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CA SURAJ LAKHOTIA

(AIR 1,4,2)

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What Our Students have to say....

Sudeepta Benya

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

AIR 27

Kanishka

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

Srinivasan

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

Bhoomi Makhecha

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

Priyanka Udeshi

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

Venkata Naresh

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

Hannoch Matthew

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

Himanshu Somani

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

Arun Kumar

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

Table of Contents

Ind AS 2 – Inventories

Finished Goods	Lower of Cost & Net Realisable value
Net Realisable Value	Estimated Selling Price – Cost of Completion & Cost to Sell
Raw Material	Valued at Cost. If FG is sold at less than cost, RM is valued at lower of Cost & Replacement Cost
Cost to be excluded	• Abnormal amount of wasted material, labour and other production costs • Storage cost (unless it is necessary in the production process e.g. in case of wine) • Administrative overheads that do not contirbute to bringing inventories to the curren condition and location. • Selling costs
Fixed Overhead	If Actual > Planned Production – recompute overhead recovery rate.
Write down of inventory	Item by Item basis and not global basis
Joint Products	Cost allocated based on net realisable value / net selling price at split off point
By Products	Immaterial – NRV reduced from joint cost Material – Treat as joint products

Cost of Inventory

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

Ind AS 16 – Property, Plant & Equipment

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

a. It is probable that future economic benefits [FEB] associated with the item will flow to the entity

b. The cost of item can be measured reliably.

Important Points

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

Cost of PPE

The cost of an item of PPE comprises

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

Exclusions from Cost of PPE

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

Self – Constructed PPE

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

Inclusions:

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

Exclusions:

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

Exchange of Non Monetary Assets

Commercial Substance	1st – fair value of asset given up 2nd – Fair value of asset acquired Always take more evident fair value
No Commercial substance or No Fair value	Carrying amount

Subsequent Costs	Repairs – P&L Replacement of Parts – Derecognise old and recognise new Major Inspections/Overhauls – Capitalise
Deferred Credit Period	Capitalise amount at cash price equivalent
Component Depreciation	If PPE has two or more significant component, each is depreciated separately
Revaluation Model	First time upward: Credit to Revaluation Reserve / OCI First Time downwards: Debit to P&L Subsequent Upward: - Credit to P&L upto amount debited earlier - Balance to Revaluation reserve Subsequent downward: - Debit to Revaluation reserve upto balance available - Balance to P&L
Revaluation Approach	1. Eliminate depreciation against the carrying amount 2. Restate propotionately the gross carrying amount and accumulated depreciation 3. Periodically transfer revaluation reserve to Retained earnings in ratio of depreciation or transfer at disposal. 4. Never transfer revaluation reserve to P&L
Decommissioning liability	PV of decommissioning liability is added to cost of PPE. Prepare an interest schedule to determine interest expense each year. Changes in liability Cost model – Added/deducted to carrying amount Revaluation model – Treat it as revaluation

Ind As 38 – Intangible Assets

An Intangible Asset (under Ind AS 38) should be identifiable to distinguish it from goodwill. An entity must be able to separate the intangible asset from other assets.

An item to be recognised as Intangible Asset, it should

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

Initial costs	CApitalised if criteria met
Subsequent costs	Expensed. Capitalise if additional Future economic benefits arise
Cost/Exchanges	Similar principles of Ind As 16

Internally generated IA not recognised	Goodwill, Brands, MastHeads, Publishing titles, customer lists and similar items
Expenditure always expensed	• Research expenditure (except when it is acquired as part of a business combination and meets recognition criteria) • Start up costs o Establishment (legal & secretarial) costs o Incorporation costs o Starting new operations or products • Training costs • Advertising and promotional expenses • Reorganising or relocating expenses
Research	Always expensed
Development	Capitalised if following conditions are met T – Technical feasibility I – Intention to complete P – Probable future economic benefits F – Financial, technical, and other resources available A – Ability to use or sell M – Measurement of expenditure reliably
Amortization	Goodwill – Not amortised but reviewed for impairment Others – Over useful life systematically – SLM or Output
Useful life	Finite – Amortise over useful life Indefinite – No Amortisation. Impairment as per Ind AS 36
Cost of Renewal	Significant – Consider it as new IA Insignificant – Expense
Cost & Revaluation Model	Same as Ind As 16

Ind As 40 – Investment Property

Dual Purpose property – If split not possible, categorise as PPE / IP based on significance.

The following are not Investment Property

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

Property Given on Rent to Group Companies	In Stand Alone – IP In Group - PPE
Examples of IP	▪ Land held for long term capital appreciation ▪ Land held for currently undetermined future use ▪ A builiding owned by the entity and leased out under an operating lease ▪ A building which is vacant and is held for leasing out ▪ Property under construction which would be held as investment property in future.
Measurement	Same as PPE Revaluation Model not applicable.

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

Ind AS 40 to Ind AS 16	Commencement of owner occupation or development with view to owner occupation.
Ind AS 40 to Ind AS 2	Commencement of development with a view to sell in ordinary course of business.
Ind AS 16 to Ind AS 40	End of owner occupation
Ind AS 2 to Ind AS 40	Inception of operating lease to another party

Transfer will be done at carrying amount.

Ind AS 23 – Borrowing Costs

Borrowing costs include – Interest expense, Interest on leases and Exchange differences on foreign borrowings.
Exchange differences considered as borrowing cost

When a company borrows in foreign currency to benefit from lower interest rates, exchange differences may arise. Exchange loss can be treated as borrowing cost, but only up to the difference between functional currency and foreign currency borrowing cost.

Not Applicable to	Actual & Imputed cost of equity Qualifying assets measured at FV Inventories manufactured in large quantities on a repetitive basis.
Specific borrowing costs	Total interest – Income from temporary investment of surplus funds
General Borrowings	Computed Weighted Average Capitalisation Rate and apply the rate based on number of months. $\textbf{Capitalisation Rate} = \dfrac{\text{Total borrowing costs on outstanding general borrowings}}{\text{Total outstanding general borrowings of entity during the period}}$
Capitalisation amount	Shall not exceed amount of borrowing cost incurred
Commencement date when entity	• Incurs expenditure for the asset • Incurs borrowing cost • Undertakes activities to prepare the asset.
Exclusion from period	holding of an asset when no production or development that changes the asset's condition is taking place
Suspension of capitalisation	When active development of a qualifying asset is suspended. (generally due to abnormal reasons)
No suspension	When delay is necessary part of progress
Cessation	When substantially all activities necessary to prepare the QA for its intended use of sale is completed. If minor work is pending, stop capitalisation.
Part Construction	Capitalisation is stopped when a part is ready for its intended use or sale.

Ind AS 20 – Government Grants

Exclusions

- government participation in the ownership of the entity E.g., picking up equity stake in an entity by the government.
- government grants that will be covered by Ind AS 41, Agriculture

- effects of changing prices or in supplementary information of a similar nature. E.g., benefits given due to change in a benchmarked price or minimum selling price given by the government.
- income tax related benefits like income tax holidays, investment tax credits, accelerated depreciation.

Exclusion to Exclusion

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

Conditions

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

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

Grants Related to Assets	**Grants related to income / expense**	**Non Monetary Grant**
Reduce from cost of asset & compute depreciation on revised value	Recognise as deferred grant and recognise in P&L systematically (generally in ratio of expenses)	Recognise the asset at fair value and grant at same fair value
Recognise as deferred grant and transfer to P&L in the ratio of depreciation	Grant can be net off against relevant expenses.	Recognise the asset & grant at nominal value

Grant Related to Loans	If loans are received at concessional rate or are interest free, compute the FV of loan using Ind AS 109 principles. Government Grant = Amount received – Fair value of loan
Repayment of Grant	If Grant reduced from cost – Refund is added to cost of Asset If Grant recorded as deferred income – Reduce the balance of Deferred Grant Account and if amount is not sufficient, transfer to P&L Shortfall in depreciation should be computed and charged immediately. Treated as change in estimates

Ind AS 36 – Impairment

Carrying Amount	As per respective Ind AS
Recoverable Amount	Higher of - Fair value less cost to sell/dispose (Costs exclude finance and tax) - Value in use : PV of Cashflows
Impairment Loss	Carrying Amount – Recoverable Amount
Frequency	Check if impairment conditions exist at end of each reporting period. If indications exist – compute the recoverable amount
Annual Testing	Intangible assets with indefinite useful life Intangible Assets not yet available for use Goodwill acquired in Business combination – Ind AS 103
External Source - Impairment Indicators	Significant decline in market value; adverse tech/market/economy changes; rise in discount rates; market cap < net assets

<table>
<tr><td>Internal Source - Impairment Indicators</td><td>Obsolescence; damage; adverse change in asset use; higher cash outflows; lower profits; ongoing operating losses</td></tr>
<tr><td>Investment in Subsidiary/JV/Associate Indicators</td><td>Investment carrying amount > investee net assets; Dividend > investee total comprehensive income</td></tr>
<tr><td>Cashflows estimate</td><td>• Use reasonable, supportable evidence and latest approved budgets without assuming future restructuring (unless committed).
• Limit projections to 5 years (unless justified) and use steady/declining growth rates thereafter.
• Apply either Traditional Approach (best estimate) or Expected Value Approach (weighted outcomes)
<table>
<tr><td>Inclusions</td><td>Exclusions</td></tr>
<tr><td>Cash flows from continued use of the asset</td><td>Cash inflows from independent assets (e.g., receivables)</td></tr>
<tr><td>Net cash flows from disposal at end of useful life</td><td>Cash outflows from recognised liabilities (e.g., payables)</td></tr>
<tr><td>Day-to-day servicing and direct/allocated overheads</td><td>Uncommitted restructuring cash flows</td></tr>
<tr><td>Proper share of corporate overheads</td><td>Internal charges, financing cash flows, and income taxes</td></tr>
</table></td></tr>
<tr><td>Discount Rate</td><td>Pre tax</td></tr>
<tr><td>Inflation</td><td>Consider and also ensure that discount rate is nominal and not real.</td></tr>
</table>

Accounting Treatment

Individual Assets	Cost Model Dr. Impairment Loss – PL Cr. Asset Revaluation Model - Dr. Revaluation surplus to the extent recognise earlier and balance in PL.
CGU	1st – Write off goodwill Balance amount is written off against remaining assets in the ratio of carrying amout. Value of individual asset should not be brought down below their individual recoverable amount.
Impairment loss > Carrying amount	Recognise a liability
Goodwill/Corporate Asset	If allocation to individual CGU possible – Allocate and test for impairment If allocation not possible – First test CGUs for impairment without goodwill and then test group of CGUs with goodwill
Goodwill in case of Subsidiary	If Partial Goodwill (Proportionate Net Asset Method) – Gross up Goodwill and compute Impairment. While booking Impairment losses, take only Parent's share. If Full Goodwill (Fair value method) – No requirement of Grossing up.
Reversal of Impairment	Goodwill – not possible Other Assets – When indications of reversal exists.
Accounting of Reversals – Cost Model	Dr. Asset Cr. Impairment Loss (PL)

	New Carrying amount should not be more than the carrying amount before impairment adjusted for depreciation. Maximum reversal – Total Impairment Loss recognised earlier
Accounting of Reversals – Revaluation Model	Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase. Recognised in P&L to the extend debited earlier & balance credit to OCI.

Ind As 105 – Non Current Assets Held for Sale

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

Conditions for Classification as Held for Sale

- Asset must be available for immediate sale in its present condition.
- Sale must be highly probable.

If the asset needs repair to sell, it cannot be classified as "Held for Sale".

Additional Conditions

- Management must be committed to a plan to sell.
- Active engagement to find a buyer must have started (e.g., advertisement for sale/auction).
- Asset must be actively marketed for sale at a reasonable price.
- Sale expected within one year from the date of classification.
- Significant changes or withdrawal from the sale plan are unlikely.

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

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

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

Examples for delay – regulatory approvals

Measurement	FV less cost to sell
Subsequent Measurement	Assets covered by 105 – As per 105 Other assets – As per respective standards
Loss	Treated as Impairment Loss
Subsequent reversals	Upto impairment losses recognised earlier
Depreciation	Not applicable / Stopped
Reclassification	Lower of Carrying amount before classification – depreciation Recoverable Amount
Reversal on reclassification	Treated as reversal of impairment

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

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

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

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

Presentation of Discontinued Operations

- Profits and losses from discontinued operations must be presented separately to help users assess their impact.
- Entity must disclose a single amount in the P&L comprising:
  - (a) Post-tax profit or loss of discontinued operations, and
  - (b) Post-tax gain or loss on measurement to fair value less costs to sell or on disposal of assets/disposal groups.

Ind As 116 – Leases

Identified Asset	Asset explicitly or implicitly specified; available for use by customer.
Substantive Substitution Rights (SSR)	Supplier can substitute asset throughout use period + benefits economically; checked at inception.
When SSR does not exist	If substitution right arises later/event based; or if customer cannot determine supplier,SSR.
Assets not physically distinct	Not physically distinct unless ~90%+ of capacity is controlled (e.g., pipelines, fibre).
Right to Control	Customer must have right to economic benefits + right to direct asset use.
Right to obtain substantially all economic benefits	Economic benefits include primary outputs, by-products, or third-party benefits (e.g., subleasing).
Right to direct the use of the asset	Customer directs how/for what purpose asset is used, operates asset, or designed it specifically.

Inception – For determining whether contract contains lease or not	Earlier of agreement date or commitment to principal T&C
Commencement date – Accouting starts	When lessor makes an underlying asset available for use by the lessee
Lease Term	Rent free period + Non cancellable period + Option to extent (if reasonably certain to exercise) + Option to terminate (If not reasonably certain)

Lessee Accounting

ROU Asset & Lease Liability

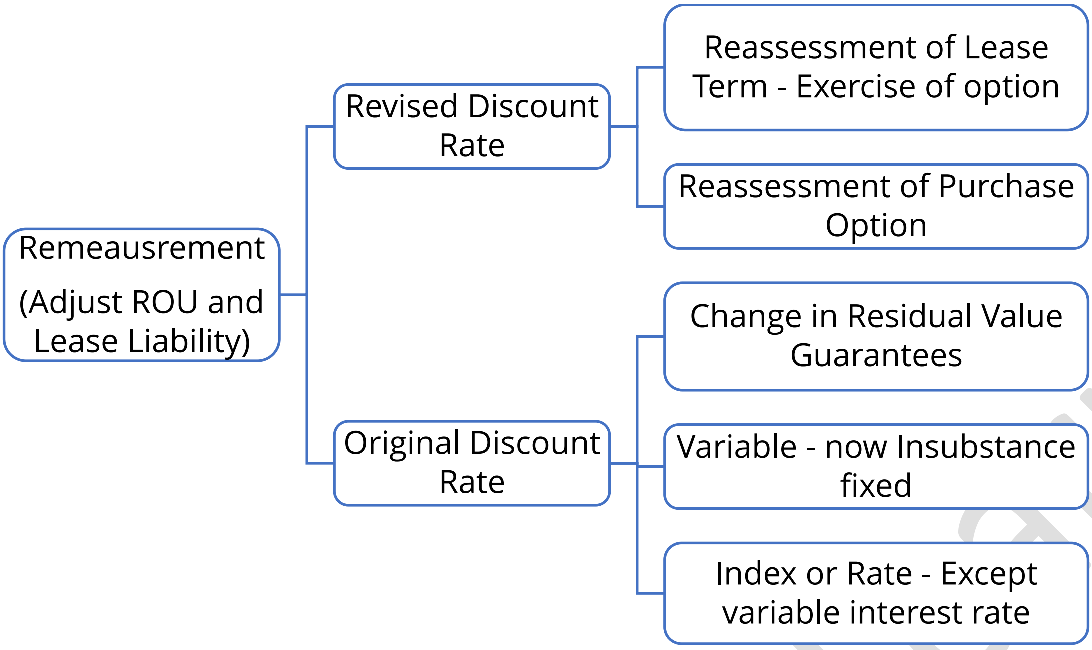
Right of Use Asset =	
Lease Liability	PV of Lease payments to be paid discounted at rate implicit in the lease or incremental borrowing cost (if implicit rate is not known)
+ Lease payment made at / before commencement	Advance lease payments
- Lease incentives received	
+ Initial Direct Cost	Incurred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

Lease Payments to be paid

Lease Payments =	
Fixed Lease payments	Generally determined in the contract
+ In substance fixed lease payments	Though variable, considered as fixed (like minimum variable payment)
- Lease incentives received	
+ Variable payments dependent on index or rate	Variable based on rates like LIBOR, annual increment etc are considered. Performance based variable payments are excluded.
+ Residual value guaranteed by lessee	
+ Exercise price of purchase option	If the lessee is likely to exercise the purchase option

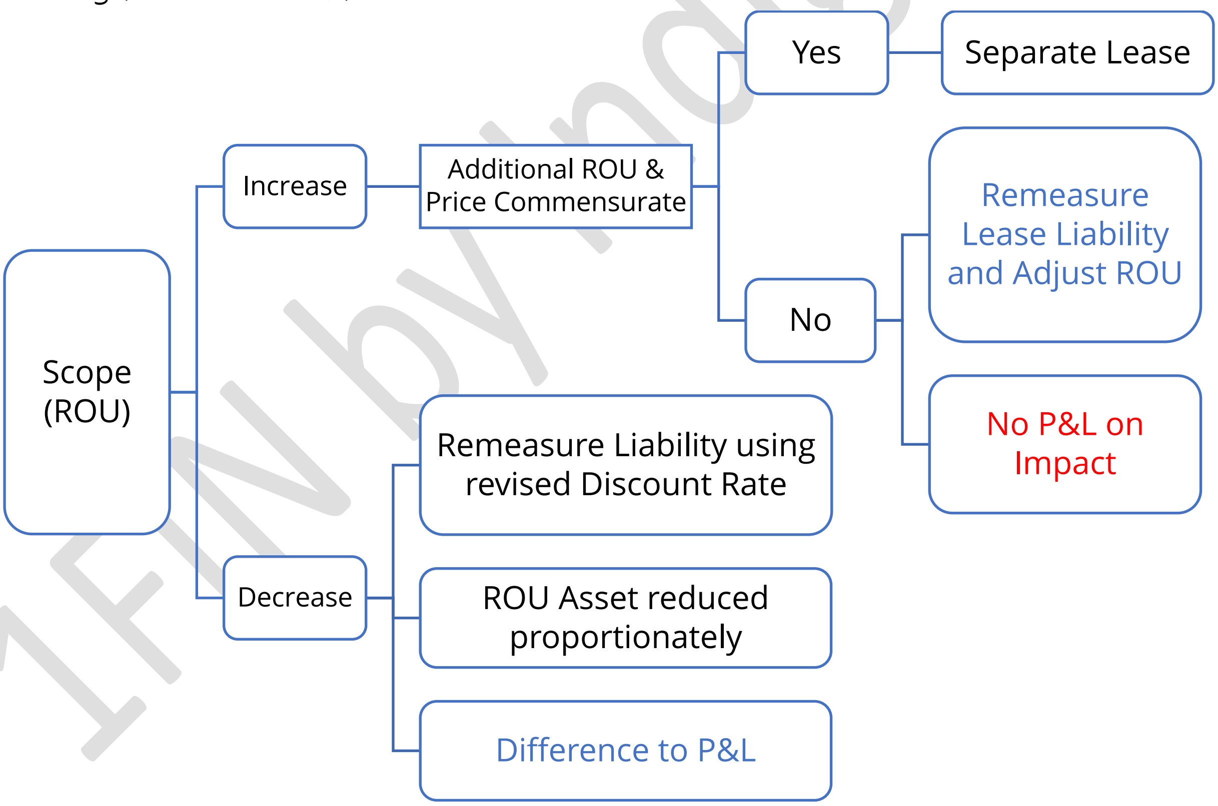
Subsequent measurement	ROU Asset – Amortised over Useful life – if asset is transferred to lessee Lower of lease term/useful life – If asset not transferred
	Lease Liability - Prepare lease liability table. Dr. Interest Expense Dr. Lease Liablity Cr. Bank
Variable lease payments	Dr. to P&L

Remeasurement of Lease Liability



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

Accounting for lease modifications



- Scope (Term)
  - Increase
    - Remeasure Lease Liability using revised rate and Adjust ROU
    - No P&L on Impact
  - Decrease
    - Remeasure Liability using revised Discount Rate
    - ROU Asset reduced proportionately
    - Difference to P&L

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

Lessor Accounting

- Finance Lease ➔ Transfers substantially all risks and rewards of ownership.
- Operating Lease ➔ Does not transfer substantially all risks and rewards.

Classification is not reassessed unless there is a lease modification.

Conditions for Finance Lease

- Ownership transfers at lease end.
- Purchase option at lower price likely to be exercised.
- Lease term covers major part of asset's economic life.
- Present value of lease payments ≈ Fair value of asset.
- Specialised asset usable only by lessee.

Key Concepts for lessor accounting

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

Gross Investment in Lease = Lease Payments + UGRV

Lease Payments =
Fixed Lease payments
+ In substance fixed lease payments
- Lease incentives paid
+ Variable payments dependent on index or rate
+ Residual value guaranteed by lessee
+ Residual value guaranteed by third party unrelated to lessor (capable of fulfilling the obligation)
+ Exercise price of purchase option

UGRV (Unguaranteed residual value) is that portion of the residual value of the underlying asset, the realisation of which by a lessor is not assured or is guaranteed solely by a party related to the lessor.

Finance Lease

At lease commencement a lessor accounts for a finance lease as follows

Dr. Lease Receivable	Recognises net investment in the lease
Cr. Asset	Derecognises the carrying amount of the underlying asset.
Profit / Loss (Bal figure)	Recognises selling profit or loss in P/L

Net investment in lease

Net Investment in Lease is the PV of Lease payments and UGRV discounted using the interest rate implicit in the lease (discount rate)

Interest Rate Implicit in the lease

The rate of interest which makes the following two equal

PV of	Sum of
• Lease payments • UGRV	• FV of asset • IDC* of lessor

*In case of manufacturer/dealer lessor, IDC is not considered to computed IRR. Since IDC is included in computation of IRR, the interest rate would be less and the finance income recognised would automatically be lesser.

Students are not required to compute IRR in exams and this would be provided.

Finance Lease – Subsequent Measurement

- Recognise finance income over the lease term (the pattern should reflect constant periodic return on the net investment in lease)
- Lease payment are applied to reduce the lease receivable and to recognise finance income.
- Derecognition and impairment requirements of Ind AS 109 are applied.
- If there is a reduction in estimated UGRV, the lessor shall revise the income allocation over the lease term.
- Variable lease payments that are not included in net investment in the lease are recognised in P&L.

Operating Lease – Initial & Subsequent

Recognise	Explanation
Cr. Income	Lease payments on SLM basis or any other systematic basis
	Variable lease payments
Dr. Depreciation	On asset as per applicable Ind AS
Dr. Asset	Initial direct cost and recognise the cost as expense in same manner as lease income.

Manufacturer – Dealer Lessor

Finance Lease

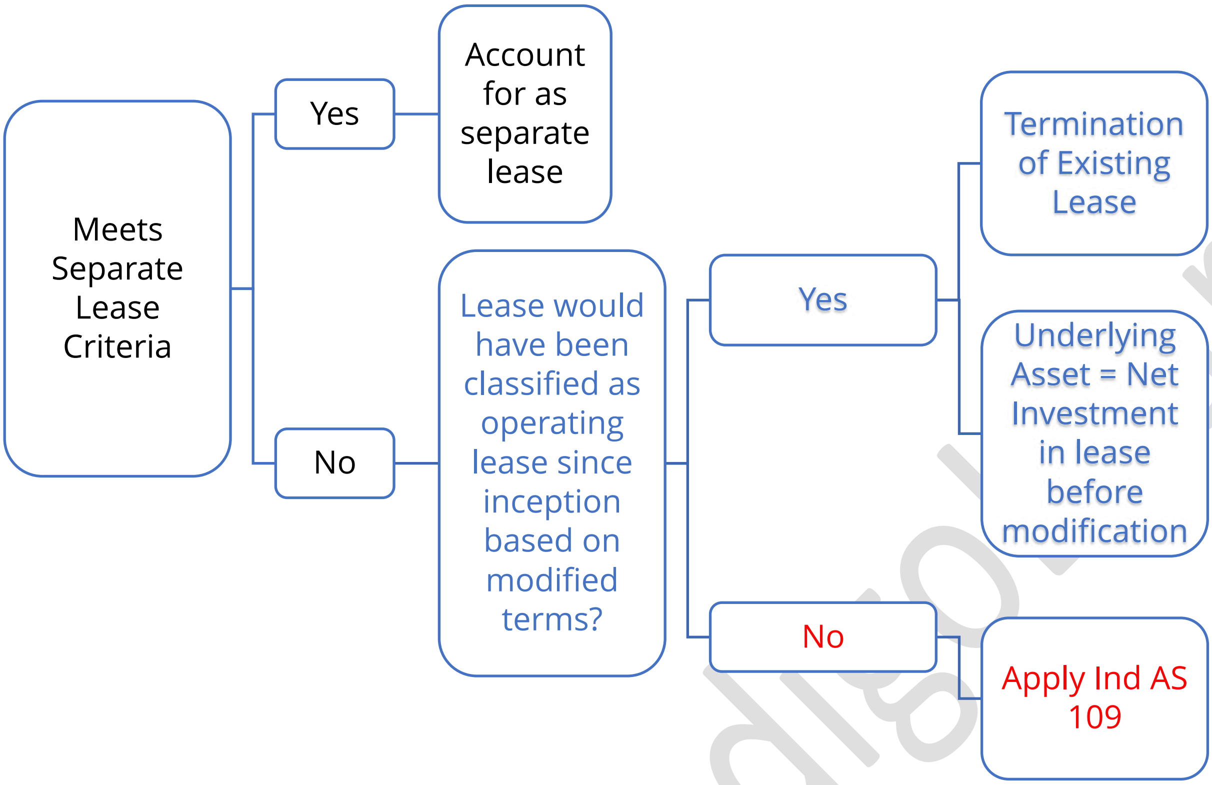
Recognise	Explanation
Revenue	Lower of - Fair value of underlying asset and - PV of lease payments
Cost of sale	Cost / carrying amount less PV of UGRV
Selling Profit or loss	Difference between Revenue and Cost of Sale

- Profit / Loss should represent profit/loss from an outright sale.
- If artificially low interest rates are quoted, Lessor recognises profit considering market rates of interest.
- Cost incurred by lessor are expensed at commencement and are not considered to be a part of Initial Direct Cost.

Operating Lease

No Profit / Loss is recognised in case of an operating lease.

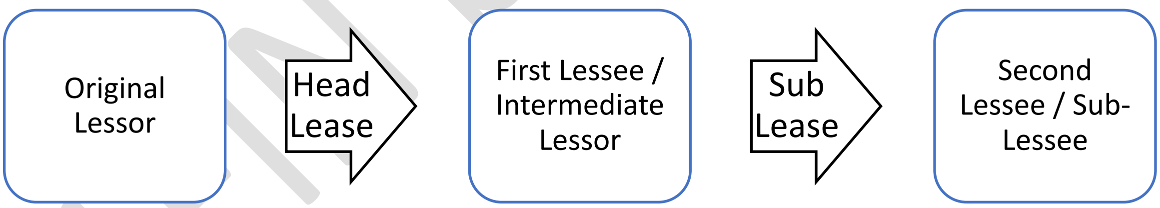
Finance Lease Modification



Operating Lease Modification

- Accounted as a new lease
- Any prepaid or accrual of lease payments – treated as payment for new lease

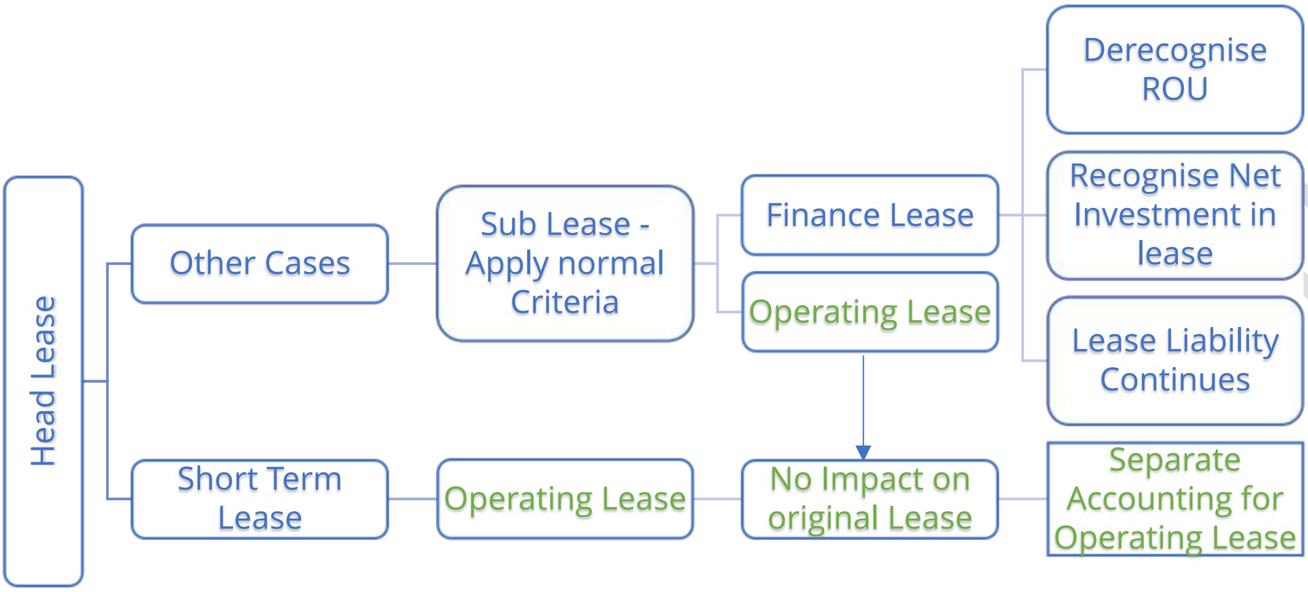
Sub-Leases



A 'Sub-lease' is defined as a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor') to a third party, and the original lease ('head lease') between the head lessor and lessee remains in effect.

Accounting for Sub-Lease

- Intermediate lessor uses interest rate implicit in lease. If the same cannot be determined, the interest rate in head lease can be used after adjusting for initial direct cost.
- Combination criteria to be checked.
- Exemption under low value lease cannot be applied.



Sale and Leaseback transactions

Fair Value Adjustments

Sale proceeds are adjusted if the transaction is not at fair value i.e,

- The value of consideration for sale of an asset does not equal to the fair value of asset or
- The payment for lease are not at market rates.

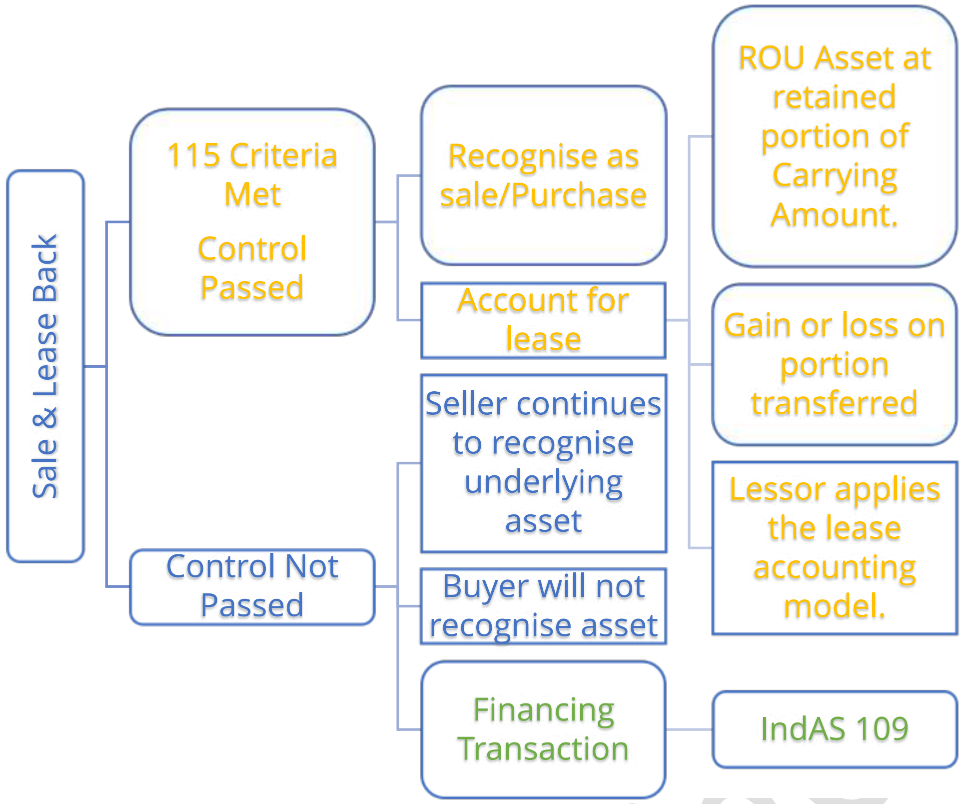
How to adjust for fair value differences?

Step 1 – Check which is more determinable

- Difference between sale consideration and Fair value of Asset
- Difference between PV of lease rentals and PV of market lease rentals

Step 2 – Treatment of difference

- Sale price is less or PV of lease rentals is less
    - Difference added to sale consideration and
    - Considered as prepayment for measurement of ROU asset
- Sale price is greater or PV of lease rentals is greater
    - Difference reduced from sale consideration and
    - Considered as additional financing received.



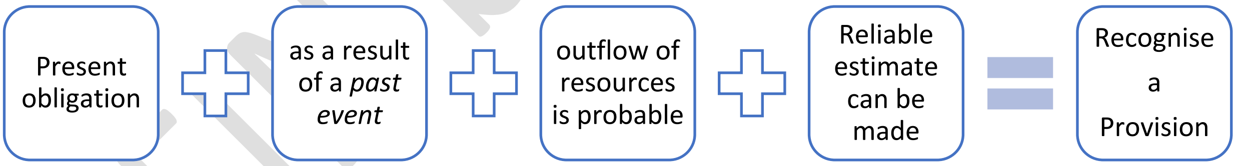
Ind AS 37 – Provisions, Contingent Liability & Contingent Assets

Liability

- is a present obligation of the entity
- arising from past events,
- the settlement of which is expected to result
- in an outflow from the entity of resources embodying economic benefits.

A provision is a liability of uncertain timing or amount.

Recognition of Provision



Example / Case	Present Obligation	Conclusion
Refurbishment Costs - No legislative requirement (Furnace lining)	No present obligation (no legal requirement, no obligating event)	No provision recognised
Refurbishment Costs - Legislative requirement (Aircraft overhaul)	No present obligation (legal requirement exists, but can avoid cost by selling asset)	No provision recognised
Legal Requirement - Smoke Filters (at 31 March 20X1)	No present obligation for fitting filters (no obligating event yet)	No provision recognised for fitting filters
Legal Requirement - Smoke Filters (at 31 March 20X2)	No obligation for fitting filters, but obligation for fines/penalties arises if legislation breached	Provision recognised for expected fines and penalties

Contingent Liability - Key Points

- It is a possible obligation from past events, confirmed by future uncertain events not fully under entity's control.
- Or, it is a present obligation but not recognised because either:
    - Outflow is not probable, or
    - Reliable estimate cannot be made.

There is a present obligation that probably requires an outflow of resources.	→	A provision is recognised.	→	Disclosures are required for the provision.
There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources..	→	No provision is recognised.	→	Disclosures are required for the contingent liability.
There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.	→	No provision is recognised.	→	No disclosure is required.

Contingent Asset

Contingent Asset is

- a possible asset that arises from past events and
- whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity

➢ An entity should not recognise a contingent asset
➢ A contingent asset should be disclosed, where an inflow of economic benefits is probable.
➢ If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Likelihood of outcome	**Probability**	**Contingent liability**	**Contingent asset**
Virtually certain	> 95%	Recognise provision	Recognise asset
Probable	50% - 95%	Recognise Provision	Disclose
Possible but not probable	5% - 50%	Disclose the contingency	No disclosure
Remote	< 5%	Ignore	Ignore

Estimates

Range of outcomes possible (typically in large population)	Use expected value (Probability x Amount)
One Outcome Possible	Use most likely outcome (the one with highest probability)

Discounting	PV should be computed using pre tax rates
Gain on disposal of assets / reimbursements	Gains / reimbursements should be evaluated independently – Recognise only if virtually certain
Future operating losses	Ignore
Onerous contract	Recognise loss on onerous contract at lower of - Penalty payable - Net loss if contract is executed

Restructuring

- is a programme that is planned and controlled by management, and materially changes either
  a) the scope of a business undertaken by the entity; or
  b) the manner in which that business is conducted.
- A provision for restructuring costs should be recognised only when the general recognition criteria for provisions set out the standard are met.
- A constructive obligation to restructure arises only when an entity:
  a) has a detailed formal plan for the restructuring identifying at least:
     i. business or part of a business concerned;
     ii. principal locations affected;
     iii. location, function, and approximate number of employees who will be compensated for terminating their services;
     iv. expenditures that will be undertaken; and
     v. when the plan will be implemented; and
  b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

- A restructuring provision should include only include the direct expenditure arising from the restructuring, which are:
  - necessarily entailed by the restructuring; and
  - not associated with the on-going activities of the entity.
- A restructuring provision does not include such cost as:
  - retraining or relocating continuing staff;
  - Marketing; or
  - Investment in new system and distribution networks.

Ind AS 19 – Employee Benefits

Short Term Employee Benefits	Payable within 12 months after end of reporting period. Account for expenses without discounting
Short Term Paid Absences	Non Accumulating – Ignore Accumulating – Create a liability (both vesting and non vesting) Liability = Expected encashment or future leaves x Salary per day

Defined contribution plan	Contribution is defined. There is no further liability on employer. E.g PF. Accounting – Dr. Expenses with amount of contribution
Defined Benefit Plan	Benefit is defined. Actuarial liability is borne by Employer. Accounting – Projected Unit Credit Method

Particulars	Defined Contribution Plans	Defined Benefit Plans
Entity's obligation	Limited to the amount that it agrees to contribute to the fund.	To provide the agreed benefits to current and former employees.
Determination of the amount of post-employment benefit	determined by the amount of contribution paid by an entity and employee + return on it	Pre-determined / as agreed
Risk bearer	Actuarial risk and investment risk fall on the employee	These risks fall on entity

For defined benefit plan, calculated Defined Benefit Obligation and Plan Assets

Computation of DBO

Particulars	Amount (Rs.)	Presented in
Opening Balance- DBO	XXXX	BS
(+) Current Service cost	XXXX	PL
(+) Interest cost (on opening balance)	XXXX	PL
(+/-) Past Service Cost	XXXX	PL
(+) Actuarial Loss	XXXX	OCI
(-) Actuarial Gain	XXXX	OCI
(-) Benefit Payment	XXXX	BS
(-) Gain on Settlement	XXXX	PL
(+) Loss on Settlement	XXXX	PL
Closing balance- DBO	XXXX	BS

The following is recognised in P&L

Current Service Cost	Increase in Present value of DBO due to service in current period
Interest cost	Increase in DBO due to passage of time. (Net interest cost is recognised in PL using opening balance)
Past service cost	Change in PV of DBO for services in prior periods due to plan amendment or curtailment.
Gain or Loss on settlement	The gain or loss on a settlement is the difference between: • the present value of the defined benefit obligation on the date of settlement; and the settlement price
Service Cost	Current Service Cost + Past service cost + Gain or loss on settlement

The following are recognised in OCI

Actuarial Gains or losses	Gains or losses due to changes in actuarial assumptions

Actual – Expected Return as shown below	
any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	

Particulars	Plan Asset
Opening Balance	XXXX
Add/(Less)	
Contributions received	XXXX
Benefits paid / Settlements	(XXXX)
Expected Closing Balance	XXXX
Actual Closing Balance	XXXX
Actual Return [Actual CB – Expected CB]	XXXX

How to compute gain or loss on remeasurement?

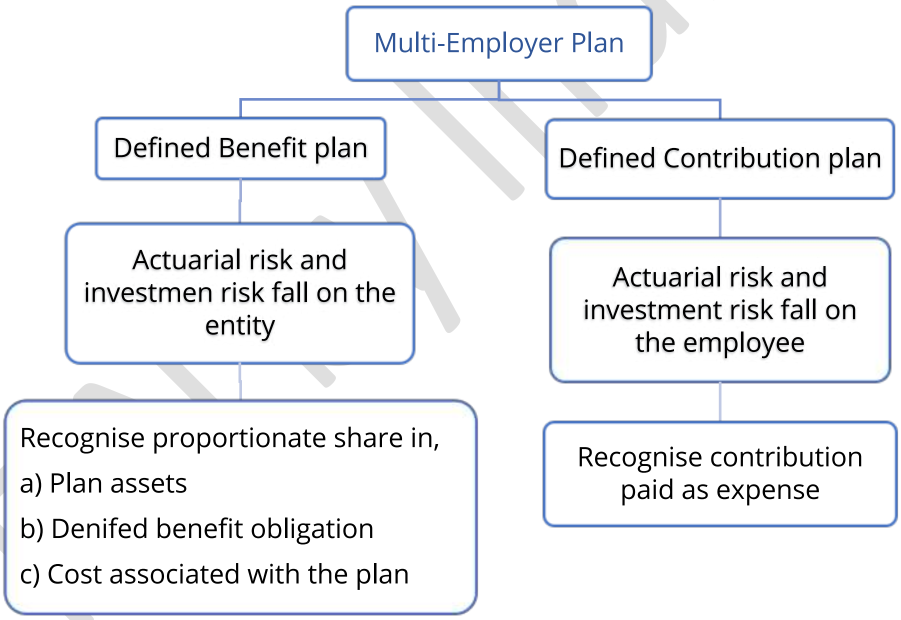
Particulars	Net Liability (DBO – PA)
Opening Balance	XXXX
Add:	
Current Service cost	XXXX
Past Service Cost	XXXX
Net Finance Cost	XXXX
Loss on Settlement	XXXX
Less:	
Gain on Settlement Benefits Paid	XXXX
Expected Closing Balance	XXXX
Actual Closing Balance	XXXX
Gain/(Loss) on remeasurement	XXXX

Steps to solve PUCM question in exams

Final Salary	Start with Year 1 salary. & Increase salary each year using compound growth rate
Determine Total Benefit Payable	Total Benefit = Final Year Salary × amount or % per year × Number of Years
Allocate Benefit Attributed Each Year	Annual Attributed Benefit = Total Benefit ÷ Number of Years
Discount Future Benefits to Present Value	Use discounting to find present value of each year's cumulative benefit. Number of year for discounts = Total period – period completed
Compute Year-on-Year Obligation Movement using the below table	

Year	Opening Obligation	Interest Cost (Opening × Rate)	Service Cost (Benefit attributed)	Closing Obligation
1	0	0	PV of Year 1 benefit	Closing = Opening + Interest + Service Cost
2	Previous Closing	Previous × Rate	PV of Year 2 benefit	Closing = Opening + Interest + Service Cost

Multiple Employer Plan



Ind AS 7 – Cash Flow Statements

Type of Cash Flow	Examples
Operating Activities - Inflows	Sale of goods, services, royalties, premiums from insurance contracts

Operating Activities - Outflows	Payments to suppliers, employees, tax payments (unless linked to investing/financing)
Investing Activities - Inflows	Sale of PPE, intangibles, sale of investments, loan repayments received
Investing Activities - Outflows	Purchase of PPE, intangibles, investments, advances and loans given
Financing Activities - Inflows	Issue of shares, bonds, loans raised
Financing Activities - Outflows	Repayment of borrowings, lease payments, acquisition of own shares
Special Items - Interest and Dividends	Interest received, paid and dividends received by financing company is operating activity.
Special Items - Taxes on Income	Normally Operating; if linked to specific Investing or Financing, classify accordingly
Special Items - Non-Cash Transactions	Excluded from cash flow statement; disclose separately (e.g., debt to equity conversion)
Special Items - Investments and Subsidiaries	Acquisition/loss of control = Investing; changes without loss of control = Financing

For working capital changes under indirect method use
For assets : Opening – Closing Balance (If +ve, inflow / -ve, outflow)
For liabilities: Closing – Opening
For foreign currency cash & cash equivalents : Exchange differences is used for reconciliation

Ind AS 115 – Revenue

Five step Model

Identify the contract with customer	• Approved contract • Identify each party rights • Identify the payment terms • Commercial Substance • Collection of consideration - Probable
Identify Performance obligations	• Performance Obligation - Promise • Each promise to transfer goods or services to the customer
Determine the transaction price	• amount of consideration which an entity expects to be entitled to receive in exchange of the goods or performance of services to a customer.
Allocate the transaction Price	• Allocate the transaction price to each performance obligation.
Recognise Revenue	• When the entity satisfies a performance obligation • by transferring promised goods or services • Customer obtains control of the asset

An entity shall account for a contract with a customer only when all of the following five conditions are met:

1. **Approval and Commitment:**
   The parties to the contract have approved the contract (in writing, orally, or in

accordance with customary business practices) and are committed to perform their respective obligations.

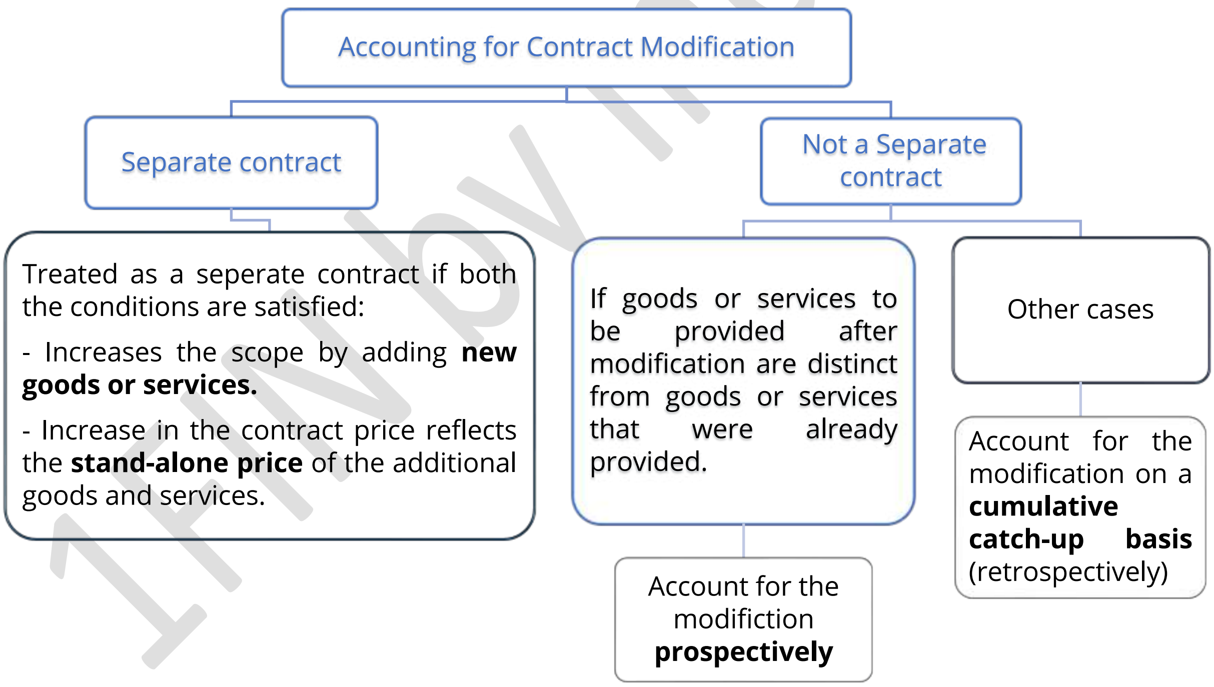
2. **Identification of Rights:**
   The entity can identify each party's rights regarding the goods or services to be transferred.
3. **Identification of Payment Terms:**
   The entity can identify the payment terms for the goods or services to be transferred.
4. **Commercial Substance:**
   The contract has commercial substance (i.e., the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract).
5. **Probability of Collection:**
   It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

If above conditions are not met, recognise a liability.

If consideration is non-refundable, recognise revenue only if

- Entity has no obligations left and substantially all consideration is received or
- Contract is terminated.

Accounting for Contract Modification



Special aspects of transaction price

Variable consideration (bonus etc)	include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of

	cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved
Estimates of variable consideration	Range of outcomes – Probability weighted average Single outcome – Most likely value
Refund liabilities	An entity shall recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer
Sale with a right to return	Revenue – Amount for transferred product (which would not be returned) Refund liability – Expected refund Asset – Right to recover the goods
Significant financing component	Recognise revenue at expected cash price. Recognise interest income using EIR
Non Cash Consideration	Measure non cash consideration at fair value to determine transciton price (Pls note here it is non cash consideration received and not given up like in Ind AS 16) If FV cannot be determined, measure revenue at standalone selling price
Customer provided goods	If entity obtains control, add to transaction price.
Consideration payable	If for distinct goods or service - Consideration <= FV : Recognise a purchase / expense - Consideration > FV : Excess amount is reduced from TP If not for distinct goods or service – Reduce from TP

Allocation of Transaction price

General Rule	Allocate the transaction price to each performance obligation based on relative stand-alone selling prices, except for discounts and variable consideration.
Determining Stand-Alone Selling Price	Use observable price when goods/services sold separately. If not available, estimate using all reasonably available information and maximize observable inputs.
Estimation Methods	- Adjusted market assessment approach - Expected cost plus a margin approach - Residual approach (limited use)
Allocation of a Discount	- If discount relates to all performance obligations ➔ Allocate proportionately. - If discount relates to specific obligations ➔ Allocate only to those obligations (conditions must be satisfied).
Allocation of Variable Consideration	- Allocate entirely to a specific obligation if: (i) Payment terms relate specifically to that obligation, and (ii) Allocation is consistent with the overall allocation objective. - Else, allocate to all obligations in proportion to stand-alone selling prices.
Changes in Transaction Price	- Allocate changes based on original allocation unless it is a contract modification. - Recognize changes relating to satisfied obligations as revenue adjustments in the period of change.

Satisfaction of Performance Obligation over a period of time

Customer simultaneously receives and consumes the benefits of the seller's performance (e.g., security services).
Seller's work creates/enhances an asset that the customer controls as it is created (e.g., construction on customer's land).
Asset has no alternative use + seller has enforceable right to payment for work completed to date (with profit margin).

Revenue recognition for over a period of time

- on the basis of fair value of goods or services transferred to date relative to remaining goods or services.
- based on the entity's efforts or inputs to the satisfaction of a performance obligation.

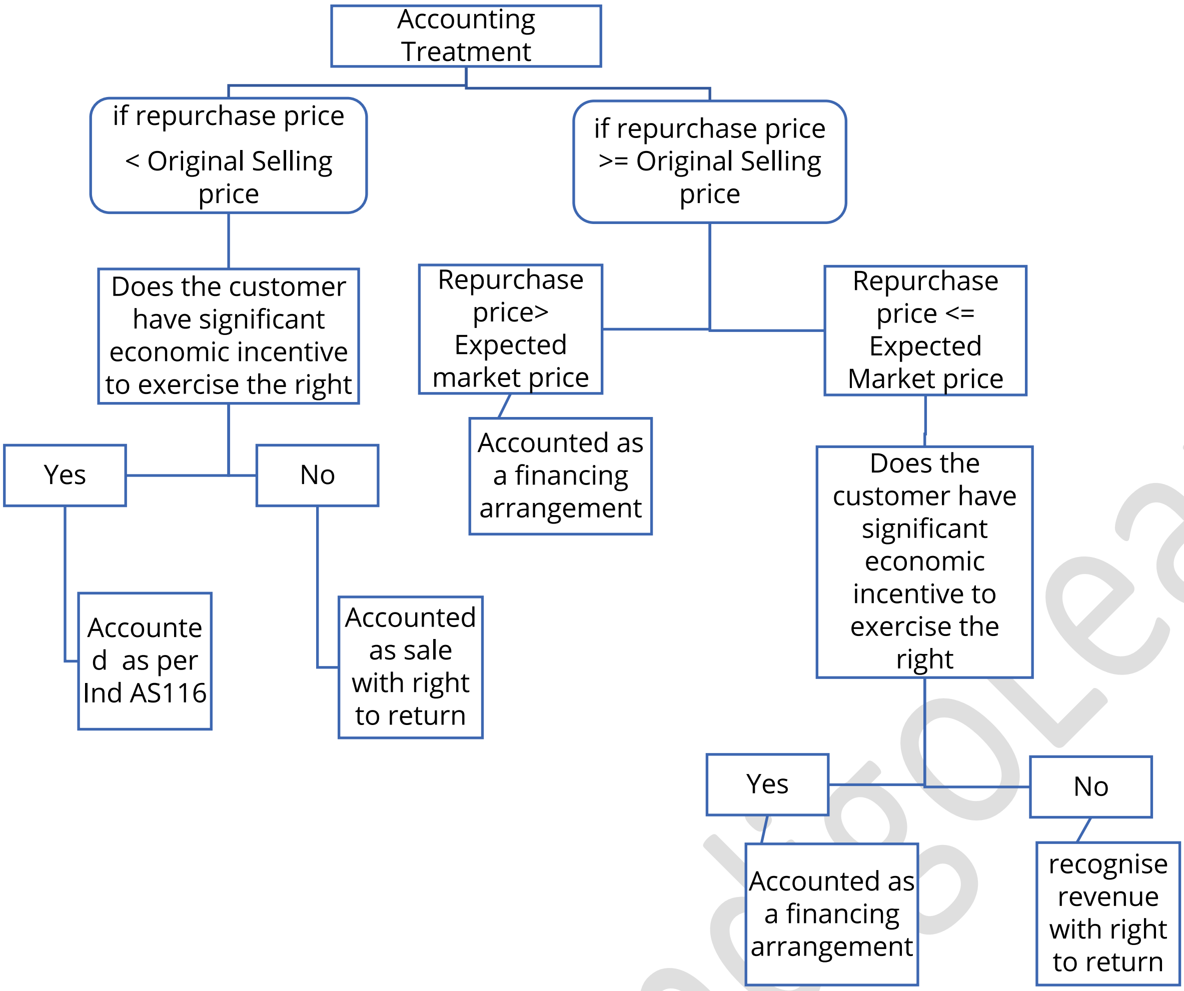
Special point for goods delivered to site without modifications. (Elevator example)

Asset delivered early to customer	Recognize revenue = cost incurred for asset
Other construction work ongoing	Measure progress excluding asset cost delivered
Revenue Recognition	(Progress % × Transaction Price excluding asset value) + Asset cost

Repurchase Agreements

Type of Repurchase Agreement	**Accounting Treatment**
Forward or Call Option	
Repurchase Price < Original Selling Price	Account as a lease under Ind AS 116 (Difference between original sale price and repurchase price considered).
Repurchase Price ≥ Original Selling Price	Account as a financing arrangement (Entity continues to recognise the asset + records a financial liability).
Option Lapses	Derecognise liability and recognise revenue.

Put Option



Other Points

Bill and Hold	
Revenue Recognition under Bill-and-Hold	Revenue recognised at point when control is transferred to customer.
Criteria for Customer Control under Bill-and-Hold	- Reason must be substantive - Product separately identified - Ready for transfer - No ability to use/redirect the product
Additional Performance Obligations like storage	Assess if additional obligations exist and allocate transaction price accordingly.
Licensing Arrangement	
License of Intellectual Property - Types	Includes software, technology, media, franchises, patents, trademarks, copyrights.
Right to Access IP – over period of time	Entity undertakes activities affecting IP; exposes customer to changes; activities not separate performance obligations.
Right to Use IP – at a point of time	Customer directs use and benefits from static IP without future entity activities.
Warranties	
Customer can purchase separately	Separate performance obligation

Customer cannot purchase separately	Create provision as per Ind AS 37
Customer's material right for additional goods and services	Allocate transaction price between sale of goods and future benefits(like loyalty points) based on standalone selling price.
Consignment	Revenue is recognised by consignor when consignee sells goods to third party. Consignee recognises only the commission income and not value of goods sold.
Principal	Recognises revenue on gross basis
	Indicators that an entity is a principal include the following: - Principal has responsibility to fulfill the cnotract - Carries inventory risk - Discretion to establish prices
Agent	Recognises revenue on net basis
Non refundable upfront fees	Relates to goods and services provided at inception – recognise immediately Other cases – Recognise over a period of time when PO is satisfied.
Service Concession Agreement	Unconditional Right to receive cash or FA from grantor – Recognise FA as per Ind AS 109. Right to charge users for public usages – Recognise a right to an intangible asset as per Ind AS 38.

Examples and treatment of Contract Costs

Cost	Capitalize or Expense	Reason (Short Summary)
Commission paid only upon successful signing	Capitalize	Incremental cost, incurred only if contract is signed.
Travel expenses for sales persons	Expense	Incurred regardless of contract outcome.
Legal fees for drafting terms	Expense	Costs incurred even if negotiations fail, not incremental.
Salaries for sales people obtaining clients	Expense	Paid regardless of contract success; not incremental.
Bonus based on quarterly sales target	Capitalize	Sales-based bonus is incremental to obtaining contracts.
Commission paid to sales manager for team contracts	Capitalize	Incremental cost; employee function/title is irrelevant under Ind AS 115.

Ind AS 8

Accounting Policies	- Principles, bases, conventions, rules, and practices applied in preparing and presenting financial statements. - Select based on Ind AS hierarchy if no standard directly applies.
Selection of Accounting Policies	- Apply specific Ind AS if available. - If not, management must use judgment to develop a policy that results in reliable and relevant information.
Changes in Accounting Policies	- Permitted only if required by Ind AS or results in more relevant and reliable information. - Apply retrospectively, restate prior periods unless impracticable.
Changes in Accounting Estimates	- Adjustment arising from new information or developments (e.g., change in useful life, bad debts, warranty obligations). - Apply prospectively (only for current and future periods).
Prior Period Errors	- Omissions or misstatements from failure to use reliable information that was available. - Correct retrospectively by restating comparatives unless impracticable.
Impracticability Concept	- If retrospective application or restatement is impracticable, adjust from earliest practicable date.
Disclosure Requirements	- Nature and reasons for changes. - Amounts of adjustments for each financial statement line item. - If retrospective restatement is impracticable, explain why.
Third Balance Sheet	A third balance sheet (also called a statement of financial position as at the beginning of the earliest comparative period) is required if: • There is a retrospective application of an accounting policy change, • Or a retrospective restatement to correct a prior period error, • Or a reclassification of items in the financial statements, AND • The change has a material effect on the information in the balance sheet at the beginning of the earliest comparative period presented.

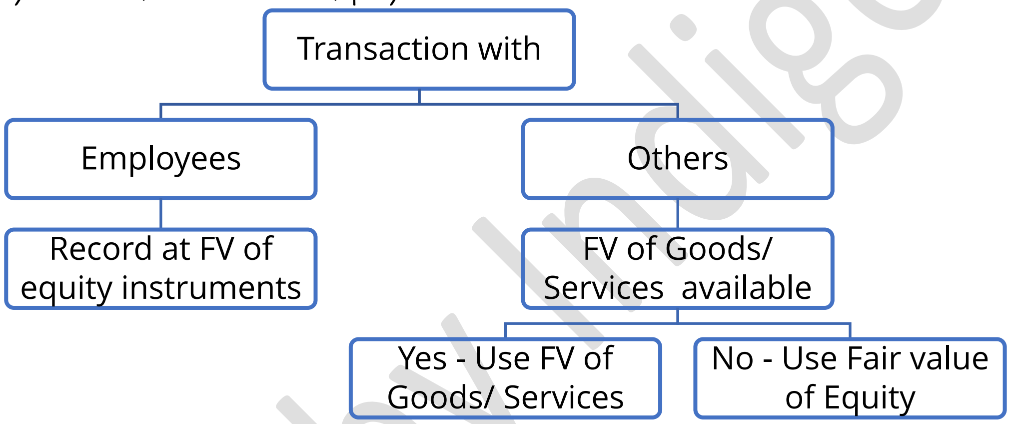
Ind AS 10

Subsequent Events	Events occurring after the reporting period before the approval of Financial Statements for Issue.
Types of Events	1. Adjusting Events: Provide evidence of conditions that existed at the reporting date. 2. Non-Adjusting Events: Indicative of conditions arising after the reporting date.
Adjusting Events	- Settlement of court cases where conditions existed at reporting date. - Bankruptcy of a customer confirming impairment at reporting date.

	- Receipt of information about asset impairment. - Discovery of fraud or errors.
Non-Adjusting Events	- Major business combinations. - Announcing plans to discontinue operations. - Major purchases or disposals. - Destruction of assets due to a fire or flood after reporting date. - Changes in tax rates enacted after reporting date.
Treatment of Adjusting Events	Financial statements are adjusted to reflect the effect of adjusting events.
Treatment of Non-Adjusting Events	No adjustment to financial statements. Disclosure required if the events are material (nature + estimate of financial effect or a statement that such an estimate cannot be made).
Dividends	Dividends declared after the reporting period are not liabilities at reporting date, but must be disclosed.
Going Concern	If events after reporting period indicate entity is no longer a going concern, financial statements should not be prepared on going concern basis.

Ind As 102

Equity settled share based payment transactions



Counterparty	**Measurement basis**	**Measurement date**	**Recognition date**
Employee	Fair value of equity instruments awarded	Grant date	Date goods or services received
Non-employee	Fair value of goods or services received	Date goods or services received	Date goods or services received

Cash settled – Share based payments

For cash-settled share-based payment transactions,

- the entity shall measure the goods or services acquired and
- the liability incurred at the fair value of the liability.
- the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement,
- any changes in fair value recognized in profit or loss for the period
- It can also take form of share appreciation rights.

[In case of equity settled transactions, there is no remeasurement. This means that the amount recognised under equity is based on FV on the grant date]

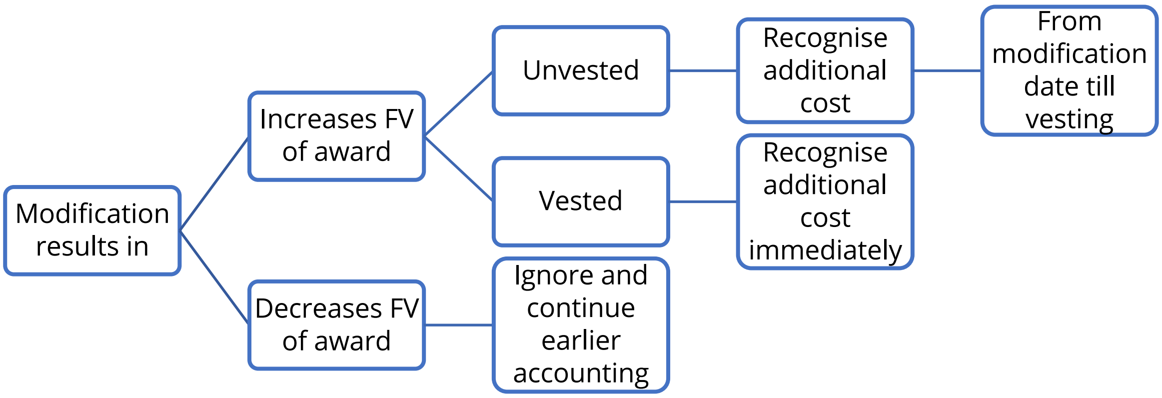
Share based payment with cash alternative

In this case either the entity or the other party has the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

Choice with counter-party
Treated as compound financial instrument [debt + equity] (Refer Ind AS 109)
FV of goods/services measured directly - Difference between FV of goods/services and FV value of debt component is considered as equity component. If FV of Goods/Services not available or in case of employees FV of Compound Financial Instrument is used to measure the value of goods and services. - Measure FV of debt - Measure FV of equity assuming cash alternative is surrendered FV of Compound Financial Instrument = FV of debt + FV of equity.
Liability component is fair valued
On Settlement Cash Paid – Dr. Liability & Cr. Cash. The equity component is not impacted. Equity issued – Dr. Liability & Cr. Equity

Choice is with the entity
Accounted as Cash settled or Equity Settled
Entity checks whether it has present obligation - Intention to settle - Past practice - Ability to settle in equity instruments [If restriction to issue equity, it is considered to be a cash settled]
Settlement - Accounted as equity and settled by issuing shares : Account for issue of shares - Accoutned as Equity settled but settled in cash : Treated as buy back of equity interest - Accounted as liability & Settled in cash – Dr. Liability & Cr. Cash - Accounted as liability but settled in equity : Transfer liability to equity - Settled at higher value – Differential portion is treated as additional expense.

Modification



- If the modification results in increase in number of shares, recognise additional cost from date of modification till date of vesting.

Cancellation

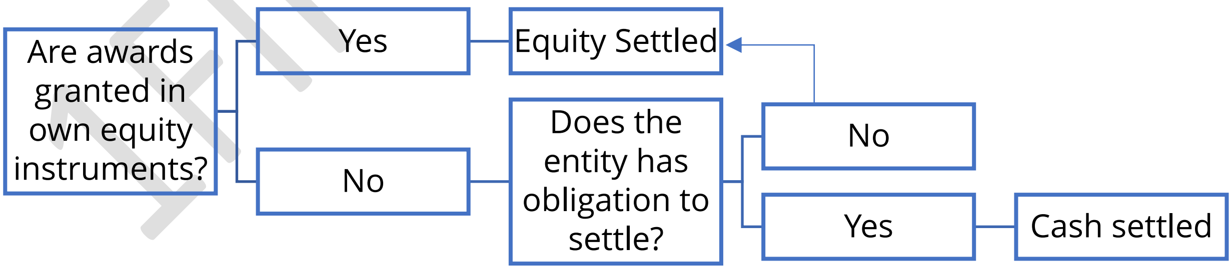
- recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period [acceleration of vesting]
- any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest. If amount paid is in excess of FV of equity instrument, the excess is treated as expense.

Grant of new equity instruments & cancellation of existing instruments

- Treated as replacement for cancelled instruments
- Consider as modification of the original grant and account as per above.

A	FV of the replaced equity instruments		XXXX
B	(-)Net FV of cancelled instruments [C-D]		
C	FV of cancelled instruments	xxxx	
D	(-) Amount paid to the employee on cancellation	xxxx	XXXX
A-B	Incremental FV Granted		xxx

Group Share based payment plans



Scenario	I	II
Who receives goods/ services?	Subsidiary	Parent
Who settles?	Parent	Subsidiary
Settlement by	Issuing shares of parent	Issuing shares of subsidiary

Type	Equity (Since subsidiary does not have obligation to settle)	Equity (Since parent does not have obligation to settle)
Accounting – Parent	Dr. Investment in subsidiary Cr. Equity	Dr. Expenses Cr. Dividend Income
Accounting Subsidiary	Dr. Expenses Cr. Equity	Dr. Retained Earnings Cr. Equity

Calculation of FV – always use FV in exam unless FV is not given.

The fair value of options can be determined using models like binomial model, Black Scholes Model etc. All option pricing models take into account the following factors:

- the exercise price of the option;
- the life of the option;
- the current price of the underlying shares;
- the expected volatility of the share price;
- the dividends expected on the shares (if appropriate); and
- the risk-free interest rate for the life of the option

If FV of options is not determinable, intrinsic value can be taken. Intrinsic value = Market Price – Exercise price

Steps to solve SBP question

Compute the total number of options likely to vest	Based on expected exits given in question
Determine the FV of option (not FV of share)	
Total value of options	No of Options x FV
Expense to be booked each year	Total value /No of years
At the end of 2nd year	
Recompute the above. Do not change FV of equity settled transaction	
Compute total expense to be recognised at end of Year 2	Total value x no of years completed/Total vesting period
Expense for the year	Cumulative Expenses till year 2 – Cumulative Expenses recognised in year1.
Repeat for subsequent years.	

Accounting Entry (Example)

On Date of Grant

Employee Benefit Expense Dr. [FV = 15 x 1,000]	15,000	
To Share based payment reserve		15,000

On subscription by Employees

Share based payment Reserve Dr.	15,000	
Bank Dr. [Rs.50 x 1,000]	50,000	
To Share capital [10 x 1,000]		10,000
To Securities Premium		55,000

Ind AS 12 – Income Taxes

	+Ve	-ve
Asset TB-CA	DTA (TB > CA)	DTL (CA > TB)
Liability CA – TB	DTL (CA > TB)	DTA (TB > CA)
If unrealised gains in books which are not considered for tax (e.g. revaluation) : Always DTL		
If expenses disallowed for tax purpose which will be allowed subsequently (e.g 43B) : Always DTA		

- Accounting profit is profit or loss for a period before deducting tax expense.
- The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset.
- The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods
- Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.
- Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
- Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:
  - deductible temporary differences;
  - the carry forward of unused tax losses; and
  - the carry forward of unused tax credits.

Deferred tax assets and liabilities shall be measured:

- at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled;
- based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
- Enacted – Already in force
- Substantively enacted – Formalities are completed but not yet enacted. Like budget presented and passed but president has not yet assented.
- If different tax rates are applicable for different types/slabs of income, use the appropriate tax rates at which recovery would be done.

Accounting Entries

Current Tax	Dr. Income Tax expense – Current Cr. Income Tax Payable
Deferred Tax Asset	Dr. Deferred Tax Asset Cr. Income tax benefit – Deferred
Deferred Tax Liability	Dr. Income Tax expense – Deferred Cr. Deferred Tax Liability
Tax Expense (PL)	Current Tax + Deferred Tax Expense – Deferred Tax Benefit
Deferred Tax (BS)	Shown at Net Amount

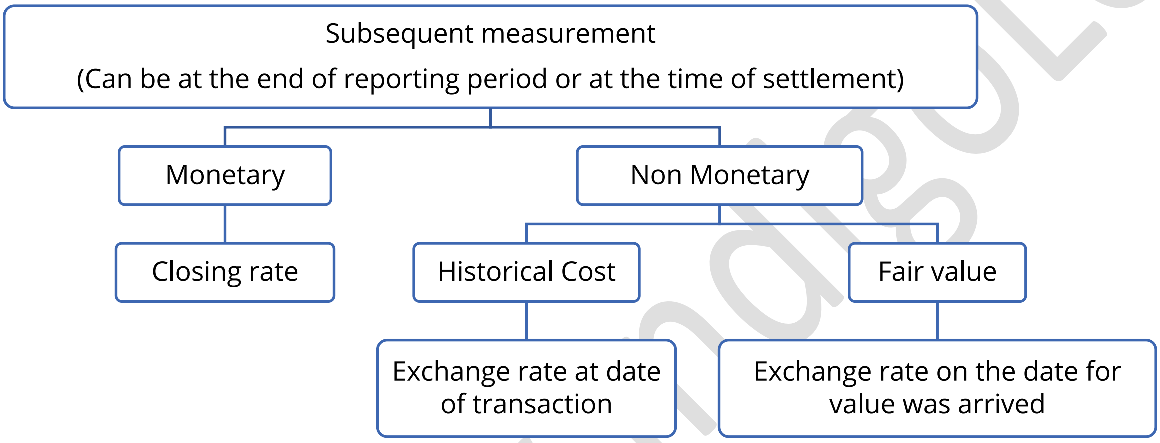
- Deferred Taxes are not discounted.
- Deferred Taxes are always shown as non current
- Deferred Tax expense/benefit are reported in P&L or OCI depending upon the items which have resulted the deferred tax.

Offsetting Deferred Tax Asset & Liabilities

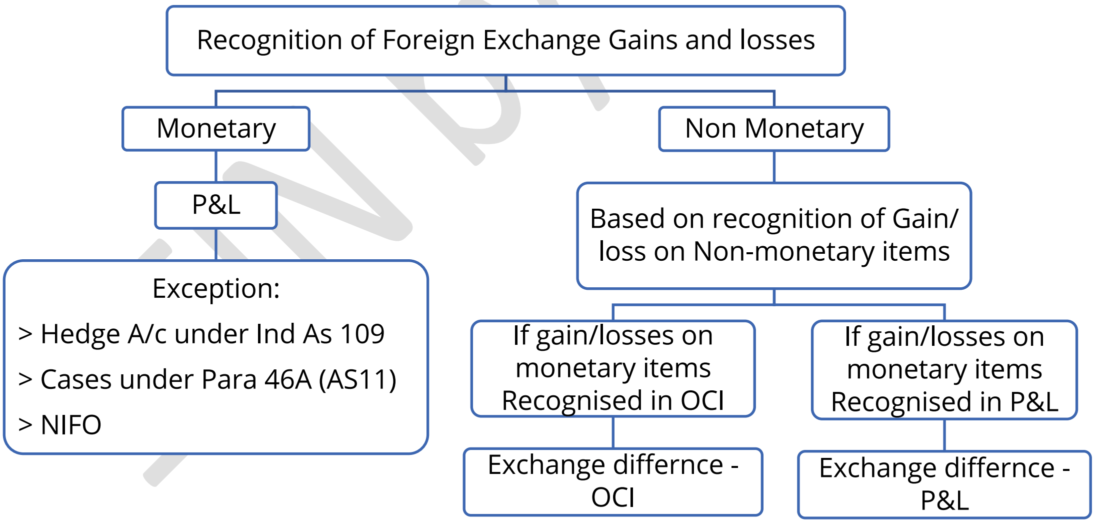
An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Ind AS 21



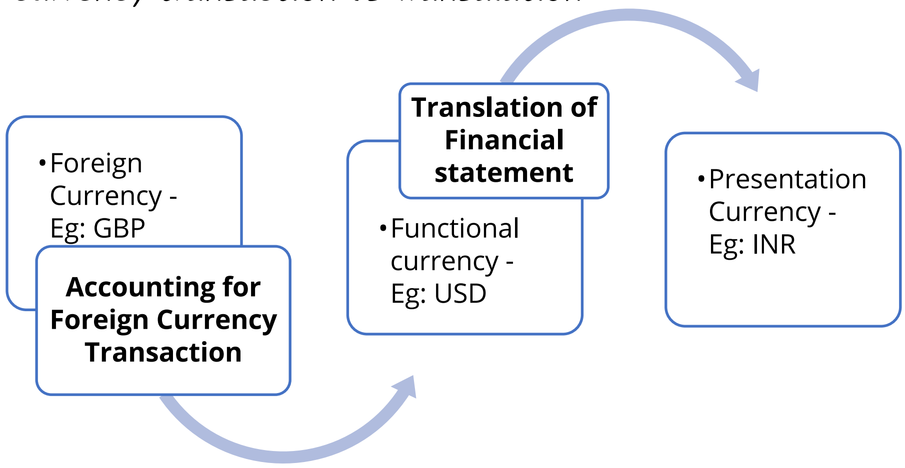
Recognition of Foreign Exchange Gains and losses



<u>IND AS 101</u> allows an entity to apply Para 46A under AS 11, (Optional)
Exchange difference on Foreign currency of Long term monetary Item

- If it is Depreciable asset → Add/Less from carrying amount
- If it is Non-depreciable asset → Transferred to Foreign Currency Monetary Item Translation Difference Account (FCMITDA - Component of equity) → Amortise over the remaining life

Foreign currency transaction vs Transalation



Translation to Presentation currency

Particulars	Exchange rate	Date
Assets & Liabilities	Closing Rate	Balance sheet
Profit & loss items	Individual rate or Average rate (If there exist Insignificant Fluctuation)	Transaction date
Equity	Historical Cost/ Historical Value	

Net Investment in a foreign operation

NIFO is

- The amount of the reporting entity's interest
- in the net assets of that operation
- An item (Long term Monetary item) for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation.

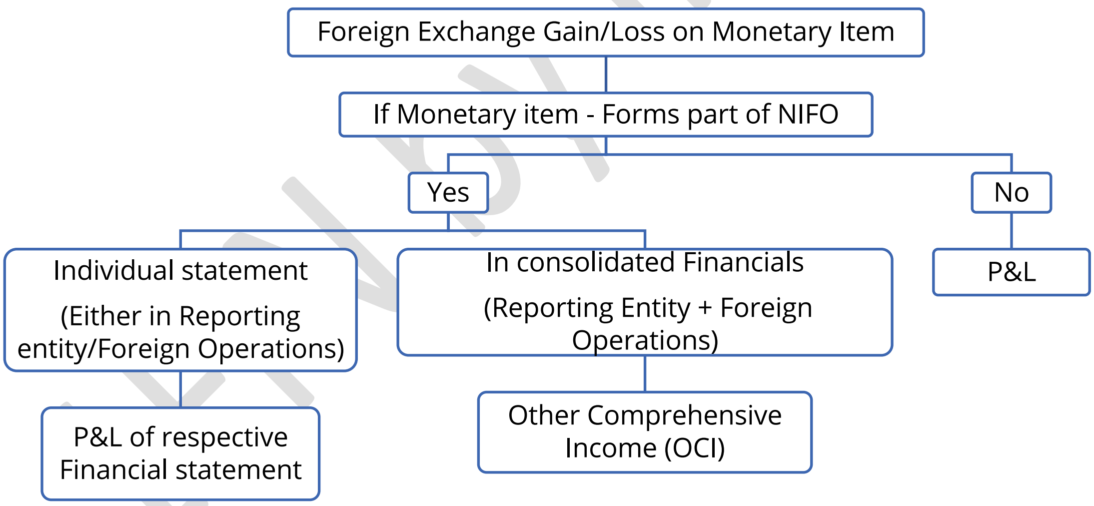


Illustration Summary:

- Gain or loss on monetary item is generally recognised in P&L. If monetary item forms part of NIFO, then in CFS it is recognised in OCI.
- Trade receivables & Trade payable will not be form part of NIFO, While Long term loans, receivables & payables will form part of NIFO.
- If Subsidiary company of reporting entity gives loan to another Subsidiary of reporting entity

If the given loan forms part of NIFO, then it should be recognised in OCI of Consolidated Financial statement of group companies

Ind AS 33 – EPS

1.1 Formula

Computation of Basic earnings per share =

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

1.2 Calculation of Profit attributable to Equity Share Holders

Earnings Before Interest & Taxes	xxx
Less: Finance cost (including dividend on Preference shares classified as Liability) [You will understand this after Ind AS 109]	xxx
Earnings before Taxes	xxx
Less: Taxes	xxx
Profit after tax	xxx
Less: Dividend on Cumulative Preference shares whether or not declared (only for 1 year)	xxx
Less: Dividend on Non-cumulative Preference shares only if declared	xxx
Less: Deemed dividend on increasing rate preference shares	xxx
Less: Redemption/Repurchase of Preference shares at premium	xxx
Less: Early conversion of Preference shares at premium	xxx
Profit attributable to Equity share holders	xxx

Calculation of Weighted Average Number of Shares

Ordinary shares outstanding at the beginning of the period	xxx
Add: Ordinary shares issued during year (weighted)	xxx
Add: Bonus issue (no time weightage factor- since beginning)	xxx
Add: Right issue (time weighted)	xxx
Less: Ordinary shares bought back during the year (weighted)	xxx
Weighted average number of shares	xxx

Bonus shares are assumed to have been issued at the beginning of earliest period reported or date of issue of original shares during the year.

Deciding the date for issue of shares

Shares are usually included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue),

When ordinary shares are issued	Timing effective from the date
In exchange for cash	When cash is receivable
On voluntary reinvestment of dividends on ordinary or preference shares	When dividends are reinvested
As a result of conversion of a debt instrument to ordinary shares	When Interest ceases to accrue
In place of interest or principal on other financial instruments	When Interest ceases to accrue
In exchange for the settlement of a liability	On settlement date

As consideration for the acquisition of an asset other than cash	When the acquired asset is recognised
For rendering of services to the entity	When the services are rendered
As a part of the consideration transferred in a business combination	From the date of the acquisition
Upon the conversion of a mandatorily convertible instrument	From the date of entering into the contract

Right issues

- Entities might raise additional capital by issuing shares to existing shareholders, on a pro rata basis to their existing holdings, in the form of a rights issue.
- The right shares can either be offered at the current market price or at a price that is below the current market price.
- A right issue usually includes a bonus element.

EPS Computation in case of Right shares:
Theoretical ex-rights (TERP) fair value per share=

$$\frac{\textbf{FV of all outstanding shares before rights + Total amount received from rights}}{\textbf{No of original shares + rights shares}}$$

Adjustment factor=

$$\frac{\text{Fair value before rights issue}}{\text{Theoretical ex-rights price}}$$

*Adjusting factor should be applied to adjust the shares outstanding before the right issue, both for the current and previous year.

Example
Rights issue 1:5 (1 shares for 5 issued)
Rights issue price – Rs. 15
Cum Rights Price – Rs. 20 [FV before rights]

TERP = (20x5)+(1x15)/(5+1)

$$\frac{(20x5) + (1x15)}{5 + 1} = 19.16$$

Measurement of Diluted Earnings Per Share

Formula

Computation of Diluted earnings per share =

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

Calculation

- Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or the date of issue of the potential ordinary shares, whichever is later.
- Potential ordinary shares that are canceled or lapsed during the period are included in the calculation of diluted earnings per share for the portion of the period during which they are outstanding.

- Potential ordinary shares that are converted into ordinary shares during the period are included in the calculation of diluted earnings per share from the beginning of the period till the date of conversion.

  From the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.

- The conversion of the potential ordinary shares into ordinary shares should assume the most advantageous conversion rate or exercise price from the standpoint of the holder.
- Only potential ordinary shares that are dilutive are considered in the calculation of diluted earnings per share.

4.4 Steps for computing Diluted EPS

Step1 Compute Incremental EPS for each potential Ordinary share

- Incremental EPS = After tax Effect of potential share on earnings to equity holders / Effect of potential share on weighted average number of shares

Step2 Ranking

- Rank the various types of potential ordinary shares based on step1 above.First rank is given for least earning per incremental ordinary share and so on, in ascending order.

Step3 Compute Diluted EPS

- compute Basic EPS
- Add net profit and additional shares for each type of potential ordinary share, in ascending order.
- calculate Diluted EPS at each stage
- Select least Diluted EPS, which to be reported.If Diluted EPS increases at any point it will be considered Anti-Dilutive.

Options, warrants and their equivalents

- The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration and should be included in the calculation of diluted earning per share.
  No of shares = Total Options - (exercise price x Number of options/average fair value)

Employee Stock Options

- Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date.
- Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.
- Dilutive effect on ESOP:
  In case of vested ESOPs, potential equity shares will be calculated as:
  Total ESOP - (exercise price x Number of options/average fair value)

Contingently issuable shares

Contingency involves some amount of uncertainty, it depends on happening or not happening of a particular event. If all the conditions which were uncertain become certain, one can include contingently issued shares in the calculation of Basic and diluted EPS.

Condition	Treatment
If conditions are not satisfied by the end of reporting period	no treatment
If conditions are satisfied but shares not issued	consider in Basic and Diluted EPS
If conditions are satisfied but compliance date is in future	Consider in Diluted EPS
If conditions are satisfied and shares issued	consider in BasicEPS

Convertible instruments

Convertible preference shares	Convertible debt
- The dilutive effect of convertible preference shares shall be reflected in diluted EPS. - Convertible preference shares are anti-dilutive when the amount of the dividend on such shares obtainable on conversion exceeds basic earnings per share (Incremental EPS>Basic EPS)	- The dilutive effect of convertible debt shall be reflected in diluted EPS. - Convertible debt is anti-dilutive whenever its interest (net of tax) per ordinary share obtainable on conversion exceeds basic earnings per share.

Contracts that may be settled in ordinary shares or cash

- When an entity has issued a contract that may be settled in ordinary shares or cash at the entity's option, the entity shall presume that the contract will be settled in ordinary shares, and the resulting potential ordinary shares shall be included in diluted earnings per share if the effect is dilutive.
- If contracts may be settled in ordinary shares or cash at the holder's option, the more dilutive cash settlement and share settlement shall be used in calculating diluted earnings per share.

Ind AS 34

<u>Period for which Interim Financial statement are required to be presented</u>

Interim Financial Statement		Example: Interim Financial Statement for	
		Q2 ended 30-Sep-X2	Q3 ended 31-Dec-X2
Statement of P&L	For the Interim period	For July to Sep X2 (3Ms)	For Oct to Dec X2 (3Ms)
	On a Year to Date basis	For Apr to Sep X2 (6Ms)	For Apr to Dec X2 (9Ms)
	Comparative Information for both period	Comparative for Interim: For July to Sep X1 (3Ms)	Comparative for Interim: For Oct to Dec X1 (3Ms)
		Comparative for YTD: For Apr to Sep X1 (6Ms)	Comparative for YTD: For Apr to Dec X1 (9Ms)
Balance Sheet	At end of Interim period and comparative end of	As on 30-Sep-X2	As on 31-Dec-X2
		Comparative: As on 31-Mar-X2	Comparative: As on 31-Mar-X2

	Previous Financial Year		
Cash Flow Statement	Cumulative YTD basis till end of Interim period & comparatives	For Apr to Sep-X2 (6Ms)	For Apr to Dec-X2 (9Ms)
		Comparative: For Apr to Sep-X1 (6Ms)	Comparative: For Apr to Dec-X1 (9Ms)
Statement of change in Equity	Cumulative YTD basis till end of Interim period & comparatives	For Apr to Sep-X2 (6Ms)	For Apr to Dec-X2 (9Ms)
		Comparative: For Apr to Sep-X1 (6Ms)	Comparative: For Apr to Dec-X1 (9Ms)

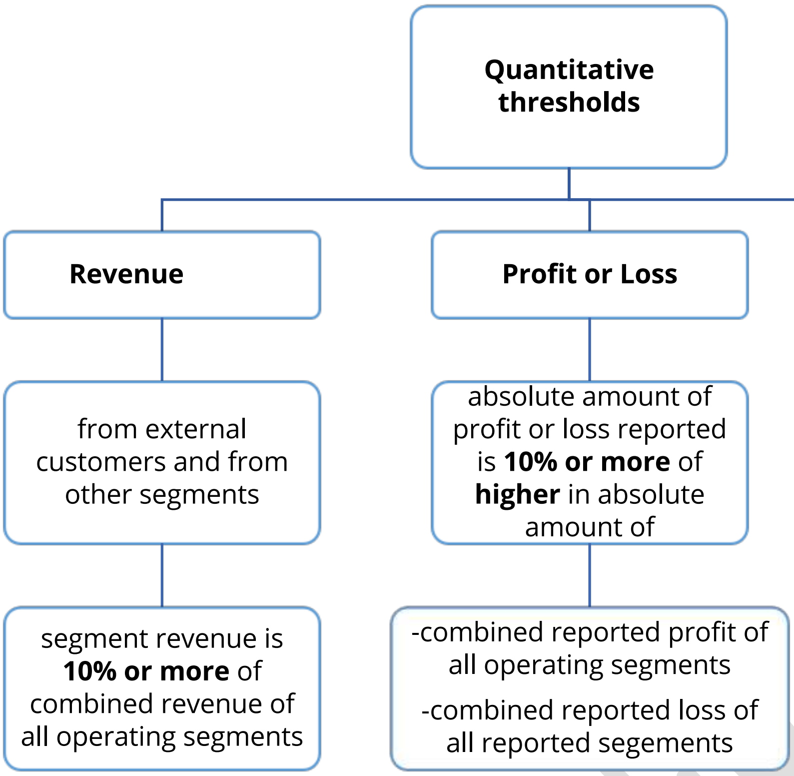
- If any expense would not be deferred at the end of financial year, the same should not be deferred at end of the interim period. E.g advertisement expenses
- Tax expense – compute using effective annual tax rate.

Ind As 108

An operating segment is component of entity

- That engages in business activities
- from which it may earn revenues and incur expenses (including from transactions with other components of the entity)
- may engage in business activities for which it has yet to earn revenues
- Whose operating results are regularly reviewed by the entity's chief operating decision maker (CEO, COO, Group of Directors of operations/production/ geographical area)
- to make decisions about resources to be allocated to the segment and assess its performance
- For which discrete financial information is available

Quantitative threshold to identify Operating Segment



Ind AS 101 – First Time Adoption

Area	Key Requirement/Treatment
Opening Ind AS Balance Sheet	Must be prepared at the date of transition. Recognise only those assets/liabilities permitted under Ind AS. Derecognise others. Reclassify and measure as per Ind AS.
Accounting Policies	Apply consistently across all periods presented. Must comply with Ind AS effective at the end of the first Ind AS reporting period.
Explanation of Transition	Disclose reconciliations of Equity and Total Comprehensive Income from previous GAAP to Ind AS. Also disclose material adjustments and fair value adjustments.
Adjustments at Transition	Recognise adjustments directly in Retained Earnings (or other equity components) at the transition date.
Estimates	Continue previous GAAP estimates unless clear error. No retrospective adjustment using later events unless mandated. New estimates to reflect conditions at transition date.
Mandatory Exceptions (Prospective Application Required)	
De-recognition of financial assets/liabilities	Apply Ind AS 109 prospectively from transition date unless retrospective data available.
Hedge Accounting	Measure derivatives at FV at transition. Remove deferred gains/losses from previous GAAP accounting. Reflect eligible hedge relationships.
Non-Controlling Interests (NCI)	Apply Ind AS 110 prospectively for attribution of total comprehensive income and changes in ownership interests. If first time adopter elects to apply Ind AS 103 retrospectively, it shall apply Ind AS 110 from that date.

Classification and Measurement of Financial Assets	Assess classification based on conditions at transition date rather than initial recognition date.
Impairment of Financial Assets	Use reasonable and supportable information available without undue cost to assess credit risk. If impracticable, assume lifetime expected credit losses.
Embedded Derivatives	Evaluate need for separation based on conditions existing when entity first became party to the contract or at reassessment.
Government Loans	Apply Ind AS 109 and Ind AS 20 prospectively to government loans existing at transition date; no retrospective benefit recognition.
Optional Exemptions (Entity may choose)	
Business Combinations (Ind AS 103)	Option to not restate past business combinations before transition date. If restated, all subsequent combinations must also be restated.
Share-Based Payments (Ind AS 102)	Not mandatory to apply to vested instruments pre-transition; can choose to apply if fair value was disclosed publicly.
Deemed Cost (PPE, Intangibles, ROU Assets)	Can opt to measure at fair value, previous GAAP carrying amount (broadly comparable to FV), or cost. Applied item-by-item.
Cumulative Translation Differences (Ind AS 21)	Option to reset cumulative translation differences to zero at transition date for all foreign operations.
Investments in Subsidiaries, JVs, Associates	Measurement options at transition — cost or deemed cost (fair value/previous GAAP carrying amount).
Compound Financial Instruments	No retrospective split required if liability component no longer exists at transition.
Designation of Financial Instruments	Option to newly designate financial assets/liabilities at FV through P&L or OCI at transition date.
Decommissioning Liabilities	Include decommissioning obligations in PPE retrospectively or by estimating cost at transition date.
Fair Value of Financial Assets/Liabilities	Permit fair value at initial recognition exemptions in limited cases.
Extinguishing Financial Liabilities with Equity Instruments	Apply prospectively to past debt-for-equity swaps.
Joint Arrangements	Classify existing joint arrangements based on facts and circumstances at transition date.
Stripping Costs in Mining Activities	Recognize stripping costs prospectively based on transition date evaluation.
Non-current Assets Held for Sale (Ind AS 105)	Apply prospectively classification and measurement.
Foreign Currency Transactions and Advance Consideration	Exemption for transactions before transition date.
Carve-outs (Major Differences from IFRS 1)	
Definition of Previous GAAP	Must use Indian GAAP (AS) prepared under Companies Act, not any other accounting basis.
PPE Carrying Value Option	Option to continue with previous GAAP carrying value of PPE as deemed cost.

Long-term Foreign Currency Items	Option to continue deferral or capitalization of forex differences under old AS 11 treatment.
Service Concession Arrangements - Toll Roads	Permitted to continue revenue-based amortisation policy adopted under previous GAAP for intangible assets till disposal.
Land and Building Leases	Can use transition date facts to classify leases as finance or operating.

Ind AS 113

Definition of Fair Value	Exit Price: Price to sell an asset or transfer a liability in an orderly transaction between market participants at measurement date.
Principal Market	Market with the greatest volume and level of activity for the asset or liability.
Most Advantageous Market	If no principal market, use the market with the best price for the asset (after considering transaction and transport costs).
Market Participants Assumptions	Fair value based on assumptions that independent, knowledgeable, willing market participants would use.
Highest and Best Use (Assets)	Asset should be valued based on its highest and best use from a market participant's perspective, physically possible, legally permissible, and financially feasible.
Fair Value Hierarchy	- Level 1: Quoted prices in active markets. - Level 2: Observable inputs other than Level 1 prices. - Level 3: Unobservable inputs (entity assumptions).
Valuation Techniques	Use appropriate and consistent methods: - Market Approach (comparable transactions) - Cost Approach (replacement cost) - Income Approach (present value of future cash flows)
Non-Financial Assets	Consider highest and best use when measuring fair value.
Liabilities and Equity Instruments	Fair value assumes the liability is transferred to a market participant, not settled or extinguished.
Fair Value Measurement for Non-Active Markets	Must use valuation techniques maximizing observable inputs and minimizing unobservable inputs.
Transaction vs Transport Costs	Transaction costs & transport costs are considered for determining most advantageous market price. Transaction costs are excluded from fair value but considered when deciding which market to use. Transaction costs are accounted for using other standards.