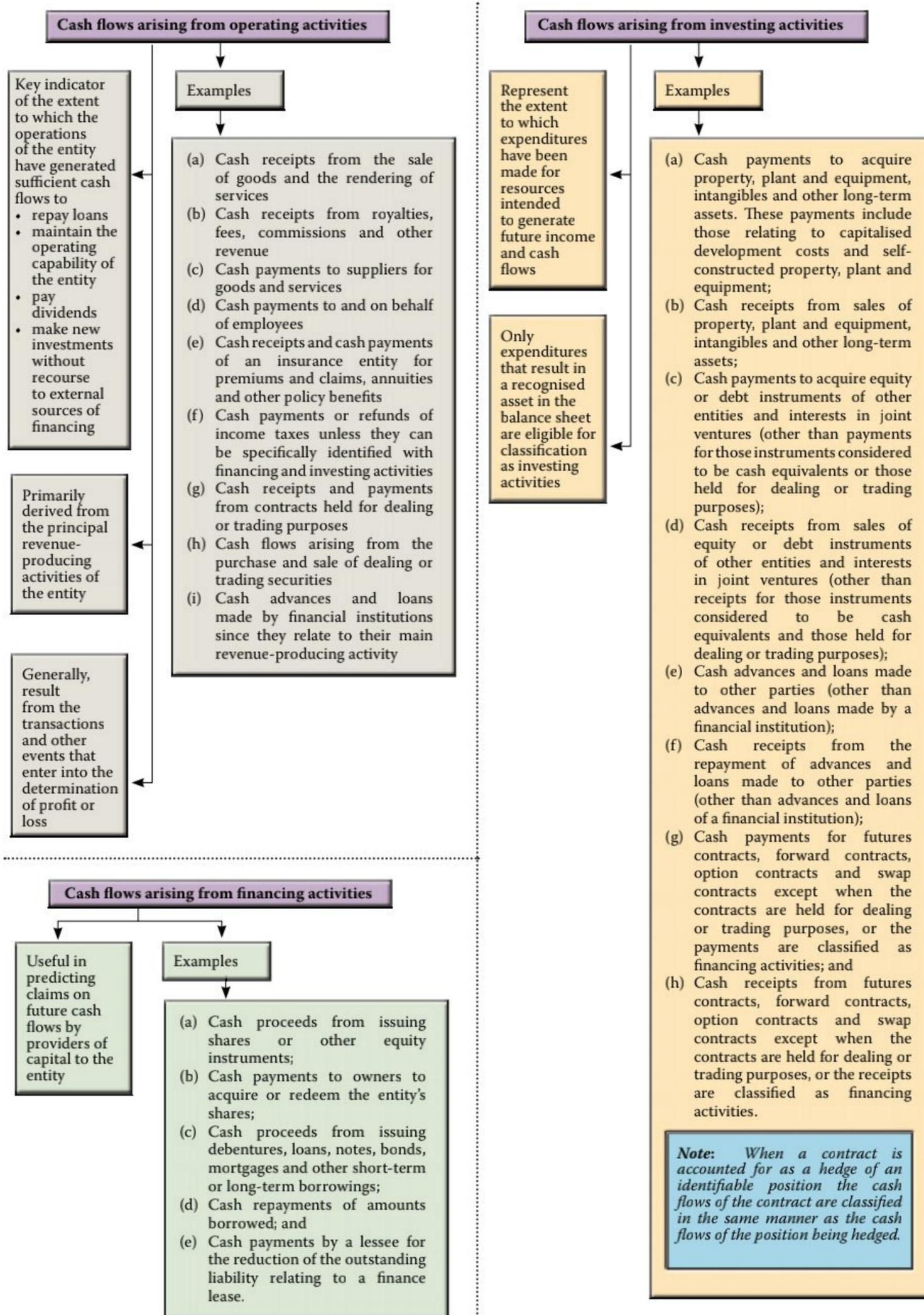
<b>NRV</b> Inventories comprising agricultural produce that an entity has harvested from its biological assets	<b>It is an entity specific value</b> They are measured on initial recognition at their fair value less costs to sell at the point of harvest.
New assessment of NRV	<ul style="list-style-type: none"> <li>❖ A new assessment is made of NRV in each subsequent period.</li> <li>❖ When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in NRV, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down)</li> </ul>
Sale of inventories	<ul style="list-style-type: none"> <li>❖ When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period the sale is recognised.</li> <li>❖ If NRV is less than cost, then the difference and all losses of inventories shall be recognised as an expense in that period.</li> <li>❖ When in later year, if NRV increases then difference to the extent of cost shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.</li> </ul>

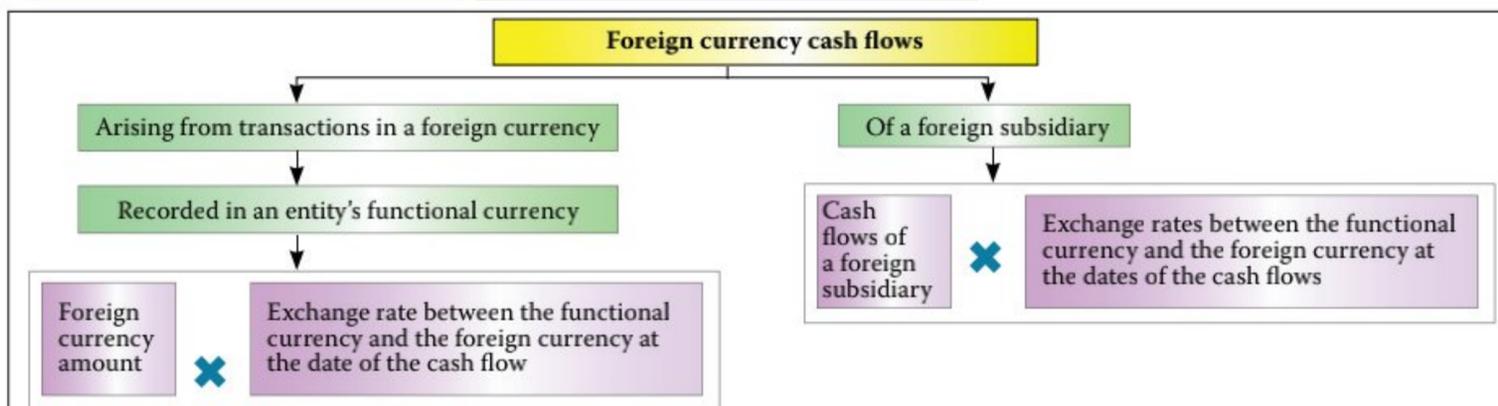
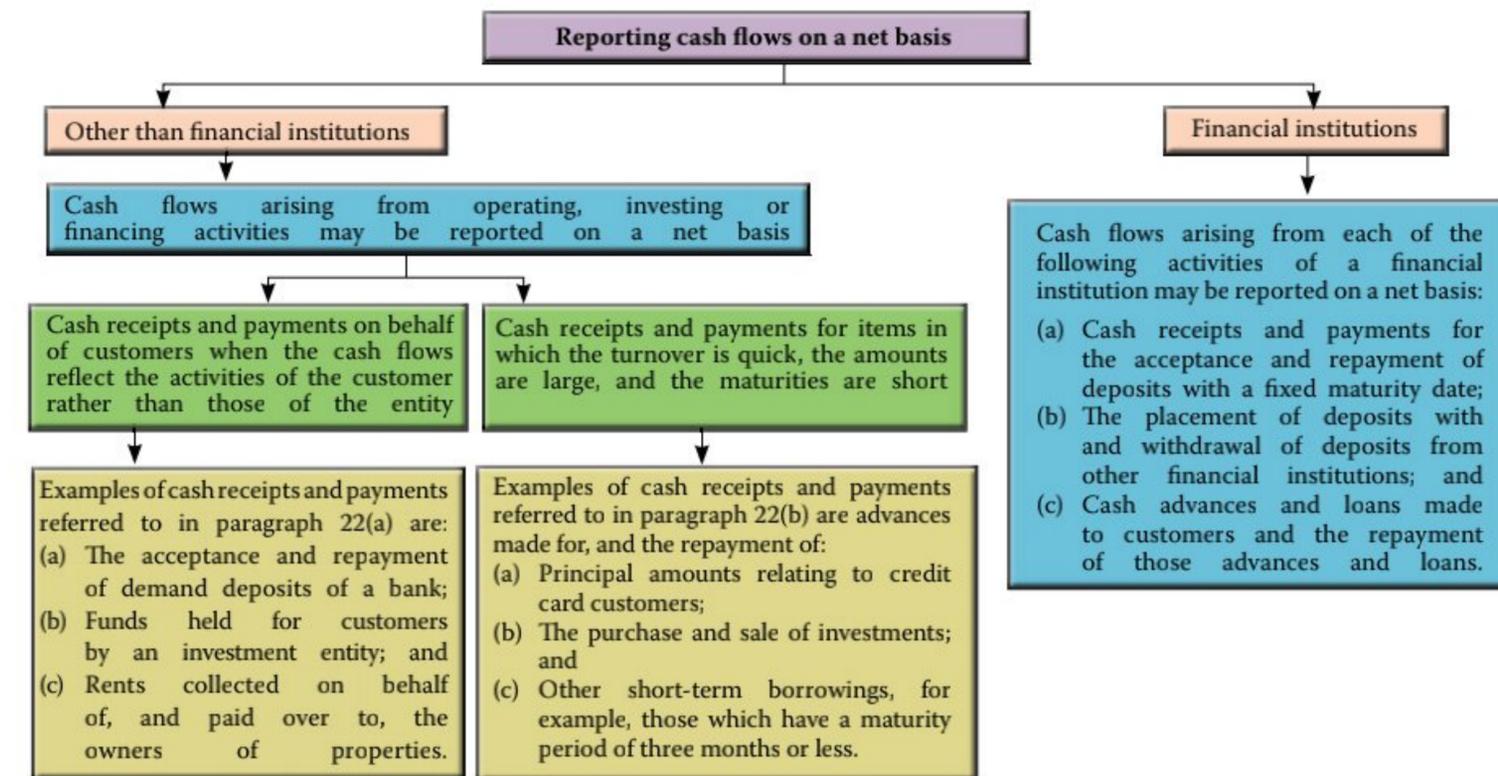
Disclosure



INDIAN ACCOUNTING STANDARD (IND AS) 7: STATEMENT OF CASH FLOWS



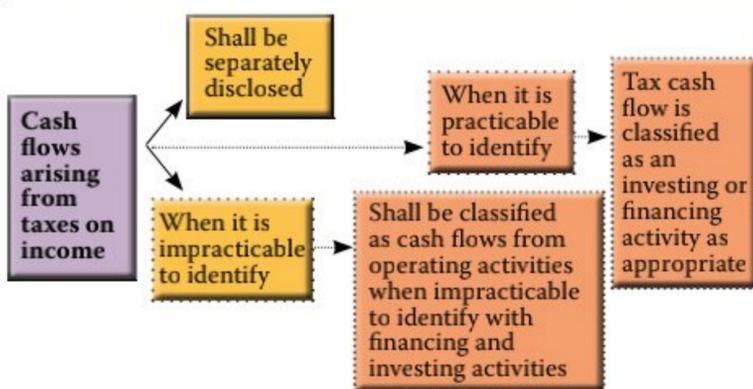




- Note:**
- Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21.
  - A weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary.
  - Ind AS 21 **does not permit** use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

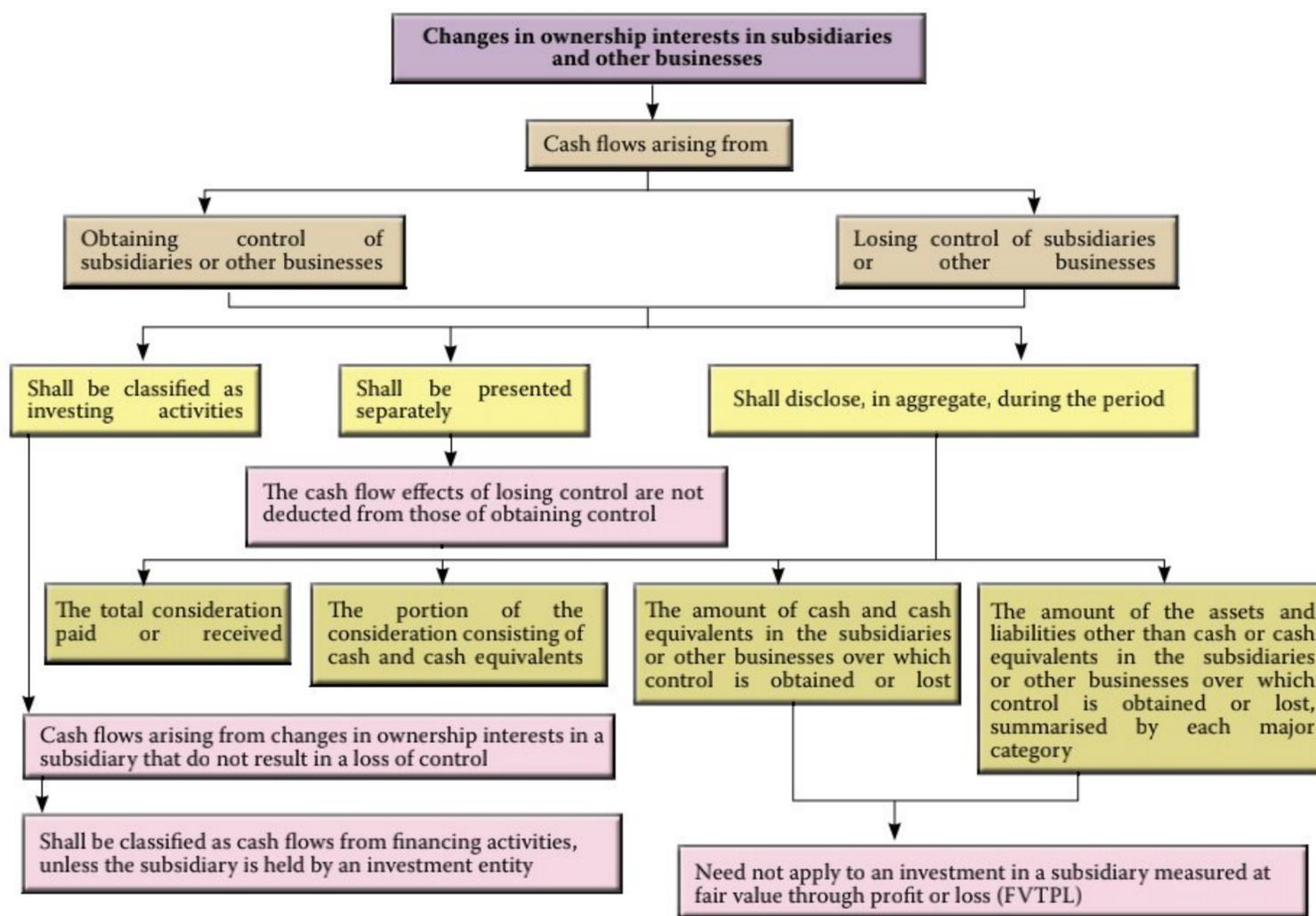
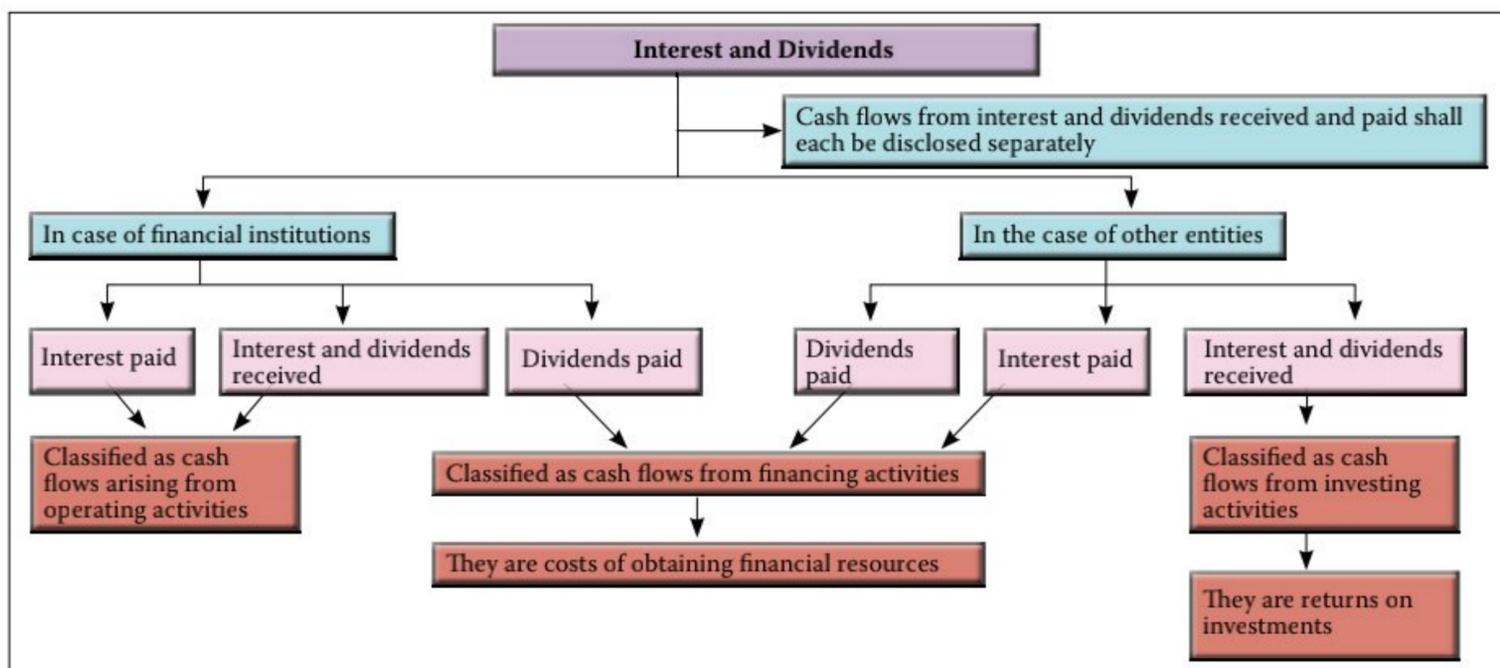
**Important Points**

1.	Unrealised gains and losses arising from changes in foreign currency exchange rates	are not cash flows.
2.	The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency	is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.



**Note:** When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

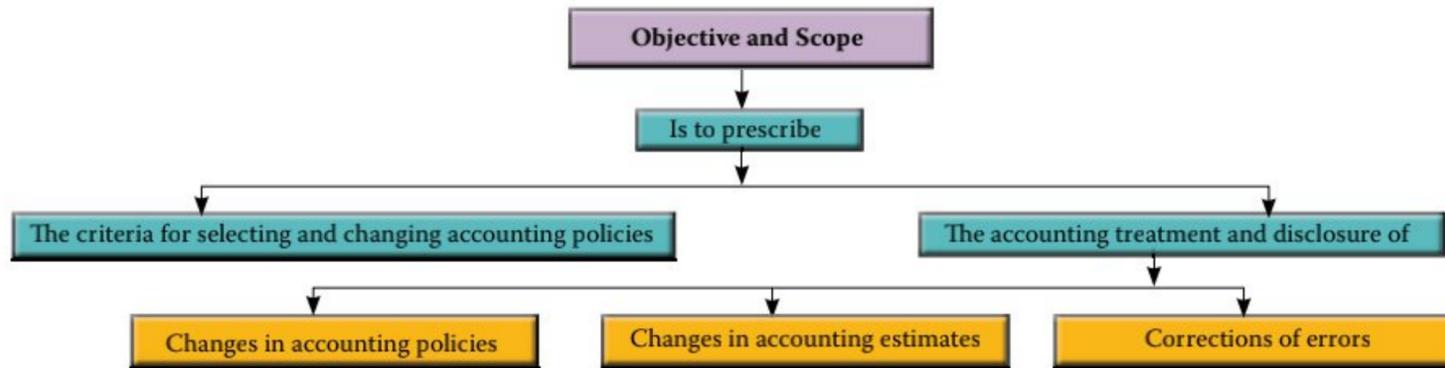
<b>Investments in subsidiaries, associates and joint ventures</b>	When accounted for by use of the equity or cost method	an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.
	When reporting its interest in an associate or a joint venture using the equity method	Includes in its statement of cash flows: <ul style="list-style-type: none"> <li>the cash flows in respect of its investments in the associate or joint venture, and</li> <li>distributions and other payments or receipts between it and the associate or joint venture.</li> </ul>



**Important points/disclosures**

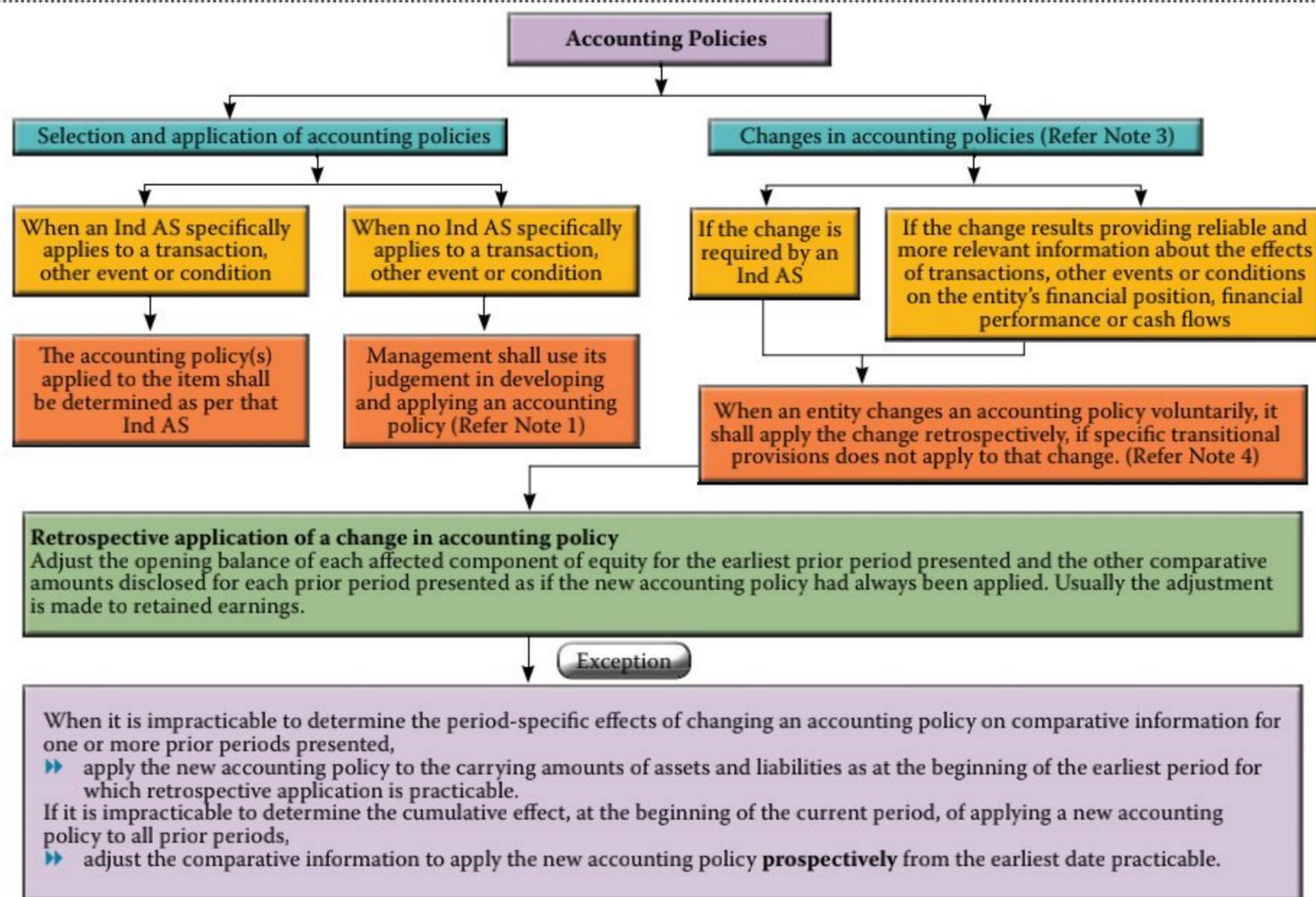
Investing and financing transactions that do not require the use of cash or cash equivalents	<ul style="list-style-type: none"> <li>▶▶ Shall be excluded from a statement of cash flows</li> <li>▶▶ Disclosed elsewhere in the financial statements</li> </ul>
Components of cash and cash equivalents	<ul style="list-style-type: none"> <li>▶▶ Disclose the components of cash and cash equivalents</li> <li>▶▶ Shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet</li> <li>▶▶ Disclose the policy which entity adopts in determining the composition of cash and cash equivalents.</li> </ul>
Other Disclosures	<p>Disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held and are not available for use by the group</p> <p><i>Note: The requirements shall be equally applicable to the entities in case of separate financial statements also.</i></p>

**INDIAN ACCOUNTING STANDARD (IND AS) 8: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS**



**Important Definitions**

1.	<b>Accounting policies</b>	Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements
2.	<b>A change in accounting estimate</b>	<ul style="list-style-type: none"> <li>▶▶ It is an <b>adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset.</b></li> <li>▶▶ Change in accounting estimates result from new information or new developments.</li> <li>▶▶ It is <b>not corrections of errors.</b></li> <li>▶▶ Effect of such a change is given <b>prospectively.</b></li> </ul>
3.	<b>Prior period errors</b>	<ul style="list-style-type: none"> <li>▶▶ They are omissions from, and misstatements in, the entity's financial statements <b>for one or more prior periods arising from a failure to use, or misuse of, reliable information</b></li> <li>▶▶ Such errors include the effects of                             <ul style="list-style-type: none"> <li><input type="checkbox"/> mathematical mistakes,</li> <li><input type="checkbox"/> mistakes in applying accounting policies,</li> <li><input type="checkbox"/> oversights or misinterpretations of facts, and</li> <li><input type="checkbox"/> fraud.</li> </ul> </li> </ul>
4.	<b>Retrospective application</b>	It is applying a new accounting policy to transactions, other events and conditions <b>as if that policy had always been applied unless it is impracticable to do so.</b>
5.	<b>Retrospective restatement</b>	It is correcting the recognition, measurement and disclosure of amounts of elements of financial statements <b>as if a prior period error had never occurred.</b>



**Notes:**

1. For judgement, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices,
2. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.
3. The following are **not changes in accounting policies**:
  - (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
  - (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.
4. Early application of an Ind AS is not a voluntary change in accounting policy.

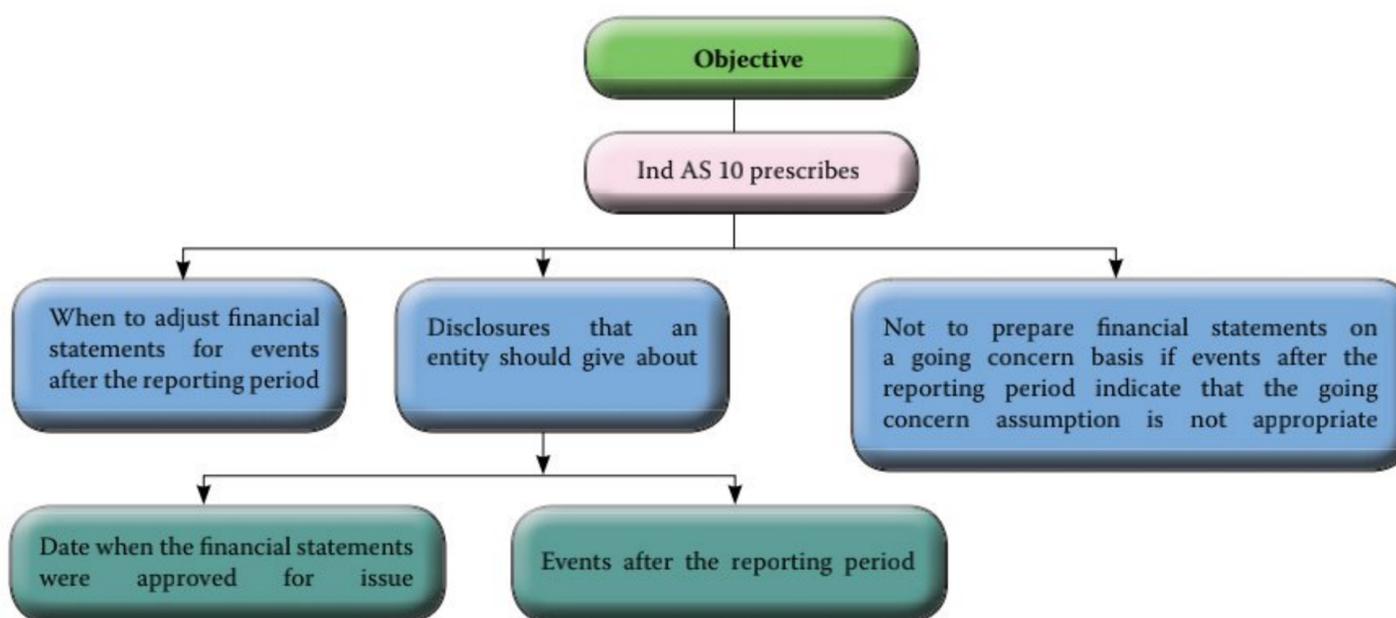
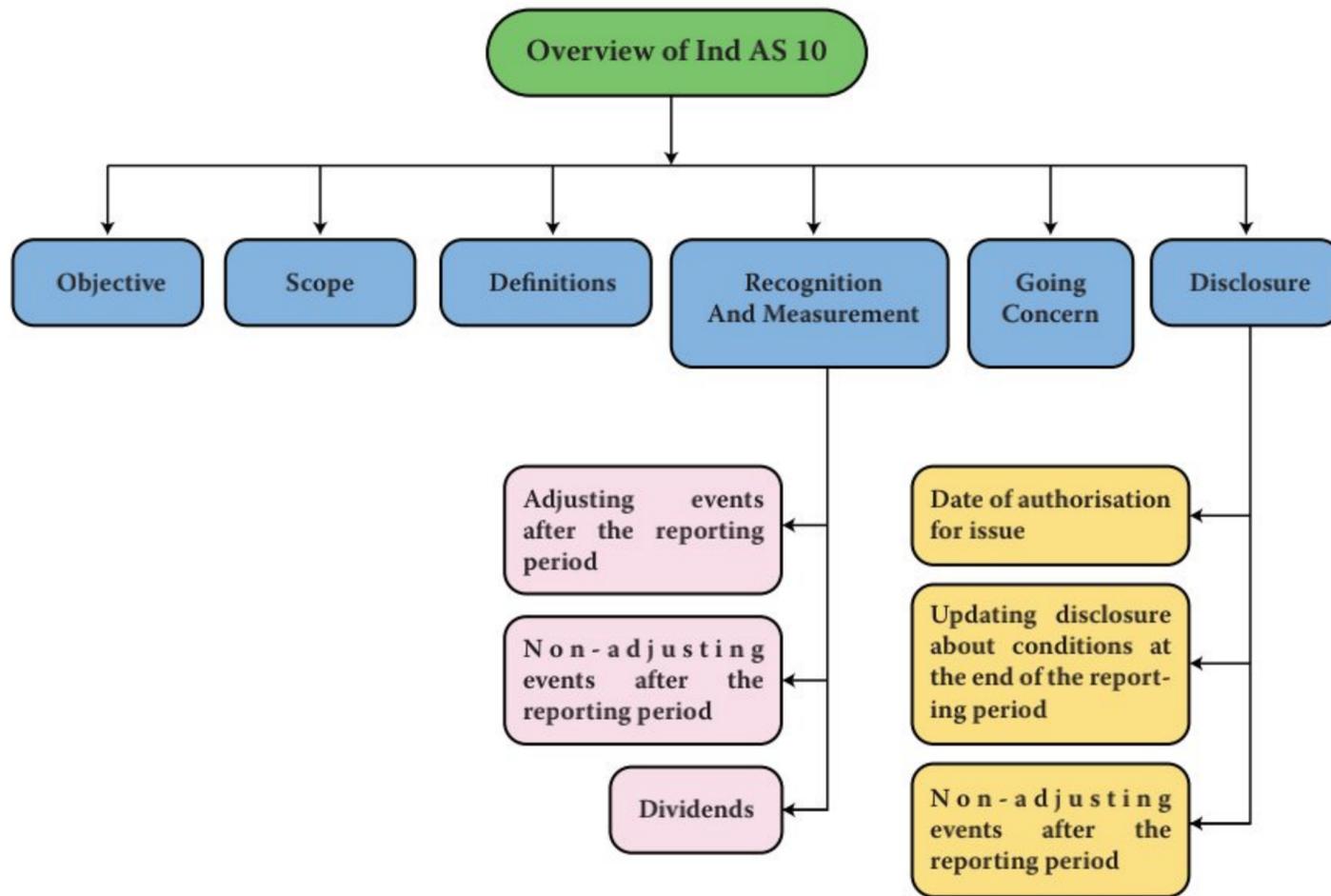
**Changes in Accounting Estimates**

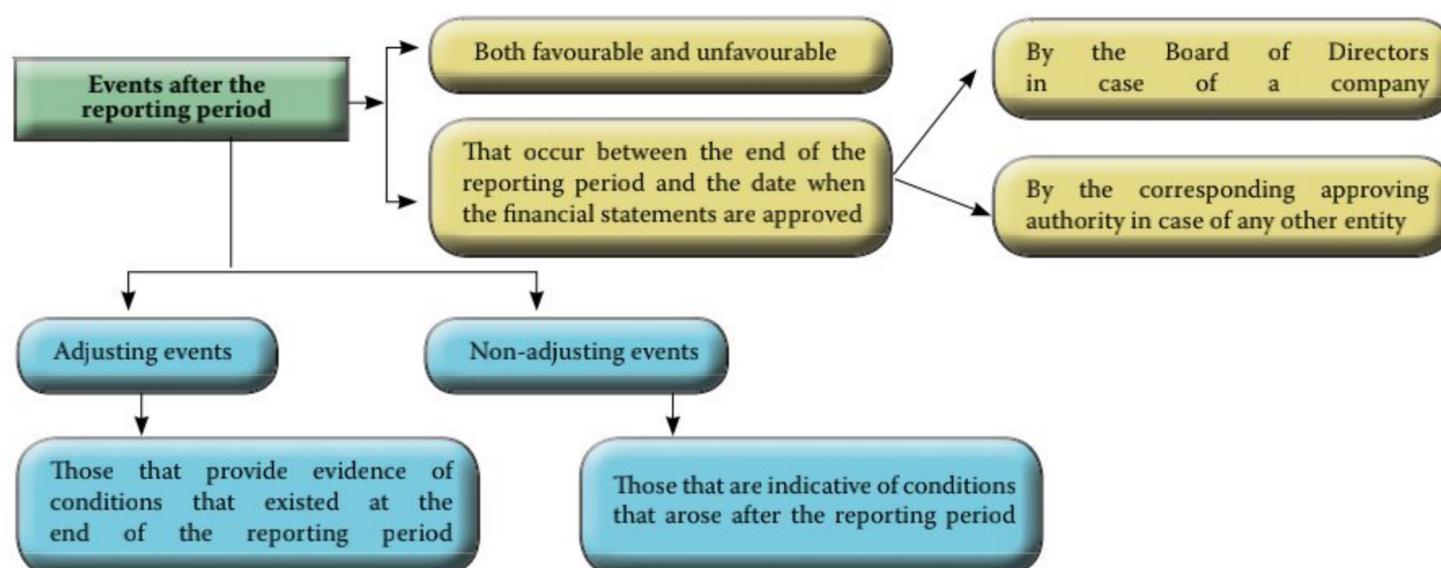
<b>Reasons for revision in accounting estimates</b>	<ol style="list-style-type: none"> <li>1. When a change occur in the circumstances on which the estimate was based</li> <li>2. When a change is as a result of new information or more experience.</li> </ol>
<b>Nature of change in accounting estimates</b>	<ul style="list-style-type: none"> <li>▶▶ A change in accounting estimates neither relates to prior periods nor is a correction of an error.</li> <li>▶▶ When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.</li> </ul>
<b>Treatment of a change in accounting estimates</b>	<ul style="list-style-type: none"> <li>▶▶ The effect of change in an accounting estimate, shall be recognised <b>prospectively</b> by including it in profit or loss in:           <ul style="list-style-type: none"> <li><input type="checkbox"/> the period of the change, if the change affects that period only; or</li> <li><input type="checkbox"/> the period of the change and future periods, if the change affects both.</li> </ul> </li> <li>▶▶ To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.</li> </ul>

**Errors**

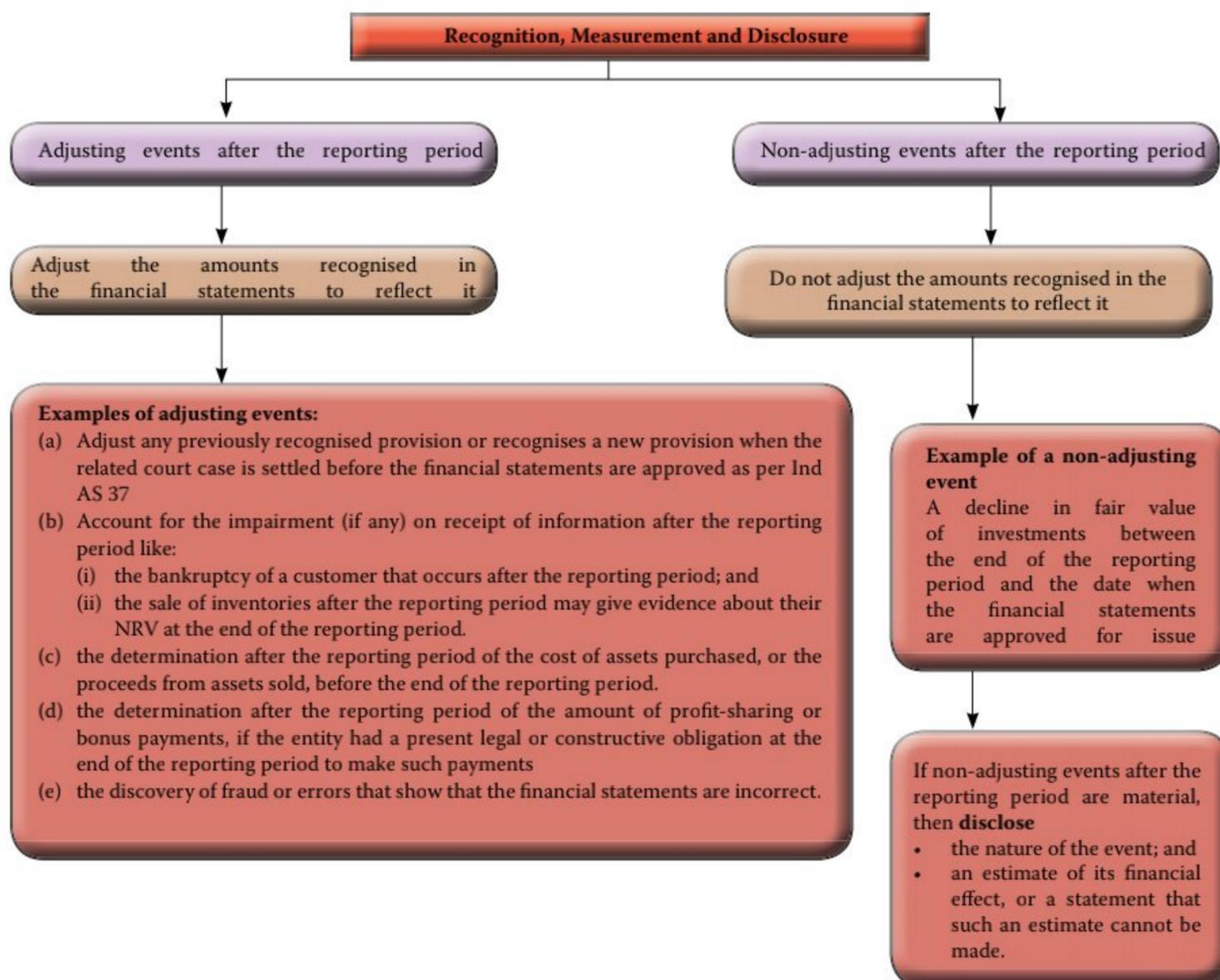
<b>Stage of occurrence of errors</b>	Errors can arise in respect of the <b>recognition, measurement, presentation or disclosure of elements of financial statements.</b>
<b>Effects of errors</b>	Financial statements <b>will not be considered as complied with Ind ASs</b> if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
<b>Nature of correction of errors</b>	Corrections of errors are distinguished from changes in accounting estimates.
<b>Accounting treatment for correction of such errors</b>	<ul style="list-style-type: none"> <li>▶▶ Prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period</li> <li>▶▶ An entity shall correct material prior period errors <b>retrospectively</b> in the first set of financial statements approved for issue after their discovery by:           <ul style="list-style-type: none"> <li><input type="checkbox"/> restating the comparative amounts for the prior period(s) presented in which the error occurred; or</li> <li><input type="checkbox"/> if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.</li> </ul> </li> </ul> <p>The correction of a prior period error is <b>excluded</b> from profit or loss for the period in which the error is discovered.</p> <p><b>Exception</b> When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity restates the comparative information <b>prospectively from the earliest date practicable.</b></p>

INDIAN ACCOUNTING STANDARD (IND AS) 10: EVENTS AFTER THE REPORTING PERIOD



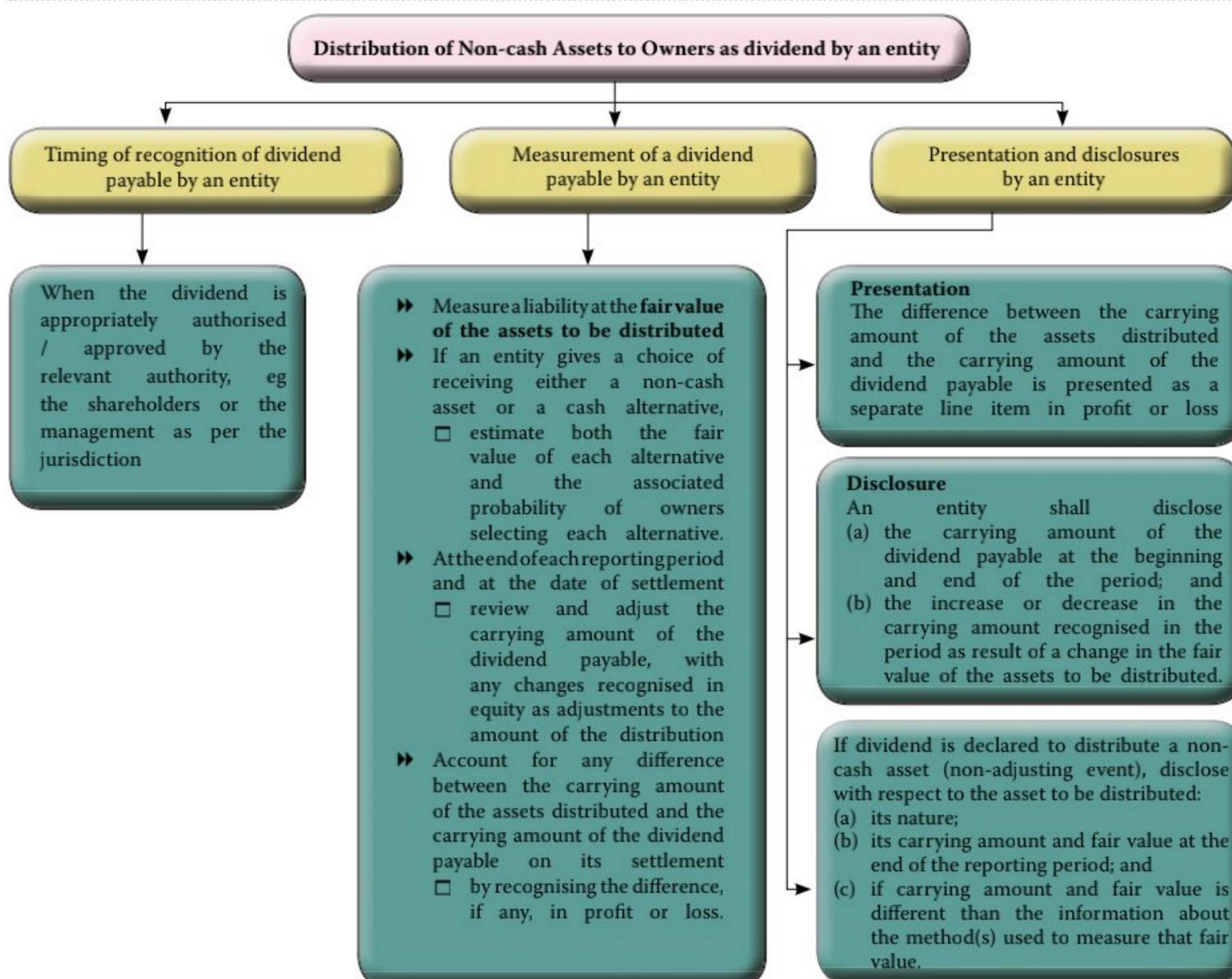


**Carve Out:** Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue, to not demand payment as a consequence of the breach, shall be considered as an adjusting event.

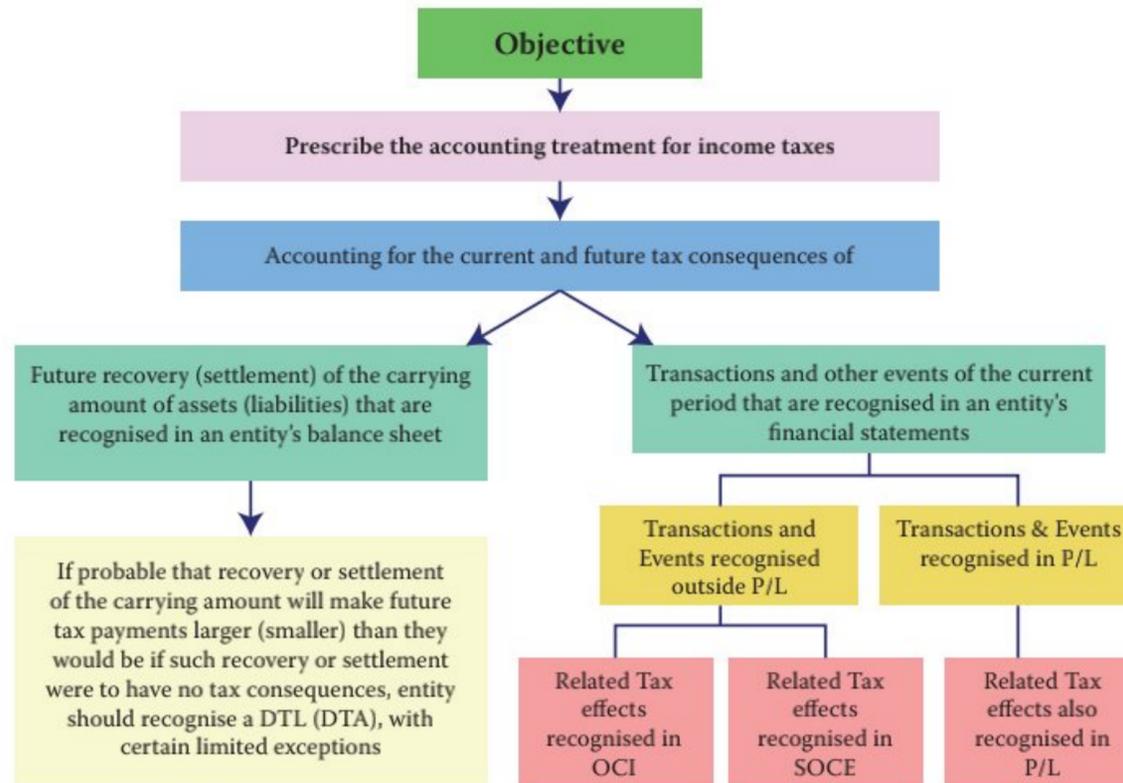


Important points to remember

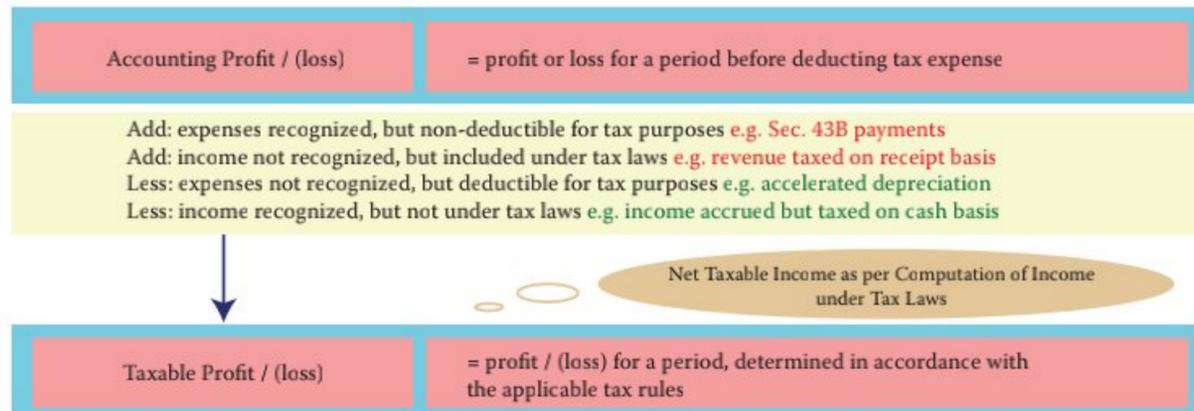
S. No.	Item	Timing	Treatment	Reason
1	Dividends	Declared after the reporting period but before approval of financial statements	<ul style="list-style-type: none"> <li>Do not recognise it as a liability at the end of the reporting period.</li> <li>Disclosed in the notes</li> </ul>	No obligation exists at that time
2.	Going concern	If management determines after the reporting period either that it intends to liquidate the entity or to cease trading	<ul style="list-style-type: none"> <li>Do not prepare the financial statements on a going concern basis; or</li> <li>Make necessary disclosure of not following going concern basis or events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern</li> </ul>	The deterioration in operating results and financial position after the reporting period may be so pervasive that it may require a fundamental change in the basis of accounting
3.	Date of approval of financial statements for issue	Approved after the reporting period	Disclose the date when the financial statements were approved for issue <b>and</b> who gave that approval	Important for users to know when the financial statements were approved for issue because the financial statements do not reflect events after this date
4.	Updating disclosure about conditions at the end of the reporting period	Received information after the reporting period	Update disclosures that relate to new information / conditions	When the information does not affect the amounts that it recognises in its financial statements, disclosures are required



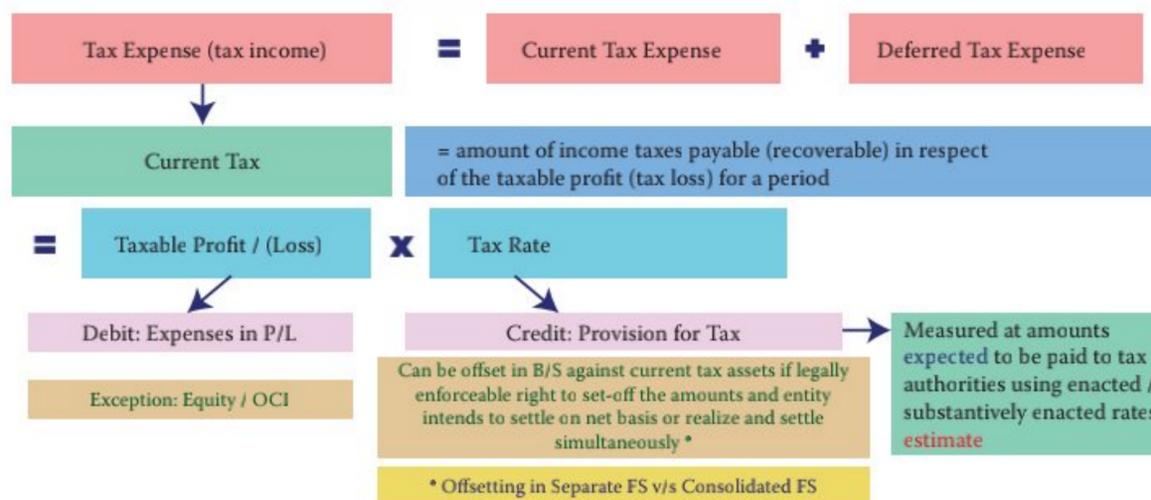
### INDIAN ACCOUNTING STANDARD (IND AS) 12: INCOME TAXES



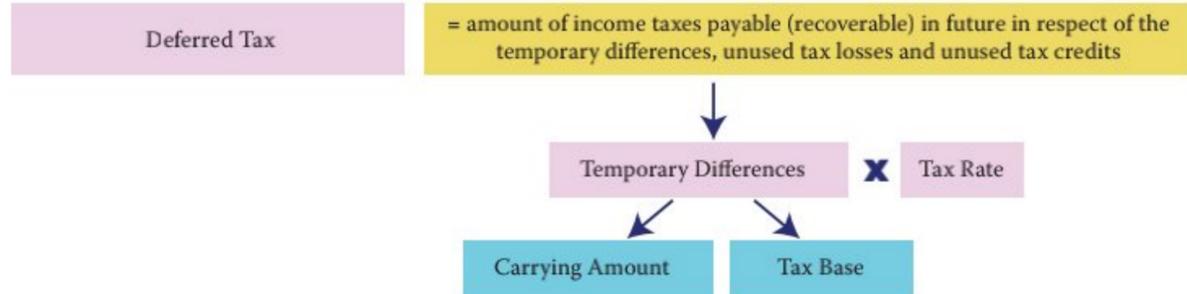
#### Definitions (Para 5)



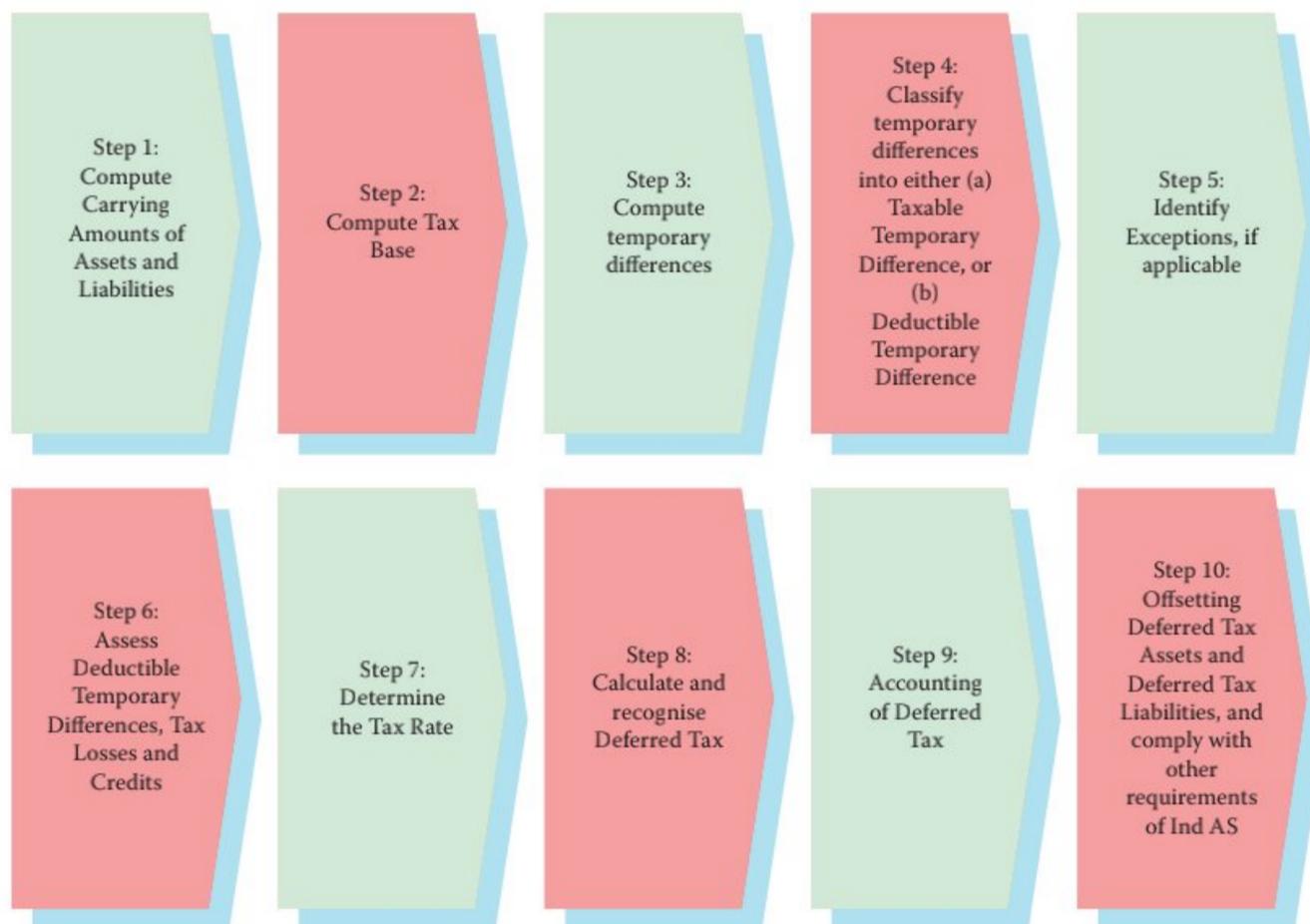
#### Definitions (Para 5)



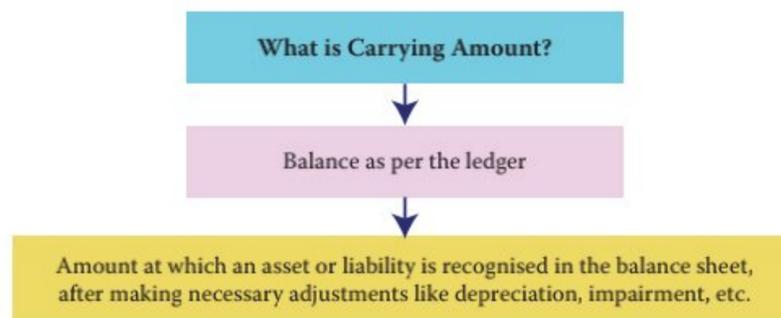
**Definitions (Para 5)**

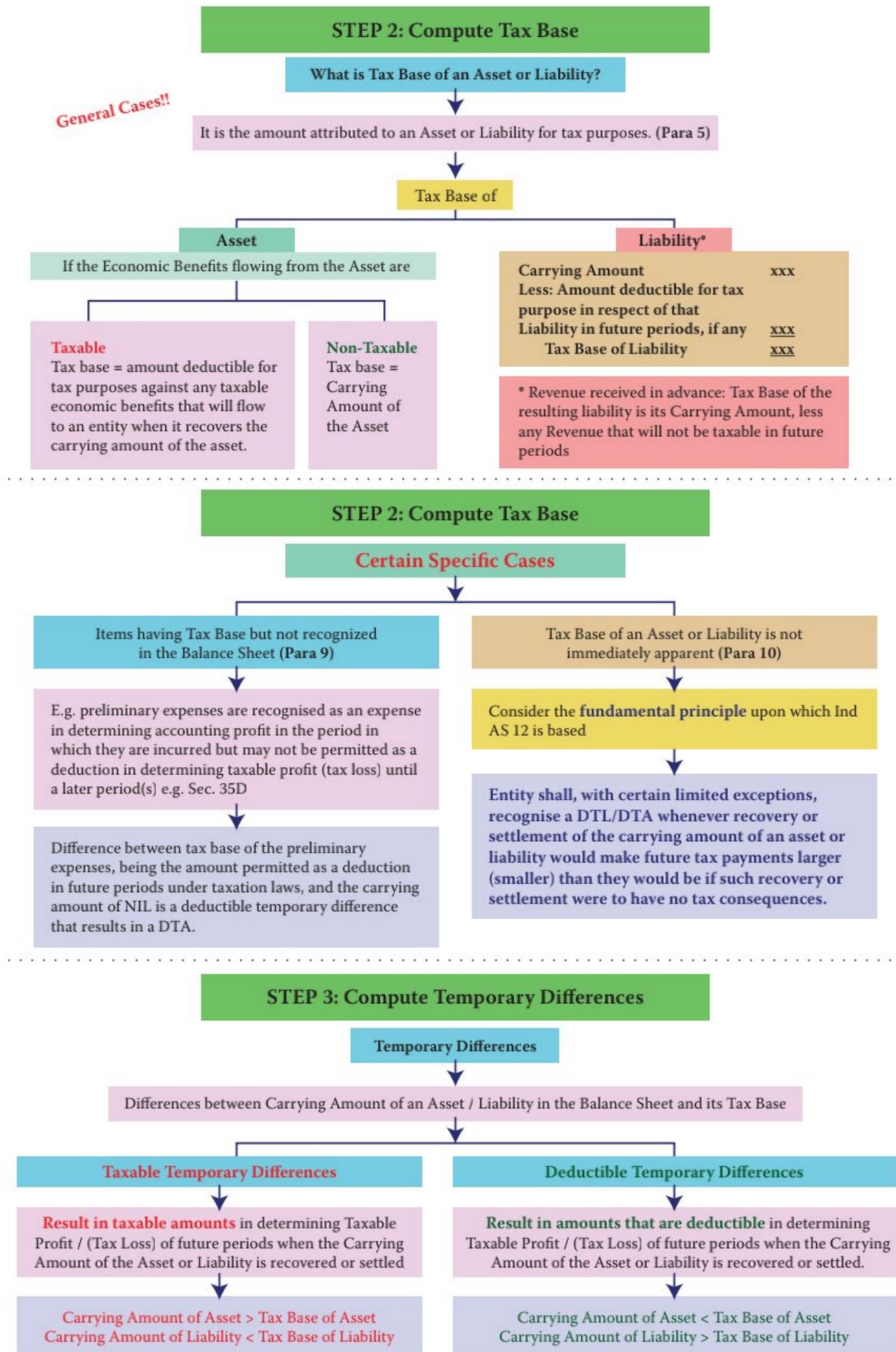


**Deferred Tax: Recognition, Measurement and Presentation**



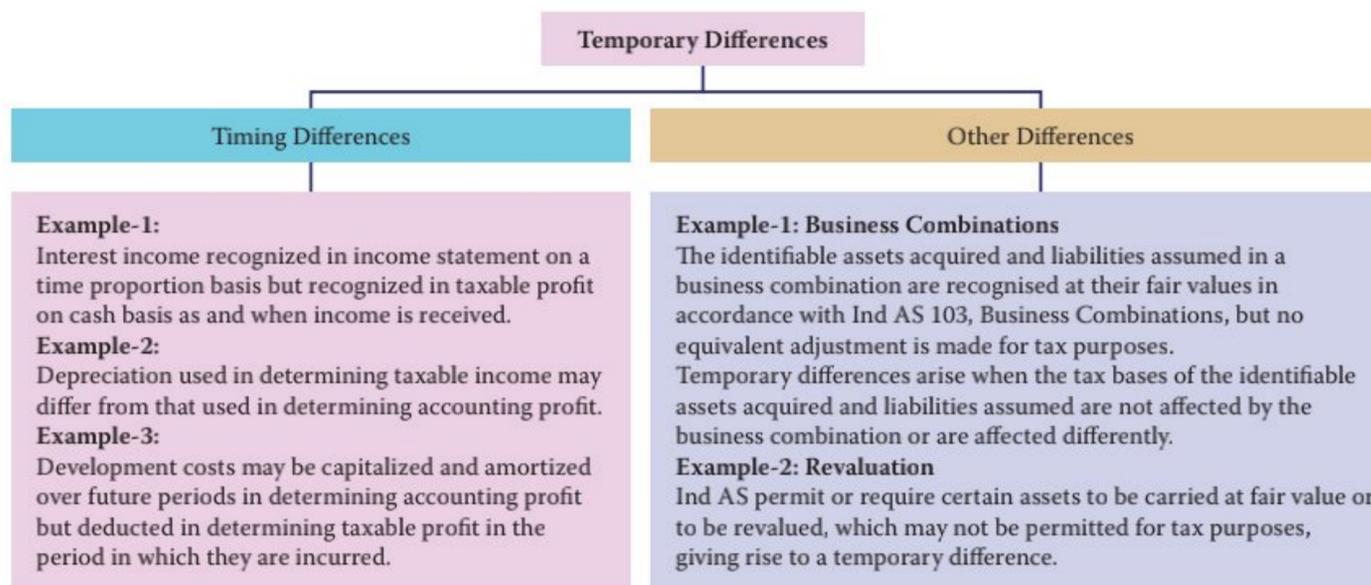
**STEP 1: Compute Carrying Amount**





**STEP 3: Compute Temporary Differences**

Temporary Differences (Ind AS 12) v/s Timing Differences (AS 22) – a wordplay



**STEP 4: Classify Temporary Differences**

What is a DTA/DTL

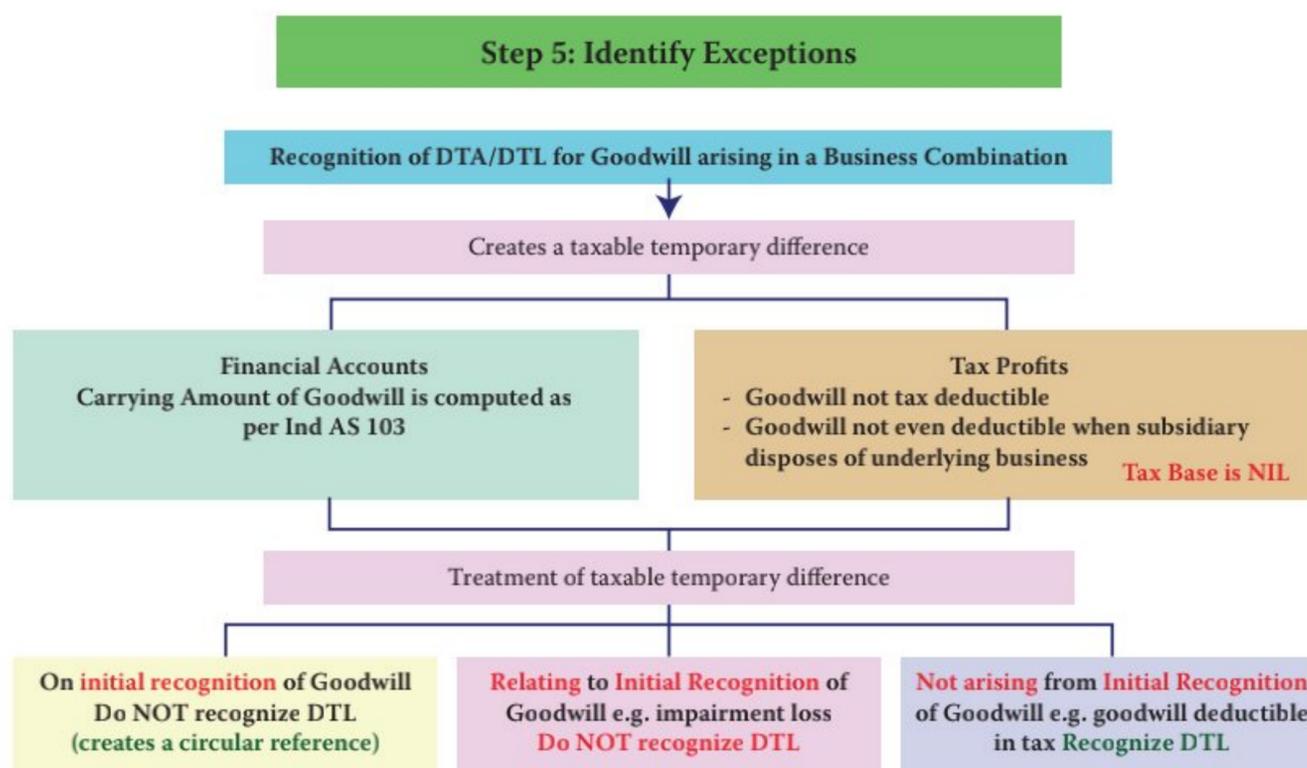


**STEP 4: Classify Temporary Differences**

*General Rule!!*

Identification of DTA/DTL

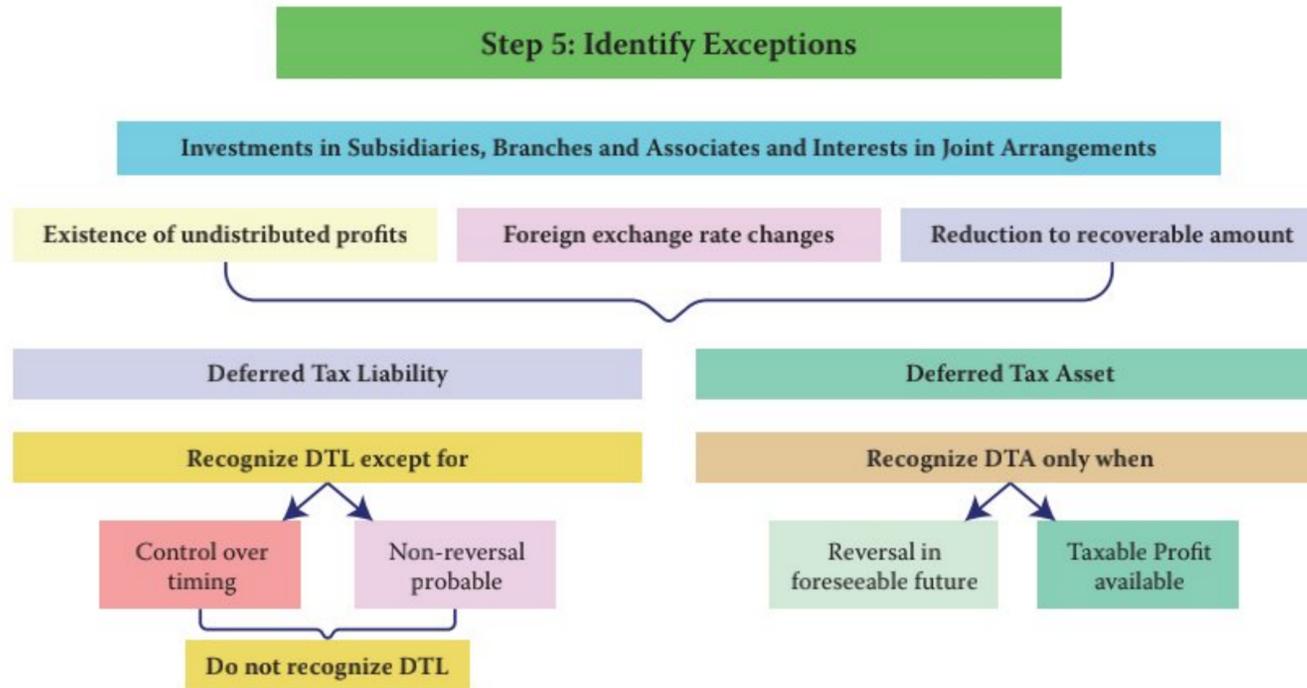
PARTICULARS	UNDERLYING ASSET (e.g. PPE)	UNDERLYING LIABILITY (e.g. Accrued Expenses)
Carrying Value > Tax Base (Inverse)	Taxable Temporary Difference  Deferred Tax Liability (e.g. PPE)	Deductible Temporary Difference  ↓ Deferred Tax Asset (e.g. Sec. 43B Items)
Carrying Value < Tax Base (Direct)	Deductible Temporary Difference  ↓ Deferred Tax Asset (e.g. Preliminary Expenses)	Taxable Temporary Difference  ↓ Deferred Tax Liability (e.g. Loan with Processing Fee)
Carrying Value = Tax Base	No Deferred Tax	No Deferred Tax



**Step 5: Identify Exceptions**

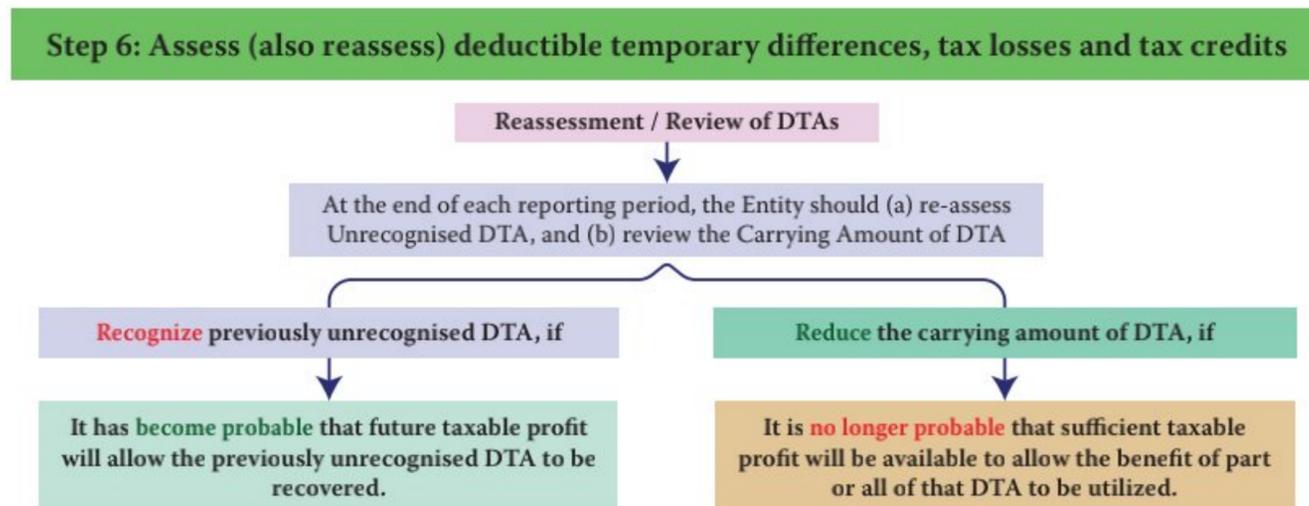
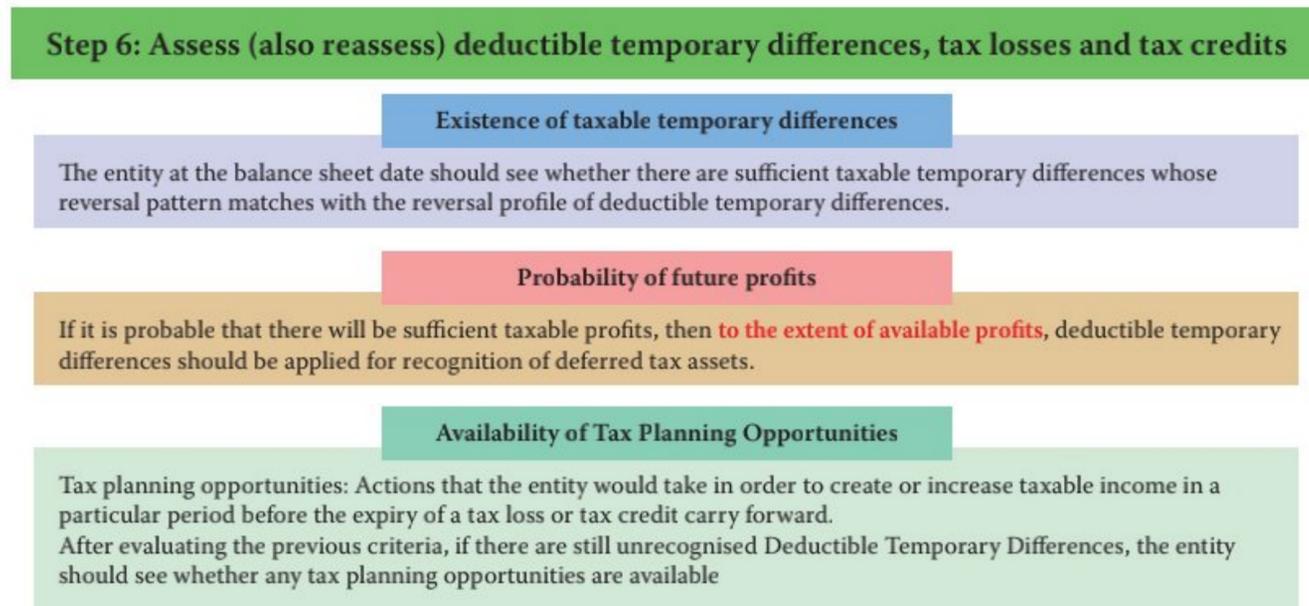
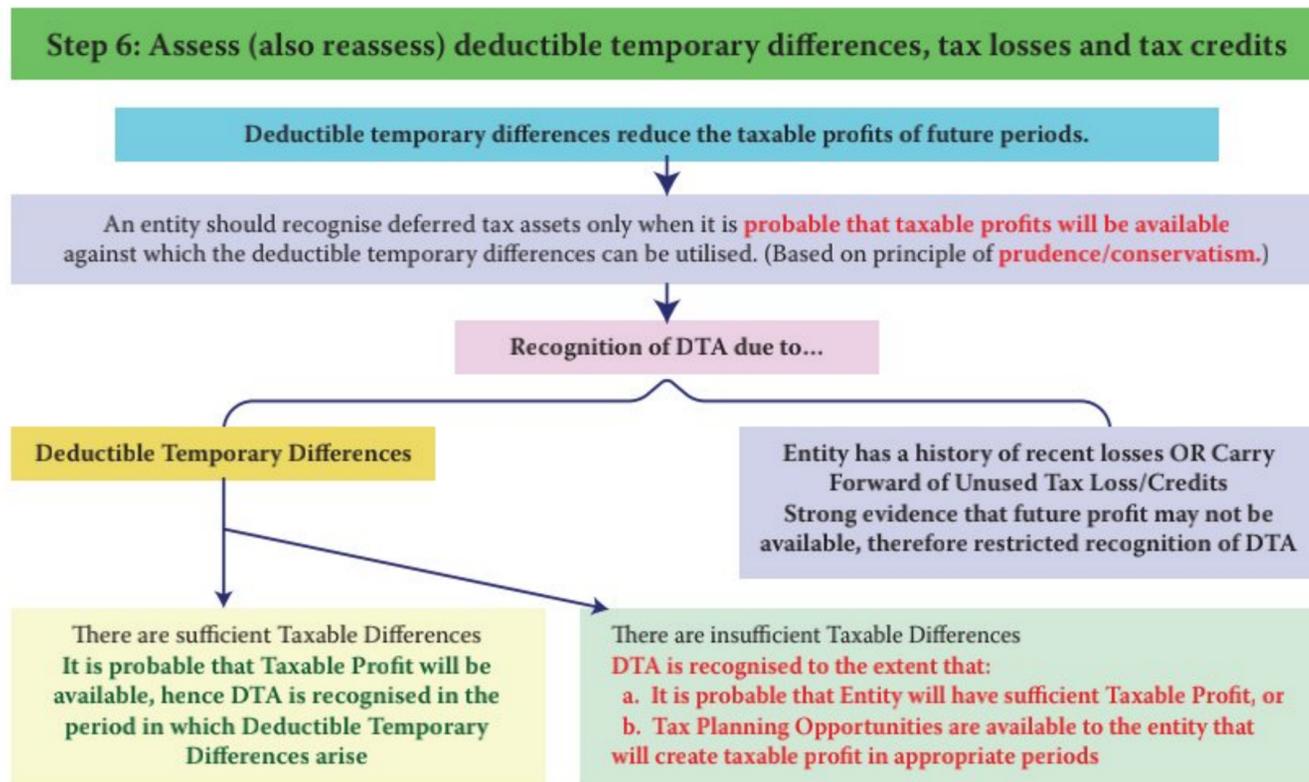
Temporary Differences on initial recognition of an Asset or Liability

Case	Treatment
A temporary difference may arise on initial recognition of an asset or liability, e.g. if part or all of the cost of an asset will not be deductible for tax purposes.	Depends on the nature of the transaction that led to the initial recognition of the asset or liability
Nature of the above transaction: a) In a Business Combination (with limited exceptions, identifiable assets and liabilities acquired in a business combination are fair valued at the DOA, but the tax base of the identifiable assets and liabilities are not affected/affected differently)	(a) DTA/DTL is recognised (b) This affects Goodwill or Bargain Purchase Gain, recognised by the Entity
b) If the transactions affects either accounting profit/taxable profit	Recognise DTA / DTL and corresponding income / expense in the Profit or Loss
c) Transaction not falling in (a) or (b) above e.g. purchase of asset or receipt of government grants	DTL/DTA not recognised. Subsequent changes, as the asset is depreciated, is also not recognised.
In accordance with Ind AS 32, Financial Instruments: Presentation, the issuer of a compound financial instrument (for example, a convertible bond) classifies the instrument's liability component as a liability and the equity component as equity. In some jurisdictions, the tax base of the liability component on initial recognition is equal to the initial carrying amount of the sum of the liability and equity components. The resulting taxable temporary difference arises from the initial recognition of the equity component separately from the liability component.	The deferred tax is charged directly to the carrying amount of the equity component. In accordance with paragraph 58, subsequent changes in the deferred tax liability are recognised in profit or loss as deferred tax expense (income).



**Step 5: Identify Exceptions**

Items / Situation	Treatment
As a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when the temporary difference reverses.	When the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a DTL. The same considerations apply to investments in branches.
Non-monetary assets and liabilities of an entity (subsidiary / branch) are measured in its functional currency under Ind AS 21. If the entity's taxable profit (loss) (and, hence, its tax base) is determined in a different currency, changes in the exchange rate give rise to temporary differences that result in a recognised DTL/DTA.	The resulting deferred tax is charged or credited to profit or loss.
An investor in an associate does not control that entity and is usually not in a position to determine its dividend policy. There is an agreement which requires that the profits of the associate will not be distributed in the foreseeable future.	Investor recognizes DTL arising from Taxable Temporary Difference associated with such Investments.
Investor in an associate may not be able to determine the amount of tax that would be payable if it recovers the cost of its investment in an associate, but can determine that it will equal or exceed a minimum amount.	DTL is measured at this amount.
Joint venturer or joint operator can control the timing of the distribution of its share of the profits of the joint arrangement and it is probable that its share of the profits will not be distributed in the foreseeable future	DTL is not recognized.



**Step 7: Determine the tax rate (law)**

DTA / DTL 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.

The measurement of DTA/DTL shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

In some jurisdictions, the manner in which an entity recovers (settles) the carrying amount of an asset (liability) may affect either or both of

- a. the tax rate applicable when the entity recovers (settles) the carrying amount of the asset (liability); and
- b. the tax base of the asset (liability).

In such cases, an entity measures DTL/DTA using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement.

**Step 7: Determine the tax rate (law)**

Distribution of Dividends

In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity.

In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity.

In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

**Step 8: Calculate and recognize Deferred Tax**

DTA / DTL shall be measured

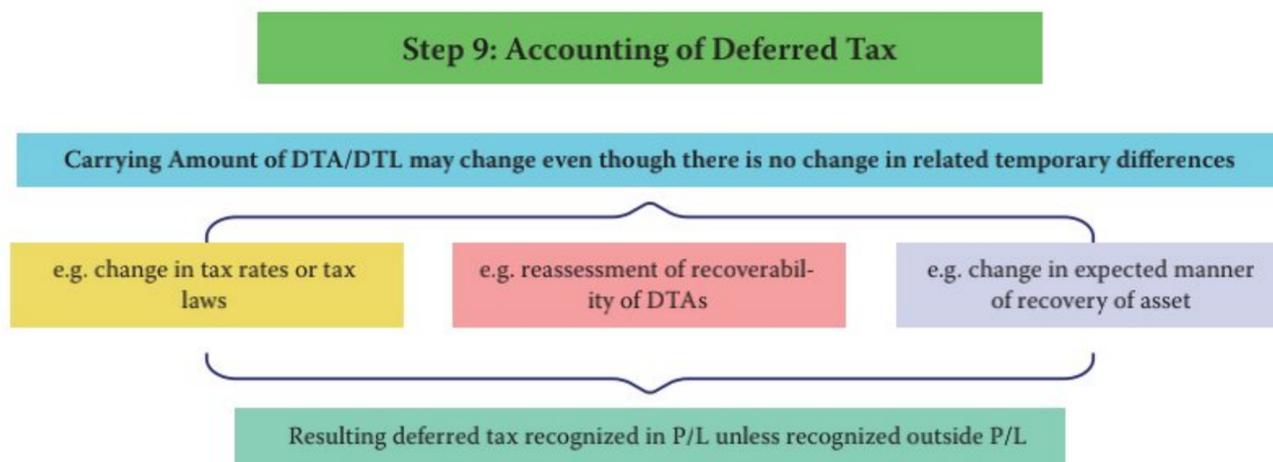
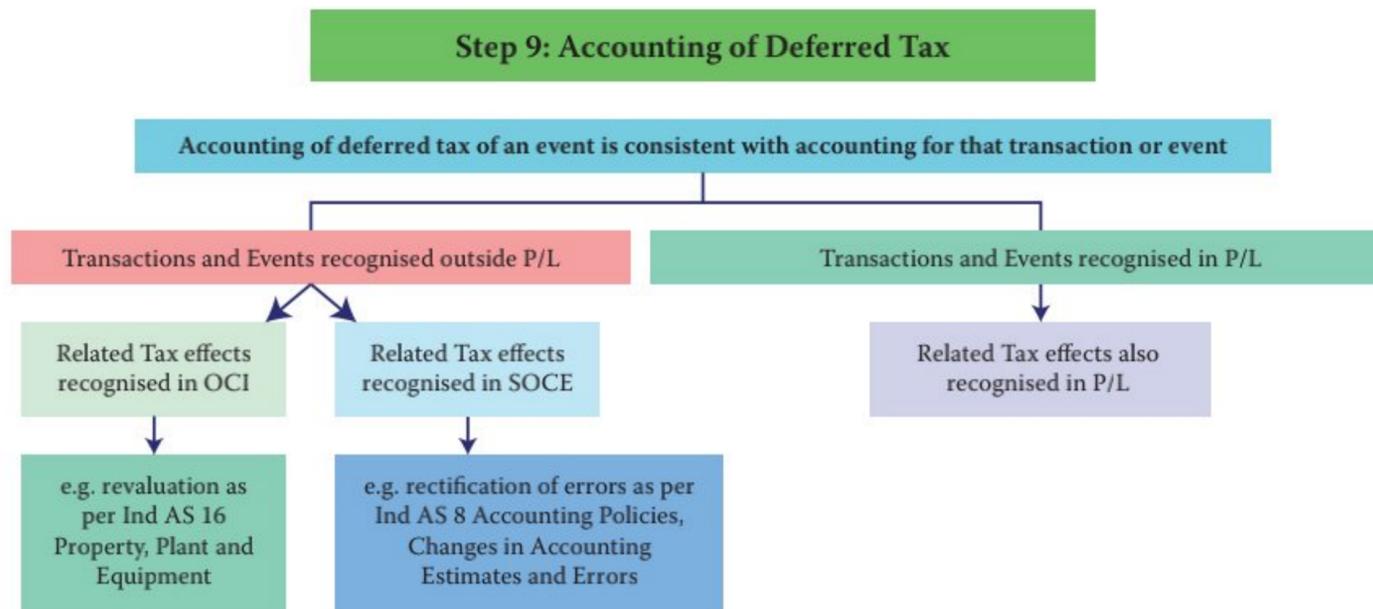
$$\text{Taxable Temporary Differences} \times \text{Tax Rate} = \text{Deferred Tax Liability}$$

$$\text{Deductible Temporary Differences} \times \text{Tax Rate} = \text{Deferred Tax Asset}$$

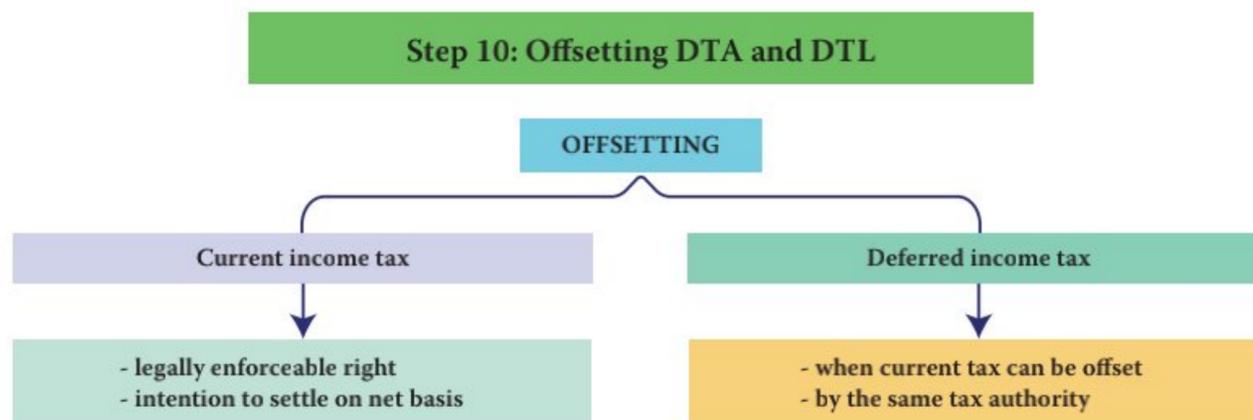
No discounting of Deferred Tax Assets / Liabilities

Tax Rate as applicable in period and expected manner of recovery / settlement based on laws enacted / substantively enacted

Carrying amount of DTA shall be reviewed at the end of each reporting period



When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders (withholding tax). Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.



### Deferred Tax arising from a Business Combination

#### Temporary differences arise in a business combination

Identifiable Assets and Liabilities acquired in Business Combination are recognized at their Fair Values at the Acquisition date other than exceptions permitted by Ind AS

Tax bases of such identifiable assets and liabilities are not affected on Business Combination or are affected differently

#### Examples:

Situation	Result
Carrying Amount is increased to Fair Value, but Tax Base remains at Cost to the Previous Owner (i.e. target) [Para 19]	Taxable Temporary Difference resulting in DTL
Liability assumed is recognized at the acquisition date but related costs are not deducted in determining taxable profits until a later period [Para 26(c)]	Deductible Temporary Difference arises which results in DTA
Fair Value of identifiable asset acquired is less than its tax base [Para 26(c)]	

Resulting DTL/DTA affects Goodwill or Bargain Purchase Gain recognized

### Deferred Tax arising from a Business Combination

#### Recognition Principles for Deferred Tax arising from a Business Combination

Situation	Result
Temporary differences arising in a business combination under Para 19 & 26(c)	<ol style="list-style-type: none"> <li>DTA/DTL is recognized at the acquisition date. It affects amount of goodwill / bargain purchase gain</li> <li>DTA shall be recognized to the extent that they meet the recognition criteria in paragraph 24</li> <li>Entity does not recognise DTL arising from the initial recognition of goodwill</li> </ol>
Carrying amount of goodwill arising in a business combination is less than its tax base	<ol style="list-style-type: none"> <li>The difference gives rise to a DTA.</li> <li>The DTA arising from the initial recognition of goodwill shall be recognised as part of the accounting for a business combination to the extent that it is probable that taxable profit will be available against which the deductible temporary difference could be utilised.</li> </ol>
Change in probability of realising a pre-acquisition DTA of the acquirer, as a result of Business Combination - <ol style="list-style-type: none"> <li>An acquirer may consider it probable that it will recover its own DTA not recognised before the business combination e.g., the acquirer may be able to utilise the benefit of its unused tax losses against the future taxable profit of the acquiree, or</li> <li>It is no longer probable that future taxable profit will allow the DTA to be recovered</li> </ol>	<ol style="list-style-type: none"> <li>Acquirer recognises a change in the DTA in the period of the business combination, but should not include it as part of the accounting for the business combination</li> <li>Hence, acquirer should not take it into account in measuring the goodwill or bargain purchase gain it recognises in the business combination</li> </ol>

### Deferred Tax arising from a Business Combination

#### Recognition Principles for Deferred Tax arising from a Business Combination

Situation	Result
Potential benefit of the acquiree's Income Tax Loss Carry Forwards or other DTA does not satisfy the criteria for separate recognition when a business combination is initially accounted for but might be realised subsequently	<ol style="list-style-type: none"> <li>Acquired deferred tax benefits recognised within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be applied to reduce the carrying amount of any goodwill related to that acquisition.</li> <li>All other acquired deferred tax benefits realised shall be recognised in profit or loss (or, if this Standard so requires, outside profit or loss).</li> </ol>

### Deferred Tax arising from Share-based Payment Transactions

#### Recognition Principles for Deferred Tax arising from a SBPT

Situation	Result
Tax deduction (i.e., an amount that is deductible in determining taxable profit) is available in respect of remuneration paid in shares, share options or other equity instruments of the entity. The amount of tax deduction may differ from related cumulative remuneration expense, and may arise in a later accounting period.	<p>Difference between the following is a Deductible Temporary Difference resulting in DTA</p> <ol style="list-style-type: none"> <li>Tax Base of Employee Services received to date (being amount permitted as a deduction in future periods under Tax Laws).</li> <li>Carrying Amount of NIL (since it is technically not an 'obligation', as equity is given).</li> </ol>

E.g.: an entity may **recognise an expense** for the consumption of employee services received as consideration for share options granted, **in accordance with Ind AS 102, Share-based Payment**, and **not receive a tax deduction until the share options are exercised**, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

### Deferred Tax arising from Share-based Payment Transactions

If the **amount permitted as a deduction** in future periods **under taxation laws is not known at the reporting date**, it shall be **estimated**, based on information available at the end of the period. e.g. tax deduction is based on share price on date of exercising of options, then measurement of deductible temporary difference would be based on entity's share price at the balance sheet date.

Situation	Result
Due to above, the amount of the tax deduction or estimated future tax deduction, measured above may differ from related cumulative remuneration expense	If the <b>amount of the tax deduction</b> (or estimated future tax deduction) <b>exceeds the amount of the related cumulative remuneration expense</b> , this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, <b>the excess of the associated current or deferred tax should be recognised directly in equity</b> .

### Change in Tax Status of Entity or its Shareholders

A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets e.g.

- a. public listing of an entity's equity instruments
- b. restructuring of an entity's equity
- c. controlling shareholder's move to a foreign country

**Principle: Account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves.**

Items	Treatment
Current and deferred tax consequences except items below	Recognised in Profit or Loss
Tax consequences that relate to changes in the recognised amount of equity, in the same or a different period	Charged or credited directly to equity
Tax consequences relating to amounts recognised in OCI	Recognised in OCI

### Disclosures

#### Disclosure 1: Disclose components of tax expenses (income)

Components of tax expense (income) include

- current tax expense (income);
- any adjustments recognised in the period for current tax of prior periods;
- the amount of deferred tax expense (income) relating to the origination and reversal of temporary differences;
- the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;
- 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;
- 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;
- deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset; and
- 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.

#### Disclosure 2: Tax related to items charged directly to equity

- Indian Accounting Standards require or permit particular items to be credited or charged directly to equity.
- Examples of items charged directly to equity:
  - a. adjustment to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of an error
  - b. amounts arising on initial recognition of the equity component of a compound financial instrument
- The current and deferred tax relating to these items have to be recognised and accounted for directly in equity.
- Disclose the aggregate current and deferred tax relating to items that are charged or credited directly to equity.

#### Disclosure 3: Tax related to items recognised in statement of other comprehensive income

- Indian Accounting Standards require or permit particular items to be recognised in other comprehensive income.
- Examples of items recognised in statement of other comprehensive income:
  - a. a change in carrying amount arising from the revaluation of property, plant and equipment (see Ind AS 16);
  - b. exchange differences arising on the translation of the financial statements of a foreign operation
- Disclose the amount of income tax relating to each component of other comprehensive income.

**Disclosure 4: Explanation of relationship between tax expense (income) and accounting profit**

- a. In ideal situation, if accounting profit is say ₹ 100 and tax rate is 30%, the tax expense should be ₹ 30. But this is seldom the case due to differences in accounting principles and standards vis-a-vis tax laws.
- b. Therefore, Ind AS 12 requires an explanation to be disclosed of the 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), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
  - a numerical reconciliation between the average effective tax rate (tax expense divided by the accounting profit) and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.

**Disclosure 5: Change in tax rates**

An explanation of changes in the applicable tax rate(s) compared to the previous accounting period

**Disclosure 6: Unrecognised deductible temporary differences, unused tax losses and unused tax credits**

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;

**Disclosure 7: Temporary differences associated with investments in subsidiaries etc.**

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

**Disclosure 8: Amount of deferred tax liabilities (assets) or income (expenses)**

In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits:

- a. the amount of the deferred tax assets and liabilities recognised in the balance sheet for each period presented;
- b. 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;

**Disclosure 9: Discontinued Operations**

In respect of discontinued operations, the tax expense relating to:

- a. the gain or loss on discontinuance; and
- b. 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

**Disclosure 10: Dividend tax**

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

**Disclosure 11: Disclosures in case of business combination**

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.

**Disclosure 12: Deferred tax asset and evidence thereto where based on future taxable profits**

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.

**Disclosure 13: Tax consequences of distribution of dividends**

In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.

Para 52A: In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In some other jurisdictions, income taxes may be refundable or payable if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity. In these circumstances, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits.

**Disclosure 14: Tax related contingencies**

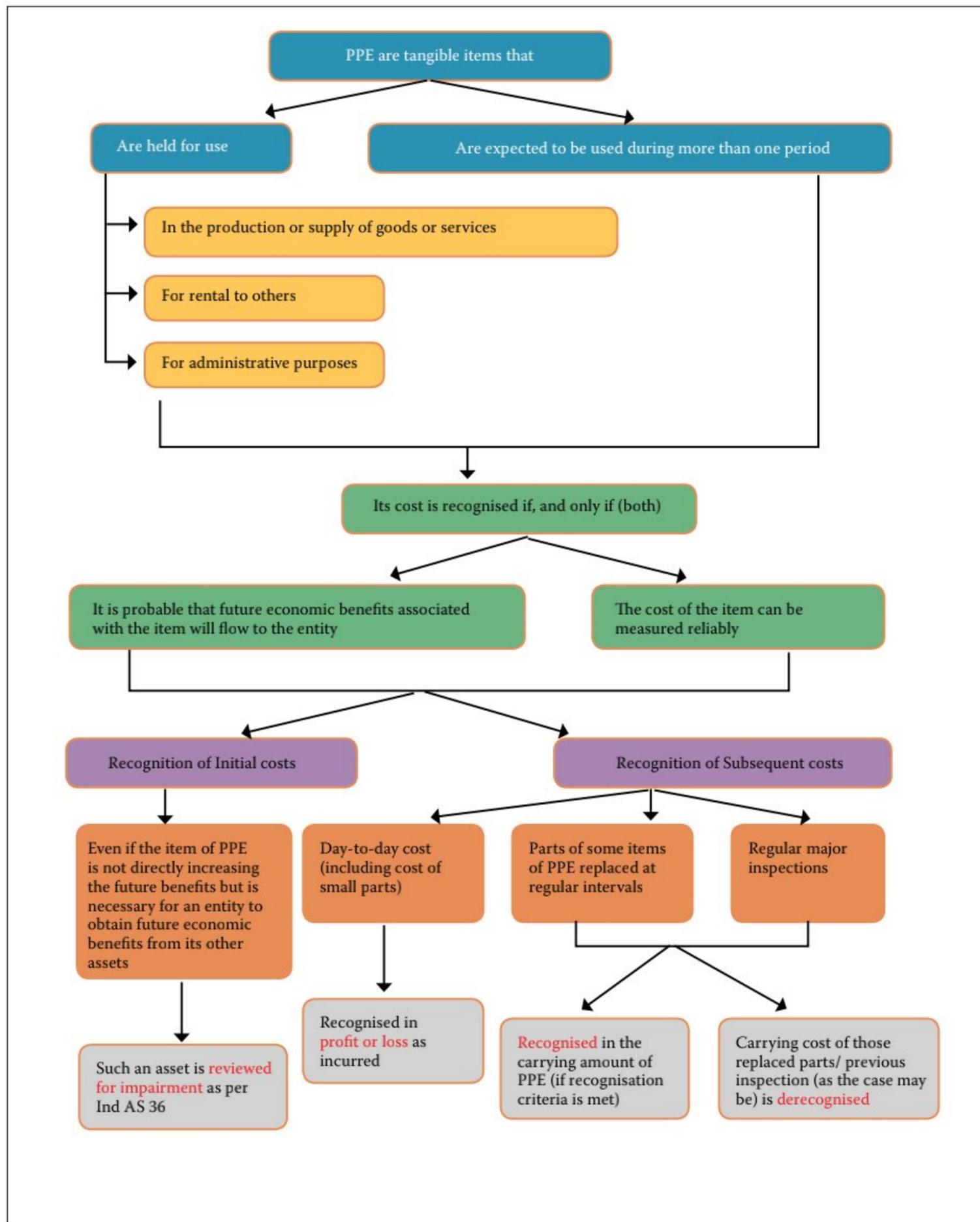
An entity discloses any tax-related contingent liabilities and contingent assets in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets. Contingent liabilities and contingent assets may arise, for example, from unresolved disputes with the taxation authorities

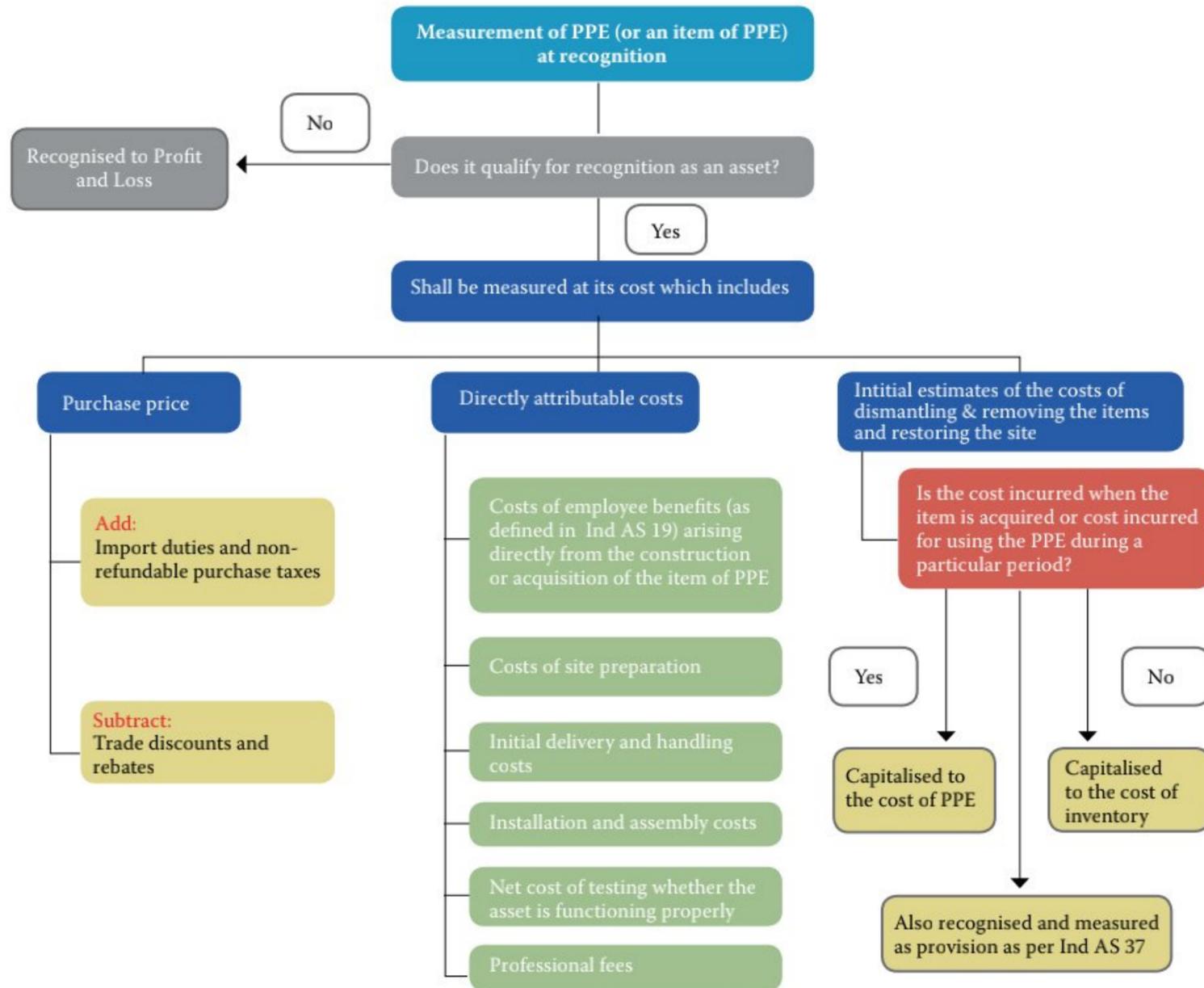
**Disclosure 15: Change in tax rates or tax laws**

Where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities (see Ind AS 10, Events after the Reporting Period).

INDIAN ACCOUNTING STANDARD (IND AS) 16 : PROPERTY, PLANT AND EQUIPMENT

PPE and its Recognition

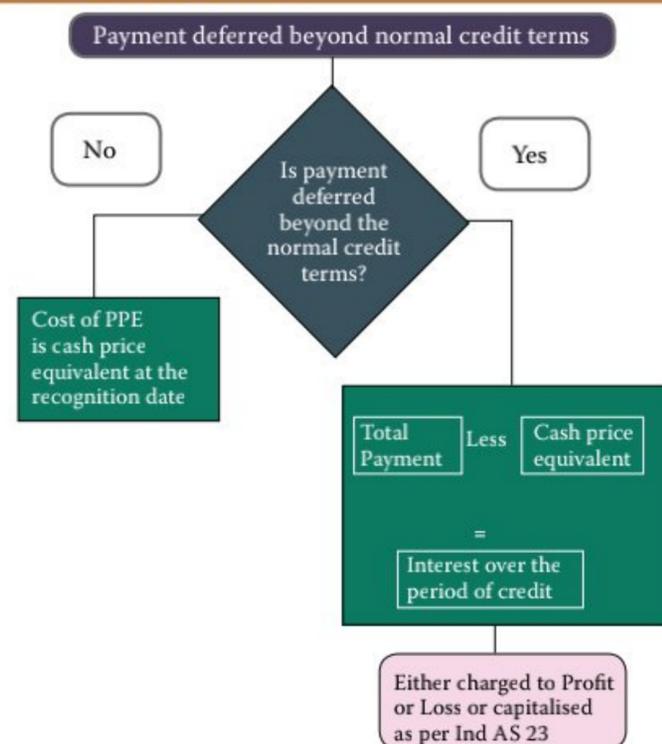


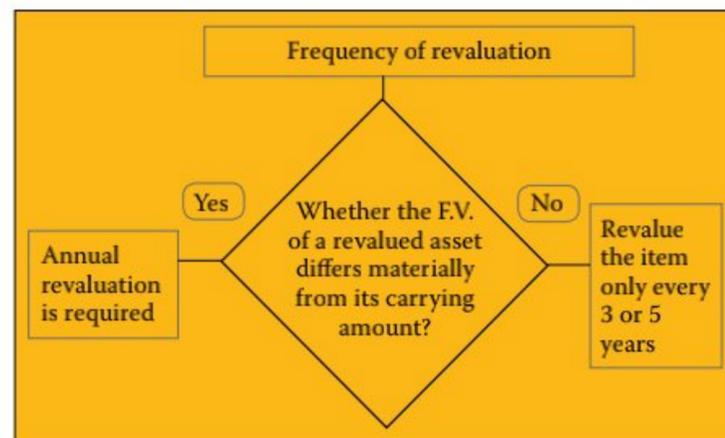
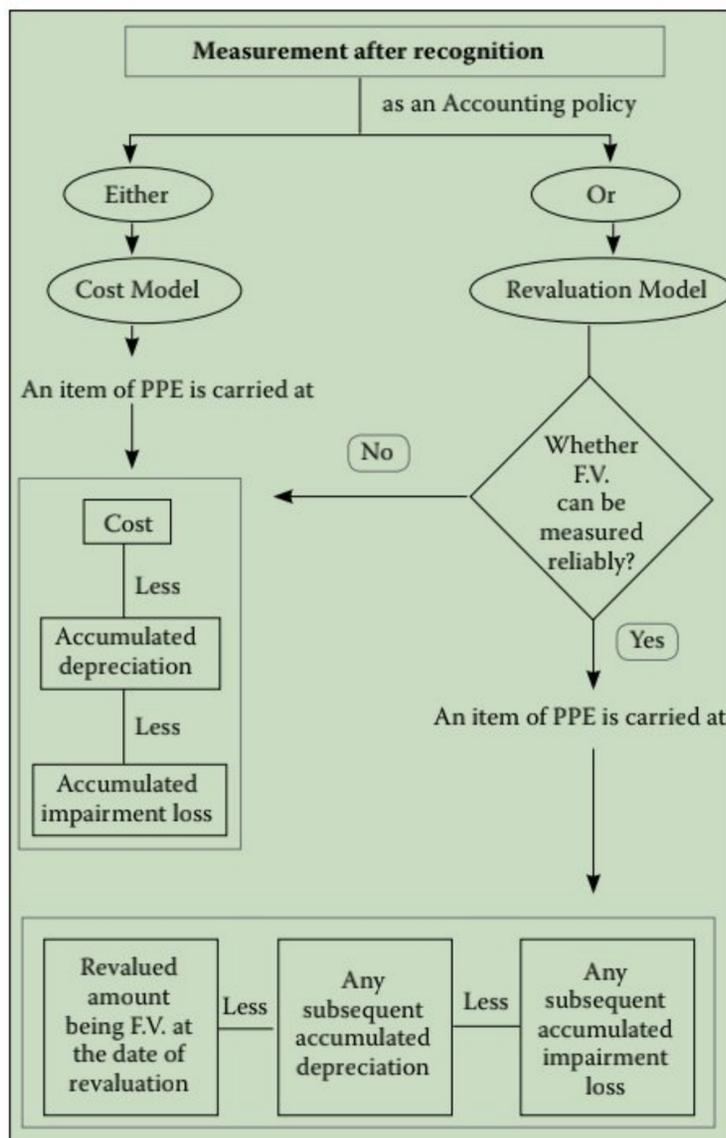
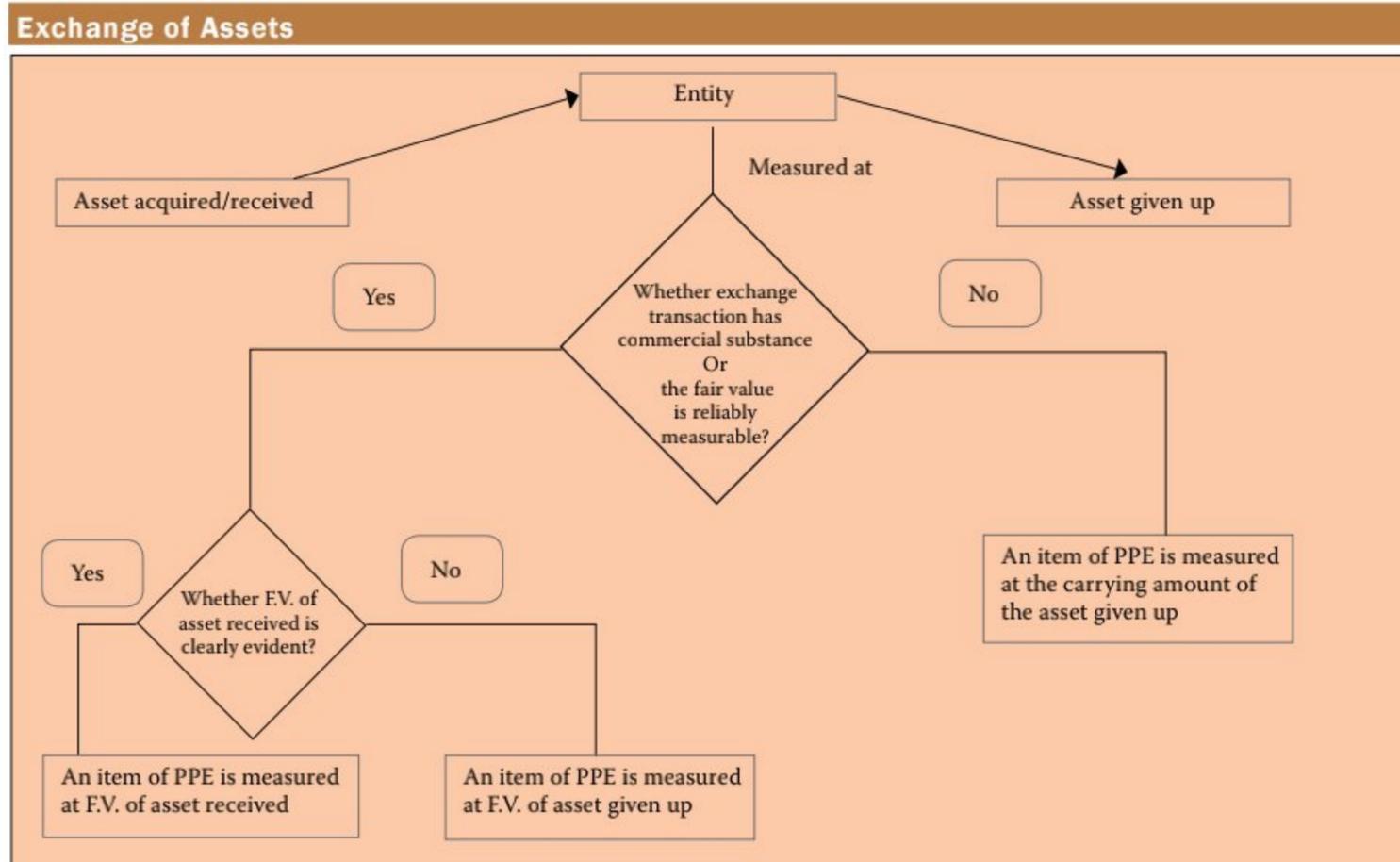


**Note:**

1. Items such as spare parts, stand-by equipment and servicing equipment are **recognised when they meet the definition of PPE**. Otherwise, such items are classified as inventory.
2. Recognition of costs in the carrying amount of an item 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.
3. Costs incurred in using or redeploying an item are **not included in the carrying amount** of that item.
4. Incidental operations that are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses such incidental operations are **recognised in profit or loss** and included in their respective classifications of income and expense.
5. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. Any **internal profits are eliminated** in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is **not included in the cost** of the asset.
6. Bearer plants are accounted for in the same way as self-constructed items of PPE.

**Measurement of Cost**



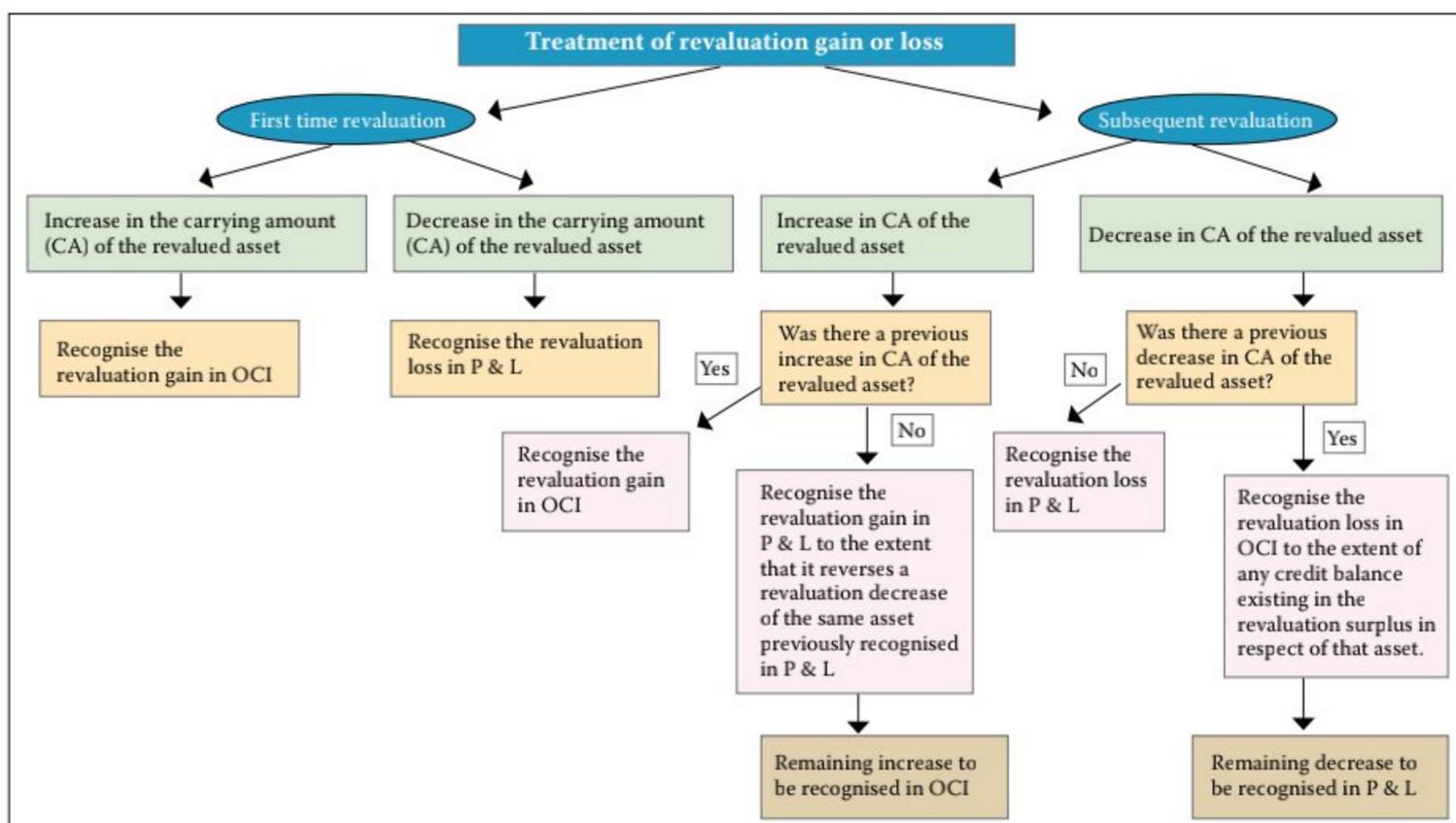


On applying revaluation model – the asset is treated in one of the following ways:

Either	Or
<ul style="list-style-type: none"> <li>The gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.</li> <li>The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.</li> </ul>	The accumulated depreciation is eliminated against the gross carrying amount of the asset.
The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for.	

**Note:**

- If an item of property, plant and equipment is revalued, the **entire class** of property, plant and equipment to which that asset belongs shall be revalued.
- Here a class of property, plant and equipment is a **grouping of assets of a similar nature** and use in an entity's operations.



**Note:**

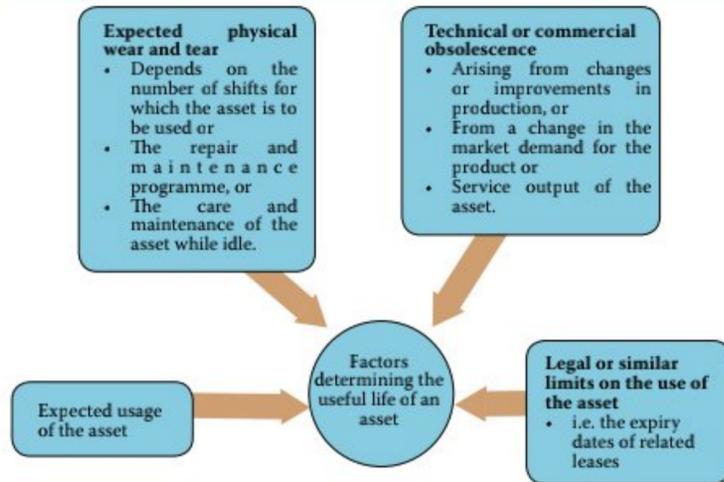
- The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of.
- Some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.
- Transfers from revaluation surplus to retained earnings are not made through profit or loss.

**Depreciation = (Cost of the Asset - Residual value)/Useful life of the asset**

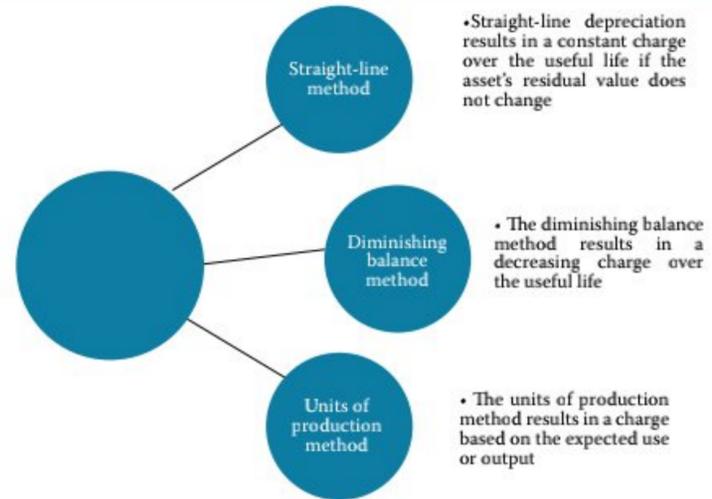
Particular	Treatment
1 If the cost is significant in relation to total cost of PPE	Separate depreciation is computed for each item of PPE.
2 PPE given as an operating lease	Depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.
3 Grouping of items	If more than one significant parts of an item of PPE have similar useful life and depreciation method then such parts may be grouped in determining the depreciation charge.
4 Remainder insignificant parts of the item of PPE	If an entity has varying expectations for such parts, approximation techniques may be used to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.
5 Commencement of depreciation	Depreciation of an asset begins when it is available for use.
6 Treatment of depreciation charge	The depreciation charge for each period shall be recognised in profit or loss if not included in the carrying amount of another asset.

Particular	Treatment
7 Revision in residual value and the useful life of an asset	<ul style="list-style-type: none"> <li>The residual value and the useful life of an asset shall be reviewed annually.</li> <li>The change(s) in depreciation on account of revision, if any, shall be accounted for as a change in an accounting estimate as per Ind AS 8</li> </ul>
8 Land and Buildings	<ul style="list-style-type: none"> <li>Land and buildings are separable assets and are accounted for separately, even when they are acquired together.</li> <li>Land has an unlimited useful life and is not depreciated.</li> <li>Buildings have a limited useful life and are depreciated.</li> <li>An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.</li> <li>If the cost of land includes the costs of site dismantlement, removal and restoration, then that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs.</li> <li>In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.</li> </ul>
9 Depreciation method	<ul style="list-style-type: none"> <li>The depreciation method applied shall be reviewed annually.</li> <li>If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern otherwise the method is applied consistently from period to period.</li> <li>Such a change shall be accounted for as a change in an accounting estimate as per Ind AS 8.</li> </ul>
10 Impairment	Apply Ind AS 36, <i>Impairment of Assets</i> .
11 Compensation for impairment	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.

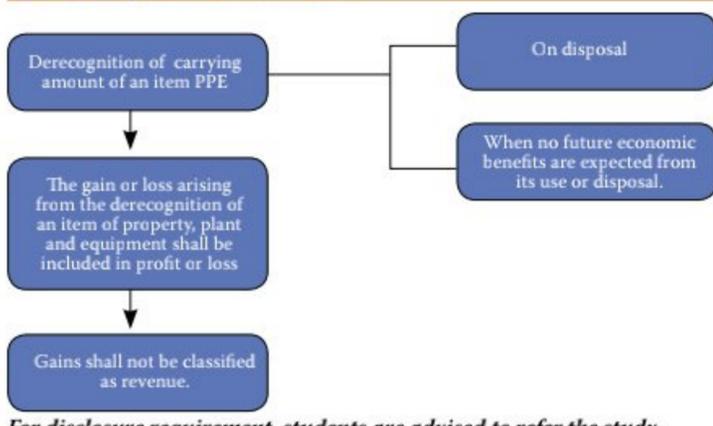
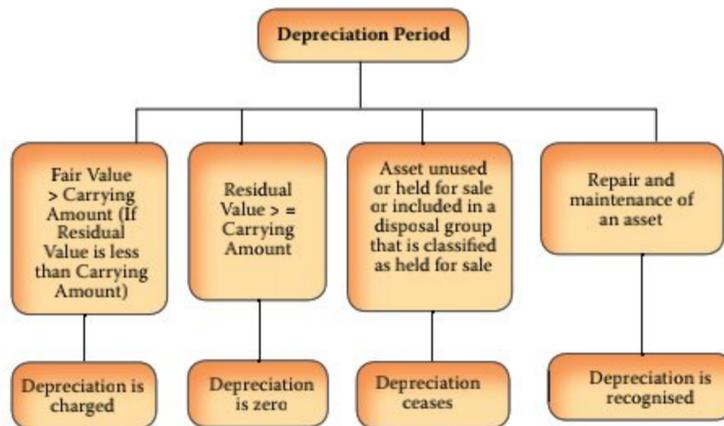
**Factors determining the Useful Life of an Asset**



**Depreciation Method**

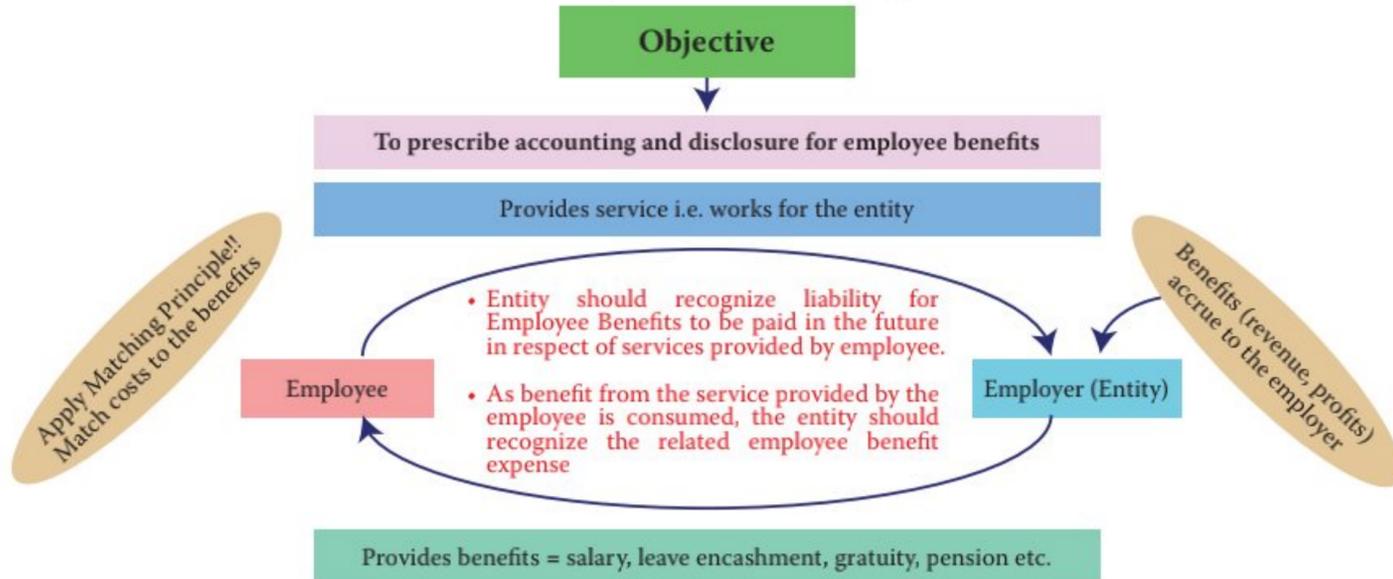


**Derecognition of PPE**

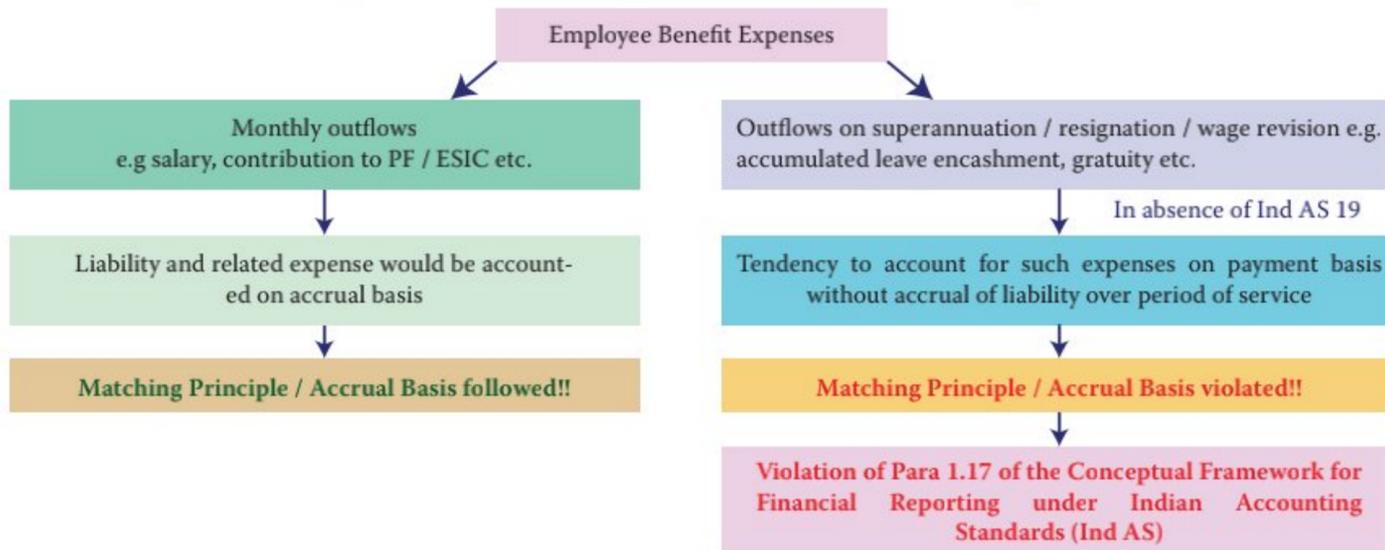


*For disclosure requirement, students are advised to refer the study material.*

### INDIAN ACCOUNTING STANDARD (IND AS) 19: EMPLOYEE BENEFITS

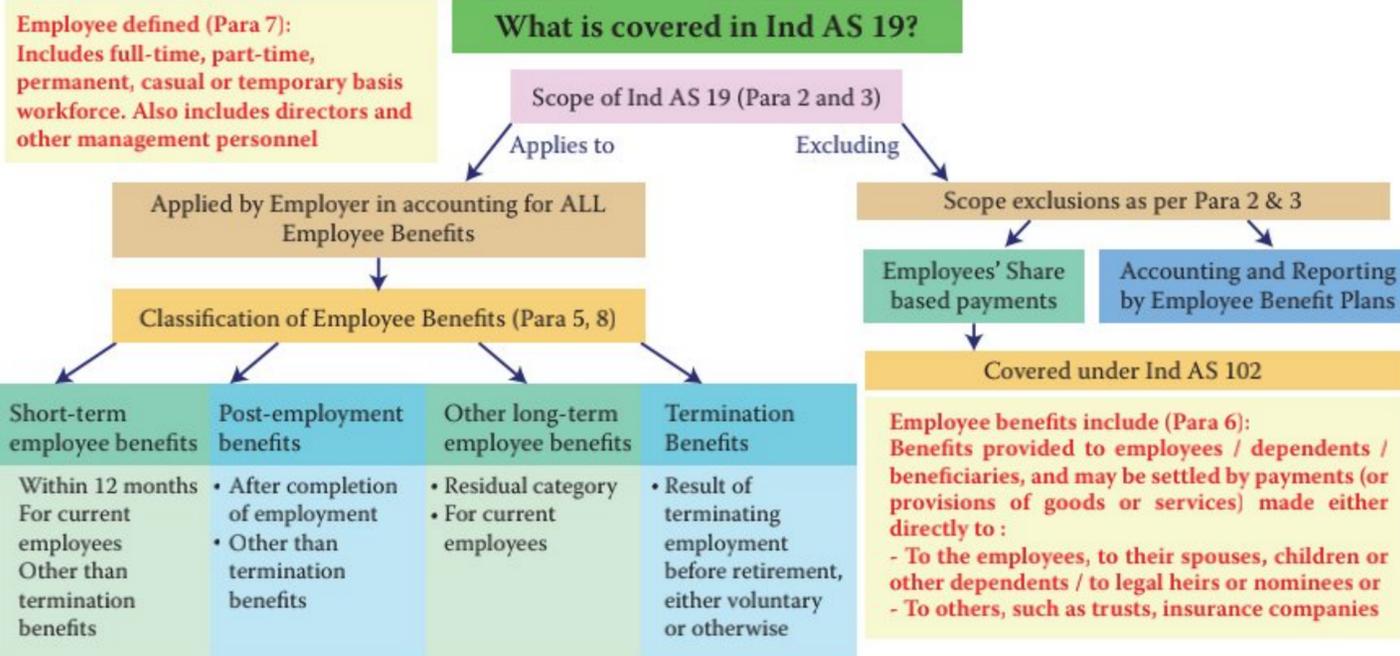


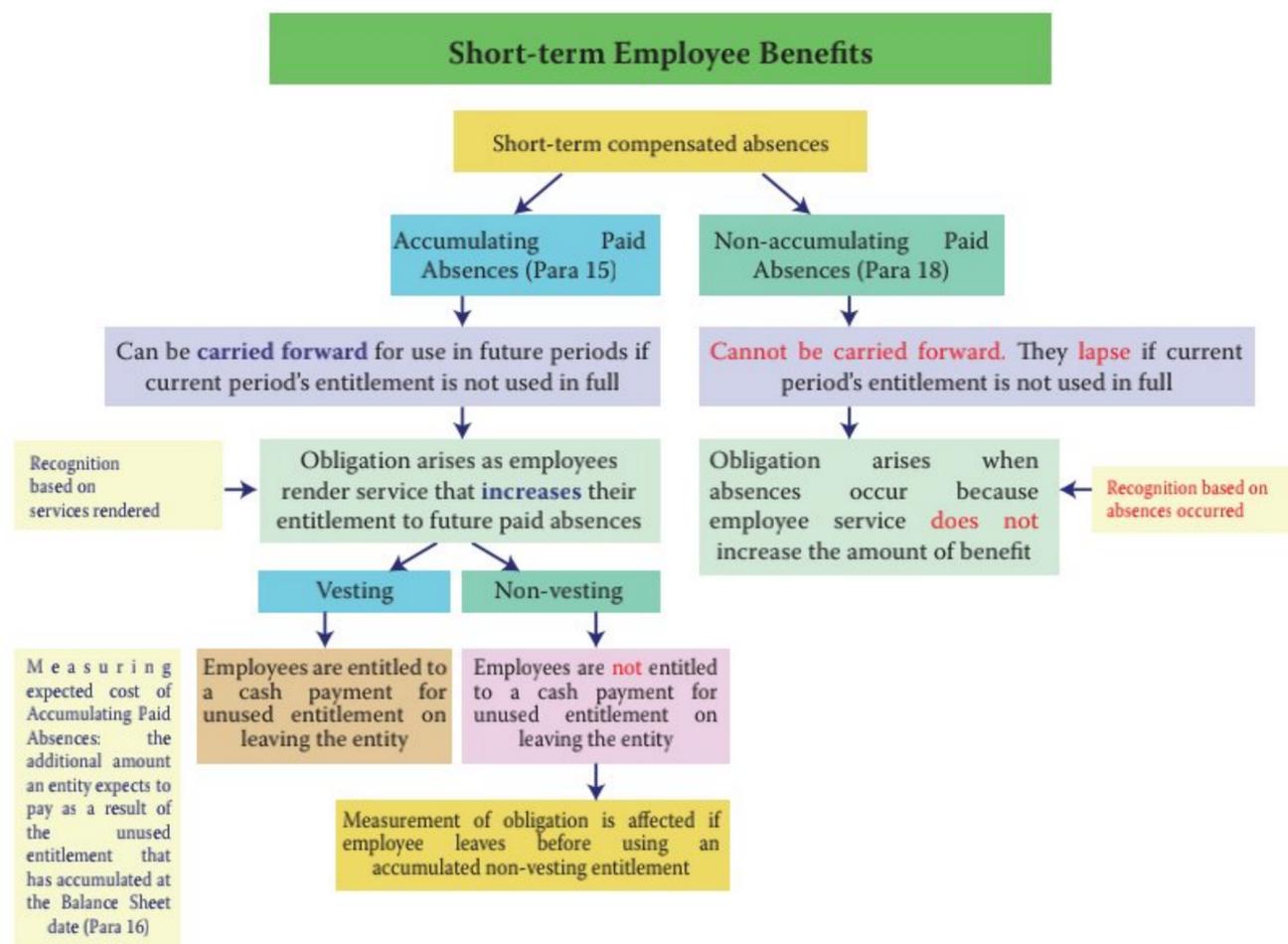
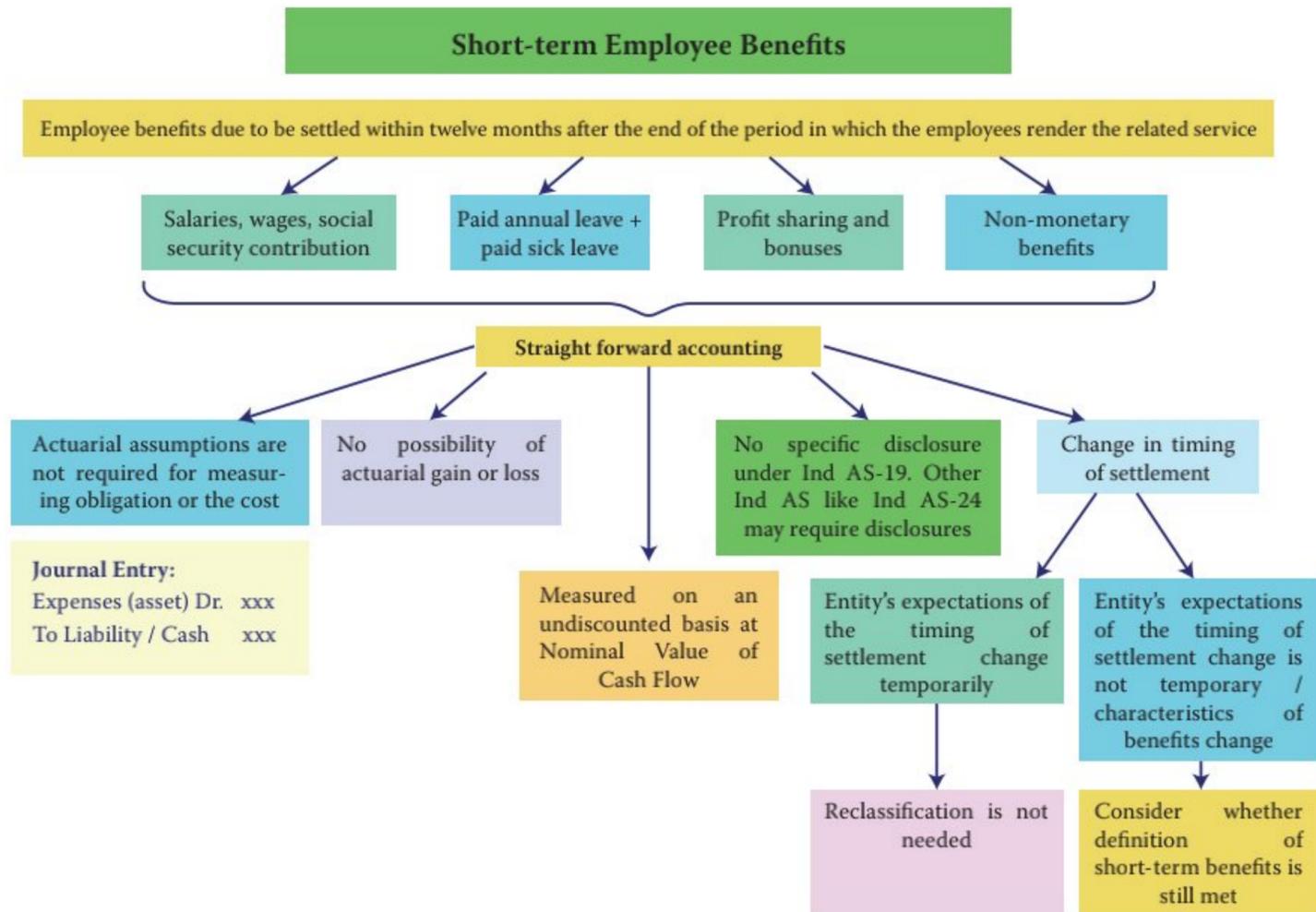
#### What would happen without Ind AS 19?

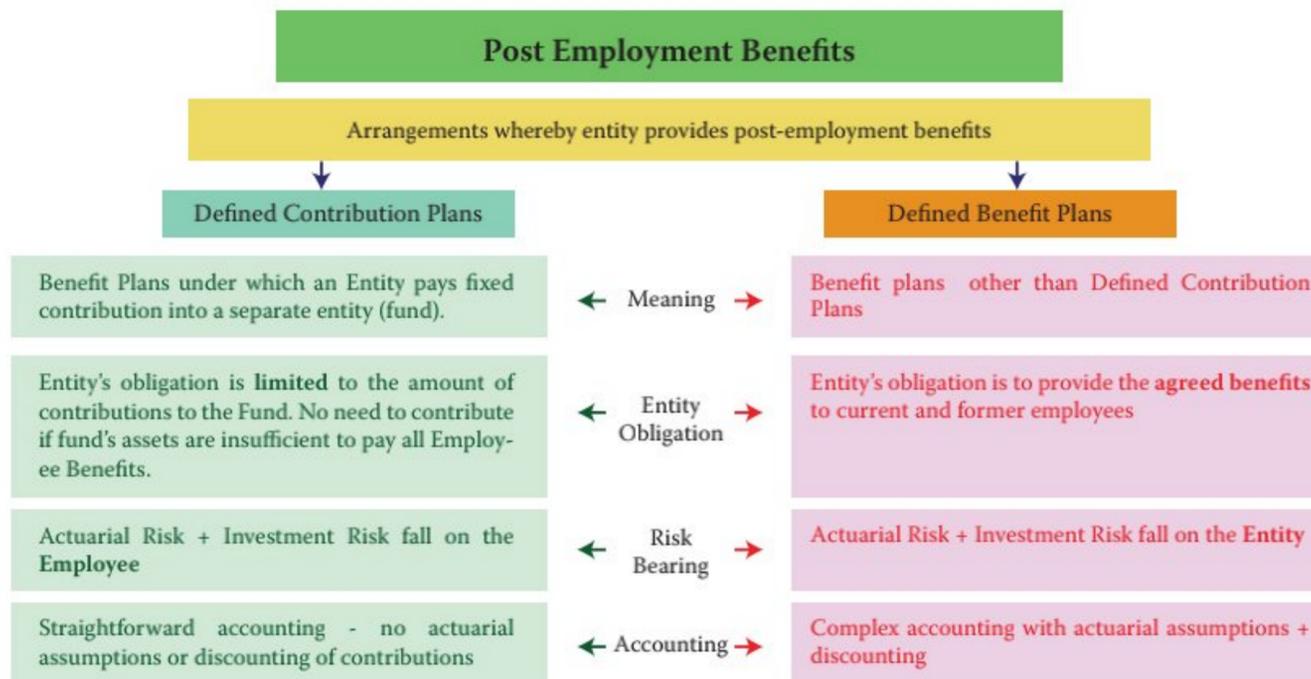
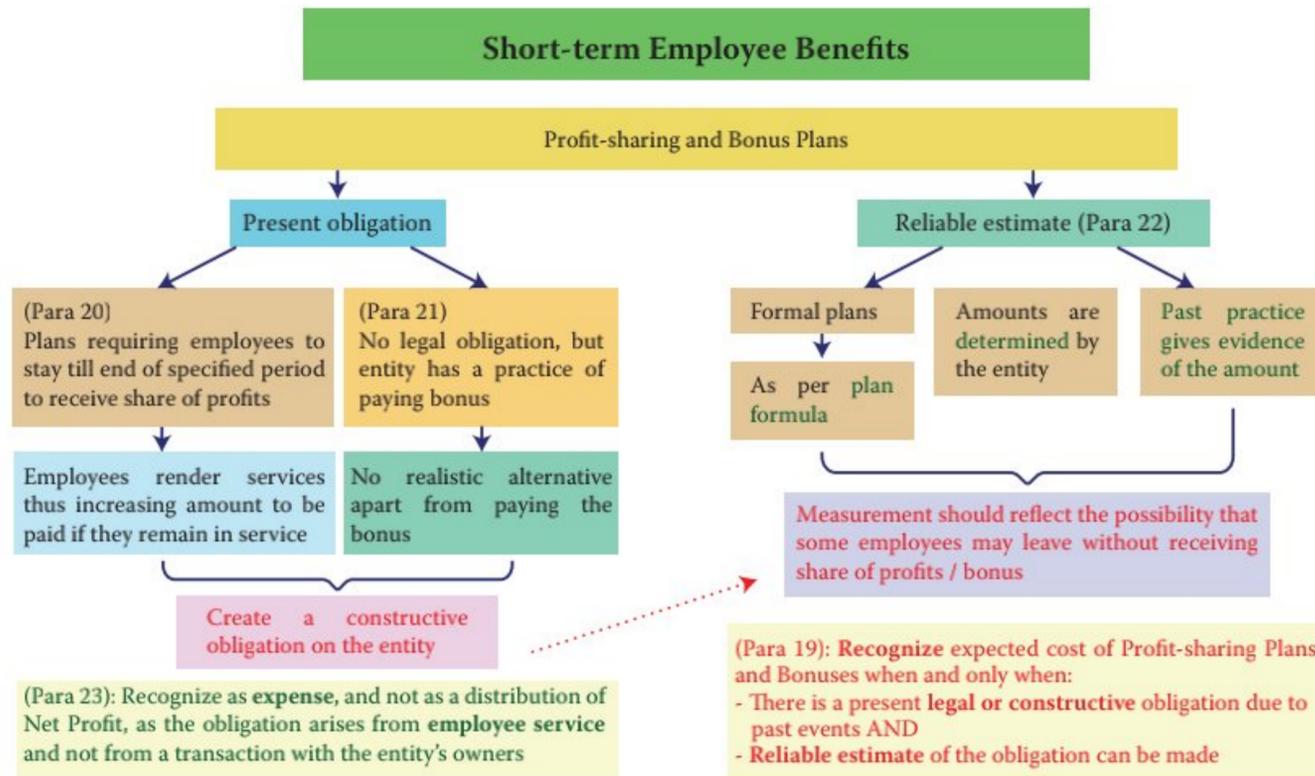


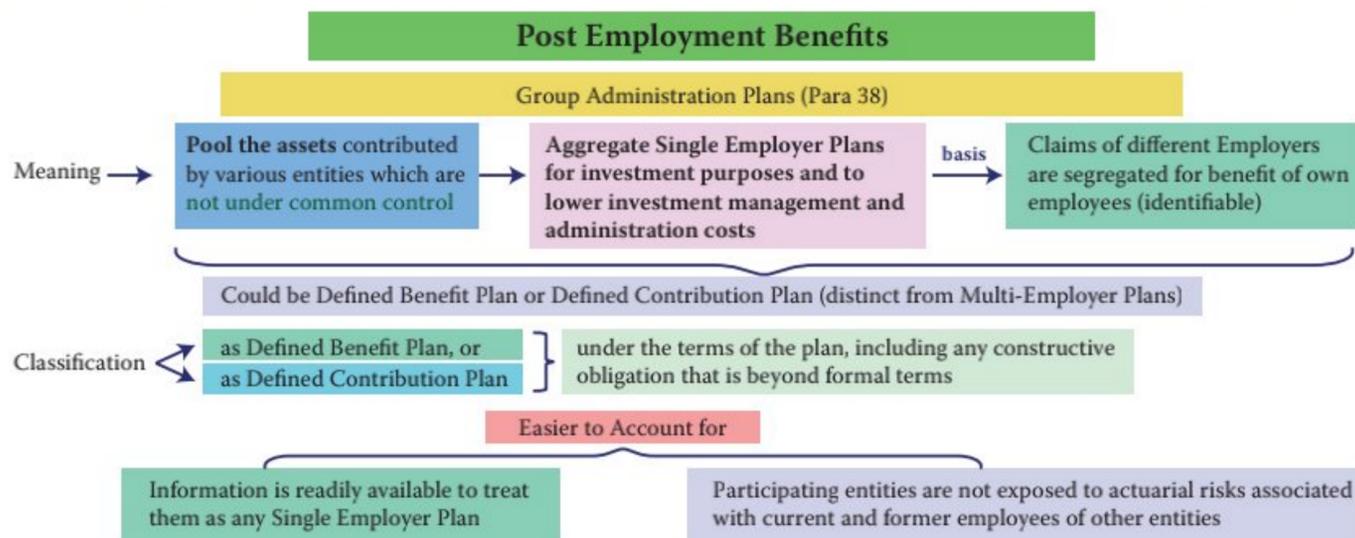
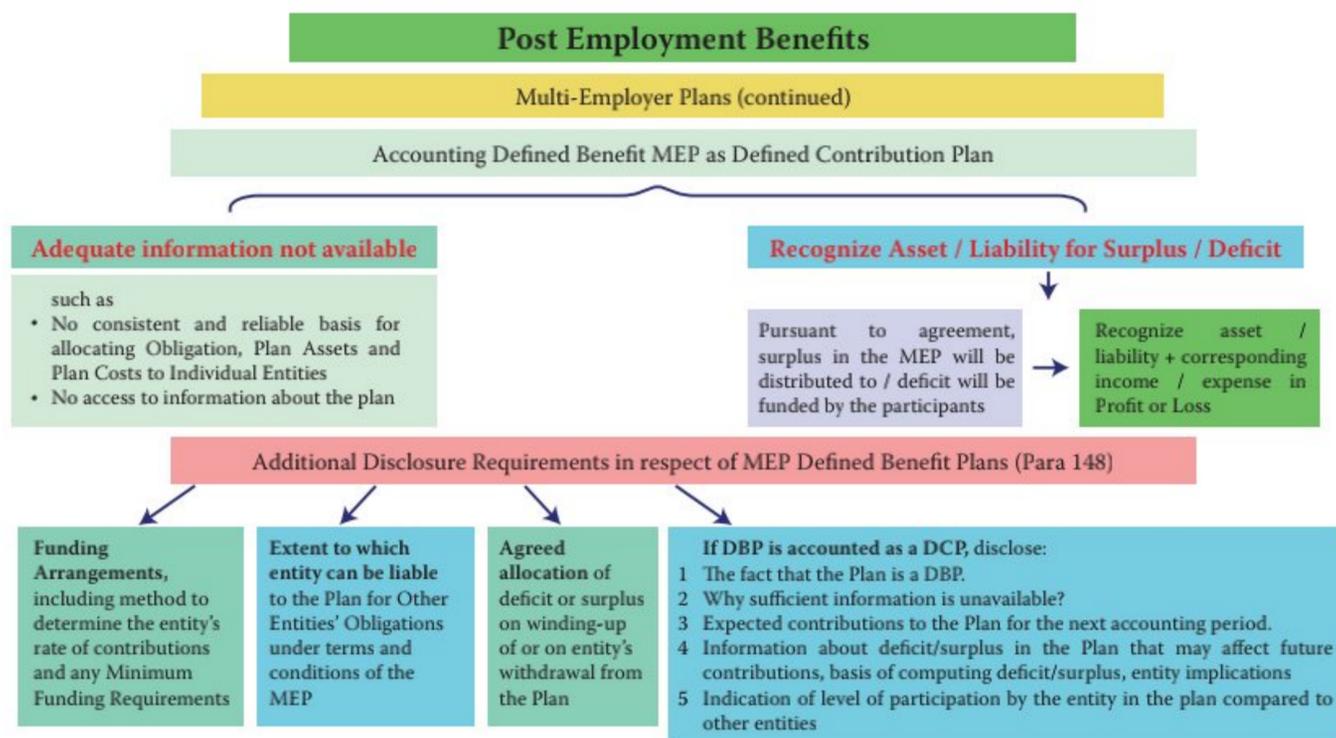
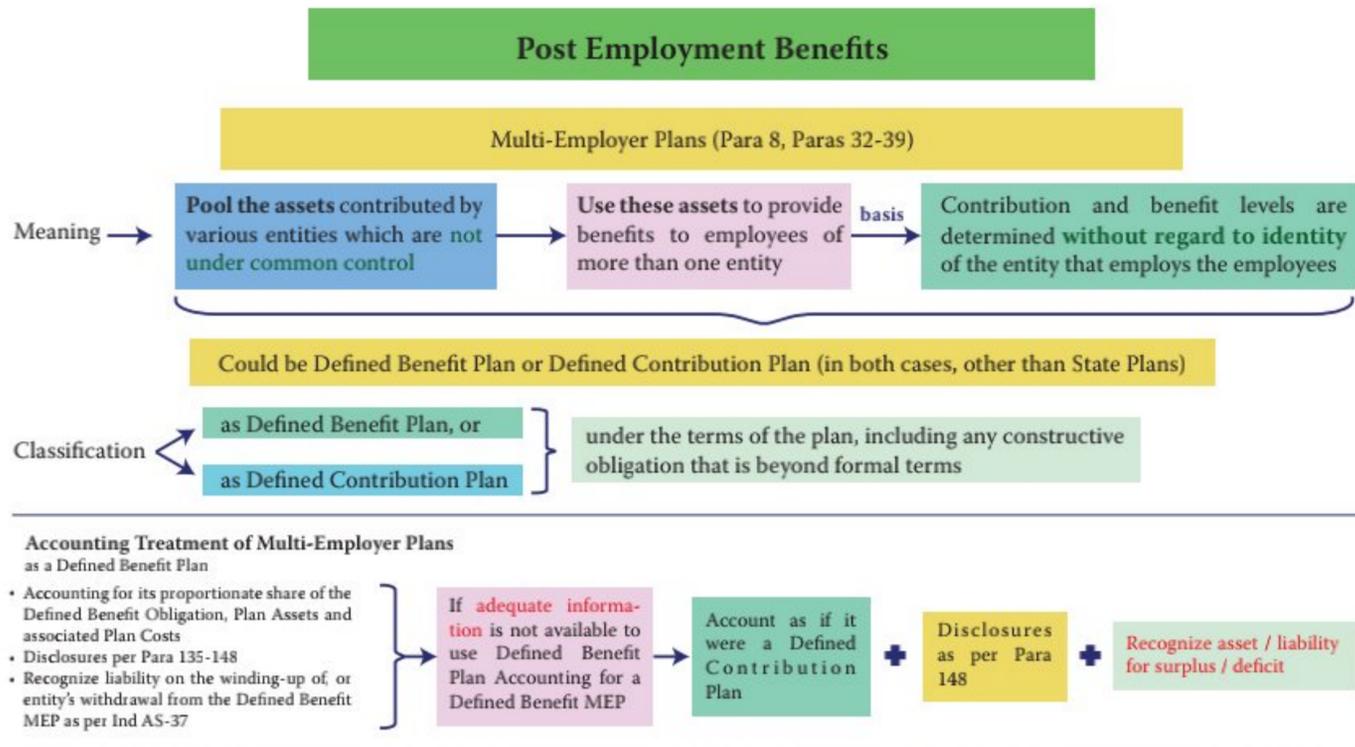
Hence Ind AS 19 assumes significant importance since it ensures compliance with the Conceptual Framework

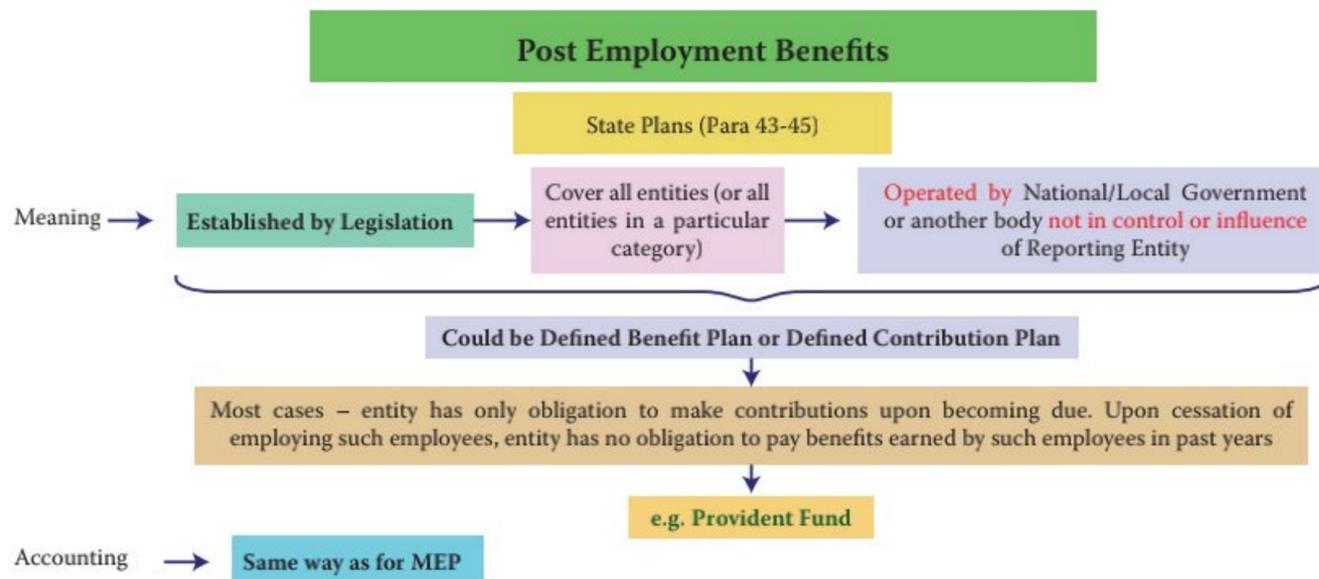
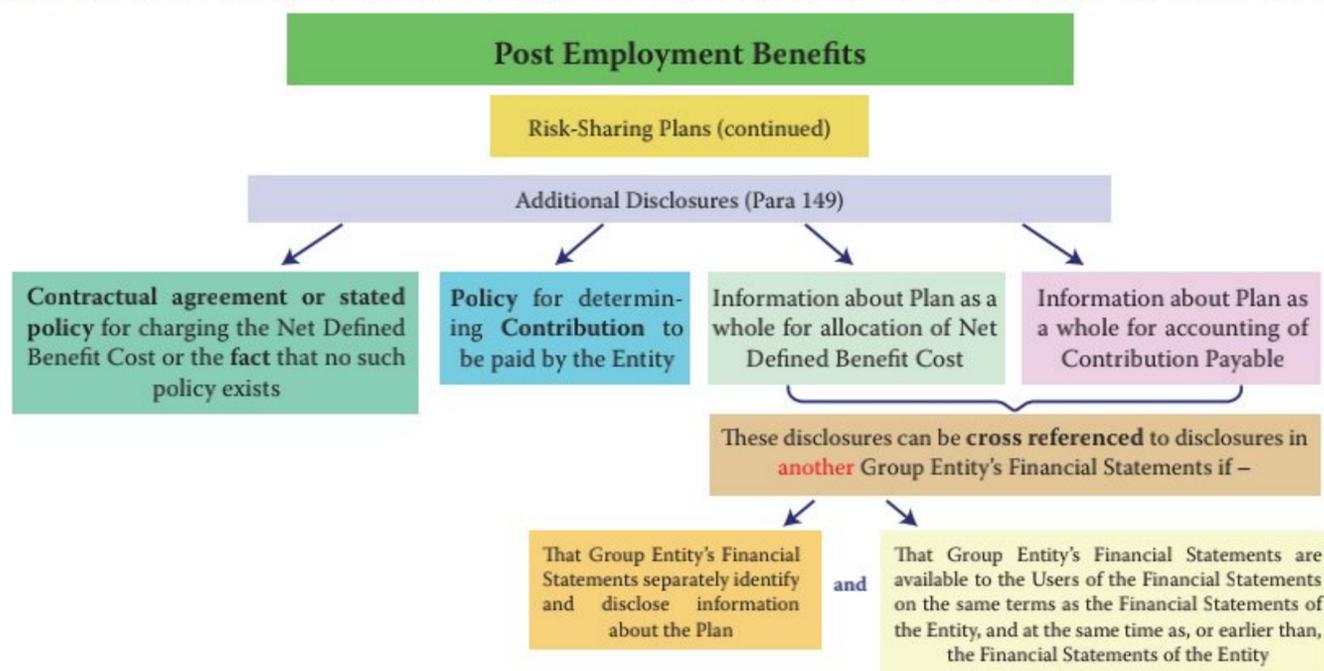
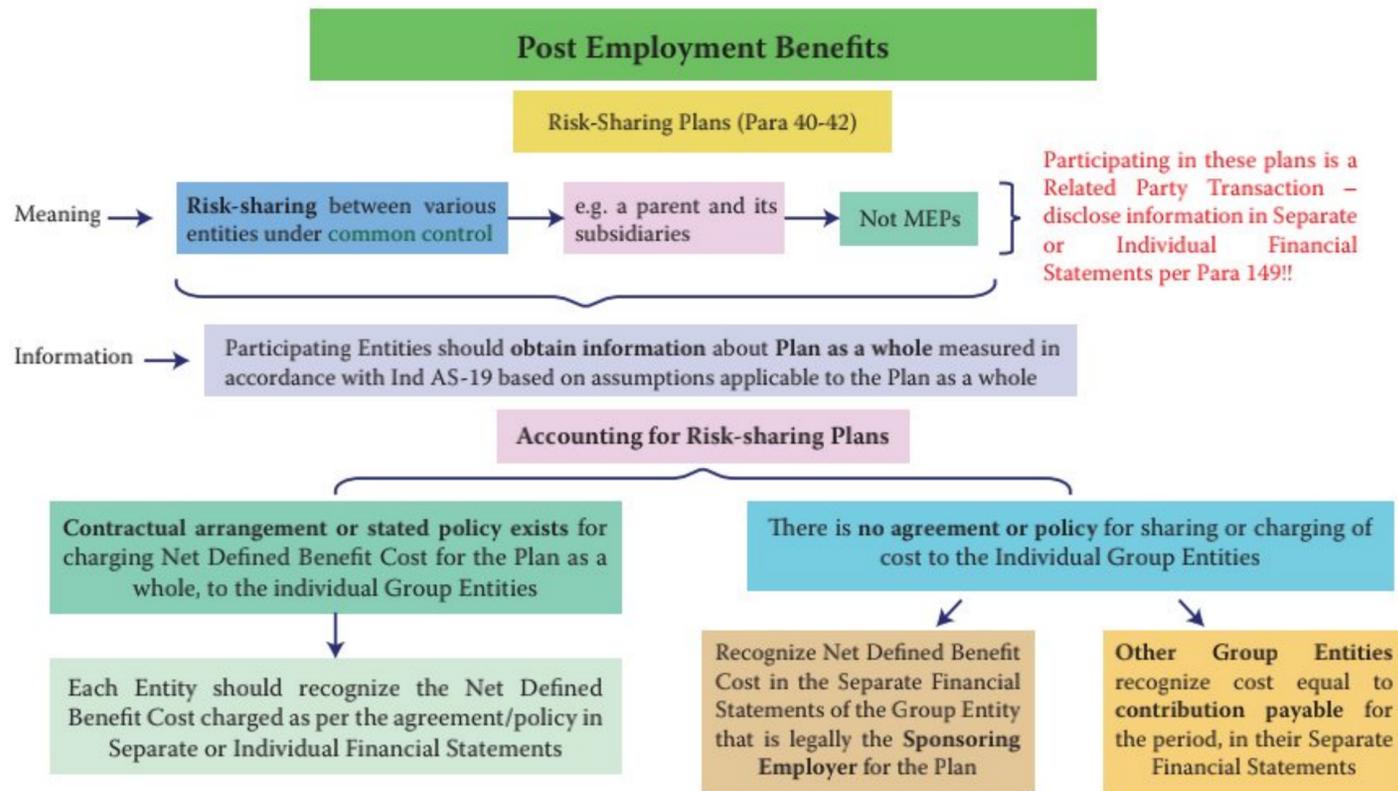
#### What is covered in Ind AS 19?

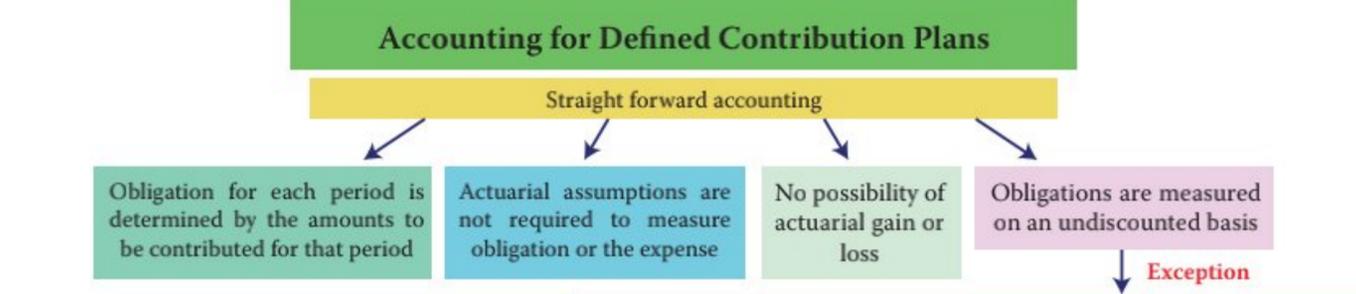
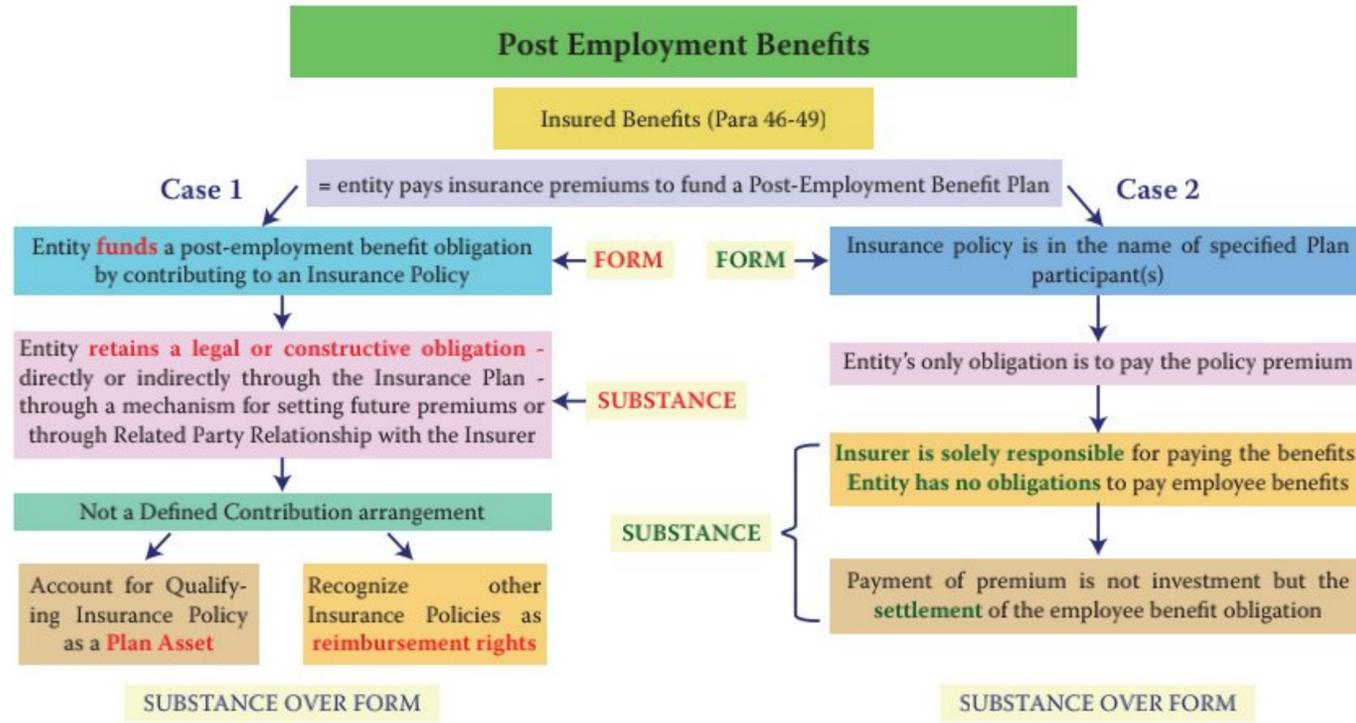










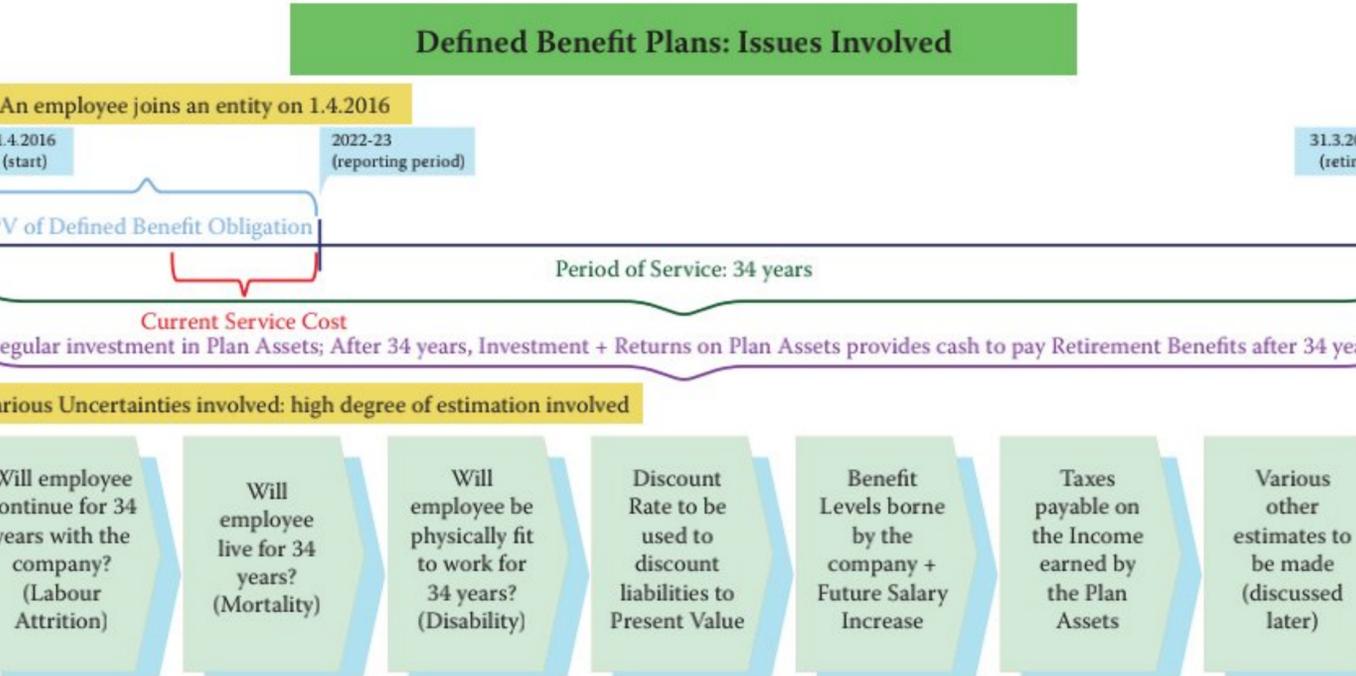


not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service

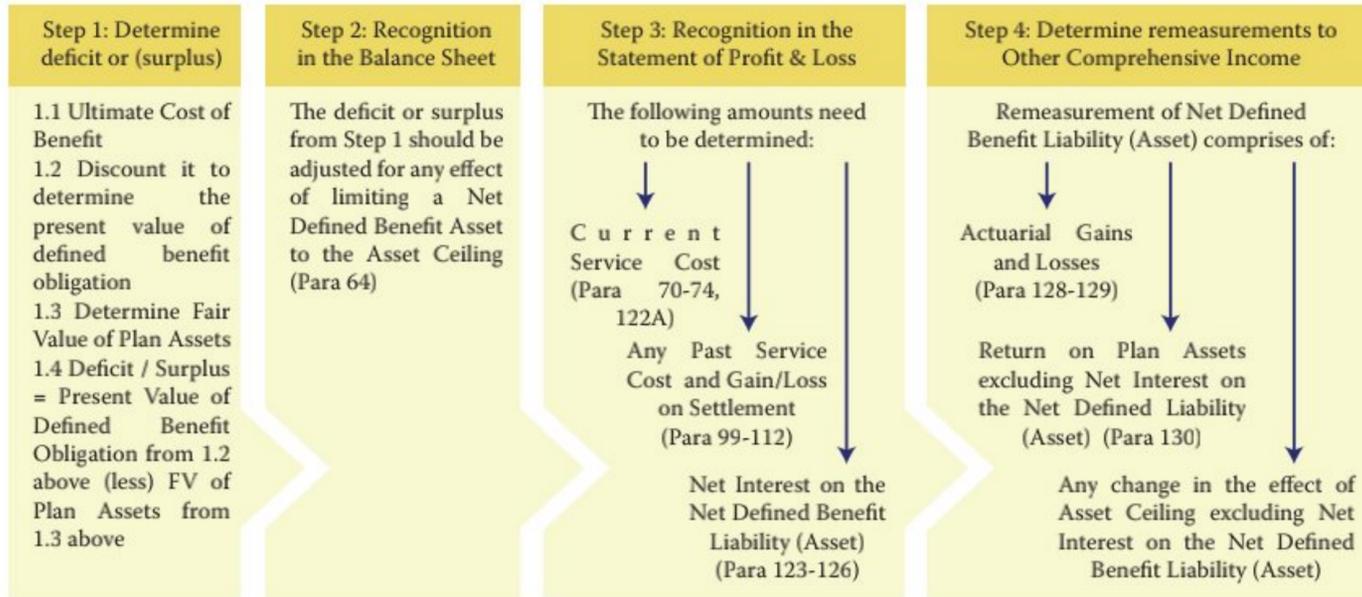
**Recognition and Measurement**

Date	Particulars	LF	Debit	Credit
xxxxx	Dr. Employee Benefit Expense / Asset		(amount relating to reporting period)	
	Dr. Prepaid Expenses		(amount relating to future periods)	
	Cr. Cash / Bank			(amount paid)
	Cr. Accrued Liability			(amount unpaid)

**Disclosure:** Disclose amount recognized as an expense for Defined Contribution Plans. Disclose contribution to Defined Contribution Plans for Key Management Personnel under Ind AS-24

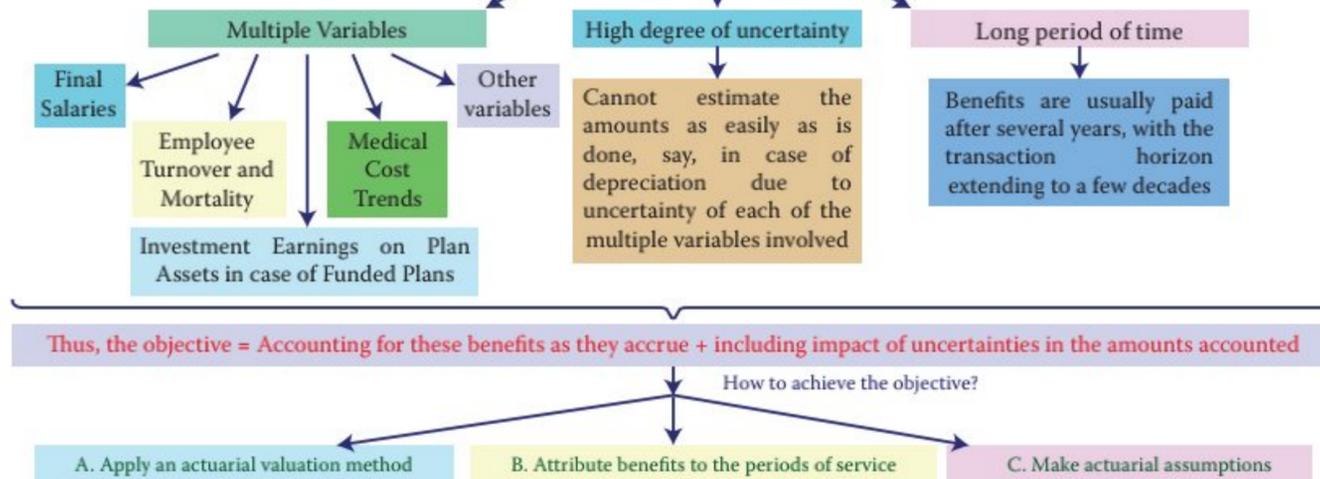


Accounting for Defined Benefit Plans: The 4-Step Model



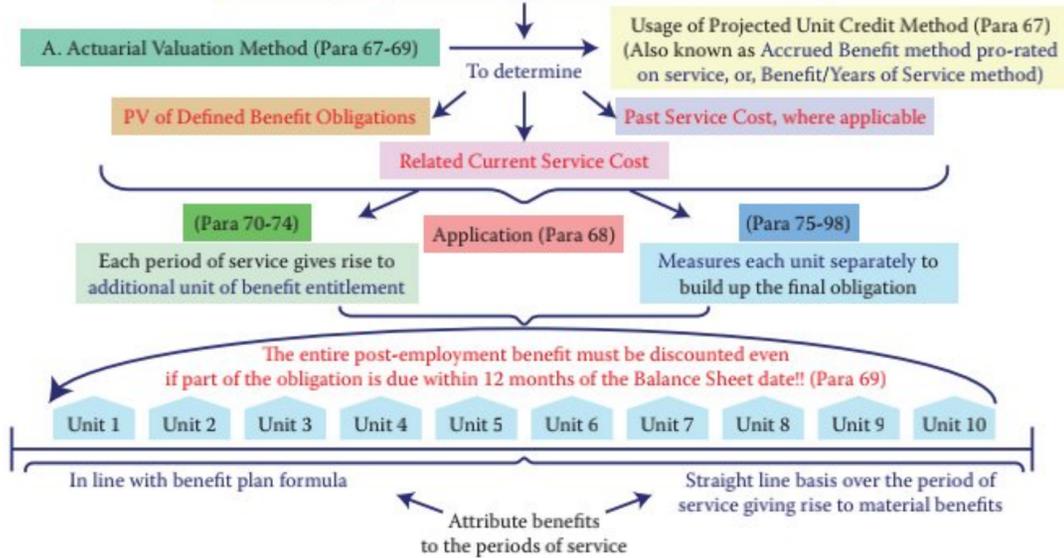
STEP 1: Determine Deficit or (Surplus)

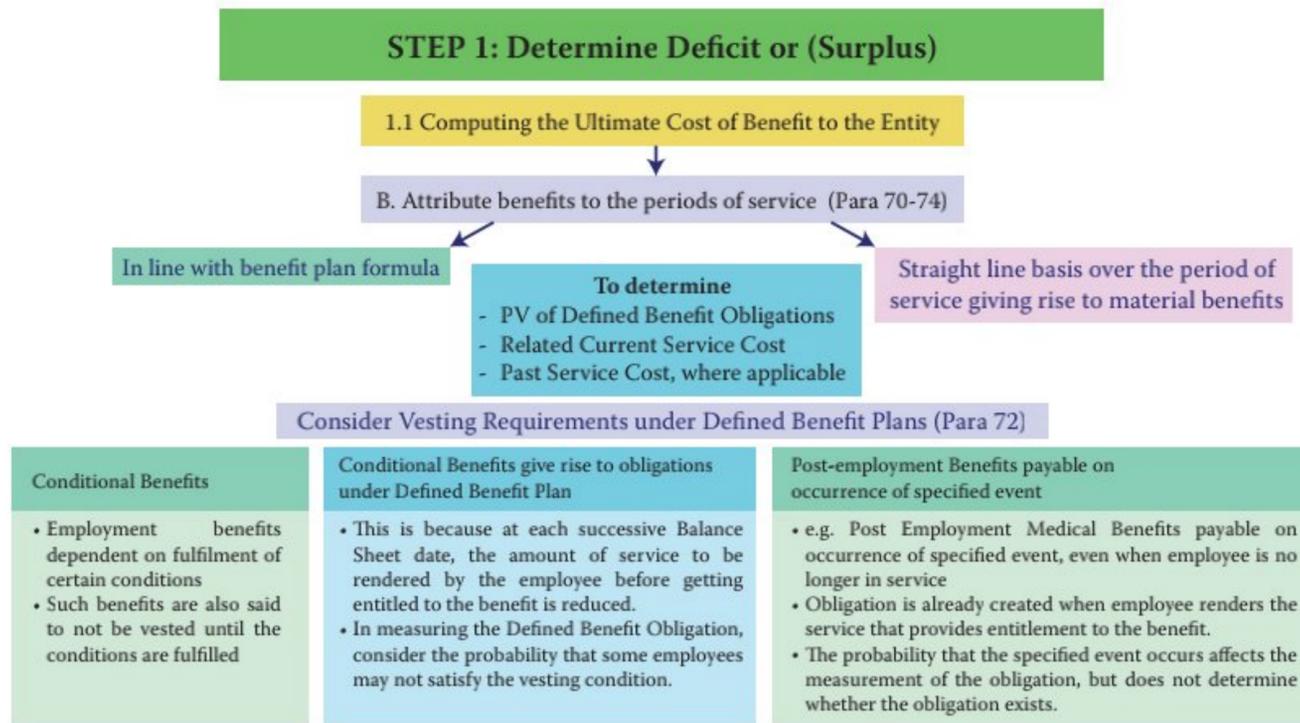
1.1 Computing the Ultimate Cost of Benefit to the Entity



STEP 1: Determine Deficit or (Surplus)

1.1 Computing the Ultimate Cost of Benefit to the Entity





**Concept Illustrated**

**Illustration:**

Acer Ltd. hired a professional in April 2020 for 6 years of service which would terminate in March 2026. Apart from regular salary and annual bonus, Acer Ltd. will pay a lumpsum remuneration of ₹ 45 lakhs to her upon termination of employment. Discount rate used for actuarial valuations is 10% per year. Show how the obligation builds up over the employee's service. Ignore actuarial assumptions other than presented discount rate.

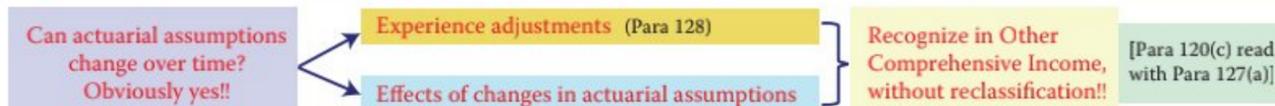
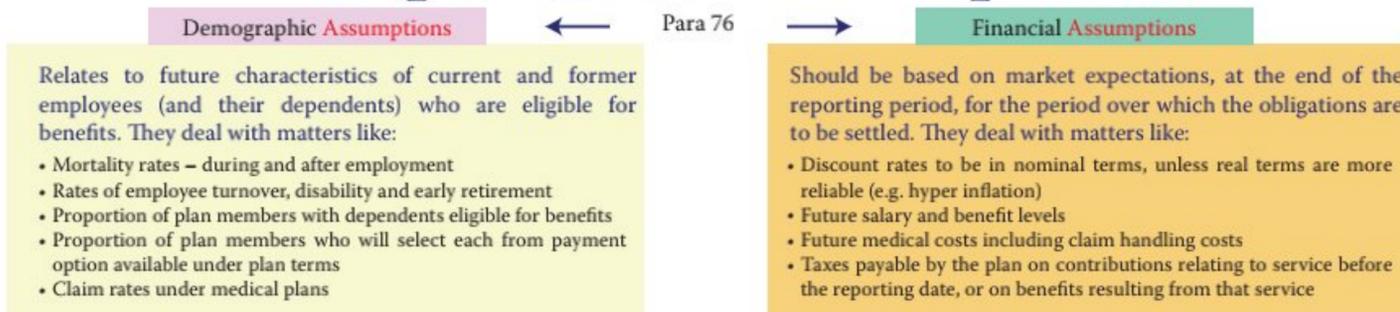


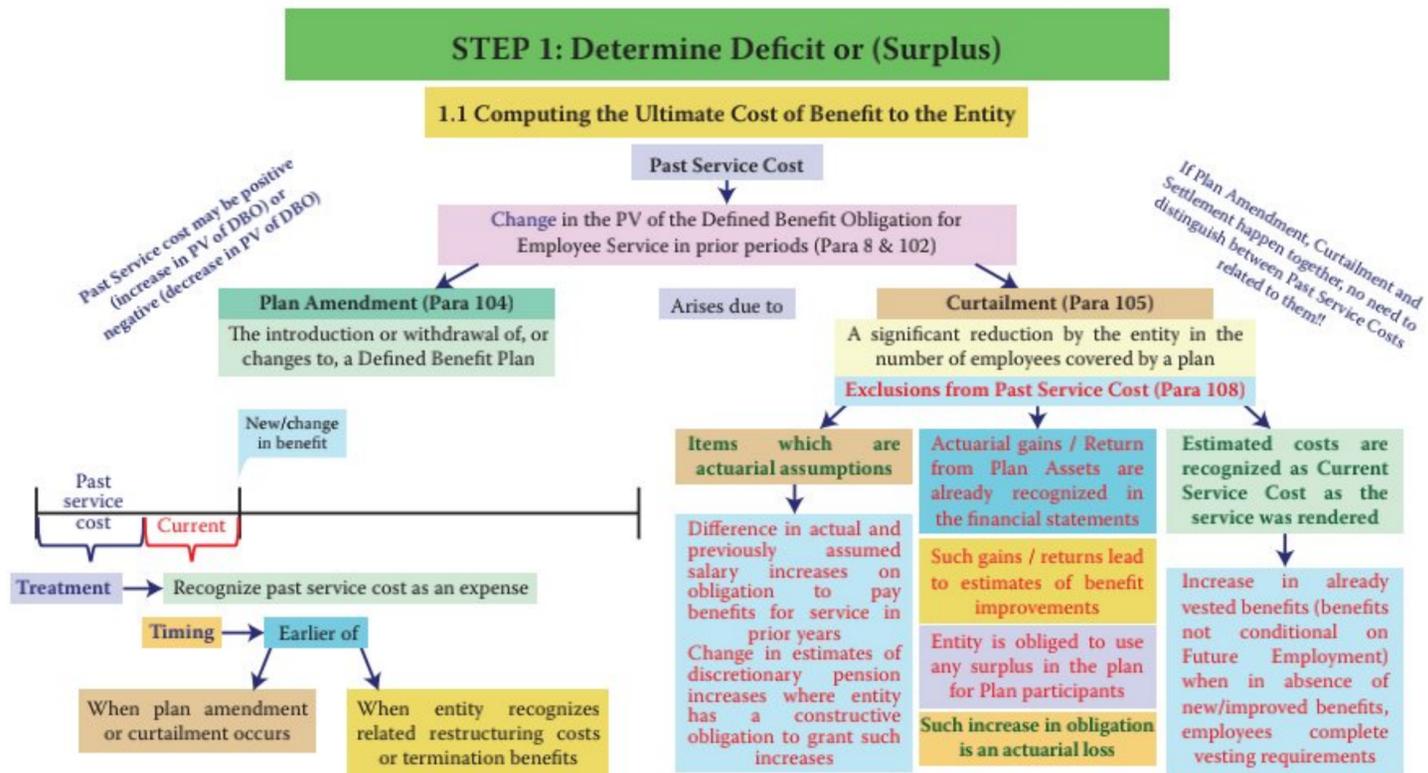
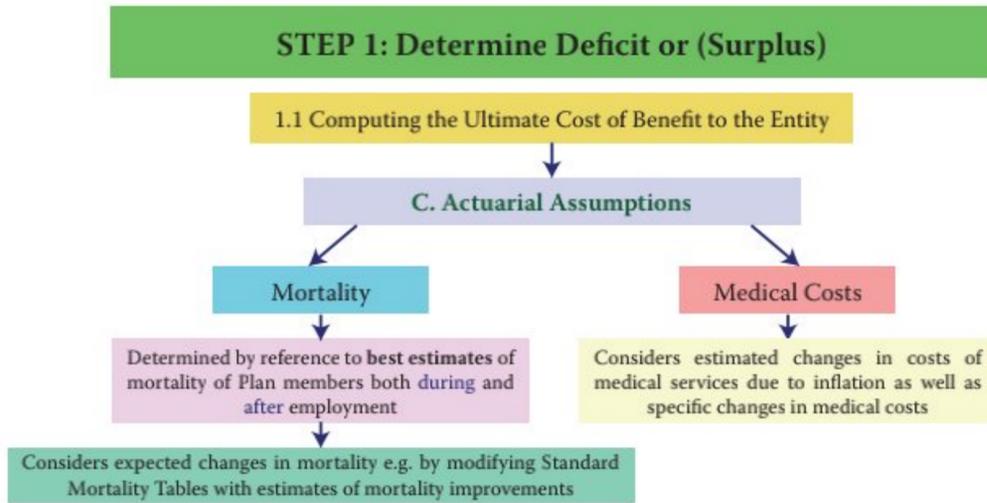
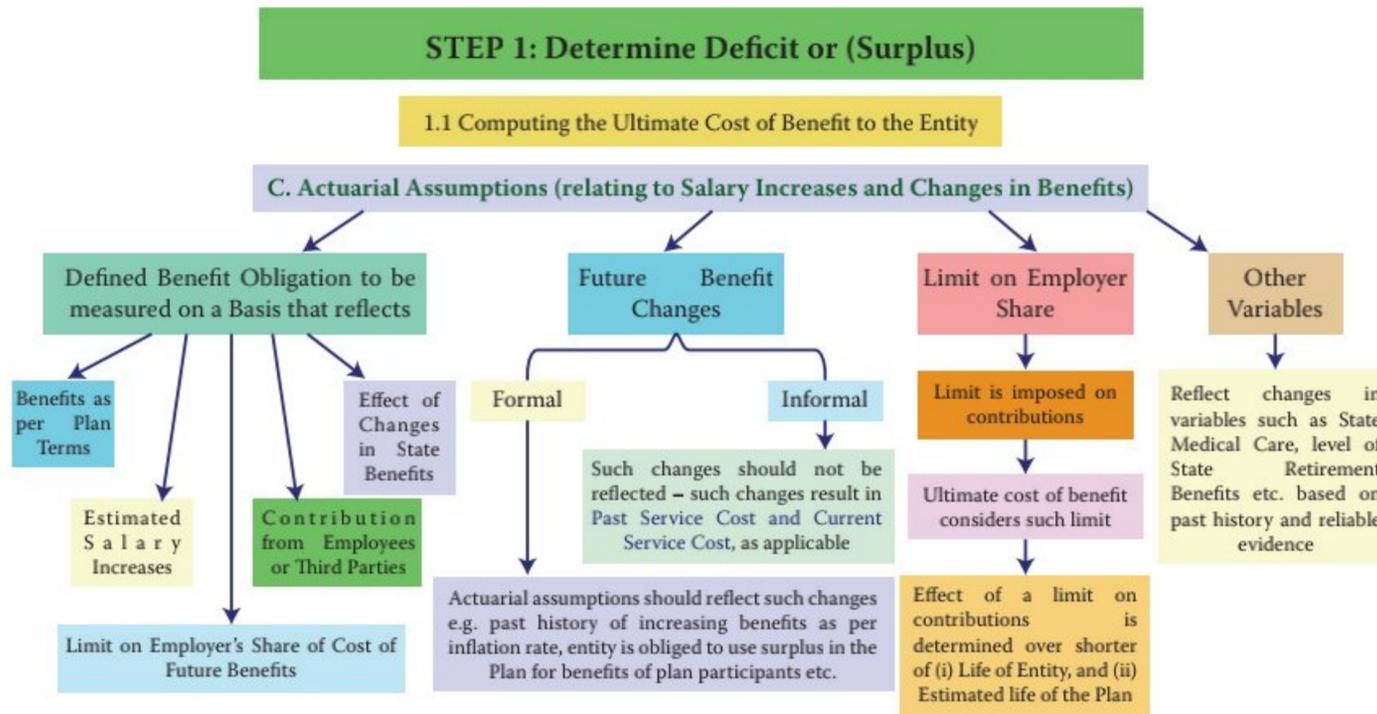
**STEP 1: Determine Deficit or (Surplus)**

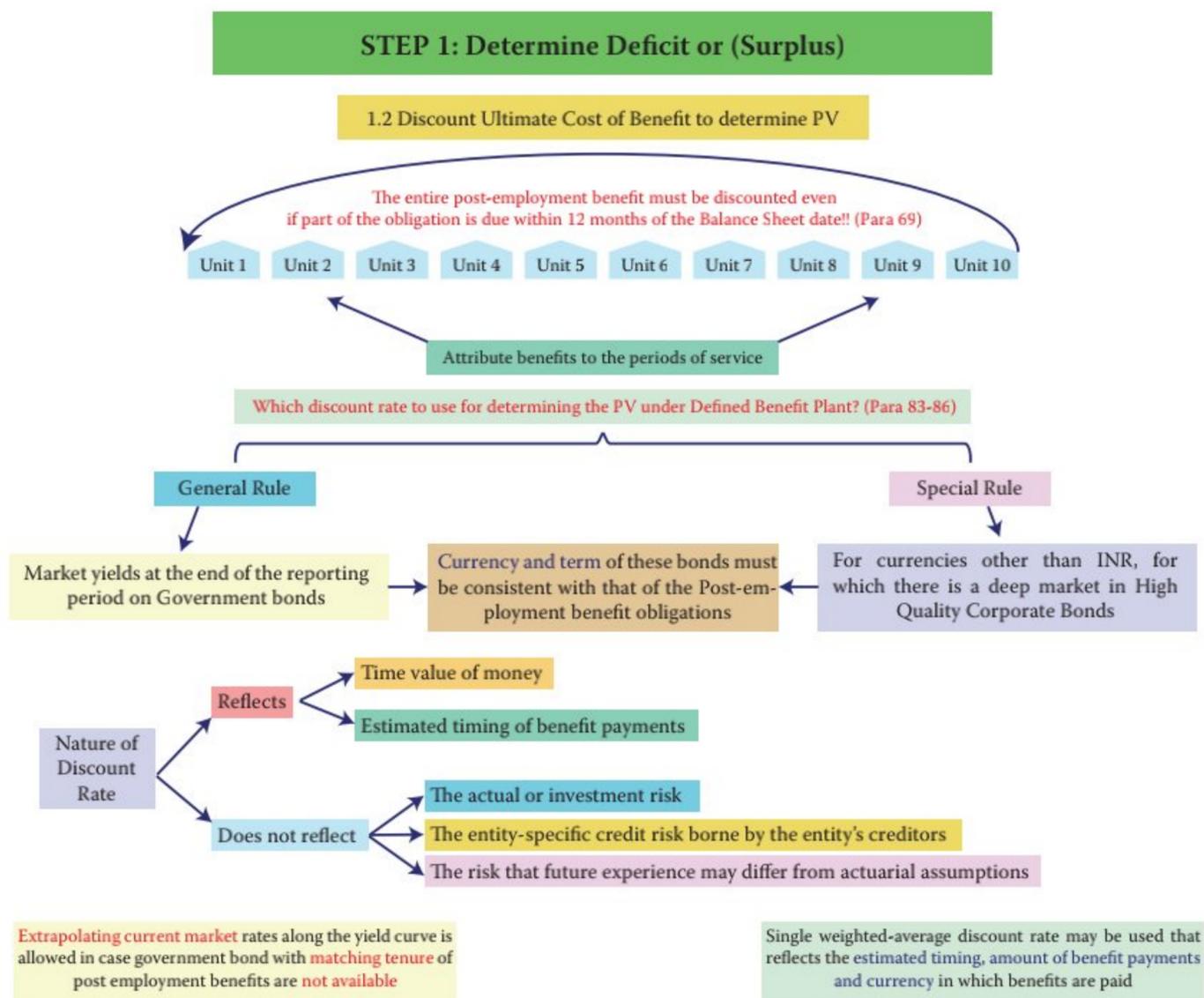
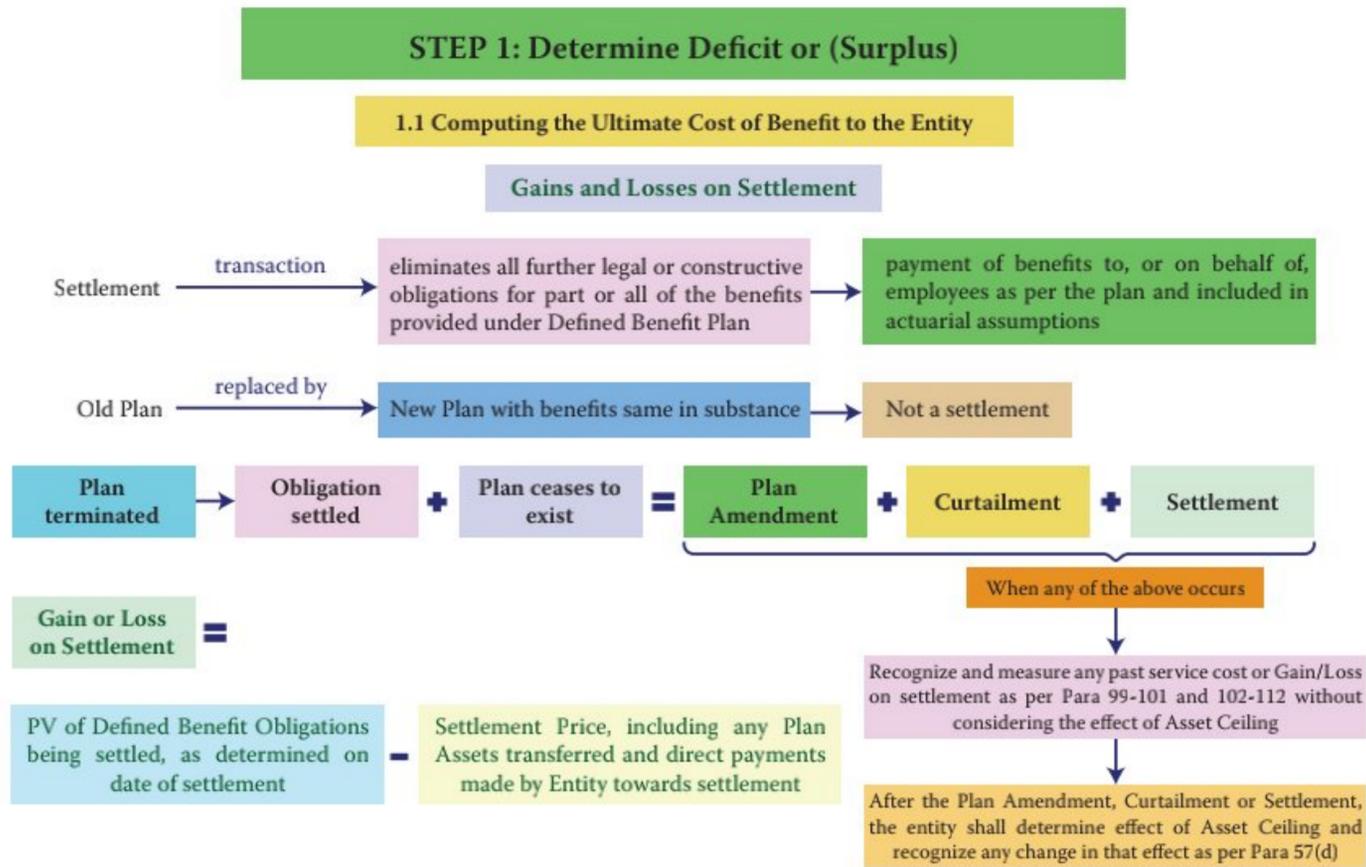
1.1 Computing the Ultimate Cost of Benefit to the Entity

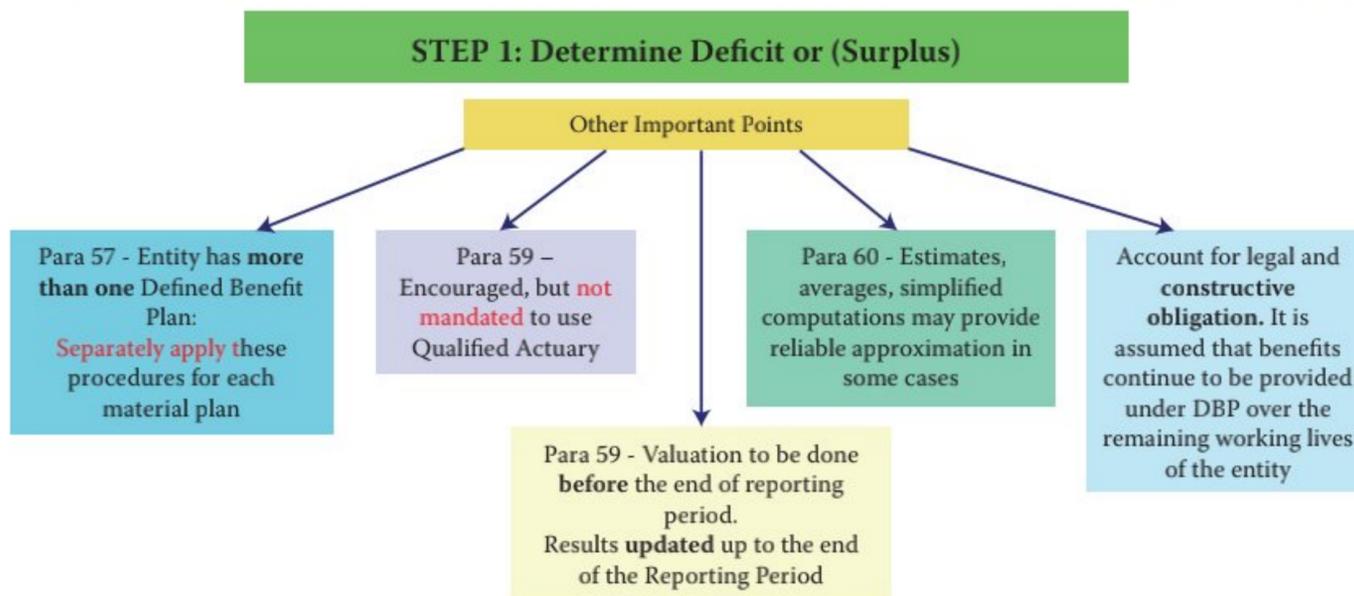
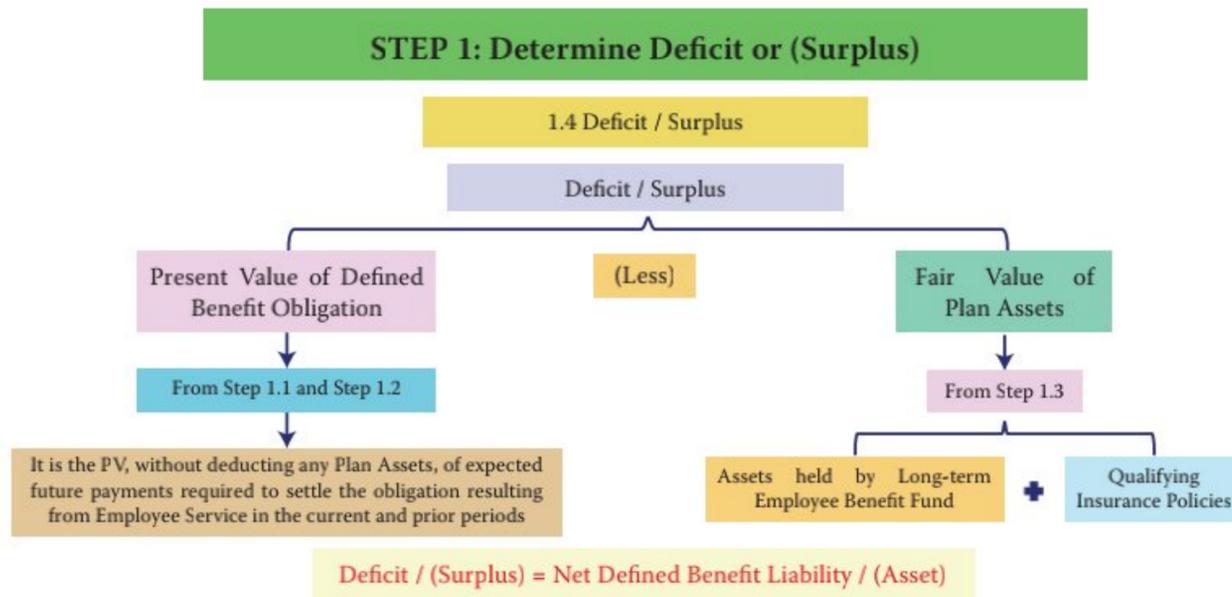
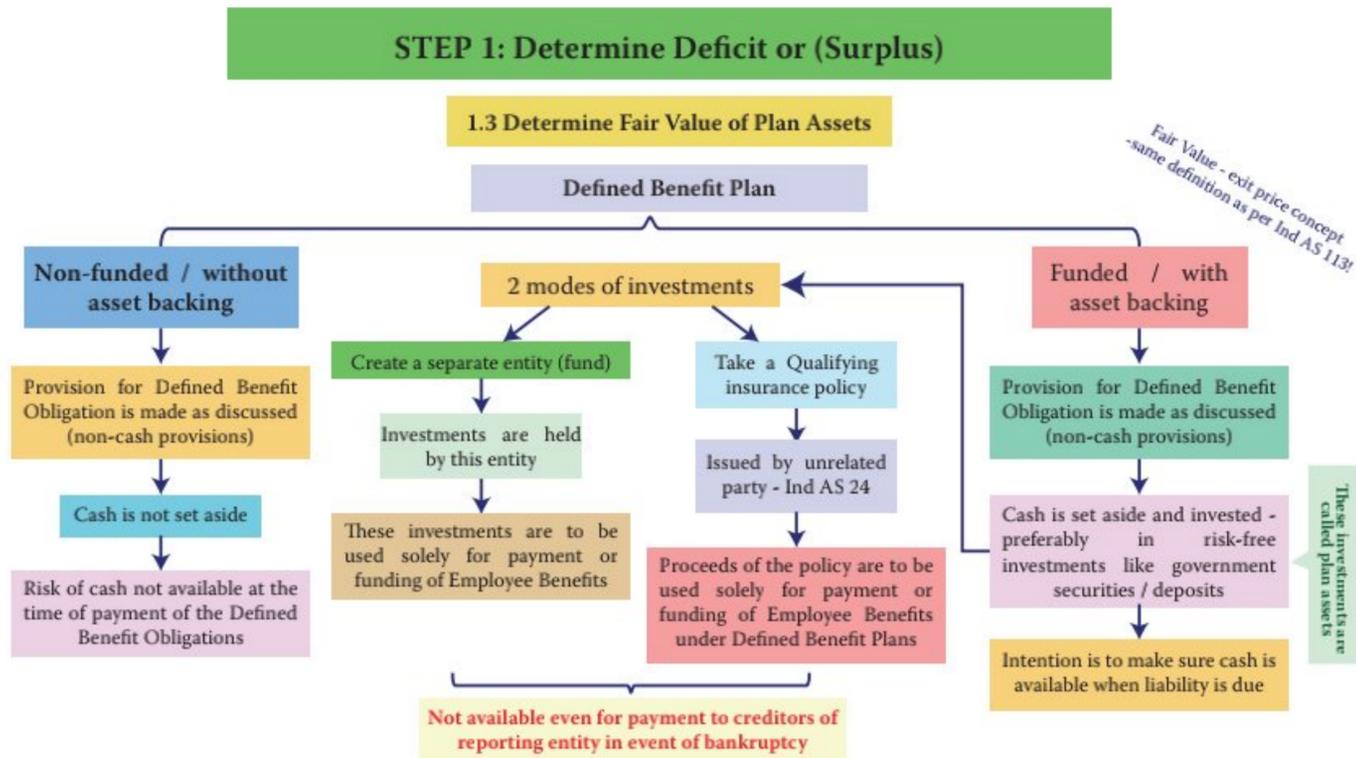
C. Actuarial Assumptions (Para 75-98)

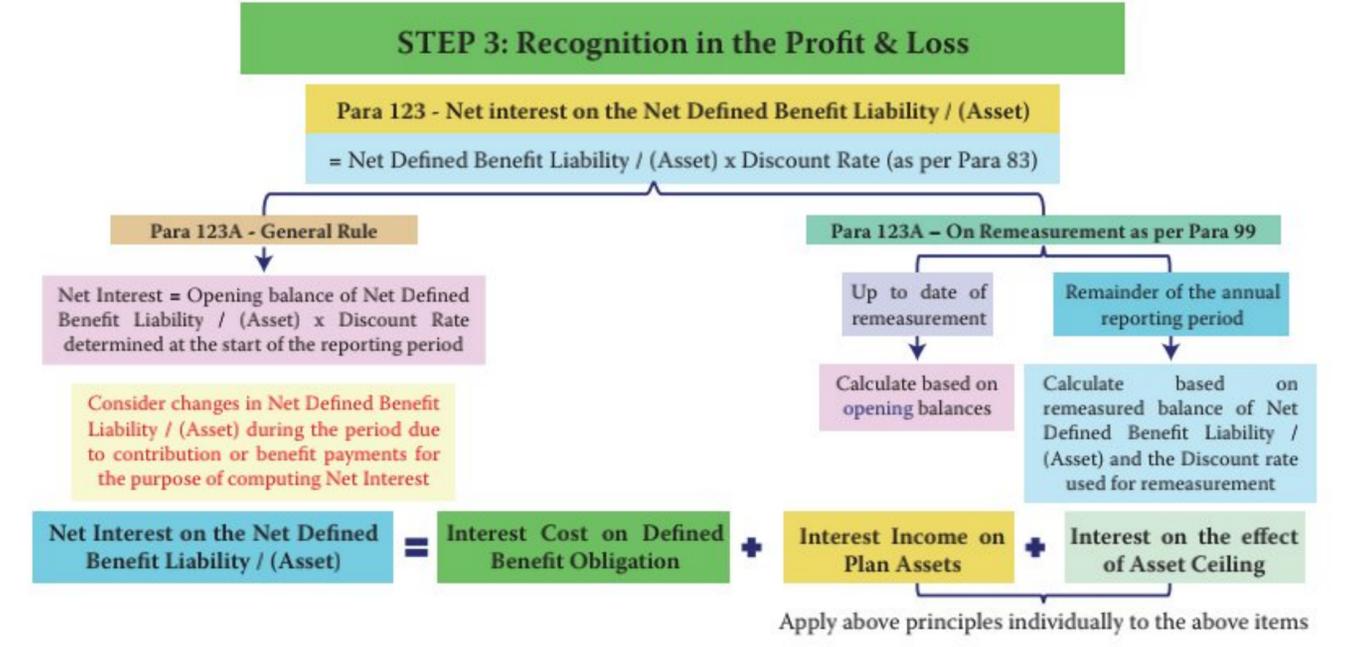
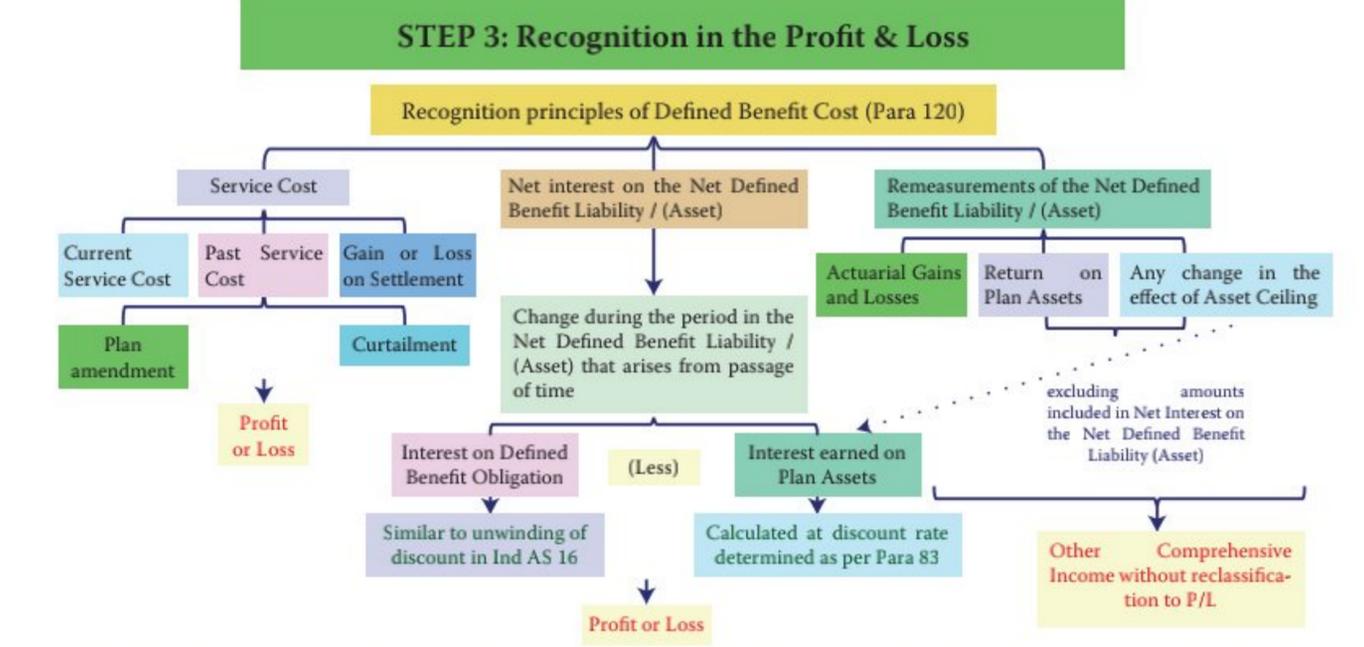
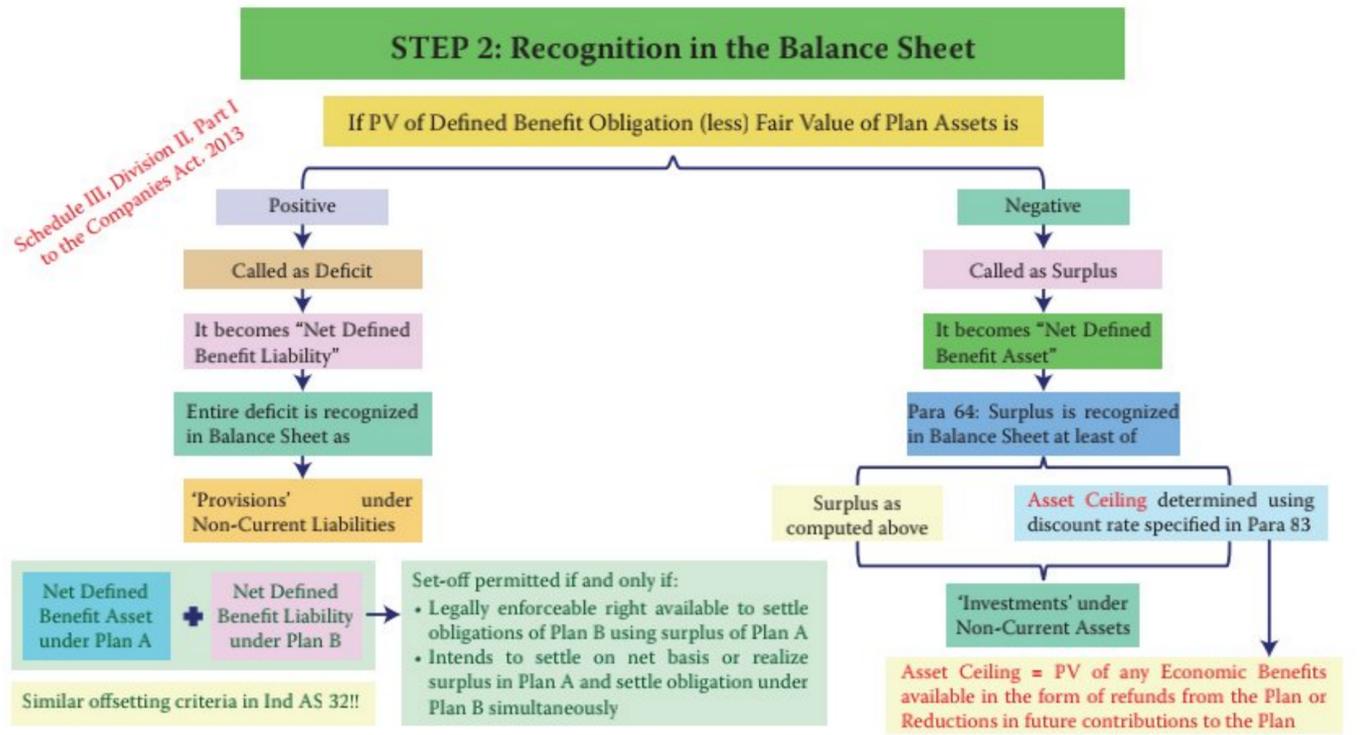
An entity's best estimates of variables that will determine the ultimate cost of providing post-employment benefits (Para 76)

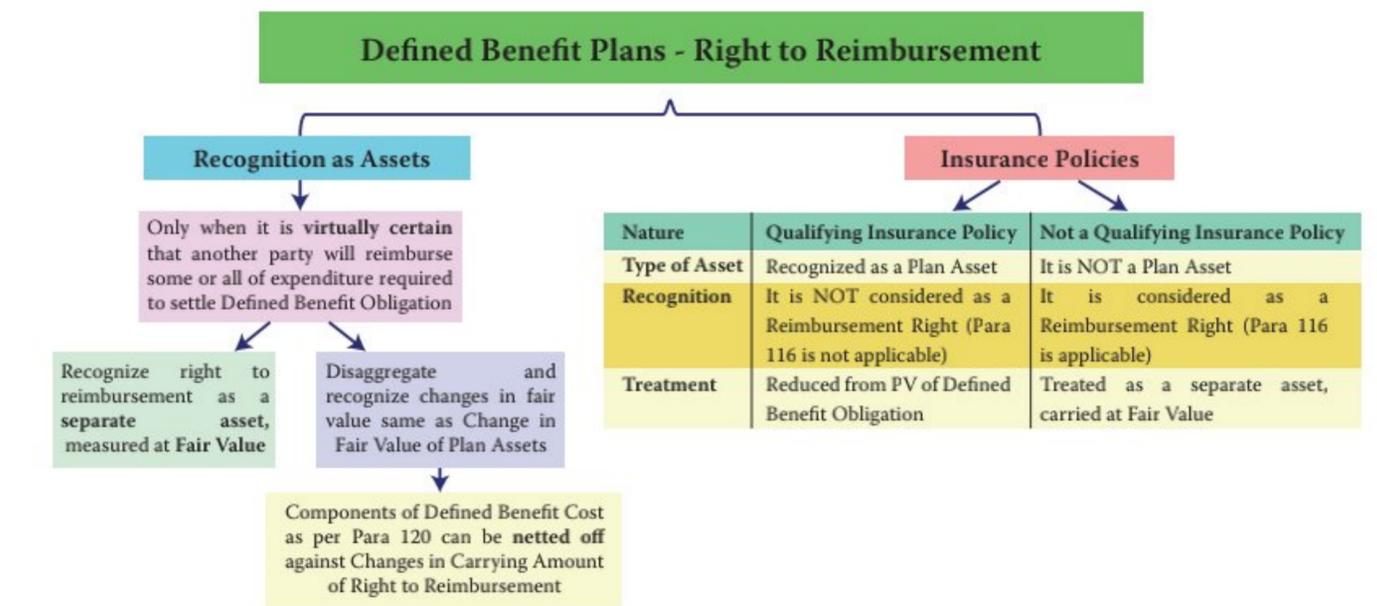
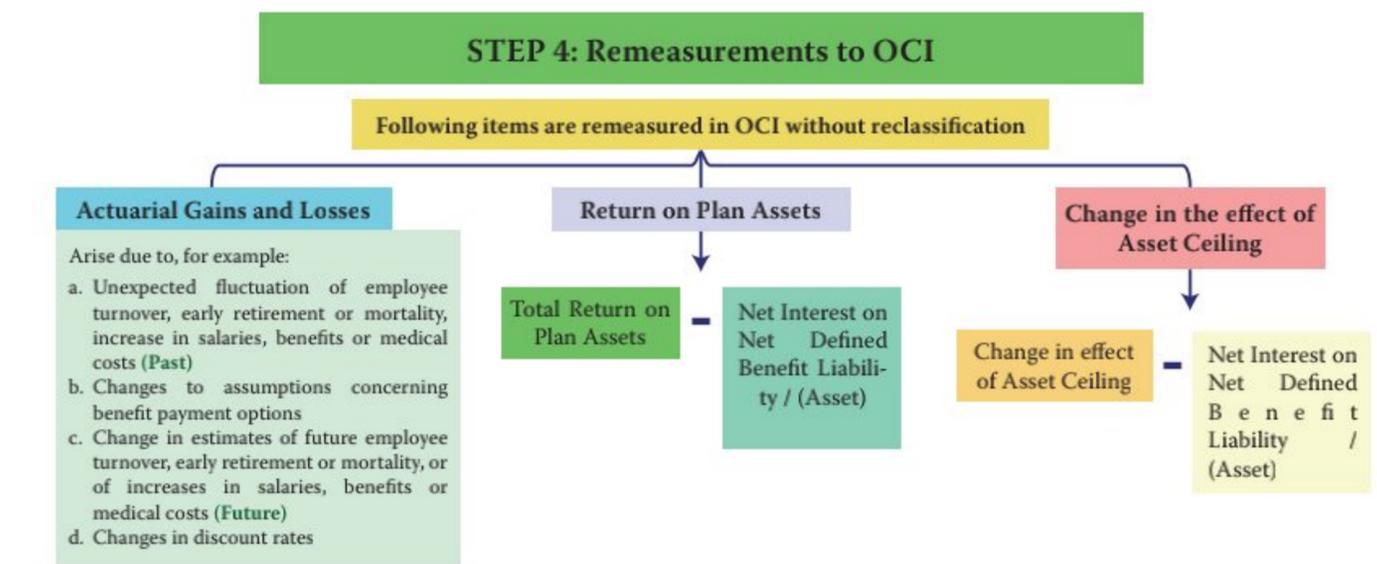
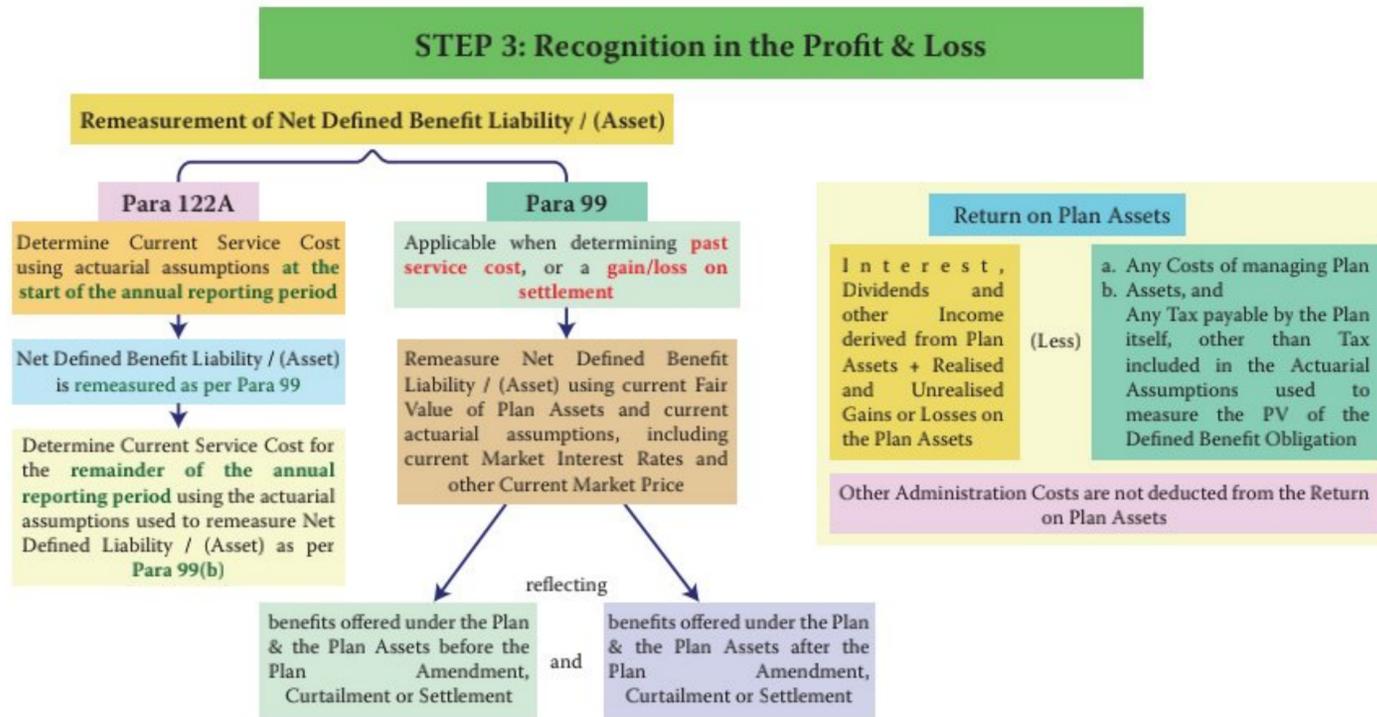












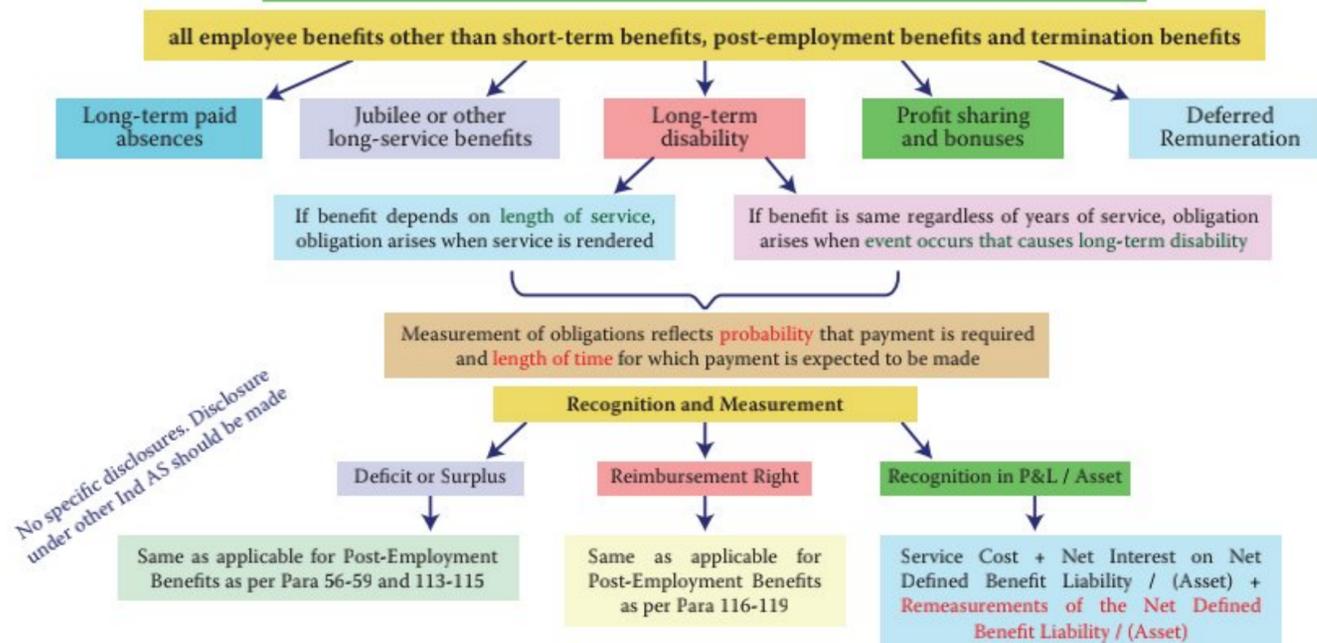
Defined Benefit Plans – Specific Disclosures

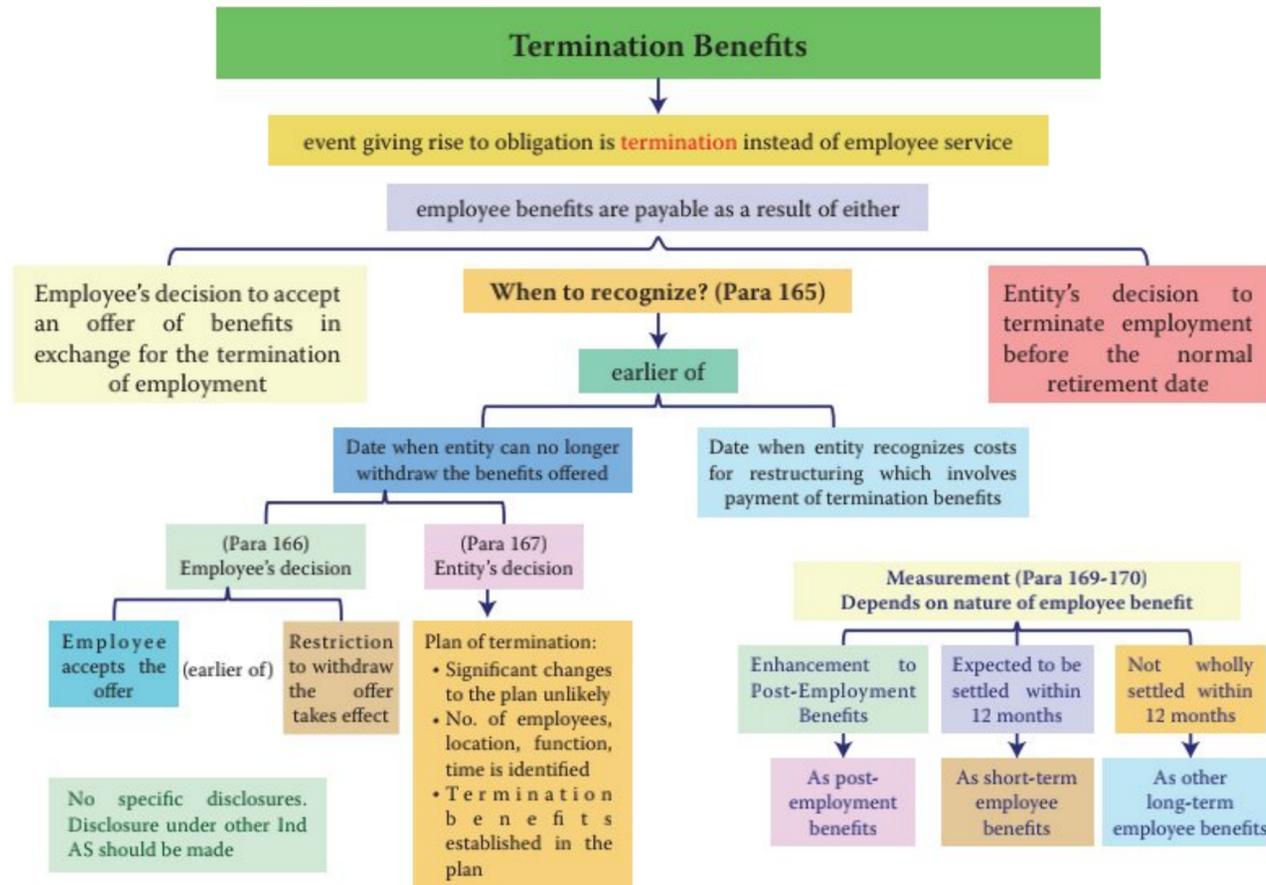
Characteristics and Risks (Para 139)	Explanation of Amounts in Financial Statements (Para 140-141)	Disaggregation of Fair Value Items (Para 142)	Assets owned / occupied / used etc (Para 143)	Actuarial Assumptions (Para 144)
<ul style="list-style-type: none"> <li>Characteristics</li> <li>Nature of Benefit provided by the Plan</li> <li>Regulatory Framework in which the Plan operates</li> <li>Description of any Other Responsibilities for governance of the Plan</li> <li>Risks to which plan exposes the entity</li> <li>Description of any Plan Amendments, Curtailments and Settlements</li> </ul>	<ul style="list-style-type: none"> <li>Reconciliation from Opening Balance to Closing Balance for each of the following:                             <ul style="list-style-type: none"> <li>Net Defined Benefit Liability / (Asset), showing separate reconciliations for Plan Assets, PV of the Defined Benefit Obligation, Effect of the Asset Ceiling</li> <li>Any Reimbursement Rights</li> </ul> </li> <li>Components of Reconciliation:                             <ul style="list-style-type: none"> <li>Current Service Cost</li> <li>Interest Income or Expense</li> <li>Remeasurements of Net Defined Benefit Liability / (Asset) with maximum possible breakup</li> <li>Past Service Cost and Gains and Losses arising on Settlements</li> <li>Effects of Changes in Foreign Exchange Rates</li> <li>Contributions to the Plans by Employers and participants</li> <li>Payments from the Plan, showing Settlement payments separately</li> <li>Effects of Business Combinations and Disposals</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Disaggregate Fair Value of Plan Assets into classes distinguishing nature and risks e.g.:                             <ul style="list-style-type: none"> <li>Cash and Cash Equivalents</li> <li>Equity Instruments (segregated by Industry Type, Geography, Company size etc.)</li> <li>Debt Instruments (segregated by Industry Type, Geography, Company size etc.)</li> <li>Real Estate (segregated by Geography etc.)</li> <li>Derivatives (segregated by type of underlying risk in the Contract)</li> <li>Investment Funds (segregated by type of Fund)</li> <li>Asset-backed Securities</li> <li>Structured Debt</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Disclose Fair Value of:                             <ul style="list-style-type: none"> <li>Entity's own transferable Financial Instruments held as</li> <li>Plan Assets, and</li> <li>Plan Assets that are Property occupied by, or other Assets, used by, the Entity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Disclose significant actuarial assumptions made to determine PV of Defined Benefit Obligation</li> <li>Such disclosure should be in absolute terms</li> <li>In respect of grouping of Plans, disclosure shall be in the form of Weighted Averages or relatively narrow ranges</li> </ul>

Defined Benefit Plans – Specific Disclosures

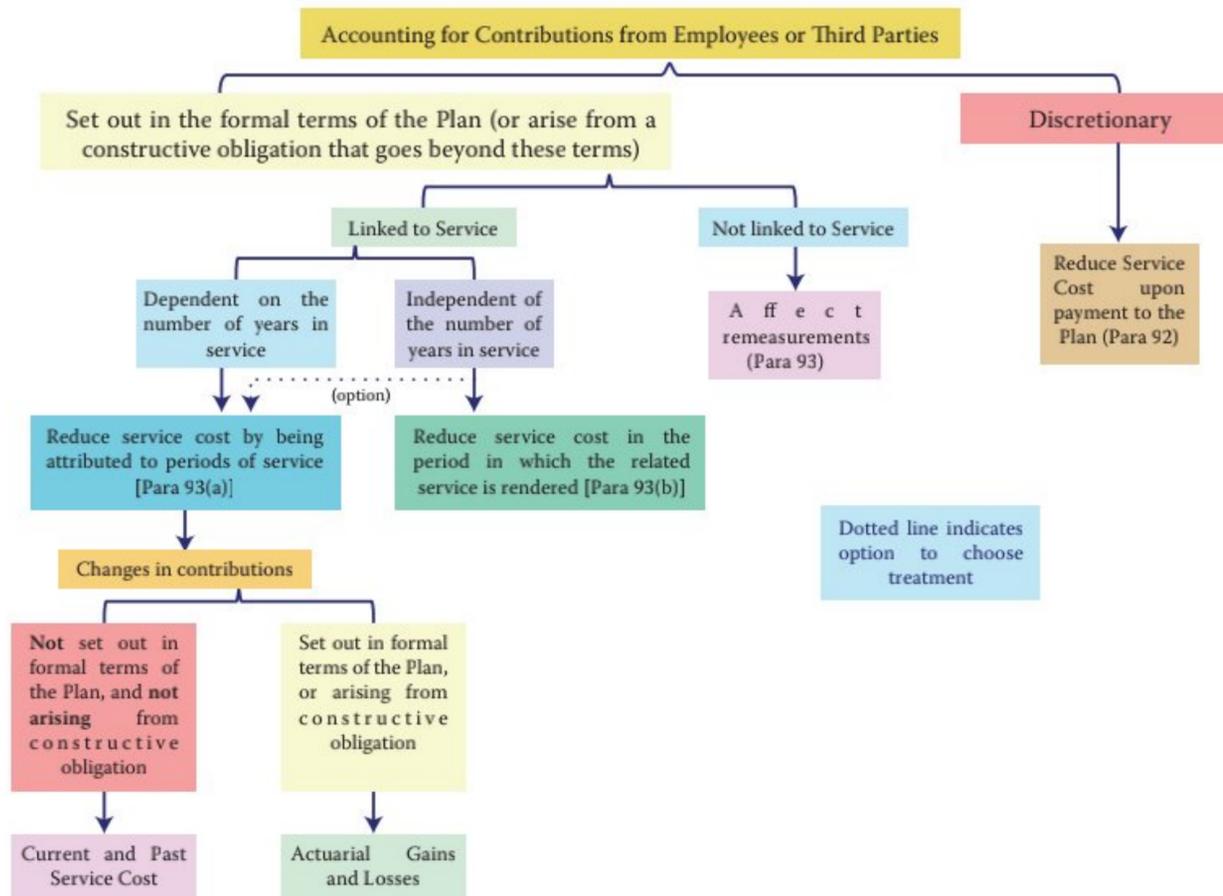
Para 145	Para 146	Para 147
<ul style="list-style-type: none"> <li>A Sensitivity Analysis for each significant actuarial assumption (as disclosed under Para 144) as of the end of the reporting period, showing how Defined Benefit Obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the date</li> <li>Methods and Assumptions used in preparing sensitivity analysis required above and limitations of those methods</li> <li>Changes from the previous period in the methods and assumptions used in preparing Sensitivity Analysis and reasons for such changes.</li> </ul>	<ul style="list-style-type: none"> <li>Description of any Asset-Liability Matching Strategies used by the Plan or the Entity, including the use of Annuities and other techniques, such as Longevity Swaps, to manage risks</li> </ul>	<ul style="list-style-type: none"> <li>Description of any Funding Arrangements and Funding Policy that affect future contributions</li> <li>The expected contributions to the Plan for the next accounting period</li> <li>Information about the Maturity Profile of the Defined Benefit Obligation. This will include Weighted Average Duration of the Defined Benefit Obligation and may include other information about the distribution of the timing of Benefit Payments, such as Maturity Analysis of the Benefit Payments</li> <li>These Disclosures provide an indication of the effect of the Defined Benefit Plan on the entity's future cash flows.</li> </ul>

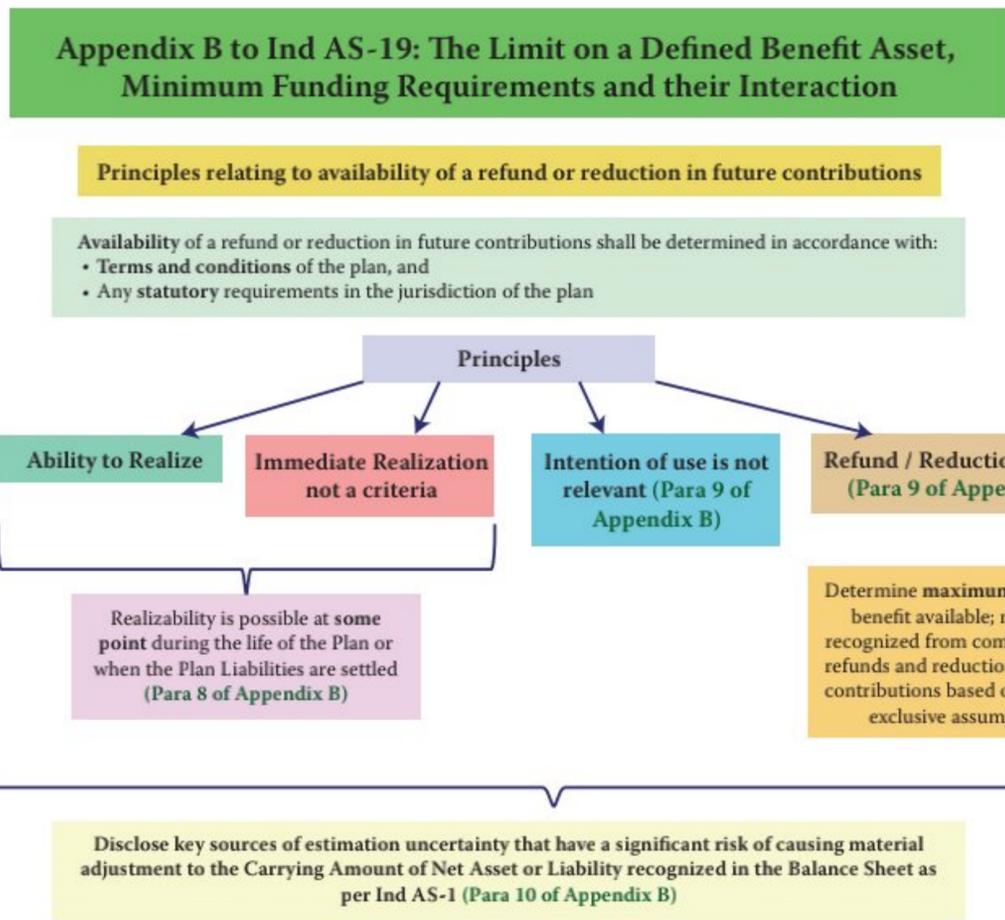
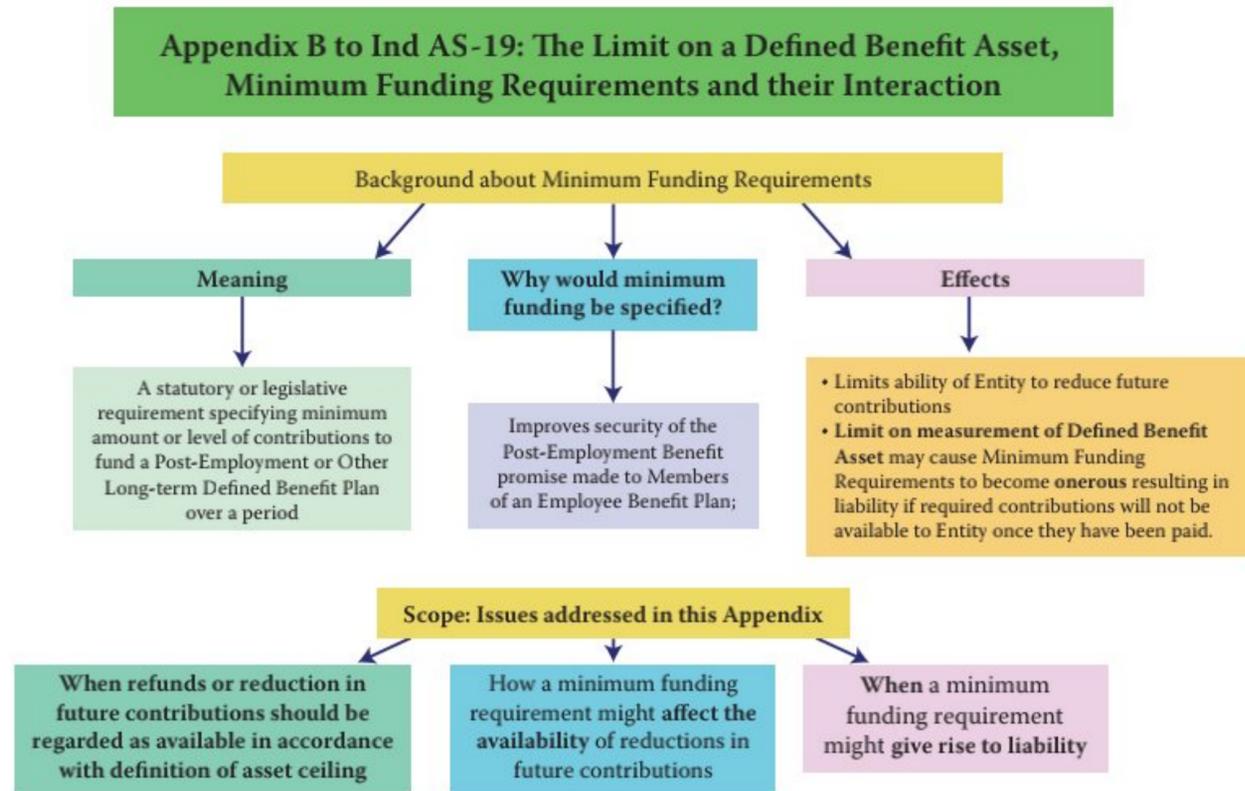
Other long-term Employee Benefits



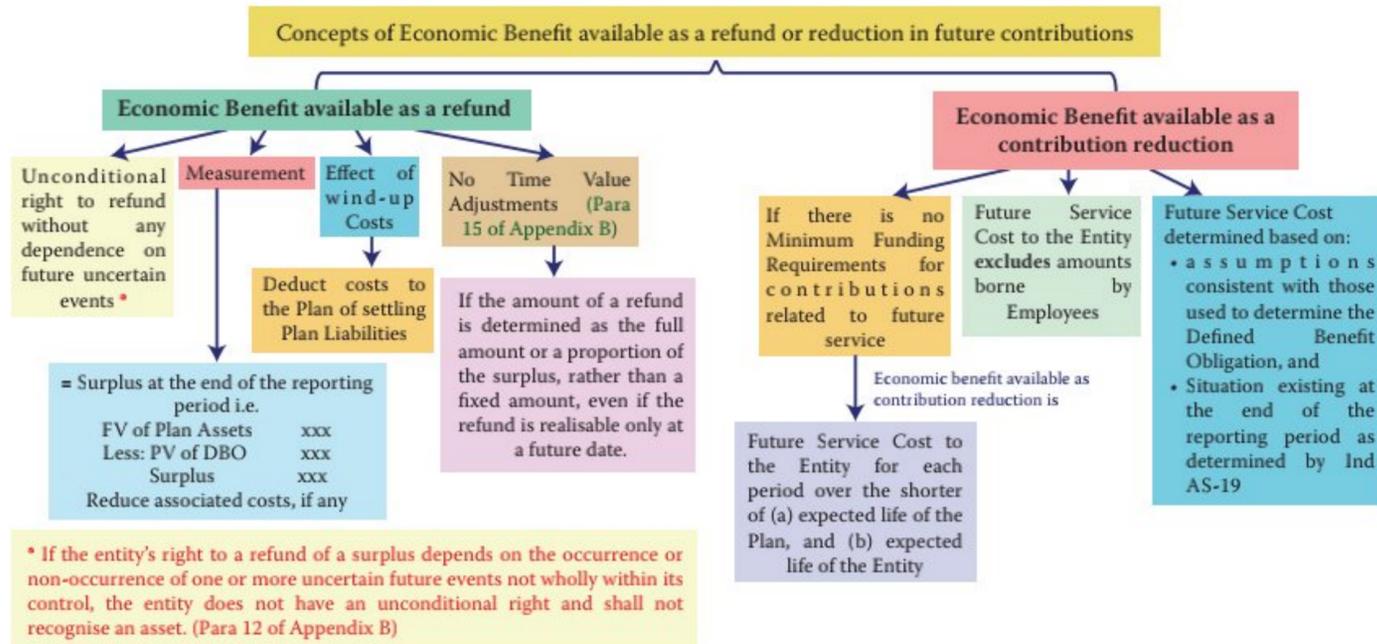


**Appendix A to Ind AS-19: Application Guidance**



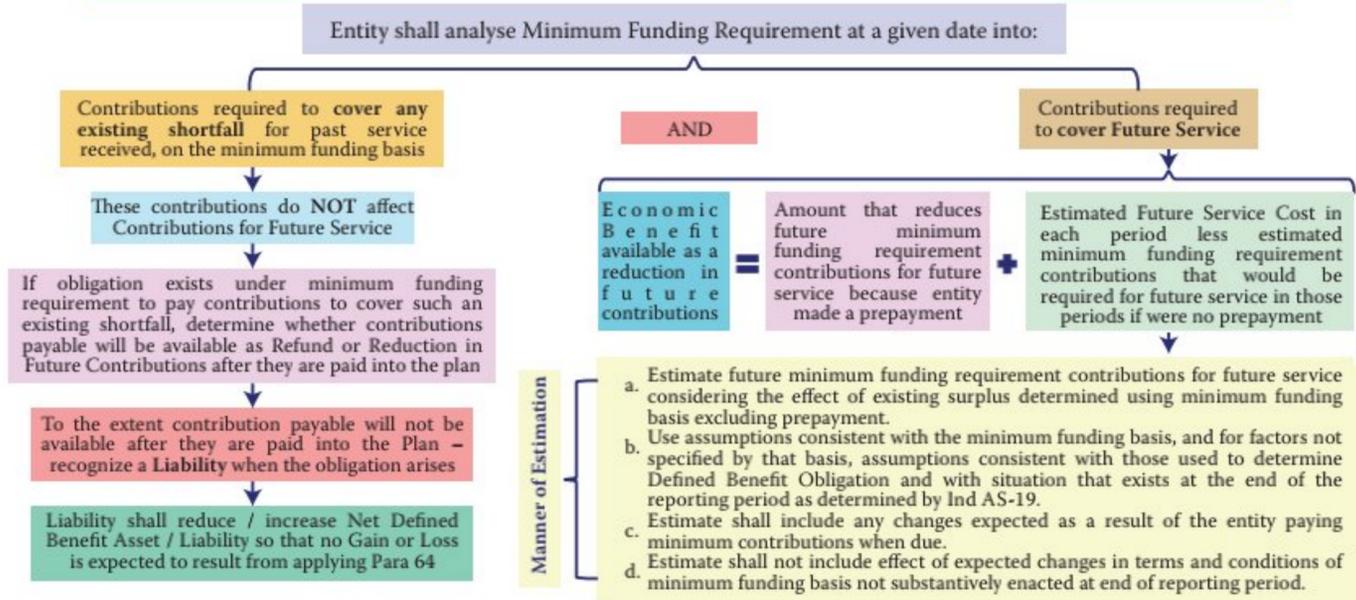


**Appendix B to Ind AS-19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**



**Appendix B to Ind AS-19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

Effect of a Minimum Funding Requirement on the economic benefit available as a reduction in Future Contributions

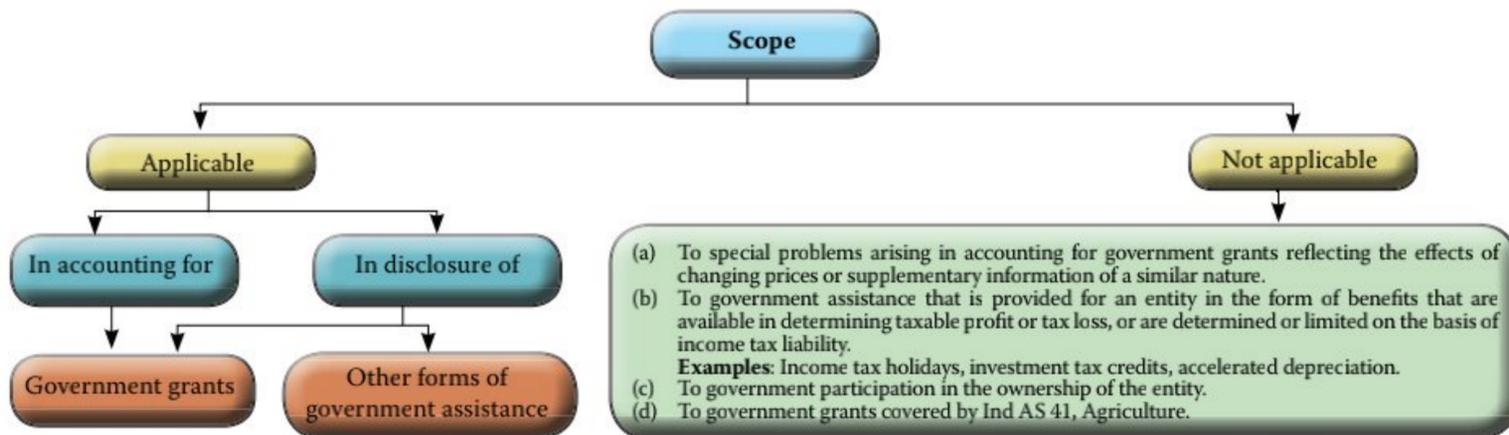
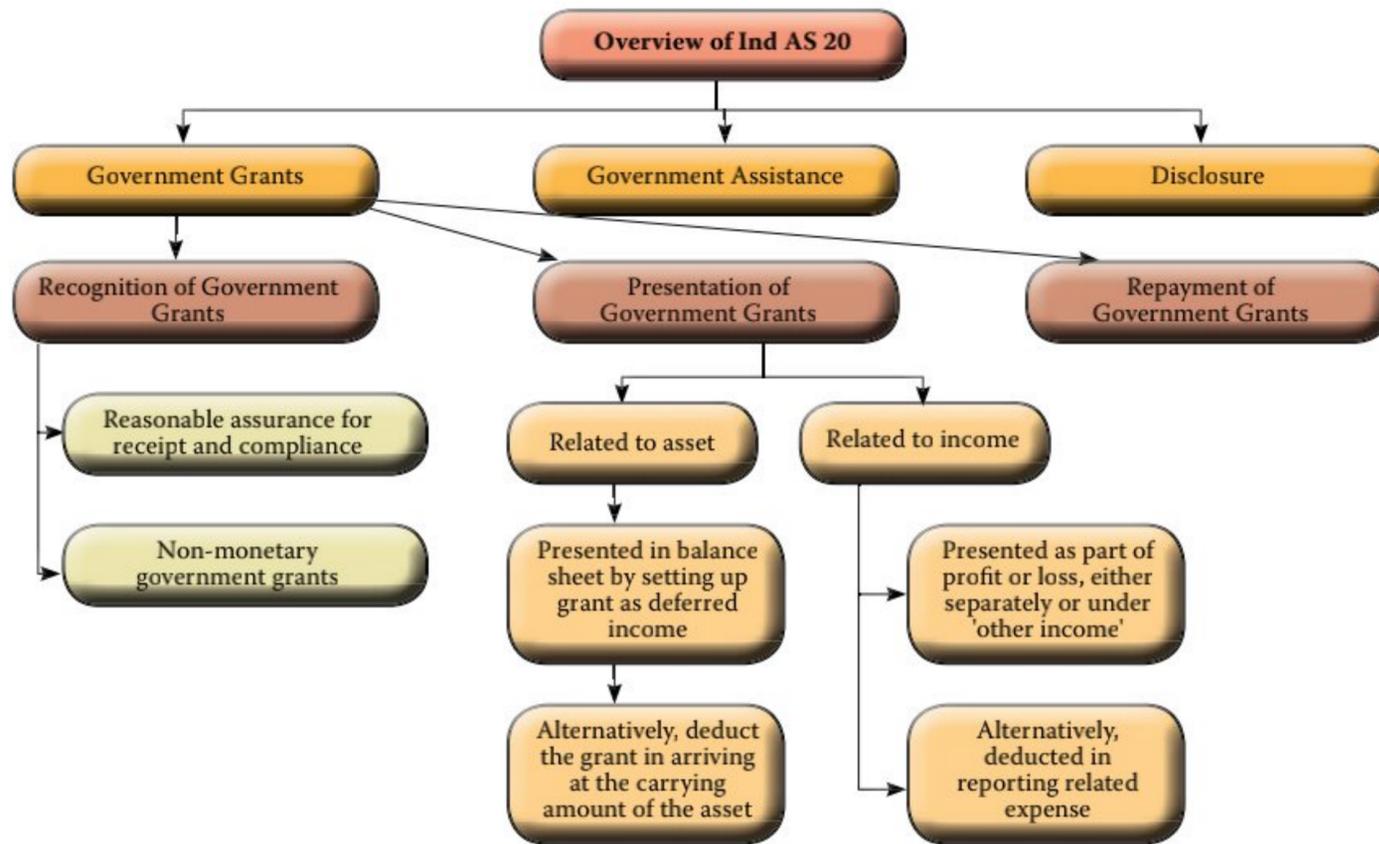


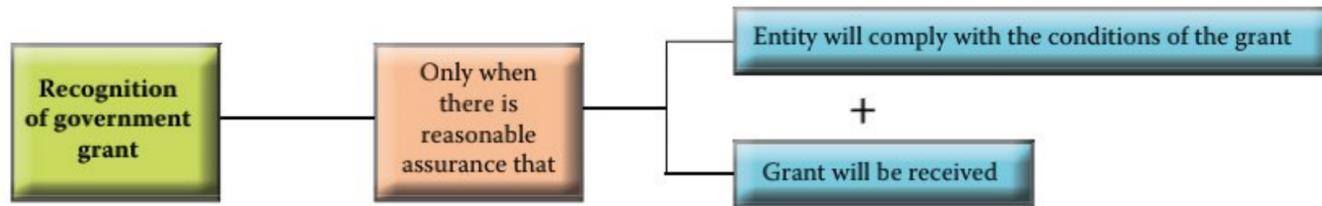
**Appendix B to Ind AS-19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

Effect of a Minimum Funding Requirement giving rise to a liability

- If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.
- To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the net defined benefit asset or increase the net defined benefit liability so that no gain or loss is expected to result from applying paragraph 64 of Ind AS 19 when the contributions are paid.

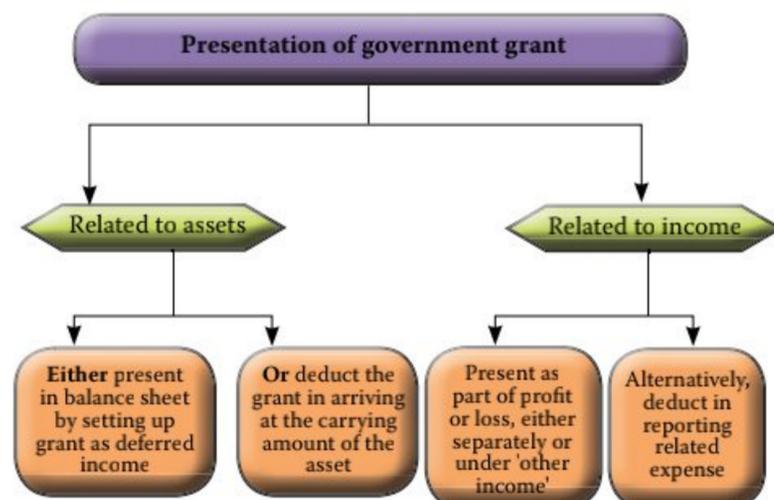
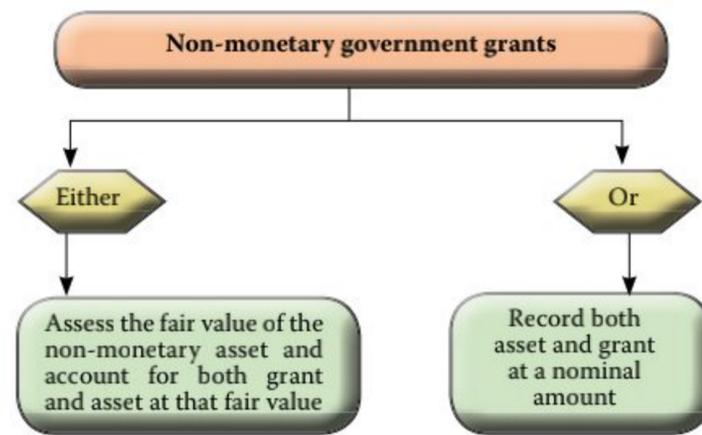
**INDIAN ACCOUNTING STANDARD (IND AS) 20: ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE**



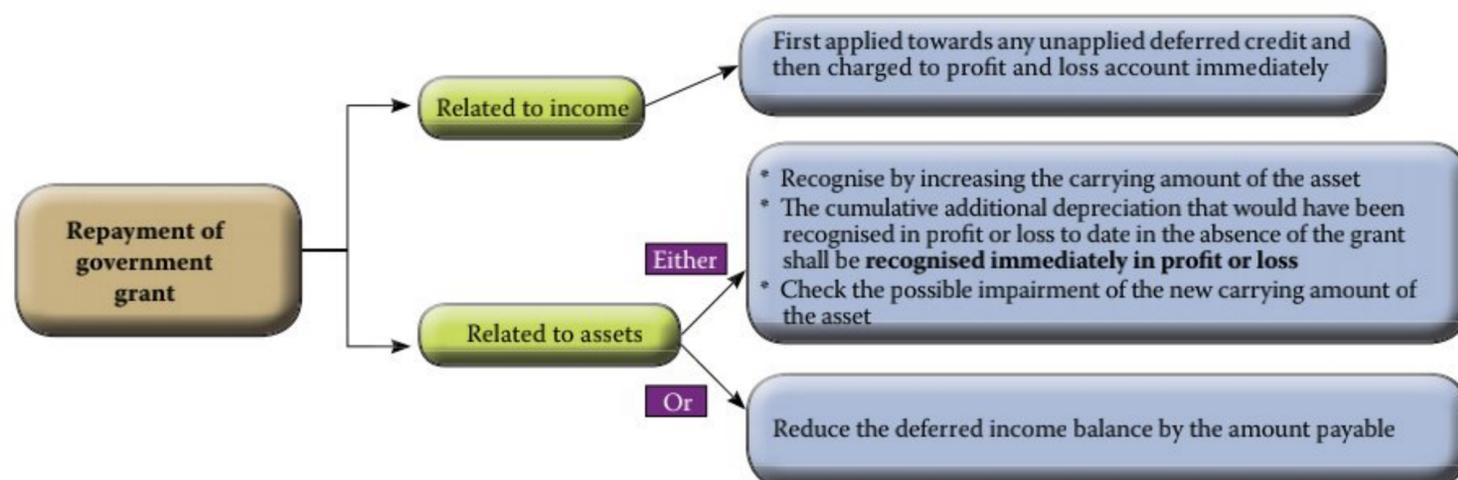


Note:

S. No.	Type	Treatment
1.	Grant whether received in cash or as a reduction of a liability to the government	Same manner of accounting is followed for all grants
2.	Forgivable loan from government	Treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan
3.	Government loan at a below-market rate of interest	<ul style="list-style-type: none"> <li>Treat the benefit as a government grant</li> <li>Recognise and measure in accordance with Ind AS 109.</li> </ul> <b>Benefit =</b> Initial carrying value of the loan determined as per Ind AS 109 - the proceeds received
4.	Grants received as part of a package of financial or fiscal aids with conditions attached	<ul style="list-style-type: none"> <li>Identify the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned.</li> <li>It may be appropriate to allocate part of a grant on one basis and part on another.</li> </ul>
5.	Grant receivable as compensation for expenses or losses already incurred or for immediate financial support with no future related costs	<ul style="list-style-type: none"> <li>Recognise in profit or loss of the period in which it becomes receivable</li> <li>Provide disclosure to ensure that its effect is clearly understood.</li> </ul>
6.	Government Assistance – No Specific relation to Operating Activities	<ul style="list-style-type: none"> <li>Government assistance to entities meets the definition of government grants in Ind AS 20</li> <li>Do not credit directly to shareholders' interests. Recognise in profit or loss on a systematic basis.</li> </ul>
7.	Government assistance with no reasonable value	Exclude from the definition of government grants
8.	Transactions with government	Exclude from the definition of government grants

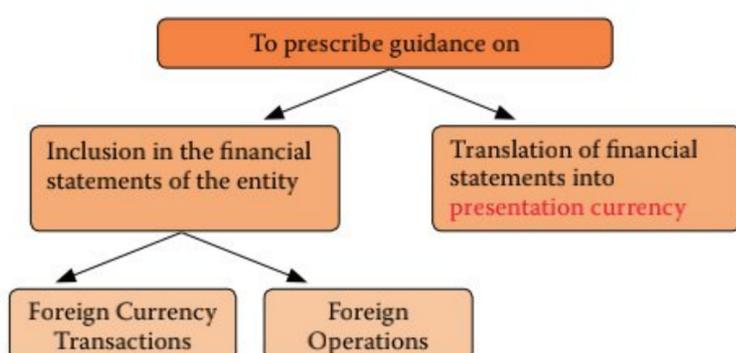


**Basic principle for recognition of government grant-** Government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.



INDIAN ACCOUNTING STANDARD (IND AS) 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

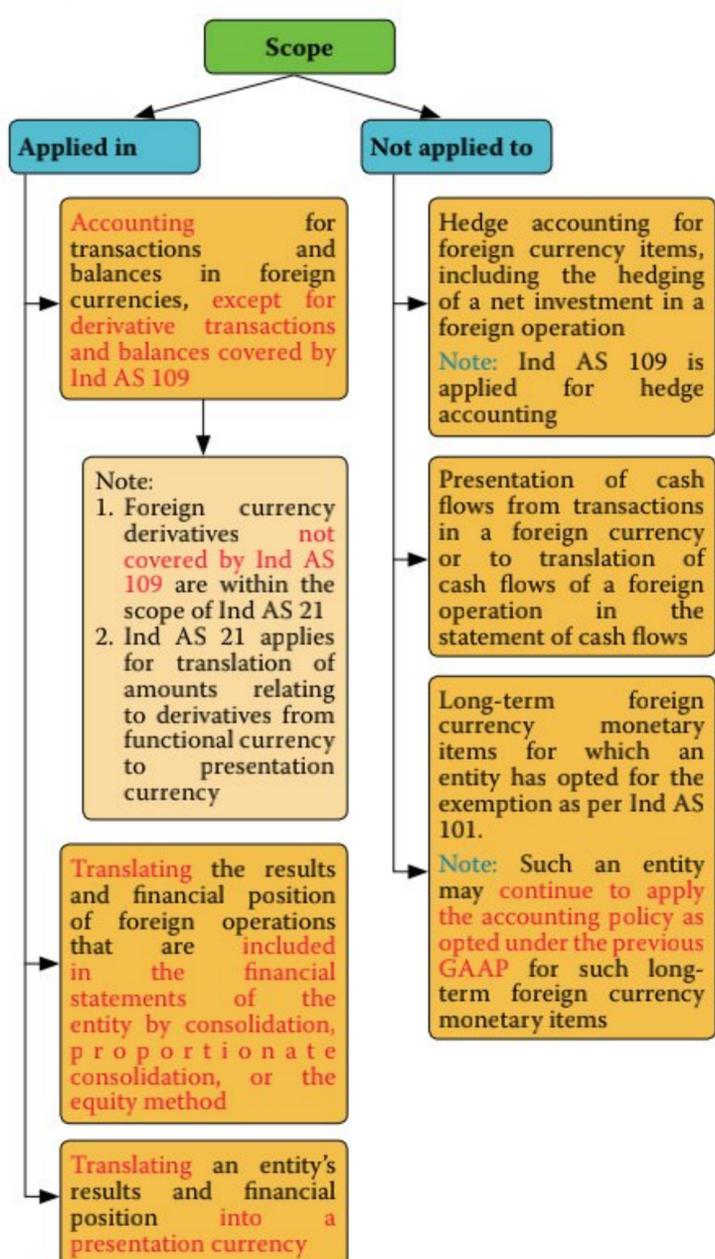
Objective



Key Definitions

1.	<b>Functional currency</b>	It is the currency of the <b>primary economic environment</b> in which the entity operates <i>Note:</i> The primary economic environment will normally be the one in which it primarily generates and expends cash i.e. it operates
2.	<b>Foreign operation</b>	It is a <b>subsidiary, associate, joint venture or branch of a reporting entity</b> , the activities of which are based or conducted in a country or currency other than those of the reporting entity
3.	<b>Presentation currency</b>	<ul style="list-style-type: none"> <li>It is the <b>currency in which the financial statements are presented.</b></li> <li>The presentation currency may be different from the entity's functional currency</li> </ul>
4.	<b>Spot exchange rate</b>	It is the <b>exchange rate for immediate delivery</b>
5.	<b>Closing rate</b>	It is the <b>spot exchange rate at the end of the reporting period</b>
6.	<b>Exchange difference</b>	It is the <b>difference</b> resulting from translating a given number of units of one currency into another currency at different exchange rates
7.	<b>Monetary items</b>	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency
8.	<b>Net Investment in Foreign Operation</b>	It is the amount of the reporting entity's interest in the net assets of that operation

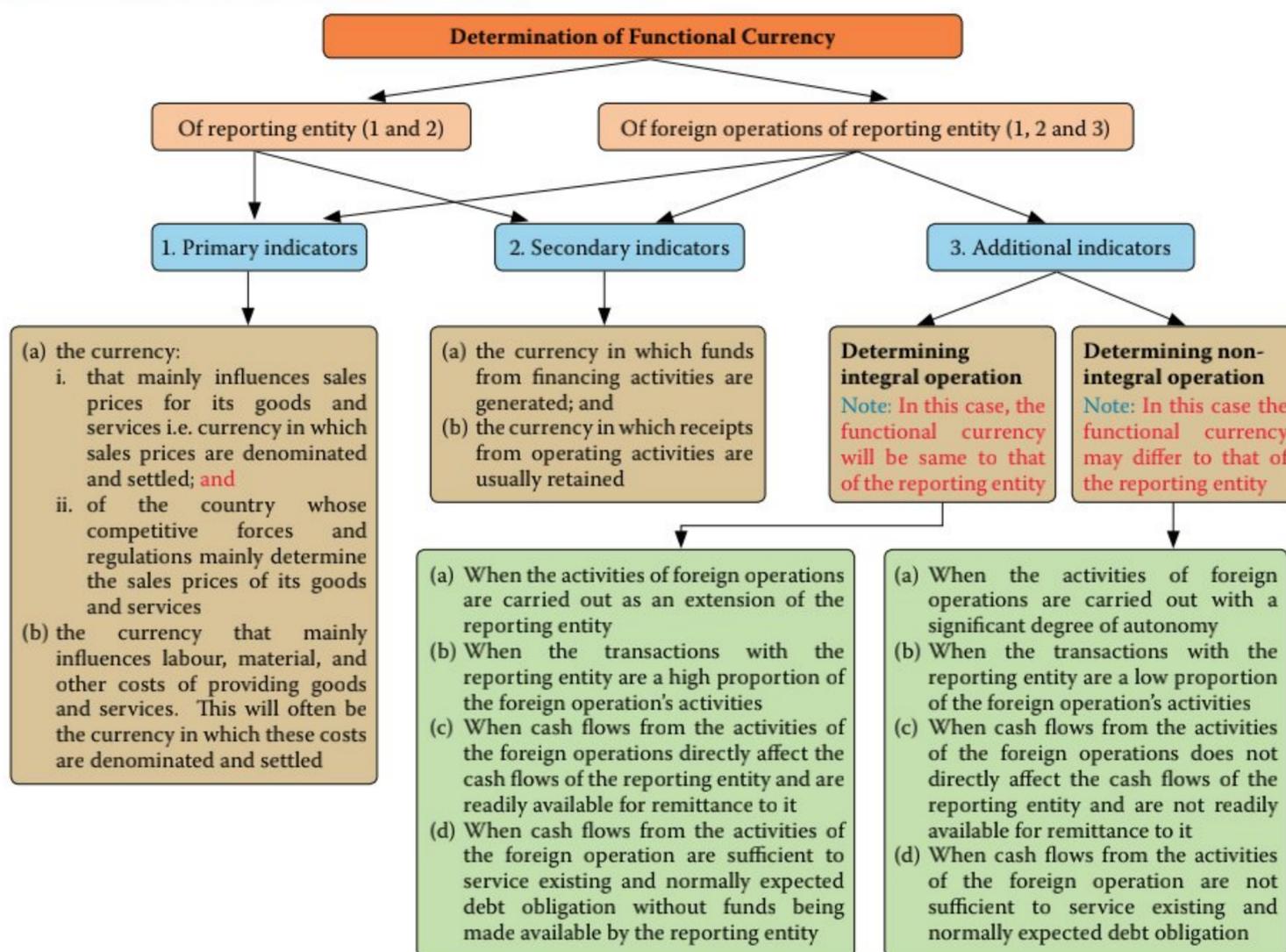
Scope



Functional Currency

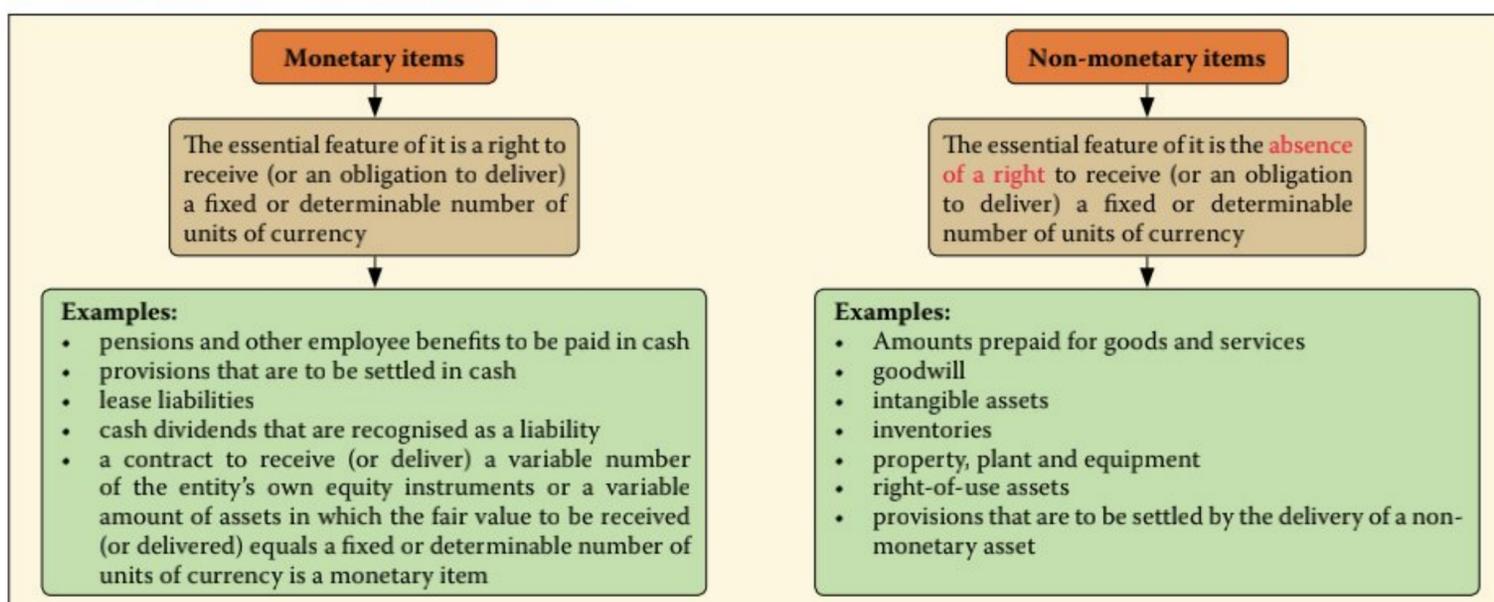
- The functional currency is normally the currency of the country in which the entity is located. It might, however, be a different currency
- An entity measures its assets, liabilities, equity, income and expenses in its functional currency
- All transactions in currencies other than the functional currency are foreign currency transactions
- For determination of functional currency of an entity, emphasis should be on the currency that determines the pricing of the undertaken transactions, rather than focusing on the currency in which those transactions are denominated
- Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions

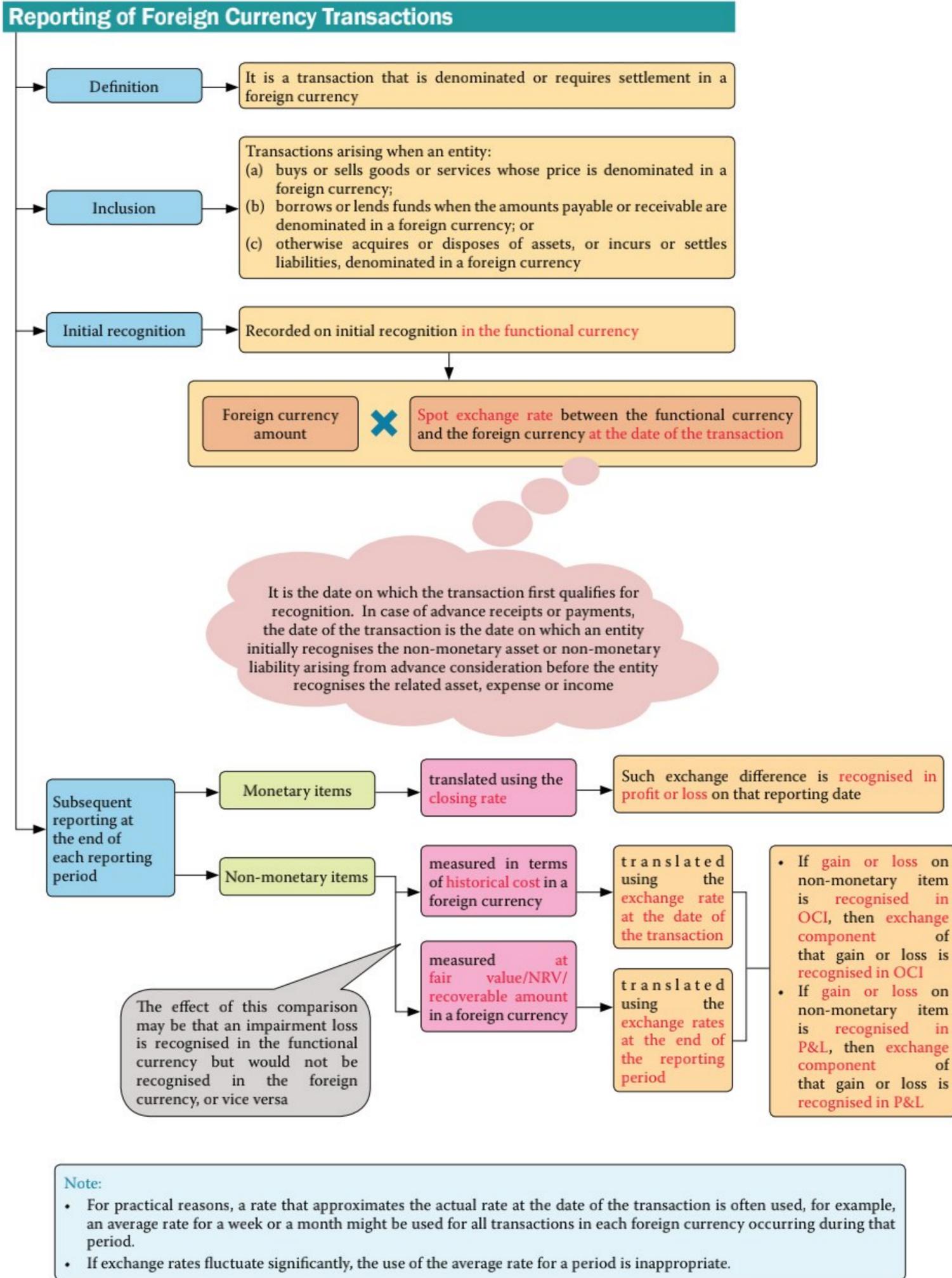
**Determination of Functional Currency**



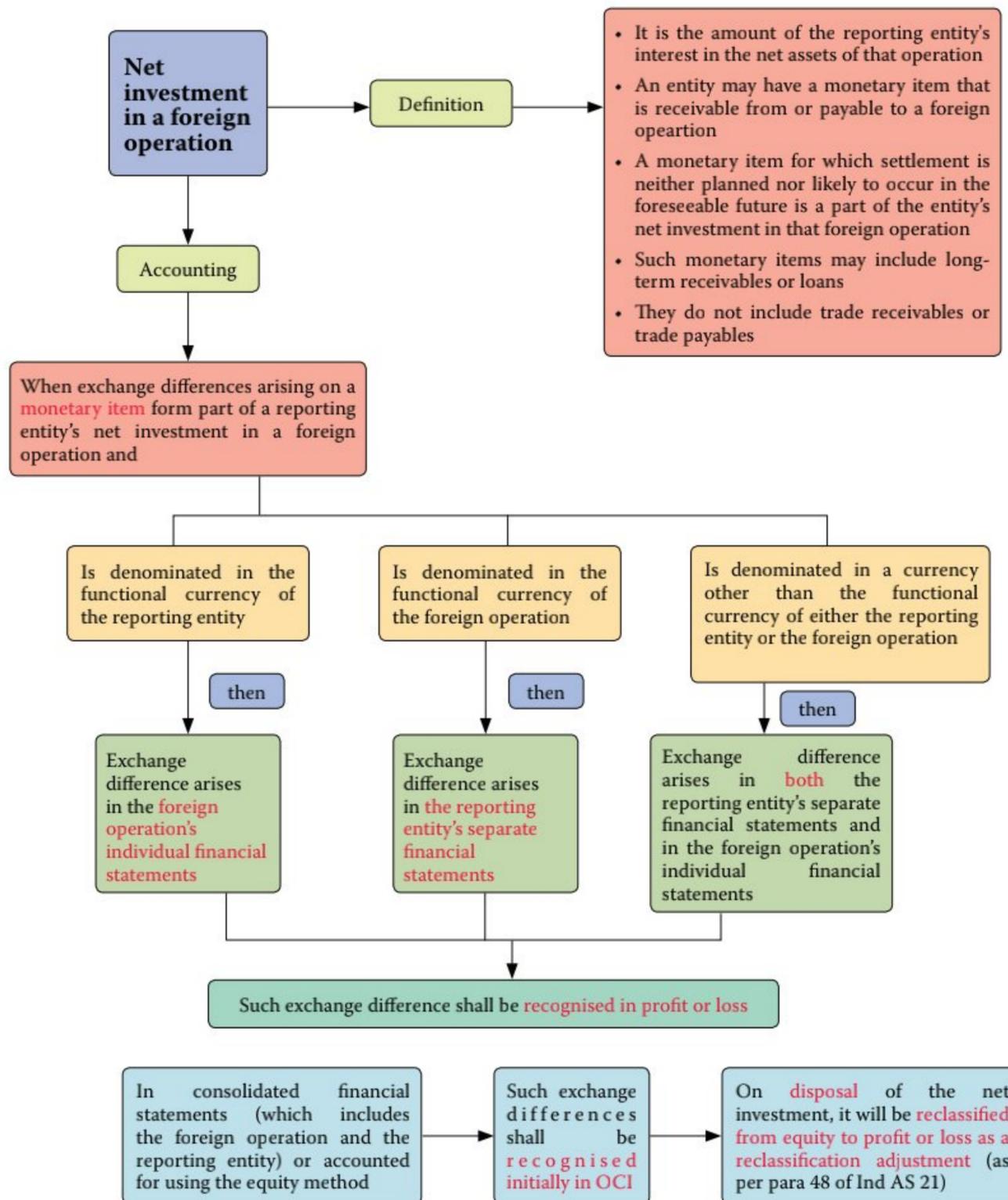
**Note:**  
When the above indicators are mixed and the functional currency is not obvious, the management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.  
Accordingly, management has to give priority to the primary indicators before considering the other indicators, which provide additional supporting evidence to determine an entity's functional currency.

**Monetary & Non-monetary items**

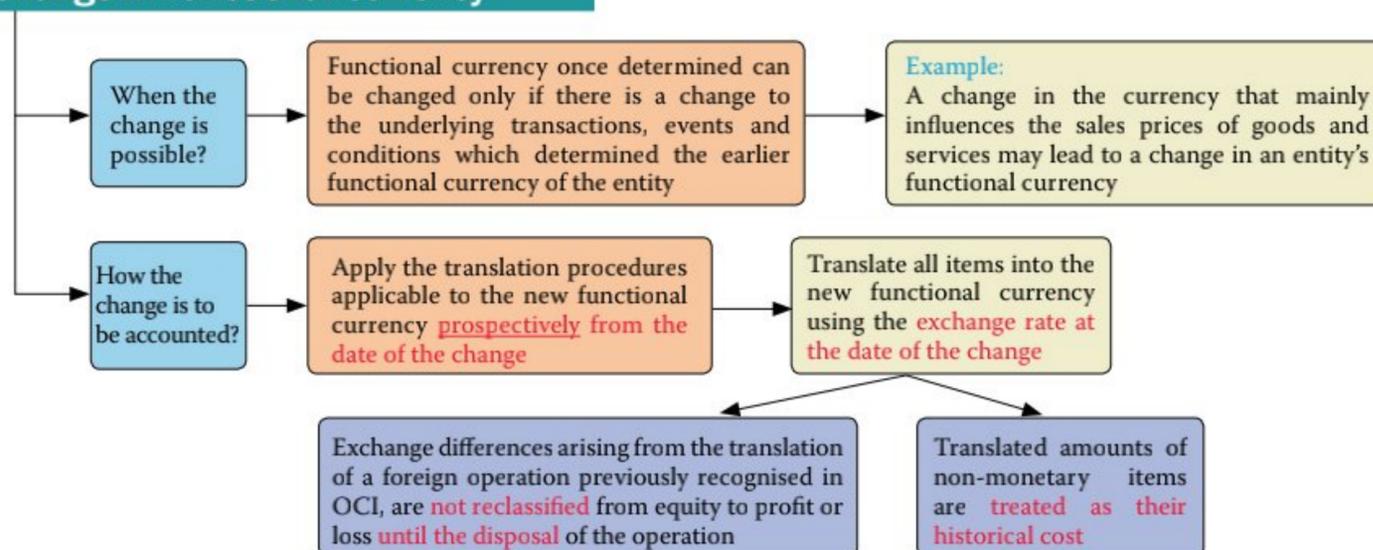




Net investment in a foreign operation



**Change in Functional Currency**



**Translation to the presentation currency**

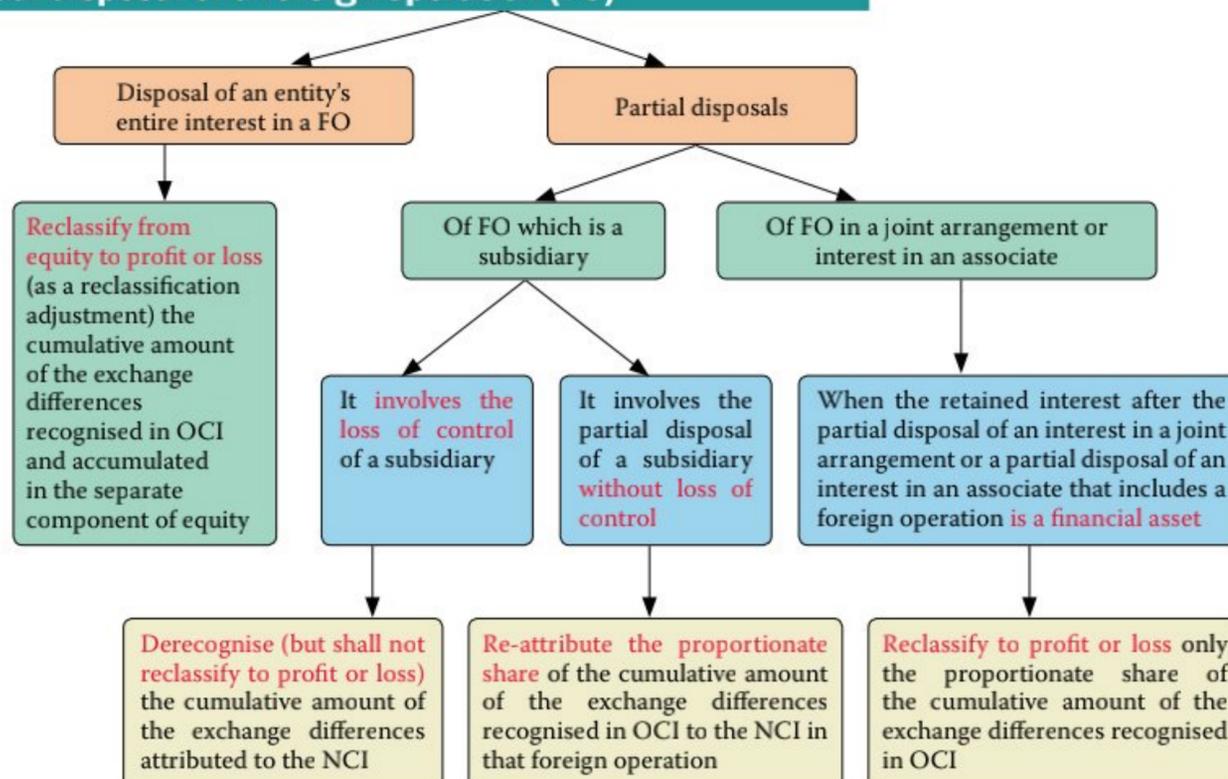
1.	Why to translate?	<ul style="list-style-type: none"> <li>An entity may <b>present its financial statements in any currency</b> (or currencies).</li> <li>If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency</li> </ul>												
2.	When entity's functional currency is <b>not</b> the currency of a hyperinflationary economy	<p>The results and financial position are translated into a different presentation currency using the following procedures:</p> <table border="1"> <thead> <tr> <th>S.N.</th> <th>Item</th> <th>Translation procedures</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Assets and liabilities (including comparatives)</td> <td><b>Translated at the closing rate</b> at the date of that balance sheet</td> </tr> <tr> <td>2.</td> <td>Income and expenses (including comparatives)</td> <td>Translated at <b>exchange rates at the dates of the transactions</b></td> </tr> <tr> <td>3.</td> <td>All resulting exchange differences</td> <td><b>Recognised in OCI</b></td> </tr> </tbody> </table>	S.N.	Item	Translation procedures	1.	Assets and liabilities (including comparatives)	<b>Translated at the closing rate</b> at the date of that balance sheet	2.	Income and expenses (including comparatives)	Translated at <b>exchange rates at the dates of the transactions</b>	3.	All resulting exchange differences	<b>Recognised in OCI</b>
S.N.	Item	Translation procedures												
1.	Assets and liabilities (including comparatives)	<b>Translated at the closing rate</b> at the date of that balance sheet												
2.	Income and expenses (including comparatives)	Translated at <b>exchange rates at the dates of the transactions</b>												
3.	All resulting exchange differences	<b>Recognised in OCI</b>												
3.	When entity's functional currency is the currency of a hyperinflationary economy	<p>The results and financial position are translated into a different presentation currency using the following procedures:  <b>All amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) are translated at the closing rate</b> at the date of the most recent balance sheet</p> <p style="text-align: center;"><b>Comparative amounts shall not be adjusted for subsequent changes in the price level or subsequent changes in exchange rates</b></p> <p><b>Note:</b>                      The entity shall <b>restate</b> its financial statements in accordance with Ind AS 29 <b>before applying the translation method, except for comparative amounts</b> that are translated into a currency of a non-hyperinflationary economy.</p>												
4.	Translation of a foreign operation (FO) in CFS	<ul style="list-style-type: none"> <li>The incorporation of the results and financial position of a FO with those of the reporting entity follows normal consolidation procedures</li> <li>However, an intragroup monetary asset (or liability), whether short-term or long-term, <b>cannot be eliminated</b> against the corresponding intragroup liability (or asset) <b>without showing the results of currency fluctuations</b> in the consolidated financial statements</li> <li>Such an exchange difference is recognised either in profit or loss or OCI. (Refer chart on net investment in FO)</li> <li>Any <b>goodwill</b> arising on the acquisition of a FO and any <b>fair value adjustments</b> to the carrying amounts of assets and liabilities arising on the acquisition of that FO shall be treated as assets and liabilities of the foreign operation. Thus, they shall be <b>expressed in the functional currency</b> of the foreign operation <b>and shall be translated at the closing rate</b></li> </ul>												

**Note:**

Tax effects of all exchange differences

**Gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency may have tax effects as per Ind AS 12, Income Taxes.**

### Disposal or partial disposal of a foreign operation (FO)



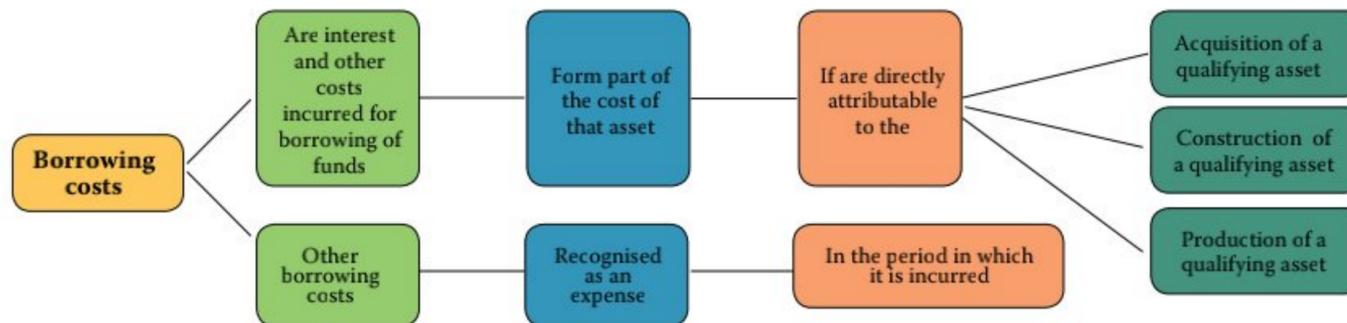
#### Note:

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

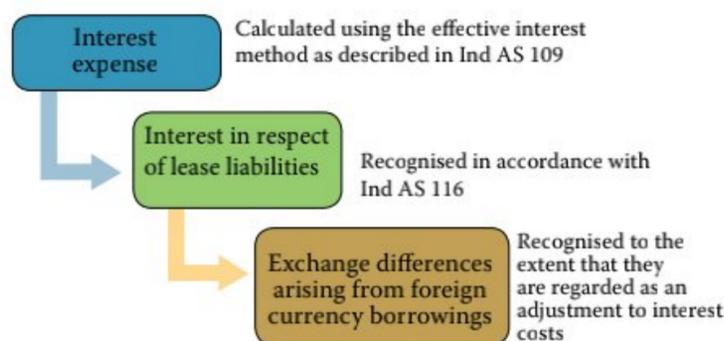
### Disclosure

S. No.	Scenarios	Disclose
1.	In case of foreign currency transaction	<ul style="list-style-type: none"> <li>The amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at FVTPL as per Ind AS 109</li> <li>Net exchange differences recognised in OCI and accumulated in a separate component of equity, and a <b>reconciliation of the amount of such exchange differences at the beginning and end of the period</b></li> </ul>
2.	In case of change in the functional currency of either the reporting entity or a significant foreign operation	<ul style="list-style-type: none"> <li>The fact that there is a change in the functional currency</li> <li>The reason for the change in functional currency; and</li> <li>The date of change in functional currency</li> </ul>
3.	When the presentation currency is different from the functional currency	<ul style="list-style-type: none"> <li>The fact that the presentation currency is different from the functional currency;</li> <li>Disclosure of the functional currency</li> <li>The reason for using a different presentation currency</li> <li>Description that the financial statements is complying with <b>all</b> Ind AS</li> </ul> <p>In case financial statements are <b>not in compliance</b> with all Ind AS, then</p> <ol style="list-style-type: none"> <li>clearly identify the information as supplementary information to distinguish it from the information that complies with Ind AS;</li> <li>disclose the currency in which the supplementary information is displayed; and</li> <li>disclose the entity's functional currency and the method of translation used to determine the supplementary information</li> </ol>

INDIAN ACCOUNTING STANDARD (IND AS) 23: BORROWING COSTS

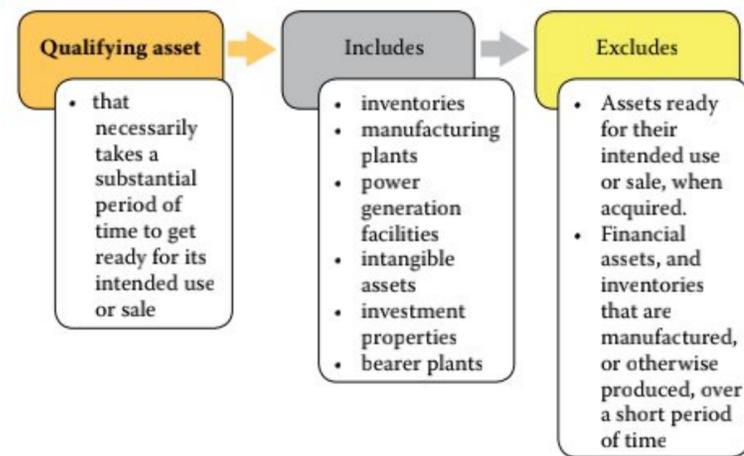


Borrowing Costs includes



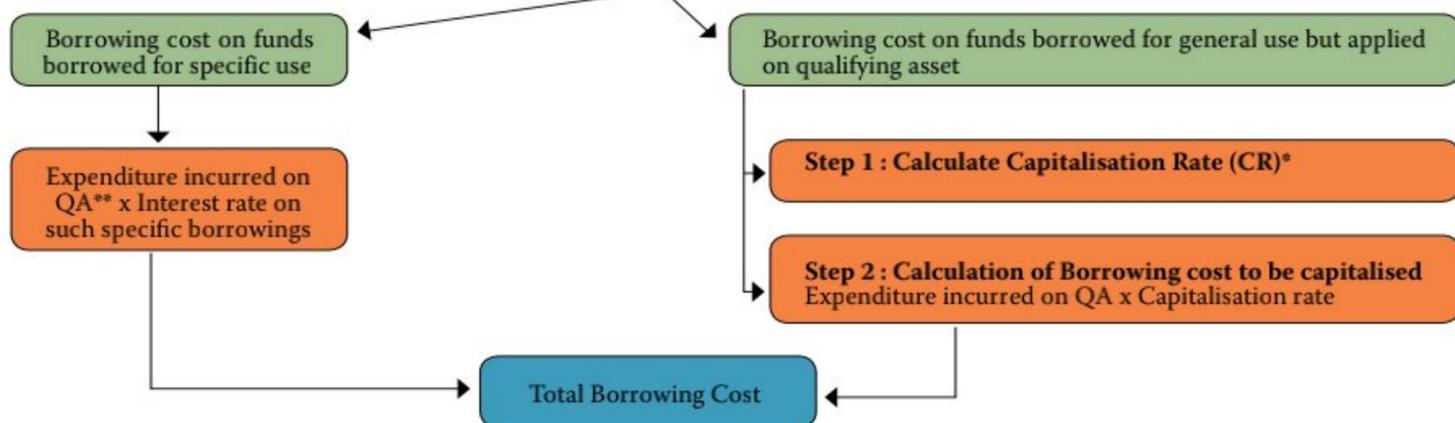
**Note:** With regard to exchange difference required to be treated as borrowing costs:

- The adjustment amount should be equivalent to the exchange loss not exceeding the difference between the cost of borrowing in functional currency vis-a-vis the cost of borrowing in a foreign currency.
- 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.



$$\text{Borrowing costs eligible for capitalisation} = \text{Actual borrowing costs incurred on that borrowing during the period} - \text{Investment income on the temporary investment of those borrowings, if any.}$$

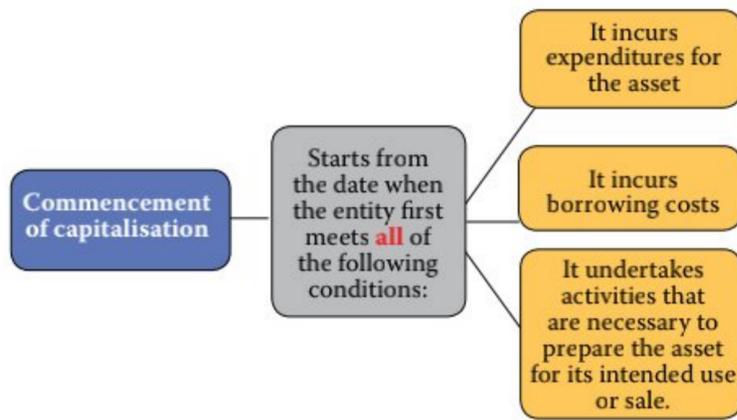
Calculation of Borrowing Cost



$$*CR = \frac{\text{Weighted average borrowing costs on all outstanding borrowings of the entity (refer Note 3 below for exception)}}{\text{Total outstanding borrowings of the entity during the period (excluding specific borrowings)}}$$

\*\*QA = Qualifying Asset

- Note:**
- The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.
  - In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.
  - All outstanding borrowings of the entity during the period (as stated in the formula) shall exclude borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete.



**Note:**  
Expenditures on a qualifying asset include only those expenditures that have resulted in

- payments of cash,
- transfers of other assets or
- the assumption of interest-bearing liabilities.

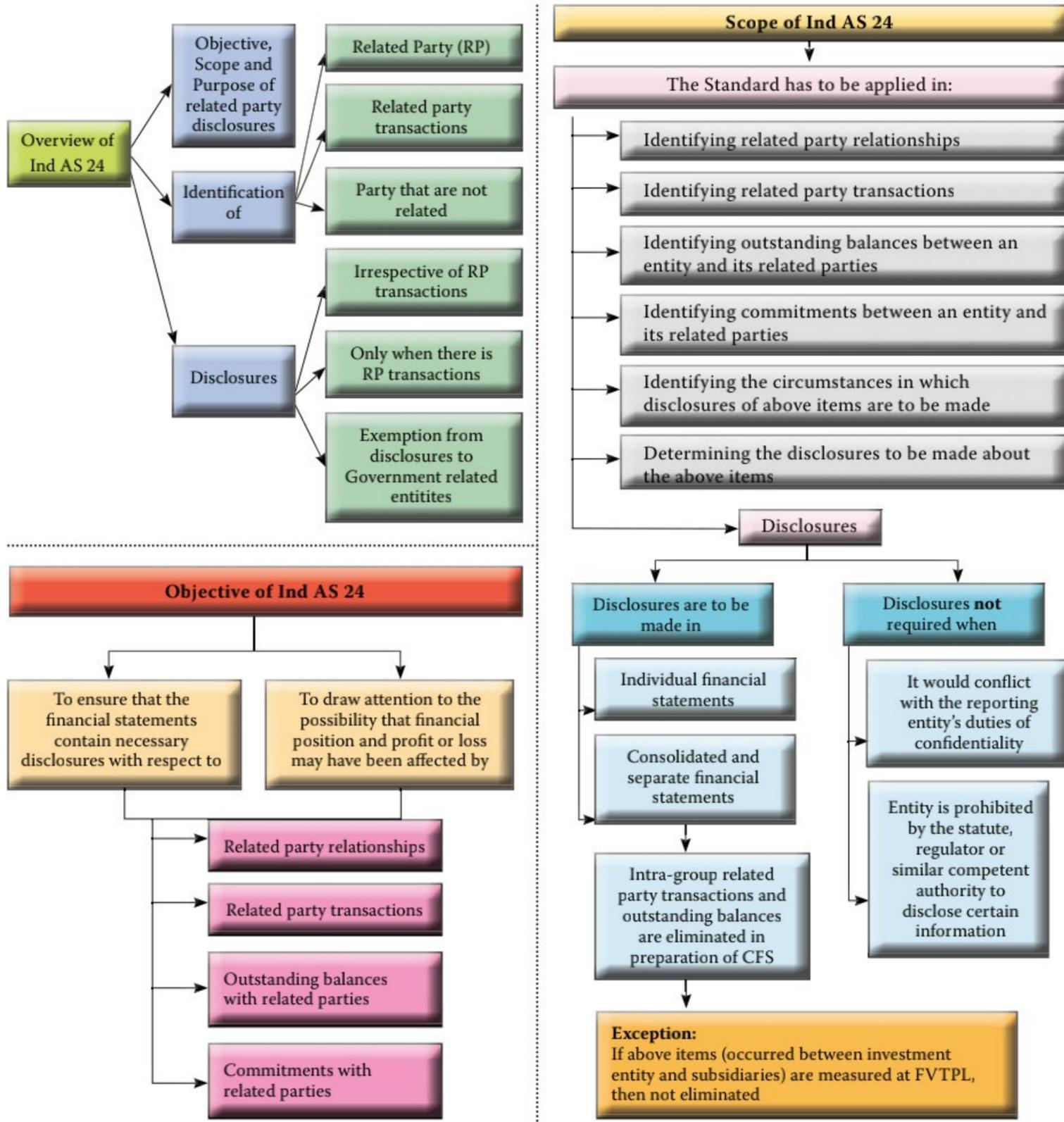
Expenditures are reduced by

- any progress payments received and
- grants received in connection with the asset

**POINTS TO REMEMBER:**

	Particular	Detail
1	Suspension of capitalisation	<ul style="list-style-type: none"> <li>• It is done when active development of a qualifying asset is suspended.</li> <li>• Suspension is not done when an entity carries out substantial technical and administrative work.</li> <li>• An entity does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.</li> </ul>
2	Cessation of capitalisation	<ul style="list-style-type: none"> <li>• When substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.</li> <li>• An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue.</li> </ul>
3	When construction of qualifying asset is completed in parts	<ul style="list-style-type: none"> <li>• If each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.</li> </ul>

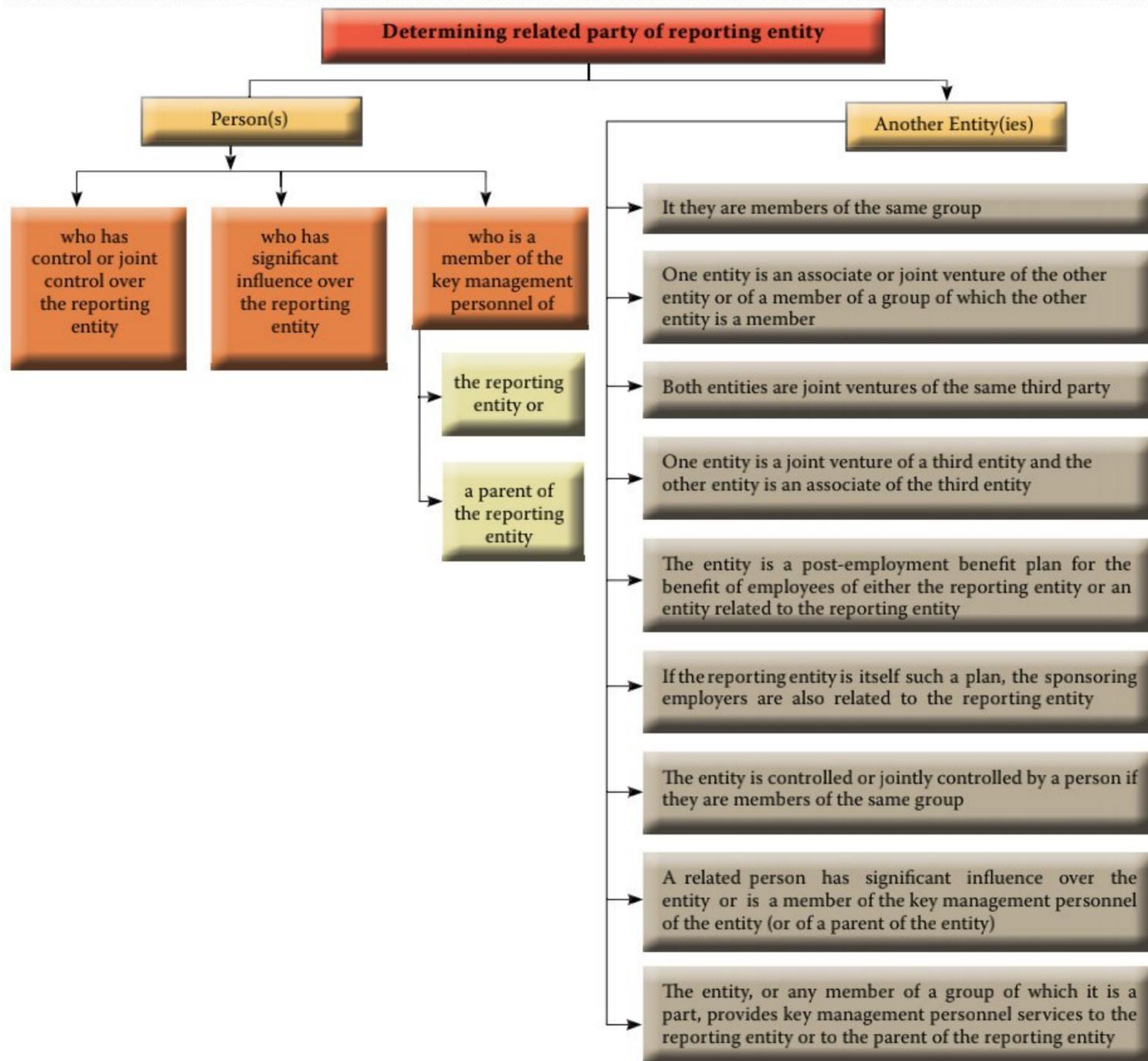
INDIAN ACCOUNTING STANDARD (IND AS) 24: RELATED PARTY DISCLOSURES



**Purpose of Related Party Disclosures**

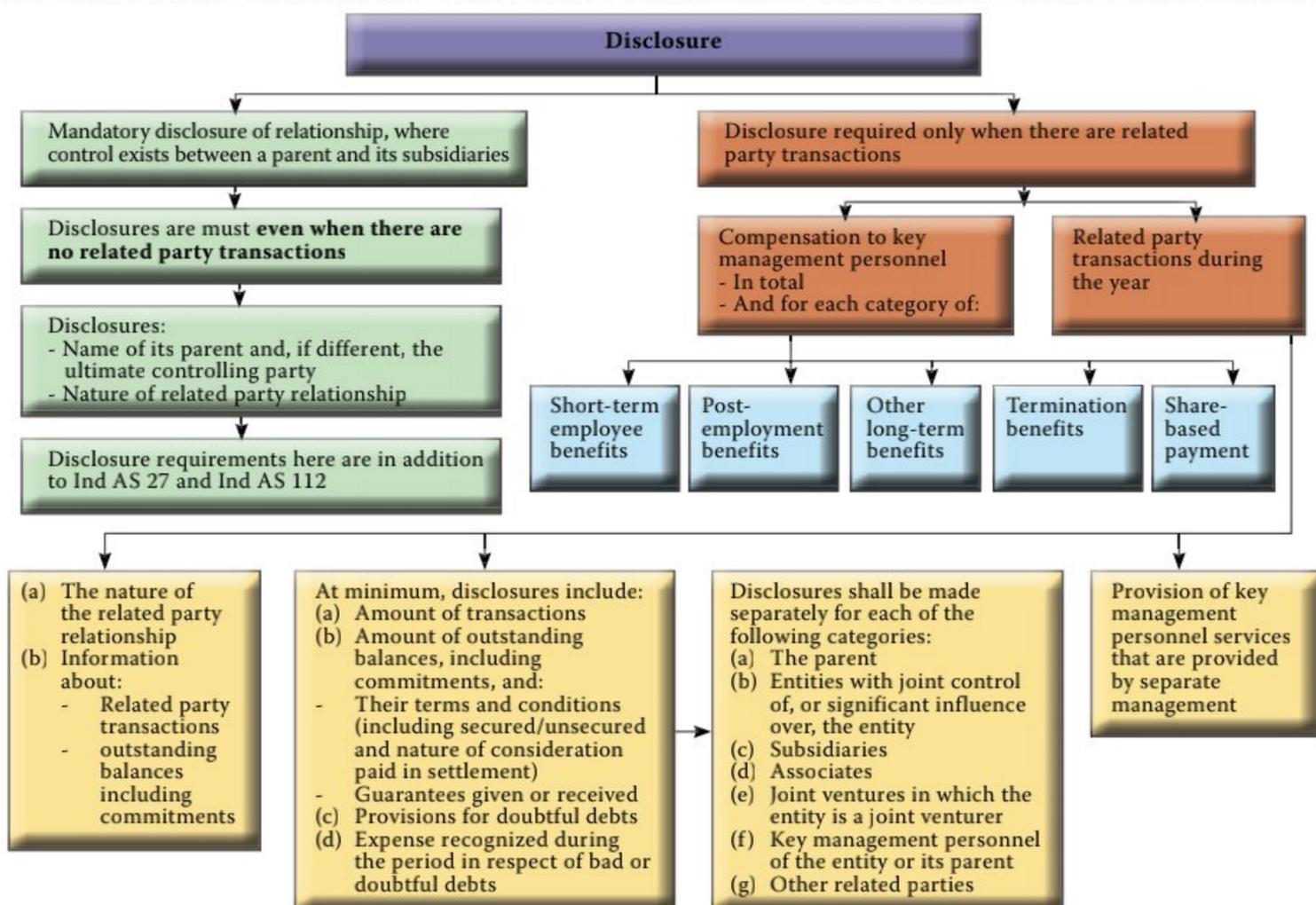
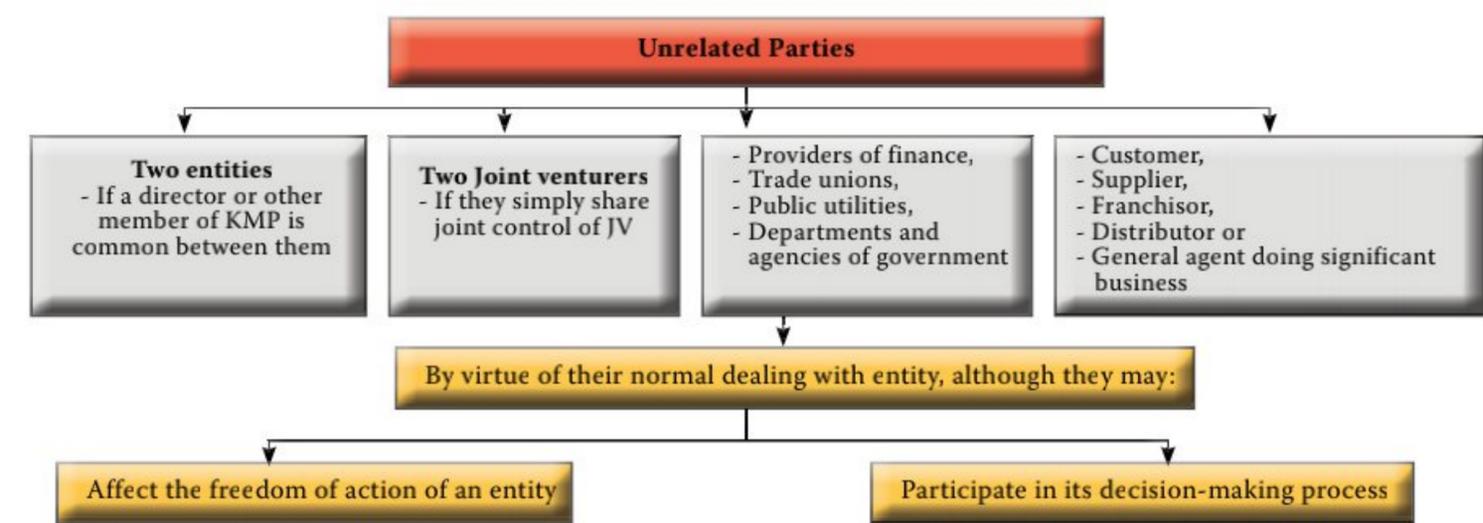
It is probable that related party relationship may have an effect on the profit or loss and financial position of an entity. The effect gets manifested through:

- (a) Transactions that are entered between related parties may not be entered with unrelated parties  
**Example :** An entity may sell goods to its parent at cost. It may not sell goods at cost to an unrelated party.
- (b) Transactions with unrelated parties get influenced because of related party relationships  
**Example :** S Limited, a subsidiary of H Limited, in steel manufacturing used to purchase billets from UR Limited. H Limited acquires 100% stake in FS Limited who also manufactures billets. FS Limited is now a fellow subsidiary of S Limited. H Limited instructs S Limited not to purchase billets from UR Limited but from FS Limited.



**Important definitions:**

<b>Control</b>	Power over the investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns
<b>Joint Control</b>	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
<b>Significant influence</b>	Power to participate in the financial and operating policy decisions of the investee, but is not control of those policies
<b>Key management personnel (KMP)</b>	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity
<b>Close members of the family of a person</b>	Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity including: (a) that person's children, spouse or domestic partner, brother, sister, father and mother; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner.

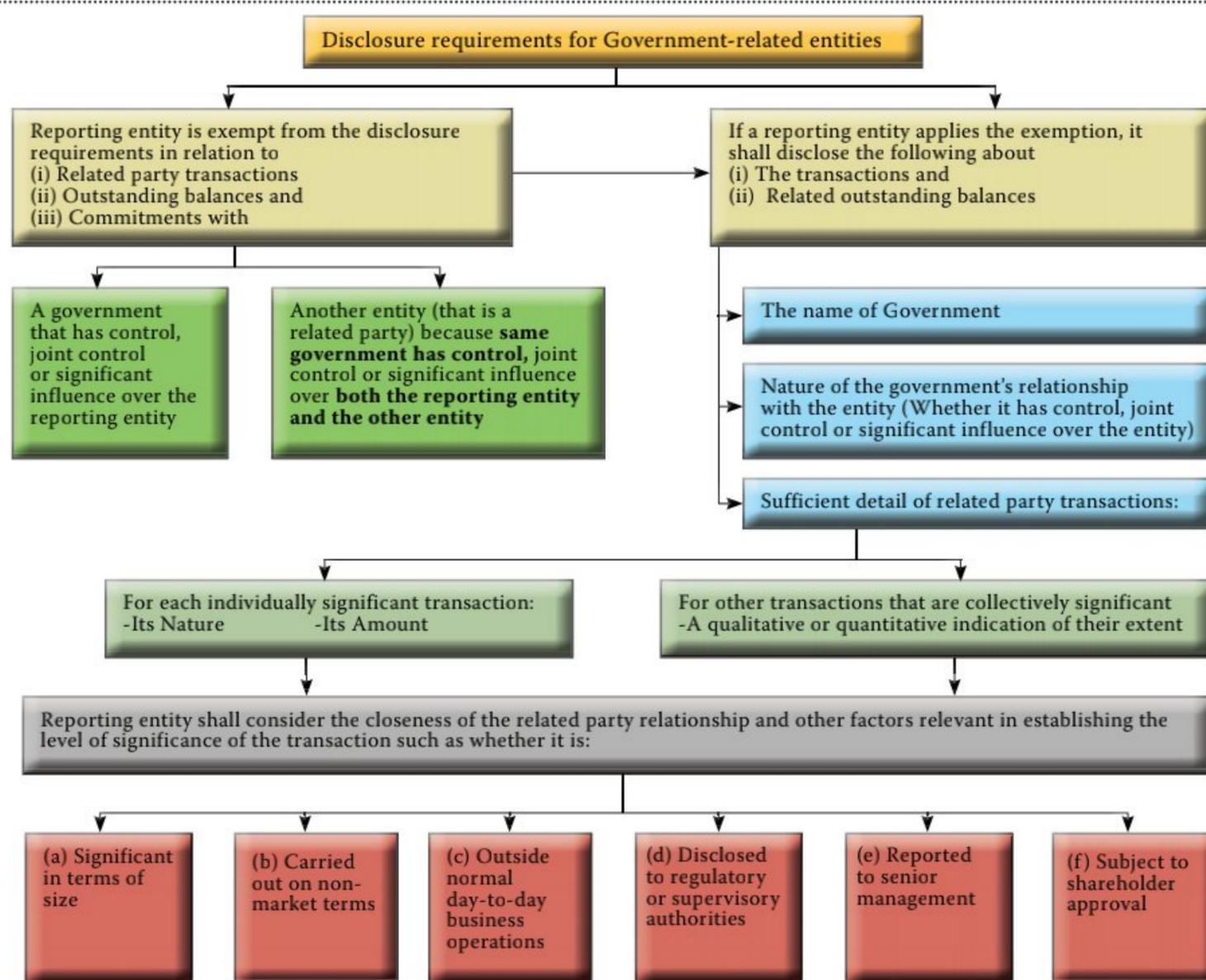


Following are examples of transactions that are disclosed if they are with a related party

<b>a</b>	Purchases or sales of goods (finished or unfinished)	<b>g</b>	Transfers under finance arrangements (including loans and equity contributions in cash or in kind);
<b>b</b>	Purchases or sales of property and other assets	<b>h</b>	Provision of guarantees or collateral
<b>c</b>	Rendering or receiving of services	<b>i</b>	Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (as per Ind AS 37) (recognised and unrecognised)
<b>d</b>	Leases	<b>j</b>	Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party
<b>e</b>	Transfers of research and development	<b>k</b>	Management contracts including for deputation of employees
<b>f</b>	Transfers under licence agreements		

**Note:**

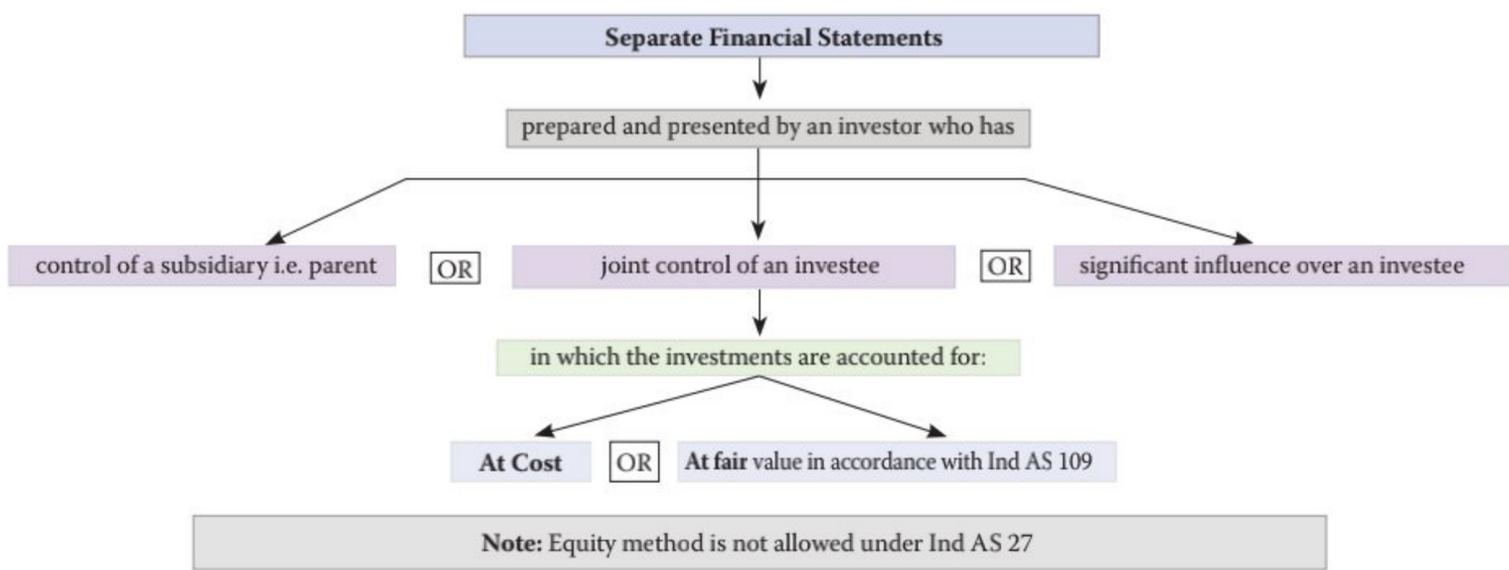
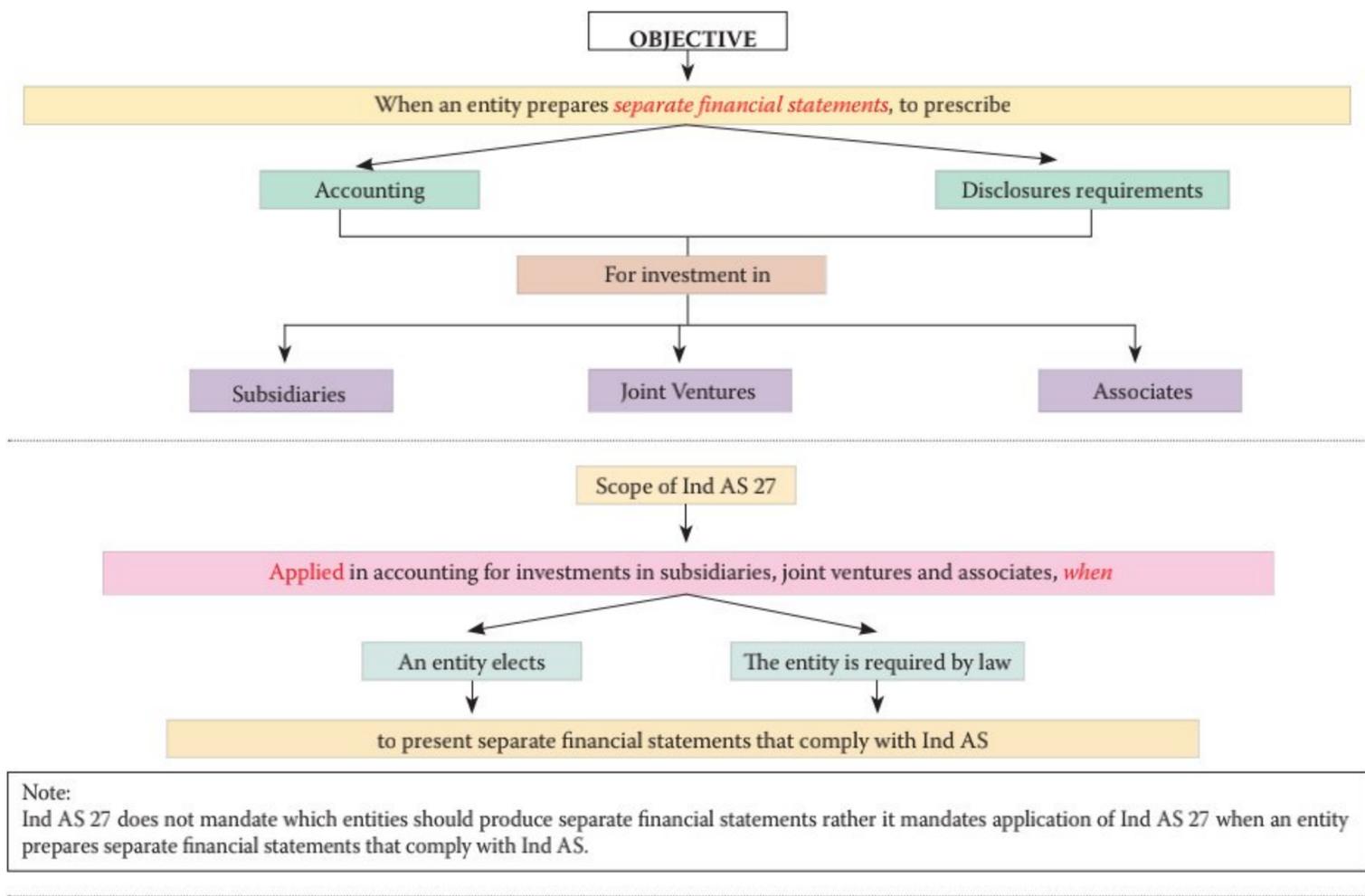
- A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.
- If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements to the compensation paid or payable by the management entity to the management entity's employees or directors.
- Related party transactions of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary.
- Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.
- Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties.

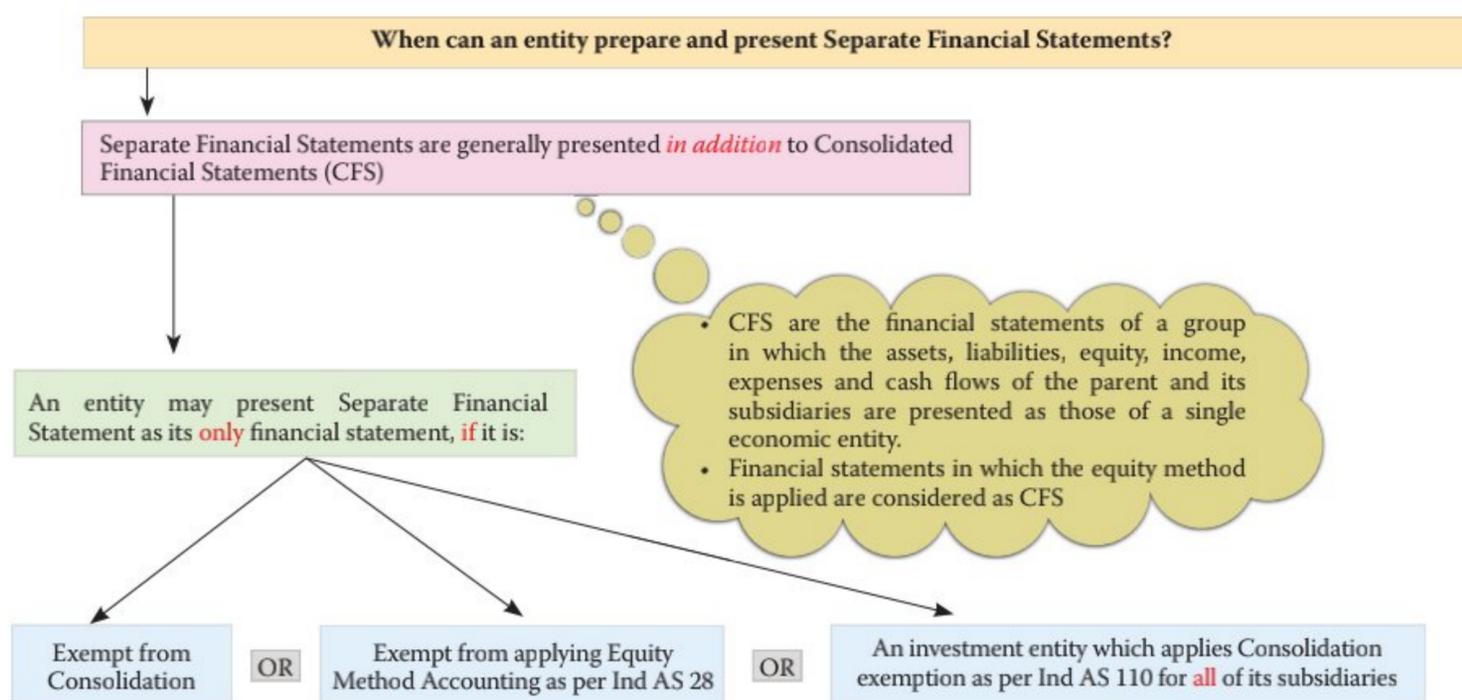


**Note:**

- Government refers to government, government agencies and similar bodies whether local, national or international.
- A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

### INDIAN ACCOUNTING STANDARD (IND AS) 27: SEPARATE FINANCIAL STATEMENTS

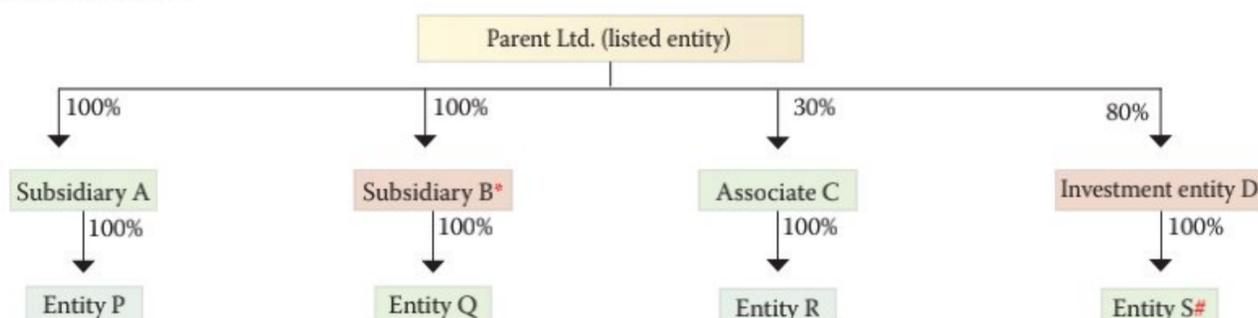




**Important Notes:**

- Financial statements in which the equity method is applied are not separate financial statements.
- Financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements

**Example:** Following chart represents the group structure of Parent Ltd. and table below it explains the above requirements related to separate financial statements

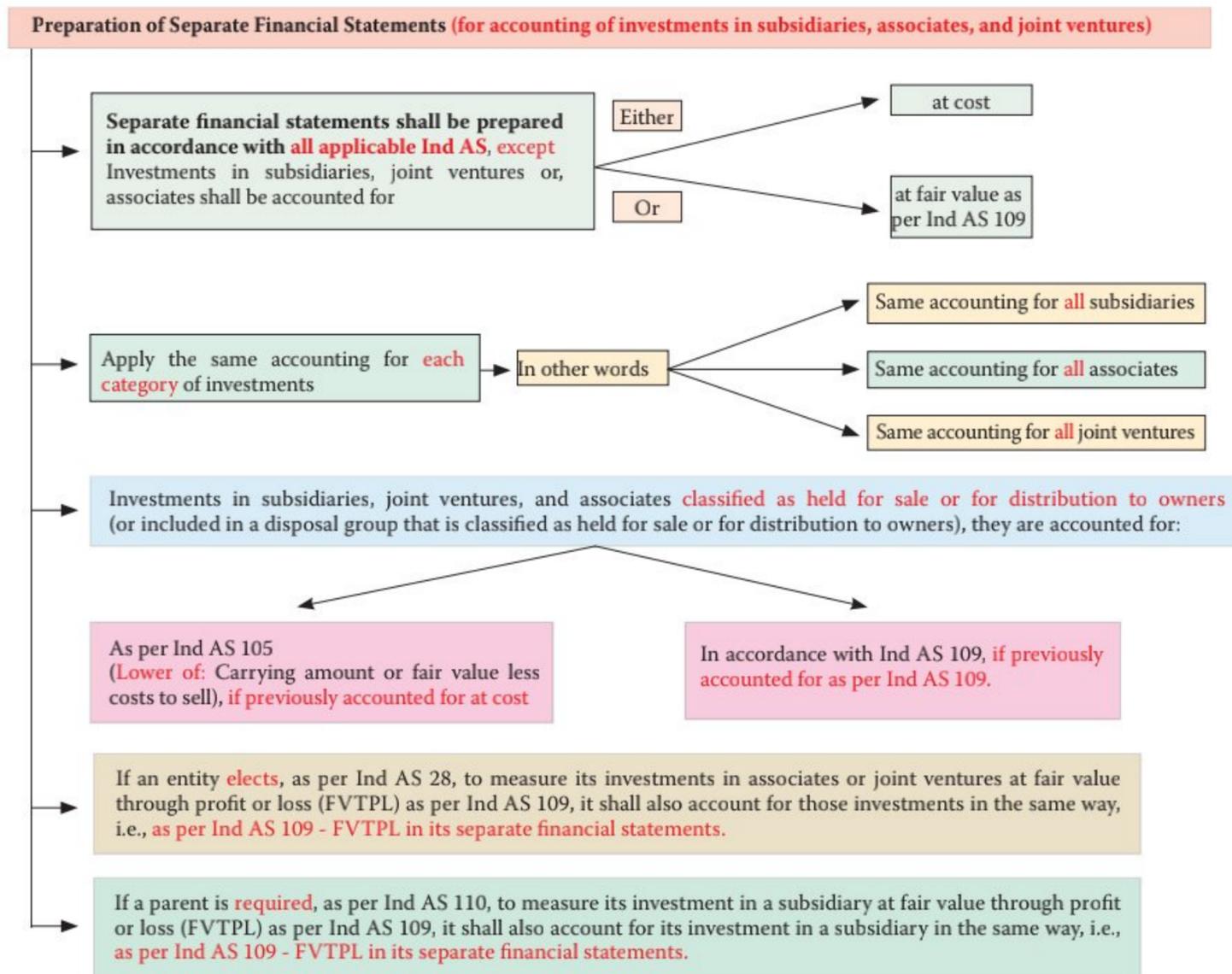


\* Subsidiary B has availed the exemption from preparation of consolidated financial statements as per paragraph 4(a) of Ind AS 110

# Entity S does not provide services that relate to the Investment entity D's investment activities

All the above entities are incorporated under the Companies Act, 2013.

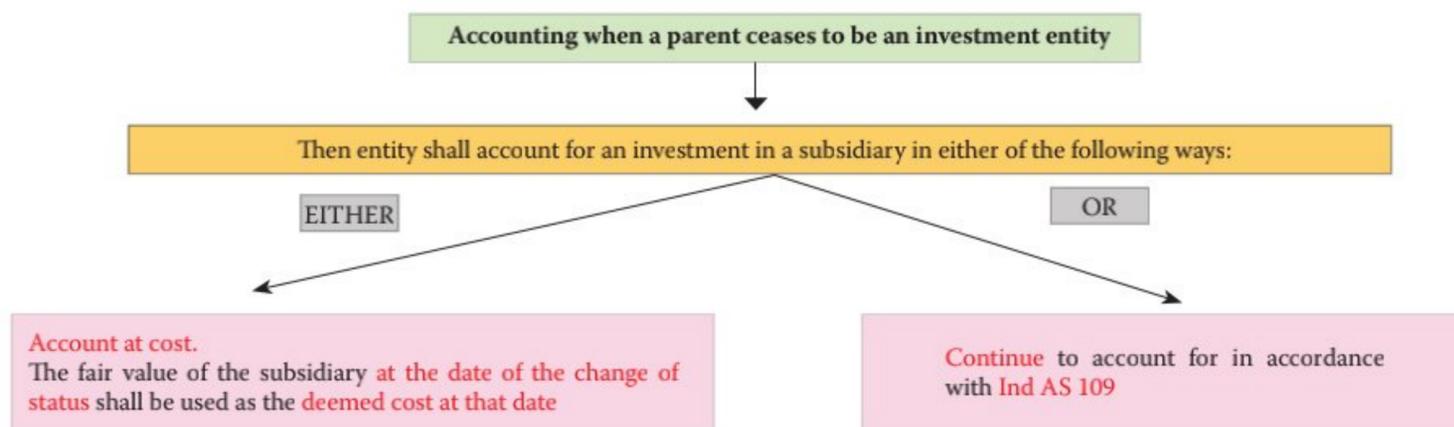
Name of the entity	Whether entity prepares consolidated financial statements?	Status for separate financial statements
Parent Ltd.	Yes	Will be prepared as it is required by the Companies Act, 2013
Subsidiary A	Yes	Will be prepared as it is required by the Companies Act, 2013
Subsidiary B	No	Will be prepared as it is required by the Companies Act, 2013 (in this case, entity will present separate financial statements as its only financial statements)
Associate C	Yes	Will be prepared as it is required by the Companies Act, 2013
Investment entity D	No	Will be prepared as it is required by the Companies Act, 2013. Entity will present separate financial statements as its only financial statements
Entity P	No	These entities will prepare their financial statements as required by the Companies Act 2013. However, they will not be termed as separate financial statements since these entities do not have any subsidiary, associate or joint venture.
Entity Q	No	
Entity R	No	
Entity S	No	

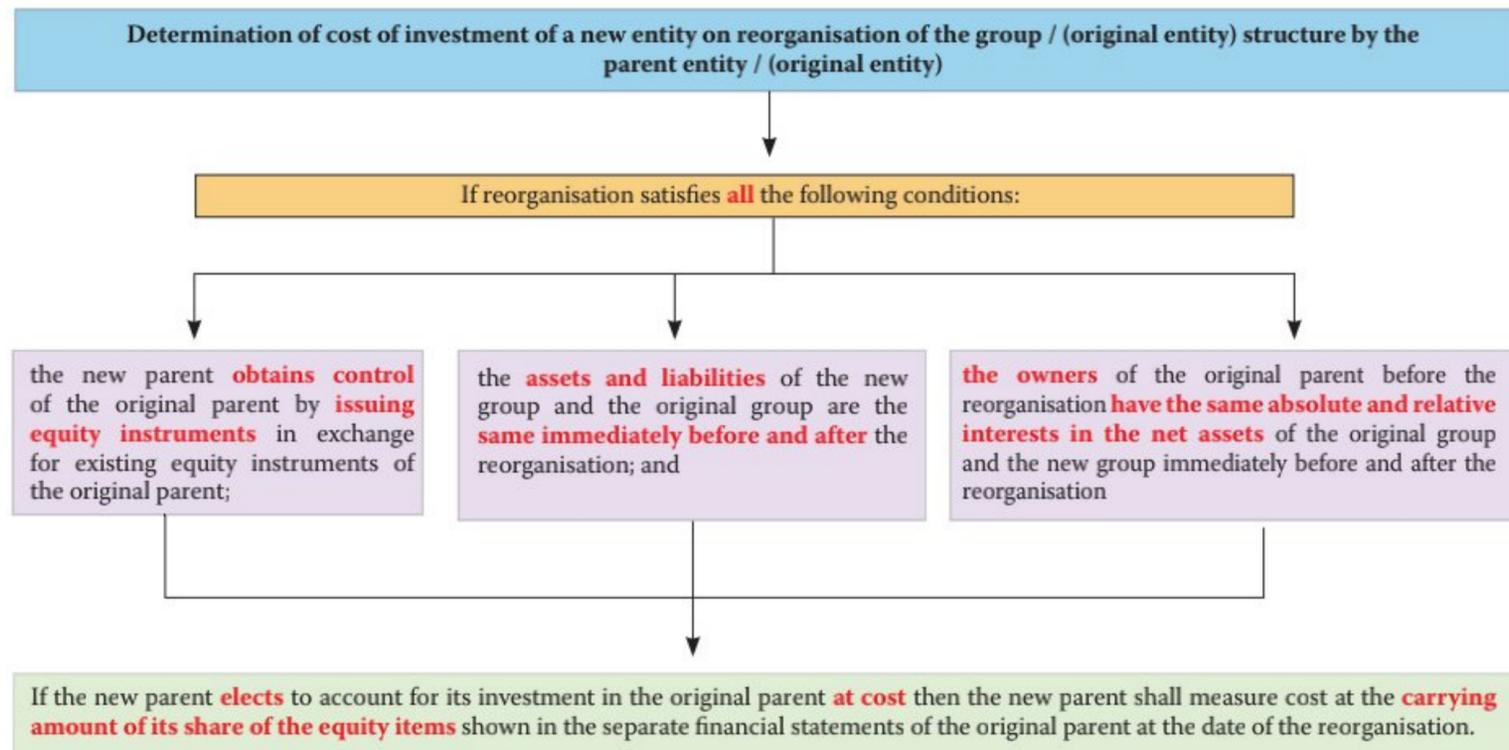
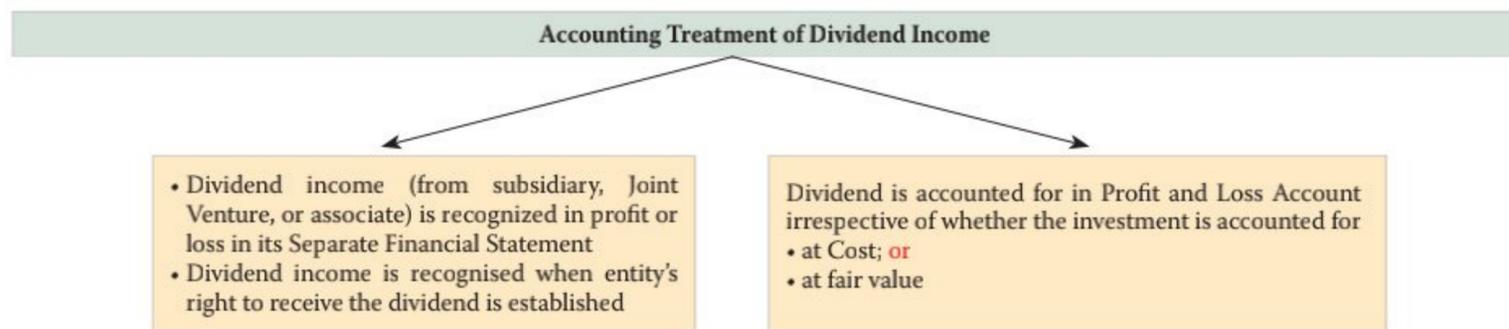
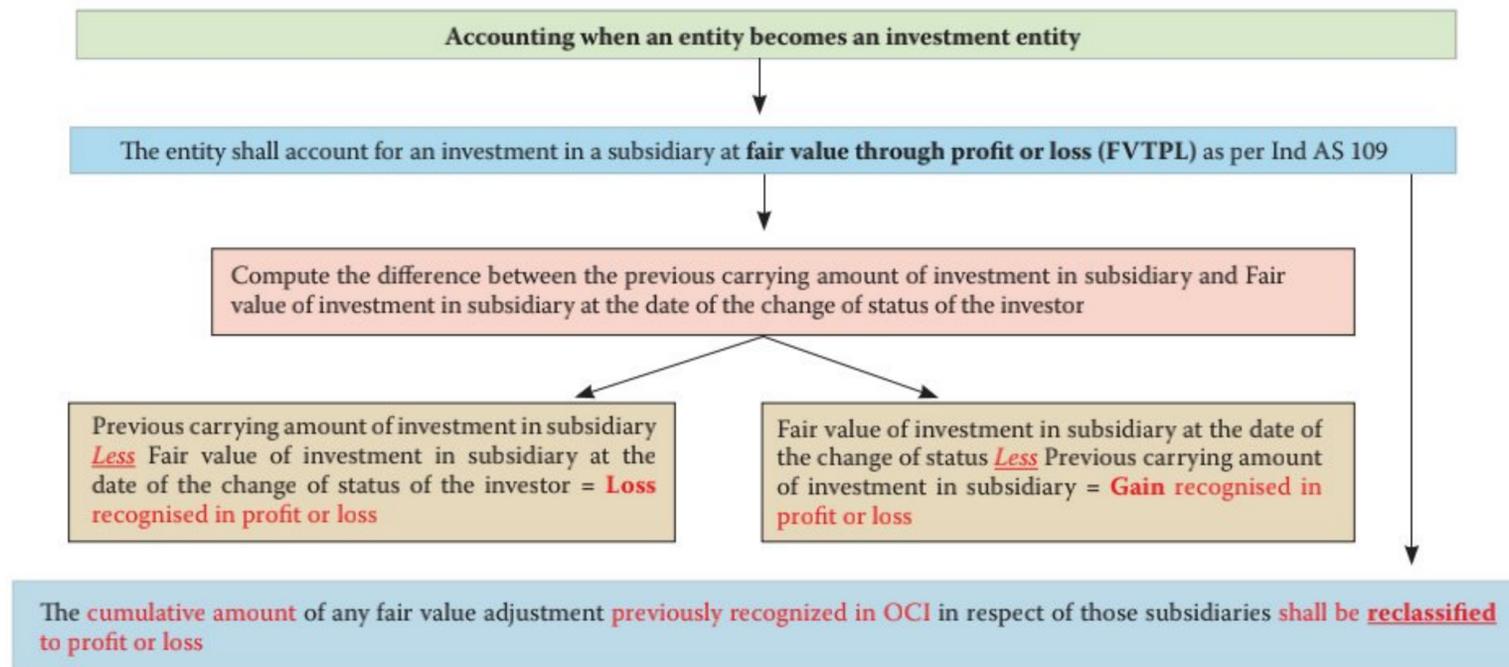


**Investments held by investment entities and similar entities**

Investment entity shall account for the investments in *subsidiaries* **at fair value through profit or loss (FVTPL)** in the separate financial statements too.

When an entity has elected to measure investments in associates and joint ventures (held by, or is **held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds**) **at fair value through profit or loss (FVTPL)** as per Ind AS 109, then it shall also account for those investments **in the same way, i.e., at fair value through profit or loss (FVTPL)** in its separate financial statements.





**Note:**  
The requirements of measuring cost of investment by a new parent as discussed above will equally apply in case where an entity that is not a parent (i.e. it does not have a subsidiary) establishes a new parent between itself and its owners.

**Significant Disclosure**

- An entity is required to apply all applicable Ind AS when providing disclosures in its separate financial statements.
- When a parent qualifies and elects not to prepare consolidated financial statements [Ind AS 110.4(a)] and instead prepares separate financial statements, it is required to disclose:

Disclosures in separate financial statements		
The fact that: <ul style="list-style-type: none"> <li>• the financial statements are separate financial statements;</li> <li>• the exemption from consolidation has been used;</li> <li>• the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with Ind AS have been produced for public use; and</li> <li>• the address where those consolidated financial statements are obtainable.</li> </ul>	A list of significant investments in subsidiaries, joint ventures and associates, including: <ul style="list-style-type: none"> <li>• the name of those investees.</li> <li>• the principal place of business (and country of incorporation, if different) of those investees.</li> <li>• its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.</li> </ul>	A description of the method used to account for those investments

- When an investment entity that is a parent prepares separate financial statements as its only financial statements, it shall disclose that fact.
- When a Parent (other than a parent using the consolidation exemption) or an Investor with (a) joint control of, or (b) significant influence over, an investee prepares separate financial statements, it is required to disclose:

**That the financial statements are separate financial statements**

**A list of significant investments in subsidiaries, joint ventures and associates, including:**

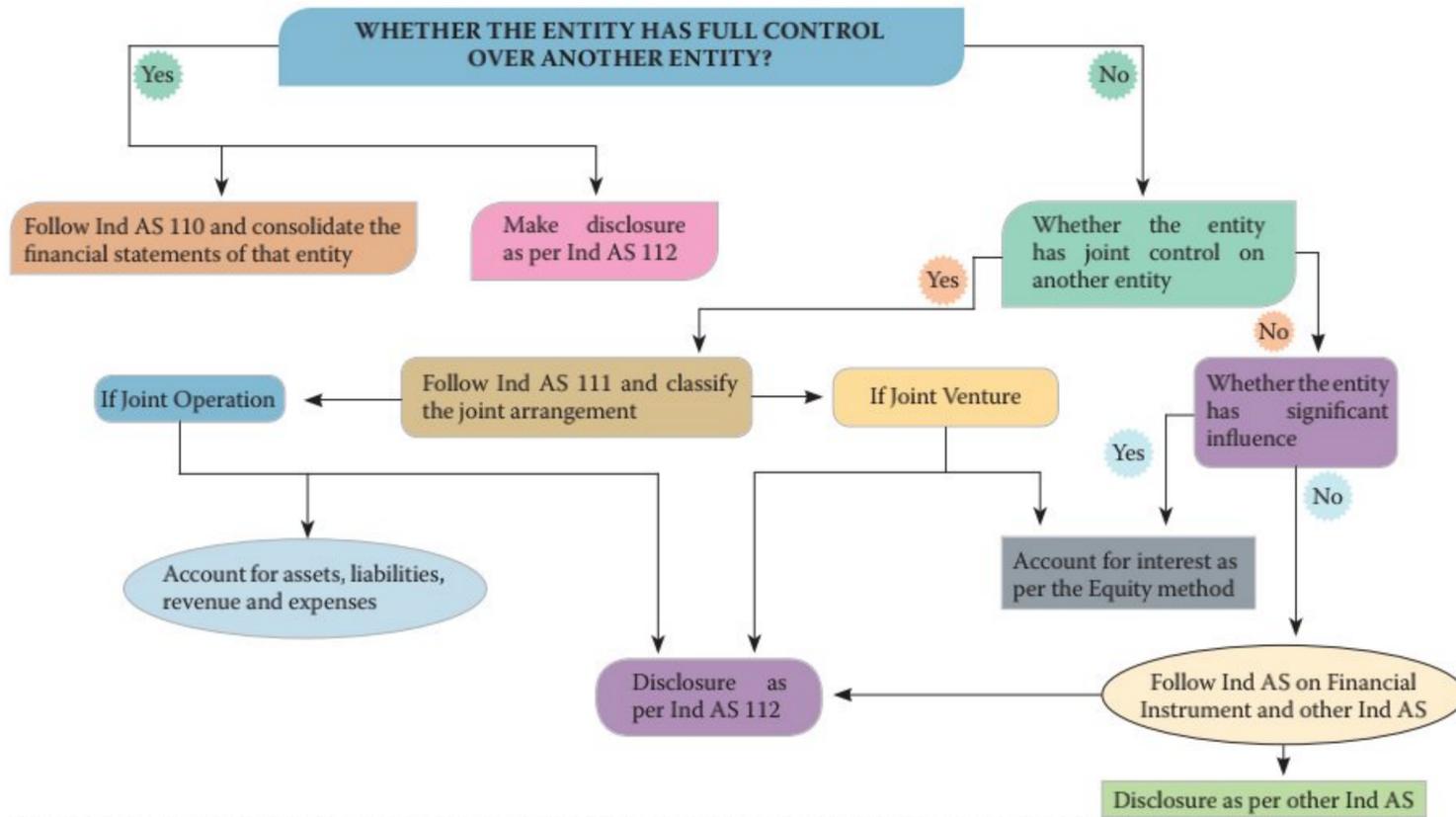
- The name of those investees
- The investees principal place of business and country of incorporation
- The proportion of the ownership interest and its proportion of the voting rights held in those investees
- A description of the method used to account for the investments

**The financial statements prepared in accordance with Ind AS 110, Ind AS 111, or Ind AS 28 to which they relate**

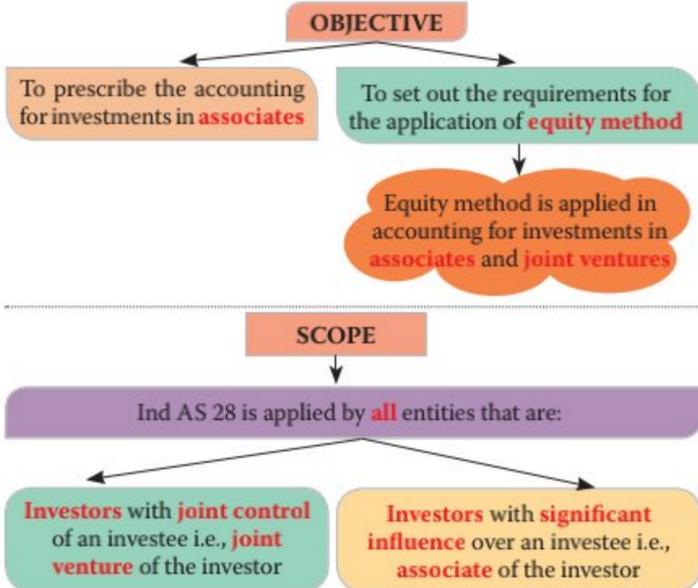
**Significant Change in Ind AS 27 vis-à-vis IAS 27**

- IAS 27 allows the entities to use **equity method** to account for investment in subsidiaries, joint ventures, and associates in their Separate Financial Statements (SFS).
- Since equity method is not a measurement basis like cost and fair value but is a manner of consolidation and would lead to inconsistent accounting conceptually, Ind AS 27 does not allow the entities to use **equity method** to account for investment in subsidiaries, joint ventures, and associates in their SFS.

ACCOUNTING FOR INVESTMENT IN OTHER ENTITY- AN OVERVIEW

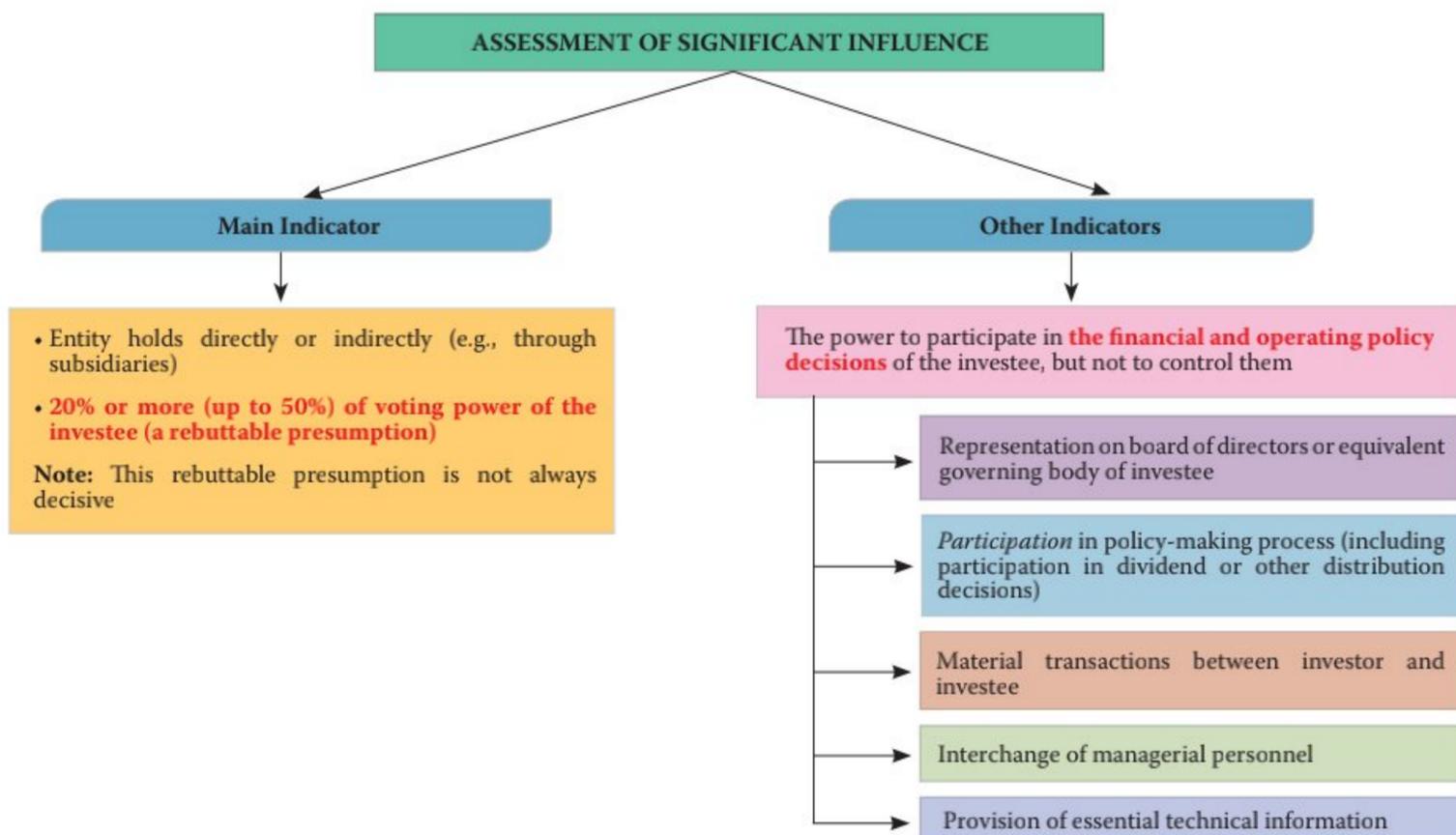
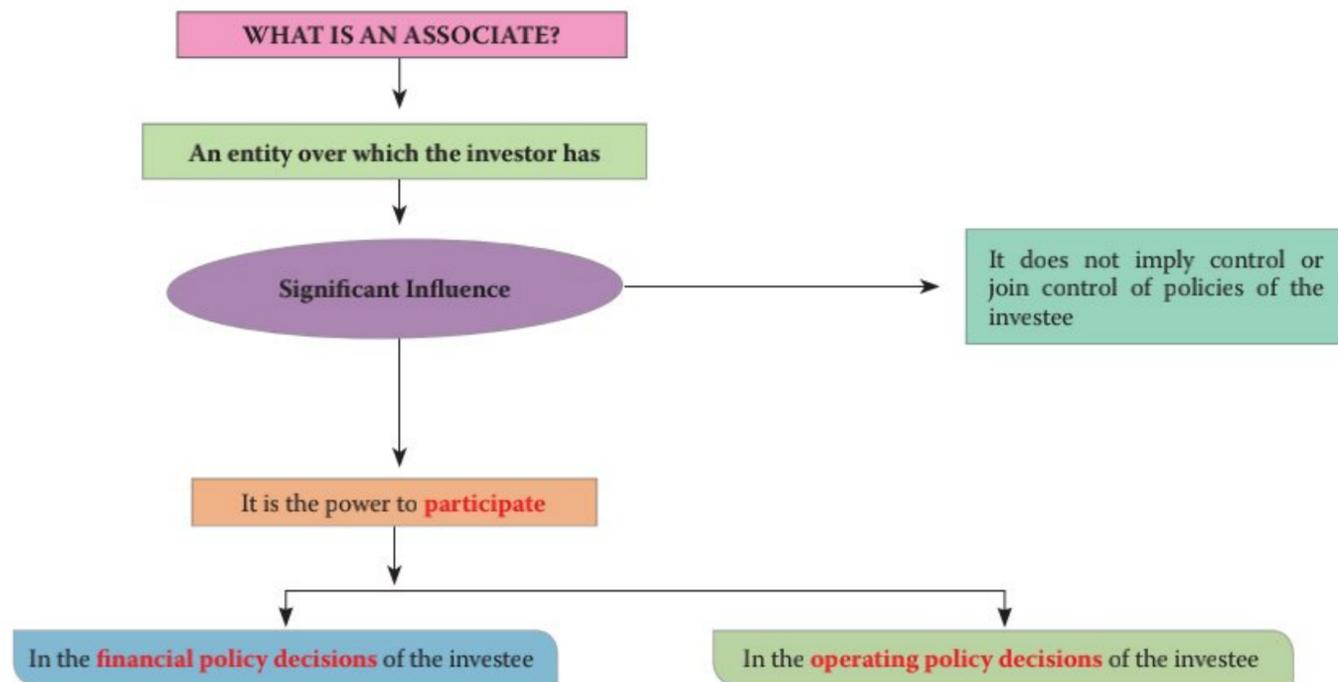


INDIAN ACCOUNTING STANDARD (IND AS) 28: INVESTMENT IN ASSOCIATES AND JOINT VENTURES



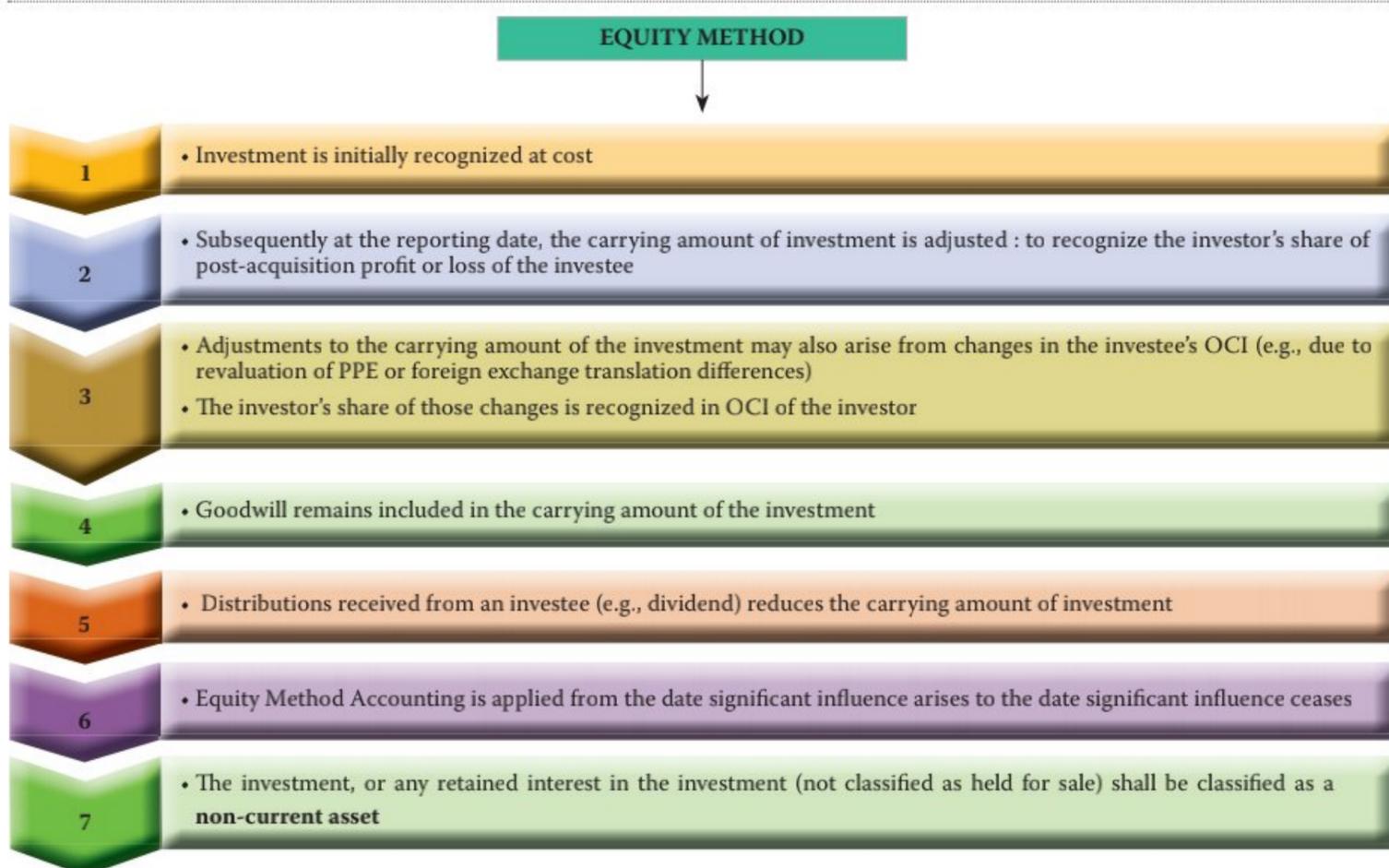
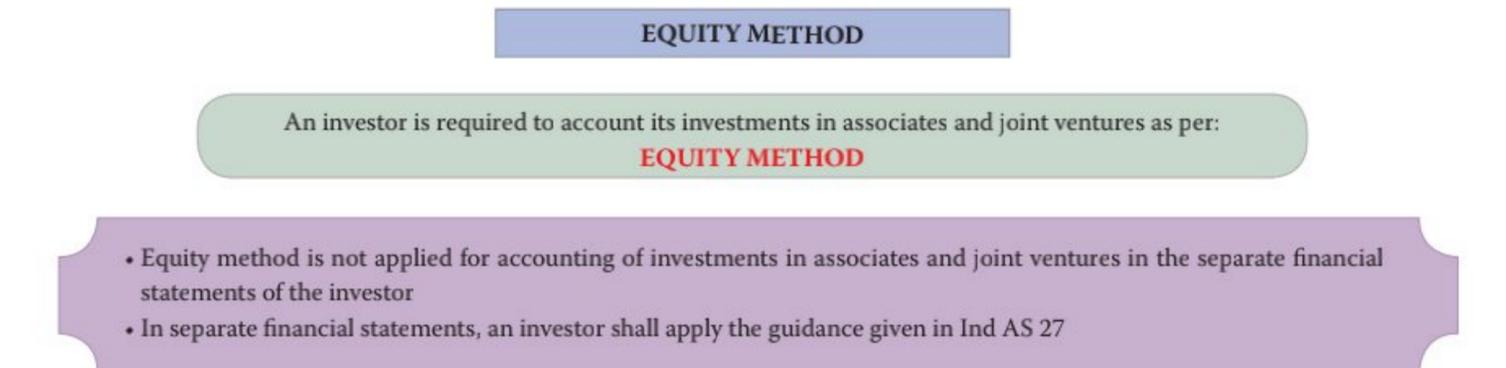
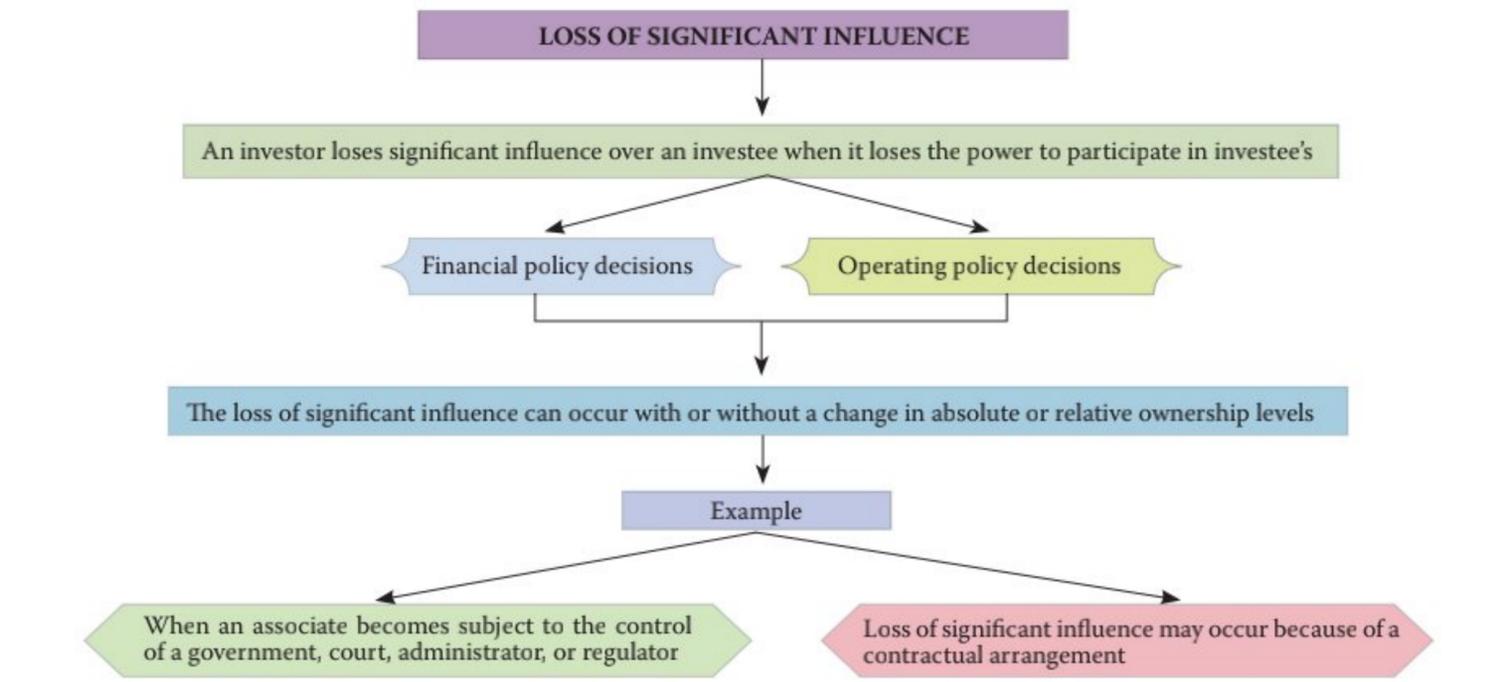
KEY DEFINITIONS	
Consolidated Financial Statements (CFS)	Financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity
Joint arrangement	It is an arrangement in which two or more parties have joint control
Joint control	It is the contractually agreed sharing of control of an arrangement, which exists only <b>when decisions</b> about the relevant activities <b>require the unanimous consent</b> of the parties sharing control
Joint venture	It is a joint arrangement whereby the parties that have joint control of the arrangement have <b>rights to the net assets</b> of the arrangement





**OTHER POINTS**

- The assessment of the investor having significant influence over the investee requires application of judgement
- Potential voting rights **currently exercisable** (like share warrants, share call options, convertible debts, convertible equity instruments etc.) are considered for computing the voting power percentage
- Examine all facts and circumstances for the computation of potential voting rights, **except**
  - (a) management intention and
  - (b) financial ability to exercise or convert those potential rights.
- An entity's interest in an associate or a joint venture is determined solely on the basis of **existing ownership interests and does not reflect the possible exercise or conversion of potential** voting rights / other derivative instruments.  
However, when an entity has, in substance, an existing ownership which **currently** gives it access to the returns associated with an ownership interest, then the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights / other derivative instruments.

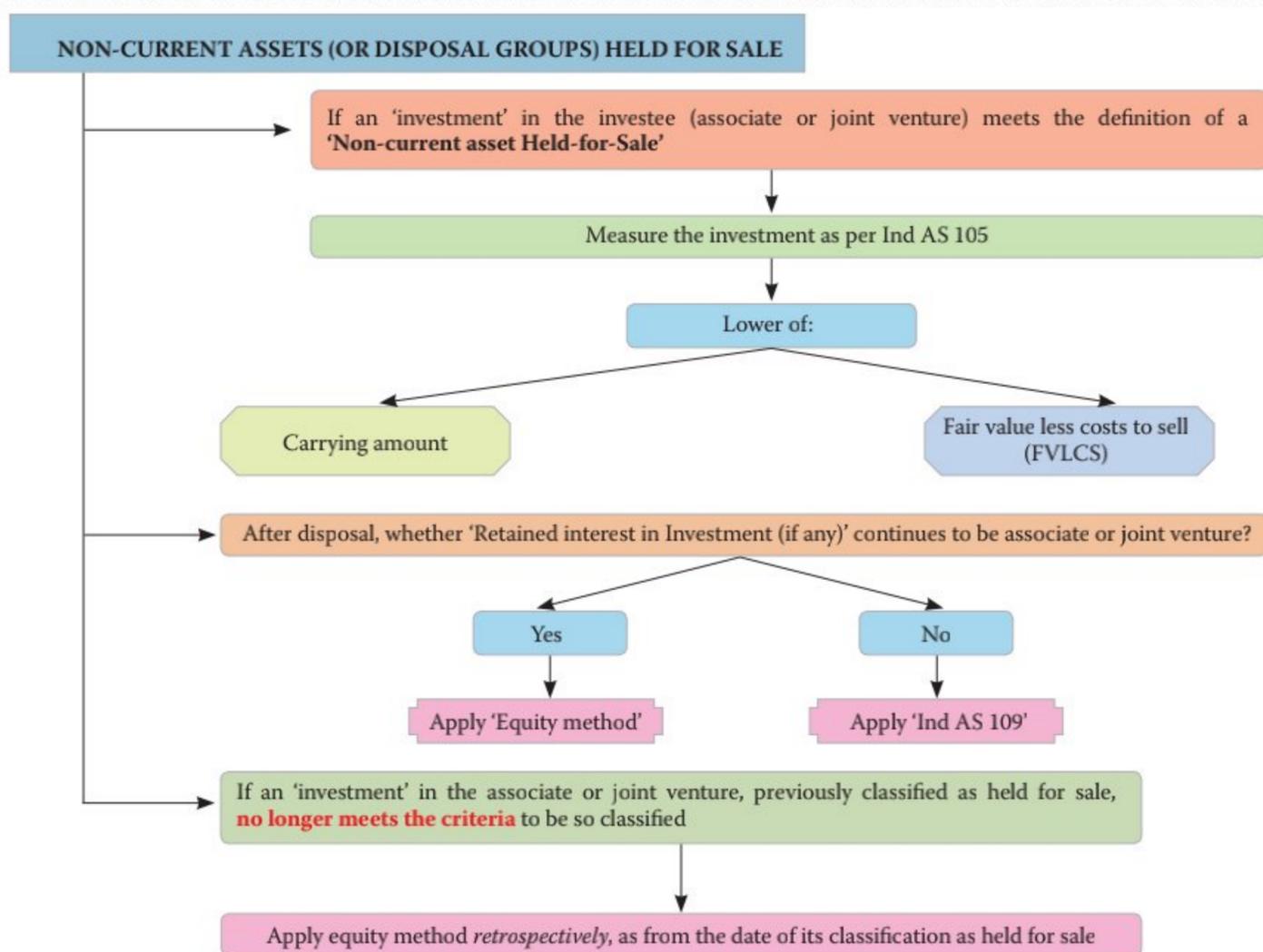
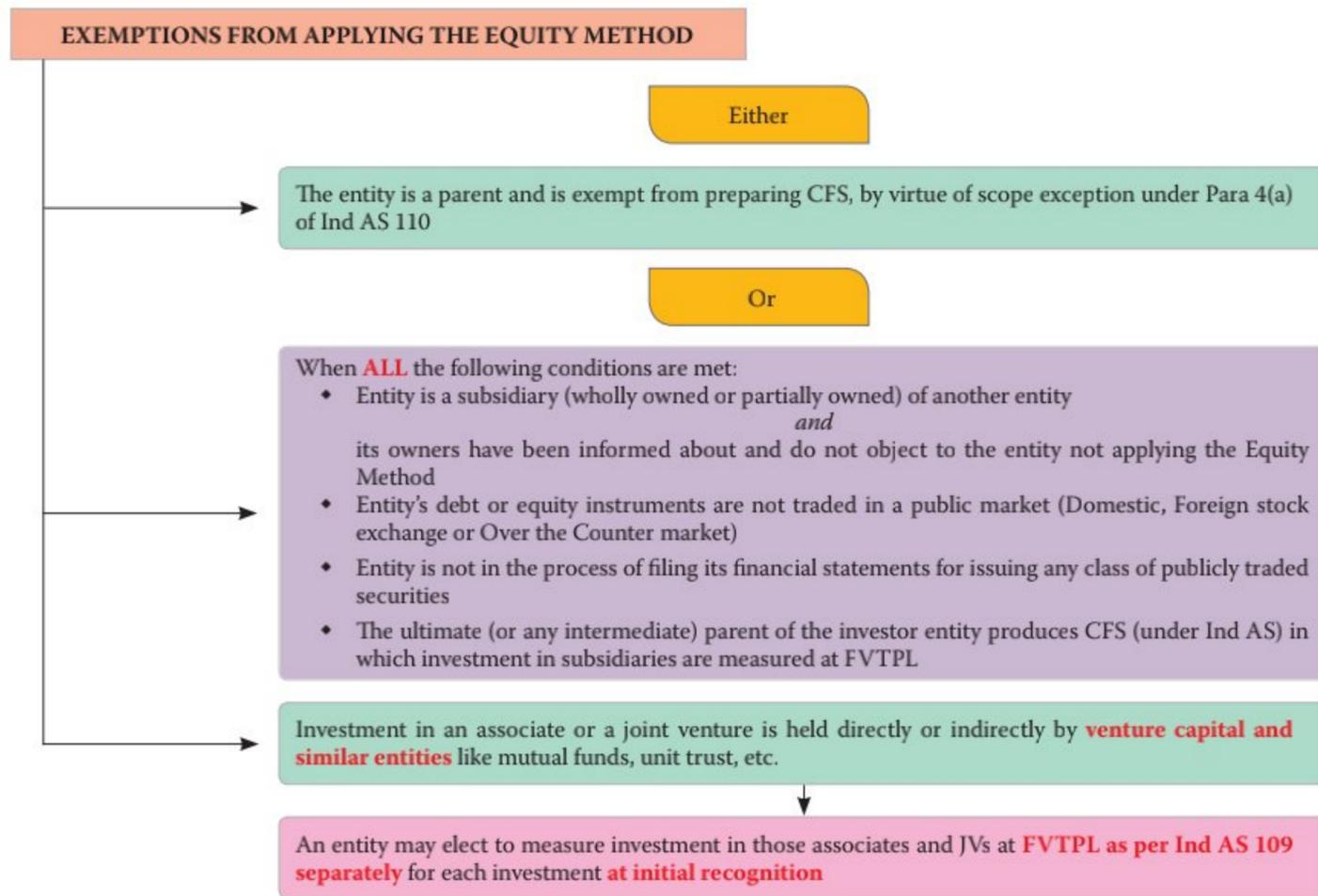


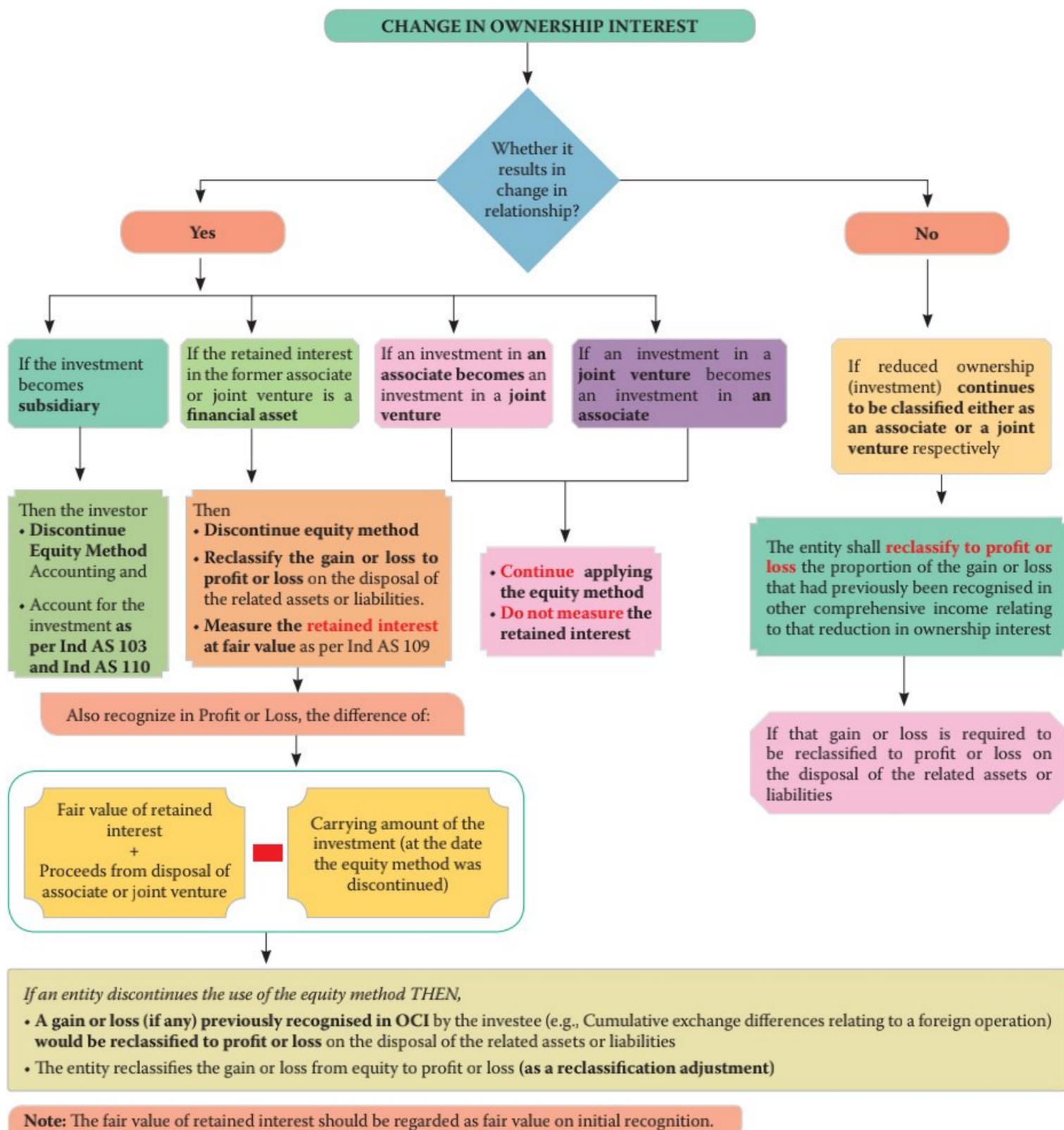
**Determination of carrying amount of investment under Equity Method**

Initial Cost	XXXX
Add/Less: Investor's share of profits / losses	XXXX
Less: Distributions received from the Investee (Dividend is recognised when the right to receive dividend is established)	XXXX
Add/Less: Investor's share arising from changes in investee's OCI	XXXX
<b>Carrying Amount of the Investment</b>	<b>XXXX</b>

**EQUITY METHOD ACCOUNTING:**

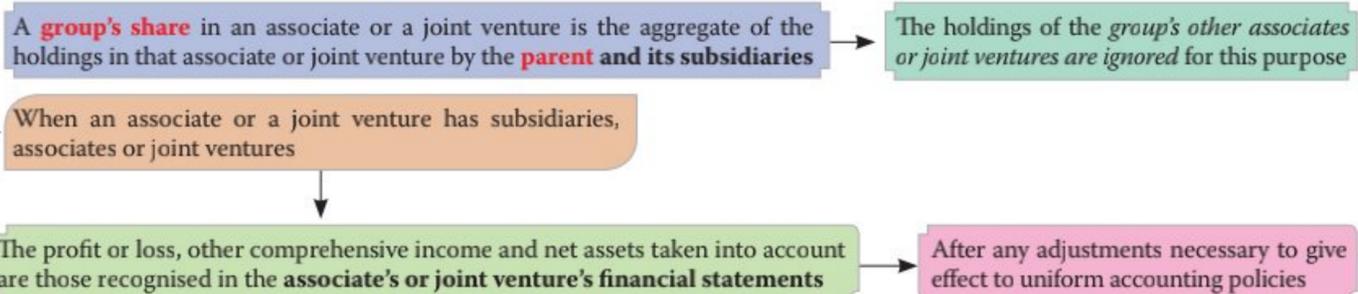
		DEBIT	CREDIT
<b>1. On Initial Recognition:</b>			
Investment in associate	Dr.	XXXX	XXXX
To Cash/Bank			
(Being Investment in associate or, joint venture recognized at cost)			
<b>2. Goodwill or Capital Reserve:</b>			
<i>Calculate the difference (if any) between:</i>			
- Cost (of investment in associate); and			
- Investor's share of net FV of identifiable assets and liabilities in the investee			
Then,			
If Cost (of investment in associate) > Investor's share of net assets: <b>GOODWILL</b>			
If Cost (of investment in associate) < Investor's share of net assets: <b>CAPITAL RESERVE</b>			
<b>Note for Goodwill:</b>			
• Goodwill is <b>NOT</b> recognized separately; instead, such goodwill is included in the cost of investment			
• Goodwill is <b>NEITHER</b> amortized <b>NOR</b> tested for impairment separately. (The entire investment in associate is tested for impairment as a single asset.)			
<b>Note for Capital Reserve:</b>			
• Capital Reserve is recognized directly in Equity			
<b>3. Subsequently, after initial recognition:</b>			
<b>A</b>	The carrying amount of the investment is increased or decreased by the investor's share of investee's net profit after the acquisition date		
	Investment in associate (in Balance Sheet)	Dr.	XXXX
	To Share in Profit from associate (in Profit/Loss)		XXXX
	<i>In case, the associate makes loss, then the entry would be:</i>		
	Share in Loss from associate (in Profit/Loss)	Dr.	XXXX
	To Investment in associate (in Balance Sheet)		XXXX
<b>B</b>	The carrying amount of the investment is increased or decreased by the investor's share of investee's change in OCI		
	Investment in associate (in Balance Sheet)	Dr.	XXXX
	To Share in Changes in OCI from associate (in OCI)		XXXX
<b>4. Distributions received from investee:</b>			
	Cash/Bank (in Balance Sheet)	Dr.	XXXX
	To Investment in associate (in Balance Sheet)		XXXX
<b>5. Losses exceeding the carrying amount of investment:</b>			
	• When an associate or joint venture make losses and these losses exceed the carrying amount of the investment, investor cannot bring down the carrying amount of the investment below zero		
	• Instead, the investor stops bringing-in further losses		
<b>6. Presentation in the financial statement under equity method accounting:</b>			
	• A one-line entry in the Profit and Loss Account as:		
	♦ Investor's share of the associate or joint venture's profit or loss		
	• A separate line item for OCI attributable to the investor's share in investor's OCI		
	• A one-line item in the balance sheet as:		
	♦ Investment in associate or joint venture		

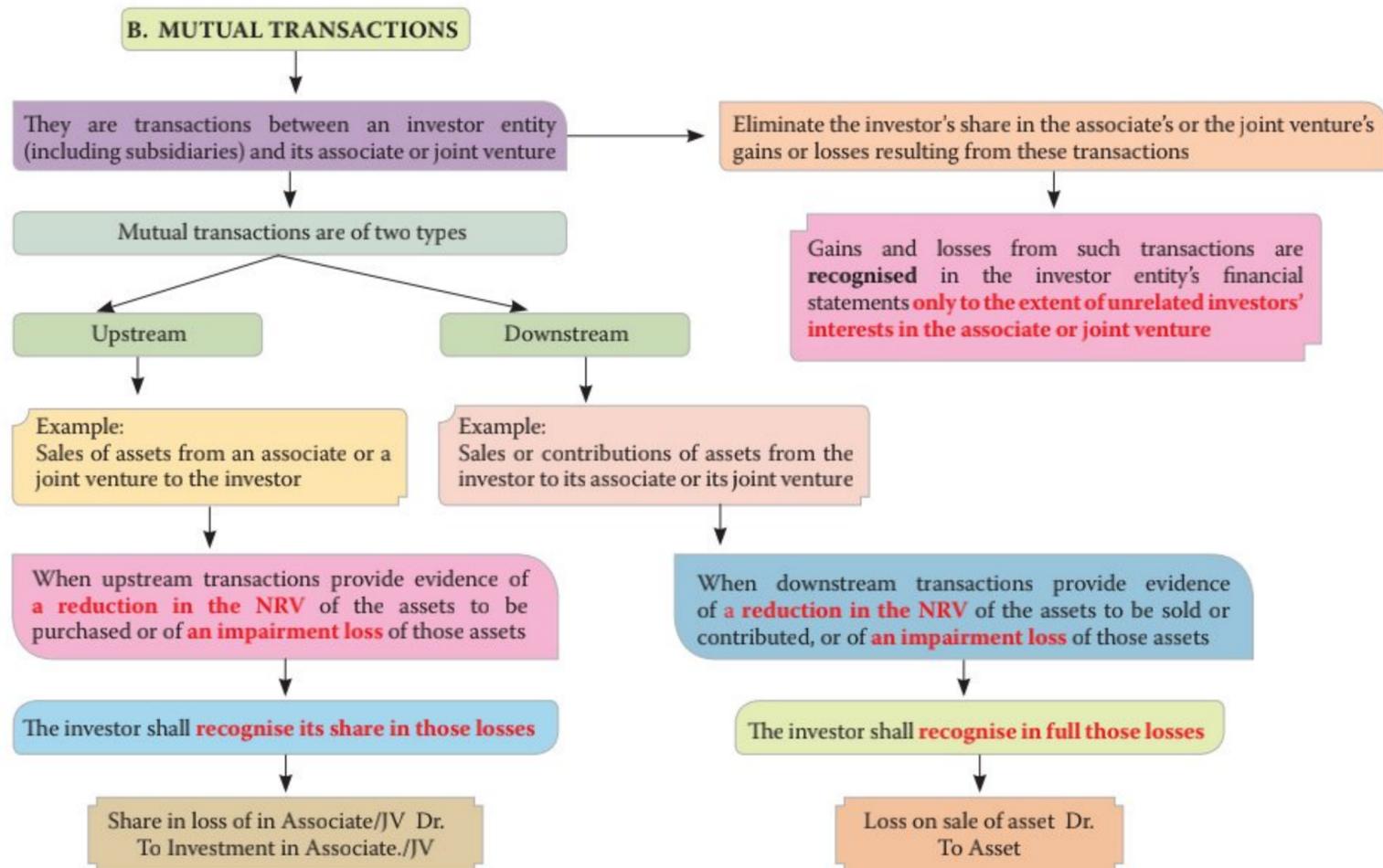




**EQUITY METHOD PROCEDURES**

**A. DETERMINATION OF GROUP'S SHARE**





**Note:**

- An entity might contribute a **non-monetary asset** to an associate or a joint venture in exchange of an equity interest in that associate or joint venture. Such contribution of asset shall be accounted in accordance with the **guidance for upstream/ downstream transactions**
- If such contribution of non-monetary asset **lacks commercial substance**, then the gain / loss involved in such transaction is **treated as unrealised** and such **gain / loss is eliminated against the investment value** (i.e., the carrying amount of the investment in associate or joint venture will be equal to the carrying amount of non-monetary asset contributed in exchange)

**C. DIFFERENT REPORTING DATES**

- The investor uses the most recent available financial statements of the associate when applying the equity method
- If the reporting date of the associate is different to that of the investor, the associate prepares financial statements at the investor's reporting date
- If it is **impracticable** for the **associate** to prepare these financial statements at the investor's reporting date, the investor would **need to make adjustments for significant transactions and events occurring between the date** of the associate's most recent available financial statements, and the reporting date of the investor
- In any case, **the difference** between the end of the reporting period of the associate or joint venture and that of the entity **shall be no more than three months**.

**D. UNIFORM ACCOUNTING POLICIES**

- Both investor and investee shall apply uniform accounting policies for the similar transactions
- If the accounting policies are not same then **adjustments should be made to align** the accounting policies of associate or joint venture to those of the entity

**Two Exceptions to the above rules are**

- Exception 1**  
In case of an **associate (not joint venture)**, the adjustment for uniformity of accounting policies with those of the entity will not be done **if it is impracticable to do so**
- Exception 2**
  - An entity may have interest in an **associate or a joint venture that is an investment entity**.
  - Such an associate or a joint venture may also have interest in one or more subsidiaries.
  - When this is the case, such associate or joint venture, being an investment entity, would **account for its interest in subsidiaries at fair value**. Hence, in such case, the **entity can elect to retain** the fair value measurement used by the associate or joint venture.

**E. CUMULATIVE PREFERENCE SHARES**

If an associate or a joint venture has outstanding cumulative preference shares that are:

- held by parties other than the investor entity and
- classified as equity.

The entity computes its share of profit or loss **after adjusting for the dividends on such shares**. **This computation is to be done**, irrespective of the fact that whether the dividends have been declared or not

**F. Loss making associate or joint venture**

- In case of a loss making associate or joint venture, an investor 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 investor entity discontinues recognizing its share of further losses.
- After the investor 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 investor entity resumes to recognize its share of those profits **only after** its share of the profits equals the share of losses not recognized.

**IMPAIRMENT LOSSES**

An entity shall determine whether there is **objective evidence** that the entity's net investment in an associate or a joint venture is impaired

The objective evidence of impairment can arise as a result of:

- one or more events that occurred after the initial recognition of the net investment (a '**loss event**') and
- that loss event (or events) has an **impact on the estimated future cash flows** from the net investment that can be reliably estimated.

It is not necessary to identify a single event that caused impairment. Rather, impairment can be a combined effect of several individual events.

Losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that the net investment is impaired includes **observable data** about the following loss events:

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

Disappearance of an active market because the associate's or joint venture's equity or financial instruments are **no longer publicly traded is not evidence of impairment**.

A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture is not itself evidence of impairment, although it may be evidence of impairment when considered with other available information.

- If goodwill on acquisition of associate or joint venture is recognized as **part of the carrying amount of the net investment** in associate or joint venture, **then** such 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.

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.

#### Reversal of impairment loss

Any reversal of impairment loss is recognized in accordance with Ind AS 36 '*Impairment of Assets*' to the extent that the recoverable amount of the net investment subsequently increases.

### PRESENTATION AND DISCLOSURE

- Investments in associates are **generally classified as non-current assets**
- Investments in associates are **only classified as current assets if** they meet the criteria to be **classified as 'held for sale'** in accordance with Ind AS 105 '*Non-current Assets Held for Sale and Discontinued Operations*'

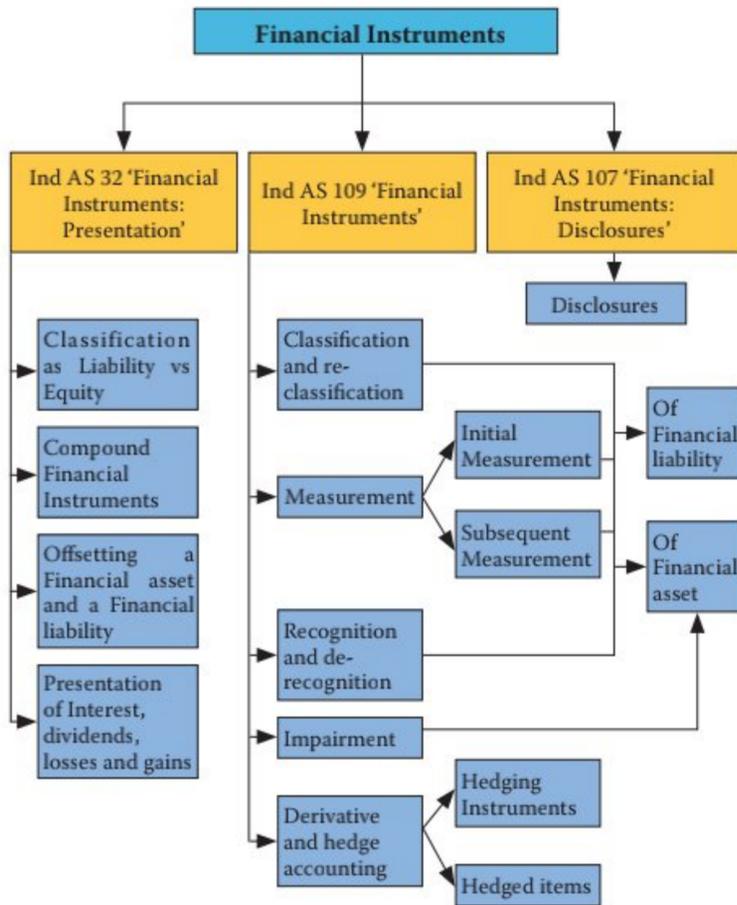
- No disclosures are specified in Ind AS 28
- Instead, Ind AS 112 '*Disclosure of Interests in Other Entities*' outlines the disclosures required for entities with joint control of, or significant influence over, an investee

### MAJOR CHANGES IN IND AS 28 FROM IAS 28

Particulars	Ind AS 28	IAS 28
Capital Reserve / Negative Goodwill	Any excess of: (a) The entity's share of net fair value of JV's identifiable assets and liabilities OVER (b) The cost of investment  is recognized directly in Equity as <b>Capital Reserve</b> in the period in which the investment is acquired	Any excess of: (a) The entity's share of net fair value of joint venture's identifiable assets and liabilities OVER (b) The cost of investment  is included as <b>Income</b> – in the determination of the investor's share of the JV's share of profit/loss in the period in which the investment is acquired
Requirement of uniform accounting policies to be followed by associates and joint ventures	Ind AS 28 gives an exemption in case of an associate <b>where it is impracticable</b> to follow uniform accounting policies	To be adhered. There is no such exemption given under IAS 28.

FINANCIAL INSTRUMENTS

Overview of standards providing guidance on financial instruments



Scope of Ind AS 32

- Applied by **all** entities to **all types of financial instruments**
- Exceptions:**
  - Interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110, Ind AS 27, or Ind AS 28  
**Note:** Entities shall apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures
  - Employers' rights and obligations under 'Employee benefit plans' to which Ind AS 19 applies
  - Insurance contracts as defined in Ind AS 104  
**Exception 1:** Derivatives that are embedded in insurance contracts -if accounted separately by the issuer, as required by Ind AS 109.  
**Exception 2:** Financial guarantee contracts -if the issuer applies Ind AS 109 in recognising and measuring the contracts. However, issuer can elect applying Ind AS 104 in recognising and measuring them
  - Financial instruments within the scope of Ind AS 104 (because they contain a discretionary participation feature). However, exemption is limited to paragraphs 15- 32 and AG25-AG35 which relates to the distinction between financial liabilities and equity instruments.  
**Note:** Ind AS 32 applies to derivatives that are embedded in these instruments
  - Financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102 applies,  
**Exception 1:** Contracts within scope of paras 8-10 of Ind AS 32  
**Exception 2:** Treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements to which paras 33, 34 of Ind AS 32 applies

INDIAN ACCOUNTING STANDARD (IND AS) 32: FINANCIAL INSTRUMENTS: PRESENTATION

Objective of Ind AS 32 is to				
Establish principles for presenting financial instruments as liabilities or equity	Establish principles for offsetting financial assets and financial liabilities	Classify financial instruments, from the perspective of the issuer into -financial assets, -financial liabilities and -equity instruments	Classify related interest, dividends, losses and gains	Circumstances in which financial assets and financial liability should be offset

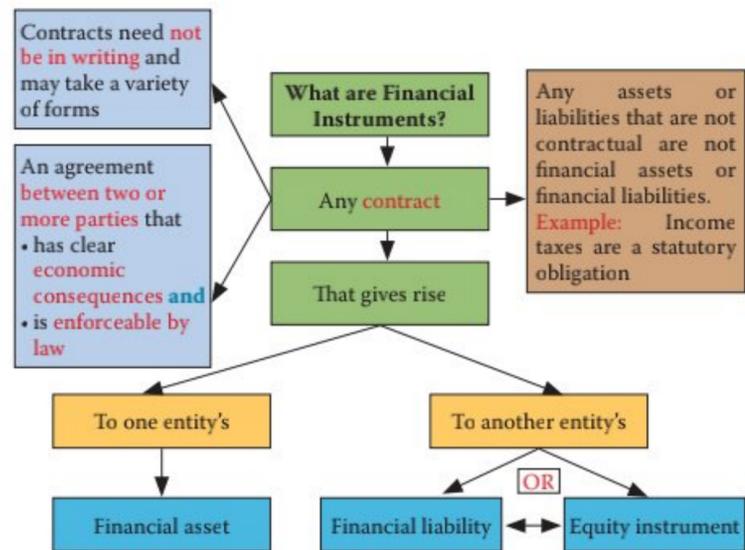
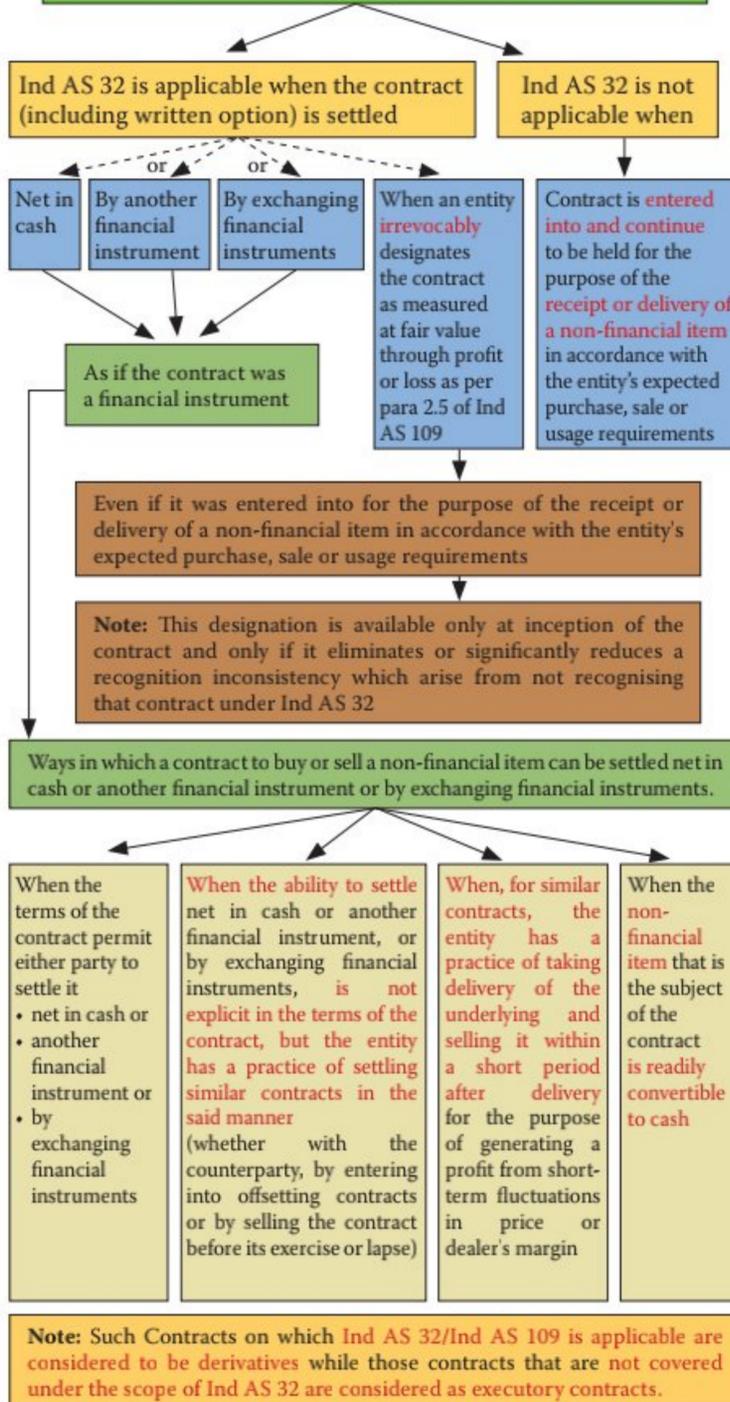
**Note:** Principles in Ind AS 32 complement the principles for recognising and measuring financial assets and financial liabilities in Ind AS 109 and for disclosing information about them in Ind AS 107.

Summary of the transaction outside the scope Financial Instruments:

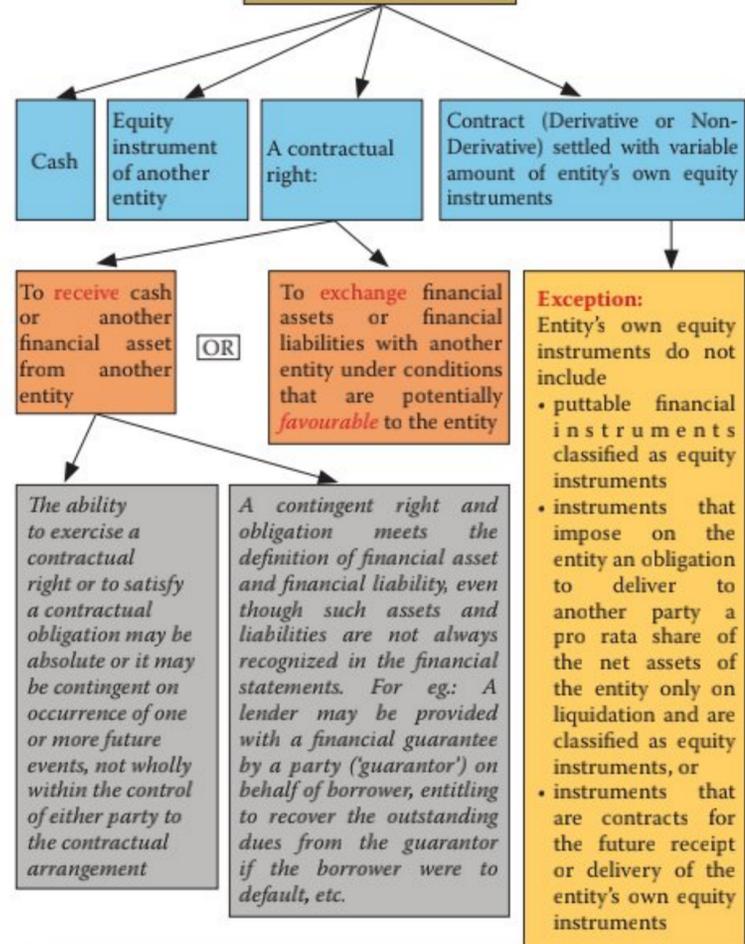
S. No.	Particulars	Covered under Ind AS 109	Covered under Ind AS 32	Applicable Ind AS
1	Interest in subsidiaries (At Costs)	No	No	Ind AS 27
2	Interests in associates (At Costs)	No	No	Ind AS 27
3	Interest in joint ventures (At Costs)	No	No	Ind AS 27
4	Rights and obligations under leases	No	No	Ind AS 116
5	Employers' rights and obligations under employee benefit plans	No	No	Ind AS 19

S. No.	Particulars	Covered under Ind AS 109	Covered under Ind AS 32	Applicable Ind AS
6	Rights and obligations under an insurance contract	No	No	Ind AS 104
7	Forward contract arising in case of business combination	No	No	Ind AS 104
8	Loan commitment other than covered under Ind AS 109 and Ind AS 32	No	No	Ind AS 37
9	Shared based payments	No	No	Ind AS 102
10	Reimbursement right in respect of provision	No	No	Ind AS 37
11	Rights and obligations under revenue for contracts with customers	No	No	Ind AS 115
12	Interest in subsidiaries / Associates / Joint venture (At Fair Value)	Yes	Yes	Ind AS 109

**Scope of 'Contract to Buy or Sell a Non-Financial Item'**



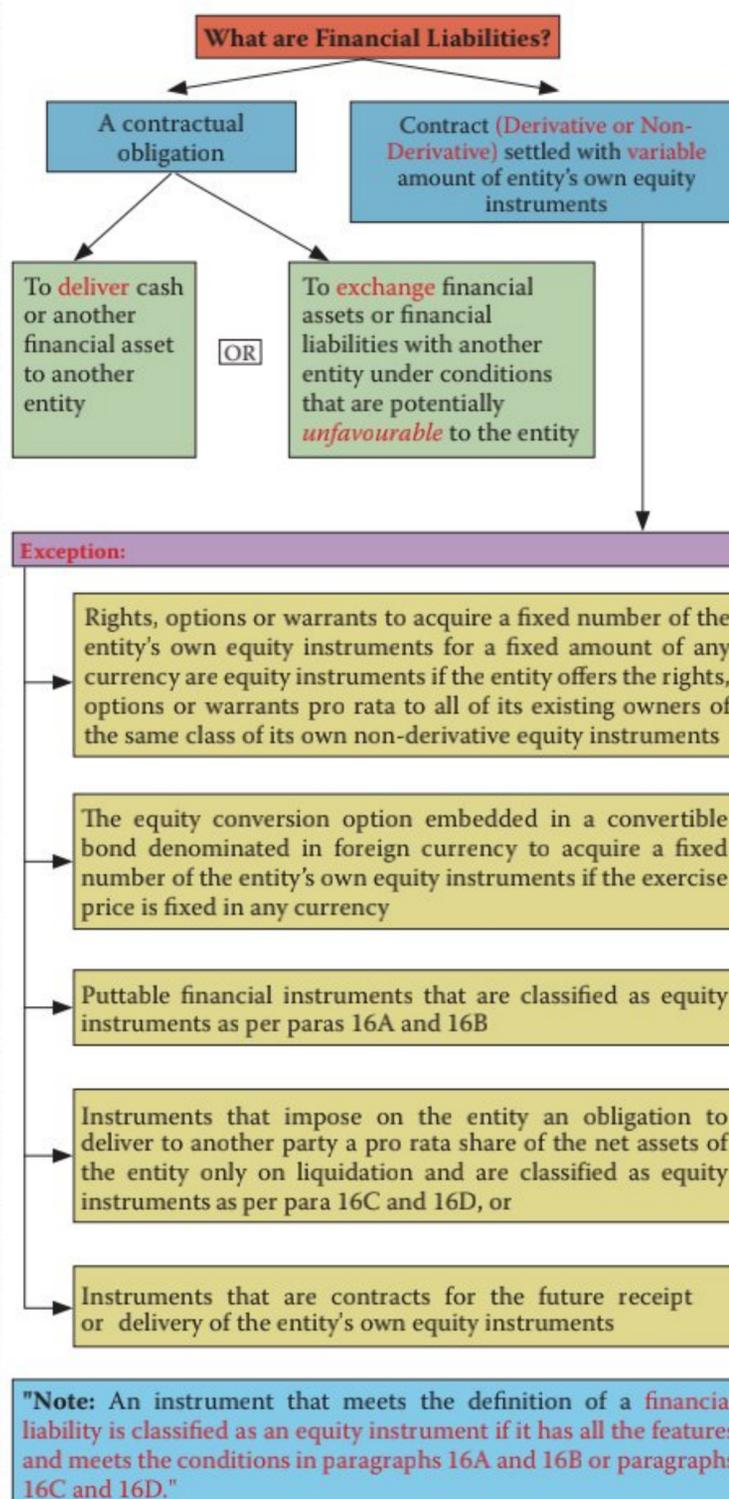
**What are Financial Assets?**



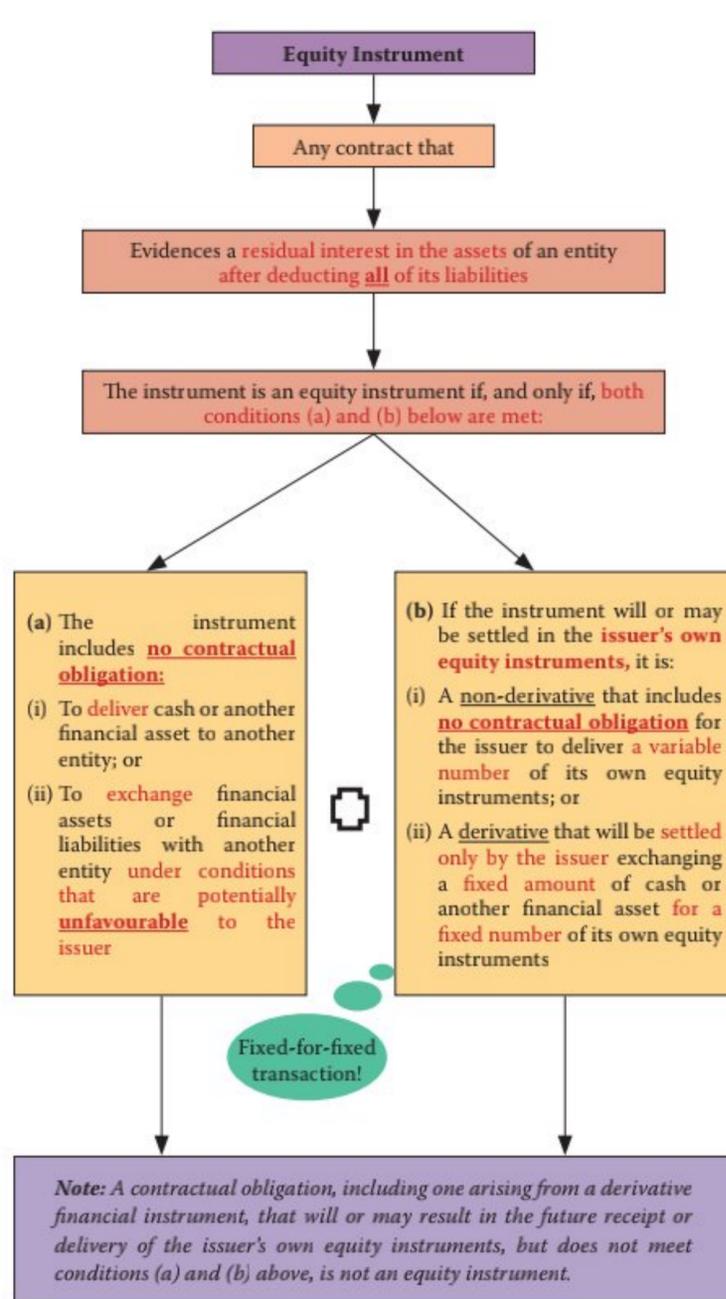
**Important Points**

- Physical assets (such as inventories, property, plant and equipment), right-of-use assets and intangible assets (such as patents and trademarks) are not financial assets.
- Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets.
- 'Perpetual' debt instruments (such as 'perpetual' bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.

TEST YOUR KNOWLEDGE		
Particulars	Whether Financial Asset (FA) or not?	Remarks
Investment in bonds debentures	FA	Contractual right to receive cash
Loans and receivables	FA	Contractual right to receive cash
Deposits given	FA	Contractual right to receive cash
Trade & other receivables	FA	Contractual right to receive cash
Cash and cash equivalents	FA	Specifically covered in the definition
Bank balance	FA	Contractual right to receive cash
Investments in equity shares	FA	Equity instrument of another entity
Perpetual debt instruments Eg. perpetual bonds, debentures and capital notes.	FA	Such instruments provide the contractual right to receive interest for indefinite future or a right to return of principal under terms that make it very unlikely or very far in the future
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
Right to use assets Eg. Lease vehicle etc.	No	Control of such assets does not create a present right to receive cash or another financial asset
Intangibles Eg. Patents, trademark etc.	No	Control of such assets does not create a present right to receive cash or another financial asset
Prepaid expenses Eg. Prepaid insurance, prepaid rent etc.	No	These instruments provide future economic benefit in the form of goods or services, rather than the right to receive cash
Advance given for goods and services	No	These instruments provide future economic benefit in the form of goods or services, rather than the right to receive cash



TEST YOUR KNOWLEDGE		
Particulars	Whether Financial Liability (FL) or not?	Remarks
Loans payable or bank loan	FL	Contractual obligation to pay cash / bank
Trade and other payables	FL	Contractual obligation to pay cash / bank
Bills payable / acceptance	FL	Contractual obligation to pay cash / bank
Deposits received	FL	Contractual obligation to pay cash / bank
Mandatory redeemable preferences shares	FL	Contractual obligation to pay cash / bank
Financial guarantee given	FL	Contractual obligation to pay cash, due to the occurrence of certain events



**Settlement in own equity instruments**

- ❖ Settlement in own equity instruments is equity classified only if it's a **fixed-for-fixed transaction**, ie, **issue of fixed number of shares and involves a fixed amount of cash or other financial asset**
- ❖ Where an entity enters into a non-derivative contract to issue a fixed number of its own equity instruments in exchange for a fixed amount of cash (or another financial asset), it is an equity instrument of the entity. But this does not apply for instruments that are equity classified being a puttable instrument or other instrument entitling the holder to pro-rata share in net assets that meet specified criteria
- ❖ However, if such a contract contains an obligation for the entity to pay cash (or another financial asset), it also gives rise to a liability for the present value of the redemption amount. For example: a forward contract entered into by an entity to repurchase fixed number of its own shares for a fixed amount of cash gives rise to a financial liability to be recorded at present value of redemption amount

An issuer of non-puttable ordinary shares assumes a liability when:

- it formally acts to make a distribution and
- becomes legally obliged to the shareholders to do so

This may be the case following the:

- Declaration of a dividend or
- When the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders

**Example:** When the dividend is approved by shareholders in AGM, the Company has taken an obligation to distribute dividend to its shareholders and hence, it is a contractual obligation meeting the definition of financial liability

**Examples of equity instruments include:**

- Non-puttable ordinary shares, for example: equity shares issued by companies
- Some puttable instruments (if they meet requisite criteria and are not classified as financial liabilities)
- Some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (if they meet requisite criteria and are not classified as financial liabilities)
- Some types of preference shares (where repayment and distribution is at the discretion of the Issuer);
- Warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset.
- ❖ Other instruments convertible into fixed number of equity shares, etc.

**Important Points**

- The classification of a financial instrument under Ind AS 32 is done from the perspective of the issuer and not from the perspective of the holder
- For some financial instruments, although their legal form may be equity, the substance of the arrangements may be that they are liabilities. Paragraphs 11 and 16 of Ind AS 32 provides guidance to distinguish a financial liability from an equity instrument
- A preference share, for example, may display either equity or liability characteristics depending on the substance of the rights attaching to it

The key characteristics of an equity instrument have been further explained as follows:

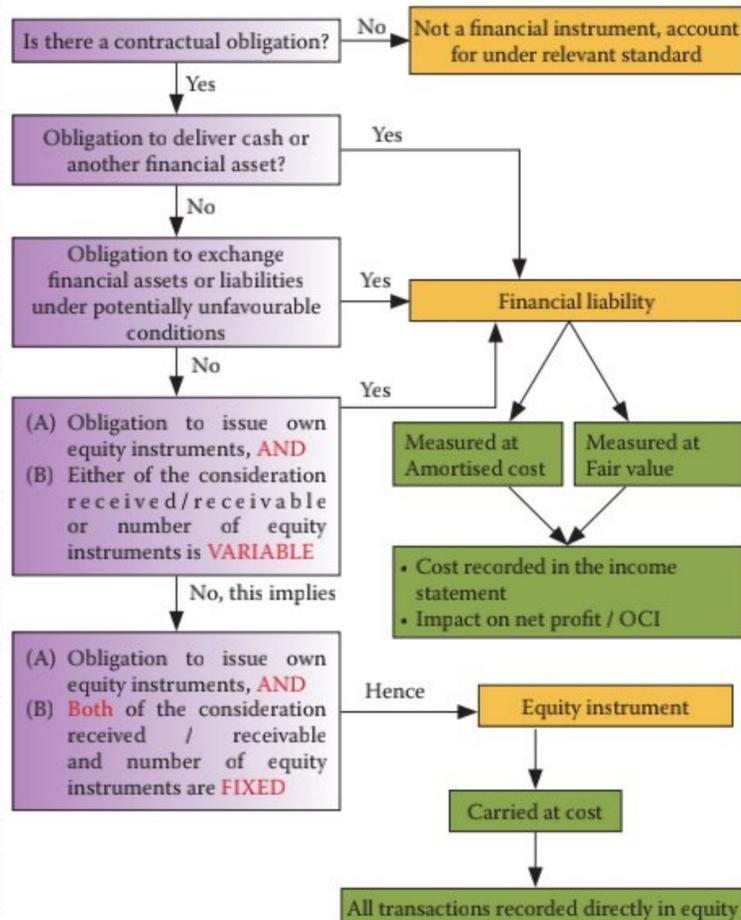
**No contractual obligation**

- ❖ A key characteristic of equity instruments is that they carry **no contractual obligation throughout for any payment or distribution towards the holders of such instruments.**
- ❖ However, following type of instruments as an exception are 'equity' classified even if they contain an obligation to deliver cash or other financial asset, provided certain requisite criteria are met –
  1. Puttable financial instruments that meet certain conditions
  2. An instrument, or a component of an instrument, that contains an obligation for the issuing entity to deliver to the holder a pro rata share of the net assets of the issuing entity only on its liquidation

Comparative Table For Classifying Financial Liabilities And Equity Instruments From The Perspective Of The Issuer

Financial liability (Ind AS 32.11)	Equity (Ind AS 32.16)
A financial instrument that fulfils <b>either of (A) or (B)</b> below:	A financial instrument that fulfils <b>both (A) and (B)</b> below:
<b>Condition (A):</b> An instrument that <b>is a contractual obligation:</b>	<b>Condition (A):</b> An instrument that contains <b>no contractual obligation:</b>
i. to deliver cash or another financial asset to another entity; or	i. to deliver cash or another financial asset to another entity; or
ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity	ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity
<b>Condition (B):</b> An instrument that will or may be settled in the entity's own equity instruments and is:	<b>Condition (B):</b> An instrument that will or may be settled in the entity's own equity instruments and is:
i. A non-derivative <b>for which the entity is or may be obliged</b> to deliver a variable number of the entity's own equity instruments; or	i. a non-derivative <b>that includes no contractual obligation for the issuer</b> to deliver a variable number of the entity's own equity instruments; or
ii. A derivative that will or may be settled <b>other than by</b> the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments	ii. a derivative that will or may be settled <b>only by</b> the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

The Flowchart Below Further Summarises The Distinction Between The Definitions Of A Financial Liability And Equity:



**No Contractual Obligation to Deliver Cash or Another Financial Asset**

A critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of the issuer either to deliver cash or another financial asset to the holder or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. There are very limited exceptions to this principle in the form of "puttable instruments" and "obligations arising on liquidation"

The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease

If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability

A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions

**Settlement In The Entity's Own Equity Instruments**

**To recapitulate:** A financial instrument is classified as a liability not just when there is an obligation to deliver cash or another financial asset, it is sometimes so classified even when the entity's obligation is to settle the instrument through delivery of its own equity instruments.

If an entity has a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that **varies** so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation, such a **contract is a financial liability**.

Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a **variable other than the market price of the entity's own equity instruments** (eg an interest rate, a commodity price or a financial instrument price)

The number of equity instruments to be delivered could vary as a result of entity's own share price.

A contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument

The above requirements are summarised in the table below:

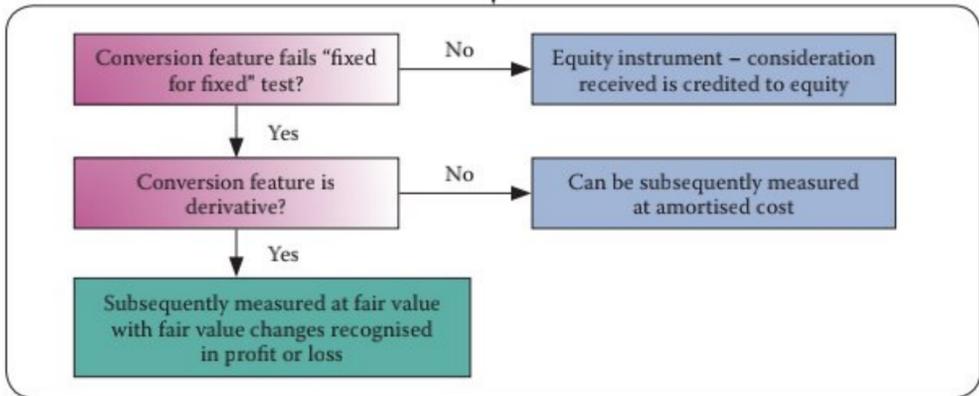
S.no. 2 in table is also called "fixed for fixed" test for equity classification  
i.e. fixed amount of cash or other financial asset for fixed number of own equity instruments

S. No.	Consideration for financial instrument	Number of own equity instruments to be issued in settlement	Classification and rationale
1	Fixed	Variable	Financial liability – own equity instruments are being used as currency to settle an obligation for a fixed amount
2	Fixed	Fixed	Equity – issuer does not have an obligation to pay cash and holder is not exposed to any variability
3	Variable	Fixed	Financial liability – though issuer does not have an obligation to pay cash, but holder is exposed to variability
4	Variable	Variable	Financial liability – though issuer does not have an obligation to pay cash, but both parties are exposed to variability

Another point to note is a fine distinction highlighted in the definition of financial liability and equity, as mentioned in the paragraph "Definitions – financial liability and equity". Being mirror images of each other, for simplicity sake, let us look at condition (B) in the definition of "financial liability":

"An instrument that will or may be settled in the entity's own equity instruments and is:  
i. a **non-derivative** for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or  
ii. a **derivative** that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments"

In short, the treatment can be explained as follows

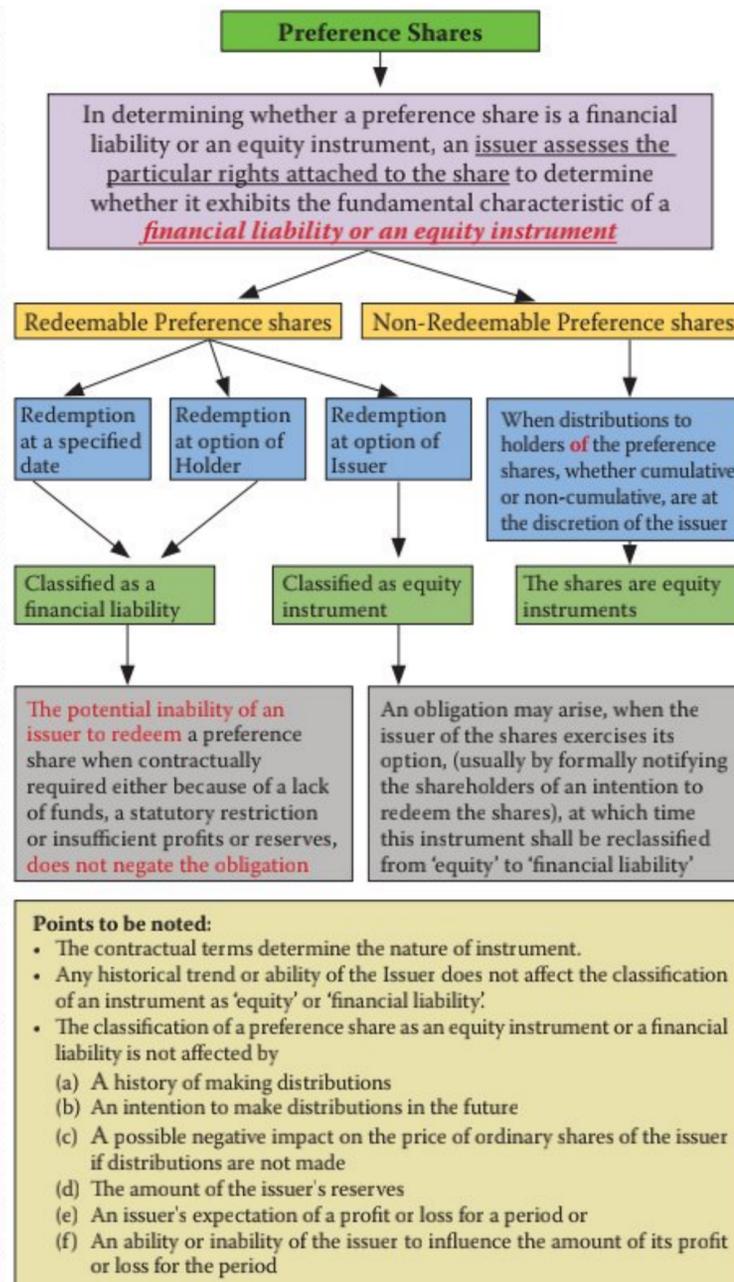


**Important Points**

- Changes in the fair value of a contract arising from variations in market interest rates that do **not** affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract **do not preclude the contract from being an equity instrument**
- Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity
- Any consideration paid (such as the premium paid for a purchased option) is deducted directly from equity.
- Changes in the fair value of an equity instrument are not recognised in the financial statements

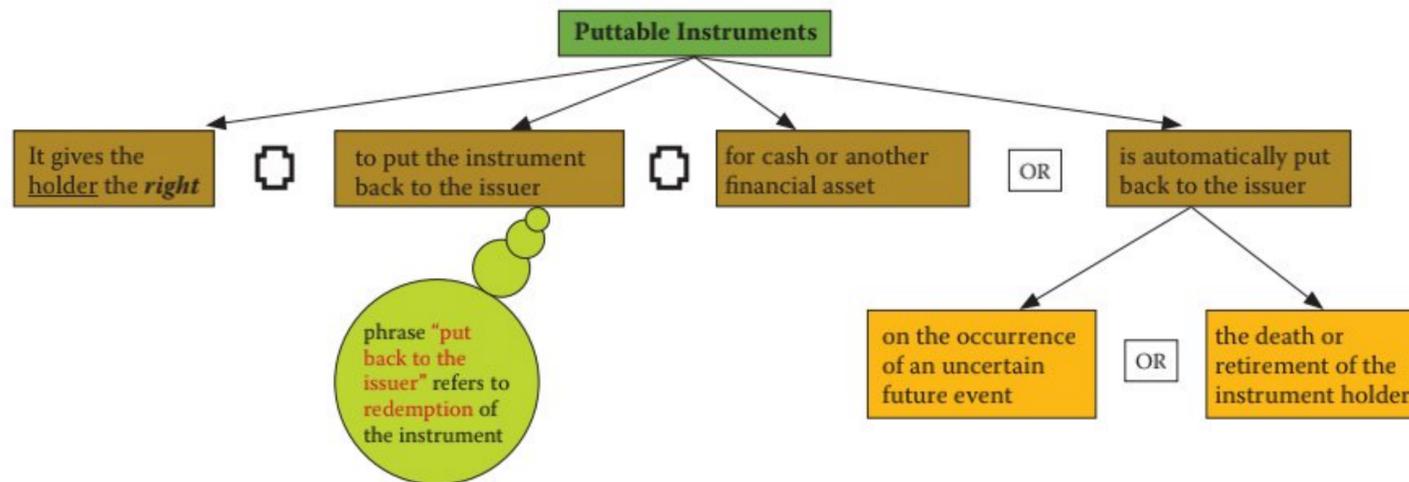
**Contracts settled in own equity instruments but classified as 'financial liability' (where equity instrument is treated as currency):**

Terms	Evaluation under Ind AS 32
<b>Non derivative contract</b>	<ul style="list-style-type: none"> <li>A contract that will be settled in a variable number of entity's own shares whose value equals a fixed amount is a <b>financial liability</b>, because the entity is under an obligation to pay a fixed amount that is settled through equity instruments (similar to settlement in currency)</li> <li>Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, <b>is a financial asset or a financial liability</b></li> </ul>
<b>Derivative contract</b>	<ul style="list-style-type: none"> <li>A contract that will be settled in a variable number of the entity's own shares whose value equals an amount based on changes in an underlying variable (eg a commodity price) is a financial asset or a financial liability.</li> </ul> <p>An example is a written option to buy gold that, if exercised, is settled net in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract</p>



**Classification / Evaluation of Preference Shares Based on Distribution on and of Preference Shares**

Nature	Dividend Terms whether at the option of the issuer	Evaluation	Classification	Accounting
Mandatory Redeemable Preference Shares	Non - Discretionary	<ul style="list-style-type: none"> <li>Dividend – Liability</li> <li>Redemption – Liability</li> </ul>	Liability	Amortized costs
	Discretionary	<ul style="list-style-type: none"> <li>Dividend – Equity</li> <li>Redemption – Liability</li> </ul>	Compound FI	Split Accounting into liability and Equity component
<ul style="list-style-type: none"> <li>Non redeemable</li> <li>Convertible</li> </ul>	Non - Discretionary	<ul style="list-style-type: none"> <li>Dividend – Liability</li> <li>Fixed to Fixed – Not met – Liability</li> </ul>	Liability	Amortized costs
		<ul style="list-style-type: none"> <li>Dividend – Liability</li> <li>Fixed to Fixed – Met – Equity</li> </ul>	Compound FI	Split Accounting into liability and Equity component
	Discretionary	<ul style="list-style-type: none"> <li>Dividend – Equity</li> <li>Fixed to Fixed – Not met – Liability</li> </ul>	Compound FI	Split Accounting into liability and Equity component
		<ul style="list-style-type: none"> <li>Dividend – Equity</li> <li>Fixed to Fixed – Met – Equity</li> </ul>	Equity	<ul style="list-style-type: none"> <li>Fair value</li> <li>No re-measurement</li> </ul>

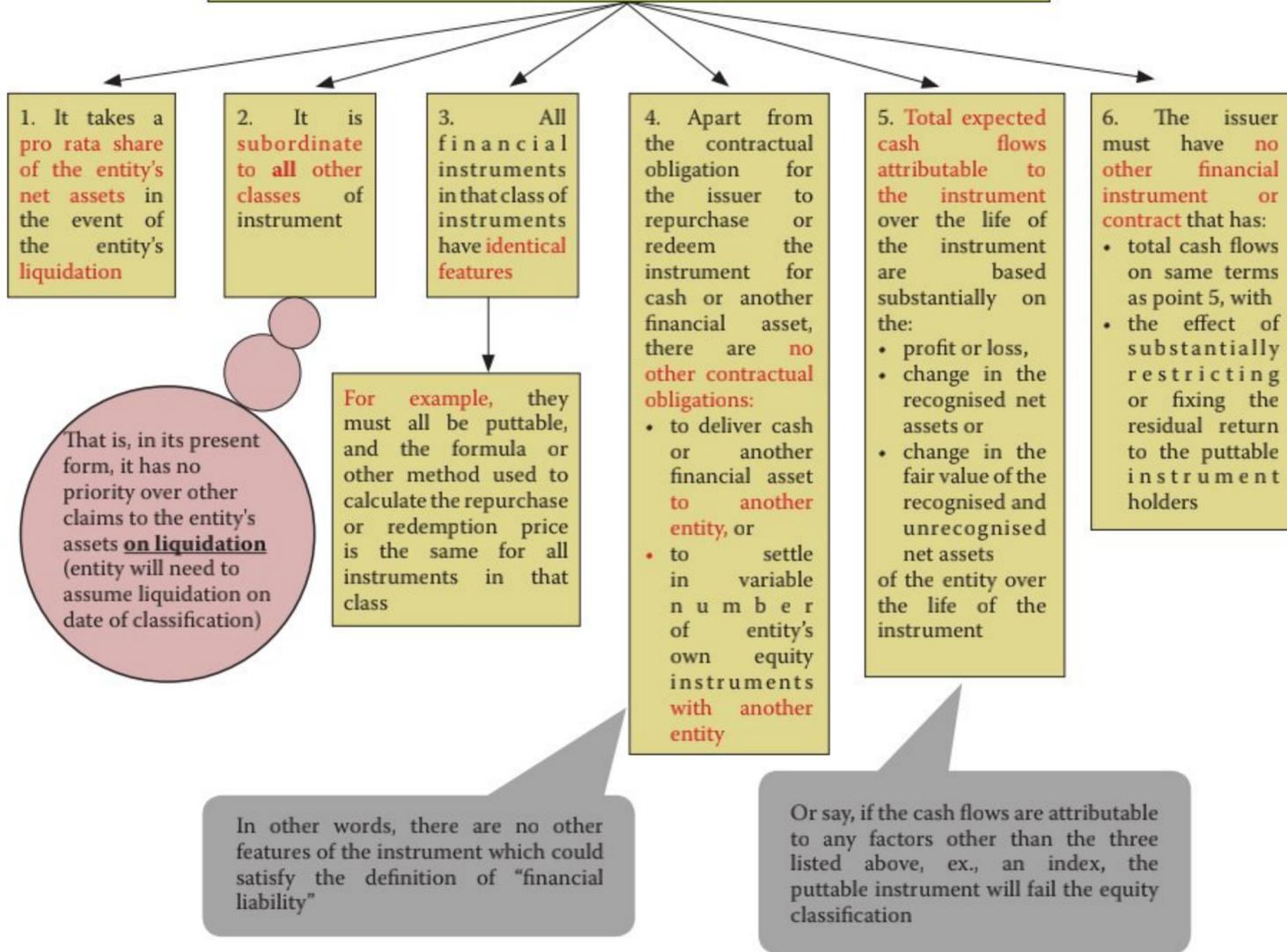


A puttable financial instrument includes a **contractual obligation for the issuer** to repurchase or redeem that instrument for cash or another financial asset *on exercise of the put*

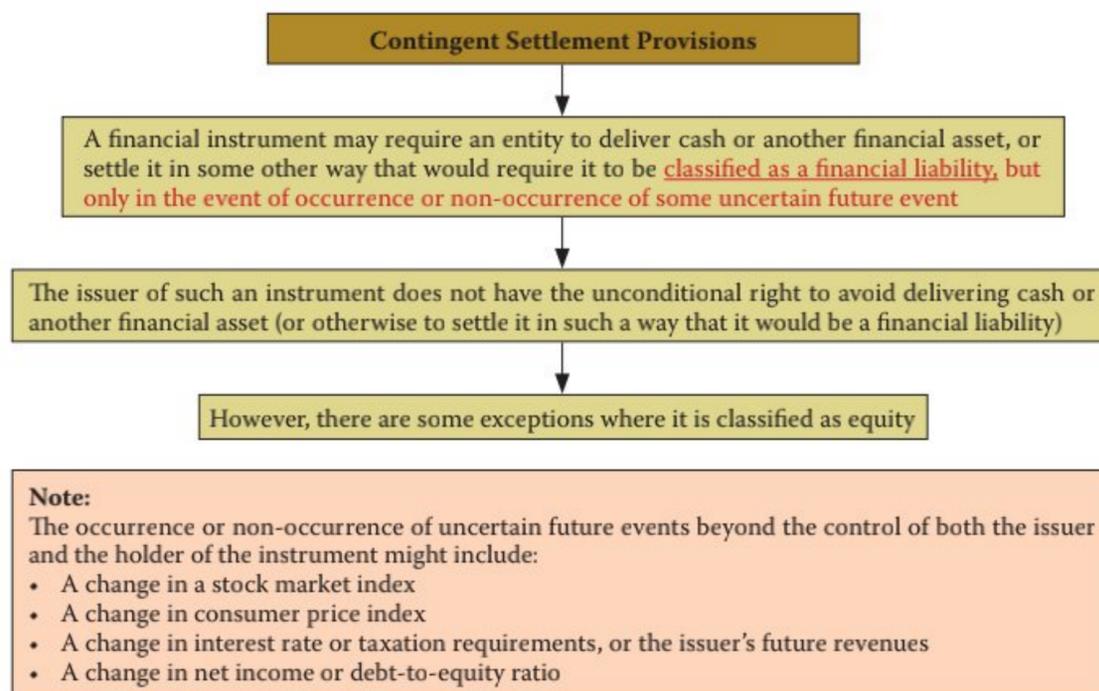
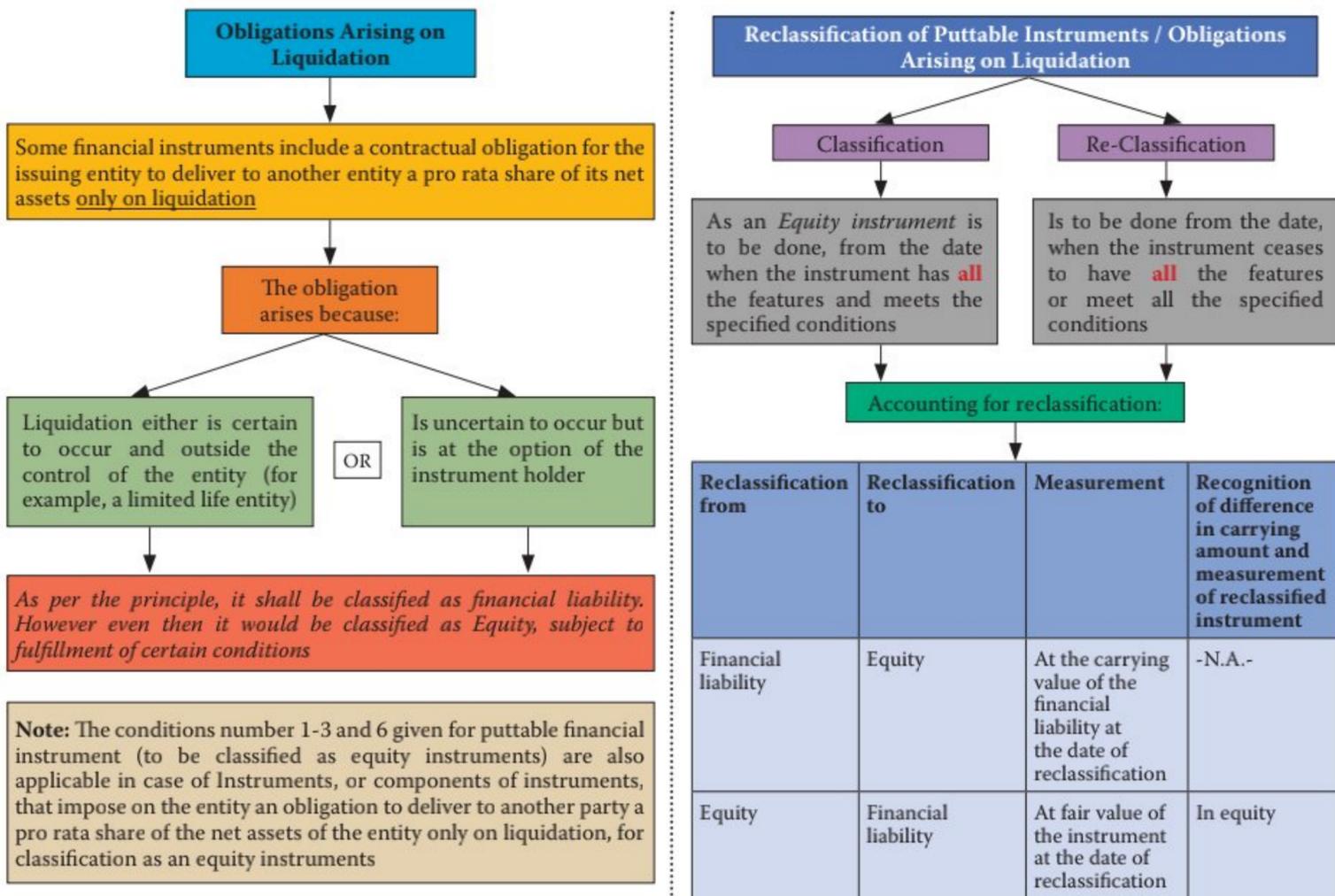
*Note:* If the holder has a right, but not an obligation to require the issuer to redeem the instrument, it is referred to as "put option"

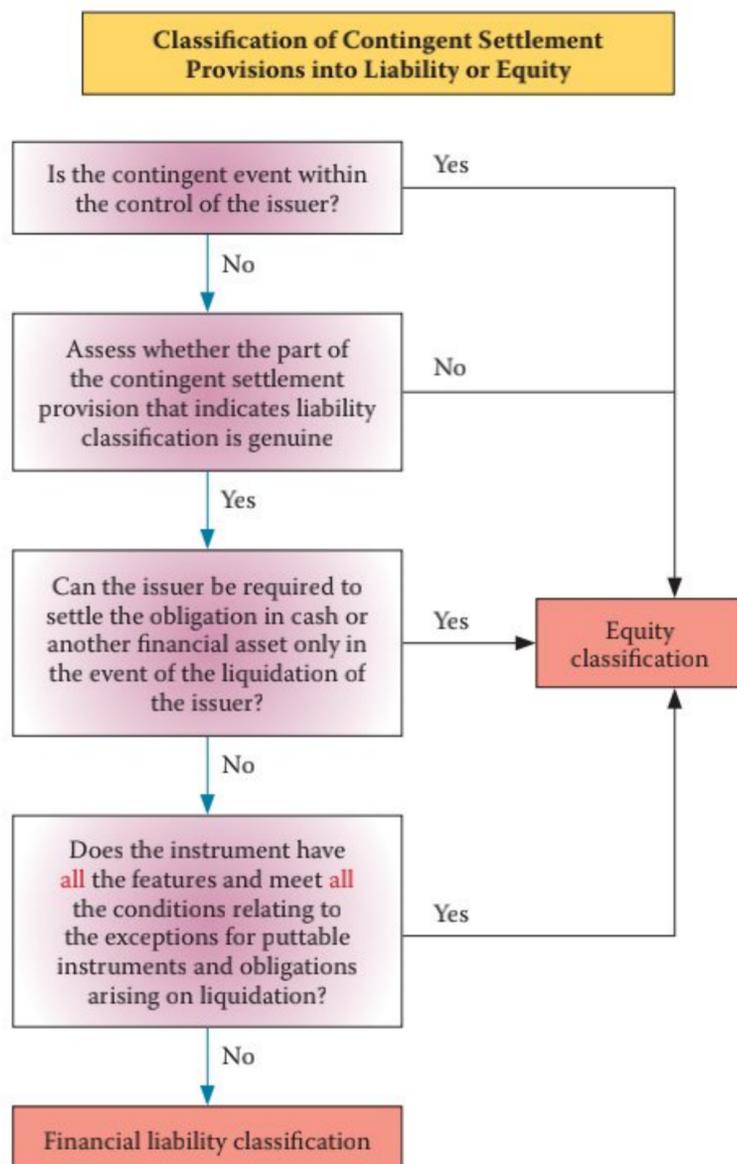
*As per the principle, it shall be classified as financial liability. However, it would be classified as Equity, subject to fulfillment of certain conditions*

**Exception** to the definition of a financial liability is when a **puttable financial instrument** is classified as an **equity instrument** if it has **ALL** the following features:

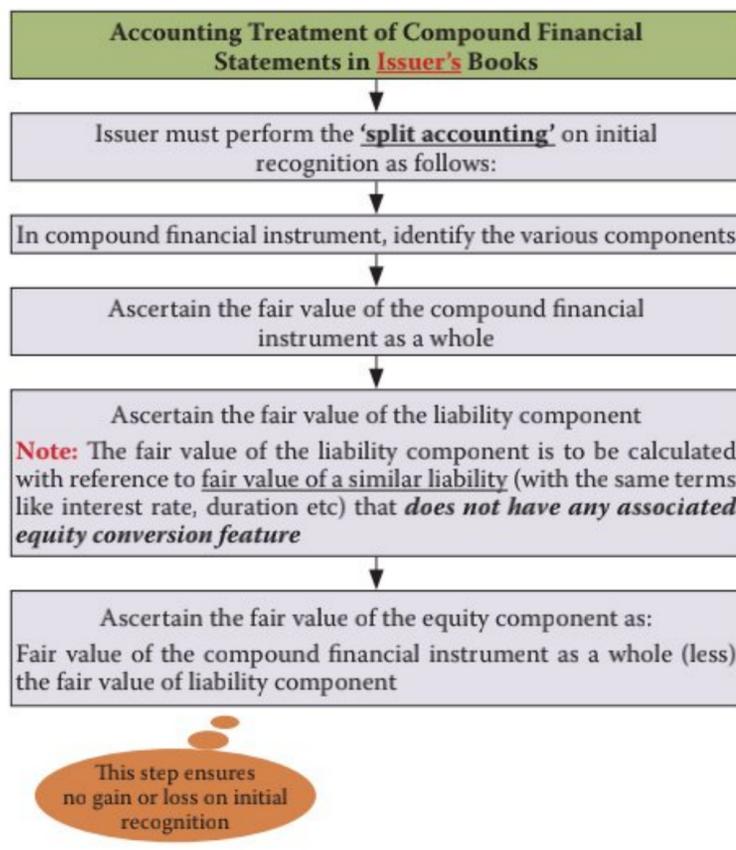
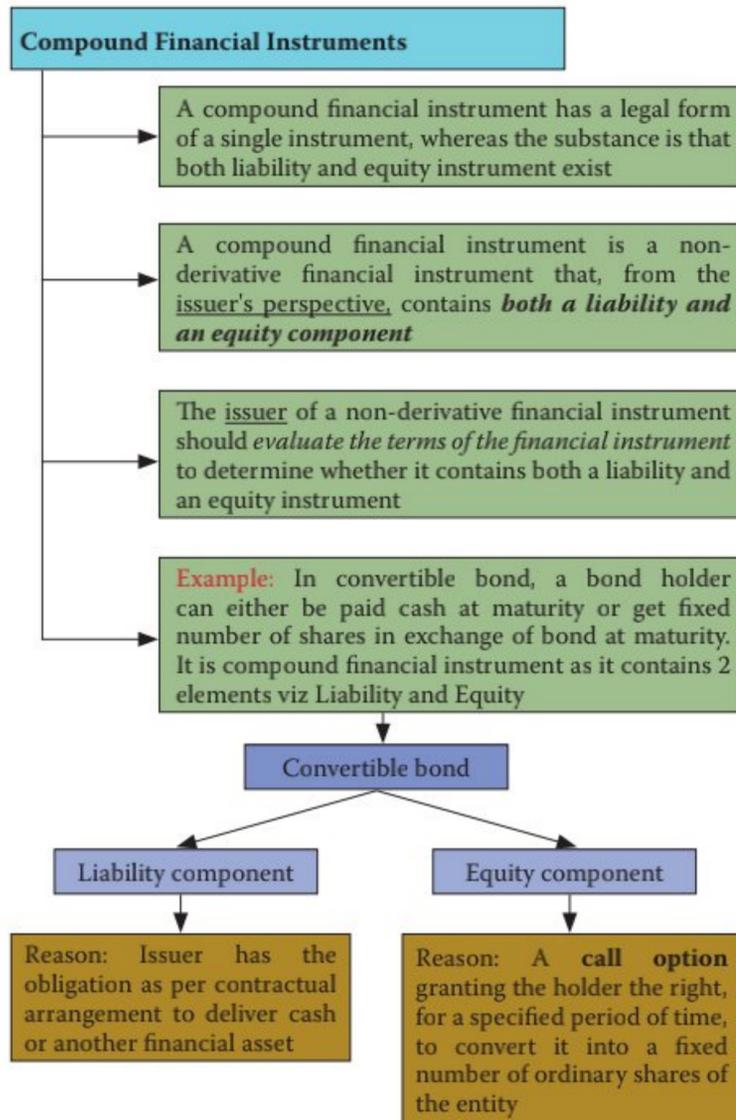


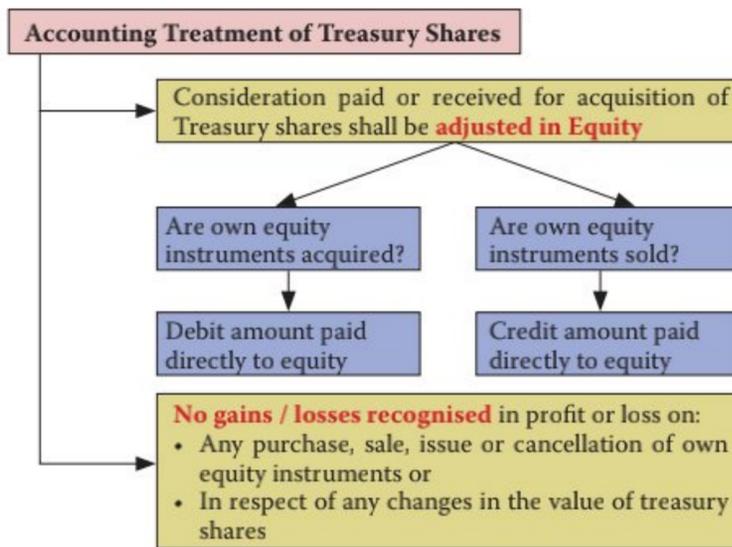
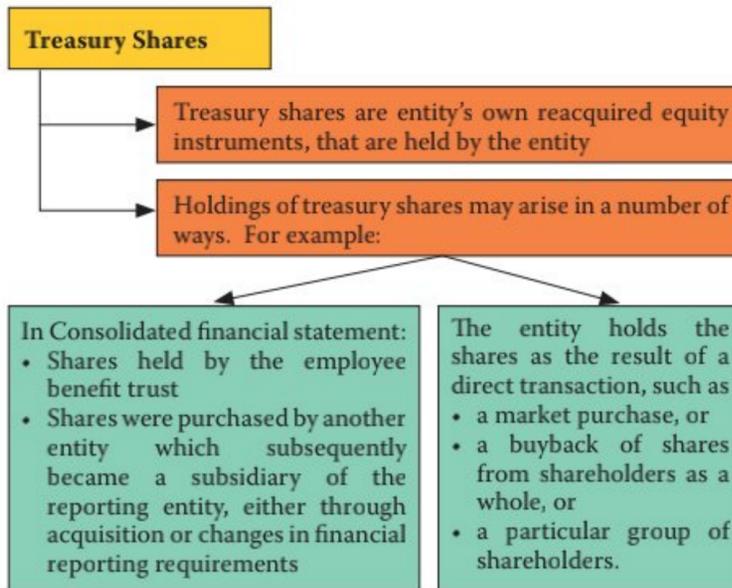
Carve Out in Ind AS 32 from IAS 32	
As per IFRS	Carve out
As per accounting treatment prescribed under IAS 32, equity conversion option in case of foreign currency denominated convertible bonds is considered a derivative liability which is embedded in the bond. Gains or losses arising on account of change in fair value of the derivative need to be recognised in the statement of profit and loss as per IAS 32.	In Ind AS 32, an exception has been included to the definition of 'financial liability' in paragraph 11 (b) (ii), whereby conversion option in a convertible bond denominated in foreign currency to acquire a fixed number of entity's own equity instruments is classified as an equity instrument if the exercise price is fixed in any currency.





TEST YOUR KNOWLEDGE	
Contingent settlement event	Within the issuer's control?
Issue of an IPO prospectus prior to the conversion date	Yes
Successful completion of IPO	No
A change in accounting, taxation, or regulatory regime which is expected to adversely affect the financial position of the issuer	No
Issuer makes a distribution on ordinary shares	Yes. Dividends on ordinary shares are discretionary
Appointment of a receiver, administrator, entering a scheme of arrangement, or compromise agreement with creditors	No. Depends on the respective requirements in each jurisdiction
Suspension of listing of the issuer's shares from trading on the stock exchange for more than a certain number of days	No
Change in credit rating of the issuer	No



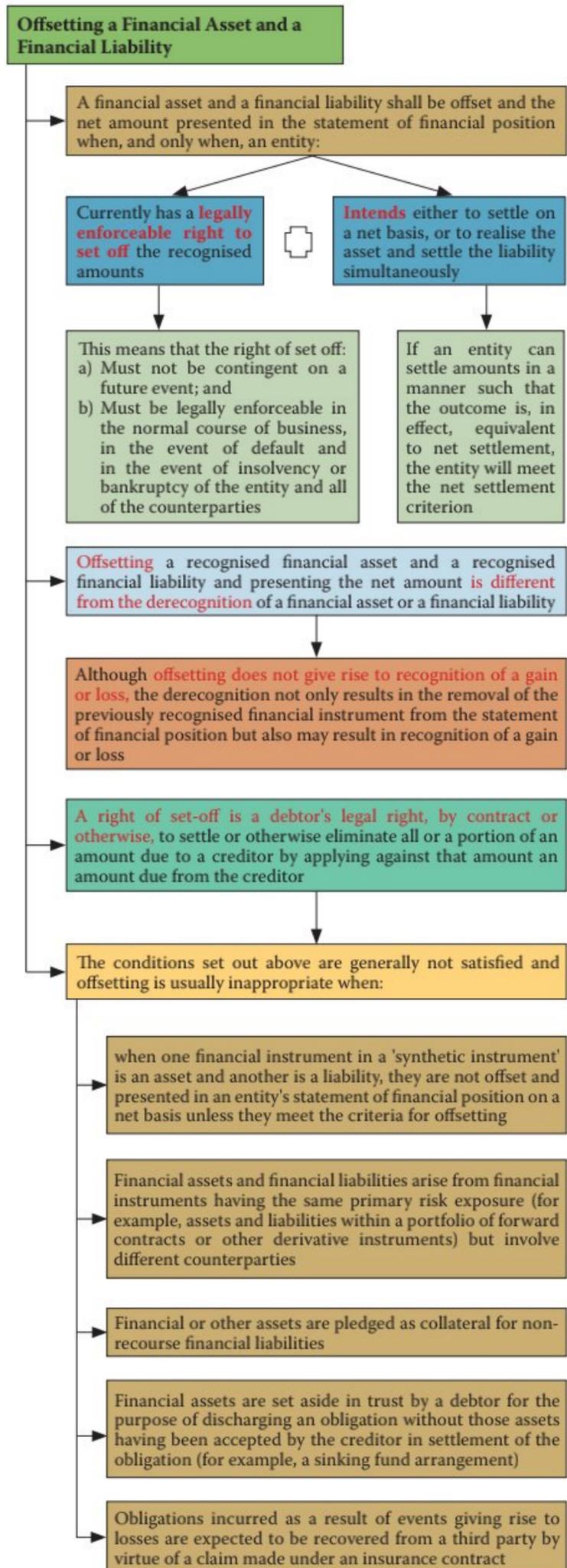


- The amount of **treasury shares held is disclosed separately either in the balance sheet or in the notes**, in accordance with Ind AS 1.
- An entity provides disclosure in accordance with Ind AS 24, *Related Party Disclosures*, if the entity reacquires its own equity instruments from related parties

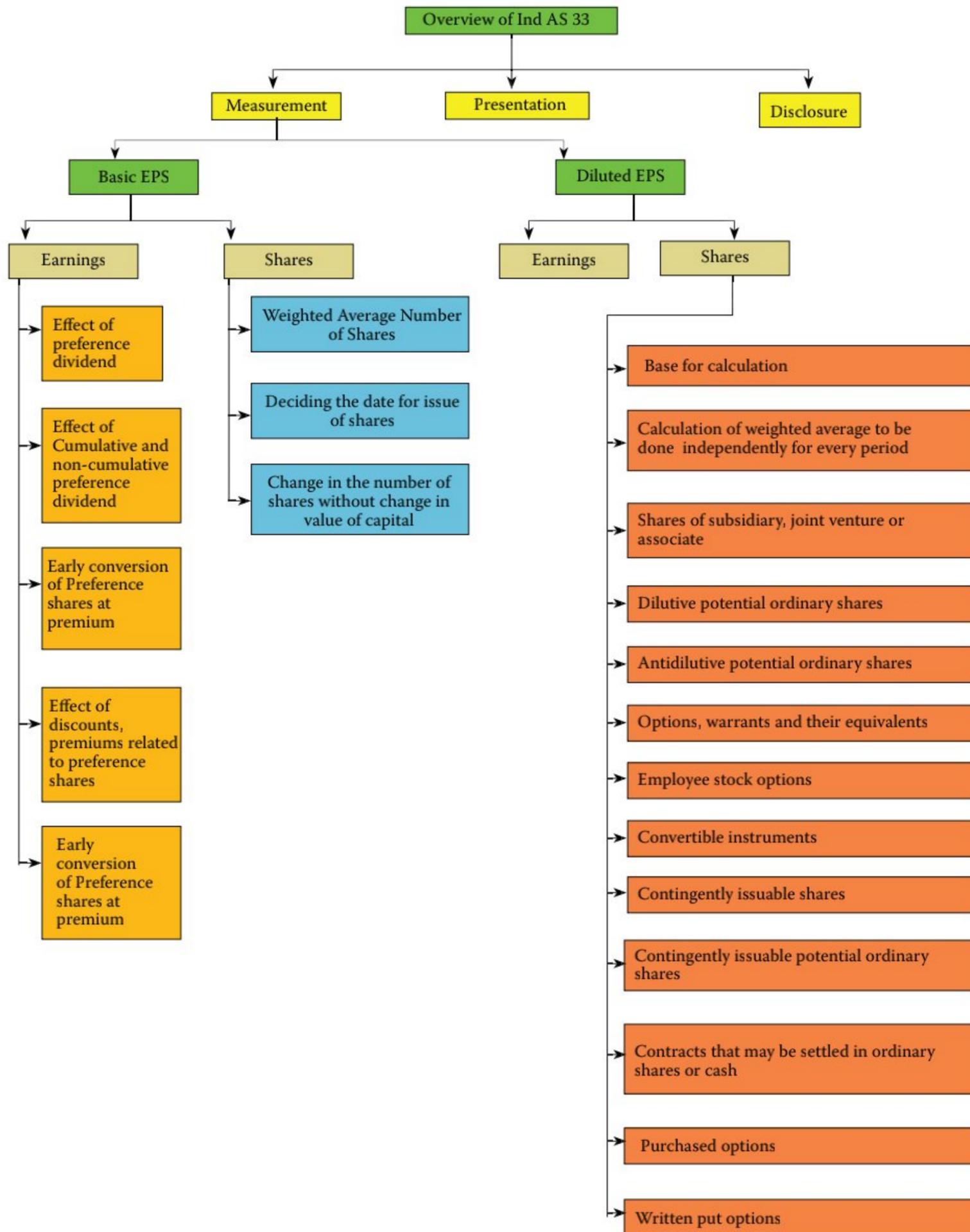
**Interest, Dividends, Losses and Gains**

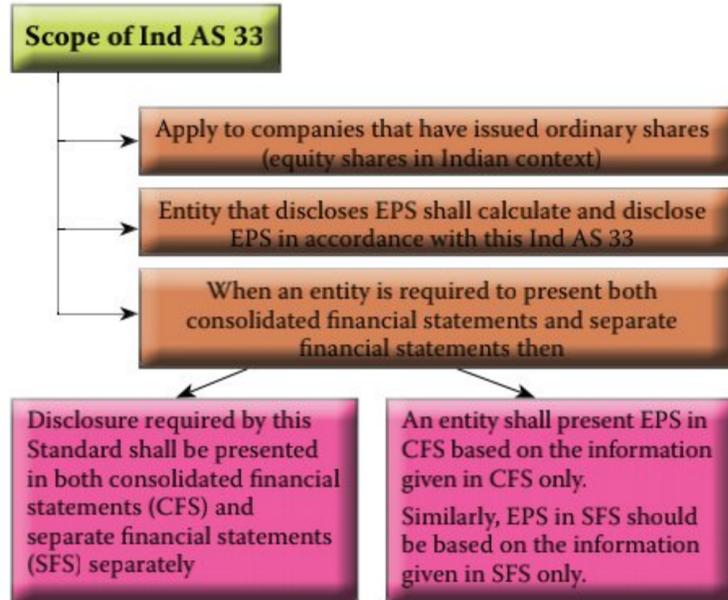
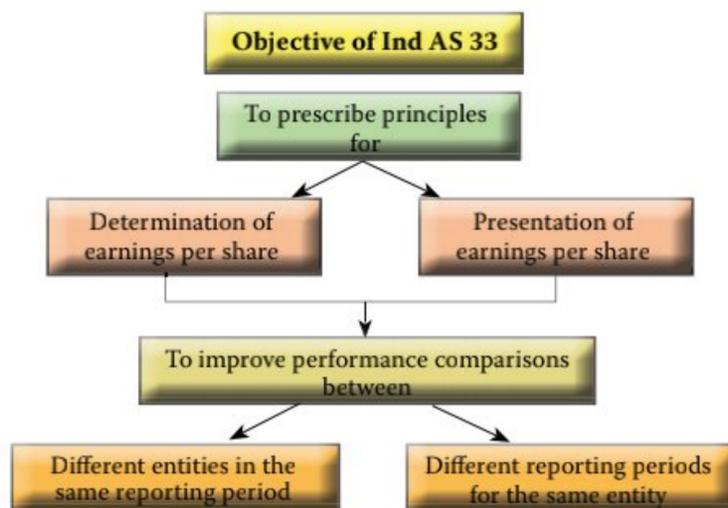
The classification of an issued financial instrument as either a financial liability or an equity instrument determines recognition of interest, dividends, gains, and losses relating to that instrument in profit or loss or directly in equity.

- Dividends to holders of outstanding shares that are classified as equity - **Directly to equity. Taxes will be recognised in Equity**
- Dividends to holders of outstanding shares that are classified as financial liabilities - **Interest expense in Profit and loss. Taxes will be recognised in Profit or loss**
- Changes in the Fair Value of equity instruments of the entity – **OCI / Profit or Loss.**
- Changes in the Fair Value of own equity instruments of the entity – **Not recognised.**
- Costs incurred in issuing or acquiring own equity instruments are **not expensed but accounted for as a deduction from equity.** Such costs include regulatory fees, legal fees, advisory fees, and other transaction costs



INDIAN ACCOUNTING STANDARD (IND AS) 33: EARNINGS PER SHARE

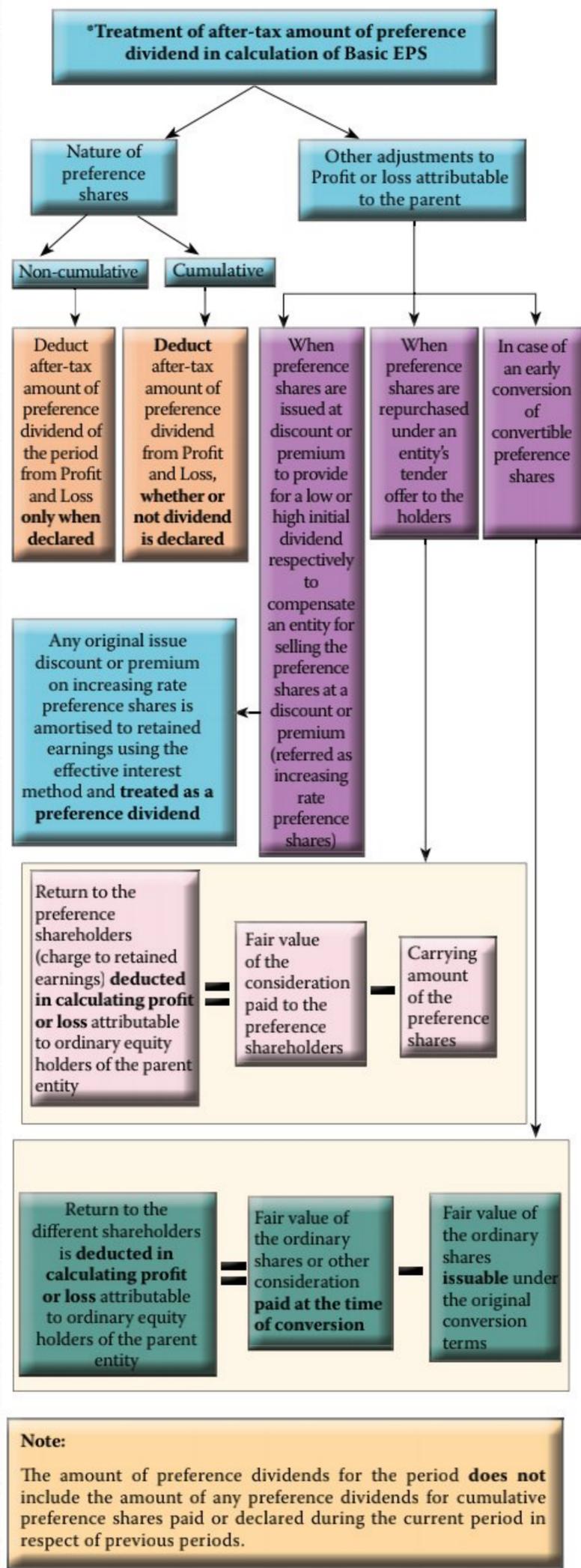
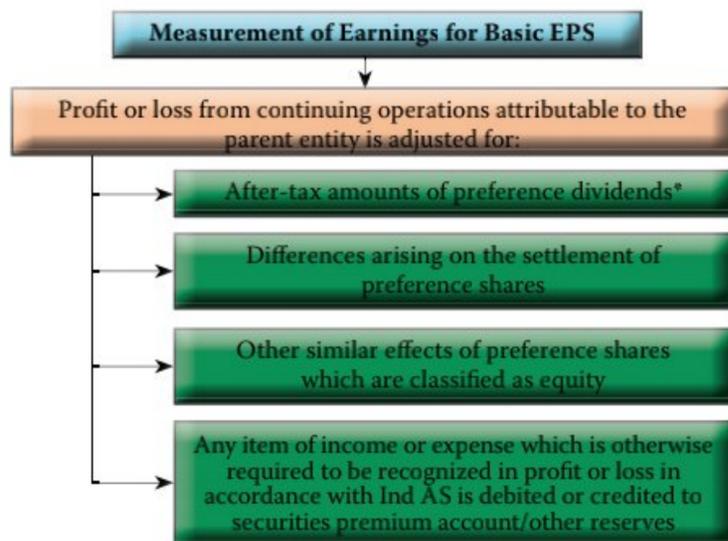




- Important Points:**
- Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated.
  - An entity may have more than one class of ordinary shares.
  - Ordinary shares of the same class have the same rights to receive dividends.

**Measurement of basic earnings per share (Basic EPS)**

$$\text{Basic Earnings Per Share} = \frac{\text{Profit/Loss attributable to Equity share holders}}{\text{Weighted average number of Equity shares outstanding during the period}}$$

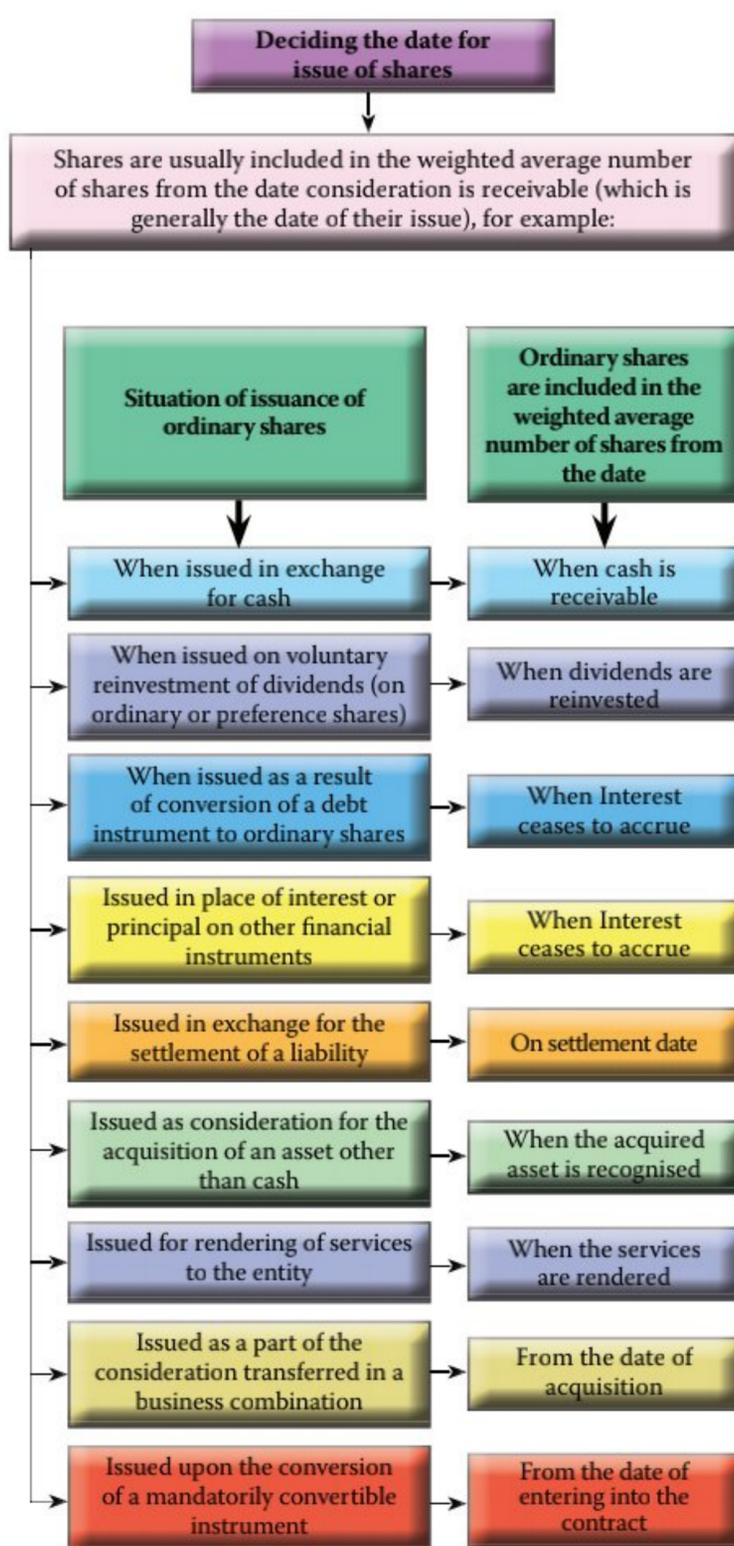


**Weighted average number of shares (For calculation of Basic EPS)**

For the purpose of calculating basic earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares outstanding during the period.

Weighted average number of equity shares:	
Ordinary shares outstanding at the beginning	XXXX
Less: Ordinary shares bought back multiplied by time-weighting factor*	XXXX
Add: Ordinary shares issued multiplied by time-weighting factor *	XXXX
<b>Ordinary shares outstanding during the period</b>	<u>XXXX</u>

\*The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

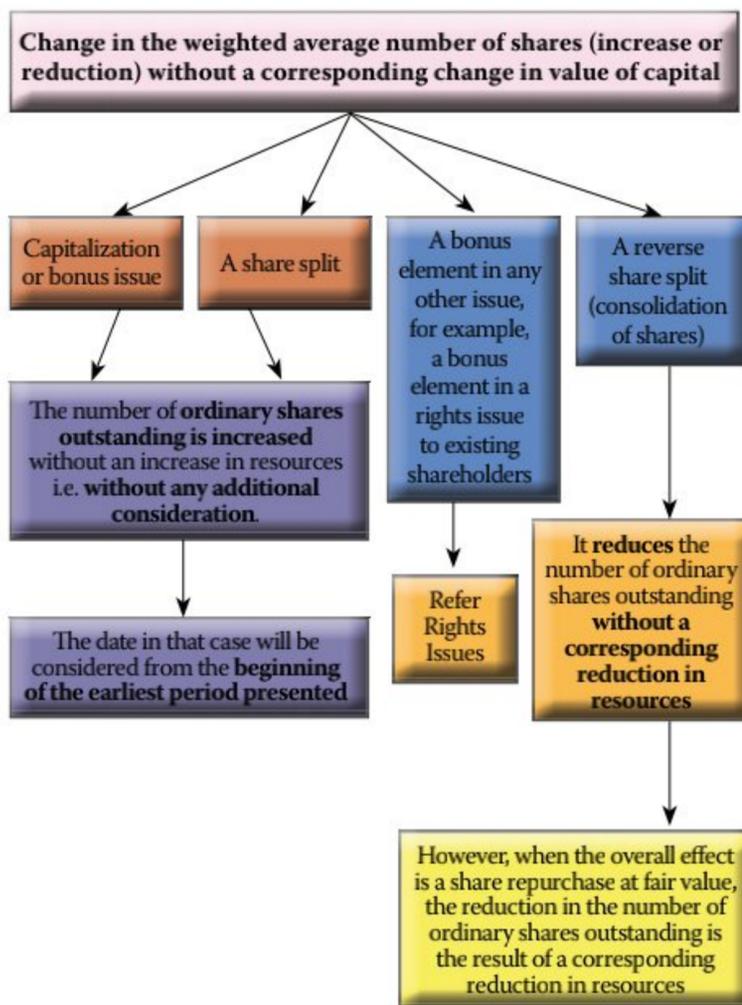


**Important points:**

1. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied (i.e. the events have occurred).
2. Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty.
3. Outstanding ordinary shares that are contingently returnable (i.e. subject to recall) are not treated as outstanding and are excluded from the calculation of basic earnings per share until the date the shares are no longer subject to recall.

Where,

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.



**Rights issues**

The rights shares can either be offered at the current market price or at a price that is below the current market price. The notional capitalization issue reflects the bonus element inherent in the rights issue and is measured by the following fraction:

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

where,

**Theoretical ex-rights fair value per share:**

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

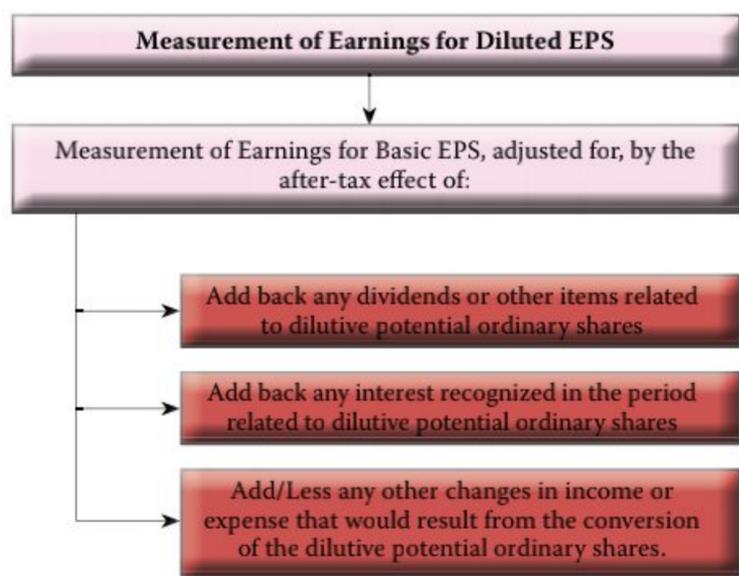
<b>Dilution</b>	It is a <b>reduction in earnings per share</b> or an <b>increase in loss per share</b> resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
<b>Antidilution</b>	It is an <b>increase in earnings per share</b> or a <b>reduction in loss per share</b> 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.
<b>Potential ordinary share</b>	It is a <b>financial instrument or other contract</b> 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.

The formula can be mathematically expressed as follows:

$$\text{Diluted EPS} = \frac{\text{Profit/Loss attributable to Equity share holders when dilutive potential shares are converted into ordinary shares}}{\text{Weighted average number of existing Equity shares} + \text{Weighted average number of dilutive potential ordinary shares}}$$

**Measurement of Earnings for Diluted EPS:**

Basic earnings are adjusted for after-tax effect of changes in Profit and Loss that result from conversion of all dilutive potential ordinary shares.



**Note:**  
The expenses associated with potential ordinary shares include transaction costs and discounts accounted for in accordance with the effective interest method

**Calculation of Shares for the purpose of calculating Diluted EPS**

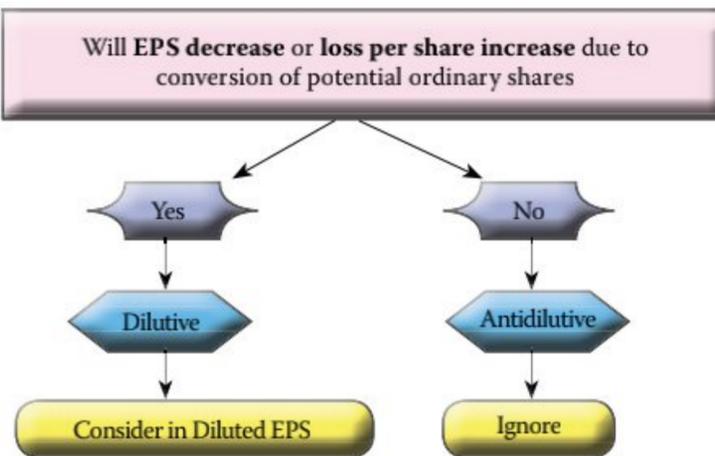
Existing weighted average number of ordinary shares + Weighted average number of ordinary shares that would be issued on the

conversion of all the dilutive potential ordinary shares into ordinary shares.

**Important points to be considered:**

- Potential ordinary shares are weighted for the period they are outstanding
- All potential ordinary shares are assumed to be converted into ordinary shares at the beginning of the period
- If not in existence at the beginning of the period, potential ordinary shares are assumed to be converted into ordinary shares at the date of its issuance.
- Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.
- 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 to the date of conversion; **from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.**

**Test for determining whether potential ordinary shares are Dilutive or Antidilutive**

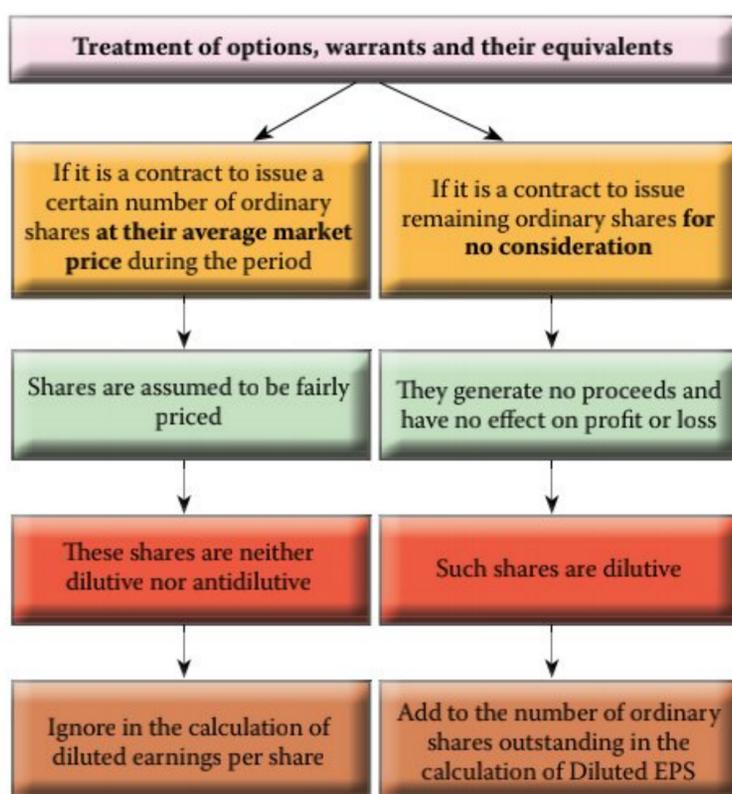


**Note:**

- If 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
- Dilutive potential ordinary shares shall be determined independently for each period presented
- In determining whether potential ordinary shares are dilutive or antidilutive, each issue or series of potential ordinary shares is **considered separately** rather than in aggregate
- To maximise the dilution of basic earnings per share, **each issue or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive**, i.e. dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share
- Options and warrants are generally included first because they do not affect the numerator of the calculation

**Options, warrants and their equivalents**

Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.



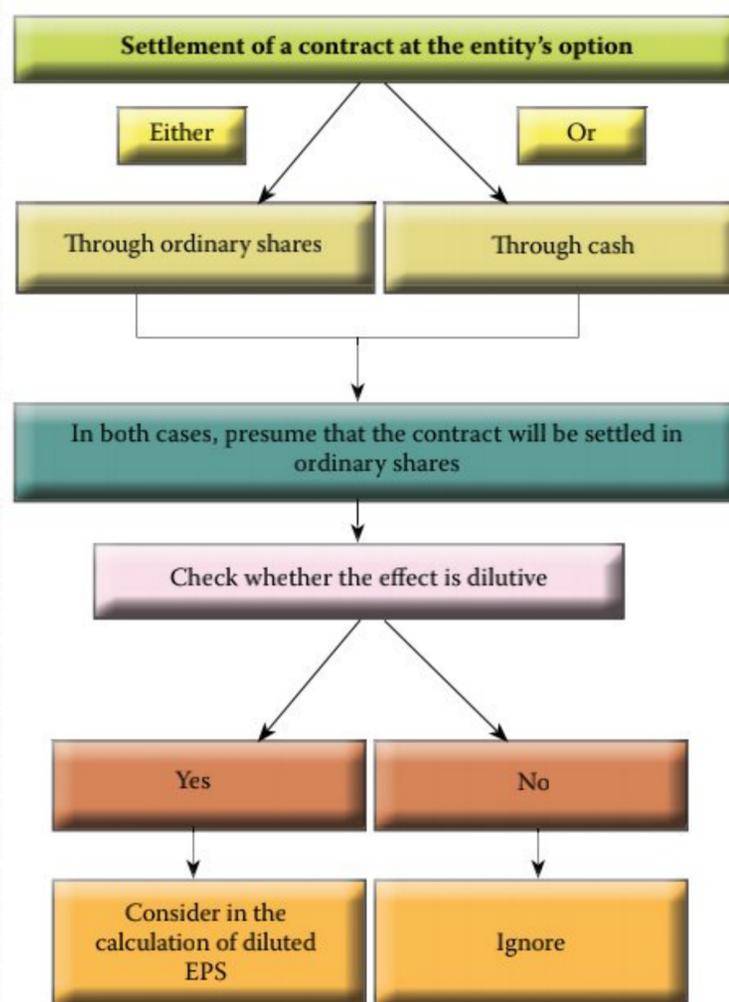
**Note:**

- Options and warrants have a dilutive effect only when the **average market price of ordinary shares** during the period **exceeds the exercise price of the options or warrants** (i.e. they are 'in the money').
- Previously reported earnings per share are **not retroactively adjusted** to reflect changes in prices of ordinary shares.
- 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.

**Contingently issuable shares**

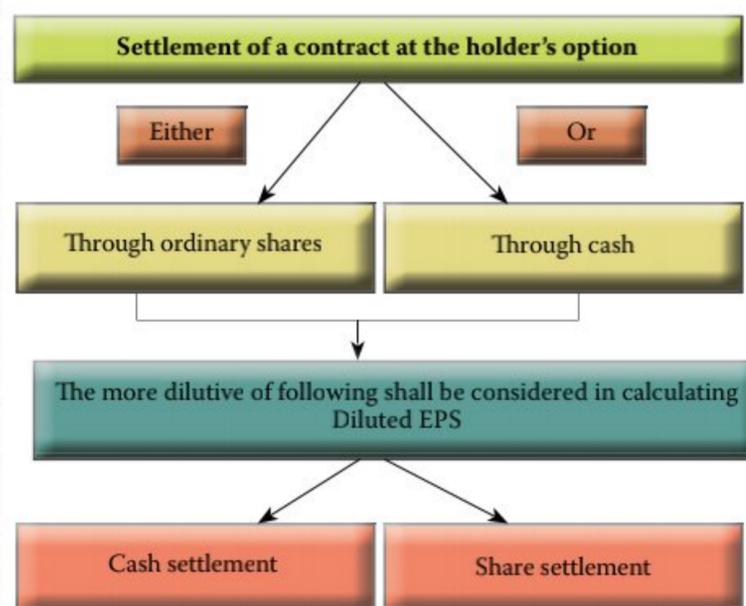
- Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.
- A *contingent share agreement* is an agreement to issue shares that is dependent on the satisfaction of specified conditions.
- In the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions are satisfied (i.e. the events have occurred).
- Contingently issuable shares are included from the beginning of the period (or from the date of the contingent share agreement, if later).
- If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period is the end of the contingency period

**Contracts that may be settled in ordinary shares or cash**

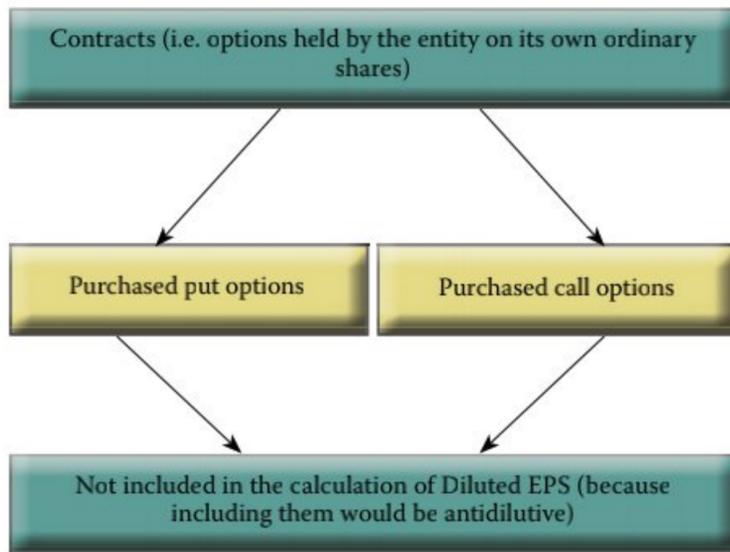


**Note:**

When an issued contract that may be settled in ordinary shares or cash at the entity's option may give rise to an asset or a liability, or a hybrid instrument with both an equity and a liability component under Ind AS 32, the entity should adjust the numerator (profit or loss attributable to ordinary equity holders) for any changes in the profit or loss that would have resulted during the period if the contract had been classified wholly as an equity instrument.

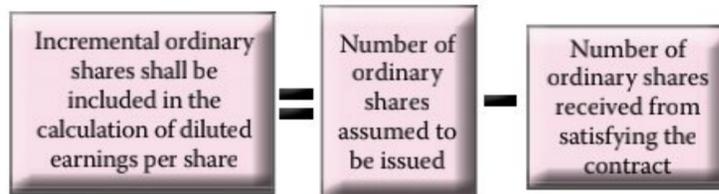


**Purchased options**

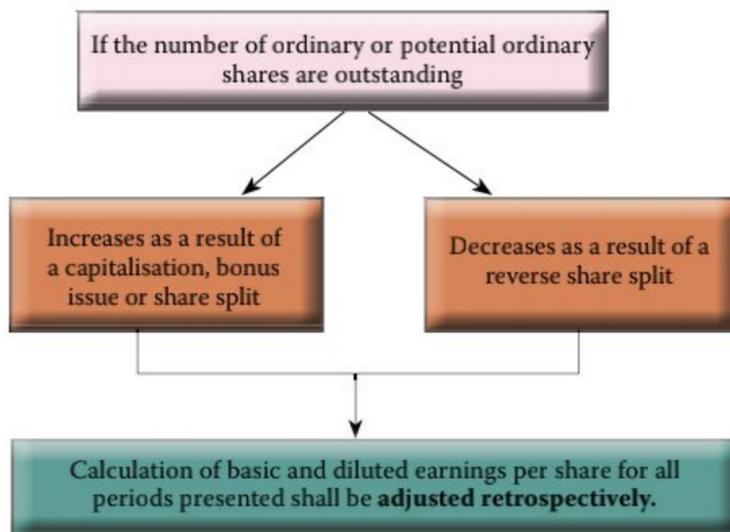


**Written put options**

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.



**Retrospective adjustments**



**Note:**

1. 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.
2. An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.

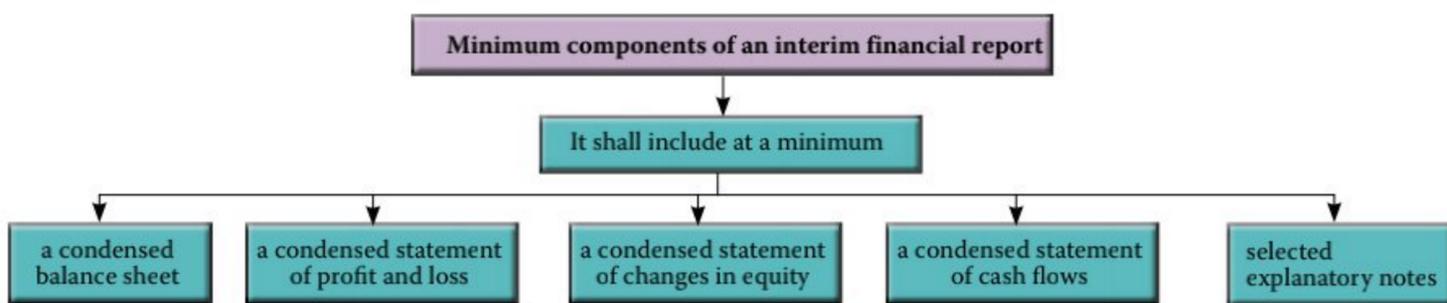
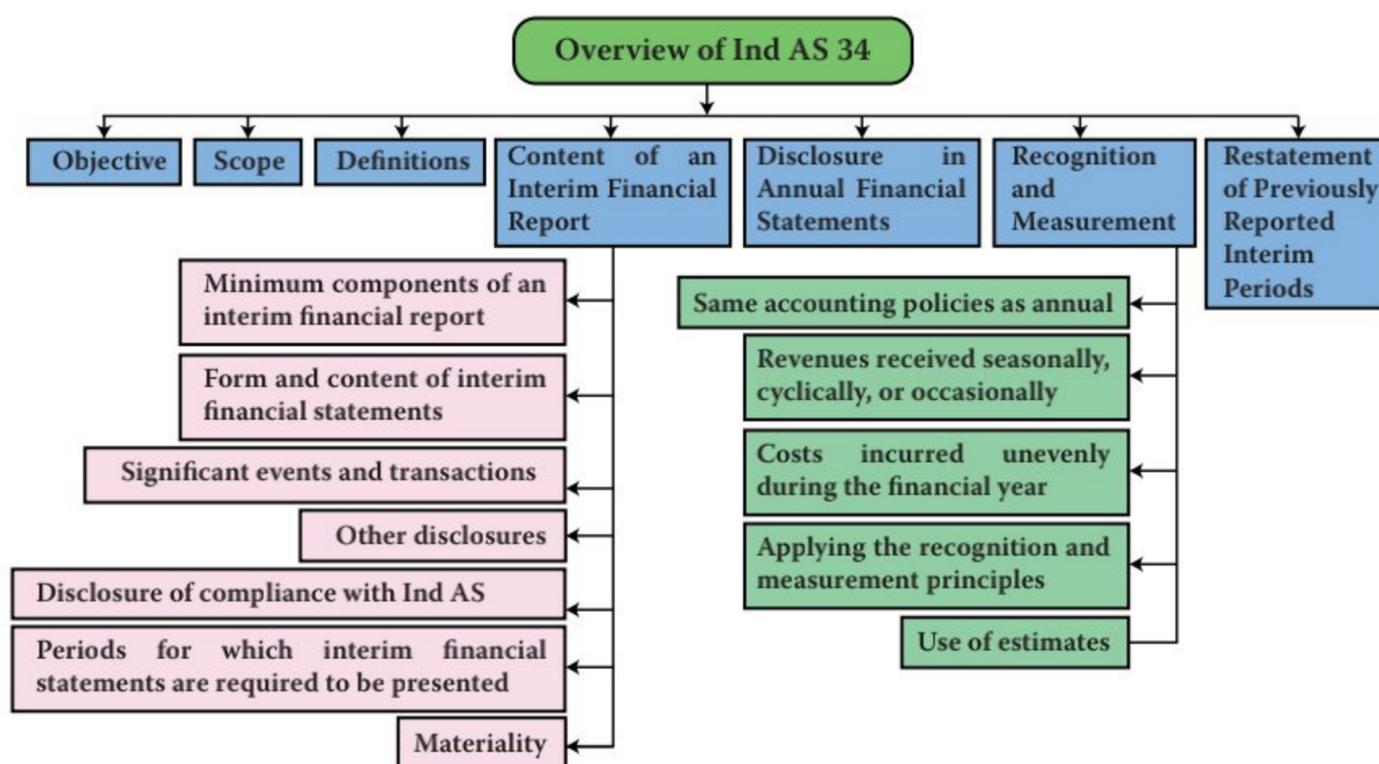
**Presentation as per Ind AS 33**

- Present in the statement of profit and loss basic and diluted earnings per share for profit or loss from continuing operations for each class of ordinary shares
- Earnings per share is presented for every period for which a statement of profit and loss is presented
- If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented
- If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of profit and loss.
- An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of profit and loss or in the notes
- An entity shall present basic and diluted earnings per share, even if the amounts are negative (i.e. a loss per share)

**Disclosure as per Ind AS 33**

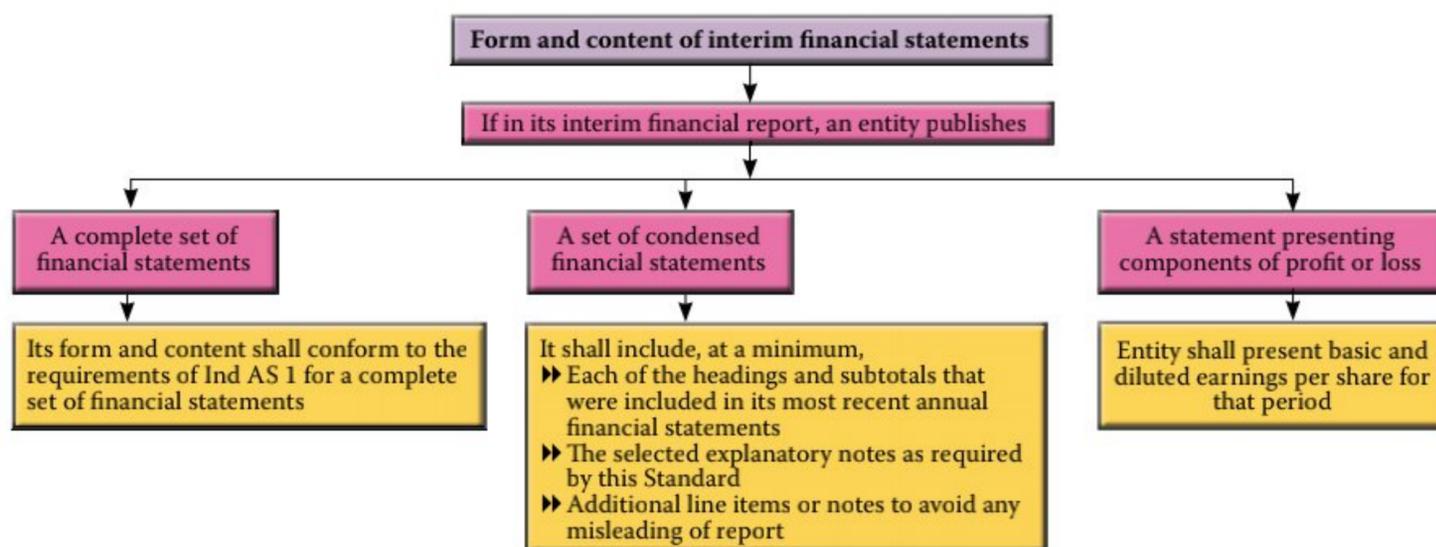
- Numerators - amounts used in calculating basic and diluted earnings per share and reconciliation of the amount used to profit or loss
- Denominators - weighted average number of ordinary shares used in calculating basic and diluted earnings per share and a reconciliation of these denominators to each other
- Instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included since they are antidilutive for the period
- Description of ordinary share transactions or potential ordinary share transactions that occur after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period

INDIAN ACCOUNTING STANDARD (IND AS) 34: INTERIM FINANCIAL REPORTING



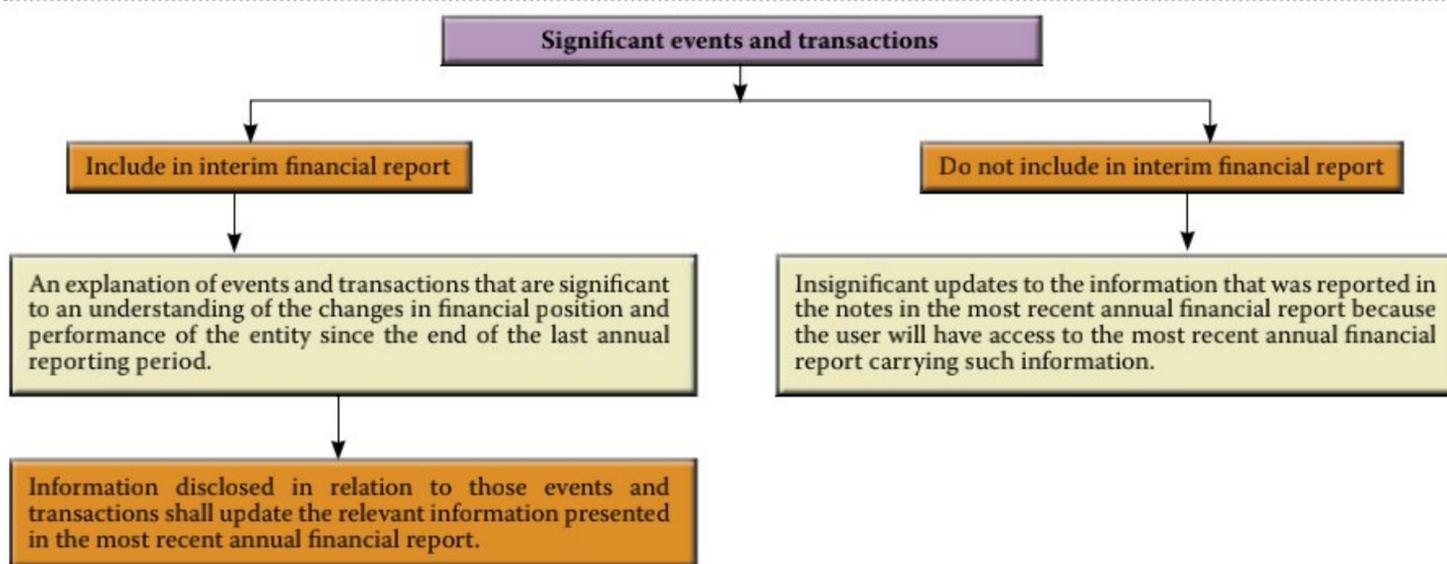
Important points to remember

1. The interim financial report is intended to provide an update on the latest complete set of annual financial statements
2. It focuses on new activities, events, and circumstances and does not duplicate information previously reported
3. Ind AS 34 does not prohibit or discourage an entity from publishing a complete set of financial statements (as described in Ind AS 1) in its interim financial report
4. Ind AS 34 does not prohibit or discourage an entity from including in condensed interim financial statements more than the minimum line items or selected explanatory notes
5. Ind AS 34 requires to include all the disclosures required by this Standard as well as those required by other Ind AS



**Note:**

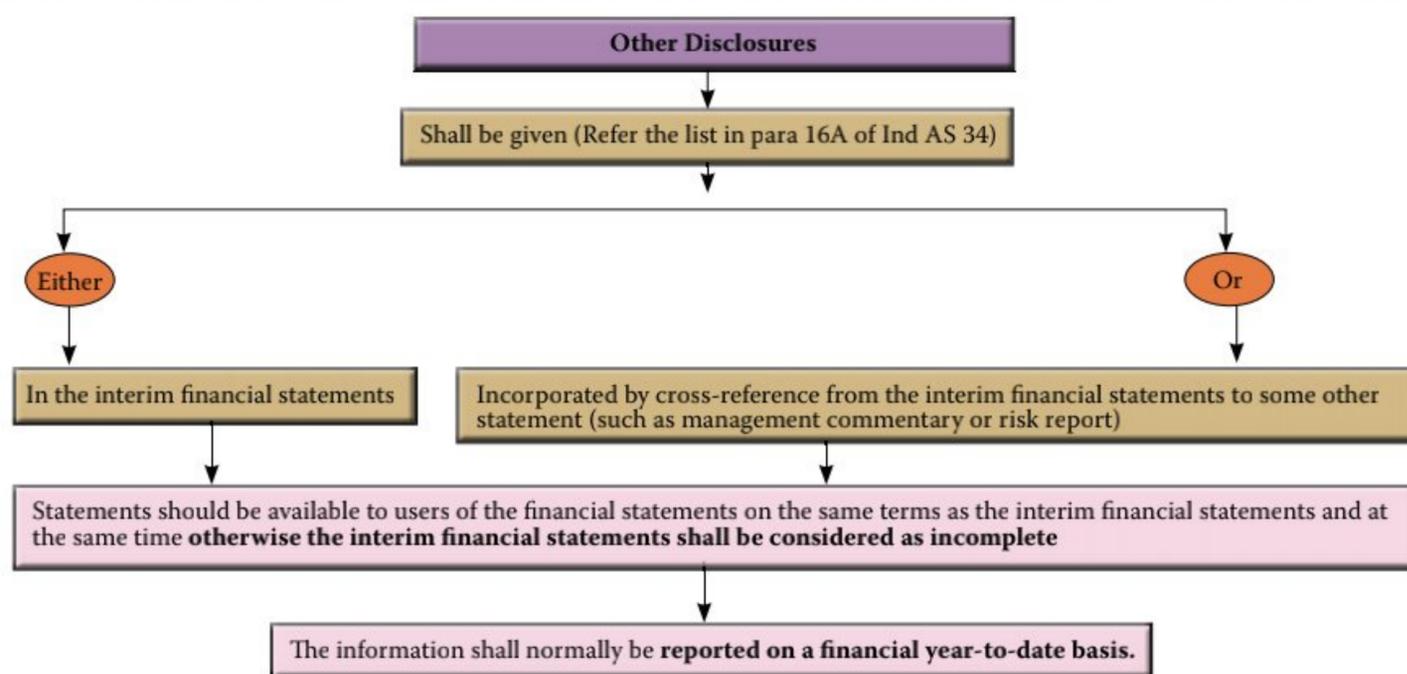
1. An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements.
2. If an entity's annual financial report includes the parent's separate financial statements in addition to consolidated financial statements, then Ind AS 34 does not restrict or mandate to include the parent's separate statements in the entity's interim financial report prepared on a consolidated basis.

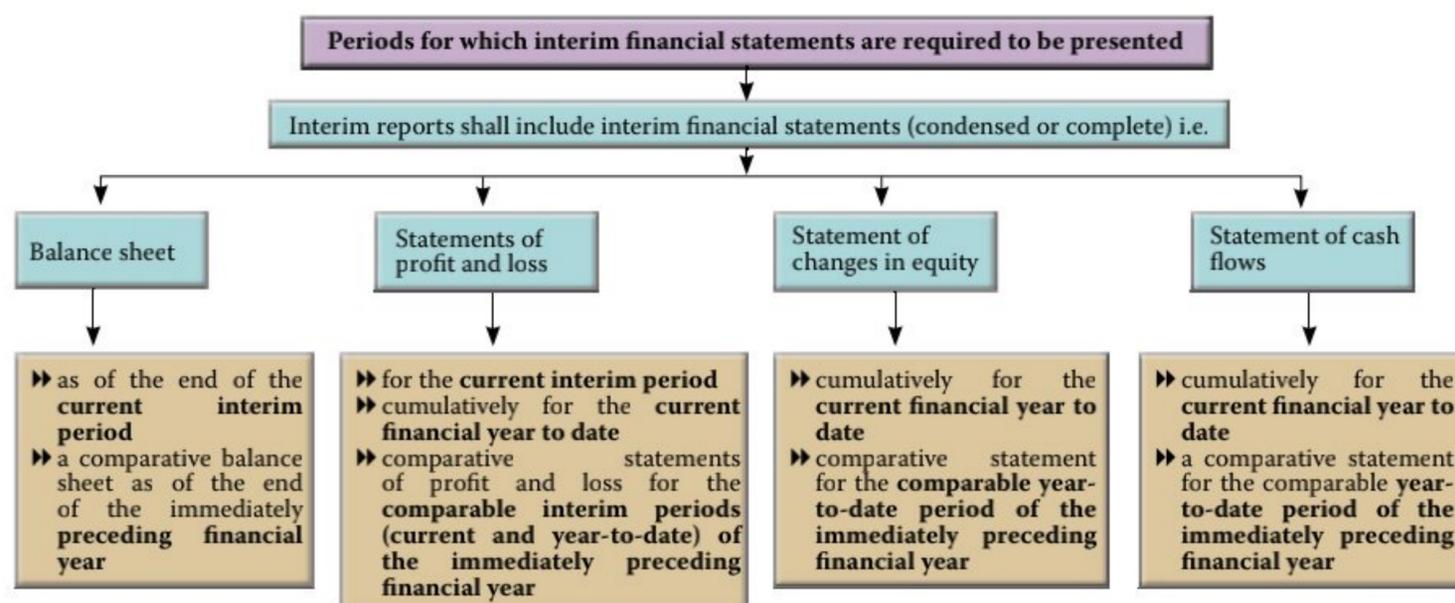


**List of events and transactions for which disclosures would be required if they are significant:**

- (a) the write-down of inventories to net realisable value and the reversal of such a write-down;
- (b) recognition of a loss from the impairment of financial assets, property, plant and equipment, intangible assets, or other assets, and the reversal of such an impairment loss;
- (c) the reversal of any provisions for the costs of restructuring;
- (d) acquisitions and disposals of items of property, plant and equipment;
- (e) commitments for the purchase of property, plant and equipment;
- (f) litigation settlements;
- (g) corrections of prior period errors;
- (h) 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;
- (i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
- (j) related party transactions;
- (k) transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments;
- (l) changes in the classification of financial assets as a result of a change in the purpose or use of those assets; and
- (m) changes in contingent liabilities or contingent assets.

**Note: The list is not exhaustive.**





*Note: For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.*

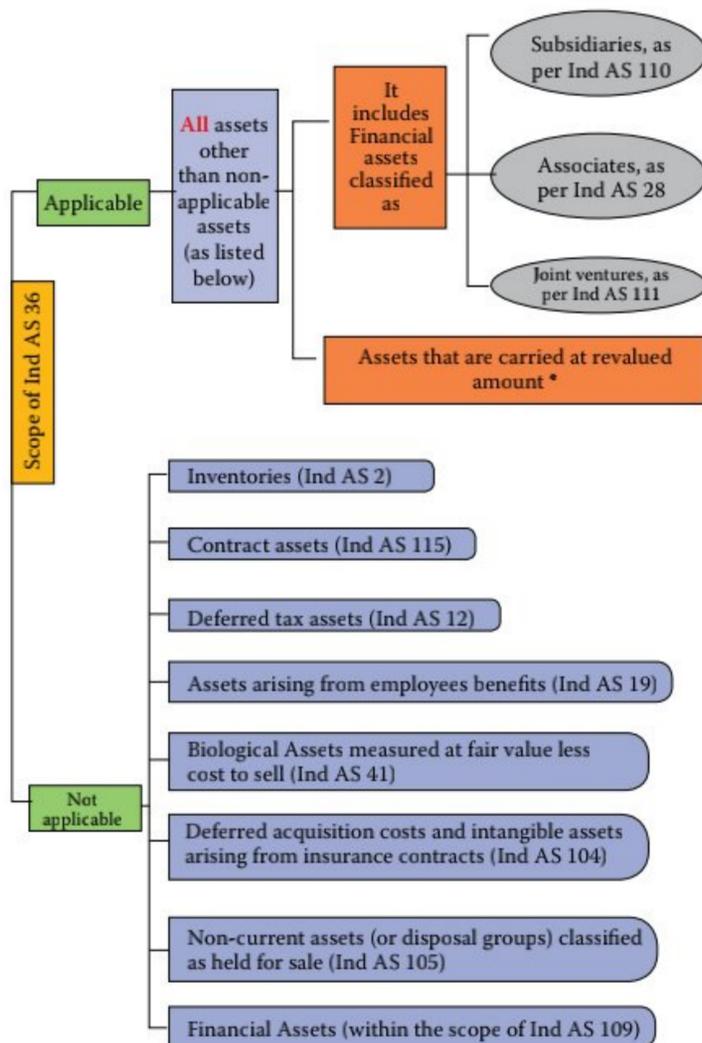
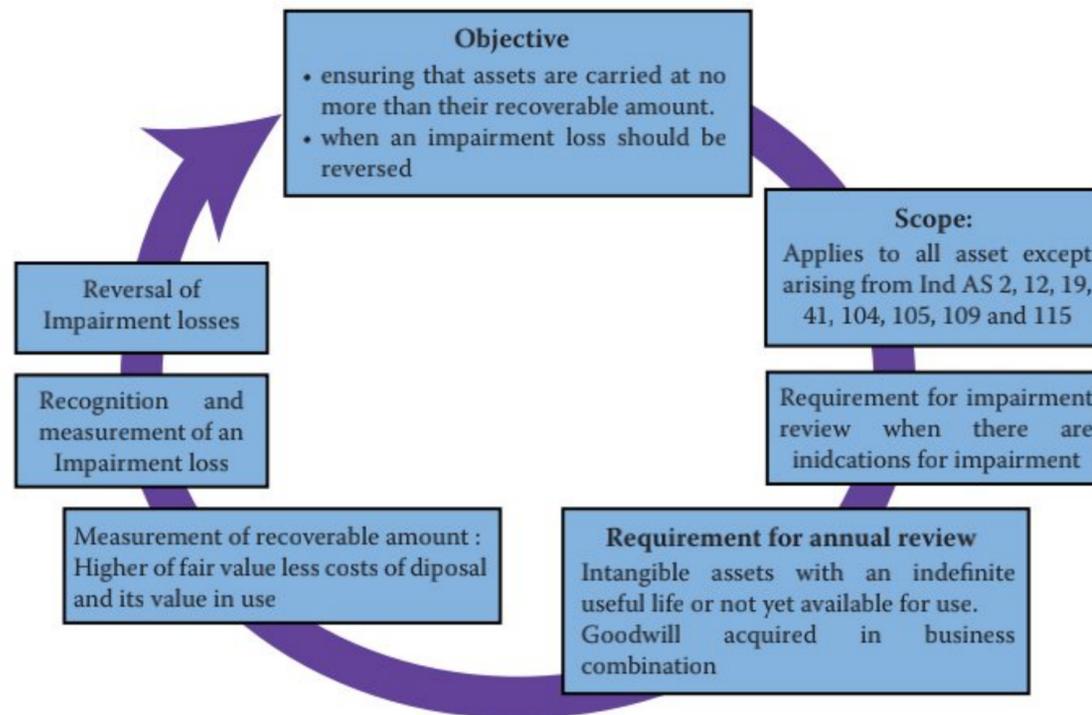
#### Points to remember

<b>Disclosure of compliance with Ind AS</b>	<p>If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed.</p> <p>An interim financial report shall be described as complying with Ind ASs when it complies with all of the requirements of Ind ASs.</p>
<b>Materiality</b>	<p>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.</p> <p>It shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.</p>
<b>Disclosure in annual financial statements</b>	<p>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.</p> <p>An entity is not required to include additional interim period financial information in its annual financial statements.</p>

#### Recognition and Measurement

<b>Same accounting policies as annual</b>	<ul style="list-style-type: none"> <li>▶▶ Apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.</li> <li>▶▶ Measurements for interim reporting purposes shall be made on a year-to-date basis.</li> <li>▶▶ The amounts reported in prior interim periods are not retrospectively adjusted. However, that the nature and amount of any significant changes in estimates be disclosed.</li> </ul>
<b>Revenues received seasonally, cyclically, or occasionally</b>	<ul style="list-style-type: none"> <li>▶▶ Such revenues shall not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the entity's financial year.</li> <li>▶▶ Some entities consistently earn more revenues in certain interim periods of a financial year than in other interim periods. Such revenues are recognised when they occur.</li> </ul>
<b>Costs incurred unevenly during the financial year</b>	Such costs shall be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.
<b>Use of estimates</b>	Preparation of interim financial reports generally will require a greater use of estimation methods than annual financial reports.
<b>Restatement of previously reported interim periods</b>	<p>A change in accounting policy, shall be reflected:</p> <p>(a) by retrospective application, with restatement of prior period financial data as far back as is practicable; or</p> <p>(b) if the cumulative amount of the adjustment relating to prior financial years is impracticable to determine, then under Ind AS 8 the new policy is applied prospectively from the earliest date practicable.</p>
<b>Interim Financial Reporting and Impairment</b>	An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

INDIAN ACCOUNTING STANDARD (IND AS) 36: IMPAIRMENT OF ASSETS



\*Note: If the disposal costs are not negligible, then the revalued asset will be impaired if its value in use is less than its revalued amount.

Important definitions:

Cash-generating unit	<ul style="list-style-type: none"> <li>It is the smallest identifiable group of assets</li> <li>This group of asset generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets</li> </ul>
Corporate assets	They are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.
Costs of disposal	Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, <b>excluding finance costs and income tax expense.</b>
Value in use	Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

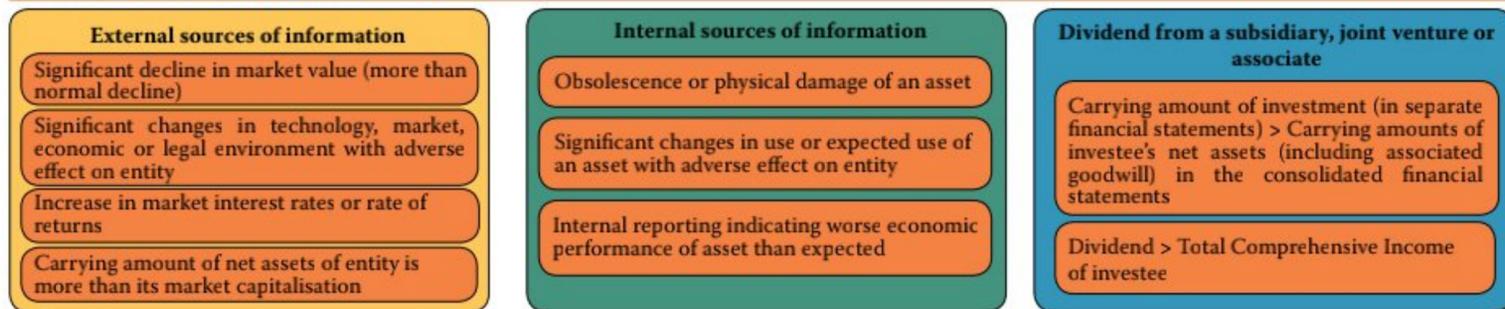


Assessment of impairment shall be done **annually** of following assets irrespective of whether there is any indication of impairment:

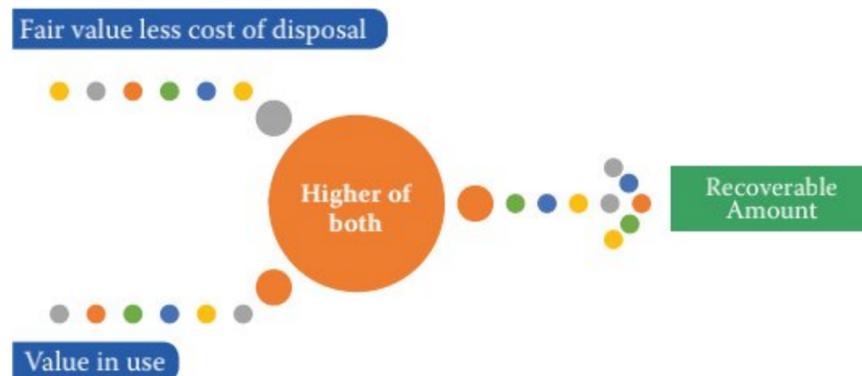


- Note:**
- The concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated.
  - If previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount and **no significant event had occurred** which will change the difference, there is **no need for annual assessment of impairment.**
  - If indication of impairment exists than **remaining useful life, the depreciation (amortisation) method or the residual value** for the asset should be **reviewed and adjusted**, even if no impairment loss is recognised for the asset.

**Indicators for impairment**



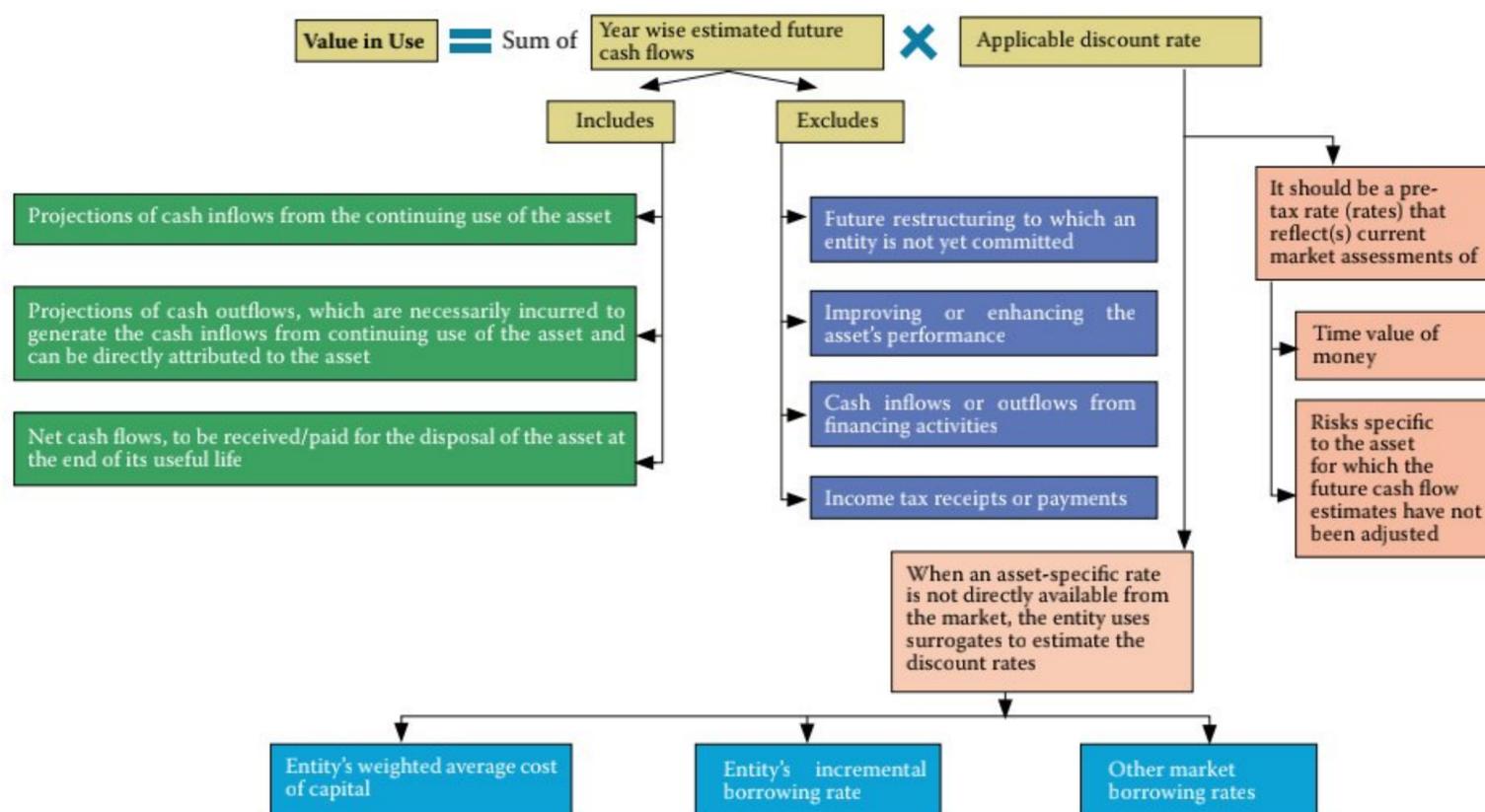
**Measurement of Recoverable Amount**



**Circumstances in which it is not necessary to calculate both an asset's fair value less costs of disposal and its value in use**

1. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
2. When fair value less costs of disposal would not be possible to be measured due to various reasons, the entity may use the asset's value in use as its recoverable amount.
3. In case of an asset held for disposal, the asset's fair value less costs of disposal may be used as its recoverable amount.

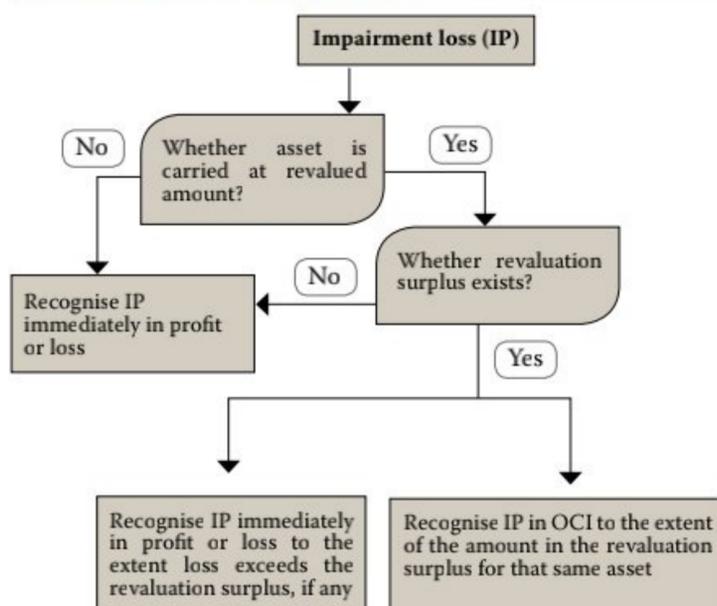
**Value in Use**



**Note:**

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

**Recognising and Measuring an Impairment Loss other than Goodwill**



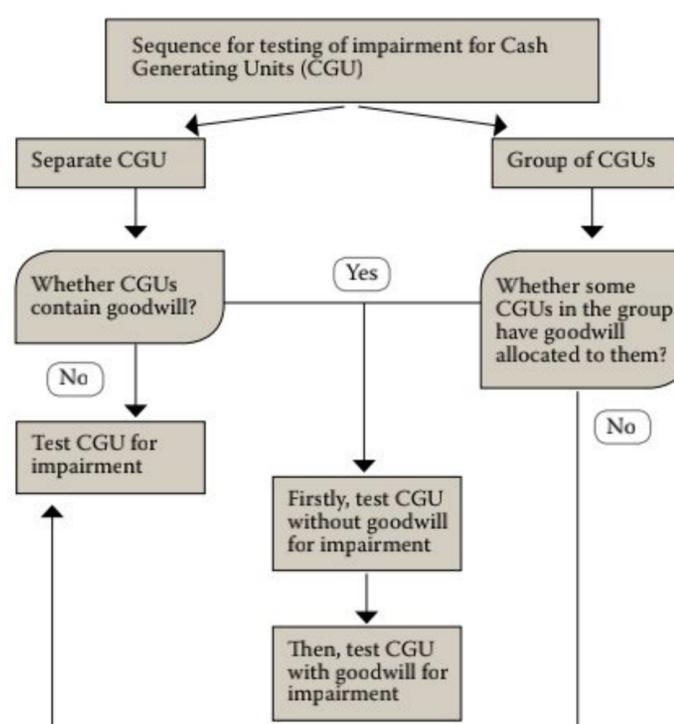
**Note:**

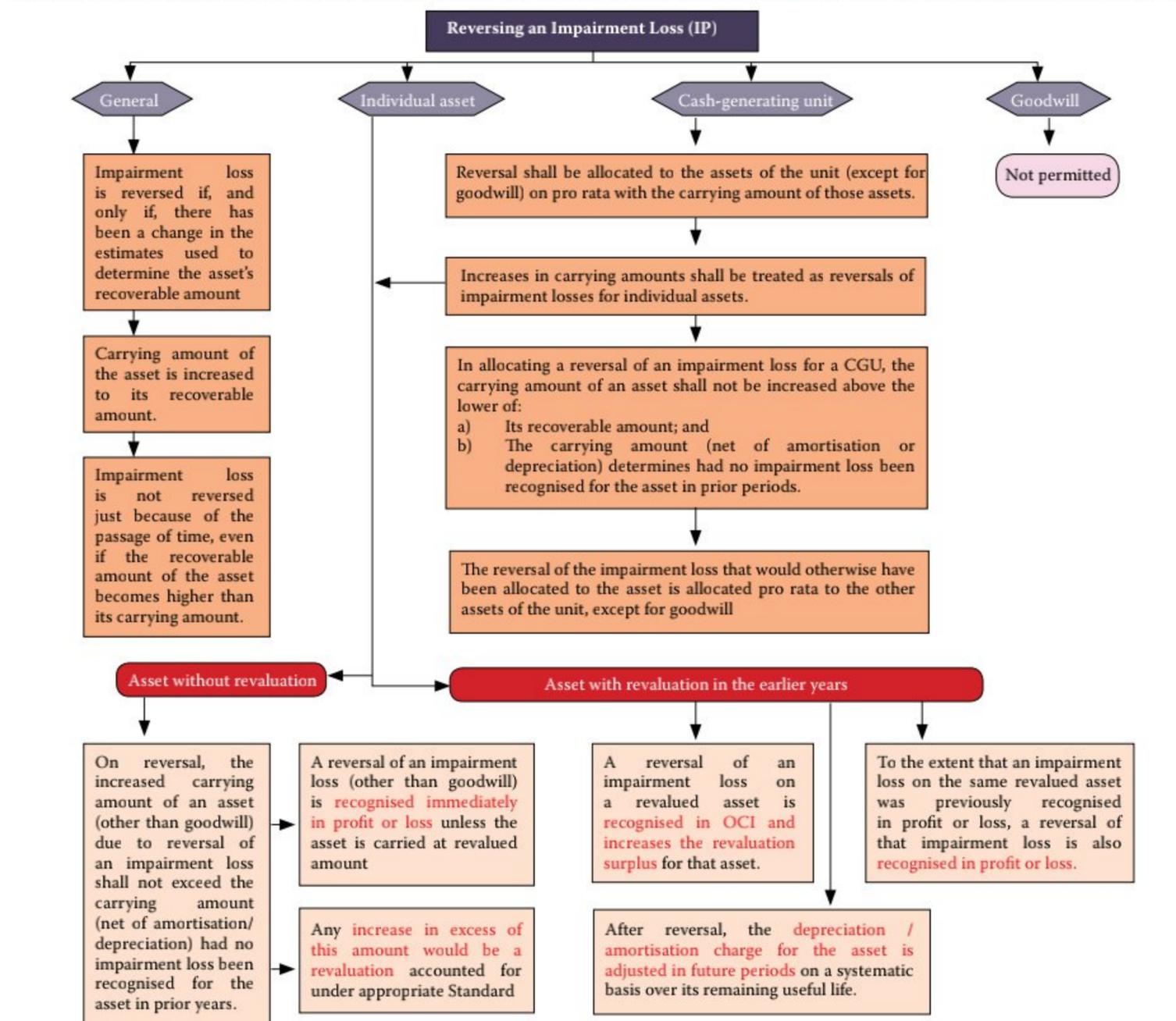
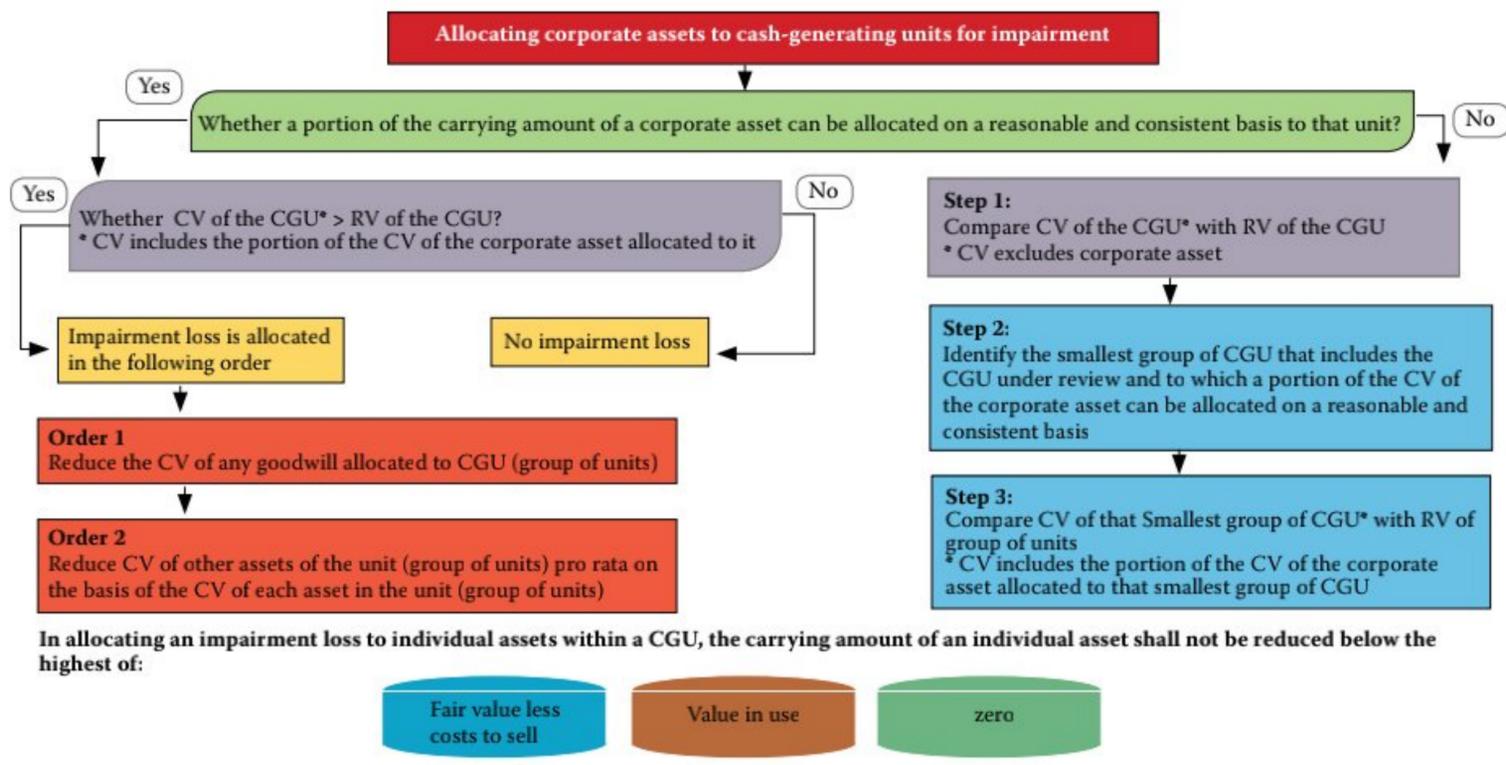
- Any impairment loss of a revalued asset (increased earlier) shall be treated as a revaluation decrease as per other standard.
- When the amount estimated for an **impairment loss is greater than the carrying amount** of the asset to which it relates, an entity shall **recognise a liability**, if required.
- After the recognition of an impairment loss, the **depreciation (amortisation) charge** for the asset shall be **adjusted in future periods** to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- If an impairment loss is recognised, any related **deferred tax assets or liabilities are determined** in accordance with Ind AS 12 by comparing the revised carrying amount of the asset with its tax base.

**Recognition and Measurement of an Impairment Loss for a Cash-generating Unit and Goodwill**

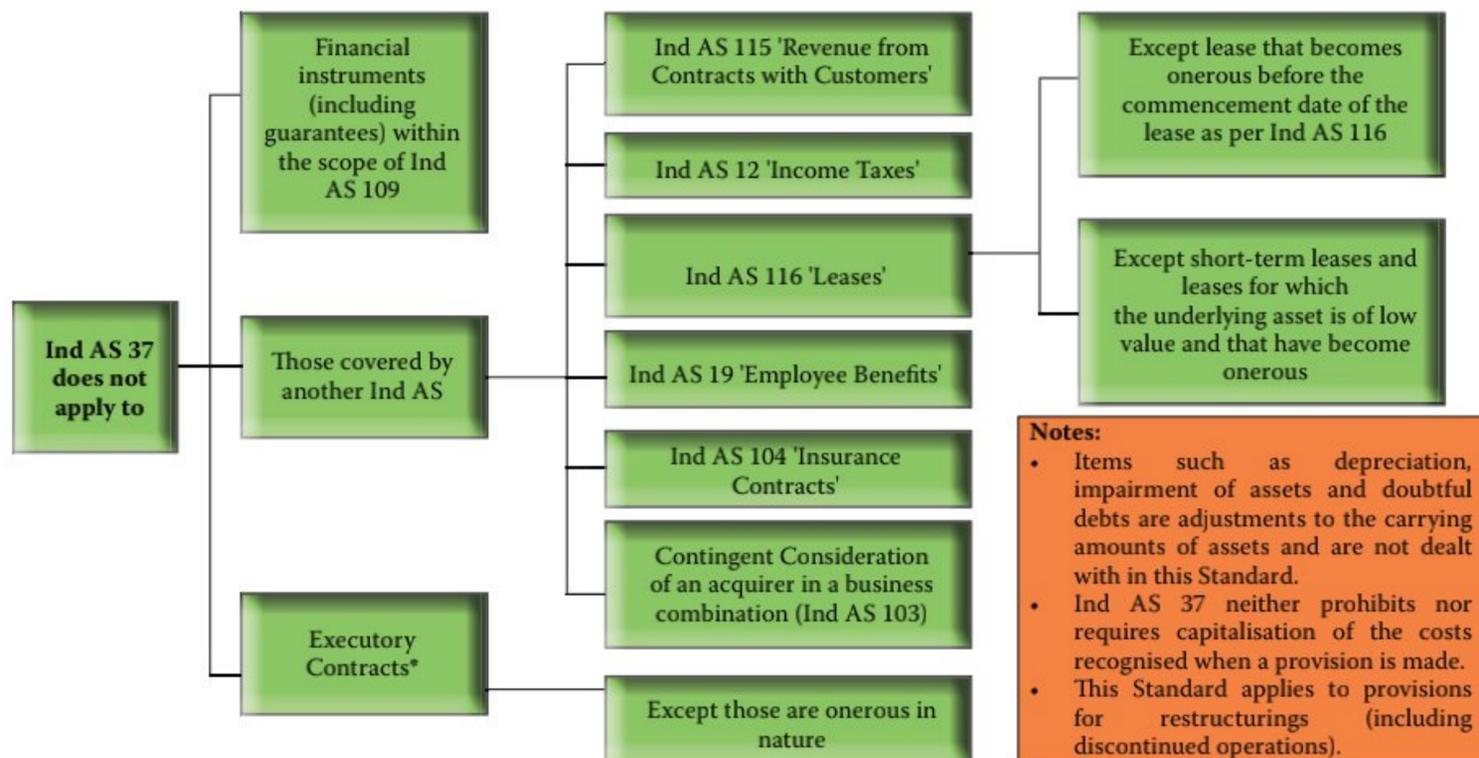
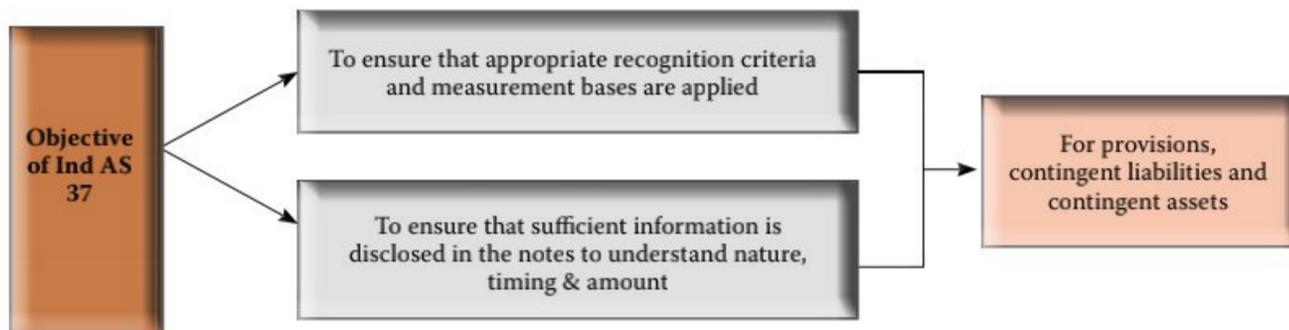
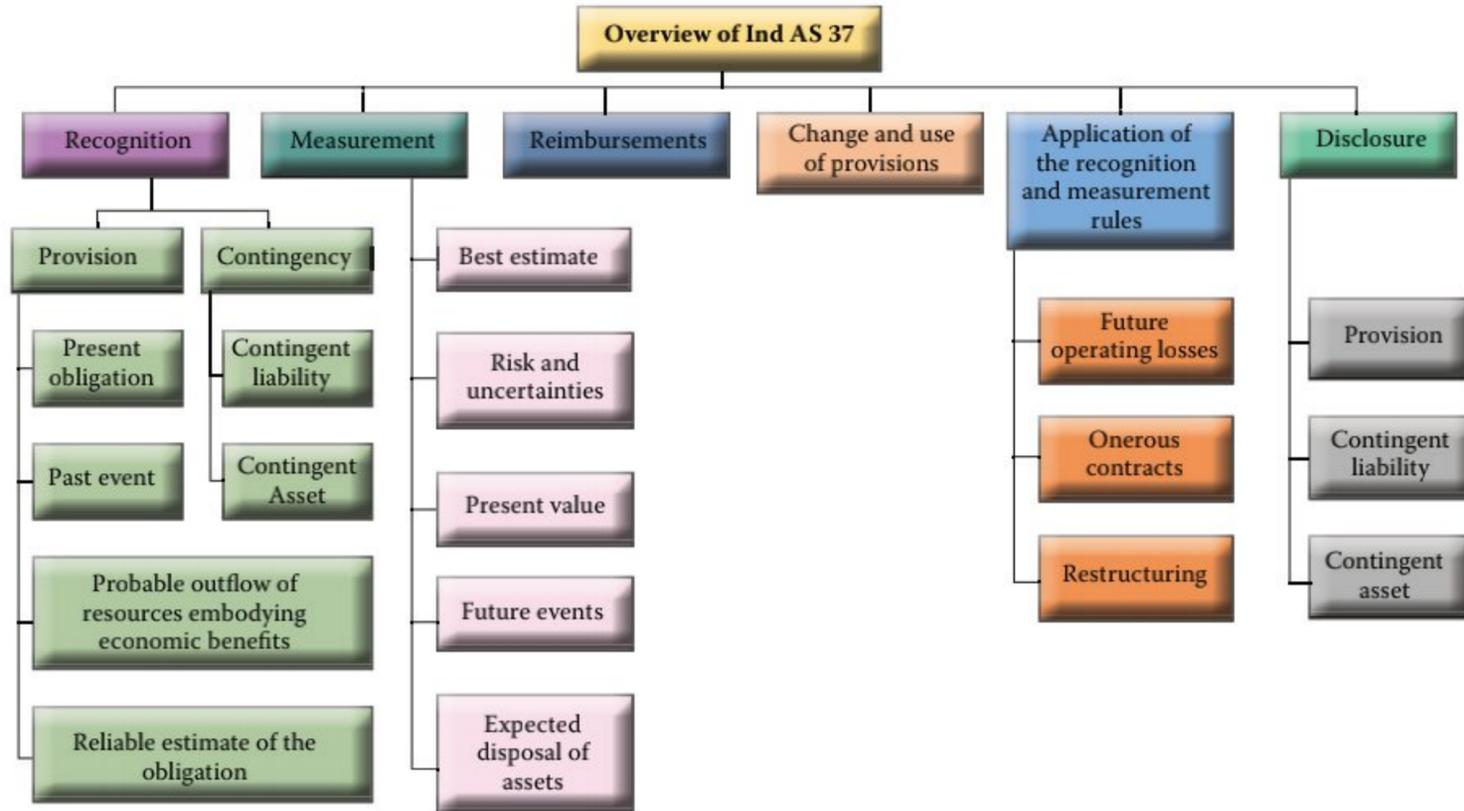
S.No.	Particular	Guidance under Ind AS 36
A.	Identification of cash generating units	<ul style="list-style-type: none"> <li>Firstly, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity is required to determine the recoverable amount of the cash-generating unit to which the asset belongs (ie. the asset's cash-generating unit).</li> <li>The recoverable amount of an individual asset cannot be determined if:                             <ol style="list-style-type: none"> <li>the asset's value in use cannot be estimated to be close to its fair value less costs of disposal; and</li> <li>the asset does not generate cash inflows that are largely independent of those from other assets.</li> </ol> </li> <li>In such cases, value in use and recoverable amount, can be determined only for the asset's cash-generating unit.</li> <li>If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.</li> <li>If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally.</li> <li>Cash-generating units shall be identified consistently from period to period for the same asset or types of assets.</li> </ul>

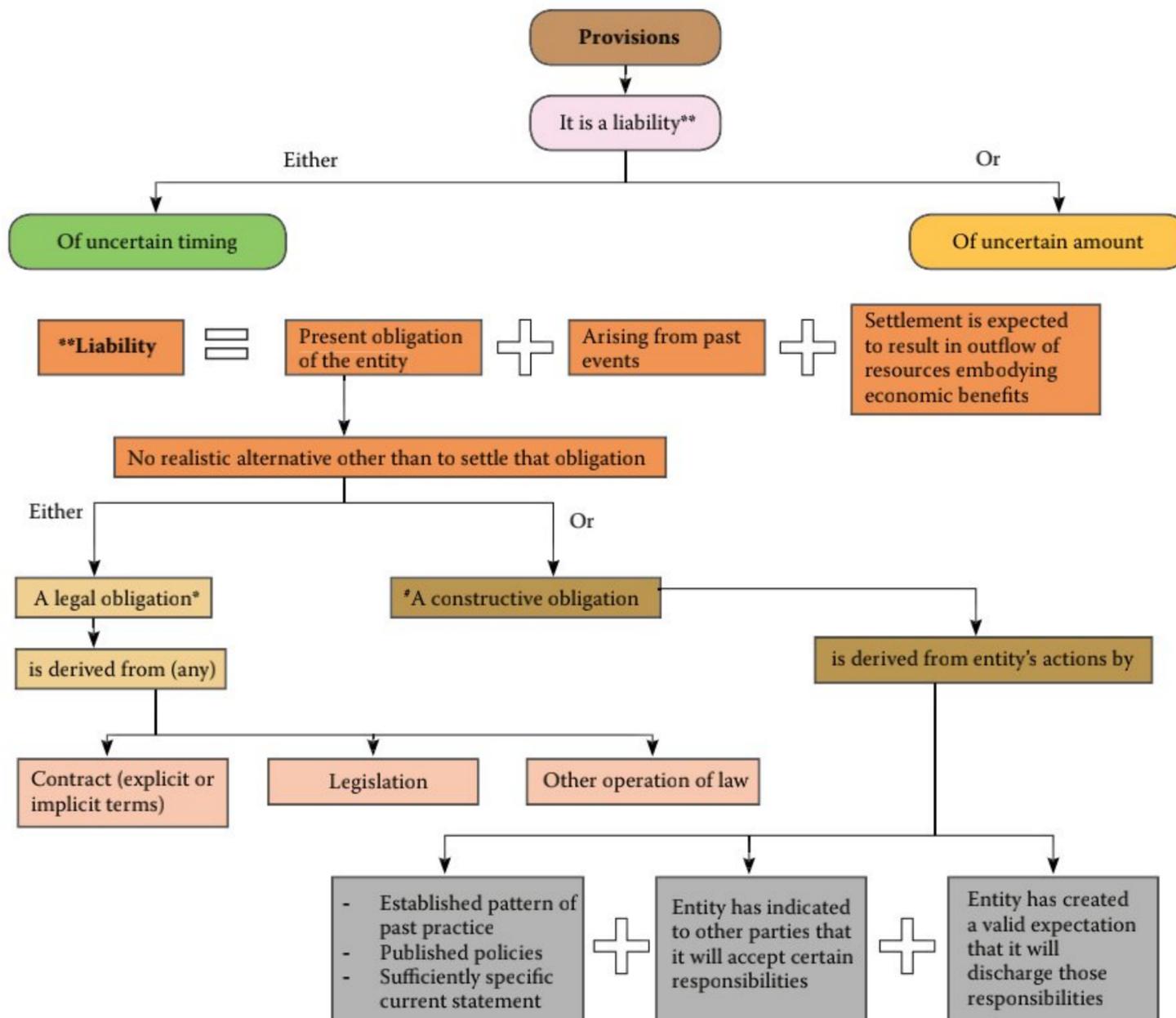
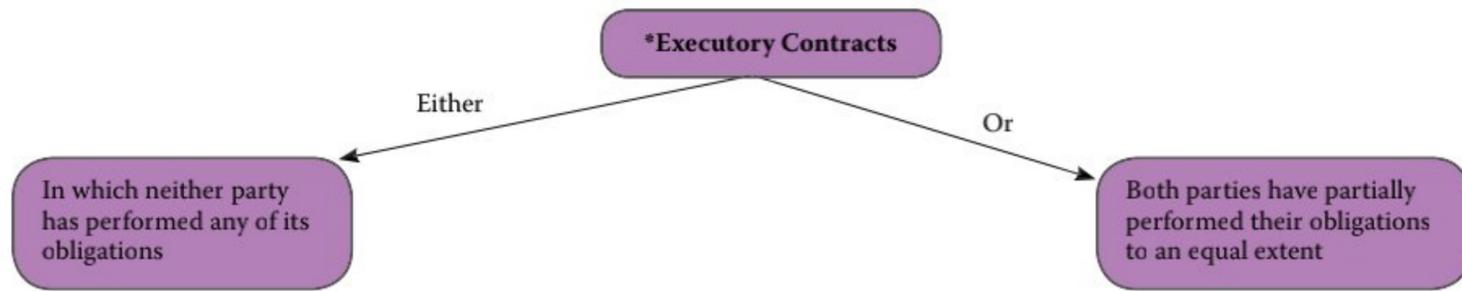
S.No.	Particular	Guidance under Ind AS 36
B.	Allocation of assets and liabilities to CGUs	<ul style="list-style-type: none"> <li>The carrying amount of a cash-generating unit:                             <ol style="list-style-type: none"> <li><b>includes</b> the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and</li> <li><b>does not include</b> the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.</li> </ol> </li> <li>Subtract the carrying amount of the liability to determine both the cash-generating unit's value in use and its carrying amount to perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount.</li> </ul>
C.	Allocating goodwill to cash-generating units	<ul style="list-style-type: none"> <li>For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units.</li> <li>The above allocation shall be irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.</li> <li>Goodwill does not generate cash flows independently of other assets or groups of assets and, therefore, it will always be tested for impairment as part of a CGU or a group of CGUs.</li> <li>If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:                             <ol style="list-style-type: none"> <li>included in the carrying amount of the operation when determining the gain or loss on disposal; and</li> <li>measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.</li> </ol> </li> </ul>
D.	Timing of impairment tests	<ul style="list-style-type: none"> <li>Impairment test for a cash-generating unit to which goodwill has been allocated shall be performed annually.</li> <li>If some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.</li> </ul>

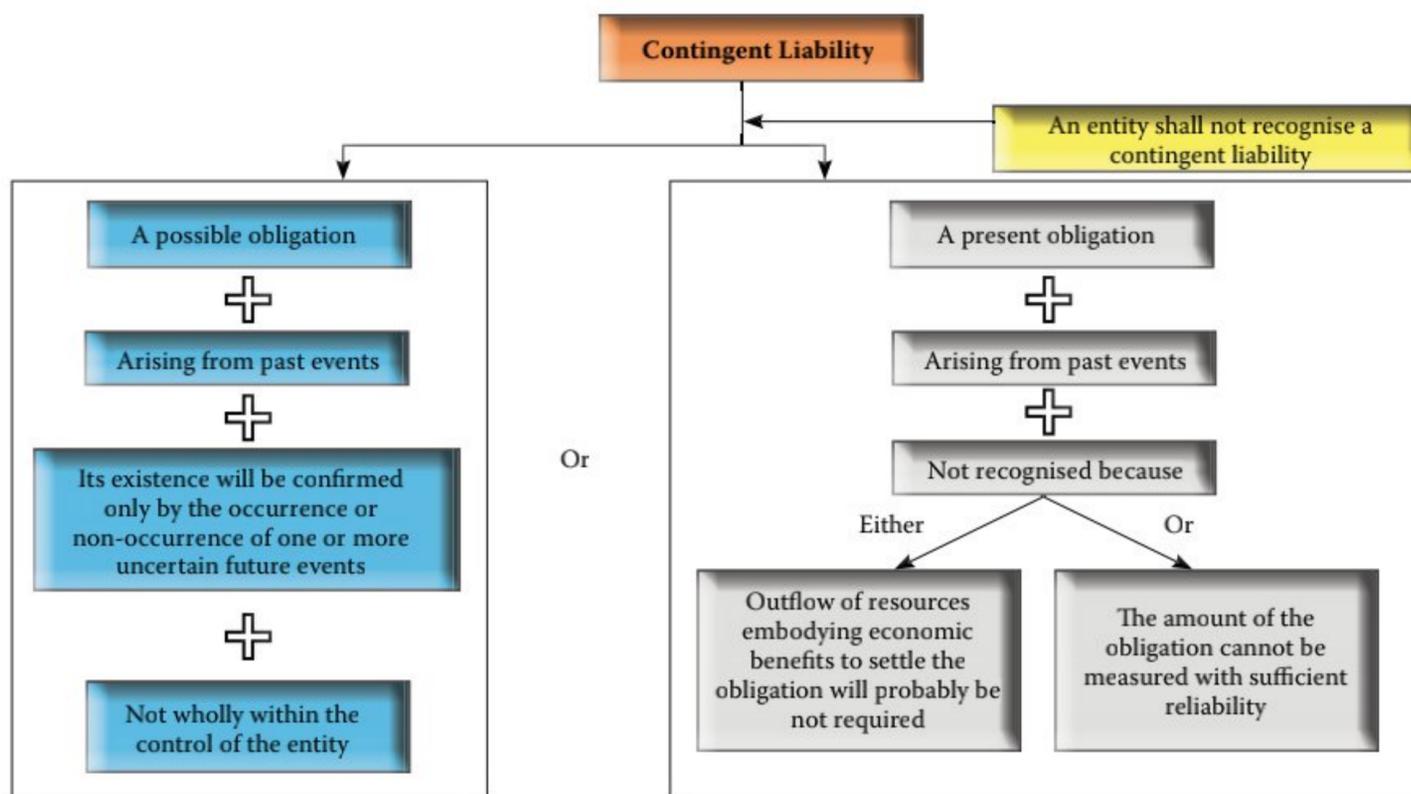




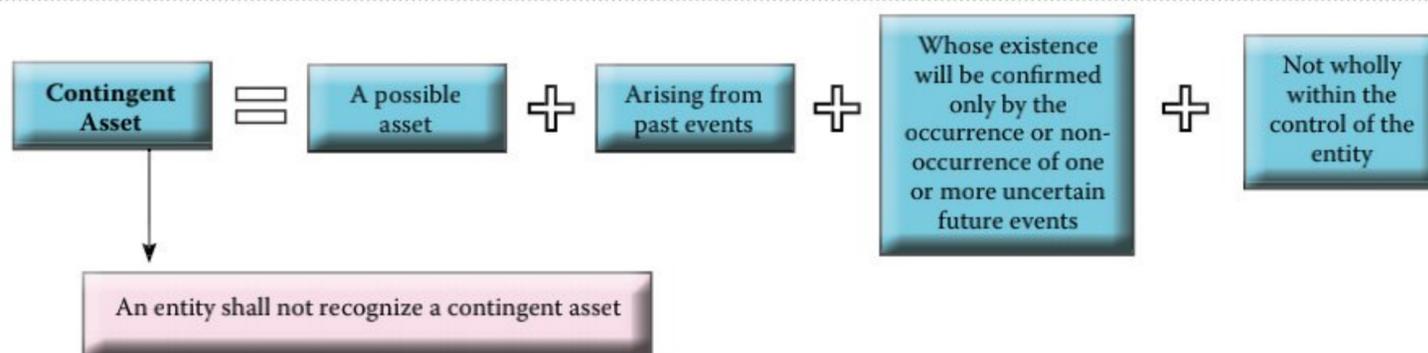
INDIAN ACCOUNTING STANDARD (IND AS) 37: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS







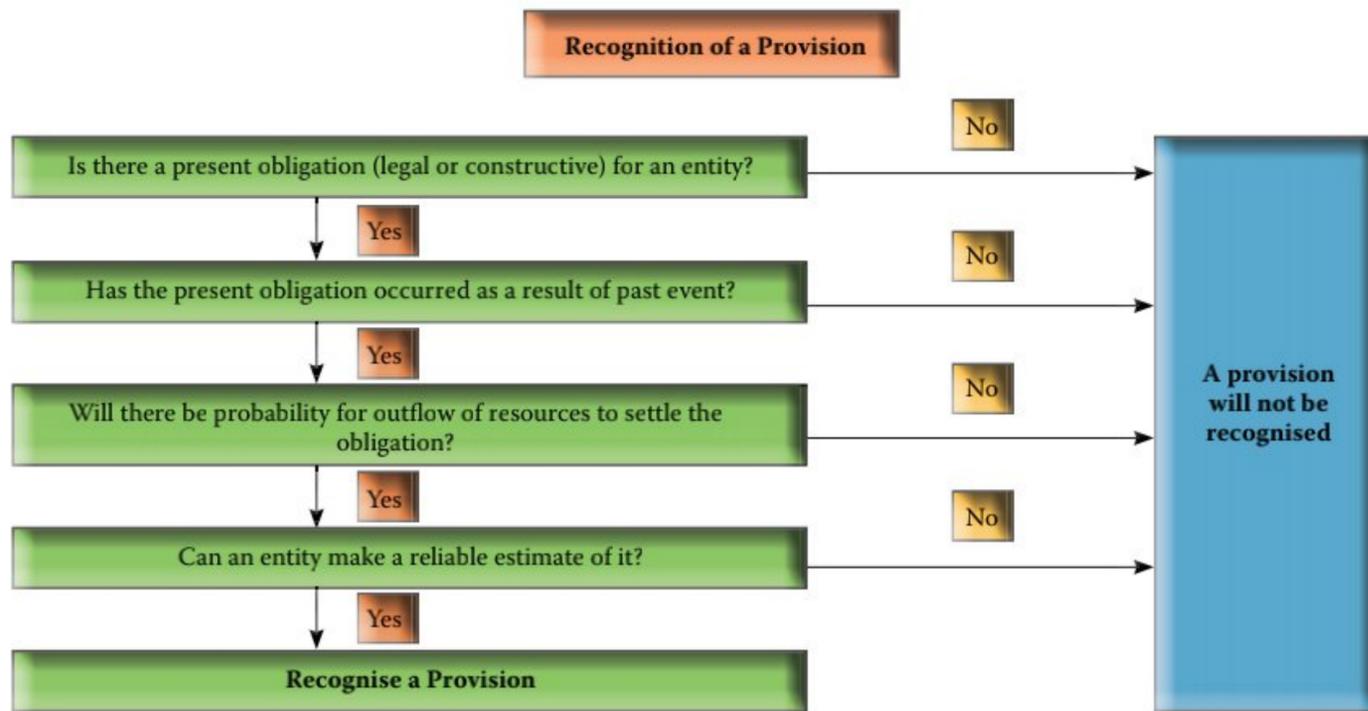
- Notes:**
- The term 'contingent liability' is used for liabilities that do not meet the recognition criteria.
  - Where it is not probable that a present obligation exists, an entity discloses a contingent liability. Probable means 'more likely than not'.
  - If the possibility of an outflow of resources embodying economic benefits is remote, contingent liability is not disclosed.
  - Where an entity is jointly and severally liable for an obligation, the part of the obligation that is **expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable**, except in the extremely rare circumstances where no reliable estimate can be made.
  - Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable, a provision is recognised in the period in which the change in probability occurs.



- Notes:**
- Contingent assets are not recognised in financial statements since it may never be realised.
  - When the realisation of income is **virtually certain**, then the related asset is recognised.
  - Contingent asset is disclosed where an inflow of economic benefits is probable.
  - Contingent assets are assessed continually. If it has become virtually certain, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

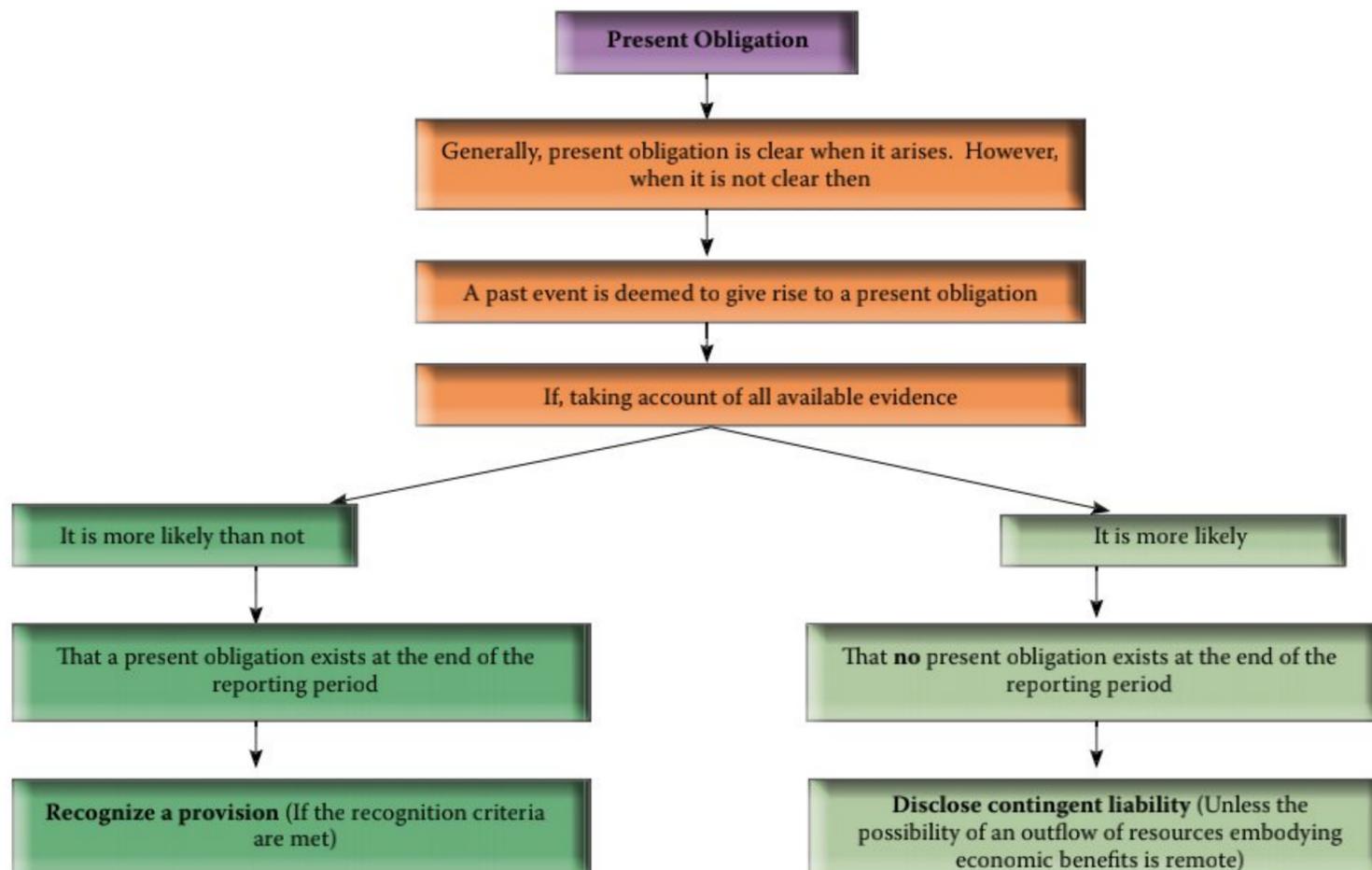
**Differences between Provisions & Other Liabilities**

S. No	Provisions	Other liabilities (Trade payables or accruals)
1	In provisions, there is uncertainty about the timing or amount of the future expenditure required in settlement	<ul style="list-style-type: none"> <li>Trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Hence uncertainty is generally much less than for provisions</li> <li>Accruals are similar to trade payables. However, it may also include amounts due to employees</li> </ul>
2	Provisions are reported separately	Accruals are often reported as part of trade and other payables



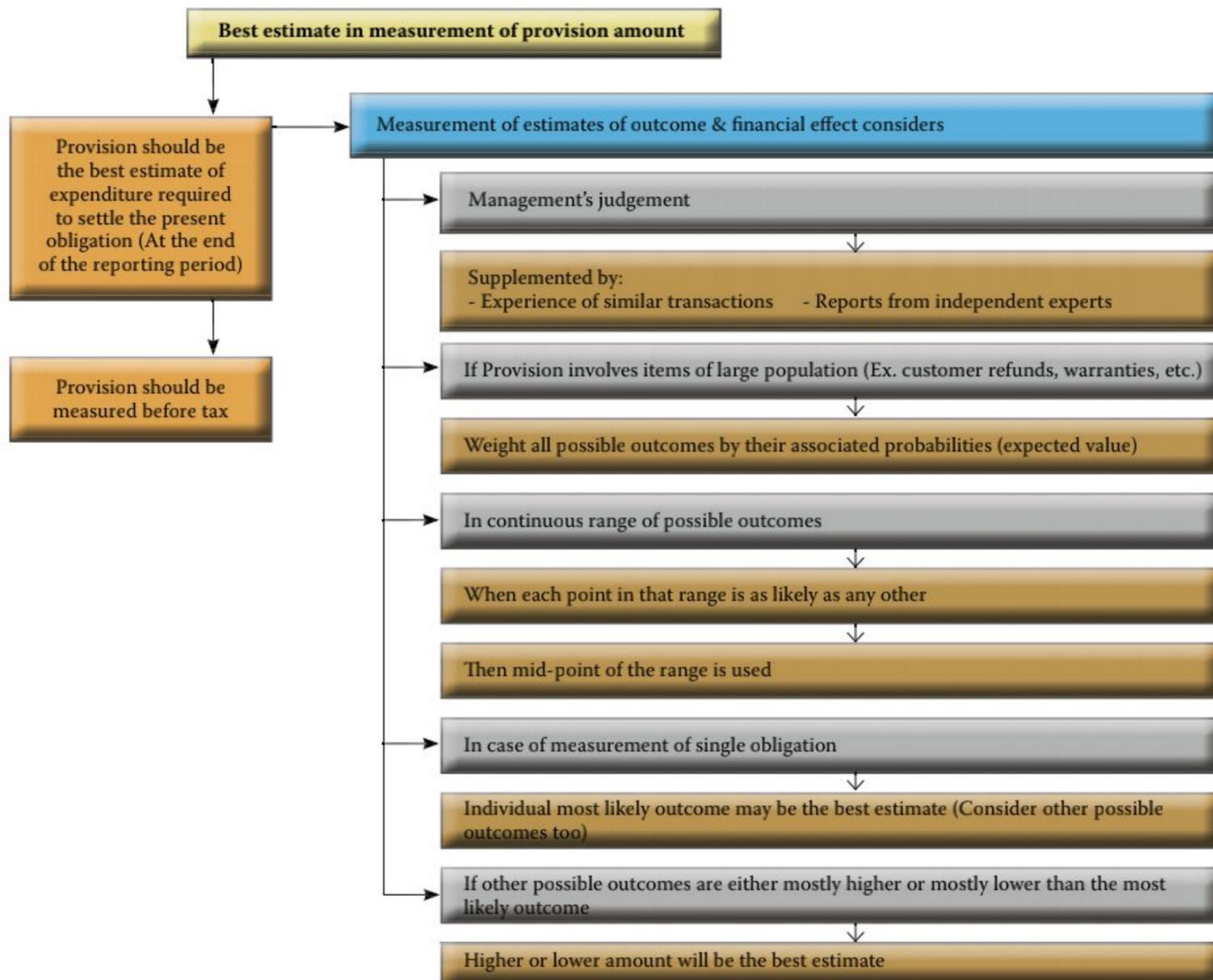
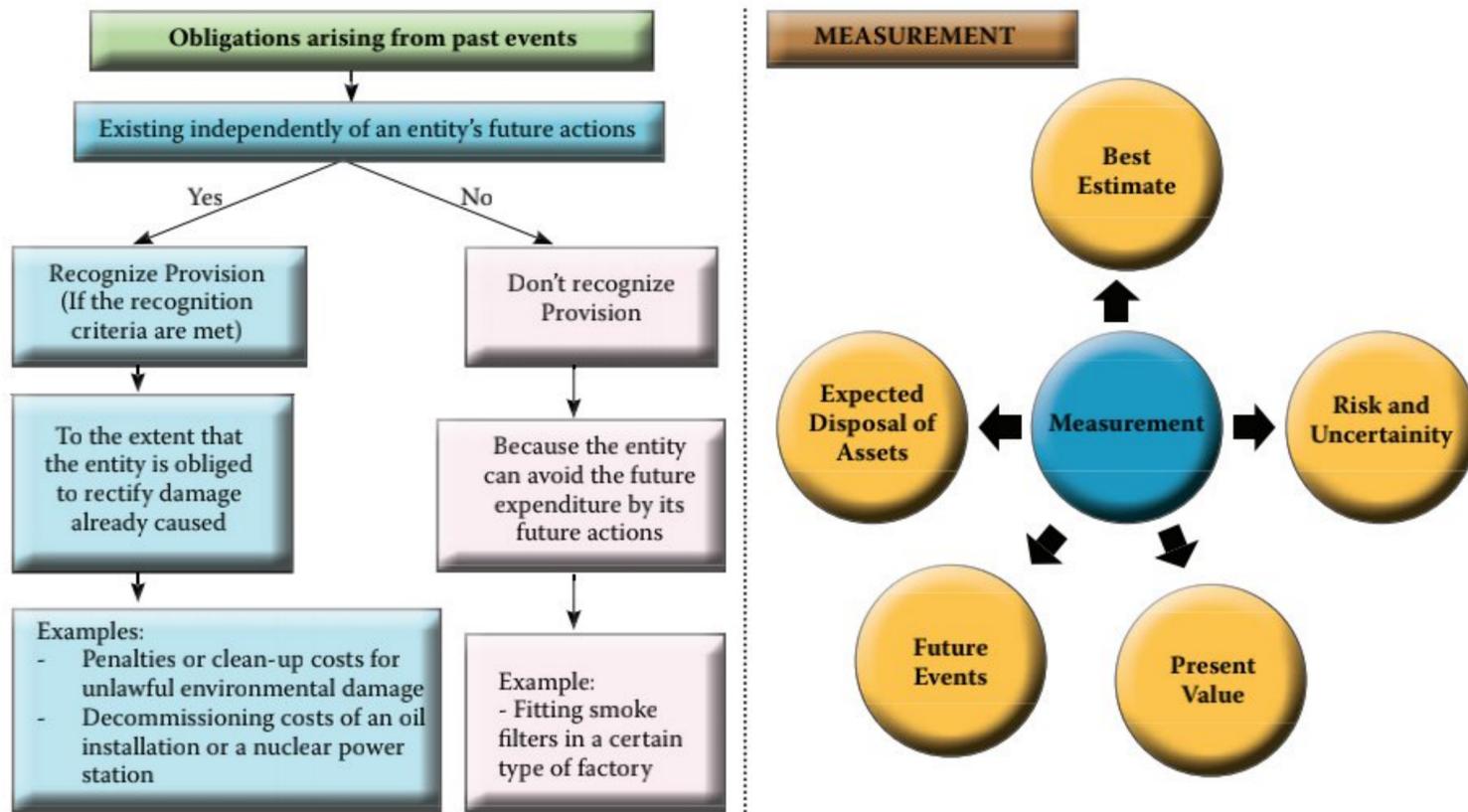
**Notes:**

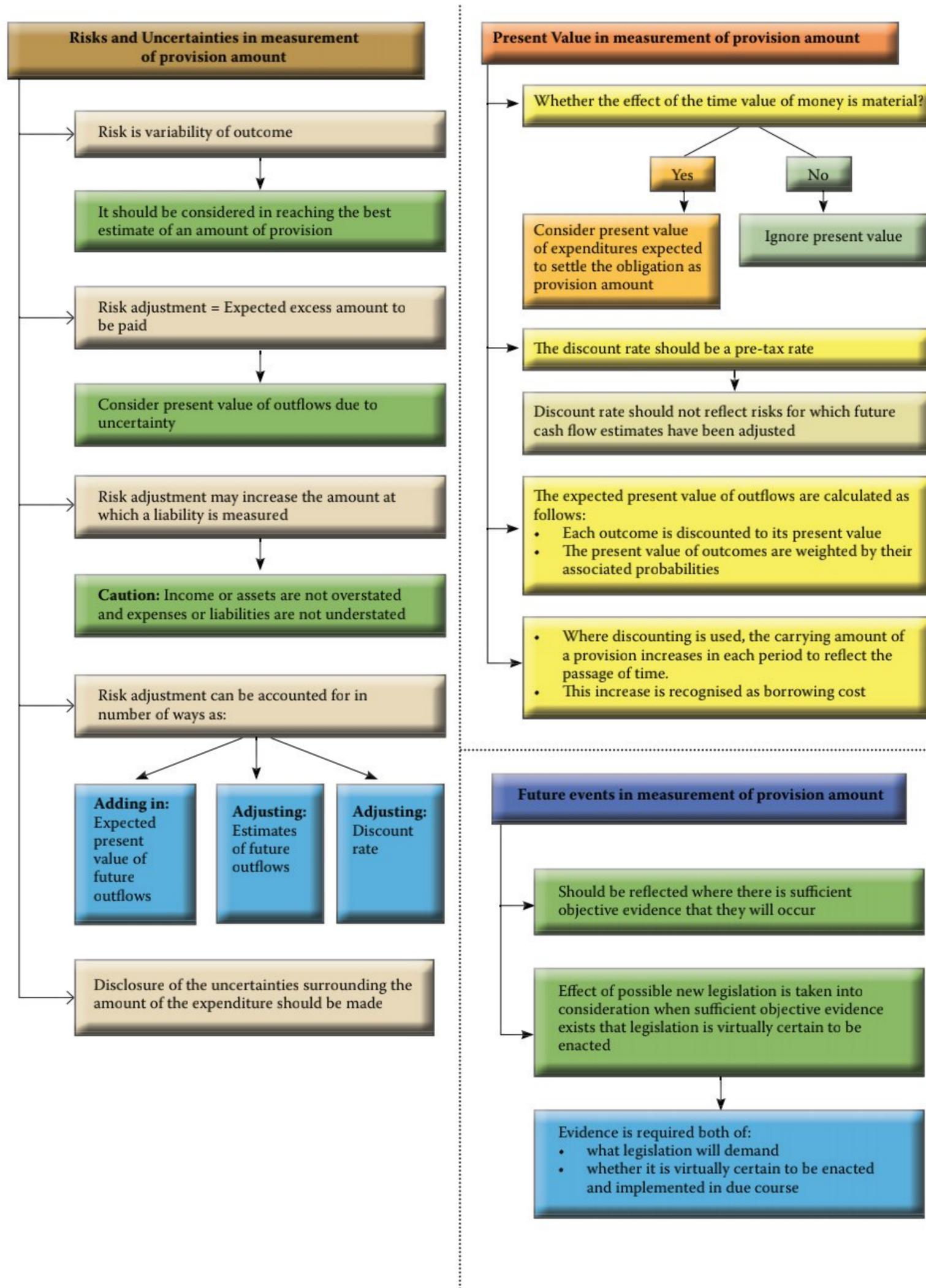
1. If these conditions are not met, no provision should be recognised.
2. Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.
3. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable, then the provision shall be reversed.
4. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

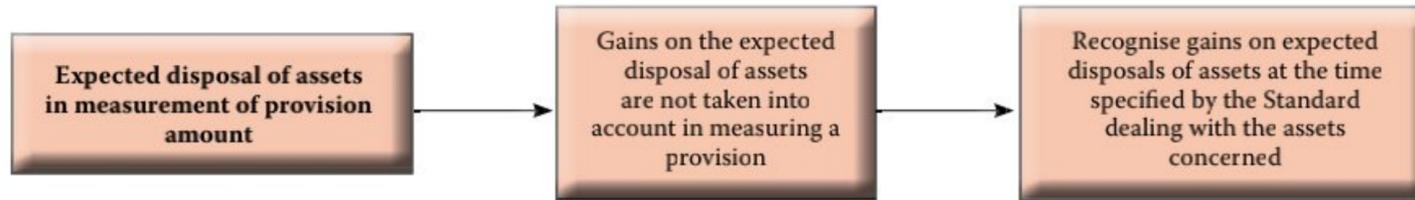


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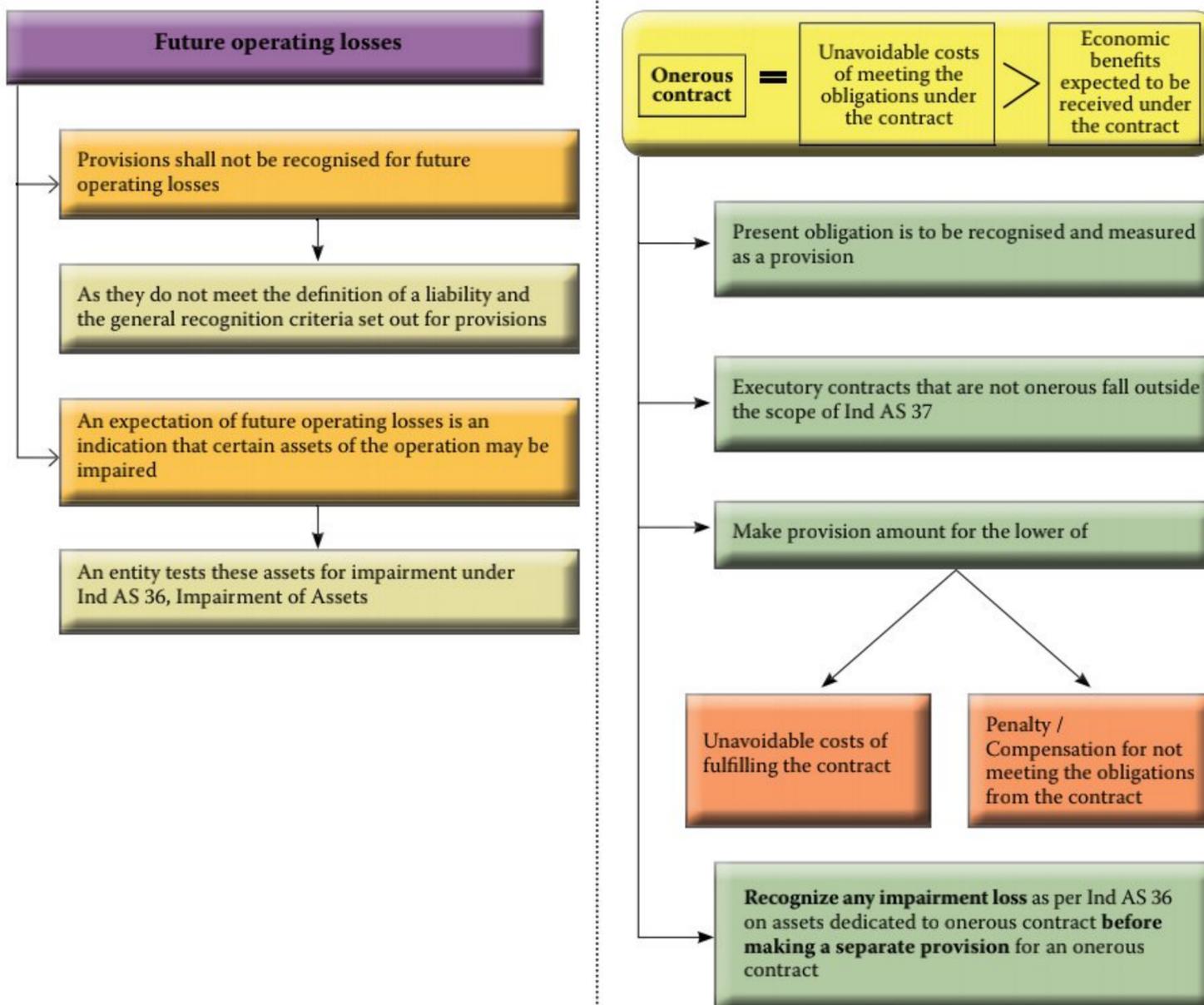
- No provision is recognised for costs that need to be incurred to operate in the future.
- Only those liabilities are recognised in an entity's balance sheet which exist at the end of the reporting period.

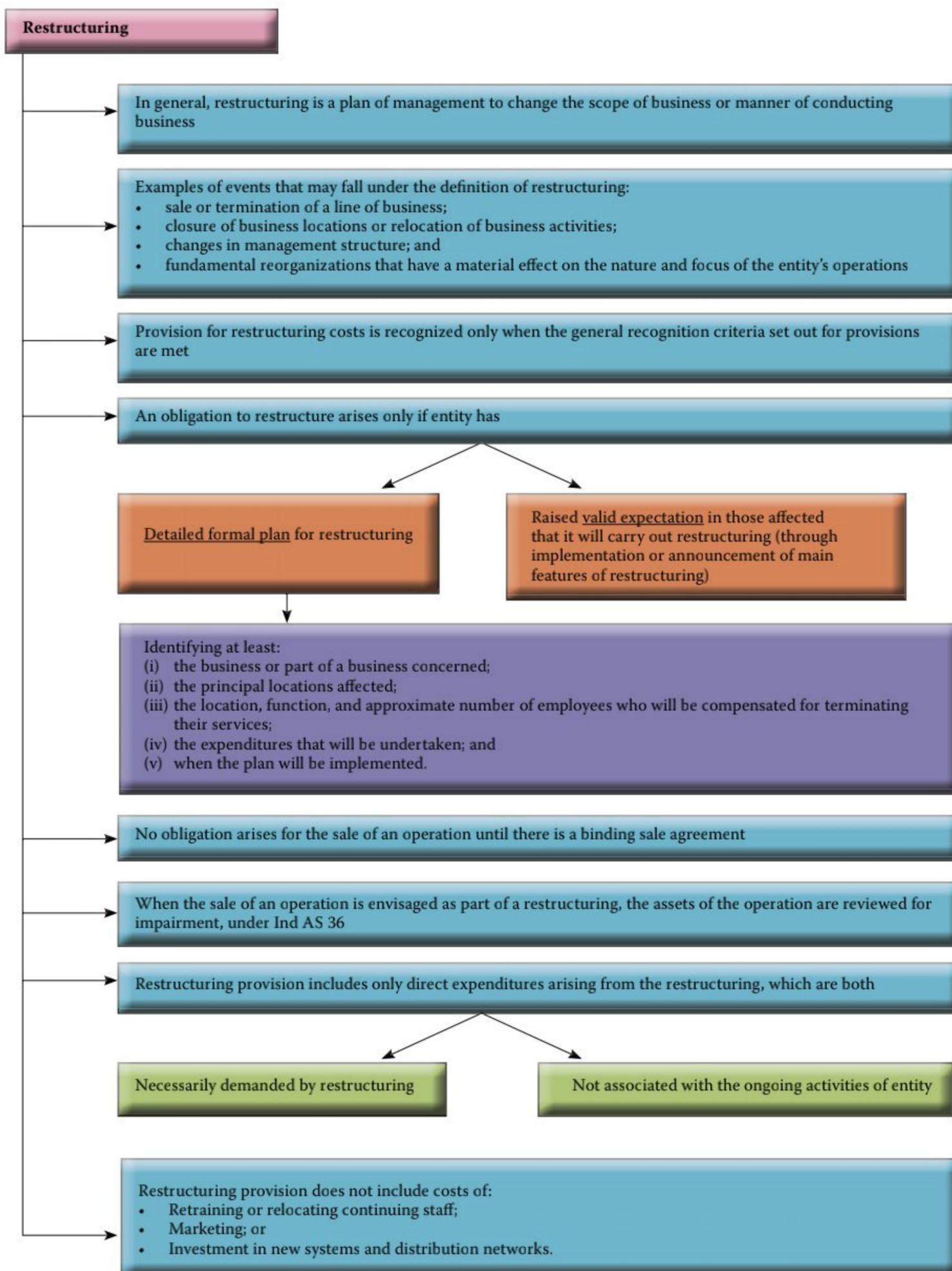


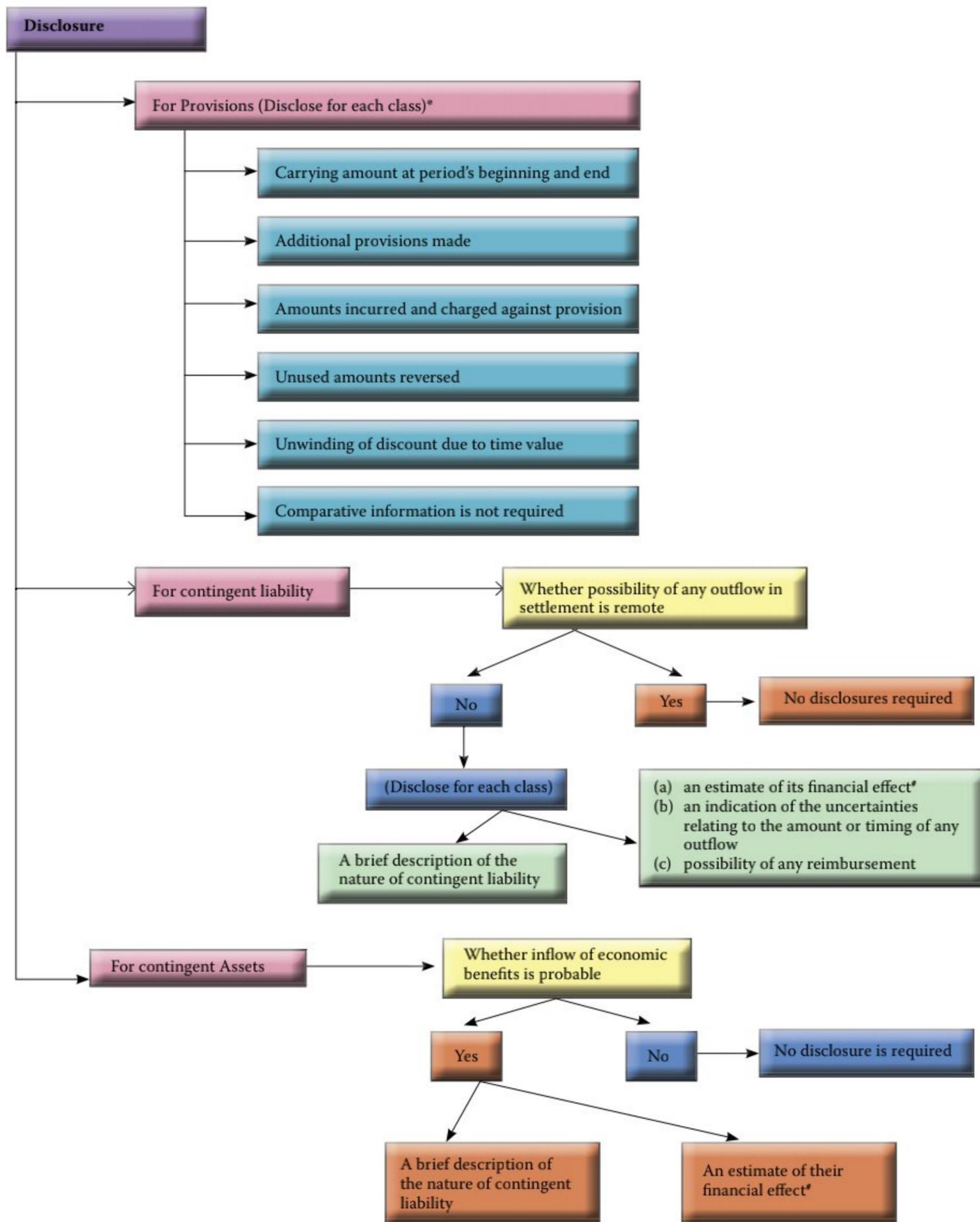




Reimbursements			
Situation	The entity has no obligation for the part of the expenditure to be reimbursed by the other party	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party and it is virtually certain that reimbursement will be received if the entity settles the provision	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party but the reimbursement is NOT virtually certain
Recognition	The entity has no liability for the amount to be reimbursed. Hence no provision will be made	<ul style="list-style-type: none"> <li>The reimbursement is recognised as a separate asset in the balance sheet</li> <li>In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement</li> <li>The amount recognised for the expected reimbursement shall not exceed the liability</li> </ul>	The expected reimbursement is not recognised as an asset
Disclosure	No disclosure is required	The reimbursement is disclosed together with the amount recognised for the reimbursement	The expected reimbursement is disclosed







\* Disclose the following for each class of provision:  
 a) Nature of obligation and expected timing of any resulting outflows  
 b) Uncertainties about the amount or timing of those outflows  
 c) Any expected reimbursement  
 Provisions or contingent liabilities may be aggregated to form a class, but consider whether the nature of items is sufficiently similar for a single statement  
 \*If required information is not disclosed since not practicable to do so, that fact shall be stated

INDIAN ACCOUNTING STANDARD (IND AS) 38: INTANGIBLE ASSETS

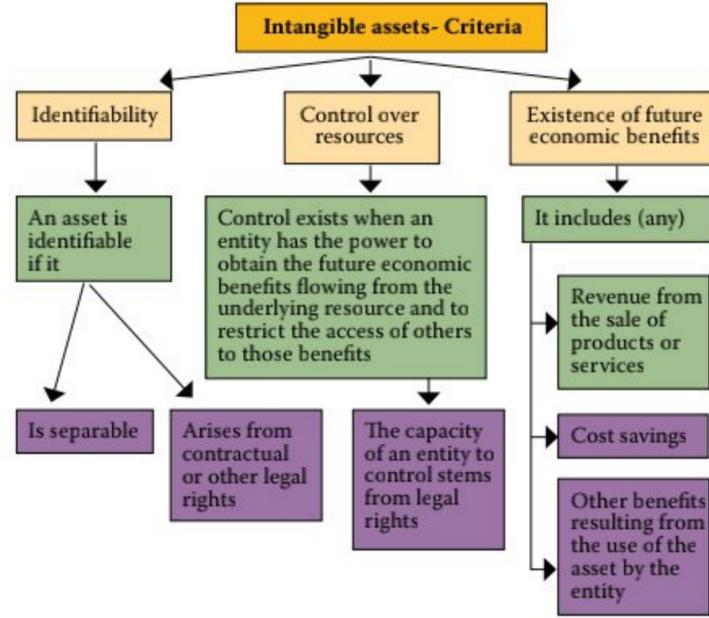
Scope of Ind AS 38

Applicability

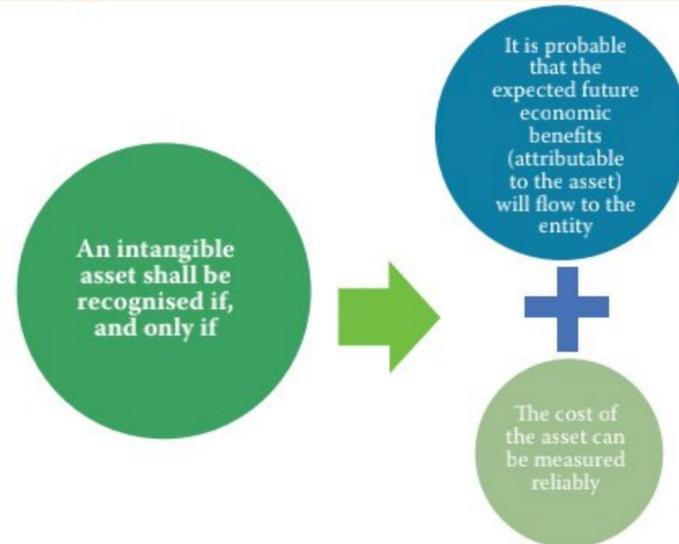
- Intangible assets other than included in the list of non-applicability
- Expenditure on advertising, training, start-up, research and development activities
- Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights
- Other intangible assets used (such as computer software), and other expenditure incurred (such as start-up costs), in extractive industries or by insurers.

Non-Applicability

- Financial assets (Ind AS 32)
- Recognition and measurement of exploration and evaluation assets (Ind AS 106)
- Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources
- Intangible assets held by an entity for sale in the ordinary course of business (Ind AS 2)
- Deferred tax assets (Ind AS 12)
- Leases of intangible assets (Ind AS 116)
- Assets arising from employee benefits (Ind AS 19)
- Goodwill acquired in a business combination (Ind AS 103)
- Deferred acquisition costs and intangible assets, arising from an insurer's contractual rights under insurance contracts (Ind AS 104)
- Non-current intangible assets classified as held for sale (or included in a disposal group that is classified as held for sale) (Ind AS 105)
- Assets arising from contracts with customers (Ind AS 115)
- Amortisation of the intangible assets arising from service concession arrangements in respect of toll roads

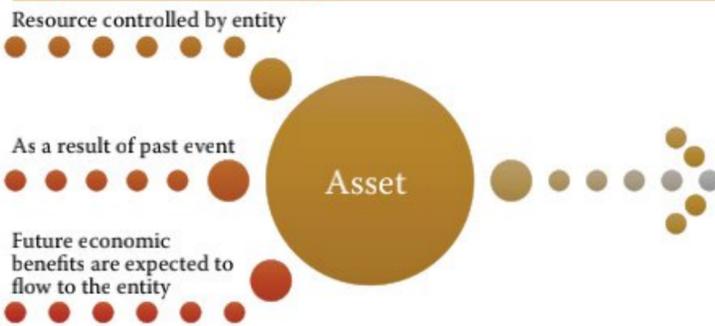


Recognition of Intangible Assets – General Principles

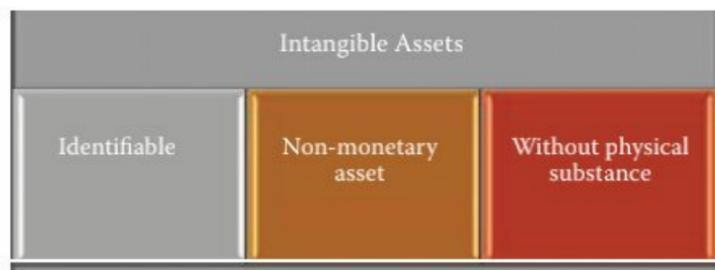


Note: Probability of future economic benefits will exist if the entity expects there to be an inflow of economic benefits, though there is uncertainty about the timing or the amount of the inflow.

Definition of Asset

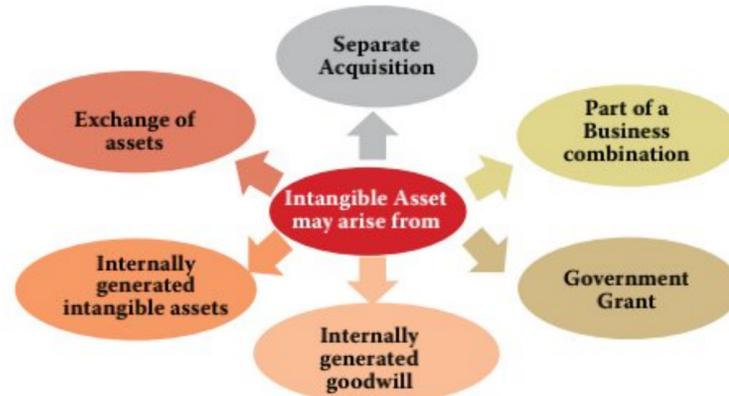


Definition of Intangible Asset



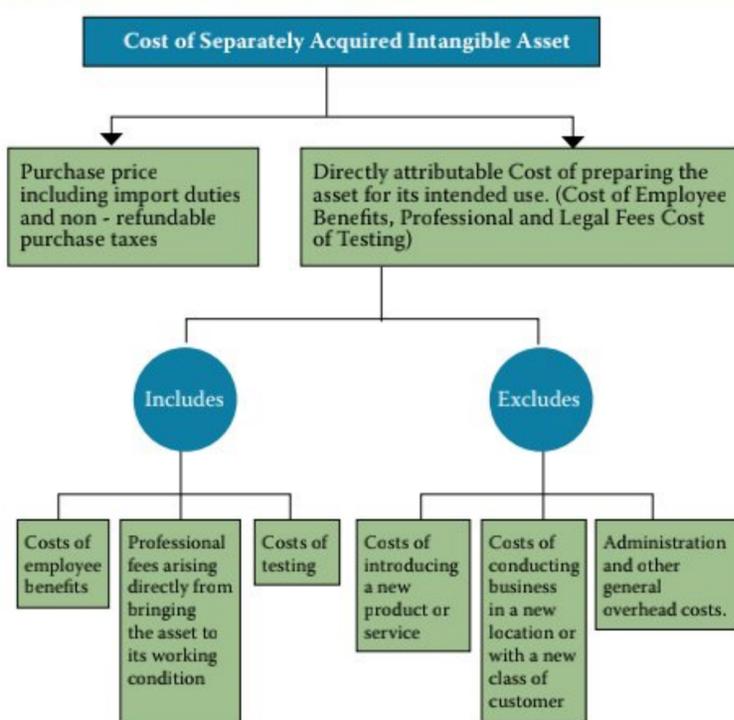
Measurement of Intangible Asset

Intangible assets may be acquired or can be self generated. The below diagram reflect the method and mode by which Intangible assets may arise:



A. Recognition and Measurement for intangible assets acquired separately	
<b>Recognition for intangible assets acquired separately</b>	<ul style="list-style-type: none"> <li>The probability recognition criterion is always considered to be satisfied for separately acquired intangible assets.</li> <li>The cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.</li> </ul>

### Measurement of Cost for Intangible Assets Acquired Separately

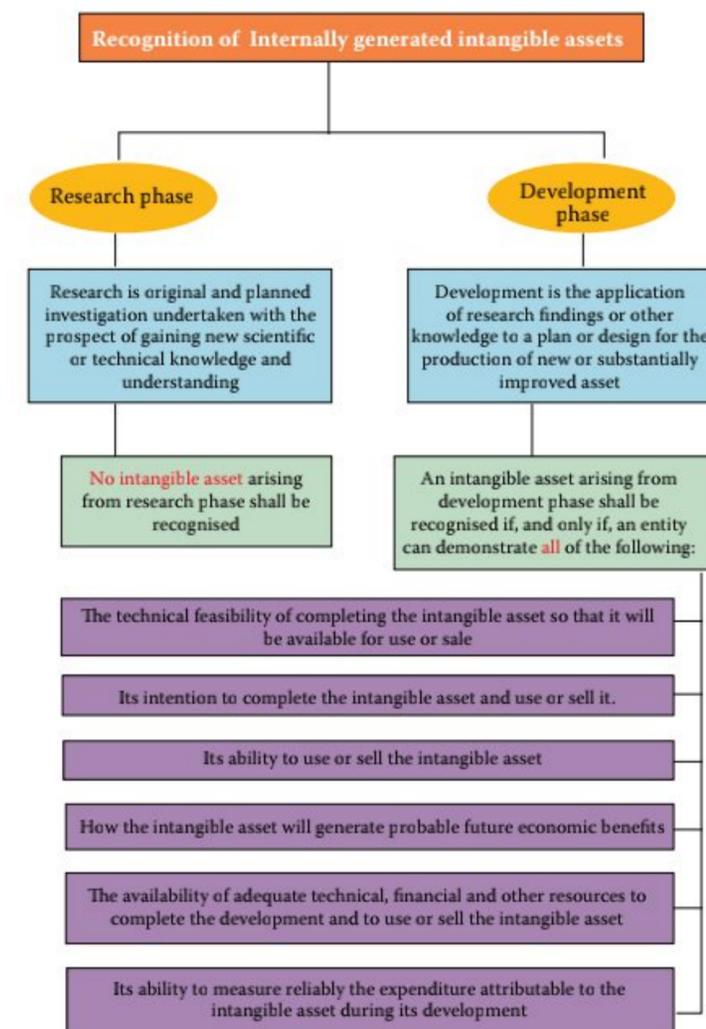


- Note:**
- Costs incurred in using or redeploying an intangible asset are **not included in the carrying amount** of that asset.
  - Incidental operations not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are **recognised immediately in profit or loss**.
  - If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is **recognised as interest expense over the period of credit** if not capitalised as per Ind AS 23.

B. Acquisition as part of a business combination	
<b>Recognition criteria for intangible assets acquired as part of a business combination</b>	<ul style="list-style-type: none"> <li>The probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations.</li> <li>The reliable measurement criterion is always considered to be satisfied for intangible assets acquired in business combinations.</li> <li>The acquirer may recognise a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives.</li> </ul>
<b>Measuring fair value</b>	<ul style="list-style-type: none"> <li>If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.</li> </ul>
C. Acquisition by way of a government grant	
<b>Recognition</b>	If an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, an entity <b>recognises both the intangible asset and the grant initially at fair value</b> as per Ind AS 20.

D. Exchanges of assets	
<b>Measurement</b>	<ul style="list-style-type: none"> <li>One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.</li> <li>If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless <b>the fair value of the asset received</b> is more clearly evident. (Refer chart on "Exchange of Assets" given in Ind AS 16)</li> </ul>
E. Internally generated goodwill	
<b>Recognition</b>	<ul style="list-style-type: none"> <li>Internally generated goodwill shall not be recognised as an asset.</li> <li>Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the entity that can be measured reliably at cost.</li> </ul>

### Internally generated Intangible Asset



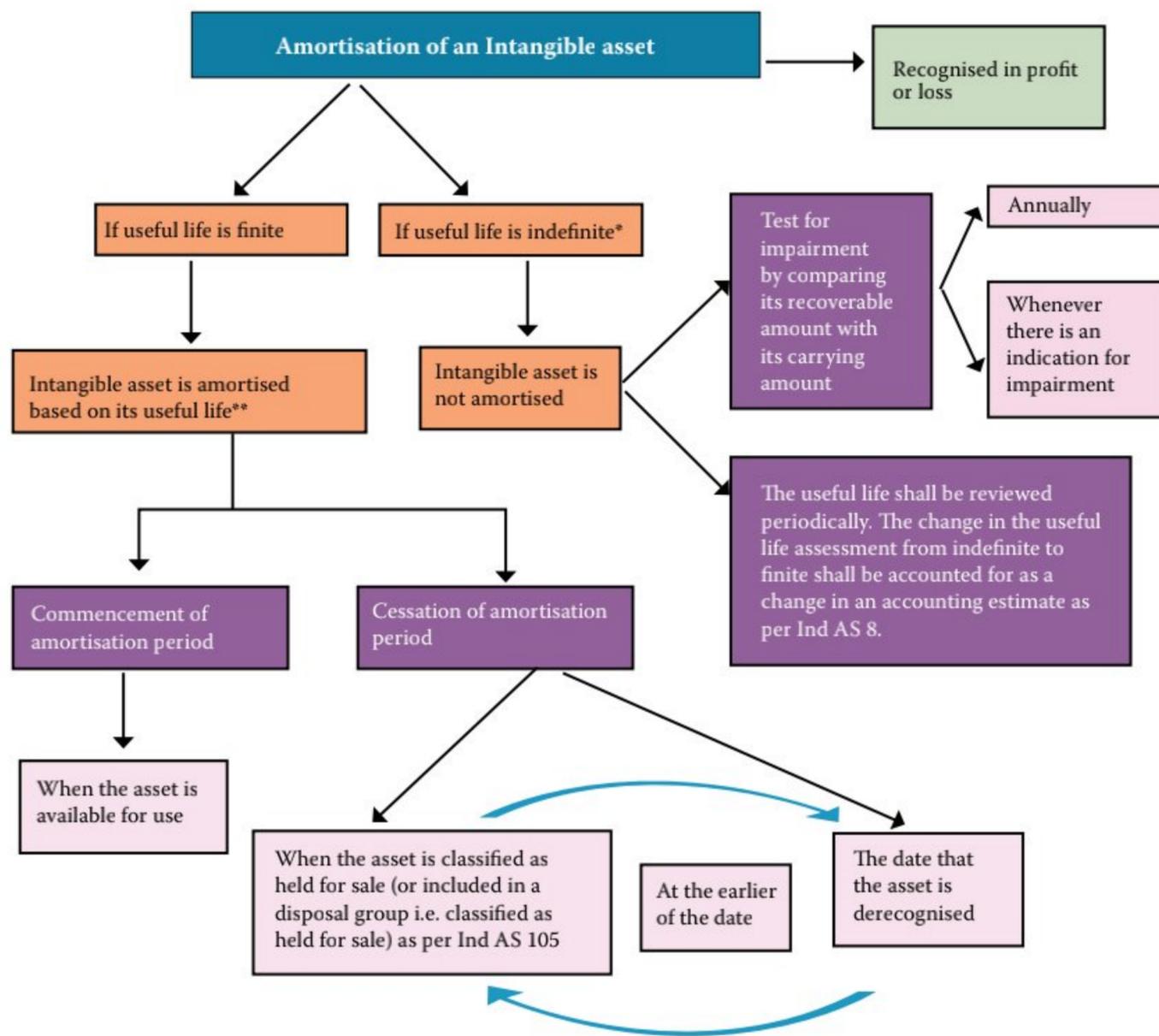
- Note:**
- If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.
  - Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall **not** be recognised as intangible assets.
  - The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.
  - Standard **prohibits reinstatement of expenditure previously recognised as an expense**.

**Measurement after Recognition and Revaluation**

Refer the charts for 'Measurement after recognition,' 'Frequency of revaluation,' 'Treatment on application of revaluation model' and 'Treatment of revaluation gain or loss' given in Ind AS 16. Same charts hold goods for Ind AS 38 also.

**Additional important points to be remembered in case of revaluation of intangible asset**

- ❖ If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset,
  - the asset shall be carried at its cost less any accumulated amortisation and impairment losses.
- ❖ If the fair value of a revalued intangible asset can no longer be measured by reference to an active market,
  - the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.
- ❖ The fact that an active market no longer exists for a revalued intangible asset may indicate that the asset may be impaired.

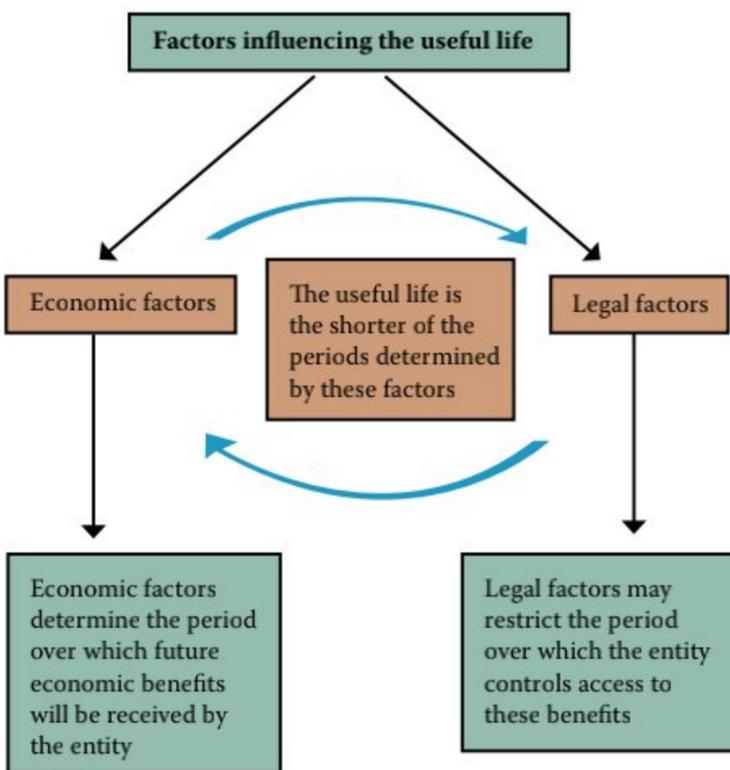
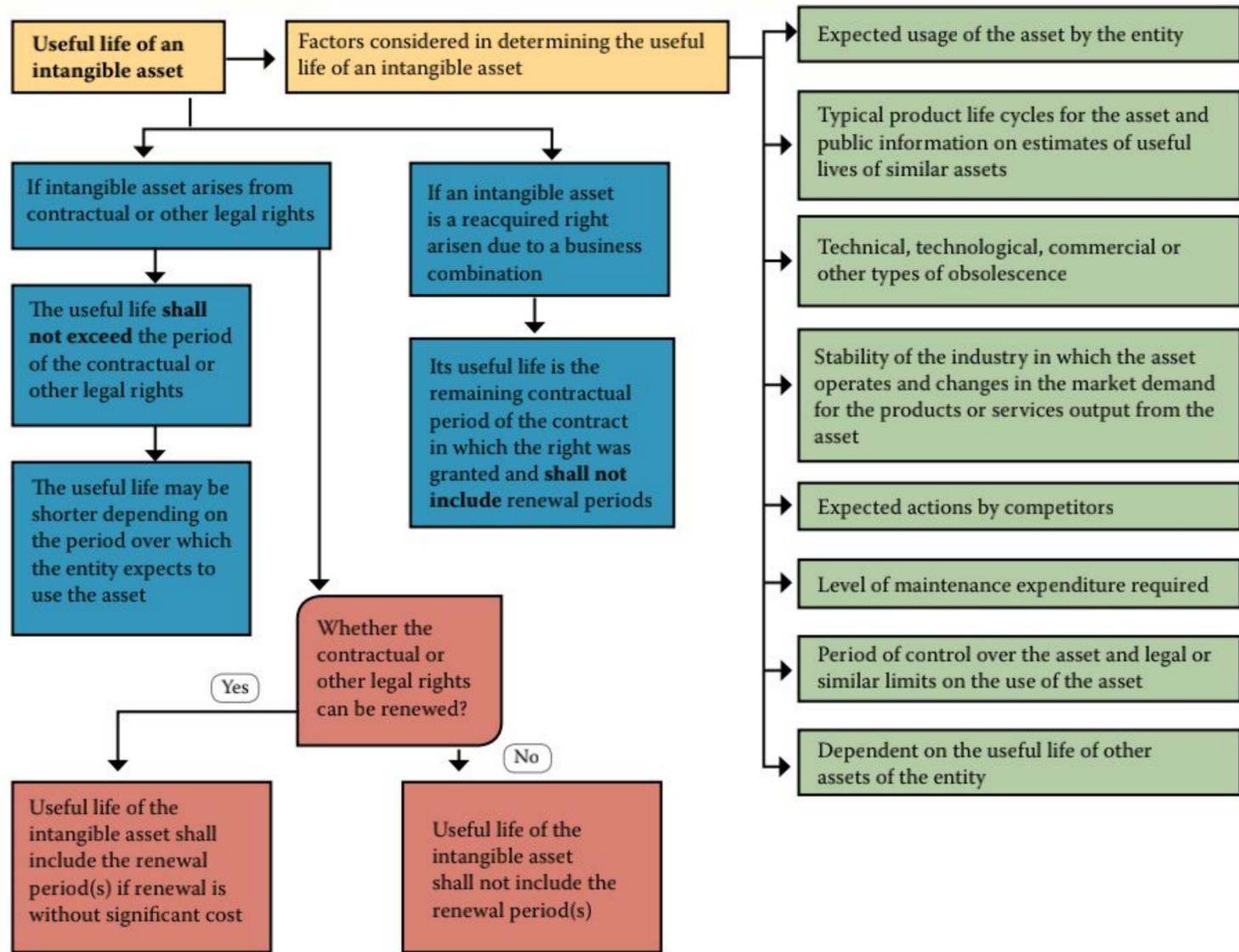


Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, if the asset has not been fully depreciated or has not been classified as held for sale (or included in a disposal group that is classified as held for sale) as per Ind AS 105.

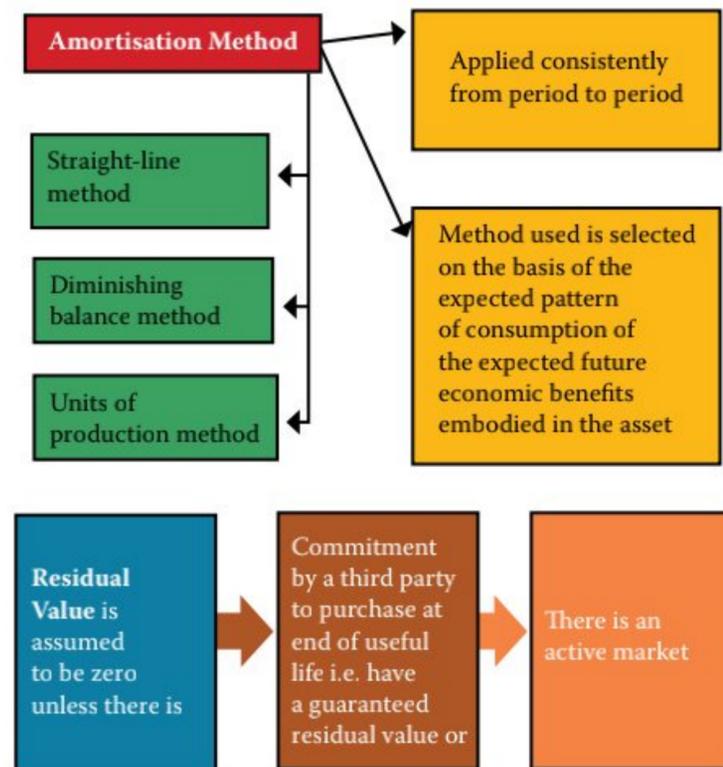
\*The term 'indefinite' does not mean 'infinite'

\*\*Useful life is equivalent to the length of, or number of production or similar units.

**Useful Life of an Intangible Asset**



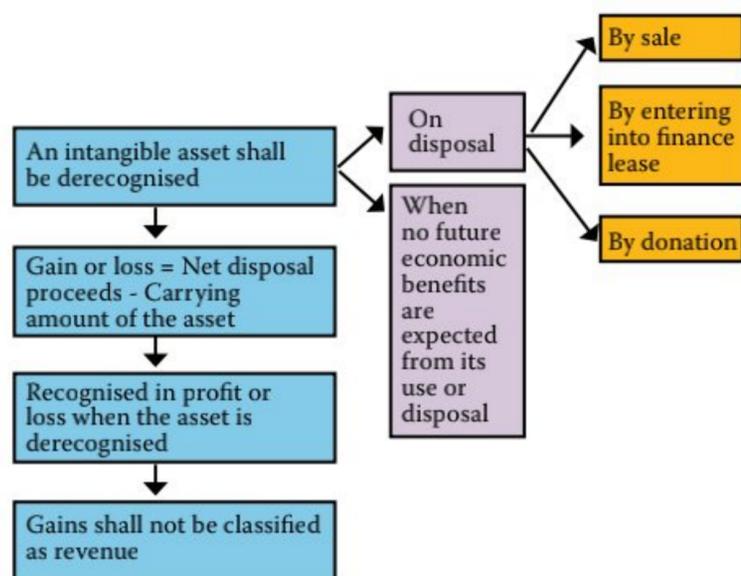
**Amortisation Method**



## Note:

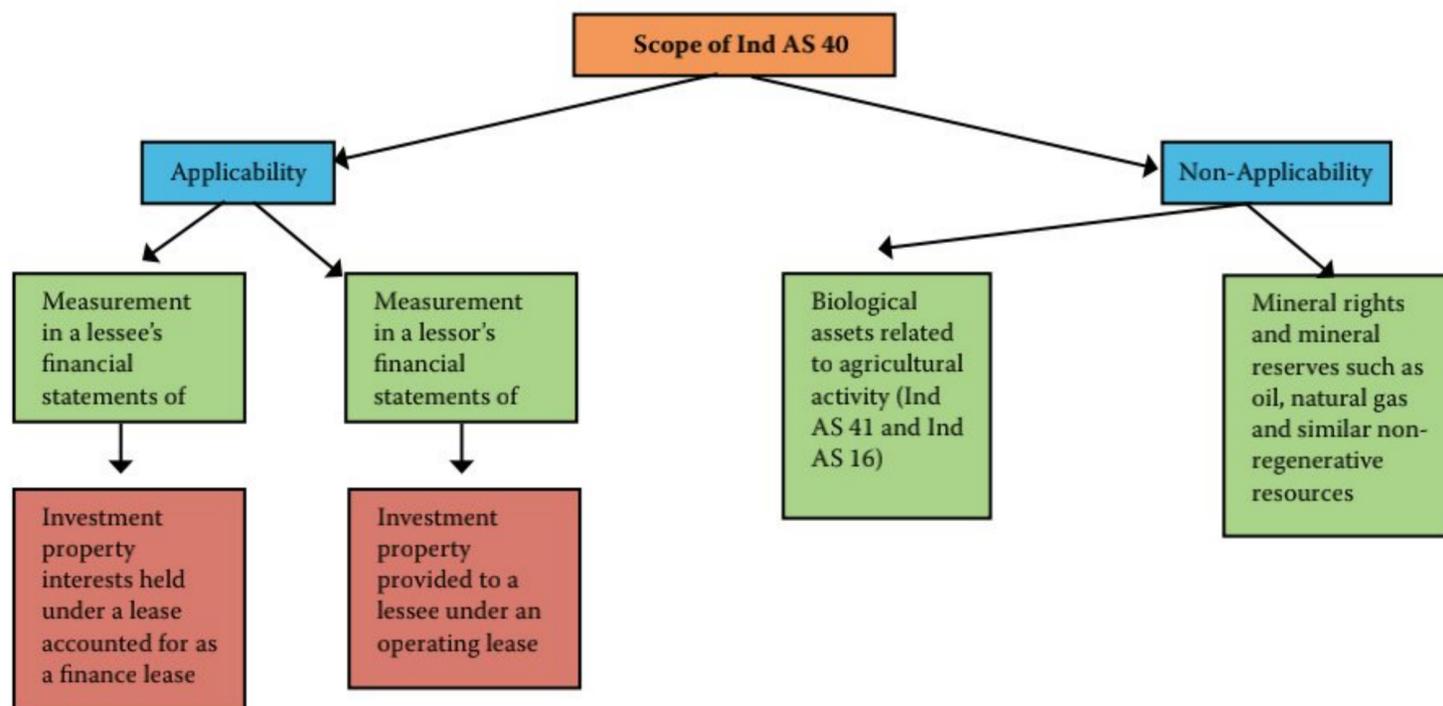
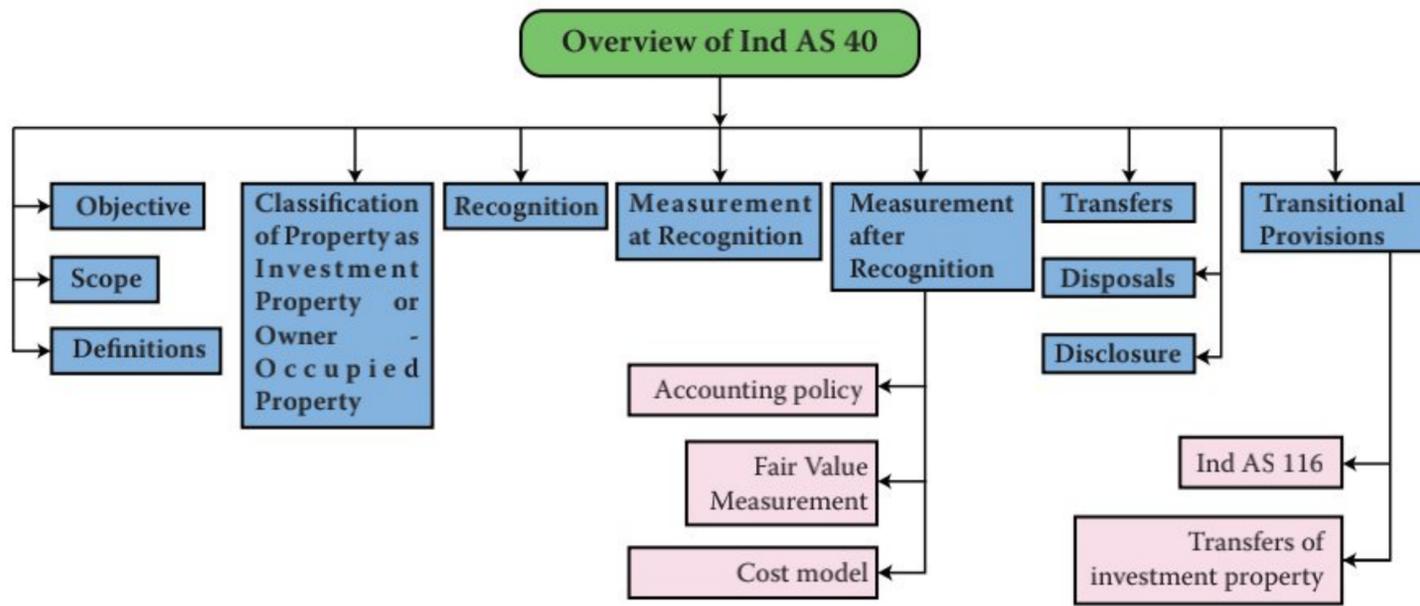
Particular	Details
Residual value other than zero	It implies that an entity expects to dispose of the intangible asset before the end of its economic life
Review of residual value	The residual value is reviewed at least at each financial year-end
Change in the asset's residual value	A change in the asset's residual value is accounted for as a change in an accounting estimate as per Ind AS 8
Increase in residual value to an amount equal to or greater than the asset's carrying amount	In such a situation, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount
Review of amortisation period and amortisation method	Reviewed at least at each financial year-end
Change in expected useful life	Amortisation period shall be changed
Change in the expected pattern of consumption of the future economic benefits	Amortisation method shall be changed to reflect the changed pattern
Accounting for changes in amortisation period/method	Such changes shall be accounted for as changes in accounting estimates in accordance with Ind AS 8

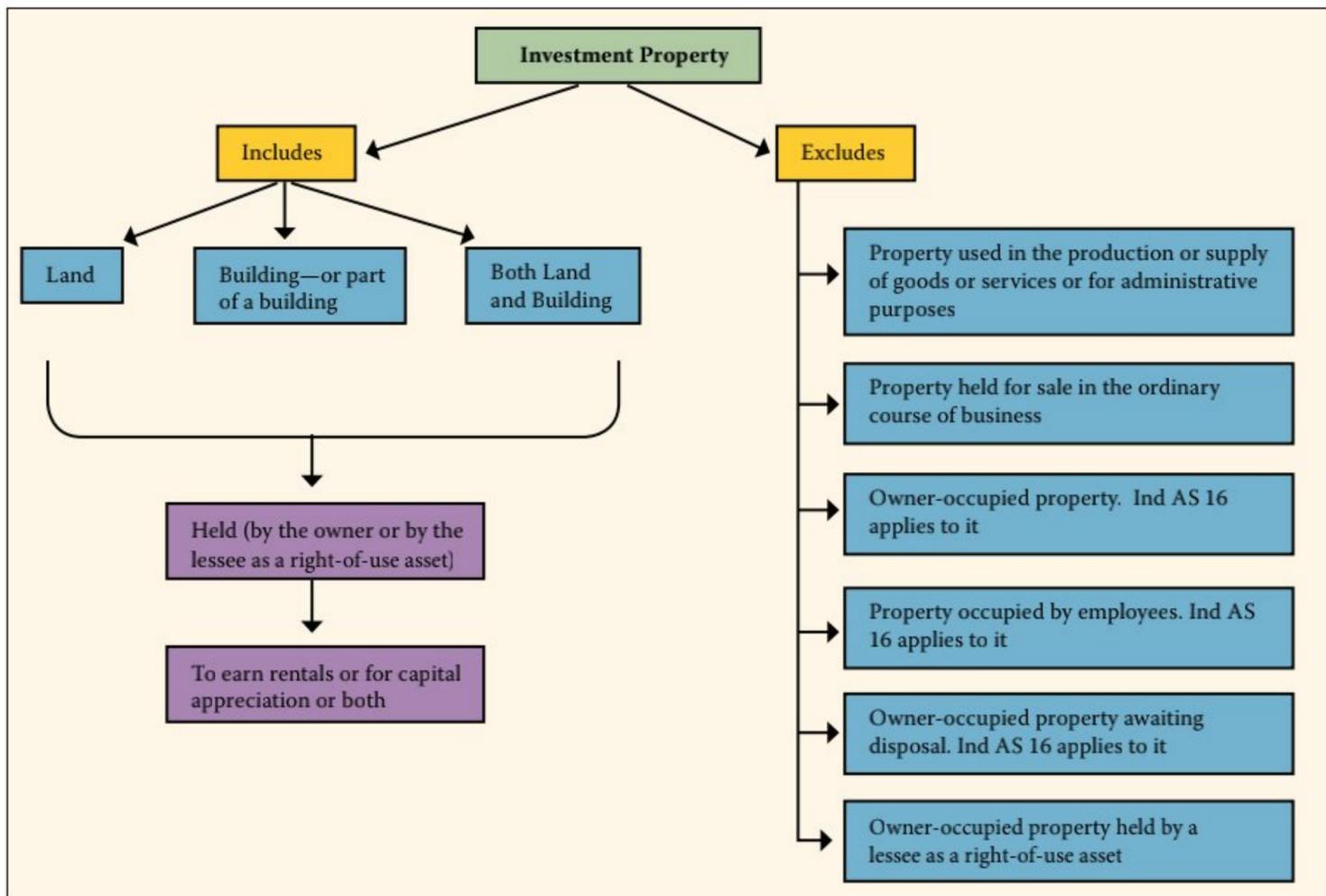
## Retirements and Disposals of Intangible Assets



*For disclosure requirements of Ind AS 38 refer the study material.*

INDIAN ACCOUNTING STANDARD (IND AS) 40: INVESTMENT PROPERTY



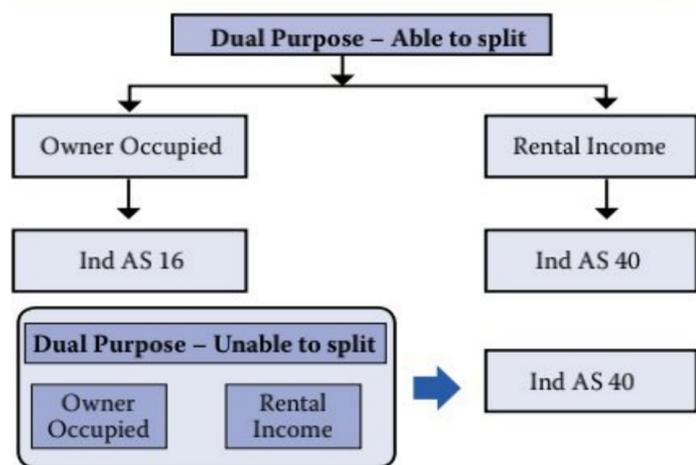


Examples of Investment Property

- Land held for long-term capital appreciation
- Land held for a currently undetermined future use
- A building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases
- A building that is vacant but is held to be leased out under one or more operating leases
- Property that is being constructed or developed for future use as investment property

**Note:**  
In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property **does not qualify as investment property in the consolidated financial statements**, because the property is owner-occupied from the perspective of the group.

Property Held for More Than One Purpose



Investment property shall be recognised as an asset when, and only when

- It is probable that the future economic benefits that are associated with the investment property will flow to the entity
- The cost of the investment property can be measured reliably

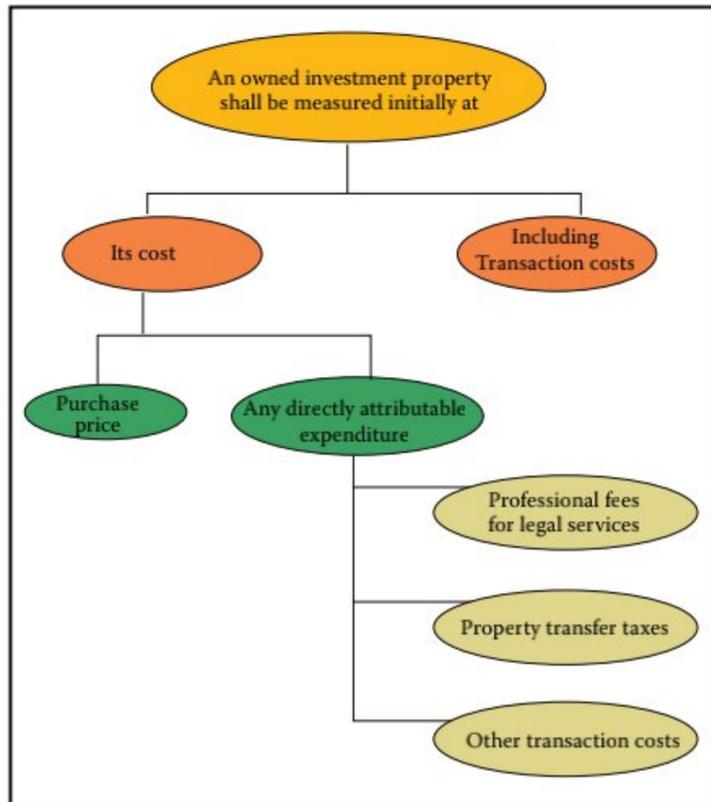
Costs include

- costs incurred initially to acquire an owned investment property and
- costs incurred subsequently to add to, replace part of, or service a property

Recognise in the carrying amount the cost of replacing part of an existing investment property when it is incurred. The carrying amount of replaced part is derecognised

Note: An investment property held by a lessee as a right-of-use asset shall be recognised and measured initially at its cost as per Ind AS 116

Measurement at Recognition



Important Notes

S. No.	Particular	Detail
1.	Cost of an investment property does not include	(a) Start-up costs (unless necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management), (b) Operating losses incurred before the investment property achieves the planned level of occupancy, or (c) Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.
2.	Deferred payment	• Cost of an investment property is its cash price equivalent. • The difference between this amount and the total payments is recognised as interest expense over the period of credit.

Measurement after Recognition



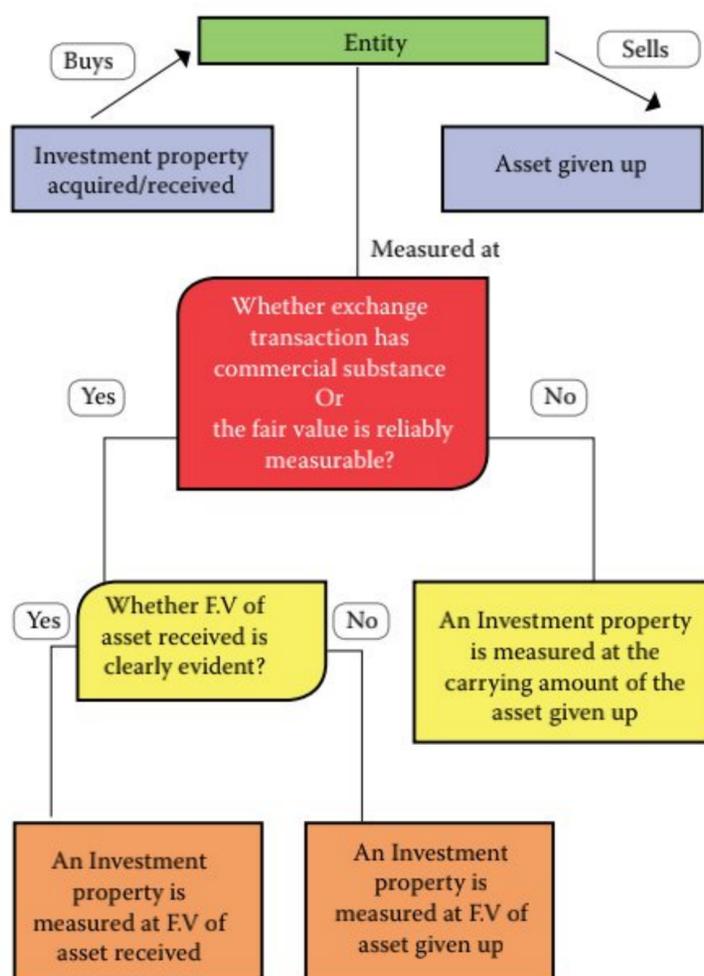
Note:

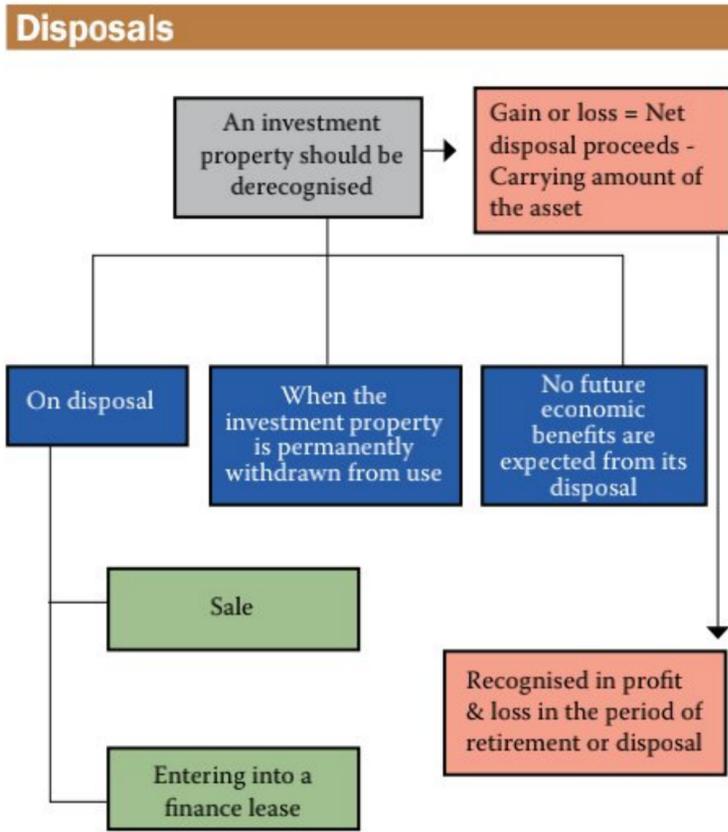
- Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with Ind AS 105.
- Investment properties held by a lessee as a right-of-use asset and is not held for sale is measured as per Ind AS 116.
- All other investment properties are measured as per Ind AS 16, under cost model.

Transfers

- Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
  - Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;  
Ind AS 40 → Ind AS 16
  - Commencement of development with a view to sale, for a transfer from investment property to inventories;  
Ind AS 40 → Ind AS 2
  - End of owner-occupation, for a transfer from owner-occupied property to investment property; or  
Ind AS 16 → Ind AS 40
  - Commencement of an operating lease to another party, for a transfer from inventories to investment property.  
Ind AS 2 → Ind AS 40
- Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Exchange for Non-monetary Assets

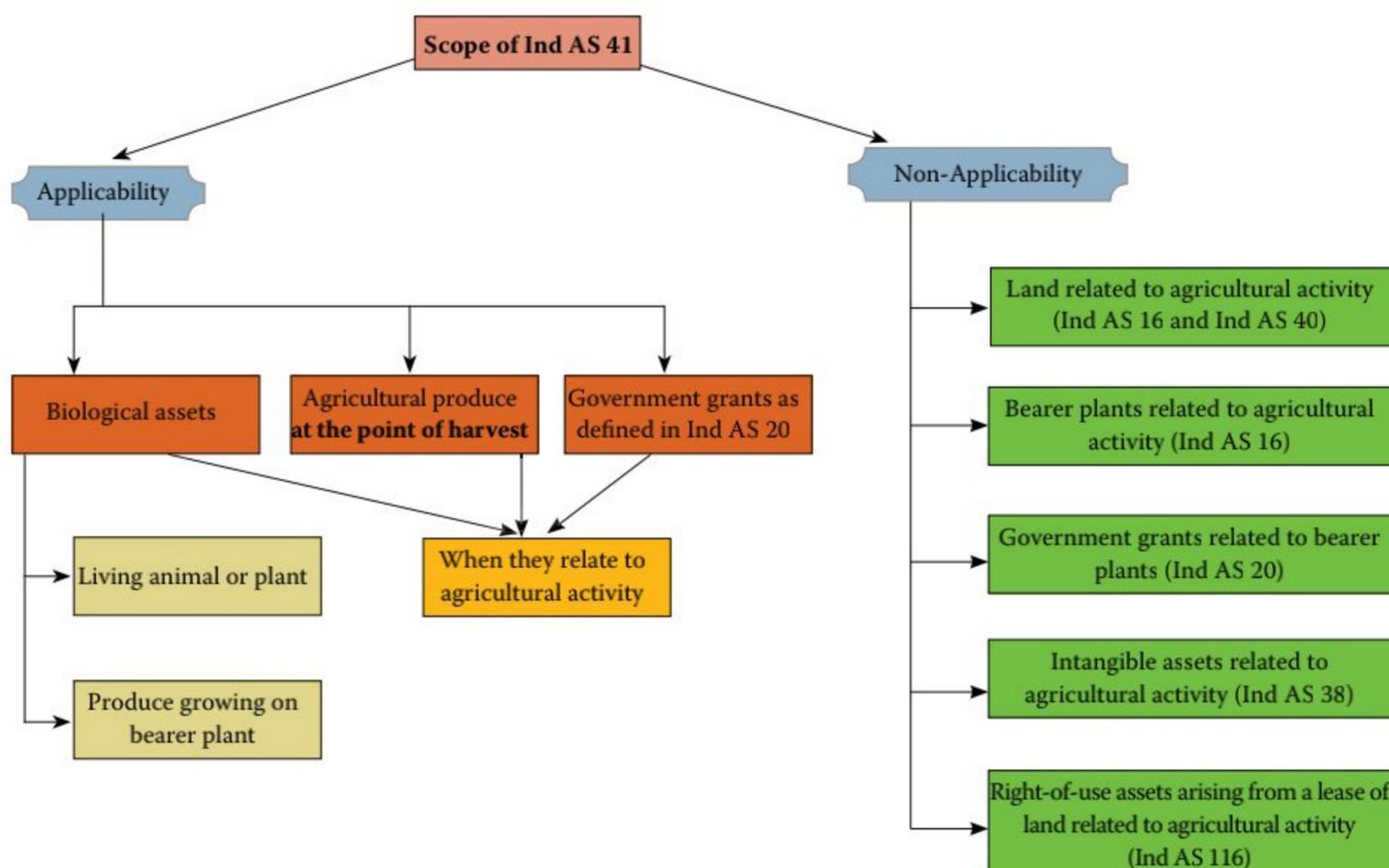




S. No.	Particular	Detail
1.	Date of disposal for investment property	<ul style="list-style-type: none"> <li>The date is when the recipient obtains control of the investment property sold for determining when a performance obligation is satisfied.</li> <li>Ind AS 116 applies to a disposal effected by entering into a finance lease and to a sale and leaseback</li> </ul>
2.	Measurement of consideration receivable on disposal	<ul style="list-style-type: none"> <li>The consideration receivable on disposal of an investment property is recognised initially <b>at fair value</b></li> <li>If payment for an investment property is deferred, the consideration received is recognised initially at the <b>cash price equivalent</b>.</li> <li>The <b>difference</b> between the nominal amount of the consideration and the cash price equivalent is <b>recognised as interest revenue</b></li> </ul>
3.	Compensation	<ul style="list-style-type: none"> <li>Compensation from third parties for investment property that was impaired, lost or given up <b>shall be recognised in profit or loss when the compensation becomes receivable.</b></li> </ul>

*For disclosure requirements of Ind AS 40 refer the study material.*

## INDIAN ACCOUNTING STANDARD (IND AS) 41: AGRICULTURE

**Note:**

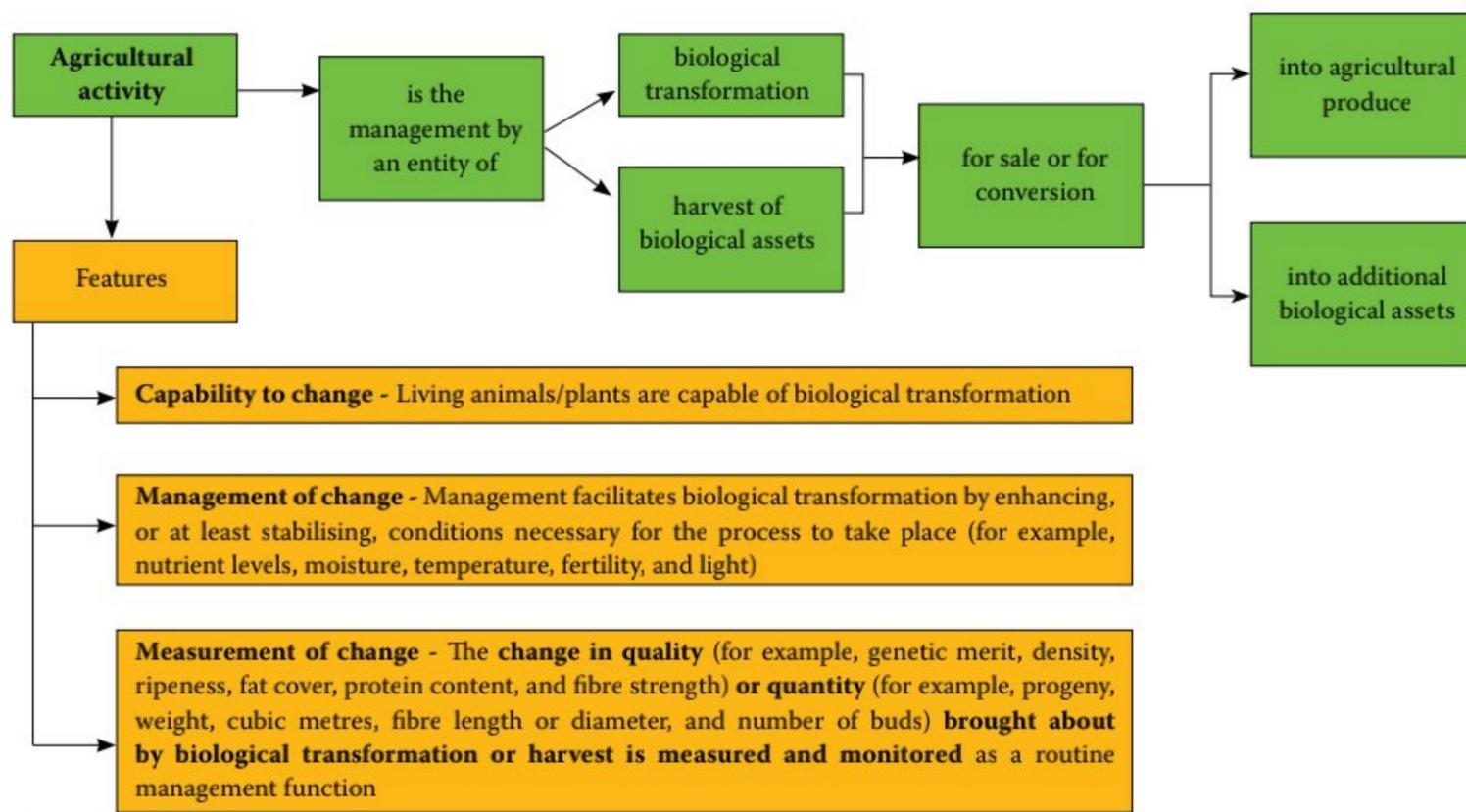
- This Standard is **applied to agricultural produce**, which is the harvested produce of the entity's biological assets, **at the point of harvest**. Thereafter, Ind AS 2 or another applicable Ind AS is applied. Hence, Ind AS 41 **does not deal with** the processing of agricultural produce **after harvest**.
- Ind AS 41 **does not apply to Bearer plants but applies to the produce on those bearer plants**.  
The following are **NOT** bearer plants:
  - Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
  - Plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and
  - Annual crops (for example, maize and wheat).
- Bearer plants no longer used to bear produce are still considered as bearer plant even when they might be cut down and sold as scrap.

The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

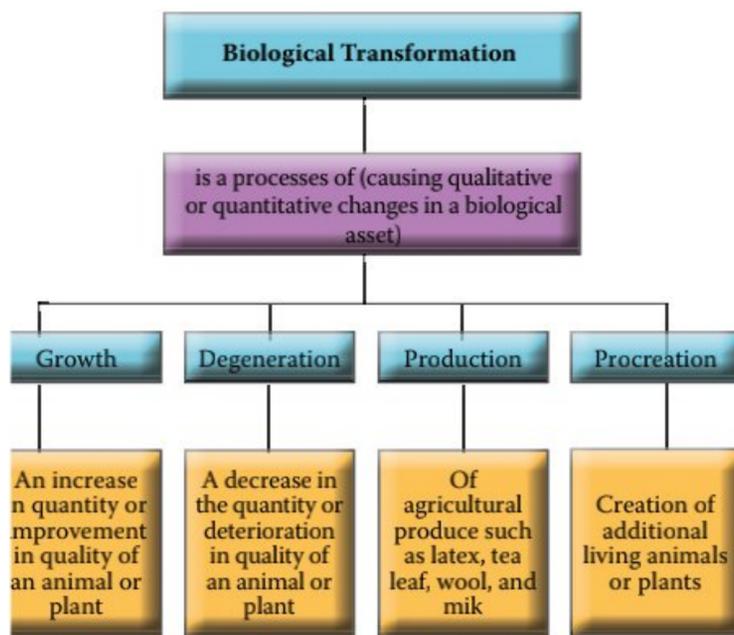
Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested 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

**Note:**

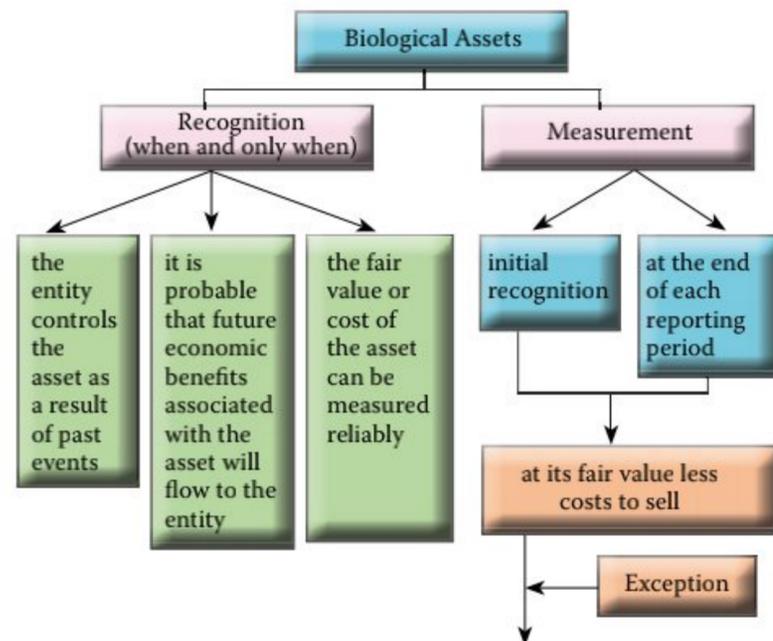
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of Ind AS 16. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of Ind AS 41.



**Note:** Harvesting from unmanaged sources (such as ocean fishing and deforestation) is **not** agricultural activity.



<b>Bearer plant</b>	It is a living plant that: <ul style="list-style-type: none"> <li>(a) is used in the production or supply of agricultural produce;</li> <li>(b) is expected to bear produce for more than one period; and</li> <li>(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales</li> </ul>
<b>Harvest</b>	It is the detachment of produce from a biological asset or the cessation of a biological asset's life processes



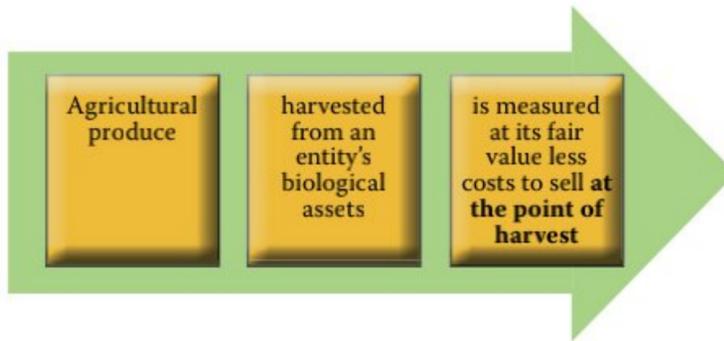
This presumption can be rebutted only on initial recognition for a biological asset when

- a. quoted market prices are not available and
- b. alternative fair value measurements determined are clearly unreliable.

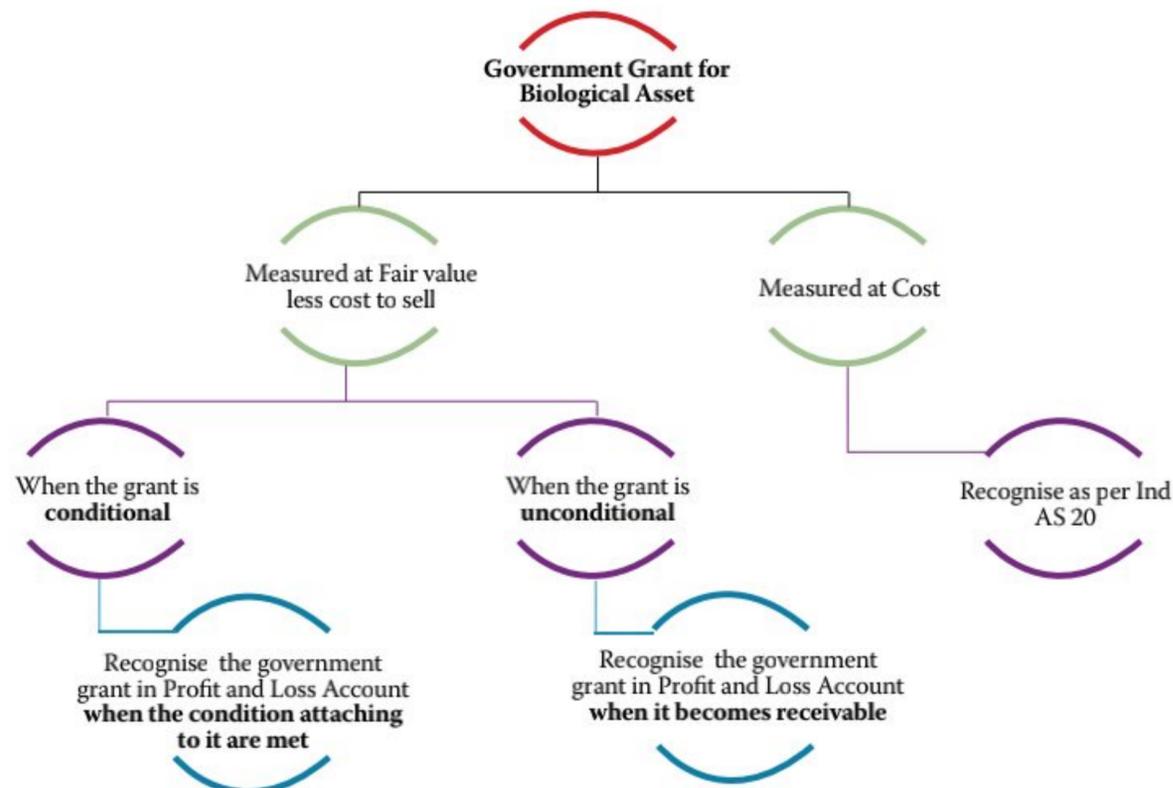
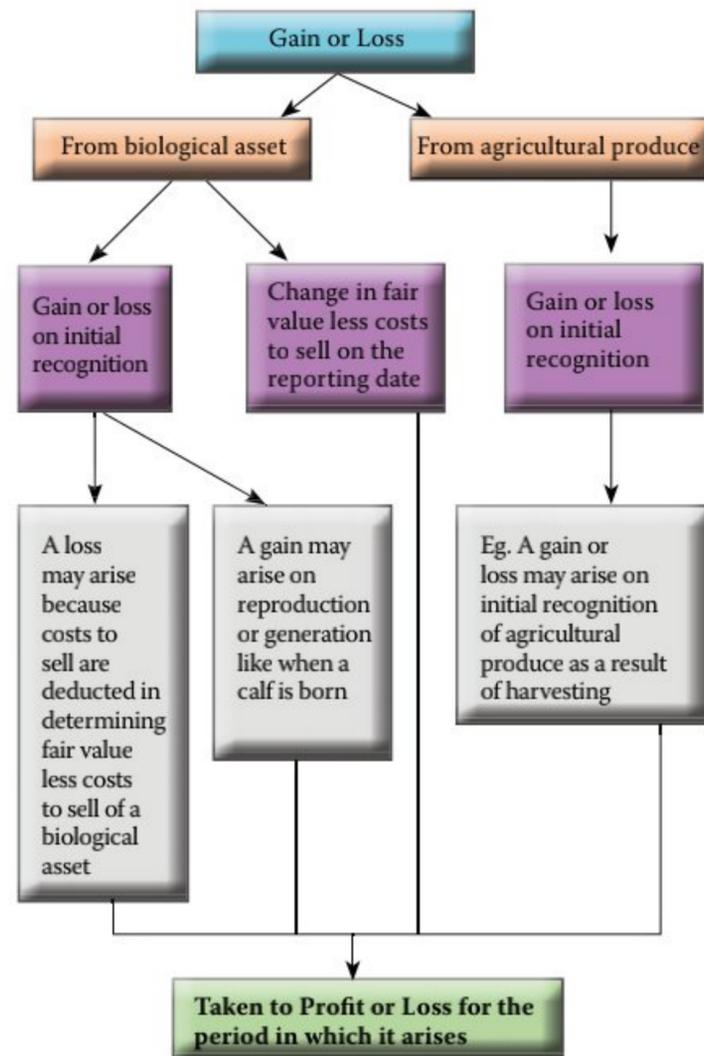
In such a case, it shall be **measured at its cost less any accumulated depreciation and any accumulated impairment losses**.

**Note:** Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell.

**Note:** Once a **non-current** biological asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale) as per Ind AS 105, it is presumed that fair value can be measured reliably.



- Important points:**
1. Entities often enter into contracts to sell their biological assets or agricultural produce at a future date. Generally, contract prices are not relevant in measuring the fair value.
  2. The fair value of a biological asset or agricultural produce is **not** adjusted because of the existence of a contract.
  3. There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to measure the fair value of the biological assets.  
(For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.)
  4. An entity **once measured a biological asset** at its fair value less costs to sell **has to continue** to measure the biological asset at its fair value less costs to sell **until disposal**.
  5. Ind AS 41 assumes that the fair value of agricultural produce at the point of harvest can always be measured reliably.



For disclosure, refer paragraphs 40-57 of bare text of Ind AS 41.

## INDIAN ACCOUNTING STANDARD (IND AS) 101: FIRST TIME ADOPTION OF INDIAN ACCOUNTING STANDARDS

### Objective

Ind AS 101 ensures that an entity's first Ind AS financial statements and first Ind AS interim financial statements contain high quality financial information that:

- Transparent** • Financial Statements are transparent and comparable over all periods presented
- Serves as Starting point** • Financial Statements provide a suitable starting point for accounting under Ind AS
- Cost v/s benefit** • Financial Statements can be generated at a cost that does not exceed the benefits to users

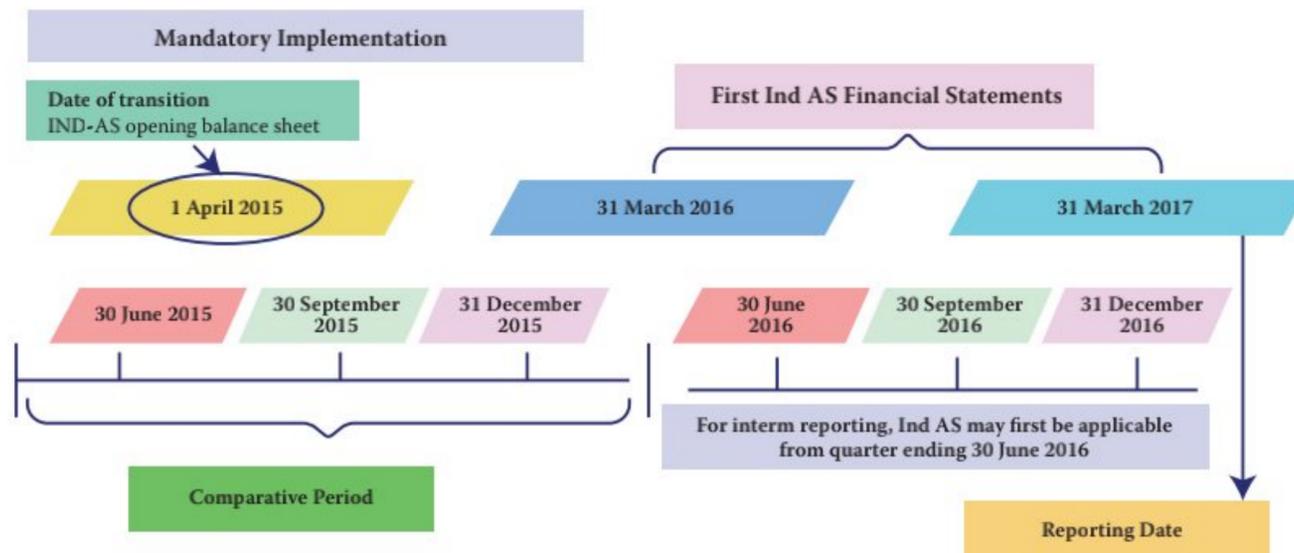
### Scope

- In Scope**
  - First Ind AS annual financial statements
  - Interim financial statement covered under period of First Ind AS financial statements
- Out of Scope**
  - Changes in accounting policy made by an entity already applying Ind AS
  - Such changes to be accounted under Ind AS 8 or transitional period under other Ind AS
  - Interim financial statement covered under period of First Ind AS financial statements

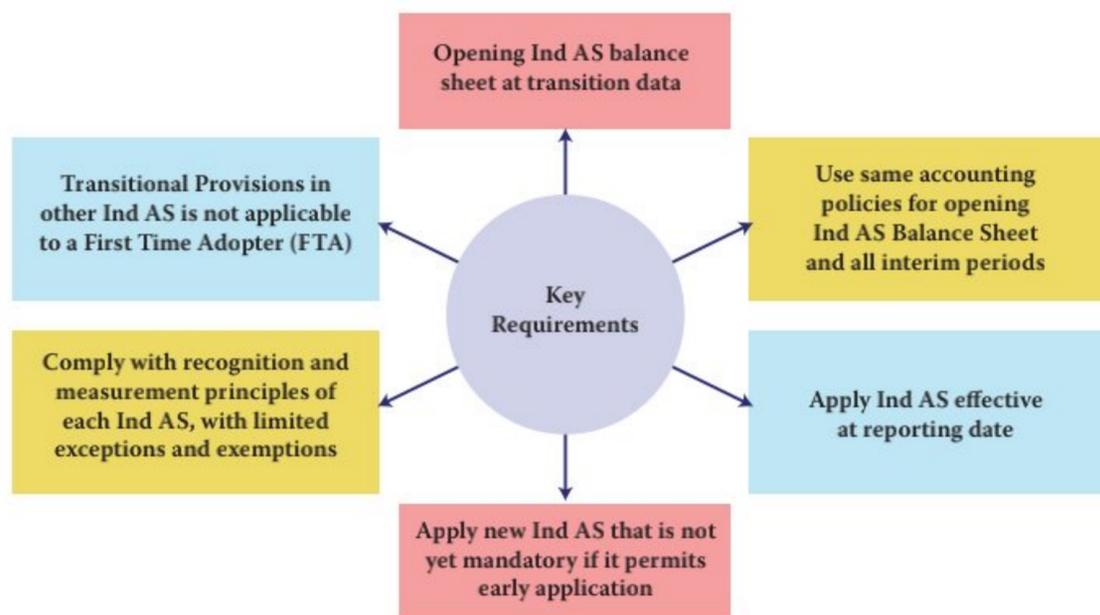
### Key Definitions

First Time Adopter	An entity that presents its first Ind AS Financial Statements
First Ind AS financial statements	The first annual financial statement in which an entity adopts Ind AS by an explicit and unreserved statement of compliance with Ind AS
Previous GAAP	The basis of accounting that a first-time adopter used for its statutory reporting requirements in India immediately before adopting Ind AS  For instance - Companies required to prepare their financial statements in accordance with Section 133 of the Companies Act, 2013, shall consider those financial statements as previous GAAP financial statements
Deemed Cost	<ul style="list-style-type: none"> <li>• An amount used as a <b>surrogate for cost or depreciated cost</b> at a given date</li> <li>• Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost</li> </ul>

Timelines



Selection and Application of Accounting Policies



Except where Ind AS 101 contains an exception or an exemption, an entity must:

Step 1	Step 2	Step 3	Step 4
<ul style="list-style-type: none"> <li>Recognise all assets and liabilities required to be recognised by Ind AS</li> <li>E.g. Share based transactions with non-employees</li> </ul>	<ul style="list-style-type: none"> <li>De-recognise all assets and liabilities not permitted by Ind AS</li> <li>E.g. Proposed dividend</li> </ul>	<ul style="list-style-type: none"> <li>Reclassify all items in accordance with Ind AS</li> <li>E.g. Redeemable preference shares</li> </ul>	<ul style="list-style-type: none"> <li>Measure all recognized assets and liabilities in accordance with Ind AS</li> <li>E.g. Discounting of long term provisions</li> </ul>

The restatement is booked through retained earnings (or, if appropriate, another category of equity) except for certain adjustments (acquired intangibles, impairment which is adjusted against goodwill)

**Exemptions and Exceptions**

To facilitate the implementation of Ind AS, this standard provides some relief from retrospective application of Ind AS which can be broadly divided in two categories:

**Optional Exemptions:** FTAs\* can choose to adopt one or more of the exemptions available under Ind AS 101

**Mandatory Exceptions:** FTAs\* are prohibited from applying certain provisions of Ind AS retrospectively

**No relief:** from any presentation and disclosure requirements of other Ind AS

\*First Time Adopters

**20 - Optional Exemptions**

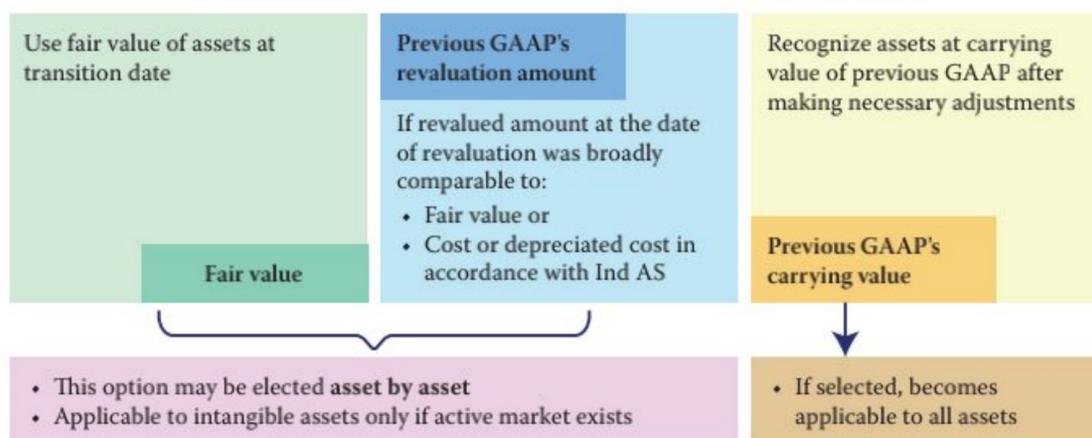
Fixed Assets related	Business combination and group accounts	Financial Instruments related	Others
Deemed cost of PPE/ Investment property and certain intangible asset	Business combination	Compound financial instrument	Severe hyperinflation
Decommissioning liabilities included in PPE	Investment in subsidiaries / associates/joint venture	Fair Value measurement of financial asset and financial liability	Non-current assets held for sale and discontinuing operations
Leases	Assets and liabilities of subsidiaries / associates/ joint venture	Designation of previously recognized financial instruments	Share-based payment transactions
Service Concession agreements	Cumulative translation difference	Extinguishing financial liabilities with equity	Insurance contracts
Stripping costs in the production phase	Joint arrangements	Designation of contracts to buy or sell non financial item	Revenue from contract with others

**Property, Plant and Equipment related exemptions**

**Deemed cost**

Fair value or revaluation or previous GAAP's carrying value

FTA may adopt any of the options as deemed cost at transition date:



### Deemed cost- Previous GAAP's carrying value

If entity avails option of considering previous GAAP's carrying value as deemed cost, then:

Necessary adjustments to be made for decommissioning liabilities

No further transitional adjustment is required to determine deemed cost in the opening balance sheet that other Ind AS might require

Applicable to PPE, investment property and intangible assets

### Decommissioning, Restoration and Similar Liabilities

Appendix A to Ind AS 16 requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted carrying amount of the asset is then depreciated prospectively over its remaining useful life.

A FTA may not apply above requirements for changes in such liabilities that occurred before transition date. If a FTA uses this exemption, it shall:

- Measure the decommissioning liability at transition date as per Ind AS 37
- Capitalize discounted liability back to the date the obligation arose (using the best estimate of historical risk-adjusted discount rates)
- Calculate accumulated depreciation on that amount at transition date (calculated by applying current estimated life and entity's depreciation policy for the asset under Ind AS)

**Note :**

If an entity opts for fair value measurement of PPE, it would need to determine whether the fair value of the assets is inclusive or exclusive of the decommissioning obligation in order to make the necessary adjustment to remove any potential overstatement

### Leases

If an arrangement existing at the date of transition to Ind AS contains a lease on the basis of facts and circumstances existing on the date of transition, then

measure a lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS;

measure a right-of-use asset on a lease-by-lease basis either at:

its carrying amount as if Ind AS 116 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to Ind AS; or

an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet immediately before the date of transition to Ind AS.

apply Ind AS 36 to right-of-use assets

### Leases

A first-time adopter that is a lessee may do one or more of the following at the date of transition to Ind AS, applied on a lease-by-lease basis:

- apply a **single discount rate** to a portfolio of leases with reasonably similar characteristics.
- elect **not to apply the above requirements given in (a) to (c)** to leases for which the lease term ends within 12 months of the date of transition to Ind AS and instead, account for these leases as if they were **short-term leases**.
- elect **not to apply the above requirements given in (a) to (c)** to leases for which the underlying asset is of **low value** and instead, account for these leases as per Ind AS 116.
- **exclude initial direct costs** from the measurement of the right-of-use asset at the date of transition to Ind AS
- use **hindsight**, such as in **determining the lease term** if the contract contains options to extend or terminate the lease.

### Service Concession Arrangements

- Financial assets or Intangible assets are accounted for as per Appendix D to Ind AS 115 Service Concession Arrangements
- An entity may apply provisions of Appendix D of Ind AS 115 i.e. Service Concession arrangements **from the date of transition rather than retrospectively**.

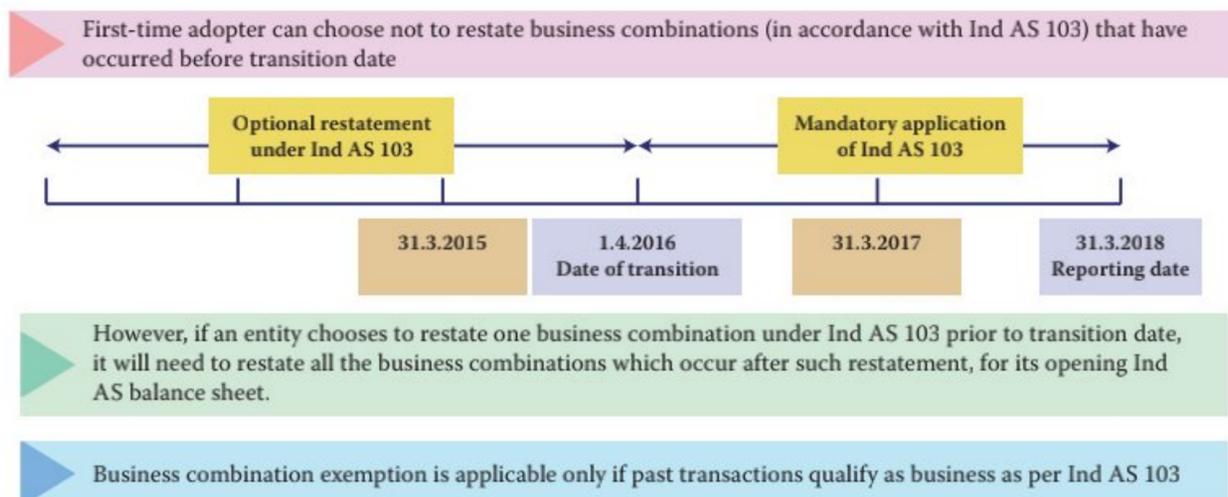
**Recap of Appendix D of Ind AS 115:** An entity (the operator) may enter into an arrangement with another entity (the grantor) to provide services that give the public access to major economic and social facilities. The grantor may be a public or private sector entity, including a governmental body. Examples of service concession arrangements involve water treatment and supply facilities, car parks, tunnels, bridges, airports, and telecommunication networks. The common characteristic of all service concession arrangements is that the operator receives a right as well as incurs an obligation to provide public services.

### Stripping Costs in the Production Phase of a Surface Mine

- An entity may apply Appendix B of Ind AS 16 i.e. Stripping cost in the production phase of a surface mine **from the date of transition i.e. retrospective application is not required**.

**Recap of Appendix B of Ind AS 16:** In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.

### Business Combination



### Business Combination - Recognition of Assets and Liabilities

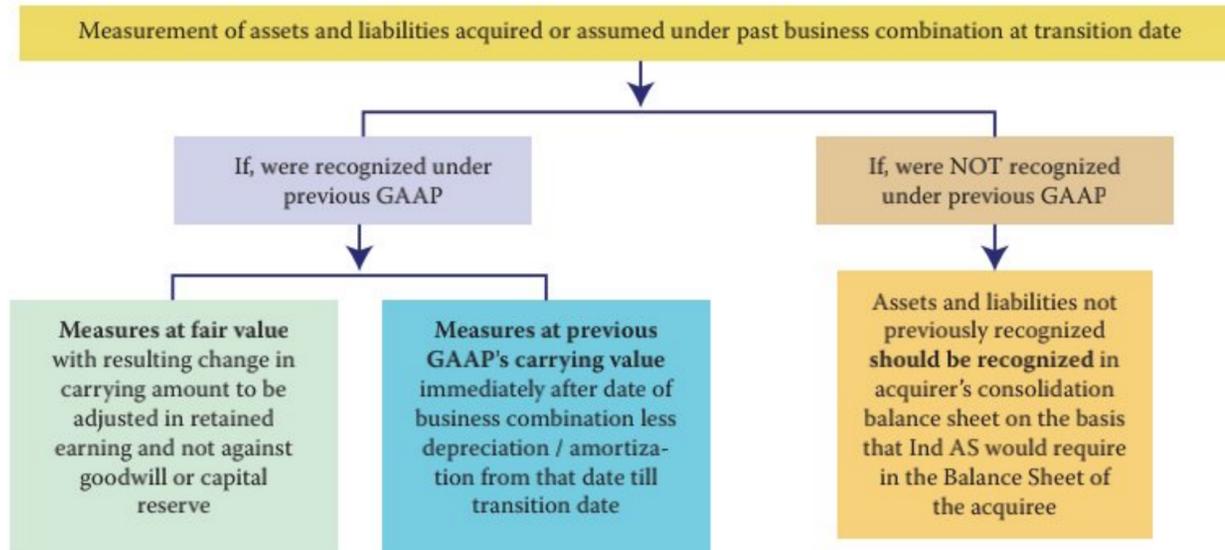
If FTA avails this exemption, should recognize assets and liabilities acquired or assumed in past business combination in the below explained steps:

- 1 Maintain previous GAAP classification except for Ind AS requirements to classify assets & liabilities into Financial / Non- Financial
- 2 Derecognize assets and liabilities recognized under previous GAAP but do not qualify for recognition under Ind AS e.g. intangible asset which does not meet Ind AS 38 criteria
- 3 Recognize all assets and liabilities not recognized under Previous GAAP but qualify for recognition under Ind AS e.g. intangible assets which meets Ind AS 38 criteria
- 4 Mandatorily test for impairment of goodwill recognized under previous GAAP on transition date regardless of whether any indicators are there or not
- 5 Re-measure such assets & liabilities on transition date if appropriate. Correct any errors in previous GAAP accounting / estimates discovered on transition date

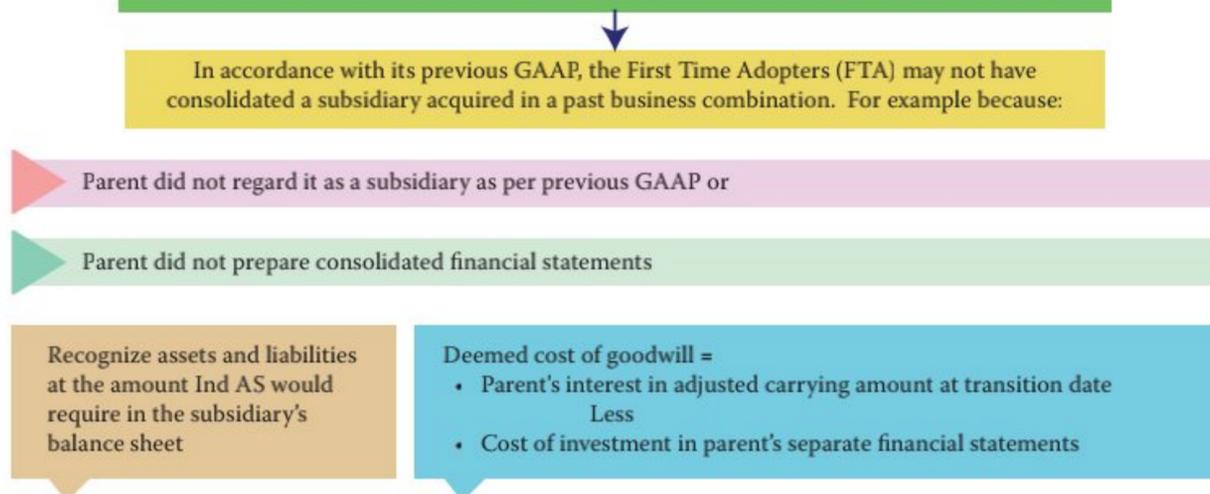
### Business Combination - Recognition/De-recognition of Assets and Liabilities

Recognition of assets and liabilities	<ul style="list-style-type: none"> <li>• Adjust against retained earning</li> <li>• Recognition of an intangible asset that was previously subsumed within goodwill should be adjusted either by decreasing goodwill or increasing capital reserve</li> </ul>
De-recognition of assets and liabilities	<ul style="list-style-type: none"> <li>• Adjust against retained earning</li> <li>• Derecognition of intangible asset should be adjusted either by increasing goodwill or decreasing capital reserve</li> </ul>

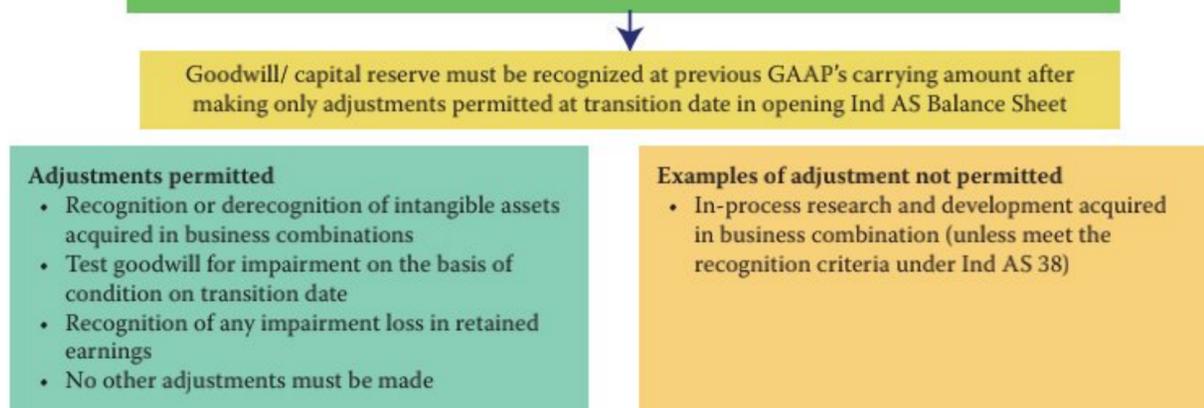
**Business Combination - Measurement of Assets and Liabilities**



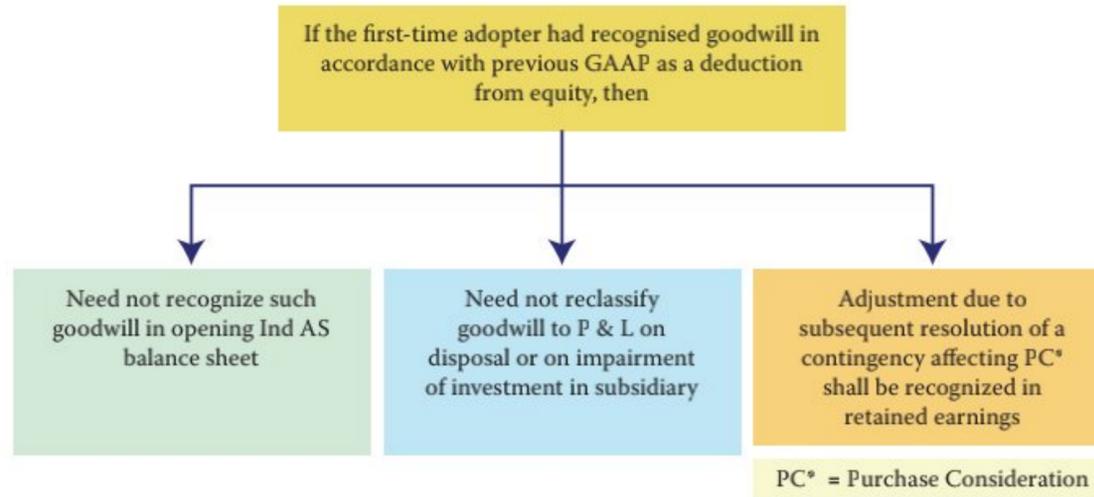
**Business Combination - Previously Unconsolidated Subsidiary**



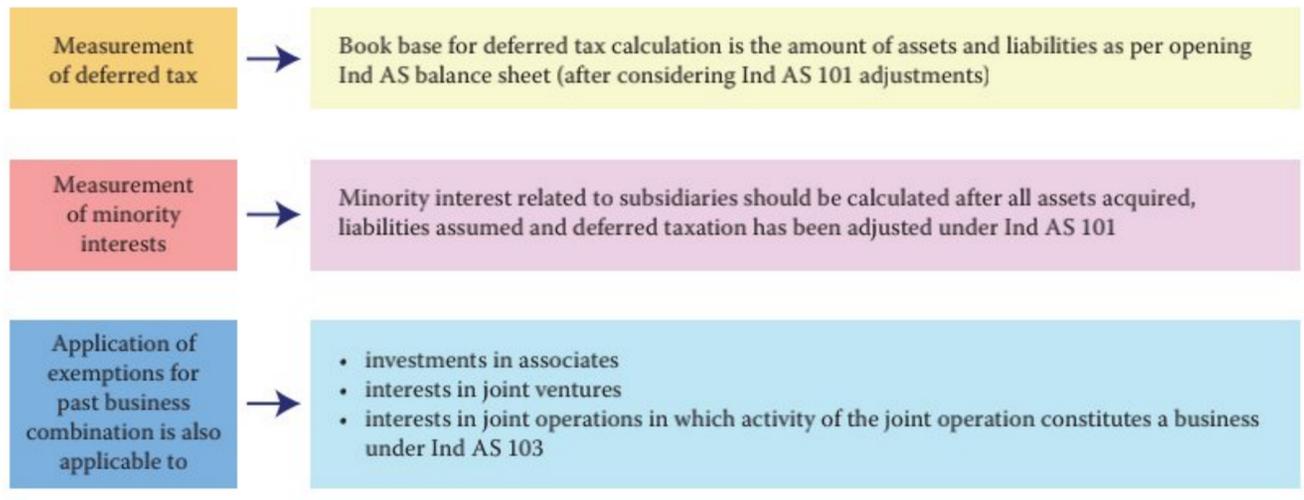
**Business Combination - Goodwill/ Capital Reserve**



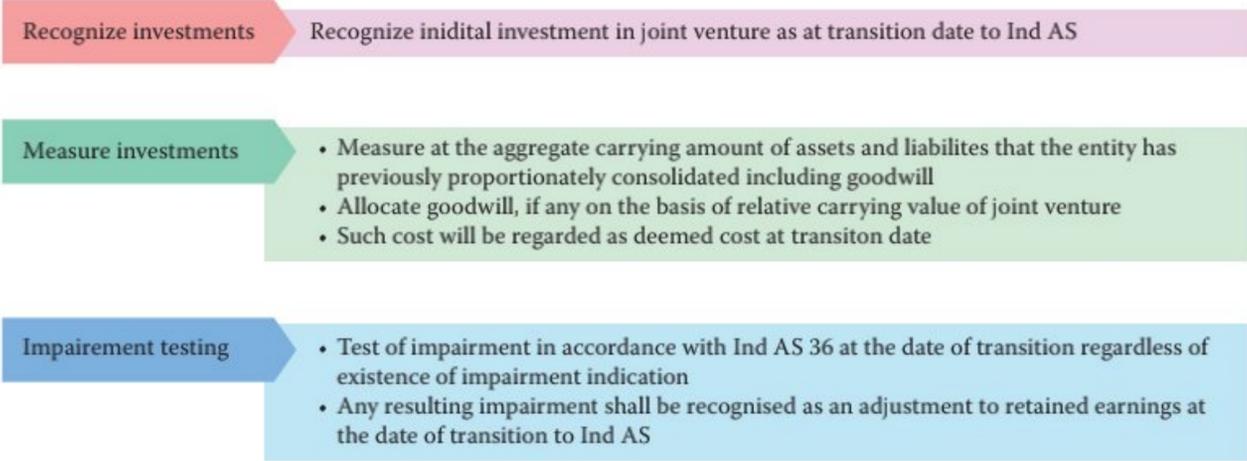
**Business Combination - Goodwill/ Capital Reserve**



**Business Combination - Deferred Tax and Minority Interest**



**Joint Venture- Transition from Proportionate Consolidation to the Equity Method**



### Investment in Subsidiaries, Joint Ventures and Associates

Ind AS 27 requires while preparing Separate Financial Statements, investments in subsidiaries, joint ventures and associates to be recorded either at cost or in accordance with Ind AS 109

If measured at cost by a first-time adopter, the investment to be measured at the following amounts in separate opening Ind AS Balance Sheet:

- Cost as per Ind AS 27 or;
- Deemed cost i.e.
  - Fair value at the entity's date of transition to Ind AS or;
  - Previous GAAP carrying amount at transition date

### Assets and Liabilities of Subsidiaries, Associates and Joint Ventures – MCA made it Redundant

The exemption was applicable when the subsidiary company has adopted Ind AS after parent, the subsidiary shall measure its assets and liabilities at either

- The carrying amounts that would be included in parent's CFS or;
- The carrying amounts based on the subsidiary's transition date

However, as MCA requires that if Ind AS is applicable to an entity, then its subsidiaries, associates and JVs are also required to prepare their financial statements in Ind AS simultaneously, **hence this exemption has become redundant.**

### Cumulative Translation Differences

Recap of Ind AS 21: It requires to recognise and accumulate FCTR through OCI and reclassify to P/L on disposal of foreign operation

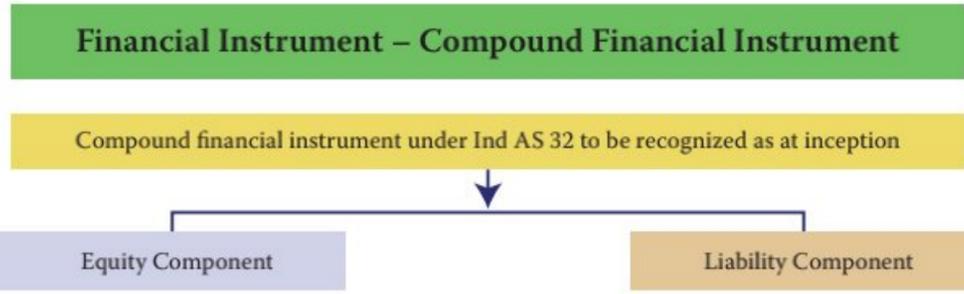
A first-time adopter may elect to:

- set its cumulative translation differences for all foreign operations as zero at transition date; and
- exclude these translation differences that arose before the transition date from subsequent disposal gain or loss calculations of any foreign operation

Exemption has to be adopted for **all net investment in foreign operations collectively**

Retrospective application of translation difference would be costly or impracticable

Subsequent disposal of foreign operation, calculation of gain / loss include only translation difference post transition data

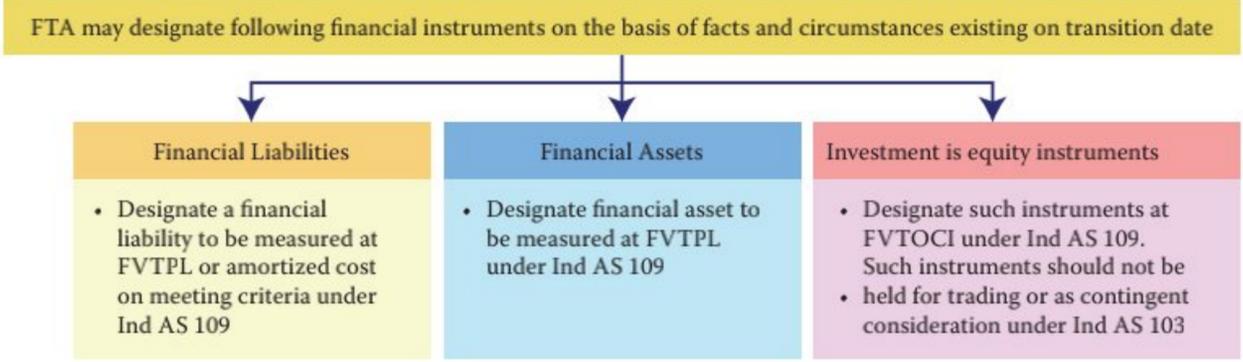


A FTA need not separate the compound financial instrument if liability component is not outstanding at transition date

**Fair Value Measurement of Financial Assets or Financial Liabilities at Initial Recognition**

- Ind AS 109 requires to initially recognize financial assets and liabilities at fair value. If the fair value differs from transaction price, the difference is recognized as gain or loss.
- An entity may apply these requirements of initial recognition prospectively to transactions entered on or after the date of transition i.e. no need to apply Ind AS 109 for such transactions entered into before transition date.

**Financial Instrument – Designation of Previously Recognized Financial Instruments**



**Extinguishing Financial Liabilities with Equity Instruments**

An entity may apply Appendix D of Ind AS 109 i.e. Extinguishing financial liabilities with Equity Instruments from the date of transition.

**Recap of Appendix D of Ind AS 109:**

- When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured.
- If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished.
- The difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss.

### Designation of Contracts to Buy or Sell a Non-financial Item

Ind AS 109 permits some contracts to buy or sell non financial items to be designated at inception as measured at FVTPL.

Therefore, this exemption provides the option to designate such contracts (i.e. contracts to buy or sell a non-financial item), if existed at transition date, to be measured at FVTPL on the date of transition, instead of doing that retrospectively from the initial date of that contract, provided entity designates all similar contracts.

### Other Exemptions- Severe Hyperinflation

If an entity has a functional currency which is currency of hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition

Measure assets and liabilities at fair value as at the date of transition

### Other Exemptions- Non-current Assets Held for Sale and Discontinued Operations

An entity may apply the requirements of Ind AS 105 at the date of transition to Ind AS and recognise the difference between

- the carrying amount as per previous GAAP and;
  - lower of carrying value and fair value less cost to sell
- in retained earnings.

### Other Exemptions- Insurance contracts

An entity may apply Ind AS 104 for annual periods beginning on or before transition date.

If they elect to do so they shall disclose the fact in the financial statements

### Other Exemptions- Revenue from Contracts with Customers

An entity is required to restate only those contracts as per Ind AS 115 which are not completed till the transition date

This implies that the revenue contracts which are already completed are not required to be restated as per Ind AS 115.

### Other Exemptions- Long Term Foreign Currency Monetary Items

A FTA may continue the policy adopted in accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements as per the previous GAAP for the period ending immediately before the beginning of the first Ind AS financial reporting period i.e. Accounting policy as per para 46 / 46A of AS 11 can be continued if and only if it has been availed in IGAAP.

This exemption cannot be used for foreign currency monetary items arising in future.

### Exemption from Application of Ind AS 102 “Share-based Payment Transaction” on Transition Date

Retrospective Application

- A FTA is encouraged, but not required, to apply Ind AS 102 to equity instruments vested and to liabilities that were settled before the transition date to Ind AS.
- If FTA elects to apply Ind AS 102, it may do so only if entity has disclosed publicly the fair value of those equity instruments

Modification of Terms and Conditions

- On availing the exemption from retrospective application, any modification before transition date need not be treated as required under Ind AS 102.

**Disclosure:** For all grants of equity instruments to which Ind AS 102 has not been applied, FTA shall disclose the information required by Ind AS 102

### Mandatory Exceptions - to Retrospective Application of Other Ind AS

Ind AS 101 prohibits retrospective application of some aspects of other Ind AS relating to:

1	Estimates
2	De-recognition of financial assets and financial liabilities;
3	Hedge accounting
4	Classification and measurement of financial assets
5	Impairment of financial assets
6	Embedded derivatives
7	Some aspects of accounting for non-controlling interests
8	Government loans

**Estimates**

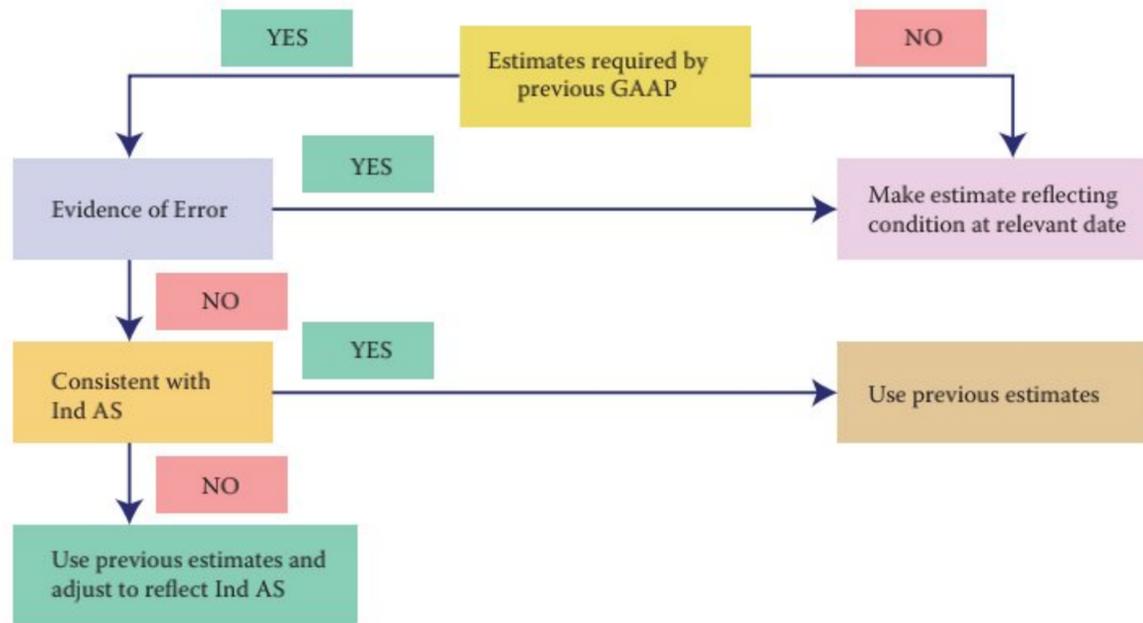
Estimates made in accordance with Ind AS at the transition date shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), except where there is an error

Information in respect of any estimate received after the transition date to be treated as non-adjusting event, except where there is an error

New estimates required for Ind AS transition to be reflective of conditions at the transition date

The requirement applies both to estimates made in respect of the date of transition and to those in respect of the end of any comparative period.

**Estimates**



**De-recognition of Financial Assets and Financial Liabilities**

**Prospective application**

De-recognition criteria under Ind AS 109 to be applied to transactions occurring on or after transition date

**Classification and Measurement of Financial Assets**

An entity shall classify and measure its financial assets either

- at amortized cost or;
- at FVTOCI or;
- at FVTPL

by assessing its contractual cash flow characteristics only on the basis of facts and circumstances existing at the date of transition

**Impairment of Financial Assets**

Approximate Credit Risk	No undue cost or effort	If unable
<ul style="list-style-type: none"> <li>An entity shall determine the approximate credit risk at the date that financial instruments were initially recognized and compare that to the credit risk at the date of transition to Ind AS</li> </ul>	<ul style="list-style-type: none"> <li>Based on reasonable and supportable information that is available without undue cost or effort</li> <li>i.e. no need to do an exhaustive search for such information at transition date to determine if there is significant increase in credit risk since initial recognition date</li> </ul>	<ul style="list-style-type: none"> <li>If an entity is unable to make this determination without undue cost or effort, it shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognized</li> </ul>

**Embedded Derivatives**

Entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative either on the basis of conditions that existed on the date of:

- it first became party to the contract; or
  - when reassessment is required under Ind AS 109 i.e. **significant modification** of the contract
- whichever is later

**Hedge Accounting**

All derivatives to be measured at fair value at the date of transition to Ind AS

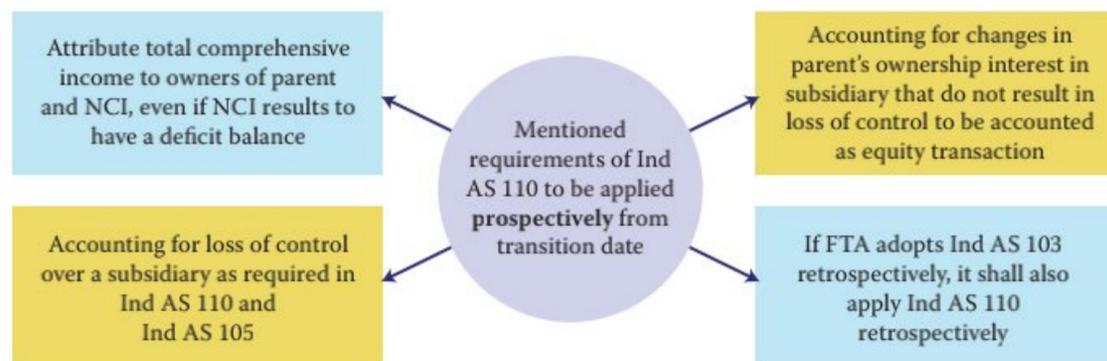
All deferred gains and losses arising on derivatives under previous GAAP to be eliminated at the date of transition to Ind AS

The opening Ind AS balance sheet must not reflect a hedging relationship that does not qualify for hedge accounting under Ind AS 109

If, before the date of transition to Ind AS, an entity had designated a transaction as a hedge, but the hedge does not meet the conditions for hedge accounting in Ind AS 109, then entity **shall** discontinue hedge accounting

Transaction entered into before the date of transition to Ind AS **shall not** be retrospectively designated as hedges

**Non-controlling Interest**



**Government Loans**

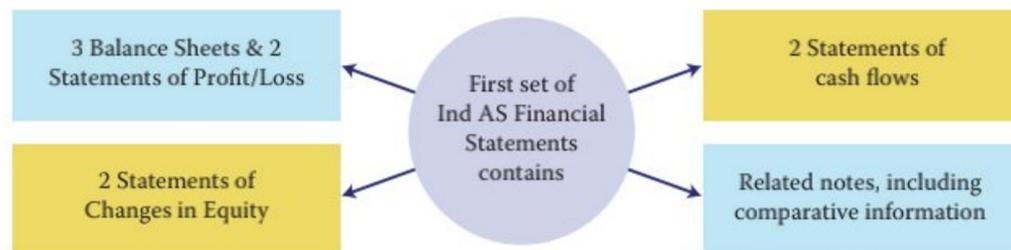
If under its previous GAAP, below market interest rate govt. loans were not recognised as govt. grant, then it shall use its previous GAAP carrying amount of the loan at the date of transition

Ind AS 109 is applied to such loans after the date of transition

Now, classify all government loans received as a financial liability or an equity instrument in accordance with Ind AS 32

Alternatively, an entity may apply the requirements in Ind AS 109 and Ind AS 20 retrospectively to any government loan originated before the transition date, provided that the information needed to do so had been obtained at the time of initial accounting of that loan

**Disclosure Requirements**



**Disclosure Requirements – Explanation of Transition to Ind AS**

FTA to explain how transition to Ind AS affected its balance sheet, Statement of Profit and Loss and cash flows

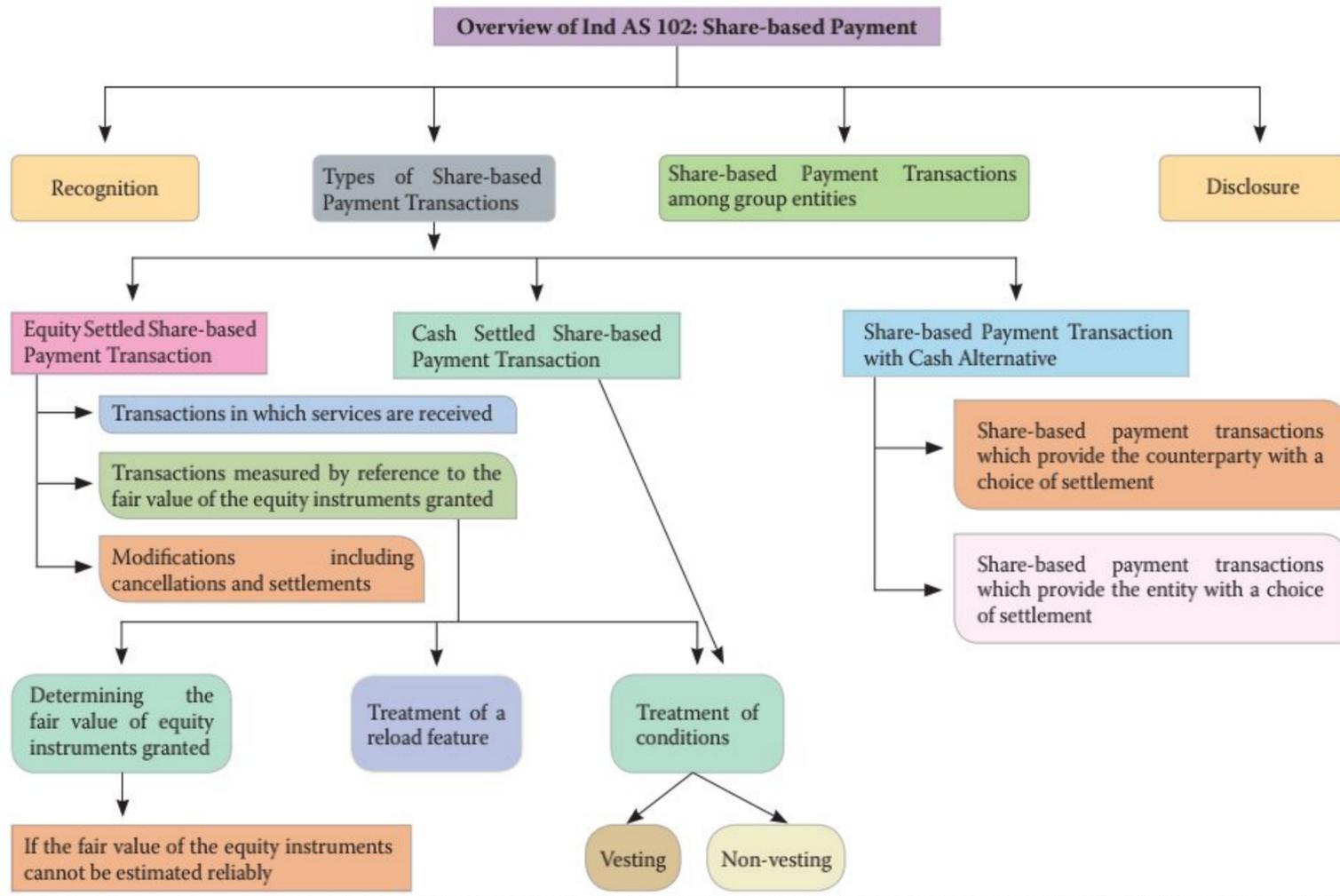
Reconcile equity under Ind AS	<p><b>With equity under previous GAAP at</b></p> <ul style="list-style-type: none"> <li>• Transition date</li> <li>• The end of latest period presented under previous GAAP in the most recent Financial Statements</li> </ul>
Reconcile total comprehensive income under Ind AS	<p><b>With total comprehensive income /profit &amp; loss at</b></p> <ul style="list-style-type: none"> <li>• The end of latest period presented under previous GAAP in the most recent Financial Statements</li> </ul>
Other disclosure/ explanations	<ul style="list-style-type: none"> <li>• Explain material adjustment to cash flow</li> <li>• Disclosures as required under Ind AS 36 for recognition or reversal of impairment done in opening Ind AS balance sheet</li> </ul>

### How Reconciliations to be presented in First Ind AS Financial Statements?

Entity A's date of transition to Ind AS is 1st April, 2015 and the end of its first Ind AS reporting period is 31st March, 2017. Entity A should present the following primary financial statements and reconciliations in its first Ind AS financial statements:

	1/04/2015	31/03/2016	31/03/2017
Balance Sheet	✓	✓	✓
Reconciliation of equity	✓	✓	
For the period ending			
Statement of profit or loss		✓	✓
Statement of cash flows		✓	✓
Statement of changes in equity		✓	✓
Reconciliation of total comprehensive income / profit & loss		✓	
Explanation of material adjustments to the statement of cash flows		✓	

INDIAN ACCOUNTING STANDARD (IND AS) 102: SHARE BASED PAYMENT



Objective

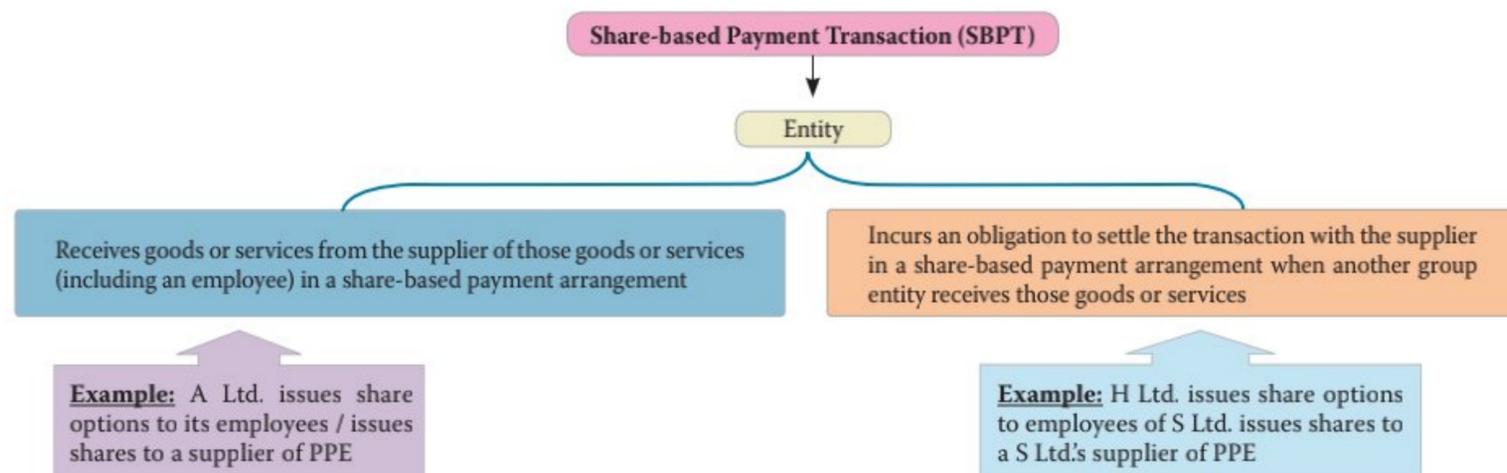
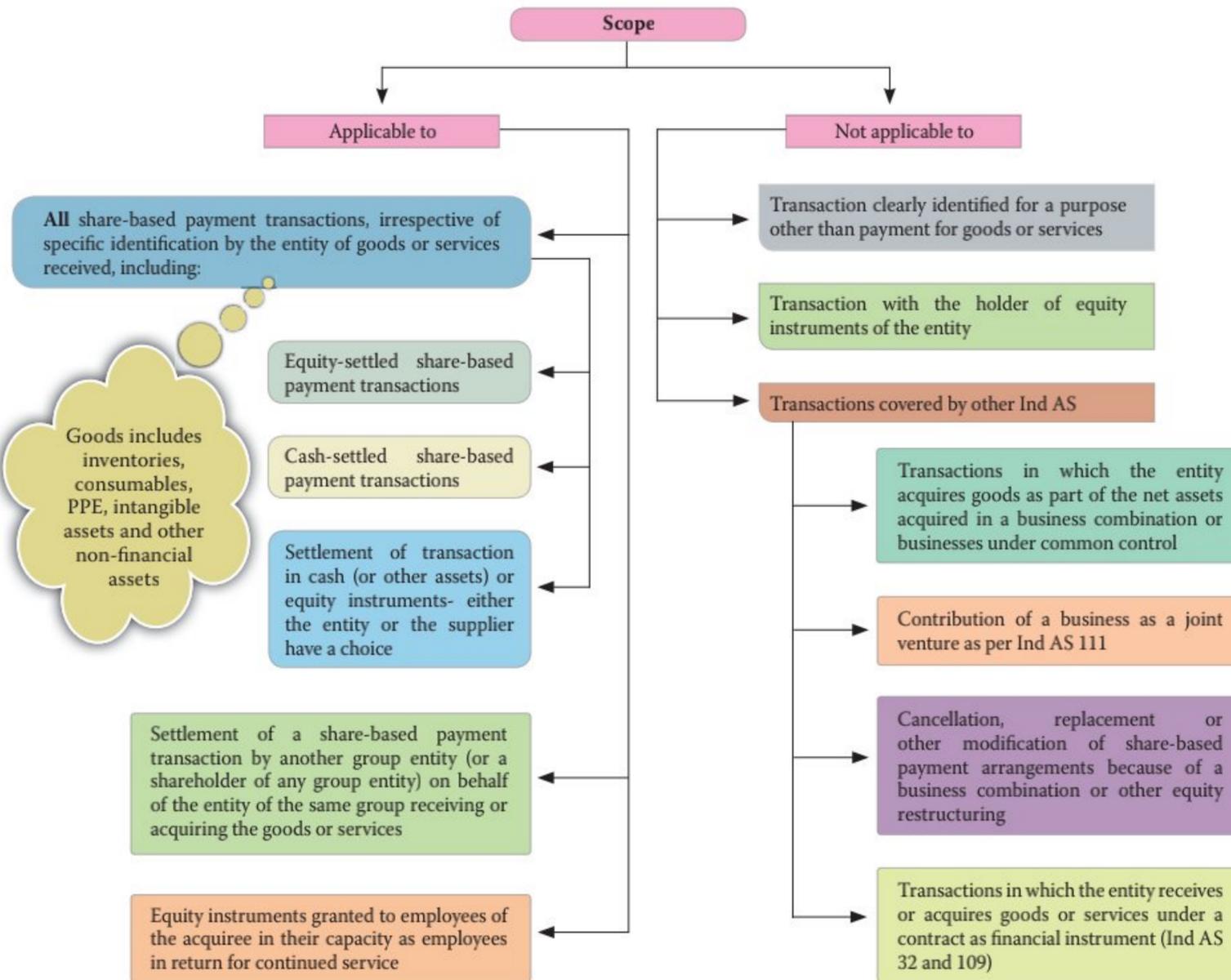
To specify financial reporting for an entity when it undertakes a share-based payment transaction

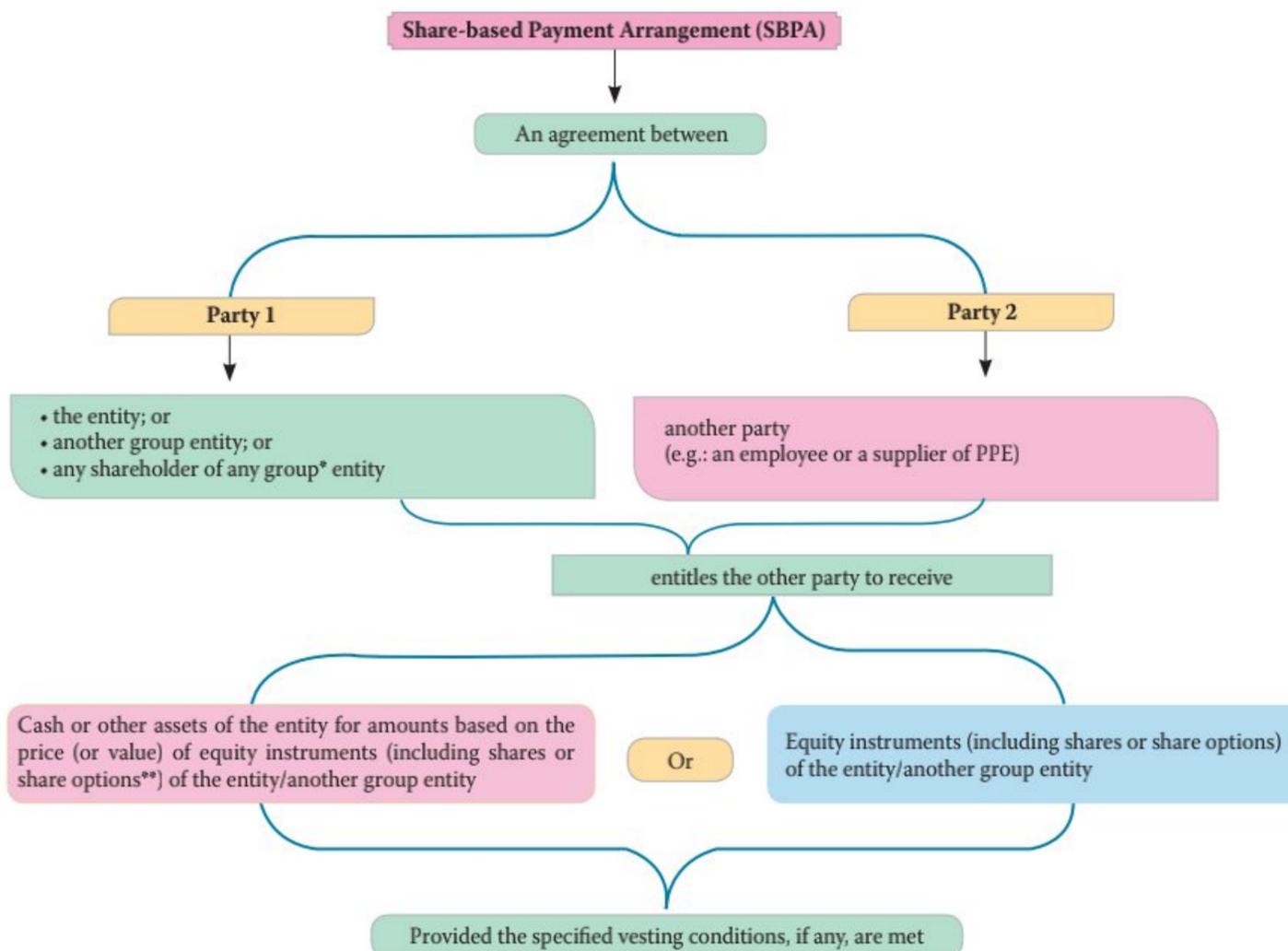
Requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including associated expenses



\*Share-based Payment Arrangement

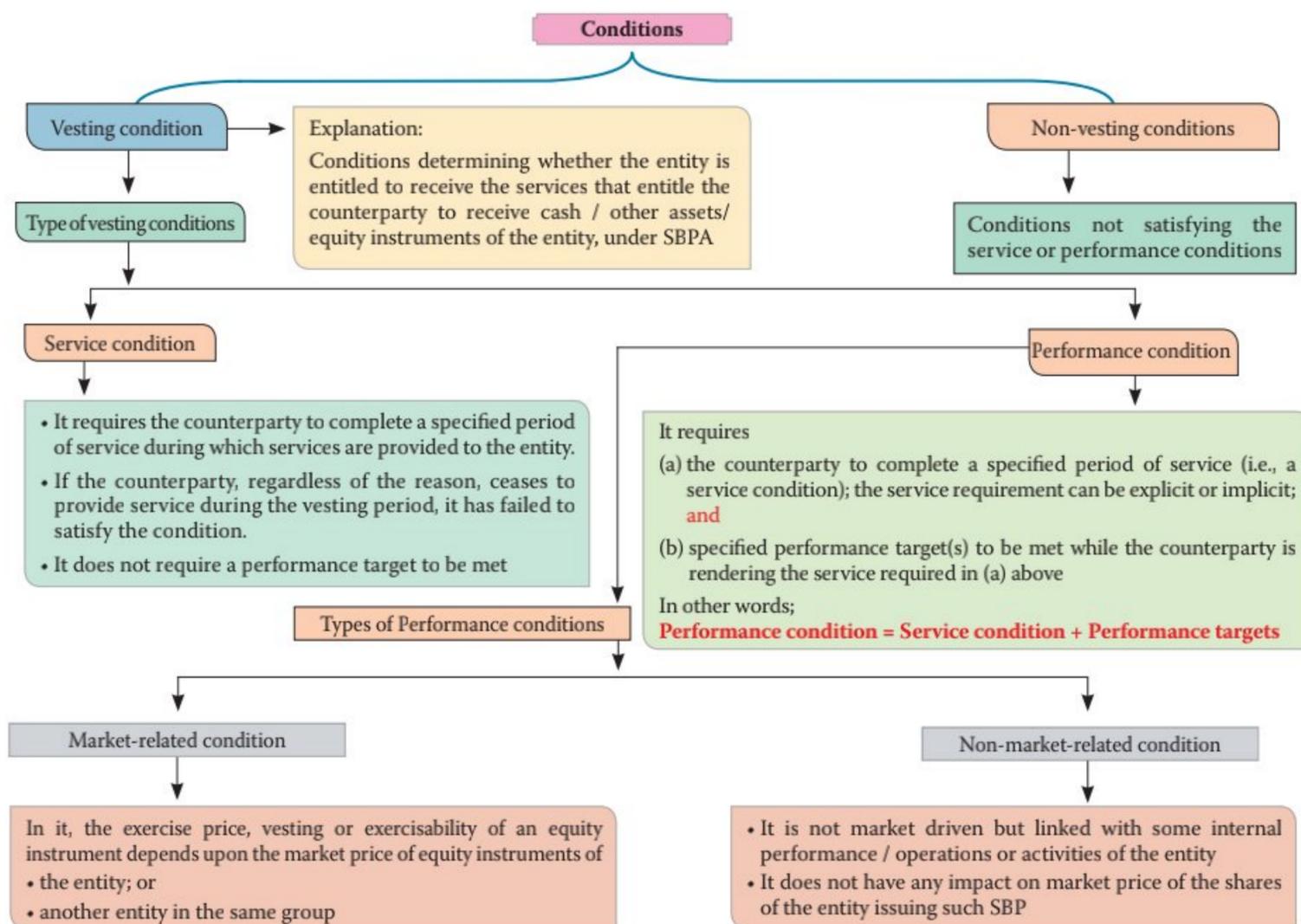






**Note:**  
 \*As per Ind AS 110, a group means 'a parent and its subsidiaries' from the perspective of the reporting entity's ultimate parent.  
 \*\*Share option is a contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.

Term	Definition	Points to remember
Exercise period	The period during which options can be exercised and shares can be purchased.	An employee who leaves the company during exercise period will still be entitled to the options.
Fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.	This Standard uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113. Therefore, when applying Ind AS 102 an entity measures fair value in accordance with this Standard, not Ind AS 113.
Intrinsic value	The difference between the fair value of the shares and the price required to pay for those shares. For eg: A share option with an exercise price of ₹ 15, on a share with a fair value of ₹ 20, has an intrinsic value of ₹ 5.	Intrinsic value is not permitted for accounting of SBP.
Vest	To become an entitlement.	Under SBPA, a counterparty's right to receive cash / other assets / equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.
Vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.	
Vesting condition	It determines whether the entity receives the services that entitle the counterparty to receive cash / other assets/ equity instruments of the entity, under SBPA.	Under SBPA, a counterparty's right to receive vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.

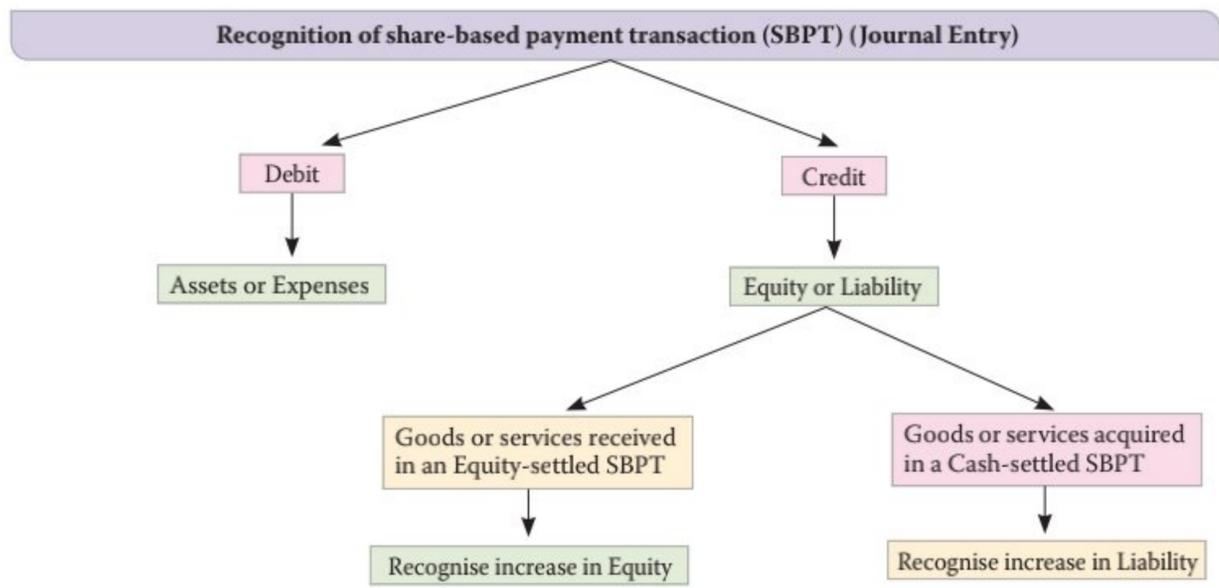
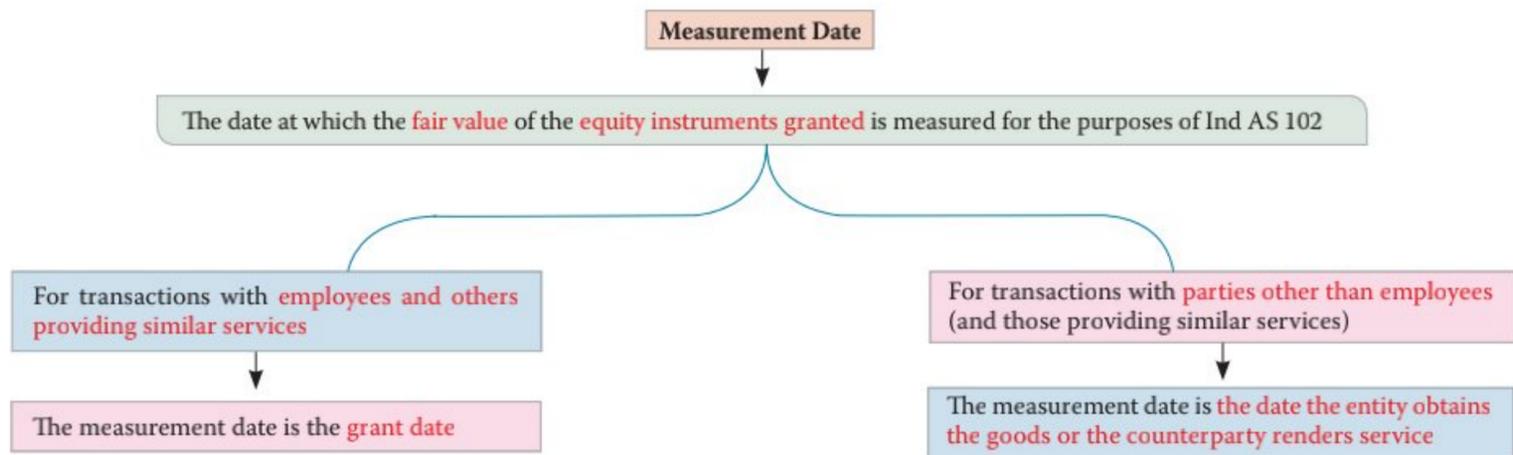
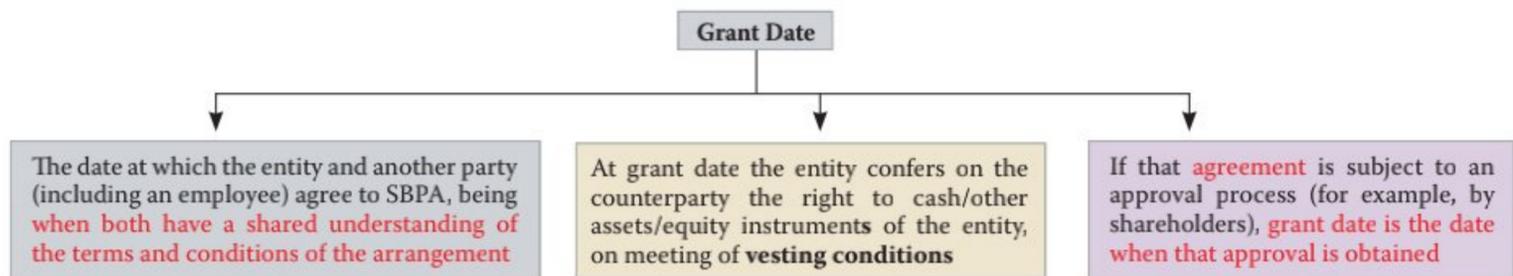
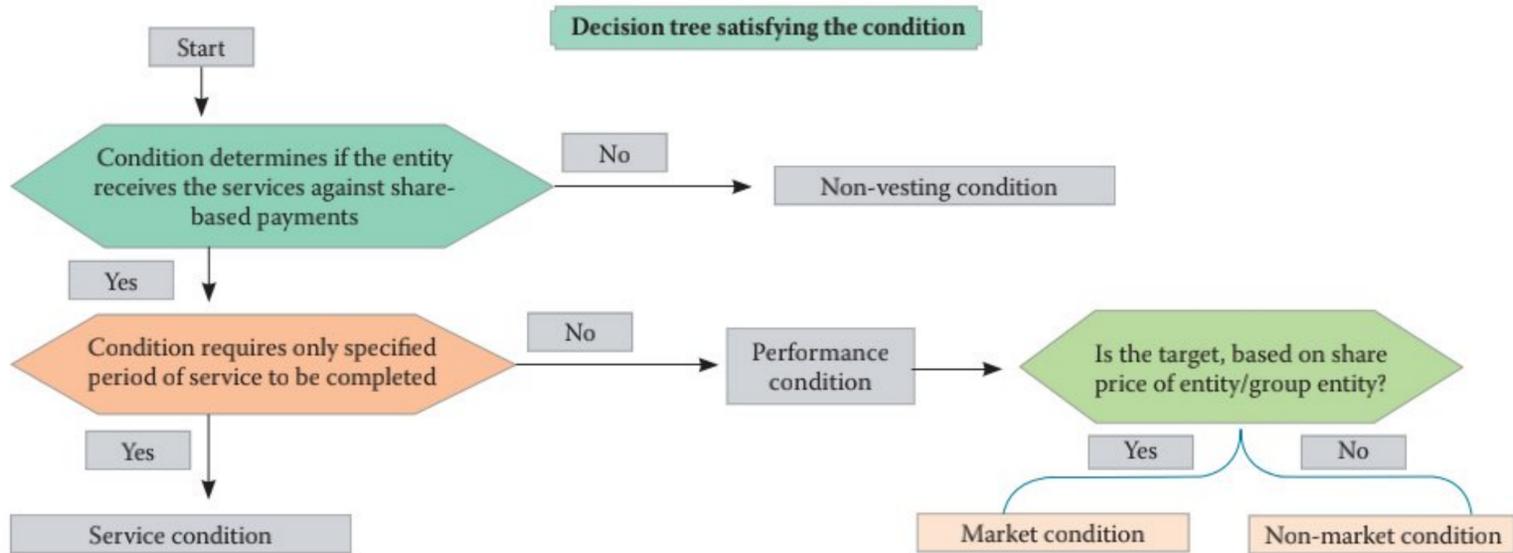


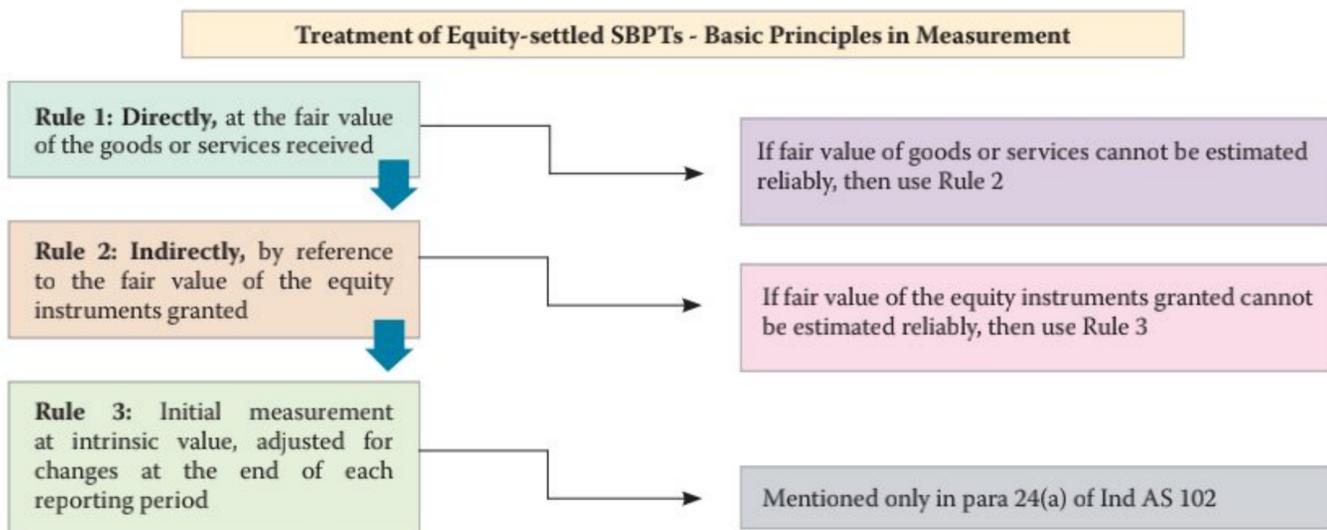
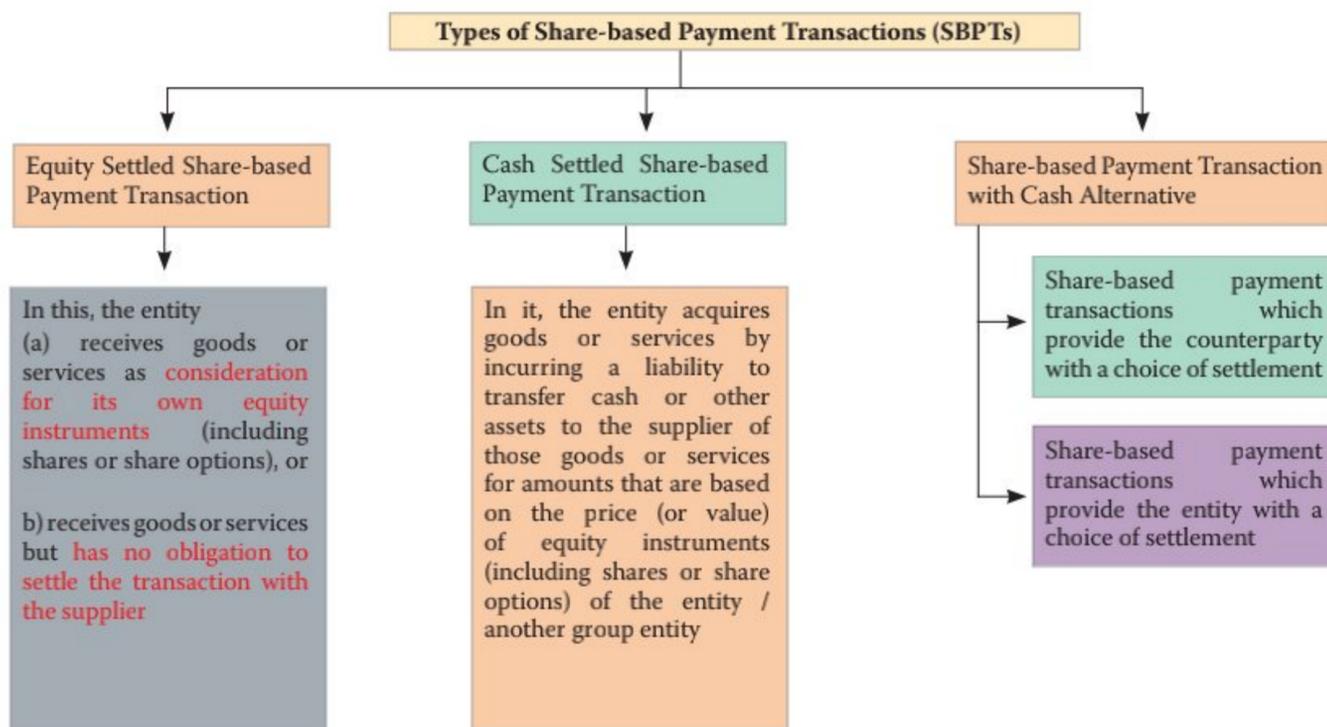
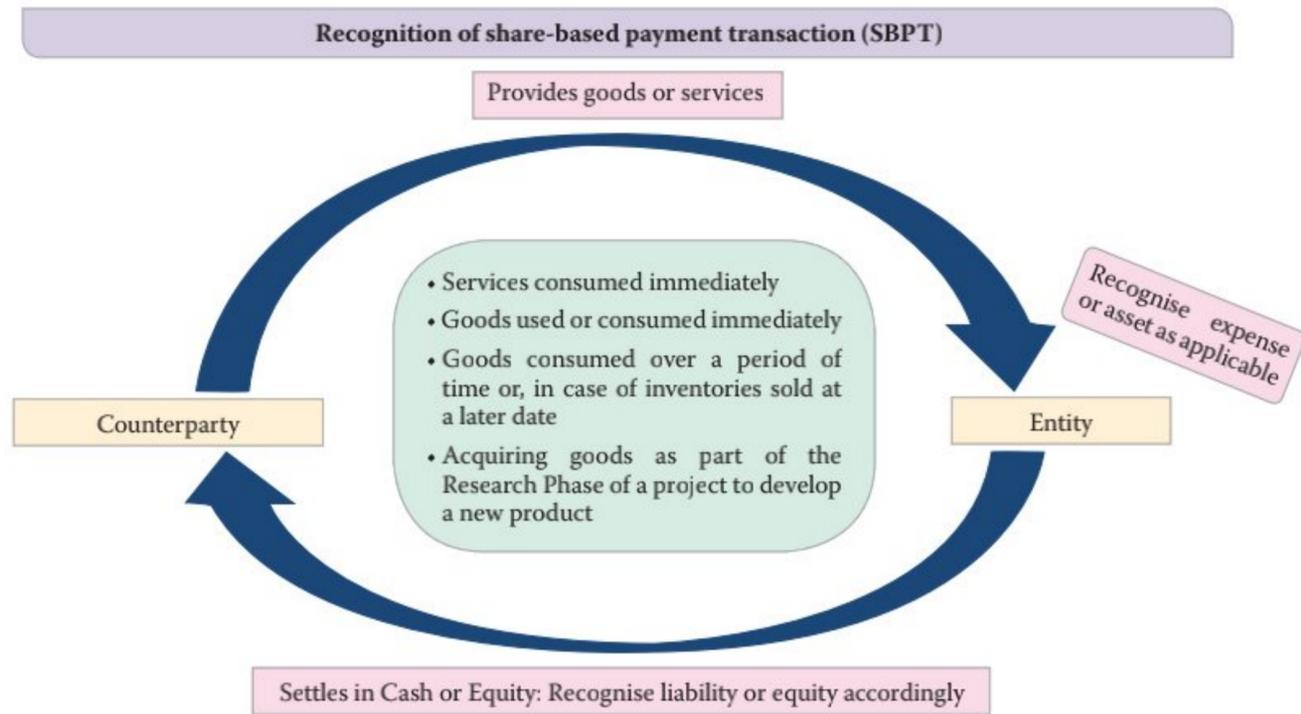
Service Condition Vs Performance Condition

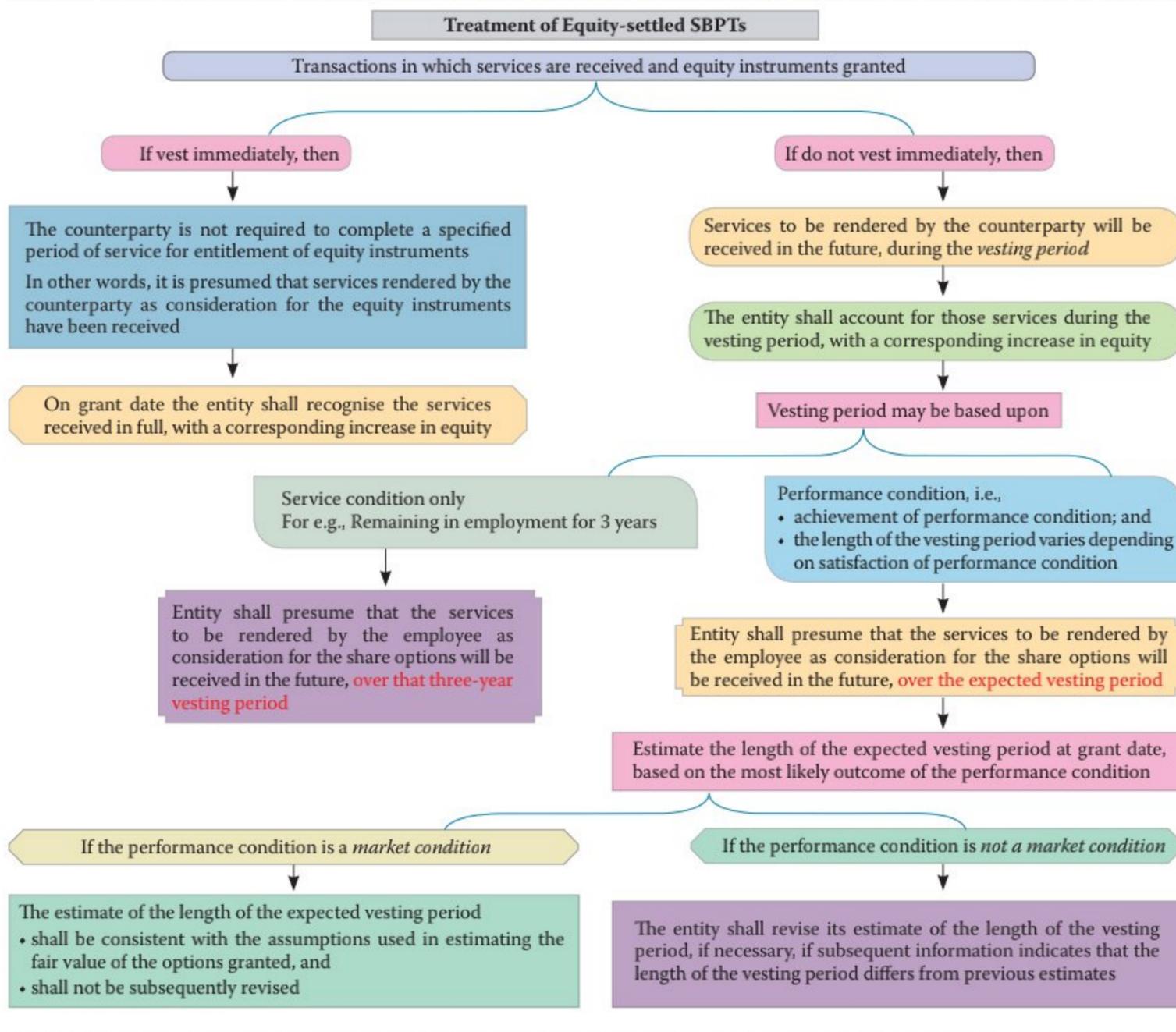
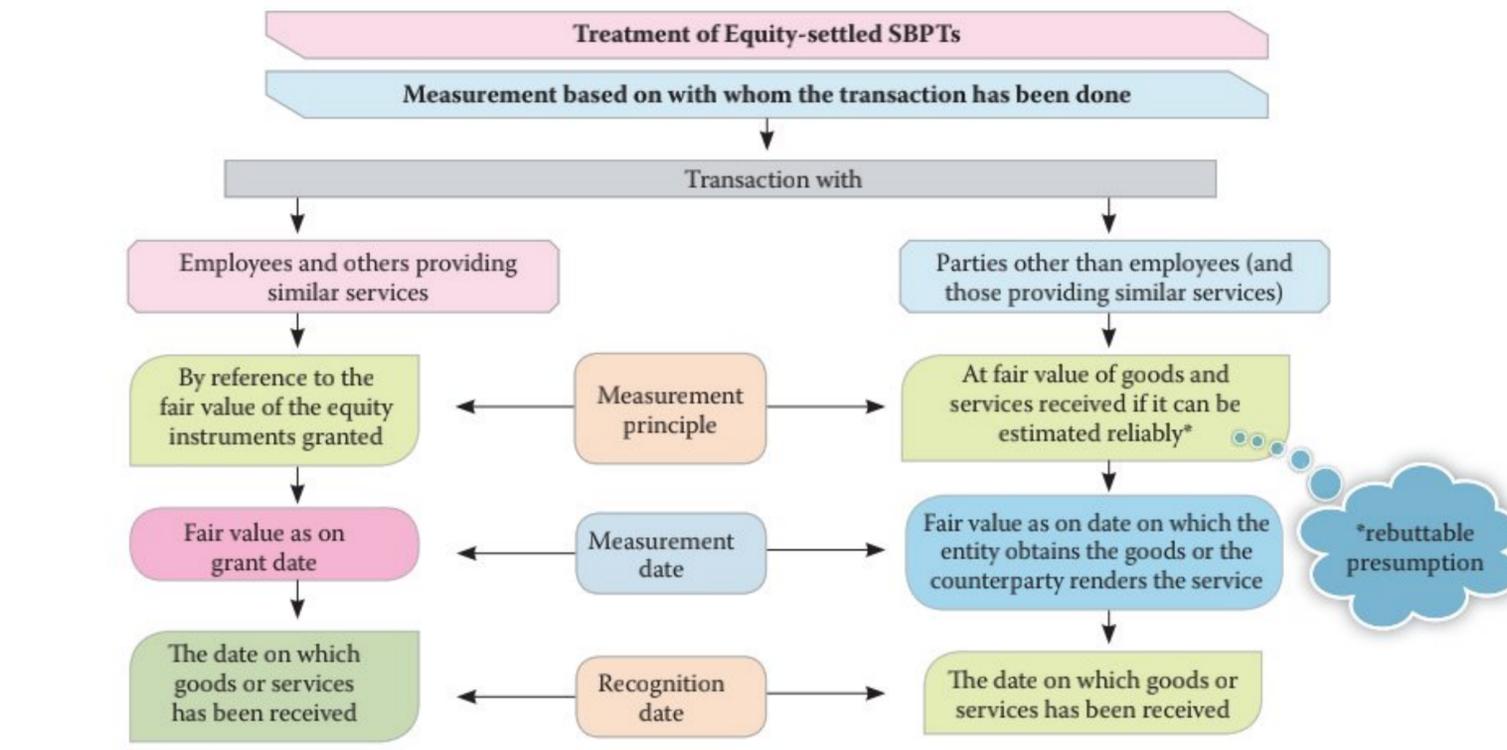
S. No.	Aspects	Service Condition	Performance Condition
1.	Condition	Counterparty should complete a specified period of service, during which services are provided to the entity	(a) Complete a specified period of service, and (b) Achieve specified performance targets during that period
2.	Performance target	Only service to be completed, no performance target	Achievement of performance target is a must in this condition
3.	Nature	Service condition is explicit	Service requirement could be explicit or implicit
4.	Period	Service period is specified, e.g., a requirement to be employed for 3 years	Target should be achieved within the service period. Period of achieving performance targets may start before (but not substantially before) the commencement of the service period.

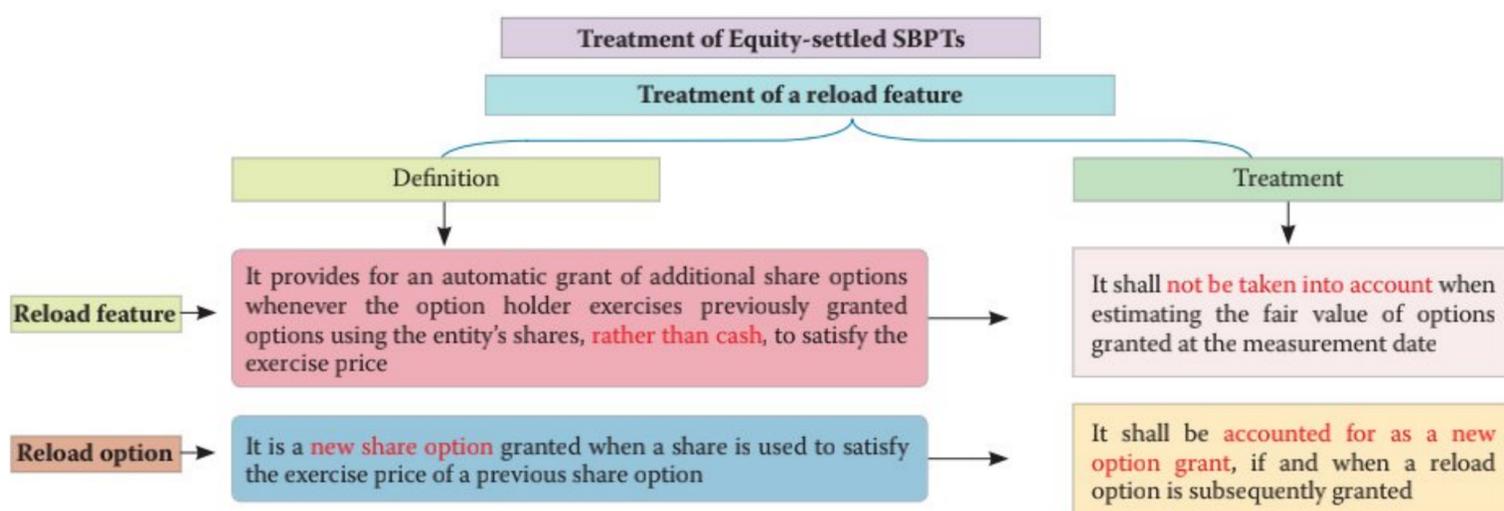
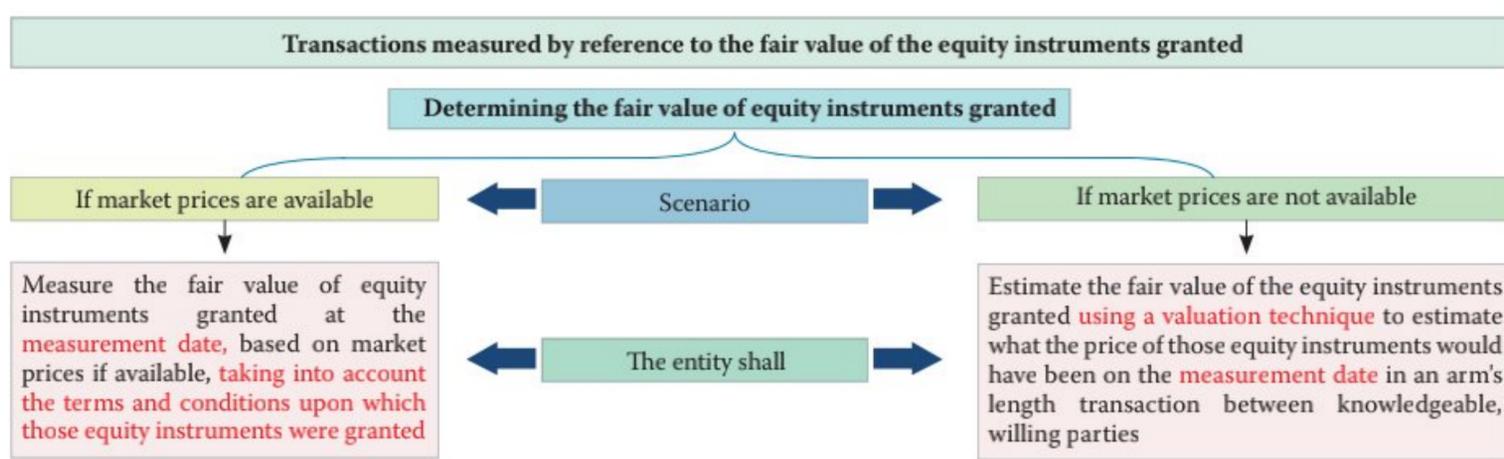
Market-related condition Vs Non-market related condition

S. No.	Aspects	Market-related Condition	Non-market related Condition
1.	Basis of performance target	Target is based on the price (or value) of the equity instruments of the entity/another group entity (including shares and share options)	Target is based on the entity's own operations (or activities) or the operations or activities of another entity in the same group
2.	Examples	(a) increase in share price by 10% (b) increase in shareholders' returns by 15% (c) increase in parent's share price from 500 to 850	(a) 8% decrease in employee turnover of this entity (or subsidiary/parent) (b) 20% increase in parent entity's revenue (c) 11.5% increase in parent's market share







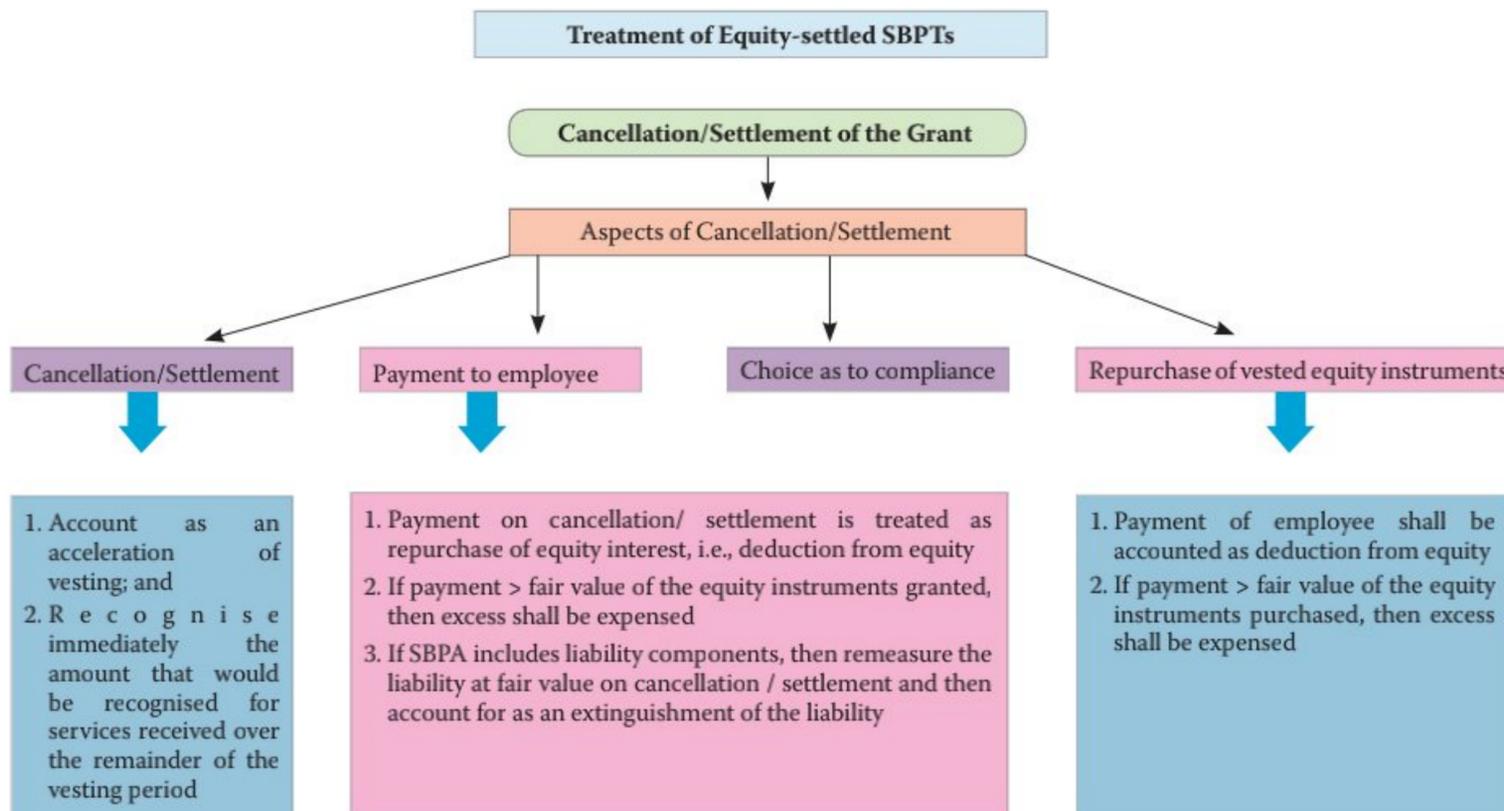
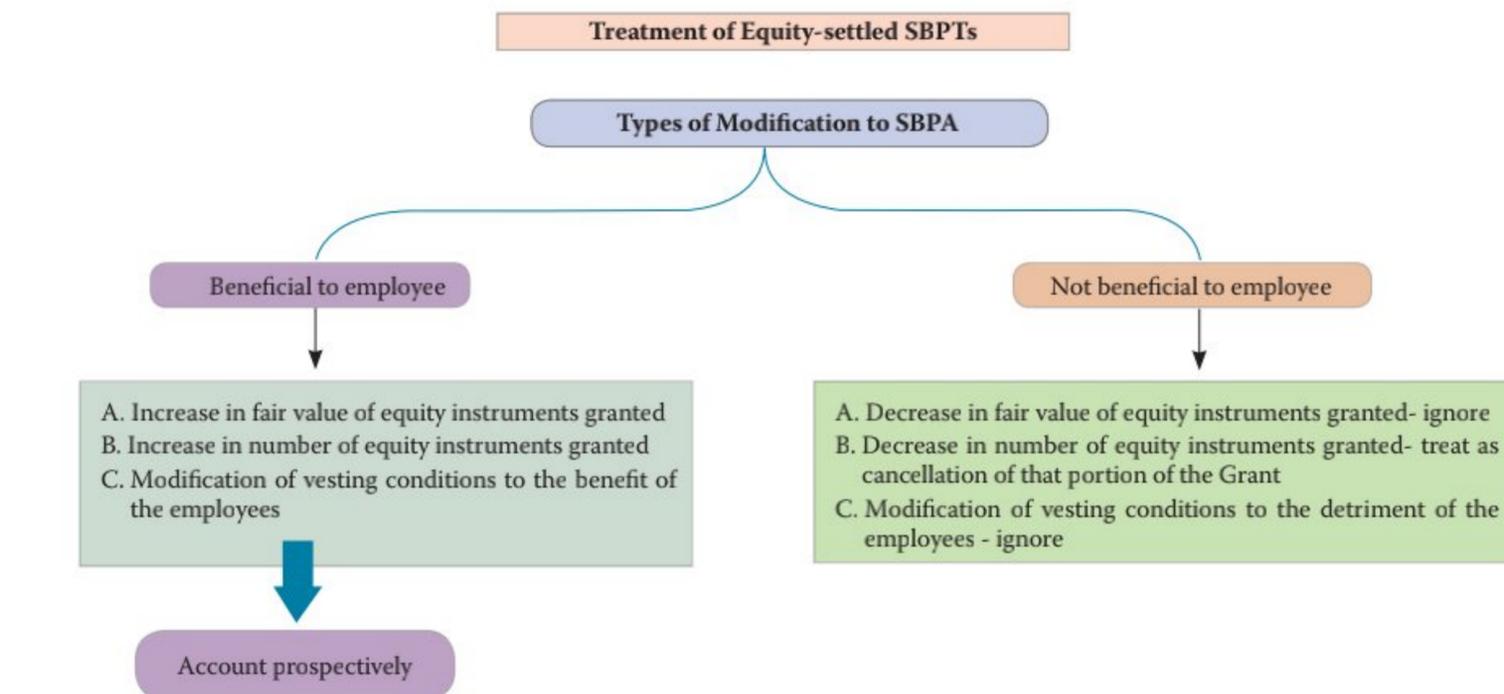
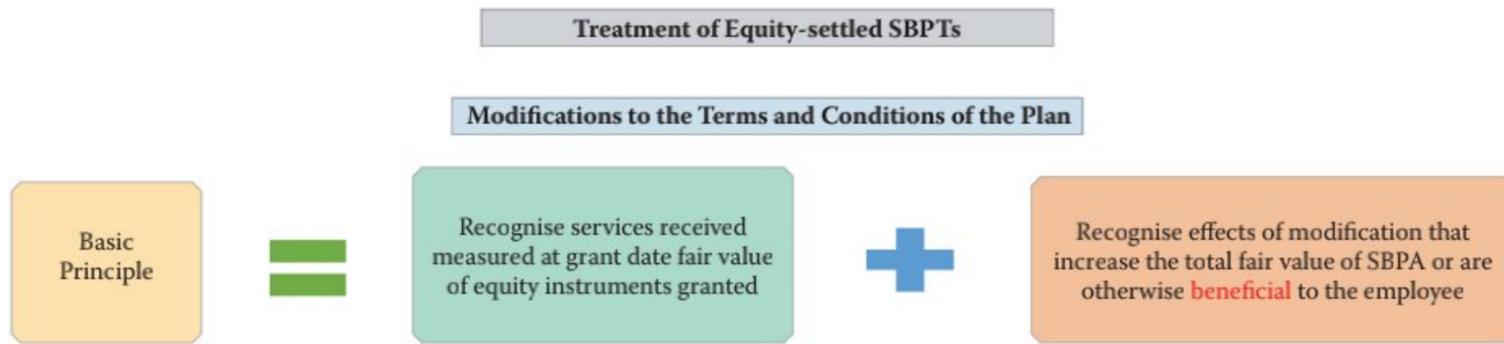


**Accounting of Equity-settled SBPTs**

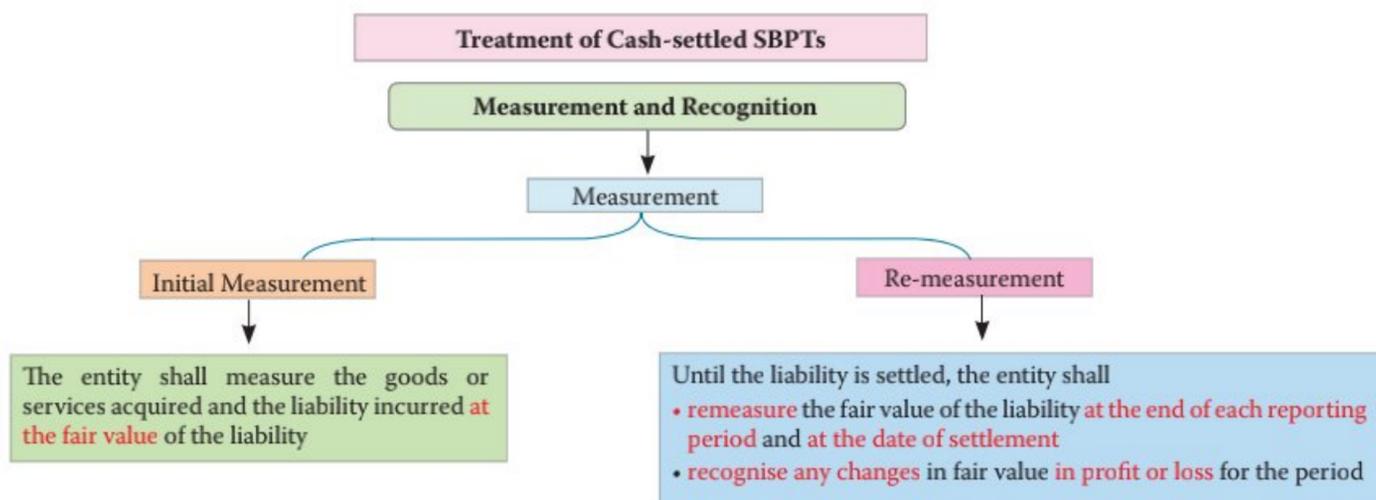
- **Initially**, at the measurement date, the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest.
- **Subsequently at every reporting date during vesting period**, it shall 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.

**Journal Entries**

At the measurement date		
Employee benefits expenses To Share based payment reserve (equity) (Recognition of proportionate amount of expected equity instruments to be vested based on the vesting period)	Dr.	
Subsequently, at every reporting date during vesting period		
Employee benefits expenses To Share based payment reserve (equity) (Recognition, till reporting date, of proportionate amount of expected equity instruments to be vested based on the vesting period <i>less</i> proportionate amount already recognised in the previous year)	Dr.	
On vesting date		
Employee benefits expenses To Share based payment reserve (equity) (Final value of equity instruments vested)	Dr.	
Share based payment reserve (equity) To Share Capital (Re-allocation of equity by issuing of shares)	Dr.	
Note:		
<ul style="list-style-type: none"> <li>• The entity shall not subsequently reverse the amount recognised for services received from an employee if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.</li> <li>• However, this requirement does not preclude the entity from recognising a transfer within equity, i.e., a transfer from one component of equity to another.</li> </ul>		



Note: Not applicable to forfeiture due to vesting conditions not satisfied



**Note:**

- These SBPTs result in a liability, as they represent an obligation to pay cash
- Same as equity settled SBPTs
  - Expenditure to be spread over the vesting period if SARs vest over period of service
  - Recognised immediately if no criteria for vesting period
  - Treatment of vesting conditions

**Accounting of Cash-settled SBPTs**

**Journal Entries**

At the measurement date		
Employee benefits expenses To Share based payment liability (Recognition of SBP liability at fair value)	Dr.	
Subsequently, at every reporting date during vesting period		
Employee benefits expenses To Share based payment liability (Recognition of increase in fair value of SBP liability on remeasurement at the reporting date)	Dr.	
<b>Or</b>		
Share based payment liability To Employee benefits expenses (Recognition of decrease in fair value of SBP liability on remeasurement at the reporting date)	Dr.	
On vesting date		
Employee benefits expenses To Share based payment liability (Recognition of decrease in fair value of SBP liability on remeasurement at the reporting date)	Dr.	
Share based payment liability To Cash/Bank (Settlement of SBP liability)	Dr.	

**Treatment of Cash-settled SBPTs**

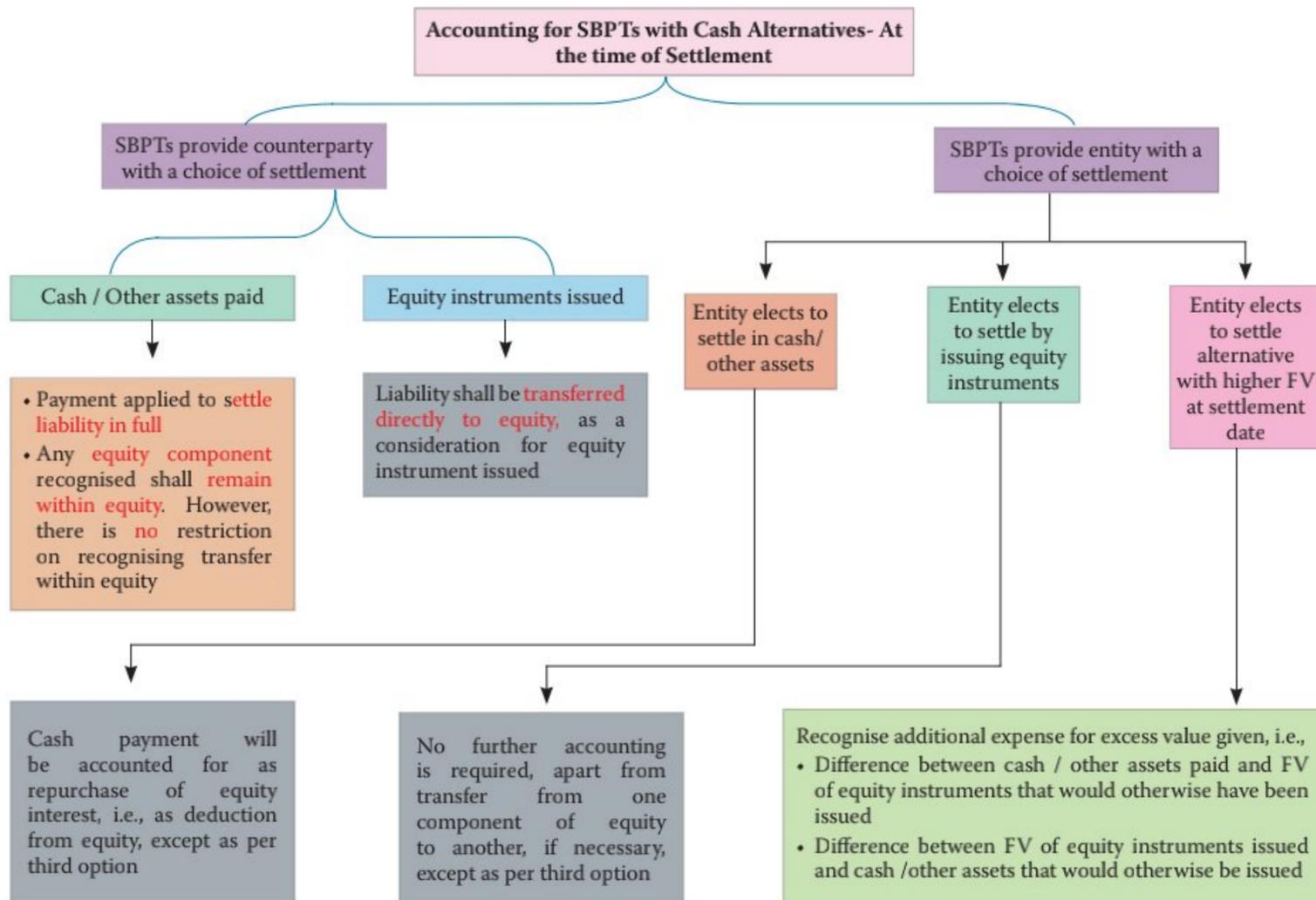
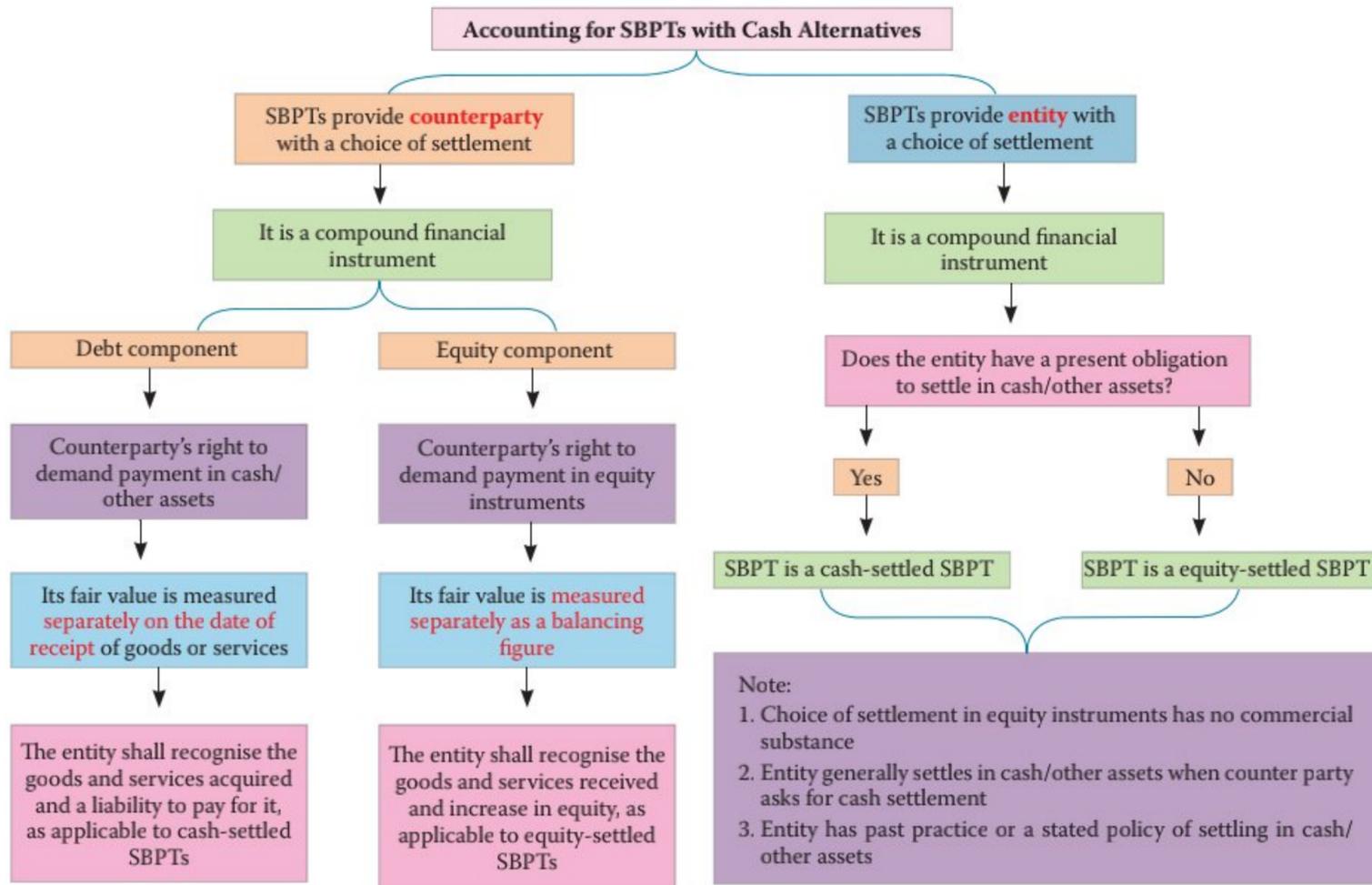
**Change in Classification of SBPT from Cash-settled to Equity-settled**

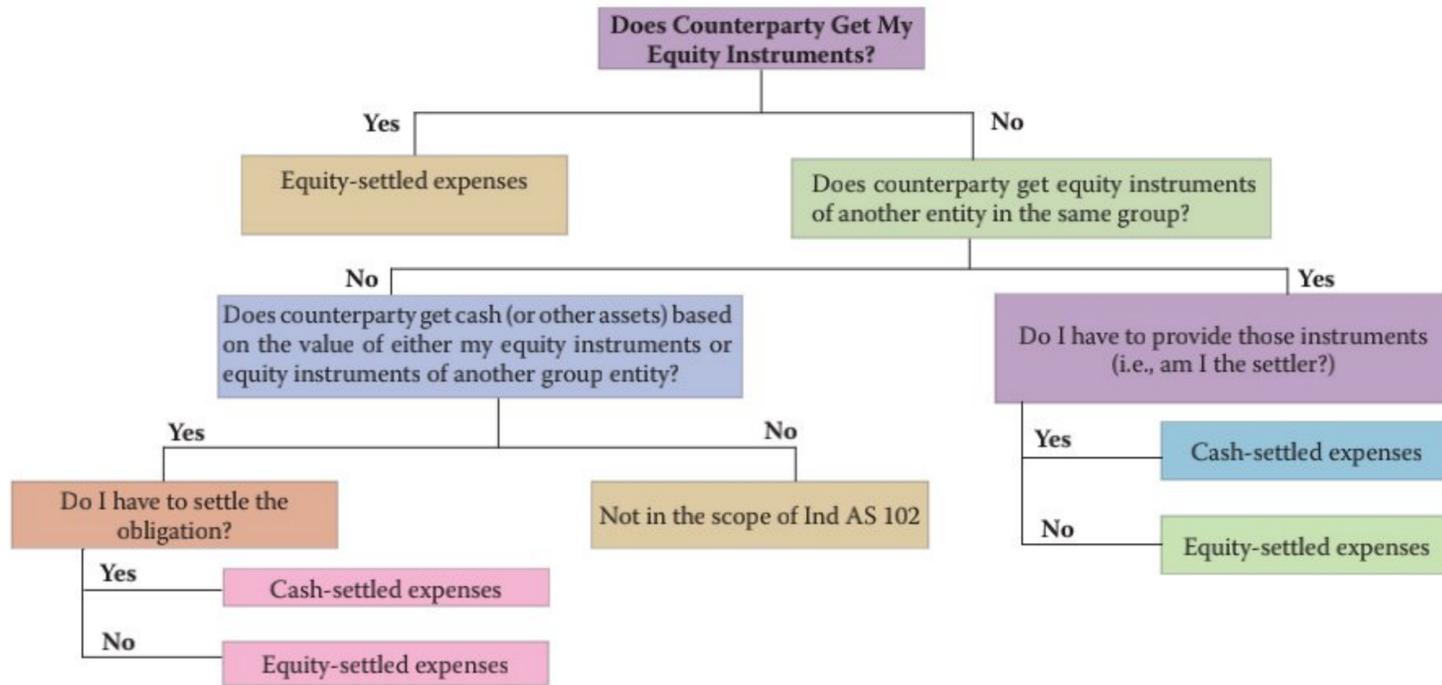
Equity-settled SBPT is measured by reference to fair value of equity instruments granted at the modification date

Liability for cash-settled SBPT as at the modification date is de-recognised

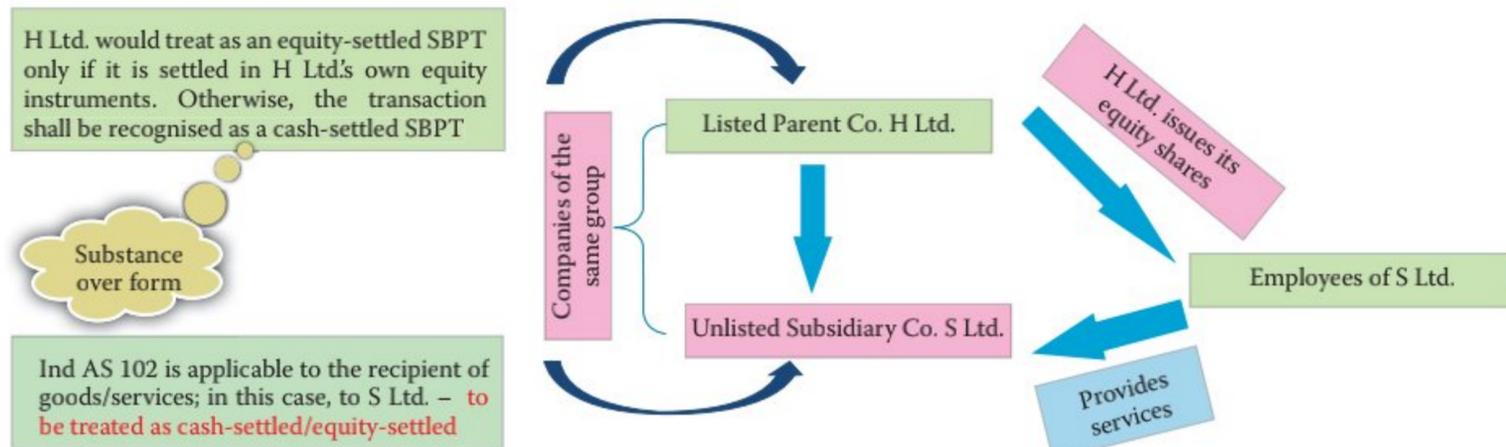
Difference between carrying amount of de-recognised liability and amount of recognised equity on modification date, is recognised immediately in Profit and Loss

**Note:** Such a transaction is accounted for, from the date of modification

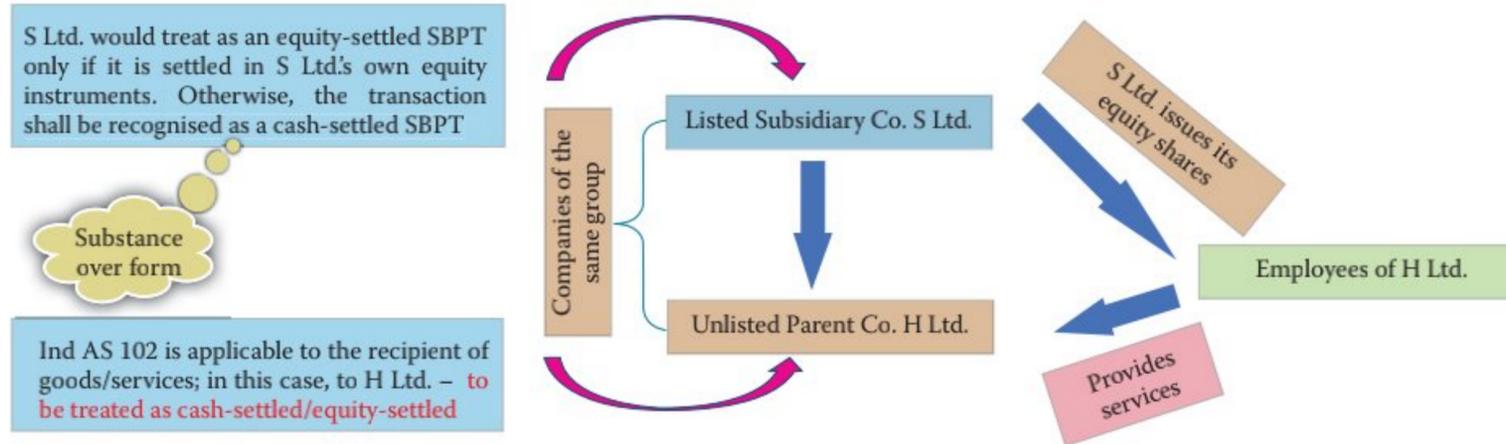




Accounting for SBPTs among Group Entities



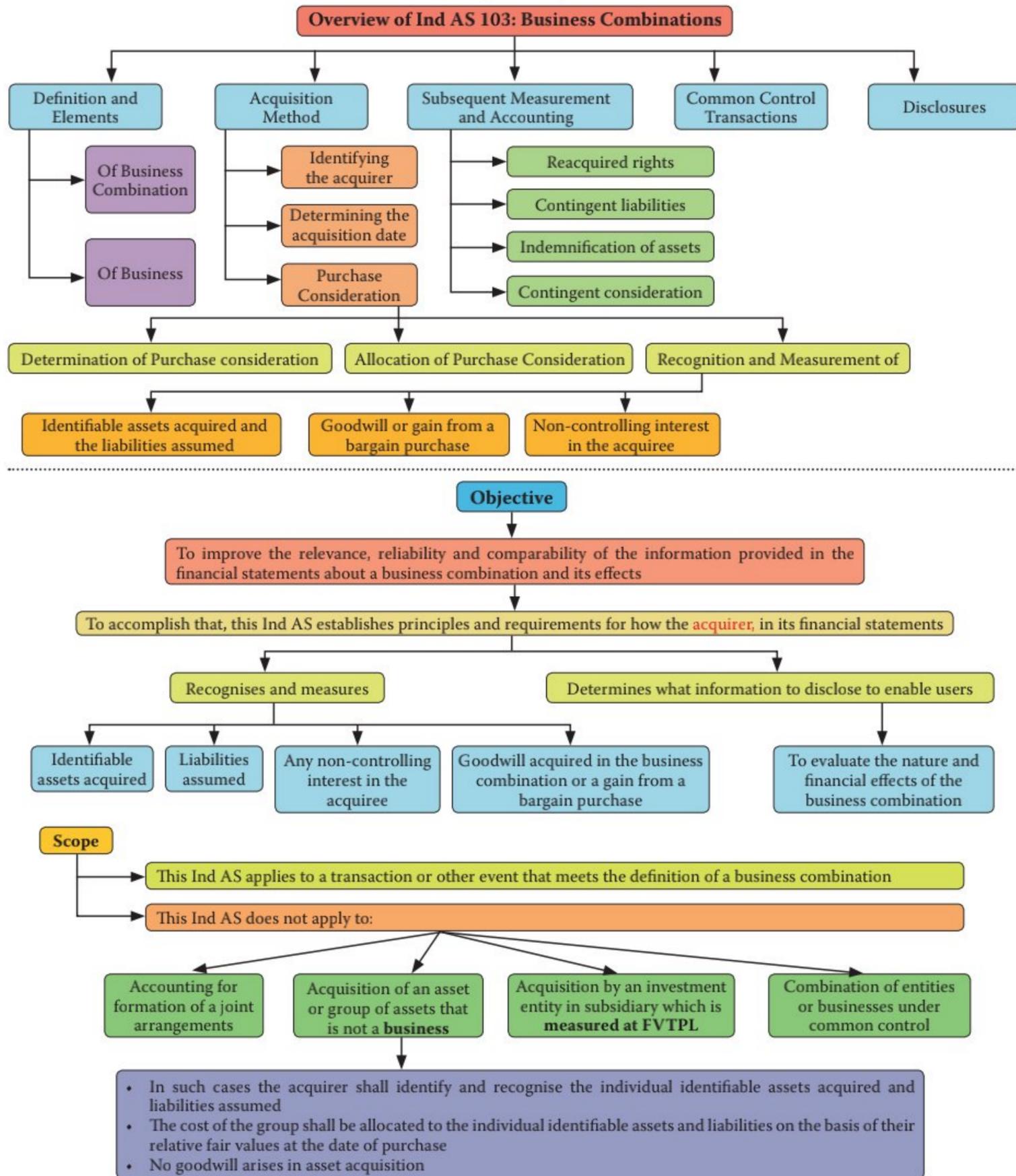
Accounting for SBPTs among Group Entities



Disclosures



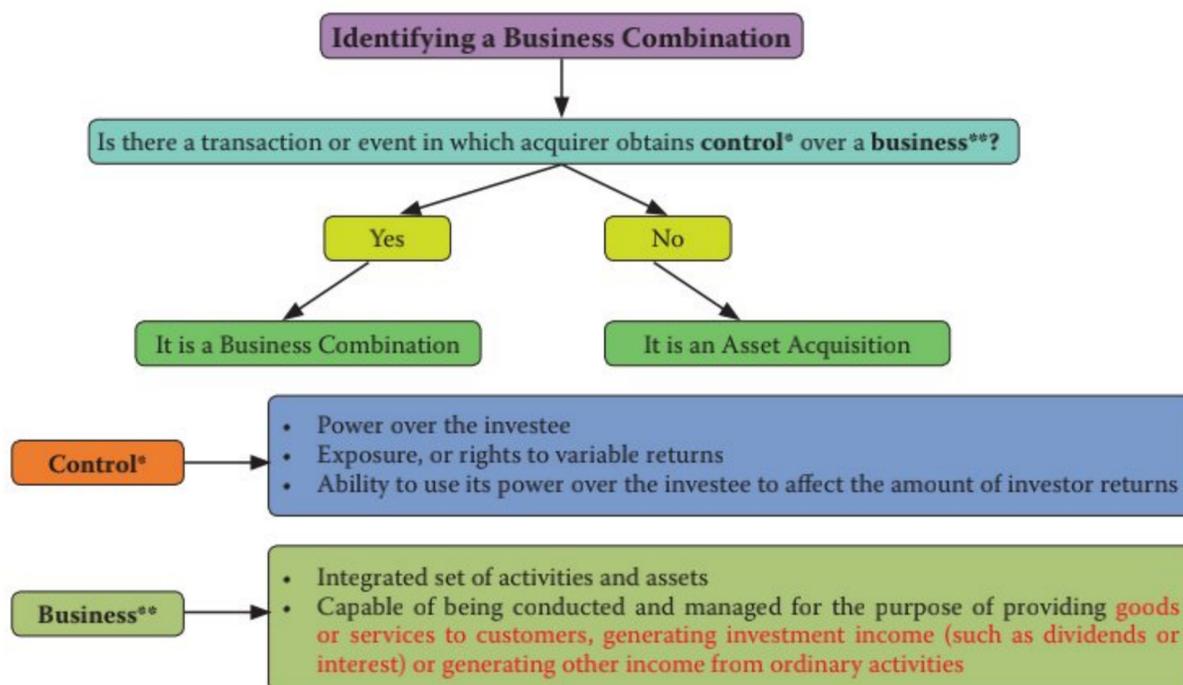
INDIAN ACCOUNTING STANDARD (IND AS) 103: BUSINESS COMBINATIONS



An entity shall account for each business combination by applying the **ACQUISITION METHOD**

**STEPS FOR ACCOUNTING OF BUSINESS COMBINATION (ACQUISITION METHOD)**

- 1 identify a business combination
- 2 identify the acquirer
- 3 determine acquisition date
- 4 recognise/measure identifiable assets acquired/liabilities assumed
- 5 recognise/measure any non-controlling interest
- 6 identify and measure consideration transferred
- 7 determine goodwill or gain on a bargain purchase

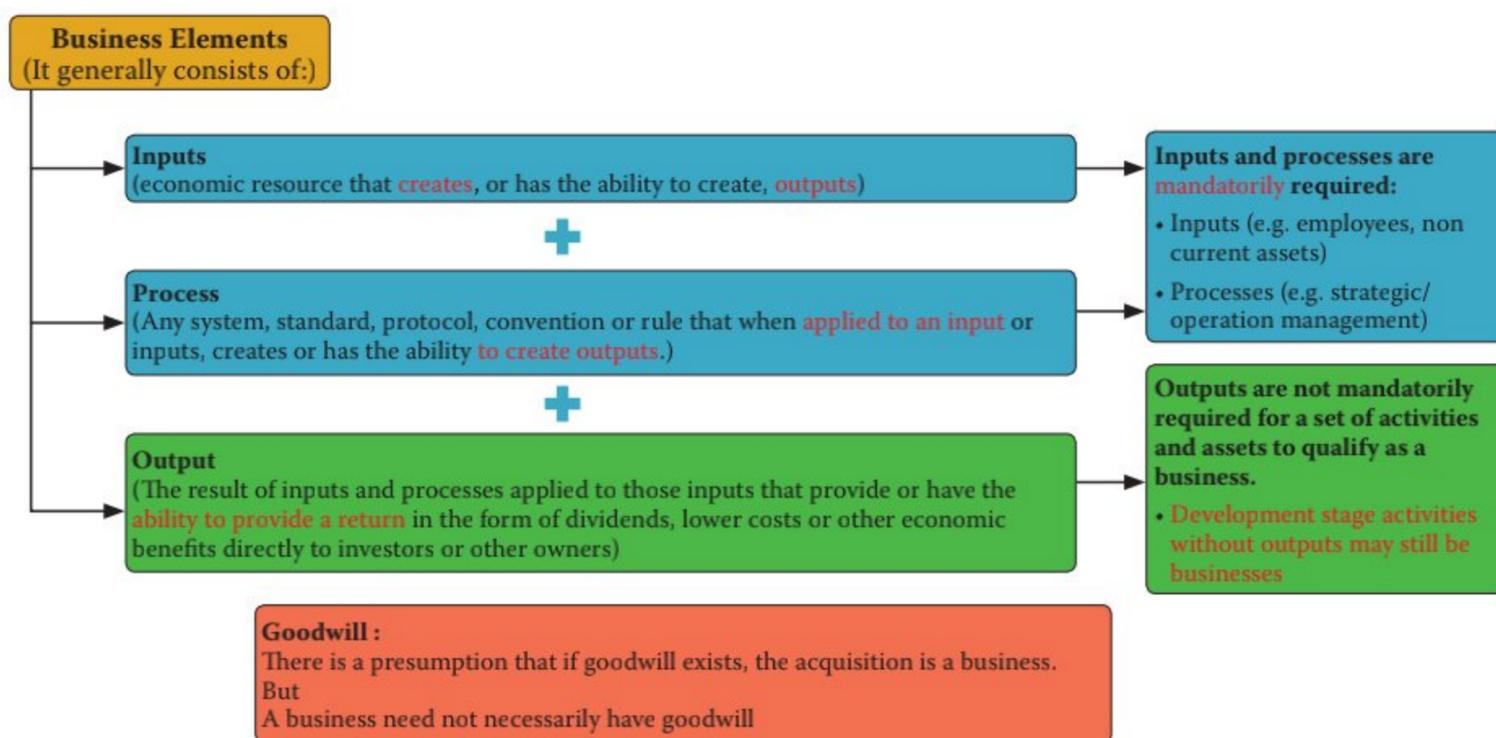


A business combination may be structured in a variety of ways for legal, taxation or other reasons, which *include but are not limited to:*

- (a) one or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer
- (b) one combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners
- (c) all of the combining entities or its owners transfer their net assets or equity interest, to a newly formed entity
- (d) a group of former owners of one of the combining entities obtains control of the combined entity.

An acquirer might obtain control of an acquiree in a variety of ways, for example:

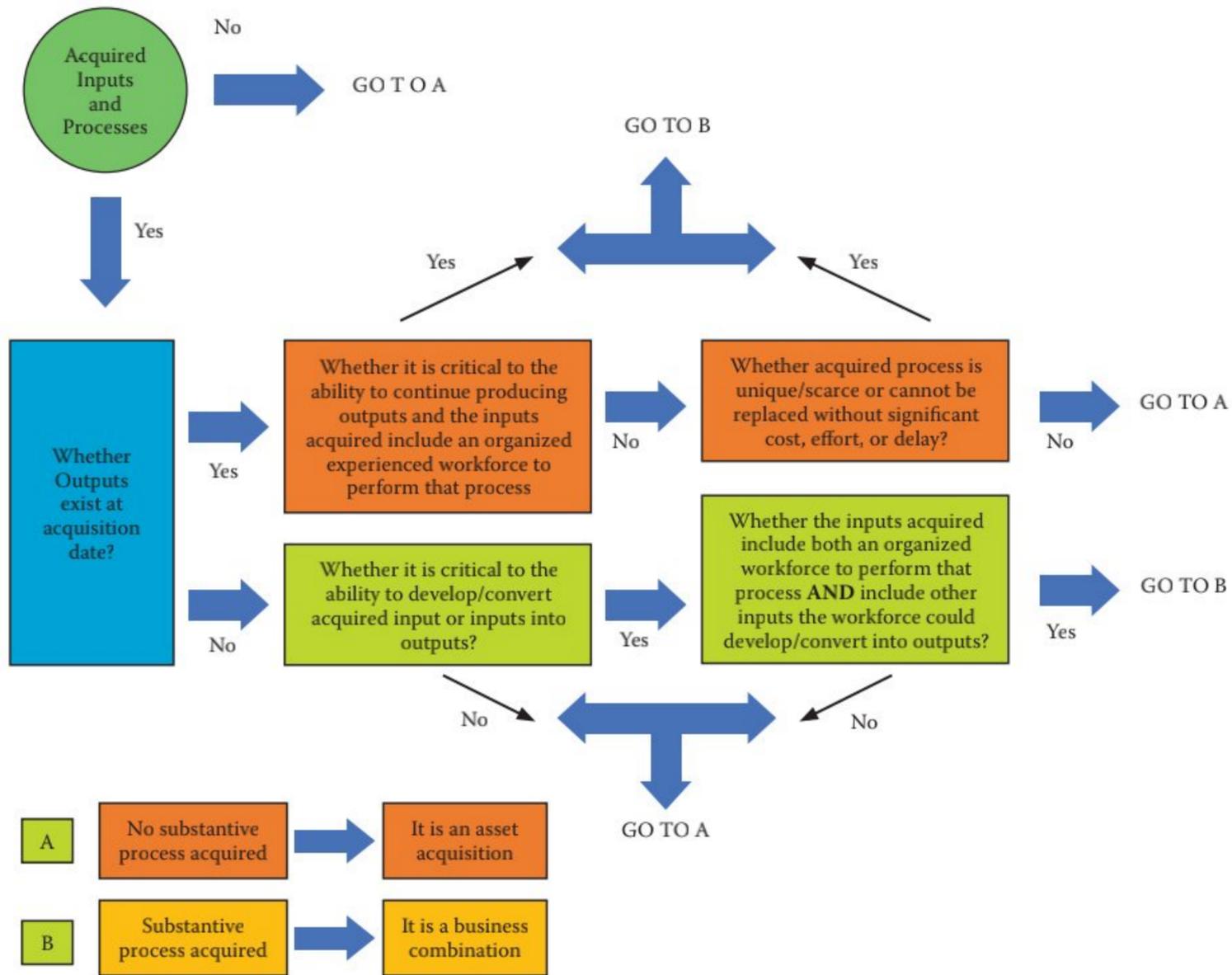
- (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business)
- (b) by incurring liabilities
- (c) by issuing equity interests
- (d) by providing more than one type of consideration
- (e) without transferring consideration, including by contract alone



Meaning of a Business
A business need not include all the inputs or processes that the seller used in operating that business
If a market participant is capable of utilising the acquired set of activities and assets to produce outputs by integrating the acquired set with its own inputs and processes, the acquired set might constitute a business
If the elements that are missing from an acquired set are not present with a market participant but easily replaced/replicated, the acquired set might still be a business
The acquired set of activities and assets must have at least some inputs and processes in order to be considered a business

Definition of a Business: Development Stage of a set of Activities and Assets
Is the transferred set of activities and assets a business?
Factors include but are not limited to whether the set: <ul style="list-style-type: none"> <li>• Has begun its planned principal activities</li> <li>• Has employees, intellectual property and other inputs and processes that could be applied to those inputs</li> <li>• Is pursuing a plan to produce outputs</li> <li>• Will be able to obtain access to customers that will purchase the outputs</li> </ul>
Determination should be based on whether the integrated set is capable of being conducted and managed as a business by a <b>market participant</b> (rather than the specific acquirer)

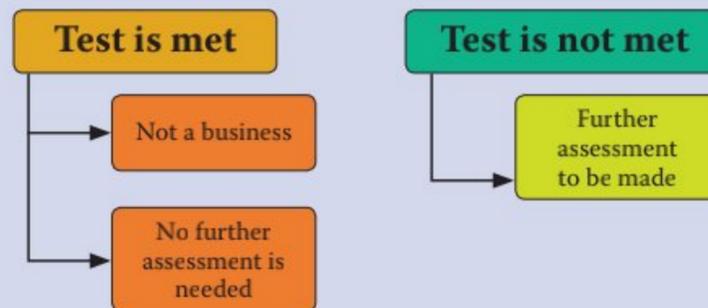
Further Assessment to Determine Whether Transaction is Business or not:



**Concentration Test**

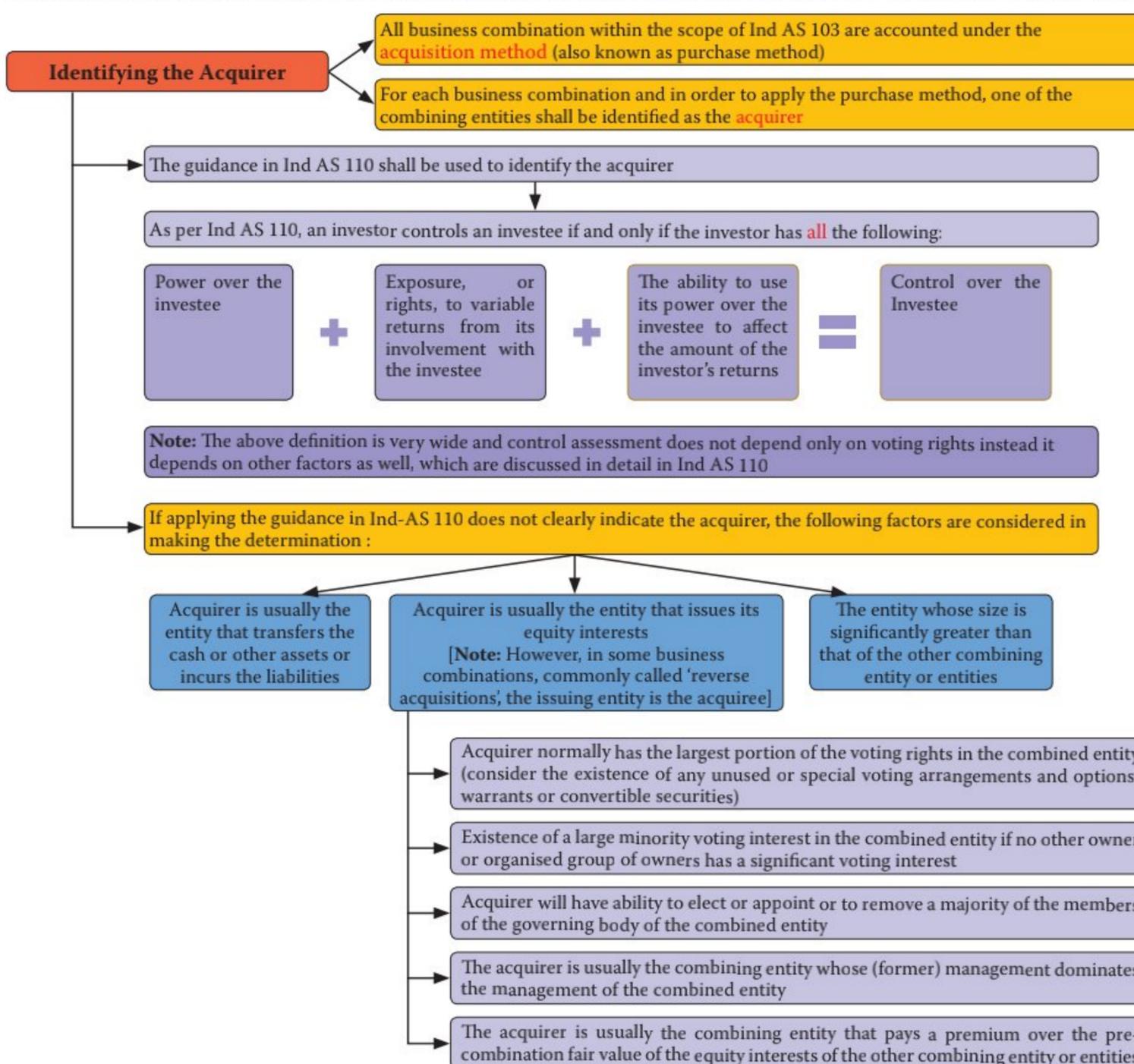
An optional test (the concentration test) has been introduced in Ind AS 103 to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

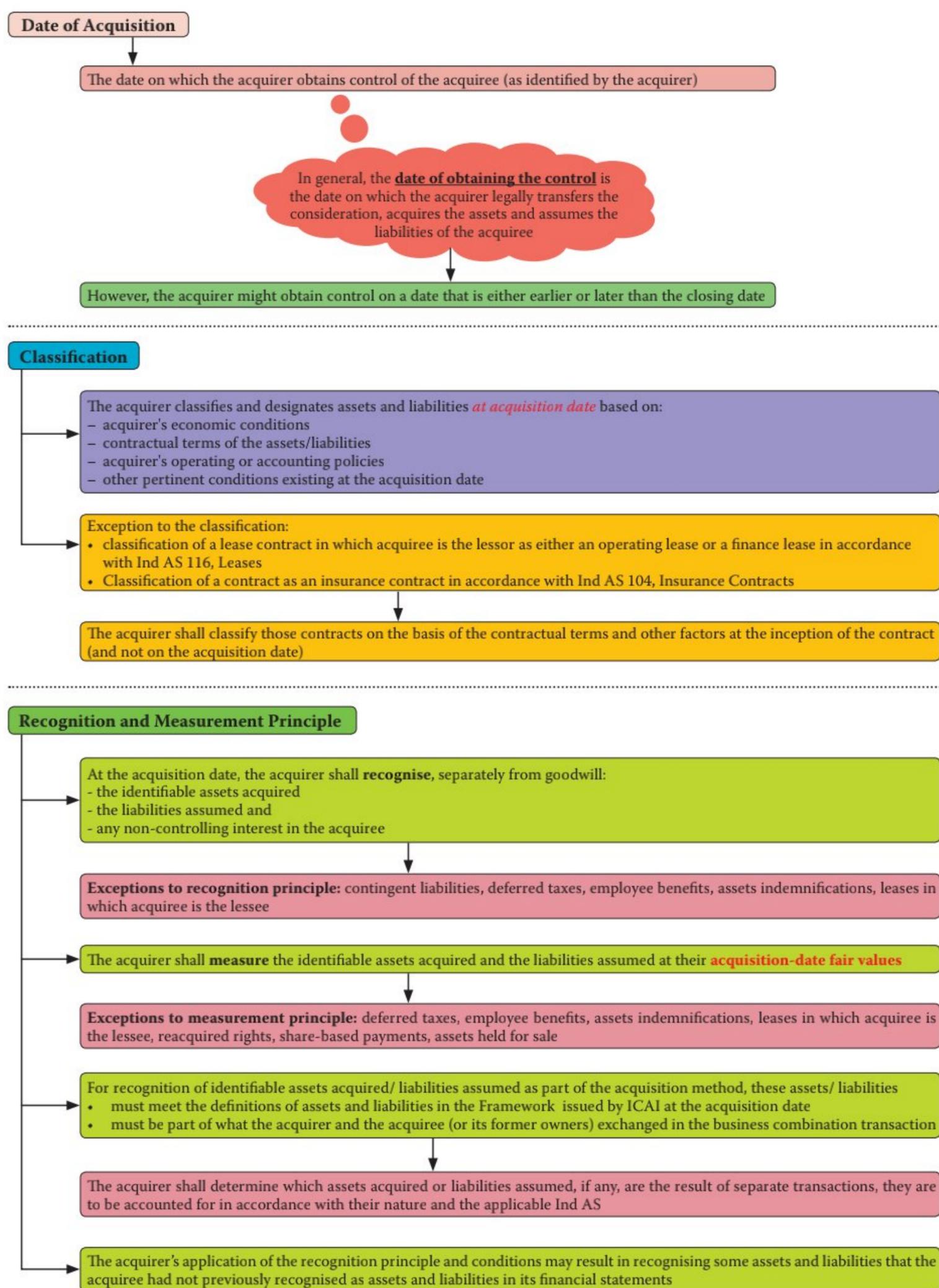
On the basis of the above test, following will be the consequences:

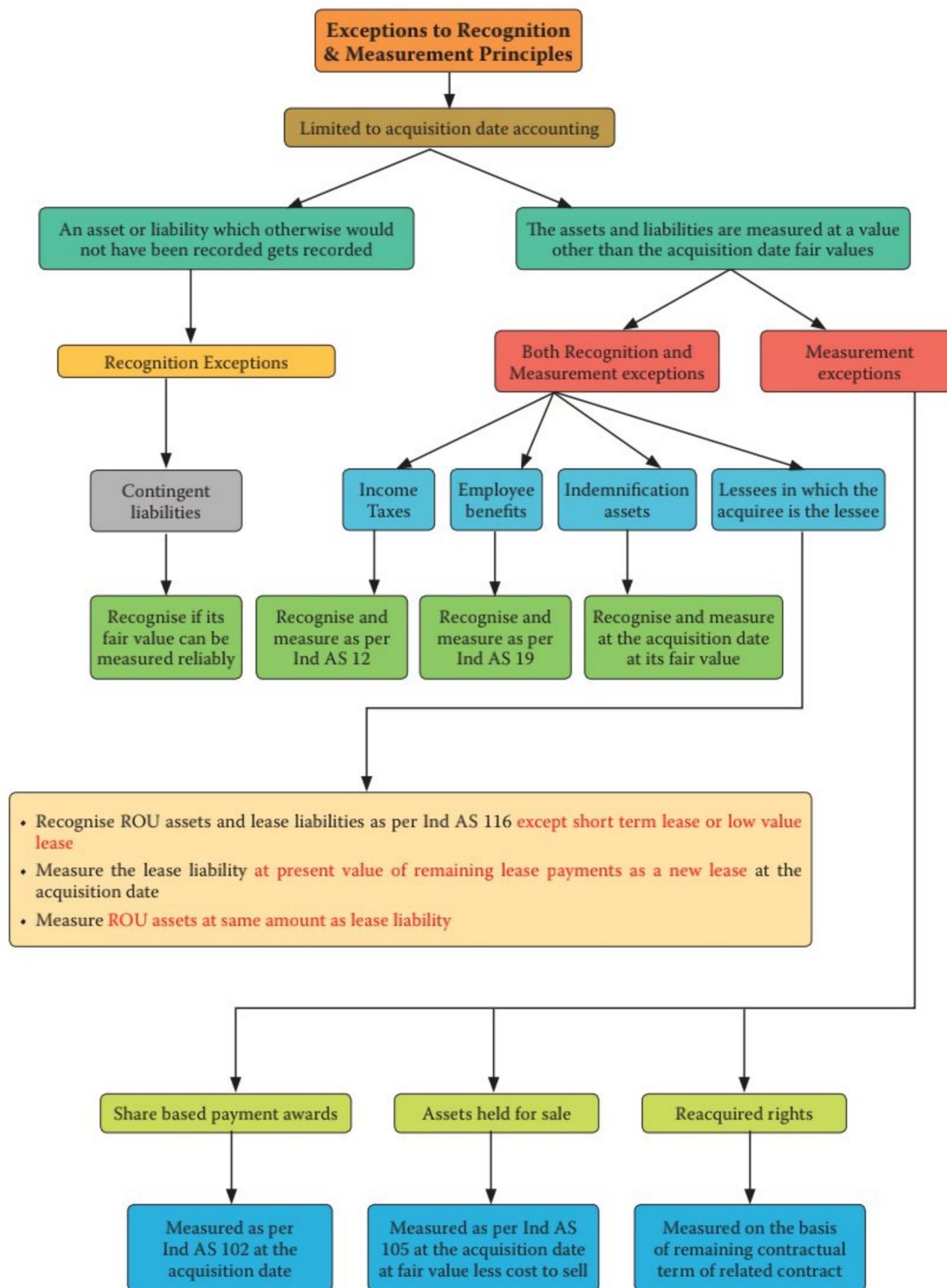


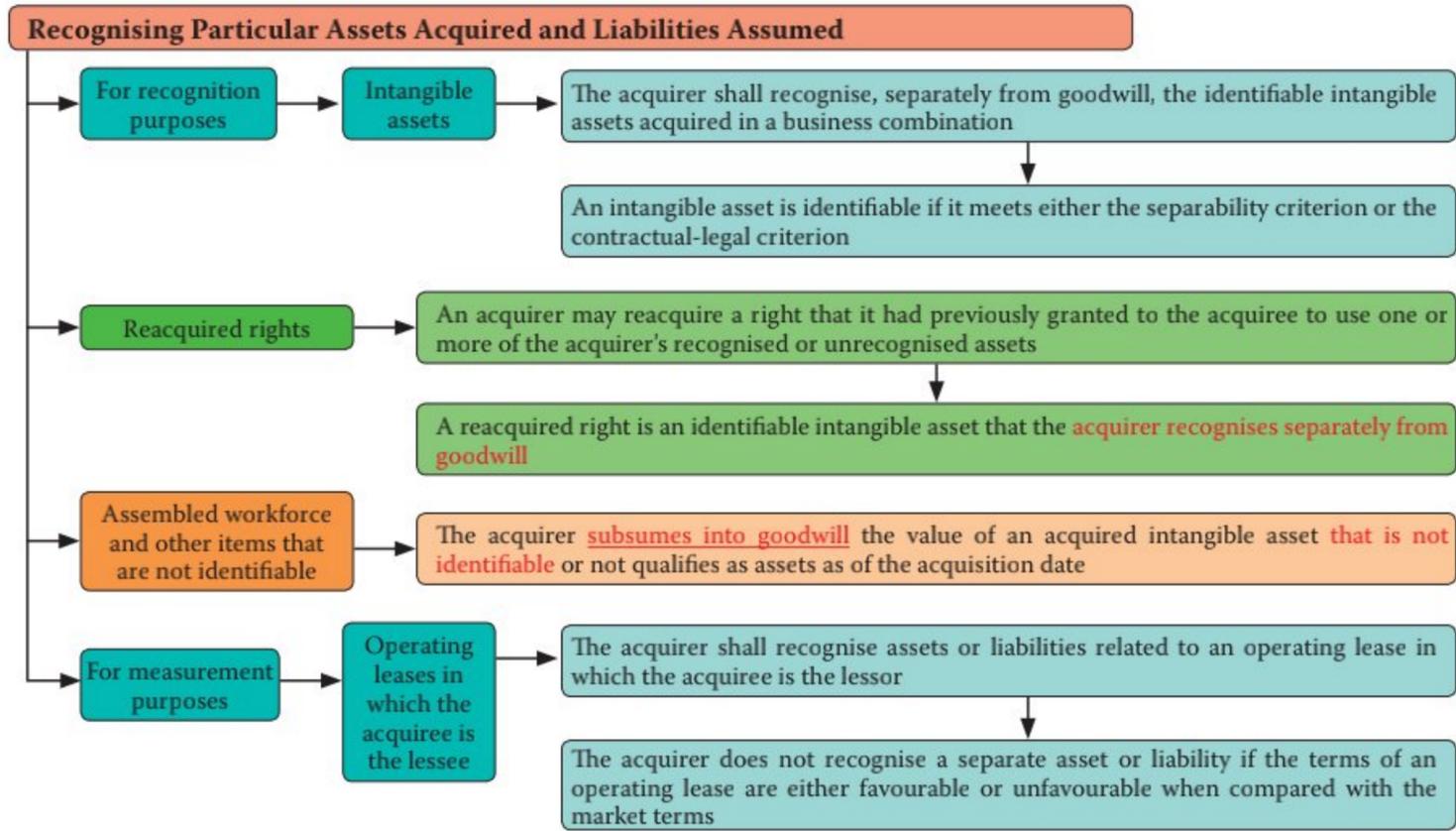
- Optional test is to identify concentration of fair value
- An entity may make such an **election separately for each transaction or other event**
- The concentration test is met if substantially **all** of the fair value of the gross assets acquired is **concentrated in a single identifiable** asset or group of similar identifiable assets

Differences in Accounting for Business Combination Vs. Asset Acquisition		
Impact on	Business combination	Asset acquisition
Intangible assets	Intangible assets are <b>recognised at fair value</b> , if they are separately identifiable	Intangible assets acquired as part of a group of assets would be recognised and measured based on an allocation of the overall cost of the transaction with reference <b>to their relative fair values</b>
Goodwill	Goodwill (or gain on bargain purchase) may arise	<b>No</b> goodwill is recognized
Initial measurement of assets acquired and liabilities assumed	Fair value	Allocated cost (on a relative fair value basis)
Directly attributable transaction costs	Expensed	Capitalised
Deferred tax on initial recognition	Recognised	<b>Not</b> recognized
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	<b>Not</b> recognised, subject to Ind AS 37
Disclosures	<b>More</b> extensive	<b>Less</b> disclosures required

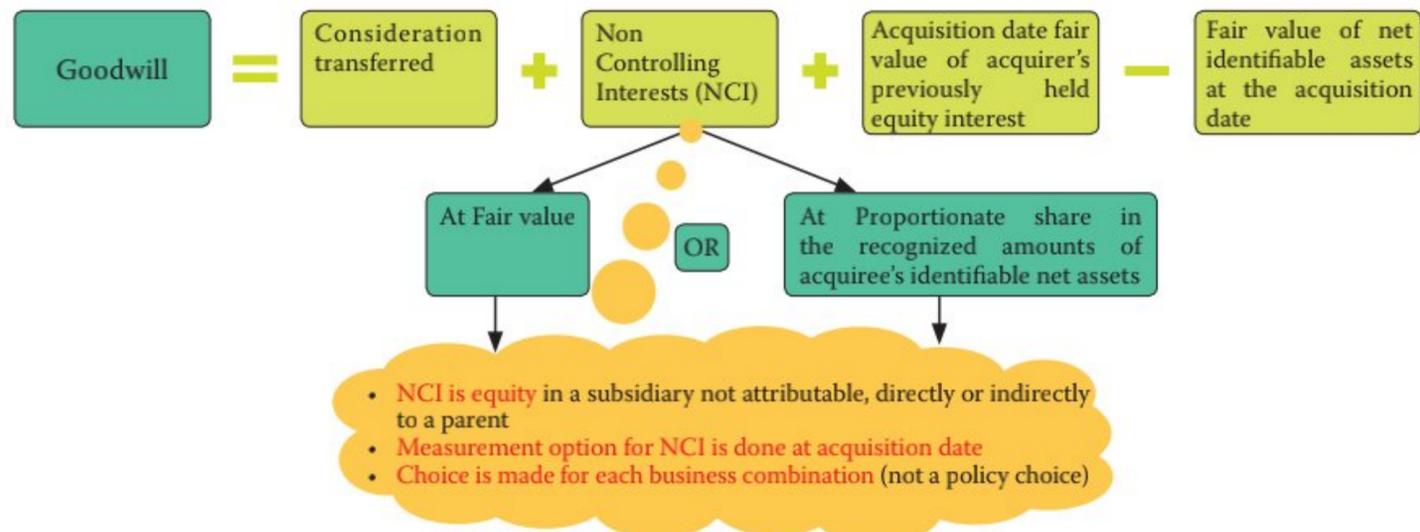








**Recognising and Measuring Goodwill or Gain from Bargain Purchase**



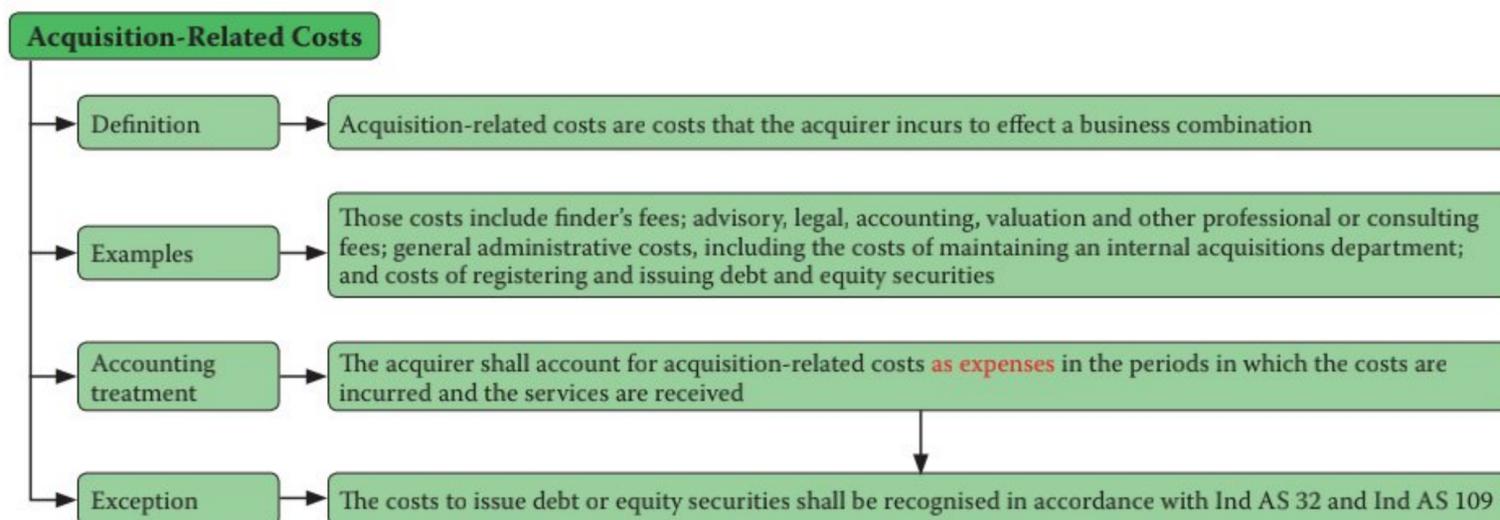
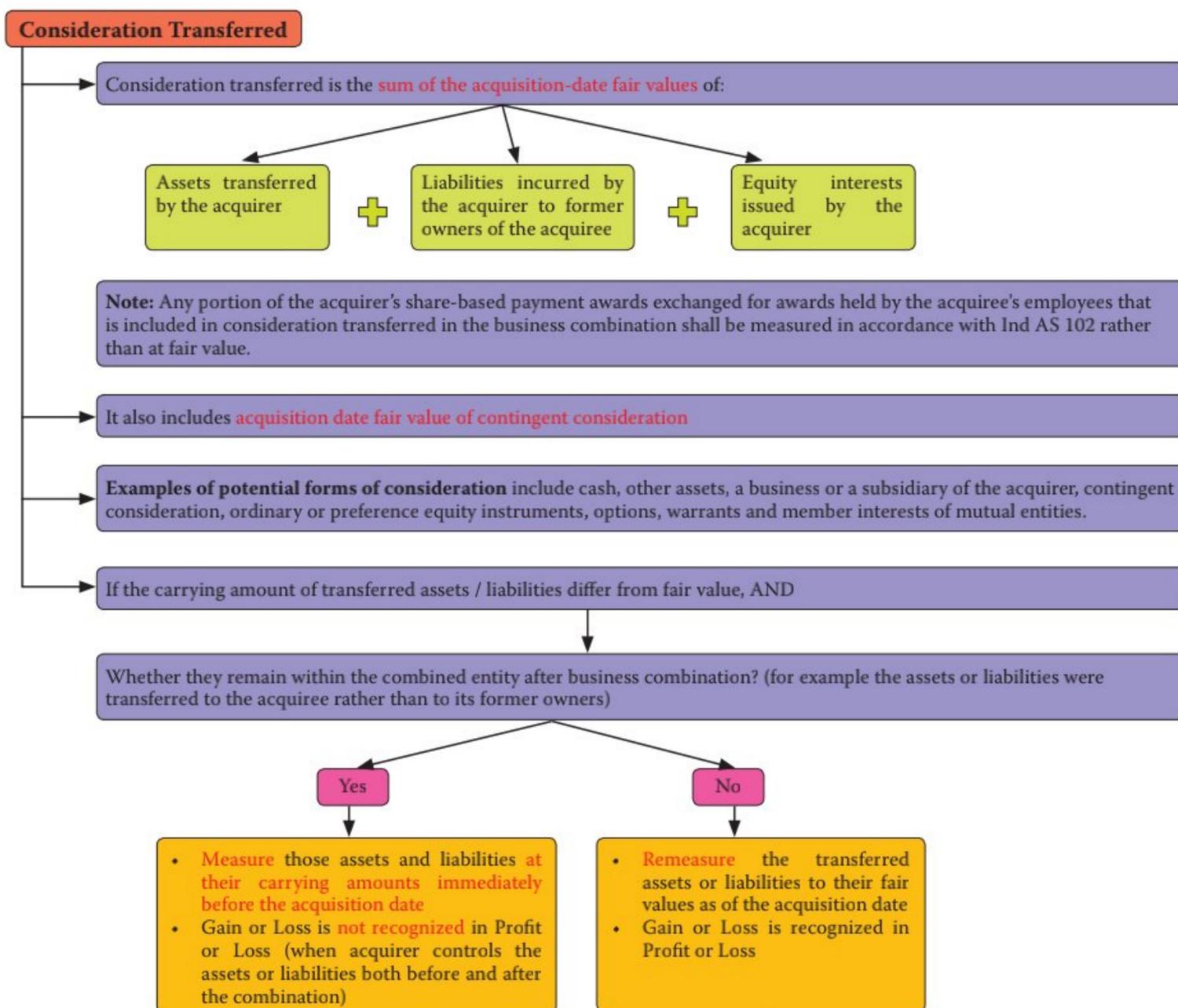
**Note:** "Bargain Purchase" is accounted when sum total of fair value of net assets and NCI exceeds consideration transferred

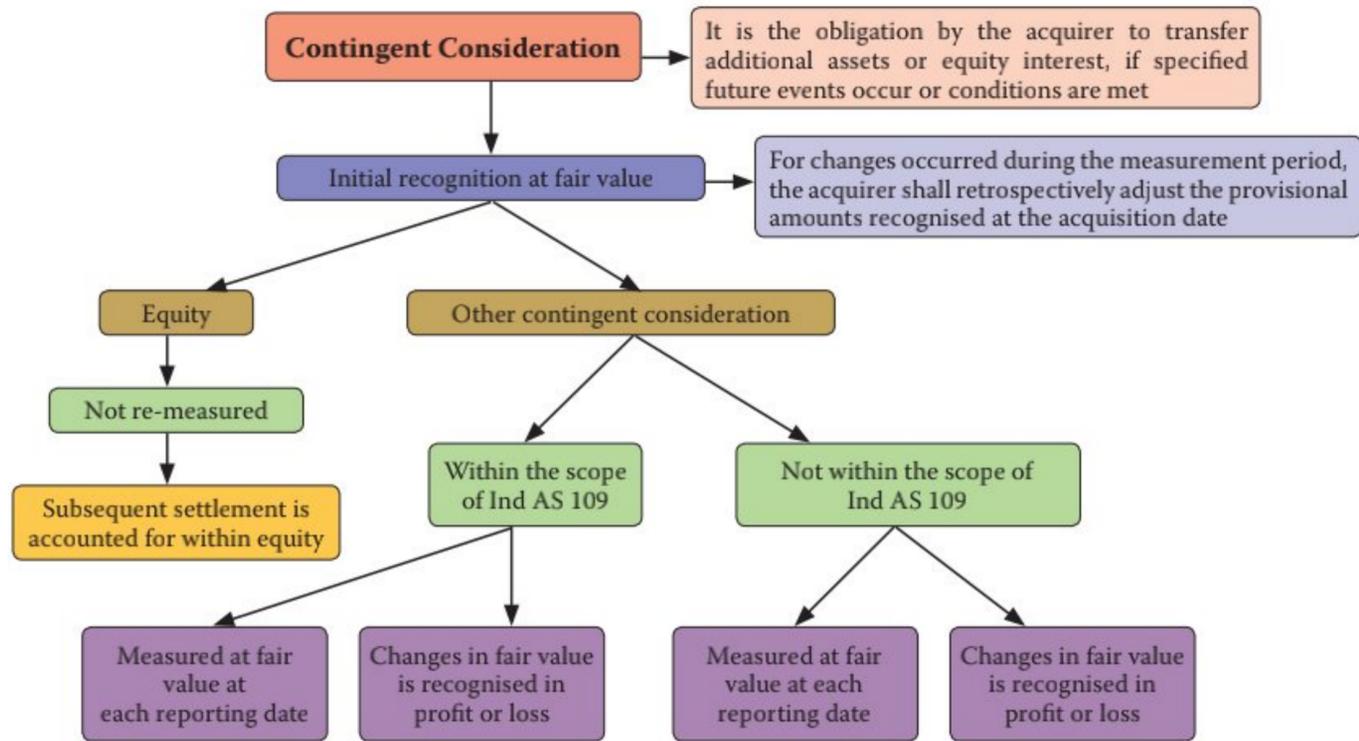
In case of bargain purchase, the acquirer should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed

- If reassessment confirms bargain purchase, any gain is recognized in equity as capital reserve (routed through OCI) on the acquisition date.
- However, if there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, the gain (bargain purchase) should be recognised directly in equity as capital reserve.

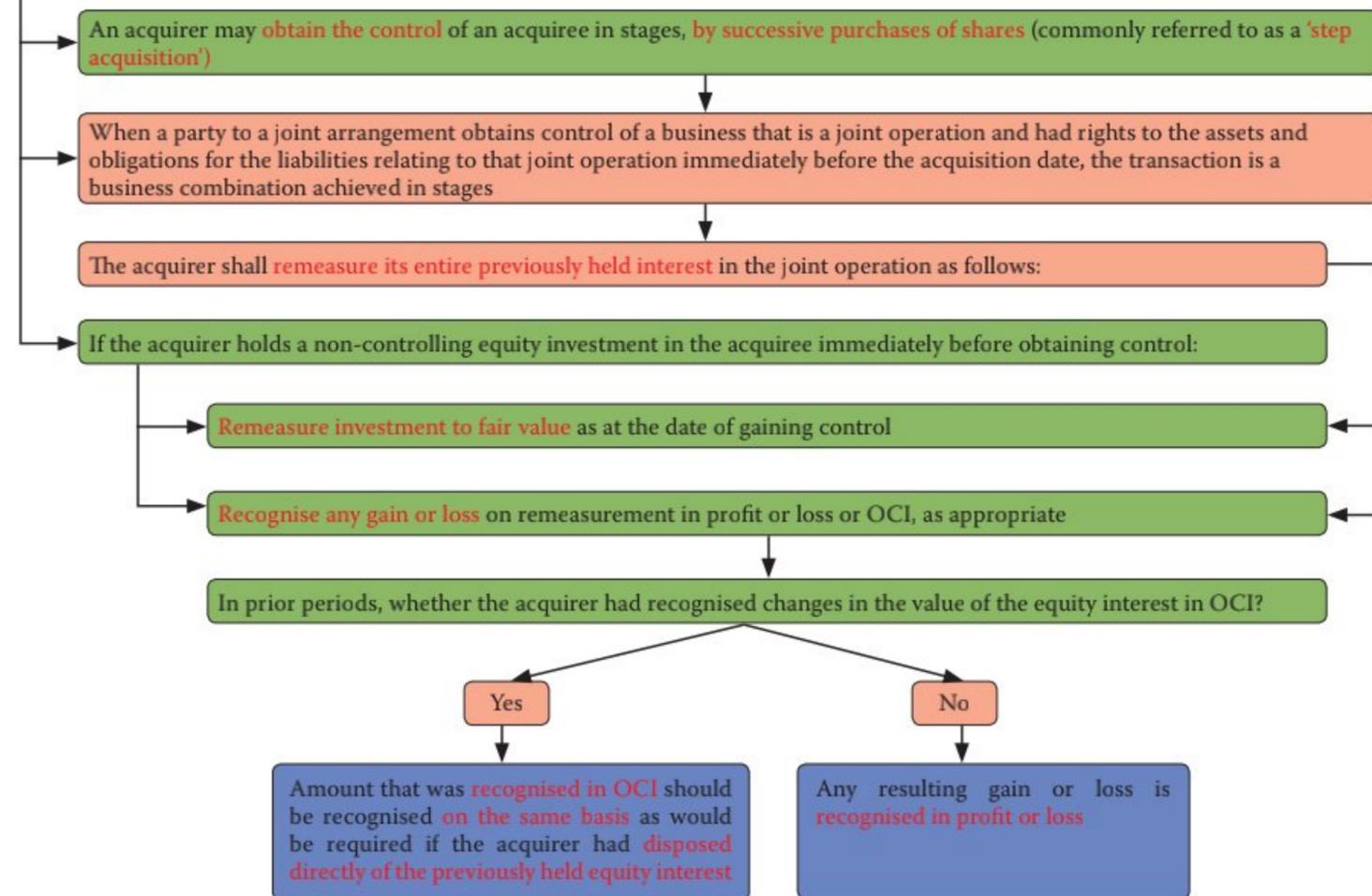
To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred

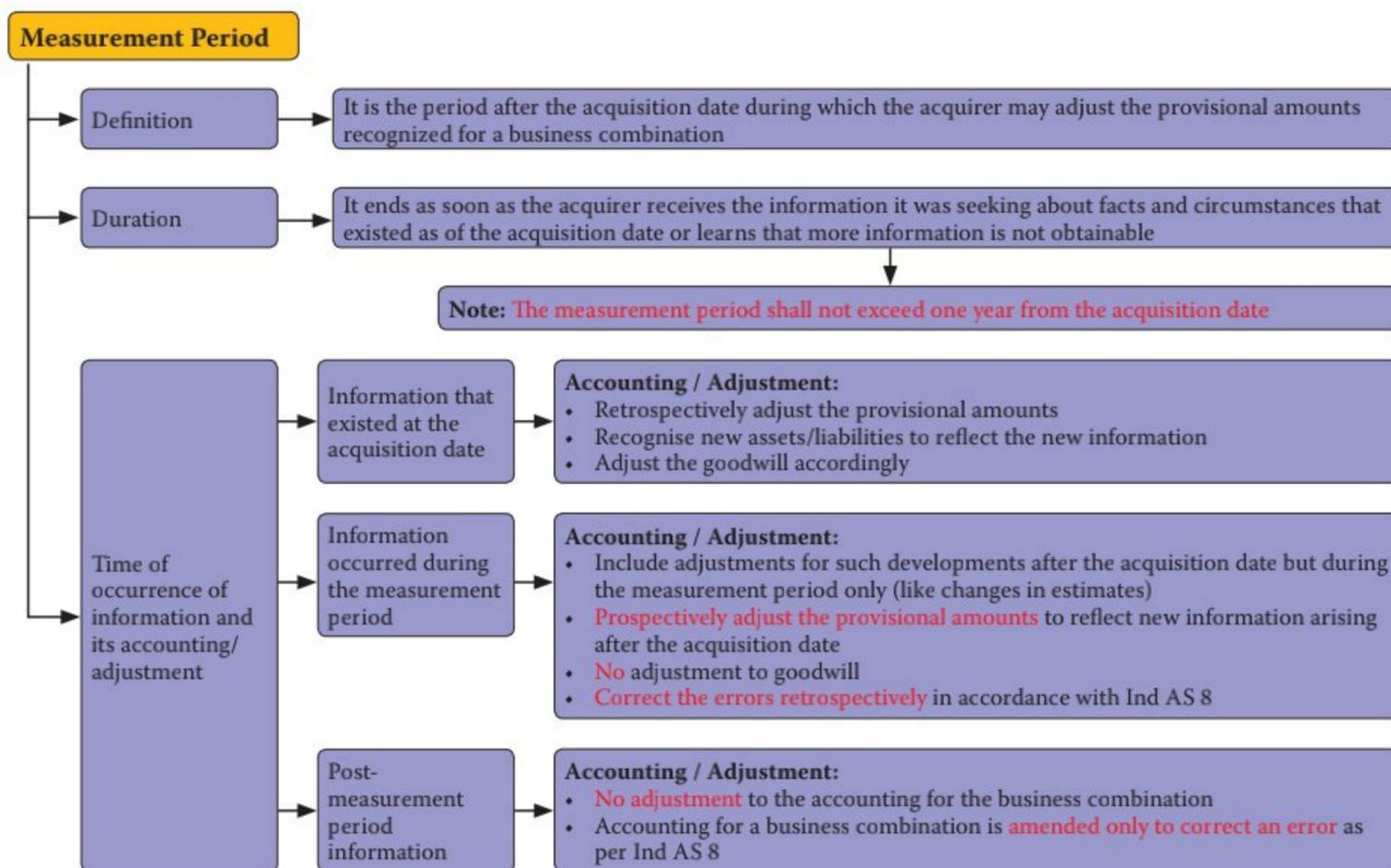
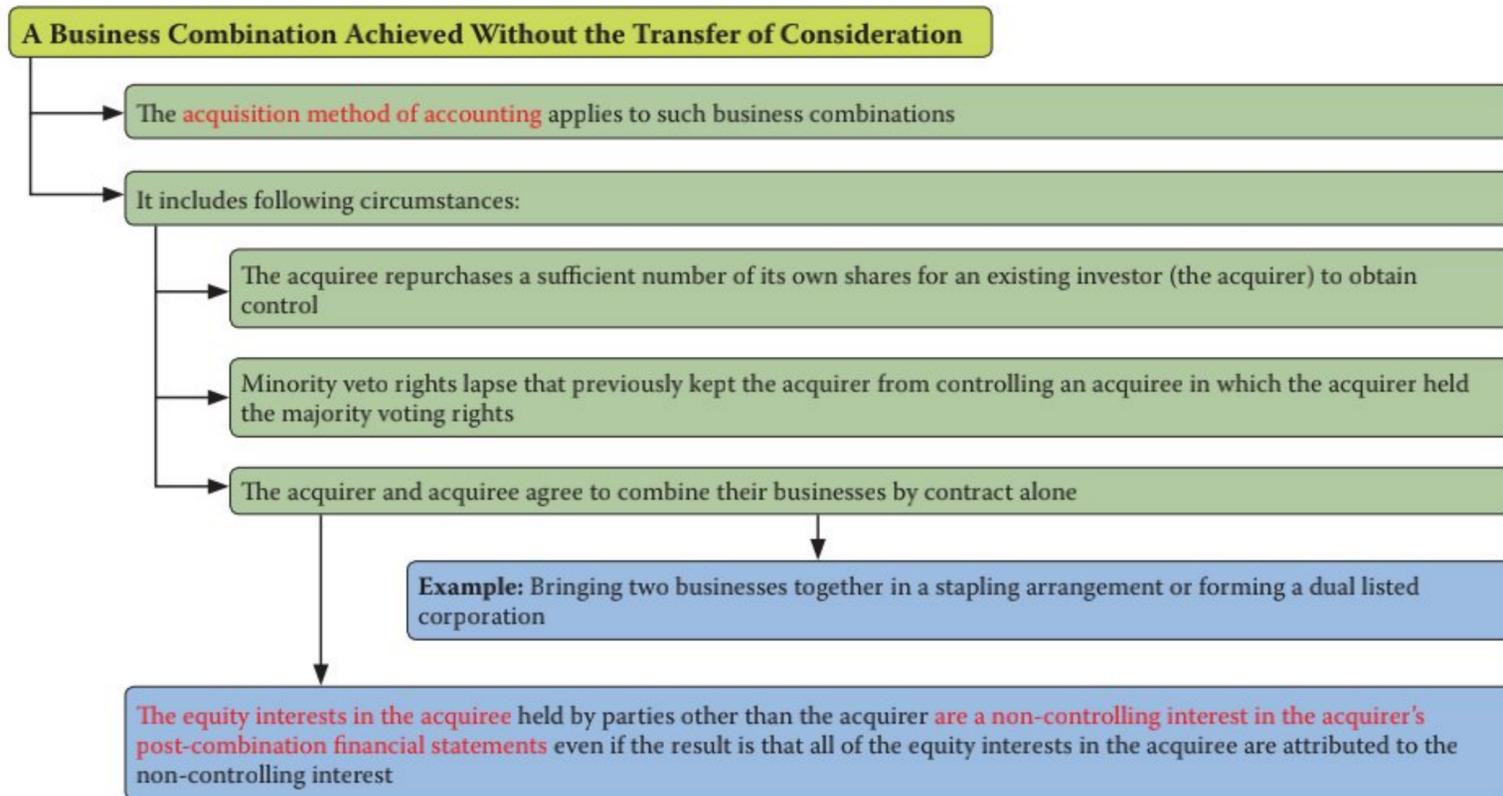
**Note:** Acquisition related costs charged to P&L except, debt securities issue cost—incorporated in effective interest rate (Ind AS 109) and Equity issue cost recognized in equity (Ind AS 32).

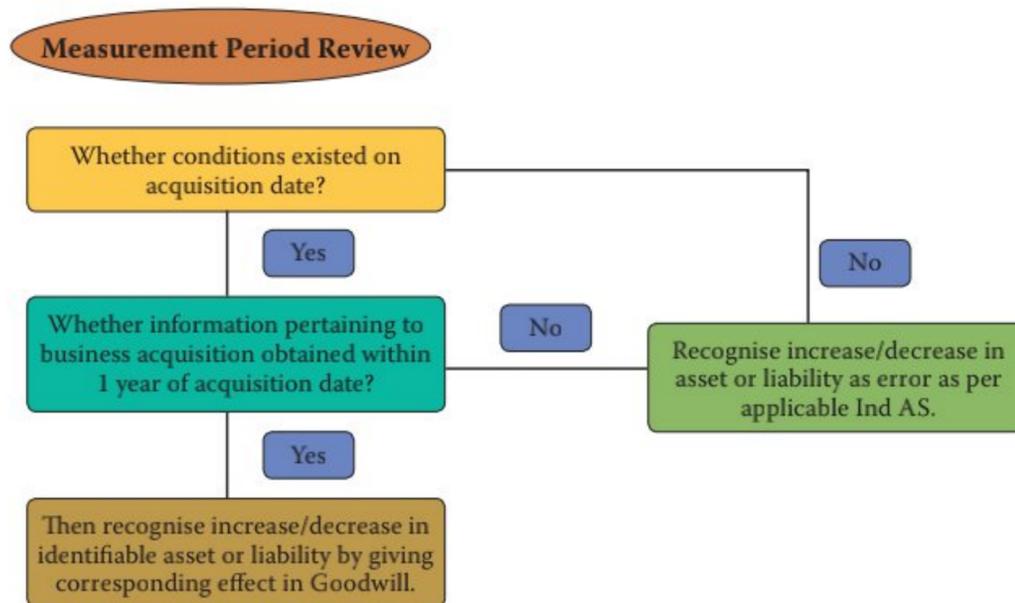




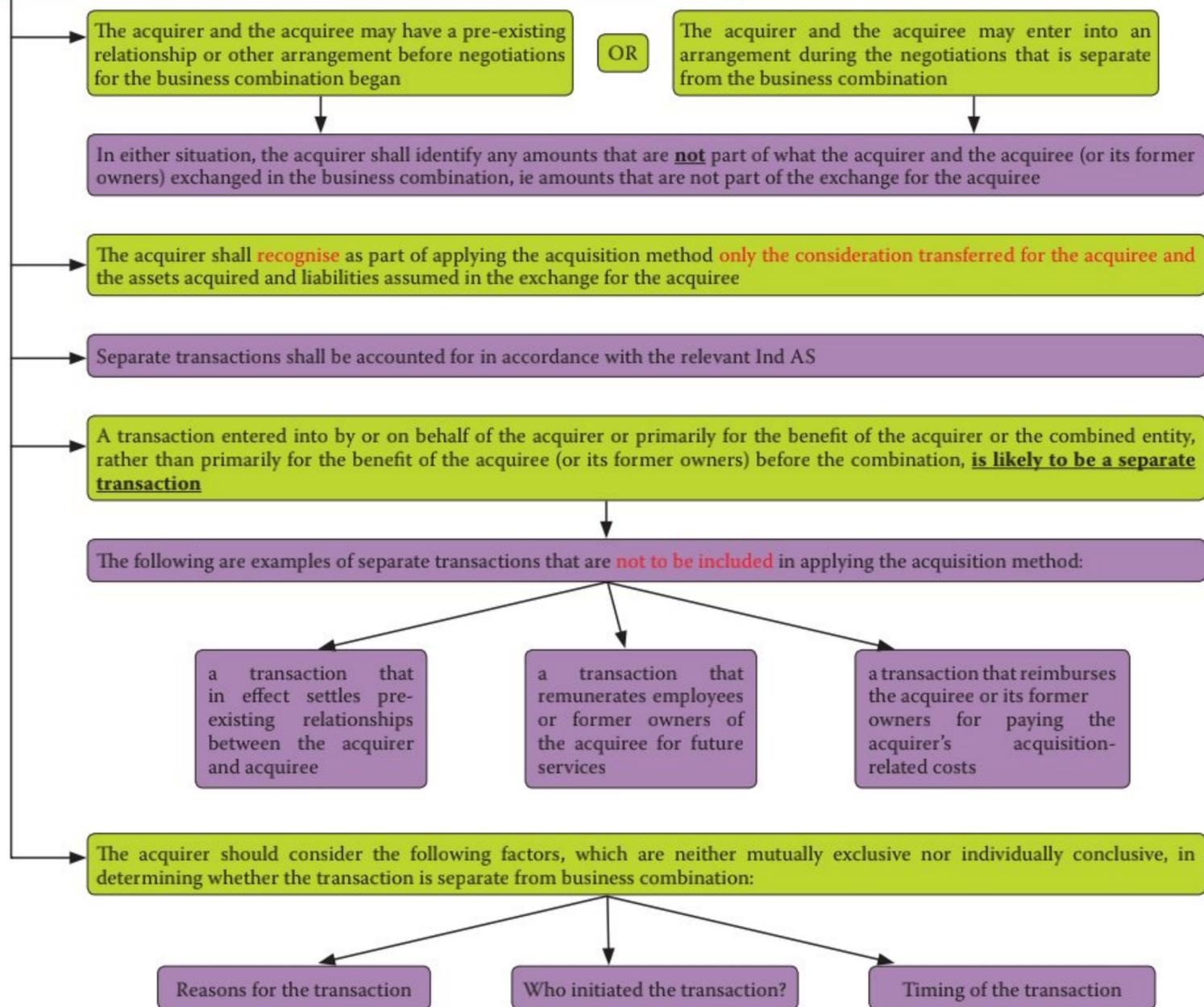
**A Business Combination Achieved in Stages**

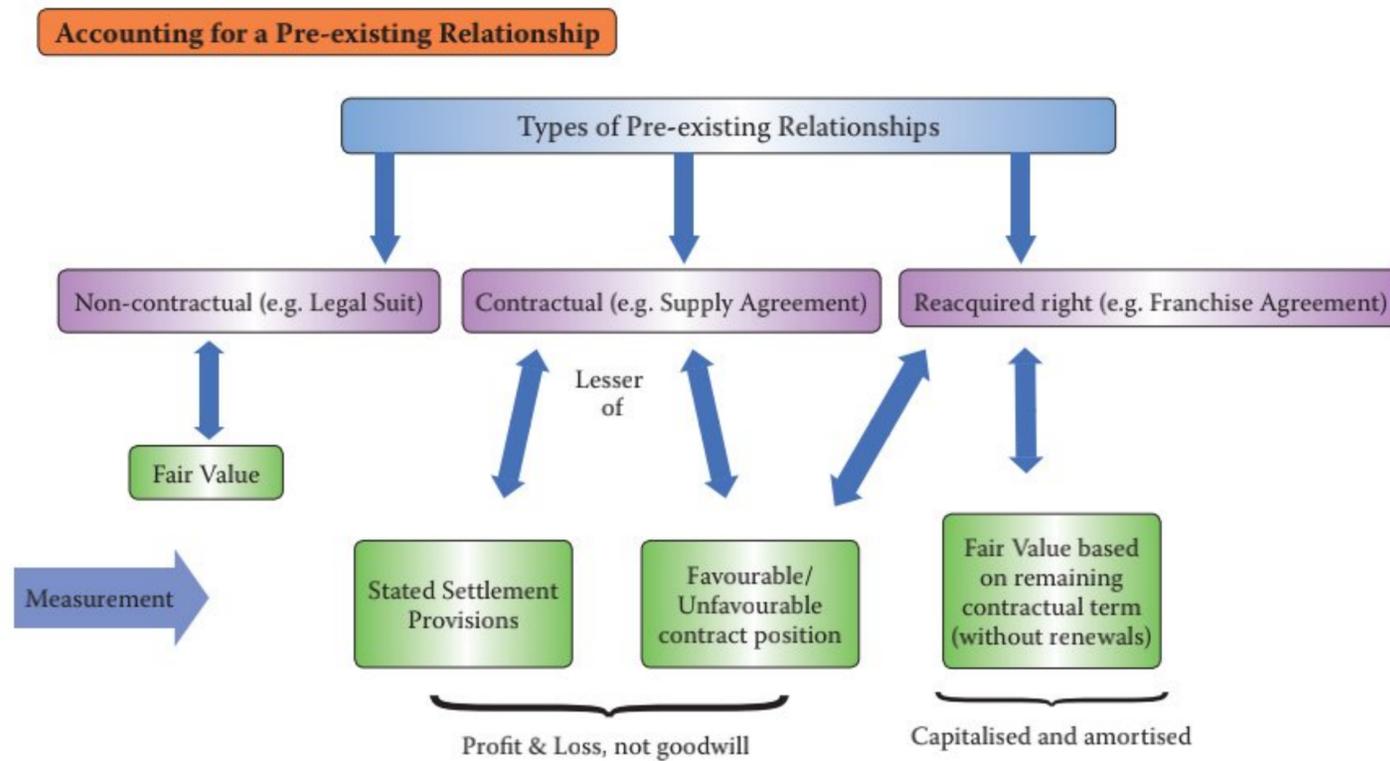






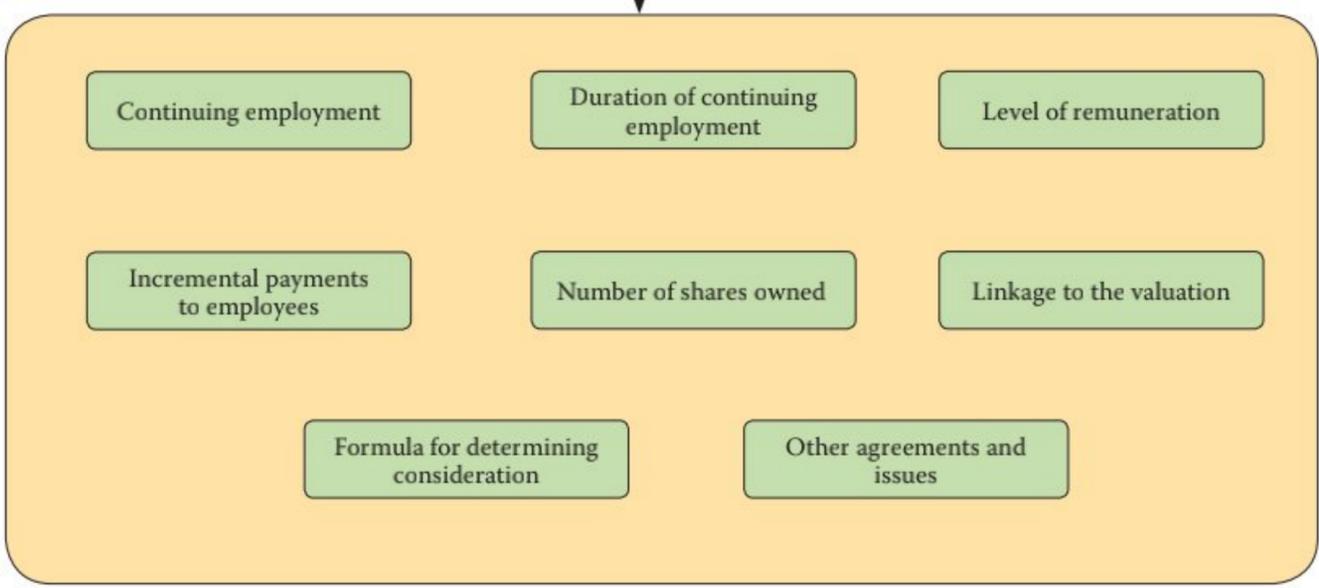
**Determining what is Part of the Business Combination Transaction**

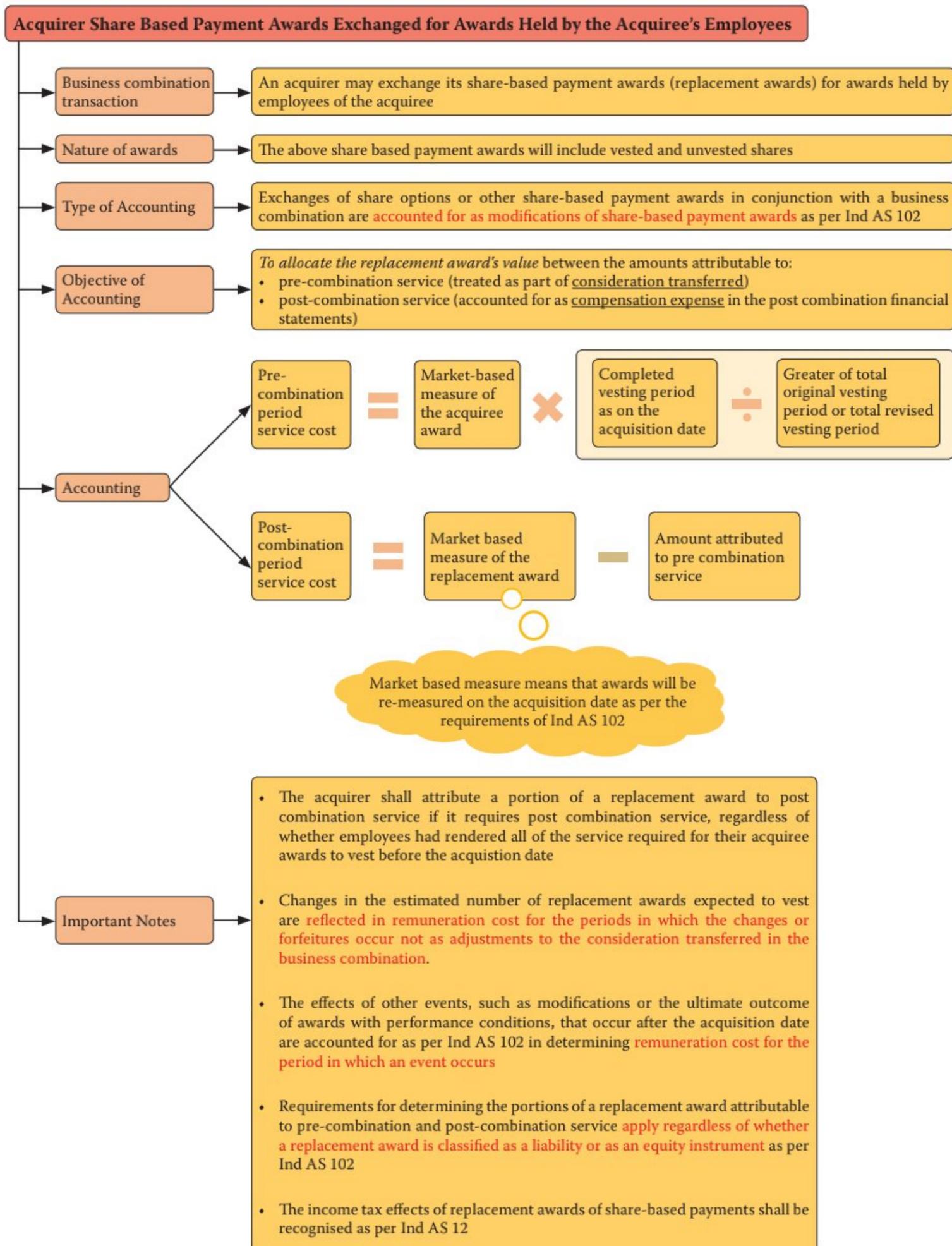


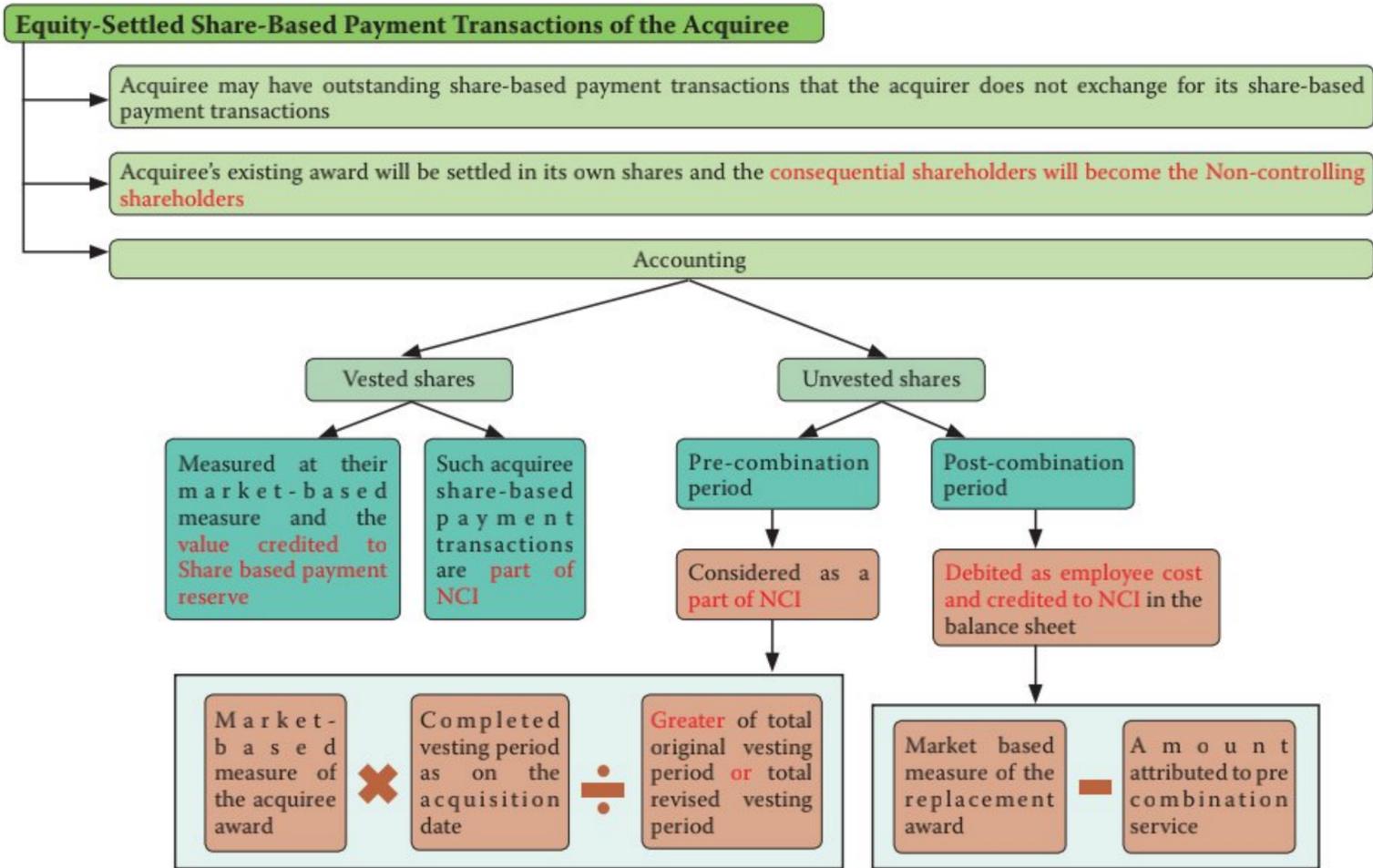


**Contingent Payments to Employees or Selling Shareholders**

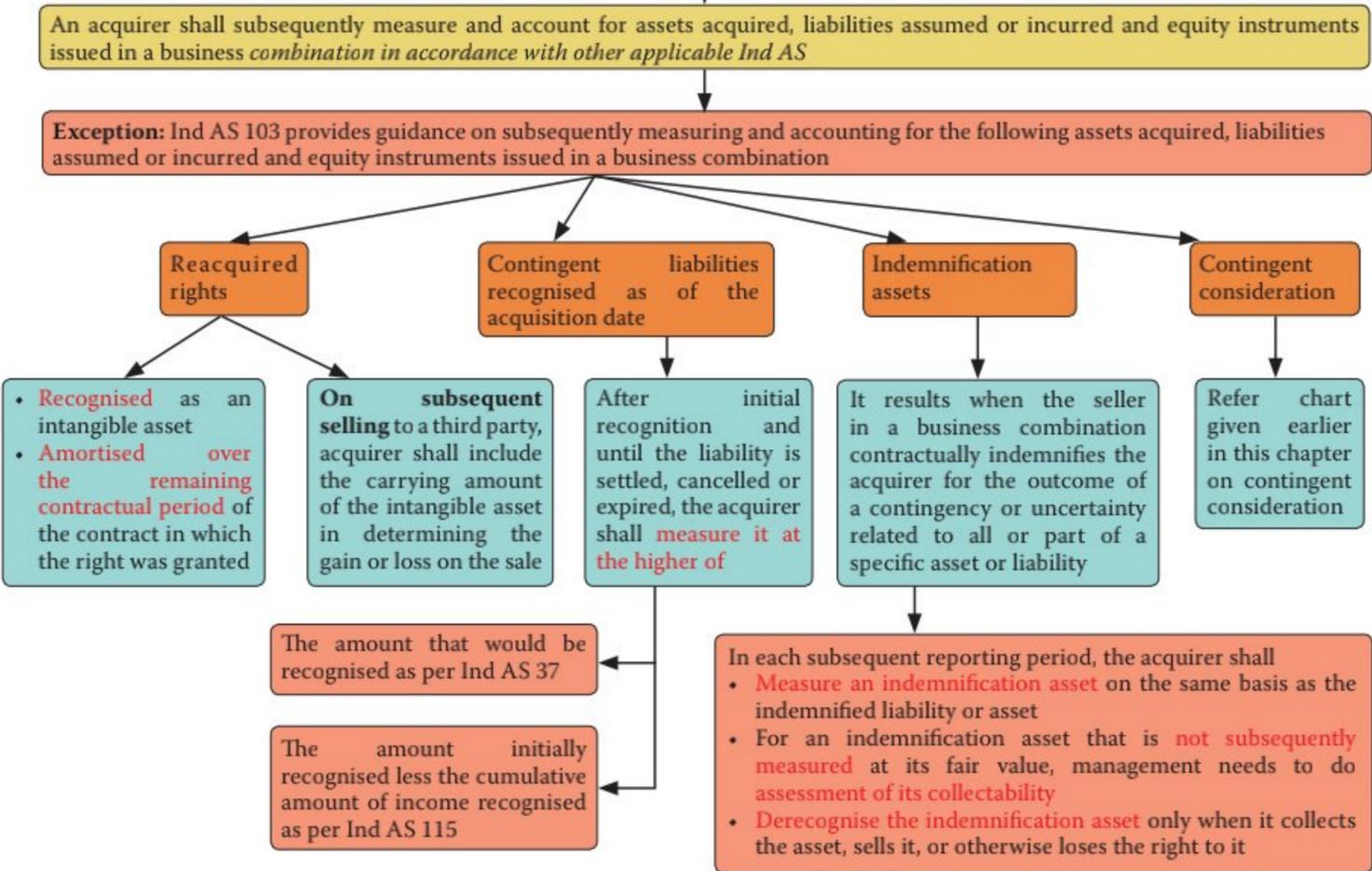
To identify an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators:







**Subsequent Measurement and Accounting**

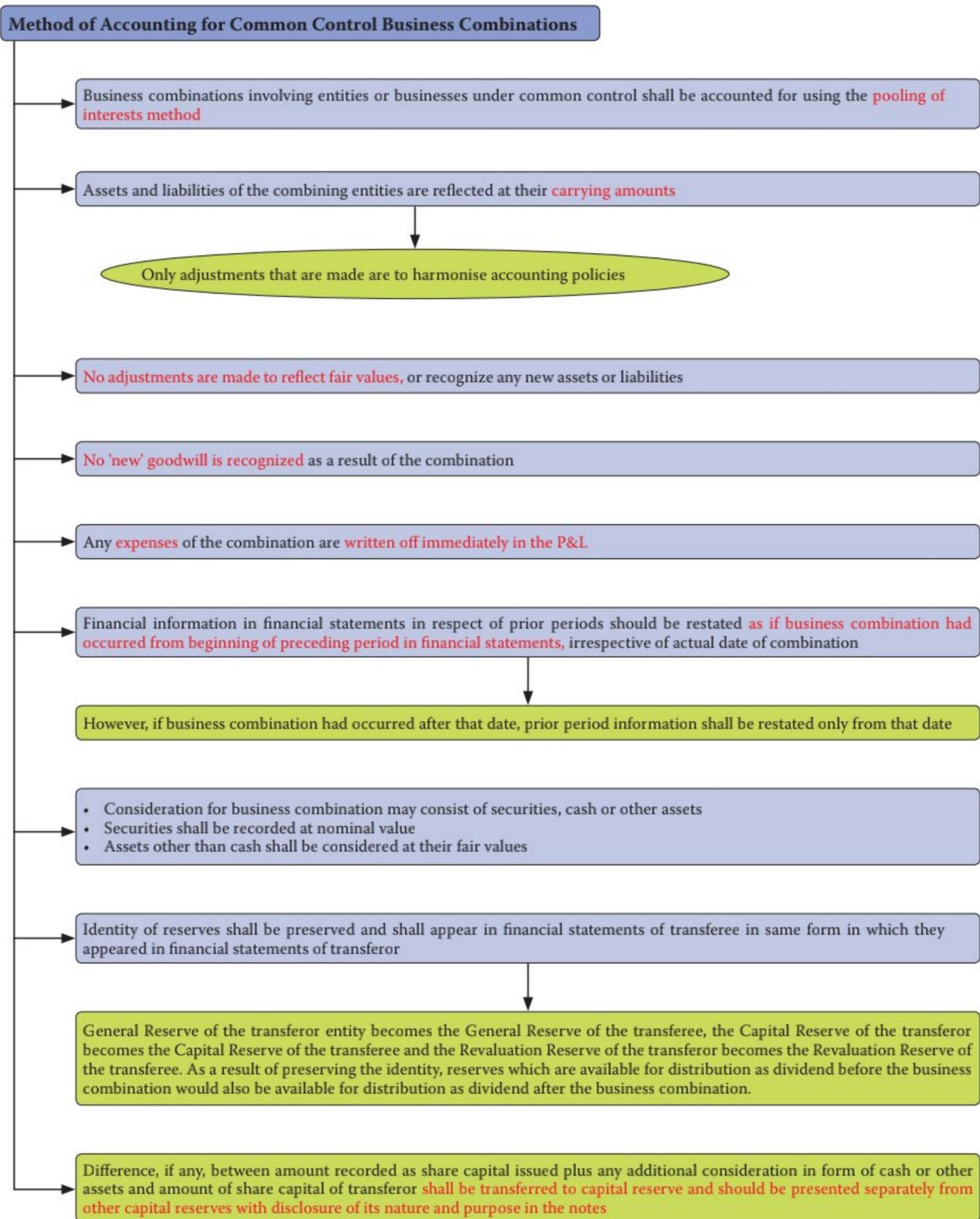


### Other Ind AS that Provide Guidance on Subsequent Measurement and Accounting in a Business Combination

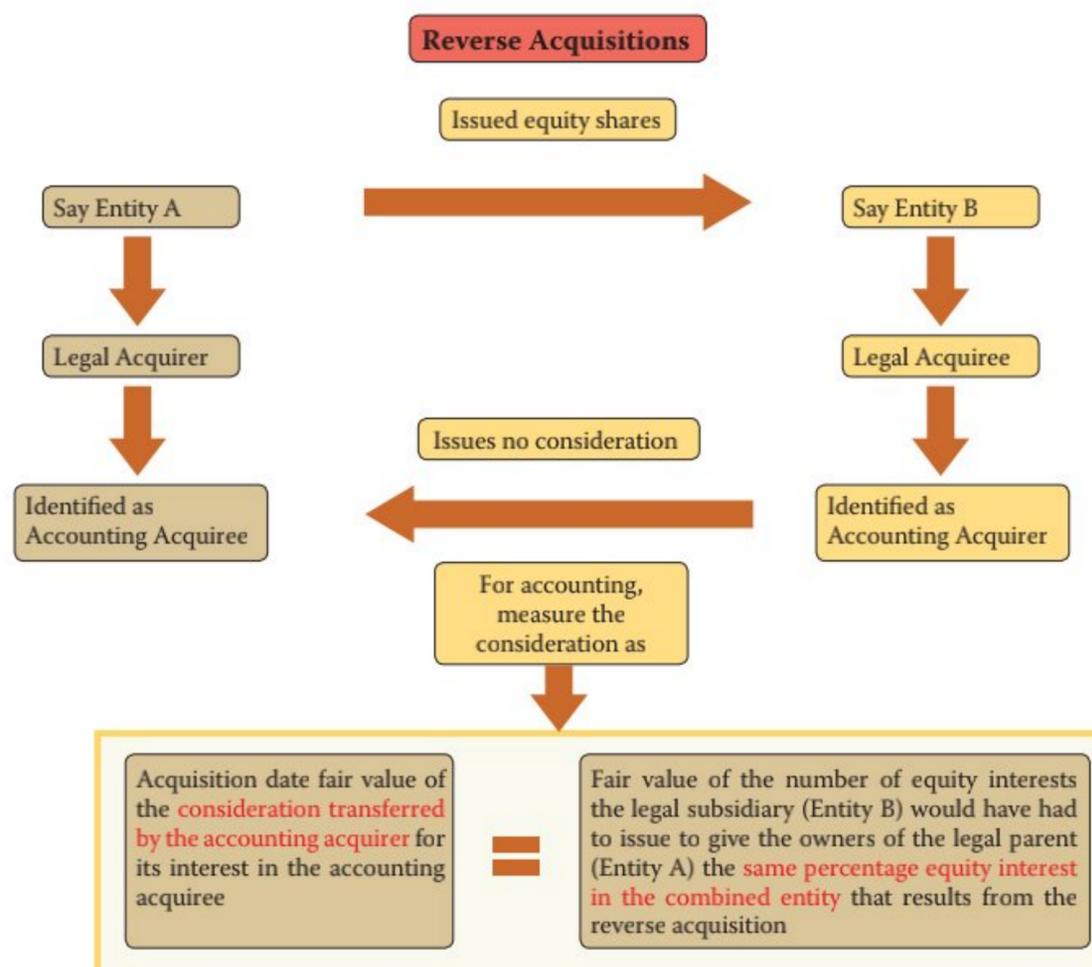
- Ind AS 38 prescribes the accounting for identifiable intangible assets acquired in a business combination
- The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses.
- Ind AS 36 prescribes the accounting for impairment losses
- Ind AS 104 provides guidance on the subsequent accounting for an insurance contract acquired in a business combination
- Ind AS 12 prescribes the subsequent accounting for deferred tax assets (including unrecognised deferred tax assets) and liabilities acquired in a business combination
- Ind AS 102 provides guidance on subsequent measurement and accounting for the portion of replacement share-based payment awards issued by an acquirer that is attributable to employees' future services
- Ind AS 110 provides guidance on accounting for changes in a parent's ownership interest in a subsidiary after control is obtained

### Common Control Business Combinations

- Applicable pronouncement** → Appendix C of Ind AS 103 deals with accounting for business combinations of entities or businesses under common control
- Definition** → It is 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
- Inclusion** → Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group
- Role of NCI** →
  - The extent of NCI in each of the combining entities before and after the business combinations is **not** relevant to determine whether a combination involves entities under common control
  - Partially owned subsidiary is always under the control of the parent entity
- Scope** →
  - It is not necessary that combining entities are included as part of the same CFS
  - A group of individuals shall be considered 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
- Accounting** → Business combinations involving entities or businesses under common control shall be accounted for using the **pooling of interests method**



Summary of Accounting for Common Control Business Combination		
S. No.	Particular	Treatment
1.	Method of accounting	Pooling of interests method
2.	Assets and liabilities of transferor company taken over by the transferee company	At carrying values
3.	Adjustments in accounting of business combination	Adjustments are made only to harmonise the accounting policies
4.	Financial information in financial statements in respect of prior periods	Restated as if business combination had occurred from beginning of preceding period in financial statements, irrespective of actual date of combination. However, if business combination had occurred after that date, prior period information shall be restated only from that date.
5.	Reserves of transferor company	Identities are preserved and shall appear in financial statements of transferee in same form in which they appeared in financial statements of transferor company
6.	Goodwill	Not recognised
7.	Expenses incurred on combination of business	Written off immediately in the Profit and Loss account
8.	Purchase Consideration (PC)	Consists of securities, cash or other assets
9.	Securities given under purchase consideration	Recorded at nominal value
10.	Assets other than cash given under purchase consideration	Considered at their fair values
11.	Cash given under purchase consideration	Actual value
12.	Difference, if any, between amount recorded as share capital issued plus any additional consideration in form of cash or other assets and amount of share capital of transferor	Transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes



### Preparation and Presentation of Consolidated Financial Statements (Reverse Acquisitions)

Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal parent (accounting acquiree)

But it is described in the notes as a continuation of the financial statements of the legal subsidiary (accounting acquirer), with one adjustment, which is to **adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquiree**. That adjustment is required to reflect the capital of the legal parent (the accounting acquiree).

**Comparative information** presented in those consolidated financial statements **also is retroactively adjusted** to reflect the legal capital of the legal parent (accounting acquiree).

Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:

(a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.

(b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured in accordance with this Ind AS.

(c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.

(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree).

(e) in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets *even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date*.

In a reverse acquisition, some of the owners of the legal acquiree (the accounting acquirer) might not exchange their equity interests for equity interests of the legal parent (the accounting acquiree). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition.

#### For Earnings per Share for the current period

In calculating the weighted average number of ordinary shares outstanding (the denominator of the earnings per share calculation) during the period in which the reverse acquisition occurs:

- the number of ordinary shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted average number of ordinary shares of the legal acquiree (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and
- the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal acquirer (the accounting acquiree) outstanding during that period.

#### For Earnings per Share for the comparative period

The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be **calculated by dividing**:

- the profit or loss of the legal acquiree attributable to ordinary shareholders in each of those periods by
- the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement

## Main Disclosures

- General information on the business combination
- Assets acquired and liabilities assumed
- Goodwill or a gain on bargain purchase
- Transactions that are not part of the business combination;
- In which the acquirer holds less than 100 percent of the acquiree;
- Business combinations achieved in stages, i.e., step acquisitions;
- Pro forma information about revenue and profit or loss; and
- Measurement period adjustments and contingent consideration adjustments.
- Revenue and profit or loss of combined entity for current reporting period as though acquisition date for all business combinations that occurred during the year had been as of beginning of annual reporting period
- Reconciliation of movements in goodwill:
  - Opening amounts for gross goodwill and impairment losses
  - Additional goodwill recognised in the period
  - Adjustments from recognition of deferred tax assets
  - Movements in goodwill of a 'disposal group' under Ind AS 105
  - Impairment losses recognised in the period
  - Net exchange differences arising in the period
  - Any other changes arising in the period
  - Closing amounts for gross goodwill and impairment losses
- Other disclosures as prescribed in the standard

## Carve-Out in Ind As 103 From IFRS 3

## As Per IFRS

IFRS 3 requires bargain purchase gain arising on business combination to be recognised in **profit or loss** as income

## Carve-Out

Ind AS 103 requires the bargain purchase gain to be recognised in **other comprehensive income** and accumulated in equity as **capital reserve**

Unless there is no clear evidence for the underlying reason for classification of the business combination as a bargain purchase, in which case, it shall be recognised directly in equity as **capital reserve**

## Reason for Carve-Out

Bargain purchase gain occurs at the time of acquiring a business

Recognition of such gains in profit or loss would result into recognition of unrealized gains, which may get distributed in the form of dividends

Such a treatment may lead to structuring through acquisitions, which may not be in the interest of the stakeholders of the company

## Carve-In in Ind As 103 From IFRS 3

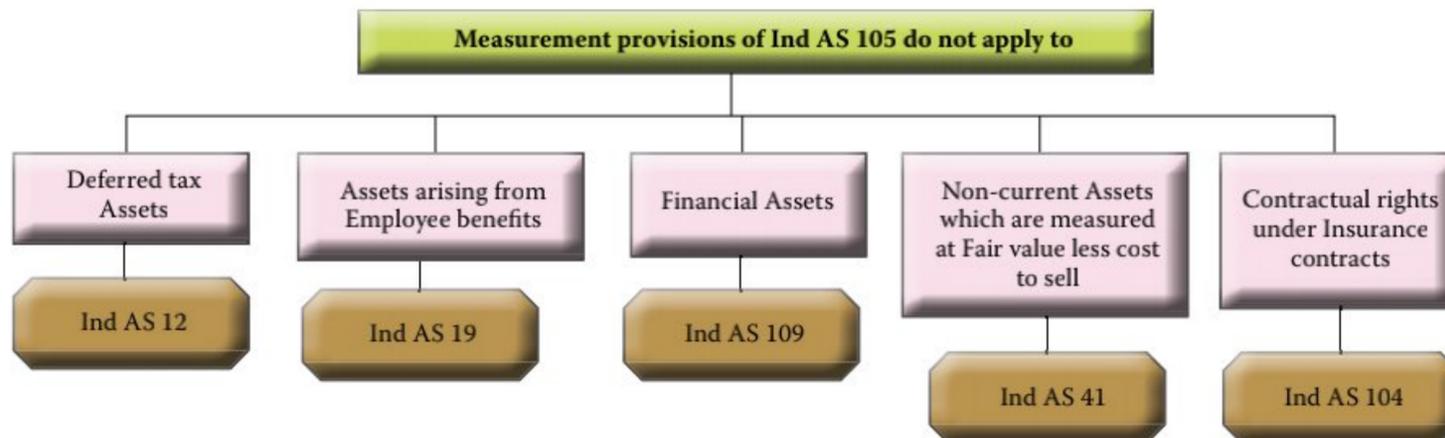
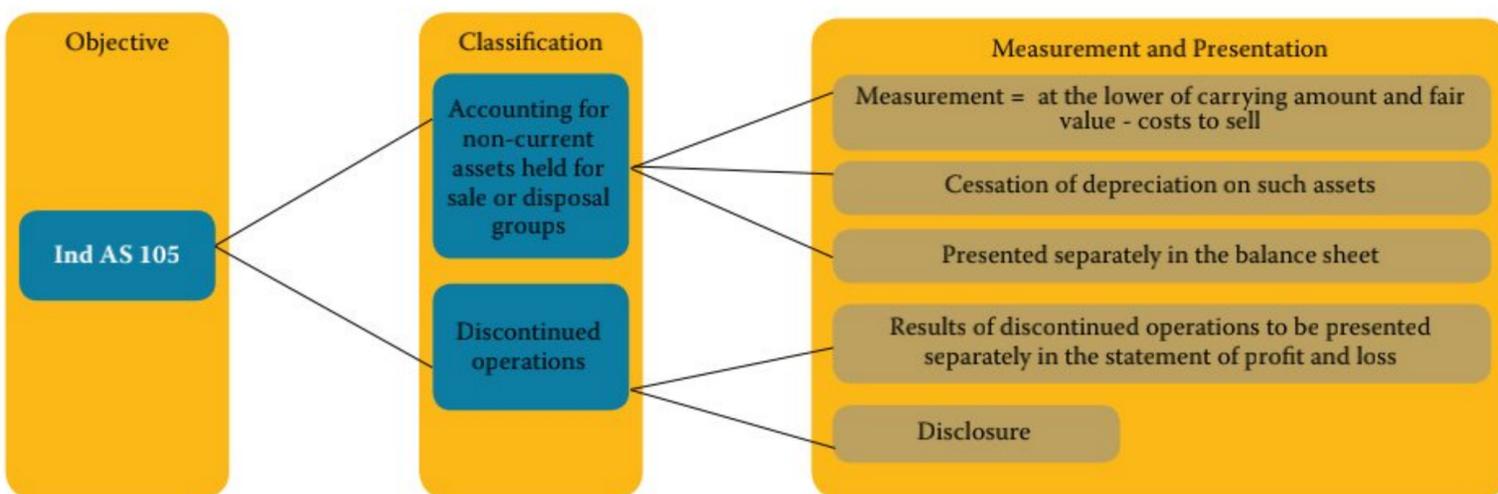
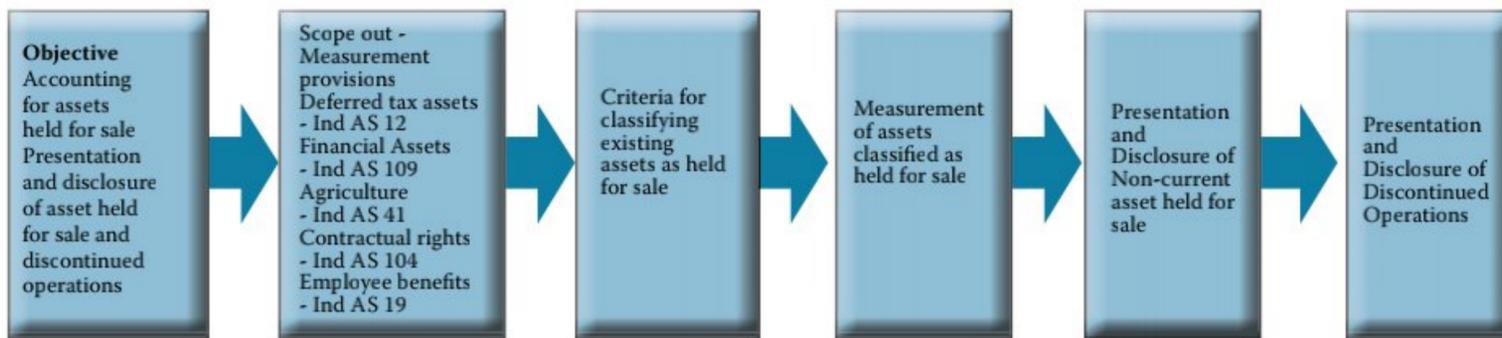
## As Per IFRS

IFRS 3 excludes from its scope- business combinations of entities under common control

## Carve-In

Appendix C of Ind AS 103, *Business Combinations* gives guidance on business combinations of entities under common control

**INDIAN ACCOUNTING STANDARD (IND AS) 105:  
NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

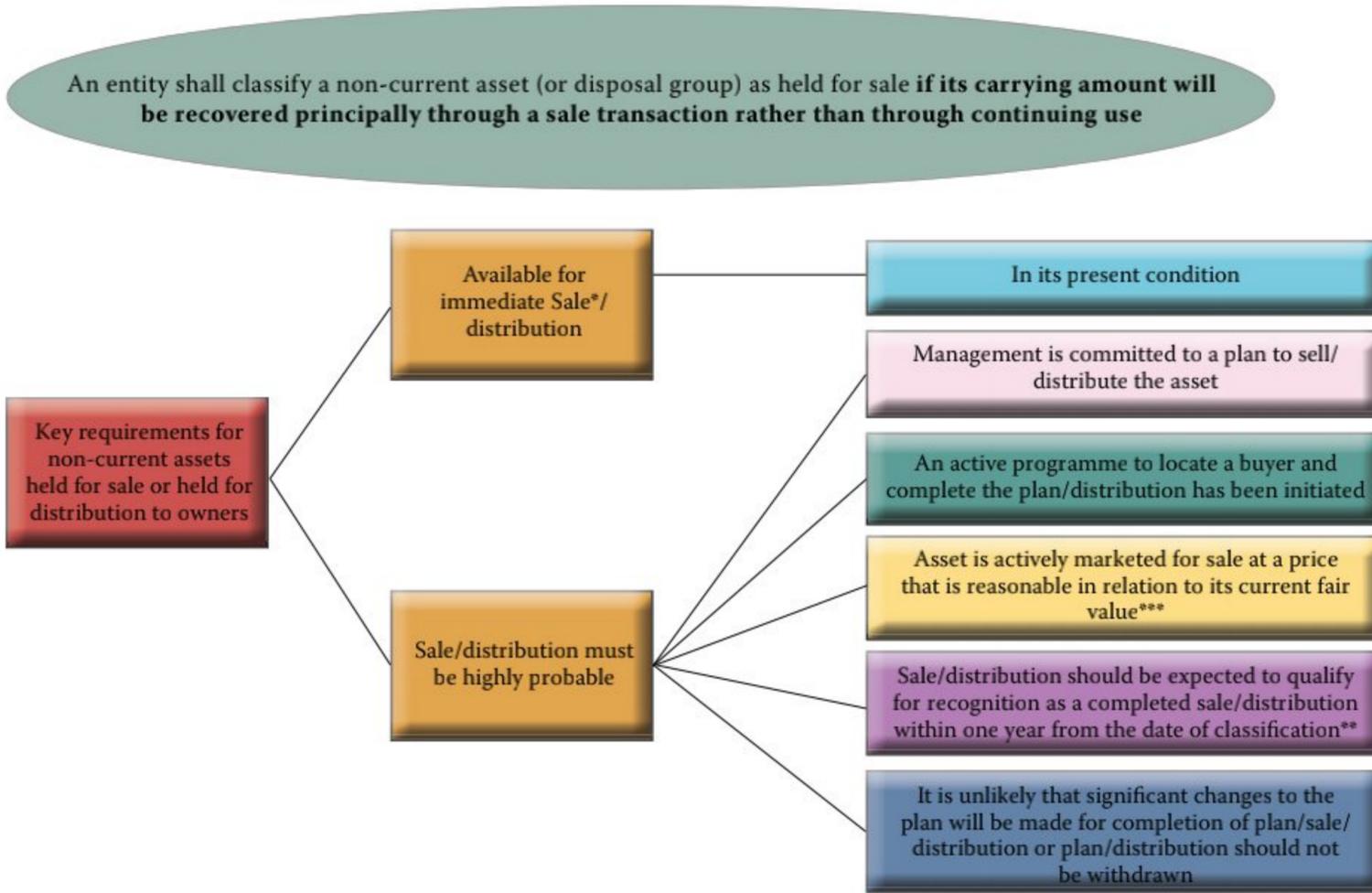


**Note:**

1. Assets classified as non-current (as per Ind AS 1), shall not be reclassified as *current assets* until they meet the criteria to be classified as held for sale as per Ind AS 105.
2. Non-current assets acquired exclusively for resale shall not be classified as current unless they meet the criteria to be classified as held for sale as per Ind AS 105.
3. Disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit.
4. The group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded from the measurement requirements of this Ind AS.

5. Measurement requirements of this Ind AS apply to the group as a whole, so that the **group is measured at the lower of its carrying amount and fair value less costs to sell**.
6. The classification, presentation and measurement requirements in this Ind AS are applicable to both non-current asset (or disposal group) that is classified as:
  - held for sale; and
  - held for distribution to owners.
7. This Ind AS specifies the disclosures required in respect of non-current assets (or disposal groups) **classified as held for sale or discontinued operations**. Disclosures in other Ind ASs do not apply to such assets.

Classification of non-current assets (or disposal groups) as held for sale or held for distribution to owners



\* Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance

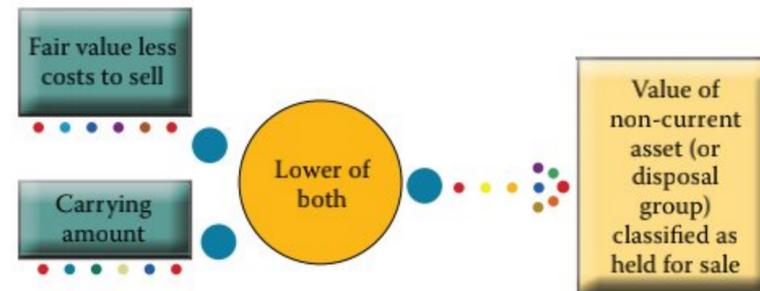
\*\*If the entity remains committed to its plan to sell the asset (or disposal group), events or circumstances beyond the entity's control may extend the period to complete the sale beyond one year

\*\*\*Not applicable for non-current assets held for distribution to owners

Note:

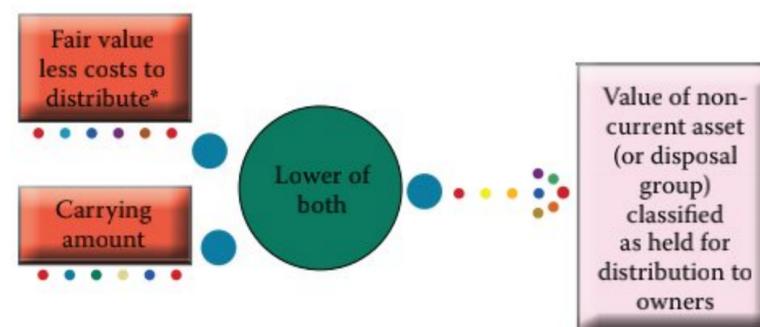
S. No.	Particular	Details
1.	Acquisition of non-current asset (or disposal group) with intention to subsequent sale within a year	Classify the non-current asset (or disposal group) as held for sale subject to the conditions specified in the above chart
2.	Non-current assets that are to be abandoned	It shall <b>not</b> be classified as held for sale since its carrying amount will be recovered principally through continuing use and not from sale

Measurement of non-current assets (or disposal groups) classified as held for sale



Note:

If the asset (or disposal group) is acquired as part of a business combination, it shall be measured at fair value less costs to sell.



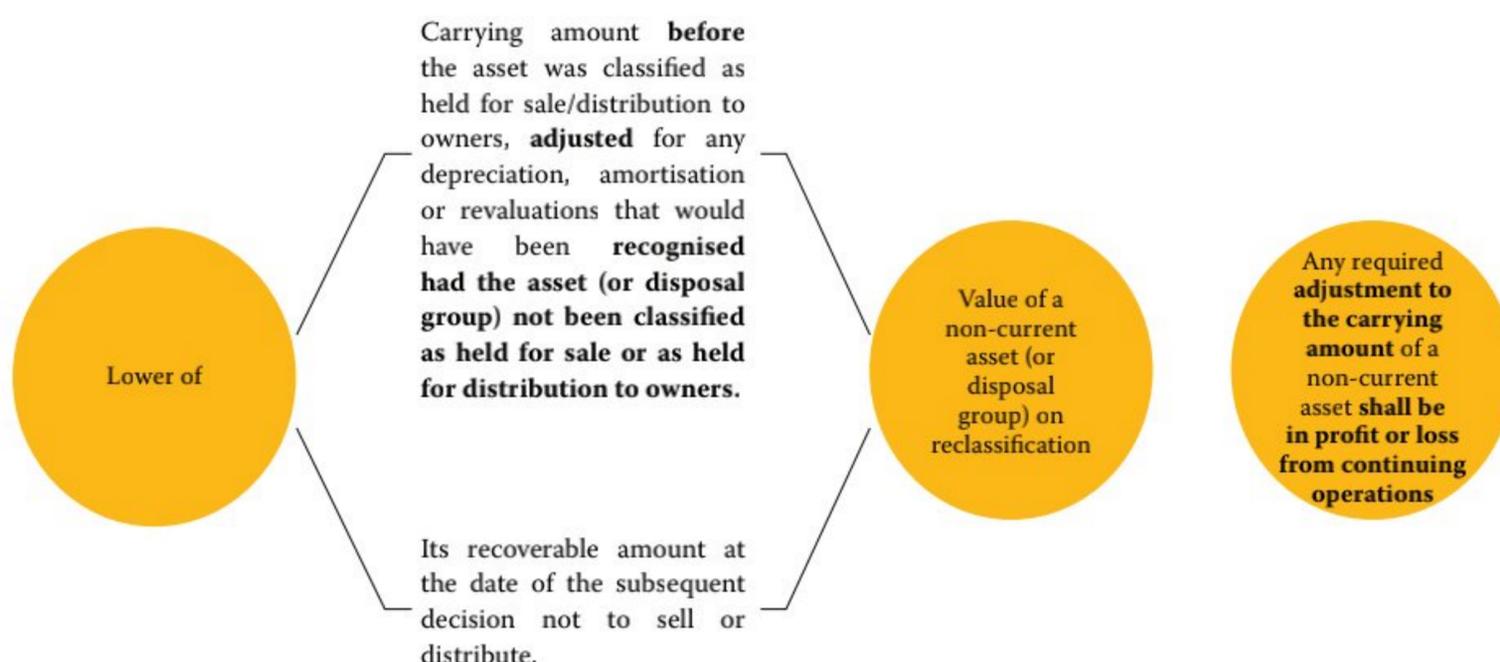
\*Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

**Recognition of impairment losses and reversals**

- 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.
- An entity shall **recognise a gain for any subsequent increase in fair value less costs to sell** of an asset to the extent of the cumulative impairment loss that has been recognised previously
- 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.
- Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

**Changes to a plan of sale or to a plan of distribution to owners**

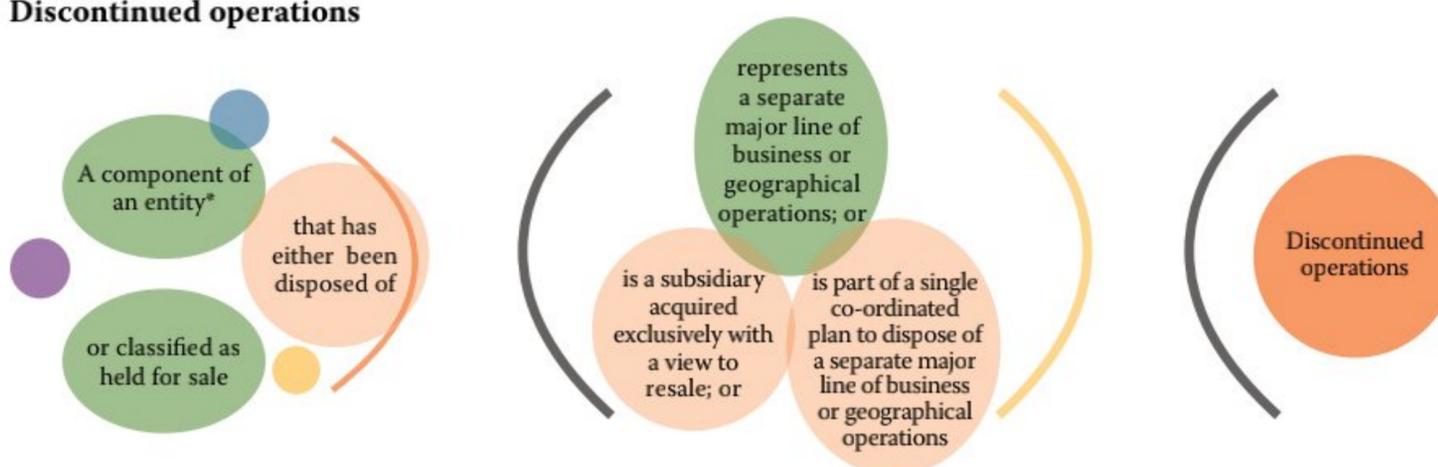
- If an asset (or disposal group) classified as held for sale or as held for distribution to owners previously, no longer meets the criteria for such classification, then it shall be ceased to classify as the asset (or disposal group) held for sale or held for distribution to owners (respectively).
- If an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution to owners, or directly from being held for distribution to owners to being held for sale, **then the change in classification is considered a continuation of the original plan of disposal.**
- The entity shall **not change the date of classification.**

**Measurement in case of above changes****Presentation and Disclosure of a non-current asset (or disposal group) classified as held for sale****Presentation**

- **Present a non-current asset classified as held for sale separately** from other assets in the balance sheet.
- **Present the liabilities of a disposal group classified as held for sale separately** from other liabilities in the balance sheet. **Those assets and liabilities should not be offset and presented as a single amount.**
- **Separate disclosure is required for major classes of assets and liabilities** classified as held for sale.
- **Present separately any cumulative income or expense recognised in OCI** relating to such non-current asset classified as held for sale.
- **Comparative amounts are not reclassified or re-presented** to reflect the classification in the balance sheet for the latest period presented.
- Any gain or loss on the remeasurement does not meet the definition of a discontinued operation shall be included in profit or loss from continuing operations.

**Disclosure**

- Description of the non-current asset (or disposal group)
- Description of facts and circumstances of the sale, or leading to the expected disposal and the expected manner and timing of that disposal
- Gain or loss recognised and if not presented separately on the face of the income statement, the caption in the income statement that includes that gain or loss
- The reportable segment in which the non-current asset (or disposal group) is presented, if any
- If there is a change of plan to sell, a description of facts and circumstances leading to the decision and its effect on results

**Discontinued operations**

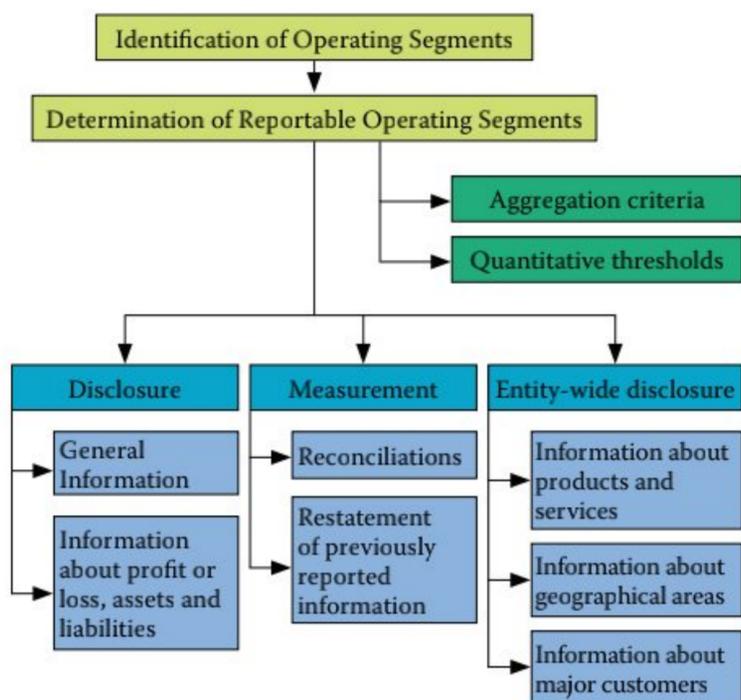
\* A component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use

**Presentation and Disclosure of Discontinued Operations**

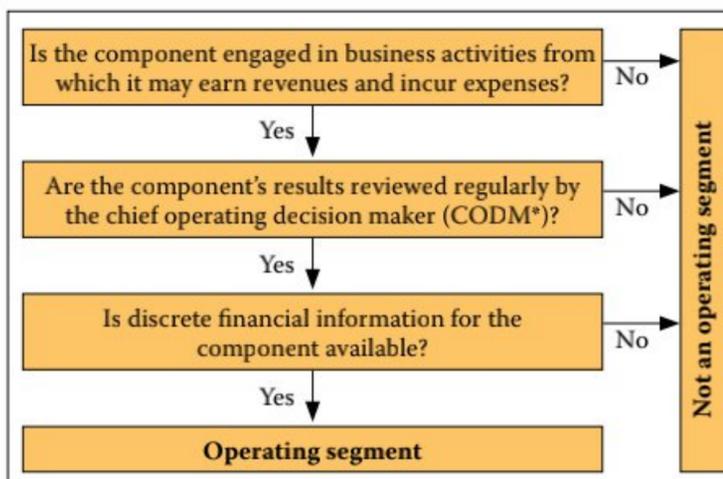
S.No.	Particulars	Detail disclosure
1.	Separate presentation	<ul style="list-style-type: none"> <li>▪ Presentation and disclosure shall enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)</li> <li>▪ This allows the user to distinguish between continuing operations and those which will not</li> </ul>
2.	In the statement of profit and loss	<ul style="list-style-type: none"> <li>▪ Disclose a single amount comprising the total of:               <ol style="list-style-type: none"> <li>(a) the post-tax profit or loss of discontinued operations; and</li> <li>(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.</li> </ol> </li> <li>▪ Disclose the analysis of this single amount into:               <ol style="list-style-type: none"> <li>(a) the revenue, expenses and pre-tax profit or loss of discontinued operations;</li> <li>(b) the related income tax expense as required in Ind AS 12;</li> <li>(c) the 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; and</li> <li>(d) the related income tax expense as required in Ind AS 12</li> </ol> </li> <li>▪ Present the analysis in the notes or in the statement of profit and loss</li> <li>▪ Disclosure of analysis is <b>not</b> required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition</li> <li>▪ Disclose the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of profit and loss</li> </ul>
3.	In the statement of cash flows	<ul style="list-style-type: none"> <li>▪ Disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations either in the notes or in the financial statements</li> <li>▪ These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition</li> <li>▪ Comparative figures for prior periods are also re-presented</li> </ul>
4.	Adjustment to prior period disposals	Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period should be classified separately in discontinued operations. The nature and amount of such adjustments are disclosed.

INDIAN ACCOUNTING STANDARD (IND AS) 108: OPERATING SEGMENTS

Overview



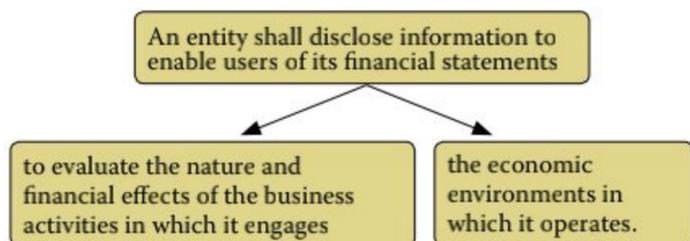
Identification of Operating Segment (a component of an entity)



\* The term 'Chief Operating Decision Maker' (CODM) identifies a function, **not necessarily a manager with a specific title**. The chief operating decision maker of an entity may be

- chief executive officer, or
- chief operating officer, or
- a group of executive directors or others.

Core Principle



Important points:

1. If an entity that is not required to apply Ind AS 108 chooses to disclose information about segments that does not comply with Ind AS 108, it should not describe the information as segment information.
2. **If a financial report contains both the consolidated financial statements of a parent that is within the scope of Ind AS 108 as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.**

Important Points regarding identification of operating segment

1. An operating segment may engage in business activities for which it has yet to earn revenues.
2. An entity's post-employment benefit plans are not operating segments.
3. If CODM uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, like
  - a. the nature of the business activities of each component,
  - b. the existence of managers responsible for them, and
  - c. information presented to the board of directors.
4. If the characteristics for identifying the operating segment apply to more than one set of components of an organisation but there is only one set for which segment managers\* are held responsible, that set of components constitutes the operating segments.

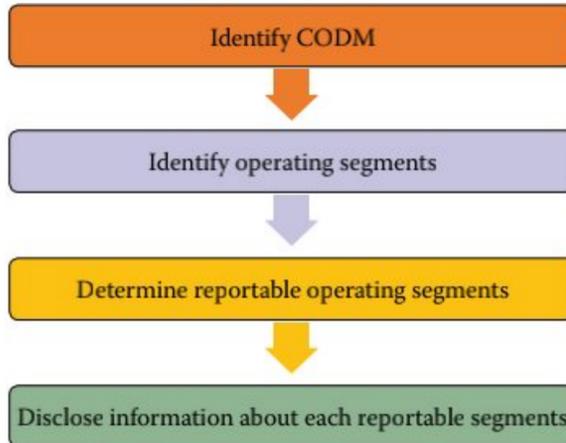
\* The term 'segment manager' identifies a function, **not necessarily a manager with a specific title**. He is directly accountable to and maintains regular contact with the chief operating decision maker. A CODM may also be a segment manager for some operating segments.

**Reportable segments**

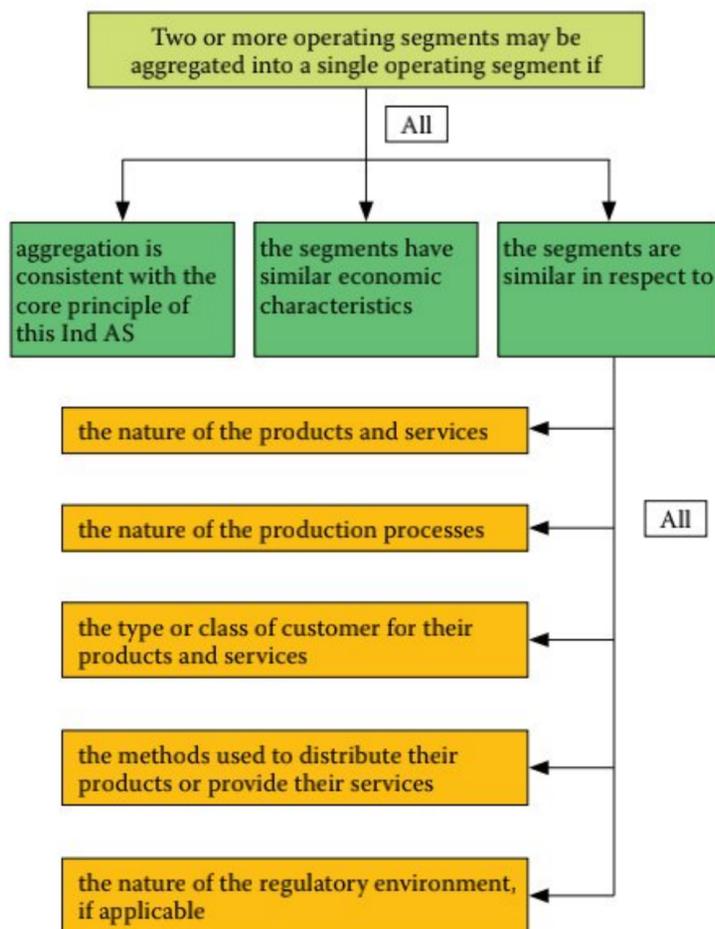
An entity should report separately information about each operating segment that:

- (a) has been identified as operating segment or results from aggregating two or more of those segments (as per aggregation criteria); **AND**
- (b) exceeds the quantitative thresholds.

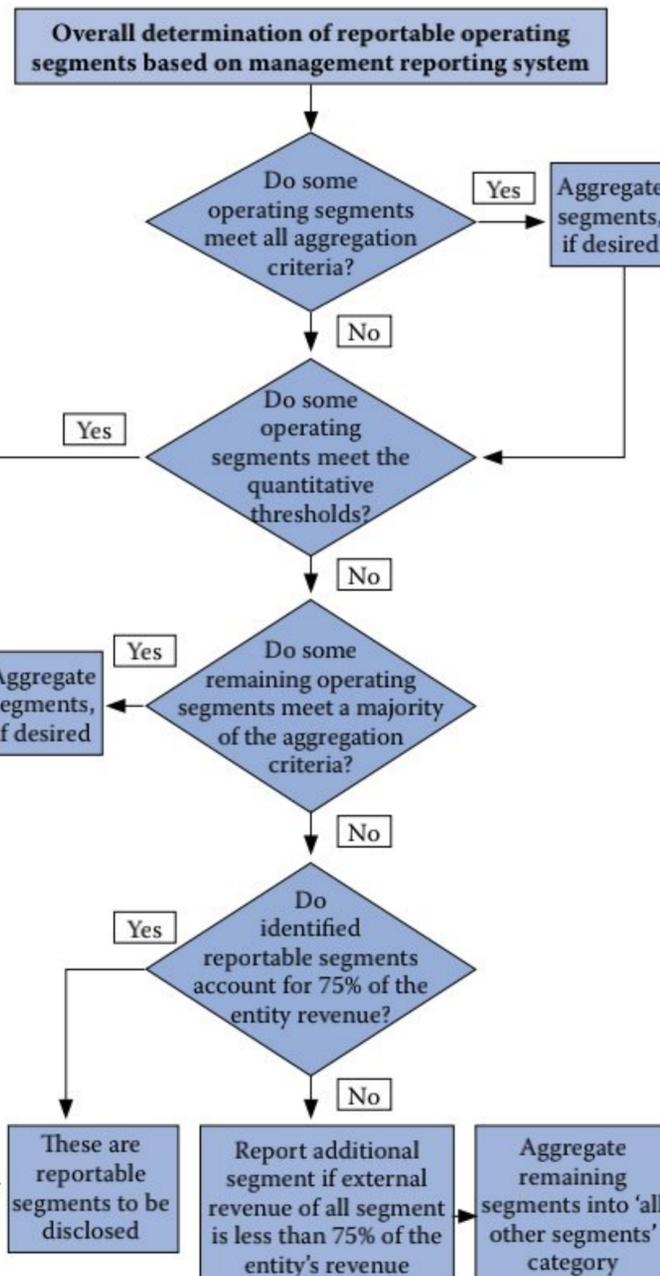
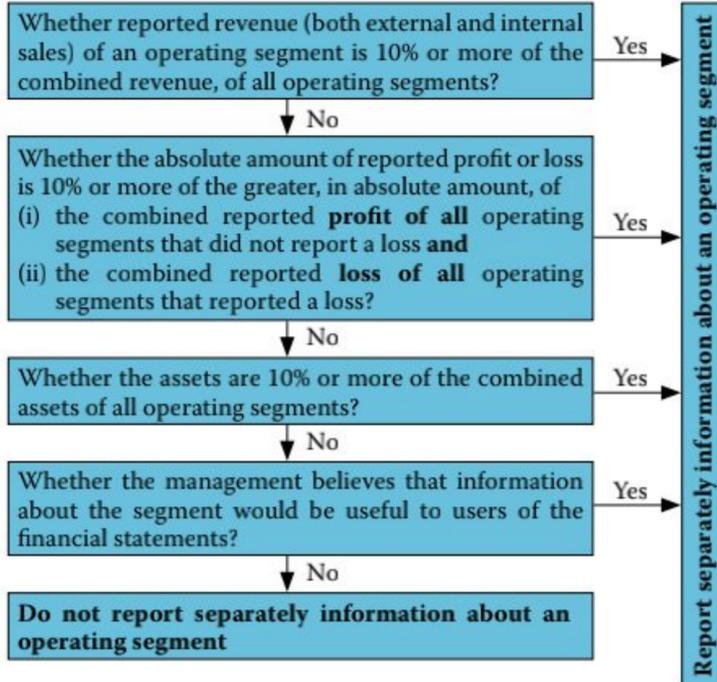
Standard specifies other situations in which separate information about an operating segment should be reported.



**Aggregation Criteria**



**Quantitative Thresholds Criteria**



**Important points:**

1. The information about two or more operating segments that do not meet the quantitative thresholds may be combined to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria.
2. Based on the management judgement, information about immediate preceding period reportable operating segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability.
3. If a new operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated, if practicable.

**Disclosure**

An entity shall disclose the following for **each period** for which a statement of profit and loss is presented

**General information:**  
 (a) factors used to identify the entity's reportable segments, including the basis of organisation  
 (b) the judgements made by management in applying the aggregation criteria ie  
 (i) a brief description of the operating segments that have been aggregated and  
 (ii) the economic indicators that have been assessed;  
 (c) types of products and services from which each reportable segment derives its revenues.

**Information about reported segment profit or loss, including**  
 > specified revenues and expenses included in reported segment profit or loss,  
 > segment assets,  
 > segment liabilities; and  
 > the basis of measurement.

**Reconciliation of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts**

**Note:**

1. An entity shall report a measure of profit or loss for each reportable segment.
2. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker.

**Measurement**

1. The amount of each segment item reported should be the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.
2. Adjustments and eliminations made in preparing an entity's financial statements are included in the measure of reporting of segment items only if that is used by the chief operating decision maker.
3. If CODM uses only one measure, then that measure shall be used for reporting operating segment. However, if CODM uses more than one measure, then the reported measures should be those that are most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

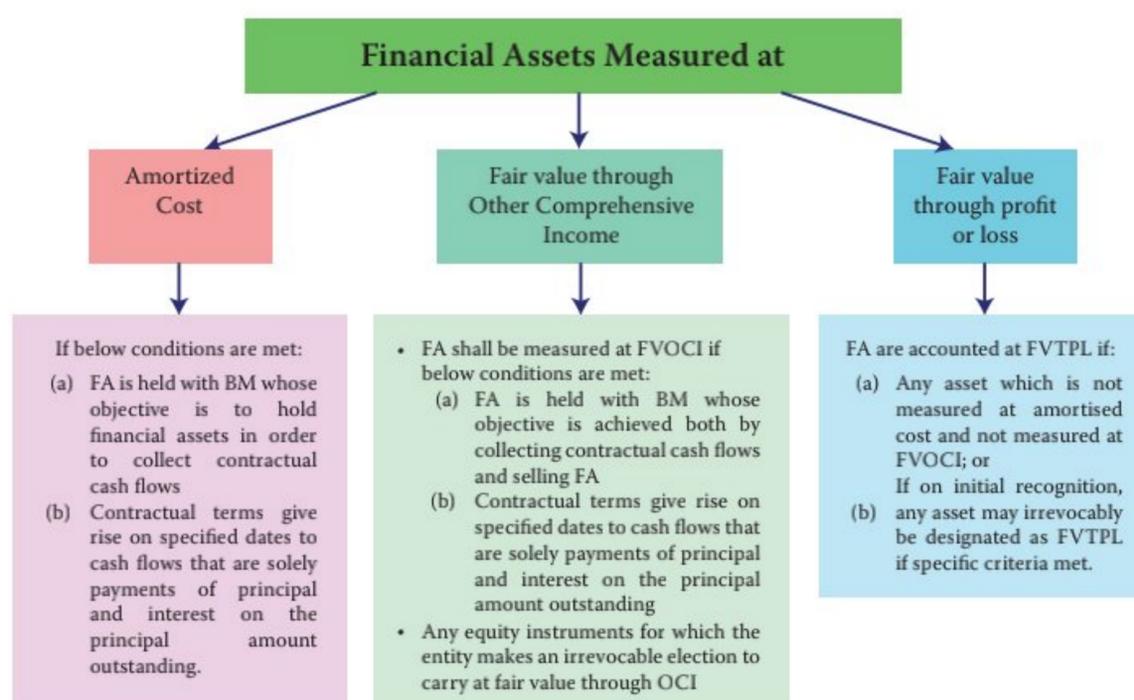
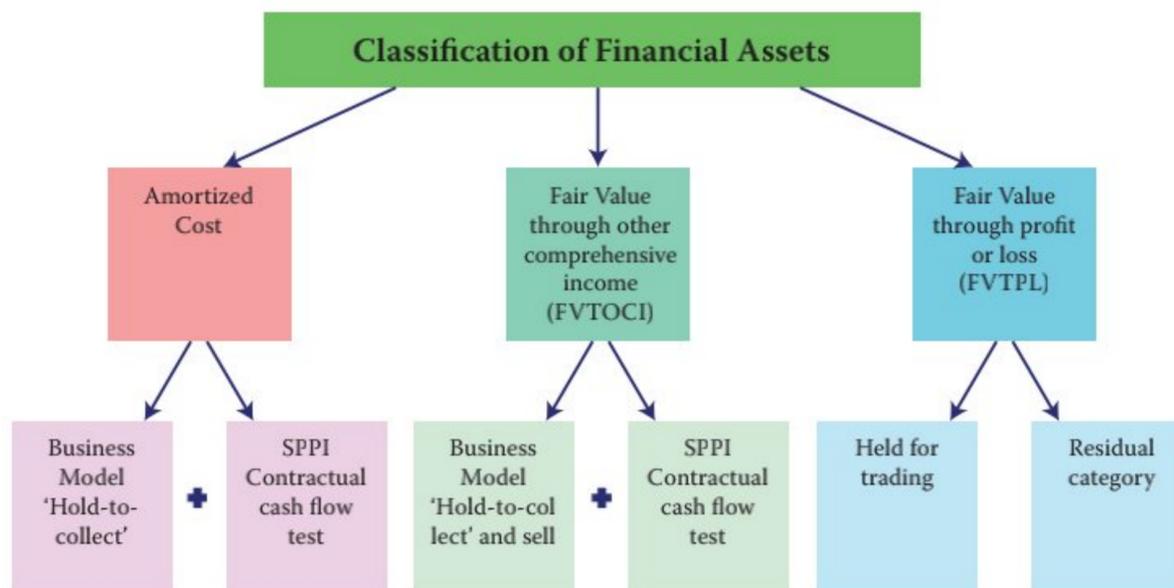
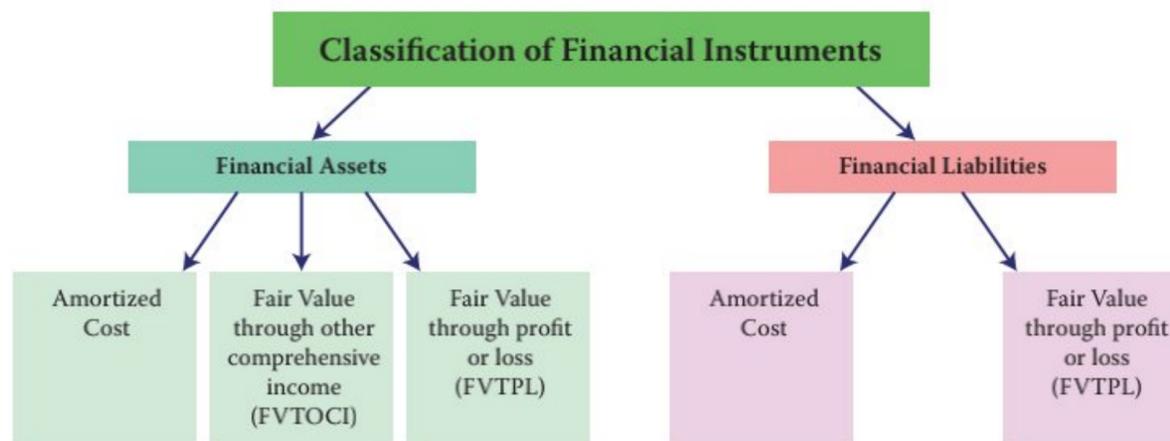
**Reconciliations**

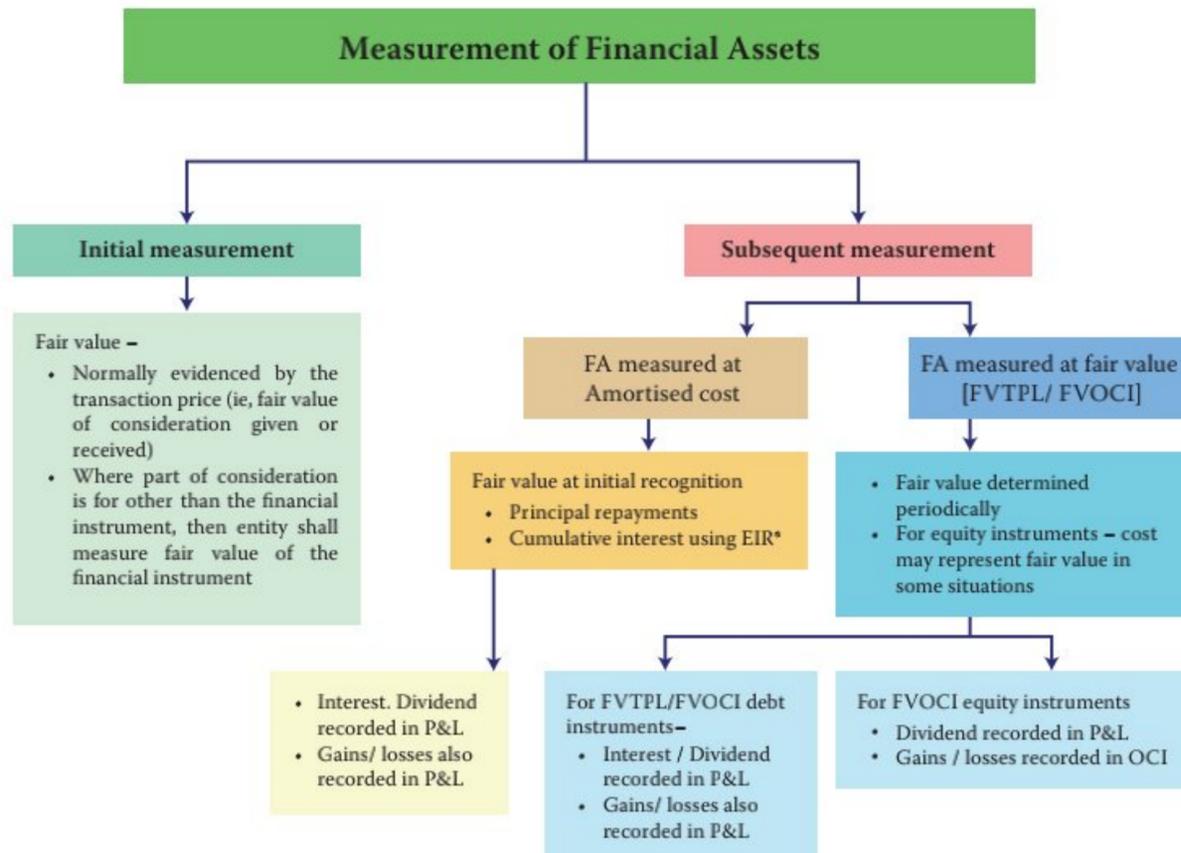
- An entity shall provide **reconciliations of all** of the following:
- (a) the total of the reportable segments' revenues to the entity's revenue.
  - (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations.
  - (c) the total of the reportable segments' assets to the entity's assets if the segment assets are reported.
  - (d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported.
  - (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.
- All material reconciling items shall be separately identified and described.

**Other information to be disclosed**

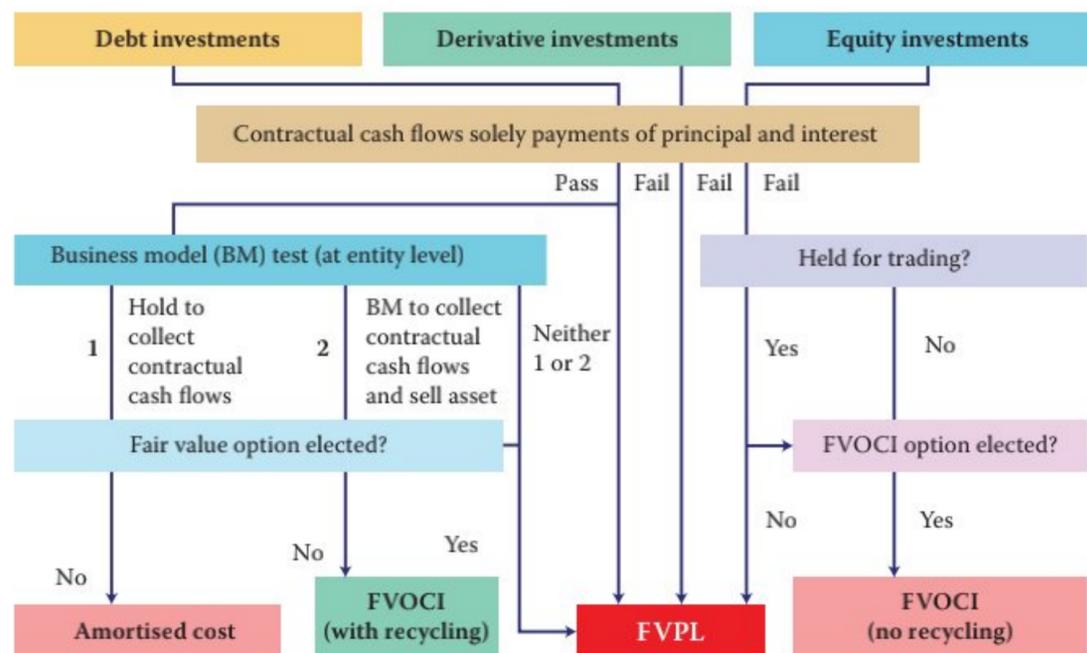
1. An entity should report the following geographical information, if possible:
  - (a) revenues from external customers
    - (i) attributed to the entity's country of domicile and
    - (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues should be disclosed separately alongwith the basis.
  - (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts
    - (i) located in the entity's country of domicile and
    - (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets should be disclosed separately.
2. If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, the entity should disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues.

INDIAN ACCOUNTING STANDARD (IND AS) 109:  
FINANCIAL INSTRUMENTS





The decision tree for classification of financial assets can be understood with the help of following flow chart



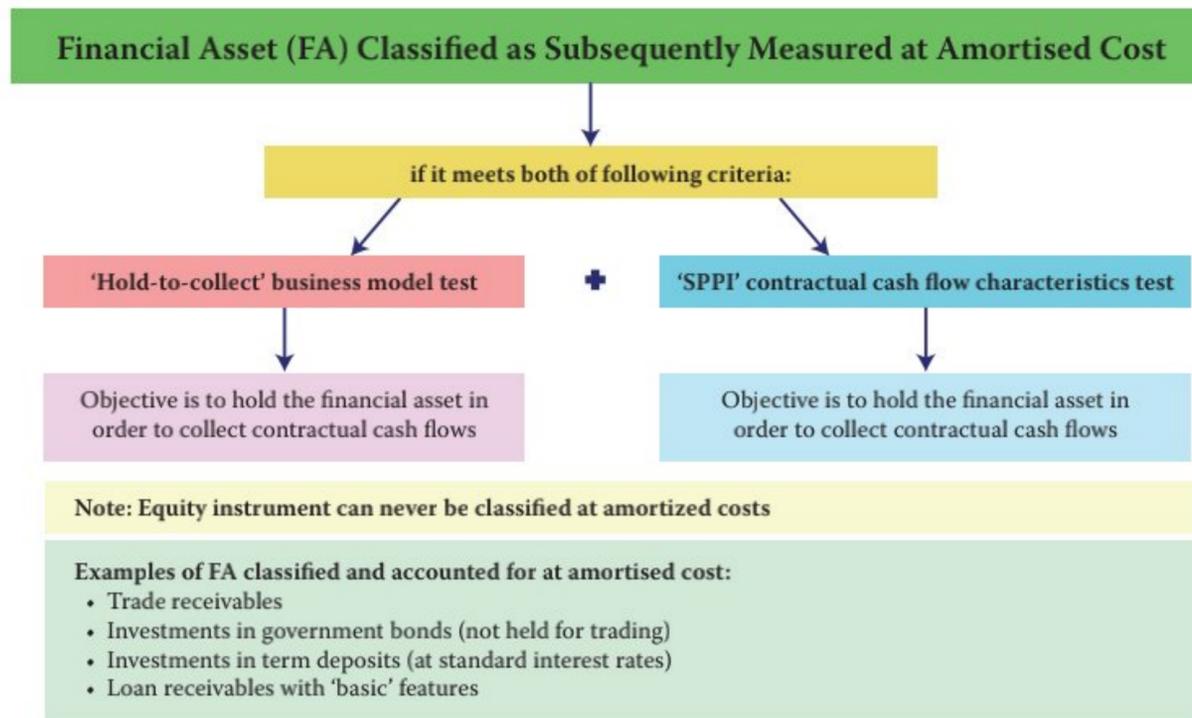
### What Is Amortized Cost?

Particulars	Amount
Initial Recognition (Fair value / Transaction value)	XXXX
Less : Principal repayment	XXXX
Less : Cumulative amortization (EIR)	XXXX
Less : Impairment / un-collectability	XXXX
<b>Amortized costs</b>	<b>XXXX</b>

- Effective interest rate (EIR) method is used to calculate the amortized costs of a financial asset or a financial liability as well as the allocation & recognition of interest revenue or expense in income statement.
- EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. The computation of EIR includes all cash flows between the parties in the contract e.g. Fees, transaction costs, premium or discounts.
- Transactions costs are the incremental costs that are directly attributable to the acquisition or issue of any financial assets or liability.

### Accounting For Transaction Costs For The Purpose Of Effective Interest Rate Method

Fees that are integral part of effective interest rate	Fees that are not an integral part of effective interest rate
(a) <b>Origination fee</b> received by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.	(a) Fee charged for servicing a loan;
(b) <b>Commitment fee</b> received by the entity to originate a loan where it is probable that the entity will enter into a specific lending arrangement. These fees are regarded as compensation for an ongoing involvement with the acquisition of a financial instrument. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry.	(b) <b>Commitment fee</b> to originate a loan when it is unlikely that a specific lending arrangement will be entered into;
(c) <b>Origination fee</b> paid on issuing financial asset measured at amortised cost. These fees are an integral part of generating an involvement with a financial liability. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.	(c) <b>Loan syndication fee</b> received by an entity that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants).

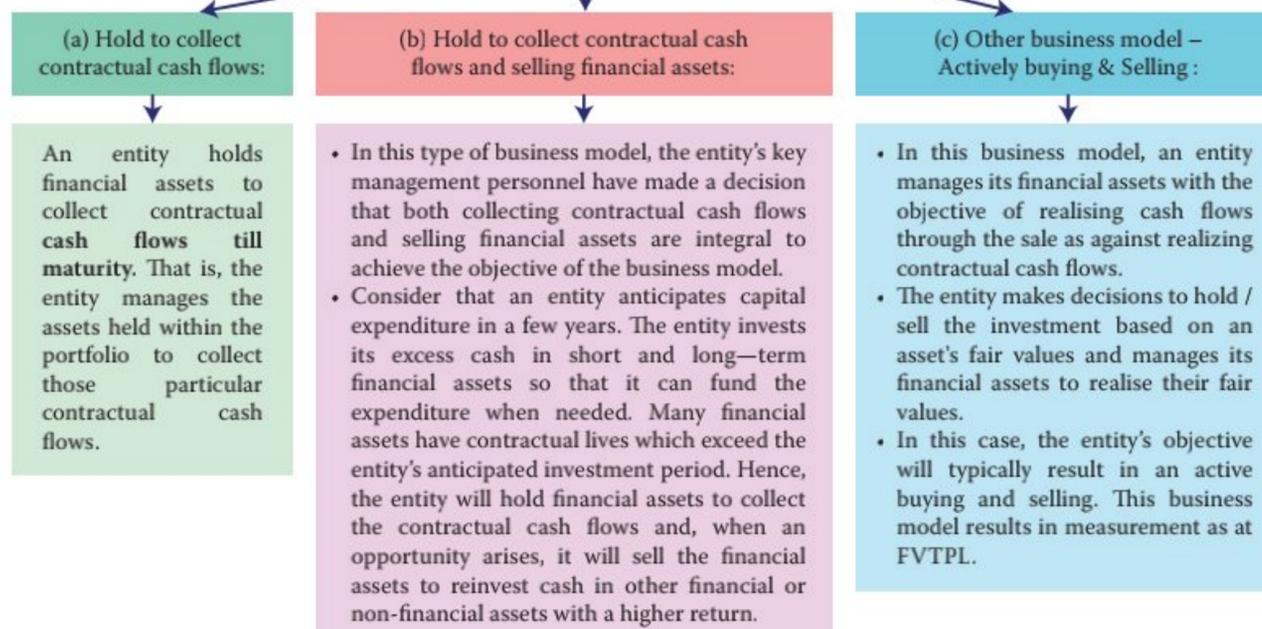


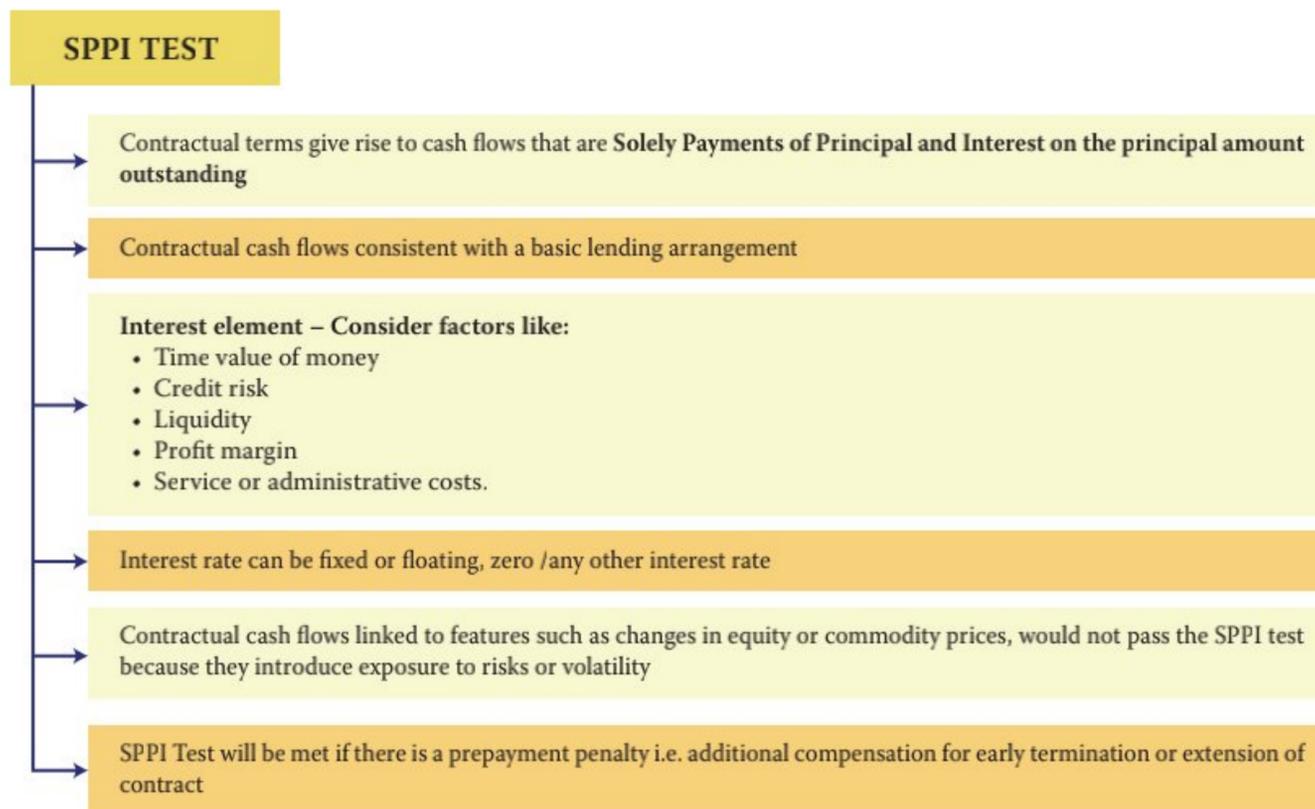
### Business Model Tests

- An entity's business model refers to how an entity manages its financial assets so to generate / realise cash flows
- In other words, business model is concerned with whether an entity will collect contractual cash flows by holding them to maturity or sell those financial assets or both.

- An entity is not required to perform this assessment on 'worst case' or 'stress case' scenarios
- Rather, it is determined on the basis of scenarios which are reasonably expected to occur
- For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario which is not likely to occur, the entity will not consider such scenario to determine its business model.

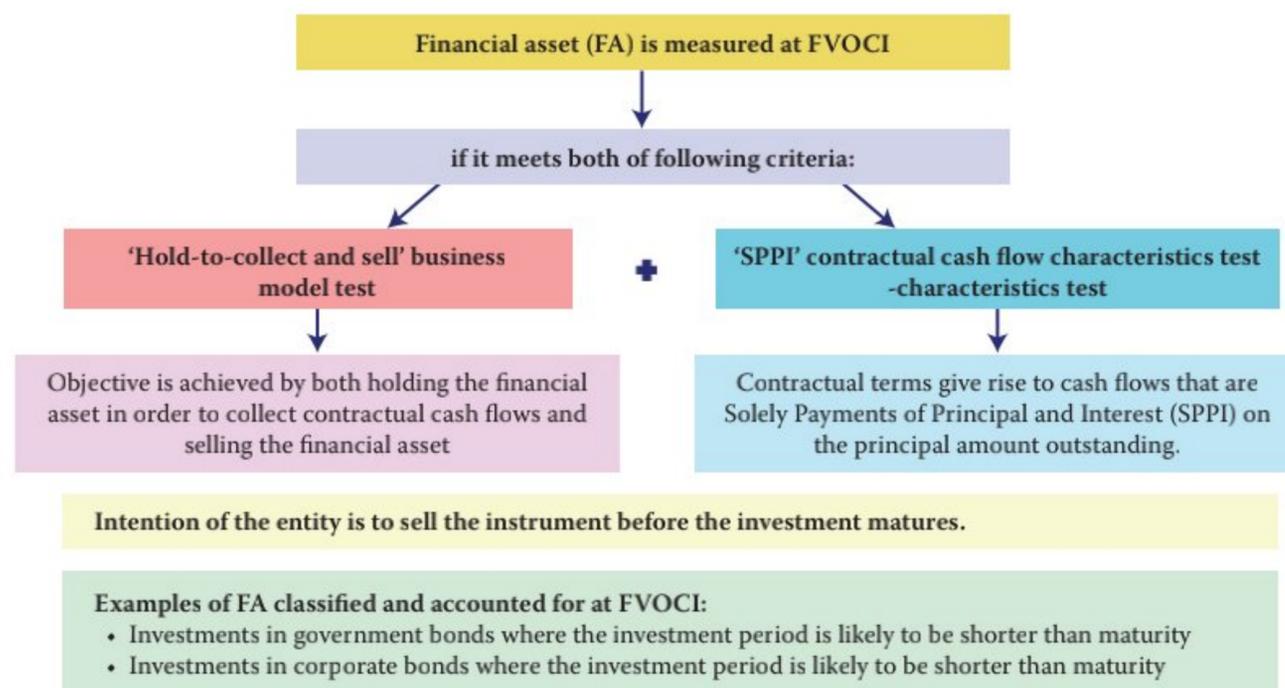
An entity may have one of the following models for its debt instruments :





Features consistent with SPPI Test	Features not consistent with SPPI Test
Prepayment option	Options, forward and swaps
Fixed / variable rate of interest	Conversion options
Caps, floors, collars	

**Financial Assets Classified as Fair Value Through OCI (FVOCI)**



### FVOCI – Debt Instruments – Accounting Requirement

For Debt instruments classified as FVOCI, accounting requirements are as follows:

S.No	Nature of Item	Accounting treatment
1	Interest income	To be recognised in profit or loss using the effective interest rate method
2	Other changes in the carrying amount on re-measurement to fair value	To be recognized in OCI
3	when the related financial asset is derecognised	Cumulative fair value gain or loss recognised in OCI is recycled to profit or loss.

- For debt instruments that are classified as FVOCI, entities will need to track both the amortised cost and fair value
- The amounts recorded in profit or loss will reflect amortised cost and the balance sheet will reflect the fair value of the financial asset

### FVOCI – Equity Instruments – Accounting Requirement

#### Default Approach –

- Ind AS 109 requires all equity investments to be measured at fair value
- All changes in fair value to be recognised in profit or loss

#### FVOCI category option – Equity investments (not held for trading)

- Entities can make an irrevocable election at initial recognition to classify the instruments as at FVOCI
- Such option is available instrument by instrument i.e. (item by item)
- All subsequent changes in fair value being recognised in OCI
- Dividends received on equity investments to be recognised in profit or loss

### Financial Assets Classified as Fair Value Through PL (FVTPL)

Fair value through profit or loss (FVTPL) is the residual category in Ind AS 109

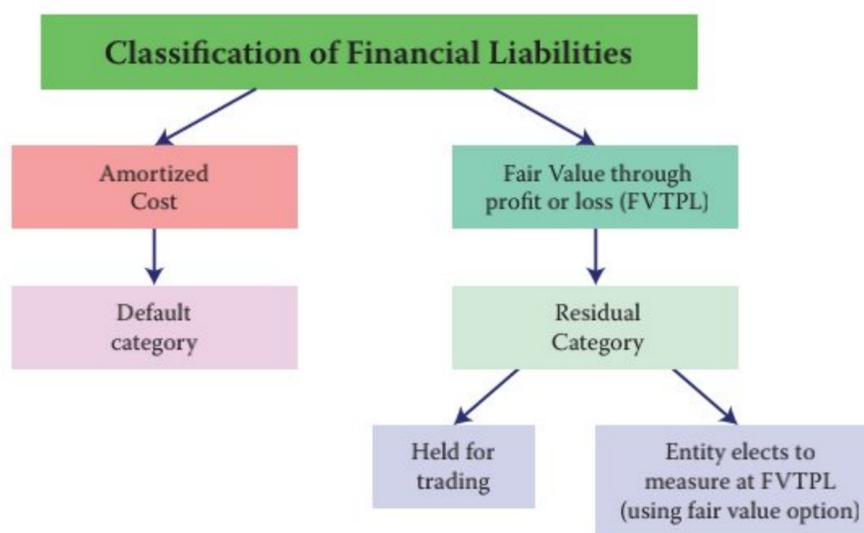
#### Financial asset (FA) classified and measured at FVTPL if FA is:

- A held-for-trading financial asset
- A debt instrument that does not qualify to be measured at amortised cost or FVOCI
- An equity investment which the entity has not elected to classify as at FVOCI

#### Examples of FA classified and accounted for at FVTPL are:

- Derivatives that have not been designated in a hedging relationship, e.g.:
  - Interest rate swaps
  - Commodity futures/option contracts
  - Foreign exchange futures/option contracts
- Investments in shares that the entity has not elected to account for at FVOCI
- Contingent consideration receivable from the sale of a business

Under Ind AS 109, consideration is first given to whether a financial asset is to be measured at amortised cost and FVOCI and, if it is not, it will be measured at FVTPL



Financial liability is classified into two categories:

Category	Main use	Examples
Amortised Cost (Default category)	All liabilities not in the below category	<ul style="list-style-type: none"> <li>Trade payables</li> <li>Bank borrowings</li> </ul>
Fair value through profit or loss	<ul style="list-style-type: none"> <li>Financial liabilities that are held for trading (including derivatives).</li> <li>Financial liabilities that are designated as FVTPL the entity on initial recognition.</li> <li>Contingent consideration recognised by an acquirer in a business combination</li> </ul>	<ul style="list-style-type: none"> <li>Derivatives eg. Interest rate swaps, Commodity futures/option contracts</li> <li>Contingent consideration payable arising from one or more business combinations.</li> </ul>

**Initial Recognition**

An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument

**Initial Measurement**

- On initial recognition, financial assets or financial liabilities are measured at FAIR VALUE.
- If the financial assets or financial liabilities are not recognized at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability are adjusted against the fair value

**What is Transaction Cost?**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

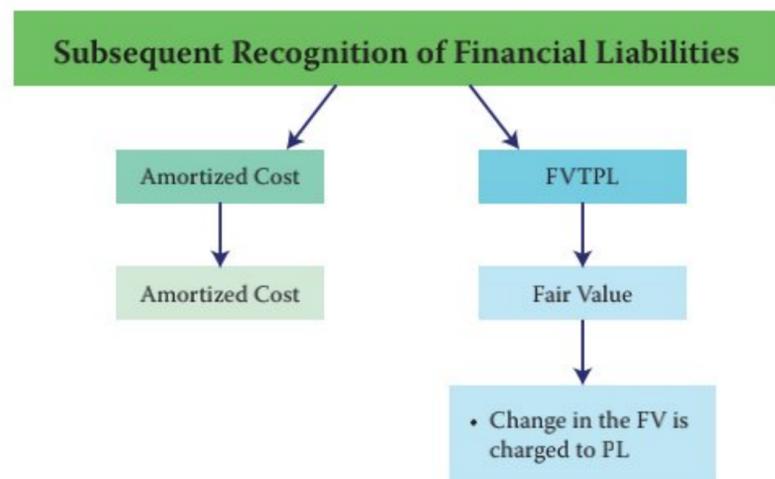
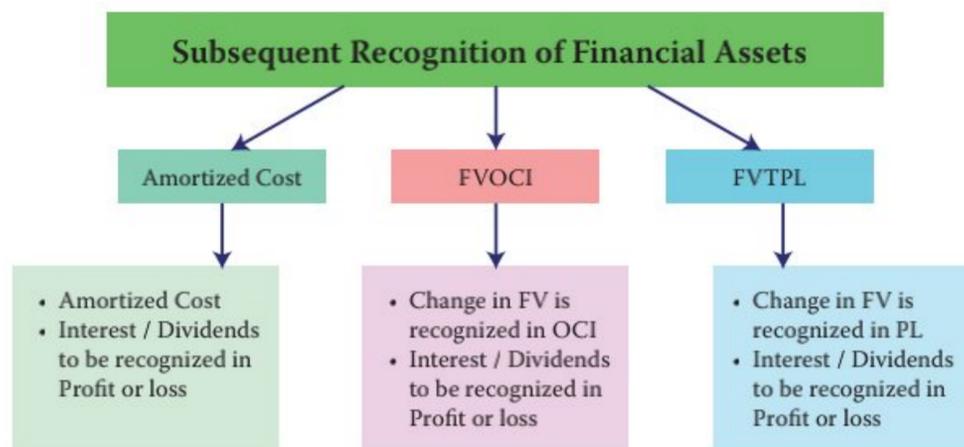
Examples of costs that qualify as transaction costs	Examples of costs that do not qualify as transaction costs
Fees and commissions paid to agents, advisers, brokers and dealers	Debt premiums or discounts
Levies by regulatory agencies and securities exchanges	Financing costs
Transfer taxes and duties	Internal administration costs
Credit assessment fees and registration charges	

**Initial Measurement & Transaction Costs – Financial Assets & Liabilities**

Financial asset	Initial measurement	Transaction costs
At amortized cost	Fair value	Capitalize
At fair value through OCI	Fair value	Capitalize
At fair value through profit or loss	Fair value	Expense

Financial liability	Initial measurement	Transaction costs
Amortized cost	Fair value	Deduct from the amount originally recognized
At fair value through profit or loss	Fair value	Expense



The classification and measurement of financial instruments are summarized as below:

Classification	Financial Assets			Financial Liabilities		
	Amortised Cost	FVTOCI	FVTPL	Amortised Cost	FVTPL	
Basis of Classification	<ul style="list-style-type: none"> <li>• BM test to collect</li> <li>• SPPI test</li> </ul>	<ul style="list-style-type: none"> <li>• BM test to collect &amp; sell</li> <li>• SPPI test</li> </ul>	<ul style="list-style-type: none"> <li>• Held for trading (SPPI or BM test fail)</li> </ul>	<ul style="list-style-type: none"> <li>• Default criterial</li> </ul>	<ul style="list-style-type: none"> <li>• If held for trading</li> <li>• Entity elects FVTPL (using fair value option)</li> </ul>	
Initial recognition	• Fair Value	• Fair Value	• Fair Value	• Fair Value	• Fair Value	• Fair Value
Subsequent recognition	• Amortised Cost	• Fair Value	• Fair Value	• Amortised Cost	• Fair Value	• No Re-measurement

### Reclassification of Financial Assets

An entity shall reclassify financial assets, only if the entity changes its business model for managing those financial assets

Such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties

Accordingly, a change in an entity's business model will occur only when an entity either begins or ceases to perform an activity that is significant to its operations; for example, when the entity has acquired, disposed of or terminated a business line

Such changes are expected to be very infrequent

**Examples of a change in business model include the following:**

- An entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans and all are held to collect the contractual cash flows.
- A financial services firm decides to shut down its retail mortgage business. That business no longer accepts new business and the financial services firm is actively marketing its mortgage loan portfolio for sale.

**Following are not changes in business model:**

- A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
- Temporary disappearance of a particular market for financial assets;
- A transfer of financial assets between parts of the entity with different business models.

A change in the objective of the entity's business model must be effected before the reclassification date

If an entity reclassifies financial assets, it should apply the reclassification prospectively from the reclassification date

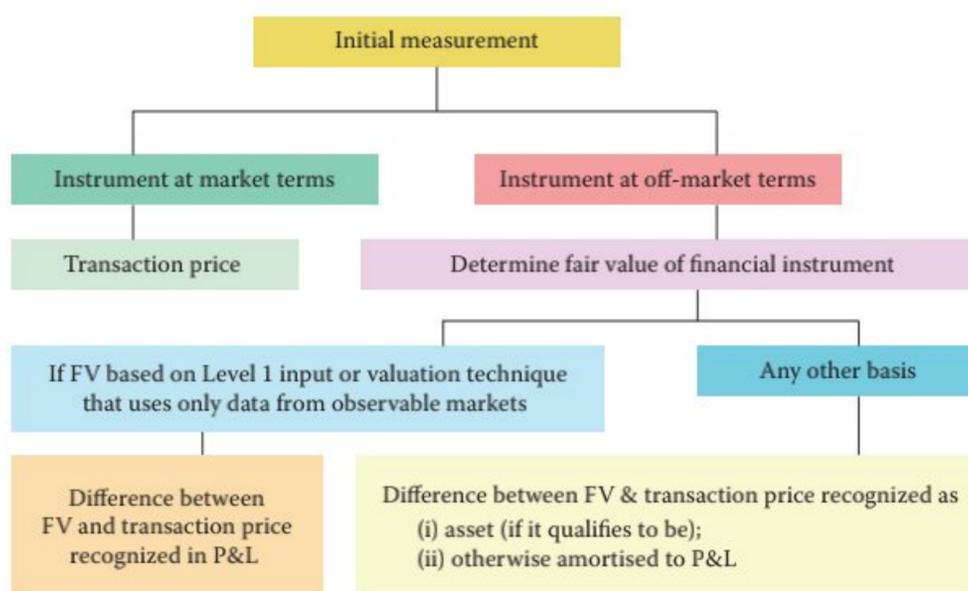
The entity should not restate any previously recognised gains, losses (including impairment gains or losses) or interest

## Reclassification Of Financial Assets – Accounting

Original Classification	Revised Classification	Accounting treatment
Amortised Cost	FVTPL	<ul style="list-style-type: none"> <li>Fair value is measured at reclassification cost date</li> <li>Difference between previous amortized cost and fair value is recognised in P&amp;L</li> </ul>
	FVTOCI	<ul style="list-style-type: none"> <li>Fair value is measured at reclassification cost date.</li> <li>Difference between previous amortised cost and fair value is recognised in OCI</li> <li>No change in EIR due to reclassification.</li> </ul>
FVTPL	Amortised Cost	<ul style="list-style-type: none"> <li>Fair value at reclassification date becomes its new gross carrying amount</li> <li>EIR is calculated based on the new gross carrying amount</li> </ul>
	FVTOCI	<ul style="list-style-type: none"> <li>Fair value at reclassification date becomes its new carrying amount</li> <li>No other adjustment is required</li> </ul>
FVTOCI	Amortised Cost	<ul style="list-style-type: none"> <li>Fair value at reclassification date becomes its new amortised cost carrying amount</li> <li>However, cumulative gain or loss in OCI is adjusted against fair value. Consequently, the asset is measured as if it had always been measured at amortised cost</li> </ul>
	FVTPL	<ul style="list-style-type: none"> <li>Assets continue to be measured at fair value</li> <li>Cumulative gain or loss previously recognized in OCI is reclassified to P&amp;L at the reclassification date</li> </ul>

Reclassification of financial liability is not allowed

## Accounting for Instruments Exchanged at Off Market Terms



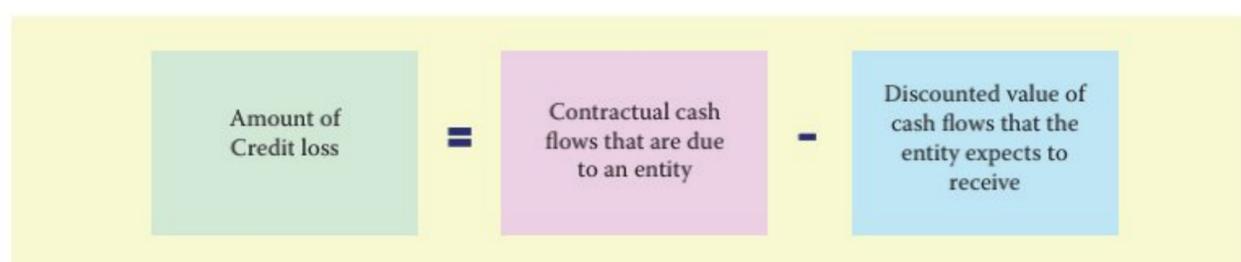
**Impairment- Financial Instruments**

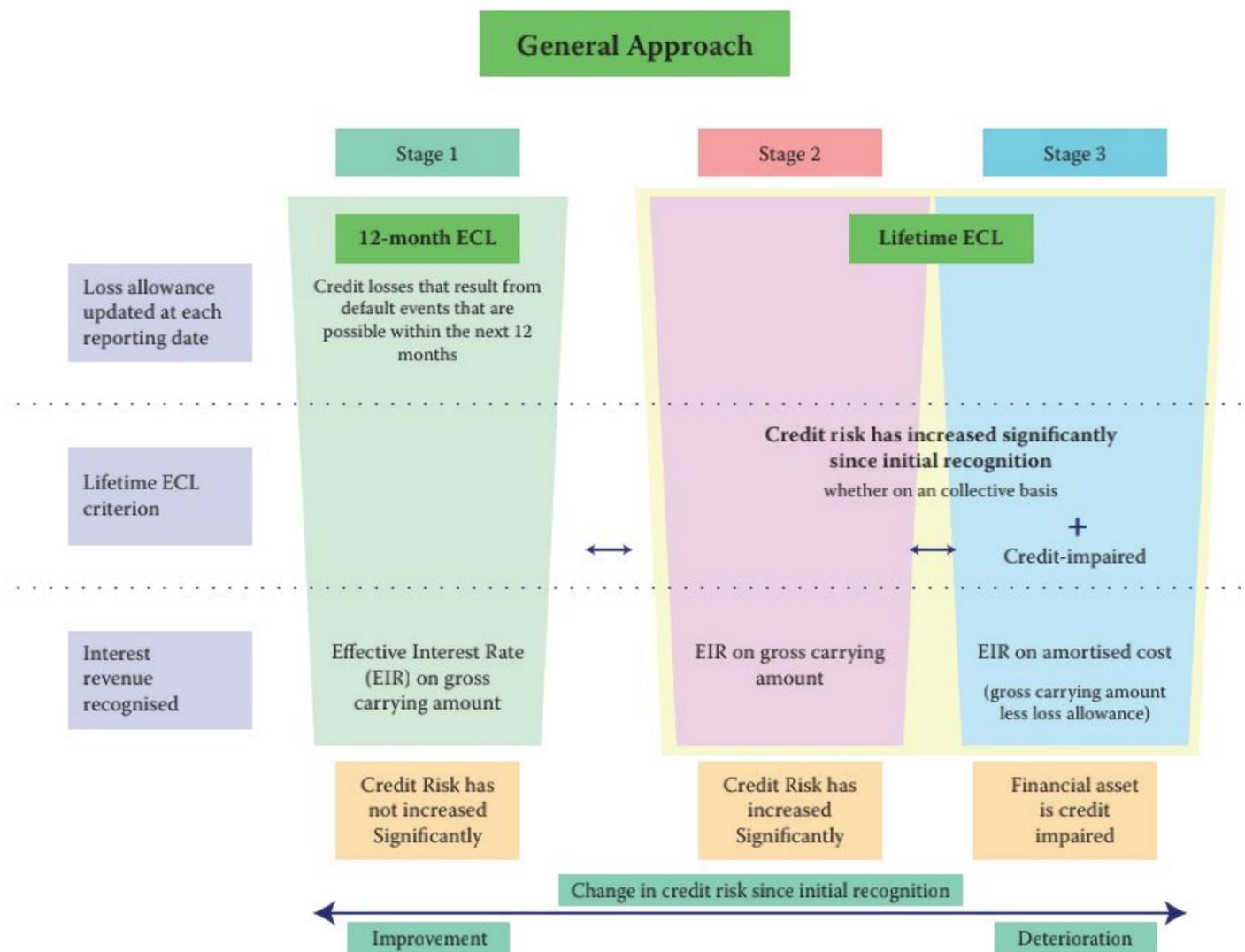
General Approach	Simplified Approach
<ul style="list-style-type: none"> <li>In General Approach, impairment loss is recognized based on either 12 month ECL or lifetime ECL.</li> <li>Impairment loss will be lower in 12 month ECL as it focusses only on the probability of default within next 12 months as compared to lifetime ECL as it focusses on probability of default over life the life of an instrument.</li> <li>This method depends whether there has been a significant increase in credit risk.</li> <li>One needs to track the change in credit rating / quality.</li> </ul>	<ul style="list-style-type: none"> <li>This approach does not require an entity to track the changes in credit risks.</li> <li>Each entity recognizes the impairment loss based on lifetime ECL at each reporting date right from its initial recognition.</li> <li>This approach is mandatory for Trade receivables that do not contain a significant financing component.</li> </ul>

**Scope and variation of the expected credit loss model**

Scope of ECL requirements	General approach	Simplified approach
<b>1. Ind AS 109 Financial Instruments</b>		
• Trade receivables that do not contain a significant financing component		✓
• Trade receivables that contain a significant financing component	Policy election at entity level	
• Other debt financial assets measured at AC or at FVOCI	✓	
• Loan commitments and financial guarantee contracts not accounted for at FVPL	✓	
<b>2. Ind AS 115 Revenue iron Contracts with Customers</b>		
• Contract assets that do not contain a significant financing component		✓
• Contract assets that contain a significant financing component	Policy election at entity level	
<b>3. Ind AS 116</b>		
• Lease receivables	Policy election at entity level	

**What is a credit loss allowance?**

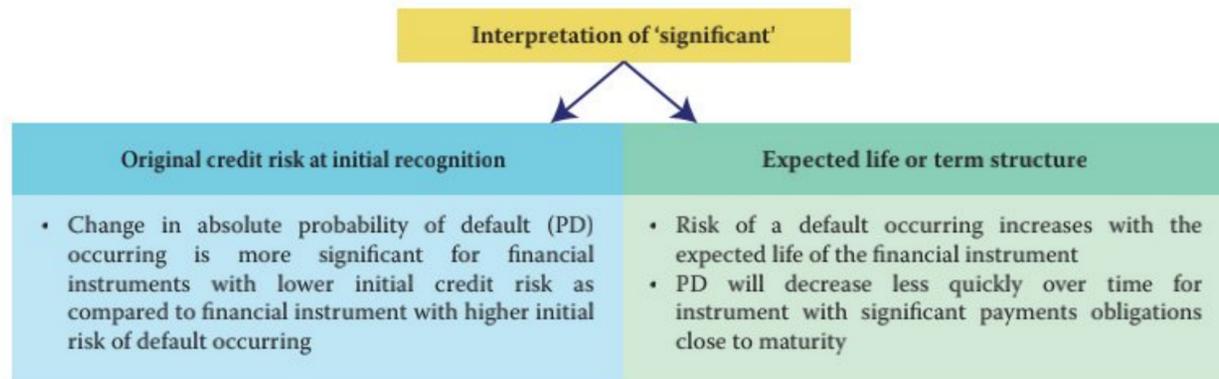




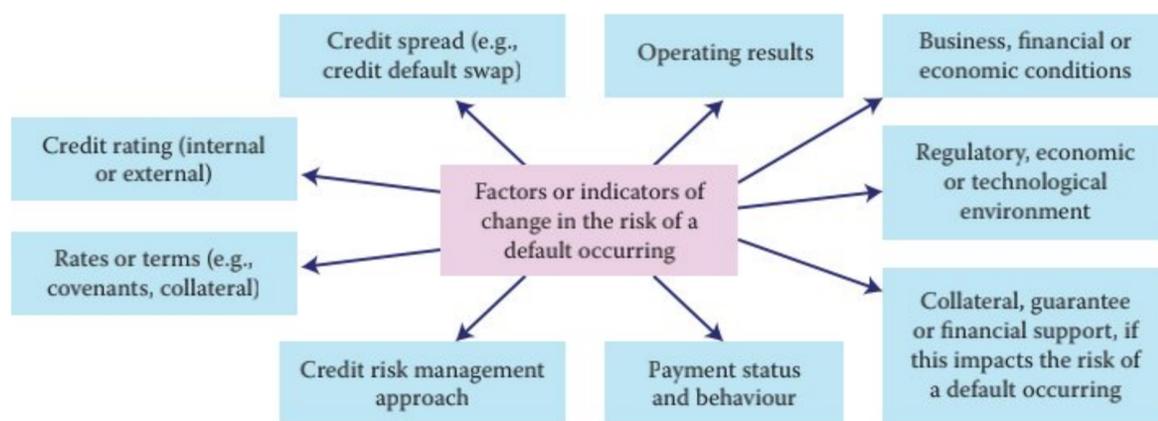
**Three Stage Model for Impairment**

Particular	Stage 1 Initial Recognition	Stage 2 Significant increase in credit risk	Stage 3 Credit Impaired
Credit Risk	Low	Moderate to High	Significant
ECL Model	12 Month ECL	Life-time ECL	Life-time ECL
Interest recognition	Interest on gross recognition	Interest on gross recognition	Interest on net carrying amount

**What is a 'significant' increase in credit risk?**



**Factors or Indicators of Change in the Risk of a Default Occurring**



**Simplified Approach: Provision Matrix**

According to the simplified approach, for trade receivables and contract assets that do not contain a significant financing component, an entity shall always measure loss allowance at an amount equal to lifetime expected credit losses

A provision matrix could be used to estimate ECL for these financial instruments

For example, an entity may set up the following provision matrix based on its historical observed default rates, which is adjusted for forward-looking estimates:

- non-past due: 0.3% of carrying value
- 30 days past due: 1.6% of carrying value
- 31-60 days past due: 3.6% of carrying value
- 61-90 days past due: 6.6% of carrying value
- more than 90 days past due: 10.6% of carrying value

**Probability of Default**

**Expected credit loss (ECL) = EAD \* PD \* LGD**

Exposure at default (EAD) will be the gross amount of debt financial asset or borrowing

Probability of default (PD) is the likelihood that a loan will not be repaid and will fall into default. It must be calculated for each borrower. The credit history of the borrower and the nature of the investment must be taken into consideration when calculating PD

Loss given default (LGD) is the fractional loss due to default

**LGD = 1 – Recovery Rate (RR)**

Recovery Rate (RR) is defined as the proportion of a bad debt that can be recovered

**Derecognition of Financial Assets**

Derecognition refers to the timing of removing a financial asset from the balance sheet

**Process**

Determine whether the de-recognition principles below are applied to a part or all of an asset (or group of similar assets)

Have the rights to the cash flows from the asset expired **Yes** → Derecognise the asset

No

Has the entity transferred its contractual rights to receive the cash flows from the asset?

Yes

No

Has the entity assumed an obligation to pay the cash flows from the asset under pass-through arrangement?

No

Continue to recognise the asset

Yes

Has the entity transferred substantially all risks and rewards?

Yes

Derecognise the asset

No

Has the entity retained substantially all risks and rewards?

Yes

Continue to recognise the asset

No

Has the entity retained control of the asset?

No

Derecognise the asset

Yes

Continue to recognise the asset to the extent of the entity's continuing involvement

### Derecognition of Financial Liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position **when, and only when, it is extinguished** - ie when the obligation specified in the contract is discharged or cancelled or expires

A financial liability (or part of it) is extinguished when the debtor either:

- (a) Discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or
- (b) Is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor.

**Legal release by creditor**

A debtor can derecognise a liability can only if the creditor legally releases the debtor from the liability

### Accounting for an Extinguishment of Financial Liability

1. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss
2. Any costs or fees incurred on extinguishment shall be charged to profit & loss

### Exchange or Modification of Financial Liability

**Debt Restructuring**

An exchange between an existing borrower and lender of debt instruments with **substantially different terms** shall be accounted for as:

- (a) A extinguishment of the original financial liability, and
- (b) Recognition of a new financial liability.

The substantially different terms are as below:

(A)		(B)	
Present value of:		Discounted present value of	
• cash flows under the new terms,	LESS	the remaining cash flows of	Is greater
• any fees paid		the original financial liability	than or equal
• net of any fees received			to 10% of (B)

### Accounting treatment – Costs of fees incurred on extinguishment or Modification

Scenario	Accounting
Where exchange of debt instruments or modification is <b>accounted for as an extinguishment</b>	Any costs or fees incurred are recognised as part of the <b>gain or loss in PL</b> on the Extinguishment
Where exchange of debt instruments or modification is <b>not accounted for as an extinguishment</b>	Any costs or fees incurred shall be <b>adjusted in</b> the carrying amount of the liability and are amortised over the remaining term of the modified liability

### Exchange or Modification of Financial Liability – Accounting Treatment

If the 10% test is passed, principle of “extinguishment accounting” are applied, that is:

1. **De-recognition** of the existing liability.
2. **Recognition of the new or modified liability** at its **FAIR VALUE** (net of any fees incurred directly related to the new liability). Fair value of the new or modified liability is estimated based on the expected future cash flows of the modified liability, discounted using the interest rate at which the entity could raise debt with similar terms and conditions in the market.
3. **Gain or loss on extinguishment** : Charge to PL.
4. **Recognising any incremental costs or fees incurred** for modification (and not for the new liability), and any consideration paid or received, **in profit or loss**.
5. **EIR Accounting for New Loan** : Calculating a new effective interest rate for the modified liability, which is then used in future periods.

### Modification of Financial Liability – Accounting Treatment

Two alternate approaches are possible: Approach 1 and Approach 2

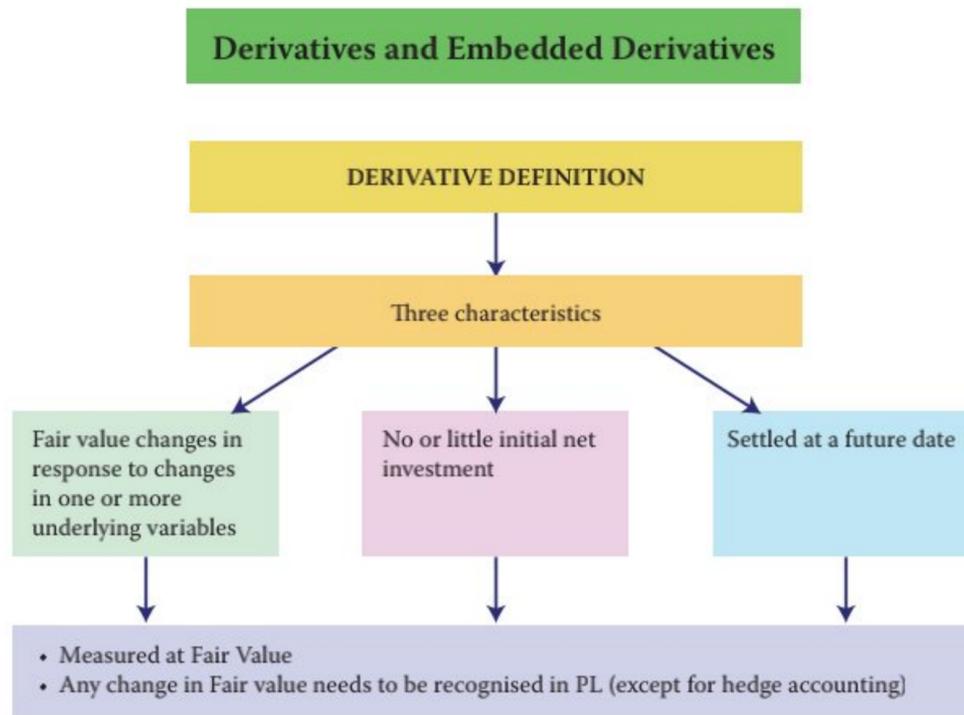
#### Approach 1: Recognition of gain or loss on date of modification

1. Under this approach, the difference between:
  - (a) discounted present value of the remaining cash flows of the original financial liability, and
  - (b) discounted present value of the remaining cash flows of the new financial liability both computed using original effective interest rate, is recognized in profit or loss.
2. In addition, any fees or costs incurred will also be recognized in profit or loss.

#### Approach 2: Amortisation of gain or loss on date of modification

Under this approach,

1. Fees or costs incurred are netted against the existing liability;
2. the effective interest rate is recalculated. This is the rate which discounts the future cash flows as per modified contractual terms to the adjusted carrying amount mentioned above
3. the adjusted effective interest rate is used to determine the amortised cost and interest expense in future periods



**Examples of derivatives and underlying**

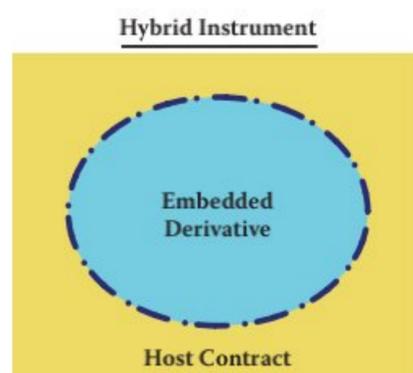
Type of contract	Main variable
Interest rate swap	Interest rate
FX forward	Foreign exchange rate
Commodity option	Commodity price
Credit default swap	Credit risk
Purchased or written stock call or put option	Equity price

**Accounting Treatment of Derivative**

All derivatives are measured at fair value with changes in fair value being recognized in profit or loss for the period, except derivatives that qualify as hedging instruments

Particulars	DR / CR	Amount
Derivative Assets (BS)	Dr	XXXX
To income on account of derivative (PL)	Cr	XXXX
(Derivative assets is recorded in case of MTM gain)		
Expense on account of derivative (PL)	Dr	XXXX
Derivative Liability (BS)	Cr	XXXX
(Derivative liability is recorded in case of MTM loss)		

### Embedded Derivatives



Host Contract may be Debt , Equity, Executory Contract, Lease, Insurance

Embedded derivative may be Interest rate index, Commodity Index, Equity index

**An embedded derivative is:**

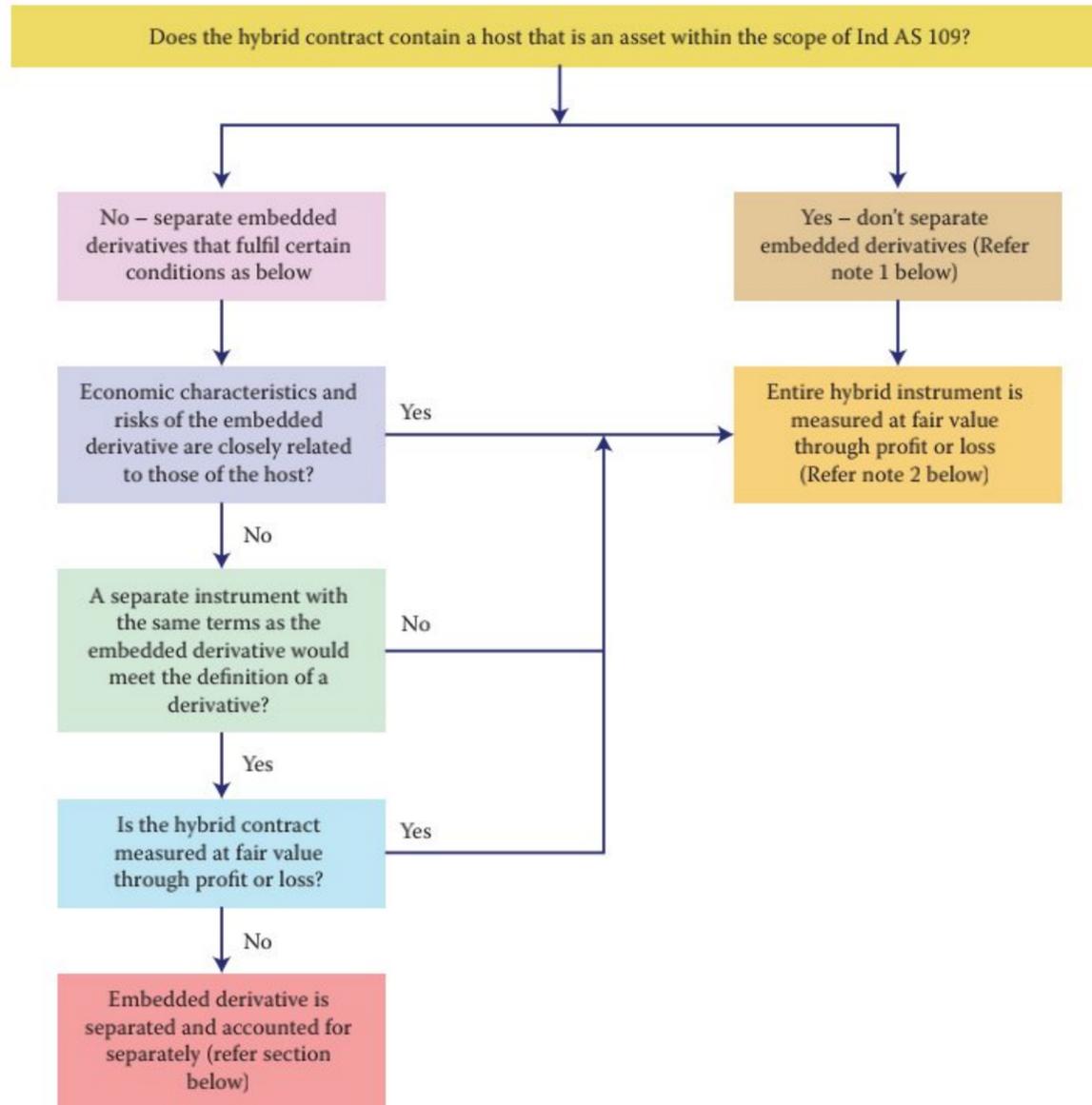
- a component of a hybrid contract
- that also includes a non-derivative host
- with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

**An embedded derivative causes:**

- Some or all of the **cash flows** that otherwise would be required by the contract
- **to be modified** according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable,
- provided in the case of a **non-financial variable that the variable is not specific to a party to the contract.**

	Particulars	Host Contract	Embedded Derivative
1	Company A holds a bond which is convertible into the ordinary shares of Company B	Bond Asset	Conversion option of Bond into shares
2	Company A enters into a lease contract with an inflation factor such that each year, rentals are adjusted for changes in Risk Price Index (RPI)	Lease contract	Adjustment to RPI
3	Company A sells PPE to Company B of USD 1 lac. Both the Companies are located in India.	Sale Contract	INR / USD foreign Exchange

Separation of Embedded Derivatives from Host Contract



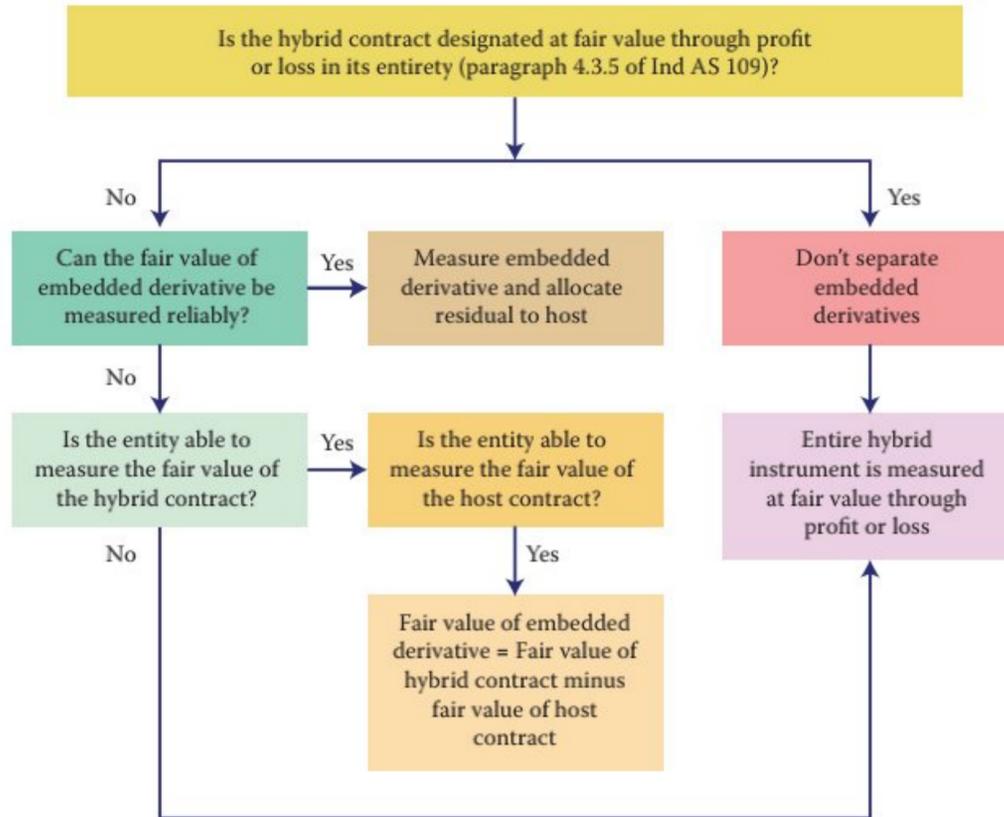
**Note 1:**

This implies that embedded derivatives are permitted to be separated from only such hybrid contracts that contain a host which is either a (a) financial instrument classified as financial liability or equity or compound; or (b) contract for purchase or sale of a non-financial item.

**Note 2:**

If both the host and embedded derivative have economic characteristics of an equity instrument, the hybrid instrument is not carried at fair value through profit or loss. In other words, this measurement category is applicable only for host contracts which are financial liabilities.

**Accounting For Embedded Derivatives**



**Regular Way Purchase or Sale of Financial Assets**

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 delivery of the asset
- within the time frame
- established generally by regulation or convention in the marketplace concerned



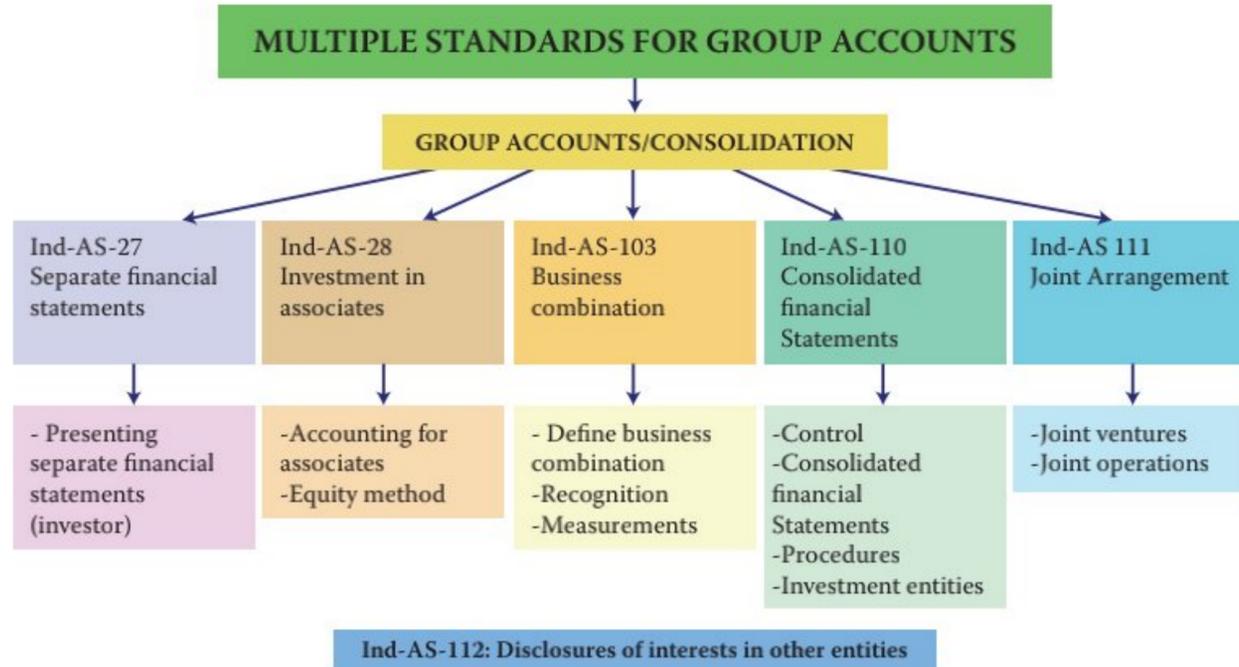
## Regular Way Purchase or Sale of Financial Assets – Examples

- For instance, on the Bombay Stock Exchange in India, all transactions in all groups of securities in the Equity segment, Fixed Income securities and Government securities are settled on “T+2” basis.
- In this case, “T” is the trade date and “T+2” is the settlement date i.e. exchange of monies and securities between the buyers and sellers respectively takes place on second business day (excluding Saturdays, Sundays, bank and Exchange trading holidays) after the trade date.
- It follows that if a contract is entered into with a broker for purchase or sale of securities which is normally traded on the Bombay Stock Exchange, with a settlement period that differs from the norms mentioned above, it would not be regarded as a regular way purchase or sale.

## Trade Date &amp; Settlement Date Accounting

Books	Trade Date	Settlement Date
In the books of buyer	<b>Initial Recognition :</b> <ul style="list-style-type: none"> <li>• <b>Recognises :</b> Financial asset and Financial liability on the trade date itself.</li> </ul> <b>Subsequent Recognition :</b> <ul style="list-style-type: none"> <li>• Subsequently measures the financial asset in accordance with its classification category.</li> </ul>	<ul style="list-style-type: none"> <li>• Account for any change in the fair value of the asset to be received during the period between the trade date and the settlement date.</li> </ul> <b>Classification wise accounting:</b> <ul style="list-style-type: none"> <li>• <b>Amortized costs:</b> change in value is not recognised;</li> <li>• <b>FVTOCI :</b> FV changes to be recognized in OCI .</li> <li>• <b>PVTPL :</b> FV changes to be recognized in PL.</li> </ul>
In the books of seller	<ul style="list-style-type: none"> <li>• Seller derecognises the financial asset.</li> <li>• Recognises any gain or loss on sale on the trade date.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Derecognises</b> financial asset at the settlement date.</li> <li>• <b>Does not recognise</b> any fair value changes between the trade date and settlement date.</li> </ul>

INDIAN ACCOUNTING STANDARD (IND AS) 110:  
CONSOLIDATED FINANCIAL STATEMENTS

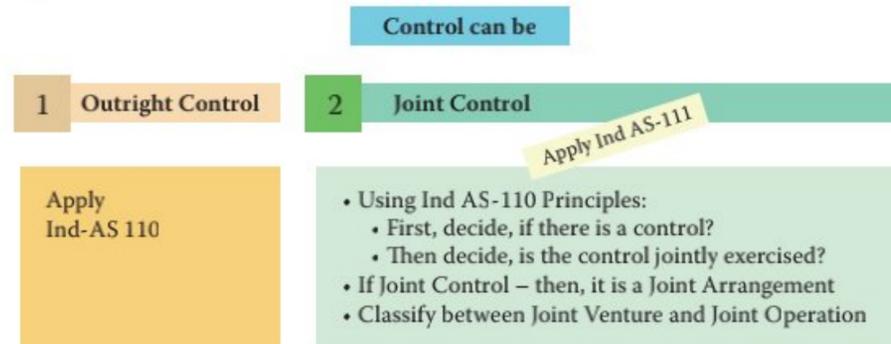


**TYPES OF INVESTMENTS**

	Subsidiary	Associate	Joint Arrangement	Other Investments
Criteria	Control	Significant influence	Joint Control	Not applicable
Share (Guidance only)	>50%	20%+	Not Applicable	<20%
Accounting	Acquisition Method (Full Consolidation)	Equity Method Accounting	Depends on Type	Financial Instrument Ind-AS 109

**IND AS 110: CONSOLIDATED FINANCIAL STATEMENTS**

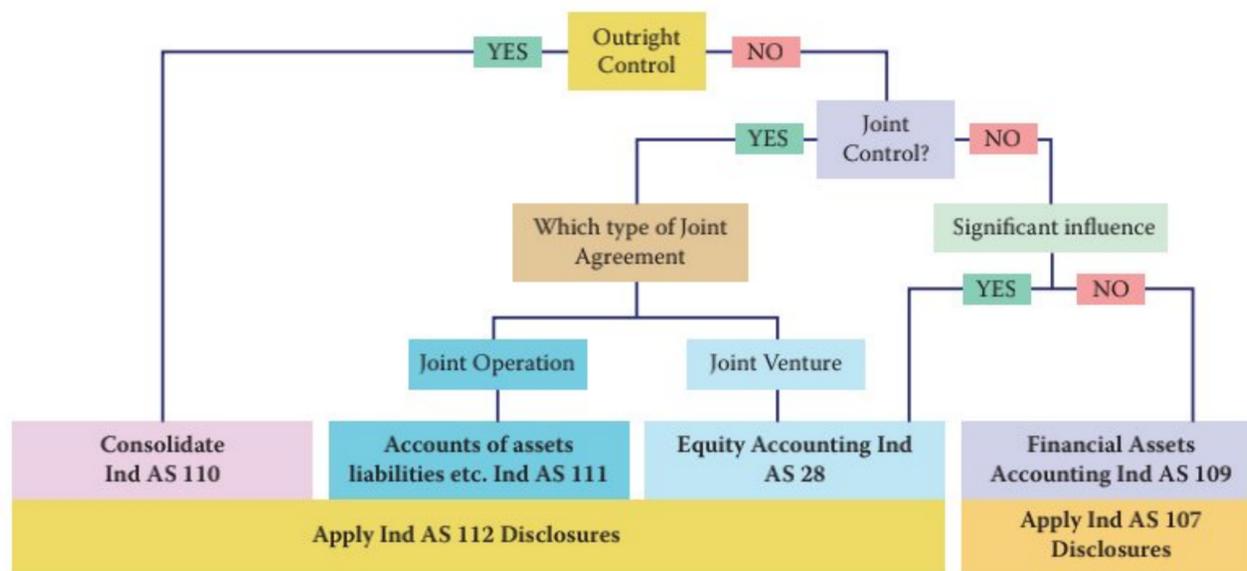
**TYPES OF CONTROL –OUTRIGHT CONTROL AND JOINT CONTROL**



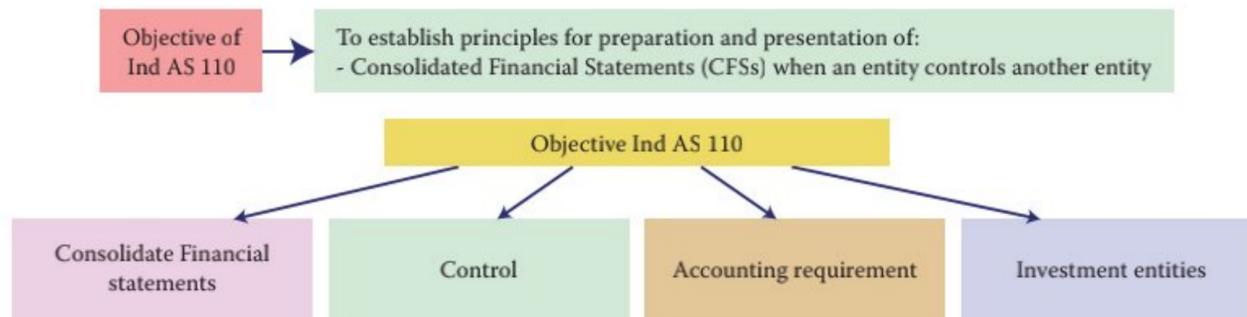
**TYPES OF CONTROL – DE FACTO CONTROL**

<b>De Facto Control</b>	De Facto Control represents a situation, where Power (as defined in Ind-AS 110) exists with less than 50% of the voting rights
	Example: <ul style="list-style-type: none"> <li>Parent owns 20% of voting rights and the balance 80% voting rights are spread over 2000 shareholders across the country</li> <li>There exists a contractual arrangement to direct, despite having just 20% voting rights</li> </ul>
Control is possible without majority of voting rights	

**INTERACTION BETWEEN IND-AS 110, IND-AS 111, IND-AS 112 AND IND-AS 28**



**OBJECTIVE OF IND AS 110**



## SCOPE OF IND AS 110

## More specifically Ind AS 110

SCOPE OF IND AS 110	→	requires an entity (a parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements (CFS)
	→	defines the principle of control and establishes Control as the basis for consolidation
	→	provides guidance on how to interpret or apply control
	→	sets out how to identify whether the investor controls the investee
	→	sets out the accounting requirements for the preparation of CFS
	→	defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity

## Ind AS 110 does not cover the following

	Covered by
1. Business Combination and initial recognition of goodwill	Ind AS 103
2. Accounting for investments without having control	Ind AS 111, Ind AS 28, Ind AS 109
3. Disclosures	Ind AS 112

## KEY DEFINITIONS

Parent	→	Parent is an entity that controls one or more subsidiaries
Subsidiary	→	Subsidiary is an entity that is controlled by another entity
Associate	→	Associate is an entity, over which an investor has significant influence and which is neither a subsidiary nor an interest in joint venture
Joint Arrangement	→	An arrangement of which two or more parties have joint control
Consolidated Financial Statements (CFS)	→	CFSs are the financial statements of a Group in which (1)assets (2)liability (3)equity (4)income (5)expenses and (6)cash flows of the parent and the subsidiary – are presented as those of a single economic activity

**Power**

(a) Existing rights that give the (b) current ability to direct the (c) relevant activities

Assume that:

- CT Corp owns 40% shares of ABSPL
- ABSPL's shares are structured in such a way that every share has one voting right
- CT Corp also owns options (that are exercisable at any stage) under which CT Corp can obtain another 20% share capital of ABSPL
- At the reporting date, CT Corp has the financial ability and the intention to exercise these options and acquire 20% shares of ABSPL

Does CT Corp controls ABSPL?

**YES**

In this case:

- Power over investee Voting Rights + Potential Voting Rights
- Exposure to Variability:
  - CT Corp's profit will depend on ABSPL's financial performance (Equity Shares)
- Ability to Affect the Outcome:
  - The voting rights give CT Corp the ability to control decisions made by the BODs, viz. the relevant activities are affected by CT Corp's

Power arises from **right** which can be (a) voting rights (b) potential voting rights (c) arising from contractual arrangements or (d) a combinations of these rights

**Relevant Activities**

Activities of the investee that significantly affect investee's returns

- Assume that a structured entity (SE) is formed to manage debts of a financial institution including activities such as (a) restructuring of debts (b) debt collection (c) debt management (d) legal process relating to debt management etc.
- In this case, the party which controls the above activities actually control the SE

If more than one investors direct different relevant activities, identify which investors can direct that activities that most significantly affect return



**Removal Rights** → Rights to deprive the decision-maker of its decision-making authority

**Participative Rights** → Participative rights generally do not provide the holder of such rights with power, but may preclude another party from having power

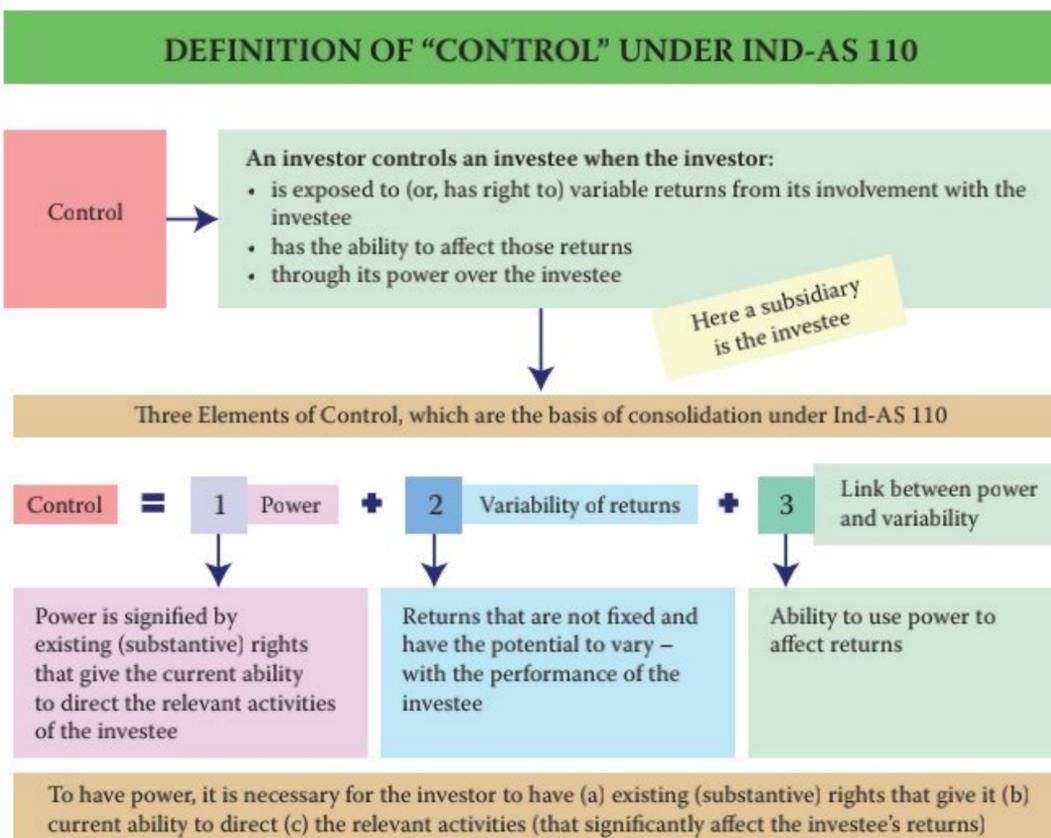
**Protective Rights**

Rights designed to protect the interest of the party holding those rights, without giving that party power over the entity to which the rights relate

- When entering into a contract, there may be certain T&C that protect the interest of the party under certain circumstances
- These rights apply only under those circumstances
- Therefore, protecting rights are not considered as substantive in all circumstances, and hence are not seen as Power

Protective Rights held by others can't prevent control

Substantive Rights	<ul style="list-style-type: none"> <li>Substantive rights are that are exercisable when decisions about the relevant activities of the investee need to be made</li> <li>The investor must have the current ability to direct relevant activities</li> <li>The holder of these rights has the practical ability to exercise them; they are not merely in the nature of protective rights</li> </ul>	
	Key factor to consider-to determine if the rights are substantive in nature	
	Are there barriers that prevent holder from exercising the rights?	Do several parties need to agree for the right to become exercisable or operational
	Would party holding the rights benefit from their exercise	Practical ability to exercise the rights
	<ul style="list-style-type: none"> <li>Only substantive rights are considered in assessing Power</li> <li>Determination of whether the rights are substantive calls for judgement and is based on considering all facts and circumstances</li> </ul>	
Potential Voting Rights	<ul style="list-style-type: none"> <li>Potential Voting Rights are considered in assessment of power <b>only</b> if they are substantive</li> </ul>	
	Purpose and Design also considered	
<ul style="list-style-type: none"> <li>Potential voting rights that are substantive-can give the holder power</li> <li>Determining whether potential voting rights are substantive require judgement !</li> </ul>		



The new control model under Ind-AS 110 is based on the existence of three elements of control:

$$\text{Control} = 1 \text{ Power} + 2 \text{ Variability of returns} + 3 \text{ Link between power and variability}$$

When all of these three elements of control are present, then an investor is considered to control an investee and consolidation is required

An Investor takes into account all facts and circumstances to assess whether control exists	Consider Potential Voting Rights only if they are substantive (Consider factors like exercise price, date, procedures etc)	Potential Voting Rights need to be currently exercisable and must take into account the economic reality viz. Is it practically to exercise - considering financial and intention to exercise	When one or more of the elements is not present, an investor will not consolidate, but instead be required to determine the nature of its relationship with the investee (eg. Significant influence, joint control) and will follow appropriate accounting under the requisite Ind AS
Protective Rights don't provide Control	Control is re assessed, if there is a change in the underlying facts & circumstances		

### SINGLE CONTROL MODEL... UNDER IND-AS 110

$$\text{Control} = 1 \text{ Power} + 2 \text{ Variability of returns} + 3 \text{ Link between power and variability}$$

Control assessed on continuous basis

Re-assessment of control is required if facts and circumstances indicate that ANY of THREE key elements have CHANGED

Ind-AS 110 requires extensive use of judgment; and Ind-AS 112 requires disclosure of such areas of judgment

- Same criteria for all entities – for determination of control
- For determining control, consider all facts and circumstances
- Temporary control does not prevent consolidation

### WHAT IS POWER ?

Need not be exercised

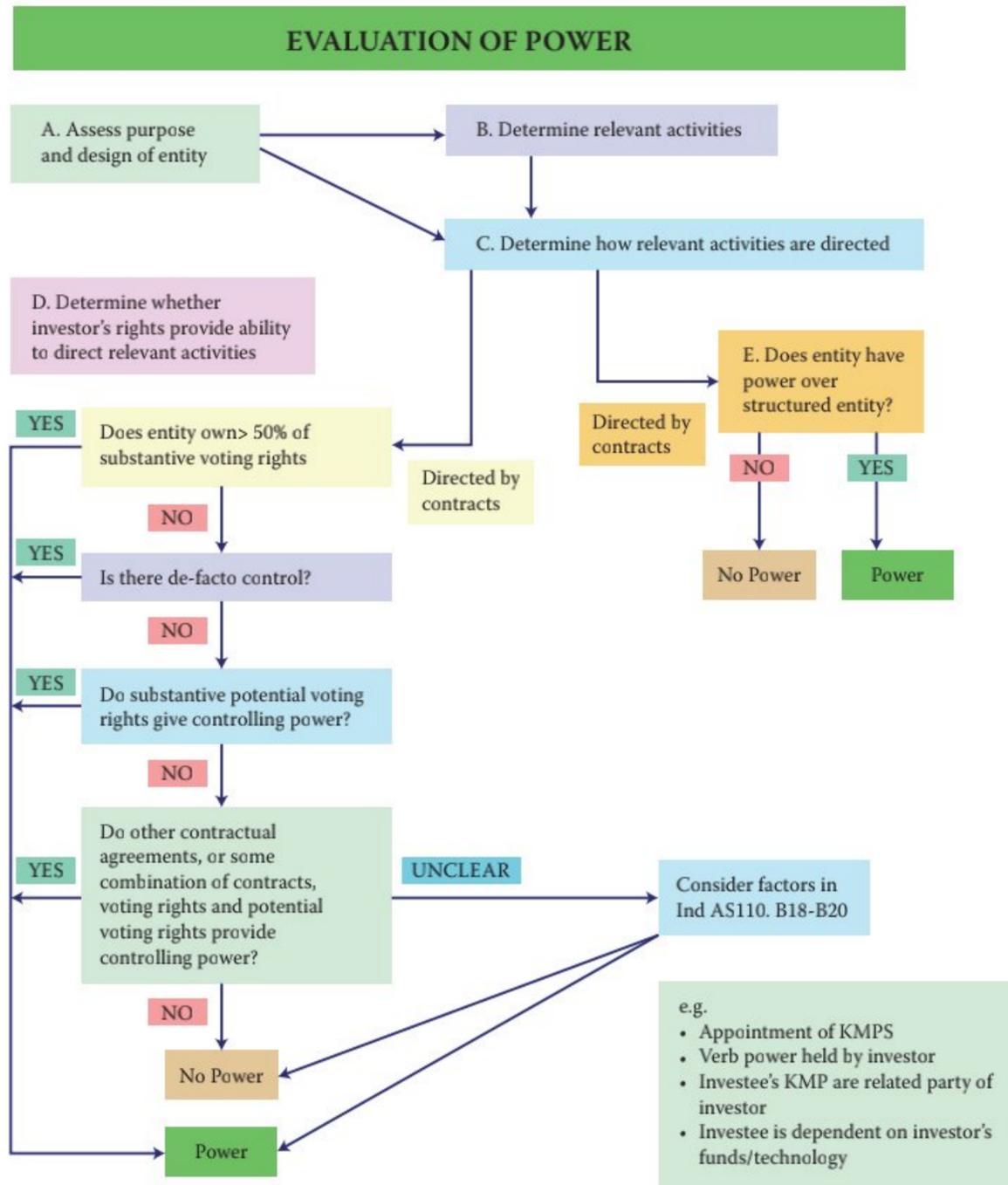
Power is the (a) existing right – that give an investor (b) current ability to direct (c) the relevant activities

Does not arise from Protective Rights

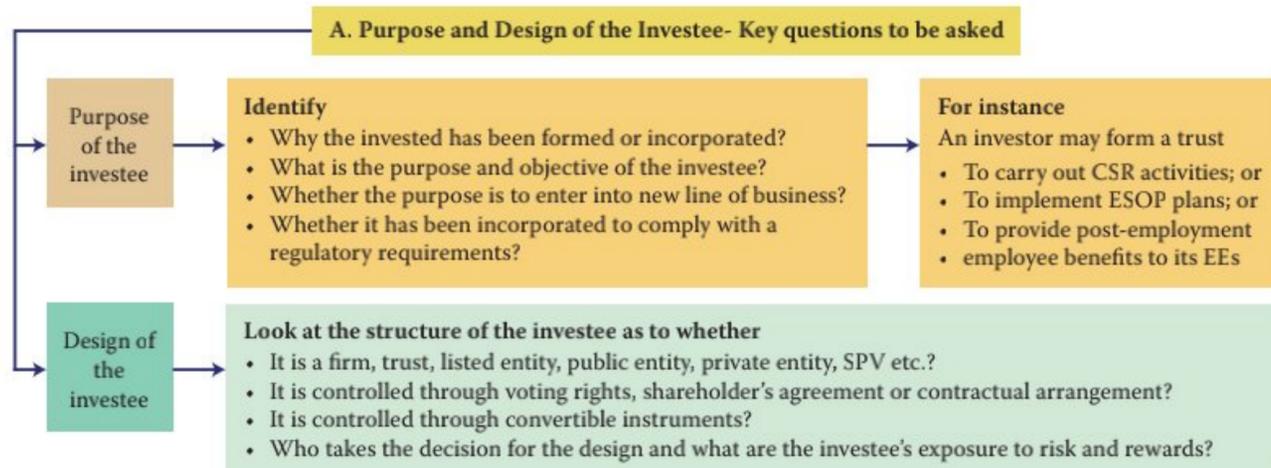
Power arises from substantive rights to direct the relevant activities

Rights	<ul style="list-style-type: none"> <li>• Rights depend on the (a) nature of activities, (b) legal structure and (c) the manner in which decisions are taken</li> <li>• Can arise from voting rights, potential voting rights, contractual rights, or a combination</li> <li>• Evaluate the impact of various rights and their interaction</li> </ul>
Substantive	<ul style="list-style-type: none"> <li>• Practical ability to exercise the right</li> <li>• Current ability to direct relevant activities</li> <li>• Rights need not be actively exercised (a passive majority owner has the power)</li> </ul>
Relevant Activities	<ul style="list-style-type: none"> <li>• These are activities that significantly affect the returns</li> <li>• Examples include (a) purchases/sales, (b) financial assets management, (c) acquisition/disposal of investments, (d) R&amp;D, (e) financing etc.</li> </ul>

Rights that are solely protective:  
DO NOT provide Power and DO NOT prevent another investor from having control



### FACTORS TO CONSIDER IN EVALUATING POWER



## FACTORS TO CONSIDER IN EVALUATING POWER

B. and C.  
Relevant activities  
and how decisions  
are made w.r.t. these  
relevant activities

- How (a) operating and capital decisions (b) budget (c) appointment and remuneration of KMPs etc. are made?
- How decisions that arise only in response to specific circumstances are made?
- If different investors have ability to direct different activities – which activities most significantly affect returns?

D. Current ability  
to direct relevant  
activities

- Consider all substantive rights
- Protective vs participating rights
- Direct and indirect rights (financing, guarantees, operational ties)

Power can exist - even if others participates in directing the relevant activities.  
For instance, other participating may have significant influence over the investee

Evidence that an investor directed activities in the past is an indicator of power, but is not conclusive

## APPLYING SINGLE CONTROL MODEL UNDER IND AS 110

Identify the investee

Identify the relevant activities of the investee

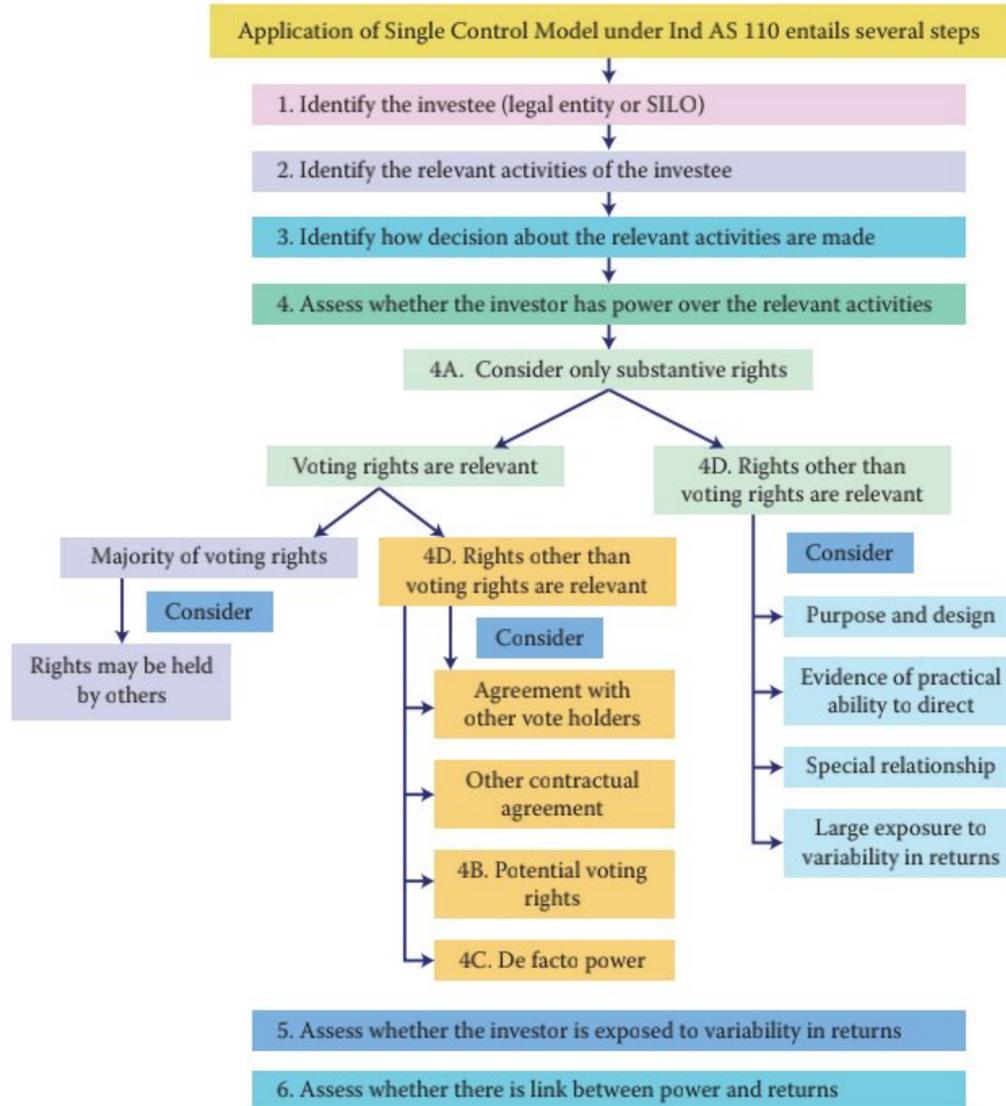
Identify how decisions about the relevant activities are made

Assess whether the investor has power over the relevant activities

Assess whether the investor is exposed to variability in returns

Assess whether there is a link between power and returns

HOW CONTROL IS ASSESSED?



IDENTIFY THE INVESTEE (LEGAL ENTITY OR SILO)

Control by an Investor is generally assessed @ entity level

However, in some circumstances, the assessment is made for a portion of an entity viz'- over only specified assets and liability (i.e. a Silo)

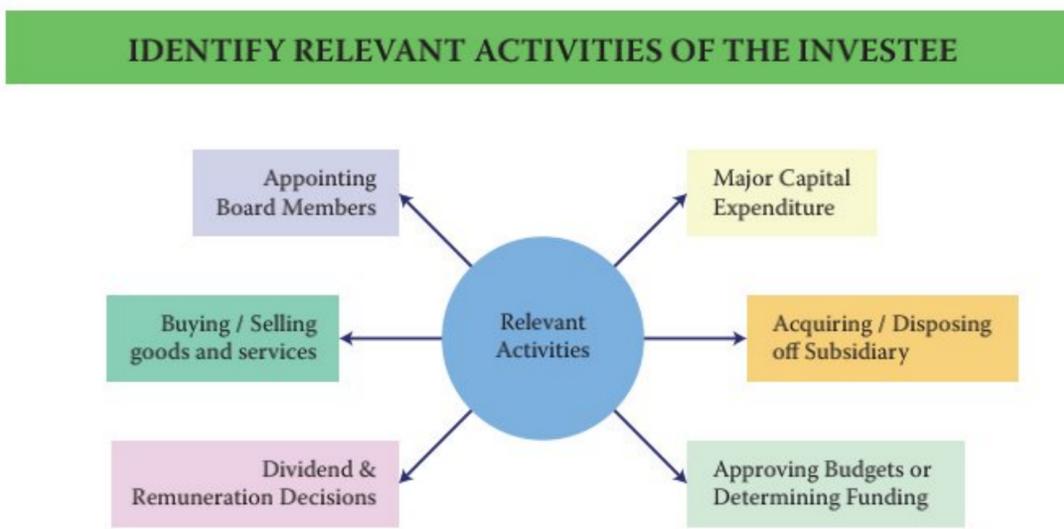
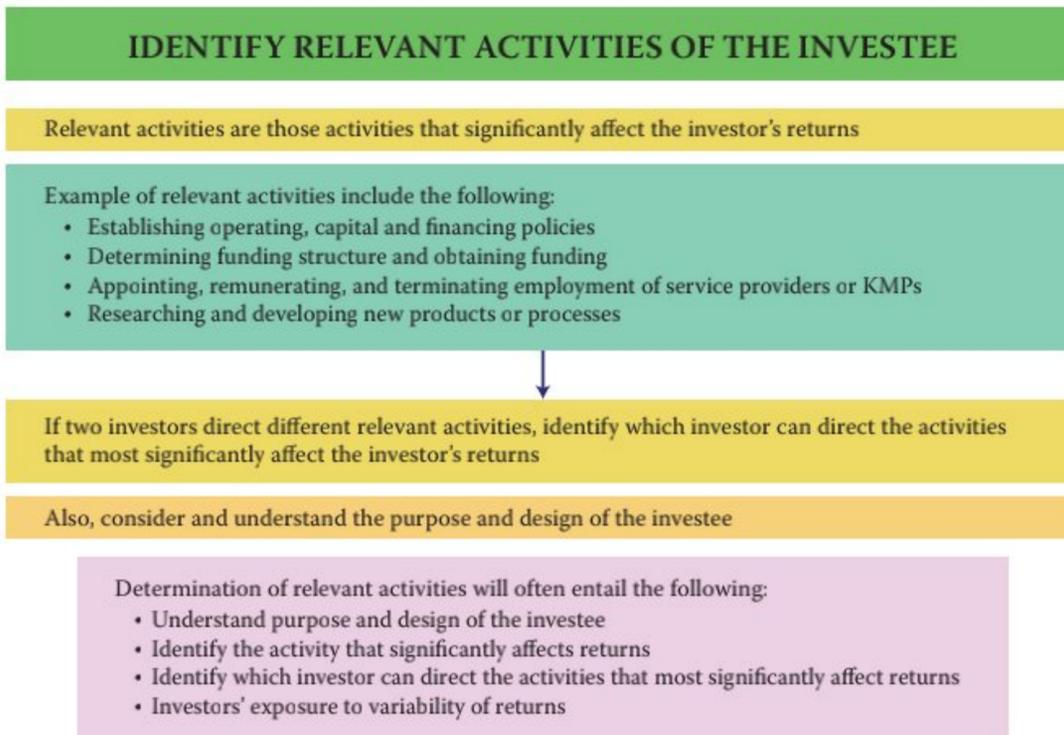
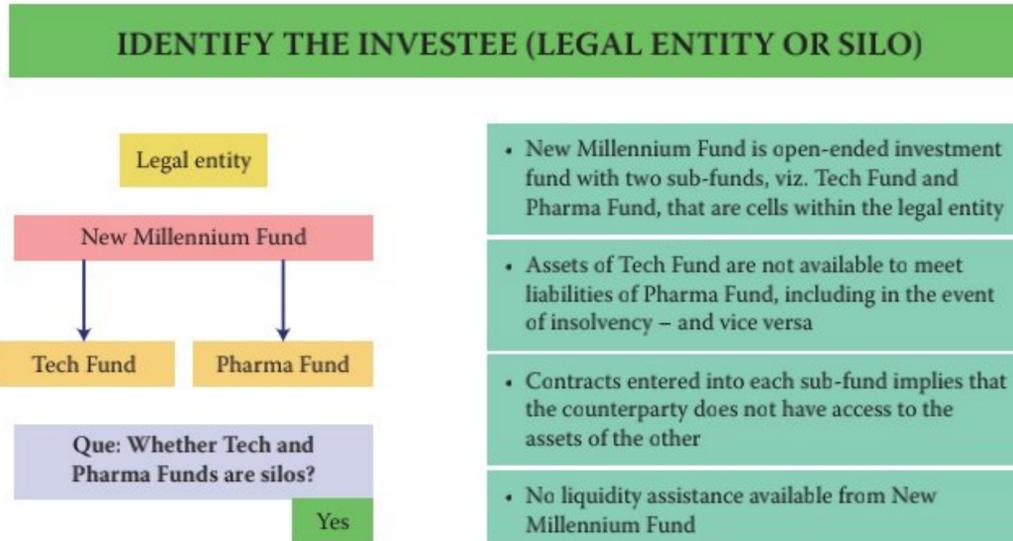
Silo = portion of an entity that is treated as a deemed separate entity

- None of the silo's assets can be used to pay other obligations of the entity
- The Silo's assets are the only source of payment for the silo's liabilities and
- Other than the silo's creditors, no party has any rights or obligations related to the silo's assets or to residual cashflows from those assets

This will be the case if all the assets, liabilities and equity of that part of the investee are ring-fenced from the rest of the entity

Note: If an Investor has control over specified assets of an investee, it treats that portion('silo') of the investee as a separate entity

Existence of silos is not confined to structured entities but is more likely to arise there

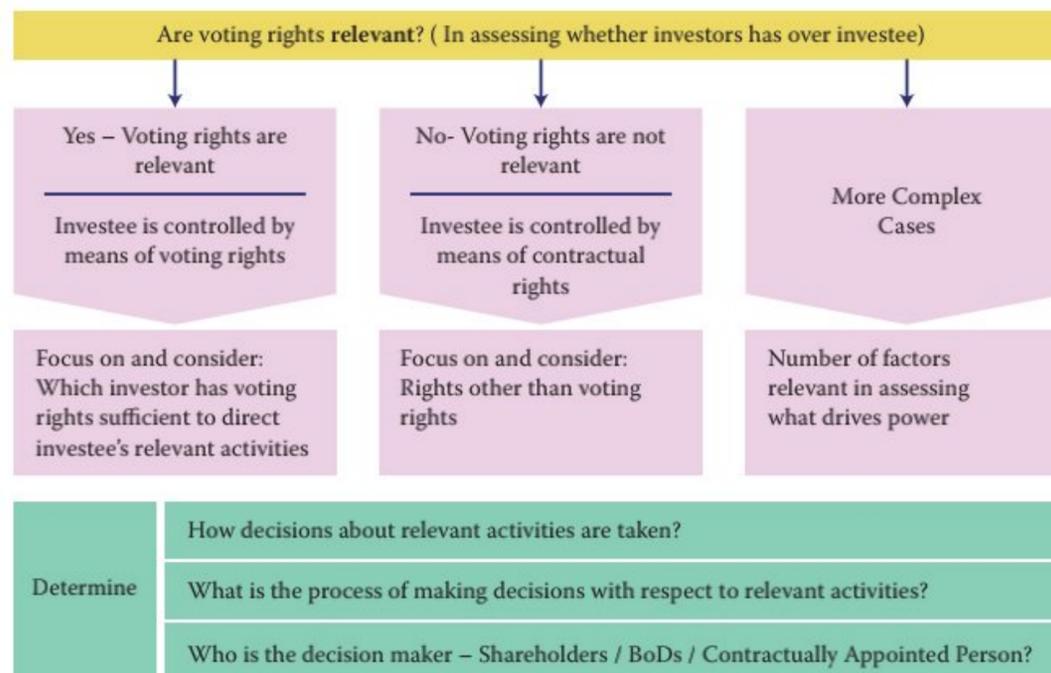


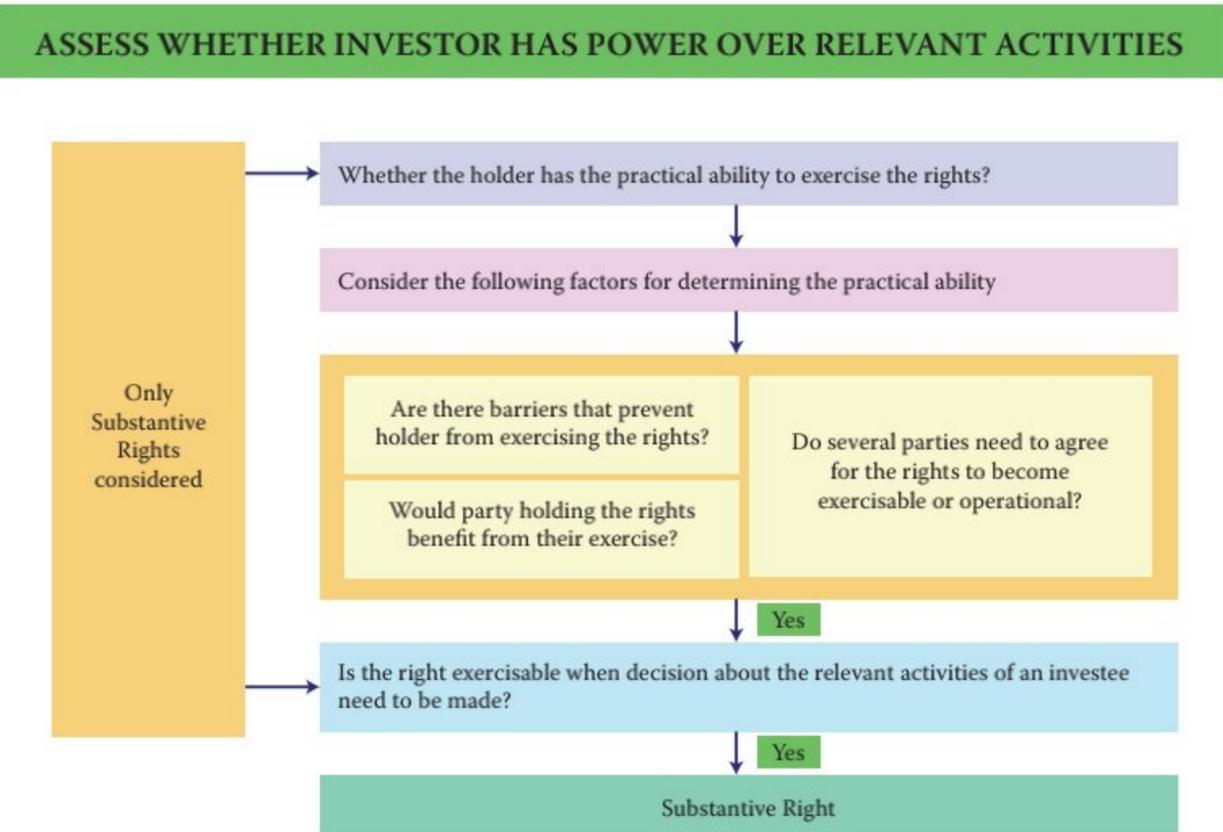
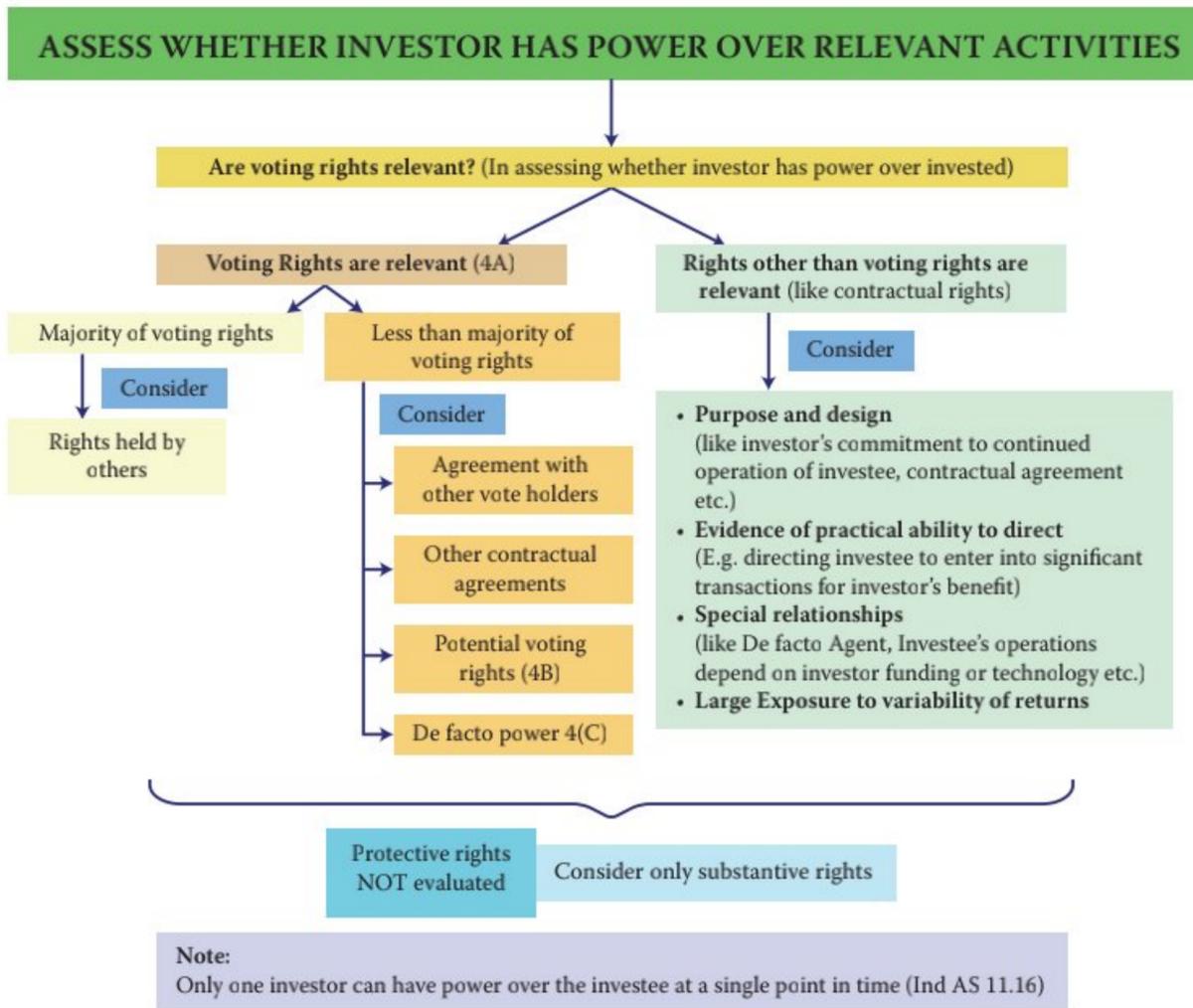
IDENTIFY RELEVANT ACTIVITIES OF THE INVESTEE

Relevant Activities	Key Take Away
Examples of activities that can potentially be relevant activities include: <ul style="list-style-type: none"> <li>Selling and purchasing of goods or services</li> <li>Managing financial assets during their life (including on default)</li> <li>Selecting, acquiring or disposing of assets</li> <li>Researching &amp; developing new products / processes</li> <li>Determining a funding structure or obtaining funding etc.</li> </ul>	Assess which activity most significantly affects investee's returns, considering the following factors: <ul style="list-style-type: none"> <li>Purpose and design of the investee</li> <li>Factors that determine profit margin, revenue, value of the investee</li> <li>Effect of each investor's decision-making authority on investee's returns</li> <li>Investor's exposure to variability of returns</li> </ul>

Relevant activities can change over a period of time.....need for continuous assessment.....

IDENTIFY HOW DECISIONS ABOUT RELEVANT ACTIVITIES ARE MADE





ASSESS WHETHER INVESTOR HAS POWER OVER RELEVANT ACTIVITIES

Substantive vs. Protective Rights

Substantive Rights

- Substantive Rights are rights that are exercisable when decision on relevant activities are made
- Substantive rights are existing rights, that give the investor the current ability to direct the relevant activities of the investee
- A right is substantive if the holder has the practical ability to exercise that right, when decisions about relevant activities are made

Protective Rights

- Protective rights are right that:
- Are intended solely to protect the interest of their holders rather than to transfer power to that party
  - Relate to fundamental changes in entity's activities or apply only in exceptional circumstances

Factors to consider is assessing whether a right is substantive, inter alia, include the following:

Are there barriers (economic or otherwise) that would prevent the holder from exercising their rights?

- Exercise or conversion price
- Penalties that may prevent/deter exercise
- Absence of explicit mechanism allowing exercise
- Inability to obtain information required for exercise
- Legal or regulatory constraints
- Other constraints, making it unlikely for exercise of rights

Do the holders have the practical ability to exercise their rights - in cases where exercise requires agreement by more than one investor?

Would the investor that holds the rights benefit from their exercise of conversion?

Are the rights currently exercisable or convertible?

POTENTIAL VOTING RIGHTS

Potential Voting Rights are considered in assessment of power, only if they are substantive (considering factors like exercise price, date, procedures, etc.)

Factors for evaluating whether options are substantive:

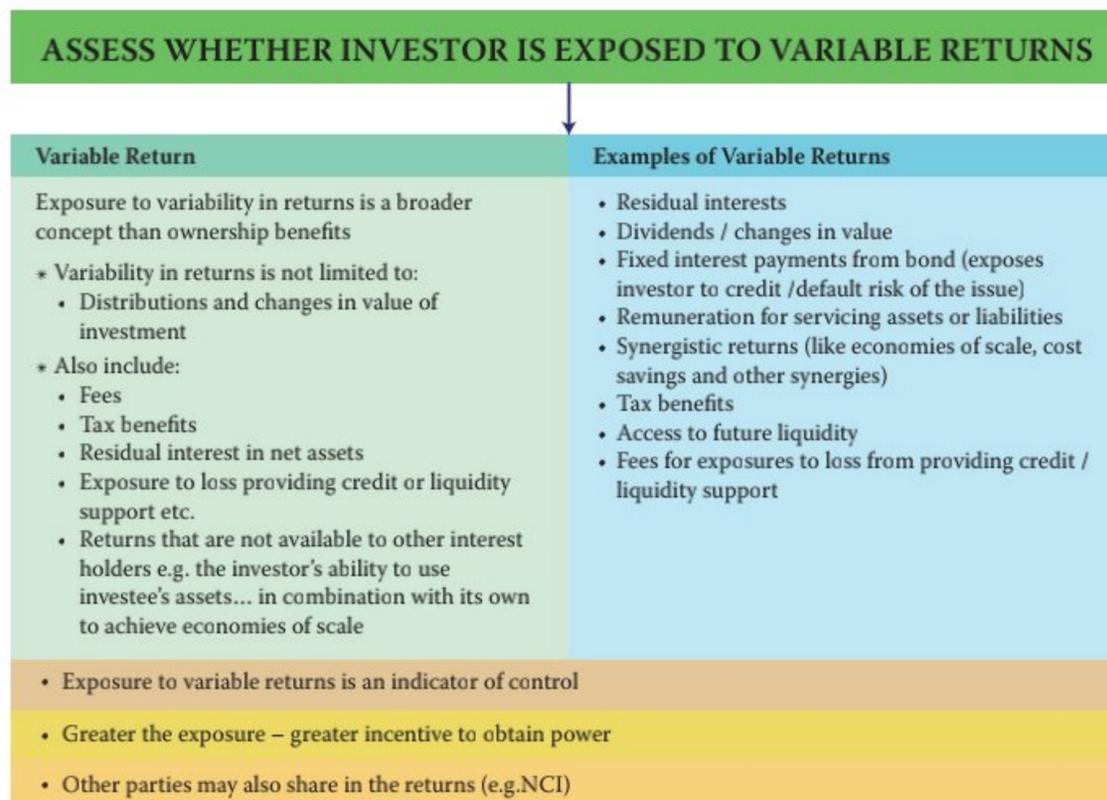
- Exercise price/conversion price, relative to market terms
- Ability to obtain financing
- Timing and length of exercise period
- Benefits, which the investor could derive from exercising these instruments (like economies of scale, synergies etc)

Other aspects to be considered

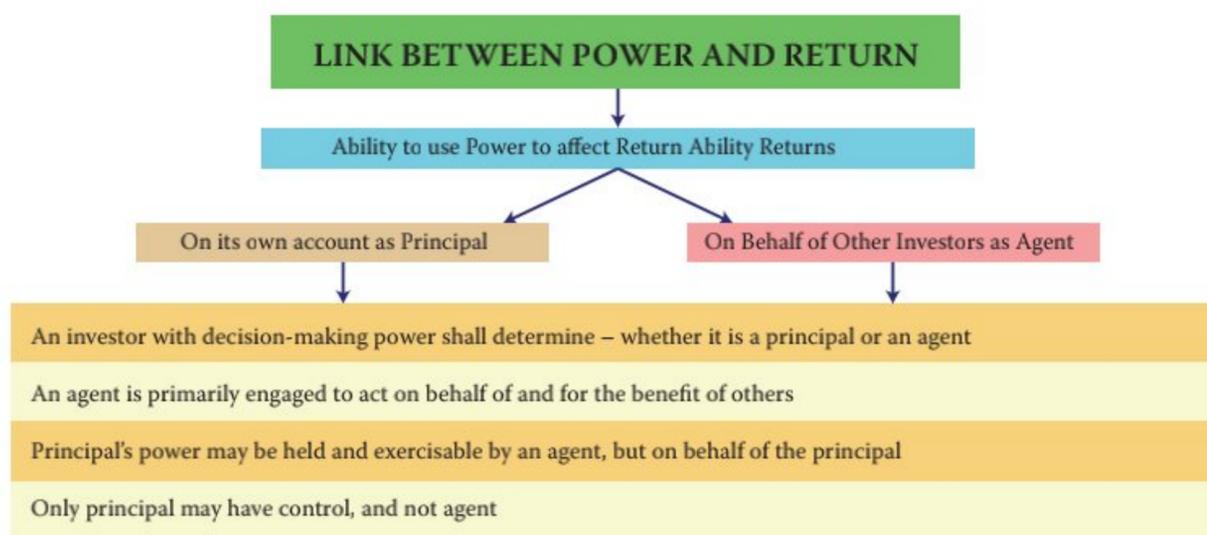
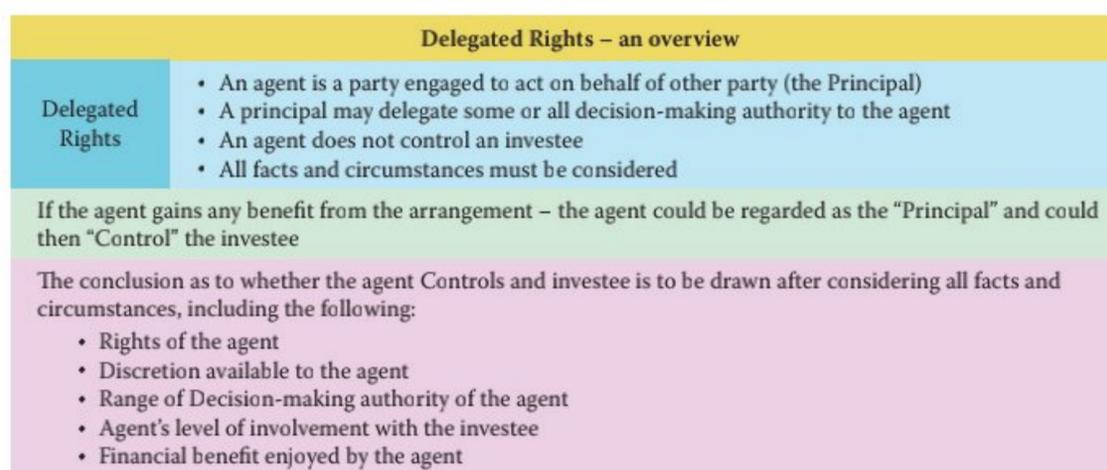
- Purpose and design of the instrument
- Investor's apparent expectations, motives and reasons for agreeing the terms of the instrument
- Combination of potential voting rights and other rights (voting or contractual)
- Other involvements the investor has with the investee

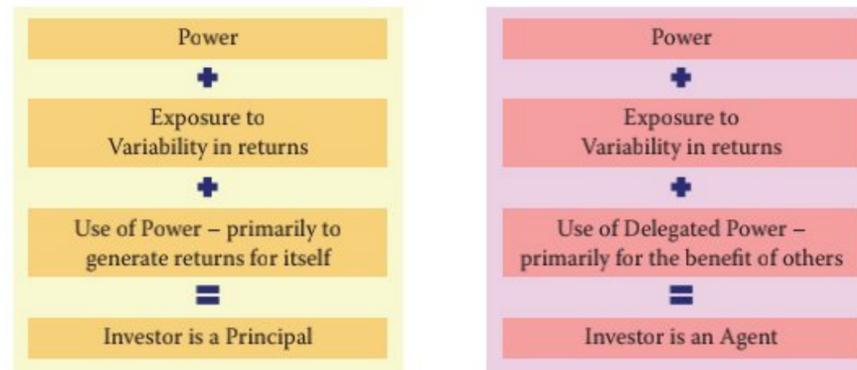
Example

Parameters	Substantive	Non-substantive	Depends on facts and circumstances
Exercise Price	At market (fair value) OR in-the-money	Deeply out-of-the-money	Out-of-the-money
Exercise Period	Currently exercisable	Not exercisable	Exercisable, but decisions need to be made
Financial Ability to Exercise	Holder has cash/financing readily available	Holder has no financial ability	Holder would have to raise financing



**ASSESS WHETHER THERE IS A LINK BETWEEN POWER AND RETURN**





**CONSOLIDATION EXEMPTION FOR INVESTMENT ENTITIES**

Investment entities:

- should not consolidate controlled investments
- measure investments at FVTPL

A parent of an investment entity should consolidate all subsidiaries it controls, unless the parent itself is an investment entity

**CONTINUOUS ASSESSMENT OF CONTROL**

When to re-assess?

- Reassess to determine whether the investor continue to control the investee
- Reassessment must be done if facts and circumstances suggest there is a change to one / more of the criteria for control

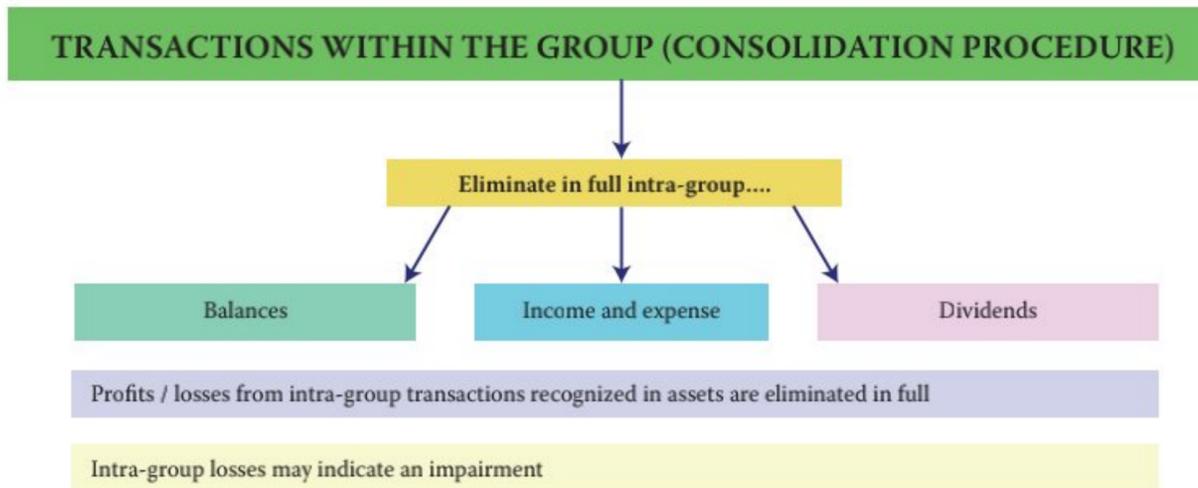
If change in market conditions affect **one of the Control criteria**, re-evaluate control

Consolidation of an investee shall:

- begin from the date the investor obtains control of the investee; and
- cease when the investor loses control of the investee

**CONSOLIDATION PROCEDURE UNDER IND AS 110**

Step 1	Combine like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries
Step 2	Offset (eliminate): <ul style="list-style-type: none"> <li>• Carrying amount of parent's investment in subsidiary</li> <li>• Parent's portion of equity of each subsidiary</li> </ul>
Step 3	Offset (eliminate) items related to intragroup transactions



### OTHER KEY REQUIREMENTS RELATED TO CONSOLIDATION

Apply uniform accounting policies to all subsidiaries  
(Adjustment is required, if different accounting policies followed and impact is significant)

Parent and Subsidiary to use the same reporting date unless impracticable  
(Difference in period ends cannot exceed 3 months)

Significant events adjusted, even if difference in period ends is up to 3 months

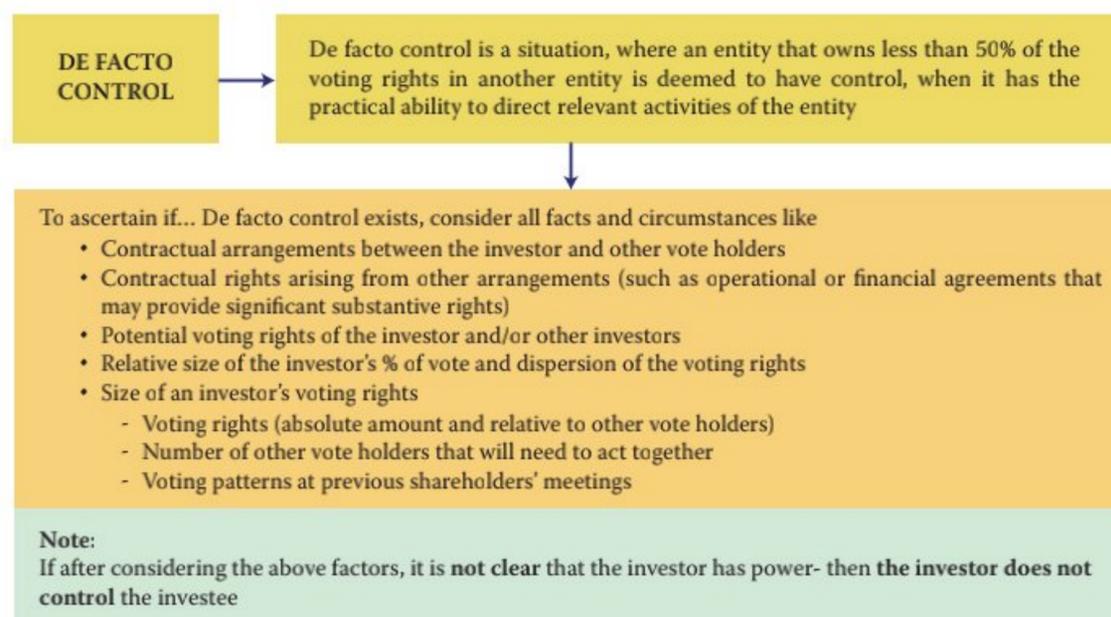
- NCI is shown separately within Equity
- Losses are allocated to NCI even if NCI balance goes Negative

### EXEMPTION FROM PREPARING CFS

A parent need not present Consolidated Financial Statement, If all the following conditions are met:

- 1 Entity is a subsidiary (wholly owned or, partially owned) and no owners object to non-consolidation
- 2 No debt or equity instrument traded in public market
- 3 Did not file and is not in the process of filing its financial statements with a regulatory organization – to issue any class of instruments in a public market
- 4 The ultimate parent (or, any intermediate parent of the parent) produces a CFS that comply with Ind-AS & the same is available for public use

Note: There is mandatory consolidation exception for an investment entity



### ACCOUNTING TREATMENT ON LOSS OF CONTROL OF A SUBSIDIARY

If a parent loses control of a subsidiary, it shall follow the accounting treatment mentioned below:

Derecognise:	Recognise:	Reclassify:	Recognises gain / loss:
<ul style="list-style-type: none"> <li>• the assets (including any goodwill) and liabilities of the subsidiary</li> <li>• the carrying amount of any non-controlling interests in the former subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>• the fair value of the consideration received</li> <li>• if loss of control involves a distribution of shares of the subsidiary to owners, then that distribution; and</li> <li>• any investment retained in the former subsidiary at its fair value at the date when control is lost (refer <b>note 1</b> below)</li> </ul>	<ul style="list-style-type: none"> <li>• 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 (refer <b>note 2</b> below)</li> </ul>	<ul style="list-style-type: none"> <li>• recognise any resulting difference as a gain or loss in profit or loss attributable to the parent</li> </ul>

**Note 1:**

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.

**Note 2:**

If a parent loses control of a subsidiary, 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.

### LOSS OF CONTROL OF A SUBSIDIARY IN TWO OR MORE ARRANGEMENTS (TRANSACTIONS)

In determining whether to account for the arrangements as a single transaction, a parent shall consider all the terms and conditions of the arrangements and their economic effects. One or more of the following indicate that the parent should account for the multiple arrangements as a single transaction:

They are entered into at the same time or in contemplation of each other.

They form a single transaction designed to achieve an overall commercial effect

The occurrence of one arrangement is **dependent** on the occurrence of at least one other arrangement.

One arrangement considered on its own is **not economically justified, unless it is considered together** with other arrangements. (e.g. when a disposal of shares is priced below market and is compensated for by a subsequent disposal priced above market)

### DISCLOSURES RELATED TO INTERESTS IN SUBSIDIARIES

An entity shall disclose information that enables users of its consolidated financial statements

**to understand**

- the composition of the group; and
- the **interest that non-controlling interests have** in the group's activities and cash flows; and

**to evaluate**

- the **nature and extent of significant restrictions** on its ability to access or use assets, and settle liabilities, of the group
- the **nature of, and changes in, the risks associated** with its interests in consolidated structured entities
- the **consequences of changes in its ownership interest** in a subsidiary that do not result in a loss of control; and
- the **consequences of losing control** of a subsidiary during the reporting period

When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements, an entity shall disclose:

- the date of the end of the reporting period of the financial statements of that subsidiary; and
- the reason for using a different date or period

### THE INTEREST THAT NON-CONTROLLING INTERESTS HAVE IN THE GROUP'S ACTIVITIES AND CASH FLOWS

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

the name of the subsidiary.

the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

the proportion of ownership interests held by non-controlling interests.

the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

accumulated non-controlling interests of the subsidiary at the end of the reporting period.

summarised financial information about the subsidiary

### THE NATURE AND EXTENT OF SIGNIFICANT RESTRICTIONS

An entity shall disclose following:

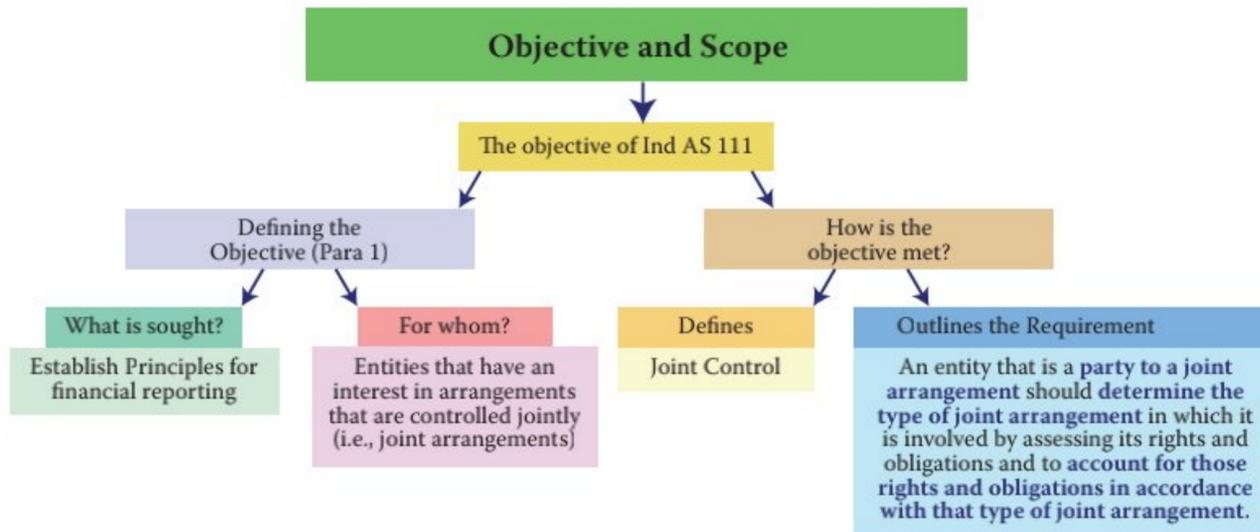
**Significant restrictions** (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:

- those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.
- guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

**The nature and extent** to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).

**The carrying amounts** in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

## INDIAN ACCOUNTING STANDARD (IND AS) 111 : JOINT ARRANGEMENTS



**Scope of Ind AS 111** → This Ind AS shall be applied by all entities that are a party to a joint arrangement.

### Appendix A: Defined Terms

- Joint Arrangement** → An arrangement of which two or more parties have **joint control**.
- Joint Control** → 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.
- Joint Operation** → 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.
- Joint Venture** → A joint arrangement whereby the parties that have joint control of the arrangement have **rights to the net assets** of the arrangement.

### The Concept of Joint Arrangements

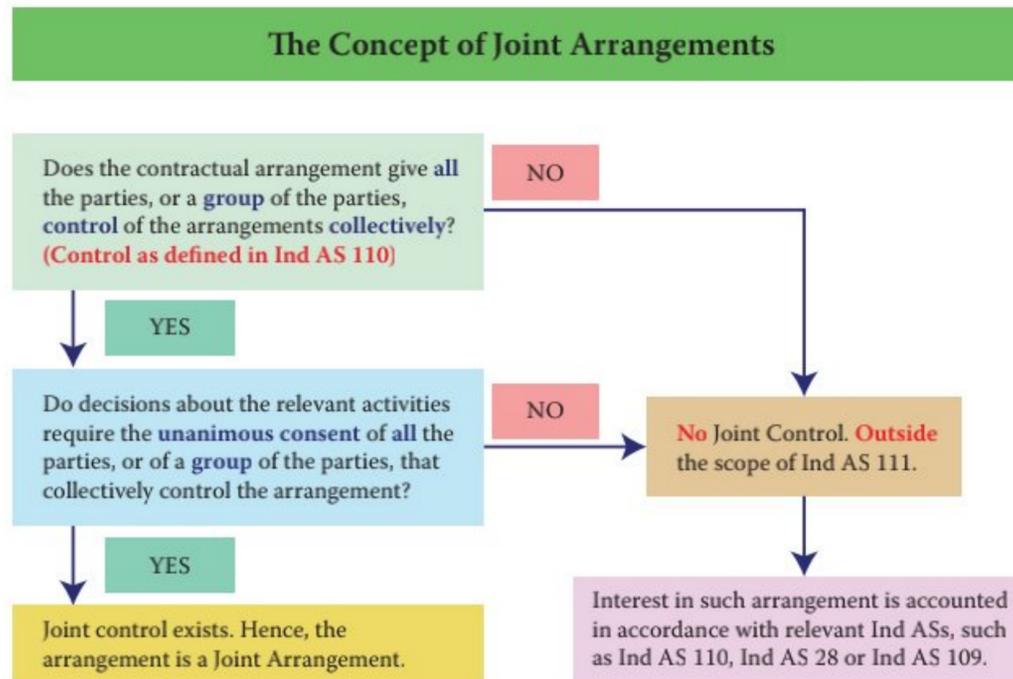
#### Characteristics of a Joint Arrangement

- The parties are bound by a contractual arrangement
- A joint arrangement is either a joint operation or a joint venture
- The contractual arrangement gives two or more of those parties joint control of the arrangement

**Assessment of Joint Control** → In assessing whether an entity has joint control of an arrangement, an entity shall **assess first** whether **all the parties**, or a **group of the parties**, **control the arrangement**.

Ind AS 110 defines 'control' and shall be used to determine whether all the parties, or a group of the parties (a) are exposed, or have rights, to variable returns from their involvement with the arrangement and (b) have the ability to affect those returns through their power over the arrangement.

When **all the parties**, or a **group of the parties**, **considered collectively**, are able to **direct the activities** that significantly affect the returns of the arrangement (i.e., the relevant activities), the **parties control the arrangement collectively**.

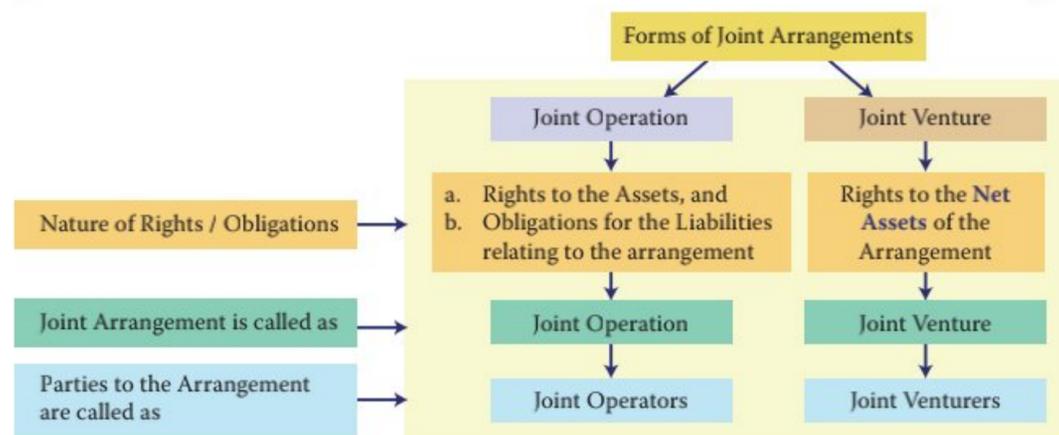


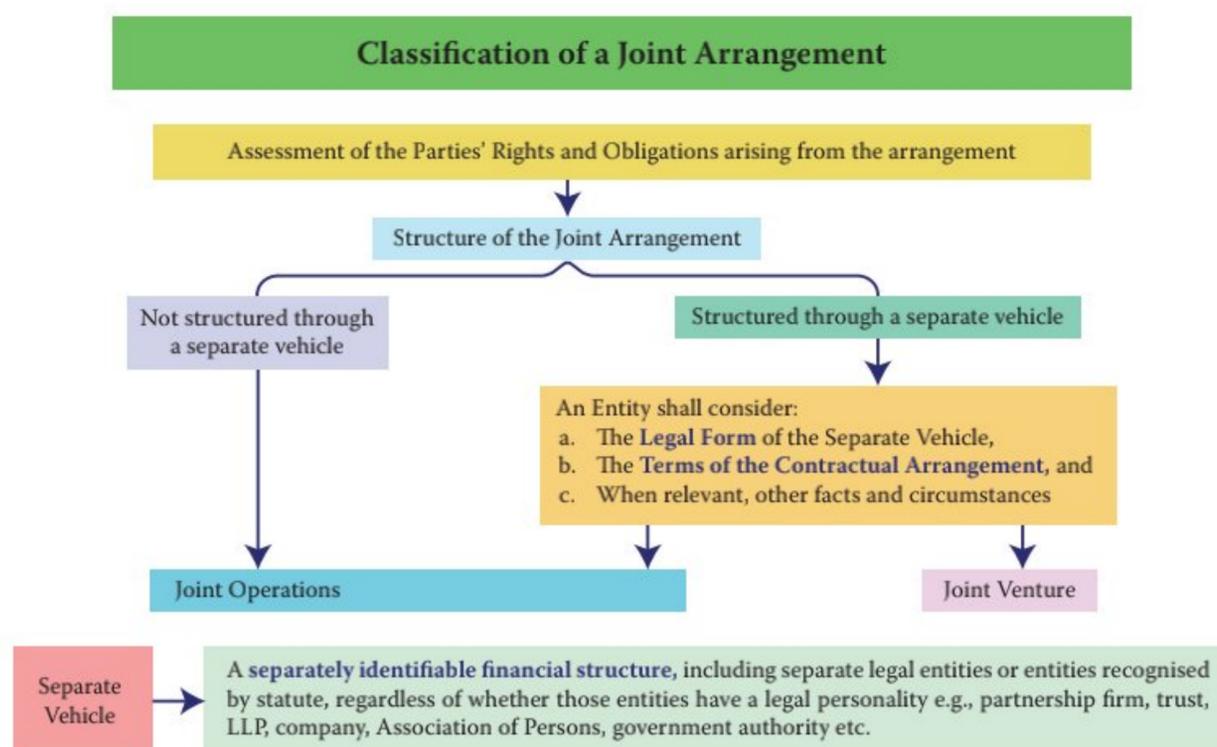
### The Concept of Joint Arrangements

**Key Points:**

1. In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
2. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. Ind AS 111 distinguishes between parties that have joint control of a joint arrangement (joint operators or joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement.
3. An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances.
4. If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

### Types / Forms of Joint Arrangements





### Classification of a Joint Arrangement

Assessing the terms of the Contractual Arrangement: An illustrative (and not exhaustive) list

	Joint Operation	Joint Venture
The terms of the contractual arrangement	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The parties to the joint arrangement share all interests (e.g. rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
Obligations for Liabilities	The parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them). The parties to the joint arrangement are liable for claims raised by third parties.	The joint arrangement is liable for the debts and obligations of the arrangement. The parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both. The creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.

	Joint Operation	Joint Venture
Revenues, expenses, profit or loss	Revenues and expenses are allocated on the basis of the relative performance of each party to the joint arrangement. However, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	Each party has share in the profit or loss relating to the activities of the arrangement.
Guarantees	The parties to joint arrangements might provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (whether they are guaranteed by the parties or not is irrelevant).	

### Classification of a Joint Arrangement

#### Assessing Other Facts and Circumstances

#### When to assess?

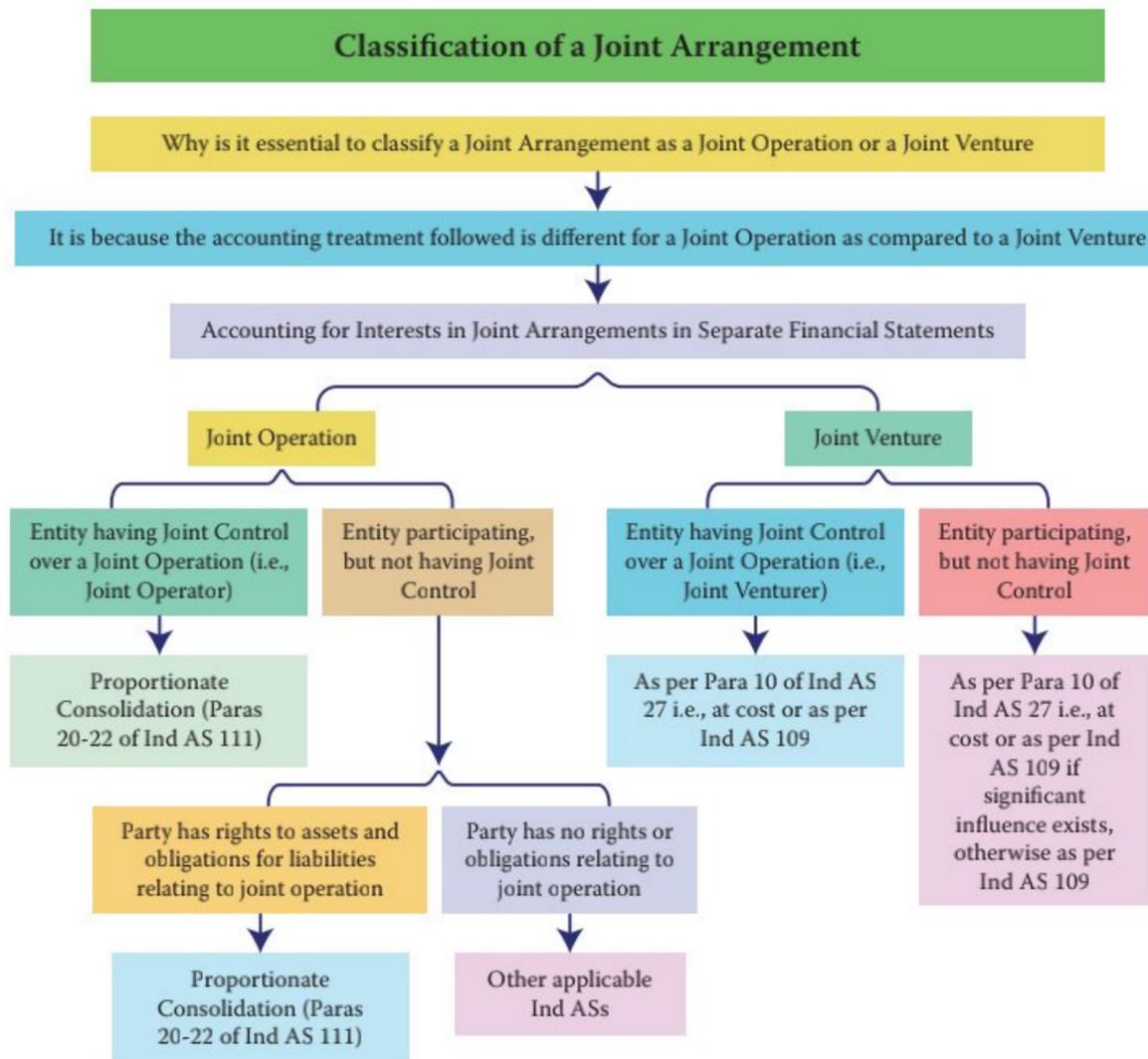
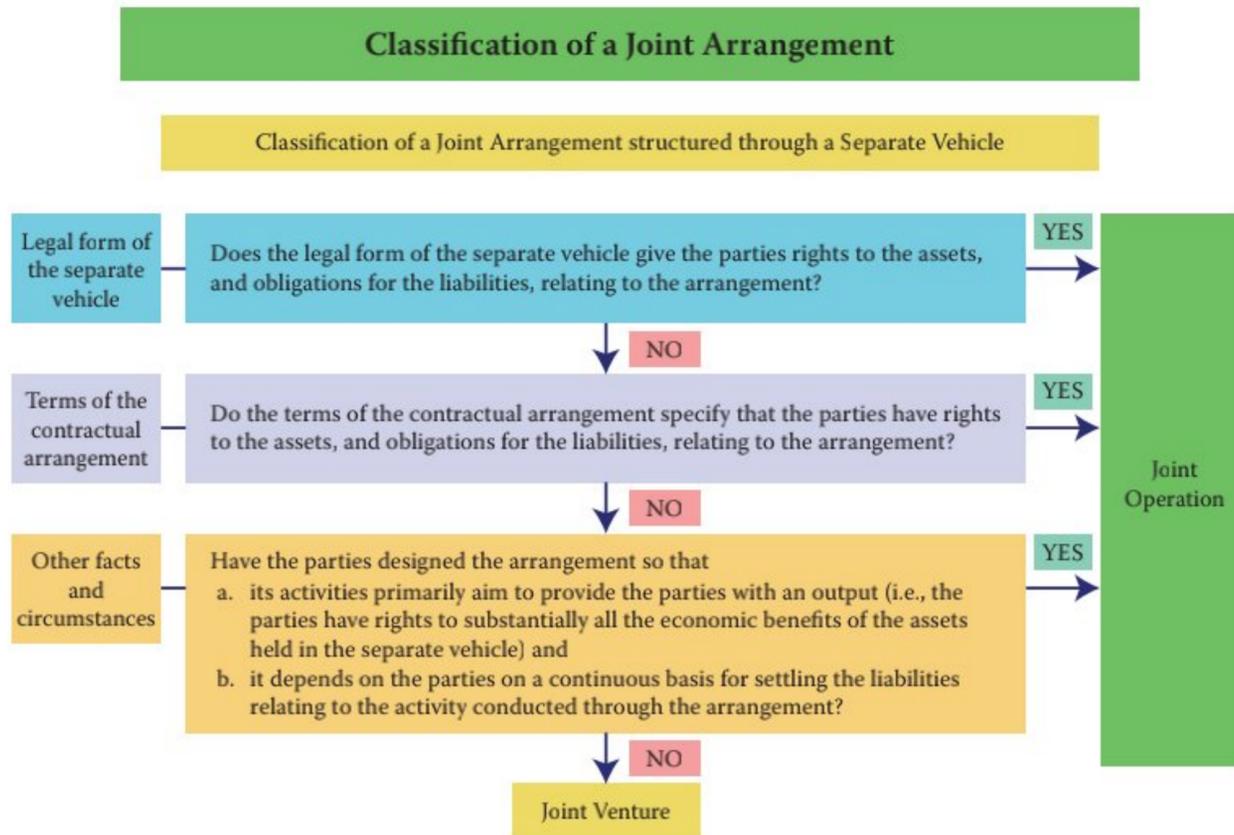
A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The **contractual terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation.** This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.

#### How to determine whether joint operation or joint venture?

The activities of the arrangement are **primarily designed for the provision of output to the parties, (i.e., the parties have rights to substantially all the economic benefits of the assets held in the separate vehicle).**

The parties are **substantially the only source of cash flows contributing to the continuity of the operations of the arrangement.** Hence, the arrangement depends on the parties on a continuous basis for settling the liabilities relating to the activity conducted through the arrangement.

If both these conditions are satisfied, the arrangement is a joint operation.



### Accounting of Joint Arrangements

Paras 20-21 of Ind AS 111: Accounting for Joint Operations in Separate Financial Statements

**Para 20: A joint operator shall recognise in relation to its interest in a joint operation:**

- a. its assets, including its share of any assets held jointly;
- b. its liabilities, including its share of any liabilities incurred jointly;
- c. its revenue from the sale of its share of the output arising from the joint operation;
- d. its share of the revenue from the sale of the output by the joint operation; and
- e. its expenses, including its share of any expenses incurred jointly

**Para 21: The above assets, liabilities, revenue and expenses shall be accounted as per respective Ind ASs for those assets, liabilities, revenue and expenses.**

### Accounting of Joint Arrangements

Para 22 of Ind AS 111: Accounting for transactions between Entity and Joint Operation

**Sale or Contribution of Assets to a Joint Operation:**

- a. The entity (i.e., joint operator) is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- b. When above transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator.

**Purchase of Assets from a Joint Operation**

- a. The entity (joint operator) shall not recognise its share of the gains and losses until it resells those assets to a third party.
- b. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses.

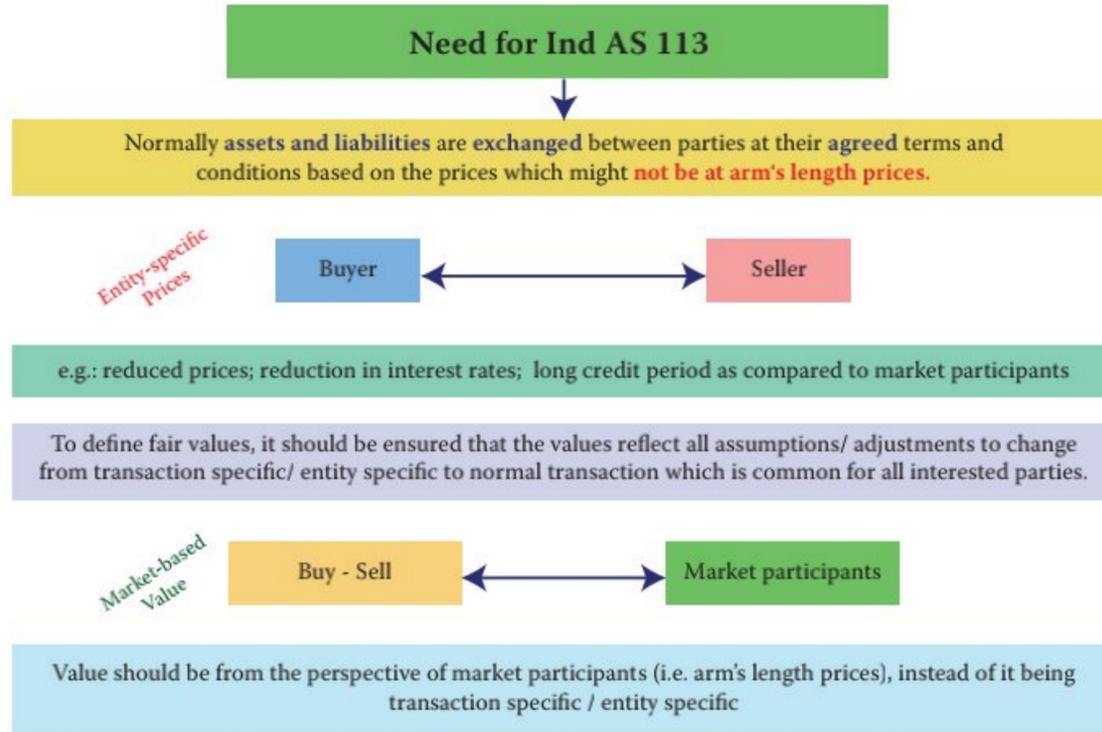
**Accounting of Joint Arrangements**

Paras 21A of Ind AS 111: Acquisition of Interest in Joint Operations

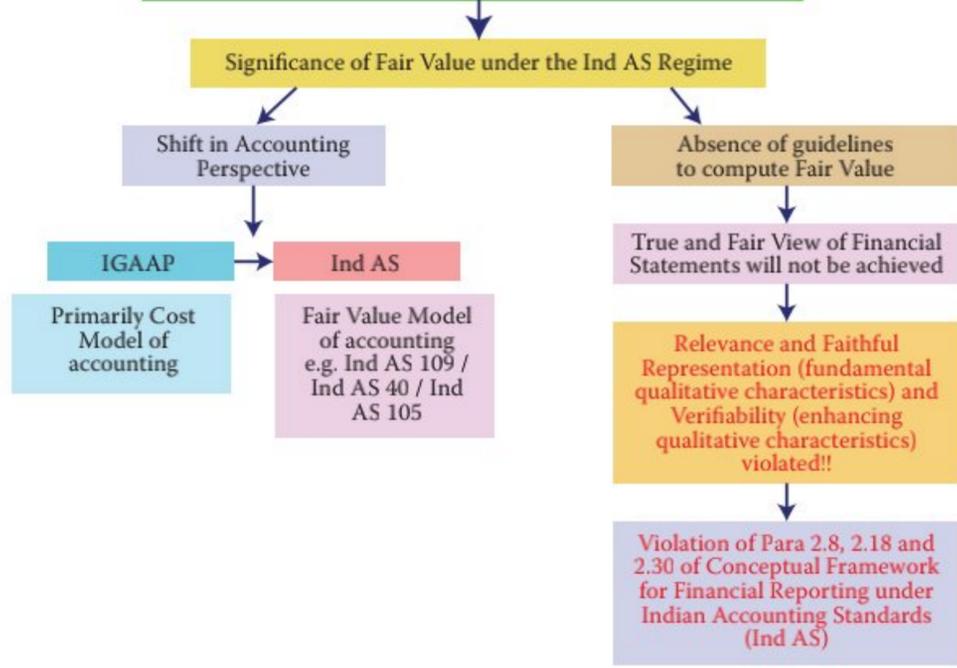
**Acquisition of interest in Joint Operation which is a business as defined in Ind AS 103:**

- Apply, to the extent of its share / interest, all of the principles on business combinations accounting in Ind AS 103, and other Ind ASs, that do not conflict with the guidance in Ind AS 111 (measuring identifiable assets and liabilities at fair value, recognizing acquisition related costs as expenses, deferred tax implications on initial recognition of assets or liabilities, recognition of goodwill and impairment testing thereof), and
- Increase in interest in a joint operation by acquiring additional stake: Do NOT remeasure previously held interests.
- If acquisition of interest is a common control transaction, apply the guidance specified in Appendix C of Ind AS 103.

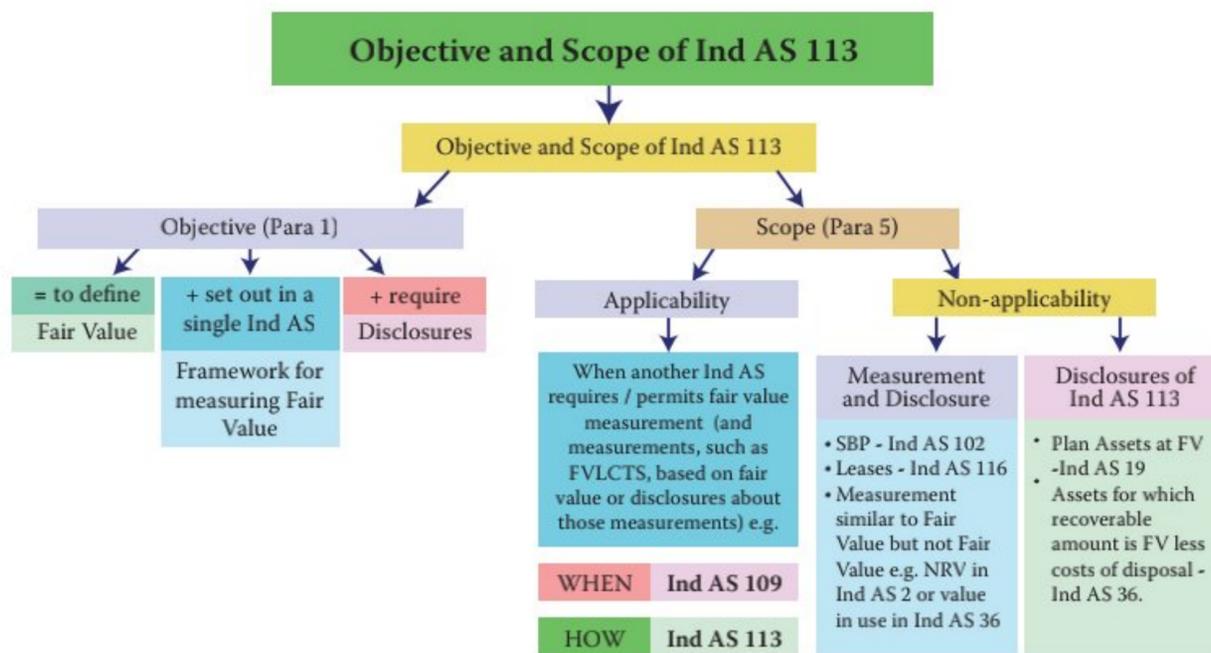
### INDIAN ACCOUNTING STANDARD (IND AS) 113: FAIR VALUE MEASUREMENT



### What would happen without Ind AS 113?

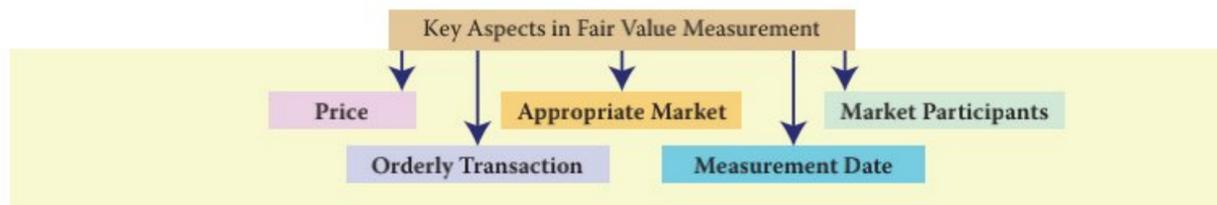


Hence Ind AS 113 assumes significance since it ensures compliance with the Conceptual Framework



### What is Fair Value?

Fair Value (Para 9) = 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.



### Key Aspects: Asset or Liability Specific Fair Value

**FAIR VALUE IS MARKET-SPECIFIC AND NOT ENTITY-SPECIFIC**

Fair Value Measurement takes into account the characteristics of the asset or liability, e.g. the condition and location of the asset and restrictions, if any, on its sale or use. However, the **restrictions or conditions** that might be **related to a particular entity should not be taken into account** because a fair value will be based on market participant assumptions rather to an entity specific conditions or restriction which usually will not affect fair valuation of an asset/ liability.

An entity shall **measure the fair value** of an asset or a liability **using the assumptions that market participants would use** when pricing the asset or liability, assuming that market participants act in their economic best interest.

**RULE**

ENTITY-SPECIFIC RESTRICTIONS / CONDITIONS: IGNORED  
ASSET / LIABILITY-SPECIFIC RESTRICTION / CONDITIONS TRANSFERRED TO BUYER: CONSIDERED

**Key Aspects: Unit of Account**



Ind AS 113 describes **how** to measure fair value, **not what** is being measured at fair value. **Other Ind AS** specify **whether** a fair value measurement **considers an individual asset or liability or a group of assets or liabilities** (i.e. the unit of account).

Whether the asset or liability is a **stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities** for recognition or disclosure purposes depends on its unit of account.

The **unit of account** for the asset or liability shall be **determined in accordance with the Ind AS that requires or permits the fair value measurement**, except as provided in this Ind AS.

**Key Aspects: Market Participants**

Fair Value is always computed **from the perspective of the market participant** i.e. price that would be received / paid on sale / settlement or transfer of an asset / liability by / to a market player.

**What are Market Participants?**

The parties which eventually transact the assets/ liabilities either in the **principal market or the most advantageous market** in their best economic interest

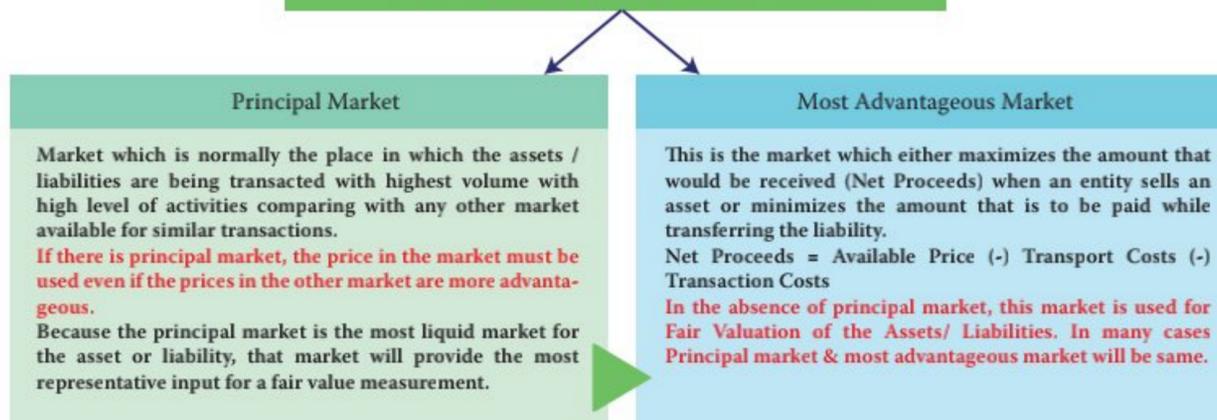
**Characteristics of Market Participants**

They should be **independent and not a related party**. However, if **related parties** have done similar transaction **on arm's length price**, then it can be between related parties as well.

The parties should **not be under any stress or force** to enter into these transactions

All parties should have **reasonable and sufficient information** about the same.

**Key Aspects: Appropriate Market**



**Key Aspects: Price**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction **in the principal** (or most advantageous) market at the measurement date **under current market conditions (i.e. an exit price)** regardless of whether that price is **directly observable or estimated** using another valuation technique.

**FAIR VALUE (PRICE) = AVAILABLE PRICE (LESS) TRANSPORTATION COST**

Transaction costs e.g. brokerage, commission, STT etc. are not a characteristic of an asset or a liability, but a **characteristic of the transaction**. Hence, it would **not be** appropriate to consider any transaction cost further while assessing fair values. However, they would be considered while ascertaining Net Proceeds for determining the most advantageous market.

**NET REALIZABLE VALUE (NRV) = FAIR VALUE (LESS) TRANSACTION COSTS**

Transport cost is the cost that would be incurred to transport the asset from its current location to its principal (or most advantageous) market. Unlike transaction costs, transport costs arise from an event (transport) that does change a characteristic of an asset (its location) and hence, it is deducted from available price to arrive at Fair Value.

**Valuation of Non-Financial Assets (e.g. Land, Biological Assets)**

**Highest and Best Use Concept**

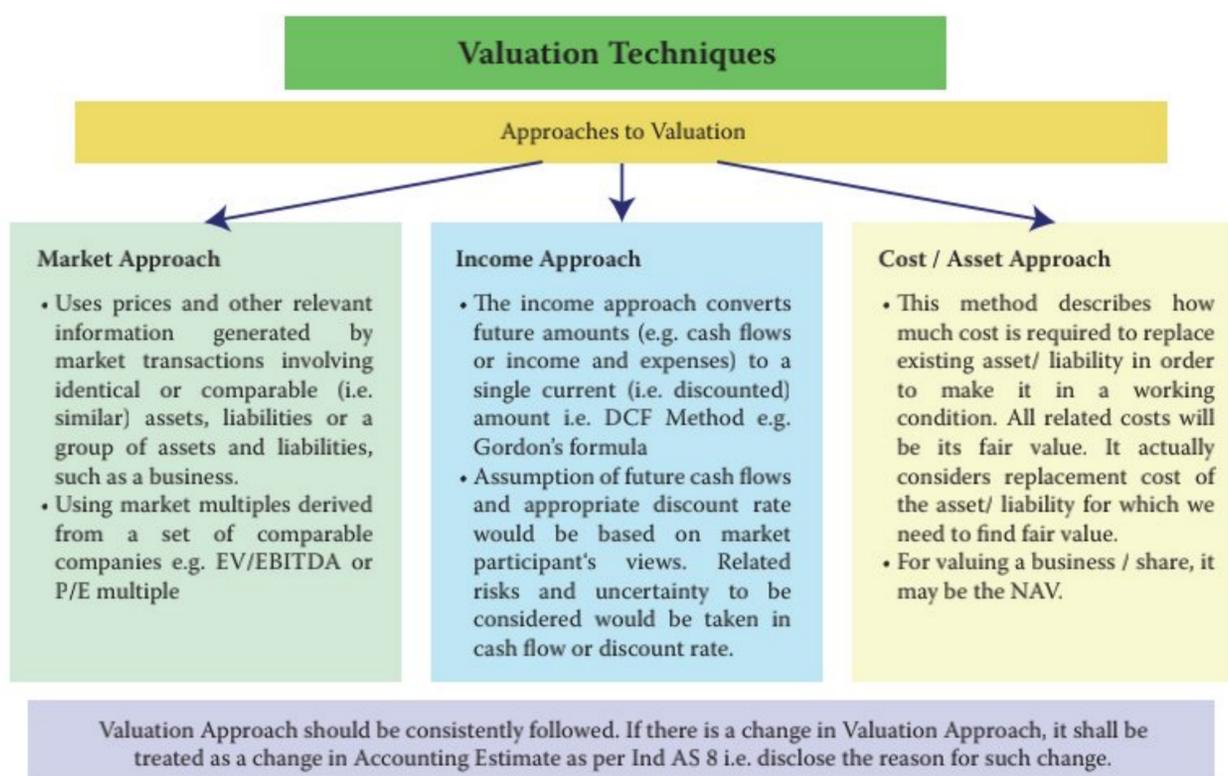
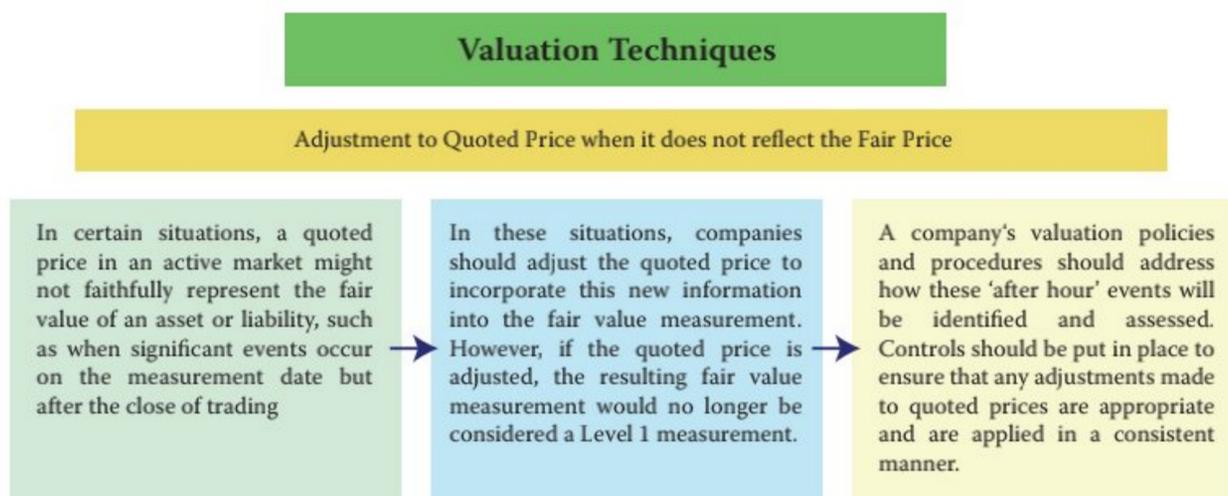
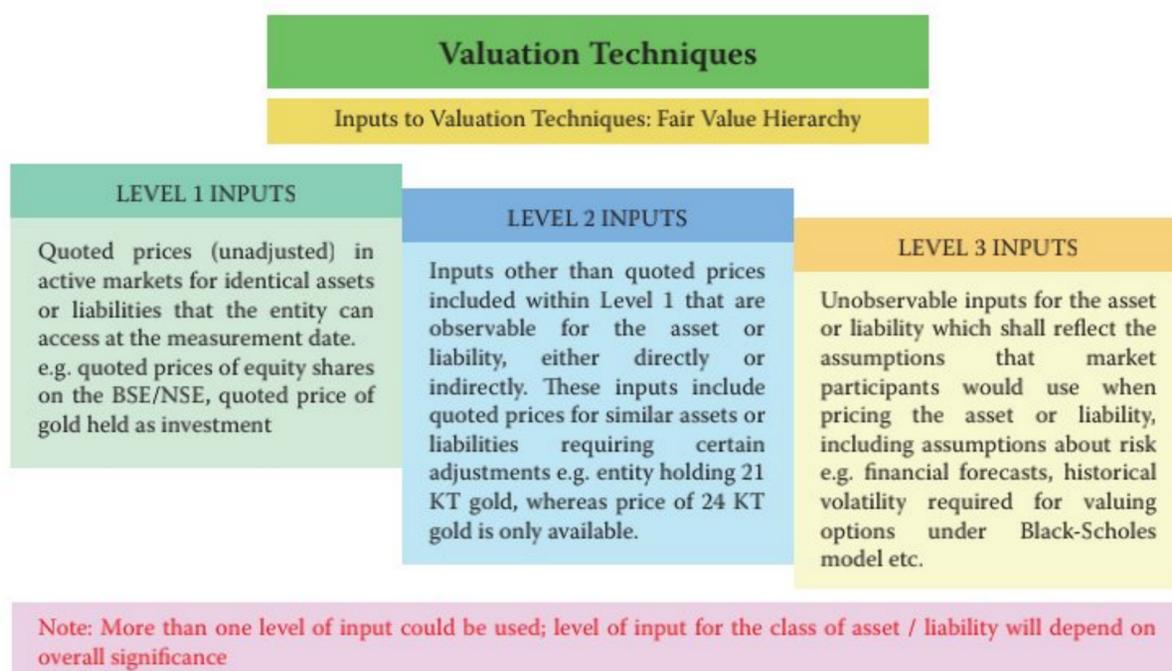
- It is a valuation concept used to value many non- financial assets (e.g. real estate). The highest and best use of a non- financial asset must be **physically possible, legally permissible and financially feasible**.
- The highest and the best use is determined from market participant perspective. **It does not matter whether the entity intends to use the asset differently.**
- To find out the best possible use, one has to identify its market participants and then to find the best legitimate use of this non-financial asset which one would normally do.
- All **restrictions specific to any market participant would not be considered** while finding out fair value of the non-financial asset.
- In absence of potential best use which is not easily available, current use would be considered as best use.
- While considering fair value under any alternative use, deduct the estimated cost to be incurred in order to make the asset ready for alternative use.

**Valuation Techniques**

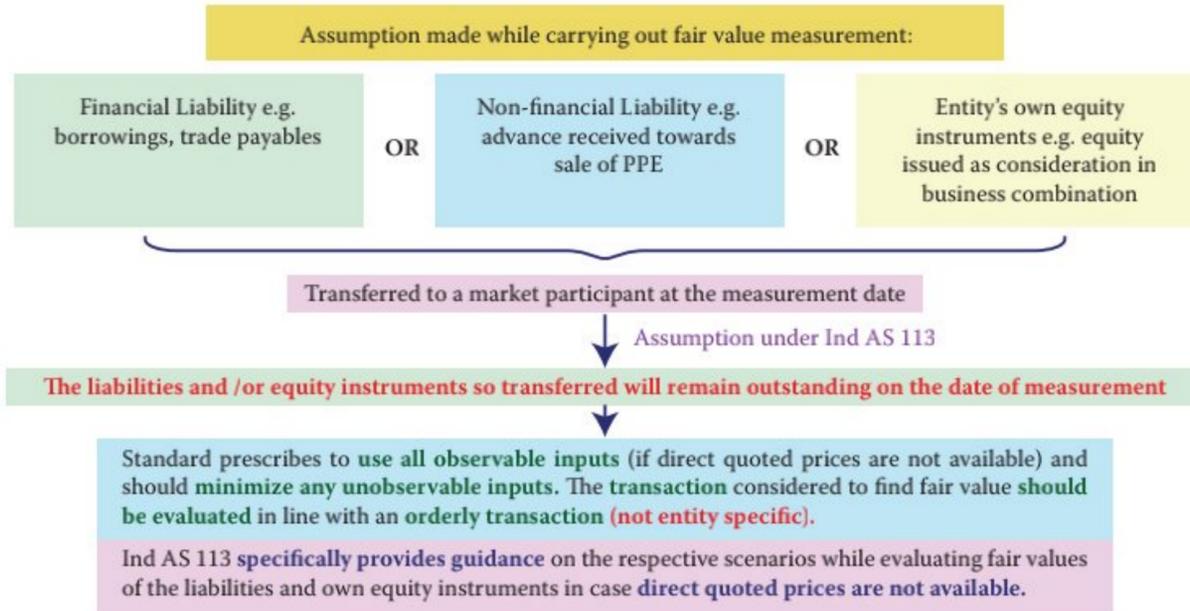
- The objective of using a valuation technique is to estimate the price (i.e. **quoted prices are not available in the principal / most advantageous market**) at which an orderly transaction would take place between market participants at the measurement date under current market conditions.
- An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

**Inputs to Valuation Techniques**

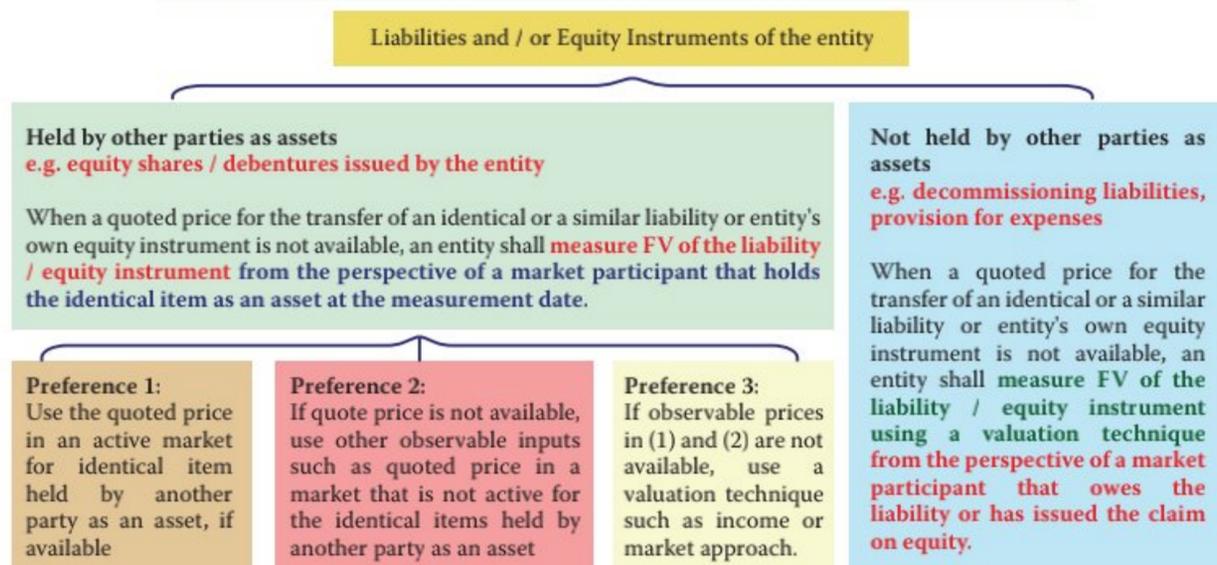




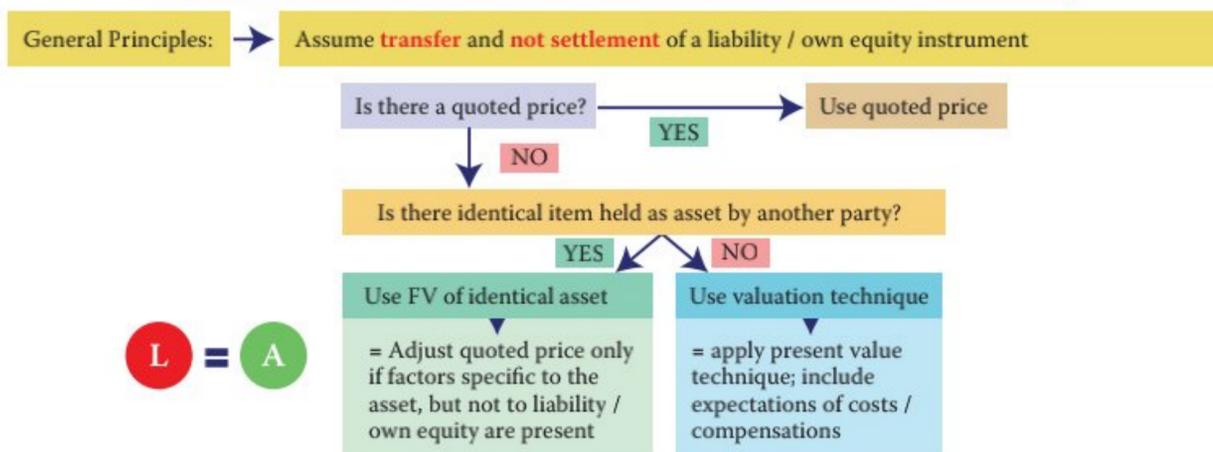
### Applying Fair Value Rules to Liabilities and Own Equity



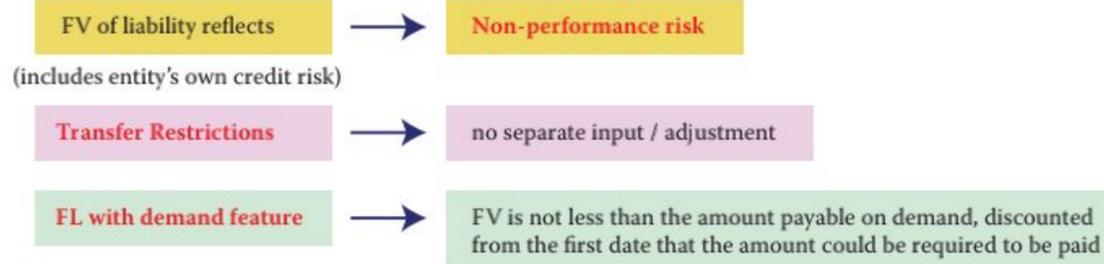
### Applying Fair Value Rules to Liabilities and Own Equity



### Applying Fair Value Rules to Liabilities and Own Equity



Applying Fair Value Rules to Liabilities and Own Equity



Applying Fair Value Rules to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk



Applying Fair Value Rules to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks or Counterparty Credit Risk

Analysis of applying offsetting position in market or credit risk

This exception is **allowed only in case the other market participants also manage the similar risk on net basis.**

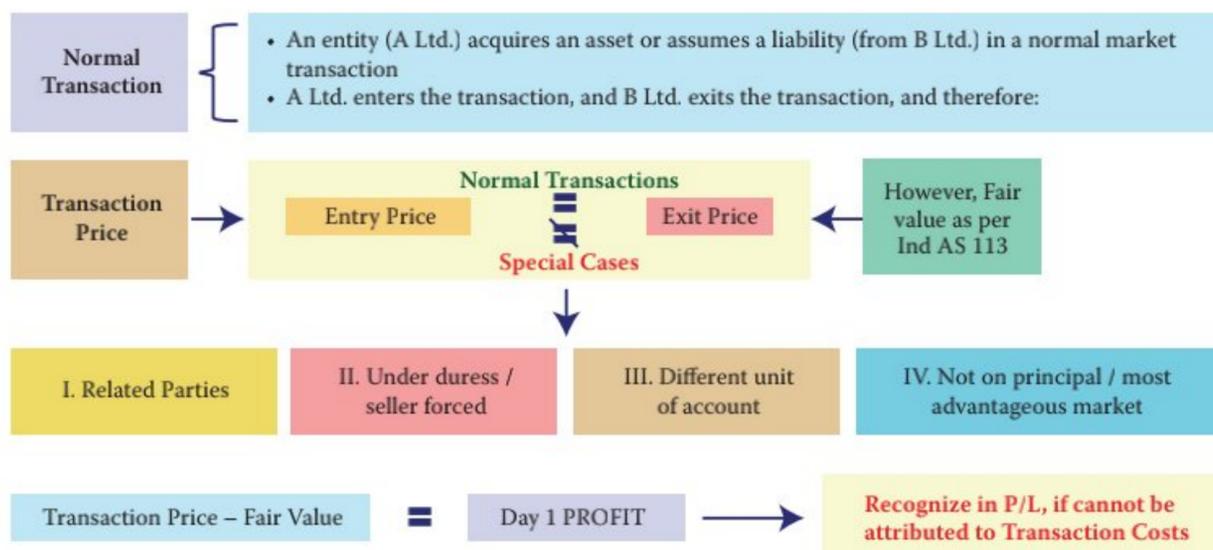
There should ideally be **same information and market practice** available for making these assets / liabilities on net basis.

Once the exception to fair value certain assets / liabilities on net basis is being used, then **unit of account to measure fair value would be considered as net.**

**Market risk should be same while combining any asset / liability** e.g. interest rate risk cannot be netted with commodity price risk.

**Duration of a market risk should be identical** to use the exception for valuing assets / liabilities on net basis e.g. an interest rate swap of longer period will only be allowed to value at net basis up to the duration of financial instrument of the same duration.

**Fair Value at Initial Recognition**



**Disclosure Requirements**

An entity shall disclose information that helps users of its financial statements assess both of the following:

- a. 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 measurements.
- b. 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.

**Summary of Disclosure Requirements:**

	Fair Value Measurement						Disclosure		
	Recurring			Non-recurring			Disclosure		
	level 1	level 2	level 3	level 1	level 2	level 3	level 1	level 2	level 3
Fair Value at each reporting date	•	•	•	•	•	•			
Reasons for measurement				•	•	•			
Level of Hierarchy	•	•	•	•	•	•	•	•	•
Transfers	•	•	•						
Valuation Techniques		•	•		•	•		•	•
If change 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 differs from actual	•	•	•	•	•	•	•	•	•

**INDIAN ACCOUNTING STANDARD (IND AS) 115:  
REVENUE FROM CONTRACTS WITH CUSTOMERS**

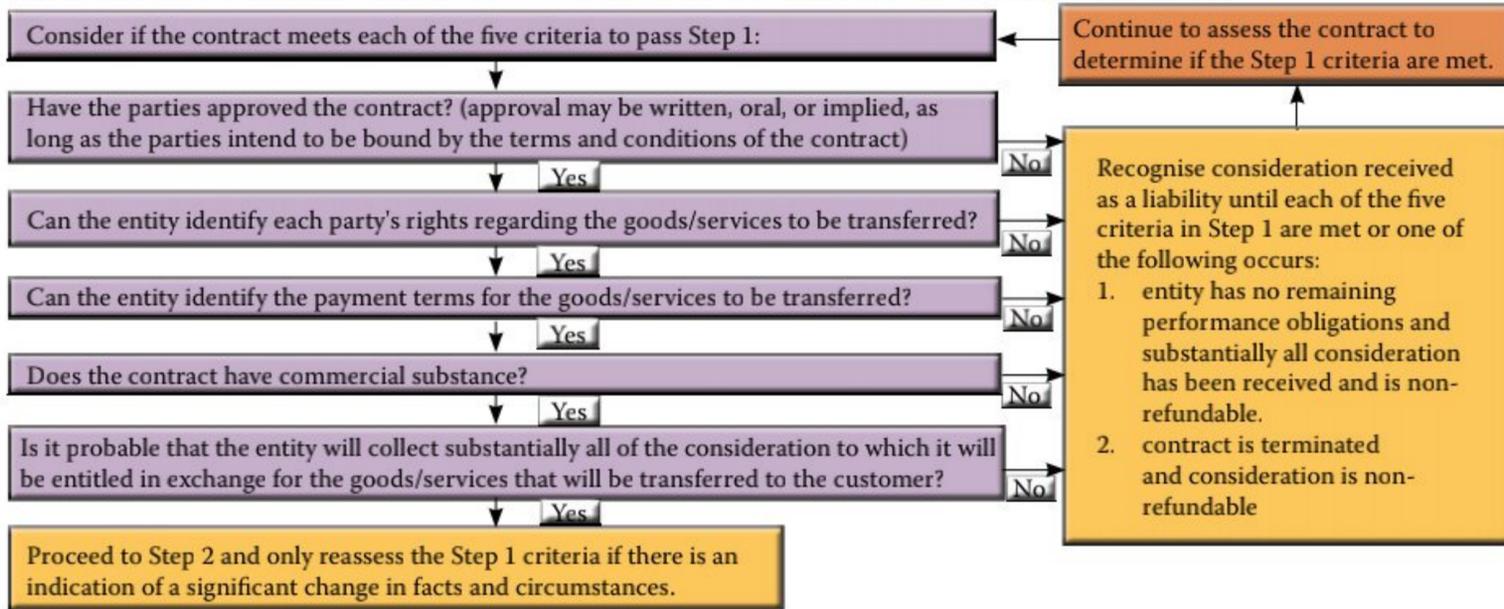
Ind AS 115 is based on a core principle that requires an entity to recognise revenue:  
 (a) In a manner that depicts the transfer of goods or services to customers  
 (b) At an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

To achieve the core principle, an entity should apply the following five-step model:



**Step 1 : Identify the contract(s) with a customer**

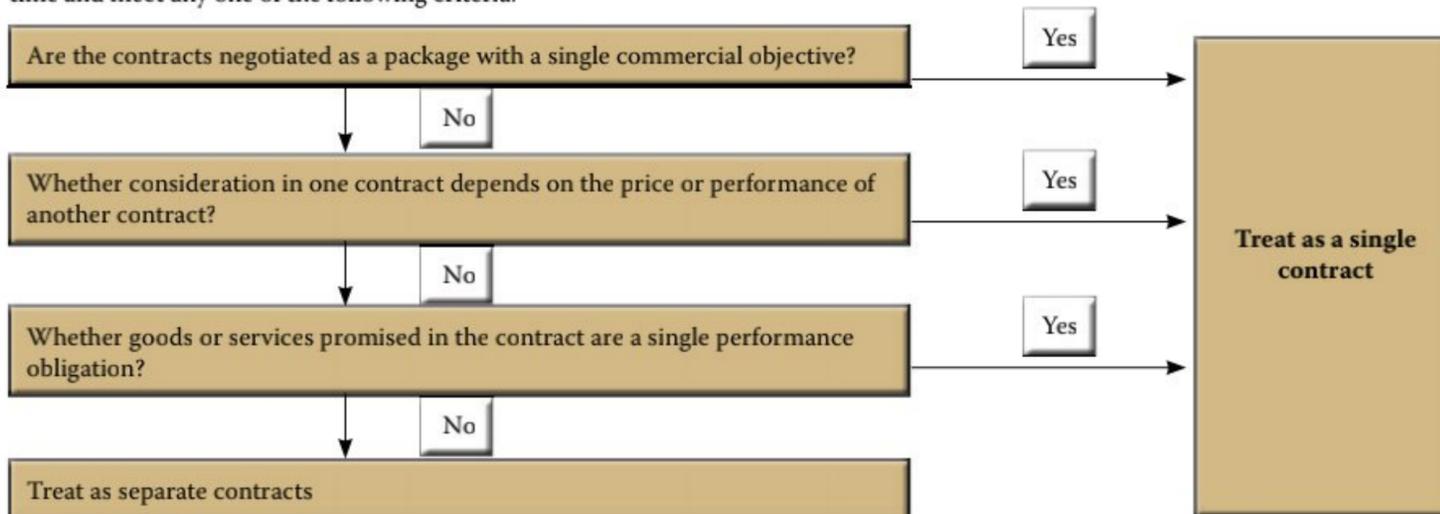
An accounting contract exists only when an arrangement with a customer meets each of the following five criteria:

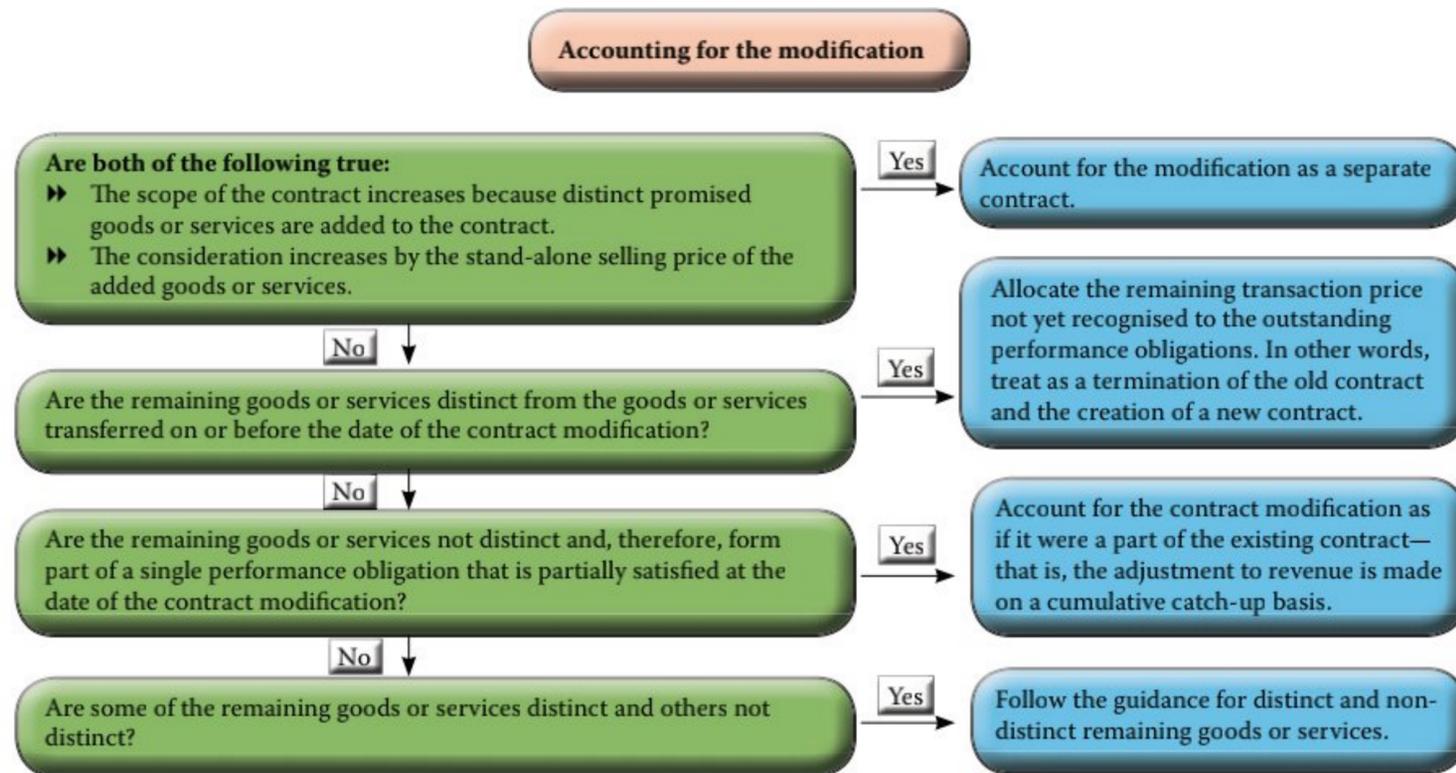


- Notes:**
- If at the inception of an arrangement, an entity concludes that the criteria below are not met, it should not apply Steps 2 through 5 of the model until it determines that the Step 1 criteria are subsequently met.
  - When a contract meets the five criteria and 'passes' Step 1, the entity will not reassess the Step 1 criteria unless there is an indication of a significant change in facts and circumstances.
  - 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 the same customer (or with related parties), and if one of the following conditions exists:
    - The contracts are negotiated as a package with a single commercial objective;
    - The amount of consideration paid in one contract depends on the price or performance in the other contract; or
    - The goods or services promised in the contract are a single performance obligation.

**Combining contracts**

An entity is required to combine two or more contracts and account for them as a single contract if they are entered into at or near the same time and meet any one of the following criteria:



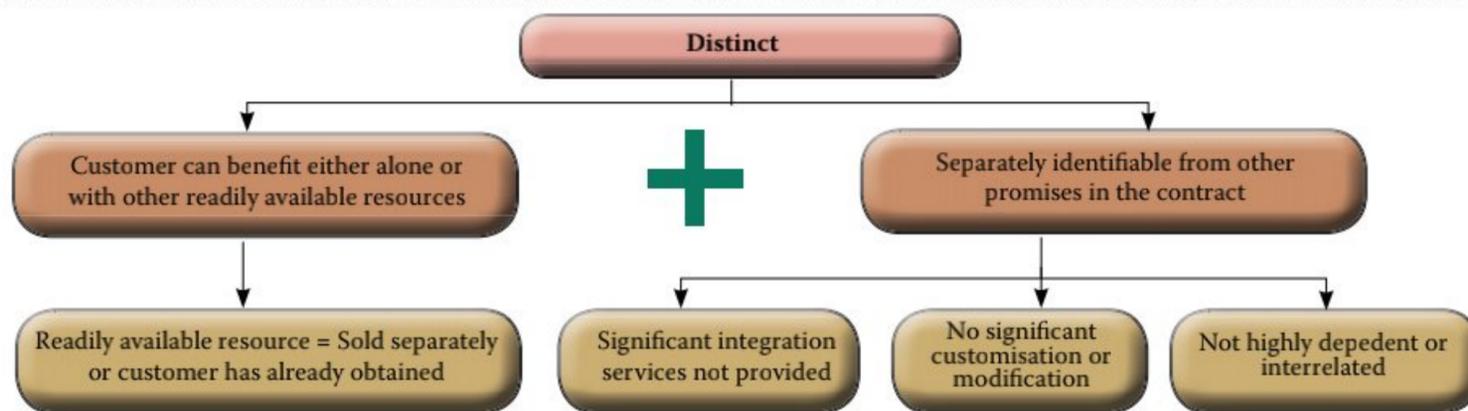


**Step 2: Identifying performance obligations**

A contract with a customer may also include promises that are implied by an entity’s customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. Therefore, performance obligations under a contract with the customer are not always explicit or clearly mentioned in the contract, but there can be implied promises or performance obligation under the contract as well.

Performance obligations has been defined as a promise in a contract with a customer to transfer to the customer either:

- (a) good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.



Promise to transfer a series of distinct goods or services

This will be considered as single performance obligation, **if the consumption of those services by the customers is symmetrical** i.e. they meet both of the following criteria:

- (a) each distinct good or service would meet the criteria to be a performance obligation satisfied over time; and
- (b) In each transfer, same method is used to measure the entity’s progress towards complete satisfaction of the performance obligation.

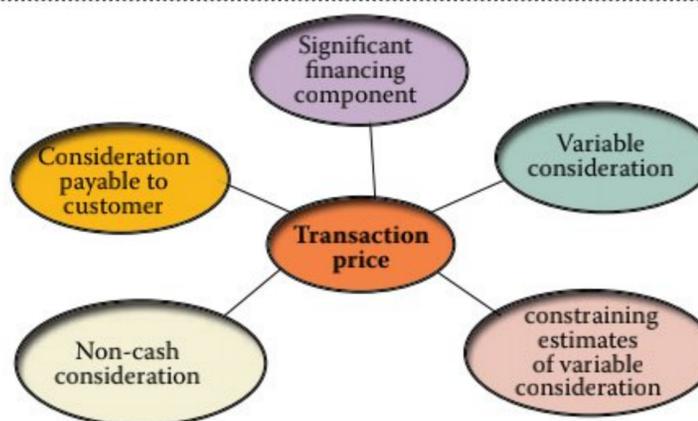
Multiple Element Arrangements/ Goods and services that are not distinct

- ▶▶ If the goods or services are not considered as distinct, those goods or services are combined with other goods or services under the contract till the time the entity identifies a bundle of distinct goods or services.
- ▶▶ The combination would result in accounting of multiple goods or services in the contract as a single performance obligation.
- ▶▶ An entity may end up accounting for all the goods or services promised in a contract as a single performance obligation if the entire bundle of promised goods and services is the only distinct performance obligation identified.

<p>Customer options for additional goods or services</p>	<p>▶▶ When an entity grants a customer the option to acquire additional goods or services, that option is only a separate performance obligation if it <b>provides a material right to the customer</b>. The right is material if it results in a discount that the customer would not receive without entering into the contract.</p> <p>□ 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.</p> <p>▶▶ If the discounted price in the option reflects the stand-alone selling price (separate from any existing relationship or contract), the entity is deemed to have made a marketing offer rather than having granted a material right.</p> <p>□ Account for only when the customer exercises the option to purchase the additional goods or services.</p> <p>□ Allocate the transaction price to performance obligations on a relative stand-alone selling price basis.</p> <p>□ 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. That estimate shall reflect the discount that the customer would obtain when exercising the option, adjusted for both of the following:</p> <p>(a) any discount that the customer could receive without exercising the option; and</p> <p>(b) the likelihood that the option will be exercised.</p>	<p>Consignment Arrangements</p>	<p>▶▶ Revenue generally would <b>not be</b> recognised for consignment arrangements when the goods are delivered to the consignee because control has not yet transferred.</p> <p>▶▶ Revenue is recognised when the entity has transferred control of the goods to the consignor or the end consumer</p>
<p>Long term arrangements</p>	<p>▶▶ It may be appropriate to treat long term arrangements as separate one-year performance obligations, if the contract can be renewed or cancelled by either party at discrete points in time (that is, at the end of each service year).</p> <p>▶▶ Separately account for its rights and obligations for each period in which the contract cannot be cancelled by either party.</p> <p>▶▶ When the consideration is fixed, the accounting generally will not change regardless of whether a single performance obligation or multiple performance obligations are identified.</p>	<p>Principal vs agent consideration</p>	<p>▶▶ When the entity is the principal in the arrangement, the revenue recognised is the gross amount to which the entity expects to be entitled.</p> <p>▶▶ When the entity is acting as an agent, the revenue recognised is the net amount i.e. the amount, entity is entitled to retain in return for its services under the contract. The entity's fee or commission may be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.</p> <p>Since the identification of the principal in a contract is not always clear, Ind AS 115 provides following indicators that a performance obligation involves an agency relationship:</p> <p>(a) the entity is primarily responsible for fulfilling the contract. This typically includes responsibility for the acceptability of the specified good or service;</p> <p>(b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return).</p> <p>(c) the entity has discretion in establishing prices for the goods or services.</p>
		<p>Non-refundable upfront fees</p>	<p>It is an advance payment for future goods and services and, therefore, would be recognised as revenue when those future goods and services are provided, even though it relates to an activity undertaken at or near contract inception to fulfil the contract and the activity does not result in the transfer of a promised good or service to the customer.</p>

**Step 3: Determining the transaction price**

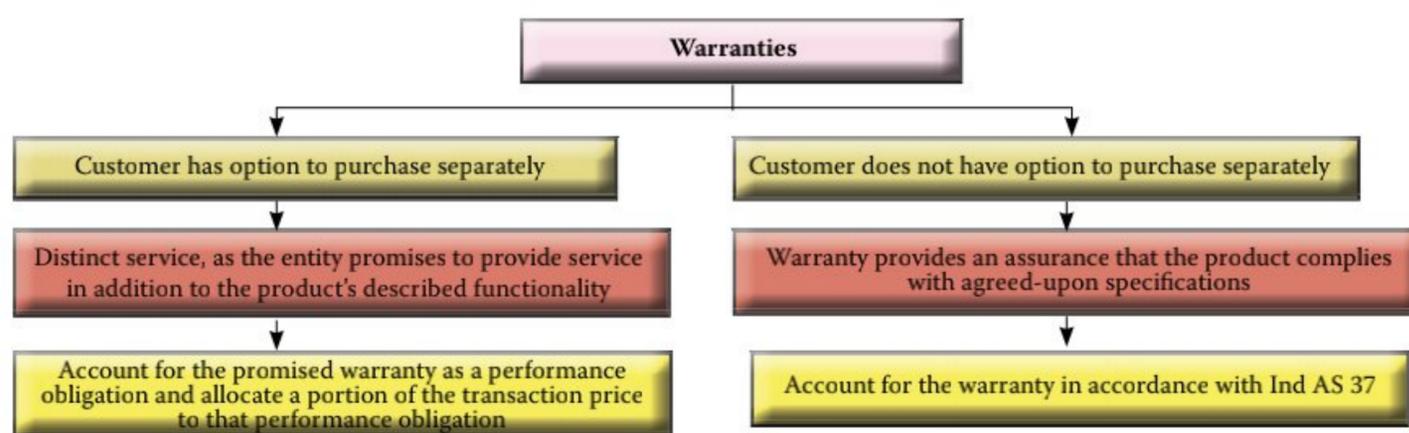
- The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.
- For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.
- The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.
- When determining the transaction price, an entity shall consider the effects of all of the following:



Variable consideration		
1	<b>Penalties</b>	<ul style="list-style-type: none"> <li>Accounted for as per the substance of the contract.</li> <li>Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration.</li> </ul>
2	<b>Estimating the amount of variable consideration</b>	<p>Estimate an amount of variable consideration by using either of the following methods:</p> <p>(a) <b>Expected value -</b> It is the sum of probability-weighted amounts in a range of possible consideration amounts. It will be appropriate if an entity has a large number of contracts with similar characteristics.</p> <p>(b) <b>Most likely amount -</b> It is the single most likely amount in a range of possible consideration amounts (ie the single most likely outcome of the contract). It will be appropriate, if the contract has only two possible outcomes. An entity shall apply one method consistently throughout the contract.</p>
3	<b>Refund liabilities</b>	<ul style="list-style-type: none"> <li>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.</li> <li>A refund liability is measured at the amount of consideration received / receivable for which the entity does not expect to be entitled (i.e. amounts not included in the transaction price).</li> <li>The refund liability shall be updated at the end of each reporting period for changes in circumstances.</li> </ul>
4	<b>Constraining estimates of variable consideration</b>	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 <b>not</b> occur when the uncertainty associated with the variable consideration is subsequently resolved.
5	<b>Reassessment of variable consideration</b>	At the end of each reporting period, account for changes in the transaction price, if any.

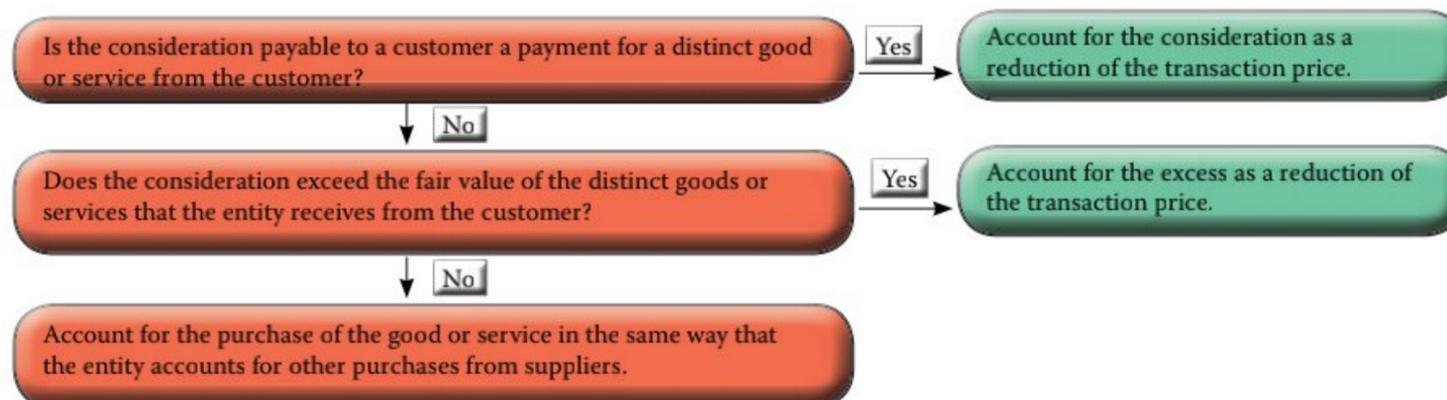
  

6	<b>Sale with a right of return</b>	<ul style="list-style-type: none"> <li>To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following:                             <ul style="list-style-type: none"> <li>(a) revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);</li> <li>(b) a refund liability; and</li> <li>(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.</li> </ul> </li> <li>Promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.</li> <li>For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognise revenue when it transfers products to customers but shall recognise those amounts received (or receivable) as a refund liability.</li> <li>Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognised.</li> <li>An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).</li> <li>An asset recognised for an entity's right to recover products from a customer on settling a refund liability shall initially be measured by reference to the former carrying amount of the product <b>less</b> any expected costs to recover those products.</li> <li>An entity shall present the asset separately from the refund liability.</li> <li>Exchanges by customers of one product for another of the same type, quality, condition and price are not considered returns.</li> <li>Return of a defective product in exchange for a functioning product shall be evaluated as warranties.</li> </ul>
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<p><b>Significant financing component</b></p> <p>Adjust the promised amount of consideration for the effects of the time value of money.</p> <p>In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, consider <b>both</b></p> <p>(a) the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and</p> <p>(b) the combined effect of both of the following:</p> <p>(i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and</p> <p>(ii) the prevailing interest rates in the relevant market.</p> <p>Use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.</p> <p>After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances.</p> <p>If the combined effects for a portfolio of similar contracts were material to the entity as a whole, but if the effects of the financing component were not material to the individual contract, such financing component shall not be considered significant and shall not be separately accounted for.</p> <p><b>Exception</b></p> <p>A contract with a customer would <b>not</b> have a significant financing component if any of the following factors exist:</p> <p>(a) the <b>customer paid for the goods or services in advance</b> and the timing of the transfer of those goods or services is at the discretion of the customer.</p>	<p>(b) a <b>substantial amount of the consideration promised by the customer is variable</b> and the amount or <b>timing</b> of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is <b>not substantially within the control of the customer or the entity</b></p> <p>(c) the difference between the promised consideration and the cash selling price of the good or service arises for <b>reasons other than the provision of finance to either the customer or the entity</b>, and the difference between those amounts is proportional to the reason for the difference</p>
<p><b>Non-cash consideration</b></p>	<p>▶▶ measure the non-cash consideration (or promise of non-cash consideration) at fair value.</p> <p>▶▶ And, if it cannot reasonably estimate the fair value of the non-cash consideration, it shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.</p>
<p><b>Subsequent measurement of non-cash consideration</b></p>	<p>▶▶ If the fair value of the non-cash consideration varies after contract inception because of its form, the entity <b>does not adjust</b> the transaction price for any changes in the fair value of the consideration.</p> <p>▶▶ If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration, apply the guidance on variable consideration and the constraint when determining the transaction price.</p>

**Consideration payable to a customer**



**Step 4: Allocating the transaction price to performance obligations**

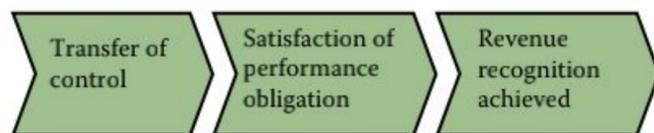
Allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis **except** for

- ▶▶ allocating discounts, and
- ▶▶ allocating variable consideration

<p><b>Determining stand-alone selling price</b></p>	<p>The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.</p> <p>The best evidence of a stand-alone selling price is - <b>the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.</b></p> <p>Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:</p> <p>(a) Adjusted market assessment approach</p> <p>(b) Expected cost plus a margin approach</p> <p>(c) Residual approach</p> <p>A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain stand-alone selling prices.</p>
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<b>Allocation of a discount</b>	Allocate a discount proportionately to all performance obligations in the contract on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.
<b>When to allocate discount to 'less than all' performance obligations?</b>	Allocate a discount entirely to one or more, but not all, performance obligations in the contract if <b>all of the following criteria are met:</b> (a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a stand-alone basis; (b) the entity also regularly sells on a stand-alone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and (c) the discount attributable to each bundle of goods or services described in (b) above is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.  <i>Note: – As a first step, always allocate the discount entirely to one or more performance obligations in the contract (if applicable), and then as a second step, use the residual approach to estimate the stand-alone selling price of a good or service.</i>
<b>Allocation of variable consideration</b>	Variable consideration may be attributable to (1) the entire contract or (2) a specific part of the contract, such as either of the following: (a) one or more, but not all, performance obligations in the contract. (b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation.
<b>How to allocate variable consideration?</b>	Allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation if <b>both of the following criteria are met:</b> ▶ 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 (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and ▶ allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service when considering all of the performance obligations and payment terms in the contract.

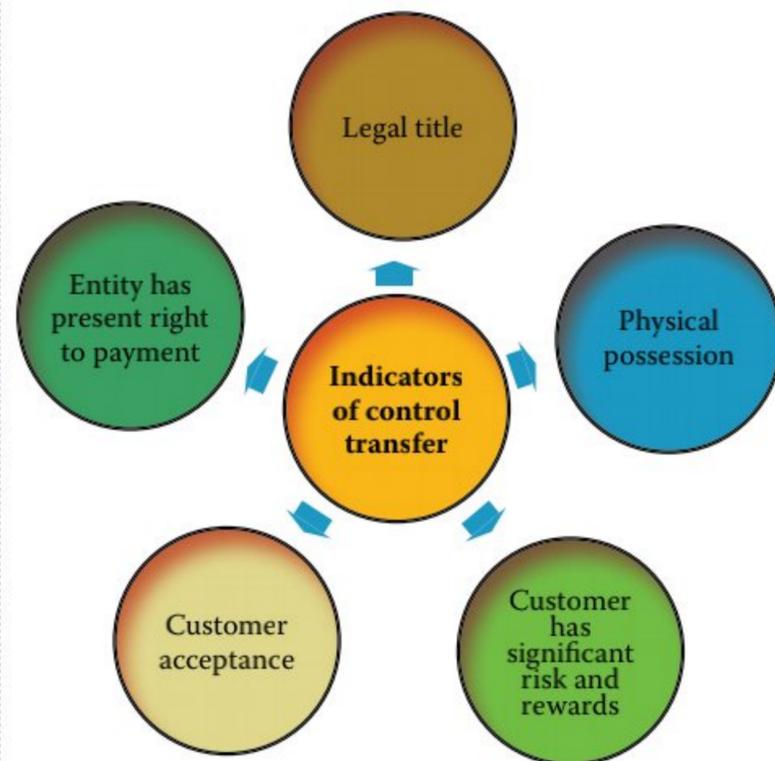
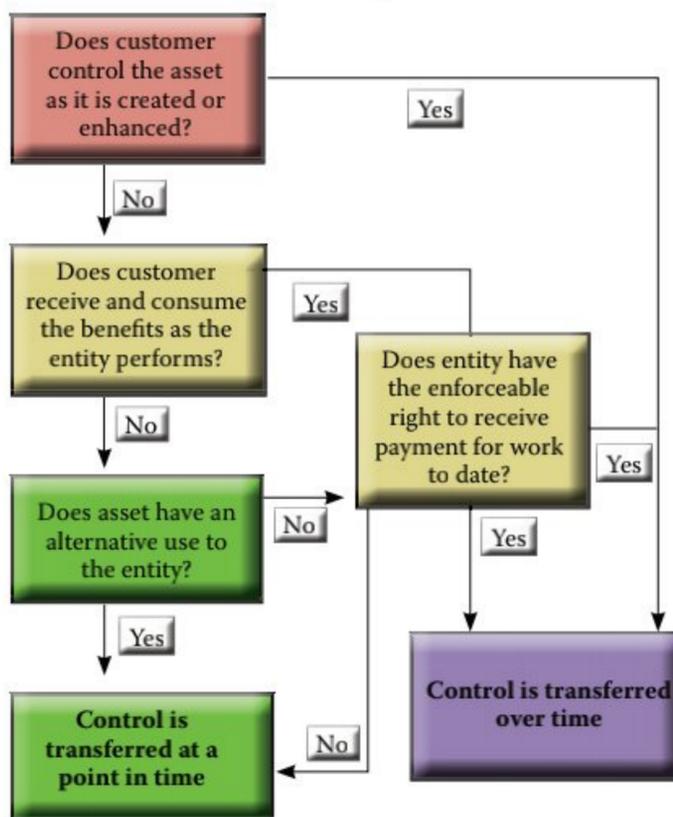
**STEP 5: Satisfying performance obligation**

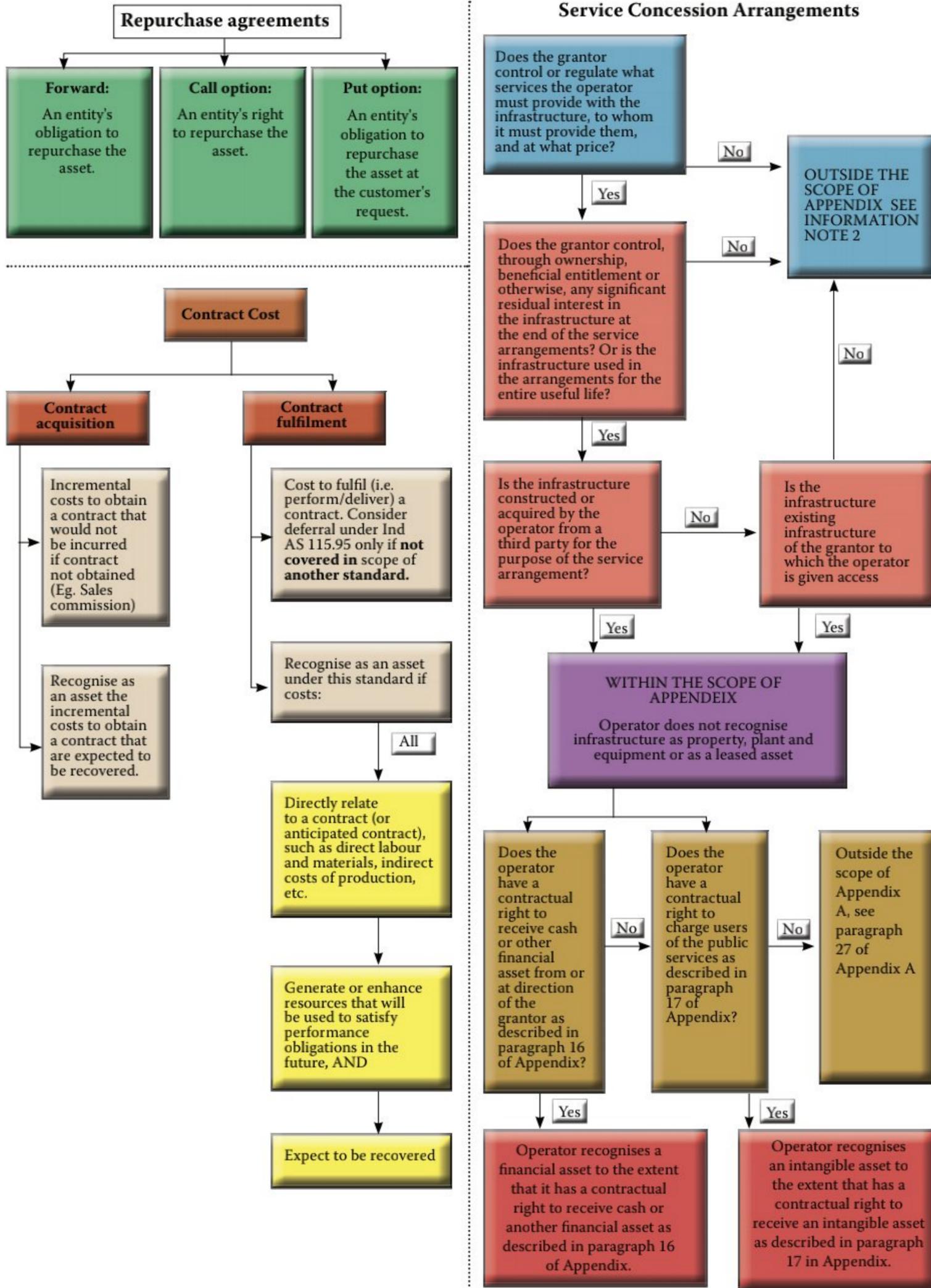


**Transfer of control at a point in time**

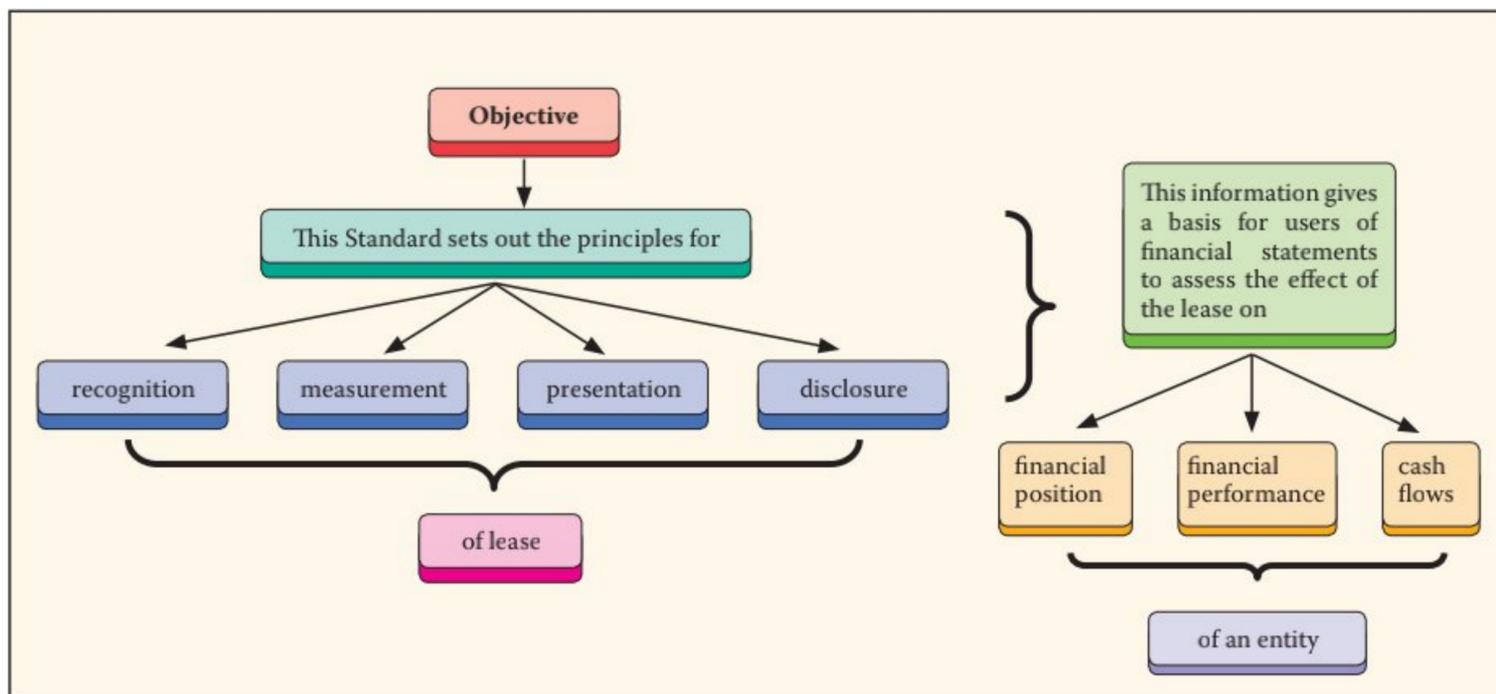
Where a company does not meet any of the criteria for recognising revenue over a period of time, then revenue shall be recognised at a point in time.

**Transfer of control over a period of time**





INDIAN ACCOUNTING STANDARD (IND AS) 116: LEASES

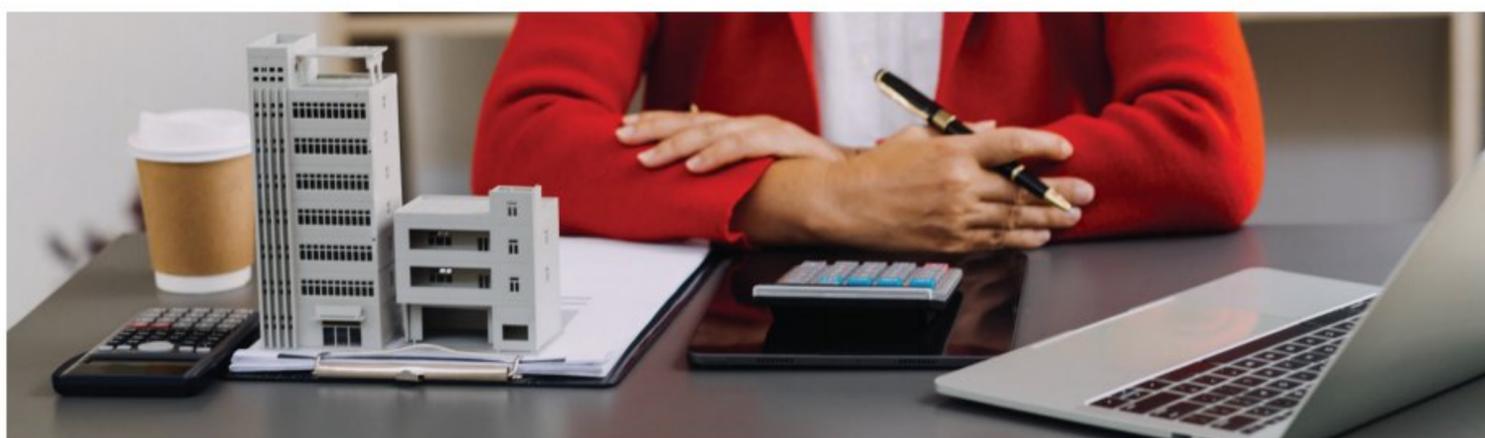


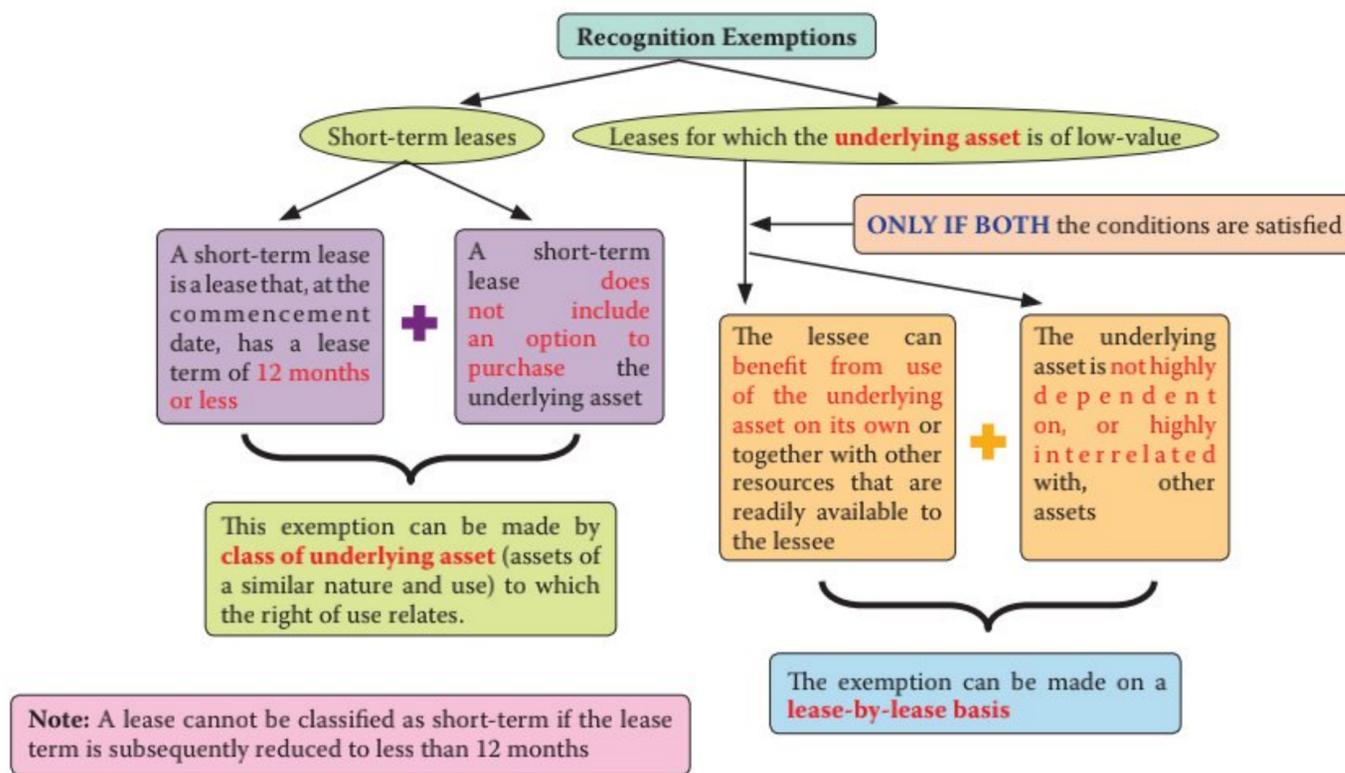
Scope

Ind AS 116 shall be applied to **ALL LEASES**, including leases of Right-of-Use (ROU) assets in a sub-lease, **EXCEPT** for:

Sr. No.	Particulars	Reason
1	Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	Within the scope of Ind AS 106 'Exploration for and Evaluation of Mineral Resources'
2	Leases of biological assets held by a lessee	Within the scope of Ind AS 41 'Agriculture'
3	Service concession arrangements	Within the scope of Appendix D of Ind AS 115 'Revenue from Contracts with Customers'
4	Licences of intellectual property granted by a lessor	Within the scope of Ind AS 115 'Revenue from Contracts with Customers'
5#	Rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights	Within the scope of Ind AS 38 'Intangible Assets'

#A lessee may, but is not required to, apply Ind AS 116 to leases of intangible assets other than those described herein.



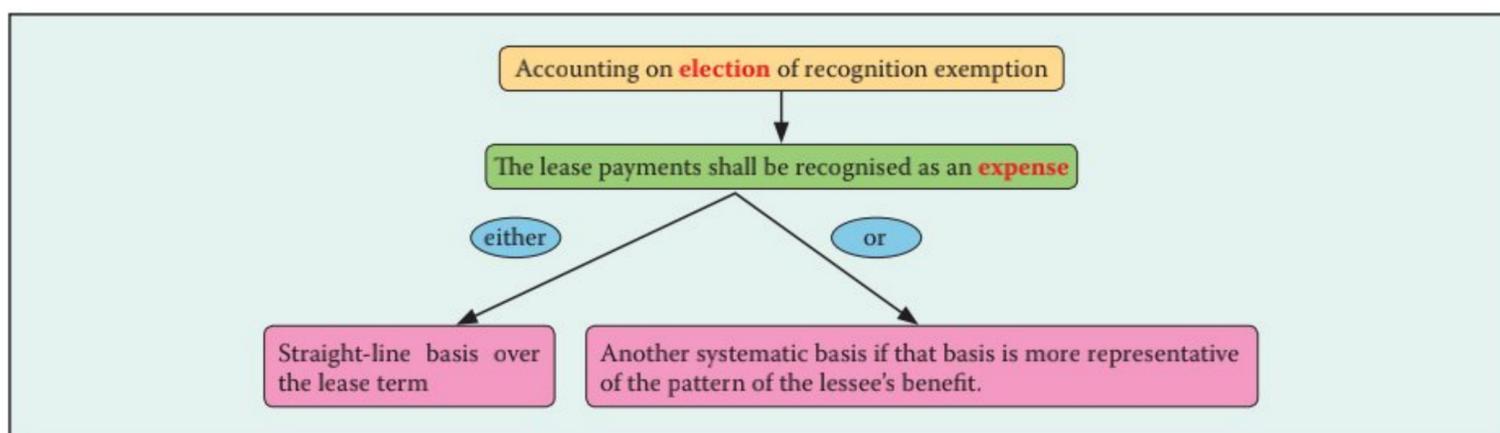


- Note:**
- The exemption for leases of low-value items intend to capture leases that are high in volume but low in value
  - If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset, i.e., an intermediate lessor who subleases, or expects to sublease an asset, cannot account for the head lease as a lease of a low-value asset

**Important points regarding the leases of low-value assets**

Value of an underlying asset to be assessed based on the value of the asset <b>when it is new</b> , regardless of the age of the asset being leased *	Leases of low-value assets are exempted regardless of whether those leases are material to the lessee
Examples of low-value underlying assets can include: - tablet - personal computers, - small items of office furniture - telephones	The assessment performed on an absolute basis. It is not affected by the size, nature or circumstances of the lessee

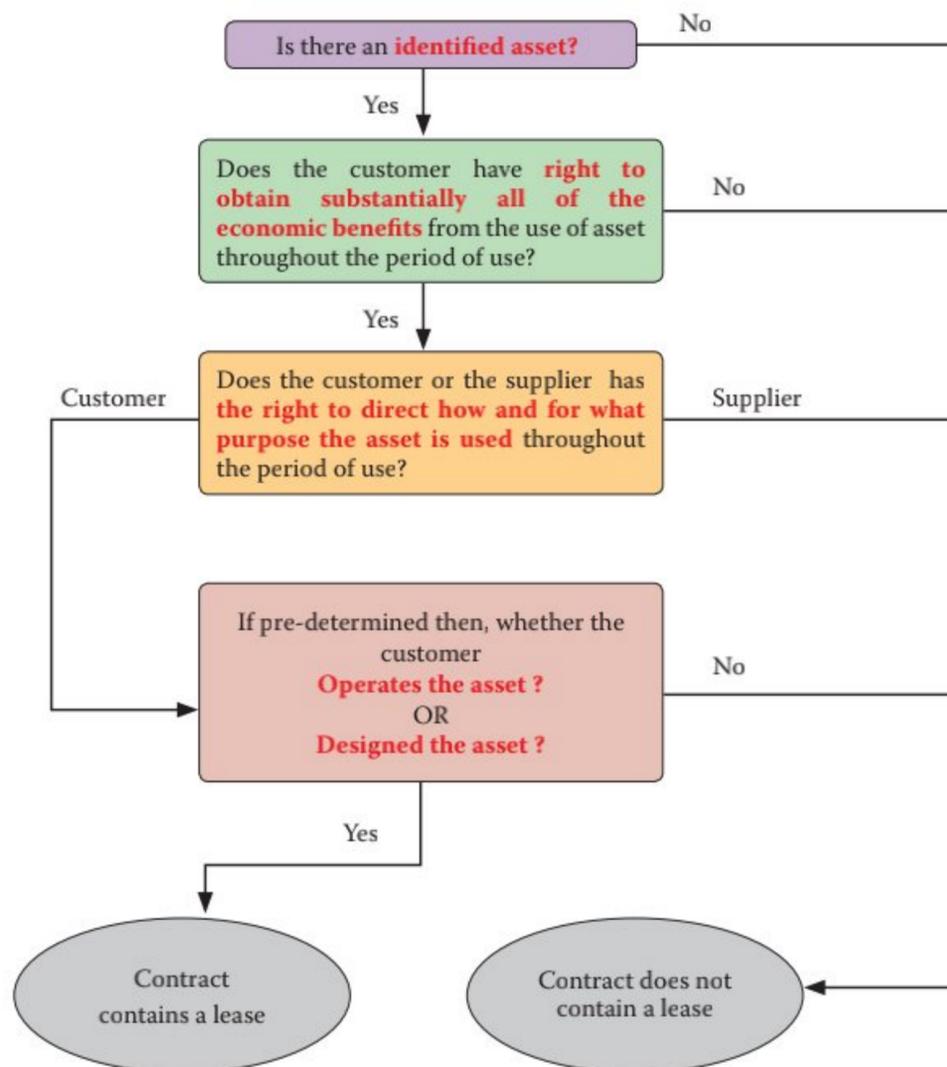
\* A lease of an underlying asset does not qualify as a lease of low value asset if the nature of the asset is such that, when new, the asset is typically not of low value. *For e.g.*, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.



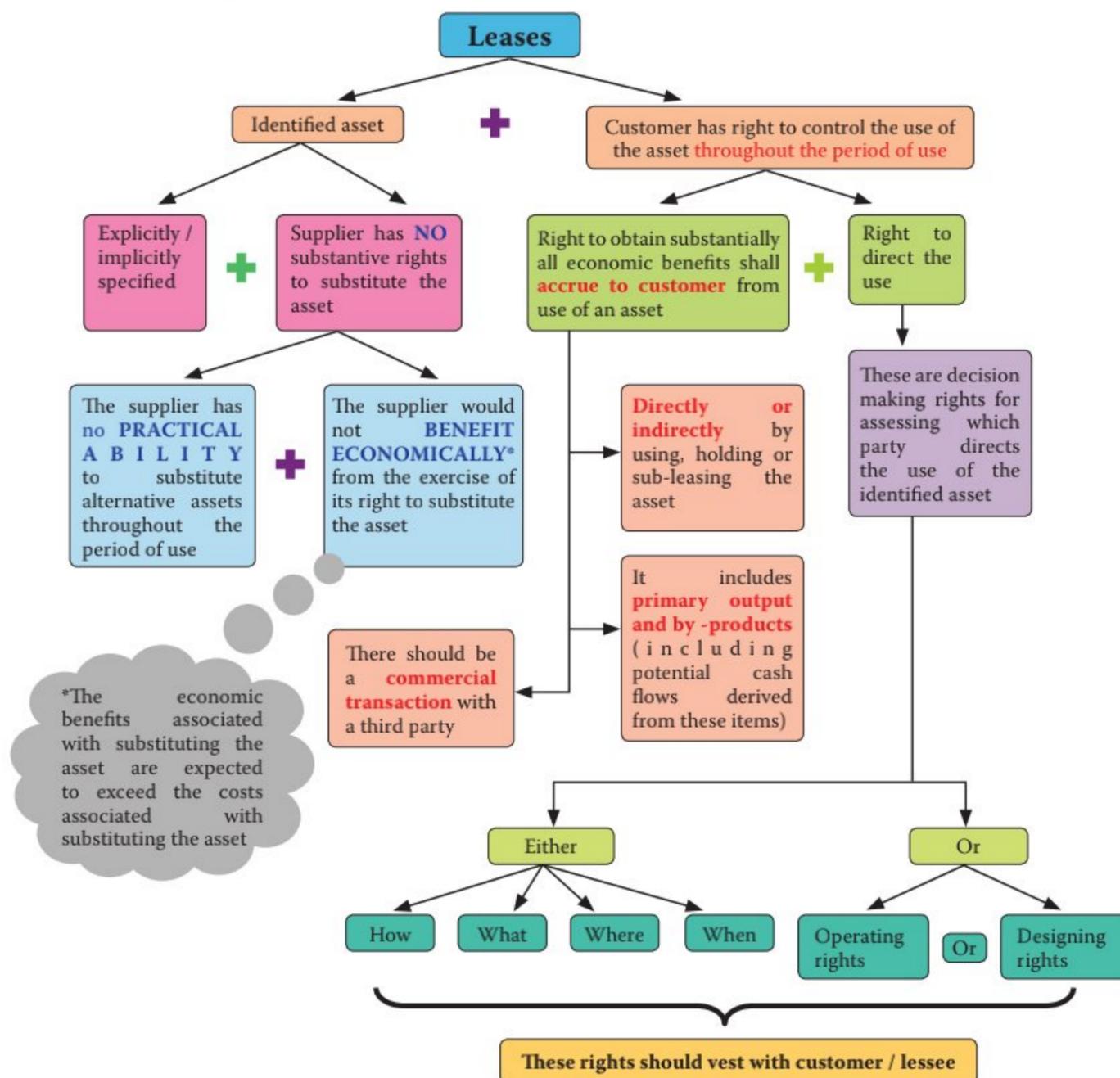
**Lease as per Ind AS 116**

Definition	A lease is defined as a contract, or part of a contract that conveys the <b>right to control</b> the use of an <b>identified asset</b> for a <b>period of time</b> in <b>exchange for consideration</b> .
Date to identify the contract as a lease	Ind AS 116 requires customers and suppliers to determine whether a contract is or contains a lease <b>at the inception of the contract</b> .
Inception date	The inception date is defined as the <b>earlier</b> of the following dates: <ul style="list-style-type: none"> <li>• date of a lease agreement</li> <li>• date of commitment by the parties to the principal terms and conditions of the lease</li> </ul>

**Whether an Arrangement contains Lease?**



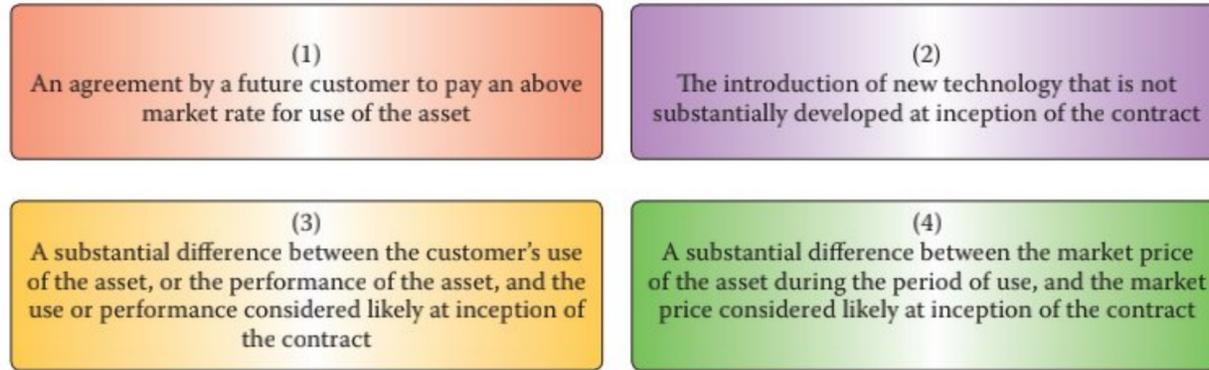
The above chart can be elaborated as follows:



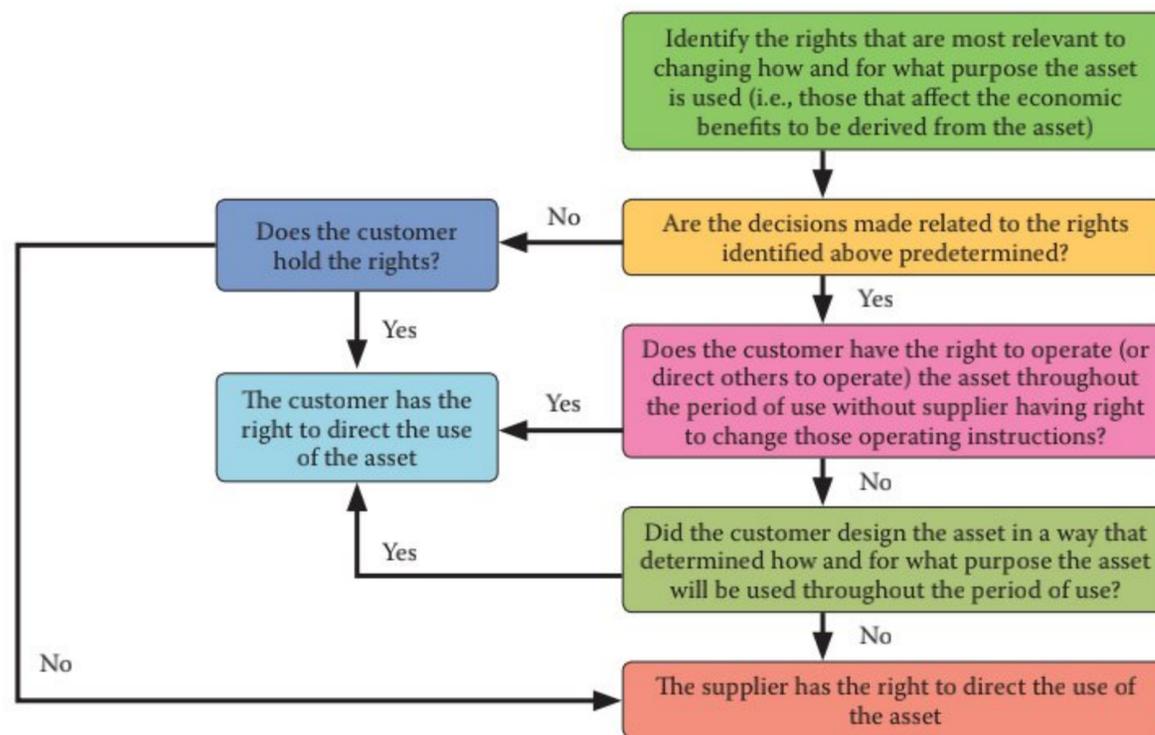
**Note:**

- In the case of substitution rights, the analysis primarily considers factors from the supplier's perspective.
- If the supplier has a right or an obligation to substitute the asset only on or after either a **particular date**, or the occurrence of a specified event, the supplier's substitution right is **not substantive** because the supplier does **not have the practical ability** to substitute alternative assets **throughout the period of use**.
- An entity's evaluation of whether a supplier's substitution right is substantive is based on **facts and circumstances at inception** of the contract. At inception of the contract, an entity should not consider future events that are not likely to occur.
- Contract terms that allow or require a supplier to substitute alternative assets only when the underlying **asset is not operating properly** (for e.g., a normal warranty provision) or when a **technical upgrade** becomes available **do not create a substantive substitution right**.
- Circumstances, at inception of the contract, if are not likely to occur, are **excluded** from the evaluation of whether a supplier's substitution right is substantive throughout the period of use:
- The right to control the use of an asset may not necessarily be documented, in form, as a lease agreement.
- A customer should **presume** that a supplier's substitution right is **not substantive** when the customer **cannot readily determine** whether the supplier has a substantive substitution right. This requirement is intended to clarify that a **customer is not expected to exert undue effort to provide evidence that a substitution right is not substantive**.
- An identified asset must be physically distinct. A physically distinct asset may be an entire asset or a portion of an asset. Similarly, a capacity or other portion of an asset that is not physically distinct is not an identified asset unless it represents **substantially all** of the capacity of the asset and thereby provides the customer with the **right to obtain substantially all of the economic benefits** from use of the asset.

Examples of circumstances that, at inception of the contract, are not likely to occur and, thus, are **excluded** from the evaluation of whether a supplier's substitution right is substantive throughout the period of use:



**Right to Direct the Use**



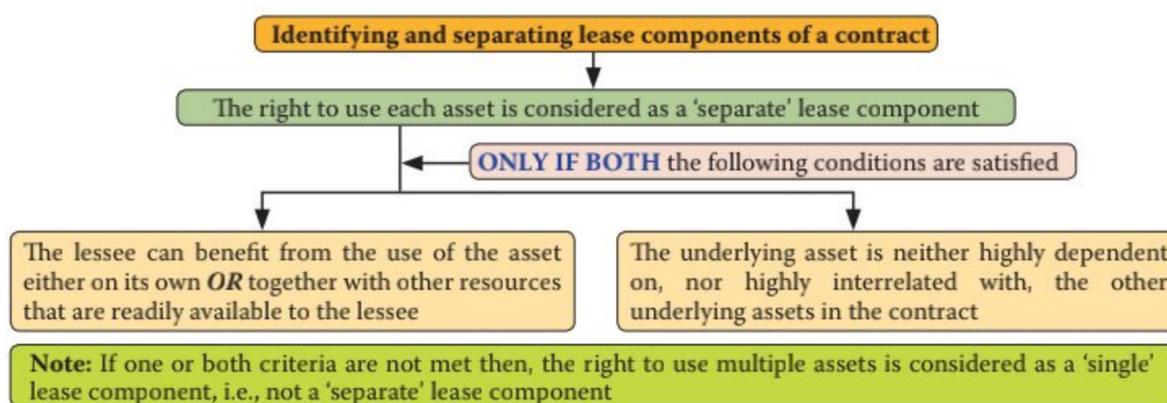
Examples of relevant decision-making rights that grant the right to change how and for what purpose the asset is used

1	Lease of trucks / aircraft / rail cars etc	<ul style="list-style-type: none"> <li>Which goods are transported?</li> <li>When the goods are transported and to where?</li> <li>How often the asset is used?</li> <li>Which route is taken?</li> </ul>
2	Retail unit	<ul style="list-style-type: none"> <li>Which goods will be sold?</li> <li>Prices at which the goods will be sold?</li> <li>Where and how the goods are displayed?</li> </ul>
3	Power plant	<ul style="list-style-type: none"> <li>How much power will be delivered and when?</li> <li>When to turn the power plant on/off?</li> </ul>
4	Fibre-optic cable	<ul style="list-style-type: none"> <li>When and whether to light the fibres?</li> <li>What and how much data the cable will transport?</li> <li>How to run the cable?</li> <li>Through which routes the data will be delivered?</li> </ul>

<i>Specifying the output of an asset before the period of use</i>
<ul style="list-style-type: none"> <li>If a customer can only specify the output from an asset before the beginning of the period of use and cannot change that output throughout the period of use, the customer does <b>not have the right to direct the use of that asset unless</b> it designed the asset, <b>OR</b> specific aspects of the asset.</li> <li>If the customer did not design the asset or aspects of it, the customer's ability to specify the output in a contract that does not give it any other relevant decision-making rights relating to the use of the asset (<i>for e.g.</i>, the ability to change when, whether and what output is produced) gives the customer the same rights as any customer that purchases goods or services in an arrangement (i.e., a contract that does not contain a lease).</li> </ul>

<i>Protective rights</i>
<ul style="list-style-type: none"> <li>A supplier's protective rights, <b>in isolation, do not prevent the customer from having the right to direct the use</b> of an identified asset.</li> <li>Protective rights typically define the scope of the customer's right to use the asset without removing the customer's right to direct the use of the asset. Protective rights are intended to protect a supplier's interests.</li> <li>Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.</li> </ul>

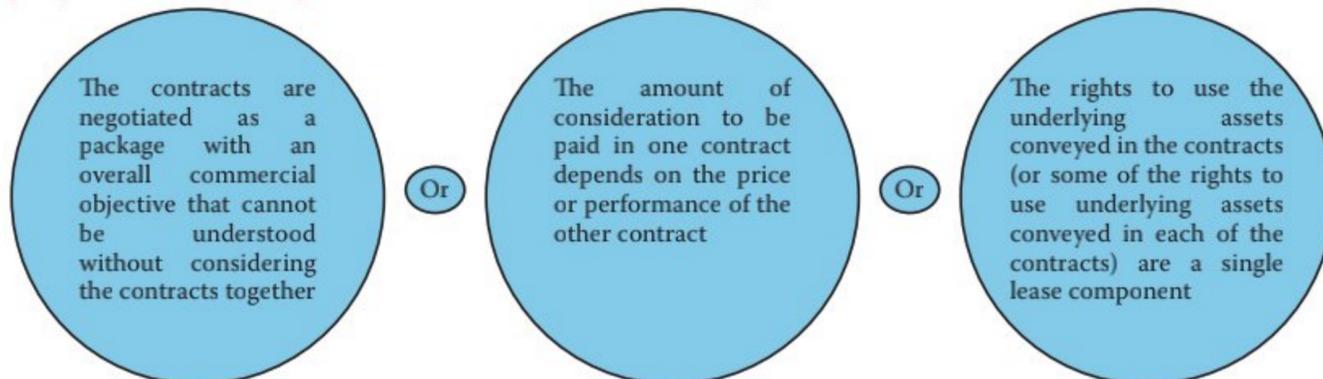
### Separation of Lease and Non-Lease Components



1.	Separating lease components from non-lease components	<p>Only items that <b>contribute to securing the output</b> of the asset <b>are lease components</b>.</p> <p><b>Costs incurred by a supplier to provide maintenance</b> on an underlying asset, as well as the materials and supplies consumed as a result of the use of the asset, <b>are not lease components</b>.</p> <p>The <b>non-lease components are identified and accounted for separately</b> from the lease component in accordance with other standards. <i>For e.g.</i>, the non-lease components may be accounted for as executory arrangements by lessees (customers) or as contracts subject to Ind AS 115 by lessors (suppliers).</p> <p>Costs related to <b>property taxes and insurance</b> that do not involve the transfer of a good or service, are fixed in the contract. Hence, they should be <b>included in the overall contract consideration to be allocated to the lease and non-lease components</b>.</p>
2.	Lessee reimbursements – whether a separate component of a contract?	<p><b>Reimbursements (or certain payments on behalf of lessor) by lessee</b> that do not transfer a good or service to the lessee are <b>not separate components of the contract</b>.</p> <p>Such items are considered as part of the total consideration which is allocated to the separately identified components of the contract (i.e., the lease and non-lease components, if any).</p>
3.	Optional exemption of using Practical Expedient-not to separate non-lease component	<p>Ind AS 116 provides a practical expedient that permits lessees to make an <b>accounting policy election</b>, by <b>CLASS OF UNDERLYING ASSET</b>, to account for each separate lease component of a contract and any associated non-lease components as a <b>SINGLE LEASE COMPONENT</b>.</p> <p>This practical expedient is <b>not permissible for lessor</b>.</p> <p>Lessees that make the <b>policy election</b> to account for each separate lease component of a contract and any associated non-lease components as a <b>SINGLE LEASE COMPONENT</b>, <b>allocate ALL of the contract consideration to the lease component</b>.</p> <p>Practical expedient does not allow lessees to account for multiple lease components of a contract as a single lease component, if it meets the conditions given in point 1 above.</p>
4.	Determining and allocating the consideration in the contract – Lessee	<p>Lessees that do not use the practical expedient, are required to <b>allocate</b> the consideration in the contract to the lease and non-lease components on a <b>RELATIVE STAND-ALONE PRICE BASIS</b>.</p> <p>If observable stand-alone prices are not readily available, lessees <b>estimate</b> stand-alone prices, maximising the use of observable information.</p>
5.	Determining and allocating the consideration in the contract – Lessors	<p>Lessors are required to <b>allocate</b> the consideration in the contract to the lease and any associated non-lease components as per <b>paragraphs 73 – 90 of Ind AS 115 Revenue from Contracts with Customers</b>.</p>

**Contract Combinations**

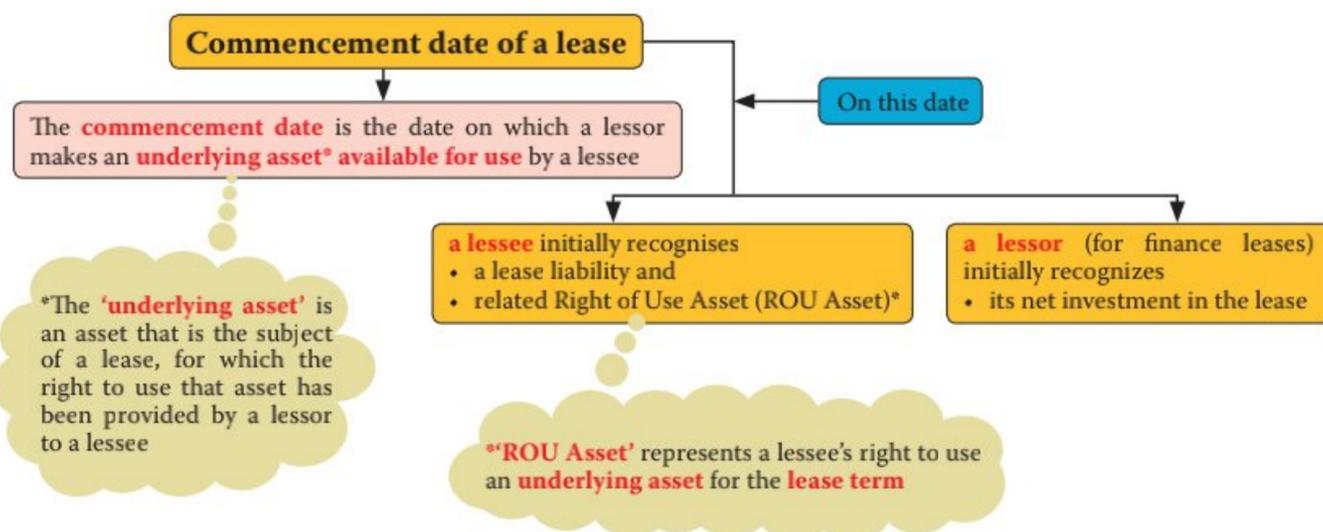
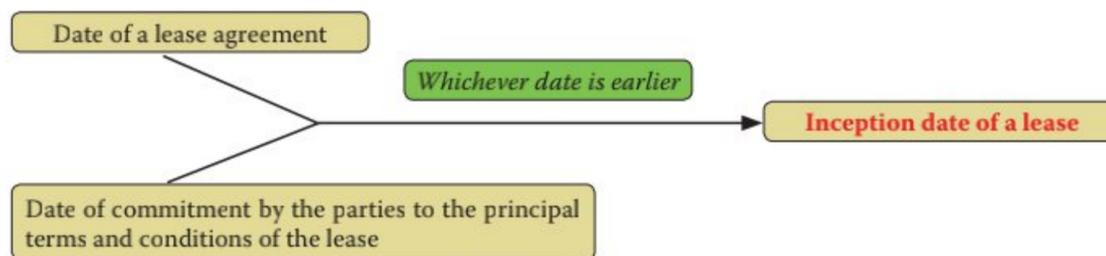
Ind AS 116 requires that two or more contracts entered into at or near the **same time** with the **same counterparty (or related parties of the counterparty)** be considered a **'single' contract** IF ANY ONE of the following criteria is met:



**Portfolio Application**

- Ind AS 116 **includes a practical expedient** that allows entities to use a portfolio approach for **leases with similar characteristics** if the entity reasonably expects that the **effects on the financial statements would not differ materially** from the application of the standard to the individual leases in that portfolio.
- If accounting for a portfolio, an entity uses estimates and assumptions that reflect the size and composition of the portfolio.
- A decision to use the portfolio approach would be similar to a **decision some entities make today to expense, rather capitalise, certain assets** when the accounting difference is, and would continue to be, immaterial to the financial statements.

Determination of contract that whether it contains a lease is done at the **inception of the contract**.



- Note:**
- In certain cases, the commencement date of the lease may be before the date stipulated in the lease agreement.
  - The timing of when lease payments begin under the contract **does not affect** the commencement date of the lease.

**Lease Term**

The assessment of the lease term is a critical estimate and a key input to the amount of the lease liability.

	Particulars	Years
1	Rent free period	XXX
2	Non-cancellable period	XXX
3	Optional renewable periods (where lessee is reasonably certain to extend the lease)	XXX
4	Periods covered by option to terminate the lease (where lessee is reasonably certain not to terminate early)	XXX
	<b>Total Lease terms</b>	<b>XXXX</b>

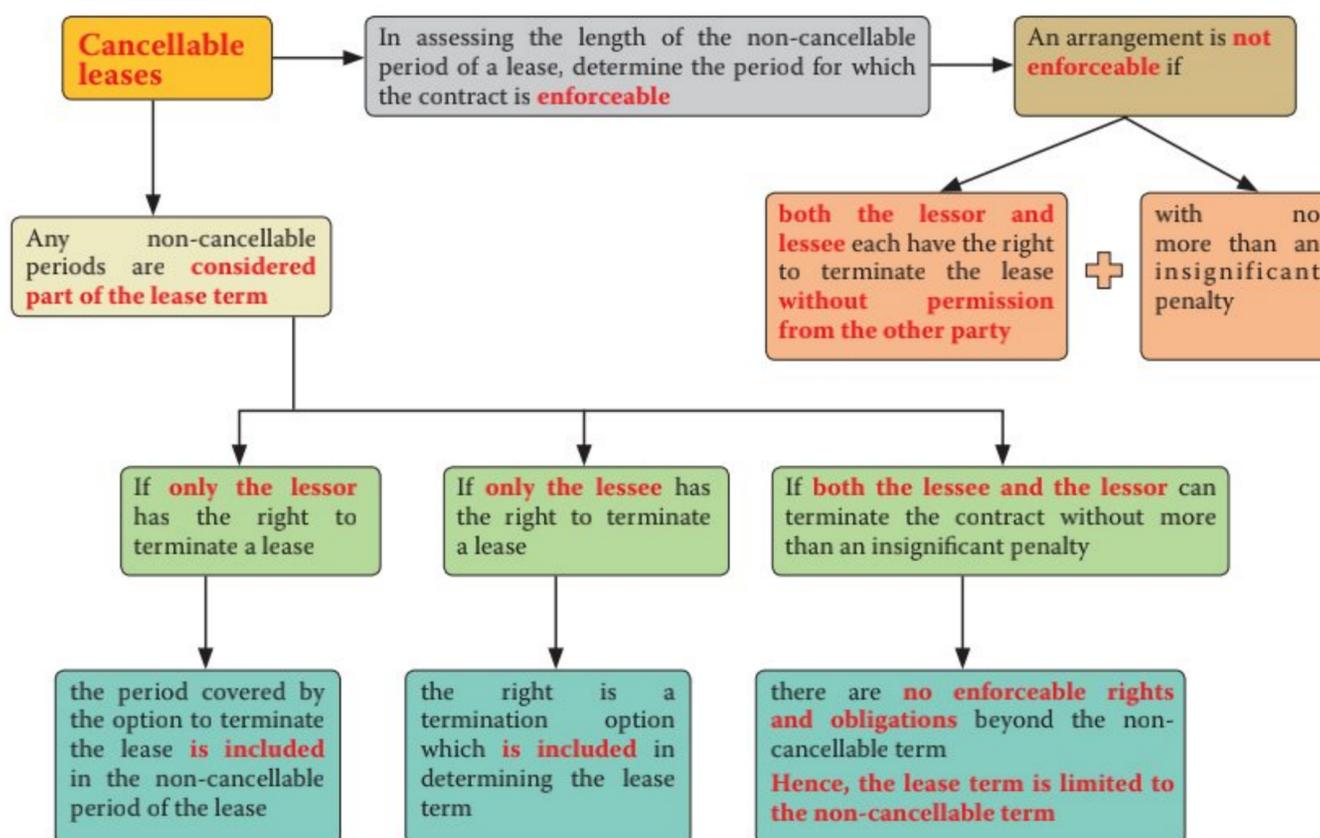
**Notes:**

- Lease term begins **at the commencement date** and include any rent-free period.
- Termination options held **by the lessor are not considered** when determining the lease term.
- The assessment of whether it is reasonably certain that a lessee will exercise an extension or termination option **should be done on lease commencement date**.

An entity should consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Example of relevant factors to consider are:

Contractual terms vis-a vis market rates		Asset related factors	
1.	Lease rentals in optional period, ex. Termination penalties and residual value guarantees	1.	Specialised asset
2.	Variable or contingent payment	2.	Location of underlying asset
3.	Terms and condition after initial optional period. Example: Purchase option	3.	Availability of suitable alternatives
4.	Cost relating to the termination of the lease and signing of new replacement lease	4.	Existence of significant leasehold improvement



**Explained through an example:**

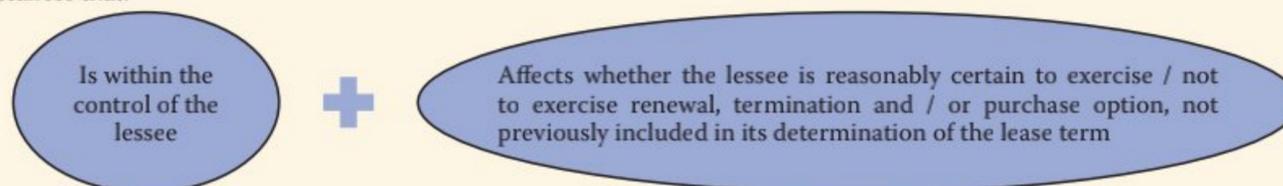
Suppose the term of a contract is 10 years and the non-cancellable / lock-in period is 6 years. The lease term shall be as follows:

If the termination option is with 'Lessor'	If the termination option is with 'Lessee'	If the termination option is with 'Both' (i.e., any party can terminate)
The lease term shall be <b>10 years</b> . <i>Because even after 6<sup>th</sup> year, the lessee would be contractually bound until 10<sup>th</sup> year i.e. lessee cannot refuse to make the payment till the expiry of the contract and also, has the right to use the asset until 10<sup>th</sup> year, unless lessor terminates the contract.</i>	The lease term shall be <b>10 years</b> assuming reasonable certainty. <i>Because after the expiry of 6<sup>th</sup> year, though the lessee is not contractually bound till 10<sup>th</sup> year, i.e., the lessee can refuse to make payment anytime without lessor's permission but, it is assumed that the lessee is reasonably certain that it will not exercise this option to terminate. Hence, though there is no enforceable obligation from lessee's point of view beyond 6<sup>th</sup> year but, basis the said assumption, the lease term shall be 10 years.</i>	The lease term shall be <b>6 years</b> . <i>Because after 6<sup>th</sup> year, either party can terminate the contract without the consent of the other party and hence, the contract is not enforceable after 6<sup>th</sup> year ONLY IF there is insignificant penalty for termination.</i>

**Reassessment of lease term and purchase options**

**A. For lessees**

Lessees are required to **reassess** the lease term upon the occurrence of either a **significant event** OR a **significant change** in the circumstances that:



Following are some of the examples of significant events or significant changes in circumstances within the lessee's control:

- 1) Constructing significant leasehold improvements that are expected to have significant economic value for the lessee when the option becomes exercisable
- 2) Making significant modifications or customisations to the underlying asset
- 3) Making a business decision that is directly relevant to the lessee's ability to exercise, or not to exercise, an option (e.g., extending the lease of a complementary asset or disposing of an alternative asset)
- 4) Subleasing the underlying asset for a period beyond the exercise date of the option

**Note:** Changes in market-based factors (*for e.g.*, a change in market rates to lease or purchase a comparable asset) are not within the lessee's control, and therefore, they **do not trigger a reassessment by themselves**.

**Revision of Lease Term**

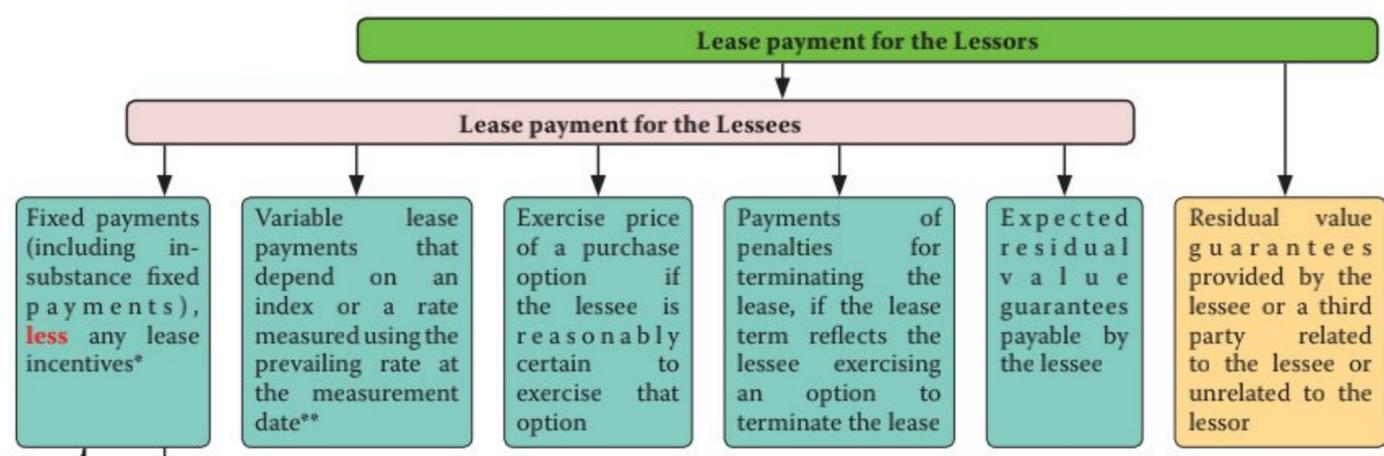
Lessees are required to revise the lease term if there is change in the non-cancellable period of lease. Following are the example which leads to change in non-cancellable period of a lease:

If the lessee <b>exercises an option</b> not previously included in the entity's determination of the lease term	If the lessee <b>does not exercise an option</b> previously included in the entity's determination of the lease term
<b>Change in non-cancellable lease period</b>	
An event occurs that <b>contractually obliges the lessee</b> to exercise an option not previously included in the entity's determination of the lease term	An event occurs that <b>contractually prohibits</b> the lessee from exercising an option previously included in the entity's determination of the lease term

**B. For lessors**

Lessor revises the lease term to account for the lessee's exercise of an option to extend or terminate the lease or purchase the underlying asset when exercise of such options was not already included in the lease term.

**Lease Payments**



It includes any **in-substance fixed lease payments** which are the payments that may, **in form, contain variability but in substance, are unavoidable**

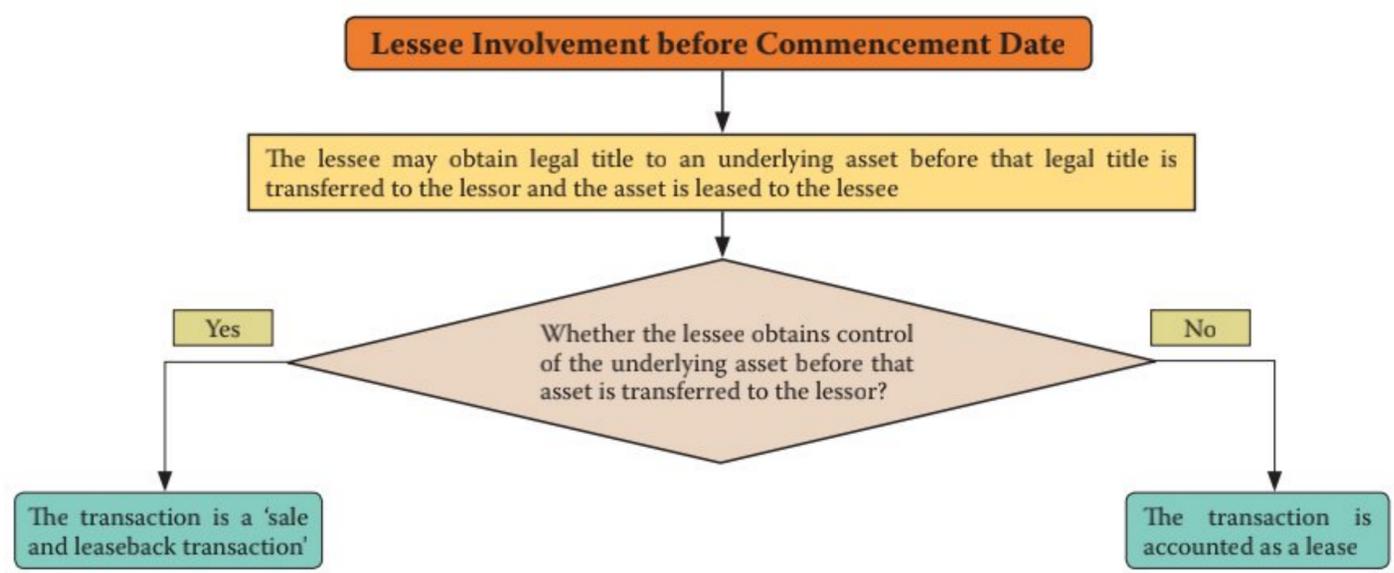
**\*Lease incentives**

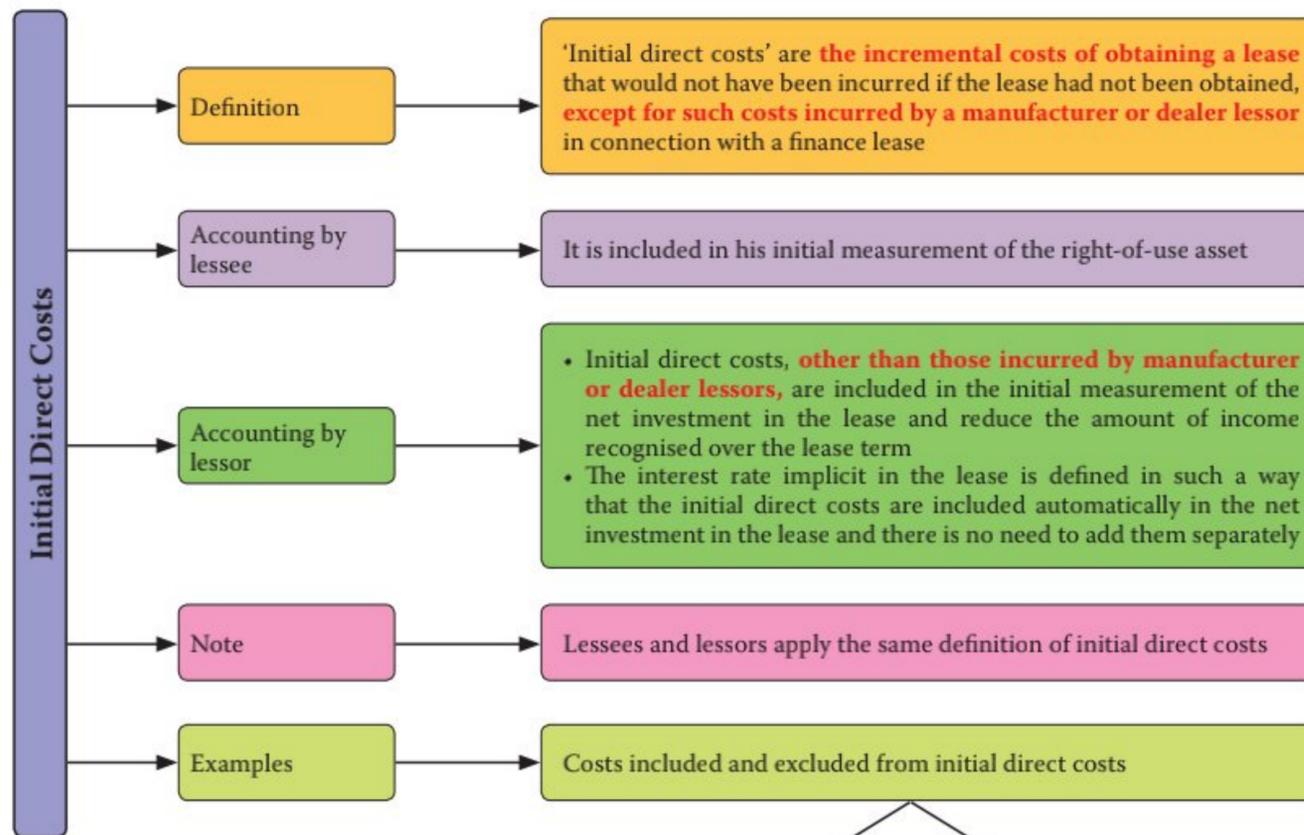
- **For lessee** - lease incentives that are paid or payable to lessee by the lessor are deductible from lease payments and reduce the initial measurement of lessee' ROU asset.
- **For lessors** - lease incentives are also deducted from lease payments and affect the lease classification test.
  - **For finance leases**
    - lease incentives reduce the expected lease receivables at the commencement date and thereby the initial measurement of the lessor's net investment in the lease.
    - selling profit or loss is not affected.
  - **For operating leases**
    - defer the cost of any lease incentives paid or payable to the lessee and recognise that cost as a reduction to lease income over the lease term.

**\*\*Lessees subsequently remeasure the lease liability if there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect) for future payments resulting from a change in index or rate used to determine lease payments.**

**Exclusion of payments for calculating lease liability:**

- Lease payments allocated to non-lease components of a contract**, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.
- Variable lease payments that **do not** depend on index or rate. They are recognised in profit or loss in the period in which the event that triggers the payment occurs.





Inclusion	Exclusion
Commission (including payments to employees acting as selling agents)	Employee salaries
Legal fees resulting from the execution of the lease	Legal fees for services rendered before the execution of the lease
Lease document preparation costs incurred after the execution of the lease	Negotiating lease term and conditions
Certain payments to existing tenants to move out	Advertising
Consideration paid for a guarantee of a residual asset by an unrelated third party	Depreciation and amortization

### Discount Rates

Discount rates are used to determine the present value of the lease payments, which are used to determine **Right-of Use asset and Lease liability in case of a lessee** and **to measure a lessor's net investment** in the lease.

**For a Lessee**  
Discount rate to be used should be:

THE INTEREST RATE IMPLICIT IN THE LEASE, if that rate can be readily determined **OR** If not, then the lessee shall use THE LESSEE'S INCREMENTAL BORROWING RATE

Where,  
'Interest rate implicit in the lease' is defined as the rate of interest that causes the following:

The present value of lease payments made by the lessee for the right to use the underlying asset

+

The unguaranteed residual value

=

The fair value of the underlying asset

+

Any initial direct costs of the lessor

- Lessee's **incremental borrowing rate** is the rate of interest that
  - the lessee would have to pay to borrow over a **similar term**
  - and with a **similar security**
  - the funds necessary to obtain an asset of a **similar value** to the Right of use Asset
  - in a **similar economic environment**.
- In determining the incremental borrowing rate, the lessee considers borrowings with a similar term and security to the ROU Asset (**NOT the underlying asset**).
- If the contract requires lease payments to be made in a foreign currency then, the incremental borrowing rate of the lessee should be determined based on a borrowing of a similar amount in that foreign currency.

**For a Lessor:**

Lessor to use the interest rate implicit in the lease.

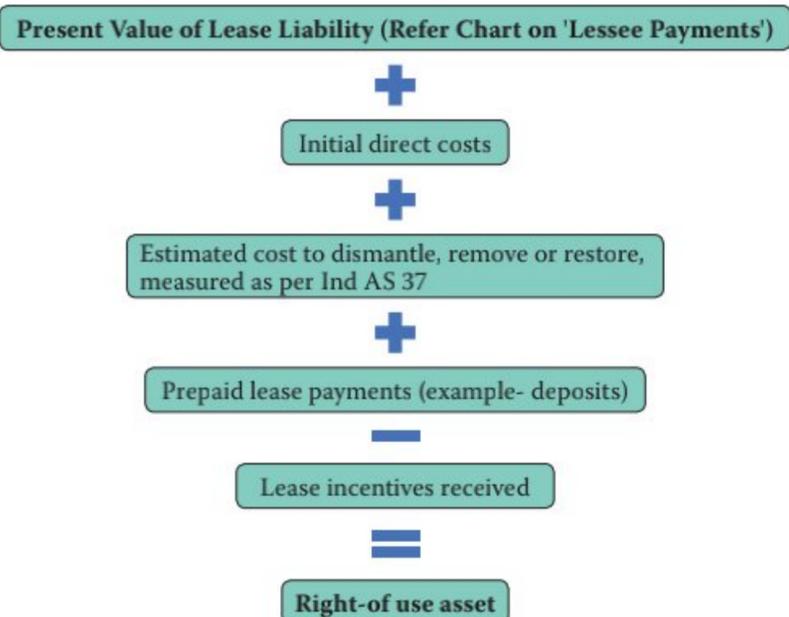
**Fair Value**

The fair value for the purposes of applying the lessor accounting requirements in Ind AS 116 is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

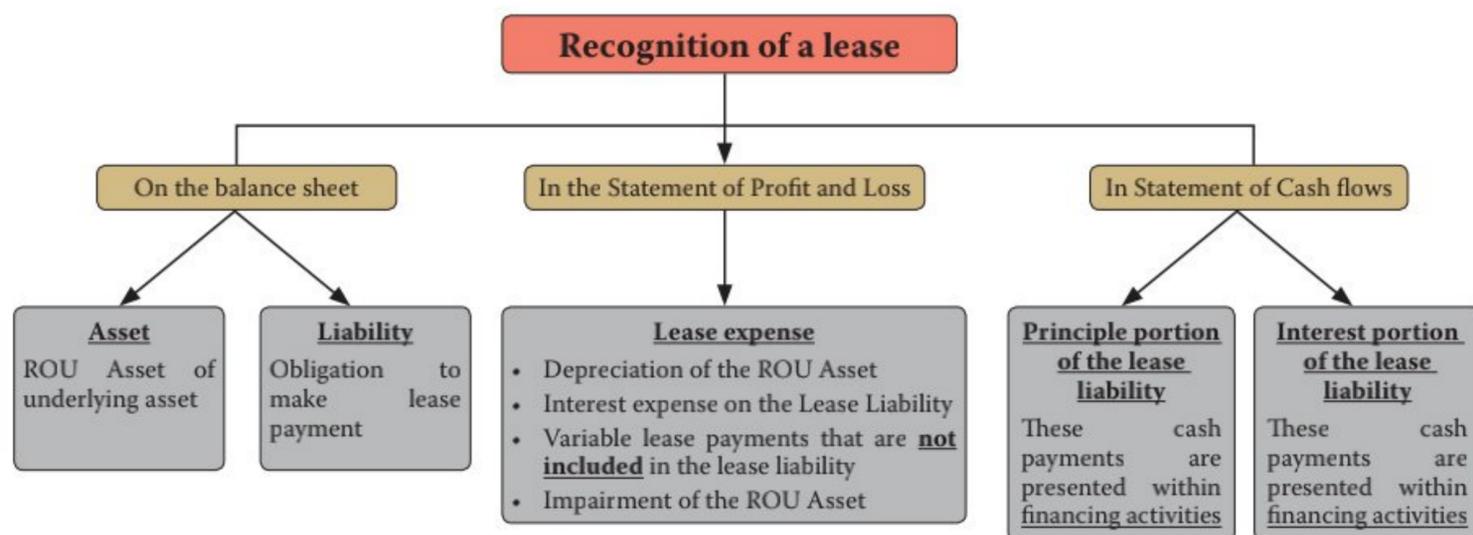
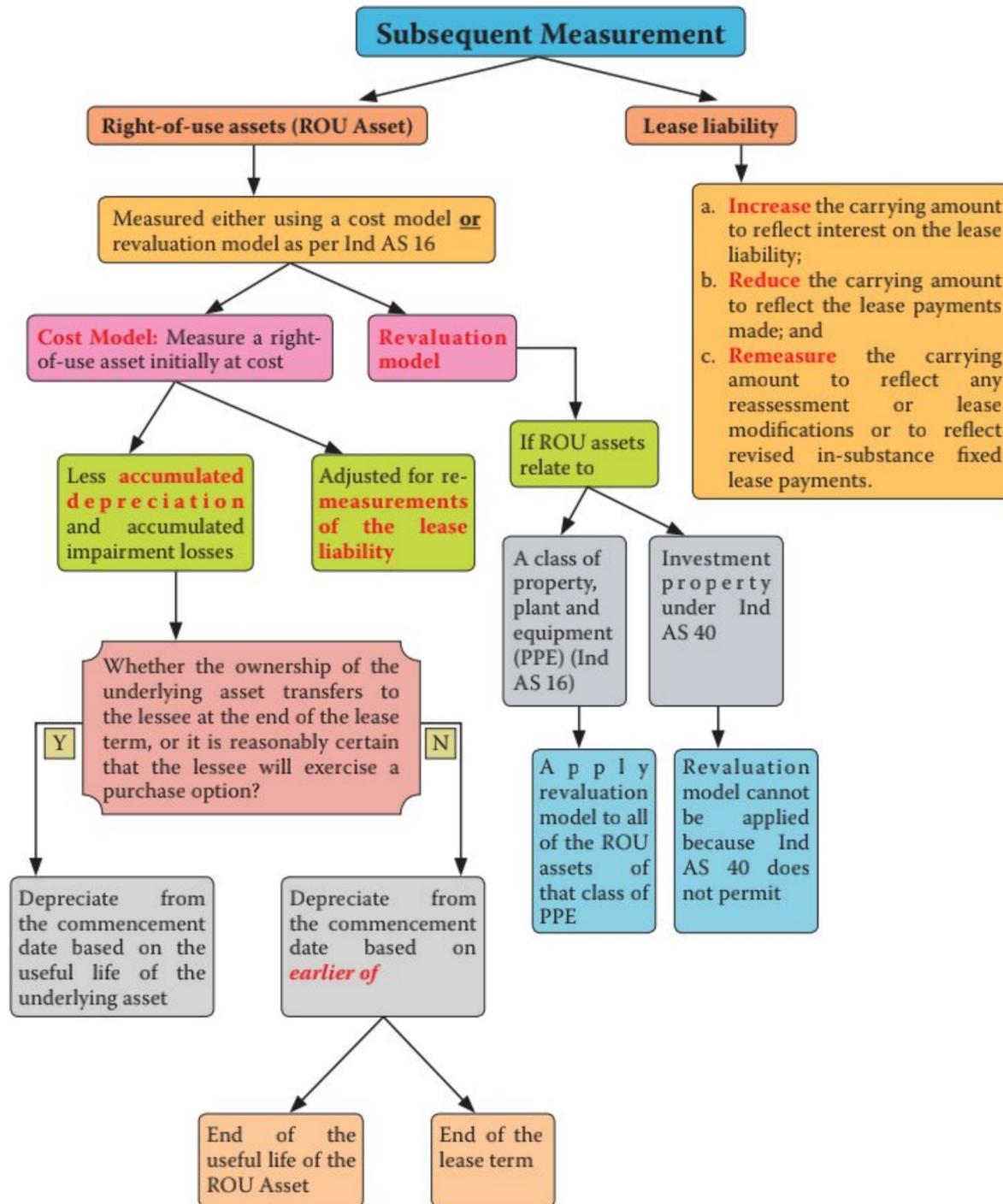
**Note:** For the purposes of determination of fair value under Ind AS 116, above stated definition is to be considered, hence Ind AS 113 "Fair Value Measurement" is not applicable for determination of fair value.

**Accounting in the Books of Lessee**

- A '**lessee**' is defined as an entity that obtains the right to use an **underlying asset** for a period of time in exchange for consideration.
- **At the commencement date**, a lessee shall recognise a ROU Asset and a Lease Liability.
- A lessee initially measures the ROU Asset at **COST**, which consists of **ALL** of the following:

**Initial Measurement of Right-of Use Asset (ROU Asset)****Journal entry in the books of lessee**

ROU Asset	Dr.	Sum total of all below items
To Lease liability	Cr.	Present Value of outstanding lease payments by lessee using interest rate implicit in lease
To Lessor / Supplier	Cr.	Any lease payment made on or before the commencement date <i>less</i> lease incentives received
To Bank / Creditor	Cr.	Initial direct costs incurred by lessee
To Provision for dismantling / removing the underlying asset	Cr.	Estimate of costs to be recognised only when lessee incurs an obligation for these costs (Ind AS 37)



### Leases denominated in a foreign currency

Lease Liability	Applying Ind AS 21, Lessees remeasure the foreign currency-denominated lease liability using the exchange rate at each reporting date, <b>like they do for other monetary liabilities</b> . Any <b>changes</b> to the lease liability due to exchange rate changes are <b>recognised in profit or loss</b> .
ROU Asset	Since <b>ROU Asset is a non-monetary asset</b> measured at historical cost, it is <b>not affected by changes in the exchange rate</b> .

### Remeasurement

Remeasure lease liabilities upon a change in lease payments on account of **ANY** of the following:

The reassessment of lease term on account of reasonable certainty to exercise/not exercise of extension and/or termination option

The reassessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset

In-substance fixed lease payments

The amounts expected to be payable under residual value guarantees

Future lease payments resulting from a change in an index or rate

### When to use the 'original' and a 'revised' discount rate?

Revised Discount Rate	Original Discount Rate
<p>Lessees use a <b>revised</b> discount rate when lease payments are updated for</p> <ul style="list-style-type: none"> <li>- reassessment of the lease term <b>OR</b></li> <li>- a reassessment of a purchase option.</li> </ul> <p>The revised discount rate is based on the interest rate implicit in the lease for the <b>REMAINDER</b> of the lease term. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate.</p>	<p>Lessees use the <b>original</b> discount rate when lease payments are updated for</p> <ul style="list-style-type: none"> <li>- a change in expected amounts for residual value guarantees <b>AND</b></li> <li>- payments dependent on an index or rate, <b>unless</b> the rate is a floating interest rate.</li> <li>- the variability of payments is resolved so that they become in-substance fixed payments.</li> </ul>

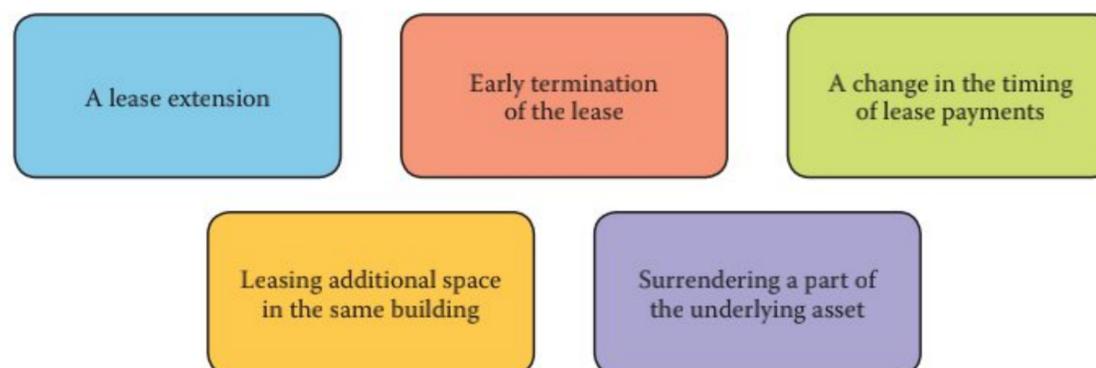
**Note:** A lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the ROU Asset. However, if the carrying amount of the ROU Asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee recognises any remaining amount of the remeasurement in profit or loss.



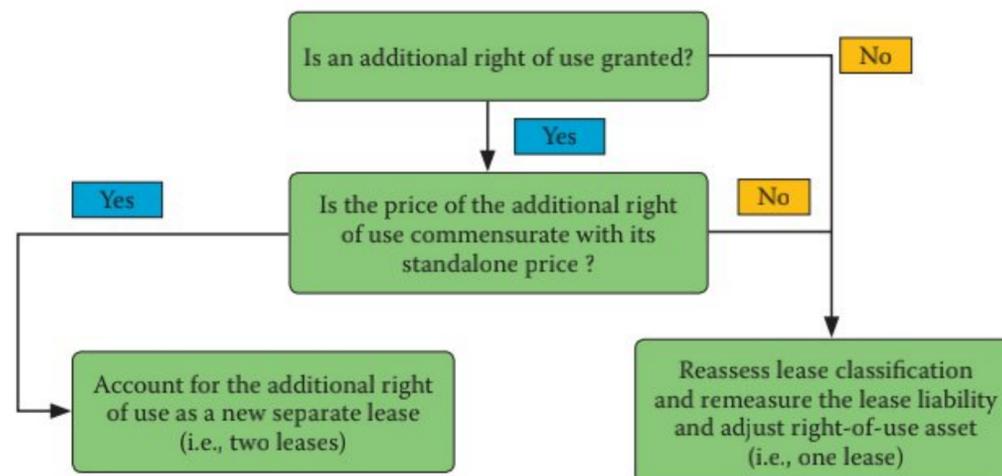
A 'lease modification' is a **change** in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Examples of lease modifications that may be negotiated after the lease commencement date:

### Lease Modifications in the Books of Lessee

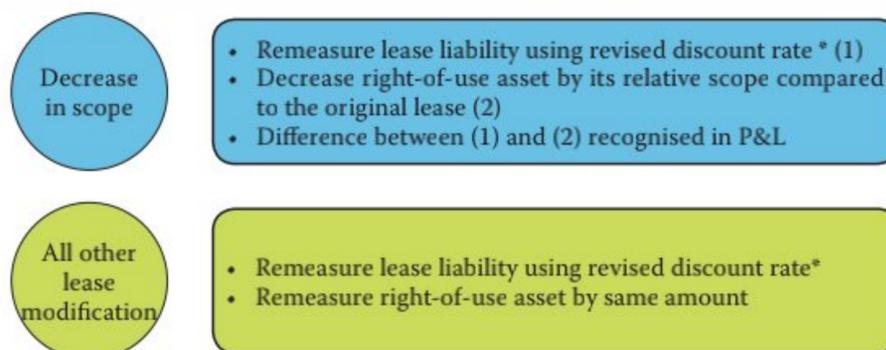


### Lessee's Analysis of a Change in Lease



The exercise of an existing purchase or renewal option or a change in the assessment of whether such options are reasonably certain to be exercised are **not lease modifications but can result in the remeasurement** of Lease Liabilities and ROU Assets.

**Accounting Treatment for Lease Modifications that are not Accounted for as Separate Leases**



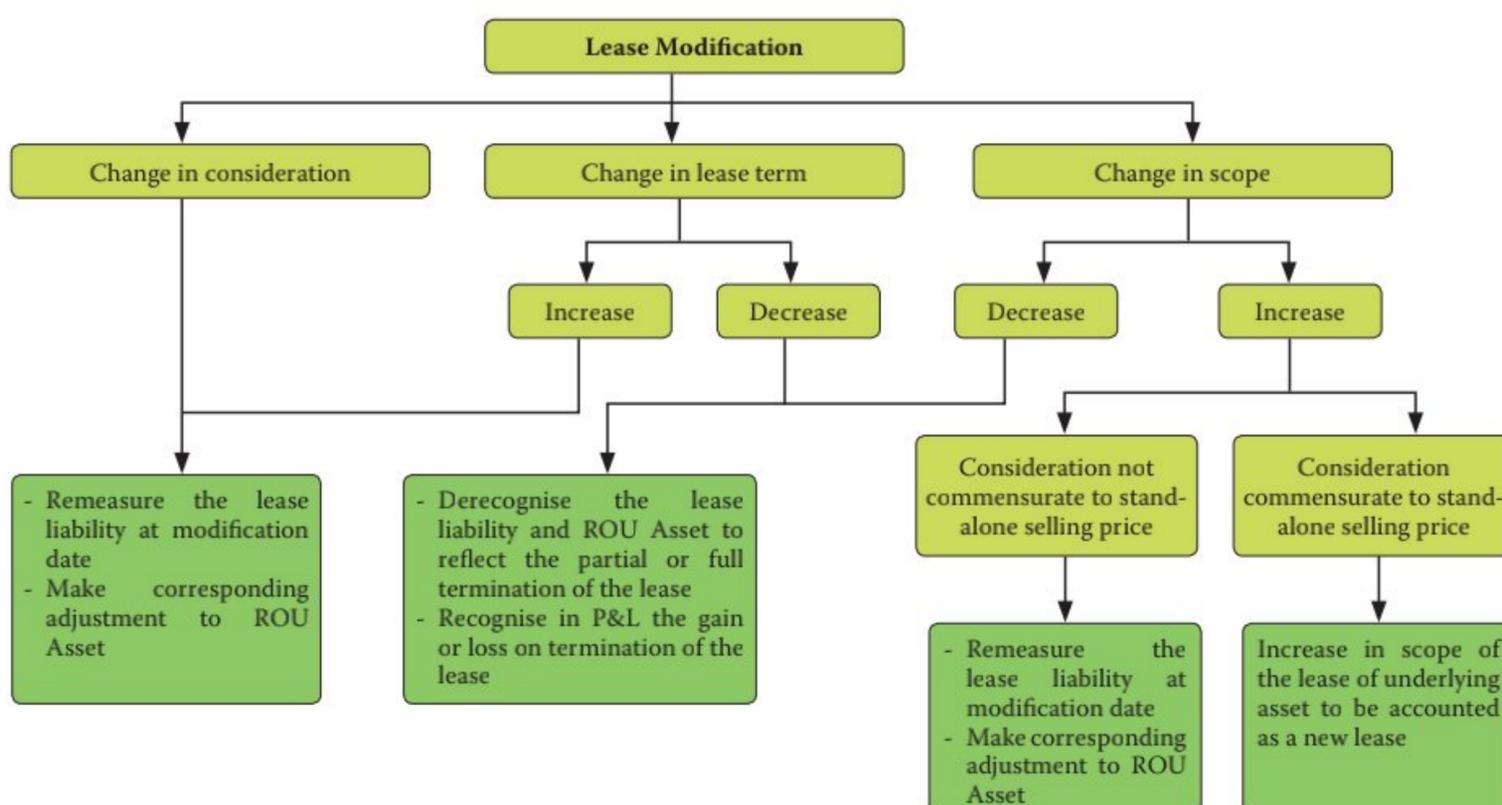
\* The implicit rate in the lease is to be used. If it cannot be readily determined, the incremental rate of borrowing is to be used.

- The re-measurements occur as of the effective date of the lease modification on a prospective basis.
- In some cases, the lessee and lessor may agree to a modification to the lease contract that starts at a later date (i.e., the terms of the modification take effect at a date later than the date when both parties agreed to the modification). This can be understood with the help of a following example:

**Case study:** A lessee enters into a lease arrangement with a lessor to lease an asset for 10 years. At the beginning of year 8, the lessee and lessor agree to a modification to the contract that will take effect from the beginning of year 9.

Scenario 1 (Increase in scope – Not a Separate Lease)	Scenario 2 (Increase in scope – Separate Lease)	Scenario 3 (Decrease in scope)
Lessee will re-allocate the consideration in the modified contract to each of the existing lease and non-lease components and Remeasure the lease liability <b>at the date both parties agreed to the modification</b> (the beginning of year 8).	Lessee will <b>allocate the consideration</b> in the modified contract <b>to each of the existing and new lease and non-lease components</b> at the date both parties agreed to the modification (the beginning of year 8). The lessee will <b>remeasure the lease liability for the existing lease components</b> at that date as well. However, <b>recognition of the lease liability and ROU Asset for any new lease component occurs at the commencement date of the new lease component</b> (the beginning of year 9).	Lessee will <b>re-allocate the consideration</b> in the modified contract <b>to each existing lease and non-lease component</b> and <b>remeasure the lease liability and ROU Asset at the effective date of the modification</b> (the beginning of year 8).

Summarised Flowchart for Lease Modification in the Books of Lessee:



### Presentation in the Books of Lessee

Balance Sheet	Statement of profit and loss	Statement of cash flows
<p><b>ROU Assets:</b> They are presented either:</p> <ul style="list-style-type: none"> <li>- Separately from other assets (e.g., owned assets) <b>OR</b></li> <li>- Together with other assets as if they were owned, with disclosures of the balance sheet line items that include ROU Assets and their amounts</li> </ul> <p>ROU Assets that meet the definition of investment property are presented as investment property</p> <p><b>Lease Liabilities:</b> They are presented either:</p> <ul style="list-style-type: none"> <li>- Separately from other liabilities <b>OR</b></li> <li>- Together with other liabilities with disclosure of the balance sheet line items that includes lease liabilities and their amounts</li> </ul>	<p><b>Depreciation and Interest:</b> Depreciation on Right of use asset and interest expense accreted on lease liabilities are presented <b>separately</b> (i.e., they <b>CANNOT</b> be combined).</p> <p>This is because interest expense on the lease liability is a component of <b>finance costs</b></p>	<p><b>Principal portion of the lease liability:</b> - These cash payments are presented within <b>financing activities</b></p> <p><b>Interest portion of the lease liability:</b> - These cash payments are presented within <b>financing activities</b></p> <p><b>Short-term leases and leases of low-value assets:</b> - Lease payments pertaining to them (i.e., not recognised on the balance sheet as per Ind AS 116) are presented within <b>operating activities</b></p> <p><b>Variable lease payments not included in the lease liability:</b> - These are also presented within <b>operating activities</b></p> <p><b>Non-cash activity:</b> Such activity is disclosed as a supplemental non-cash item (e.g., the initial recognition of the lease at commencement)</p>

### Disclosures in the Books of Lessee

Ind AS 116 requires lessees to present all disclosures in:

- a single note **OR**
- separate section in the financial statements.

Quantitative Disclosure Requirement		
Balance Sheet	Statement of profit and loss	Statement of cash flows
<ul style="list-style-type: none"> <li>- Additions to right-of-use assets</li> <li>- Carrying value of right-of-use assets at the end of the reporting period by class</li> <li>- Maturity analysis of lease liabilities separately from other liabilities based on Ind AS 107 requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Depreciation for assets by class</li> <li>- Interest expense on lease liabilities</li> <li>- Short-term leases expensed*</li> <li>- Low-value leases expensed*</li> <li>- Variable lease payments expensed</li> <li>- Income from subleasing</li> <li>- Gains or losses arising from sale and leaseback transactions</li> </ul>	<ul style="list-style-type: none"> <li>- Total cash outflow for leases</li> </ul>

\* These disclosures need not include leases with lease terms of one month or less.

- All of the above disclosures are required to be presented in tabular format, unless another format is more appropriate.
- The amounts disclosed include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- Other disclosure requirements also include:
  - ▶ Commitments for short-term leases if the current period expense is dissimilar to future commitments.
  - ▶ For right-of-use assets that meet the definition of investment property, the disclosure requirements of Ind AS 40, *Investment Property*, with a few exclusions.
  - ▶ For right-of-use assets where the revaluation model has been applied, the disclosure requirements of Ind AS 16, *Property, Plant and Equipment*.
  - ▶ Entities applying the short-term and / or low-value lease exemptions are required to disclose that fact.

Qualitative Disclosure Requirements
<ul style="list-style-type: none"> <li>- A summary of the nature of the entity's leasing activities;</li> <li>- Potential cash outflows the entity is exposed to that are not included in the measured lease liability:           <ul style="list-style-type: none"> <li>• Variable lease payments;</li> <li>• Extension options and termination options;</li> <li>• Residual value guarantees;</li> <li>• Leases not yet commenced to which the lessee is committed;</li> <li>• Restrictions or covenants imposed by leases;</li> <li>• Sale and leaseback transaction information.</li> </ul> </li> </ul>

In providing additional information, lessees are required to consider:

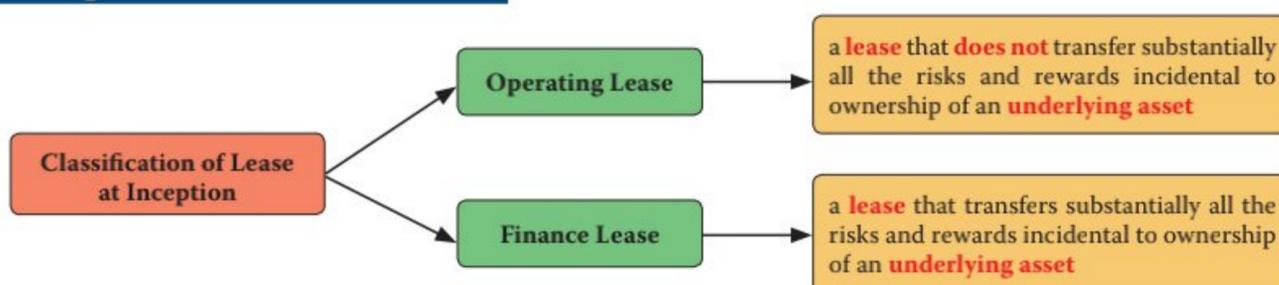
- (a) Whether that information is relevant to the users of the financial statements. The additional information is included **ONLY IF** that information is **expected to be relevant** to users of financial statements. For e.g., this is likely to be relevant if it helps those users to understand:

The flexibility provided by leases	for e.g., a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions
Restrictions imposed by leases	for e.g., by requiring the lessee to maintain particular financial ratios
Sensitivity of reported information to key variables	for e.g., future variable lease payments
Deviations from industry practice	for e.g., unusual or unique lease terms and conditions that affect a lessee's lease portfolio
Exposure to other risks arising from leases	

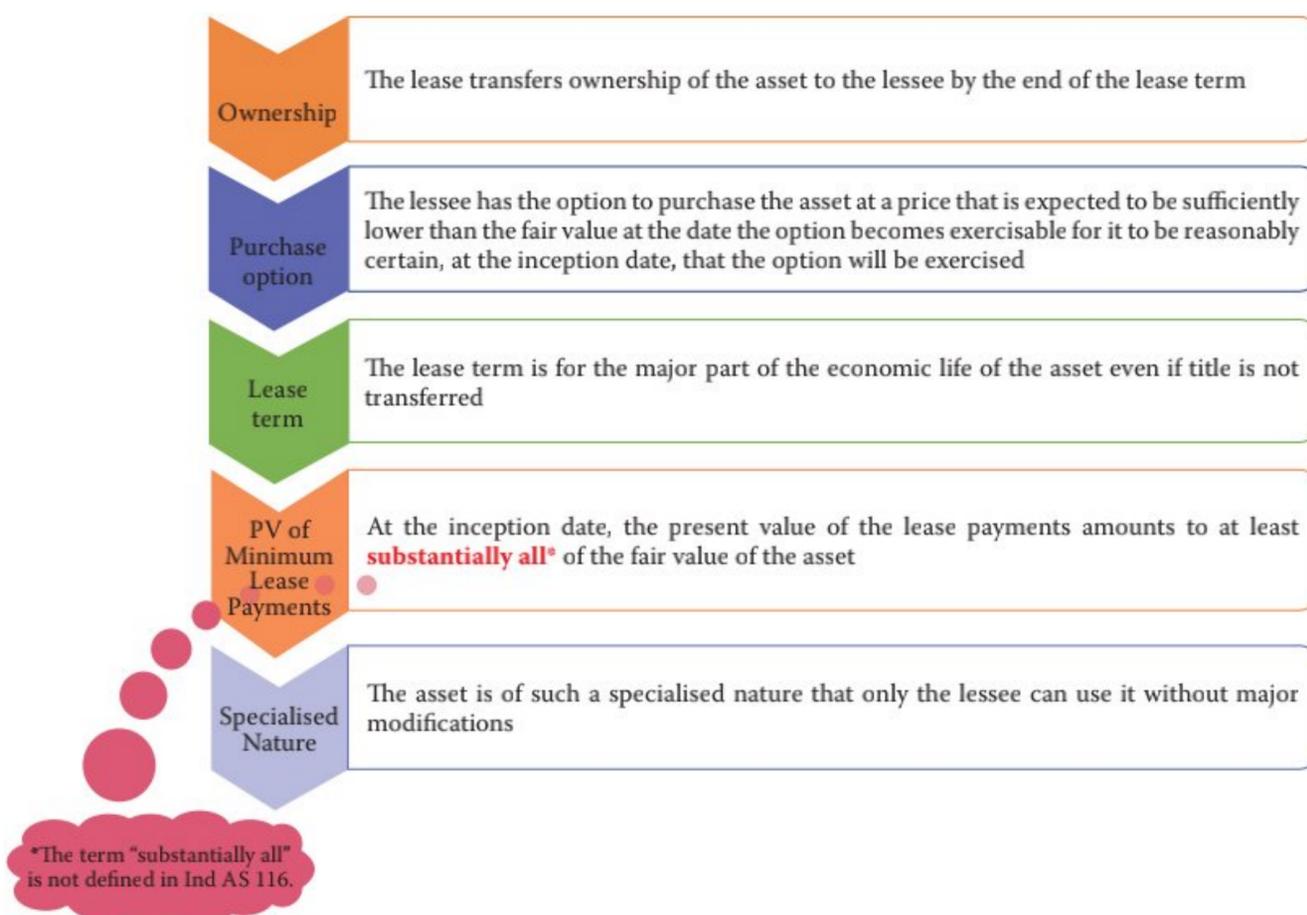
- (b) Whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes.

**Note:** A lessee need not duplicate information that is already presented elsewhere in the financial statements.

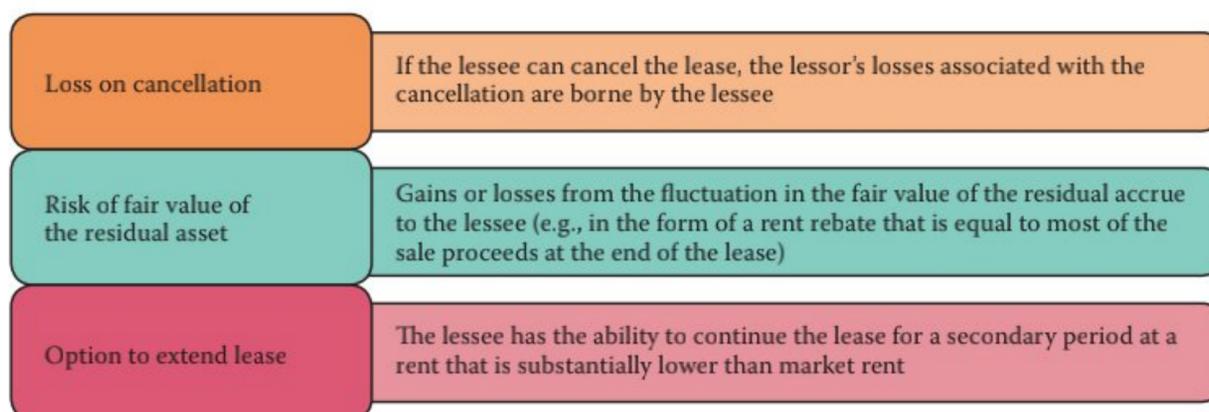
**Accounting in the Books of Lessor**



**Examples that Individually, or in Combination, would normally Lead to a Lease being Classified as a FINANCE LEASE**



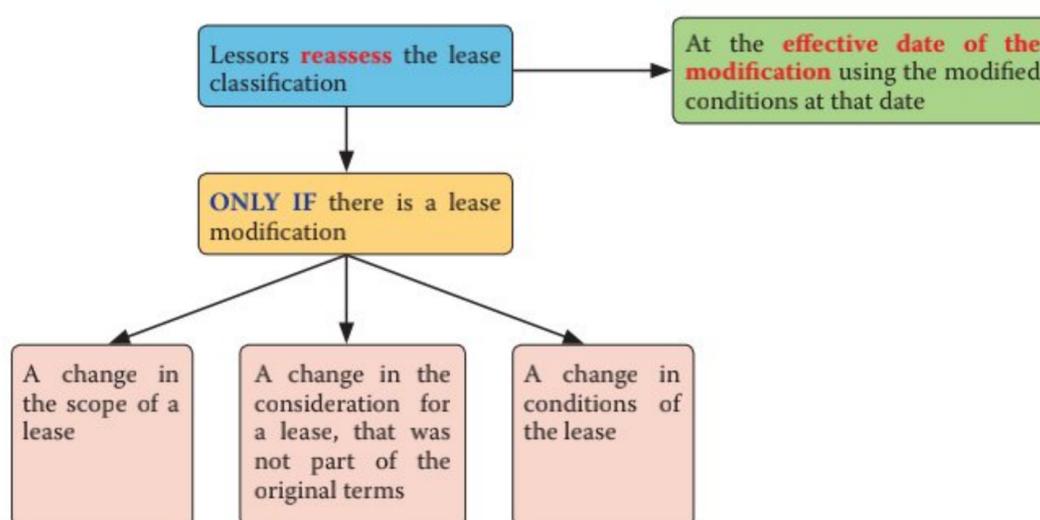
Additionally, Ind AS 116 lists the following indicators of situations that, **individually or in combination**, could also lead to a lease being classified as a **FINANCE LEASE**



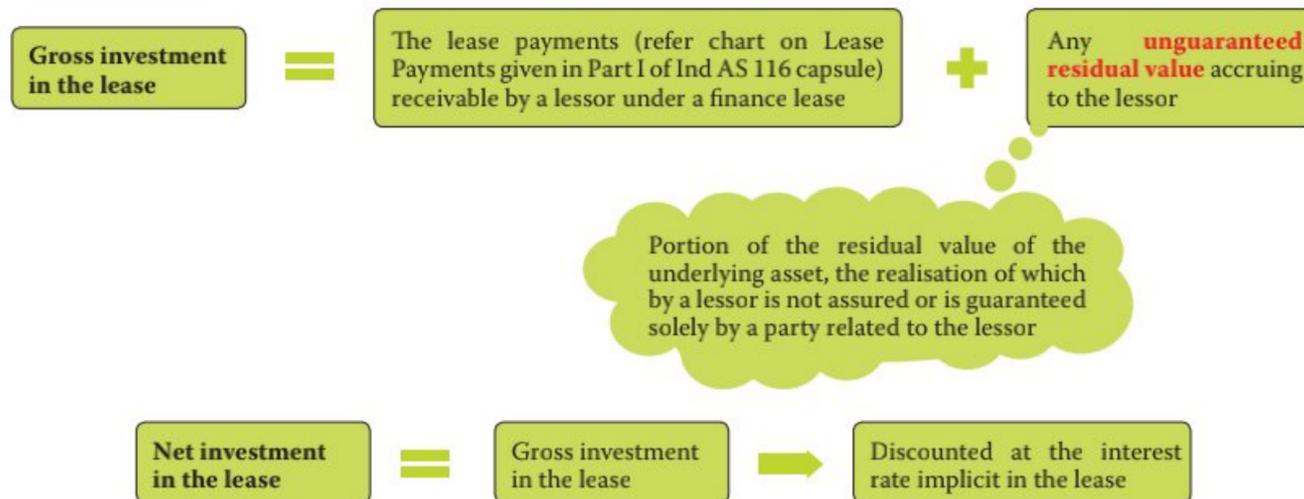
### Lease Classification Test for Land and Buildings by the Lessor

<b>Classification assessment</b>	<ul style="list-style-type: none"> <li>Lessor <b>separately assesses</b> the classification of each element as a finance lease or an operating lease, <b>having fact that land normally has an indefinite economic life</b></li> <li>If the lease payments <b>cannot be allocated reliably</b> between the land and the buildings elements, the <b>entire lease is classified as a finance lease</b></li> <li>If <b>both elements</b> (land and building) of the lease payments <b>are operating leases, the entire lease is classified as an operating lease</b></li> </ul>
<b>Allocation of lease payments</b>	<ul style="list-style-type: none"> <li>Allocate lease payments between the land and the buildings elements <b>in proportion to the relative fair values</b> of the leasehold interests in the land element and buildings element of the lease <b>at the inception date</b></li> </ul>
<b>Single unit - Economic life</b>	<ul style="list-style-type: none"> <li>When the amount for the land element is <b>immaterial</b> to the lease, the lessor may treat the land and buildings as a <b>single unit</b> for the purpose of lease classification and classify it as a finance lease or an operating lease.</li> <li>In such a case, the lessor regards the economic life of the buildings as the economic life of the <b>entire</b> underlying asset</li> </ul>

### Reassessment of Lease Classification by the Lessor



**Note:** If a lease modification results in a separate new lease, that new lease would be classified in the **same manner** as any new lease.



### Accounting for Initial Direct Costs

By Lessor	
<b>Finance Lease:</b>	
•	<b>Lessors (other than manufacturer or dealer lessors)</b> are required to include initial direct costs in the initial measurement of their net investment in finance leases and reduce the amount of income recognised over the lease term.
•	The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease and they are <b>not added separately</b> .
•	Initial direct costs related to finance leases incurred <b>by manufacturer or dealer lessors are expensed at lease commencement</b> .
<b>Operating Lease:</b>	
•	Ind AS 116 requires lessors <b>to include initial direct costs in the carrying amount of the underlying asset in an operating lease</b> .
•	These initial direct costs are <b>recognised as an expense over the lease term</b> on the same basis as lease income.

### Finance Leases- Recognition by the Lessor

**At the commencement date**, a lessor shall recognise assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the **net investment in the lease**.

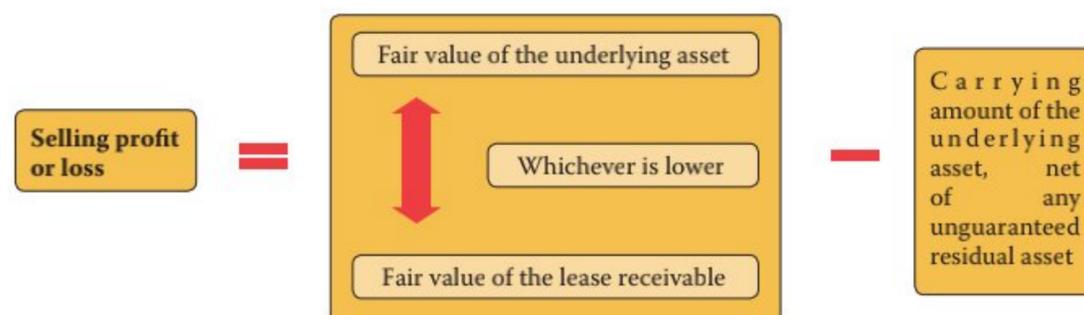
### Initial Measurement by the Lessor

Journal entry for finance lease

Finance lease receivable	Dr.	Net investment
To Underlying asset		Carrying amount

(Balancing figure is profit or loss)

For finance leases (other than those involving manufacturer and dealer lessors), initial direct costs are included in the initial measurement of the finance lease receivable, hence are **not added separately to the net investment in lease**.



### Initial Measurement – Manufacturer or Dealer Lessors

- At the commencement date, a manufacturer or dealer lessor recognises selling profit or loss in accordance with its policy for outright sales to which Ind AS 115 applies.
- Therefore, at lease commencement, a manufacturer or dealer lessor recognises the following:

The fair value of the underlying asset as revenue **OR** the present value of the lease payments discounted using a market rate of interest, whichever is **lower**.

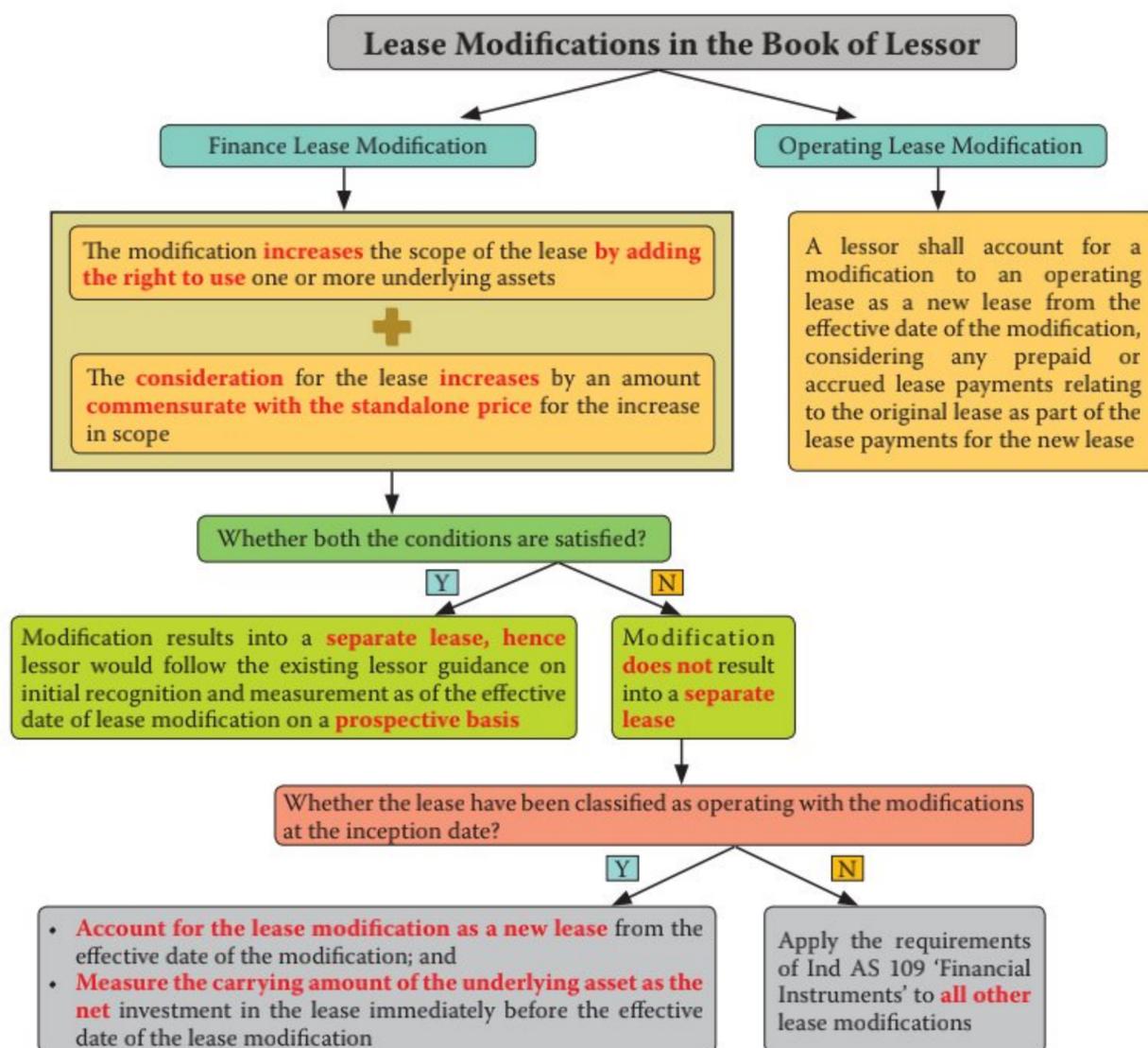
The cost (or carrying amount) of the asset (less) the present value of the unguaranteed residual value, as cost of sale.

The selling profit or loss in accordance with the policy for outright sales.

- At the commencement date, a manufacturer or dealer lessor recognises selling profit or loss on a **finance lease**, regardless of whether the lessor transfers the underlying asset as described under Ind AS 115.
- Costs incurred by a manufacturer or dealer lessor in connection with **obtaining a finance lease are recognised as an expense at the commencement date** and are **excluded** from the net investment in the lease.

### Summary-Accounting Treatment in the Books of a Lessor

Particulars	Finance Leases	Operating Leases
<b>Initial measurement</b>		
Balance sheet	<ul style="list-style-type: none"> <li><b>Derecognise the carrying amount</b> of the underlying asset</li> <li><b>Recognise the net investment</b> in the lease i.e. a finance lease receivable (equal to the present value of the lease payments to be received)</li> </ul>	<ul style="list-style-type: none"> <li><b>Continue to present</b> the underlying asset</li> <li><b>Add any initial direct costs</b> incurred in connection with obtaining the lease to the carrying amount of the underlying asset</li> <li>A <b>manufacturer or dealer lessor does not recognise any selling profit</b> on entering into an operating lease because it is not equivalent of a sale</li> </ul>
Statement of Profit and loss	<ul style="list-style-type: none"> <li>Recognise in profit or loss, any <b>selling profit or selling loss</b></li> </ul>	
<b>Subsequent measurement</b>		
Balance sheet	<ul style="list-style-type: none"> <li><b>Reduce the net investment</b> in the lease for lease payments received (net of finance income calculated above)</li> <li><b>After</b> lease commencement, the net investment in a lease is <b>NOT REMEASURED UNLESS</b> either: <ul style="list-style-type: none"> <li>The lease is modified and the modified lease is not accounted for as a separate contract</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>The lease term is revised when there is a change in the non-cancellable period of the lease</li> </ul> </li> <li>Recognise any impairment of the net investment in the lease, if there has been a <b>reduction in the estimated unguaranteed residual value</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Calculate depreciation</b> in accordance with Ind AS 16 and Ind AS 38</li> <li><b>Apply Ind AS 36</b> to determine whether an underlying asset is impaired and to account for any impairment loss identified</li> </ul>
Statement of Profit and loss	<ul style="list-style-type: none"> <li><b>Apportion the amount received</b> between the finance income and reduction in receivable</li> <li>Finance income will be computed to give a constant periodic rate of return</li> <li><b>Separately recognises income</b> from variable lease payments that are not included in the net investment in the lease in the period in which that income is earned</li> <li><b>Revise the income allocation</b> over the lease term and recognise immediately any reduction in respect of amounts accrued, if there has been a <b>reduction in the estimated unguaranteed residual value</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Recognise lease income</b> over the lease term, typically on a straight line basis</li> <li><b>Recognise depreciation</b> expense related to the underlying asset</li> <li><b>Recognise variable lease payments</b> that do not depend on an index or rate (e.g., performance- or usage- based payments) <b>as they are earned</b></li> </ul>



### Presentation in the Books of Lessor

Finance Leases	Operating Leases
<ul style="list-style-type: none"> <li>• <b>Recognise assets in the balance sheet</b> and present them as a receivable at an amount equal to the net investment in the lease</li> <li>• Net investment in the lease is subject to the <b>same considerations</b> as other assets in classification as current or non-current assets in a balance sheet.</li> </ul>	<p><b>Present underlying assets</b> according to the nature of that asset in the balance sheet</p>

### Disclosure in the Books of Lessor

The lessor disclosure requirements are more extensive to enable users of financial statements to better evaluate the amount, timing and uncertainty of cash flows arising from a lessor's leasing activities.

Quantitative Disclosure Requirements	
Finance Leases	<ul style="list-style-type: none"> <li>– Selling profit or loss;</li> <li>– Finance income on the net investment;</li> <li>– Income from variable lease payments;</li> <li>– Qualitative and quantitative explanation of changes in the net investment; and</li> <li>– Maturity analysis of lease payments receivable.</li> </ul>
Operating Leases	<ul style="list-style-type: none"> <li>– Lease income, separately disclosing variable lease payments;</li> <li>– Disclosure requirements of Ind AS 16 for leased assets, separating leased assets from non-leased assets;</li> <li>– 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</li> <li>– Maturity analysis of lease payments.</li> </ul>

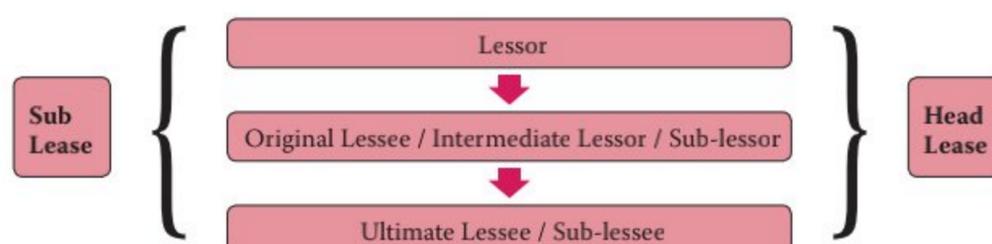
**Note:** The standard prescribes that the quantitative disclosures should be presented in a tabular format, unless another format is more appropriate to be presented.

## Qualitative Disclosure Requirements

This disclosure include the nature of the lessor's leasing activities and how the lessee manages risks associated with those activities, including risk management on rights retained in underlying assets and risk management strategies including:

- Buy-back agreements;
- Residual value guarantees;
- Variable lease payments for excess use; and
- Any other risk management strategies.

## Sub-Leases



<b>Definition</b>	A 'Sub-lease' is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor' or 'sub-lessor') to a third party, and the original lease ('head lease') between the head lessor and lessee remains in effect.										
<b>Treatment</b>	In some cases, the sublease is a separate lease agreement while, in other cases, though the third party assumes the original lease, yet the original lessee remains the primary obligor under the original lease.										
<b>Recognition and Measurement</b>	<p><b>Intermediate Lessor (sub-lessor)</b></p> <ul style="list-style-type: none"> <li>• The sublease is classified using the classification criteria <b>BUT</b>, it should be by reference to the 'ROU Asset' in the head lease (and <b>NOT</b> the 'underlying asset' of the head lease).</li> </ul> <table border="1"> <thead> <tr> <th></th> <th><i>Sublease is a 'Finance Lease'</i></th> <th><i>Sublease is an 'Operating Lease'</i></th> </tr> </thead> <tbody> <tr> <td>Balance sheet</td> <td> <ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul> </td> </tr> <tr> <td>Statement of Profit and Loss</td> <td> <ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul> </td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• However, when the head lease is a short-term lease, the sublease is classified as an operating lease.</li> <li>• Lessor may use the discount rate for the head lease (<b>adjusted for initial direct costs, if any, associated with the sublease</b>) to measure the net investment in the sublease, if the interest rate implicit in the lease cannot be readily determined.</li> <li>• When contracts are entered into at or near the same time, an intermediate lessor is required to consider the criteria for <b>combining contracts</b>. If the contracts are required to be combined, the intermediate lessor accounts for the head lease and sublease as a <b>single combined transaction</b>.</li> <li>• An intermediate lessor who subleases, or expects to sublease an asset, <b>CANNOT</b> account for the head lease as a lease of a low-value asset <b>even when</b> the required criteria w.r.t. 'leases of low-value assets' are satisfied.</li> </ul> <p><b>Sub-lessee Accounting</b></p> <p>A sub-lessee accounts for its lease as a new lease following Ind AS 116's recognition and measurement provisions for accounting in the books of lessee.</p>			<i>Sublease is a 'Finance Lease'</i>	<i>Sublease is an 'Operating Lease'</i>	Balance sheet	<ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul>	Statement of Profit and Loss	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul>
	<i>Sublease is a 'Finance Lease'</i>	<i>Sublease is an 'Operating Lease'</i>									
Balance sheet	<ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul>									
Statement of Profit and Loss	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul>									
<b>Presentation</b>	Intermediate lessors are <b>not permitted</b> to offset <ul style="list-style-type: none"> <li>• lease liabilities and lease assets that arise from a head lease and a sublease, respectively, <b>unless</b> those liabilities and assets meet the requirements in Ind AS 1 for offsetting.</li> <li>• depreciation and interest expenses and lease income relating to a head lease and a sublease of the same underlying asset, respectively, <b>unless</b> the requirements for offsetting in Ind AS 1 are met.</li> </ul>										
<b>Disclosure</b>	Entities ( <b>including intermediate lessors</b> ) are required to disclose <b>qualitative</b> and <b>quantitative</b> information which gives a <b>basis</b> for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor (refer the disclosures for 'lessors' and 'lessees')										

### Sale and Leaseback Transactions

A sale and leaseback transaction involves two transactions:

- the transfer (sale) 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.

**How to determine whether the transfer of an asset is a sale:**

When determining whether the transfer of an asset should be accounted for as a sale or purchase, both the seller-lessee and the buyer-lessor shall apply the requirements of Ind AS 115 on when an entity satisfies a performance obligation by transferring **'control'** of an asset.

If Control is passed	If Control is NOT passed
If the control of an underlying asset is <b>passed</b> to the buyer-lessor, the transaction is accounted for as a <b>'sale or purchase'</b> of the asset and a <b>'lease'</b> .	If the control of an underlying asset is <b>NOT passed</b> to the buyer-lessor, both the seller-lessee and the buyer-lessor account for the transaction as a <b>'financing transaction'</b> .

**Note:** If the seller-lessee has a **'substantive repurchase option'** for the underlying asset (i.e., a right to repurchase the asset), **'NO sale'** has occurred because the buyer-lessor has **NOT** obtained control of the asset.

### Accounting Treatment for Sale and Leaseback Transaction

Particulars	Seller-lessee	Buyer-lessor
Transfer of asset is a sale	<b>Apply accounting for sale</b> <ul style="list-style-type: none"> <li>• Recognise the cash received</li> <li>• Derecognise the underlying asset</li> </ul> <b>Apply ROU Accounting</b> <ul style="list-style-type: none"> <li>• Apply the lessee accounting model to the leaseback asset</li> <li>• Measure the ROU asset at the retained portion of the previous carrying amount</li> <li>• Recognise a gain or loss related to the portion of the assets transferred to the buyer-lessor</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise the underlying asset based on the nature of the asset</li> <li>• Apply the lessor accounting model to leaseback asset</li> </ul>
Transfer of asset is not a sale	<ul style="list-style-type: none"> <li>• Continue to recognise the underlying asset</li> <li>• Account for the transaction as financing transaction</li> <li>• Recognise a financial liability under Ind AS 109 for any amount received from the buyer-lessor</li> <li>• Decrease the financial liability by the payments made (as and when) less the portion considered as interest expense</li> </ul>	<ul style="list-style-type: none"> <li>• Do not recognise the underlying asset</li> <li>• Recognise a financial asset under Ind AS 109 for any amount paid to the seller-lessee i.e. account for the amount paid as a receivable</li> </ul>

**Note:**

- When a sale occurs, both the seller-lessee and the buyer-lessor account for the leaseback in the same manner as any other lease (**with adjustments for any off-market terms**).
- A seller-lessee recognises a lease liability and ROU asset for the leaseback (**subject to the optional exemptions** for short-term leases and leases of low-value assets).

An entity shall make the following adjustments to measure the sale proceeds at fair value if:

- the fair value of the consideration for the sale of an asset does not equal the fair value of the asset **OR**
- the payments for the lease are not at market rates

Following are the two possibilities of the sale price **OR** the present value of the lease payments being 'less' or 'greater' than the fair value of the asset **OR** present value of the market lease payments:

When Sale Price or Present Value is <b>LESS</b>	When Sale Price or Present Value is <b>GREATER</b>
Using the more readily determinable basis: <ul style="list-style-type: none"> <li>• When the sale price is <b>LESS</b> than the underlying asset's fair value <b>OR</b></li> <li>• The present value of the lease payments is <b>LESS</b> than the present value of the market lease payments,</li> </ul> A seller-lessee recognises the difference as an <b>increase</b> to the sales price and the initial measurement of the ROU asset as a <b>'lease prepayment'</b> .	Using the more readily determinable basis: <ul style="list-style-type: none"> <li>• When the sale price is <b>GREATER</b> than the underlying asset's fair value <b>OR</b></li> <li>• The present value of the lease payments is <b>GREATER</b> than the present value of the market lease payments,</li> </ul> A seller-lessee recognises the difference as a <b>reduction</b> in the sales price and an <b>'additional financing received'</b> from the buyer-lessor.
Buyer-lessors are also required to <b>adjust the purchase price</b> of the underlying asset for any off-market terms. Such adjustments are recognised as: <ul style="list-style-type: none"> <li>- <b>'lease prepayments'</b> made by the seller-lessee <b>OR</b></li> <li>- <b>'additional financing provided'</b> to the seller-lessee.</li> </ul>	

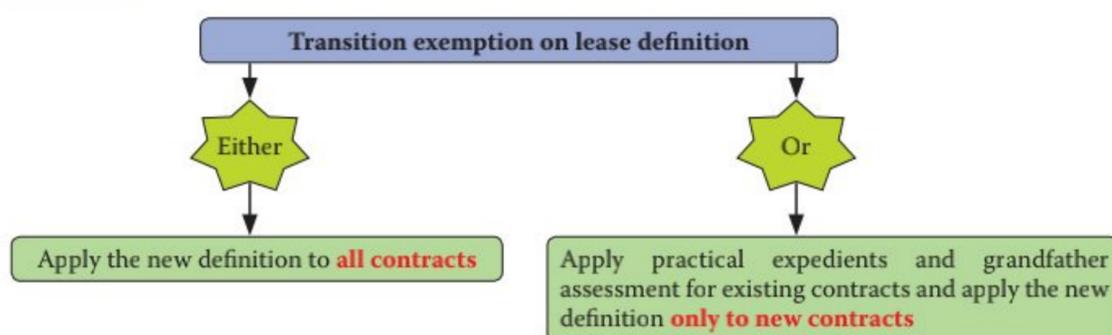
**Disclosure**

A seller-lessee is also required to disclose any gains and losses arising from sale and leaseback transaction separately from gains and losses on disposals of other assets under Ind AS 116.

Additional information relating to sale and leaseback transactions depending on the circumstances, may need disclosure that helps users of financial statements to assess, *for e.g.*:

- (a) The lessee's reasons for sale and leaseback transactions and the prevalence of those transactions
- (b) Key terms and conditions of individual sale and leaseback transactions
- (c) Payments not included in the measurement of lease liabilities
- (d) The cash flow effect of sale and leaseback transactions in the reporting period

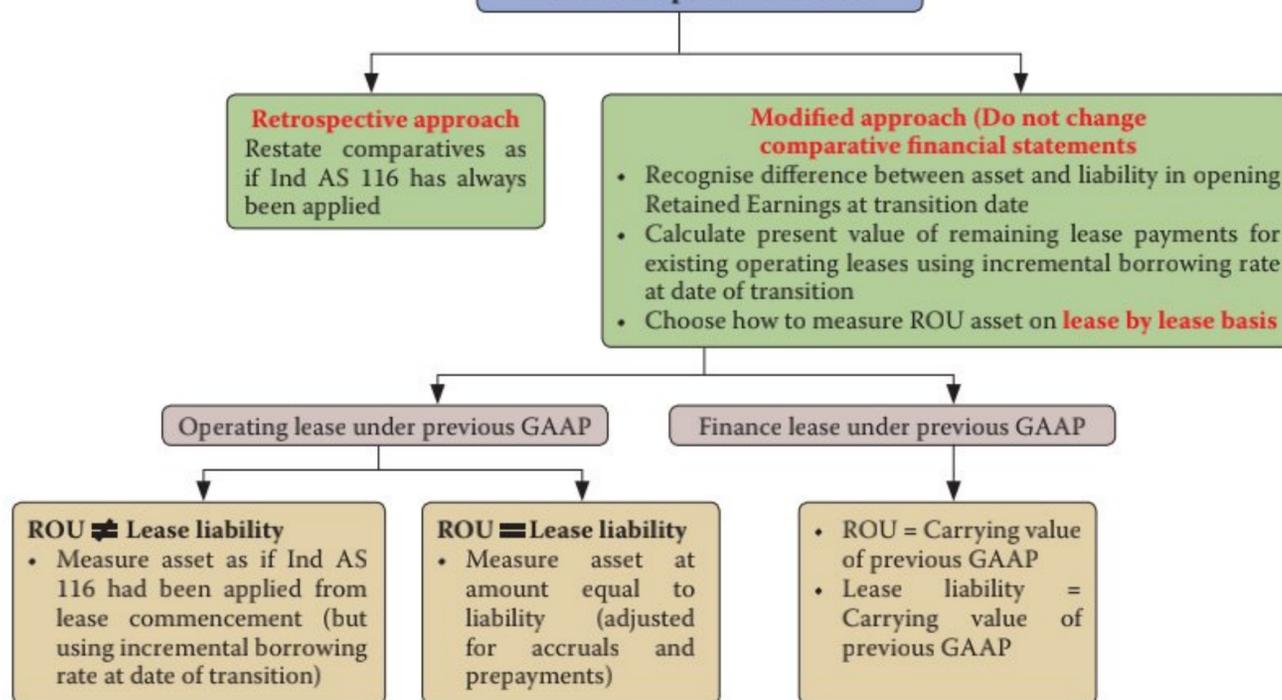
**Transition Approach**



**Practical Expedient**

- This exemption must be applied either for all contracts or none **i.e. cherry picking is not permitted**
- This exemption does not mean that previously identified operating leases can remain off-balance sheet for lessee (unless qualify for a recognition exemption). It merely saves the entity the costs and effort of reassessing)
- If the exemption is elected, the new definition of a lease is applied only to contracts entered into or changed on or after initial application
- Disclosure is required if a practical expedient is elected

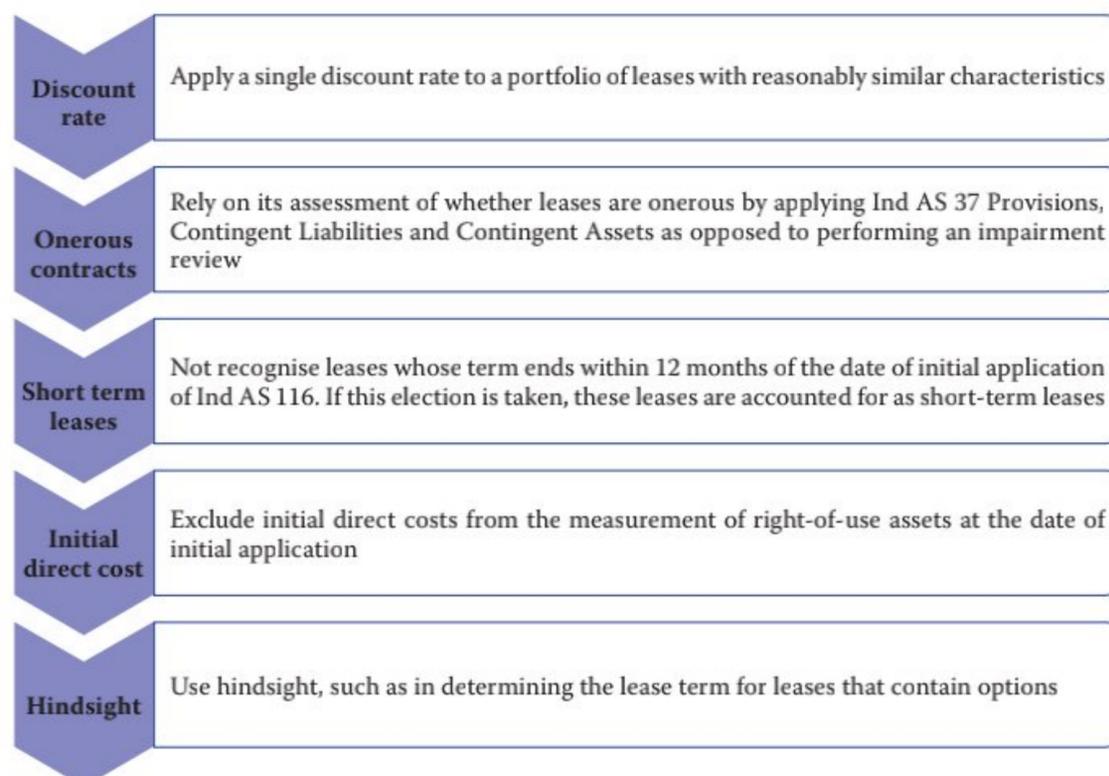
**Transition Options for Lessees**



**Note:**

- A lessee applies Ind AS 36 to ROU assets at the date of initial application, unless the lessee applies the practical expedient for onerous leases.
- A lessee is not required to make adjustments on transition for 'leases of low-value assets' (which is one of the recognition exemptions under Ind AS 116)

Additionally, a lessee is also permitted to apply the following practical expedients to leases previously classified as operating leases (when applying modified retrospective approach), on a **lease-by-lease basis**:



## Disclosures

Disclosure requirements vary in accordance with the Transition Approach opted. The lessee shall disclose the following as required by Ind AS 8 (except that it is impracticable to determine the amount of the adjustment):

<b>Full Retrospective Approach</b>	<b>Modified Retrospective Approach</b>
<ul style="list-style-type: none"> <li>(a) the title of the Ind AS;</li> <li>(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;</li> <li>(c) the nature of the change in accounting policy;</li> <li>(d) when applicable, a description of the transitional provisions;</li> <li>(e) when applicable, the transitional provisions that might have an effect on future periods;</li> <li>(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:               <ul style="list-style-type: none"> <li>(i) for each financial statement line item affected; and</li> <li>(ii) if Ind AS 33 <i>Earnings per Share</i> applies to the entity, for basic and diluted earnings per share;</li> </ul> </li> <li>(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and</li> <li>(h) if retrospective application required by Ind AS 8 is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.</li> </ul>	<ul style="list-style-type: none"> <li>(a) the title of the Ind AS;</li> <li>(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;</li> <li>(c) the nature of the change in accounting policy;</li> <li>(d) when applicable, a description of the transitional provisions;</li> <li>(e) when applicable, the transitional provisions that might have an effect on future periods;</li> <li>(f) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application; and an explanation of any difference between:               <ul style="list-style-type: none"> <li>(i) operating lease commitments disclosed applying Ind AS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application; and</li> <li>(ii) lease liabilities recognised in the balance sheet at the date of initial application.</li> </ul> </li> <li>(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and</li> <li>(h) if retrospective application required by Ind AS 8 is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.</li> </ul> <p>Further, if a lessee uses one or more of the practical expedients (already discussed above), it shall disclose that fact.</p>

### Transition Options for Lessors

- A lessor is **not required** to make any adjustments on transition for leases in which it is a lessor and account for those leases applying Ind AS 116 from the date of initial application.
- However, in case of an '**Intermediate Lessor**', the entity shall:
  - (a) **reassess subleases that were classified as operating leases applying Ind AS 17 and are ongoing at the date of initial application**, to determine whether each sublease should be classified as an operating lease or a finance lease applying Ind AS 116. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date with reference to the ROU Asset associated with the head lease and not the underlying asset.
  - (b) **for subleases that were classified as operating leases applying Ind AS 17 but, finance leases applying Ind AS 116**, account for the **sublease as a new finance lease** entered into at the date of initial application. Any gain or loss arising on the sublease arrangement is included in the cumulative catch-up adjustment to retained earnings at the date of initial application.

### Sale and Leaseback Transactions before the date of Initial Application

- 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 to be accounted for as a sale.
- Leaseback is accounted for on transition in the following manner, depending on the classification:

Finance Lease	Operating Lease
If a sale and leaseback transaction was accounted for as a sale and a <b>finance lease</b> applying Ind AS 17, the seller-lessee shall: <ol style="list-style-type: none"> <li>(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application</li> <li style="text-align: center;"><b>AND</b></li> <li>(b) continue to amortise any gain on sale over the lease term.</li> </ol>	If a sale and leaseback transaction was accounted for as a sale and <b>operating lease</b> applying Ind AS 17, the seller-lessee shall: <ol style="list-style-type: none"> <li>(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application;</li> <li style="text-align: center;"><b>AND</b></li> <li>(b) adjust the leaseback ROU asset for any deferred gains or losses that relate to off-market terms recognised in the balance sheet immediately before the date of initial application.</li> </ol>

### Amounts Previously Recognised in respect of Business Combinations

The lessee shall

- Derecognise the acquired asset or liability and
- Adjust the carrying amount of the ROU asset by a corresponding amount at the date of initial application.

### Amendment in Accounting of Rent Concessions arising due to COVID-19 Pandemic

Following amendments have been made with respect to accounting of COVID-19 related rent concessions such as rent holidays and temporary rent reductions:

As a practical expedient, a lessee **may elect not to assess** a rent concession as a lease modification **only** if **ALL** of the following conditions are met:

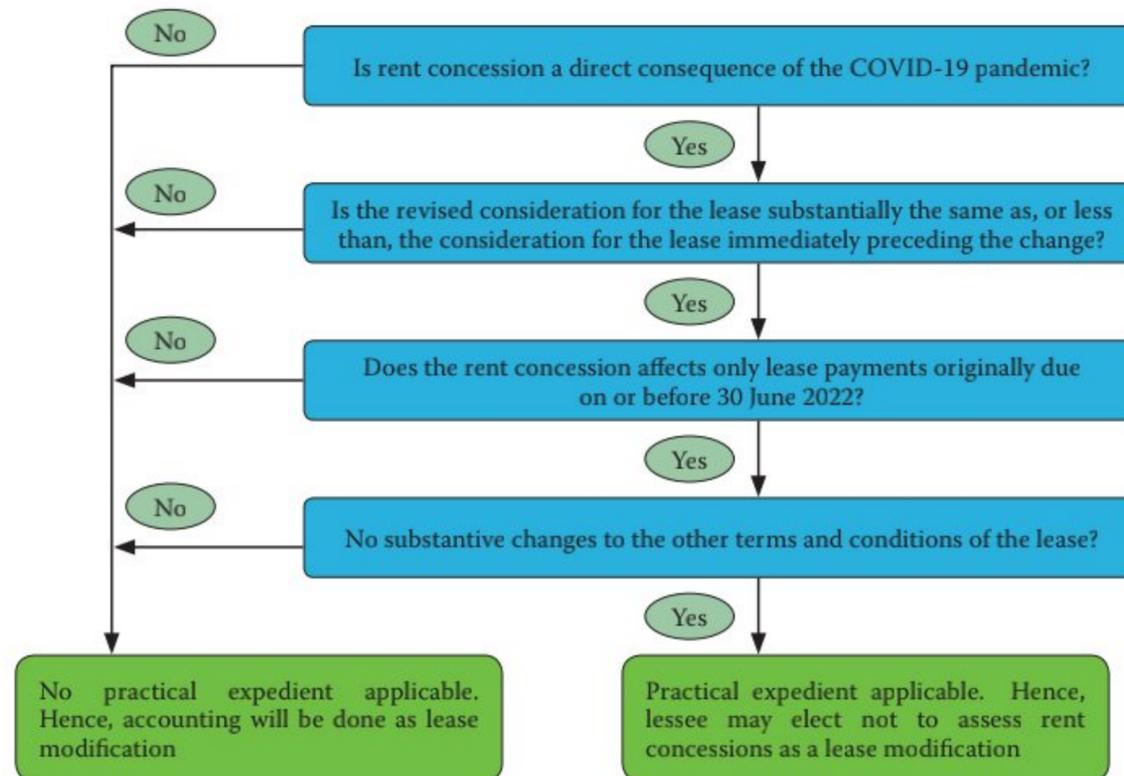
- a) the change in lease payments results in revised consideration for the lease that is **substantially the same as, or less than**, the consideration for the **lease immediately preceding the change**;
- b) any reduction in **lease payments affects only payments originally due on or before the 30<sup>th</sup> June, 2022\*** (for example, a rent concession would meet this condition if it results in **reduced lease payments on or before the 30<sup>th</sup> June, 2022\* and increased** lease payments that **extend beyond the 30<sup>th</sup> June, 2022\***); and
- c) there is **no substantive change** to other terms and conditions of the lease.

A lessee that makes this election shall account for any change in lease payments resulting from the rent concession as if the change were not a lease modification.

**Note:** The above practical expedient **applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic**.

\*As per the amendment made by the MCA on 18<sup>th</sup> June, 2021.

The key conditions for applying the practical expedient are as follows:



### Disclosures

Lessees applying practical expedient are required to disclose:

- The fact that if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of contracts to which they have applied the practical expedient and
- The amount recognized in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

**Note:** The disclosure requirements of paragraph 28(f) of Ind AS 8 do not apply on initial application of these amendments.

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