Ind AS

CA. Sumit L. Sarda

What is Ind AS

- Ministry of Corporate Affairs in consultation with National Advisory Committee on Accounting Standards notified on 16th Feb 2015 Indian Accounting Standards in correspondence to IFRS

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Timeline of Implementation

1.04.2015

- Companies may voluntarily opt for Ind AS
- Comparitives shall also be presented as per Ind AS

1.04.2016

- Listed/ Being listed companies having net worth more than 500 crores
- unlisted companies having net worth more than 500 crores
- Parent, Subsidiary, Associate and JV

1.04.2017

- Listed/ being listed companies- other than SME listed comapnies
- unlisted companies having net worth more than 250 crores
- Parent, Subsidiary, Associate and JV

Further timeline

1.04.2018

- Non Banking Financial Companies having net worth of Rs.500 crore or more
- Holding, Subsidiary, Joint Venture or Associate of such company

1.04.2019

- NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchange in India or outside India
- NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore
- Holding, Subsidiary, Joint Venture or Associate of such company

Ind AS 1: Presentation of Financial Statements

Ind AS1	AS 1
Deals with Presentation of financial statements	Deals with disclosure of accounting policies

Ind AS1	AS 1
Explicit statement in the financial statements of compliance with all the Indian Accounting Standards	No such requirement

Ind AS1	AS 1
Provides criteria for Current non current classification	No such requirement

Ind AS 1: Presentation of Financial Statements

Ind AS1	AS 1
Prohibits classification as extra ordinary items	No such prohibition

Ind AS1	AS 1
Requires a statement of change in equity	No such requirement

Ind AS1	AS 1
Requires opening balance sheet in case of change in policy	No such requirement

Ind AS 2: Inventory

Ind AS2	AS 2
Defines inventory of Service provider	Excluded from AS 2

Question

- Edifice Pvt. Ltd. is an Architect firm which recently got the work to design building for Raheja Builders. Half of the design is complete for year end 31.3.2016. Two Architects were involved in designing which took 30 hrs of their time each, one software engineer who has given 50hrs of time, and supported by non technical office people for same time. Salary of Architect is 100,000 per month and they work 25 days 8 hrs every day and salary of 50,000 per month for engineer who works for same hours

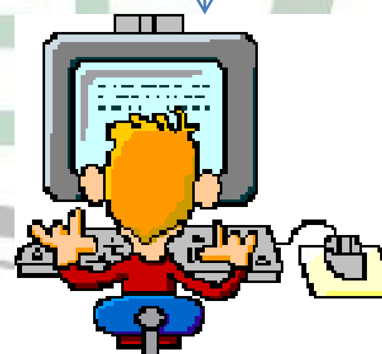
RAHEJA™
DEVELOPERS

Urban HOMEZ

EDIFICE
ARCHITECTS
PVT LTD

30 hrs

30 hrs



50 hrs

110 hrs

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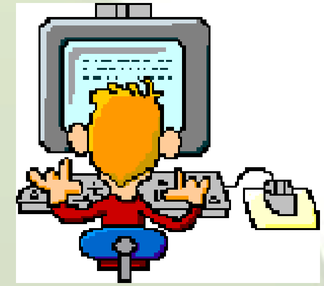
		
Salary = 1,00,000	Salary = 1,00,000	Salary = 50,000
Time = 200 hrs	Time = 200 hrs	Time = 200 hrs
Salary per hour =500	Salary per hour =500	Salary per hour =250
Time given = 30hrs	Time given = 30hrs	Time given = 50hrs
Total amount = 500 * 30 =15,000	Total amount = 500 * 30 =15,000	Total amount = 250 * 50 =12,500
TOTAL = 42,500		

Ind AS 2: Inventory

Ind AS2	AS 2
Spares consumable within 12 months forms part of inventory	Spares related to fixed assets are not inventory

Question

- Rathna Packaging Pvt. Ltd. has various spare parts related to machines kept in stores. Spares worth Rs.5 lakh are consumable during average period of 4 to 5 months and spares worth Rs.24 lakh are consumed ones in 15 to 20 months but being crucial parts are kept in stock. Determine accounting treatment

RATHNA PACKAGING INDIA PRIVATE LIMITED

Solutions for Flexible Packaging Materials

An ISO 22000 : 2005 Certified Company

Spares		
Period of consumption	Within 12 months	More than 12 months
Value	5,00,000	24,00,000
Classification head	Inventory Ind AS 2	Fixed Asset Ind AS 16

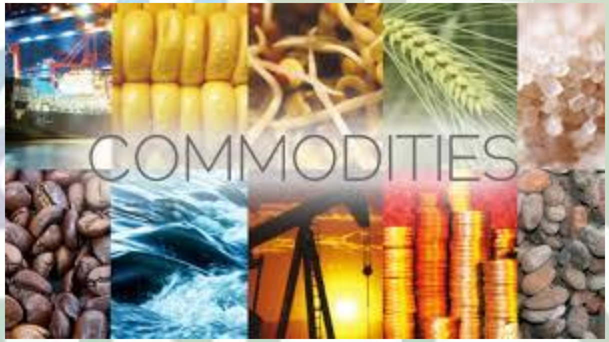
Ind AS 2: Inventory

Ind AS2	AS 2
does not apply to measurement of inventories held by commodity broker-traders	No such exclusion

Question

- Sharekhan Ltd. has commodity stocks costing Rs.50 lakhs which has a market value of Rs.150 lakhs for the year ending 31.3.2016. Determine how such stock shall be valued

Sharekhan
YOUR GUIDE TO THE FINANCIAL JUNGLE



Cost	Fair Value
Rs.50 lakhs	Rs.150 lakhs

Ind AS 2: Inventory

Ind AS2	AS 2
Inventory acquired on deferred payment terms beyond normal credit period should exclude interest.	No such requirement

Question

- KCP Ltd. purchased a roller shaft from SHEL Ltd. to sell it to one of its customers, payment is due to be made in one year time. Cost of machine is Rs.50 lakhs and benchmark interest rate is 15%p.a. Determine cost of inventory

SHEL Siddhartha Heavy Equipment Limited

kcp Progressive Growth

Roller shaft

- Cost = Rs.50 lakh
- Discount rate = 15%
- Payment period = 1year
- PVF = 0.8695
- Present Value = 43.47 lakhs

Ind AS 2: Inventory

Ind AS2	AS 2
deals with the reversal of the write-down of inventories to net realizable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements	Reversal is covered in AS 5

Question

- Y Ltd. provided Rs. 25 lakhs for inventory obsolescence in 1998-99. In the subsequent year, it was determined that 50% of such stock was usable. The company wants to adjust the same through prior period adjustment account as the provision was made in the earlier year

Answer

- Inventory obsolesce recorded in 1998-99 = 25 lakhs
- 1999-2000 found 50% of inventory to be usable
- 1999-2000 increase the value of stock by 12.5 lakhs as per Ind AS 2

Ind AS 2: Inventory

Ind AS2	AS 2
Trade discounts rebates and other similar items are deducted in determining cost of purchased	Trade discounts and rebates are deducted from cost of purchase

Question

- Jain timber and plywood's Pvt. Ltd. purchased 1000 sheets of ply from Century Ply board Pvt. Ltd. at a cost of Rs.1000 per sheet. If payment is made within 30 days, discount of 2% will be given. Determine cost of inventory

CENTURYPLY

Jain Timber and Plywood's Pvt. Ltd.

- Cost of Raw material = 10,00,000
- Credit Discount = 20,000
- Net purchase price as per Ind AS 2 = 9,80,000

Ind AS 7: Cash flow statement

Ind AS7	AS 3
Bank OD is a part of cash and cash equivalent	Bank OD is a part of financial activity

Ind AS7	AS 3
there is no such thing as extra ordinary activity in Ind As 7	Cash flow from Extra ordinary activity has to be shown separately in Operating, Investing or Financing Activity

Ind AS7	AS 3
Interest and Dividend received are classified as Investment Activity.	Financial enterprise may classify interest and dividend received as Operating activity

Ind AS 7: Cash flow statement

Ind AS7	AS 3
Dividend paid is classified as financing activity.	Financial enterprise may classify interest and dividend paid as operating activity

Ind AS7	AS 3
Assets purchased for being rented out to others and subsequent sale are shown under Operating activity, both receipts and payments	Not such guidance given

Ind AS7	AS 3
Change in ownership interest in a subsidiary without loss of control are treated as financing activity	No specific guidance

Ind AS 7: Cash flow statement

Ind AS7	AS 3
Ind AS 7 specifically mentions to adjust profit or loss for the effects of undistributed profits of associates and non controlling interests while determining net cash flow from operating activities	No specific guidance

Ind AS 8: Accounting Policies, change in accounting estimates and errors

Ind AS8	AS 5
Change in accounting policy is permitted only if 1. Required by an Ind AS 2. Results in financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows	Change in accounting policy is permitted only if 1. Required by an AS 2. Required by statute 3. Results in financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows

Ind AS 8: Accounting Policies, change in accounting estimates and errors

Ind AS8	AS 5
Material prior period errors are corrected retrospectively by restating the comparative amounts for the prior periods presented in which the error occurred, before the earliest prior period presented, restating the opening statement of financial positions	Prior period errors are included in determination of profit or loss of the period in which the error was discovered and are separately disclosed in the statement of profit and loss in a manner that the impact of current year profit or loss can be perceived

Ind AS8	AS 5
Errors include frauds	Frauds are not covered

Question

- Income tax raid took place in the premise of XYZ Ltd. and following was found related to previous years
  - Unaccounted sales = 50 lakhs
  - Unaccounted payments = 30 lakhs
  - Tax liability = 5 lakhs

- Sales = 50 lakhs
- Payments = 30 lakhs
- Cash = 20 lakhs
- Tax liability = 5 lakhs

Particulars	Debit	Credit
Cash dr.	20	
To Provision for tax		5
To General Reserve		15

Ind AS 8: Accounting Policies, change in accounting estimates and errors

Ind AS8	AS 5
Does not deal with extra ordinary items	Extra ordinary items to be presented separately

- Example
  - Sale of an investment in subsidiary and associated companies;
  - Significant charge in Government fiscal policy;
  - Discontinuance of business segment-

Ind AS 8: Accounting Policies, change in accounting estimates and errors

Ind AS8	AS 5
Ind AS 8 requires that changes in accounting policies should be accounted for with retrospective effect	AS 5 requires that changes in accounting policies should be calculated retrospectively and accounted for with prospective effect

Ind AS 8: Accounting Policies, change in accounting estimates and errors

Ind AS8	AS 5
Ind AS 8 requires that changes in accounting policies should be accounted for with retrospective effect	Ind AS 8 requires that changes in accounting policies should be calculated retrospectively and accounted for with prospective effect

Question

- ABC Ltd. changes its method of stock valuation from FIFO to Weighted Average which requires opening stock value to change from 200 lakhs to 213 lakhs. How should the same be accounted for? Tax rate 30%

Answer

- Value of opening stock to increase by Rs.13 lakhs (213-200)
- This will increase previous years profits by 13 lakhs.
- Deferred tax liability to be created for the same 3.9 lakhs
- Difference to be charged to retained earning = 9.1 lakhs

Ind AS 10: Events after the Reporting Period

Ind AS10	AS 4
Events occurring after the balance sheet date means period occurring between end of reporting period and the date of authorization for issue	Events occurring after the balance sheet date means period occurring between end of reporting period and the date on which financial statements are approved by Board of Directors

Question

- Annual Statements were approved first by audit committee on 17.5.2016 and then by Board of Directors on 13.6.2016. Determine Ind AS 10 implementation period

Answer

31.3.2016 — 17.5.2016 — 13.6.2016

17.5.2016: Audit Committee Approval

13.6.2016: BOD Approval

Ind AS 10: Events after the Reporting Period

Ind AS10	AS 4
Material non adjusting events are required to be disclosed in the financial statements	Required to be disclosed in statement of approving authority

Question

- A Limited Company closed its accounting year on 30.6.2005 and the accounts for that period were considered and approved by the board of directors on 20th August, 2005. The company was engaged in laying pipe line for an oil company, deep beneath the earth. While doping the boring work on 1.8.2005 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of Rs. 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.2005

Answer

30.6.2016

1.8.2016
Met Rocky surface

20.8.2016
BOD Approval

Ind AS 10: Events after the Reporting Period

Ind AS10	AS 4
If after the reporting date, it is determined that the accounting assumption of going concern is no longer appropriate, the Ind AS 10 requires a fundamental change in the basis of accounting rather than an adjustment to the amounts recognized within the original basis of accounting	Requires assets and liabilities to be adjusted for events occurring after the balance sheet date that the fundamental accounting assumption of going concern is not appropriate

Ind AS 12: Income Taxes

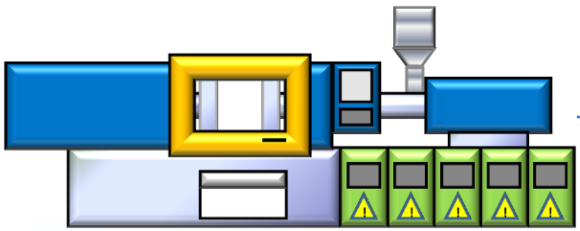
Ind AS12	AS 22
Based on Balance sheet approach	Based on Income statement approach

Ind AS12	AS 22
Measurement of deferred tax liability or asset arising from revaluation is based on the tax consequence from the sale of the asset rather than through use	Revaluation is treated as permanent difference and therefore the recognition of the same for deferred tax effects is applicable

Question

- Fixed Asset having WDV 20 lakh was revalued by Rs.10 lakh as on 31.3.2016. WDV for accounting and tax purpose is same. Tax rate for business is 30% and capital gain rate is 20%. Determine accounting treatement

Answer



Book Value = 20 lakh

Fair Value = 30 lakhs

Revaluation surplus = 10 lakhs

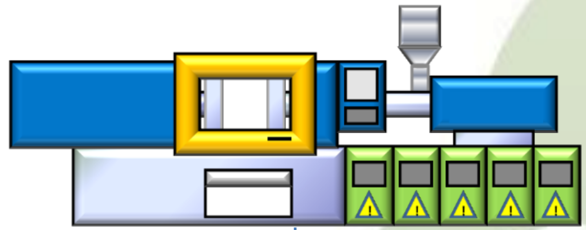
Not routed through P&L, Balance sheet difference

Value for tax purpose
- 20 lakhs

Value as per books
- 30 lakhs

Timing Difference
- 10 lakhs

Answer



Fair value = 30 lakhs → If Sold, profit will be = 10 lakhs → Revaluation means early recognition of profits

- Thus, DTL will be created
  - Tax rate of sell will be considered as Capital gain will arise if sold
  - Thus 10 * 20% = 2 lakhs

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Ind AS 12: Income Taxes

Ind AS12	AS 22
Recognition of deferred taxes related to items in other comprehensive income or equity is recorded there itself	No specific guidance

Ind AS 12: Income Taxes

Ind AS12	AS 22
Deferred tax asset is recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable future profit will be available against which unused tax credits can be utilized. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity	Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available

Question

- Newly formed Ventura Industries Ltd. has incurred losses of Rs.20 lakhs. It expects future profits but not sure as to the year from which such profits will commence. Can Deferred tax asset be created?

Ind AS 12: Income Taxes

Ind AS12	AS 22
Deferred taxes on unrealized intra group profits is recognized at buyers tax rate	Not recognized in consolidation

Question

- Holding Ltd. sold goods to Subsidiary Ltd. costing Rs.10 lakhs at Rs.15 lakhs. Such goods are kept in the stock of Subsidiary for year ending 31.3.2016. Determine Deferred taxes for to be recognized in Consolidated Balance sheet if tax rate is 30% for holding and 20% for subsidiary

Answer

Expenses	Amount	Revenue	Amount
Purchases	10,00,0000	Sales	15,00,000
Profit	5,00,000		
Tax paid	1,50,000		

Eliminate profit

Remove

Expenses	Amount	Revenue	Amount
Purchases	15,00,0000	Sales	
		Closing stock	15,00,000

Consolidated P&L

Expenses	Amount	Revenue	Amount
Purchases	10,00,000	Closing Stock	10,00,000
Tax paid	1,50,000		

Should Deferred taxes be created for such tax paid?

Next year- suppose sold for 21 lakh

Expenses	Amount	Revenue	Amount
Opening Stock	15,00,000	Sales	21,00,000
Profit	6,00,000		
Tax paid	1,20,000		

Expenses	Amount	Revenue	Amount
Opening Stock	10,00,000	Sales	21,00,000
Profit	11,00,000		
Tax paid	1,20,000		

Answer

- Thus deferred taxes will be created
  - Will be created @ 20%, i.e. buyers tax rate
  - DTA will be for 1,00,000/-

Expenses	Amount	Revenue	Amount
Purchases	10,00,000	Closing Stock	10,00,000
Current Tax	1,50,000		
Deferred Tax	(1,00,000)		

Ind AS 12: Income Taxes

Ind AS12	AS 22
Deferred taxes are classified as non current	No specific guidance

Ind AS 17: Leases

Ind AS17	AS 19
Includes Land lease transactions	Land lease agreements are excluded

Question

- Azure Power Ltd. acquired 20 acre of land on lease for 20yrs from Farming India Ltd. at a lease rent of Rs.10 crore per annum. Determine whether operating lease or finance lease

Azure Power

Farming India Ltd.

- Land has indefinite life
- Hence such lease are considered to be operating lease in books of Farming India Ltd.

Question

- Azure Power Ltd. acquired 20 acre of land on lease for 20yrs from Farming India Ltd. at a lease rent of Rs.10 crore per annum with guarantee to buy at Rs.100 crore at the end of lease term. Determine whether operating lease or finance lease

Answer

- Since there is a guarantee to buy at the end of lease term, it is considered to be finance lease

Ind AS 17: Leases

Ind AS17	AS 19
Ind AS 17 is not applicable as the basis of measurement for property held by lessees/provided by lessors under operating leases but treated as investment property	Lease hold land is classified as fixed asset

Question

- Abhay Coal Ltd. gave one of its building held as investment property on rent to bank for 9yrs. Building has economic life of 20yrs. Determine whether covered under lease or not?

Answer

Abhay Coal Ltd.

Property on lease

- Economic life = 20yrs
- Lease period = 9yrs
- Type of lease = Operating
- Type of property = Investment
- Thus excluded from Ind AS 17

Question

- Abhay Coal Ltd. gave one of its building held as investment property on rent to bank for 9yrs. Building has economic life of 10yrs. Determine whether covered under lease or not?

Answer

Abhay Coal Ltd.

Property on lease

- Economic life = 10yrs
- Lease period = 9yrs
- Type of lease = Finance
- Type of property = Investment
- Thus covered under Ind AS 17

Ind AS 17: Leases

Ind AS17	AS 19
Ind AS 17 is not applicable as the basis of measurement for biological assets held by lessees/provided by lessors under operating leases that are covered in the Standard on Agriculture	Not covered

Question

- Bollymals Pvt. Ltd. provides animals on lease for various movie scenes. It provided Bengal tiger for the movie Kaal at a lease value of Rs.1 lakh per month for a period of 1 year. Detemrine whether covered under Ind AS 17 or not?

Answer

[redacted]

- Biological assets are covered under Ind AS 17
- Lease period = 2 years
- Thus operating lease

Question

- ABK Ltd. takes on lease Cows from farmers around Ludhiana at rental of 1 lakh per annum for 1 year later renewable. Whether the lease are covered under Ind AS 17?

Answer

- Period = 1 year
- Type = Operating lease
- Purpose = Agriculture
- Excluded from Applicability of Ind AS 17

Question

- What if it was a finance lease?

- Answer
  - Covered under Ind AS 17

Ind AS 17: Leases

Ind AS17	AS 19
Ind AS 17 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined	leases rentals to be charged to statement of profit and loss on straight-line basis in case of operating leases

Question

- Avis lease Ltd. gave on lease car to Le Meridian Group for its guests vehicle need. It charges Rs.1,50,000 per annum with escalation of Rs.10,000 per annum and agreement in for five years. Determine lease rent to be charged to P&L each year if inflation rate is 5%

AVIS Lease

Le MERIDIEN

Inflation linked rental amount

Year	Inflation @ 5%	Rental value	Inflation related value
1	-	150,000	0
2	150000 * 5% = 7,500	157,500	7,500
3	157,500 * 5% = 7,875	165,375	15,375
4	165,375 * 5% = 8,269	173,644	23,644
5	173,644 * 5% = 8,682	182,326	32,326

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AVIS Lease

Le MERIDIEN

Inflation linked rental amount

Year	Amount Paid	Inflation related value	Non inflated rental paid
1	150,000	0	150,000
2	160,000	7,500	152,500
3	170,000	15,375	154,625
4	180,000	23,644	156,356
5	190,000	32,326	157,674
		TOTAL	7,71,155

AVIS Lease

Le MERIDIEN

Inflation linked rental amount

Year	Straight lined rent =7,71,155/5	Inflation related value	Rent to be recognized in books
1	154,231	0	154,231
2	154,231	7,500	161,731
3	154,231	15,375	169,606
4	154,231	23,644	177,875
5	154,231	32,326	186,557

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Ind AS 17: Leases

Ind AS17	AS 19
Financial assets and liabilities are initially recorded at fair value, difference between transaction value and fair value of the lease deposit is treated as prepaid rent. Hence this amount need to be recorded in P&L on straight line basis	Lease deposits are recorded at their transaction value. The time value of money is not treated as lease rental.

Question

- Hiranandani Ltd. leased its building to Crisil Ltd. for 9 yrs lease of Rs.50 lakh per month. Lease deposit of 2.5 crore was paid interest free refundable at the end of lease term. Determine accounting treatment if benchmark interest rate as 15%

Hiranandani
creating better communities

CRISIL

- Security deposit amount = Rs.2.5 crore
- Discount rate = 15%
- Lease period = 9yrs
- PVF (15%, 9^{th} year) = 0.2843
- Present Value = 71,06,560

Particulars	Debit	Credit
Bank dr.	2.5 Crore	
To Security Deposit		71,06,560
To Prepaid Rent		1,78,93,440

Rs.1,78,93,440 will be recognized as rental income over the period of 9yrs straight lined
i.e. Rs.19,88,160

Particulars	Debit	Credit
Prepaid Rent	19,88,160	
To Rental Income		19,88,160

Ind AS 17: Leases

Ind AS17	AS 19
Same as existing standard	Initial lease cost incurred by manufacturer or dealer lessor is expensed out at inception under finance lease

Ind AS17	AS 19
Initial lease cost for other lessors are included in the measurement of finance lease receivable and reduce the amount of income recognized over the period of lease term	Initial lease cost for other lessors either expensed immediately or amortized over the lease term

Question

- Lease rent of Rs.5 lakh per annum for a period of 5yrs. Discount rate is 10%. Determine finance lease accounting to be recognized if expense of leasing amounts to Rs.1 lakh lessor being non manufacturer

Answer

Year	Lease amount	PVF @ 10%	Present Value
0	(1,00,000)	1	(1,00,000)
1	5,00,000	0.9091	4,54,550
2	5,00,000	0.8264	4,13,200
3	5,00,000	0.7513	3,75,650
4	5,00,000	0.6830	3,41,500
5	5,00,000	0.6209	3,10,450
		TOTAL	17,95,350

Journal entry

Particulars	Debit	Credit
Lessee dr.	17,95,350	
To Leased Asset		16,95,350
To Bank (Lease Expense)		1,00,000

Particulars	Debit	Credit
Lessee dr.	1,79,535	
To Lease Interest		1,79,535

Particulars	Debit	Credit
Bank dr.	5,00,000	
To Lessee		5,00,000

Ind AS 17: Leases

Ind AS17	AS 19
Initial direct cost incurred by lessor under operating lease in added to the leased asset and amortized over the lease term on same basis as lease income	Initial lease cost incurred by manufacturer or dealer lessor is expensed out at inception

Ind AS17	AS 19
Initial direct cost incurred by lessor under operating lease in added to the leased asset and amortized over the lease term on same basis as lease income	Initial lease cost for other lessors either expensed immediately or amortized over the lease term

Question

- Lease rent of Rs.5 lakh per annum for a period of 5yrs. Determine operating lease accounting to be recognized if expense of leasing amounts to Rs.1 lakh.

Answer

- Expense is amortized over the period of 5yrs i.e. 1,00,000/5 = 20,000 per annum as income is recognized straight line over the period of 5yrs

Ind AS 17: Leases

Ind AS17	AS 19
Lease incentive are recognized by both the lessor and the lessee as reduction of rental income and expense, respectively, over the lease term	No specific guidance

Question

- Amaira Ltd. has given its building on lease to school at a rent of Rs.150,000 per month for a period of April 2015 to March 2016. It provides incentive to the school to charge 50% rent during summer holidays in the month of April and May. Determine lease accounting for the accounting year January 2015 to December 2015

Answer

- Lease Rent = 150,000 per month
- Lease rent during summer = 75,000 per month
- Total lease rent = 150000 * 10 + 75000 * 2
- = 16,50,000
- Lease rent to be recognized per month = 16,50,000/12 = 1,37,500
- Total lease rent for 2015 = 137500 * 9 = 12,37,500

Ind AS 17: Leases

Ind AS17	AS 19
Ind AS 17 deals with adjustment of lease payments during the period between inception of the lease and the commencement of the lease term	This aspect is not dealt with in the existing standard

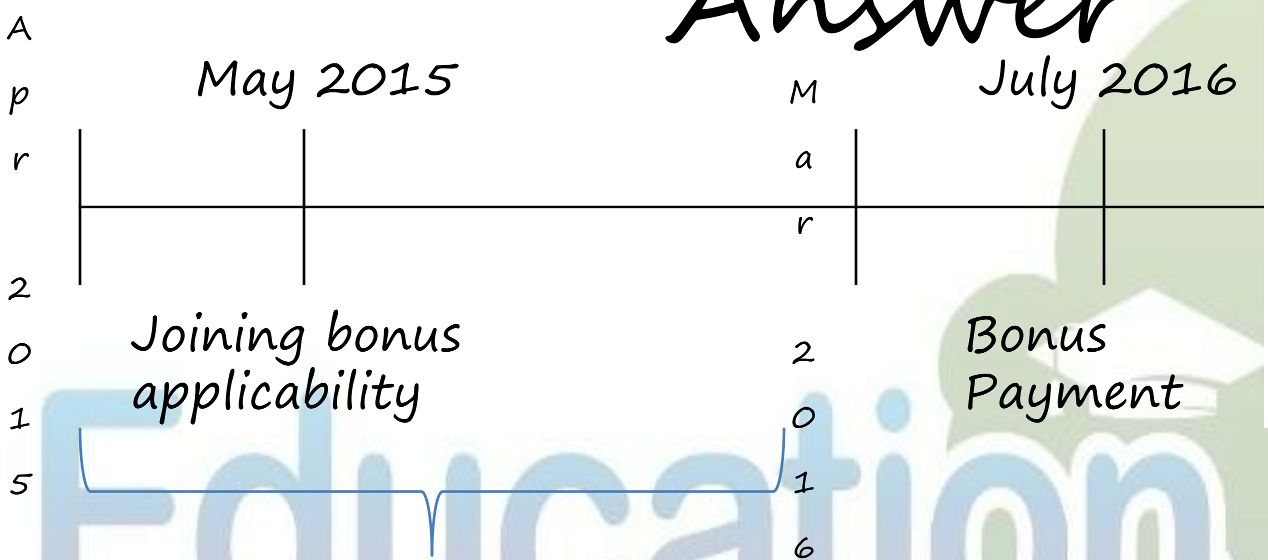
Ind AS 19: Employee Benefits

Ind AS19	AS 15
Distinction between short term and other long term employee benefits depends on whether they are due to be settled within 12 months after the end of reporting period in which employee rendered the service	Distinction between short term and other long term employee benefits depends on whether they are due to be settled within 12 months after the end of period when employee rendered the service

Question

- Joining bonus is paid by Infosys Ltd. to all new joiners provided they complete one year of service. Payment is made in the month of July for all employees who completed such service during previous year. Prakash, one of the employees completed the 12 months duration in May 2015 for which payment will be made in July 2016. Determine whether short term or long term employee benefit

Answer



- Financial year in which service is rendered = 2015-16
- Reporting date = 31.3.2016
- Payment = July 2016
- Period = 4 months from reporting date
- Hence short term employee benefit

Ind AS 19: Employee Benefits

Ind AS19	AS 15
Actuarial valuation to be carried out in regular intervals so that the amount recognized in financial statements does not differ materially with that of determine at the end of reporting period	Actuarial valuation to be carried out ones in every three years

Ind AS 19: Employee Benefits

Ind AS19	AS 15
Actuarial gains or losses to be recognized in other comprehensive income	Actuarial gains or losses to be recognized on P&L

Question

- During the year Actuarial gain on Defined Obligation amounts to Rs.3,00,000. Determine the presentation of the same

Answer

Particulars	Debit	Credit
Defined Obligation account dr.	3,00,000	
To Other Comprehensive Income		3,00,000

Ind AS 19: Employee Benefits

Ind AS19	AS 15
Definition of employee includes directors	Definition of employee includes whole time directors

Question

- Sitting fees of Rs.1 lakh was paid to five independent directors of the company for 5 meetings held during the year. Determine where the amount shall be reflected in P&L

Answer

- Employees include all directors of the company whether full time or independent.
- Thus such amount paid of Rs.25,00,000 (5 meetings * 5 directors * 1 lakh) will be reflected in Employee Benefit Head of P&L

Ind AS 19: Employee Benefits

Ind AS19	AS 15
Employee benefits include constructive obligation where the entity has no realistic alternative but to pay employee benefits	Not included

Question

- Tata Ltd. pays annual bonus in the month of June for previous financial year along with a small gift to each of the employee. For the financial year ending 313.2016, total number of workers were 56,000 and each gift item costs company Rs.300. Determine accounting treatment

Answer

- Giving gift is constructive obligation
- Ind AS 19 requires accounting for constructive obligation
- Gift value = 56,000 workers * Rs.300/-
- = Rs.1.68crore

Ind AS 20: Government Grants

Ind AS20	AS 12
Deals with both govt. grant and disclosure of govt. assistance	Does not deal with disclosure of govt. assistance

Question

- Startup India Ltd. got following benefits from Startup India Benefit Scheme announced by Prime Minister Narendra Modi. Determine whether they need accounting treatment or not?
  - Compliance regime based on self-certification and no regulatory inspection for three years
  - Startup India Hub Will Be created – a single point of contact for interactions with the government
  - A mobile app to be launched on April 1 to register startups in one day only and by filing one form

Answer

- Following benefits will be required to be disclosed in financial statements though no monetary value can be placed on them

Question

- Government built a Dam which led to better irrigation facilities made available to the agricultural company. Will such grant be classified as Govt. assistance?

Answer

- No, improved facilities available on an ongoing basis for the benefit of the entire local community is not disclosed as government assistance

Ind AS 20: Government Grants

Ind AS20	AS 12
Forgivable loans are to be treated as govt. grant if there is reasonable assurance that the entity will meet the terms of forgiveness of the loan	Not included

Question

- Kingfisher Airlines Ltd. took a loan of 7000 Crores from various banks in the year 2003. In the year 2016, due to financial crisis company was not able to repay the loan and hence got a waiver from government amounting to 30% of loan. Show accounting treatment

Answer

[redacted]

Loan Waiver in the form of immediate financial support are considered as other income

Particulars	Debit	Credit
Loan dr.	2100 Crore	
To Other Income		2100 Crore

Ind AS 20: Government Grants

Ind AS20	AS 12
Loan received from govt. at concessional rate shall be treated as govt. grant and measured at difference between initial carrying amount of loan determined by concessional rate and fair value of loan	Not included

Question

- ABC Ltd. received loan of Rs.10 crore from Government at discounted rate of 4% p.a. repayable after 5 years. Market interest rate is 10%. Determine accounting treatment

Answer

Year	Interest and Principal	PVF @ 10%	Present Value
0	-	1	-
1	40 lakhs	0.9091	36.36
2	40 lakhs	0.8264	33.06
3	40 lakhs	0.7513	30.05
4	40 lakhs	0.6830	27.32
5	1040 lakhs	0.6209	645.74
		TOTAL	772.53
		Amount Received	1000
		Govt. Grant	227.47

Answer

Year	Interest @ 10%	Repayment	Closing balance
0			772.53
1	77.25	40	809.78
2	80.98	40	850.76
3	85.07	40	895.83
4	89.58	40	945.41
5	94.59	1040	-

Ind AS 20: Government Grants

Ind AS20	AS 12
Govt. grant are recognized as income and are matched with corresponding expense in which they are intended on systematic basis. Grant related to assets are presented in balance sheet as deferred income	Promoter's contribution grant credited to share holders fund. Grant related to non depreciable asset credited to capital reserve

Question

- Continue last question to determine how government grant will be accounted for

Answer

Year	Interest @ 10%	Interest actually paid	Govt. Grant to be credited to P&L (difference)
0		-	-
1	77.25	40 lakhs	37.25
2	80.98	40 lakhs	40.98
3	85.07	40 lakhs	45.07
4	89.58	40 lakhs	49.58
5	94.59	40 lakhs	54.59
		TOTAL	227.47

Ind AS 20: Government Grants

Ind AS20	AS 12
Non monitory grant to be recognized at fair value	Recorded at the value at which it is received and if received free, at nominal value

Question

- Govt. gave 349 acres of land to Patanjali Ayurved Ltd. for food processing unit free of cost having fair market value of Rs.10 Crores. Determine the accounting treatment

PATANJALI

- Fair Value of land = 10 crores
- Payment made by Patanjali = zero
- Amount to be recognized as Govt. Grant as per Ind AS 20 = 10 crores

Ind AS 20: Government Grants

Ind AS20	AS 12
Repayment of grant shall first be reduced from the deferred income balance	Grant repaid shall either increase the asset value or reduce deferred income

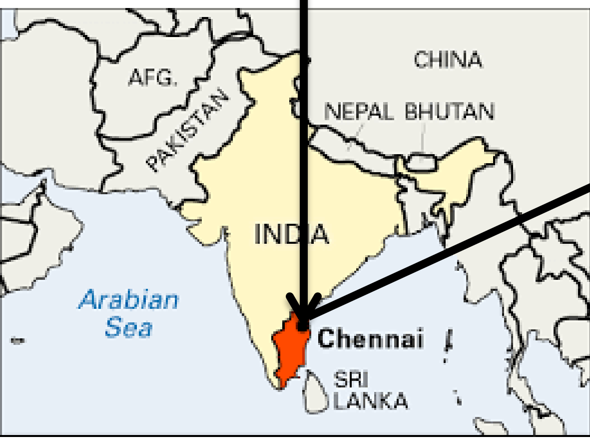
Ind AS 21: Effects of change in Foreign Exchange rates

Ind AS21	AS 11
Functional currency is the currency of the primary economic environment in which entity operates Foreign currency is other than functional currency Presentation currency is currency in which financial statements are presented	Foreign currency are currency other than reporting currency

Question

- Foxconn Technology group, a multinational electronic contract manufacturing company of Taiwan opens its manufacturing plant in India from where it will manufacture electronic parts for Nitendo Co. Ltd. Japan. Payments are received in Yen and major expenses incurred in Taiwan dollar. Determine Functional, Presentation and Foreign currency for operations in India

FOXCONN



Nintendo

FOREIGN CURRENCY

Receipts – YEN

FUNCTIONAL CURRENCY

Payments – TAIWAN DOLLAR

PRESENTATION CURRENCY

Ind AS 21: Effects of change in Foreign Exchange rates

Ind AS21	AS 11
Assets and liabilities are translated using closing rate at the date of statement of financial position, income and expenses are converted at actual/average rates for the period. Exchange difference are recognized in statement of comprehensive income and recycled to profit or loss on disposal on the operations	The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting enterprise. For this purpose, foreign operations are classified as either integral foreign operations or non integral foreign operations Integral foreign operations monetary items are translated at closing rate, non monetary items at historical rate if values at cost but if carried at fair value then reported using exchange rates. Exchange difference are reported in profit and loss and recycled in P&L on disposal of non integral foreign operation. Non Integral foreign operation: Closing rate method is being followed. Exchange difference is transferred to reserve account.

Question

- ABC Ltd. has a foreign subsidiary with following balance sheet presented in $

Liabilities	Amount	Assets	Amount
Share Capital & Reserve	1,00,000	Fixed Assets	1,00,000
CY Profit	50,000	Current Assets	1,00,000
Long term liabilities	30,000		
Current Liabilities	20,000		
TOTAL	2,00,000	TOTAL	2,00,000

- Exchange rate on date of purchase was Rs.60 per dollar, average rate during the period 65 and closing rate 70 per dollar.

Answer

Figure in lakhs

Liabilities	Amount in $	Exchange rate	Amount in Rs.	Asset	Amount in $	Exchange Rate	Amount in Rs.
Share Capital & Reserve	1	60	60	Fixed Assets	1	70	70
CY Profit	0.5	65	32.5	Current Assets	1	70	70
Long term liabilities	0.3	70	21				
Current Liabilities	0.2	70	14				
Foreign Exchange Fluctuation			12.5				
TOTAL	**2**		140	**TOTAL**	**2**		140

Ind AS 23: Borrowing Cost

Ind AS23	AS 16
No Option to capitalize borrowing cost is available for Qualifying asset measured at fair value like biological asset, inventories manufactured in large quantities on repetitive basis	No exception

Question

- Paul John Ltd., Goa based company produces 3000lts of 3yr old whiskey daily. Determine whether interest cost will be included in the cost of inventory?

Answer

- Du [redacted] product to [redacted] s
- Pro [redacted] Its per [redacted]
- Thu [redacted] entory
- Being exclusion from Ind AS 23, interest cost is not included

-CA. Sumit L. Sarda - 8600364185

Ind AS 23: Borrowing Cost

Ind AS23	AS 16
Borrowing cost may include 1. Interest expense calculated using the effective interest method 2. Finance charges in respect of finance lease 3. Exchange difference arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest cost.	Borrowing cost include 1. Interest and commitment charges on bank borrowings and other short term and long term borrowings 2. Amortization of discounts or premiums relating to borrowing 3. Amortization of ancillary cost incurred in connection with the arrangement of borrowings 4. Finance charges in respect of assets acquired under finance leases or under other similar arrangements and 5. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost

Question

- Company issued 1 lakh 10% Debentures of Rs.100 each at a discount of 5% repayable after 5yrs at 7% premium for construction of Qualifying Asset which will take two years to complete. Issue expenses will be Rs.2 lakh. Determine Interest cost to be capitalized

Answer

- Determine IRR

Year	Interest & Principal	PVF @ 11%	Present Value	PVF@ 13%	Present Value
0	2	1	2.00	1	2.00
1	10	0.9009	9.01	0.8850	8.85
2	10	0.8116	8.12	0.7831	7.83
3	10	0.7312	7.31	0.6931	6.93
4	10	0.6587	6.59	0.6133	6.13
5	117	0.5935	69.43	0.5428	63.50
TOTAL			102.46		95.25

Answer

- IRR =
- $\text{Lower Rate} + \dfrac{\text{PV @ Lower Rate} - \text{Required Amount}}{\text{PV @ Lower Rate} - \text{PV @ Higher Rate}} * (\text{Higher Rate} - \text{Lower Rate})$

- Lower rate = 11%
- PV @ Lower rate = 102.46
- PV @ Higher rate = 95.25
- Higher Rate = 13%
- Required Amount = 95

Answer

- $= 11 + \dfrac{102.46 - 95}{102.46 - 95.25} * (13-11)$
- $= 11 + \dfrac{7.46}{7.21} * 2$
- $= 11+2.06 = 13.06\%$

Repayment Schedule

Year	Interest @ 13.06%	Actual Interest paid	Closing
0			95 – 2 = 93
1	12.15	10	95.15
2	12.42	10	97.57
3	12.74	10	100.31
4	13.10	10	103.41
5	13.59	10	107

Interest cost to be capitalized will be for first two years = 12.15 + 12.42 = 24.57 lakhs

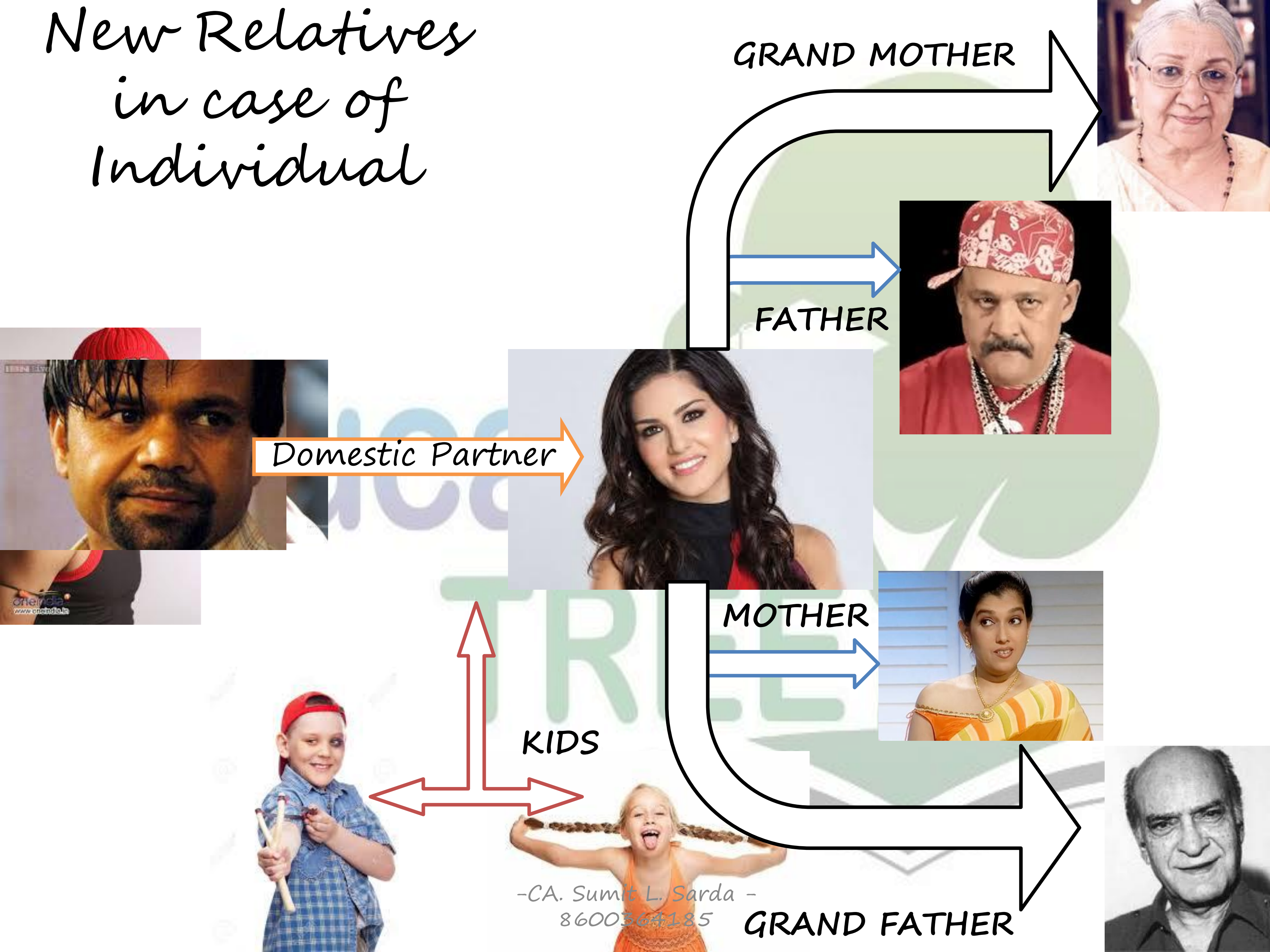
Ind AS 24: Related Party Disclosure

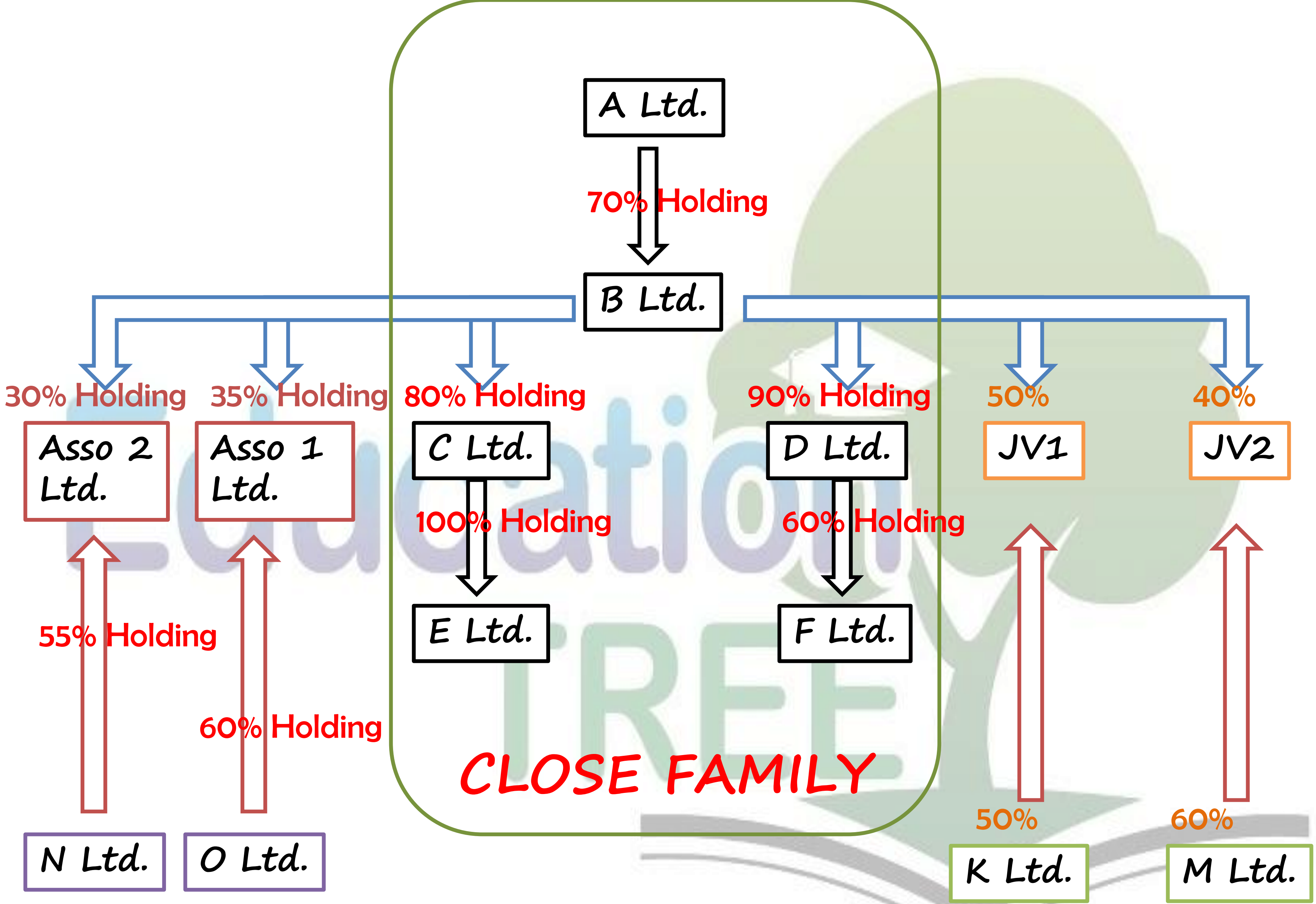
Ind AS24	AS 18
A related party in relation to the reporting enterprise is a person or entity that is related and includes 1. A person or close member of that persons family if that person has control, joint control, significant influence over the reporting enterprise or is a member of Key Management Personnel of their reporting enterprise or of a parent of reporting enterprise 2. Parent, subsidiary, joint venture, associates of the reporting enterprise	Parties are related if at any time during the reporting period, one party controls or exercised significant influence over the other party in taking financial or operating decisions

Ind AS 24: Related Party Disclosure

Ind AS24	AS 18
Close member includes persons domestic partner, person or spouses children and dependents of the person or spouse	Only relatives are defined as close members

New Relatives in case of Individual




A Ltd.
70% Holding
B Ltd.
30% Holding
35% Holding
80% Holding
90% Holding
50%
40%
Asso 2 Ltd.
Asso 1 Ltd.
C Ltd.
D Ltd.
JV1
JV2
100% Holding
60% Holding
E Ltd.
F Ltd.
55% Holding
60% Holding
CLOSE FAMILY
50%
60%
N Ltd.
O Ltd.
K Ltd.
M Ltd.

Ind AS 24: Related Party Disclosure

Ind AS24	AS 18
Related party includes post employment benefit plans for the benefit of employees of the reporting entity or any entity that is related party of the reporting entity	Not considered as related party

Question

- Q Ltd. made a deposit of Rs.1 lakh towards post employment benefit fund for its Managing Director Mr.A. Is the following transaction reported under Related party transaction?

- YES

Ind AS 24: Related Party Disclosure

Ind AS24	AS 18
KMP disclosure required to be disclosed in total for 1. Short term employee benefit 2. Post employment benefit 3. Other long term benefit 4. Termination benefit 5. Share based payments	KMP compensation to be disclosed in aggregate.

Ind AS 33: Earning per share

Ind AS33	AS 20
Existing AS 20 does not specifically deal with options held by the entity on its shares, e.g., purchased options, written put option etc	Ind AS 33 deals with the same

Question

- X Ltd. has outstanding 10,000 written put options on its ordinary shares with an exercise price of Rs.100. Average market price is Rs.75. Find diluted earning if present profits are Rs.1 crore and 10 lakh equity shares are outstanding

Answer

- Amount required to buy 10,000 shares = 10,000 * 100 = 10 lakh
- No. of shares to be raised for such funds = 10 lakh/Rs.75 =
- 13,334 shares
- Potential shares = 13,334 – 10,000 = 3,334
- Diluted EPS = Rs.1,00,00,000
- 10,03,334 shares
- =Rs.9.96/shares

Ind AS 33: Earning per share

Ind AS33	AS 20
Ind AS 33 requires presentation of basic and diluted EPS from continuing and discontinued operations separately	existing AS 20 does not require any such disclosure

Question

- Company shows a profit of Rs.10 crore which includes profits from sale of operations closed down during the year of Rs.2 Crore. Determine EpS if company has 20,000 shares

Answer

Particulars	From Continued Operations	From discontinued operations
Profits	8 Crore	2 Crore
Shares	20,000	20,000
EPS	4,000	1,000

Ind AS 33: Earning per share

Ind AS33	AS 20
Since as per Ind AS 1, ,,Presentation of Financial Statements", no item can be presented as extraordinary item, Ind AS 33 do not require the aforesaid disclosure.	Existing AS 20 requires the disclosure of EPS with and without extraordinary items.

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 applies only if an entity is required or elects to prepare and present an interim financial report in accordance with Accounting Standards. Consequently, it is specifically stated in Ind AS 34 that the fact that an entity may not have provided interim financial reports during a particular financial year or may have provided interim financial reports that do not comply with Ind AS 34 does not prevent the entity's annual financial statements from conforming to Ind ASs if they otherwise do so.	Under the existing AS 25, if an entity is required or elects to prepare and present an interim financial report, it should comply with that standard

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 requires, in addition to the existing standard, a condensed statement of changes in equity.	As per the existing standard, the contents of an interim financial report include, at a minimum, a condensed balance sheet, a condensed statement of profit and loss, a condensed cash flow statement and selected explanatory notes

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 prohibits reversal of impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost	There is no such specific prohibition in the existing standard

Question

- During the first quarter of Financial year ABC Ltd. tested its CGU for impairment and has written off its goodwill amounting to Rs.10 lakh.
- In the second quarter conditions prevailing earlier were reversed and impairment requires to be reversed. Can company reverse goodwill written off?

Answer

- Ind AS 34 prohibits reversal of impairment loss recognized in a previous interim period in respect of goodwill

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 states that it neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis	Under the existing standard, if an entity's annual financial report included the consolidated financial statements in addition to the separate financial statements, the interim financial report should include both the consolidated financial statements and separate financial statements, complete or condensed

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 requires furnishing of information, in interim financial report, on dividends paid, aggregate or per share separately for equity and other shares	The existing standard requires furnishing information, in interim financial report, of dividends, aggregate or per share (in absolute or percentage terms), for equity and other shares.

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 requires furnishing of information on both contingent liabilities and contingent assets, if they are significant	the existing standard requires furnishing of information on contingent liabilities only,

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 requires that, where an interim financial report has been prepared in accordance with the requirements of Ind AS 34, that fact should be disclosed. Further, an interim financial report should not be described as complying with Ind AS unless it complies with all of the requirements of Ind ASs. (The latter statement is applicable when interim financial statements are prepared on complete basis instead of ,,condensed basis‟).	The existing standard does not contain these requirements.

Ind AS 34: Interim Financial Reporting

Ind AS34	AS 25
Ind AS 34 additionally requires restatement of the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8, subject to specific provisions when such restatement is impracticable.	Under the existing standard, a change in accounting policy, other than the one for which the transitional provisions are specified by a new Standard, should be reflected by restating the financial statements of prior interim periods of the current financial year

-CA. Sumit L. Sarda -
8600364185

Ind AS 36: Impairment of Assets

Ind AS36	**AS 28**
Goodwill allocated to CGU's that are expected to benefit from the synergies of the business combination from which it arose. There is no bottom up or top down approach	Goodwill impairment is tested either thorough bottom up or top down approach

Question

- Tata Motors acquire Jaguar Land Rover company which has 3 manufacturing units at Birmingham where Jaguar cars are assembled, Halewood where Range Rover are assembled and Solihull where Land Rover is assembled. Each unit can be considered to be separate CGU. Acquisition cost was 7800 crore. Determine Impairment loss if goodwill is unallocable

Particulars	Birmingham	Halewood	Solihull
Cost	2000	2500	3000
Recoverable amount as on 31.3.2015	1800	2800	3200

TATA MOTORS

Takeover for 7800 Crores

LAND ROVER | JAGUAR

Halewood Plant
Cost = 2500
FV = 2800

Birmingham Plant
Cost = 2000
FV = 1800

Goodwill
7800 – 2000 – 2500 – 3000 = 300

Impairment Loss = 200

Adjust against Goodwill

Solihull Plant
Cost = 3000
FV = 3200

Ind AS 36: Impairment of Assets

Ind AS36	AS 28
Ind AS 36 prohibits reversal of Impairment loss related to goodwill	

Question

- Same question of Jaguar Above, Fair value of Birmingham plant increases to 2500 Crore next year and conditions pertaining to Impairment stands reversed. Can goodwill impairment be reversed?

Ind AS 36: Impairment of Assets

Ind AS36	AS 28
Impairment test is carried out annually	Impairment test is carried out when there are indications of such impairment

Question

- Same question of Jaguar, suppose fair value on 31.3.2016 of Birmingham plant is 1750 Crores? Determine treatment of Impairment Loss

Ind AS 36: Impairment of Assets

Ind AS36	AS 28
Ind AS 36 applies to financial assets classified as subsidiaries, as defined in Ind AS 110, associates as defined in Ind AS 28, joint ventures as defined in Ind AS 111.	Existing AS does not apply to them

Question

- H Ltd. acquired 60,000 shares face value Rs.10 (60%) of S Ltd. for Rs.10 lakhs when balance of reserves were 15 lakhs. Next year S Ltd. made a loss of Rs.4 lakhs. Determine impairment loss treatment in Separate Balance sheet

Answer

- Reserves balance = 15 lakh
- Share of Holding = 60% = 9 lakhs
- Shares = 60000 * 10 = 6 lakhs
- TOTAL Capital Held = 15 lakhs
- Cost of Acquisition = 10 lakhs
- Thus Capital Reserve = 5 lakhs
- Next year loss by subsidiary = 4 lakhs
- Holding share = 60% = 2.4 lakhs
- Thus goodwill stands impaired by 2.4 lakhs

Question

- H Ltd. acquired 30,000 shares face value Rs.10 (30%) of S Ltd. for Rs.10 lakhs when balance of reserves were 10 lakhs. Next year S Ltd. made a loss of Rs.4 lakhs. Determine impairment loss treatment in Separate Balance sheet

Answer

- Reserves balance = 10 lakh
- Share of Holding = 30% = 3 lakhs
- Shares = 30000 * 10 = 3 lakhs
- TOTAL Capital Held = 6 lakhs
- Cost of Acquisition = 10 lakhs
- Thus Goodwill = 4 lakhs
- Next year loss by subsidiary = 4 lakhs
- Holding share = 30% = 1.2 lakhs
- Thus goodwill stands impaired by 1.2 lakhs

Ind AS 36: Impairment of Assets

Ind AS36	**AS 28**
Ind AS 36 specifically excludes biological assets related to agricultural activity	Existing AS 28 does not specifically exclude biological assets

Question

- Bollymals Ltd. used to provide animals in movies on rent. With the advent of VFX technology, now industry has started using graphics to recreate animals. All its animals stand in books as Fixed Assets acquired at cost reflecting at Rs.10 lakhs
- Now value in use stands down to Rs.5 lakhs
- Sale value of such animals to zoo authority is Rs.6 lakhs
- Determine Impairment loss if any

Answer

- Cost = 10 lakhs
- Recoverable Amount = Value in use or Sale value whichever is higher

[redacted]

- VIU = 5 lakhs
- Sale Value = 6 lakhs
- Thus RA = 6 lakhs
- Impairment Loss = 4 lakhs

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Ind AS37	AS 29
Applies to all entities except Those resulting from executor contracts, except where the contract is onerous and those covered by another standard	Applies to all entities except Those resulting from executory contracts, except where the contract is onerous and those resulting from financial instruments that are carried at fair value

Ind AS37	AS 29
Ind AS 37 requires discounting the amounts of provisions, if effect of the time value of money is material	The existing AS 29 prohibits discounting the amounts of provisions

Question

- Mahindra Aerospace Ltd. got an order to manufacture 50 aircraft named Airvan 10 by Air India Ltd. to fly in remote locations of India. It costs the company Rs.1.5 Crore to manufacture such plant and sale price finalized was Rs.1.4Crore. It will take 2 years for the order to be fulfilled. Can the company provide for the loss being onerous contract. Discount rate is 14%

50 planes for Rs.1.4Crore

- Sale Value per aircraft = 1.4 Crore
- Cost = 1.5 Crore
- Loss = 10 lakhs
- For 50 aircraft = 5Crore
- Duration = 2yrs
- Discount rate = 14%
- Loss to be recognized = PVF(14%. 2^{nd} year) * 5Crore
- =0.7695 * 5Crore
- =Rs.3.84 Crore

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Ind AS37	AS 29
Ind AS 37 requires disclosure of contingent assets in the financial statements when the inflow of economic benefits is probable. The disclosure, however, should avoid misleading indications of the likelihood of income arising	The existing AS 29 notes the practice of disclosure of contingent assets in the report of the approving authority but prohibits disclosure of the same in the financial statements

Question

- Micromax Informatics sues Karbonn mobiles Pvt. Ltd. for Rs.10 crore for copying the design of its mobile model Bolt S301. As per the proceedings of the case company is almost sure of winning the case, can company account for the profits of Rs.10 crore in its books of accounts?

Answer

- Claim value = Rs.10 crore
- Has the company won the claim = NO
- Being contingent asset cannot be accounted for
- Can be disclosed in financial statements since it is probable of winning the case

Bolt 301

nothing like anything

Sued for Rs.10 Crore

Mobiles

A 90

Ind AS 38: Intangible Assets

Ind AS38	AS 26
Ind AS 38 recognizes that the useful life of an intangible asset can even be indefinite subject to fulfillment of certain conditions, in which case it should not be amortized but should be tested for impairment.	The existing standard is based on the assumption that the useful life of an intangible asset is always finite, and includes a rebuttable presumption that the useful life cannot exceed ten years from the date the asset is available for use.

Ind AS38	AS 26
Goodwill is not amortized but is tested for annual impairment	Goodwill arising from amalgamation in the nature of purchase is amortized over the period of five years

Question

- Indigo Airlines paid a sum of Rs.10 crore to GVK as leased gate charges for indefinite period with nominal renewable charges to be paid every year. Are these charges required to be amortized?

GVK → IndiGo

Answer

- L[redacted] 10Crore
- P[redacted]ite
- A[redacted]quired = NO
- In[redacted]t = carried out every year

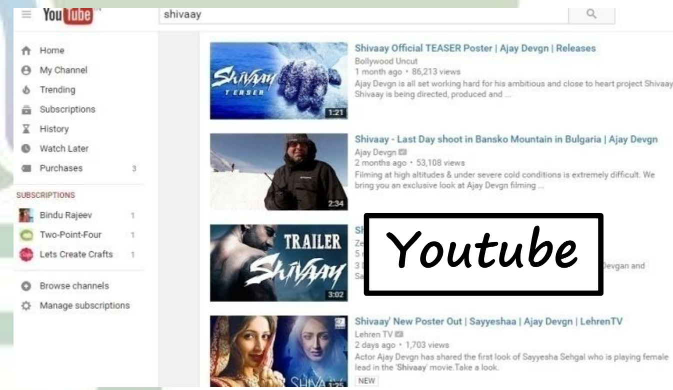
Ind AS 38: Intangible Assets

Ind AS38	AS 26
Prepayments recognition of an asset would be permitted only up to the point at which the entity has the right to access the goods or up to the receipt of services. Mail order catalogues have been specifically identified as a form of advertising and promotional activities which are required to be expensed.	Prepayments made in advance for goods not delivered or services not rendered are accounted for as prepayment assets

Question

- Ajay Devgan Films paid Rs.10 Crore to Wizcraft Ltd. for promotion of its upcoming movie Shivaay. Contract is for a period of 2yrs for which Wizcraft will conduct various promotional activities. How can Ajay Devgan Fils account for such expenses?

- Cost of Activity = 10Crores
- Duration = 2yrs
- Thus cost to be recognized every year = Rs.5 Crore



Ind AS 38: Intangible Assets

Ind AS38	AS 26
Ind AS 38 requires that if an intangible asset is acquired in exchange of a non-monetary asset, it should be recognized at the fair value of the asset given up unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable	No specific guidance

Question

- Lupin Ltd. exchanges its patent right of inhaler Loftair with NATCO Ltd. patent right of anti-cancer drug – sorafenib tosylate. Fair value of Loftair patent is 500Crore and that of sorafenib tosylate is Rs.515 crore. Book value of Loftair patent is 470 Crore and that of sorafenib tosylate is 380 crore

Answer

- In books of LUPIN Ltd.
  - Cost of Loftair patent to be de recognised = 470 Crore
  - Fair value of sorafenib tosylate patent to be recognised =
  - FV of asset given up = 500Crore

Cost = 470
FV = 500

Cost = 515
FV = 380

LUPIN
PHARMACEUTICALS, INC.
Research Driven. Quality Committed. Customer Focused.

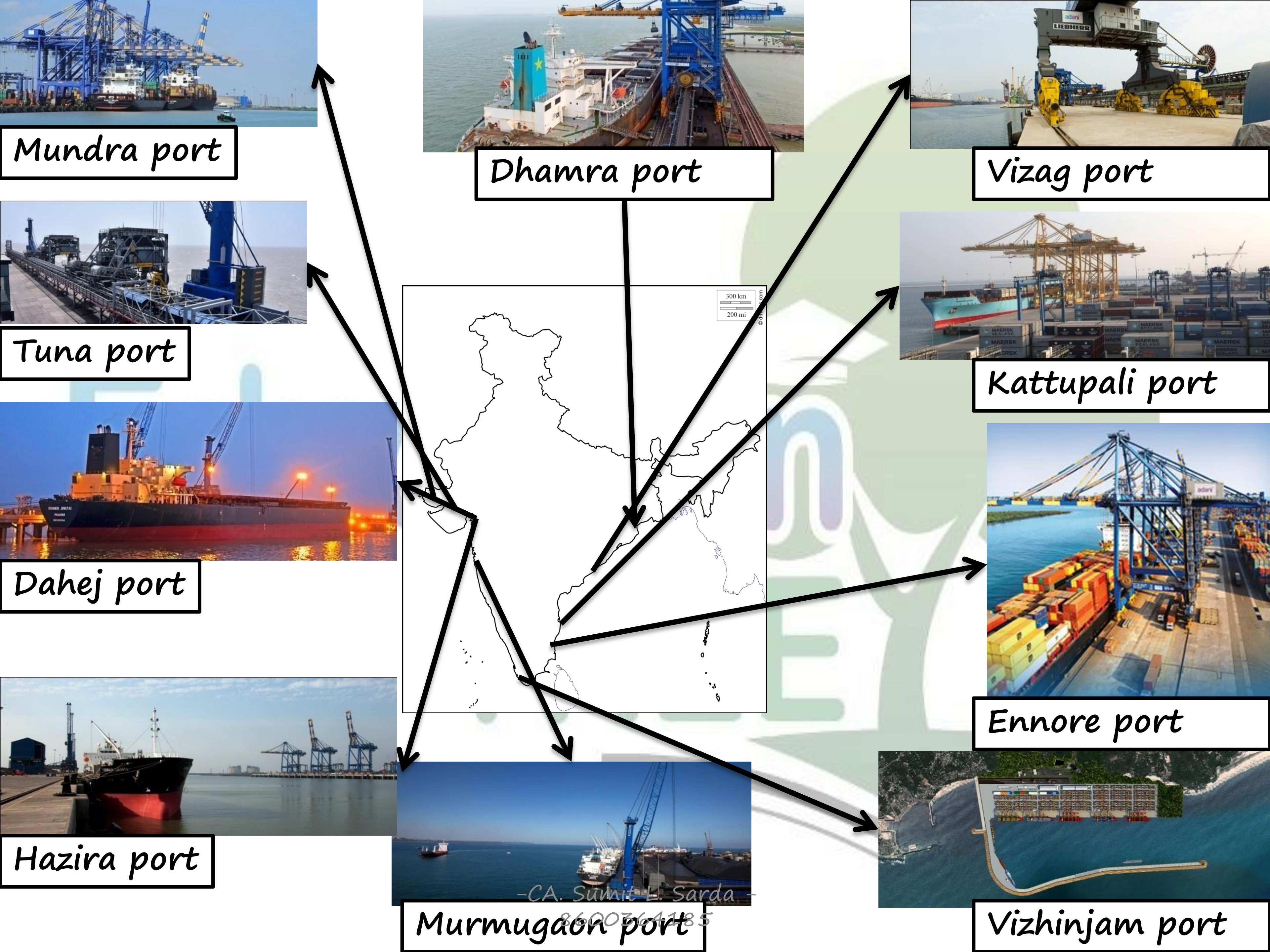
NATCO
Natco Pharma Limited

Ind AS 38: Intangible Assets

Ind AS38	AS 26
As per Ind AS 38, when intangible assets are acquired free of charge or for nominal consideration by way of government grant, an entity should, in accordance with Ind AS 20, record both the grant and the intangible asset at fair value	intangible assets acquired free of charge or for nominal consideration by way of government grant is recognized at nominal value or at acquisition cost, as appropriate plus any expenditure that is attributable to making the asset ready for intended use.

Question

- Adani Ports got 10 port rights for 20 yrs free of cost from Government of India, fair value of the same is 3200 crore. How will the same be reflected in books?


Mundra port
Dhamra port
Vizag port
Tuna port
Kattupali port
Dahej port
Ennore port
Hazira port
Murmugaon port
Vizhinjam port
300 km
200 mi

Answer

- Cost paid = 0
- Fair value = 3200 Crore
- Thus to be recognized at 3200 crore as Government Grant in balance sheet
- To be amortized over the period of 20yrs

Ind AS 38: Intangible Assets

Ind AS38	AS 26
If payment consideration on disposal of an intangible asset is deferred, the consideration is recognized initially at cash price equivalent	No specific guidance

Question

- Parle sold Thums up brand to Coca Cola Ltd. for Rs.190 Crores payment to be made on deferred basis in four semi annual installments on deferred basis. Benchmark interest rate is 15% p.a. first installment paid in the beginning of the year

Answer

Year	Amount	PVF @ 7.5%	Present Value
0	47.5	1	47.5
1	47.5	0.9302	44.18
2	47.5	0.8653	41.10
3	47.5	0.805	38.24
		TOTAL	171.02

Ind AS 38: Intangible Assets

Ind AS38	AS 26
the requirement for the asset to be held for use in the production or supply of goods or services, for rental to others, or for administrative purposes has been removed from the definition of an intangible asset	The existing standard defines an intangible asset as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purpose

Ind AS38	AS 26
As per Ind AS 38, in the case of separately acquired intangibles, the criterion of probable inflow of expected future economic benefits is always considered satisfied, even if there is uncertainty about the timing or the amount of the inflow.	there is no such provision in the existing standard

Ind AS 38: Intangible Assets

Ind AS38	AS 26
Ind AS 38 permits an entity to choose either the cost model or the revaluation model as its accounting policy	revaluation model is not permitted

Question

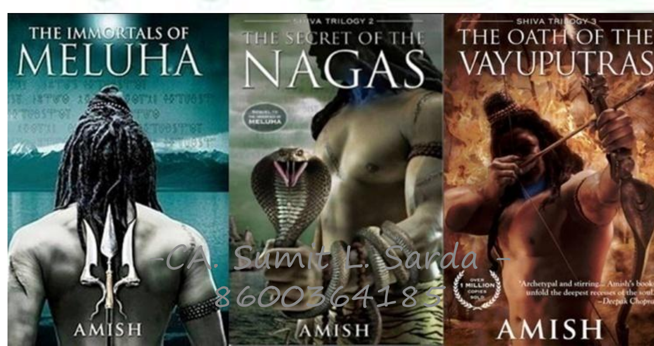
- Westland Ltd. paid copyright amount of Rs.10 lakh to Mr. Amish Tripathi for his Shiva trilogy. The fair value of such copyright agreement today is worth Rs.5 Crore. How will the same be accounted for under fair value method?

Answer

Westland

- Cost Paid = 10 lakhs
- Fair value = 10 crore
- Revalued figure to appear in Balance Sheet = 5 crore
- Revaluation surplus = 4.9Crore

Rs.10 lakhs



Ind AS 38: Intangible Assets

Ind AS38	AS 26
In Ind AS 38, guidance is available on cessation of capitalization of expenditure, de-recognition of a part of an intangible asset and useful life of a reacquired right in a business combination	Is no such guidance in the existing standard on these aspects

Question

- ABC Ltd. purchased technological rights for Rs.15 lakhs for which it expected a useful life of 10yrs and hence started amortizing the same. After 5yrs due to recent advancement in technology, its asset had no useful life left. Determine accounting treatment at the end of fifth year

Answer

- Assets purchase price = 15 lakhs
- Life = 10yrs
- Amortization per annum = 1.5 lakh
- Life expired = 5yrs
- Amount amortized till date = 1.5 * 5 = 7.5 lakhs
- Amount outstanding = 15 – 7.5 = 7.5 lakhs
- Amount to be transferred to P&L = 7.5 lakhs

Ind AS 38: Intangible Assets

Ind AS38	AS 26
AS 38 acknowledges that the useful life of an intangible asset arising from contractual or legal rights maybe shorter than the legal life	The existing standard does not include such a provision

Question

- A Ltd. purchased the patent right for the period of 30yrs. However the useful life expected is 15yrs. How will the patent right be amortized?

Ind AS 38: Intangible Assets

Ind AS38	AS 26
Under Ind AS 38, the residual value is reviewed at least at each financial year-end. If it increases to an amount equal to or greater than the asset's carrying amount, amortization charge is zero unless the residual value subsequently decreases to an amount below the asset's carrying amount	The existing standard specifically requires that the residual value is not subsequently increased for changes in prices or value.

Question

- Patent right purchased 10yrs back has a further life of 5yrs left. It reflects in the balance sheet at Rs.1 lakh. It is estimated that it has a residual value of Rs.1.5 lakhs. What amount will be amortized in the current year?

Ind AS 38: Intangible Assets

Ind AS38	AS 26
as per Ind AS 38, this would be a change in accounting estimate	As per the existing standard, change in the method of amortization is a change in accounting policy

Question

- Swift Ltd. acquired a patent at a cost of Rs. 80,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at Rs. 10,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be Rs. 36,00,000, Rs. 46,00,000, Rs. 44,00,000, Rs. 40,00,000 and Rs. 34,00,000. Find out the amortization cost of the patent for each of the years

Answer

- Change in method of amortization is considered as change in estimate
- Balance amount left = 60 lakhs
- Amortization ratio = 36:46:44:40:34

Year	Cash flow	Ratio	Amount
1	36 lacs	36/200 = 0.18	60 * 0.18 = 10.8
2	46 lacs	46/200 = 0.23	60 * 0.23 = 13.8
3	44 lacs	44/200 = 0.22	60 * 0.22 = 13.2
4	40 lacs	40/200 = 0.20	60 * 0.20 = 12
5	34 lacs	34/200 = 0.17	60 * 0.17 = 10.2 lacs

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
Ind AS 105 specifies the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations	The existing AS 24 establishes principles for reporting information about discontinuing operations. It does not deal with the non-current assets held for sale; fixed assets retired from active used and held for sale, are dealt in existing AS 10, 'Accounting for Fixed Assets'.

Ind AS105	AS 24
Under Ind AS 105, a discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale.	there is no concept of discontinued operations but it deals with discontinuing operations

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
does not mention so	requirements related to cash flow statement are applicable when the enterprise presents a cash flow statement

Cash flow statement	Continuing Operations	Discontinuing Operations
Profit for the year	XXX	XX
+Change in Working capital	XX	X

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification with certain exceptions	does not specify any time period in this regard as it relates to discontinuing operations

Question

- Jaiprakash Associates decides to sell its Hotel Jaypee Palace, Agra and hence discontinues the operations. Its been more than a year but the company could not find the buyer. Is auditor required to qualify the report?

Answer

- Since it has been more than one year, hence the asset cannot be classified as held for sale. Auditor should qualify the report

JAYPEE HOTELS

Question

- Will the answer be the same in case the asset was blocked to be sold by government because of tax concerns?

Answer

- Asset will continue to be classified as held for sale as it is not within the control of management to sell the asset within a year

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
Ind AS 105 does not mention so as it relates to discontinued operation	AS 24 specifies about the initial disclosure event in respect to a discontinuing operation

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
Under Ind AS 105, non-current assets (disposal groups) held for sale are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the balance sheet	requires to apply the principles set out in other relevant Accounting Standard

Question

- Determine how will the asset be reflected in the books of accounts?
- Cost of asset = 10 lacs
- Accumulated depreciation = 9 lacs
- Revaluation reserve = 0.6 lacs
- Sale price = 0.3 lacs
- Asset is classified as held for disposal

Answer

- Cost of asset = 10 lacs
- Accumulated depreciation = 9 lacs
- Thus asset net book value = 1 lac
- Revaluation reserve = 0.6 lacs
- Sale price = 0.3 lacs
- Asset to be valued at = 0.3 lacs

Particulars	Debit	Credit
Asset held for sale	30,000	
Accumulated Depreciation	900,000	
Revaluation Surplus	60,000	
P&L	10,000	
To Fixed Asset		10,00,000

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
Ind AS 105 specifically mentions that abandonment of assets should not be classified as held for sale	abandonment of assets is classified as a discontinuing operation; however, changing the scope of an operations or the manner in which it is conducted is not abandonment and hence not a discontinuing operation

Question

- Zoomcar Ltd. abandoned certain active use vehicles as the cars have met accidents and requires huge repair cost which makes it non profitable for the company. Assets appearing in the books for Rs.50 lakhs. Fair value of asset is Rs.20 lakhs. How should the same be accounted for?

Zoomcar
Self-Drive For The Self-Driven

Answer

- Cost = 50 lakhs
- Fair value = 20 lakhs
- Derecognize from fixed asset
- Recognize abandoned asset at Rs.20 lakhs
- Transfer Rs.30 lakhs to P&L



Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
Ind AS 105 provides guidance regarding changes to the plan to sell non-current assets (or disposal groups) which are classified as held for sale.	AS 24 does not give any specific guidance regarding this aspect.

Question

- Essar Power Ltd. discontinued its Hazira gas-based plant in the year 2013-14 due to increase in fuel price drastically. The asset stood abandoned in the books having book value 100crore and fair value 95 crore. In the year 2016-17, due to drastic decrease in gas price company finally decides to restart the plant. Determine how to account for the same. Depreciation rate was 10% WDV

Answer

- In 2013-14
  - Book value = 100 crore
  - Fair value = Rs.95 Crore
  - Asset would have been recorded at 95 crore

Answer

- In 2016-17
  - Period lapsed = 3yrs
  - If the asset was not abandoned, book value of asset in the year 2016-17 would have been as follows

Year	Asset value	Depreciation @ 10%
2013-14	100	10
2014-15	90	9
2015-16	81	8.1
2016-17	72.9	

Answer

- Thus asset to be recorded at 72.9 crores
- Difference of 22.1Crore (95-72.9) to be transferred to P&L

Ind AS 105: Non current assets held for sale and discontinued Operation

Ind AS105	AS 24
As per Ind AS 105, a discontinued operation is a component of an entity that represents a separate major line of business or geographical area, or is a subsidiary acquired exclusively with a view to resale	a discontinuing operation is a component of an entity that represents the major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes.

Question

- X Ltd. decided to sell the following
  - 50% share of its subsidiary in which it holds 65% shares
  - Investment in joint venture
- Determine applicability of Ind AS 105

Ind AS 108: Operating Segments

Ind AS108	AS 17
Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker	AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments

Ind AS 108: Operating Segments

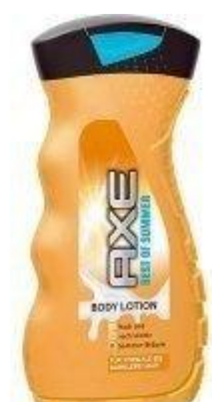
Ind AS108	AS 17
Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard	AS 17 does not deal specifically with this aspect

Question

Hindustan Unilever Limited

Dove

Axe



-CA. Sumit L. Sarda -
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Ind AS 108: Operating Segments

Ind AS108	AS 17
Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance	AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

Ind AS 108: Operating Segments

Ind AS108	AS 17
requires certain disclosures even in case of entities having single reportable segment	An explanation has been given in AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote

Ind AS 108: Operating Segments

Ind AS108	AS 17
Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.	An explanation has been given in the existing AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest.