Dedicated to My Parents Shri Girish Chawla & Smt. Kanchan Chawla &
My Life long Support My Wife Dammini Chawla.
Special thanks to my Mentor CA. Vishal Bhattad Sir from whom I have derived an idea to create this book.
I also want to Thank my Team who supported me Day & Night to create this Masterpiece.

Special Message to Students,

I am delighted and overwhelmed to share that the belief and love of you students has inculcated more enthusiasm and courage to do better and best for you all.

The Best example is My "CHART BOOK" and I really want that every student should have something handy and précised form of the syllabus so that substantial portion can be revised in a jiffy. So, I along with the support of V'Smart Team, has decided to provide you this A-3 Size (Very Popular among CA FINAL Students) Chart Book.

This book is not only provided to my registered students but also to the students buying other subjects of CA Final such as IDT from V'Smart Academy. Those students can consider this as a Gift from my side.

It is my strong belief that if you revise the syllabus from Chart Book with the help of short revision videos uploaded on YouTube, will not only boost your confidence and will also help you to get a proper understanding of the concepts, so that even the off-track questions may also be solved within the prescribed time in Exam.

I also urge you, to score good marks, so as to sail through the entire CA Final, u must watch all the revision videos available on YouTube covering all Important Topics of Financial Reporting.

Also feel free to give ur feedback to me and recommend to your friends and juniors.

"A Small Request to all the Students that in Case You receive more than 1 chart books, kindly gift it to your Friend/Junior who is in CA/CMA Final"

From My Pen
CA. Jai Chawla & Team

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INDAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

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A) Meanings

General Purpose F.S.

FS Prepared for Users who do not require Tailored Reports

Material

Any Information is Material if its Omission / Mis-statement & Obscuring could reasonably be expected to Influence the decision of User

Obscure means Unclear / Vague

Examples

1) Information is provided but language used is Unclear or Vague.
2) Information is scattered throughout the Fin.Statement for Material items.
3) Dissimilar items are inappropriately aggregated.
4) Similar items are inappropriately Dis-aggregated.
5) Material info is Hidden by immaterial info to reduce Understandability of Fin.Stat. & User is Unable to identify Material Info.

Other Comprehensive Income (OCI)

OCI refers to items of Incomes / Expenses which are not recognised in P&L A/C

↓

These Incomes / Expenses appears as a line item below the Income Statement.

Unrealised Gain / Losses

B) Current Assets & Current Liabilities

Current Assets

1. Expects to Realise / Sale or Consume in Normal Operating Cycle
2. Held Primarily for Trading (Financial Instruments)
3. Expects to be realised within 12 month after Reporting Period.
4. Cash / Cash Equivalents unless Restricted for atleast 12 Months.

Current Liability

1. Expects to be Settled in Entity's Normal Operating Cycle
2. Held Primarily for Trading
3. Due to be settled in 12 Months after Reporting Period.
4. Any obligations where entity does not have Unconditional Right to defer Settlement beyond 12 Months

Normal Operating Cycle

Time Gap between Acquisition of Asset & their Realisation in Cash (Assume 12 Months if not Clearly identifiable)

C) Financial Statements should have Following Characteristics

1. Explicit & Unreserved statement of Complaince with INDAS
2. FS shall be Prepared on Going Concern Basis unless there is intention to Liquidate 12 months.
3. FS Shall be Prepared on Accrual Basis
4. Offsetting of Assets & Liabilities is not allowed unless it is required by any INDAS
5. Presentation & Classification of items shall be consistent from one Period to another Unless :-
   (a) Any Ind AS Requires the Change or;
   (b) the Change is more appropriate.
6. Any Item of Income / Exp. Cannot be presented as "Extra-ordinary" It is Prohibited.
7. OCI shall be Grouped into:-
   - Items which will not be Re-Classified Subsequently to P&L (eg.- Actuarial Gain / Loss as per Ind AS - 19)
   - Items which will be Reclassified subsequently to P&L A/C (eg.- FCTR on foreign Oper. as per Ind AS 21)

Continued to next ...

INDAS 1 - PRESENTATION OF FINANCIAL STATEMENTS

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D) Refinancing of Loan Agreement of an existing Loan which is Classified as CL

- Refinancing Agreement on a long term basis is completed after the Reporting Period but before the approval of FS - Treat FL as Current when it is due to be settled within 12 months after RP.
  - Non-adjusting Event
- At the Reporting date, if Entity Expects and has discretion to refinance/ roll over the Obligation for at least 12 months - Treat FL as Non-Current even it is due to be settled within 12months.

E) Breach Of Provision Of Long Term Loan Contract On Or Before Reporting Date

Imp.

- **NON-CURRENT** → If Liability becomes repayable on demand and if lender agreed after Reporting Period but before approval of FS for not demanding the payment.
  - adjusting Event
- **NON-CURRENT** → If lender agreed to provide Grace period before end of Reporting Period for at least 12 months from the end of reporting date and during which lender cannot demand immediate payments.
- **CURRENT** → If Liability becomes repayable on demand and if the lender does not agreed for not demanding the payment.

F) Complete set of Financial statements

- Balance Sheet
- Statement of P&L (including OCI)
- Statement of Changes in equity (SOCIE)
- Cash Flow Statement
- Notes, Signficant A/c Policies & Explanatory Information
- Comparative information of Preceeding Period
- Opening BS of Preceding Period on Retrospective application of Ind AS

G) When an entity departs from a requirement of an Ind AS (in extremely Rare circumstances), it shall disclose

- Management's conclusion that the financial statements present a True and Fair View
- Management's compliance with applicable IndASs. except departure from a particular requirement to present a true and fair view
- ☞ The title of the IndAS departed
- ☞ The Nature of the departure
- ☞ The treatment that the Ind AS would require
- ☞ The reason why that treatment would be so misleading; and
- ☞ The treatment adopted
- For each period presented, the departure on each item in the financial statements

Note: An entity cannot Rectify inappropriate Accounting Policies either by Disclosure of the accounting policies used or by Notes or Explanatory material.

H) Liquidity is affected due to COVID-19 & Entity not able to Repay its Liab. due with in 12 months

- If Manag. Could not Find any Mitigating Factor to Pay its Liab. (i.e no Option other than Settlement)
  - FS Connot be prepared as per Going Concern Assumption

(OR)

- If entity is in a position to Defer the Liab. beyond 12 months & able to arrange the sufficient funds within Such time to Settle.
  - Fin.stat. Shall Continue to be Prepared as per Going Concern Assumption

INDAS 2 - INVENTORIES

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1 Meaning

An Asset

- Held for Sale in Ordinary course of Buss. (F.G.)
- In Proces of Production for Sale (WIP)
- Materials or Supplies to be Consumed in Production or Rendering of Services (RM)

2 Non- Applicability

- Full IndAS 2 not covered
  - 1) Fin. Inst. except:- FEC* entered for Physical delivery in respect of inventory then applicable
  - 2) Biolog. Assets
  - *Forward Exchange Contract (FEC)
- Only Measurements Norms of IndAS 2 not covered
  - ➲ Agriculture Produce
  - ➲ Forest Produce
  - ➲ Mineral Produce
  - → Always at NRV
  - Commodity Broker Traders → Fair Value less Cost to Sale (always)

3 Measurement of Inventory

Measurement of Finished Goods

Lower of

- COST =
  - Purchase Price + Conversion Cost + Other Cost
    - Labour
    - Prod OH
      - Fixed OH → Allocation on Normal Capacity basis except when Actual production is more than Normal
      - Variable OH → Allocation on Actual Capacity basis (always)
- OR
- NRV =
  - Estimated SP (-) Cost to Sale
  - Estimate NRV
  - Best evidence:-
  - Sale event after BS date

Measurement of WIP

Lower of

- Cost (Incurred till date)
- ~~Cost incurred + Further Est. Cost to Complete (-) Est. sell. Exp~~ NRV of FG (-) Further Est. Cost
  - ~~NRV~~ NRV of WIP

Measurement of Raw Material

- If NRV of FG is higher than Cost → Measure RM at Cost
- If NRV of FG is Lower → Measure RM at Replacement Cost

4 How to Identify cost?

Depends on Nature of Inventory

- Not ordinarily Interchangeable → Specific Identification Method (Cost sheet of each & every inventory shall be taken into consideration)
- Ordinarily Interchangeable
  - Historical Approach
    - FIFO
    - WAC
  - Non-Historical Approach
    - Retail price
      - How to Use? SP is to be adjusted with GP%
      - When to Use? when there are wide variety of Products with similar margin
    - Standard Cost
      - How to Use? Standard price of a) Material b) Labour c) O/H are taken & they are regularly reviewed based on revised prices
      - When to Use:- Cost records are maintained properly & every product is having diff profit margin

Continued to next ...

INDAS 2 - INVENTORIES

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5 Inventory Recognized as an expense

- COGS when actually sold
- When reduced to NRV
- When capitalized to PPE → Depreciation

6 Allocation of cost to Joint Product & By Product.

Outcome is Joint Product → Cost of Conversion

- Separately identifiable → Charge Respective Product with their Respective Cost
- Not Separately identifiable → Allocate the Total Joint cost in the Ratio of Sale Value at the point of Separation or Completion

Outcome is By Product → By Product is

- Immaterial → Valued at NRV and same will be deducted from cost of Main Product
- Material → It will be Treated as Joint Product

7 Special Cases

1) Trade Dis. v/s Cash Discount
   - Consider i.e. Deduct from cost
   - Do Not Consider

2) Conversion of PPE into Inventory
   - a) When such PPE is sold regularly after using in the ordinary course of business
   - b) Sale of such PPE shall be booked as sale of Inventory on Gross Basis

3) Spares/Tools/Equipments used in PPE
   - If they fulfills criteria of IndAS -16 → Then treated as PPE, may be a separate component if amount is material
   - If they does not fulfil the criteria of Ind AS -16 → Expenses & Inventory as per Ind AS 2

4) Borrowing Cost

shall be part of cost of Inventory if directly attributable to Acquisition /Construction / Production of Inventory being Qualifying Asset. (Refer Ind As 23)

5) Cost of Inventory being Agriculture Produce Harvested from Biological Assets shall be Fair Value less Cost to Sale (Ind AS 41)

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INDAS 7 -STATEMENT OF CASH FLOWS

(Page 1)

1 Applicability

CFS to be Prepared by all Companies

Except :-

a) One Person Co. (OPC)
b) Small Co.
c) Dormant Co.

2 Important Meanings

~~Cash &~~ Cash Equivalents

- Short Term Highly Liquid Investments
- Readily Convertible to Known Amt. of Cash
- Insignificant Risk of Change in Value

- Investments Must be easily Convertible into Cash
- Has low level of Risk in Changes in Market Value
- Generally, Invst. having short Maturity of 3 months or less are ~~Cash &~~ Cash Equivalents.

Operating Activities

Principal Revenue Producing activities of an enterprise

Examples :-
- Sale of Goods/ Services
- Fees/Royalties/ Commission
- Paid to Suppliers of Goods/Services
- Payment to Employees

Financing Activities

Activities Related to Capitals & Borrowings (Change in Size & Composition of Equity & Debt.)

Example :-
- Issue/Buy Back of Shares/ Securities
- Redemption of Debentures or Bonds
- Interest paid on Borrowings
- Bank Loans
- Dividend Paid

Investing Activities

Acquisition & Disposal of Long Term Assets & Other Investments not Included in Cash Equivalents

Examples :-
- Purchase/Sale of Fixed Assets
- Investment in Securities/Shares
- Income from above Shares/Securities
- Dividend Incomes
- Loans & Advances to Other Parties & Repayments
- Derivative Contracts

3 Methods of Preparing Cash Flow from Op. Activities

Direct Method

Major class of Receipts & Payments are directly taken into Consideration

Identify all cash Collections & Payments Related to Operating Activities

Indirect Method

1 Start either with NPBT (or) NPAT (or) Retained Profits

Retained Profits = Closg Reserves (-)Openg Reserves

2 Eliminate Non Cash Items

- Provision for Tax (if started from Retained Profit or NPAT)
- Dividend Payable (if started from Retained Profits)
- Depreciation (always)
- Transfer to Reserves Like GR (if started from Retained profits)
- Revaluation loss or FA Transfer to P&L (~~AS-10~~) Ind AS 16
- Prem. on redemption of Debn/ Pref. Share (if started from Retained Profit)

3 Eliminate Non Operating Items -:
- Interest Exp. (Fin.)
- Interest Income (Invst.)

Gain / Loss on Sale if transferred to P&L

(No need to Eliminate Gains/Losses if directly transferred to Cap. Reserves)

4 Working Capital changes adjustments

CA ↑	=	Deduct
CA ↓	=	Add
CL ↑	=	Add
CL ↓	=	Deduct

5 Tax Paid shall be deducted at Last under Operating Act.

NPBT
(-) Tax exp (non cash)
NPAT
(-) Divd. Declaration (non-cash)
(-) Transfer to Reserv. non cash
(-) Bonus issue (non cash)
Retained Earning

P&L
To Divd payable

4 Treatment of Important Items

(1) Foreign Currency Cash Flows :-
→ Must be recorded in Functional Currency
FC Amt. X Ex. Rate on date of Cash Flows
(Ex. Gains/Losses are not Cash Flows)
(We may take Weighted Avg. Rate for a period also)

(2) Companies having Financial Activities as Main activity then :-
Dividend Received & Interest Paid/Received shall be covered under Operating Activity

(3) Taxes on Income :- Must be reported under Operating Activity except if it could be specifically related to Investing/ Financing & when it is practicable to Idenitify
Example : - Capital Gain on sale of Asset shall be transferred to Investing Act.

(4) Acquisitions/Disposal of Business Units/Subsidiaries :-
→ Must be shown as Investing Activities Separately

(5) Cash Flows from Investing & Financing Act. Shall always be Reported Gross i.e. No Netting Off

(6) Acq./Disposal of Subsidiaries or Other Businesses

- Cash Flows on obtaining & losing Control of Subs/ Other Business shall be classified as Investing Act.
- Cash Flows on Change in Ownership Interest in a subsidiary where control is not lost is classified as Financing Act. (Unless Sub. is held by Investing Entity)

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SUMMARY OF CASH FLOW STATEMENT

(Page 2)

1. **Net Cash Inflow means Cash Generated**
   &
   Net Cash Outflow means Cash Used

2. **If nothing is specified about Cash Sales & Cash Purchases then we would always assume the Total Sales & Purchases in Credit Only.**

3. **To Calculate Tax Payment, we should prepare following A/c**

   TAX A/c

To Opening Balance of Advance Tax	By Opening Balance of Provision for Tax
To Cash Payment of Tax	By Tax Provision made in CY thru P&L
To Closing Provision for Tax	By Closing Bal. of Advance Tax

4. **Tax Paid shall be shown under Cash Flow from Operating Activities after all Adjustments (Sabse Last me likhna hai)**

5. **If Debentures are shown in BS with % of Interest is also given even if nothing is mentioned about interest then also we have to make adjustment of Interest.**

6. **If Debenture or Pref. Shares are redeemed during the year at Premium, such premium must have been written off from P&L after Tax (as appropriation), then in such case Premium shall be added back under Operating Activities as elimination if solution started from Retained Earnings.**

7. **Grant Received**
   - **For Capital Projects** — Financing Activities — If such grant is amortised in P&L Then less back under Operating Activities
   - **For Revenue Expenses** — Operating Activities

Bank OD is a part of Cash & Cash Equivalent

But in B/S it is F/L under Current Liab.

Investment in Subsidiary/Asso./JV is Cash outflow Under Investing activity.

Subsd. => 90% Invst.
- Sale 10% Inv. Sale without Loss of Control (F)
- (OR) Sale 60% Invst. Sale with Loss of Control

→ Investing Activity.

Investing Entity such as Venture Capital Co. or Mutual Fund Co., If They Obtain or Sale any Investment then it is operating activity.

INDAS 8 -Accounting Policies, Changes in Accounting Estimates & Errors

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1 Selection & Application of A/C Policies

Based on Entity's Judgement

↓

If it is material to apply Accounting policy ➲ Apply otherwise Do not apply

↓

How to select Accounting Policy

↓

Accounting Policy should:-

- Relevant for Economic Decision Making of users.
- Complete, product neutral, substance over form.

2 Consistency of Accounting Policy

Accounting Policy should be same for similar transactions

↓

Unless IndAS specifies that different policy to be followed

3 Change in Accounting Policy

An Entity shall change Accounting Policy only when:-

- Required by relevant IndAS; or
- Change results in providing more Relevant and Reliable Information.

↓

Note:- Frequent changes in Accounting Policies are not permitted

- Following are not Change in Accounting Policy.

a) Application of Accounting Policy on Transaction that is different in substance from those previously occurring.

b) Application of Accounting Policy on Transaction that did not occur previously or were Immaterial.

4 Applying Change in Accounting Policy

<u>Situation :- 1</u>
When there is Initial Application of IndAS. ➲ Then as per Transitional Provision of IndAS.

<u>Situation :- 2</u>
When change is due to New IndAS
➲ As per transitional provision of that IndAS whether Prospective or Retrospective.

<u>Situation :- 3</u>
When change is due to initial Application of IndAS and there is no transitional Provision then Retrospective effect.

↓

Note:- Early Adoption of IND AS is not a Voluntary Change.

5 Retrospective Application

When there is Retrospective change, Entity shall adjust Opening Balance of each component of Equity and OCI of Earliest period presented as if new Accounting Policy had always been adopted.

6 Limitation on Retrospective Application

When it is impracticable for Entity to do so?

↓

- ➲ Effects of retrospective Application are not determinable.
- ➲ Retrospective Restatement requires assumptions of Mgt intention in that period.
- ➲ Retrospective Restatement requires Estimates and it is not possible.

7 Disclosures

When there is change in Accounting Policy disclose Following:-

↓

- ➲ Title of IndAS
- ➲ Whether the change is due to Transitional provisions
- ➲ Nature of change
- ➲ Description of Transitional provisions.
- ➲ Whether Transitional provision will affect future periods
- ➲ Effect on current and prior period.
- ➲ Amount relating to prior periods.

8 Change in Accounting Estimates

Applying change in Accounting Estimates Prospectively.

↓

- ➲ Whether Change in Estimate can be treated as Prior Period Item ⟶ No
- ➲ Change in Estimate is not an Error.
- ➲ When it is difficult to bifurcate between Change in Accounting Estimate or Change in Accounting Policy, Then treat it as Change in Accounting Estimate and make Prospective Effect.

Disclosure of change in Estimates

↓

- ➲ Nature and Effect of change in Current and Future periods.
- ➲ If it is Impracticable to determine Effect, then it's FACT must be disclosed.

9 Errors

Current Period Errors

↓

Correct before Approval of FS

no need for Retrospective application

Prior Period Errors

↓

Correct these Errors and Comparative FS must be presented with Retrospective Effect

Limitation on Retrospective Restatement

↓

Same as change in Accounting Policy

Disclosure of Prior Period Errors

↓

- ➲ Nature
- ➲ Amount of correction
- ➲ Amount of correction for beginning of Prior Period
- ➲ If Retrospective Restatement is impracticable then reasons for same.

Ind AS 8

1) Change in purpose ⇒ not a Change in A/c policy

2) functional Currency is not a matter of A/c policy

3) But Change in presentation Currency will be change in A/c policy ⇒ Retrospective

4) Change in Inventory Cost formula is Change in A/c policy

5) applying wrong Classification of A/c (Current/non current) is error.

6) applying Voluntary application
OF A/c Policy or Ind A/s
⇓
Retrospective
Restatement

7) Change in Business model
is not Change in
A/c policy

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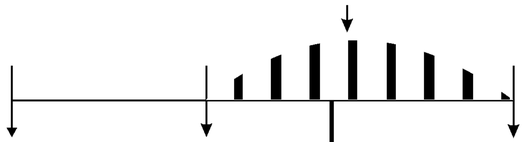
INDAS 10 - EVENTS AFTER THE REPORTING DATE

1 Meaning

Any Event that occurs
After the Reporting date &
Before the Date when Fin. Stat. are Approved
is called Events After the Reporting Date



01/04/20xx
Beginning of FY

31/03/20xx
Reporting Date

31/06/20xx
FS approved by BOD

If any event occured during this period then Fin. Effect of these events shall be adjusted or disclosed on Reporting date.

Eg.
1. Insolvency of a Debtor
2. Reduction in Value of Investments
3. Fire occured in the premise resulting losses

2 Types of Events

Adjusting Event
→ Those that provides evidence of Conditions existing at the end of Reporting Period
→ Occurrence of Such Event confirms the condition already existing on Reporting date

Non- Adjusting Event
→ Conditions not existing on Reporting date
→ Instead, New Condition arise after Reporing date

3 Treatment

Adjusting Event
- Adjust Related Assets/Liabilities
- Second Effect on P&L a/c or OCI

→ For Example- Recognise Loss or Make Provision in the Books

Non- Adjusting Event
→ Only Disclosure is Required in Notes to A/C

4 Examples

Adjusting Event
1. Insolvency of Debtors
2. Litigation Settlement after the Reporting Date for Event Occurred before Reporting Date
3. Detection of Fraud or Error after Reporting Period

Non- Adjusting Event
1. Reduction in the Value of Investments
2. Fire occurred in the premise
3. Destruction of Assets by Floods occuring after the Reporting Date

5 Some Special Cases

Dividend Declared after Reporting Date
→ Treat Contingent Liab. on Reporting date & disclose on Reporting Date (it is Non-Adjusting Event)

Going Concern affected due to occurence of Non-Adjusting event
→ Treat Adjusting Event & Adj all the Assets & Liabilities at Realisable Value on Reporting Date

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IND AS 12 - INCOME TAXES

1 Definitions

1. Accounting Income
↓
PBT as per P&L

2. Taxable Income
↓
Income as per Tax law

3. Carrying Amount (CA) of Assets & Liabilities
↓
Book value as per Accounting records

4. Tax Base
↓
Value of A& L as per Tax records

5. Temporary Difference (TD)
↓
Difference of CA & Tax base
- Taxable TD DTL
- Deductible TD DTA

6. Tax Expenses = Sum of Current Tax & Deferred Tax → CT + DTL - DTA + DTA Reversed - DTL Reversed

7. Current Tax = Tax on Taxable Income

8. Deferred Tax = Tax on Temp. Diff.

2 Current Taxes

- Current Tax Liabilities → Current year Tax + Prior Period Taxes Payable
- Current Tax Assets → ➲ TDS ➲ Advance Tax ➲ Losses of CY Allowed to be carry backward to get Refund

3 Deferred Tax Liability

When to Create?

All Taxable Temp. diff. Except:-
1) On Initial recognition Goodwill due to B.C.
2) Initial Recognition of A & L other than through B.C. which neither Affects A/C Income nor Taxable Income ▲ Permanent Diff.

Areas where we create DTL:
1) Timing Differences - P&L P&L To DTL
2) B.C. - A&L Recorded at Fair Value
3) Assets measured at Fair Value (upward)- OCI OCI To DTL Ind AS 16

Business Comb. DTL thru Goodwill

Asset Dr. Goodwill To Liab. To PC To DTL

Check - Virtual Certainty Supported by Convincing Evidence (VCCE)

How to check Probability? (any one)
- Sufficient Taxable T.D. will be available in future to setoff Deductible TD
- Sufficient Taxable Profits will be Available in Future
- Unused Losses are due to Identifiable causes which are unlikely to arise in Future
- Entity has Sufficient Tax Planning Opportunities to setoff T.D.

4 Deferred Tax Assets

When To Create DTA?

When Entity has deductible TD & it is probable that there will be sufficient Future Taxable Income against which such TD can be adjusted

Areas of DTA :-
1) Timing difference = P&L
2) Buss. Comb. (FV) = Goodwill/CR
3) Revaluation Downward = P&L (Ind As 16/38)
4) Unused Tax Credits /Losses

5 Measurement of CT & DT & Offsetting Provisions

- How to Measure? → at a Tax Rate which is Enacted or Substantially Enacted at the B/S date
- Offset of CA & CL or DTA & DTL → Allowed if a) Legal Enforceable right to Set-off b) Intention to Set-off on Net basis Simultaneously

6 Special Cases

- Tax Holiday Period (THP)
  - DTA/L arise & reversed in Tax Holiday Period shall be Ignored
  - DT arise in THP but reverse after THP → Consider
- Share Based Payments → Deduction will be allowed in Future when option is exercised ~~then~~ create DTA
- Indexation → When there is Long Term Capital Asset, Entity will get Indexation Benefits under Tax laws → Tax Base of Asset is Higher → DTA, if Intention to Sale → No DTA, if Intention to Use in Long Term
- Investment in Sub/Ass./JV
  - Books: Investment may be revalued
  - Tax Records: At Original Cost always
  - Temp. Difference
    - Subsidiary → Parent has control i.e. Parent can ~~Control the~~ Reversal of Temp. Diff. → No DTL
    - Associate → Investor ~~Parent~~ cannot Control the Timing of Reversal → DTL
    - JV → Depends on Control

Parent has Control on Dividend policy of Subs.

Misc Special Cases:-
1) Distributed Profits & Undistributed Profits - Different Taxability
↓
It will affect the CT Liability created earlier
2) DTA of Acquirer may be affected due to B.C.
↓
i) If earlier not recognised now they may be recognised
ii) If earlier recongised then now they may be required to be derecognised due to B.C.
3) DT may arise due to Finance Lease Agreements by Lessor (Ind AS-116) OR by Lessee on ROU Asset & Lease Liab.
↓
Since Under I.T. Act, Amt of Lease Rent Paid is only deductible

7 Misc Provisions

- Re-assessment of DTA at each B/S Date based on Revised Probability
- Disclosure of Reconciliation due to Permanent Diff.
  - Reconciliation of Tax on Accounting Income with Tax on Taxable Income & Reconciliation of Effective Tax Rate with Actual Tax Rate
- Shortcut on how to create DTA/DTL → BRS Technique → Assets:- CA lower T.base Higher = DTA → Always adjust CA to confirm with Tax Base

* CA = Carrying Amount
* B.C. = Business Combination

INDAS 16 - PPE

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1 What is PPE

Tangible Item

+

Held for Use in
- Production
- Supply
- Rental
- Administration

Use for more than 12 M

Giving Asset on operating Lease (Leasing Business)

Bearer plant is PPE
Biological Assets for agriculture purpose - Not PPE

Out of scope of PPE
- Leases (IndAS 116)
- Biological Assets (IndAS 41)
- PPE held for sale (IndAS 105)
- Exploration of Mineral Resources (IndAS 106)

2 Recognition of PPE

Conditions
- a) FEB probable to flow
- b) Cost-Reliably measured

Initial Recognition

Cost
- **Purchase Cost + Non Ref. Taxes**
- **Directly Attributable Cost** Eg. Labour, Installation, Testing, Consultancy to Engineer
- **Decomm. or Restoration Cost at PV**
  - D.i.s. Rate
  - Est. outflows
  - No. of period

3 Initial Recog. at Cost - Different Cases

- **Exchange** → REFER NEXT PAGE
- **Grant** → **IndAS 20** → OR → Nominal Value / Fair Value
- **Beyond Normal Credit Periods** → Cash Price Equivalent → It means at PV of future outflow → Finance Cost - P&L A/C → Total Consideration (-) Cash Price Equivalent
- **Consolidated Price** → Entire Price shall be apportioned in the ratio of FV of each PPE

PPE a/c Dr.
- To Cash
- To Liab/Prov.

4 Subsequent Expenditures

- **Day to day Service Cost** → **P&L**
- **Replacement & Major Inspection**
  - 1 **Capitalize if recognition criteria meets**
  - 2 **Previous Carrying Amount if any Derecognised** → transfer to P&L

5 Depreciation

1 **On components wise-based on estimated life of components**

2 **At end of B/S date Dep. method** → **Review**

3 **If any change arise then it is Change in A/C Estimate** → **Prospective Effect**

4 **Cessation of Dep** — When
- RV ⩾ CA
- OR
- Earlier of:-
  - a) Retired from active use & Held for sale
  - **or**
  - b) De-recognition of PPE (W / off / sold)

6 Measurment at B/S date

Option
- **Cost Model** → Original Cost (-) Accumulated Depreciation (-) Accumulated Impairement
- **Revaluation Model** → FV at Measurement date (-) Subsequent Depreciation (-) Subsequent Impairement

Choosing Cost model or Revaluation model is an A/c policy

7 Revaluation

1) Techniques:-
- **Gross** → Adjust original cost &Acc Dep by % of change
  - % of Change → Rev. Gain / Carrying Amt. x 100
  - PPE Dr.
    - To Acc Dep A/c
    - To Rev. Surplus
- **Net** → Acc Dep shall first be W/off with Org. Cost then Net Carrying amount shall be Increase/ Decrease

2) Transfer Rev. surplus to retained earning
- **Equal to Excess Depreciation if PPE is being used**
- &
- **Transfer full amt, When finally disposed**
- **Impairment Loss (I/L)** → *** I/L shall be transfer to revaluation surplus**

this is an option

3) Treatment of Revaluation
- **Gain**
  - **Revaluation surplus (OCI)**
  - **Exception:- If Earlier downward then this Gain shall be transfer to P&L to the extent of Loss**
- **Loss**
  - **a) P&L**
  - **or**
  - **b) If Rev. surplus exist then transfer to Rev. surplus**

8 De-Recognition of PPE

Loss/Gain - P&L A/C

If Held for sale apply IndAS 105 → Lower of
- a) CA
- b) FV less Cost to dispose

*** RV = Recoverable Value**
CA = Carrying Amount

Continued to next ...

INDAS 16 - PPE

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Exchange Transaction

Whether Exchange Trans. has Commercial Substance & Fair Value Can be Measured Reliably?

- **Yes**
  - Both Fair Values of Asset Given & Asset Acquired are Clearly Evident → Take FV of Asset Given as First Priority
  - **Or**
  - Either FV of Asset given OR Asset acquired is clearly evident → Take the same FV for recognising Asset which is clearly evident
- **No** → Recognise the Acquired Asset at Carrying Amt. of Asset Given up.

if multiple Assets are given including Cash then Cost = fv of all Assets + cash given

If Cash Received / Paid is involved in Exchange Transaction?

CASE 1
Cash Received along with ASSET Acquired

Total Debits (Asset + Cash) must be equal to Fair Values selected as per Above Chart

FV { Cash A/C Dr. (Amt. Received) / Assets A/C Dr. (b/f) } Total must equal to FV
To Asset A/C (Carrying Amt.)
(Diff. is exchange Gain / Loss = P&L)

eg:- L&B acquired against P&M
CA of P&M 10 lacs
Cash also received = 2 lacs
Fv of L&B = 8.5 lacs
Fv of P&M = 9 lacs

L&B Dr. 8.5
Cash Dr. 2
To P&M 10
To P&L 0.5

CASE 2
Cash Paid along with Asset given

- Fair Values Given is Selected → Asset Shall be Debited at FV Selected 12 + Cash Paid 2 (14)
- **Or**
- Fair Values Received is Selected → Asset Shall be debited @ FV Selected

9 { L&B 7 (B/F) / Cash 2 } To P&M 10
(Loss = 1 P&L)

Ex:- L&B acquired P&M given
CA of P&M = 10 lacs
Fv of P&M = 12 lacs
Cash paid = 2 lacs
L&B Fv = 13 lacs

L&B 14
To P&M 10
To cash 2
To P&L 2

L&B a/c Dr. 13
To cash 2
To P&M 10
To Profit 1

9 Change in Existing De-Comm. Liability

⇒ Calculate Revised Liability as per Revised Estimates on date of Change

PPE is Under Cost model

(A) Increase in Liability (Loss)
PPE A/C Dr.
To Provision for De-comm. Liab A/C
↓ Depreciation on Revised Value of PPE

(B) Decrease in Liability (Gain)
Prov. for De-comm. Liab A/C Dr.
To PPE A/C

(If Decrease is More than C.A. of PPE than difference in P&L A/C)

OR

PPE is Under Revaluation Model

(C) Increase in Liability (Loss)
Setoff the loss with Revaluation Surplus if available & if loss exceeds the available Surplus then transfer the Excess loss to P&L A/c

Revaluation Surplus A/c Dr. I st priority
Profit and Loss A/c Dr. II nd priority
To Prov. for De-Comm. Liab. A/c

(D) Decrease in Liability (Gain)
Transfer the Gain First to P&L to the extent of any earlier Revaluation Loss which was Transferred to P&L A/C.

Remaining Gain transfer to Revaluation surplus

Provision A/c Dr.
To Profit and Loss A/c I st
(to the extent of earlier loss)
To Revaluation Surplus A/c II nd

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IND AS 19 - EMPLOYEE BENEFITS

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1 Applicability

All Employee Benefits Except - Share Based Payments (IndAS 102)

2 Types of Employee Benefits

- **Short Term Employee Benefits** → Eg. Salaries, Incentives → Always Charged to P&L in the Year in which it Occurs
- **Other Long Term Employee Benefits** → Eg. Long Term Bonus Plans
- **Post Employment Employee Benefits** → Eg. Gratuity, Provident Funds
- **Terminal Benefits** → Eg. VRS Expenditure → Always Charged to P&L in the Year in which it Occurs

3 Classification of Post Employment Benefit Plans & Other Long-term Employee Benefits

Defined Contribution Plans (DCP)

- Employer's Contribution is Fixed
- Actuarial & Investment Risk is on the Employee
- Actuarial Assumptions are not Required
- Entire Contribution Expense is Charged to P&L a/c

Defined Benefit Plans (DBP)

- Employer's Contribution may not be fixed
- Agreed Benefits are Required to be Provided under DBP
- Actuarial & Investment Risk is on the Employer
- Actuarial Assumptions are required
- Expense is Recognised Based on "Projected Unit Credit Method"

4 Accounting for DBP

Recognise

- **DEFINED BENEFITS OBLIGATION (LIABILITY)** → Through
  a) Current Service Cost (CSC)
  &
  b) Interest Cost (IC)

  CSC & IC both are charged to P&L
- **PLAN ASSETS** (Investments) → Through
  a) Contributions Made by Employer (every year)
  b) Finance Income on above Contributions

  Plan Asset Dr. To Bank (Contrib.)

  Plan Asset To Income

5 How to Calculate Following Items?

- **CSC** → Discounted Value of Estimated Annual Benefits → (Discounting to be made ~~downstream~~) upstream For eg. From Later Year to Earlier Year
- **IC** → Calculated on Defined Benefit Liability Using Same Discounting Rate of CSC.
- **Finance Income on Plan Assets** (Expected Return on Plan Assets) → Return on P.A.
  - If Contribution is made & Benefits are paid at Beginning of year or End of year then take Annual Rate.
    - % → op Bal.
    - % → op + Contr. − Benf. (at Beg.)
  - ~~Calculate Six Monthly Rate (1 + Annual Rate)^1/2 − 1. Six monthly Rate shall be applied on Value of Plan Assets if Contribution is made & Benefits are paid in Mid of year.~~

CSC Dr. → Emp Ben exp
IC Dr. → F/c
To DBO Liab. → NCL (LT provision)

6 Remeasurement

- **Defined Benefit Obligations** → DBO Shall be Measured as per the Discount Rate Revised by Actuary & Other Revised Assumptions → any Change due to above Shall be Actuarial G/L & Transfer to OCI
- **Plan Assets** → Plan Assets Shall be Measured at Fair Value at each BS Date → Any Change Due above Shall be Actuarial G/L & Transfer to OCI

This OCI Shall not be reclassified to P&L

7 Past Service Cost (PSC)

It means Change (Increase) in Defined Benefit Obligation (Liability) due to Plan Amendments made by Entity → PSC is an expense & transfer to P&L immediately & Increase DBO Liability A/c

PSC Dr. To DBO Liab.

8 Curtailment & Settlement

Defined Benefit Liability is reduced with or without Settlement due to Modification made by Employer → Gain on Curtailment shall always be transfer to P&L → DBO Liab. A/c Dr. To Bank A/c To Gain on Curtailment A/c (Bal)

Cancelling or Reducing the Benefits

Giving Compensation to employees

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IND AS 19 - EMPLOYEE BENEFITS

9 Short Term Emp. Benefits

- **Short Term Compensated Absences**
  - **Non-Accumulating Leaves** → No Recognitian of Expense
  - **Accumulating Leaves**
    - **Accumulating Vested Benefits (i.e. Cash Compensation against Un-used Leaves)** → Make 100% Provision for Compensation
    - **Accumulating Unvested Benefits (Compensation through leaves aganst Un-used Leaves)** → Make provision for estimated Leaves C|F & to be used in the next Period (Per day Salary X Estimated Leaves to be utilized)
- **Profit Sharing & Bonus Plan** → Recognise Exp. & not Distribution of Profits, only if :-
  1) There is Legal or Constructive obligation to Pay
  &
  2) Reliable Estimate can be made

Summary

P&L

Employee Benf exp :- CSC
PSC
Gain on Curtailm.

Fin. Cost :- IC
- Return on P. Ass.

OCI

Actuarial G/L on DBO
Actuarial G/L on P. Asset

To Bal. FV

B/S

NCL :-
DBO Liab
(-) P. Asset
~~Net Liab.~~

IND AS 20 - GOVERNMENT GRANTS

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Govt Grants & Govt Assistances

measurement Recognition & Disclosure | Only Disclosure

1 When to Recognise?

Govt. Grant is Recognised on Accrual Basis based on following Two Conditions

- Related Conditions for Grant Must be Complied with
- & (Assurance) Reasonable Certanity that Grant will be Received

2 How to Recognise?

- Revenue nature: Income Grant or Grant for Immediate Support
  - Charged as Other Income to P&L (OR) Deduct from Related Expense
  - *Treat Liability First Until Exp. is Incurred → Bank To Grant liab.
- Non- Monetary Grant (In Kind)
  - Free (OR) Nominal Value 1/- 10/- / Fair Value
  - Concessional Amount (OR) Fair Value / at Actual Price Paid
- Forgivable Loans → Charged to P&L Immediately if Conditions already Complied Otherwise Over the Period
- For Non Depreciable Asset Land → Amortise P&L Over the Period of Obligation → Treat the Grant as Deferred Income → Bank 500 To DGG 500
- For Depreciable Asset (OR)
  - Option-1 Credit Directly to DGG A/C & Amortise Systematically over the period → Treat the Grant as Deferred Income
  - Option-2 Reduction from Cost/ CA of Asset → Charge Depreciation on Net Value of Asset (Bank To Asset)
- Concessional Loan → Total Proceeds (-) PV of all Future Cash Outflows@ERI = Grant → Amortise Systematically Over the Period of Benefits to be derived.
- Grant in the nature of Promoter's Contribution (ITFG)
  - Whether Payment is received as a shareholder Contribution like Equity → Then it is Not a Grant & Transfer directly to Equity (Bank To equity/other eq.)
  - Not an Equity Contribution but really a Grant → Recogise as Income on a Systemetic Basis over the Period in which Entity Recognise the related Cost for which Grant is Intended to Compensate. (P&L D&A)

DGG To Grant Income 100 100

* DGG - Deferred Govt. Grant
* CA - Carrying Amount

3 Treatment of Refund (if any) (Refund will be treated as Change in A/c Estimate)

- Income Grant → Debit to P&L
- Deferred Grant (then)
  - Reverse Unamortized Balance First
  - Remaining Amount charged to P&L
- Deduction From Asset → Add the Refund to Carrying Amt. of Asset

Refund 500
DGG Bal. 300
DGG Dr. 300
P&L Dr. 200
To Bank 500

4 Disclosures in Fin. Statements

- A/c Policy of Recognition of Grant
- Nature & Amt. of Govt. Grant
- Presentation Method
- Nature & Extent of Govt. Assistance Received
- Unfulfilled Conditions if any for Grant Already Recognised

Non-applicability :-

1) Grants received in relation to Biological Assets Used For agr. Activity (Ind AS 41)

2) Tax Benefits are not Grant

5	Grant receivable as compensation for expenses or losses already incurred or for immediate financial support with no future related costs	•Shall be recognised in profit or loss of the period in which it becomes receivable •Provide disclosure to ensure that its effect is clearly understood.

INDAS 21 - EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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1 Basics

- Types of Currencies
  - Foreign
  - Functional
  - Presentation
- Functional Currency → Currency of Primary Economic Environment in which entity Primarily Generates & Expands Cash

2 Indicators to Identify Functional Currency of Entity (Other than F.O.)

- Currency that Influence Selling Price of G/S & Whose Competitive Forces & Regulations Determines SP
- Currency that Influence Cost of G/S (for eg. Material/ Labour & Directly Attributable Cost)
- Currency in which funds from Financing Activities are Generated
- Currency in which Receipts from Operating Activities are Retained

Primary Indicators

Secondary Indicators

An Entity can apply one or more Indicators to Identify Functional Currency.

Note:- Currency in which sales price is denominated is not an Indicator

3 Identify Functional Currency of Foreign Operation

- Functional Currency will be same as that of Reporting Entity's Currency, if:- → the Activities of F.O. are carried out as an extension of Reporting Entity. (Means F.O. is dependent on Reporting entity)
- Functional Currency may be different from that of Reporting entity, if:- → the Activities of F.O. are carried out with a Significant degree of Autonomy and Independent from Reporting Entity.

4 Foreign Currency Transactions (Convert from Foreign to Functional)

Sales, Purchases, Loans, Investm.

- All Transactions Other than Net Investment in Foreign Operation (F.O.)
  - Initial Recognition → of all F.C. Transactions → at SPOT Rate
  - Subsequent Measurement (B/S date)
    - FCMI & Non Monetary items Measured at FVTPL → Closing Rate or Ex. rate on the Date of Measurement → Ex. Gain/Loss → P&L
    - Non Monetary items Measured at FV Though OCI or other than P&L eg. PPE revalued upward → Ex. Rate on the Date of Measurement → Ex. Gain/Loss → OCI
- Net Investment in F.O. → If There is a Long Term Monetary item which is Payable / Receivable to/from F.O. For which settlement is neither Planned nor Likely to Occur in Forseable Future → i.e. Permanent Funding eg:- Loan given by Parent to Subsidiary which is not expected to be settled. (Net Invested in F.O. shall never include Trading Bal. like Debtors/Creditors)
  - SFS → Exg. G/L on Subsequent Measurement transfer to P&L a/c
  - CFS of Parent
  - This Excg. G/L on Translation into Functional Currency of Parent - Transfer to OCI Until the Disposal of F.O. or on the Date when Settlement is Planned Since Group as a whole does not have an exposure to Foreign Currency Risk

Foreign operation (FO)
↓
an Entity (Subsidiary) operating in a Country or Currency different From main Entity (Holding Co.)

Scope of IndAS 21

1) FCT (Foreign to Functional)
2) F.O. Financial Statem.
3) Functional currency to Presentation currency
4) Net Investment in F.O.

5 Change in Functional Currency

- Translate All Assets/Liabilities/Equity/ Exp./Incomes Into new Functional Currency based on Exchange Rate on the Date of Change
- No Exchange Difference will arise since all Items are Translated into Same Rate
- ● Change in Functional Currency leads to Prospective effect
- ● However, Change in Functional currency may result into change in presentation currency. If this is a case, then it will have retrospective effect i.e previous year Fin. Stat. are to be restated with New Presentation Currency

Continued to next ...

Summary of Ex. Diff.

1. Ex. diff. on Foreign Currency Transactions → Transfer to P&L

2. Ex. diff. in Case of Net Invest in FO
   - FO → SFS of FO → P&L
   - FO → CFS → OCI

3. Ex. difference from Translation of Functional Currency F/S into presentation Currency F/S → OCI

4. Ex. diff on Translating FO TB from FO's Currency into parent's Currency
   - Parent's Share → transfer to OCI
   - NCI's Share → added in NCI

Holding (₹) → Foreign Subsd. ($)

LT loan in ₹ (Net Invest in FO)

FO → For Subsd its a F.C.T → Ex. P&L of Subsd.

Translated in ₹

Avg Rate

P&L of Subsd/Grp	
Exp ₹	Income ₹

OCI	
Ex diff ₹	Ex diff

P&L

Exp $ Ex. diff $	Income $ ex. diff $

INDAS 21 - EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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6 Translation of FS into Presentation Currency (Convert from Functional to Presentation)

Case -1
Functional Currency is Not a Currency of Hyper-Inflationary Economy

- All A&L → Closing Rate
- Revenue Items → Actual if Possible Otherwise Avg. Rate
- Capital Transactions → Actual Rate
- Ex. Difference (CTD) → OCI
  - → Reclassified to P&L in Case of disposal of F.O. (Loss of Control)

Case -2
Functional Currency is a Currency of Hyper-Inflationary Economy

1) Adjust all items of F.S. considering Inflation as per IndAS 29
2) All Items at Closing Rate. Hence NO Ex. Diff.

Characteristics of Hyperinflationary economy (Ind AS 29)

- Preference of investment of wealth in a relatively stable foreign currency/ non-monetary assets
- All monetary amounts are quoted in relatively stable currency rather than local currency
- Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short
- Interest rates, wages and prices are linked to a price index
- The cumulative inflation over three years is approaching, or exceeds, 100 percent

7 Foreign Operations

Consolidation of Foreign Subsidiary with Parent & Translation

- **Step - 1** Calculate Goodwill/GBP NCI & Make all Workings in the functional Currency of F.O.
- **Step - 2** Translation of all Assets including Goodwill & all Liab. including NCI into Presentation Currency at Closing Rate
  - Revenue Items at Avg. Rate
- **Step - 3** Cumulative Translation Difference (CTD) → Bifurcate into
  - Consolidated OCI (Parent's Proportionate Share)
  - NCI (NCI's Share)

Disposal of F.O. → sale

- Without Loss of Control → Parent's Share of CTD (already shown in OCI) shall be Proportionately Transfer to NCI → OCI A/C Dr. To NCI A/C (if CTD is having Cr. bal.)
- With Loss of Control → Parent's share of CTD (appearing in its OCI) shall be transfer to Conso. P&L
  - What to do with NCI's CTD Share? → Since NCI is to be Fully De-recognised therefore CTD which is already included in NCI Shall also be De-recognised

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IND AS 23 - BORROWING COSTS

1 Definition of Borrowing Cost (B.C.)

Incurred in Relation to Arrangement of Funds, it includes -
(a) Interest Cost
(b) Other Costs

B.C. Covers Exclusively

1) Interest Calculated as Per ERI (IndAS 109)

2) Interest in case of Lease Liabilities under IndAS116

3) Ex. Diff. to the extent of Saving in Interest on F.C. Loan*

*Lower of :-
(a) Ex. Loss
OR
(b) Saving in Interest

2 Treatment of Ex. Gain in Subsequent Years

Exchange Gain shall be deducted from B.C. to the Extent of Earlier Ex. Loss Included in B.C.

3 Qualifying Assets (Q.A.)

Any Asset

- That takes Substantial Period** of Time
- To get Ready
- For Intended Use or Sale

Eg:- IP/PPE/Intangible Asset (Software)

Is Inventory a Q.A.?

If Yes → When ?

- Inventory must not be Produced in Larger Quantities
- & Not Produced on Repetitive Basis customised

and takes Substantial Period
Eg:- Air-crafts or Ships
Manufactured on Special Orders

Exception:-

For Maturing Inventories (like whiskey) which are not held for sale just after production, but goes on improving with age for many more years. It may be treated as Q.A

**Subsantial Period :- Generally 12 months or more but a Lower period can also be Substantial based on Facts & Circumstances

4 Recognition of B.C.

If B.C. is incurred in relation to:-
Acquisition (A)
Construction (C)
Production (P)
of Q.A., then Capitalised otherwise P&L

5 Commencement of

a) Capitalization

- Expenditure must be incurred on ACP
- B.C. must be incurred
- Necessary Activities Should be in Progress.

b) Suspension

Active Development is Interrupted During Extended Period. avoidable
But When such Interruption is Necessary for active Development unavoidable then No Suspension of Capitalization

c) Cessation

A/C/P is Substantially Completed
If Completion takes place in Parts, then Cessation for Such Part of QA only when the Part is Capable of being Used/Sold Separately

6 Types of Borrowing Costs

- Specific B.C. → One to One Relation of Q.A. & Borrowing → Capitalise B.C. to a Specific Q.A. only
- General B.C. → One to Many (or) Many to Many → To Capitalise B.C. Calculate W. Avg Capitalisation Rate

$$\frac{\text{Total B.C. During the Year}}{\text{Total Borrowings O/s During the Period (Take months as Weight)}} \times 100$$

What to do now when W.A.C.R. is Calculated?

Expenditure on Q.A. X W.A.C.R. X Months Weight

Expenditure Incurred till last year (Including BC Capitalised)	xxx
(+) Cash Payment on Material & Lab.	xxx
(+) Non - Cash Exp. (accrued)	xxx
(-) Grant / Subsidy	xxx
(-) Progress Payments Received if any	xxx
	xxxx

7 Misc Provisions

1) Interest on Temp. Investment of Borrowed Funds → Deduction From Total Borrowing Cost before Capitalization & before Calculating W.A.C.R.

2) Dividend on pref. shares which are classified as Financial Liabilities would meet the definition of borrowing cost.

3) Capitalizing Borrowing Cost in Group Fin. Statement:-

- Amount borrowed by one entity and utilized by another entity to develop Q.A
- In CFS, B.C. will be capitalized but not in SFS.
- In case of Intra-Group Borrowing, B.C may be Capitalised in SFS.

Refer Q7 of Book

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INDAS 24 - RELATED PARTY DISCLOSURES

1 Objective

To Disclose:
- Related Party Relationships
- Related Party Transactions
- O/s Balances with Related Parties; &
- Commitments with Related Parties

Disclosures to be Provided :-
In SFS &
In CFS

Except :- Intra Group Related Party Transactions & O/s Balances which are not measured at Fair value through P&L are not to be disclosed in CFS.

2 Definitions

A) Related Party

A Person OR An Entity

that is Related to the Reporting Entity

B) Close Member of Family of Person

Any one who can be influenced by Entity or can influence the Entity in its dealings with the Entity.

Includes
(i) Children, Spouse or Domestic Partner,
(ii) Brother, Sister, Father & Mother
(iii) Children of Spouse or Domestic Partner
(iv) Dependents of that Person/Spouse/Domestic Partner

C) Key Management Personnel

Any Person having Authority & Responsibility for :-
- Planning
- Directing
- Controlling

the entity directly or Indirectly.

(Directors - Executive/ Non executive or any Member of Managing Committee)

3 Types of Related Party Relationships

Relationship with a Person

A Person or his Close Family Member is Related to Reporting Entity if that Person :-

Has Control or Joint Control over Reporting Entity OR Has Significant Influence over the Entity OR is a Member of KMP of :- Reporting Entity or a Parent of Reporting Entity.

Relationship with Another Entity

- If they are Members of Same Group (i.e. Parent & all Subsidiaries.)
- One Entity is Associate or JV of Other Entity
- If a Member of a Group has an Associate/JV then All Members of same group shall be Related Party with Such Associate/JV. (But Co-Associate Co. & Co-Venturers shall never be Related Parties)
- Both Entities are JV of same 3rd Party.
- One Entity is JV of Third Entity & Other Entity is Associate of third entity. Such JV & Associate shall be Related to Each Other.
- Subsidiary of an Associate Co. shall be Related to Investor Co. (who has Invested in Associate)
- The Entity is Post-Employment benefit plan for the benefit of Employees of either Reporting Entity or an Entity Related with Reporting Entity. If the Reporting Entity is itself such a plan, the Sponsoring Employees are also Related to the Reporting Entity.
- If a Person is having Control in any one Entity & Control/JC/Sign. Infl./KMP in Another Entity then Both Entities shall be Related Parties.
- The Entity, or any Member of a Group of which it is a part, provides Key Management Personnel Services to the Reporting Entity or to the Parent of the Reporting Entity.

4 Identification of who is not a Related Party

These are not Related Parties

a) Two Entities are not Related Parties simply because they have a Director or other Member of Key Management Personnel in common or because a member of Key Management Personnel of one entity has Significant Influence over the other entity.

b) Two Ventures are not Related Parties simply because they share Joint Control over a Joint Venture

c) (i) Providers of Finance,
(ii) Trade Unions,
(iii) Public Utilities &
(iv) Departments & agencies of a Government that does not control, Jointly control or Sign if. Influence the Rep. Entity.

Above all are not Related Parties simply by virtue of their Normal dealings with an entity.

d) A Customer, Supplier, Franchiser, Distributor or General Agent with whom an entity transacts a Significant volume of Business, simply by virtue of the Resulting Economic Dependence.

5 Related Party Disclosures

Category - 1
Following Disclosure is Compulsory Even if there is No Related Party Transactions

1) Name of Parent or Ultimate Controlling Party
2) If Ultimate Parent/Controlling Party do not produce CFS then the next Controlling Party's Name which produces CFS
3) The Requirement to disclose Related Parties is in addition to Requirement of IndAS 110, 28

Category - 2
These Disclosures are required only when there is Related Party Transaction during the Period:-

1) Total Compensation to KMPs
2) Disclose following when there is related party transaction during FY:
   - Nature of Relationship
   - Information about Related Party Transactions & O/s Balances including Commitments
   - Terms & Conditions
   - Provisions for doubtful debts

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A BASICS

1 FINANCIAL INSTRUMENT

A Contract which Creates
- F.A For One Party
- &
- FL/Equity for another Party

2 FINANCIAL ASSET MEANS

- Cash Including Bank Deposits
- Eq. Instrument of Another Entity
- Derivative Contracts
- Right to Receive Cash or other FA
- Right to Exchange FA/FL under Favourable Terms
- Contract Which is to be settled in Own Equity in Variable Numbers (Eq. Instr. are used as Currency)

3 FINANCIAL LIABILITY MEANS

- Obligation to Deliver Cash or Other FA
- Oblig. to Exchange FA/FL Under Un-Favourable Terms
- Derivative Contracts
- Obligation to Settle the Instrument into Entity's Own Equity share in Variable Numbers

4 EQUITY MEANS

Residual Interest in Net Assets of Entity
It Includes
- Non- Puttable Instruments
- Puttable Instruments Subject to some Conditions
- Instruments which are Convertible into Fixed No. of Equity Shares

5 PUTTABLE INSTRUMENTS

- General Rule → Financial Liability
- Exceptionally it is Equity if :-
  1) They are Entitled for Pro-Rata distribution in Case of Liquidation
  2) They are Subordinate to all other Classes of Financial Liabilities (i.e. they Rank Last for Repayment)
  3) Identical in all Other Classes of Instruments (Same as Equity)
  4) Fixed for Fixed Settlement & No Cash Settlement if Put Option Exercised
  5) Eligible for Returns only in case of Earnings or in case of Changes in Net Assets (No Fixed Returns)

* Equity doesn't have any Classification Since it is a Residual Interest.

B RECOGNITION & MEASUREMENT

1 Classification of FA

Amortised Cost (AMC)

Any F.A. shall be under AMC Category if it meets both Conditions
- "Hold to Collect" Business Model Test → Objective is to Hold the F.A. till Maturity, to Collect Entire Contractual Cash Flows (CCF)
- "SPPI" Contractual Cash Flow Characteristics Test → Contractual Cash Flows Consist Payments Made up of "Solely Principal & Interest (SPPI)"

In Simple Words -
HTM
+ Interest Income Only
+ Repayment of P+I on Specified dates

FVTOCI

Any F.A. shall be under this Category if it meets Both Conditions :-
- "HolD to Collect & Sell" Business Model Test → No Intention to HolD till maturity, Entity can Sell it also to Earn other Income (i.e. Gain on Sale)
- "SPPI" Contractual Cash Flow Characteristics Test → Contractual Cash Flows Consist Payments Made up of "Solely Principal & Interest (SPPI)"

In Simple Words :-
No HTM
+ Interest Income
+ Other Income
+ Repayment of P+I on Specified dates

FVTPL

- Residual Category (Jiska koi nai Uska FVTPL)
- Eg:- Equity & Derivatives (Generally)

(Held for Trading + Residual Category)

2 Classification of FL

- AMC (Eg :- Loans Taken) → Compound Instruments → Combination of Equity & FL
- FVTPL (Eg:-Derivatives) → Non Compound Instruments → Pure Financial Liability

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3 Initial Recognition

- **Financial Assets**
  - **AMC**: Fair Value (FV) +/- Transaction Cost. Here FV means - PV of CCF @ ERI
  - **FVTOCI**: Fair Value (FV) +/- Transaction Cost
  - **FVTPL**: FV Only (Tran. Cost - P&L)
  - Here FV means Quoted MP
- **Financial Liabilities**
  - **AMC**
    - Compound Instrument → (a) FL = PV of *CCF @ ERI; (b) Equity = Total Proceeds - FL
    - Non Compound Instrument → PV of *CCF @ ERI (If ERI is not given then calculate IRR)
  - **FVTPL** → Derivatives Only (Quoted Market Price)
- **Equity** → at Residual Value (Transaction Cost also transfer to Equity only)

*CCF = Contractual Cash Flows

4 Subsequent Measurement of F.A

- **AMC**
  - Regular Income= P&L (Calculate as per ERI)
  - Remeasurement G/L = P&L
- **FVTOCI**
  - Regular Income= P&L
  - Remeasurement G/L
    - Equity Instrument (Non HFT) if Designated as FVTOCI → OCI & No Reclassification to P&L is allowed
    - Other Assets → OCI (Recycle to P&L on Disposal or De-Recognition)
- **FVTPL**
  - Regular Income = P&L
  - Remeasurement G/L in P&L always

5 Staff Advance (F.A @ AMC) (Interest free or Concessional Rate)

- Recognise Advance (F.A.) @ ERI to be applied to CCF
- Any Excess Receipt over the Amt. Recognised as F.A. is Called Employee Benefit Exp.
- Emp. Benf. Exp. shall be either w/off over the Period of Expected Benefits or Immediately charged to P&L if ratio of Expected Benefits are not Identifiable

9 Financial Guarantee Contracts & Commitments

Meaning:- Guarantee given by One Company (say Parent) to Bank/Lender to Provide Loan at Concessional Rate of Interest to Another Company (Say Subsidiary)

Treatment in the Books of Guarantor (Who gives Guarantee)

- **Debit Effect** → If Guarantor is Parent then "Investment A/c" will be Debited. If Guarantor is other Party then P&L A/C will be Debited
- **Credit Effect** → Financial Guarantee (Liab.) A/c
  - Initial Measurement At Fair Value → Here FV is equal to PV of difference between (A) Net Contractual Cash Flows required under the Loan; & (B) The Net Contractual Cash Flows that would have been required without the Guarantee.
  - Subsequent Measurement Higher of
    1) Loss allowance (i.e Expected Loss on Default) → PoD
    (OR)
    2) Initial Recognitian less Cumulative Amortisation (Carrying Amount)

    (any Difference arise due to above measurement is transfer to P&L)

8 Buy Back Option / Puttable Instruments

If Equity Instrument becomes Puttable then :-

Reclassify from Equity to FL @ PV of CCF (Difference will be trnf. to Equity)

If Option Availed	If Option Expires
Settle the FL thru Cash	Reclassify FL to Equity at same Carrying Amount

7 Loan given by Parent to Subsi @ Concessional Rate

- **For Parents Books**
  - Recognise FA equal to PV of CCF @ERI
  - (A) Remaining Bal. will be Cost of Investment in Subsidiary under SFS
- **For Subsd. Books**
  - Recognise FL equal of CCF @ERI
  - (B) Total Proceeds (-) FL = Other Equity in SFS

* While Preparing CFS, (A) & (B) above Shall be Offset in Calculation of "Cost of Control, Goodwill / GBP Calculation"

6 Allocation of Transaction cost Under Compound Instr.

Allocate in the Ratio of Value of FL & Equity

Then Recalculate the IRR for FL after adjustment of allocated Tran. Cost → Such IRR shall be used for Future Finance Cost Calculation

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10 Impairment of FA (AMC & FVTOCI)

Expected Credit Loss Method

- **Lifetime Expected Credit Loss** (FA under High Risk of Default or Credit Impaired) → Consider Life Time Probability of Default on all Repayments
- **12 Month Expected Credit Loss** — Consider Probability of Default on Coming 12 Months Repayments)

Formula :-

Amt. of FA X Probability of Unrealised Cash Inflows X Probability of Defaults

11 De-Recognition of FA

- **Full Disposal** → any Difference Transfer to P&L
- **Partial Disposal** → Split the FA into
  - Strips Sold
  - Principal Strips Unsold
  - Interest Strip Unsold
  - Service Asset (Cost of Collection) →
    - Strip Sold will be Derecognised & Difference Transfer to P&L
    - Above split Shall be Done in Proportion to Fair Values

12 Modification in Financial Instruments

Q701
Q705

A) Modification in Compound Instruments (Eg. Change in ERI, Term, Interest Rate or Principal Repayment or Change in Fair Value)

Step -1
Calculate Carrying Amount of Instrument as on Modif. date

Step -2
Calculate Revised Value of FL & Equity on Modification date as per Revised Terms using new ERI if given, otherwise Org. ERI

Revised FL ⇒ PV of Revised CCF @ Rev. ERI

Revised equity ⇒ New FV (-) Rev. F/L

Step -3
Difference between Revised values & Carrying Values

Diff. in FA / FL = P&L a/c
Diff in Equity Portion = Other Equity

Step -4
Now, New Carrying Amt. are Revised Values.
Settle them or Continue them as per Question's Requirement.

B) Extinguishment OR Modification of FL (Non-Compound Instruments)

- **Extinguishment**: Cancellation of Org. Debt by Re-negotiating the terms with Lender for New Debt & New Terms
- **Modification**: Modifying the existing Debt / Loan with same Modified terms without Cancellation

How to Identify Extinguishment OR Modification?

Revised PV of Liability (as per New Terms) @ Org. ERI
(-) Carrying Value of Liability (Book Value)

If Difference is:-

- **10% or More** → It's a Case of Extinguishment → A/c Treatement
  - De-Recognise the Existing book value of F.L.
  - Recognise New F.L. either @
    - At Fair Value i.e PV @ New ERI (if given)
    - OR
    - If New ERI is not given Recognise FL @ Outstanding Amt. Payable → In this case Calculate New ERI to be used in Future for Calculating Finance Cost.
  - Difference b/w Amt. De-Recognised & Amt. Recognised Transfer to P&L a/c
- **Less than 10%** → Its Modification (Refer Point No. 13 for A/c Treatment)

13 A/c Treatment of Modification

- No De-Recognition of Existing Book Value of F.L.
- Existing book value shall be adjusted by applying any one of following Two approaches:-

Approach - 1

1) Increase or Decrease the existing book value of FL as per revised terms Using Org. ERI & Charge diff. to P&L a/c
2) Any Fees/Cost of Modification is charge to P&L a/c.
3) Future Annual Finance Cost shall be determined Using Org. ERI

Approach - 2

1) Deduct the Fees/Cost of modification from existing book value of F.L.
2) Recalculate New ERI based on above adjusted book value & Future CCF
3) Future Annual Finance Cost shall be determined using above New ERI

(Approach - 2 is more preferable)

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C DERIVATIVES

1 Meaning of Derivatives

- Any Instrument whose Value Changes in Response to Change in Underlying
- Which is Settled on a Future Date

&

- Requires No Investment or very little Initial Investment

2 Basic Rules

Recognition → Derivatives are Recognised at BS Date

Measurement → Derivatives are always measured at "Fair Value"

3 Derivative Futures & Forwards

Long Position = Price Will Rise
Short Position = Price Will Fall

If Favourable Position → Recognise Derivative Asset as on B/S Date at 'FVTPL'

If Unfavourable Position → Recognise Derivative Liability as on B/S Date at 'FVTPL'

4 Derivative Options

Call Option = Right to buy when MP is Higher
Put Option = Right to Sell when MP is Lower

Option Buyer (Investor)

- Option Premium Paid will be treated as "Derivative Asset"
- When Situation is in Favour of Buyer then above Asset shall be Increased though P&L (FVTPL)
- When Situation is not is favour then w/off the above Asset to the extent of that Portion which is not Realisable

Option Seller

- Premium Received shall First be treated as "Derivative Liability"
- If Situation is not in Favour of Seller then above Liability shall be Increased though P&L (FVTPL)
- If Situation is in favour then above Liability is Reversed to P&L to the extent of that Portion which is not Payable

5 Embedded Derivatives

A Contract which is a Combination of
- Non Derivative (Main Contract or HOST Contract); &
- Derivative (it is Embedded with HOST)

→ What to do?

If HOST Contract & Embedded Derivative are Closely Related with each other → No Separation is Required Entire Contract shall be accounted as per Relevant Ind As (May be other Standard)

If HOST Contract & Embedded Derivative are not Closely Related then Derivative Element is to be accounted Separately. → In case of Contract to Sell/ Purchase of any Asset / Goods in Future

- Record the Sale / Purchase at Pre-determined Forward Rate
- Consider Change in Rates as Derivative Contract (FVTPL)

6 Hedge Accounting

Hedged Item :-
An Asset / Liability / Firm Commitment/ Highly Probable Future Transaction which is Under Risk

Hedging Instrument :-
It is a Derivative Instrument acquired to Reduce the Risk in Hedged Item

Types of Hedge Accounting

Cash Flow Hedge

Step - 1
- Fair Value the Hedged Item Through OCI

Step - 2
- Fair Value the Hedging Instrument Through OCI

Step - 3
- Calculate Actual Loss:- Forward Rate Less SPOT Rate & Amortise it to P&L over the life from OCI → P&L A/C Dr. To CFHR

Step - 4
- On Settlement Date, Realise/Settle the Contract in Cash CFHR will be Nil.

Transfer to OCI will be named as "Cash Flow Hedge Reserve" (CFHR)

Fair Value Hedge
Measure the Hedged Item & Instrument through FVTPL

Hedge of Net Investment in Foreign Operation

- Measure the Hedge Investment through OCI (FCTR)
- Measure the Foreign Operation through OCI (FCTR)
- Transfer G/L (OCI) to P&L when F.O. is Disposed

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Reclassification from One Category to Another

FINANCIAL ASSETS

Reclassification of FA is possible only when Entity Changes its Business Model

From AMORTISED COST (AMC)

To FVTPL

Re-Measurement of C.A.
FV as on Date of Reclassification

Gain/Loss
Transferred to P/L

ERI
NA

To FVTOCI

Re-Measurement of C.A.
FV as on Date of Reclassification

Gain/Loss
Transferred to OCI

ERI
No Change, Continue with Same ERI for Calculation of Annual Income.

From FVTPL

To AMC

Re-Measurement of C.A.
FV as on Date of Reclassification & same will be treated as Amortised Cost further under AMC.

Gain/Loss
Recognise in P/L

ERI
Revised ERI is to be computed based on Revised Carrying Amount.

To FVTOCI

Re-Measurement of C.A.
FV as on Date of Re-classification

Gain/Loss
Transferred to P&L

ERI
NA

From FVTOCI

To AMC

Re-Measurement of C.A.
FV as on Date of Reclassification & Charged to OCI.
Now, Accumulated OCI Bal. as on Date of Reclassification is Reversed through F.A. as a Result F.A. is continued at original Cost.

Gain Loss
No Gain / Loss

ERI
No Adjustment Change

To FVTPL

Re-Measurement of C.A.
Same Fair Value shall be Continued

Gain/Loss
Commulative Gain/loss (OCI) as on Date of Reclassification Transf. to P&L

ERI
NA

FINANCIAL LIABILITY

Reclassification of FL is not allowed

Reclassification from Financial Liability to Equity and Vice Versa

From FL to Equity

Measured at Same Carrying Amount

From Equity to FL

- Measured at Fair Value on the Date of Reclassification (PV of CCF@ ERI)
- Difference if any charged to Equity Only

IND AS 33 - EARNINGS PER SHARE (EPS)

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1 Presentation of EPS

- Consolidated FS → Consolidated EPS only
- Separate FS → Separate EPS only
- ➲ EPS for Continuing Operations
- ➲ EPS for Discontinued Operations
- ➲ EPS for Total Business

2 Formulae to Calculate EPS (for CFS)

$$\frac{\text{NP/L attributed to ESH of Parent}}{\text{W.Avg. No. of Eq Shares}}$$

NP/L from SFS of Parent co. (+) Parent's share in NP/L of Subsidiary co.

Earnings from P&L of Holding = 5 Cr.
Earnings in P&L of Subsid ⇒ 3 Cr.
H has 80% Investment in S
Earnings (CFS) ⇒ 5 Cr. + (3 Cr. × 80%)
⇒ 7.4 Cr.

3 Numerator - NP/L attributed to ESH

- Pref. Dividend → If Cumulative → Deduct always; If Non Cumulative → Deduct only when Declared
- If Pref. Sh. Cap is Classified as Financial Liab. (Ind AS 109), then Divd. Recog as Finance Cost shall be deducted.
- Premium on Redemption of Pref. Shares → Deduct always even though not charged to P&L A/C

4 Denominator

- Partly Paid Shares
  - Entitled for Dividend → Consider in BEPS Calculation
  - Not Entitled for Dividend until they become Fully Paid → Consider in DEPS Calculation as a Potential Eq. shares
- Eq. shares having different Face values or different Paid up Values → Calculate "Earnings per Rupee" First by taking W. Avg Amt of Eq. share Capital o/s during the year. Then, Such EPR shall be Multiplied to different Paid up values or different Face Values to get EPS
- Compulsory Convertible Securities (Conversion into Fixed no. of Eq. Shares)
  - To be Considered while Calculating B.EPS from the Date of issue of such Securities
  - However Interest/Divd. Paid on Such Securities shall be deducted for Net Profit calculation
  - Always assume that convertible instruments are not Mandatory/ Compulsory Convertible if Question is Silent
- Equity Shares issued Under Business Combination
  - Time weight shall be Considered from "Date of Acquisition"
  - Reason:- Since Earnings are Combined from DOA Only.
- Bonus Shares / Share Split / Share Consolidation → For Calculation of "W.Avg" Date Shall be Considered from Beginning of Earliest Period Presented
  - In CY: Take $\frac{12}{12}$ weight
  - In PY → Restate EPS by taking Effect of Bonus/Split/Consolidation

5 EPS in Case of Right Issue

- Step -1: Calculate Ex- Right Price of Share

$$\frac{\left(\text{FV Cum Right X No. of Shares O/S before Right}\right) + \text{Right Issue Proceeds}}{\text{Total O/S Shares Post Right}}$$

- Step - 2: Calculate Right Factor

$$\frac{\text{Cum Right Price}}{\text{Ex Right Price}}$$

- Step - 3: Calculate CY BEPS :-

$$\frac{\text{Net P/L}}{\left(\text{No. of Shares Pre - Right X Right Factor X Time weight}\right) + \left(\text{No. of Shares Post - Right X Time weight}\right)}$$

- Step - 4: Calculate Restated EPS of P.Y. by Considering Right Factor → No. of O/S Shares in PY X Right Factor

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IND AS 33 - EARNINGS PER SHARE (EPS)

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6 Diluted EPS

Potential eq. sh.

When to Calculate DEPS?

When Entity has O/S Potential Eq. Shares

Eg. (a) Convertible Pref. Shares
(b) Convertible Debentures
(c) Share Warrants
(d) Options O/S ESOP
(e) Partly Paid Eq. Shares if not entitled for Dividend
(f) Contingently Issuable Shares

How to Calculate DEPS?

Step-1 Identify Potential Eq shares First
Step-2 Calculate Incremental EPS(IEPS) for every single Potential Equity Shares & arrange IEPS in Increasing Order
Step-3 Apply test of Dilution - Test each Potential Eq. Share on BEPS for Continuing operation

- If EPS declines from Preceeding Calculation then it is called DEPS
- If EPS increases from Preceeding Calculation then it is Anti-Dilutive

DEPS Under Call Options Issued

"In the Money Options" are Dilutive
Exercise Price is Lower than Market Price

Total No. of Options____xxx
(-) Non-diluted Portion__xxx

Total Options X Ex. Price / M.P.

"Out of Money Options" are Non - Diluted
Ignore in Calculation of DEPS

Contingently Issuable shares

Issued for little or No cash or other Considerations on Satisfaction of Specified Conditions

To be included in the working of DEPS if not yet issued but Conditions Satisfied on B/S date

ESOPs

Types of ESOPs for DEPS

1) ESOP based as Service Conditions Only

Consider in DEPS Calculation

2) ESOP based as Performance Conditions

Since Achievement of Performance is a Contingent Event, it may or may not happen, therefore these ESOPs are treated as "Contingently Issuable Shares"

How to Calculate Potential Equity shares for DEPS working

Total No. of ESOPs
(-) ESOPs issued against Fair Consideration

No. of Potential shares

*ESOPs issued against Fair Consideration is Calculated as Under

Total options x Ex. Price / Fair Value

7 Entity with Discontinued Operations

While Calculating DEPS in Case of those Entities with Discontinued Operations, always Check ☞ In Continuing operations, is there an Income or Loss?

If there is Income from Continuing Operations

- Consider all Potential shares to calculate DEPS of Overall Operation (Continuing + Dis-continuing) even though there is an Anti-dilution
- This is because the EPS of Continuing Operation gets diluted & Income from Contunuing Operations is Control number i.e Point of decision.

If there is a Loss from Continuing Operation.

- EPS from Continuing Operation will get Anti-diluted (this is possible because of Potential shares in Denominator)
- Therefore, DEPS will be Calculated without Considering Potential Eq. shares.

Shortcut

- If there is Loss in Continuing oper.
- then while calculating DEPS Do Not Consider potential Equity shares
Consider ord. eq shares only.

IND AS 34 - Interim Financial Reporting (I.F.R)

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I.F.R can be Presented by any one out of Two ways:-
1) A Complete set of FS as per IndAS - 1; or
2) A Condensed set of FS as per IndAS - 34

1 Form & Content of Interim Financial Report

- If Entity Publishes Complete set of F.S → It's form and content should be as per IndAS 1
- If Entity Publishes Condensed F.S
  - Statements shall include Headings & Subtotals of most Recent Annual F.S
  - Additional line items if Necessary → When it is necessary? → When not Presenting will make it Misleading
  - Present Basic and Diluted EPS for that Period
- If Entity's latest Annual FS report included the Parent's SFS in addition to Consolidated FS → Standard neither requires nor prohibits inclusion of SFS of Parent in Interim Report

2 Significant Events & Transactions

in any Interim Period

Disclosure Same as Annual Financial Statements

Note:- Transaction is
- Significant → Include
- Not Significant → Exclude

3 Other Disclosures shall be given

- Either → in Interim FS
- OR → In some other statement (such as Management commentary or Risk Report) & give Cross reference in Interim FS

→ Other disclosures & Interim FS should be of Same Term & provided at Same Time → Info. should be normally reported on a Financially Year-to-Date basis.

4 Period of Interim FS

(1) BALANCE SHEET :-
Current Interim Period & Comparative Balance Sheet of Previous FY

(2) P/L SOCE & SCF :-
P/L :- Year to Date Info. for Current Interim Period & Comparable Interim Period of Immediately Preceding FY

SOCE:- Cumulative for Current FY to date with Comparable Year to date of Previous FY

CFS :- Cumulative for Current FY to date with Comparable Year to date of Previous FY

5 Materiality

Follow same guidance of IndAS -1

6 Disclosure in Annual FS

Change in Estimate from Interim FS to Annual FS → Give following Disclosures in Annual FS
- Nature & Amount of Change in Estimate as per IndAS 8
- An Entity is not required to include Additional Interim FS information in Annual FS

7 Recognition & Measurement

Same Accounting Policies as of Annual FS

Revenues Received cyclically occasionally or seasonally →
- There Revenues should not be deferred as of an interim date
- For seasonal Revenues→ Recognised when they occur

Cost incurred Unevenly during the FY
- Shall be Anticipated or Deferred if and only if it is also appropriate to do so.

Cost — Evenly: Salary, Rent; Unevenly: Yearly Bonus, Advertising, Bad-debts

8 Restatement of previously Reported Interim Periods.

A Change in Accounting Policy where there is No transition →
- Restating of FS of Prior Interim period of FY and Comparable Interim period of Previous FY as per IndAS - 1
- When Impracticable then apply Prospectively from Earliest date Practicable

9 Interim Financial Reporting & Impairment

Same as for Annual FS as per IndAS - 36

Q2 July to Sep. 2024

- FS = Financial Statement
- SOCE = Statement of changes in Equity
- SCF = Statement of Cash flows
- FY = Financial Year

B/S

Curr. Inter.	Py Fy
30/9/24	31/03/24

P/L/SOCE/SCF

Cy	Py
YTD	YTD
1/4/24 to 30/9/24	1/4/23 to 30/9/23

Minimum presentation

Q2 (July to Sep 2024)

P/L

Cy	Cy	Py	Py
Current IP	YTD	Current IP	YTD
1/7/24 to 30/9/24	1/4/24 to 30/9/24	1/7/23 to 30/9/23	1/4/23 to 30/9/23

Tax aspects

1) Calculate Estimated Total Tax & Eff. Total Annual Income

2) Calculate W. Avg. Tax Rate if there are different Slab Rates, (excluding Cap. gain / special Income)

3) Apply that W. Avg Rate to each Quarter

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IND AS 36 - IMPAIRMENT

(Page 1)

1 Indications of Impairment & Indications of Reversal

Impairment

For Assets Other than Investments in Sub/JV/Ass.

External Indicators

- Significant Decline in Market Value of Asset
- Adverse Effect Due to
  - Technological Changes
  - Legal Changes
  - Economical Changes
  - Market Changes
  - an entity's Business.
- Market Interest Rate Increased Significantly
- Book Value of N.A. > Market Value of Net Assets
  - Assets may be overvalued

Internal Indicators

- Damage & Obsolescence of Assets
- Adv. Effect Due to :-
  - Asset is Idle
  - Discontinuation of Business
  - Restructuring of Operation
  - Plan to Dispose of Assets
  - Reassessing the life from Infinite to Finite
- Economic Performance of Asset is Worse

Investments in Sub/JV/Ass.

- CA of Investment in SFS of Parent Co. is More than CA of Net Assets of Subsidiary which are included in CFS of Parent Co.

OR

- Divd. declared by Subs. is Higher than Total Comprehensive Income of Subs.

Reversal of Impairment

External Indicators

- Signf. Increase in M.V. of Assets
- Favourable Effect Due to
  - Technological Changes
  - Legal Changes
  - Economical Changes
  - Market Changes
- Market Interest Rate Decreases Significantly

Internal Indicators

- Fav. Effect Due to enhanced performance & Improved Business operations
- Economic Performance of Asset is Better than Expected

2 How to Calculate Impairment Loss & its Reversal

Impairment Loss

Carrying Amt. (C.A.)
Less
Recoverable Amt. (R.A.)

Reversal of Imp. Loss

Alternative - 1

Lower of :-
(a) R.A. - C.A.
&
(b) Org. Imp. Loss - Saving in Dep. for further years due to Impairment

Alternative - 2

After Reversal the Revised CA should be lower of :-
Lower of
(a) Recoverable Amount
&
(b) C.A. after Dep. had there been no Impairment

3 Recoverable Amt.

For R.A .of CGU & C.A. of CGU → Take all Assets of CGU + Liabilities of CGU if such Liab. are Necessary Part of CGU

Higher of
(a) Value in Use &
(b) Fair Value Less Cost to Dispose

Value in Use depends on -

Projected Cash Flows

How to Estm. Cash Flows?

- Reasonable / Supportable Assumptions of Management
- Greater Weight to External Evidences
- Take most Recent Financial Forecasts Approved by Mang.
- Projections not more than 5 years unless Evidenced

Discount Rate

Consider

- Time Value of Money
  &
- Risk Specific to Asset

When Asset specific rate is not available then consider following

- WACC
- Incremental Borr. Rate
- Other Market Borr. Rate

How to Estimate Fair Value Less Cost to Dispose

Check Binding Sale Agreement
↓
Not Available
↓
Check Active Market & Identify Current Bid Price of Asset
↓
Not Available
↓
Price From Most Recent Transaction From Active Market
↓
No Active Market
↓
Best Estimate of Management
↓
Agar Humse No Ho Payega then Take Value in Use Only.

Continued to next ...

IND AS 36 - IMPAIRMENT

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4 Impairment Testing

- **First Preference to Individual Asset only**
  - C.A. of Asset (-) R.A. of Asset
- **When Individual Asset is not able to Generate Independent Cash Inflows**
  - Consider Cash Generating Unit (CGU)
    - ➲ Smallest Identifiable group of Assets
    - ➲ Generate Cash Inflows
    - ➲ Independently from other group of Assets
  - **How to Impair the entire CGU**
    - **Check is there any Goodwill**
      - Goodwill shall be allocated to the CGUs Considering Synergies effect due to Bus. Combination
      - In absence of any info, allocate Goodwill in Ratio of Fair Values of all CGU's at time of Acquisition
    - **Check is there any Corporate Assets**
      - If Value is Allocable to all CGU's → Bottom Up
      - If Un-allocable to all CGU's → Top Down
        - While Applying Top Down Approach, Make Sure that the Organisation's R.A. Should be atleast the Sum of R.A. of all CGUs
    - **Total Impairment Loss (-) Goodwill Value**
      - Bal. Imp. Loss
      - Apportion to all Assets including Corp. Assets in Ratio of Carrying Amount

5 Treatment of Impairment Loss

- **Providing Impairment Loss**
  - Charge to Revaluation Surplus if Available & Charge to P&L thereafter if there is no Revaluation Surplus
- **Reversal of Imp. Loss**
  - Reverse it to Rev. Surplus (Had there been no Impairment what would be the Bal of Rev. Surplus)
  - Then Transfer to P&L thereafter

7 Misc. Provisions

- **Deferred Tax Impact**
  - Tax Base Higher
  - C.A. Lower
  - DTA
- **I/L of Goodwill**
  - Reversal not Permissible
- **No Impairment Testing on Following Assets**
  - ➲ Biological Assets (IndAS 41)
  - ➲ Non-Current Assets Held For Sale (IndAS 105)
  - ➲ DTA (IndAS 12)
  - ➲ Inventories (IndAS 2)
  - ➲ Financial Assets (IndAS 109)
- **Following are Tested Annually For Impairment Without any Indications**
  - Goodwill Under Business Combination
  - Intangible Assets Having Indefinite Useful Life
  - Intangible Assets not yet Available for USE

6 Goodwill Impairement Testing - Impact on NCI

CA + Partial Goodwill + Notional Goodwill (NCI)
RA

NCI is Calculated @ Fr

- **If Goodwill is calculated using "Full Goodwill method" (Ind AS - 103)**
  - Total Impairement loss on Goodwill shall be apportioned to Group's P&L A/C & NCI
- **If Goodwill is calculated using "Partial Goodwill method" (Ind AS - 103)**
  - Goodwill shown in CBS belong to parent's share only & not of NCI
  - To calculate Impairment Loss, add Notional Goodwill (un-recognised portion) of NCI to the Goodwill Value shown in B/S & compare with total Recoverable Amount
  - Now total Impairment Loss on Goodwill shall be apportioned to Parents's share & NCI's Share. Recognise only Parent's share. Ignore NCI Share

INDAS 37 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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1 Objectives

Recognition & Measurement of
- Provisions
- Contingent Liabilities
- Contingent Assets

\+

Disclosure of above items

2 Scope

Non Applicability

- Financial Instruments
- Executory Contract (other than Onerous Contract) where Parties have not Performed or Performed till equal Extent
- Insurance Enterprises
- Provisions & Liabilities Covered by other INDAS (INDAS 12, 19, 116)

3 Important Terms

Amt of outflow & timing is certain

- **Obligation** → The state of having to do something as Promised because it is a Law or Duty.
- **Liability** → Present Obligation arising from Past Events (result in Outflow of Resources)
- **Present Obligation** → Existence of an Obligation that is "More likely than Not"
  - Promise Jisko Perform Karna K Chances are more.
- **Possible Obligation** → Existence of an Obligation which is Not Probable.
  - generally Less than 50%.
- **Provisions** → Liability of UNCERTAIN Timing & Amount

Present obligation means that promised which has to be fulfilled in any case & we don't have any alternative other than to settle it.

4 When to Recognise?

Present obligation
(+) Outflow of Resources
(+) But Amt of outflow is not certain

- **Liability** → When Outflow is Certain
- **Provisions** → When Liability is measured using Substantial Degree of Estimation
  - Present Obligation
  - Due to Past events
  - Exists on BS data
  - Probable future Outflow
  - Reliably Estimation
    - Yes → Create Provision
    - No → Don't Create
- **Contingent Liabilities**
  - Present Obligation arising from Past Event not Recog. because Outflow not Probable (or) Obligation can't be Reliably Estimated
    - Present Obligation
    - Due to Past Events
    - Not Recognised as Provision
    - NOT Probable future Outflow
    - ~~Possibility of Outflow is NOT~~ Remote
    - ~~Reliably Measurable Obligation~~
    - Yes → Disclose CL
    - No → Discloure
  - Possible obligation arising from Past Events that will be confirmed by Future Uncertain events Not Controlled by Entity
- **Contingent Assets** → Possible Asset arising from Past Events that will be confirmed by Future Uncertain Event Not Controlled by Entity.
  - Realisation is Virtually Certain
    - Yes → Recognise Asset
    - No → Don't Recognise, Also No Need to Disclose

5 Other Imp. Areas

(a) Reimbursement of any Amt. if Virtually Certain to be Received
- B/S → Create Provision Net of Reimbursement
- P&L → Recognise Receivable as Separate Income

(b) Review of Provision/ Cont. Liab → Once in a year
- If there is Change → Convert Contign. Liab. into Provision (or) Reverse Provision as the Case Maybe
- No Change → Ignore

c) Provision for Restructuring Cost
- Planned & Controlled by Entity → Provision Includes Cost Incurred to -
  - Sale the Business
  - Relocation of Business
  - Change in Management Structure
- To change scope & Manner of Business → Excludes
  - Shifting of staff
  - Marketing
  - New Investments
  - Future operating losses.

Training.

d) Methods of Measurement

2 Methods to Measure Provisions:
(i) Expected Value Method
&
(ii) Most Likely Outcome Method

(Refer IndAS 115 Chart - Step 3 for More Understanding)

Provision

- Outflow Based → Ind AS 37
  - Liability nature
- Losses Based (Assets) → Ind AS 10

Provisions → Which Can-not be reasonably estimated are Disclosed as Cont. Liab.

INDAS 38 - INTANGIBLE ASSETS

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1 Intangible Assets

- Control
- FEB
- Identifiable
- Non-Monetary
- Without Physical Subst.
- Held For Use

2 Identifiable means

Separable OR Arise through Contract

Control ownership & Power to obtain FEB / Ability to restrict others from accessing FEB

Future Economic Benefits: Revenue, Saving in cost, Tax benefit etc.

3 Recognition Criteria

Probable FEB expected to flow & Cost can be measured reliably

Initial recognition → At Cost

Cost = Purchase Cost + Directly Attributable Cost

In case of Business combination = Cost means Fair Value on Acquisition date

Cost Excludes:-

- Advertising or Brand Promotional Exp.
- Abnormal Losses
- Cost of Introducing New Product
- Admin & General Exp.

4 Subsequent Expenditure

If FEB Increases as a result of Expenditure → Capitalized otherwise P&L A/C

5 a) Payment beyond Normal Credit Periods

Cost = Cash Price Equivalent eg. PV of future outflow

b) Exchange

Same as Ind AS - 16 → FV of Asset Given up (1st Priority) or FV of Asset Received (2nd Priority)

6 Research & Development Expenses

Research

1. Always charged to SPL
2. As per IndAS 103 → In-Process Research Project if acquired through B.C then Capitalise

Development

Capitalise only if 6 Conditions satisfied:-

1. Technical Feasability of Completion
2. Intention to Complete
3. Ability to Use/sale
4. FEB - Demonstration
5. Adequate Resources (Financial) to Complete
6. Expenditure can be Measured Reliably

7 Measurement at B.S. Date

Cost Model

Revaluation Model → Same as IndAS 16

8 Useful life/ Amortisation period

I.A. having Defined useful life → Amortise over the period of estimated useful life → Method?

- In the pattern of consumption of FEB expected (First priority)
- OR SLM If such Pattern is not determinable

Amortisation method cannot be based on Revenue

I.A. having Indefinite useful Life → No Amortisation but subject to Impairment testing annually whether or not indication of Impairment Exist

Amortization Period and Method should be Reviewed at least at each FY. end.

9 Miscellaneous Provisions

Following are not recognised as I.A.

- Internally Generated Brands
- Mast Heads (News Paper Title)
- Customer lists (if not acquired) → Cost Can't be Reliably
- Publishing Titles
- Staff Training Cost

Following shall not be I.A.

Preliminary expenses, Pre-operating expenses, Staff Training, Heavy Advertisement Exp. } P&L

if not protected under agreement for Legal Rights

Residential Value

Always Zero unless

- There is a commitment by Third Party to Purchase OR
- There is an Active Market for Asset and Residual value can be determined by reference to that Market and such market will exist at end of useful life

- Goodwill
- Brand
- Customer List

Internally Generated I.A. → No Recognition

Website Development cost

- Planning stage → Similar to research → P&L
- Development of Infrastructure of Applications & Graphics → Capitalize [URL, storage cost, Server cost Professional Fees]
- Promotional Exp. → Expenses P&L
- Operating stage → Expenses P&L

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INDAS 40 - INVESTMENT PROPERTIES (IP)

1 Definition

- Land
- Or Both
- Building

Held by Owner For :-
- Rentals (open. Lease)
- Capital Appreciation
- or Both

or Held by Lessee as a ROU

2 These are not IP

- Owner Occupied property (IndAS 16)
- L/B Held for Sale in Ordinary Course of Business (IndAS -2)
- L/B Constructed for Customers (IndAS 115)

3 L&B partially Used in Business & rest Part Not in Business (Held for More than One Purpose)

- If the Part is Capable of being Sold/Rented/ Used or Transferred Separately then
  - One Part will be IP
  - Other will be Owner Occupied
- If it could not be Separated for Sale/Use/Rental etc. then entire L&B as IP Only
  - ↓ When Insignificant portion is being used as Owner Occupied Property

5 Recognition & Measurement

- Initial Recognition Only
  - ↓
  - ➲ FEB are expected to Flow
  - ➲ Cost can be measured reliably
- Measurement
  - Initially
    - ↓ Cost
      - Purchase Cost + D.A.C
  - Subsequent Measurement
    - ↓ At Cost only
      - (FV shall be disclosed in Fin. Stat.)
      - Original Cost
      - Less: Acc Dep
      - Less: Acc Imp Loss If any

7 Change in Classification of L& B

- L&B as IP changed to L&B as PPE
- L&B as PPE changed to L&B as IP
- L&B as IP Changed to Inventory
- L&B as Inventory Changed to IP

* When there is change in classification then it is to be transferred at same Carrying amount

6 Cost of IP

- Exchange
  - ↓ Same Treatment as given in INDAS 16 (pls Refer IndAS 16)
  - ↓ Use Fair Values
    - 1st priority → Fr of Asset given
    - 2nd priority → Fr of Assets (IP) received
    - → Both Fr are not reliable → IP shall be recorded at same CA of Asset given
- Deferred Settlement Basis
  - ↓ Cost = Cash price Equivalent
    - It is either given
    - OR
    - PV of Future Outflow to be Calculated
    - (Cost should not be agreement value)
- If Held by Lessee as Right of Use (ROU) Asset
  - ↓ @ PV of Lease Payments
    - + Initial Direct Costs
    - + Estimated Cost of Dismantling at PV

4 Land & Building in the books of :-

- Owner of Property
  - Held for:-
    1) Sale in ordinary course of Business (IndAS 2)
    OR
    2) Production/Supply of G&S (IndAS 16)
    OR
    3) Administration purpose (IndAS 16)
    OR
    4) Given L&B on Finance Lease (IndAS 116)
    - ↓ Do not apply IndAS - 40
  - Held for:-
    1) Earning Rentals (means given L&B on Operating Lease)
    OR
    2) For Capital Appreciation
    OR
    3) Both
    - ↓ IndAS - 40 Investment property will be applicable
- Lessee (taken L&B on Lease) (Showing L&B as ROU Asset)
  - Held for:-
    a) Production/Supply of G&S (ROU Asset under IndAS 16)
    OR
    b) Administration Purpose (ROU Asset under IndAS 16)
    OR
    c) Sub-Lease (Giving L&B and treated as Finance Lease) (ROU Asset will be de-recognised)
    - ↓ IndAS - 40 will not be Applicable
  - Held for:-
    1) Rentals (i.e. ROU Asset given as sub-lease & treated operating lease)
    OR
    2) For Capital Appreciation (this is because Lease may have taken Risk/Rewards of ROU Asset) i.e. Lease may be Deemed owner
    OR
    3) Both
    - ↓ IndAS - 40 will be applicable i.e. ROU Asset will be shown under Investment property.

9 Imp. Disclosures

- A/c policy used for treatment of IP
- Criteria for distinguishing IP from PPE
- Depreciation method along with Expected Economic Life
- Fair value

8 De-regcognisition

Gain/Loss on
a) Disposal or
b) W/off
of IP shall be transfer to P&L A/C

*ROU = Right of Use

INDAS 41 - AGRICULTURE

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1 Imp. Terms

1) Biological Transformation

- Growth → Improvement in quality of B.A.
- Degeneration → Deterioration in quality of B.A.
- Production → Producing Milk, Wool Tea leaf
- Procreation → Creation of additional living Animals & Plants

2) Agriculture Activity

Managing Biological Transformation of B.A. for
a) Sale
b) Conversion into Agri. produce; or
c) Into additional B.A.

3) Biological Assets (B.A.)

- Animals
- Living Plants

4) Harvest

Detachment of agriculture produce from Biological Asset

5) Bearer Plant

Plant which bear Agriculture produce & expected to bear for more than 1 period

2 Scope (Applicability & Non Applicability)

(1) Applicability

- B.A. relating to Agriculture Activity
- Agriculture Produce at point of Harvest
- GOVERNMENT GRANT relating to B.A. for Agriculture activity

Non- Applicability to

- Land — IndAS 16
- Bearer Plants — IndAS 16
- GG relating to Bearer plant — IndAS 20
- I.A. associates with Agriculture Activity — IndAS 38
- Right of use Asset arising from lease of land related to agriculture activity — IndAS 116

Exception of measurement @ Fair Values

1) Biological Asset is not a part of Agriculture activity (i.e when Ind AS 41 not applies)
2) Biological Asset is a Bearer plant
3) Fair Value is not Reliably Measurable → ∴ BA ~~measured~~ @ Cost even relating to Agr. Act. → Govt Grant (IndAS 20)

3 Recognition Criteria

for BA & Agr. Prod.

- Control
- FEB (Expected)
- FV/Cost:- Reliably Measured

4 Measurment

- Initial → FV less cost to Sell
  - Gain → P&L
  - Loss (When cost to sale is higher than FV) → P&L
- B/S Date → Fair value less cost to sell → G/L - P&L

Cow = 21000 pur.
Transport Cost = 1000 bear for pur.
J/E = 1500
FV = 21000

fv less cost to sell
21000 − 1500 = 19500
Cow Dr. 19500
Loss Dr. 2500
To Bank 22000

5 Government Grants relating to B.A. measured at fair value

- Conditions complied → Recognise as Income immediately
- Condition yet to be complied → Liability first then Income after compliance of all conditions

Do not ever deduct Grant Amount from the value of Biological Asset

6 Agriculture produce at the point of Harvest

IndAS 41 shall be applicable only on Initial Recognition and Measurement at Date of Harvesting.

On Subsequent measurement, IndAS 41 will not be applied. IndAS 2 may be applicable and cost for the purpose of IndAS 2 will be its previous measurement of IndAS 41 i.e Fair Value less Cost to Sale.

7 Disclosure

1) Basis of determining FV
2) Any change in FV due to
   i) Price effect
   ii) Age effect

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INDAS 101 - FIRST TIME ADOPTION OF INDAS

(Page 1)

A Basics

1 IMP Definitions

1) Transition Date:- Beginning of Earliest Period for which entity Presents Full Comparative Information.

2) Opening Ind AS B/S :- B/S at the Date of Transitions

2 Objective of INDAS

First Ind AS Financial Statements including Interim Reports should contain High Quality Information that :-
(a) is Transparent & Comparable
(b) Provides Starting Point for Accounting with Ind AS; &
(c) Can be Generated at a Cost that does not Exceed the Benefits.

Note :- Ind AS 101 Applies when an Entity Adopts Ind AS for the First Time by an "Explicit and Un-reserved" Statement of Compliance

B Process of First Time Adoption of Ind AS

1 Apply Ind AS w.e.f. Transition Date

Prepare Opening Ind AS B/S as on Transition Date

↓

All Assets & Liabilities as on Transition date Must be shown as per IndAS

↓

This is required for Smooth Transition

2 Specific Requirements

Recognise → All Assets/Liabilities whose Recognition is required by IndAS

Not to Recognise → Do not Recognise A/L whose Recognition is not Permitted by IndAS

Re-classify → Assets / Liabilities / Equity from One Classification (AS) to Another Classification (Ind AS)

Re-Measure → Re-Measure A/L as per IndAS if Required

3 Follow All Ind AS Requirements

The General Rule is to Follow Requirements of all IndAS on First Ind AS Financial Statements Retrospectively

↓

However Ind AS 101, Sets Some "Mandatory Exceptions"& "Optional Exemptions" where No Retrospective Application is Required.

C Mandatory Exceptions

Exceptions from Applying Specific Ind AS Transitional Provisions.

1 Estimates

Estimates taken by Entity in accordance with Previous GAAP shall not be Changed in view of developments after the Transition date.

2 Non - Controlling Interest

Apply following Requirements of Ind AS 110 Prospectively from Transition date:-

- Total Comprehensive Income is attributed to the Owners of Parent & NCI
- Accounting for Change in Parent's Ownership Interest either with Loss of Control or without Loss of Control

3 Government Loans

Apply IndAS 109 & IndAS 20 Requirements on Outstanding Amt. of Govt. Loans Prospectively from Transition date. Whatever we did before that, Ignore it.

Determine ERI as on Transition Date.

4 Hedge Accounting

Apply Hedge A/c of IndAS only to those Transactions which occurred on or after Transition date.

5 Classification & Measurement of FA/FL as per Ind AS 109

Categorization of FA or FL into:
- AMC
- FVTOCI
- FVTPL

Only from Transition date not earlier.

6 De-Recognition of FA/FL

- Apply De-Recognition provisions of Ind AS only to those Transactions which occurred on or after Transition to Ind AS.
- It Means FA/FL De-recognised before Transition date as per Previous GAAP (although as per Ind AS, No De-Recognition is required), it shall not Recognise Such FA/FL again on Transition date which is already De-recognised.

Continued to next ...

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INDAS 101 - FIRST TIME ADOPTION OF INDAS

(Page 2)

D Optional Exemptions

Exemptions from applying Retrospective requirments of Ind AS.

1 Business Combinations

No Need to apply IndAS 103 to all those Combinations Occurred before date of Transition.

2 Share Based Payments

Entity is not required to apply IndAS 102 to those Equity Instruments that Vested before date of Transition

3 Deemed Cost

On Transition Date, Measure PPE/Intangible Assets/Investment Properties either at:-
(a) Fair Value or
(b) Same Previous GAAP Carrying Amt.
as Deemed Cost for the Purpose of Ind AS adoption.

4 Long Term Foreign Currency Monetary Items (LTFCMI):-

Entity can Continue to apply previous GAAP policy on LTFCMI recognised in the Fin. Statement immediately before the Beg. of First IndAS Financial Reporting Period

i.e. Para 46 & 46A of As 11 can be followed

5 Investments in Sub./Ass./JV

If Invest. in Sub./Ass./JV in SFS is being measured by opting COST Model:-

Cost will be Either:-
(a) Determined as per IndAS 27
(or)
(b) Deemed Cost as under:
(i) FV on Transition date; or
(ii) Previous GAAP Carrying Amt. on Date of Transition

6 Compound Financial Instruments

No need to Split the Compound Fin. Inst. into Separate Liability & Equity, if Liability Component is not Outstanding as at Transition Date.

7 Non-Current Assets Held for Sale & Discontiuned Operation

- On Transition date apply Ind AS 105 & Recognise any Difference directly in Retained earnings.
- Difference = New Value as per Ind AS 105 (-) Carrying Amt. as on Transition date as per Previous GAAP.

8 Joint Arrangements

Transitions from Proportionate Consolidation to Equity Method

On Transitions date, Recognise Investment in JV @ Equal to Aggregate of Carrying Amt. of Proportionate Amt. of Assets & Liabilities including Goodwill

9 Leases

Lessee shall Recognise Lease Liability & ROU Assets in Respect of O/s Lease Contract on Transition date as follow:-

Lease Liability

PV of Remaining Lease Payments Using Increamental Borrowing Rate on Transition Date

ROU Asset Either at:-

Amt. Equal to Lease Liability

(OR)

Carrying Amount as if IndAS 116 had been applied Since Commencement date of Lease, Discounted using Incremental Borrowing Rate

Entity has to Prepare Reconciliation Statements for differences arise in Equity & Total Comprehensive Income for the Amounts as per AS & IndAS

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INDAS 102 - SHARE BASED PAYMENTS (SBP)

1 Types of SBP

- Equity Settled → Equity Instrument
- Cash Settled → Financial Laibility
- Equity Option with Cash Alternative → Compound Instrument

2 SBP covers Payments to

- Employees → Measured at "Fair Value of Equity Instruments" Granted
- &
- Others (eg. suppliers of Goods & Services) → Measured at
  - First Pref. → Fair Value of G & S
  - Second Pref. → Fair Value of Equity Instruments

3 SBP with/without vesting Condition

- Without V. Conditions: Expenses to be Recognize immediately as on Grant Date
- With Vesting Conditions (Exp to be Recognized over the Vesting Period)
  - Service Conditions
  - Performance Conditions
    - Non Market
    - Market

Note:- *If services conditions/nonmarket performance conditions are satisfied but market based condition are not satisfied then no need to reverse the expenses even though option is not vested.*
If service/pref. conditions are not satisfied then option is not vested & expenses to be reversed.

4 Fair Value of Option

- Equity Settled → Take FV as on Grant Date only
- Cash Settled → Take FV as on every B/s Date & Re-measure the liability through P&L

5 Equity Options with Cash Alternative

Step 1 :- Total FV of Equity Option
(No. of Equity Option x FV for Equity)

Step 2 :- Total FV of Cash Option
(No. of Cash options x FV for Cash Option)

Step 3 :- Recognise SBP Reserve by Difference of step-1& step 2 over the V. Period
(Step 1 - Step 2)

Step 4 :- Recognise SBP Liability equal to Step 2 & measure it at latest FV on every B/S date

Step 5 :- Settlement
- In Equity → SBP Liability shall be Transfer to SBP Reserve & Shares to be issued
- In Cash → SBP Reserve shall be transfer to General Reserve SBP liability to be discharged

6 Repricing/Modification

(Benefit in favour of Employees/Suppliers)

Recognise Additional Exp for remaining VP equal to:-
Difference between FV as on Modification date with Modification (-) FV as on Modification date without effect of Modification

This Additional Exp. is to be recognised from Modification Date to Vesting Date.

7 Cancellation of SBP Options

(Cancelled before end of VP)

Step 1
Recognise the whole Exp. Immediately for remaining VP, assuming the option is immediately vested.

Employee Benefit Expense A/C Dr.
To SBP Reserve

Step 2
Calculate the Compensation that should be paid i.e. Total Fair Value of Option at the Time of Cancellation
And
Transfer the above Amount from SBP Reserve to Liability

SBP Reserve A/C Dr.
To Compensation payable A/C

Step 3
Remaining SBP Reserve shall be Transfer to Gen. Reserve Now
The payment shall be made, if there is any diffence - Charged to P&L A/C

8 Employees of Subsidiary gets share Based payment option from Parent company

Books of Subsidiary co.

1) Subsidiary shall recognised the entire Employee Benefit Expense.

2) If Subsidiary company is required to reimburse to parent against the option given by parent, then subsidiary company has to credit Bank/Cash a/c for making payment to parent.

3) For such portion for which reimbursement is not required, that portion will be Credited by Subsidiary as "Equity Contribution by Parent A/c" This is to be presented under other equity.

4) On issue of Shares by parent, equity contribution a/c shall be transfer to Free Reserve.

Books of Parent co.

1) Parent Company shall recognise "Investment in Subsidiary A/c" every year thru SBP reserve.

2) If parent receives any reimburement then instead of Investment a/c, Bank a/c will be debited.

Investment in Subsidiary a/c Dr.
Bank a/c Dr.
To SBP reserve
} Every Year

3) On issue of Shares by Parent Company, SBP reserve is reversed and Equity Share Capital/Security Premium are Credited.

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IND AS 27 - SEPARATE FINANCIAL STATEMENTS (SFS)

1 Purpose of this Standard

- Applicable to Individual Financial Statements
- Of Parent Co. or Investor Co. (excluding Investment Entity)
- To measure the Investments in Subsidiary / Associate/ JV

2 How to measure Invst. in Sub/Ass./ JV in SFS

Option - 1 (OR) Option - 2

- Option - 1: At Org. Cost, subject to further Impairement as per Ind AS - 36
- Option - 2: At Fair Value as per Ind As 109 (FVTPL or FVTOCI)

Exception

Investments Held by Investment Entities & Similar Entities

↓

Measures the Investment @ Fair Value through P&L A/C (FVTPL) only.

3 Categorywise Measurement

- Three Categories
  - Invst. in Subs.
  - Invst. in Ass.
  - Invst. in JV

  Follow either Cost model or FV model for entire Category only
- Measurement of one Category can be diff. from other Category.
- Example
  - (i) Cost model for entire Category of Invst in Subsd.
  - (ii) FV Approach for whole Category of Invst. in Ass.

4 Investments Held for Sale

If Invst. are measured @ Cost approach & Held for sale, then IndAS 105 will be applicable.
(This requirement does not apply for Investments measured at FV approach)

5 Income from Investments

Any Income (eg. Dividend) Received from Investments in Sub / Ass. / JV Shall be Credited to P&L Statement under SFS.

6 Parent Co. Ceases to be Investment Entity (OR) Becomes an Investment Entity

- Parent becomes Investment Entity
  - Measure the Investment @ FVTPL
  - Any difference between Carrying Amt. & FV is Gain/Loss, Charge to P&L A/C.
  - Any earlier Gain/Loss Accumulated in OCI Shall be Recycled to P&L
- Parent Ceases to be an Investment Entity
  - Option - 1 Cost Approach → FV on the date of Change of Status is taken as Deemed Cost.
  - Option - 2 FV Approach → Continue with FV either thru P&L or OCI

7 Reorganisation of Group Structure

An Entity (Say A Ltd.) who is Original parent, Re-Organise the Structure of its Group by establishing a New Entity (Say X Ltd.) as New Parent

Yes

1) New Parent issues Equity Shares against obtaining Control of Original Parent
2) Assets / Liabilities of New Group are same as of Original Grp. before & after Re-Organisation
3) SH (owners) of Original Parent must have same Absolute & Relative Interest in the Net Assets of the Groups
4) New Parent Elects to measure "Cost Model" for its Investment in Original Parent

If all above conditions are satisfied then, Cost will be - Sum of Carrying Amt. of Equity Items shown in SFS of Original Parent

BUSINESS COMBINATION & CONSOLIDATION

IndAS 103 & 110

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A Basics

1 Control Acquired by Acquirer

If Yes

Acquirer Shall Prepare CFS

Control can be Acquired

- With Consideration
- Without Consideration

OR

1) Acquiree announced Buyback of its own shares from other SH which results in Increase in "% of Holding of Acquirer"

OR

2) Other SH (Minority) Voting Rights lapsed which results in increase in "% of Voting of Acquirer"

3) Acquirer & Acquiree agree to Combine their business by Contract alone. Acquirer transfers No Consideration in Exchange for Control & holds No Equity Interest.

2 What is the Method of Accounting ?

Acquisition Method (4 Steps) to be Following by Acquirer

- Identify Acquirer
- Determine Date of Acquisition (DOA) of Control
- Recog. & Measure Identifiable Assets, Liab. Assumed & NCI
- Recog. & Measure Goodwill/ GBP

3 What is the First step to solve the question?

on DOA

We need 4 Elements

1. Purchase Consideration ---- At Fair Value (Discharge by Parent)
2. Net Assets of Acquiree ---- At Fair Value
3. NCI — At Fair Value OR At Prop. of NA
4. Goodwill / Gain From Bargain Purchase

PC Discharged to Acq. Control ---- xxx
⊕ Fair Value of Previous Invest. ---- xxx
⊕ Non Controlling Interest ---- xxx
⊖ 100% Net Assets as on DOA ---- xxx

B Four Elements as on DOA

1 Purchase Consideration

Includes

Cash
PV of Deferred Cash
**Fair Value of Contingent Consideration
FV of Shares issued / Assets Given
FV of Liabilities Assumed.

Excludes

Acquisition Related Cost

- Stamp Duty
- Fees Paid to Regulators
- Transaction Cost

** If Contingent Consideration is based on Employee services (eg. KMP must serve the Acquirer for a Particular period) then Such Contingent Consideration shall not become part of PC & treat it as Post Combination Employee Benefit Exp. in P&L of Acquirer.

2 Net Assets

Recognition of :-

1) Assets & Liab. Shown in Acquiree's Fin. Stat.
+
2) A/L not shown in Acquiree's Fin. Stat But Recognition Criteria Satisfied
+
3) Contingent Liability if present oblig. even though outflow is not required
+
4) Indemnification Asset:- if Indemnified by Acquiree & Related Liab. already Recognised.
+/-
5) DTA / DTL newly Recognised due to Temporary Difference between Fair Values & Tax Base of Above Assets & Liabilities

Measurement

- General Rule @ Fair Value
  - FV of Assets
  - (-) FV of Liabilities
- Exceptional Rule
  - DTA/DTL as per Ind AS 12
  - DB Oblig. as per Ind AS 19
  - SBP as per Ind AS 102
  - NCA Held For Sale → As per Ind AS 105

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Four Elements as on DOA

Continued from Previous page

3 Non Controlling Interest

(Can be Negative)

Portion of Acquiree's Equity not directly or indirectly owned by Parent

How to Calculate?

- Fair Value
  - MP per Share on DOA X No. of Share of NCI
  - OR
  - PC / Acquirer's Share % X NCI Share %
- Prop Share of NA
  - Fair Value of NA on DOA X Share of NCI

Types of NCI

- Qualifying
  - Ordinary Equity Owners
- Non Qualifying
  - Other Components of Equity (Not Ordinary)
  - Always Apply Fair Value Method for Non-Qualifying
  - ESOP
  - Convertible Securities
  - Share Warrants

Imp. Note:- When FV is not given & Question is Silent, then always Use 'Proportionate share of NA method' to Calculate NCI

4 Goodwill / G.B.P

* G.B.P. = Gain on Bargain Purchase

- Full Goodwill Method → Where NCI is Taken at Fair Value
- &
- Partial Goodwill Method → NCI is Taken at Prop. Share of NA

Goodwill → (PC + NCI) is Higher than NA
G.B.P → NA is Higher than (PC + NCI)
→ Through OCI it is to be Shifted to CR under SOCIE

* GBP = Gain on Bargain Purchase

C Measurement Period Window

(Max. Period 12m)

- NA are Measured at Provisional Basis On DOA Due to Unavailability of sufficient Info
- Subsequently New Information arise after DOA for Assets & liabilities that were Existed on DOA (OR) based on Conditions/Facts Existed on DOA → If Such new info would have been Available on DOA the NA, NCI & Goodwill may have been changed
- Parent is allowed to incorporate such new info in the Buss. Comb Transaction & Make Required changes in :- NA & NCI → Any difference would be Adjusted in Goodwill / CR → Journal Entry :-
  - NA A/C Dr. To NCI To Goodwill/CR
  - (or) NA A/C Dr. Goodwill/CR Dr. To NA A/C
- IF new Info. arise after closure of Window → Treated as ERROR & make Retrospective Changes & Prepare Opening B/S & Transfer the difference to Other Equity

/ Change in A/c Estimates → prospective

D Special Adjustments

1 Abnormal Items

- Eliminate Effect of Abnormal Items from Changes Column
- Make Time Adjustment
- Re-instate the effect of Abnormal Items in Respective column either in DOA Column or Change Column

2 Revaluation of Assets & Liabilities on DOA

- Revaluation G/L
  - MV on DOA — xxx
  - (-) BV On DOA — xxx
  - BV on DOA – Calculate by Reverse Working through Dep Rate or Useful Life
  - → Transfer G/L to DOA Column After Time Adjustment
  - → Calculate DTA / DTL also on G/L
  - * Ignore DTA / DTL if Tax Rate is not given
- Depreciation Effect
  - → Calculate Dep. effect as under (a-b)
  - (a) Dep that should be Charged for post Acquisition Period (Calculated on FV on DOA)
  - Less
  - (b) Dep Actually / Already Charged for Same Period
  - = Additional / Saving
  - → Dep. Effect Transfer to Change Column after Time Adjustment
  - → Calculate DTA/DTL also

3 Treatment of Dividend Paid by Subsidiary / Acquiree Co.

- Entry Passed
  - Add Back in Change Column
  - Make Time Adjust. if Required
  - Directly deduct from NCI's working & Parent's share of Profit
  - Entry not yet passed →
  - No Need to Add Back in Change Column
  - Directly deduct from NCI Working
  - Deduct from Parent's share also if already added/recog in SFS as Dividend Receivable
- Or
- Cons. B/S Effect
  - Parent's share of Divd shall be eliminated from Total Subs divd. Payable
  - Remaining NCI share shall be shown as Dividend Payable Under "Other Current Liabilities"
  - Divd. Paid/Payable to NCI shall always be deducted from NCI working except when it is declared before DOA.
  - If declared before DOA it is aleady deducted from NA Calculation under Stat. of Changes in NA Working

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Special Adjustments

4 Step Acquisition

(Acquisition of Shares of Acquiree More than Once)

↓

CFS Shall be Prepared only when it Results in Acquisition of Control

↓

For Goodwill / GBP, take Fair Value of Previous Investment on DOA of Control

* It's Second effect i.e. Fair Value gain on Restatement of previous Investment Shall be transfer to Consolidated SOCIE thru P&L a/c

5 Elimination of Intra Group Items & Profits thereon

(Consider only those transactions which occurred after DOA)

- Intra Grp Assets & Liabilities Shall be Offset in CFS → eg.:- Debtors / Creditors / Sales/Purchase
- Unsold Stock
  - Upstream Transaction Subsidiary to Holding → P&L of Acquiree (Post) To Stock A/C → Change Column From "Statement of Net Assets"
  - Downstream Transaction Holding to Subsidiary → Conso. P&L Dr. To Stock A/C

Golden Rule :- Co. who earned the Profit shall Eliminate it from its P&L

6 Impairment of Goodwill

- Annual Impairment Testing is required, Since Goodwill is not subject to Amortisation
- Impairment Technique
  - Full Goodwill → Conso. P&L of Parent Dr. NCI Dr. To Goodwill
  - Partial Goodwill → Conso. P&L Dr. To Goodwill (Entire Impairment Shall be borne by Parent Only)

7 Reverse Acquisition

➲ Identify the Actual Acquirer who Got Control (Accounting Acquirer)
➲ Entity who issues Shares is Legal Acquirer

↓

Accounting Requirement

- (A) Recog. Asset/Liab/ ESC/other Eq. of Accounting Acquirer at Carrying Amt. only
- (B) Calculate Fair Value of Consideration that should be Provided by A/c Acquirer (it is called Notional PC)
- (C)
  - Record Assets/ Liab of Legal Acquirer at Fair Value
  - Record Goodwill/CR (B - C)

9 Change in the Holding Pattern of Parent Co.

- Disposal of Shares
  - Without Loss of Control → P has 90%, Sold 20% → If will affect Only NCI NCI will be Increased
  - With Loss of Control
    - De-Recognise From CFS → • Net Assets • Goodwill/CR • NCI
    - Recognise in CFS → Retained Investments (if any) at Fair Value on Disposal Date

Difference Between :-
(a) Increase in NCI (Proportionate of NA /Fair Value)
&
(b) Sale Proceeds

"Other Equity" (a-b)

Bank A/C Dr.
To NCI A/C
To Other Eq.

Difference in Cons. P&L of Parent

Bank A/C Dr.
Investments A/C Dr. (if any)
NCI A/C Dr.
To Net Assets
To Goodwill /CR
To Cons. P&L

- Further Acq of Shares (Control not Affected)
  - NCI A/C Dr. (Pro-rata) To Bank A/C (Difference in other Equity)
  - Eg :- Parent has 60% Purchased 20% More

8 Chain Holding

Golden Rule :- Always think from the point of view of ultimate Parent Co. while consolidating all Direct/Indirect Subsidiaries

Parent's Share in Sub- Subsidiary	Share of Subsi in Sub-Subsi. X Share of Parent in Subsid.
NCI Share in Sub Subsidiary	100% less Above Parent's Share

↓

Adjustments in Chain Holding

- While Calculating Goodwill/CR of Sub-Subsidiary → Take Proportionate Investments Only → Investments by Subsi in Sub-Subsi X Parent's Share
- While Calculating NCI of Direct Subsidiary → Deduct the Remaining Investment which is not taken in Goodwill/CR Calculation, From NCI Value

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Special Adjustments

10 Common Control Business Combination (Appendix C of Ind AS 103)

Control Exist with same Party Before & After Acquisition

Apply "Pooling of Interest Method" (do not apply Acquisition Method)

Transferor

Derecognise Assets, Liab. & Reserves and Difference Transfer to Cap. Reserve

Transferee

- Record A/L/ Reserves of Transferor at Same Book Value
- Record Purchase Consideration Agreed
- Differene of above Two shall be Transfer to CR (debit/credit)

11 Demerger

Demerged Co.

Liability A/C Dr. (De-Recognised)

To Assets A/C (De-recognised)

(Difference transfer to Other Equity)

Resultant Co. (Newly Incorporated) Follow Ind AS 103 Acquisition Method

- Recognise NA at FV
- Recognise PC to Shareholders at FV
- Difference - Goodwill/GBP

12 Replacement of Share Based Awards of Acquiree due to Business Combo.

Original Awards :- Granted by Acquiree before Buss. Comb.

Replaced Awards :- Granted by Acquirer at the Time of Buss. Comb.

Pre Combination Period Exp (Part of PC)

$$\text{Value of Org. Awards} \times \frac{\text{No. of Years Vested as on BC}}{\text{Higher of VP of Org. Award \& Replaced award}}$$

(For Distribution of NA)

Post Combination Period Exp

Total Value of Replaced Awards (-) Pre Combination Period = Expense to be Recognised in the Remaining Vesting Period by Acquirer

13 Loss of Control in Two or more Transactions

If any of the following conditions satisfied then treat all Multiple Transactions as Single Transaction :-

- Transactions entered in to Same Time or Contemplation of each other
- They Form Single Transaction designed to achieve an overall effect (eg. Single Agreement)
- Occurrence of one Transaction is dependent on the Occurrence of at least one other
- One arrangement is not economically Justified unless Considered with other arrangements.

When Treated as Single Transaction

Entire Gain / Loss Transfer to P&L A/c

When not Treated as Single Transaction

Gain/loss as First transaction where Control is not lost, is transferred to Equity Directly

&

Gain loss as Subsequent transactions where Control is Considered as lost, is transfer to P&L

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Pref Shares O/s in Subsd. Co.

Pref Share Capital

- The Portion Held by Parent if any shall be considered as a part of Investment in COC Working
  - ↓ Investment in Pref. Shares Shall be added with Investment in Equity to Calculate Goodwill/GBP
- The portion not Held Directly or Indirectly by Parent shall be Considered as Part of NCI & Shall be added to NCI Working
- Under COC, Net Assets shall include 100% PSC whether or not Invested by Parent in PSC

Divd on Pref. Shares

(Always assure that Pref. Divd is Declared & Payable at B/S Date)

↓ Now Check, Entry of Payable is Passed or Not

- **Entry not Passed by Subsdairy**
  - ↓ While Preparing Statement of Changes in Net Asset:-
    1) No need to add Back before Time adj.
    2) After T.adj, Deduct the Pref. Divd From the Respective Column (it may Relate to pre-acq Period also)
- **Entry is Passed by Subsdairy**
  - ↓ While Preparing Net Asset Statement:-
    1) Add Back before Time adj. in Changes Column
    2) After T.adj, Deduct the Pref. Divd From the Respective Column (it may Relate to pre-acq Period also)

3) After Deduction of Pref. Divd, Calculate Parent's Shares & NCI's Share Based on Equity Holding% Only.

Treatment of Pref. Divd for Consolidated B/S

- **If Parent has acquired Pref Shares**
  - ↓
  1) Parent is Entitled to get Share is Pref. Divd
  2) In Parent's Books, Entry Should Be -:
  3) Divd Receivable Dr. To P&L A/C
    - **Entry Passed in SFS of Parent**
      - ↓ Do Nothing
      - → in Consd. other equity
    - **Entry not Passed in SFS of Parent**
      - ↓ Add Parent's Share in Pref. Dividend directly to Conso. P&L in SOCIE (other eq.)
  4) Pref. Dividend Receivable by Parent shall be offset with Pref. Dividend Payable by Subsidiary only to the extent of Parent's share & Remaining Pref. Dividend Shall be Shown in CL ~~under Short Term Provisions~~ other curr. Liab.
    - ↓ In B/S → set off Inter Co. adj.
- **If Parent Does not acquired Pref Shares of Subsy**
  - ↓
  - ➲ Entire Dividend Belongs to Outside PSH (NCI) & Shown as CL under ~~Short Term Provision~~ OCL
  - ➲ Rest Treatment in Statement of Changes in NA will be same

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E Business & Business Combination

1 Business Means

- Integrated Set of Activities & Assets
- Capable of being Conducted for the Purpose of:-

1) Providing Goods / Servies to Customers
2) Generating Investment or other Incomes from Ordinary Activities

2 Elements of Business

- **Inputs** → any Resource (i.e. Asset) that can Contribute to create Output
- **Process** → any Substantive Process that is applied to Inputs for creating Output
- **Output** → Result of Substantive Process (eg. Goods / Services)

3 Business Acquisition v/s. Asset Acquisition

It is very necessary to assess whether Acquisition is of Business or Just an Asset

How to Assess?

- **Without Concentration Test** → Does set of activities & Asset have outputs?
  - **Yes** → Is the process either:- Critical to the ability to produce outputs + inputs includes workforce OR Significantly contribute to the ability to produce outputs + is scarce/ unique / hard to replace
    - Yes → Business
    - No → Asset
  - **No** → Is the process both:- Critical to the ability to develop / convert inputs into outputs And Inputs includes skilled workforce and other inputs that the workforce can convert to outputs
    - Yes → Business
    - No → Asset
- **With Concentration Test** → is the Test Met?
  - No → Go to detailed analysis
  - Yes → It is an Asset Acquisition

4 Concentration Test (it is Optional)

How to Perform?

Whether Substantially all of the Fair Value of Gross Assets are Concentrated in a Single Identifiable Asset/Grp of Assets

- Yes → It is not a Business Acquisition
- No → Assess Inputs, Process & Outputs Analysis (already discussed above)

How to Calculate Fair Value of Gross Assets?

- **Alternative - I**
  - FV of Consideration Paid
  - (+) FV of NCI
  - (+) FV of Previous Interest HelD
  - (+) FV of Liabilities Assumed (Excluding DTL)
  - (-) Cash & Cash Equivalents, DTA & Goodwill arising From DTL
- **Alternative - II**
  - (I) Sum of All Gross Assets (excluding Cash & Cash Equiv. & DTA)
  - +
  - (ii) FV of Consideration Paid Reduced by FV of N. Assets Acquired

$\frac{\text{Single Subst. Asset}}{\text{GVA}} \times 100\% \rightarrow$ 90% or more then CT passed

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F Investing Entities (I.E.)

Who is I.E.?

FOLLOWING ARE CHARACTERISTICS:

- Invests in more than one Investments
- Has more than one Investors as its Customers & that too Un-related
- Holds Ownership interest in the form of Equity or Similar Interests.
- Does not plan to hold its investments Indefinitely
- Has its Business Purpose to Invest Funds solely for returns from Capital Appreciations & Investment Incomes.
- Measures its Investments, Evaluates the Performance of its Invst. & Provides Informations related to its Invest in "Fair Value"

Exemption to I.E. If Invst. Entity has Subsdiaries

All other Subsd.
1) No need to Consolidate
2) Measures Investments at FV.

Subsdiary which is not itself an I.E. & whose main Buss. objective is to provide Services related to the Invest. Entity's Investment Activity (eg. KYC Check, BPO, Data Base Management)

↓

Since this is a Permanent Subsidiary

↓

"Parent Invest. Entity" must Consolidate this Subsidiary

G Change in Classification

Case -1

Investment Entity Becomes Non- Investment Entity

↓

- DOA will be Date of Change in Status
- PC = Fair Value of Investment in Subsidiary as on DOA
- Recognise Net Assets, NCI, Goodwill/GBP
- De-recognise Investments

Case - 2

Non-Investment Entity Becomes Investment Entity

↓

Treat loss of Control

↓

- De-recognise Net Assets, NCI, Goodwill/GBP
- Recognise Investments @ Fair Value
- Difference if any transfer to P&L A/c

H Exemptions to Prepare CFS

Following Companies are not required to prepare CFS

A Holding Co. if meets all the below Conditions:-

- It is a Subsidiary Co. of Another entity & its Owners Agrees for not preparing CFS
- It must be Unlisted Co.
- It's Ultimate or Intermediate Parent Produces CFS available for Public Use that comply with IndAS.

Past Employement Benefit Plans or other Long Term Employee Benefit Plans

Investment Entity

IND AS 111 - Joint Arrangements

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1 What is Joint Arrangements (J.A.) ?

Contractually Agreed → Sharing of Control → Where Decisions to Direct Relevant Activities requires → Unanimous Consent

2 Classifications of J.A.

Joint Operations (J.O.)

↓

Venturers who are sharing Control have :-

- Right to Assets (may not be on all Assets)
- Obligation to Liabilities (may not be on all Liab.)

→ Asset & Liab of Joint Arrangements

Joint Venture (J.V.)

↓

Venturers having Joint Control have :-

↓

Right to

Net Assets (must be all A&L) of J. Arrangements

**(If J.A. Is through Separate Legal entity then Generally it will be J.V)

3 Accounting Under Joint Arrangements

Joint Venture (J.V.)

↓

As per "EQUITY Method" (Ind As-28)

Joint Operation (J.O.)

↓

- No Separate Books of J.O. are Maintained.
- Each Venturer sharing Control shall record its own share in Assets / Liabilities/ Incomes/ Expenses of J.O. in its own SFS
- If there is a Transaction between Venturers & J.O.
  e.g. Venturer Selling goods / RM to J.O.
  then venturer shall record its own share without recognising Profits / Losses on such Transactions.

↓

i.e Gains/Losses shall be Recognised only to the extent of other Parties Interest.

Example - A Ltd. & B Ltd. started a Joint Operation without separate Legal entity, Sharing 50% each.

Now A Ltd sold Raw material to its Joint Operation Costing 500000 at SP of 600000

Books of A Ltd:-

B A/C	Dr. 300000	
Purchase in J.O.	Dr. 250000	
To sales		550000

Books of B Ltd :-

Purchase in J.O. A/C	Dr. 300000	
To A Ltd		300000

Refer Q306

4 A/c For Acquisition of Interest in Joint Operation in which Activity of Joint Operation constitutes a "Business"as per IndAS 103

↓

Joint Operator in its Financial Statements shall apply all requirements of IndAS 103 that do not Conflict with guidance given in IndAS 111

↓

1) Measuring Proportionate Assets/Liabilities @ Fair Value
2) Recognise Deferred Taxes
3) Recognise excess of Consideration transferred over Net Assets as "Goodwill" Subject to Impairement

Note: Previously Held Interest in J.O. are not Re-measured

IND AS 28 - INVESTMENT IN ASSOCIATES AND JV

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1 Applicability

When there is Investment in Associate or JV, then Investor / Venturer has to apply IndAS 28 in its CFS or the Financial Statements other than SFS where Equity Method is applied.

2 Who is Associate Co.

- Where Investment is 20% or more but upto 50%
- Investor gets "Significant Influence" over the Investee but not "Control"
- Significant Influence means "Power to Participate in decision making on Financial / Operating Decisions"

3 Equity Method For Associates / JV

Investment at cost in Ass. / J.V. - (including Goodwill / CR)	xxx
(+) Post Acquisitions share in Profit & OCI-	xxx
(-) Dividend Distributed -	xxx
(+/-) Depreciation additional / Saving due to Revaluation of Assets -	xxx
(-) Unrealised Profit to the Extent of Investor's Share - on Downstream Transaction	(xx)
(-) Impairment Loss to the extent - of Inventor's Share	(xxx)
Value of Investment as per Equity Method	XX

For this purpose Investment Shall be compared with fair value of NA as on Date of Acquisition

If there is CR :- Then Investment A/C Dr.
To CR A/C

If there is Goodwill then no recognition separately

- Goodwill under JV / Associate is not required to be Recog. Separately.
- IF value of Investment is more than value of N.A. as on DOA (under equity method) the Excess Amt. is Goodwill, which is Included in Investment

4 Treatement of share in Profit / Loss of Ass./JV in CFS of Investor

In case of Profit in Ass/JV

Investor's share of above Profit shall be allocated in "Invst. in Equity Sh. A/c" as per Equity method

In case of Loss in Ass./JV

(a) Investors share in loss of Ass./JV shall be allocated to Investment in Equity A/c (as per Equity method) only to extent of Carrying value of Invest. in Eq. Share A/c

(b) Any Remaining Loss (i.e Ur-recognised Loss) Should be allocated or applied to other Components of Investor's Interest in Ass./JV (i.e other Long Term Investments which are as good as Equity)
However, above Loss shall be applied to those Investment only after applying IndAS 109 on such Investment

(c) After setting off the share in loss in above Investments, if any Unrecognised loss still remains (i.e all Investments are reduced to Zero) then Such loss may be provided as Liability only when Investor has any Legal/Constructive obligation to make the loss good.
Cons P&LA/C Dr.
To Liab A/C
[Ignore if there is no such obligation]

(d) Unrecognised Loss (for which No Liability is Provided can be C/F to the next year for writing off against value of Investments if they are positive

(e) When Ass./JV Subsequently generates profits Such Profits Shall be allocated to each of the Long Term Instruments (Pref. Shares / Debn) First other than Invest. in Equity to the extent of Losses Previously allocated to them.

5 Classification of Investment in Associate/JV as "Held for Sale"

That Portion of Investment in Associate / JV which meets Criteria to be Classified as Held for as per IndAS - 105

Apply IndAS-105 for measurement of such portion i.e Lower of Carrying Amt or Fair Value less Cost to Sale.

The portion which is not classified as "Held for Sale" shall be accounted as Follows:-

Use Equity method till the disposal of that portion which is Held for Sale.

After the disposal of Investment Classified as Held for Sale

Whether Retained Interest Continues to be an Associate / JV

- Yes: Apply Equity method Continuously
- No: Measure @ Fair Value as per Ind AS - 109

6 Discontinuing the Use of Equity Method (When Investment Ceases to be an Associate / JV)

Case - 1
Investment becomes Subsidiary

- Apply Step Acq. Technique
- Recognise Net Assets, NCI & Goodwill/GBP
- Measure Previously acq. Investments @ Fair Value thru P&L

Any Consolidated OCI (recognised Previously due to change in Equity Interest in Associate / JV as per Ind AS 28) shall be re-classified to Consolidated P&L a/c, Except in case of Revaluation Surplus which should be direcly transfer to Retained Earnings/GR

Case - 2
Some or all Investments SolD

- Retained Investements should be recognised @ Fair Value
- Difference between Carrying Amt of Investments as per Equity method and Fair Value of Retained Investments Plus any Proceeds from sale of part of Investment shall be transfer to P&L a/c

IND AS 105 - NON CURRENT ASSETS HELD FOR Sale & DISCONTINUED OPERATIONS

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PPE
I.t. Ass.
I.P.

1 When to Classify an Asset as Held for Sale

When Carrying Amt. is Expected to Recovered through Sale Rather than through Continuing Use.

- Asset Must be Available for Immediate Sale in its Present Condition
- &
- Sale Must be Highly Probable (<50%)

When Sale is Highly Probable ?

- Management is Committed to Plan to Sell the Asset (Decision to sell is taken & final (Resolution is passed))
- Active Program to Find a Buyer have been Initiated
- There is Active Market for Asset where it is Reasonably Sold at its Current FV
- Sale is Expected to complete in 1 Year
- Significant Changes or Withdrawal from plan to sale are unlikely (Chances to Drop the plan to Sell are very Less)

Note: "There must be intention to sale". If Asset is being abandoned from use but no intention to sale then we cannot classify an Asset as Held for Sale. (Temporary Unavailable For Use)

2 How to A/c for Such Asset

At Lower of
(a) Carrying Amt or
(b) FV less Cost to Sell

- Difference Charge to P&L A/C
- &
- There can be subsequent Gain also if Fair Value increases subsequently.

Depreciation & Amortisation Shall be stopped Immediately

3 DISPOSAL GROUP

It is a Group of Assets & Liabilities to be disposed off Together as a group in a Single Transaction

↓

Measured at Lower of CA & FV less Cost to Sell

↓

Difference is Impairment Loss

↓

- First w/off Goodwill (if any)
- Then to other Assets on Pro-Rata basis

While allocating the Impairment Loss on other Assets, Do not allocate the loss to following assets :-
(a) Inventories (Ind AS - 2)
(b) Financial Instruments (Ind AS - 109)
Since the above Assets Should be Measured as per their own specific standards.

Subsequently when FV increases - it is Gain & Recognised to P&L without increasing Goodwill, adjust other assets only

4 Change in "Plan to Sell the Asset"

Remeasure the Asset at Lower of:-
a) Org. CA had there been no Classification as Held for Sale after Depreciation
&
b) Recoverable Amt at the time of Change

↓

Difference is transfer to P&L A/C

↓

Same as Reversal of Impairment Ind AS 36

5 DISCONTINUED OPERATIONS

Dis. Operation is a component of an entity:-
a. Which represents separate major line of Business or Geographical area; or
b. Is a Subsidiary with a view to resale.

↓

Present Results Separately from Continuing Operations in the Financial Statements with Separate -
(a) Post Tax Profit
(b) EPS

* When we Classify Asset on HFS, then before such Classification we shall apply all relevant Ind AS to that Asset First.

Eg. First we apply Depreciation & Impairment before HFS Classification

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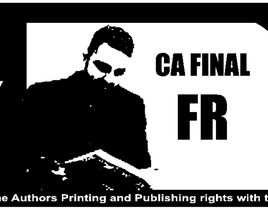

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INDAS 108 - OPERATING SEGMENTS

1 Segment Report

Preparing Segment wise report of entire Business to Understand & Evaluate the Performances

Segment Report is not a part of Financial Statements

Segment Information is Required only in CFS, if Financial Report contains both Financial Statements CFS & SFS.

There are 4 Steps, we should follow to prepare Segment Report

2 Who is CODM

Chief Operating Decision Maker can be a Function (not necessarily an Individual Person or a Manager)

↓

Who is responsible to Allocate Resources to & Assess the Performance of Operating Segments (CODM can be CEO)

3 Step - 1 Identify Operating Segments

Following 3 Conditions are required to be satisfied for Operating Segment:

(a) Earns Revenue & Incurs Expenditure

(b) Operating Results (P/L) are Regularly reviewed by Cheif Operating Decision Maker (CODM)

(C) Discrete Financial Info. is available (Like Incomes, Expenses, Assets, Liab.)

↓

A) Not Every Part/Activity is an Operating Segment. Following can-not be Operating Segment:-
1) Corporate Headquarters
2) Post Employee Benefit Plans

B) Following can be Operating Segments :-
1) Research & Development Function of a Company if it is an Integral part of Business

2) Dis-continued Operation if :-
- Continues to Engage in Business
- Whose Results are reviewed by CODM
- & Discrete Fin. Info is available

4 Step - 2 Aggregation of Similar Operating Segments

Two or More Operating Segments may be aggregated if following conditions are satisfied

(a) Similar Products & Services (or)

(b) Similar Production Process (or)

(c) Similar Type or Category of Customers (or)

(d) Similar Methods Needed to Distribute Products/Services (or)

(e) Similar Regulators Requirements

5 Step 3 - Which Operating Segment Should be Presented? Reportable (Imp.)

Any Operating Segments which meets following Quantitative Thresholds shall be presented separately:

(a) Revenue of Segment (Internal + External) Should be Equal to or More than 10% of Combined Revenue of the Entity (Internal + External)
(or)

(b) Absolute Amount of Profit or Loss should be 10% or more of the Greater of:
(i) Combined Profits of All Profitable Segments;
&
(ii) Combined Losses of All Loss Making Segments (in absolute terms)
(or)

(c) Segment Assets is 10% or more of Total Assets of All Operating Segments.

Notes

(i) Those Segments which are not Fulfilling the above criteria can also be Reported if Management Intends to do so.

(ii) If Total External Revenue of Reported Operating Segments as per the above threshold limit is less than 75% of Entity's Revenue, Then Additional Segments are required to be Reported until at least 75% of Entity's Revenue is Included.

6 Step 4 - Prepare Segment Report (Disclosures)

Following Disclosures are required in a Segment Report:-

(a) General Information:
- Factors used to Identify Segment
- Mgmt. Judgements for Aggregation
- Types of Products & Services

(b) Information about P/L, Assets & Liab. & basis of Measurement.

(c) Reconciliations of Seg. Info with Annual Fin. Records.

Formate :- 1) General info
2) Financial Info :-
a) Revenue segment-wise with Reconciliation
b) Results segment-wise with Reco.
c) Other Info :- a) Asset with Reco.
b) Liab. with Reco.
c) Cap. exp. & Dep
d) Geographical wise reporting.

INDAS 113- FAIR VALUE MEASUREMENT

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1 Applicability

Applies only in situation where FV measurement is required by other INDAS eg. 109, 16, 41, 105 etc.

2 Objective

To Determine how FV to be calculated for a specific Asset or Liability

3 Meaning of FV (Exit Price)

- Price Received to Sell an Asset or Price Paid to Settle a Liability
- In an orderly Transaction
- Between Maêket Participants
- At Measurement Date

Note: IND AS 113 applies only to Exit price and not to entry price

Note: IND AS 113 Consider only market based situations and not entity based situation

4 Meaning of Important terms

Orderly Transaction

A Transaction is orderly only when 2 conditions are satisfied:

(1) Adequate Market Exposure for a Market Based Exchange
&
(2) Not a Forced Sale

Market

1st Priority
Principal Market - Where Greatest s olume and Level of Activity in Present

Ond Priority
Most Advantageous Market -
Where Maximum Amt is Received for Sale of Amt and Minimum Amt is to be Paid for Settlement of Liability

Note - In case of more than 1 Principal Market, take the Most Advantageous Market

Transaction Cost: Do not consider it to determine Fair Value

Transportation Cost: If Location is Characteristics of Asset, then consider it to determine Fair Value

Market Participants

Buyer & Seller should have the following characteristics :-
- Independent
- Knowledgeable
- Able to Enter into Transaction
- Wiling to Enter into Transactions (not forced sale)

5 Fair Valuation

Assets

- Financial Assets
  - Use Valuation Techniques i.e.
    - Market Approach
    - Cost Approach
    - Income Approach
- Non-Finanial Assets
  - Based on Highest & best use
    - Physically Possible
    - Legally Permissible
    - Financially Feasible

Liabilities

Is there a Quoted Price
- Yes → Use Quoted Price
- No → Is there Identical Item held as Asset by Another Party?
  - Yes → Use FV of Identical Asset
  - No → Use Valuation Technique → Present Value Technique

6 Fair Value Hierarchy

Categorizes Inputs to Valuation Techniques into Three Levels

- **Level 1 Input**
  - Quoted Price in Active Market
  - Eg. Quoted Price of Shares in Stock Market
- **Level 2 Inputs**
  - Other than Quoted Price of Level 1 which ate Observable Either Directly or Indirectly
  - Eg. Quoted Price of Similar Asset in Active Markets
  - Other Observable Inputs
  - Market Corroborated Inputs
- **Level 3 Inputs**
  - Unobservable Inputs
  - Financial Forecasts

IND AS 115 - REVENUE FROM CONTRACTS WITH CUSTOMER

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A BASICS

Customer

- Who Obtains G/S
- Such G/S are Output for Entity's ordinary Buss. Activities
- Against Consideration

Non- Applicability

L I F E

- Leases (L)
- Insurance Enterprises (I)
- Financial Instruments (F)
- Non-Monetary Exchange Within same Business Entities (E)

Core Principles of INDAS 115

- Revenue is Recognised in such a way that
- Depict (To Show) Transfer of G&S at an Amt.
- For which Entity is Expected to be entitled for Consideration

Five Steps Model of INDAS 115

C P T - A R

Step 1 - Identify the Contract (C)

Step 2 - Identify the Performance Obligations (P)

Step 3 - Determine Transaction Price (T)

Step 4 - Allocation of TP into Performance Obligations (A)

Step 5 - Recognise Revenue (R)

Amt received is non-refundable
+
Substantial amt is received
+
Substantial P.O. are fullified
=
Revenue can be recognised

B FIVE STEP MODEL IN DETAIL

1 CONTRACT (STEP-1)

A R C T C

Contract Must be Enforceable by Law

- Contract must be Approved by Both Parties (A)
- Each Party's Rights must be Identified (R)
- Contract must have Commercial Substance (C) (i.e Profit Motive)
- Payment Terms are Identified (T)
- Probability of Collecting the Consideration (C) (To Check Ability & Intention to Pay of Customer)

Step-1 if Failed -
No Recognition of Revenue Until & Unless the Received Consideration is Non-Refundable (Substantial) & All P.O. are Fullfilled or Contract is Terminated.

Contract Modification

V. Imp.

Situation - 1
Distinct Goods/Services are added @ Standalone Selling Price

- Treat the Modification as Separate Contract (this is a new contract, not a Modification)
- Now, there will be Two Separate Contracts

Situation - 2
Distinct Goods/Services are added but not @ Standalone S.P.

- Terminate the Org. Contract i.e we Shall assume that Org. Contract is over as on the date of Modification & G/S Supplied till date are done.
- Revenue already recognised shall not be adjusted
- Now Create a New Contract for Remaining G/S to be Supplied, even though it includes old G/S still to be supplied of earlier Terminated Contract
- Prospective Treatment For New Contract

Situation - 3
Same Goods/Services are Increased or Decreased (i.e No Distinct G/S) with or without Standalone SP

- Modify the Existing Contract with Such Increase or Decrease on Cumulative basis.
- Any Revenue Recognised shall be Adjusted with Retrospective Effect.
- The Idea is, if the Added G/S could have become part of Contract at Inception only then, How much Revenue would have been recognisedtill date.
- Retrospective Effect will be given in Existing Contract (Also Known as Cumulative Catch Up Approach)

Contract Combination

Two or More Contracts with same Customer may be combined when all following conditions are fulfilled

- Contracts are Negotiated as a Single Package ✓
- or
- Amt. of 1 Depends on Performance or Price of Other
- or
- All G&S Promised are a Single Perf. Obligation

Continued to next ...

IND AS 115 - REVENUE FROM CONTRACTS WITH CUSTOMER

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2 PERFORMANCE OBLIGATIONS (P.O.) (STEP - 2)

P.O. may be

- **May be More than one** → **But it Should be Promised to be Transfered to Customers**
- **Single G&S** OR **Bundle of Distinct G/S** → Eg. Sale of Car win 3 yr. after sale services OR **Series of Distinct G&S of Same Pattern of Transfer** → Eg. Providing Annual Maintenance services for 3 years OR Construction Services
- **Distinct Means**
  - **Can be Separately Sold or Can be Sold with Other Resources** → For Eg. Jai Sir Classes - a) PD With Books b) Books Only Here Books are distinct
  - **It Must be distinct in Context of Contract also** → **i.e Identifiable Separately from other Promises in the Contract** → For Eg. Parking Space is being charged in the billing Separately in a contract to Purchase House

3 TRANSACTION PRICE (TP) (STEP -3)

What is Transaction Price?

The Consideration that Entity expects to be Entitled to Receive against G/S Promised

(Exuding Consideration received on behalf of Third Parties eg. GST)

How to Estimate TP?

- Take Contract Price as Base (Agreed Price)
- Consider all the followings to adjust the above Contract Price
  - +/- Variable Consideration (Bonus/Incentive/Discount Rebates)
  - - Financing Component
  - + Non Cash Consideration (Shares, Other Assets)
  - - Consideration Payable to Customer (Paytm Cash Back)

How to Estimate Variable Consideration?

- **Expected Value Method** → How to Use? Sum of Probability Weighted Amt. in a Range of Possible Considerations → When to Use? Large No. of Possible Outcomes with Similar Characteristics
- & **Most likely Amt. Method** → How to Use? Single Most Likely Amt. in a range of Possible Considerations → When to Use? When only 2 Possible Outcomes

Expected Value

	Dis.	Prob.	
Upto 5000 =	0%	× 20%	= 0
5-10K =	10%	× 30%	= 3%
10-15K =	15%	× 25%	=
15K above =	20%	× 25%	=
			11.75%

Different Cases

1) Penalties - Part of TP if inherent in determination of TP
2) Refund Liability - The portion of TP which is probable to be refunded
3) Sale with Right of Return - Recog. Revenue Expected to be Entitled & a Refund Liab. for which not expected to be Entitled.
4) Warranties:
   - **Service type Warranty** → It is a Separate Performance Obligation while Recognizing Revenue
   - **Assurance Type Warranty** (Legal oblig. Law) → Ind As 37 Provision for Outflow
5) Non Cash Consideration:
   1st Priority - Fair Value of consideration received
   2nd Priority - Take Stand alone SP of Goods/Services Transferred
6) Customer Provided Goods or Services - May be Treated as Non- Cash Consideration if Control is Passed to entity
7) Consideration Payable to Customer
   - **(a)** Against Exchange of Distinct G/S → Treat Separate Purchase Contract
   - **(b)** Other than (a) → For eg. Cash Back → Reduce From TP

(Fair value < Consideration Payable Excess => Reduce From TP)

8) Restocking Fees :- When goods are expected to be returned, Restocking Fees is sometimes charged from customer & would be included in the estimate of Transaction Price at Inception.

9) Slotting Fees :- Payable by Entity (Manufacturer) to their retailers (customers) to have their Goods displayed on Store Shelves (Physical or Virtual) Such fees shall be deducted from Transaction Price Since No Separate P.O. is there.

10) Price Protection:- Reimbursement by Vendor to retailer for any shortfall in the sales prices on Vendor's Product. This amount is to be reduced from the Transaction Price.

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IND AS 115 - REVENUE FROM CONTRACTS WITH CUSTOMER

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4 ALLOCATION OF TP to P.O. (STEP-4)

- **How to Allocate?** → General Rule → In Ratio of Observable Stand-Alone SP of all P.O.
- **Exception**
  - Allocating Discount → Total Discount Shall be Allocated to diff. P.O. in Proportion of Stand-Alone SP/ Allocated TP of each P.O.
  - Allocation of Variable Consideration (VC) → Identify the P.O for which Entity is Entitled for VC → Allocate VC into Such Identifiable P.O. in proportion of allocated TP of P.O.
- **How to Determine Stand-Alone SP if not observable ?** → 3 Methods
  - Adjusted Market Assessment Approach → Take Market Price of similar G/S & adjust the Cost/ Margin as per own Expectations
  - Expected Cost Plus ~~Market~~ margin Approach → Forecast the Cost of producing G/S (+) Margin Expected to Earn
  - Residual Approach → Total TP (-) Observable Stand-Alone SP of other P.O.

It may be available (if not) then use following 3 methods:-

5 RECOGNISE REVENUE AS OR WHEN ENTITY SATISFIES P.O. (STEP-5)

- **Revenue can be Recognised :-**
  - a) Over the Time &/ OR
  - b) At the Point in Time
- **Over the Time - When ?**
  - (1) Customer Controls the Asset as it is Created or Enhanced
    - For eg. Property is Constructed on the instructions of Customer & Customer makes progress payments
  - (OR)
  - (2) Customer's Control does not Created over the Asset but no Alternative use for Entity on such Asset + Entity's Right to Receive the Payment is getting Increased.
    - For eg. Property is Constructed by the Builder having variety of Flats & Builder is getting booking Amt. & Ownership will be transferred only after completion of construction
  - (OR)
  - (3) Customer Consumes the Benefit + Entity's Right to Receive the Payment is Increased
    - For eg. 5 years Annual Maintenance Contract where Entity is getting Payment Annually and Customer is getting Services over the Time
- **How to Recognise Revenue?**
  - Over the Time → Based on Progress of Perf. Obligation (% of Completion Method)
    - How to Calculate % of Completion?
      - Input Method → It is based on Entity's Efforts → Ex.:- Cost/Lab Hours/ Mach. Hours/ Time Lapsed
      - Output Method → Based on Value Provided to Customer → Ex.:- Survey, Units Produced, Units Delivered
  - At the Point of Time → when the Control is Passed to the Customer
    - Indicators that Control has passed includes:
      - Customers having
      - Present Oblig. to Pay
      - Physical Possession
      - Legal Title
      - Risk & Rewards of Ownership Transf.

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C MISC. PROVISIONS

1 CONTRACT COST

2 Types of Cost

- **Incremental Cost of Obtaining the Contract (Contract Acquisition Cost)**
  - Cost that would not have Increased if the Contract had not been Obtained
    - If Expected to be Recovered from Customer (e.g. Direct cost of Contracts) → **Capitalise & Amortise over the Period of Benefits derived**
    - If not Recoverable from Customers → **Expense (P&L)**
- **Cost to Fulfill the Contract**
  - If there cost are Covered in Other Standards → **Apply other Standard only**
    - For eg.
      - INDAS 16 - Machine Cost
      - INDAS 38 - Software Cost
  - If these Costs are not Covered in Other Standards → **Treat them as Asset & Amortise Over Contract Life if Directly attributable to the contract**
    - For eg.
      - Designing Cost
- **Amortisation of Contract Cost**
  - On a Systematic Basis Consistent with Pattern of Transferring Goods or Services Related to those Costs.
- **Impairment Loss**
  - Recognise Imp. Loss if:-
    (a) Carrying Amt.- is More; &
    (b) Remaining Consideration Expected to be Received less Cost yet to be Recognised - is Less

2 SERVICE CONCESSION ARRANGEMENTS

Accounting in the Books of Operator as per IndAS-115

- **Operator has Right to Collect Fixed Cash Flows**
  - **Treat Financial Asset in the Books of Operator (INDAS 109)**
    - Construction Cost Incurred Shall be Deferred & Amortise over the Contract Period to P&L
    - Recognise Fin. Asset at PV of Cash flows @ ERI thru P&L
      FA A/C Dr.
      To Revenue A/C (P&L)
    - Recognise Fin. Income @ ERI every year thru P&L
- **Operator has Right to Charge the Public (i.e Cash Inflows are not Fixed)**
  - **Recognise Intangible Asset as Licence or Right to Charge (INDAS 38)**
    - Construction Cost Amortise over the Costr. Period thru P&L
    - Recognise Intangible Asset at Fair Value
      Int. Asset Dr.
      To Revenue A/C (P&L)
    - Amortise the I.A. in P&L over the Contract Period as Exp.
    - Every year's Collection (Cash Inflows) will be charged as income in P&L A/C

3 REPURCHASE AGREEMENT

Entity Sells the Asset first then has Right or Obligation to Repurchase

- **Call Option (Right to Repurchase)**
  - **Treated as Lease Contract**
    - If Entity Can/Must Repurchase at Price less than Original Selling Price
      - Treat Lease as per Ind AS - 116
  - **Treat :- Financing Arrangement**
    - If Entity Can/Must Repurchase the Asset at a Price Equal to or More then Original SP.
- **Put Option (Obligation to Repurchase) (i.e. Customer has Right to Sale)**
  - **Repurchase Price is Lower than Original Price**
    - If Customer Can Exercise this Option, than treat it as Lease Since Customer is Paying Rent to Use it.
      - Apply Ind AS - 116
  - **Price Greater than Original Price**
    - Entity Shall account this transaction as "Sale with Right to Return" & Treat Financing Arrangement as per IND AS 109

Entity
Sale ⇒ 100/- (Collect)
Repurch ⇒ 80/- (Pay)
Lease Rent ⇒ 20/- Benefit

Sale = 100/- Collect
Repurch ⇒ 120/- (Pay)
20/-

4 Licences of Intellectual Property

Evaluate the Nature of its Promise to Grant Licence

- **Right to Access to the I.P.**
  - ● Entity ia required or Reasonably expected by Customer to undertake activities that Significanthy affect the I.P.
  - ● Licence Exposes the Customer to any effects of Entity's Activities
  - ● Entities activites are not Performance oblig. under the Licence Contract.
  - → If all 3 Conditions are met Recognise the Revenue over a Period of Time
- **Right to Use the I.P**
  - **The Nature of Entity's Promise is to Provide a Right to Use the IP, as the IP exists at the Point in Time**
    - → Recognise Revenue at a Point in Time

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IND AS 116 - LEASES

(Page 1)

Part - 1 APPLICABILITY & SCOPE

- Effective from FY 19-20 onwards
- Not applicable to :- B.E. - LIC
  - Biological Assets (B)
  - Exploration of (E) Minerals, Oils etc
  - Licensing arrangements under picture Films, Videos etc (L)
  - Intellectual Property Licences (I)
  - Service Concession Arrangements (C)
- Recognition Exemptions to Following Leases — For Lessee
  - Short Team Leases — IF
    - Lease Term 12m or Less
    - Renewal Option is not Reasonably certain
    - No Purchase option is given
  - & Low Value Leases — IF
    - Asset Must have Low Value
    - Asset Must be Independent
    - Asset is not given on Sub-lease
  - → Accounting Treatment → Lease Payment directly charged to P&L A/c — on SLM/any other Systematic Basis

Part - 2 IMPORTANT DEFINITIONS

1 Inception v/s. Commencement
- Inception of Lease → Earlier of (a) Date of Agreement or (b) Date of Commitment by Parties → At this date Lessee shall assess, is there any Lease Contract or Not
- Commencement of Lease → When Asset is actually available for Lessee for Use → At this date Lease Accounting Starts by Lessee & Lessor

2 What is Lease?
- A Contract/Part of Contract → That gives "Right to Control" the Use of Identified Asset → for a period of Time → In exchange of Consideration

(Lessee must have Right to Control the Use of Asset)

3 Right to Control
- Right to obtain Maximum Economic Benefits from Use → Means Customer can Exclusively use the Asset throughout that Period → Economic Benefits :- (a) Increase in Revenue (b) Realising Rent on Sub-leasing
- + Right to Direct the Use of Asset → Lessee Must have "Decision Making Rights" that Mostly affect the Economic Benefits → Lessee Must be in a position to direct "How & for What Purpose" the asset is Used

4 Identified Asset
- ➢ Asset Must be Physically Distinct → Means either
  - Explicitly Specified (OR) Implied at Commencement Date
  - +
- ➢ Supplier must not have substantive Right to Substitute the Asset (Supplier Can-not Change the Asset)
  - Practicle ability to Substitute
  - For own Benefit

(If Lessor/Supplier has Substantial Substitution Rights, then Lessee does not have right to Control use of Identified Asset then Lease is not covered under IndAS - 116)

5 Period
- Amount of Use of Asset & includes any Non-Consecutive Periods of Time (for eg. 3 months in every year)

6 Types of Period — Lease Term
- Non Cancellable Period → the period for which lease contract is Enforceable i.e. Mandatory Period
- + Cancellable Period → Option to Terminate the Lease → Agreement is not Enforceable
- + Renewal Periods → Option to Renew for Another Term

7 Lease Term
- Sum of
  - (1) Non-Cancellable Period
  - (+)
  - (2) Renewal Period (If certain to exercise)
  - (+)
  - (3) Cancellable Period (if certain not ~~to Terminate~~ availed) → that Cancell. option

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IND AS 116 - LEASES

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Part - 3
BOOKS OF LESSEE

Recognise (a) Right of use Asset (ROU Asset)
&
(b) Lease Liability

1 Initial Recognition

- **ROU Asset** → **at COST**
  - **Cost means :-**
    - Down Payment
    - PV of Lease Payment (L.P.)
    - [redacted]
    - Initial Direct Cost
    - Estimated Cost of dismantling @ Disc. Rate
- **Lease Liability** → **at PV of Remaining Lease Payments at IRI***
  - **Lease Payments means :-**
    - Fixed agreed payments less Incentives received
    - Insubstance Fixed Payments
    - Variable Lease Payments depends on Index / Rate only
    - GRV
    - Purchase Option Price (if certain to exercise)
    - Penalties for Terminating Lease if it is expected that Non-cancellable period will be Terminated

* IRI = Implicit Rate of Interest
↓
Sum of PV of (LP + UGRV) is equal to FV at Inception + Initial Direct Cost

2 Subsequent Measurement at BS Date

- **ROU Asset**
  - Apply Cost Model or Revaluation model as per Ind AS -16
    Ind AS 40 → only Cost model
  - Period of Depreciation
    - From Commencement date to end of Useful life if ownership will be transferred to Lessee
    - From Commencement date to Remaining useful life or Lease Team (whichever is Lower) if no ownership is going to be transferred
- **Lease Liability** → Treat this as Financial Liability as per Ind AS-109 (Amortised Cost Basis)
  - Recognise Interest Expense & Increase the Liab. → Interest Exp. A/c Dr. To Lease Liab. A/c
  - Reduce Lease Liability by Amt. of Payment → Lease Liab. A/c Dr. To Bank A/c
  - **Remeasure the Lease Liability Due to :-** (Second effect on ROU Asset)
    - (a) Change in Lease Term (Revised Dis. Rate)
    - (b) Change in Lease Payments (Original Dis. Rate)
    - (c) Change in GRV (Original Dis. Rate)
    - (d) Change in Assessment of Option to Purchase the asset (Revised Dis. Rate)
    - (e) Insubst. Fixed Payment
    - (f) Change in Variable L.Rent
  - **Impact on P&L A/C**
    - Depreciation on ROU asset
    - Interest Exp.
    - Variable L.P. not dependent on Index / Rate
    - Impairment of ROU Asset

Changes
- market Change → orig Dis. Rate
- Non-market Change (Change in agreement) → Revised Dis. Rate

3 Important Definitions

- **Variable Lease Payments** →
  1) Means Payments which are dependent on Index/ Rates. Eg. payments linked to Consumer Price Index
  2) Payments which are not linked to Index/Rate shall be directly charged to P&L A/c
- **Insubstance Fixed Payment** → Variable but this Variable Payment is Unavoidable
  Minimum Fixed Payment
- **Incentives** → Payment Made by Lessor to Lessee for any Cost or Reimbursement Ex:- Transportation Exp.
- **Initial Direct Cost** → Cost incurred by Lessee to obtain the Asset on Lease (Unavoidable) Ex:- Commission, Legal Fees etc.
- **Guaranteed Residual Value (GRV)** → At the end of L.Term the residual value must be of this Amt, if less than that, Lessee needs to Pay the Balance.
- **Discounting Rate** (market Rate)
  - 1st Priority → IRR of Lessor Also Called as Implicit Rate of Interest
  - 2 nd Priority → Incremental Borrowing Rate of Lessee

Continued to next ...

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IND AS 116 - LEASES

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Part - 4
IMPORTANT POINTS FOR LESSEE

1 "Lease of Multiple Assets"

Treat Separate Lease Contract for each Asset if:-

- Each Asset Provides Benefits on its own or together with other Resources
- & Each Asset should be Independent

2 Lease & Non-Lease Components

- To Supply other Goods or Services may be Non-Lease Component → eg:- Providing Driving Services along with Leasing of a Car
- How to Allocate total Consideration to Lease & Non-Lease Components → In Proportion of Observable Stand - Alone Prices of Lease & Non-Lease Components
- How to Account for Non-Lease Component → As per other applicable Standards
- Optional Exemption to Lessee → Lessee can treat entire contract as a Single Lease contract and No need to separate Non - Lease Component

3 Contract Combination

- Two or more Contracts
- Entered with same Party
- Entered at same Time

will be Combined and treated as Single Contract if :-

- all Contracts are Negotiated as a Single Package
- (OR)
- Consideration of one depends on Price or Performance of another
- (OR)
- All or Maximum Rights to Use the Assets are - Single Lease Component

4 Lease Modification
(No Separate Lease Contract)

Case - 1
INCREASE IN LEASE TERM

1) Calculate Revised PV of LP @ Revised Dis. Rate for Increased Term

2) Compare the above Revised LL with existing CA of LL

3) Difference to be adjusted thru ROU Asset

→ ROU Asset A/c Dr.
To LL A/c

Case - 2
DECREASE IN LEASE TERM

Step - 1

(A) Decrease the CA of ROU Asset Propertionatly with decrease in Lease Term

Revised ROU Should be » $\frac{\text{CA of ROU at Modif. date}}{\text{Org. Lease Term}}$ X New Revised Lease Term

→ Difference in A & B will be Gain / Loss due to modification
LL A/c Dr.
To ROU Asset A/c
To Gain A/c

(B) Decreas the CA of Lease Liab. based on Revised Lease Term → Revised LLShould be PV of LP for Revised LT @ Org. Dis. Rate

Step - 2
Remeasure the LL as per modified Term & Remeasure thru ROU Asset A/c

Revised Dis. Rate

Case - 3
Change in Consideration only, without change in Lease Term → Same as Case - 1

Case - 4
DECREASE IN ROU i.e. DECREASE IN SCOPE

Step - 1

(A) Decrease CA of Prop ROU → $\frac{\text{CA of ROU}}{\text{Org Rights}}$ X Revised Rights

(B) Decrease Prop. CA of LL → $\frac{\text{CA of LL}}{\text{Org Rights}}$ X Revised Rights

Difference in (A) & (B) => Gain / Loss to P&L

Step - 2
Calculate Revised LL as Per modified Terms thru ROU
i.e. Revised Lease Payment
Revised Dis. Rate

Case - 5
Increase in Scope of ROU (additional ROU Granted) → Calculate the Lease Liab. of additional ROU only as per Modified Terms → ROU A/c Dr.
To Lease Liab A/c

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AMENDMENTS IN IND AS 116 - LEASES

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5

New Para Introduced - 46 A & 46 B
Covid 19 Related Rent Concession → Not applicable now

- **Amendment is applicable to Lessee Only**
- **All 4 Conditions must be fulfilled to apply this amendment (Para 46 B)**
  - • Change in Lease Rent is directly related to Covid 19 Only
  - • Revised Lease Payments should be Less than or Equal to Org. Lease Payments
  - • Reduction in Lease Rent affects payments due upto 30/6/21 Only
  - • No Change in Other Terms & Conditions
  - → If all of above conditions are not satisfied then Rent Concessions shall be treated as Lease Modification i.e. Calculate Revised Lease Liability @ Revised Discount Rate & reduction will be affected as under:
    Lease Liab. A/C Dr.
    To ROU Asset
- **If all Conditions Satisfied**
  - Lessee has Option
    - Treat Lease Modification (or) Apply Practical Expedient (i.e. Shortcut)
- **How to apply Practical Expedient?**
  - **Uncoditional Waiver of Lease Payments**
    - (a) Remeasure the Lease Liab. (LL) based as Revised Terms @ Org. Dis. Rate & Charge diff. to P&L A/C.
      Revised LL ---- xxx
      (-) Org CA of LL ---- xxx
      P&L
    - (b) ROU shall be Tested for Impairement
  - **Conditional Waiver of Lease Payments**
    - Ex:- Lessor agrees to forgive Lease Payments from April 20 to the date of ending of lockdown, if Lockdown is lifted in Sep 20 then no Concession will be given from Sep 20 onwards
    - → **Treatment**
      - (a) Now Lease Liability shall be reduced on monthly Basis till the Time Rent Concession Continues
        Lease Liab. A/c Dr.
        To P&L A/c
      - (b) Interest (Fin. Charges) shall be accrued on Monthly bases as it is at same Dis. Rate
      - (c) ROU shall be Tested For Impairement.
  - **Waiver of Lease Payments with Recovery in Future : (i.e. Lease Rent is Postponed)**
    - (a) Remeasure the Lease Liab. (LL) based as Revised Terms @ Org. Dis. Rate & Charge diff. to P&L A/C.
      Revised LL ---- XXX
      Org CA of LL ---- XXX
      P&L
    - (b) ROU shall be Tested for Impairement

6

Presentation in F.S. of Lessee

- **Balance Sheet**
  - **ROU Asset** → Present Separately Or Together with Other Assets along with disclosure of BS Line items that includes ROU Assets & Amt.
  - **Lease Liability** → Present Separately ~~Or Together with other Liabilities with disclosure of BS~~ line items that includes Lease Liabilities & their Amount.
- **Statement of P/L**
  - Depreciation on ROU Asset
  - Interest Exp. on Lease Liability
  - → Both are Presented Separately
- **Statement of Cash Flows**
  - Lease Payments including Interest → Financing Activity
  - Short Term Leases & Low Value Lease → All Lease Payments within Operating Activity
  - Variable Payments not a part of Lease Payment → Operating Activity

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IND AS 116 - LEASES

Part - 5
BOOKS OF LESSOR

1 Classification of Leases

At Inception decide the Classification of Lease as either

- **Operating Lease** → a Lease other than a Finance Lease
- Or
- **Finance Lease** → where Substantial Risks & Rewards are Transferred → Treated as Deemed Sale

2 Finance Lease

Situations of F/L (Satisfy any one)

- Transfer of ownership at the end of Lease Term
- Option to Purchase the Asset at Reduced Price, Reasonable to Certain the Exercisability of Option
- Lease Term Covers Major Economic Life of Asset
- Asset is of Specialized Nature, only Lessee can use without Major Modification
- PV of Lease Payments ≥ Fair Value of Asset

Initial Recognition

Non-Dealer Lessor

Lease Receivable A/c Dr. (NIL)
To Asset A/c (CA)
(difference to P&L A/c)

NIL = Net Investment in Lease (Present Value) > PV of GIL
CA = Carrying Amt.
LP = Lease Payments

LP + UGRV if expected = GIL

Initial Direct Cost shall be Considered while Calculating IRR

Manufacture / Dealer Lessor

~~Lease Receivable A/c Dr. (NIL)~~
~~To Sales A/c (Lower of FV or PV of LP)~~
~~(difference to P&L)~~

L.Rec A/c Dr. Nil
COGS Dr. → FV - PV of UGRV
To Sales lower of PV of LP / FV
To Asset BV

Here Initial Direct Cost incurred if any transfer to P&L A/C

3 Operating Lease

- **Recognise Income**
  - On SLM Basis → 1st Priority
  - Or
  - On another Systematic Basis if that Basis is More Representative
- **Initial Direct Cost** → Deferred over the Lease term on same Basis as Lease Income i.e. SLM
- **Variable Lease Payments not Dependent on Index/Rate** → Recognise when they arise directly in P&L

0	(50000)
1	500000
2	5
3	5
4	5
5	5

@ IRI

Key Concepts of F/L

1. Gross Investments in Lease (GIL)
   All Lease Payments Receivable (+) UGRV (Total Estimated RV (-) GRV)
2. Net Investments in Lease (NIL)
   PV of (GIL - Initial Direct Cost) @ IRR
3. Implicit Rate of Interest (IRR)
   Rate at which PV of (LP + UGRV) should be equal to Fair Value at Inception + IDC

Subsequent Recognition (at BS Date)

- **Recognise Finance Income @ IRR** → Lease Receivable A/c Dr. To Fin. Income A/C (transfer to P&L)
- **Receive Payment** → Bank A/C Dr. To Lease Receivable
- **Review of UGRV at every BS Date**
  - Reduction in UGRV shall be considered
  - Increase in UGRV from org. estimated shall be ignored
- **Lease Receivable A/c at every BS date shall be equal to PV of Remaining LP + UGRV**

UGRV = Unguaranteed Residual Value
IRR = Internal Rate of Return also called Implicit Rate of Interest

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IND AS 116 - LEASES

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Part - 5
BOOKS OF LESSOR

4 Lease of Land & Building

- **Separate Classification**
  - **Lease of Land** → Generally Operating Lease Since Land has indefinite life
  - **Lease of Building** → May be Finance or Operating depends on Situation
- **Allocation of Lease Payment to Land Component & Building Component**
  - **Allocable Reliably** → In Proportion to their relative Fair Values → If PV of Lease Payments allocated to Land is immaterial, the Land & Building may be treated as Single Unit & Classified as Finance or Operating based on Building's Features
  - **Unallocable** → Entire Lease is Classified as Finance or Operating Based on Building's Features

5 Lease Modifications

- **Modification in Operating Lease** → Treat it as New Lease from the Date of Modification
  Prospective effect
- **Modification in Fin. Lease**
  - **If change in Classification to Operating Lease** → Recognise Asset at Net Investment in Lease & Derecognise Lease Receivable A/c
  - **Addition of New Asset (+) Standalone Price** → Treat Separate Lease for Such New added Asset
  - **All Other Modif.** → Apply IndAS - 109 → Eg. Change in Lease Term or Consideration → Calculated Revised Lease Receivable based on Revised Terms & Charge the difference to P&L A/c

Part - 6
SUB - LEASES

1 Meaning

Asset is Re-Leased by Lessee to Third Party

Org. Lease = Head Lease
Org. Lessee = Intermediate Lessor

2 Books of Intermediate Lessor (Org. Lessee)

- **When Head Lease is a Short Term Lease** → Treat Sub-Lease as an "Operating Lease"

  Since Intermediate Lessor has not Recognised any ROU Asset & Lease Liability in its Books. Therefore, no question to Treat Sub-Lease as "Finance Lease"
- **When Head Lease is not Classified as Short Term Lease i.e. ROU asset & Lease Liability Shown in Books** → Sub-Lease may be
  - **Finance Lease**
    - De-Recognise ROU Asset
    - Continue to A/c For Org. Lease Liability
    - Recognise "Net Investment in Lease" as Lease Receivable
    Diff → P&L
  - **Operating Lease**
    - Continue to A/c for ROU Asset & Lease Liability.
    - Recognise Sub Lease Rent on SLM Basis or any other more representative Basis.
    - If CA of ROU Asset is more than the anticipated Sublease Income then ROU Asset May be Impaired

3 Head Lease Cannot be Classified as Low value Lease if Intermediate Lessor Sub-Leases or expects to Sub-Lease an Asset.

4 Presentation

- Do not offset Lease Liability of Org. Lease with Lease Receivable of Sub-Lease
- &
- Do not offset Depreciation & Interest Exp. with Sub-Leasing Income

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IND AS 116 - LEASES

Part - 7
SALE & LEASE BACK

Treatment of Sale Transaction

Control is Passed i.e. Sale / Purchase Transaction

Seller Lessee

- Recognise ROU Asset at this value -

CA X $\frac{\text{PV of LP}}{\text{FV of Asset}}$

$1300000 \times \frac{6.5}{22}$

- De-Recognise the Main Asset at CA
- Recognise Lease Liab. at PV of LP
- Recognise the Gain/Loss on Sale as Under-

Total G/L = $\frac{\text{Total G/L X PV of LP}}{\text{FV of Asset}}$

Total G/L = FV - CA

- Journal Entry :-

Bank A/C Dr. (Proceeds)	2000000
ROU Asset Dr.	384091
To PPE A/C (CA)	1300000
To Lease Liability	650000
To Gain on Sale	493181

2 loan
4.5 L

Payout of L. Rent is treated as Repayment of Loan

Buyer Lessor

- Recognise Purchase of Asset
- Classify the Lease as Finance or Operating depends on situations

Control is not Passed i.e. Transfer of Asset is not a Sale

Do not apply Ind AS 116

Treat the entire Transaction as Finance Arrangement as per Ind AS - 109

Seller - Lessee

- Treat the Proceeds Received as Financial Liability as per Ind AS - 109.
- Recognise Interest Exp. @ ERI (%)
- Continue to Recognise the Underlying Asset at same Carrying Amount & Charge Depreciation accordingly

Buyer - Lessor

- Treat the Proceeds Paid as Financial Asset (Ind AS 109)
- Recognise Interest Income @ ERI (%)
- Do not Recognise any Tangible Asset

SP ⇒ 20 lacs
FV ⇒ 22 lacs
Gain ⇒ 7 lacs
CA ⇒ 13 lacs
Total life ⇒ 15 yrs.
Lease Back ⇒ 5 yrs.
PV of LP ⇒ 6.5 lacs

$1000000 \times \frac{650000}{2200000}$

Gain = 206819

IMPORTANT ITEMS OF OCI

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1 IND AS 19 - Employee Benefits

Any Acturial Gain or Loss due to subsequent measurement of Defined Benefit Obligation & Plan Assets will be transferred to OCI

(Such Item of OCI will not be Reclassified to P/L)

2 IND AS 16 - PPE & IND AS 38 - Intangible Assets

Revaluation Gain on Upward Revaluation of PPE/Intangible Assets is Transferred to OCI

(Such Item of OCI will not be Reclassified to P/L)

3 IND AS 21 -Effects of Changes in Foreign Exchange Rates

Translation of Financial Statements from Functional to Presentation Currency (including Translation of Items of Foreign Operation)

Any Exchange Difference arising from such Translation shall be Transferred & Accumulated to OCI

(On Subsequent Disposal, such OCI Balance of Accumulated difference shall be Reclassified to P/L)

4 IND AS 12 - Income Taxes

Any Item which is recognised through OCI, DTA/DTL on such item shall also be recognised through OCI)
(Eg. DTL - Created on Ravaluation Surplus will be recognised through OCI)

5 IND AS 28 - Investment in Associates and Joint Ventures

Share in OCI of Investee Company will be recognised to OCI of Parent (Investor Co.) while following Equity Method.

6 IND AS 36 - Impairment of Assets

If any PPE/Intangible Asset which was earlier Revalued upward is tested for Impairment then Impairment Loss if any shall first be recognised to OCI (i.e. Revaluation Surplus to the extent of Balance Available)

7 INDAS 103 - Business Combination

"Gain from Bargain Purchase" will be recognised in OCI.

8 IND AS 109 - FINANCIAL INSTRUMENTS

(A) Those Financial Assets whose Business Model is "To Collect Contractual Cash Flows" or "To Sell it before Maturity" are Categorised under "FVTOCI"

FA under FVTOCI are measured at Fair Value & FV Gain/Loss is Accumulated in OCI
(Reclassification to P&L is Possible on Disposal / Sell)

(B) F.A. in the Form of "Equity Instruments of Another Entity" not Held for Trading may be designated Under FVTOCI.

(No Reclassification to P&L is allowed)

C) Equity Component of Compound Financial Instrument (Debt Instrument) is Classified Under "Other Equity" Separately

(D) "Cash Flow Hedge Accounting"

- On Subsequent Measurement of Hedged Item & Hedging Instrument, difference is recognised through OCI in the Form of "Cash Flow Hedge Reserve"
- Cash Flow Hedge Reserve shall be amortised to P&L over the Contract period.

(E) Hedge of "Net Investment in Foreign Operation"

Partion of Gain / Loss on Hedging Instrument that is determined to be Effective Hedge is recognised in OCI in the form of "Foreign Currency Translation Reserve"

IMPORTANT CARVE OUTS (INDAS vs IFRS)

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1 IND AS 1 v/s IAS 1 - Loan Liability

There is a Breach in "Long Term Loan Arrangement" before Reporting Period which makes the Loan Repayable on Demand and Lender Agrees before the Approval of Financial Statements not to Demand Repayment.

- Do not Classify as Current Liability as per INDAS 1
- Classify as Current Liability as per IAS 1

2 IND AS 115 v/s IFRS 15 - Penalties Part of Transaction Price or Not?

Consideration of Penalties in Transaction Price of the contract

- As per IND AS 115, consider Penalty only if inherent in determination of Transaction Price
- As per IFRS 15, all types of Penalties are to be considered as Variable Consideration to Include in Transaction Price.

3 IND AS 103 V/S IFRS 3 - Gain From Bargain Purchase

Treatment of Gain from Bargain Purchase (GBP)

- AS per IND AS 103, GBP is to be Transferred to Capital Reserve (Other Equity) through OCI
- As Per IFRS 3, GBP is to be Recognised in Profit & Loss as Income

4 IND AS 32 v/s IAS 32 - FCCB

Conversion Option for Foreign Currency Denominated Bonds (FCCB)

- As per IND AS 32, Conversion Option of FCCB to Acquire Fixed No. of Entity's Own Equity Instruments → Treated as Equity Instrument
- As per IAS 32, it is treated as Financial Liability (Derivative) and P/L arising out of such contract in transferred to Statement of Profit & Loss

5 IND AS 101 v/s IFRS 1 - PPE on Transition Date

Determination of Carrying Amount of Property, Plant & Equipment (PPE) on date of Transition

- AS per IND AS 101, an option is provided to take Carrying Amount of PPE (as per Old standards) as Deemed Value of such PPE on the Date of Transition
- AS per IFRS 1, Deemed Value for the purpose of Transition can be Fair Value Only (No Choice to Take Carrying Amt. as per Previous GAAP)

6 IND AS 40 v/s IAS 40 - Fair Value Model

Subsequent Recognition of Investment Property

- As per IND AS 40, only COST Model is allowed. Fair Value can be used only for Disclosure Purpose
- As per IAS 40, Both COST and Fair Value Model are allowed

7 IND AS 21 v/s IAS 21 - Ex. Difference

Recognition of Exchange Difference arising on Translation of Monetary Items from Foreign Currency to Functional Currency

- As per IND AS 21, Option to Continue para 46 of AS 11 for difference arising before Transition date has been provided i.e. Either Capitalise the difference or Defer the Difference
- As per IAS 21, No Such Option is Given

8 IND AS 28 v/s IAS 28 - Reporting Period

Reporting Period & Accounting Policy of Associate Company and Investor Company

- In IND AS 28, Phrase "Unless Impracticable to do so" has been added
- As per AS 28, Same Accounting Policy is required to be followed