

Ind AS Certificate Course

Day 2

Ind AS Implementation Committee of ICAI

Contents



- Ind AS 2 – Inventories
- Ind AS 16 – Property, Plant and Equipment
- Ind AS 38 – Intangible Assets
- Ind AS 40 – Investment Property
- Ind AS 41 - Agriculture

Major principles of Ind ASs on Assets

Type of assets	Initial Measurement	Subsequent Measurement
Ind AS 2 – Inventories	Cost	Lower of Cost or NRV
Ind AS 16 – Property, Plant and Equipment	Cost	Cost model or revaluation model
Ind AS 38 – Intangibles	Cost	Cost model or revaluation model
Ind AS 40 – Investment Property	Cost	Cost model
Ind AS 41 – Agriculture	Fair value less cost to sell	Fair value less cost to sell
Ind AS 105 - Non-current assets held for sale & Disposal groups	lower of carrying value and fair value less costs to sell	lower of carrying value and fair value less costs to sell
Ind AS 106 - Exploration & Evaluation of mineral assets	Cost	Cost model or revaluation model

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Ind AS 2 – Inventories

Scope

Applies to all inventories except:

- Financial Instrument (Ind AS 32 / Ind AS 109)
- Biological assets related to agricultural activity and agricultural produce at the point of harvest (Ind AS 41)

Ind AS 2 measurement principle does not apply to:

- producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value (above or below cost) in accordance with well-established practices in those industries. Changes goes to P/L.
 - commodity brokers and dealers who measure their inventories at fair value less costs to sell. Changes goes to P/L.
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Definitions

Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 13 *Fair Value Measurement*.)

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Measurement

Inventories are valued at the lower of cost and net realisable value.

Cost should include all:

- **costs of purchase** (including taxes, transport, and handling) net of trade discounts received
 - **costs of conversion** (including fixed and variable manufacturing overheads) and
 - **other costs** incurred in bringing the inventories to their present location and condition
 - Ind AS 23, '*Borrowing Costs*' identifies some limited circumstances where borrowing costs (interest) can be included in cost of inventories that meet the definition of a qualifying asset.
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Measurement

Inventory cost should not include:

- abnormal waste
 - storage costs
 - administrative overheads unrelated to production
 - selling costs
 - foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency
 - interest cost when inventories are purchased with deferred settlement terms.
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Measurement

Cost Formula:

- For inventory items that are not interchangeable, **specific costs** are attributed to the specific individual items of inventory.
- For items that are interchangeable, Ind AS 2 allows the **FIFO** or **weighted average cost** formulas. **LIFO** is prohibited.
- The **same cost** formula should be used for all inventories with similar characteristics as to their nature and use to the entity. For groups of inventories that have different characteristics, different cost formulas may be justified.

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Measurement

Expense recognition:

- When inventories are **sold** and revenue is recognised, the carrying amount of those inventories is recognised as an expense (often called cost-of-goods-sold).
- Any **write-down** to NRV and any inventory losses are also recognised as an expense when they occur.
- Any **reversal** should be recognised in the income statement in the period in which the reversal occurs.

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Disclosures

Balance Sheet

- Carrying amount, generally classified as merchandise, supplies, materials, work in progress, and finished goods. The classifications depend on what is appropriate for the entity
- Carrying amount of any inventories carried at fair value less costs to sell
- Carrying amount of inventories pledged as security for liabilities

Profit and Loss

- Amount of any write-down of inventories recognised as an expense in the period
- Amount of any reversal of a write-down to NRV and the circumstances that led to such reversal
- Cost of inventories recognised as expense (cost of goods sold)

Notes

- Accounting policy (cost formula, cost components and valuation) for inventories
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IAS 2 and AS 2

IAS 2

- No major difference between IAS 2 and Ind AS 2

AS 2

- There is no scope exemption in AS 2 for any inventories held by commodity traders.
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Ind AS 16 – Property, Plant and Equipment (PPE)

Scope

Applies in accounting for PPE except

- PPE classified as held for sale (Ind AS 105)
- Biological Assets (Ind AS 41)
- Recognition and Measurement of exploration and evaluation assets (Ind AS 106)
- Mineral rights and mineral reserves as per (Ind AS 106)

PPE dealt with by another standard

- Ind AS 17: Leases
- Ind AS 40: Investment Property

Definitions

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

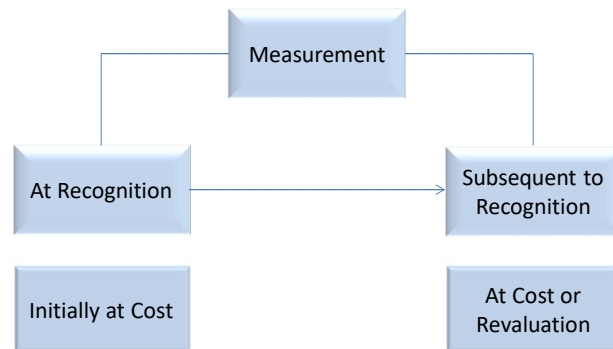
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Recognition

- Items of PPE should be recognised as assets when it is probable that: [Ind AS 16.7]
 - it is probable that the future economic benefits associated with the asset will flow to the entity, and
 - the cost of the asset can be measured reliably.
- Criteria apply to all costs when incurred, including:
 - Costs incurred initially to acquire or construct an item of PPE and
 - Costs incurred subsequently to add to, replace part of, or service it (*repair & maintenance is expense out but the replacement of major part including major inspection which meets recognition criteria are capitalized*).

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Measurement



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Measurement at Recognition

Elements of Cost

- its **purchase price**, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any **costs directly attributable** to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, like:
 - Costs of employee benefits
 - Costs of site preparation
 - Initial delivery and handling costs, installation and assemble costs
 - Cost of testing and professional fees
- the **initial estimate** of the costs of dismantling and removing the item and restoring the site on which it is located, where entity have obligation to do so.

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Measurement at Recognition

Cost that are not part of PPE

- costs of opening a new facility;
 - costs of introducing a new product or service (including costs of advertising and promotional activities);
 - costs of conducting business in a new location or with a new class of customer (including costs of staff training);
 - administration and other general overhead costs;
 - initial operating losses, such as those incurred while demand for the item's output builds up; and
 - costs of relocating or reorganising part or all of an entity's operations.
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Measurement at Recognition

Income and related expenses of incidental operations

- May occur before or after construction or development activities are recognised in profit or loss.

Self-constructed assets

- Cost is determined using the same principles as for an acquired asset;
 - Any internal profits are eliminated in arriving at such costs; and
 - The cost of abnormal amounts of wasted material, labour, or other resources incurred is not included in the cost of the asset.
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Measurement after Recognition

Cost model

- An item of PPE carried at cost less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

- An item of PPE carried at fair value less subsequent accumulated depreciation and any accumulated impairment losses.
 - Frequency of fair valuation - when fair value of an assets differs materially from carrying amount. Instead it may be necessary to revalue only every 3-5 years.
 - The entire class of PPE to which that asset belongs shall be revalued.
 - Revaluation reserve transfer to equity through OCI and on de-recognition transfer directly to retained earnings not in Profit or Loss.
 - Depreciated same was as under cost model.
 - Depreciation on revalued portion get transferred directly to retained earnings. Not in Profit or Loss
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Depreciation

Part of an Item or Component Accounting:

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- On initial recognition, allocate cost to significant parts of asset, including non-physical parts
- Separate depreciation of each “component”

E.g.

- Airframe and engine of an aircraft
 - Vessel cost and dock charges in shipping industries
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Depreciation

- Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.
- The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life.
- The residual value, depreciation method and the useful life of an asset shall be reviewed at least at each financial year-end.
- The change(s) to useful life /depreciation method shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

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Impairment

- According to Ind AS 36
- An item of property, plant, or equipment shall not be carried at more than recoverable amount.

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Derecognition

- The carrying amount of an item of property, plant and equipment shall be derecognised:
 - (a) on **disposal**; or
 - (a) when no **future economic benefits** are expected from its use or disposal.
- The **gain or loss** arising from the derecognition of an item of PPE will go to **Profit or Loss** but not as revenue.
- **Exception:** when an entity routinely sells assets it has held for rental, it transfers them to inventory when they cease to be rented. The proceeds from sale are treated as revenue.

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Disclosures

For each class of property, plant, and equipment, disclose:

- basis for measuring carrying amount
- depreciation method(s) used
- useful lives or depreciation rates
- gross carrying amount and accumulated depreciation and impairment losses
- reconciliation of the carrying amount at the beginning and the end of the period, showing:
 - Additions / disposals
 - acquisitions through business combinations
 - revaluation increases or decreases
 - impairment losses / reversals of impairment losses
 - depreciation
 - net foreign exchange differences on translation
 - other movements

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Disclosures

The following disclosures are also required :

- Restrictions on title and items pledged as security for liabilities
- Expenditures to construct property, plant, and equipment during the period
- Contractual commitments to acquire property, plant, and equipment
- Compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.

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Disclosures

Additionally for revalued Property, Plant and Equipment (in addition to disclosure requirement of Ind AS 113):

- the effective date of the revaluation
- whether an independent valuer was involved
- for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the cost model
- the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders.

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Appendix A - **Changes in existing decommissioning, restoration and similar liabilities**

Applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- Recognised as part of the cost of an item of property, plant and equipment in accordance with Ind AS 16
- Recognised as a liability in accordance with Ind AS 37

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant or rehabilitating environmental damage, in extractive industries, or the removal of equipment.

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Appendix A - **Changes in existing decommissioning, restoration and similar liabilities**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from:

- changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or
- a change in the discount rate

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Appendix A - Changes in existing decommissioning, restoration and similar liabilities

Asset measured using cost model

- Changes in the liability are added to, or deducted from, the cost of the related asset in the current period
 - The amount deducted from the cost of the asset cannot exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss
 - If the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36
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Appendix A - Changes in existing decommissioning, restoration and similar liabilities

Related asset measured using revaluation model

Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

- A decrease in the liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss
 - An increase in the liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset
 - In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in profit or loss
 - A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period
 - The change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such
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Appendix A - Changes in existing decommissioning, restoration and similar liabilities

Depreciation

- The adjusted depreciable amount of the asset is depreciated over its useful life.
- Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in profit or loss as they occur.
- This applies under both the cost model and the revaluation model.

Discount

- The periodic unwinding of discount is recognised in profit or loss as a finance cost as it occurs.

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Appendix B Stripping Cost in the Production Phase of Surface Mine

Applies to waste removal (stripping) costs that are incurred in surface mining activity, during the production phase of the mine.

- **Stripping activities** - activities undertaken to gain access to a specific section of the ore body – more aggressive activities than routine waste clearing activities. It is planned in advance with a defined start-date, and forms part of the overall mine plan.
- **Production phase** - is not defined in this appendix. Judgement is required.

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Appendix B Stripping Cost in the Production Phase of Surface Mine

Recognition of production stripping costs as an asset: Costs that improve access to ore:

The benefit of improved access to ore qualifies for recognition as part of (a component of) an existing asset when:

- It is probable that the future economic benefit (i.e. improved access to the ore body) associated with the stripping activity will flow to the entity
- The component of the ore body for which access has been improved can be identified
- The stripping activity costs can be reliably measured.

Such costs will be classified as a tangible or an intangible non-current asset according to the nature of the existing asset to which they relate.

The stripping-activity-asset is specifically associated with the section of ore that becomes directly accessible as a result of the stripping activity.

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Appendix B Stripping Cost in the Production Phase of Surface Mine

Recognition of production stripping costs as an asset: Costs that produce ore:

- The benefits from stripping activities that are released in the form of inventory (ore) are recognised in accordance with Ind AS 2 *Inventories*.

Recognition of production stripping costs as an asset: Routine stripping costs:

- Routine stripping costs that are not incurred as part of the stripping activities are accounted for as current costs of production in accordance with Ind AS 2 *Inventories*.
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Appendix B Stripping Cost in the Production Phase of Surface Mine

Initial measurement

- The stripping-activity-asset is initially measured at cost:
 - Cost that are directly incurred to perform the stripping activity
 - An allocation of directly attributable costs.
 - Costs associated with incidental operations occurring concurrently with stripping activity are not included in the cost of the stripping activity- asset.
 - When costs of the stripping-activity-asset and inventory produced are not separately identifiable, allocate costs based on a relevant production measure:
 - Calculated for the identified component of the ore body
 - Used as a benchmark to identify the extent to which additional activity of creating future benefit has taken place.
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Appendix B Stripping Cost in the Production Phase of Surface Mine

Subsequent measurement

Carried at cost or revalued amount, less depreciation (or amortisation), less accumulated impairment losses.

- **Method of depreciation (or amortisation)** Rational and systematic basis, over the expected useful life of the specific section of the ore body that becomes directly accessible as a result of the stripping activities. The units-of-production method is applied unless another method is more appropriate.
- **Expected useful life of the specific section of the ore body** Is likely to differ from the expected life of:
 - The mine; and/or
 - The related life-of-mine assets.

This is because stripping activities will give access only to a portion of the total ore body.

- **Impairment** Is accounted for in accordance with Ind AS 36 *Impairment of Assets*.
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IAS 16 and AS 6/10

IAS 16

- IAS 16 permits reduction in the carrying amount of an item of PPE by the amount of government grant received in respect of such an item in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

AS 6/10

- Cost of major inspections are generally expensed when incurred as AS 10 does not deal with this aspect.
- No specific requirement on frequency of revaluation.
- It provides option for selection of assets within a class for revaluation on systemic basis.
- Change in method of depreciation is treated as change in accounting policy, its effect is quantified (retrospective re-computation) and disclosed.

Most of the above differences will no longer be applicable from 1 April 2016 as, AS 10 is amended in line with Ind AS.

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Ind AS 38 – Intangible Assets

Scope

Applies to all intangible assets other than:

- financial assets (Ind AS 32)
 - exploration and evaluation assets (Ind AS 106)
 - expenditure on the development and extraction of minerals, oil, natural gas, and similar resources
 - intangible assets arising from insurance contracts issued by insurance companies
 - intangible assets covered by another Ind AS, such as
 - intangibles held for sale (Ind AS 105)
 - deferred tax assets (Ind AS 12)
 - lease assets (Ind AS 17)
 - assets arising from employee benefits (Ind AS 19)
 - goodwill (Ind AS 103)
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Intangible Assets?

Intangible asset: an identifiable non-monetary asset without physical substance.

The three critical attributes of an intangible asset are:

- identifiability
 - control (power to obtain benefits from the asset)
 - future economic benefits (such as revenues or reduced future costs)
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Intangible Assets?

Identifiability: an intangible asset is identifiable when it:

- is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

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Intangible Assets?

Control: legal rights enforceable in court of law.

- Power to obtain future economic benefits flowing from the underlying resource.
- To restrict the access of others to those benefits.

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Intangible Assets?

Future economic benefits:

- Revenue from sale of products, services or processes.
- Cost savings
- Other benefits from use of an asset

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Intangible Assets?

Examples of intangible assets

- patented technology, computer software, databases and trade secrets
- trademarks, trade dress, newspaper mastheads, internet domains
- video and audiovisual material (e.g. motion pictures, television programmes)
- customer lists
- mortgage servicing rights
- licensing, royalty and standstill agreements
- import quotas
- franchise agreements
- customer and supplier relationships (including customer lists)
- marketing rights

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Intangible Assets?

Intangibles can be acquired:

- by separate purchase
 - as part of a business combination
 - by a government grant
 - by exchange of assets
 - by self-creation (internal generation)
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Recognition

Ind AS 38 requires an entity to recognise an intangible asset, whether purchased or self-created (at cost) if, and only if:

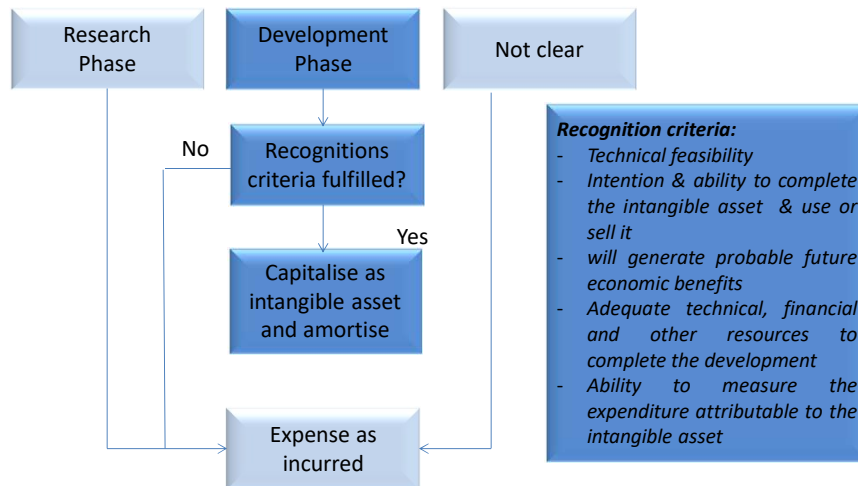
- it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably

The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset.

The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

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Initial Recognition – Internally Generated



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Initial Recognition

In-process research and development acquired in a business combination

- A research and development project acquired in a business combination is recognised as an asset at cost (being fair value at acquisition), even if a component is research.
- Subsequent expenditure on that project is accounted for as any other research and development cost (*expensed except to the extent that the expenditure satisfies the criteria in Ind AS 38 for recognising such expenditure as an intangible asset*).

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Initial Recognition

Internally generated brands, mastheads, titles, lists

- Brands, mastheads, publishing titles, customer lists and items similar in substance that are internally generated should not be recognised as assets

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Initial Recognition

Computer Software

- Purchased: capitalise
- Operating system for hardware: include in hardware cost
- Internally developed (whether for use or sale): charge to expense until technological feasibility, probable future benefits, intent and ability to use or sell the software, resources to complete the software, and ability to measure cost.
- Amortisation: over useful life, based on pattern of benefits (straight-line is the default).

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Initial Recognition

Other defined types of cost - the following items must be charged to expense when incurred:

- internally generated goodwill [Ind AS 38.48]
- start-up, pre-opening, and pre-operating costs [Ind AS 38.69]
- training cost [Ind AS 38.69]
- advertising and promotional cost, including mail order catalogues [Ind AS 38.69]
- relocation costs [Ind AS 38.69]

'when incurred' means when the entity receives the related goods or services. If the entity has made a prepayment for the above items, that prepayment is recognised as an asset until the entity receives the related goods or services.

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Measurement at Recognition

The intangible asset shall be measured initially at its cost but following specific measurement criteria apply when:

Separately Acquired	Acquisition in a business combination	Internally generated intangibles
• Acquisition cost	• Fair value at the acquisition date	• Expenditure incurred at development phase

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Measurement at Recognition

The intangible asset shall be measured initially at its cost but following specific measurement criteria apply when:

Acquired as Government Grant	Exchange of assets
• Fair value as prescribed by Ind AS 20	• Fair value if reliably measure and transaction has commercial substance • Else cost will be carrying value of asset given up

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Measurement at Recognition

Elements of Cost when separately acquired:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- any costs directly attributable cost for preparing the asset for its intended use. like:
 - Costs of employee benefits
 - Professional fees
 - Cost of testing whether the asset is functioning properly
- Costs not to be included:
 - Advertising and promotional cost
 - Administration cost / staff training cost
 - Initial operating losses incurred from operation
 - Cost incurred in incidental operations subsequent to asset become operational as intended

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Measurement after Recognition

Cost model

- Intangible assets should be carried at cost less accumulated amortization and any accumulated impairment losses.

Revaluation Model

- Intangible assets carried at fair value less any subsequent accumulated amortization and any accumulated impairment losses.
 - Only if fair value can be determined by reference to an active market. Such active markets are expected to be uncommon for intangible assets. Examples where they might exist, production quotas, fishing licences, taxi licences, etc.
 - Frequency of fair valuation - when fair value of an assets differs materially from carrying amount.
 - The entire class of Intangible assets to which that asset belongs shall be revalued.
 - Revaluation reserve transfer to equity through OCI and on de-recognition transfer directly to retained earnings not in Profit or Loss.
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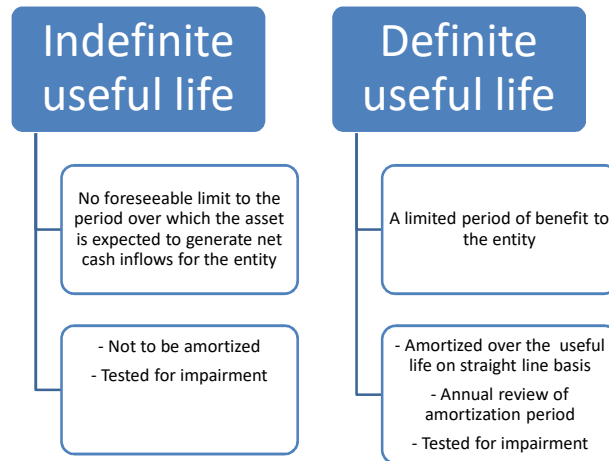
Subsequent Expenditure

Subsequent expenditure is capitalised when the item meets:

- Definition of an intangible asset
- General recognition criteria for intangible assets
- Recognition of subsequent expenditure will be rare

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Amortization



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Impairment

- According to Ind AS 36
- An Intangible assets shall not be carried at more than recoverable amount.

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Derecognition

- The intangible asset shall be derecognised:
 - (a) on disposal; or
 - (b) when no future economic benefits are expected from its use or disposal.
- The gain or loss arising from the derecognition of an intangible asset will go to Profit or Loss but not as revenue.

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Disclosures

For each class of intangible asset, disclose:

- useful life or amortization rate
- amortization method
- gross carrying amount
- accumulated amortization and impairment losses
- line items in the income statement in which amortization is included
- reconciliation of the carrying amount at the beginning & the end of the period showing:
 - additions (business combinations separately)
 - assets held for sale
 - retirements and other disposals
 - revaluations
 - Impairments/reversals of impairments/ amortisation
 - foreign exchange differences
 - other changes

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Disclosures

- basis for determining that an intangible has an indefinite life
- description and carrying amount of individually material intangible assets
- certain special disclosures about intangible assets acquired by way of government grants
- information about intangible assets whose title is restricted
- contractual commitments to acquire intangible assets

Additional disclosures are required about:

- intangible assets carried at revalued amounts
- the amount of research and development expenditure recognised as an expense in the current period

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Appendix A – Website Costs

- A website arising from development should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in Ind AS 38.21 for recognition and initial measurement, an enterprise can satisfy the requirements in Ind AS 38.57.
- In particular, an enterprise may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits under Ind AS 38.57(d) when, for example, the website is capable of generating revenues, including direct revenues from enabling orders to be placed.

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Appendix A – Website Costs

This appendix identifies the following stages of website development and how cost incurred to be treated:

- **Planning:** similar to research phase, expense out
- **Application & infrastructure, graphical design and content development :** content is developed other than to advertise and promote an enterprise's own products and services, can be capitalised, subject to fulfillment of development phase criteria as per Ind AS 38.57-64.
- **Operating:** expense out

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IAS 38 and AS 26

IAS 38

- IAS 38, Intangible Assets, provides the option to an entity to recognise both asset and grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use. Whereas Ind AS allows only fair value for recognising the intangible asset and grant in accordance with Ind AS 20.

AS 26

- Useful life is always finite and rebuttable presumption that it cannot exceed 10 years.
- Revaluation model is not permitted.
- Goodwill arising on amalgamation in the nature of purchase is amortized over a period of 5 years. Goodwill on consolidation is not amortized but tested for impairment.
- No guidance on in process R&D project acquired in Business Combination.

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Ind AS 40 – Investment Property

Investment Property

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

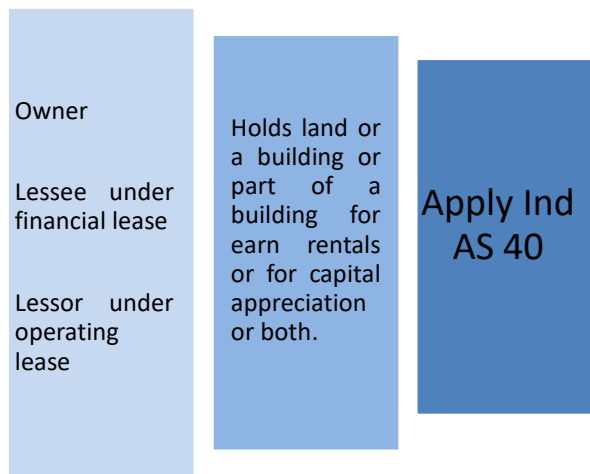
Rather than for:

- Use in the production or supply
- Sale in the ordinary course of business

Examples of investment property:

- land held for long-term capital appreciation
 - land held for a currently undetermined future use
 - building leased out under an operating lease
 - vacant building held to be leased out under an operating lease
 - property that is being constructed or developed for future use as investment property
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Investment Property



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Scope

The following are not investment property and hence outside the scope of this standard:

- property held for use in the production or supply of goods or services or for **administrative purposes**
- property held for **sale in the ordinary course** of business or in the process of construction of development for such sale (Ind AS 2)
- **owner-occupied** property (Ind AS 16), including property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees and owner-occupied property awaiting disposal
- property **leased** to another entity under a finance lease

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Classification issues

Partial Own:

- If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. Therefore the part that is rented out is investment property.
- If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant.

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Classification issues

Ancillary services:

- If the entity provides ancillary services to the occupants of a property held by the entity, the appropriateness of classification as investment property is determined by the significance of the services provided.
- If those services are a relatively insignificant component of the arrangement as a whole (for instance, the building owner supplies security and maintenance services to the lessees), then the entity may treat the property as investment property.
- Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied.

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Classification issues

Intra-company rentals :

- Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.
- However, such property could qualify as investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.

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Recognition

Investment property should be recognised as an asset when:

- it is probable that the future economic benefits that are associated with the property will flow to the entity, and
- the cost of the property can be reliably measured.

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Measurement

Initial

- Investment property is initially measured at cost, including transaction costs.
- Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

Subsequent

- Subsequent measurement based on fair value is not permitted. However, entities need to measure fair value of investment properties for the purpose of disclosure even though they are required to follow cost model.

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Derecognition

- The investment property shall be derecognised:
 - (a) on disposal; or
 - (b) When the investment property permanently withdrawn from use; and
 - (c) when no future economic benefits are expected from its use or disposal.
- The gain or loss arising from the derecognition of investment property will go to profit or loss.
- Compensation from third party, if any shall be recognised in profit or loss when the compensation becomes receivable.

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Disclosures

- The accounting policy for measurement of investment property;
 - if classification is difficult, the criteria to distinguish investment property from owner-occupied property and from property held for sale;
 - the extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed;
 - the amounts recognised in profit or loss for:
 - rental income from investment property
 - direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period
 - direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period
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Disclosures

- the depreciation methods used;
 - the useful lives or the depreciation rates used;
 - the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
 - a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing additions, disposals, depreciation, impairment recognised or reversed, foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes; and
 - the fair value of investment property. If the fair value of an item of investment property cannot be measured reliably, additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie.
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IAS 40 and AS -

IAS 40

- Subsequent measurement of Investment properties can be either at cost or fair value model.

AS -

- No equivalent standard on investment property
 - *Para 20, AS 13: Accounting for Investments:* The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property
 - *Para 30, AS 13: Accounting for Investments:* An enterprise holding investment properties should account for them as long term investment.
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Ind AS Certification Course – Day 2

Ind AS 41 – Agriculture

Scope

Applies to following agriculture activity:

- Biological assets;
- Agriculture produce at the point of harvest; and
- Government grants relating to the biological assets.

Not applies to:

- land related to agricultural activity (Ind AS 16 or Ind AS 40);
 - bearer plants related to agricultural activity (Ind AS 16), however applies to the produce on those bearer plants.
 - government grants related to bearer plants (Ind AS 20).
 - intangible assets related to agricultural activity (Ind AS 38).
-

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Key Terms

- Biological asset:
 - A living animal or plant
 - Bearer plant
 - A living plant that:
 - is used in the production or supply of agricultural produce
 - is expected to bear produce for more than one period, and
 - has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
 - Agricultural produce
 - The harvested product from biological assets
 - Agricultural activity
 - the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce, or into additional biological assets".
-

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Examples

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 fruits	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products

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Initial Recognition

- An entity recognises a biological asset or agriculture produce only when:
 - the entity controls the asset as a result of past events,
 - it is probable that future economic benefits will flow to the entity, and
 - the fair value or cost of the asset can be measured reliably.
- Initial recognition will occur at the point of purchase, or when biological assets are generated from existing assets, such as calves from livestock.
- Agricultural produce that is attached to a biological asset, such as wool to sheep and grapes to the vine, is not recognised separately until the point of harvest.
- Plants, meets the definition of a bearer plant (bearer biological assets) are within the scope of Ind AS 16.

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Measurement

- Ind AS 41 includes a presumption that an entity can establish a fair value for **biological assets**.
- On **initial recognition**, and at each subsequent reporting date an entity measures biological assets at fair value less costs to sell.
- The entity cannot make a **reliable estimate** of fair value, the biological assets at cost less depreciation and impairment.
- Biological assets may be physically attached to land, The entity may use the market price of the **combined asset** to measure the fair value of the biological asset whereby land will be treated as per Ind AS 16 or 40.

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Measurement

- **Agricultural produce** harvested from an entity's biological assets is measured at fair value less costs to sell at the point of harvest.
- **Costs to sell** include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties.
- **Costs to sell** exclude transport and other costs necessary to get assets to market. This is because these costs are already taken into account in determining fair value.
- **Gains or losses** arising on **initial recognition** of biological assets or agricultural produce at fair value less costs to sell are recognised in profit or loss in the period in which they arise.
- **Gains or losses** on **re-measuring** fair value of biological assets are recognised in profit or loss in the period in which they arise.

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Government Grants

- The grant is receivable in respect of biological assets measured at fair value less costs to sell and recognised in profit or loss.
- An **unconditional grant** is recognised as income when it becomes receivable.
- A **conditional grant** should be recognised as income only when the conditions are satisfied.

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Presentation and Disclosure

- Biological assets are presented separately on the face of the balance sheet.
- Financial information includes:
 - gain or loss on initial recognition and from changes in fair value;
 - restricted assets and assets pledged as security;
 - commitments; and
 - a reconciliation of changes in the carrying amount of biological assets in the period.
- Non-financial information required includes:
 - A description of the entity's agricultural activity and its biological assets.
 - Measures of the physical quantities of the entity's biological assets and its output during the period.
 - An explanation of the entity's financial risk management strategies related to agricultural activity.
- Additional disclosures required when fair value cannot be measured reliably.

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Presentation and Disclosure

- An entity also discloses information in relation to government grants including:
 - The nature and extent of grants recognised.
 - Unfulfilled conditions and other contingencies related to grants.
 - Significant decreases expected in grants.

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Ind AS Certification Course – Day 2

Recap

Recap

Ind AS 2

- Contains the requirements on how to account for most types of inventory.
- The standard requires inventories to be measured at the lower of cost and net realisable value (NRV).
- Outlines acceptable methods of determining cost, including specific identification (in some cases), first-in first-out (FIFO) and weighted average cost.

Ind AS 16

- Outlines the accounting treatment for most types of property, plant and equipment.
 - Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.
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Recap

Ind AS 38

- Outlines the accounting requirements for intangible assets, which are non-monetary assets which are without physical substance and identifiable (either being separable or arising from contractual or other legal rights).
- Intangible assets meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortised on a systematic basis over their useful lives (unless the asset has an indefinite useful life, in which case it is not amortised).

Ind AS 40

- The accounting for property (land and/or buildings) held to earn rentals or for capital appreciation (or both).
 - Investment properties are initially and subsequently measured at cost and for the purpose of disclosure fair value needs to be measured.
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Recap

Ind AS 41

- To establish standards of accounting for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets).

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Questions?
Feedback!

Thank You!

akhilkanthalia@gmail.com

+91 94619 22204