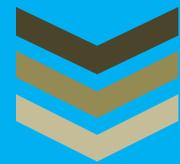


# Referencer for Quick Revision



## Final Course Paper-1: Financial Reporting

A compendium of subject-wise capsules published in the  
monthly journal "The Chartered Accountant Student"



**Board of Studies  
(Academic)  
ICAI**

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# FINANCIAL REPORTING ||

## FINAL NEW COURSE PAPER 1- FINANCIAL REPORTING: A CAPSULE FOR QUICK REVISION

In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject, the Board of studies bring forth a crisp and concise capsule on Final new course Paper 1 : Financial Reporting.

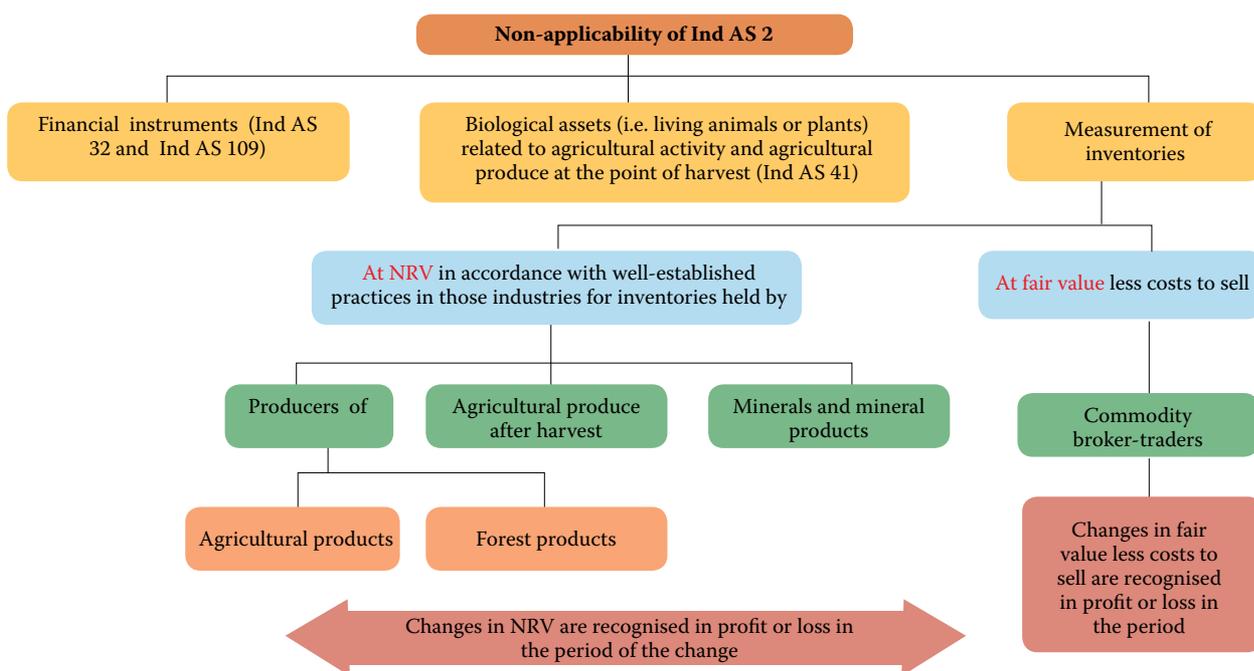
The syllabus of this paper largely covers almost all Indian Accounting Standards. However, in this capsule we have focussed only on 'Asset based Ind AS'. Significant provisions of these Ind AS have been presented through pictorial/tabular presentations for better understanding and quick revision.

Many of the standards contain certain exceptions. All the exceptions are not necessarily reflected in the charts/pictorial/table given in the capsule. Hence, students are advised to refer the study material or bare text of these Ind AS for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

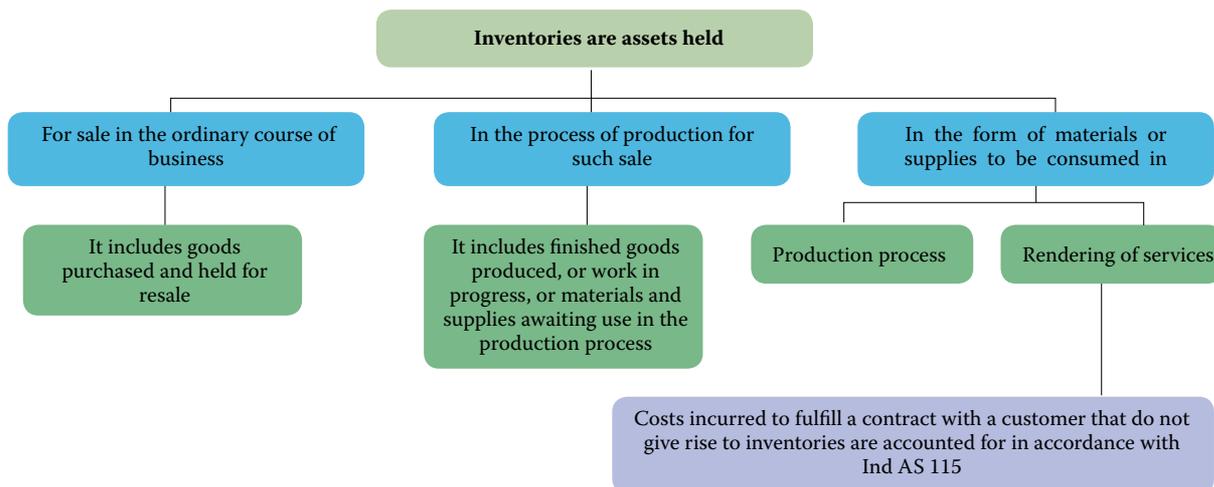
### INDIAN ACCOUNTING STANDARD (IND AS) 2

#### Scope of Ind AS 2

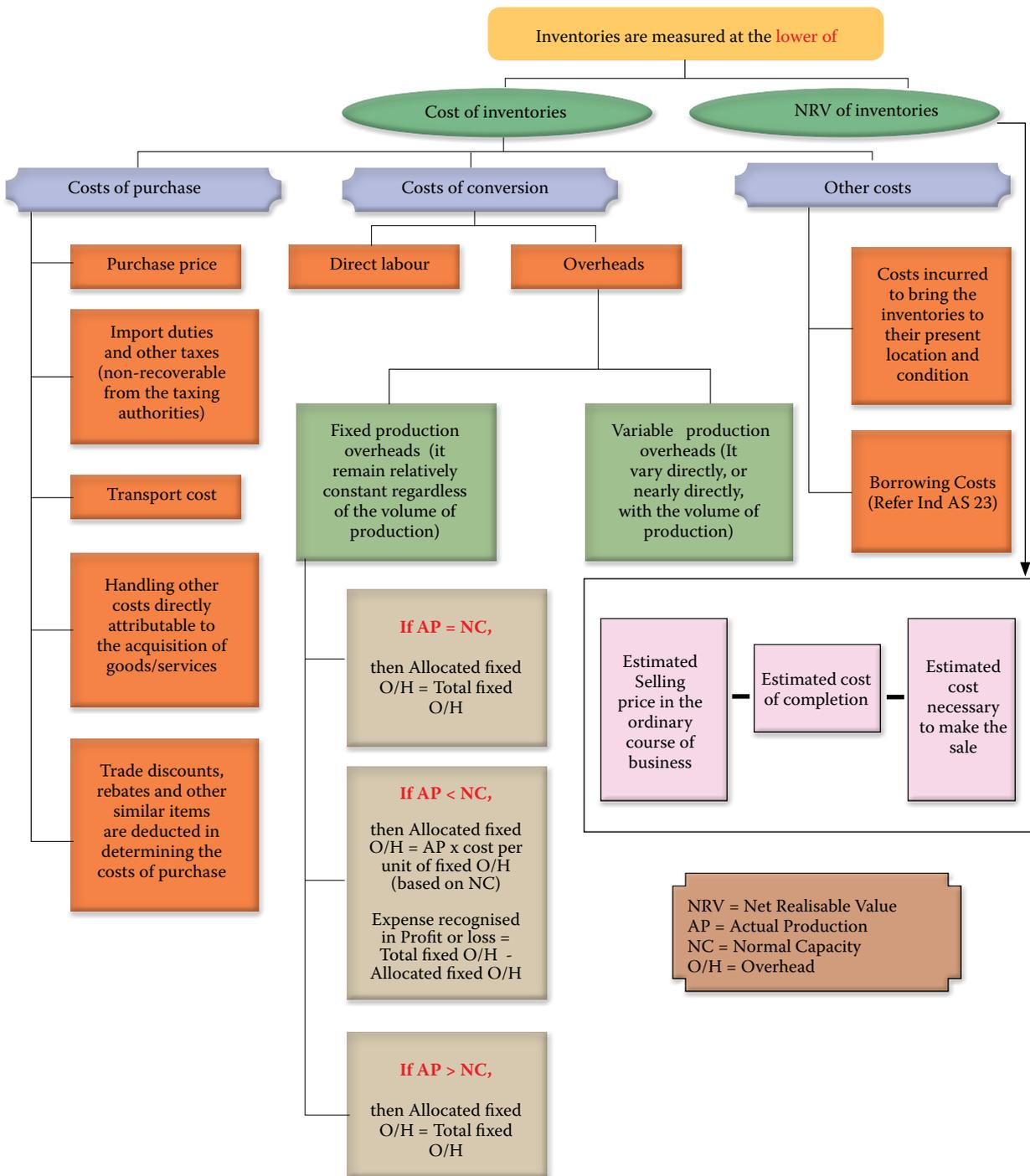


\* NRV- Net Realisable Value

#### Definition of Inventories



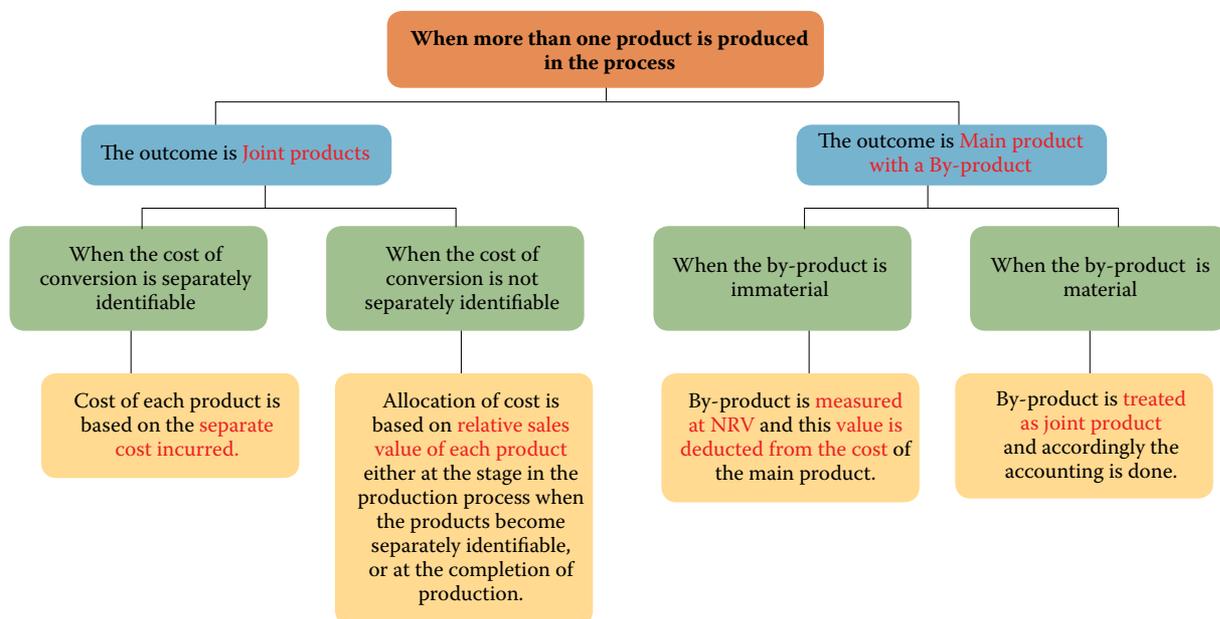
## Measurement of Inventories



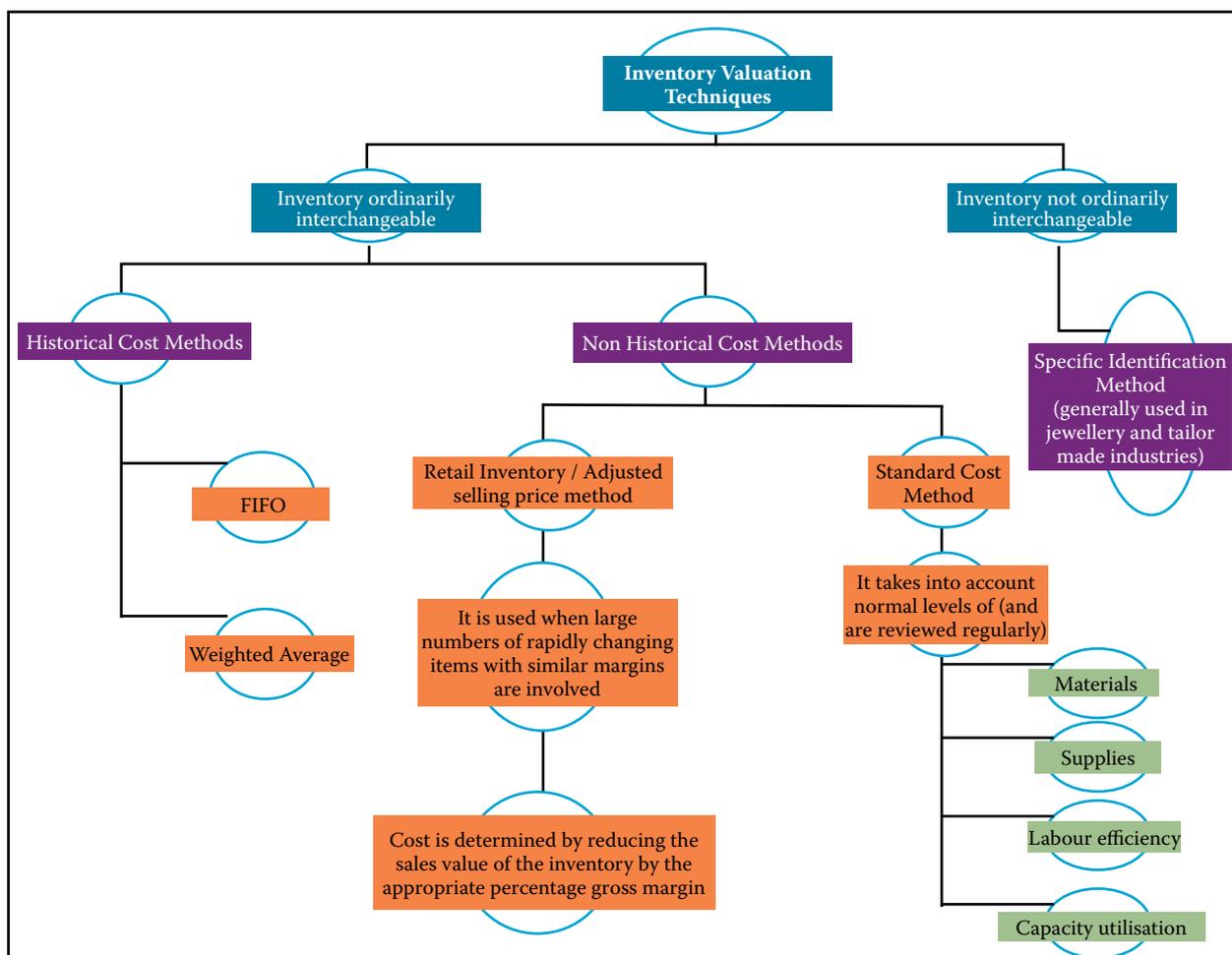
### Costs excluded from the cost of inventories and recognised as expenses

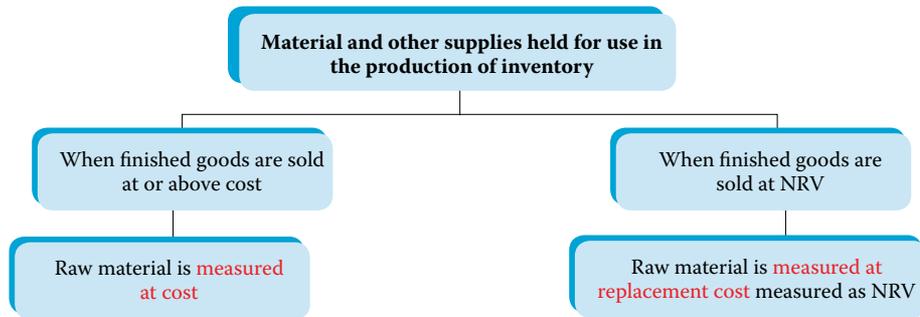
- Abnormal amounts of wasted materials, labour or other production costs.
- Storage costs (If those costs are not necessary in the production process before a further production stage).
- Administrative overheads that do not contribute to bringing inventories to their present location and condition.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

## Allocation of cost to joint products and by-products



## Cost Formulas

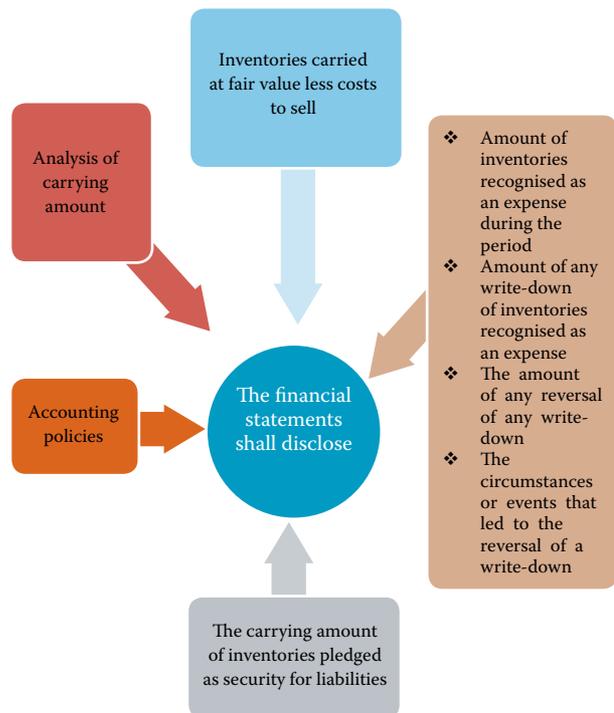




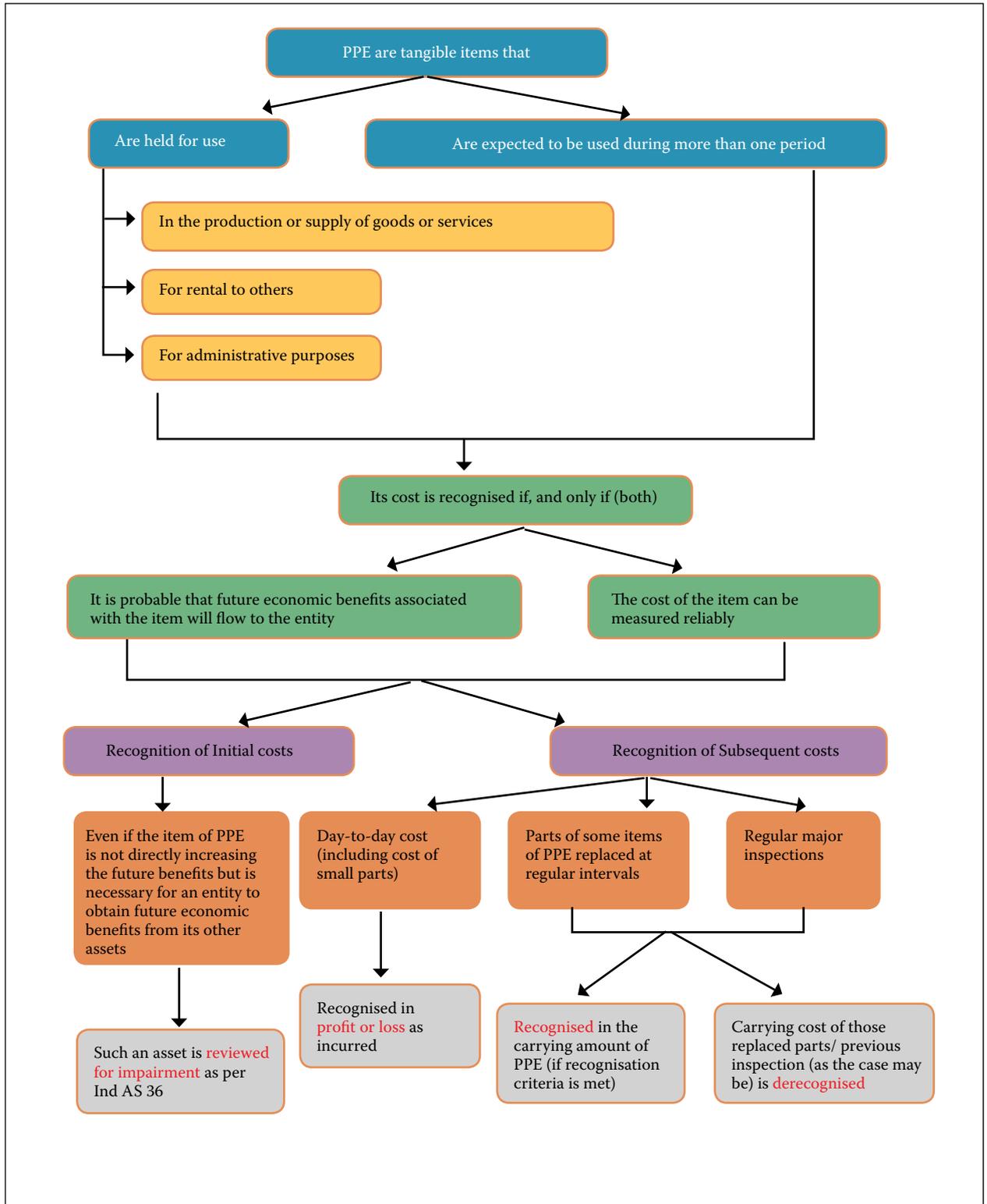
## Important points of Ind AS 2 to be remembered

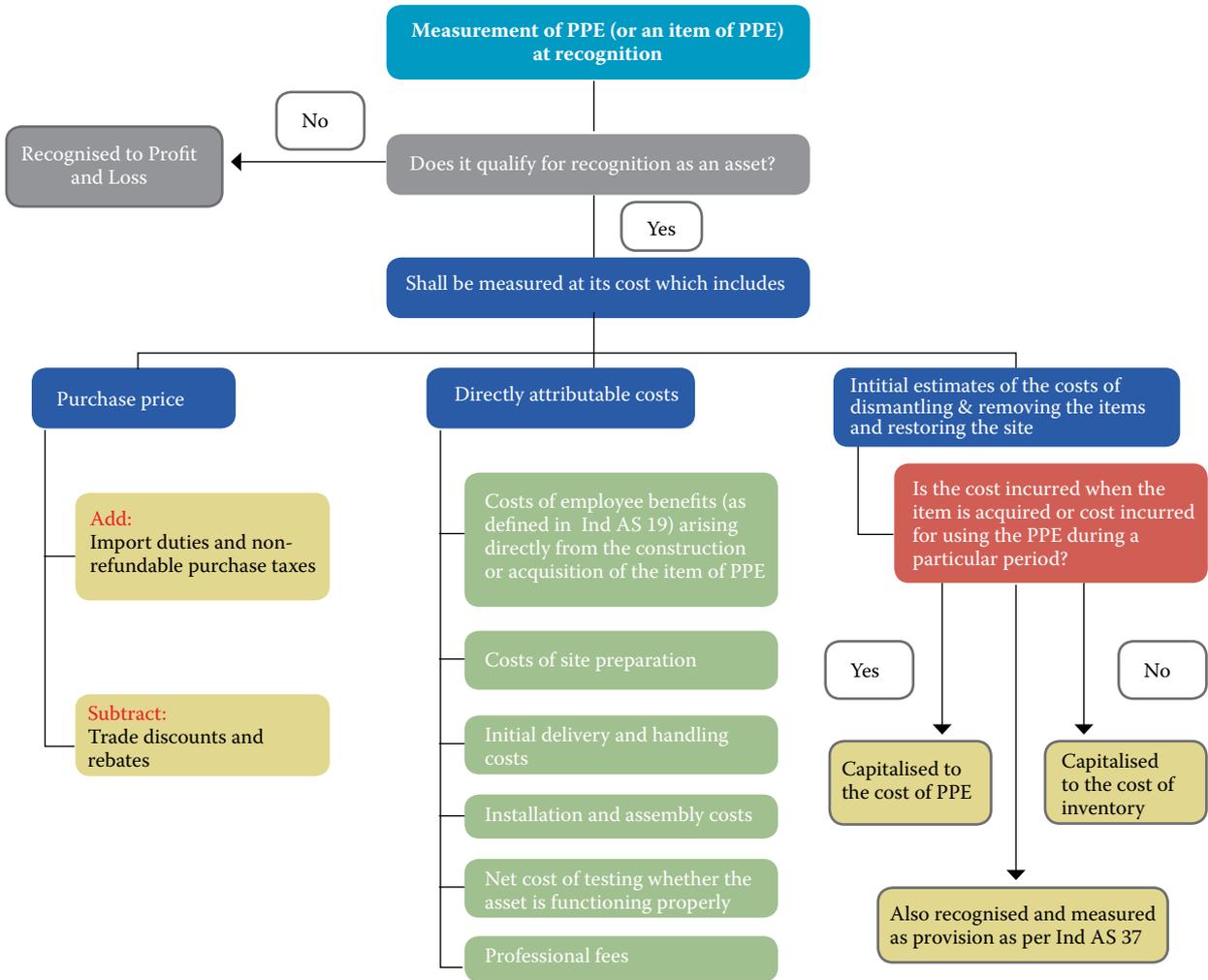
NRV	It is an entity specific value
Inventories comprising agricultural produce that an entity has harvested from its biological assets	They are measured on initial recognition at their fair value less costs to sell at the point of harvest.
New assessment of NRV	<ul style="list-style-type: none"> <li>❖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

## Disclosure



### PPE and its Recognition

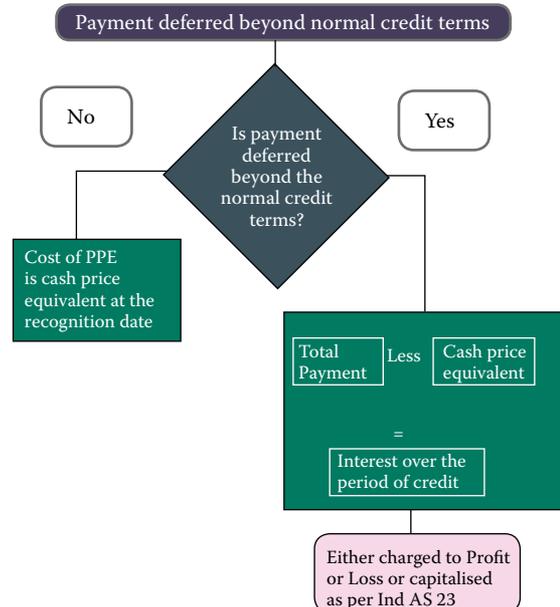




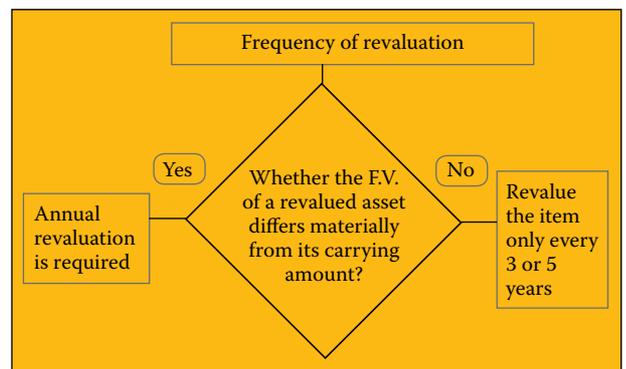
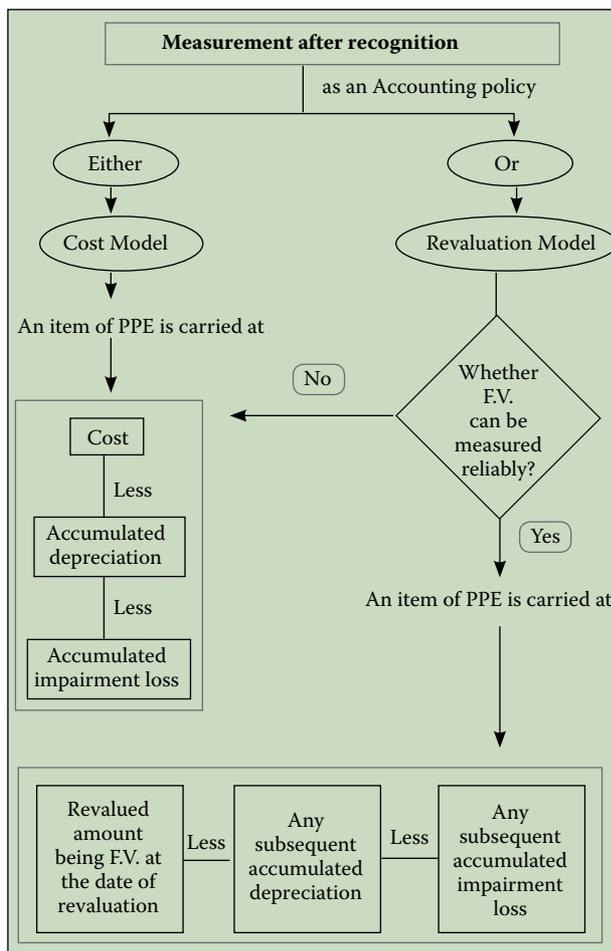
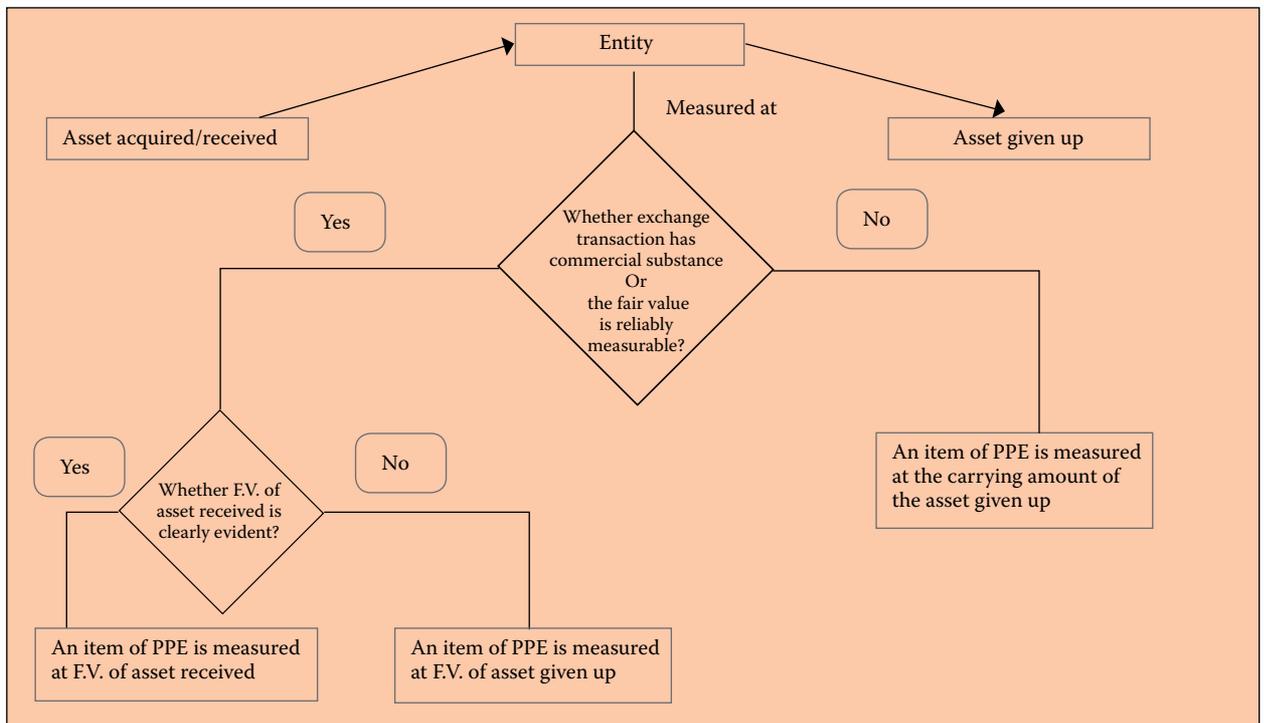
**Note:**

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

**Measurement of Cost**



## Exchange of Assets

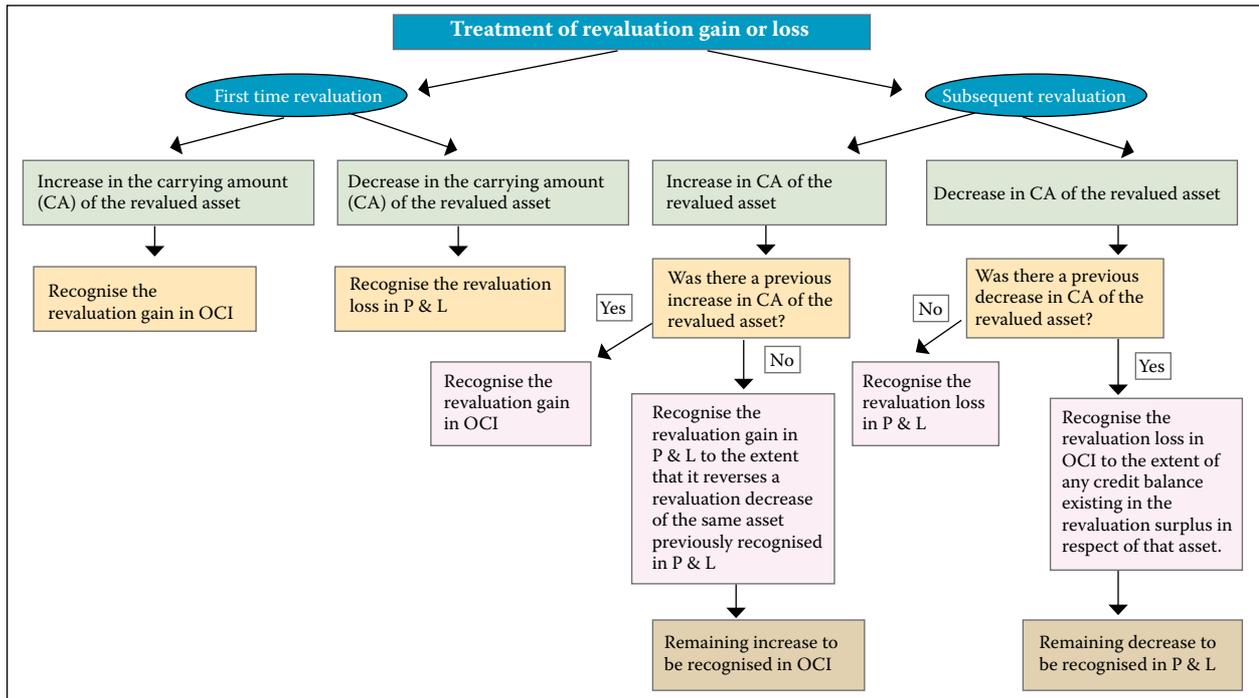


**On applying revaluation model – the asset is treated in one of the following ways:**

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

**Note:**

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



**Note:**

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

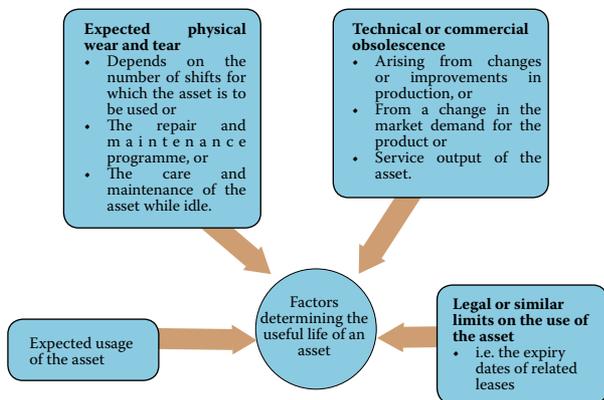
**Depreciation = (Cost of the Asset - Residual value) / Useful life of the asset**

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

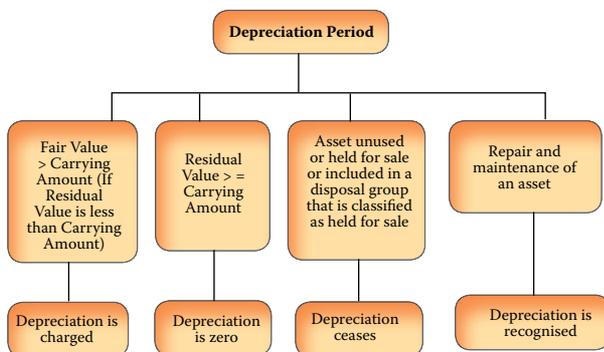
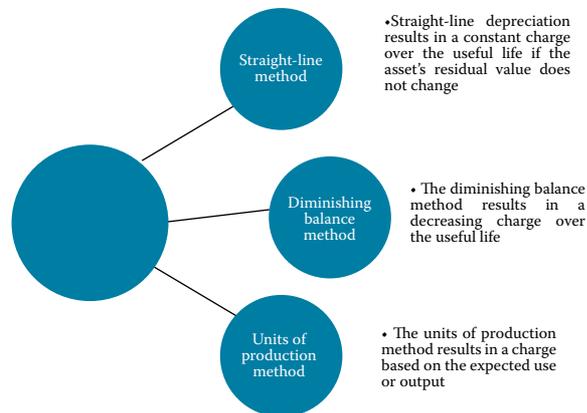
	Particular	Treatment
7	Revision in residual value and the useful life of an asset	<ul style="list-style-type: none"> <li>The residual value and the useful life of an asset shall be reviewed annually.</li> <li>The change(s) in depreciation on account of revision, if any, shall be accounted for as a change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

# FINANCIAL REPORTING

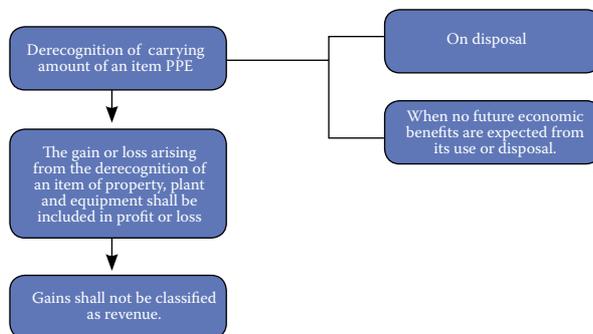
## Factors determining the Useful Life of an Asset



## Depreciation Method

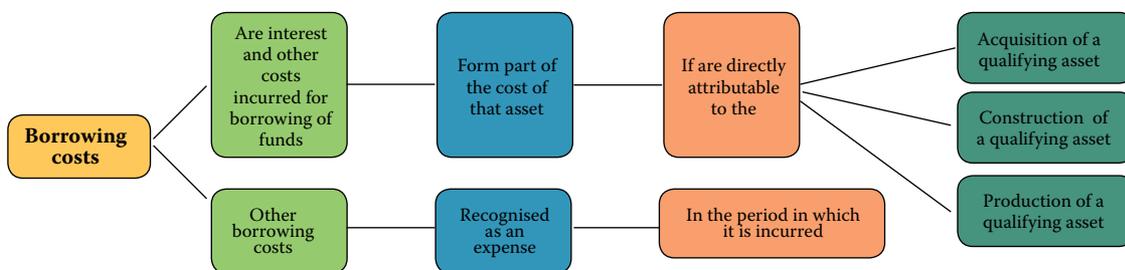


## Derecognition of PPE

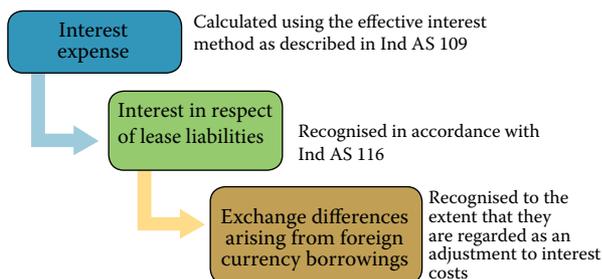


*For disclosure requirement, students are advised to refer the study material.*

## INDIAN ACCOUNTING STANDARD (IND AS) 23 : BORROWING COSTS



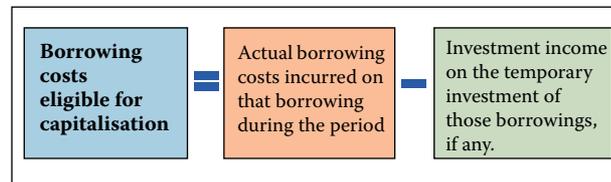
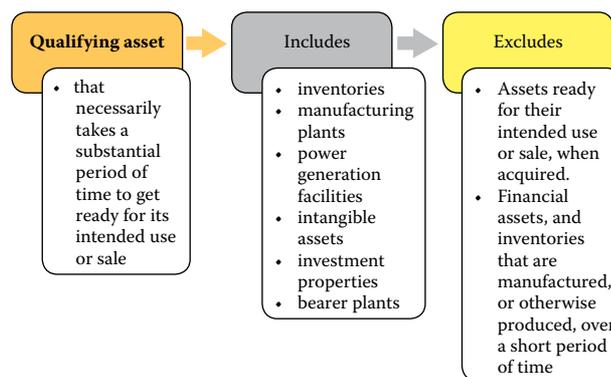
### Borrowing Costs includes



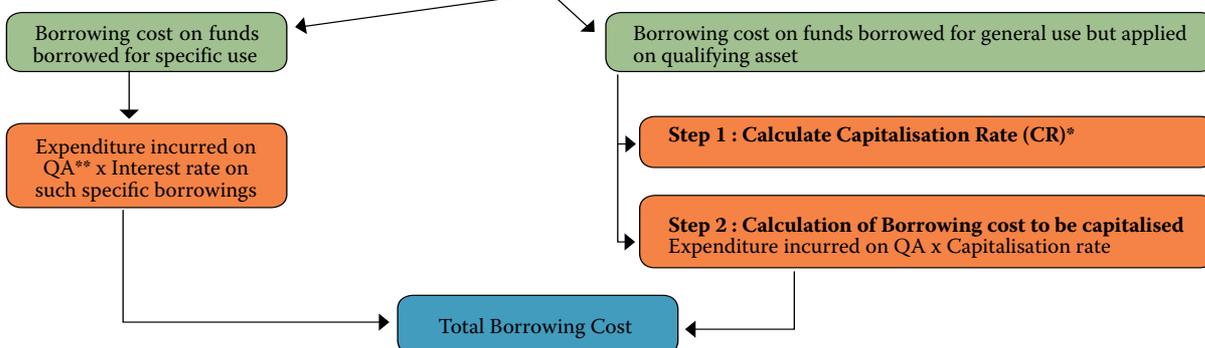
#### Note:

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

- The adjustment amount should be equivalent to the exchange loss not exceeding the difference between the cost of borrowing in functional currency vis-a-vis the cost of borrowing in a foreign currency.
- The realised or unrealised gain to the extent of the unrealised exchange loss previously recognised as an adjustment should also be recognised as an adjustment to interest.



### Calculation of Borrowing Cost



\*CR =

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

\*\*QA =

Qualifying Asset

#### Note:

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

## POINTS TO REMEMBER:

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

### Commencement of capitalisation

Starts from the date when the entity first meets **all** of the following conditions:

- It incurs expenditures for the asset
- It incurs borrowing costs
- It undertakes activities that are necessary to prepare the asset for its intended use or sale.

### Note:

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

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

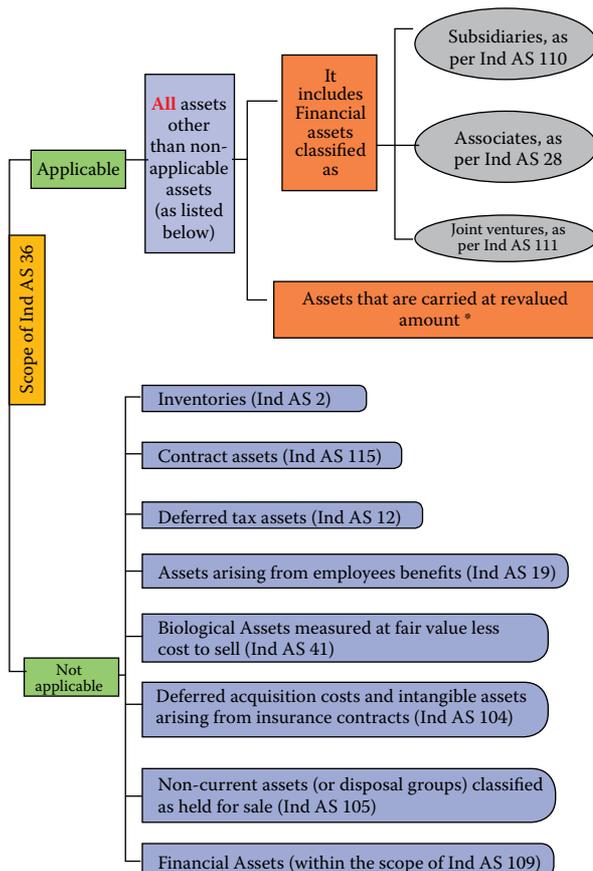
Expenditures are reduced by

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

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

### Important definitions:

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



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



### Note:

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

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

# FINANCIAL REPORTING ||

## Indicators for impairment

**External sources of information**

- Significant decline in market value (more than normal decline)
- Significant changes in technology, market, economic or legal environment with adverse effect on entity
- Increase in market interest rates or rate of returns
- Carrying amount of net assets of entity is more than its market capitalisation

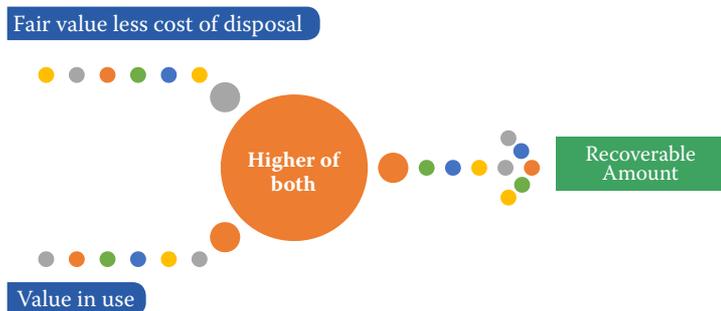
**Internal sources of information**

- Obsolescence or physical damage of an asset
- Significant changes in use or expected use of an asset with adverse effect on entity
- Internal reporting indicating worse economic performance of asset than expected

**Dividend from a subsidiary, joint venture or associate**

- Carrying amount of investment (in separate financial statements) > Carrying amounts of investee's net assets (including associated goodwill) in the consolidated financial statements
- Dividend > Total Comprehensive Income of investee

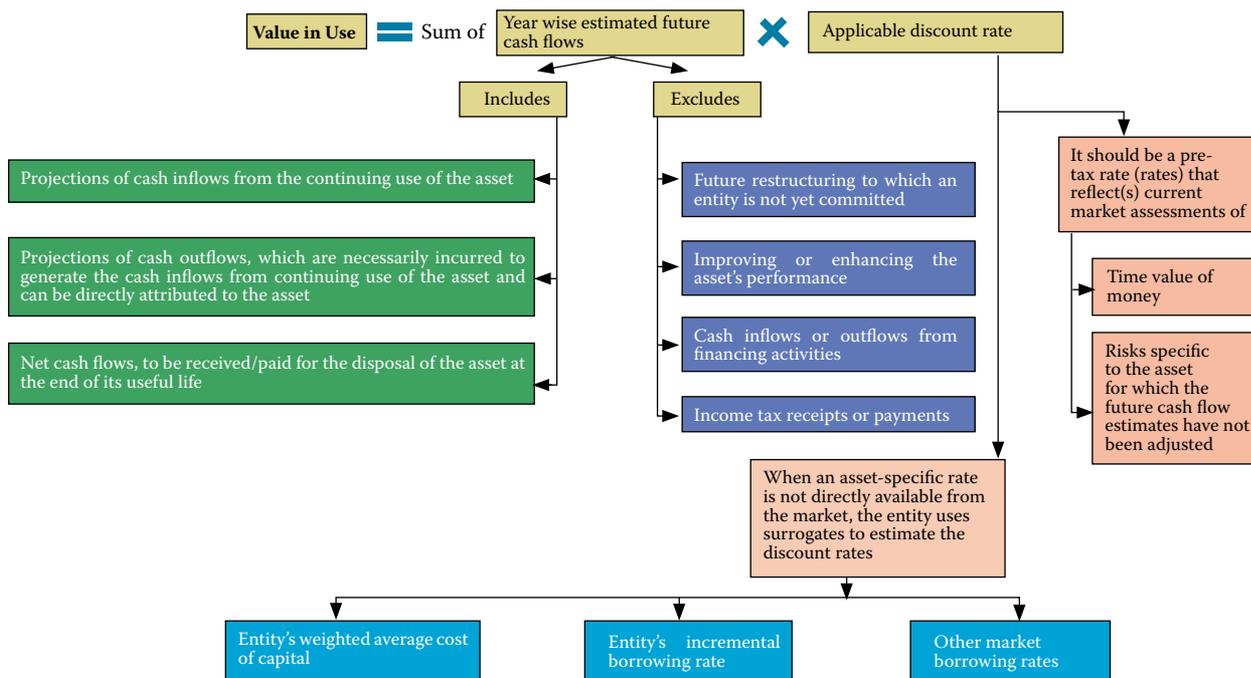
## Measurement of Recoverable Amount



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

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

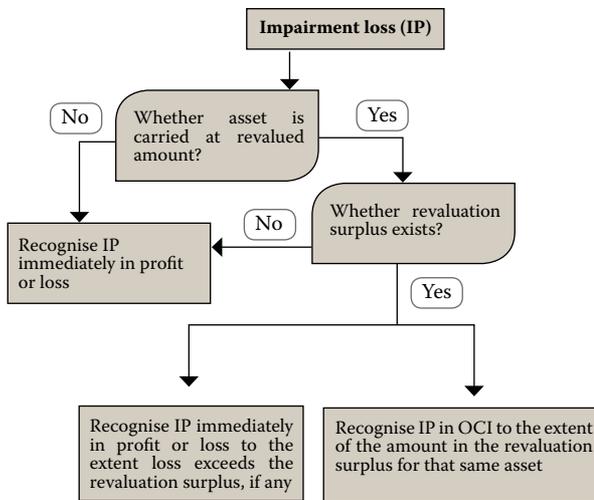
## Value in Use



### Note:

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

## Recognising and Measuring an Impairment Loss other than Goodwill



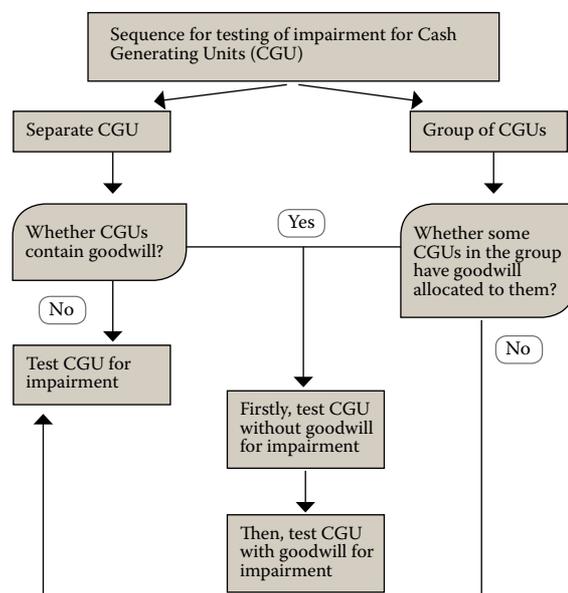
**Note:**

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

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

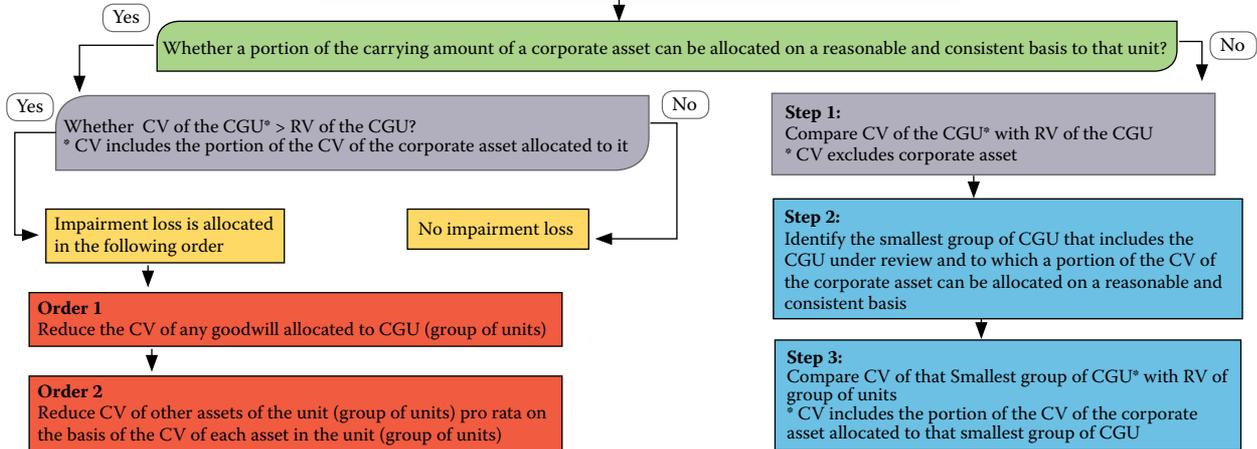
S.No.	Particular	Guidance under Ind AS 36
A.	Identification of cash generating units	<ul style="list-style-type: none"> <li>❖ Firstly, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity is required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

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

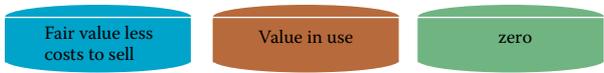


# FINANCIAL REPORTING ||

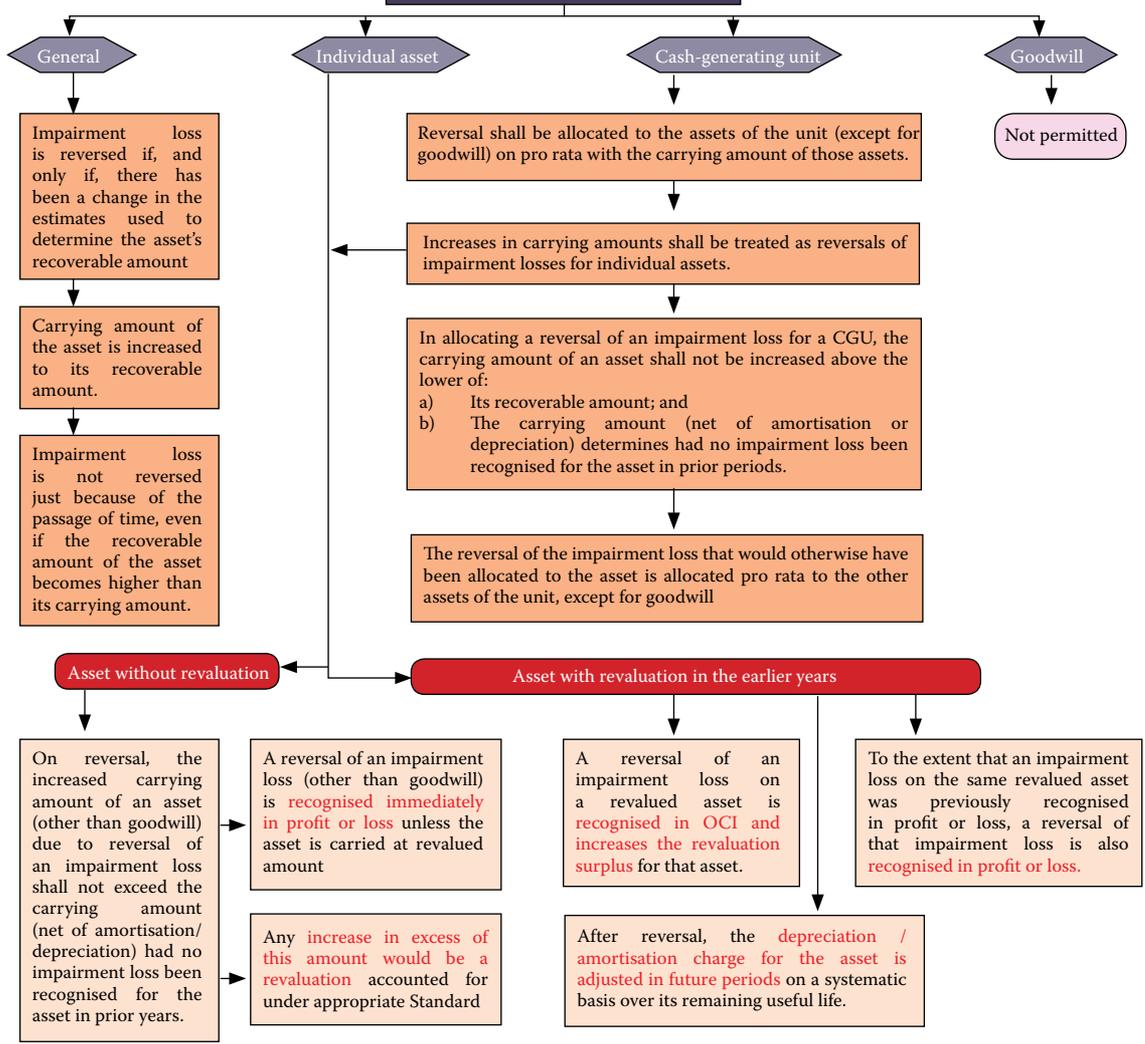
## Allocating corporate assets to cash-generating units for impairment



In allocating an impairment loss to individual assets within a CGU, the carrying amount of an individual asset shall not be reduced below the highest of:



## Reversing an Impairment Loss (IP)



For disclosure requirements of Ind AS 36 refer the study material.

## INDIAN ACCOUNTING STANDARD (IND AS) 38 : INTANGIBLE ASSETS

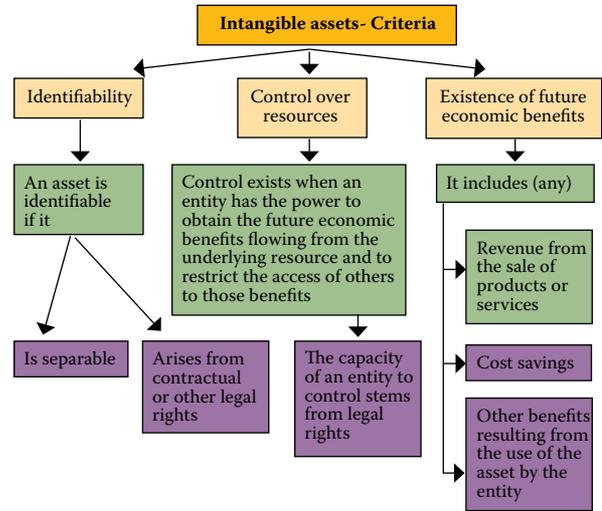
### Scope of Ind AS 38

#### Applicability

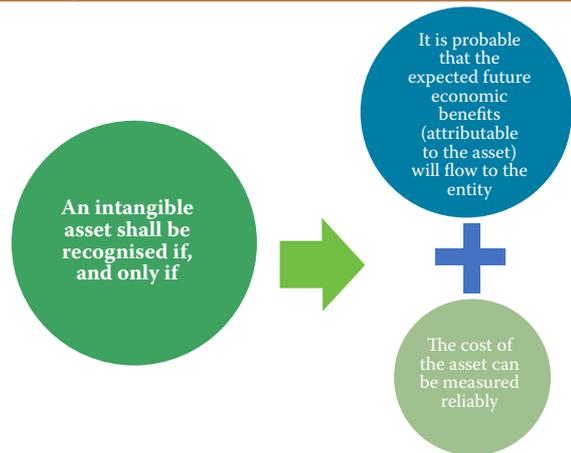
- Intangible assets other than included in the list of non-applicability
- Expenditure on advertising, training, start-up, research and development activities
- Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights
- Other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

#### Non-Applicability

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



### Recognition of Intangible Assets – General Principles



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

### Definition of Asset

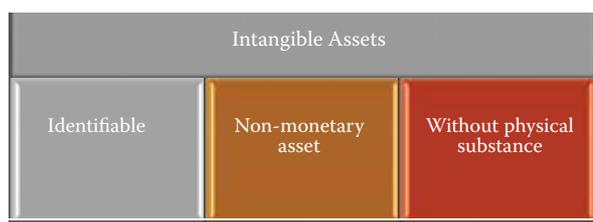
Resource controlled by entity

As a result of past event

Future economic benefits are expected to flow to the entity

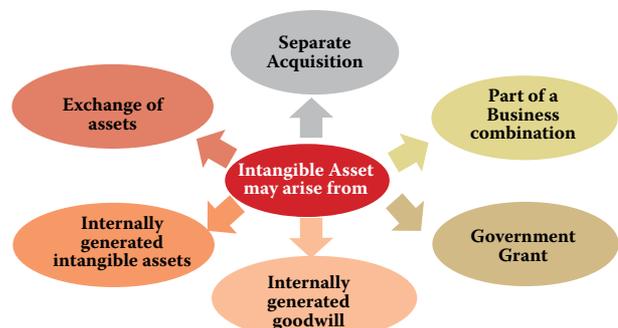
Asset

### Definition of Intangible Asset



### Measurement of Intangible Asset

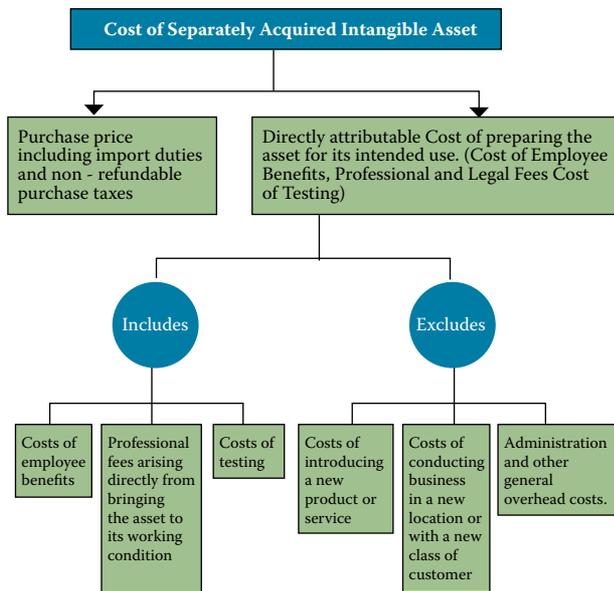
Intangible assets may be acquired or can be self generated. The below diagram reflect the method and mode by which Intangible assets may arise:



## A. Recognition and Measurement for intangible assets acquired separately

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



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

## B. Acquisition as part of a business combination

<b>Recognition criteria for intangible assets acquired as part of a business combination</b>	<ul style="list-style-type: none"> <li>The probability recognition criterion is always considered to be satisfied for intangible assets acquired in business combinations.</li> <li>The reliable measurement criterion is always considered to be satisfied for intangible assets acquired in business combinations.</li> <li>The acquirer may recognise a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives.</li> </ul>
<b>Measuring fair value</b>	<ul style="list-style-type: none"> <li>If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.</li> </ul>

## C. Acquisition by way of a government grant

<b>Recognition</b>	If an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, an entity <b>recognises both the intangible asset and the grant initially at fair value</b> as per Ind AS 20.
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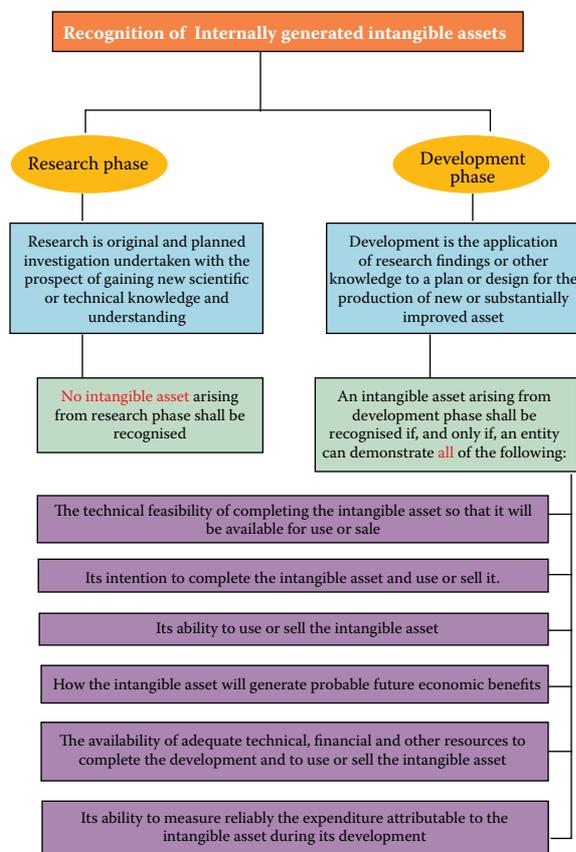
## D. Exchanges of assets

<b>Measurement</b>	<ul style="list-style-type: none"> <li>One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.</li> <li>If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless <b>the fair value of the asset received</b> is more clearly evident. (Refer chart on "Exchange of Assets" given in Ind AS 16)</li> </ul>
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## E. Internally generated goodwill

<b>Recognition</b>	<ul style="list-style-type: none"> <li>Internally generated goodwill shall not be recognised as an asset.</li> <li>Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the entity that can be measured reliably at cost.</li> </ul>
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## Internally generated Intangible Asset



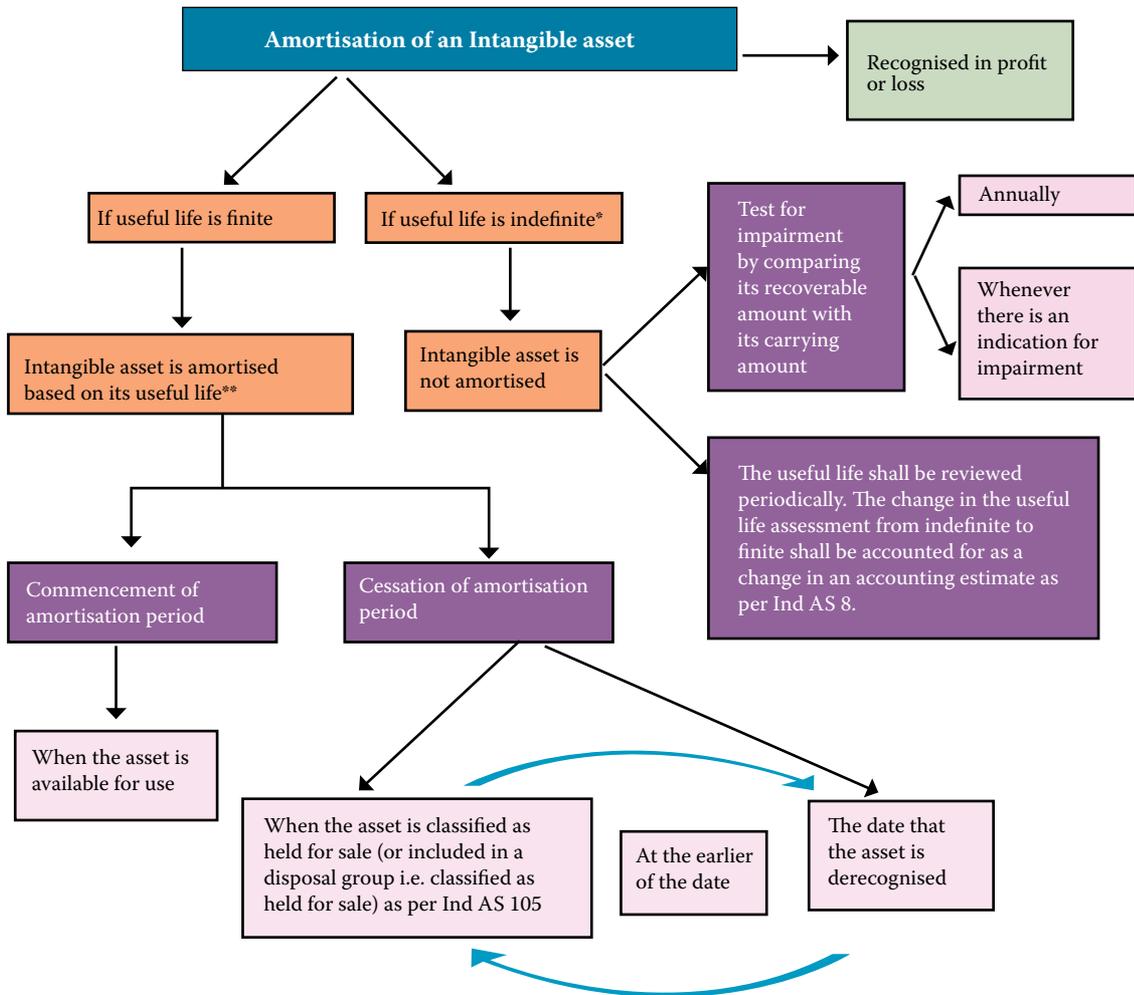
- Note:**
- If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.
  - Internally generated brands, mastheads, publishing titles,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

## Measurement after Recognition and Revaluation

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

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

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

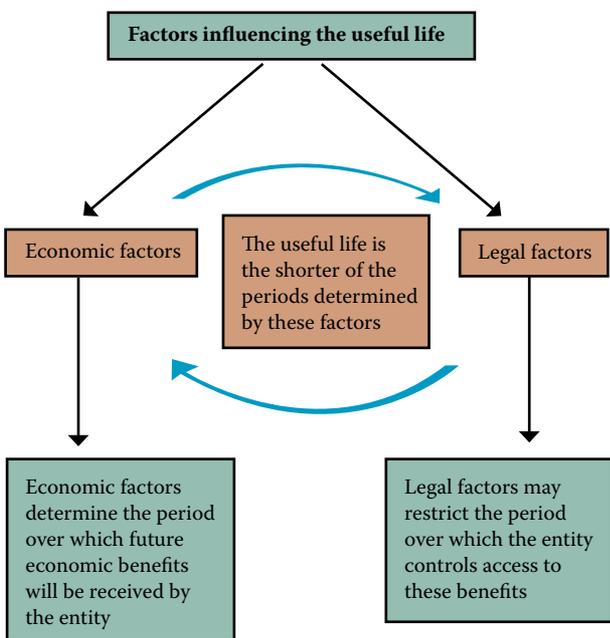
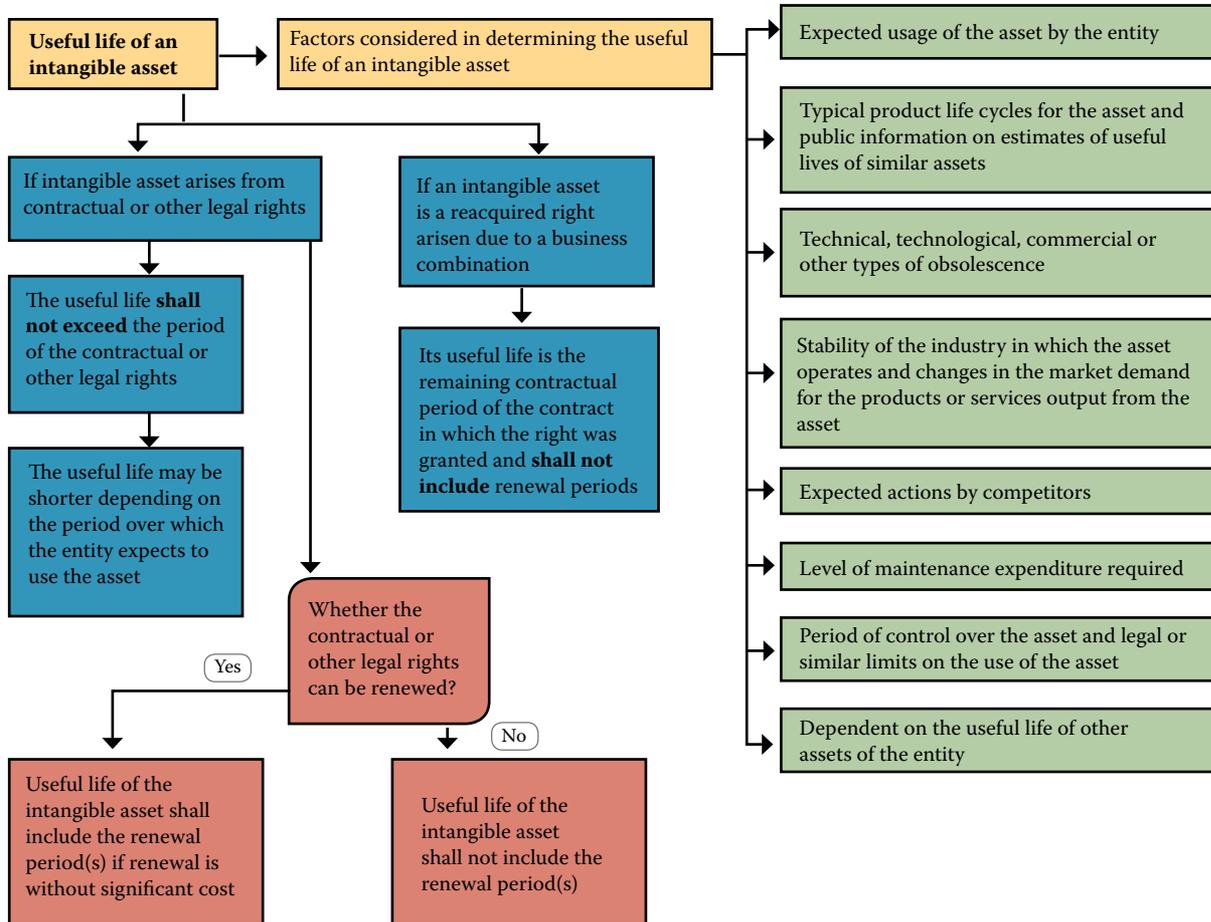


Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, if the asset has not been fully depreciated or has not been classified as held for sale (or included in a disposal group that is classified as held for sale) as per Ind AS 105.

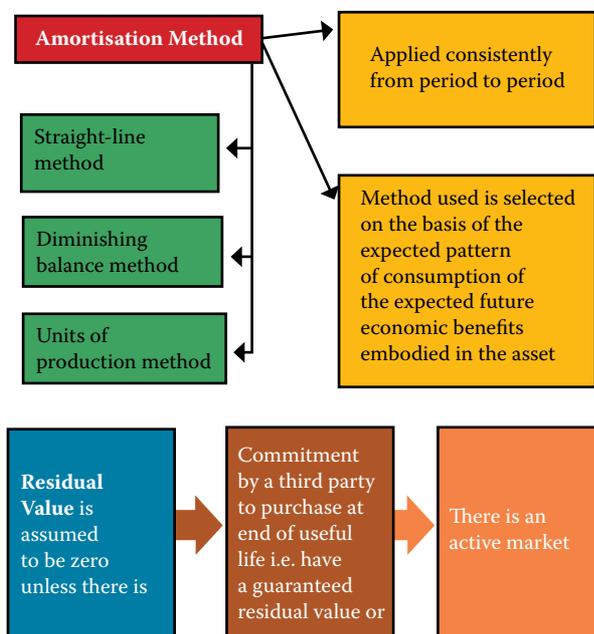
\*The term 'indefinite' does not mean 'infinite'.

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

## Useful Life of an Intangible Asset



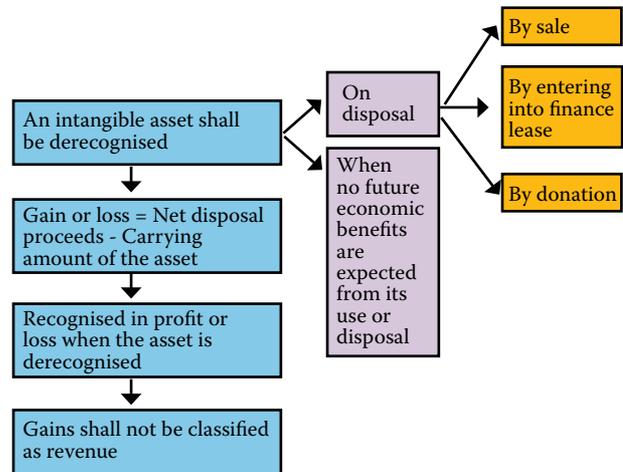
## Amortisation Method



Note:

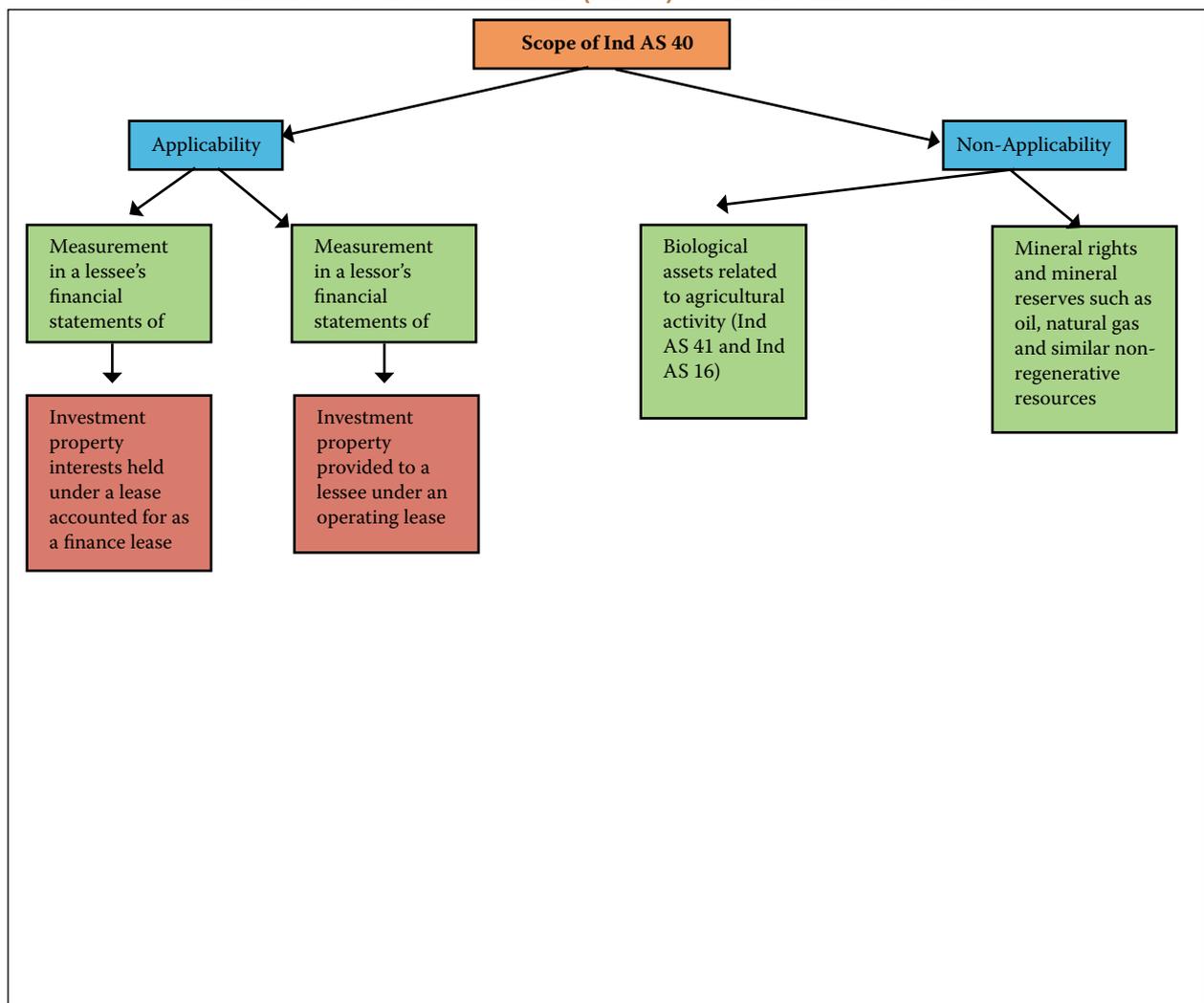
Particular	Details
Residual value other than zero	It implies that an entity expects to dispose of the intangible asset before the end of its economic life
Review of residual value	The residual value is reviewed at least at each financial year-end
Change in the asset's residual value	A change in the asset's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

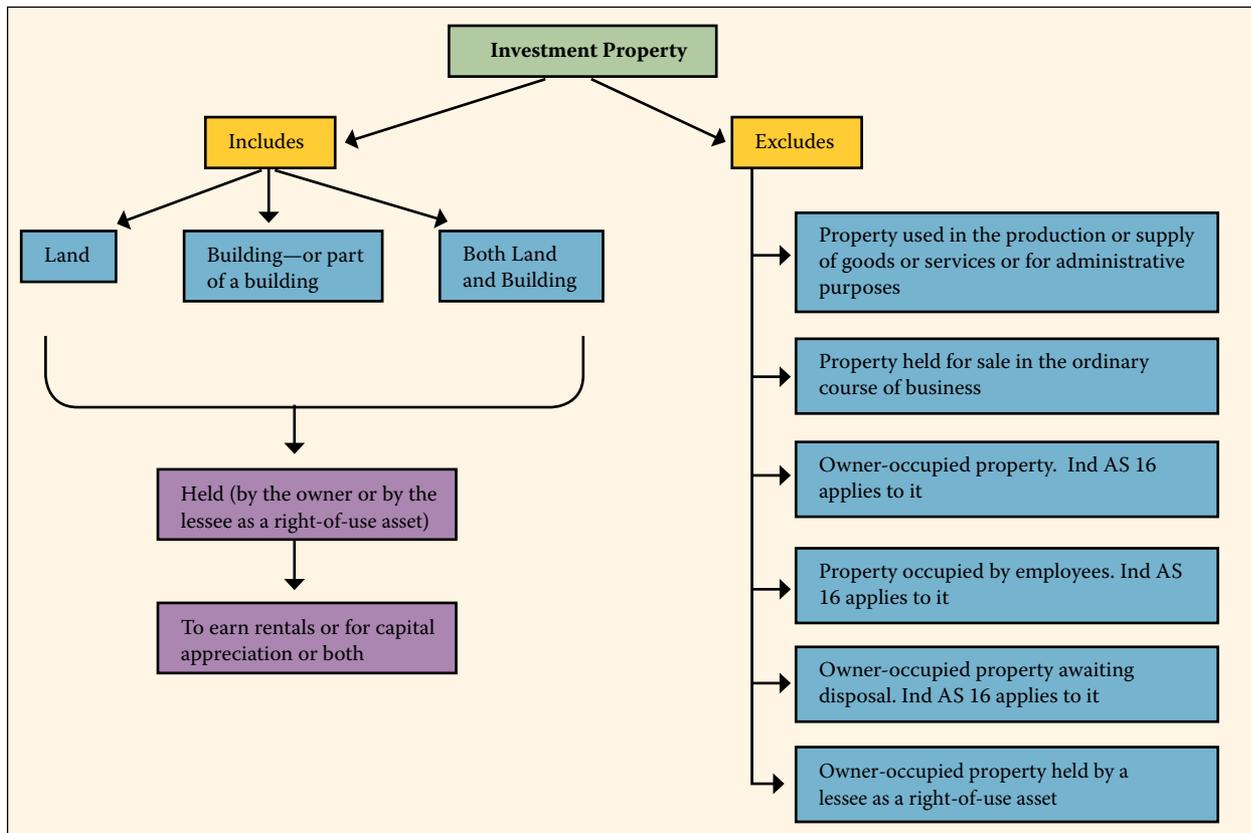
## Retirements and Disposals of Intangible Assets



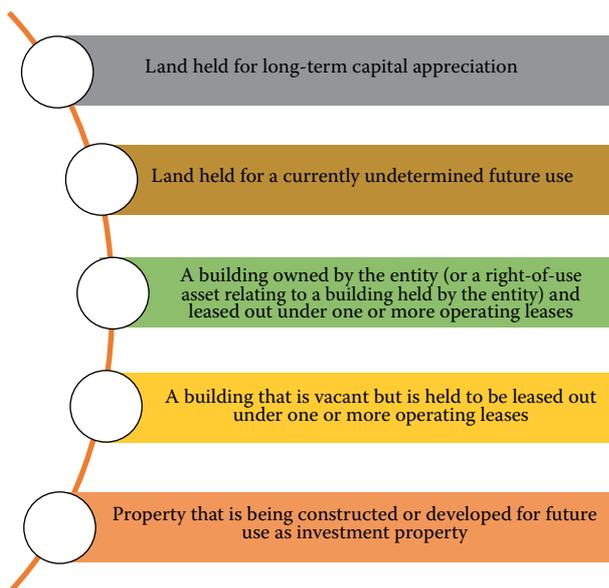
For disclosure requirements of Ind AS 38 refer the study material.

## INDIAN ACCOUNTING STANDARD (IND AS) 40 : INVESTMENT PROPERTY





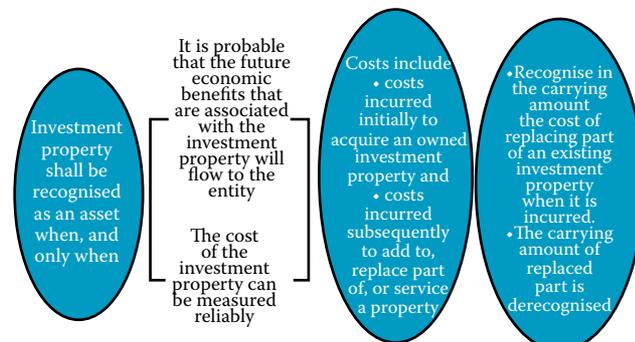
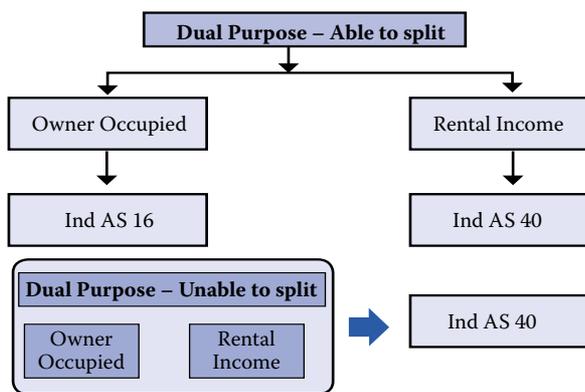
## Examples of Investment Property



**Note:**

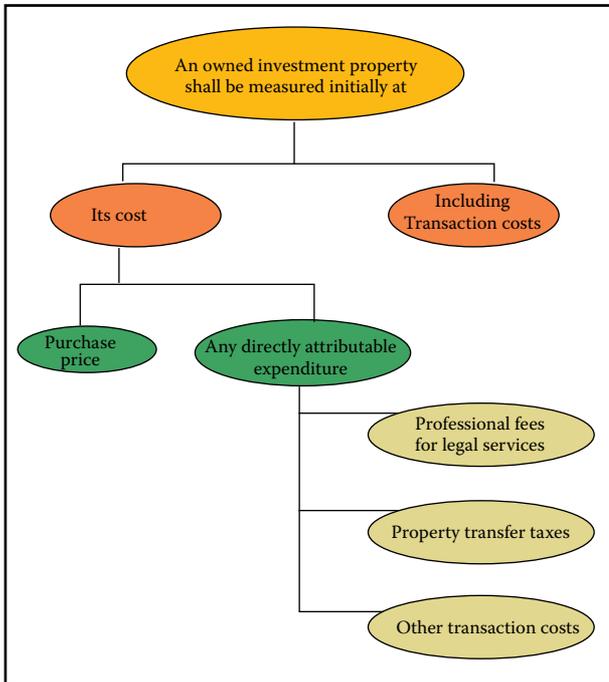
In some cases, an entity owns property that is leased to, and occupied by, its parent or another subsidiary. The property **does not qualify as investment property in the consolidated financial statements**, because the property is owner-occupied from the perspective of the group.

## Property Held for More Than One Purpose



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

## Measurement at Recognition



## Important Notes

S. No.	Particular	Detail
1.	Cost of an investment property does not include	(a) Start-up costs (unless necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management), (b) Operating losses incurred before the investment property achieves the planned level of occupancy, or (c) Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.
2.	Deferred payment	<ul style="list-style-type: none"> <li>Cost of an investment property is its cash price equivalent.</li> <li>The difference between this amount and the total payments is recognised as interest expense over the period of credit.</li> </ul>

## Measurement after Recognition



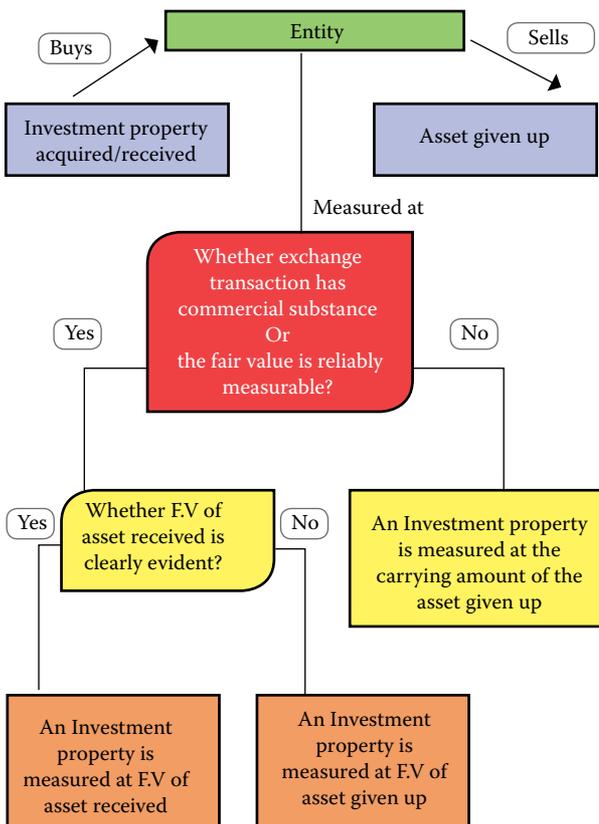
### Note:

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

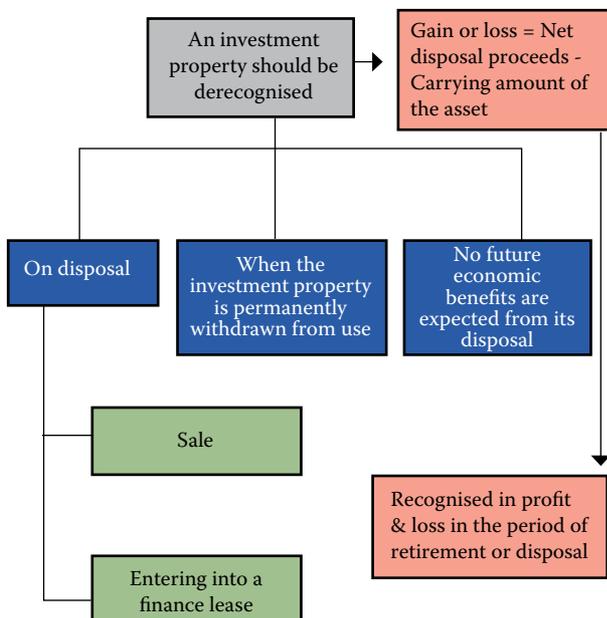
### Transfers

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

## Exchange for Non-monetary Assets



## Disposals



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

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

# FINANCIAL REPORTING

## Final new course Paper 1- Financial Reporting: A Capsule for Quick Revision

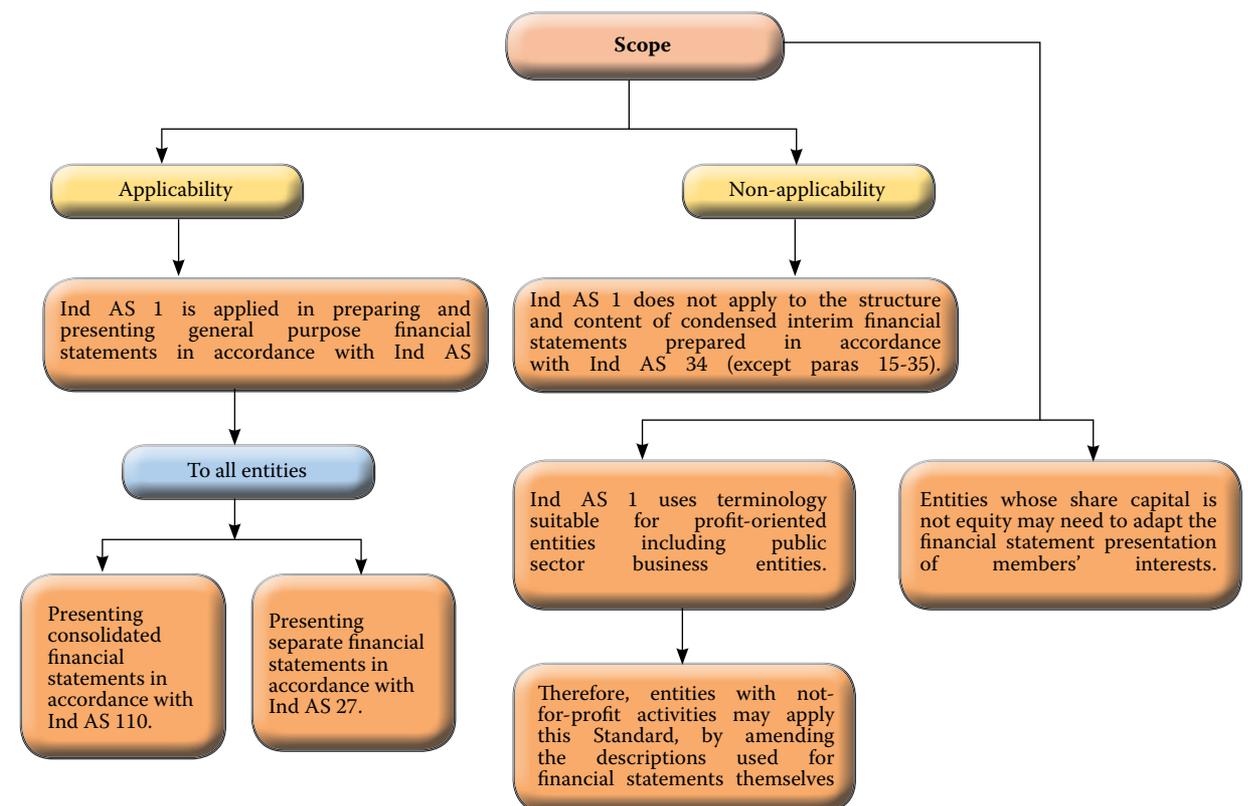
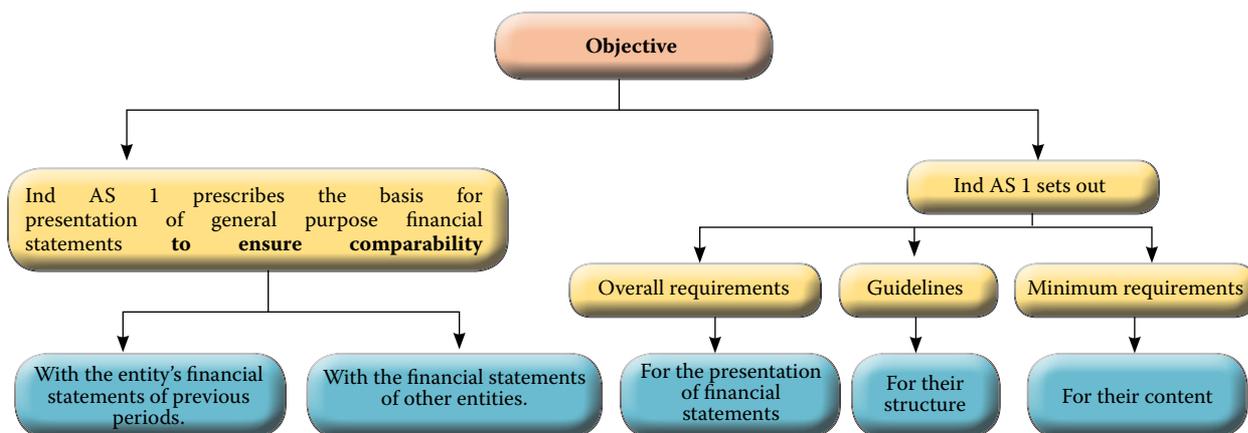
In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject, the Board of Studies brings forth a crisp and concise capsule on Final new course Paper 1 : Financial Reporting.

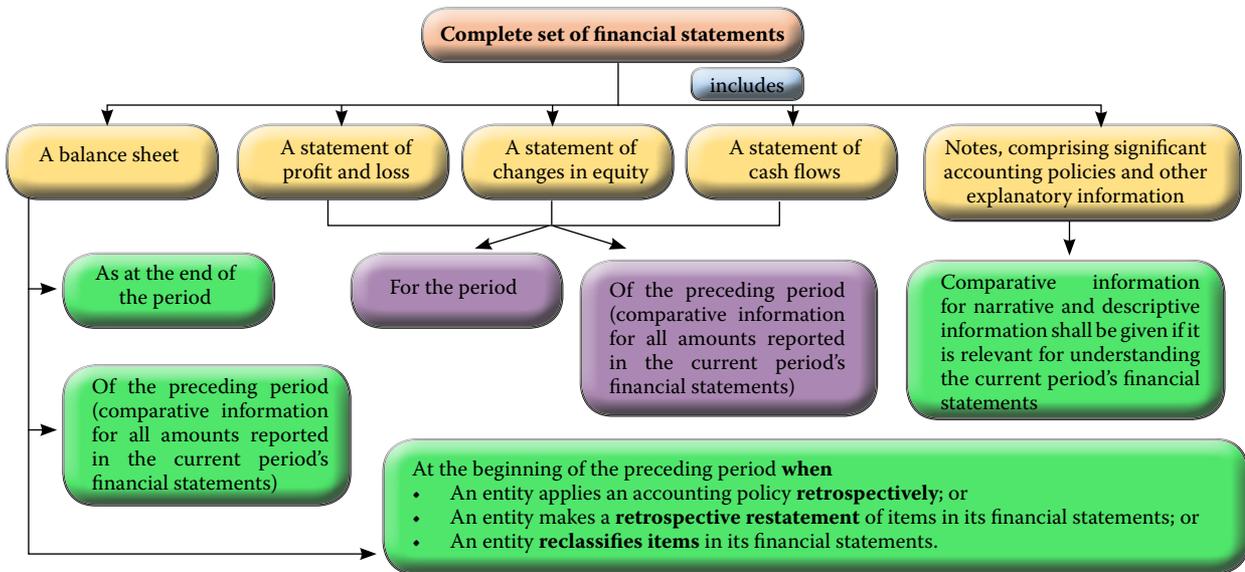
The syllabus of this paper largely covers almost all Indian Accounting Standards. However, in this capsule we have focussed on 'Ind AS covered in Module 2 of November, 2018 edition of the study material except Ind AS 20, Ind AS 113 and Ind AS 101'. Significant provisions of these Ind AS have been presented through pictorial/tabular presentations for better understanding and quick revision.

Many of the standards contain certain exceptions. All the exceptions are not necessarily reflected in the charts/pictorial/table given in the capsule. Hence, students are advised to refer the study material or bare text of these Ind AS for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

### Indian Accounting Standard (Ind AS) 1 : Presentation of Financial Statements

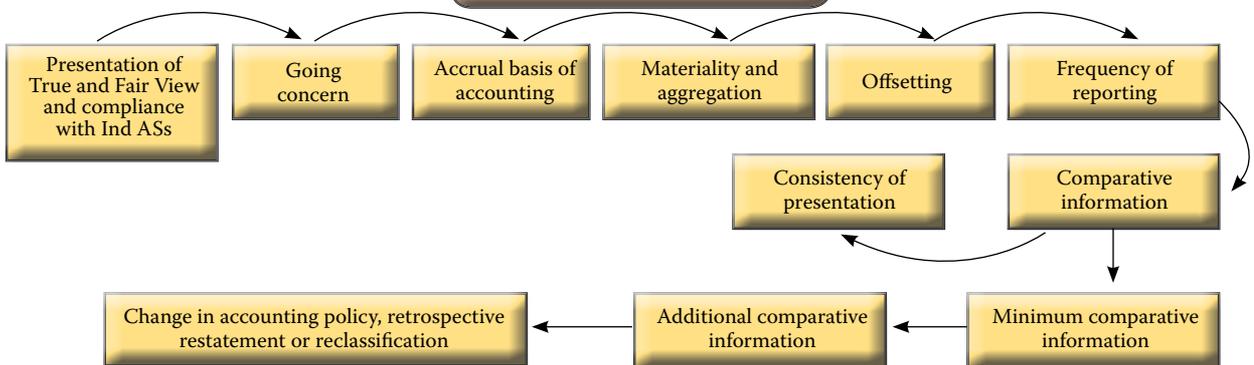




**Note:**

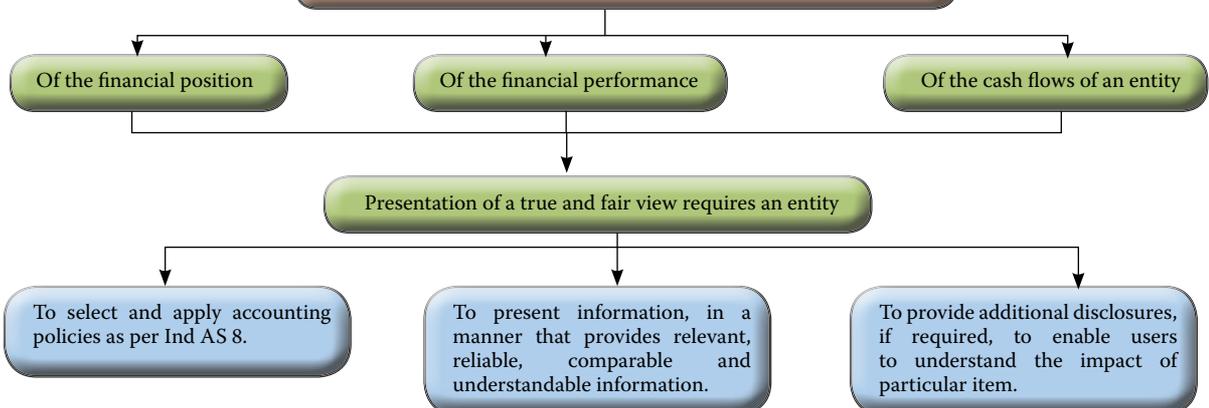
1. An entity shall present a **single** statement of profit and loss, **with profit or loss and other comprehensive income (OCI) presented in two sections**. The sections shall be **presented together**, with the profit or loss section presented first followed directly by the other comprehensive income section.
2. Reports and statements presented outside financial statements are outside the scope of Ind AS.
3. An entity is not required to present the related notes to the opening balance sheet as at the beginning of the preceding period.

**General features**

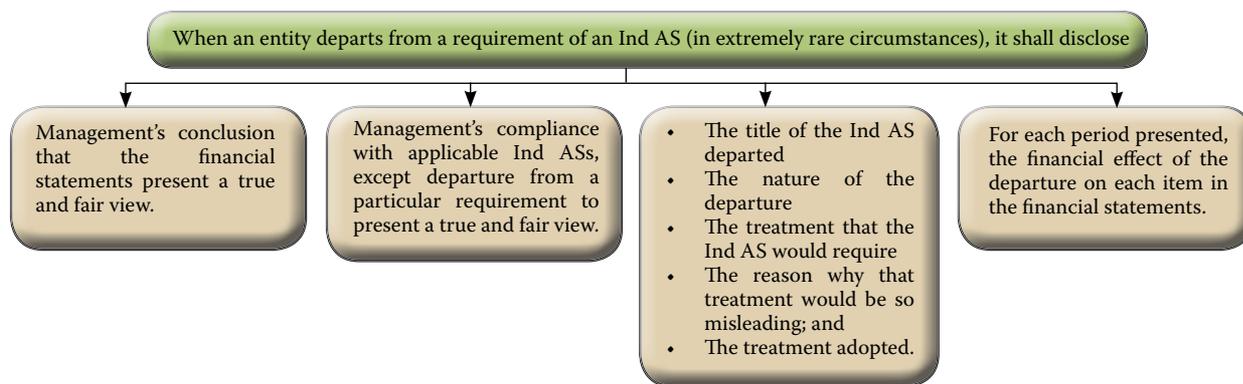


**Note:** The above general features have been summarised below.

**Presentation of True and Fair View and compliance with Ind ASs**



# FINANCIAL REPORTING



**Note:**

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

<b>Going concern</b>	<ul style="list-style-type: none"> <li>▶▶ An entity shall prepare financial statements on a going concern basis unless management                             <ul style="list-style-type: none"> <li><input type="checkbox"/> intends to liquidate the entity or</li> <li><input type="checkbox"/> to cease trading, or</li> <li><input type="checkbox"/> has no realistic alternative but to do so.</li> </ul> </li> <li>▶▶ When management has significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose                             <ul style="list-style-type: none"> <li><input type="checkbox"/> the basis on which it prepared the financial statements and</li> <li><input type="checkbox"/> the reason why the entity is not regarded as a going concern.</li> </ul> </li> </ul> <p>To assess going concern basis, management may need to consider a wide range of factors like</p> <ul style="list-style-type: none"> <li>▶▶ current and expected profitability,</li> <li>▶▶ debt repayment schedules and</li> <li>▶▶ potential sources of replacement financing.</li> </ul>
<b>Accrual basis of accounting</b>	<ul style="list-style-type: none"> <li>▶▶ An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.</li> <li>▶▶ When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses.</li> </ul>
<b>Materiality and aggregation</b>	<ul style="list-style-type: none"> <li>▶▶ <b>Present separately</b> each material class of <b>similar items</b>.</li> <li>▶▶ <b>Present separately</b> items of a <b>dissimilar</b> nature or function <b>only</b> if it is material or required by law (even if it is immaterial).</li> <li>▶▶ If a line item is not individually material, it is aggregated with other items either in those statements or in the notes.</li> <li>▶▶ Do not reduce the understandability of its financial statements by                             <ul style="list-style-type: none"> <li><input type="checkbox"/> obscuring material information with immaterial information; or</li> <li><input type="checkbox"/> aggregating material items that have different natures or functions.</li> </ul> </li> </ul>
<b>Offsetting</b>	Offsetting of assets and liabilities or income and expenses is not allowed unless required or permitted by an Ind AS or except when offsetting reflects the substance of the transaction or other event.
<b>Frequency of reporting</b>	An entity shall present a complete set of financial statements (including comparative information) at least annually.
<b>Comparative information</b>	Refer chart 3 of Ind AS 1 for minimum and additional comparative information.

<b>Change in accounting policy, retrospective restatement or reclassification</b>	<p>When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period):</p> <ul style="list-style-type: none"> <li>(a) the nature of the reclassification;</li> <li>(b) the amount of each item or class of items that is reclassified; and</li> <li>(c) the reason for the reclassification.</li> </ul> <p>When it is impracticable to reclassify comparative amounts, an entity shall disclose:</p> <ul style="list-style-type: none"> <li>(a) the reason for not reclassifying the amounts, and</li> <li>(b) the nature of the adjustments that would have been made if the amounts had been reclassified.</li> </ul>
<b>Consistency of presentation</b>	<p>An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:</p> <ul style="list-style-type: none"> <li>(a) presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or</li> <li>(b) an Ind AS requires a change in presentation.</li> </ul>

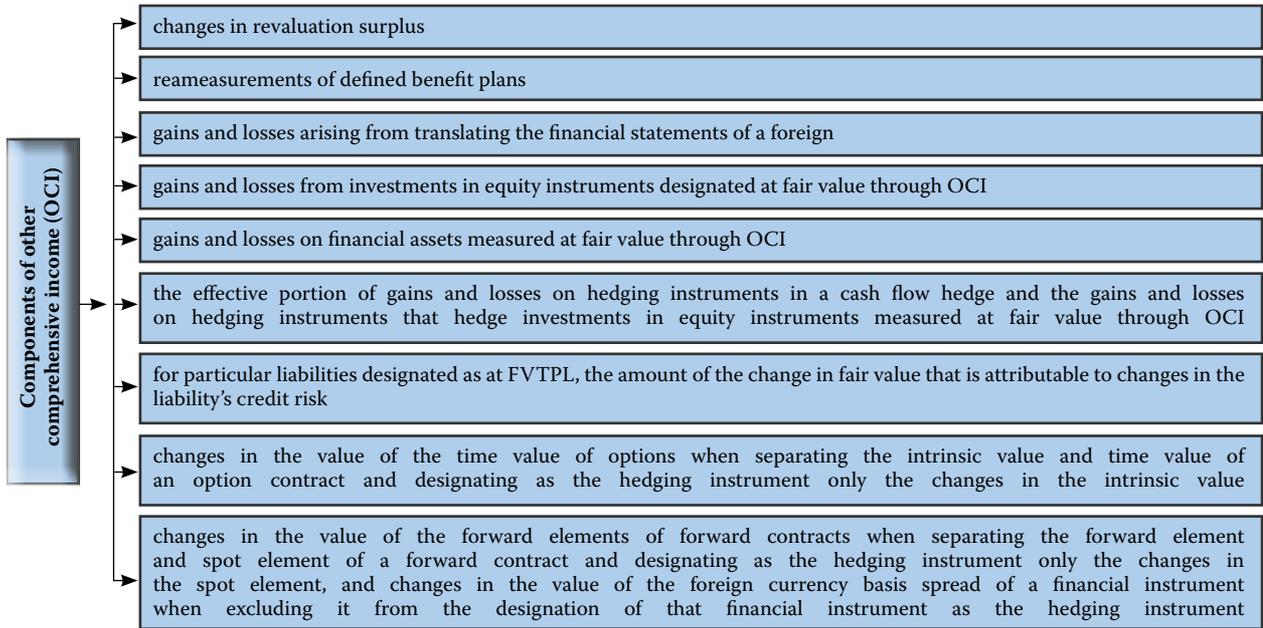
STRUCTURE AND CONTENT	
<b>Identification of the financial statements</b>	<p>An entity shall clearly identify each financial statement and the notes.</p> <p>It shall display prominently:</p> <ul style="list-style-type: none"> <li>(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;</li> <li>(b) whether the financial statements are of an individual entity or a group of entities;</li> <li>(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;</li> <li>(d) the presentation currency; and</li> <li>(e) the level of rounding used in presenting amounts in the financial statements.</li> </ul> <p>The rounding off is acceptable as long as the entity discloses it and does not omit material information.</p>

<b>Information to be presented in the balance sheet</b>	<ul style="list-style-type: none"> <li>▶▶ The balance sheet shall present line items and additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals.</li> <li>▶▶ Presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.</li> <li>▶▶ It shall not classify deferred tax assets (liabilities) as current assets (liabilities).</li> </ul> <p><b>Exception</b> An entity may present all assets and liabilities in order of liquidity but shall disclose the amount expected to be recovered or settled</p> <ul style="list-style-type: none"> <li>(a) no more than twelve months after the reporting period, and</li> <li>(b) more than twelve months after the reporting period.</li> </ul> <p>▶▶ An entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant.</p>
<b>Current assets</b>	<ul style="list-style-type: none"> <li>▶▶ Classify an asset as current when:             <ul style="list-style-type: none"> <li>(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;</li> <li>(b) it holds the asset primarily for the purpose of trading;</li> <li>(c) it expects to realise the asset within twelve months after the reporting period; or</li> <li>(d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.</li> </ul> </li> <li>▶▶ Classify all other assets as non-current.</li> </ul> <p><i>Note: The term 'non-current' includes tangible, intangible and financial assets of a long-term nature.</i></p>
<b>Operating cycle</b>	<ul style="list-style-type: none"> <li>▶▶ It is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.</li> <li>▶▶ When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.</li> <li>▶▶ The same normal operating cycle applies to the classification of an entity's assets and liabilities.</li> </ul>
<b>Current liabilities</b>	<ul style="list-style-type: none"> <li>▶▶ An entity shall classify a liability as current when:             <ul style="list-style-type: none"> <li>(a) it expects to settle the liability in its normal operating cycle;</li> <li>(b) it holds the liability primarily for the purpose of trading;</li> <li>(c) the liability is due to be settled within twelve months after the reporting period; or</li> <li>(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.</li> </ul> </li> <li>▶▶ An entity shall classify all other liabilities as non-current.</li> <li>▶▶ An entity classifies some operating items like trade payables and some accruals for employee and other operating costs (part of the working capital) as current liabilities even if they are due to be settled more than twelve months after the reporting period.</li> </ul>

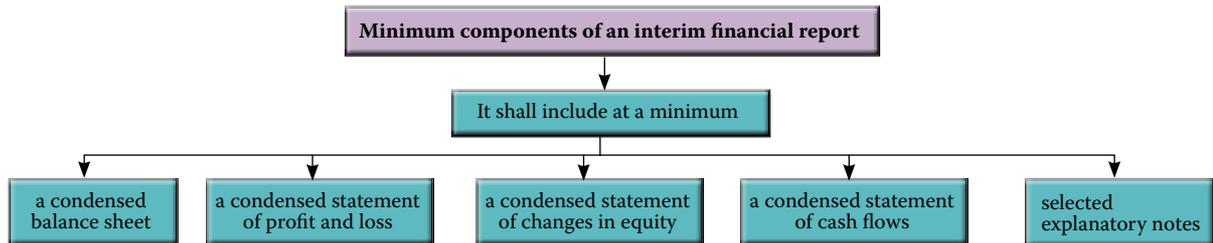
	<ul style="list-style-type: none"> <li>▶▶ Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity does not classify the liability as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.</li> </ul>
<b>Information to be presented either in the balance sheet or in the notes</b>	Disclose sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.
<b>Statement of Profit and Loss</b>	<ul style="list-style-type: none"> <li>▶▶ The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:             <ul style="list-style-type: none"> <li>(a) profit or loss;</li> <li>(b) total other comprehensive income;</li> <li>(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.</li> </ul> </li> <li>▶▶ An entity shall <b>not</b> present any items of income or expense as extraordinary items.</li> <li>▶▶ An entity shall present an analysis of expenses recognised in profit or loss using a <b>classification based on the nature of expense method</b>.</li> <li>▶▶ An entity shall present additional line items, headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.</li> </ul>
<b>Information to be presented in the other comprehensive income (OCI) section</b>	<ul style="list-style-type: none"> <li>▶▶ Present line items for the amounts for the period of:             <ul style="list-style-type: none"> <li>(a) items of OCI classified by nature and grouped into those that:                 <ul style="list-style-type: none"> <li>(i) will not be reclassified subsequently to profit or loss; and</li> <li>(ii) will be reclassified subsequently to profit or loss when specific conditions are met.</li> </ul> </li> <li>(b) the share of OCI of associates and joint ventures accounted for using the equity method, separated into the share of items that:                 <ul style="list-style-type: none"> <li>(i) will not be reclassified subsequently to profit or loss; and</li> <li>(ii) will be reclassified subsequently to profit or loss when specific conditions are met.</li> </ul> </li> </ul> </li> <li>▶▶ Disclose the amount of income tax relating to each item of OCI, including reclassification adjustments, either in the statement of profit and loss or in the notes.</li> <li>▶▶ Present items of OCI either             <ul style="list-style-type: none"> <li>(a) net of related tax effects, or</li> <li>(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.</li> </ul> </li> <li>▶▶ If an entity elects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified subsequently to the profit or loss section.</li> </ul>

# FINANCIAL REPORTING

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

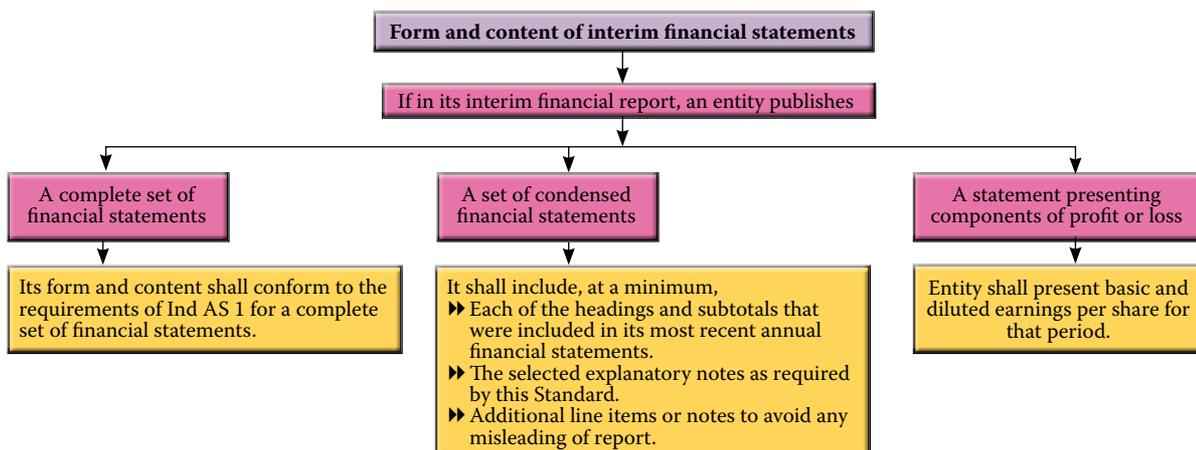


## Indian Accounting Standard (Ind AS) : 34



### Important points to remember

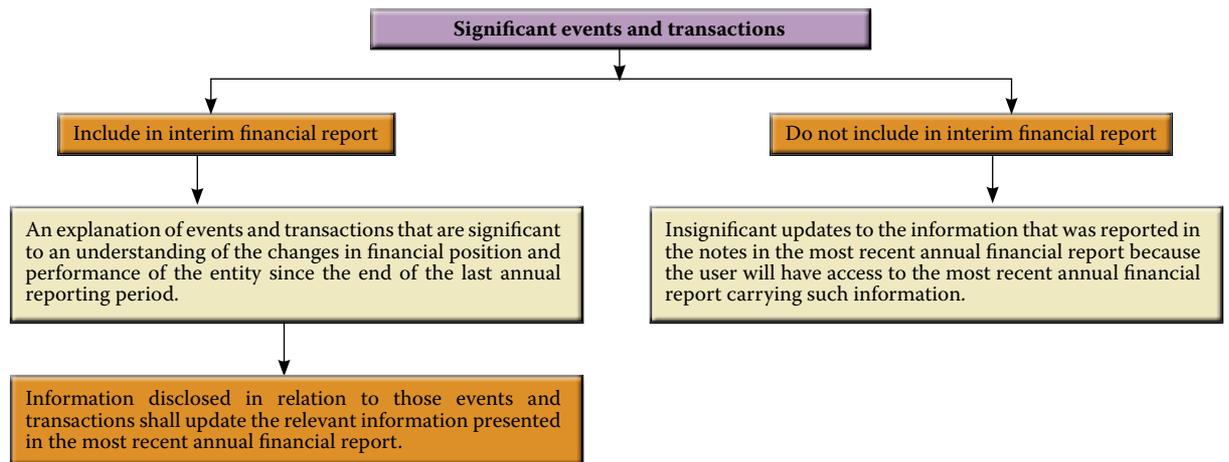
- The interim financial report is intended to provide an update on the latest complete set of annual financial statements.
- It focuses on new activities, events, and circumstances and does not duplicate information previously reported.
- Ind AS 34 does not prohibit or discourage an entity from publishing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



# FINANCIAL REPORTING ||

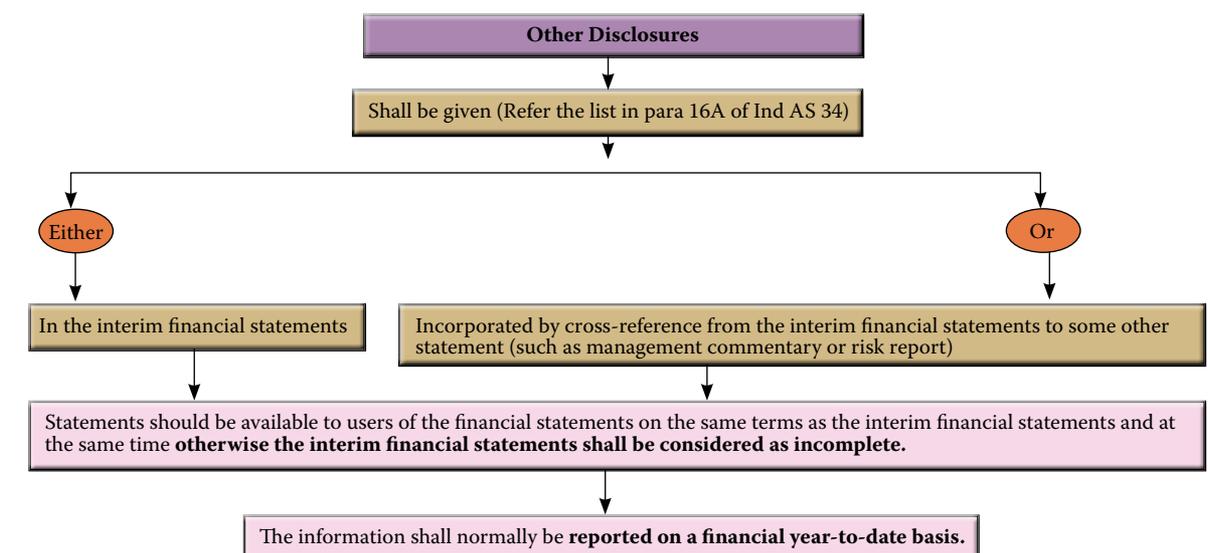
**Note:**

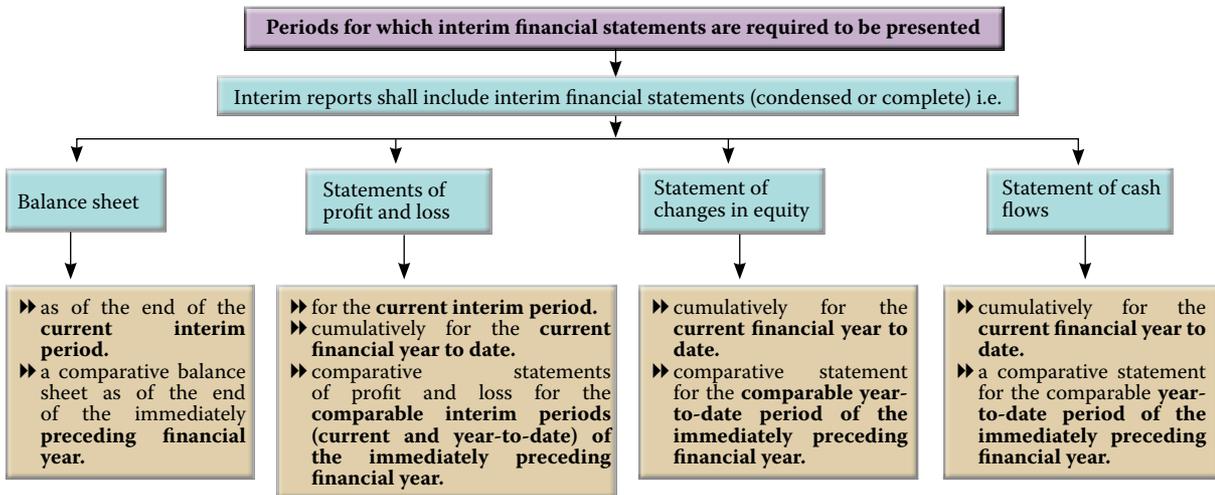
1. An interim financial report is prepared on a consolidated basis if the entity's most recent annual financial statements were consolidated statements.
2. If an entity's annual financial report includes the parent's separate financial statements in addition to consolidated financial statements, then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



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

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





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

### Points to remember

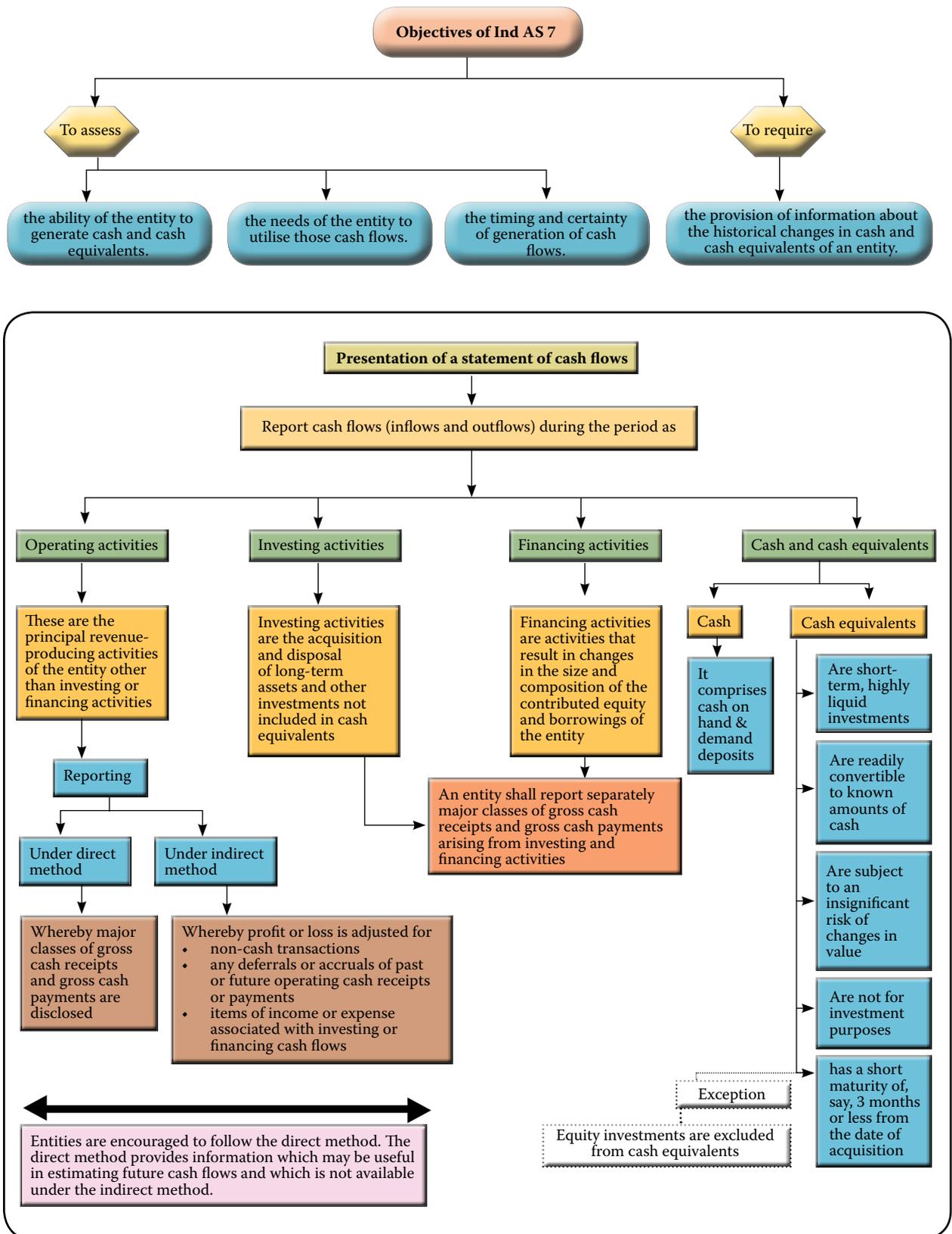
<b>Disclosure of compliance with Ind AS</b>	If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed.
	An interim financial report shall be described as complying with Ind ASs when it complies with all of the requirements of Ind ASs.
<b>Materiality</b>	In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data.
	It shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.
<b>Disclosure in annual financial statements</b>	If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the annual financial statements for that financial year.
	An entity is not required to include additional interim period financial information in its annual financial statements.

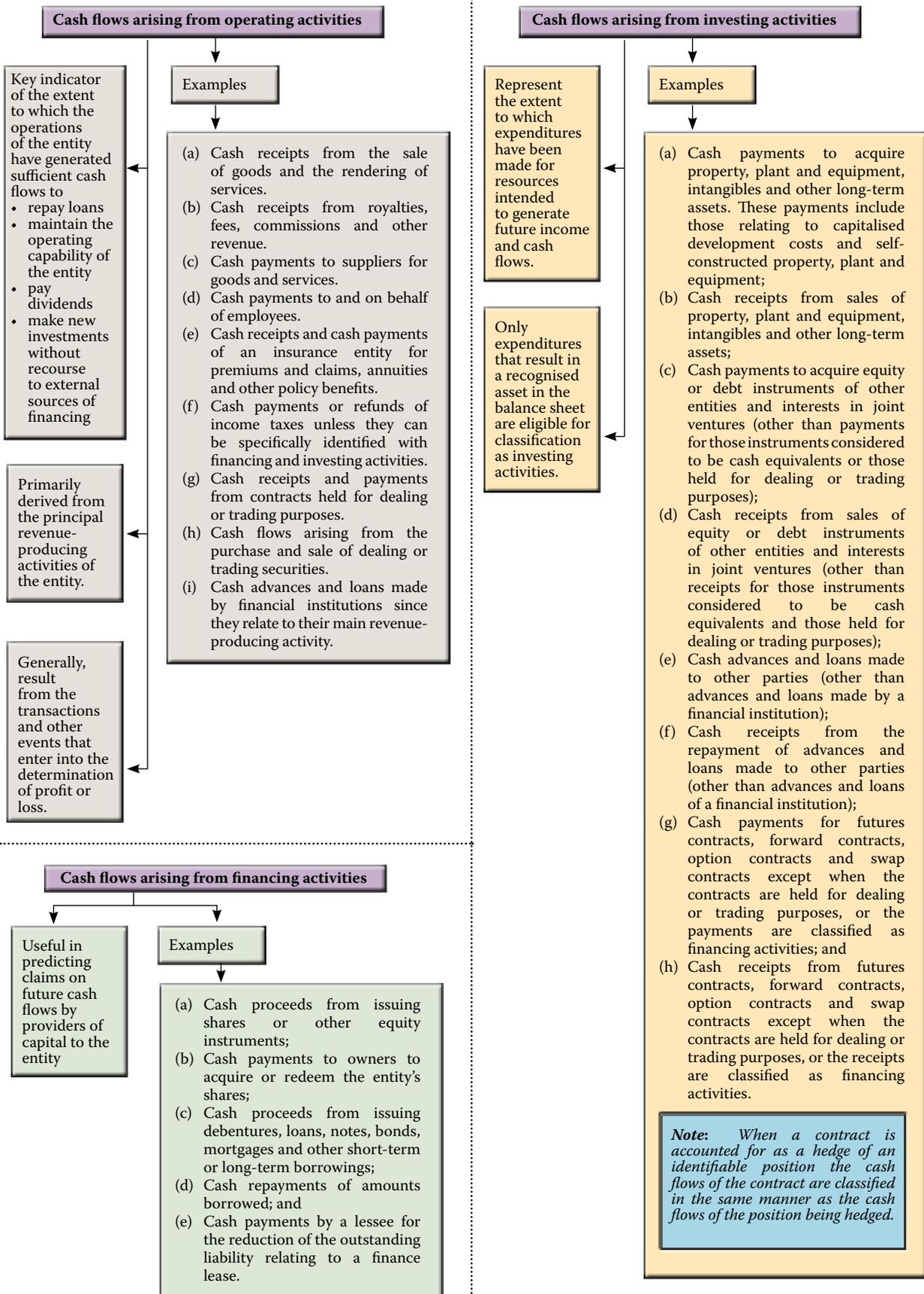
### Recognition and Measurement

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

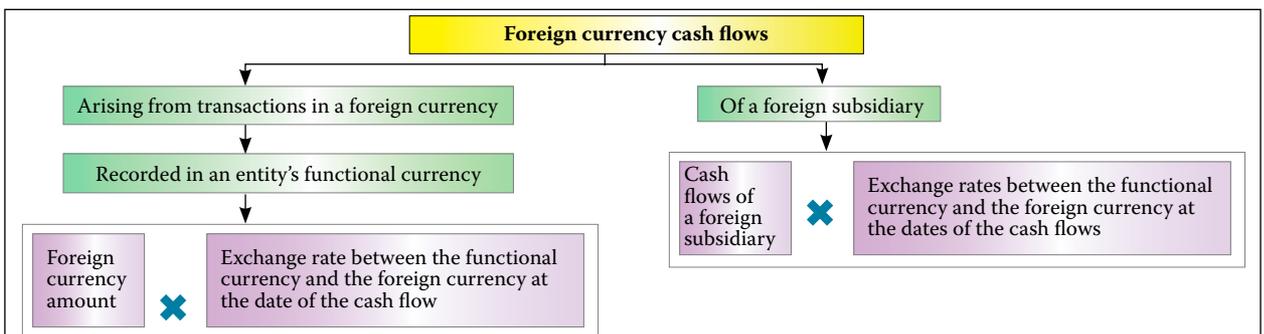
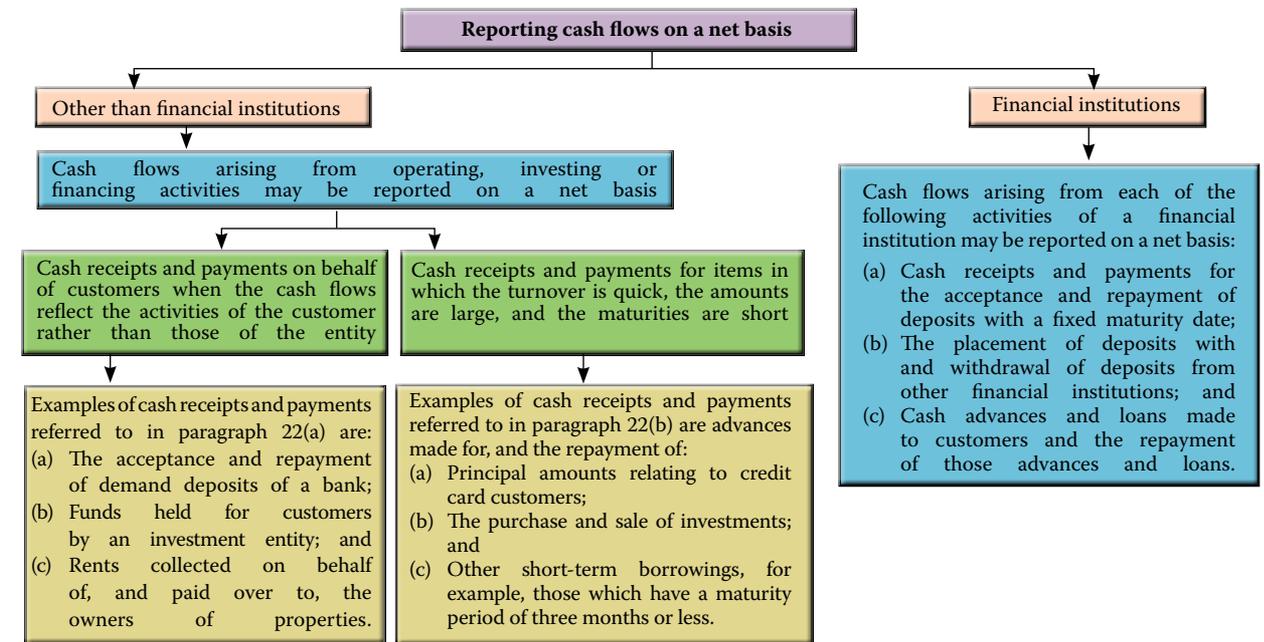
# FINANCIAL REPORTING

## Indian Accounting Standard (Ind AS) 7 : Statement of Cash Flows





# FINANCIAL REPORTING

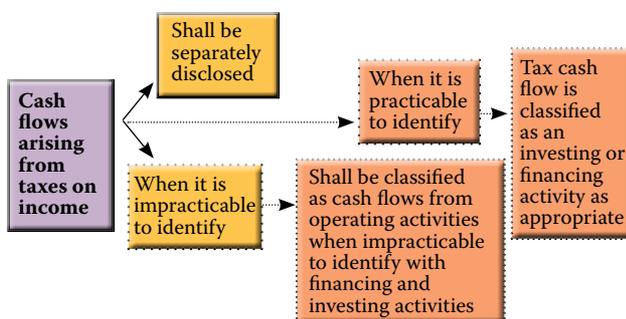


**Note:**

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

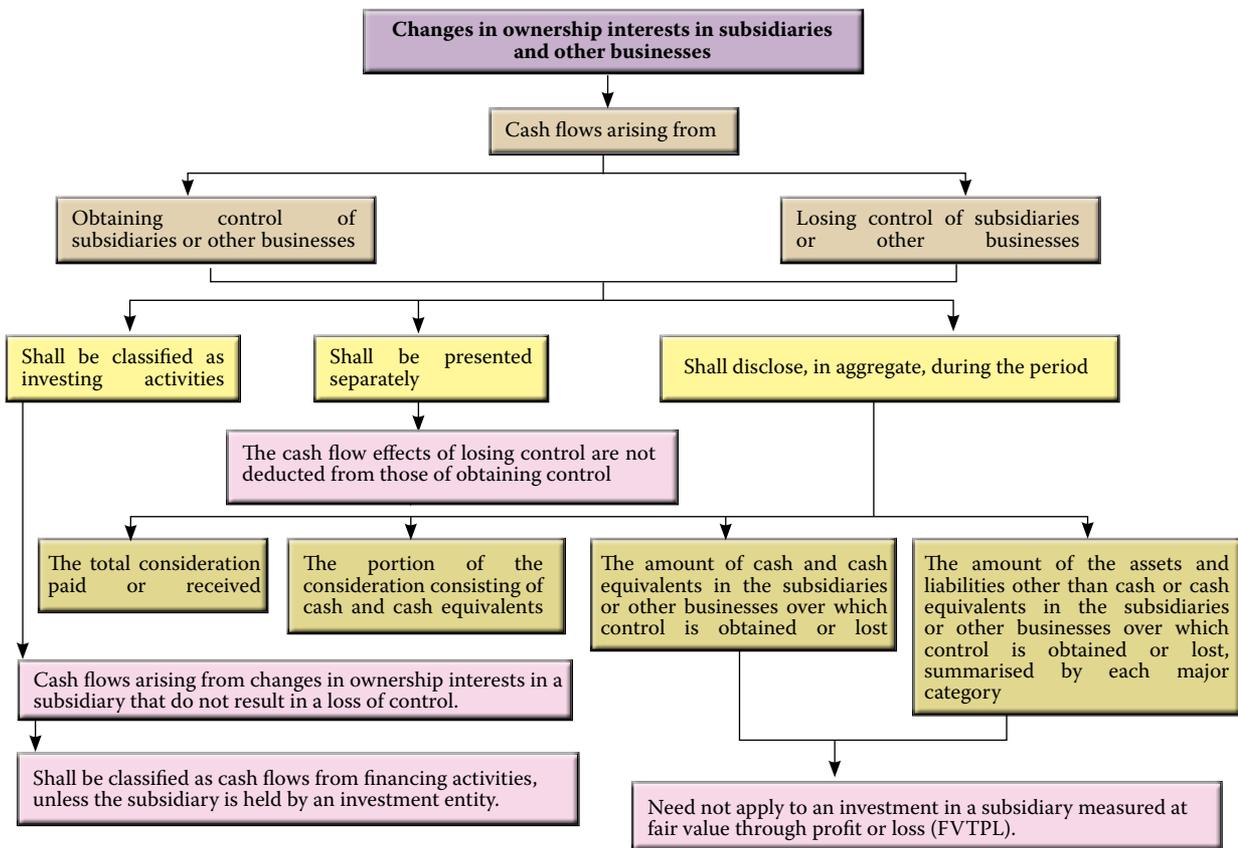
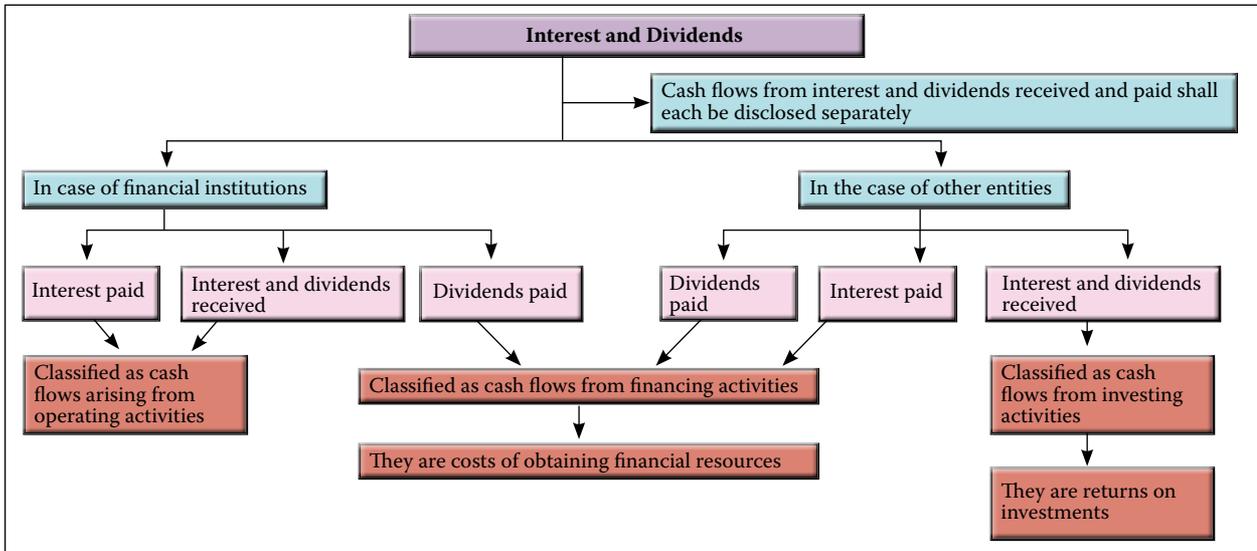
**Important Points**

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



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

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

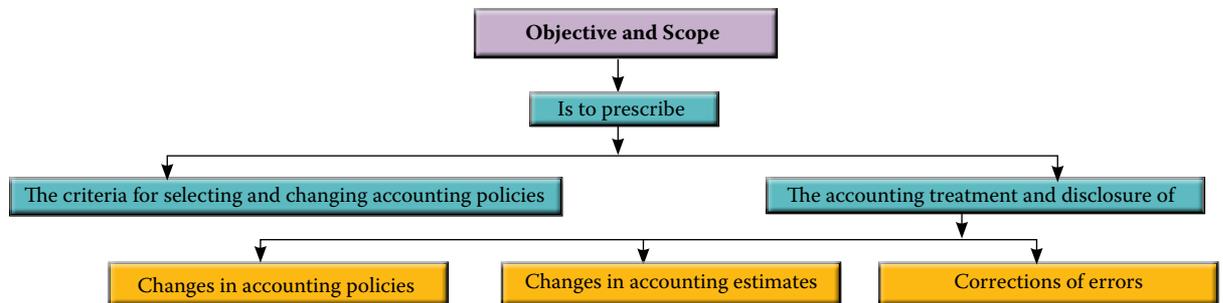


### Important points/disclosures

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

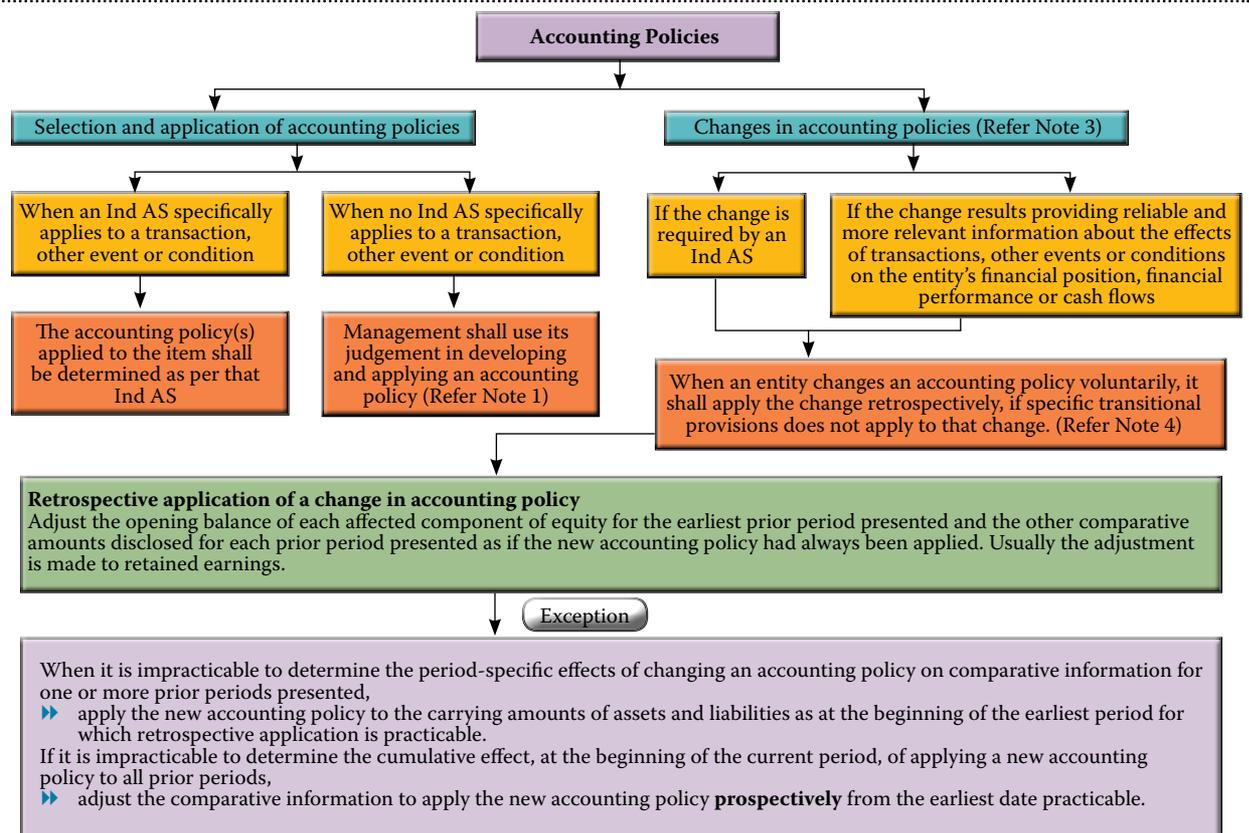
# FINANCIAL REPORTING

## Indian Accounting Standard (Ind AS) 8 : Accounting Policies, Changes in Accounting Estimates and Errors



### Important Definitions

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



**Notes:**

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

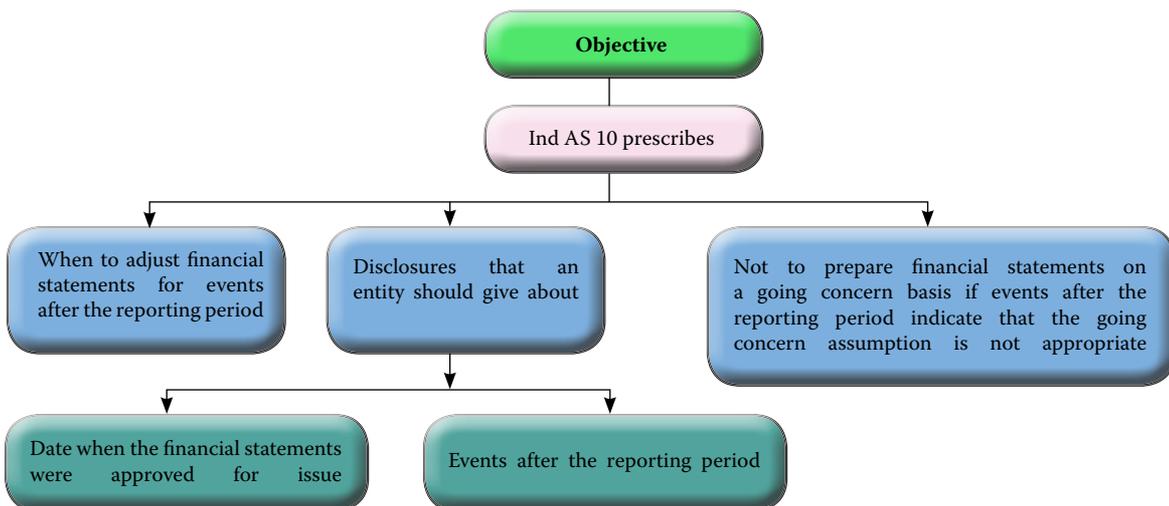
**Changes in Accounting Estimates**

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

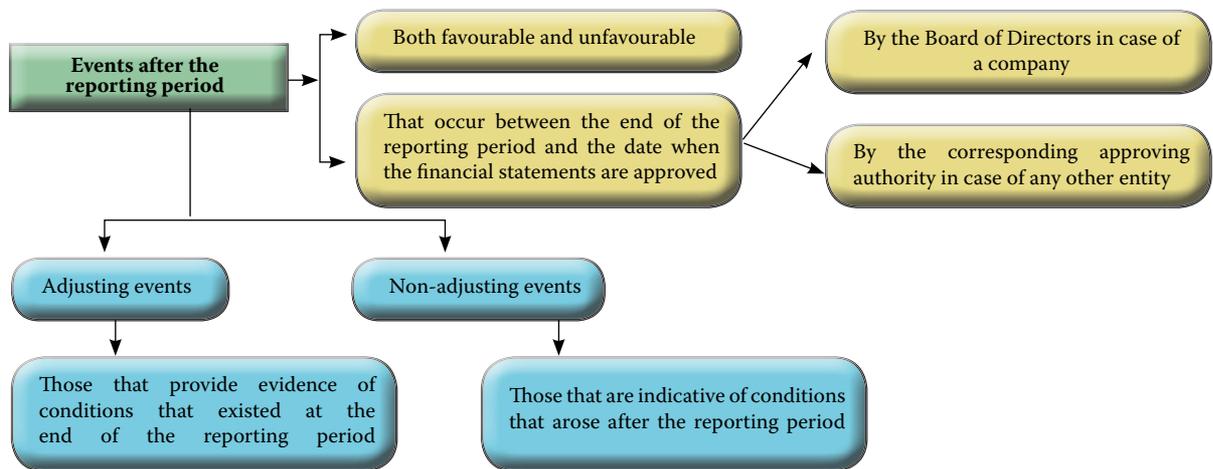
**Errors**

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

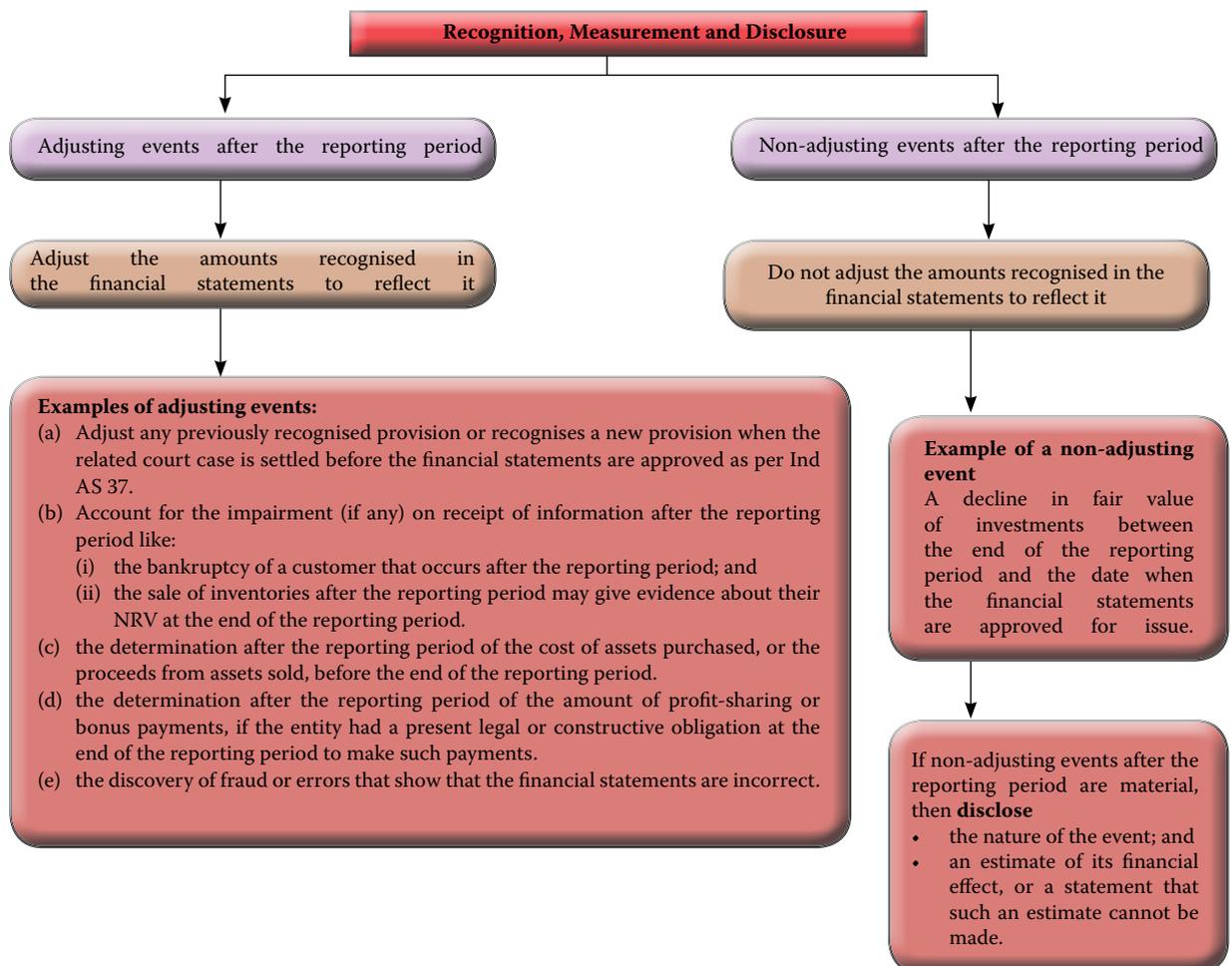
## Indian Accounting Standard (Ind AS) 10 : Events after the Reporting Period



# FINANCIAL REPORTING



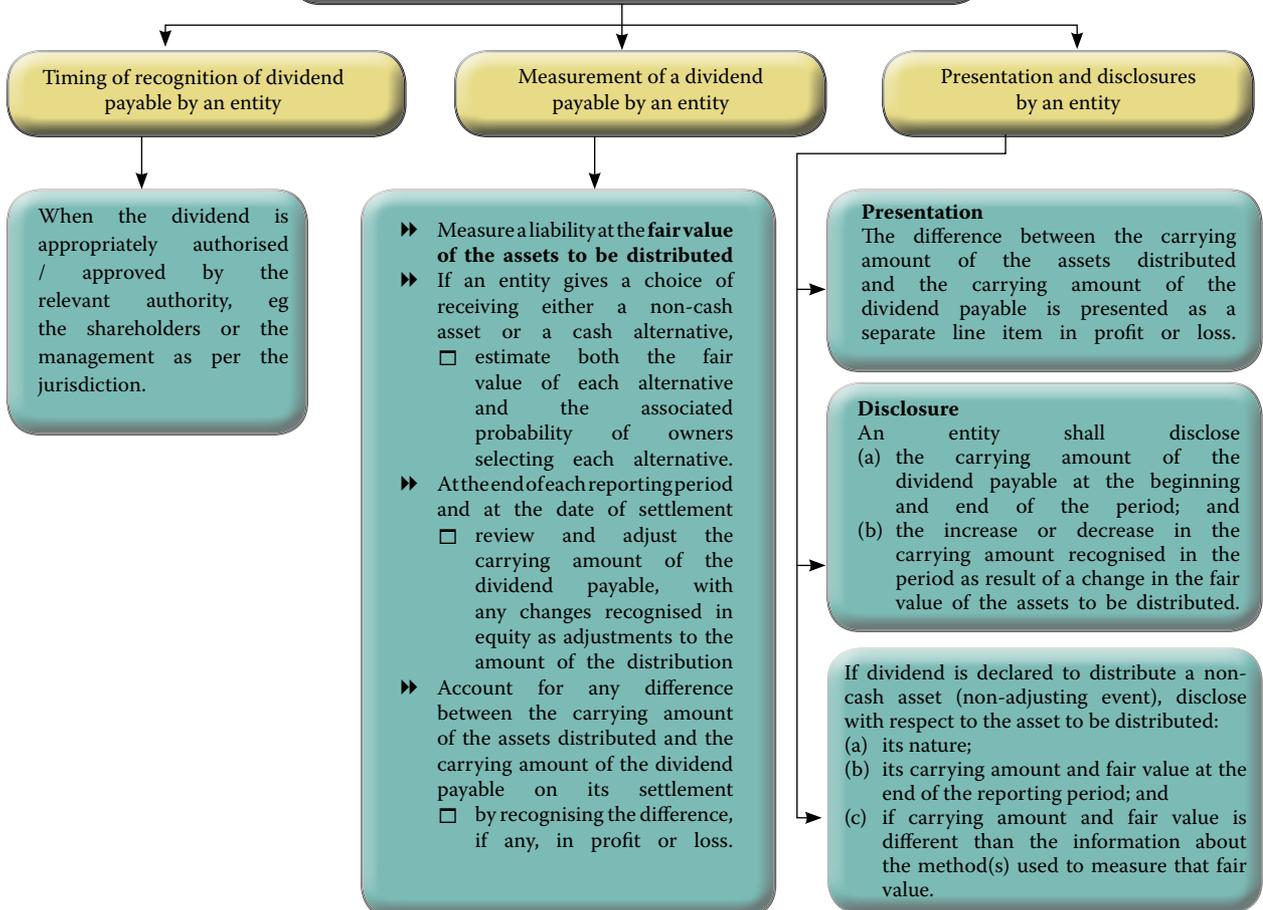
**Carve Out:** Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the agreement by lender before the approval of the financial statements for issue,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



## Important points to remember

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

### Distribution of Non-cash Assets to Owners as dividend by an entity



## Indian Accounting Standard (Ind AS) 115 : Revenue from Contracts with Customers

Ind AS 115 is based on a core principle that requires an entity to recognise revenue:

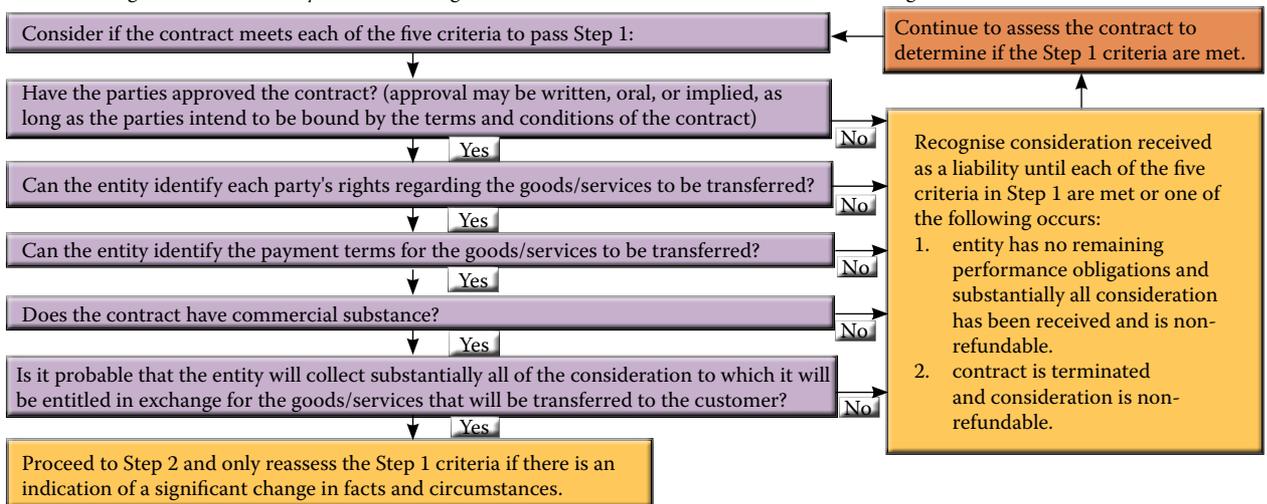
- In a manner that depicts the transfer of goods or services to customers.
- At an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

To achieve the core principle, an entity should apply the following five-step model:



### Step 1 : Identify the contract(s) with a customer

An accounting contract exists only when an arrangement with a customer meets each of the following five criteria:

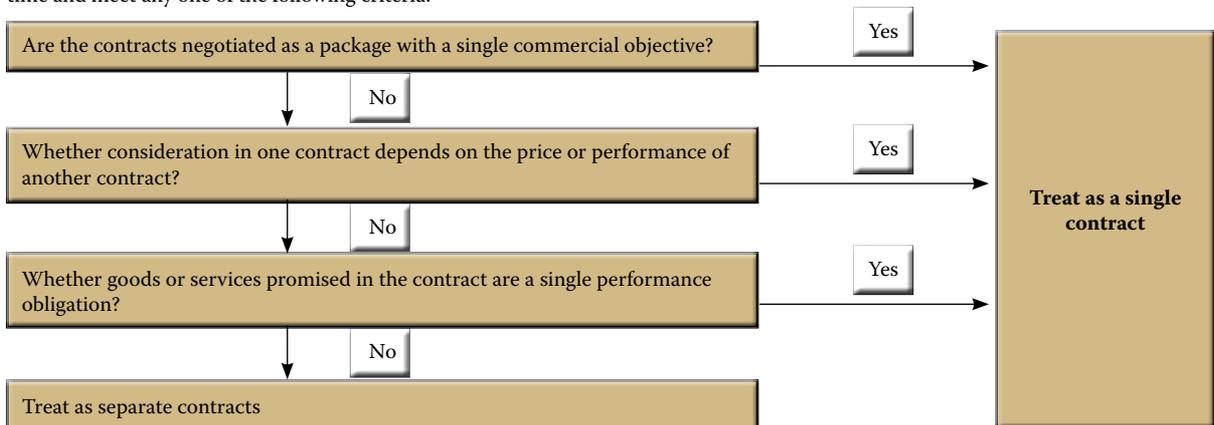


#### Notes:

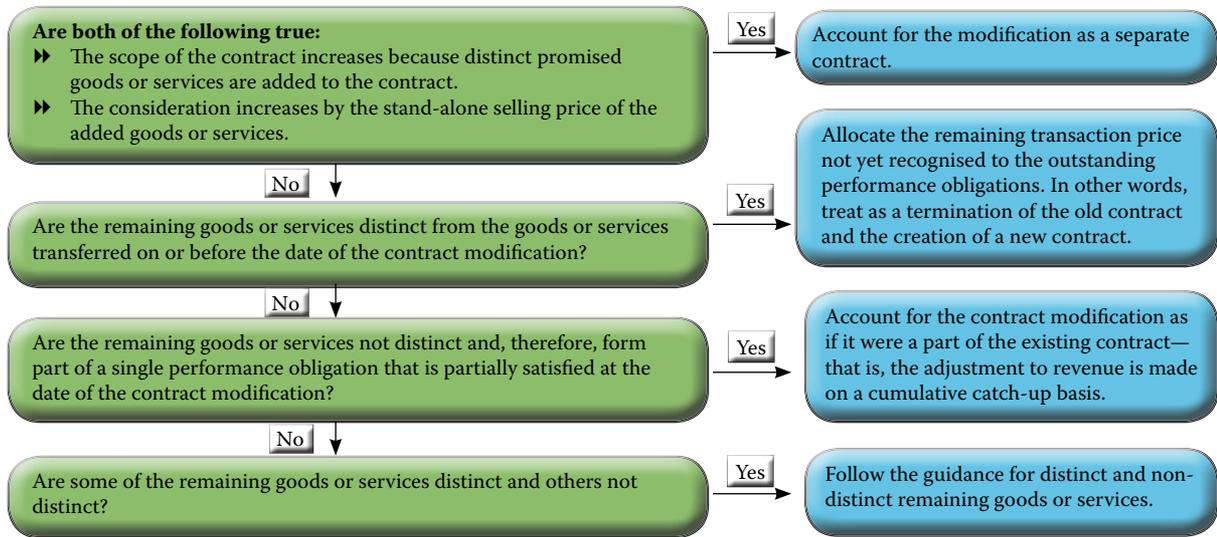
- If at the inception of an arrangement, an entity concludes that the criteria below are not met, it should not apply Steps 2 through 5 of the model until it determines that the Step 1 criteria are subsequently met.
- When a contract meets the five criteria and 'passes' Step 1, the entity will not reassess the Step 1 criteria unless there is an indication of a significant change in facts and circumstances.
- Two or more contracts may need to be accounted for as a single contract if they are entered into at or near the same time with the same customer (or with related parties), and if one of the following conditions exists:
  - The contracts are negotiated as a package with a single commercial objective;
  - The amount of consideration paid in one contract depends on the price or performance in the other contract; or
  - The goods or services promised in the contract are a single performance obligation.

### Combining contracts

An entity is required to combine two or more contracts and account for them as a single contract if they are entered into at or near the same time and meet any one of the following criteria:



## Accounting for the modification

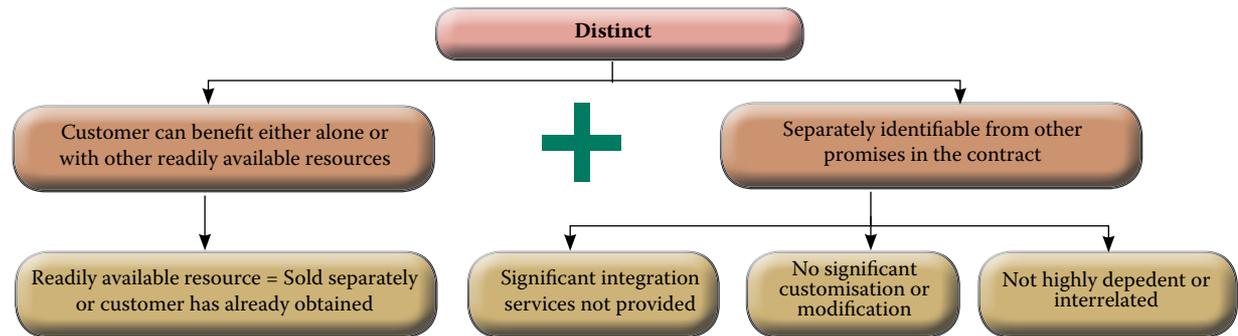


## Step 2: Identifying performance obligations

A contract with a customer may also include promises that are implied by an entity's customary business practices, published policies or specific statements if, at the time of entering into the contract, those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. Therefore, performance obligations under a contract with the customer are not always explicit or clearly mentioned in the contract, but there can be implied promises or performance obligation under the contract as well.

Performance obligations has been defined as a promise in a contract with a customer to transfer to the customer either:

- (a) good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.



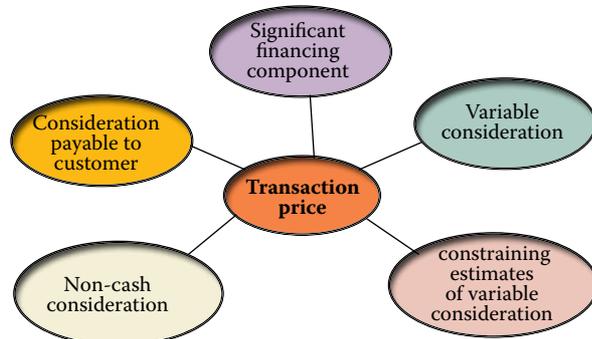
Promise to transfer a series of distinct goods or services	This will be considered as single performance obligation, <b>if the consumption of those services by the customers is symmetrical</b> i.e. they meet both of the following criteria: (a) each distinct good or service would meet the criteria to be a performance obligation satisfied over time; and (b) In each transfer, same method is used to measure the entity's progress towards complete satisfaction of the performance obligation.
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Multiple Element Arrangements/ Goods and services that are not distinct	<ul style="list-style-type: none"> <li>▶▶ If the goods or services are not considered as distinct, those goods or services are combined with other goods or services under the contract till the time the entity identifies a bundle of distinct goods or services.</li> <li>▶▶ The combination would result in accounting of multiple goods or services in the contract as a single performance obligation.</li> <li>▶▶ An entity may end up accounting for all the goods or services promised in a contract as a single performance obligation if the entire bundle of promised goods and services is the only distinct performance obligation identified.</li> </ul>
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<p>Customer options for additional goods or services</p>	<ul style="list-style-type: none"> <li>▶▶ When an entity grants a customer the option to acquire additional goods or services, that option is only a separate performance obligation <b>if it provides a material right to the customer</b>. The right is material if it results in a discount that the customer would not receive without entering into the contract.             <ul style="list-style-type: none"> <li>□ If the option provides a material right to the customer, the customer in effect pays the entity in advance for future goods or services and the entity recognises revenue when those future goods or services are transferred or when the option expires.</li> </ul> </li> <li>▶▶ If the discounted price in the option reflects the stand-alone selling price (separate from any existing relationship or contract), the entity is deemed to have made a marketing offer rather than having granted a material right.             <ul style="list-style-type: none"> <li>□ Account for only when the customer exercises the option to purchase the additional goods or services.</li> <li>□ Allocate the transaction price to performance obligations on a relative stand-alone selling price basis.</li> <li>□ If the stand-alone selling price for a customer's option to acquire additional goods or services is not directly observable, an entity shall estimate it. That estimate shall reflect the discount that the customer would obtain when exercising the option, adjusted for both of the following:                 <ul style="list-style-type: none"> <li>(a) any discount that the customer could receive without exercising the option; and</li> <li>(b) the likelihood that the option will be exercised.</li> </ul> </li> </ul> </li> </ul>
<p>Long term arrangements</p>	<ul style="list-style-type: none"> <li>▶▶ It may be appropriate to treat long term arrangements as separate one-year performance obligations, if the contract can be renewed or cancelled by either party at discrete points in time (that is, at the end of each service year).</li> <li>▶▶ Separately account for its rights and obligations for each period in which the contract cannot be cancelled by either party.</li> <li>▶▶ When the consideration is fixed, the accounting generally will not change regardless of whether a single performance obligation or multiple performance obligations are identified.</li> </ul>
<p>Consignment Arrangements</p>	<ul style="list-style-type: none"> <li>▶▶ Revenue generally would <b>not be</b> recognised for consignment arrangements when the goods are delivered to the consignee because control has not yet transferred.</li> <li>▶▶ Revenue is recognised when the entity has transferred control of the goods to the consignor or the end consumer.</li> </ul>
<p>Principal vs agent consideration</p>	<ul style="list-style-type: none"> <li>▶▶ When the entity is the principal in the arrangement, the revenue recognised is the gross amount to which the entity expects to be entitled.</li> <li>▶▶ When the entity is acting as an agent, the revenue recognised is the net amount i.e. the amount, entity is entitled to retain in return for its services under the contract. The entity's fee or commission may be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.</li> </ul> <p>Since the identification of the principal in a contract is not always clear, Ind AS 115 provides following indicators that a performance obligation involves an agency relationship:</p> <ul style="list-style-type: none"> <li>(a) the entity is primarily responsible for fulfilling the contract. This typically includes responsibility for the acceptability of the specified good or service;</li> <li>(b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return).</li> <li>(c) the entity has discretion in establishing prices for the goods or services.</li> </ul>
<p>Non-refundable upfront fees</p>	<p>It is an advance payment for future goods and services and, therefore, would be recognised as revenue when those future goods and services are provided, even though it relates to an activity undertaken at or near contract inception to fulfil the contract and the activity does not result in the transfer of a promised good or service to the customer.</p>

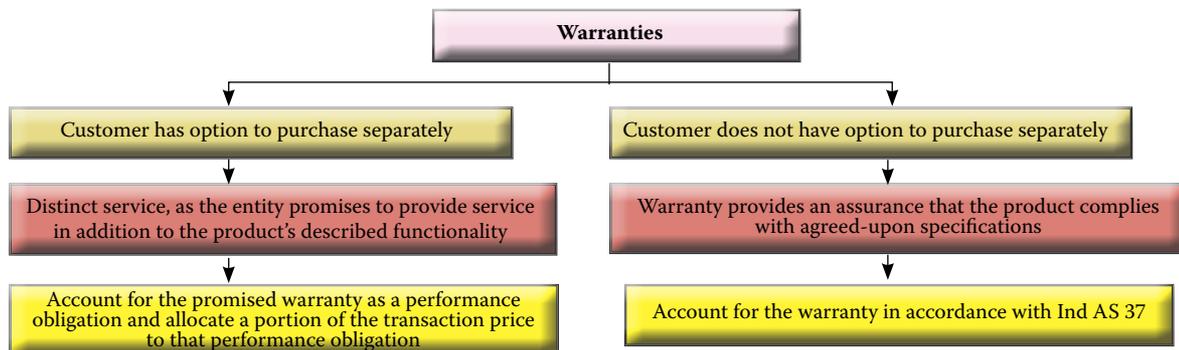
### Step 3: Determining the transaction price

- The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.
- For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.
- The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.
- When determining the transaction price, an entity shall consider the effects of all of the following:



Variable consideration	
1	<p><b>Penalties</b></p> <ul style="list-style-type: none"> <li>▶▶ Accounted for as per the substance of the contract.</li> <li>▶▶ Where the penalty is inherent in determination of transaction price, it shall form part of variable consideration.</li> </ul>
2	<p><b>Estimating the amount of variable consideration</b></p> <p>Estimate an amount of variable consideration by using either of the following methods:</p> <p>(a) <b>Expected value</b> - It is the sum of probability-weighted amounts in a range of possible consideration amounts. It will be appropriate if an entity has a large number of contracts with similar characteristics.</p> <p>(b) <b>Most likely amount</b> - It is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). It will be appropriate, if the contract has only two possible outcomes. An entity shall apply one method consistently throughout the contract.</p>
3	<p><b>Refund liabilities</b></p> <ul style="list-style-type: none"> <li>▶▶ Recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer.</li> <li>▶▶ A refund liability is measured at the amount of consideration received / receivable for which the entity does not expect to be entitled (i.e. amounts not included in the transaction price).</li> <li>▶▶ The refund liability shall be updated at the end of each reporting period for changes in circumstances.</li> </ul>
4	<p><b>Constraining estimates of variable consideration</b></p> <p>Include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will <b>not</b> occur when the uncertainty associated with the variable consideration is subsequently resolved.</p>
5	<p><b>Reassessment of variable consideration</b></p> <p>At the end of each reporting period, account for changes in the transaction price, if any.</p>

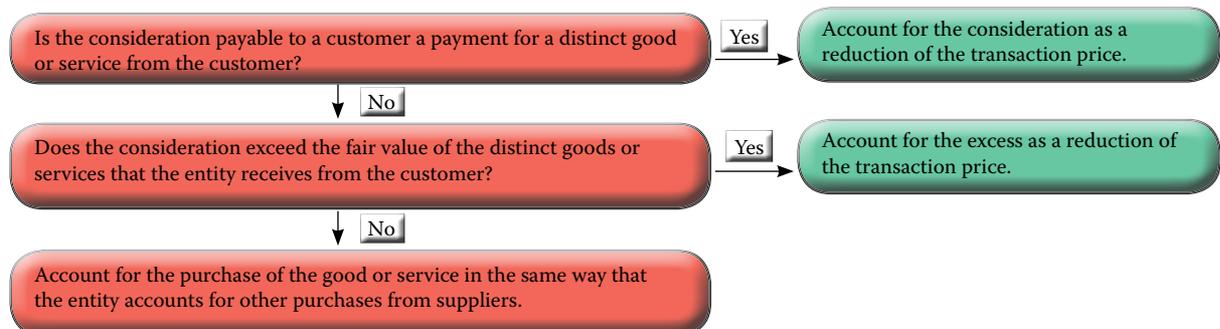
6	<p><b>Sale with a right of return</b></p> <ul style="list-style-type: none"> <li>▶▶ To account for the transfer of products with a right of return (and for some services that are provided subject to a refund), an entity shall recognise all of the following: <ul style="list-style-type: none"> <li>(a) revenue for the transferred products in the amount of consideration to which the entity expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);</li> <li>(b) a refund liability; and</li> <li>(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.</li> </ul> </li> <li>▶▶ Promise to stand ready to accept a returned product during the return period shall not be accounted for as a performance obligation in addition to the obligation to provide a refund.</li> <li>▶▶ For any amounts received (or receivable) for which an entity does not expect to be entitled, the entity shall not recognise revenue when it transfers products to customers but shall recognise those amounts received (or receivable) as a refund liability.</li> <li>▶▶ Subsequently, at the end of each reporting period, the entity shall update its assessment of amounts for which it expects to be entitled in exchange for the transferred products and make a corresponding change to the transaction price and, therefore, in the amount of revenue recognised.</li> <li>▶▶ An entity shall update the measurement of the refund liability at the end of each reporting period for changes in expectations about the amount of refunds. An entity shall recognise corresponding adjustments as revenue (or reductions of revenue).</li> <li>▶▶ An asset recognised for an entity's right to recover products from a customer on settling a refund liability shall initially be measured by reference to the former carrying amount of the product <b>less</b> any expected costs to recover those products.</li> <li>▶▶ An entity shall present the asset separately from the refund liability.</li> <li>▶▶ Exchanges by customers of one product for another of the same type, quality, condition and price are not considered returns.</li> <li>▶▶ Return of a defective product in exchange for a functioning product shall be evaluated as warranties.</li> </ul>
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# FINANCIAL REPORTING

<p><b>Significant financing component</b></p> <p>Adjust the promised amount of consideration for the effects of the time value of money.</p> <p>In assessing whether a contract contains a financing component and whether that financing component is significant to the contract, consider <b>both</b></p> <p>(a) the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and</p> <p>(b) the combined effect of both of the following:</p> <p>(i) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and</p> <p>(ii) the prevailing interest rates in the relevant market.</p> <p>Use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.</p> <p>After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances.</p> <p>If the combined effects for a portfolio of similar contracts were material to the entity as a whole, but if the effects of the financing component were not material to the individual contract, such financing component shall not be considered significant and shall not be separately accounted for.</p> <p><b>Exception</b></p> <p>A contract with a customer would <b>not</b> have a significant financing component if any of the following factors exist:</p> <p>(a) the <b>customer paid for the goods or services in advance</b> and the timing of the transfer of those goods or services is at the discretion of the customer.</p>	<p>(b) a <b>substantial amount of the consideration promised by the customer is variable</b> and the amount or <b>timing</b> of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is <b>not substantially within the control of the customer or the entity</b>.</p> <p>(c) the difference between the promised consideration and the cash selling price of the good or service arises for <b>reasons other than the provision of finance to either the customer or the entity</b>, and the difference between those amounts is proportional to the reason for the difference.</p>
<p><b>Non-cash consideration</b></p>	<p>▶▶ measure the non-cash consideration (or promise of non-cash consideration) at fair value.</p> <p>▶▶ And, if it cannot reasonably estimate the fair value of the non-cash consideration, it shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.</p>
<p><b>Subsequent measurement of non-cash consideration</b></p>	<p>▶▶ If the fair value of the non-cash consideration varies after contract inception because of its form, the entity <b>does not adjust</b> the transaction price for any changes in the fair value of the consideration.</p> <p>▶▶ If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration, apply the guidance on variable consideration and the constraint when determining the transaction price.</p>

## Consideration payable to a customer



## Step 4: Allocating the transaction price to performance obligations

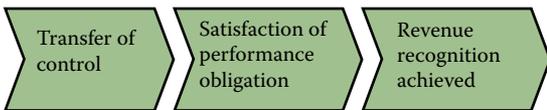
Allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis **except** for

- ▶▶ allocating discounts, and
- ▶▶ allocating variable consideration

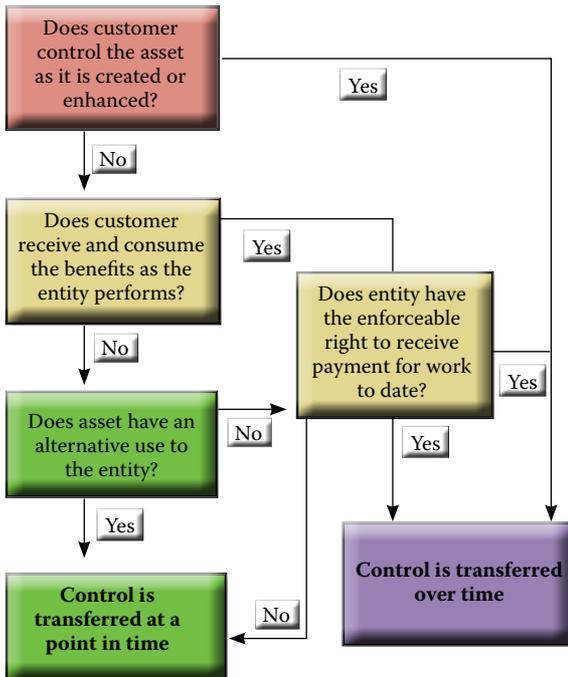
<p><b>Determining stand-alone selling price</b></p>	<p>The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer.</p> <p>The best evidence of a stand-alone selling price is - <b>the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers.</b></p> <p>Suitable methods for estimating the stand-alone selling price of a good or service include, but are not limited to, the following:</p> <p>(a) Adjusted market assessment approach</p> <p>(b) Expected cost plus a margin approach</p> <p>(c) Residual approach</p> <p>A combination of methods may need to be used to estimate the stand-alone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain stand-alone selling prices.</p>
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<b>Allocation of a discount</b>	Allocate a discount proportionately to all performance obligations in the contract on the basis of the relative stand-alone selling prices of the underlying distinct goods or services.
<b>When to allocate discount to 'less than all' performance obligations?</b>	Allocate a discount entirely to one or more, but not all, performance obligations in the contract <b>if all of the following criteria are met:</b> (a) the entity <u>regularly sells each distinct good or service</u> (or each bundle of distinct goods or services) in the contract on a stand-alone basis; (b) the entity also <u>regularly sells on a stand-alone basis a bundle</u> (or bundles) of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and (c) the <u>discount attributable to each bundle</u> of goods or services described in (b) above <u>is substantially the same as the discount in the contract</u> and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs. <b>Note:</b> – As a <b>first step</b> , always allocate the discount entirely to one or more performance obligations in the contract (if applicable), and then as a <b>second step</b> , use the residual approach to estimate the stand-alone selling price of a good or service.
<b>Allocation of variable consideration</b>	Variable consideration may be attributable to (1) the entire contract or (2) a specific part of the contract, such as either of the following: (a) one or more, but not all, performance obligations in the contract. (b) one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation.
<b>How to allocate variable consideration?</b>	Allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation <b>if both of the following criteria are met:</b> ► the terms of a variable payment <u>relate specifically to the entity's efforts</u> to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and ► allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service when considering all of the performance obligations and payment terms in the contract.

## STEP 5: Satisfying performance obligation

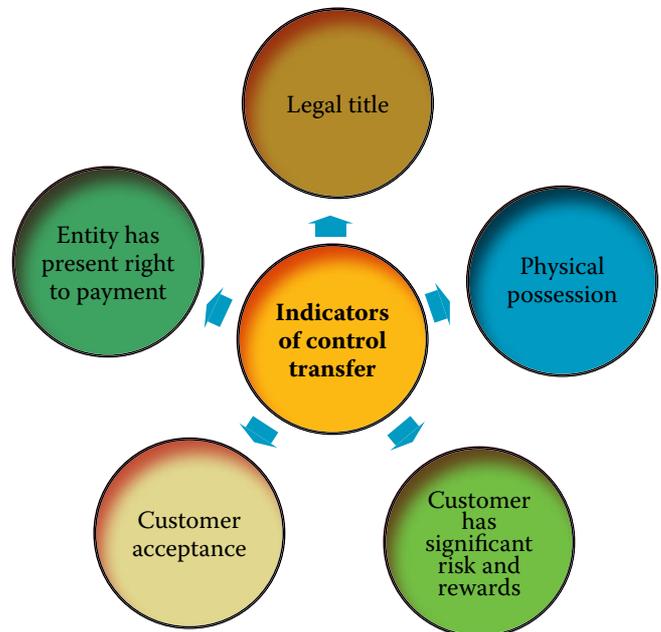


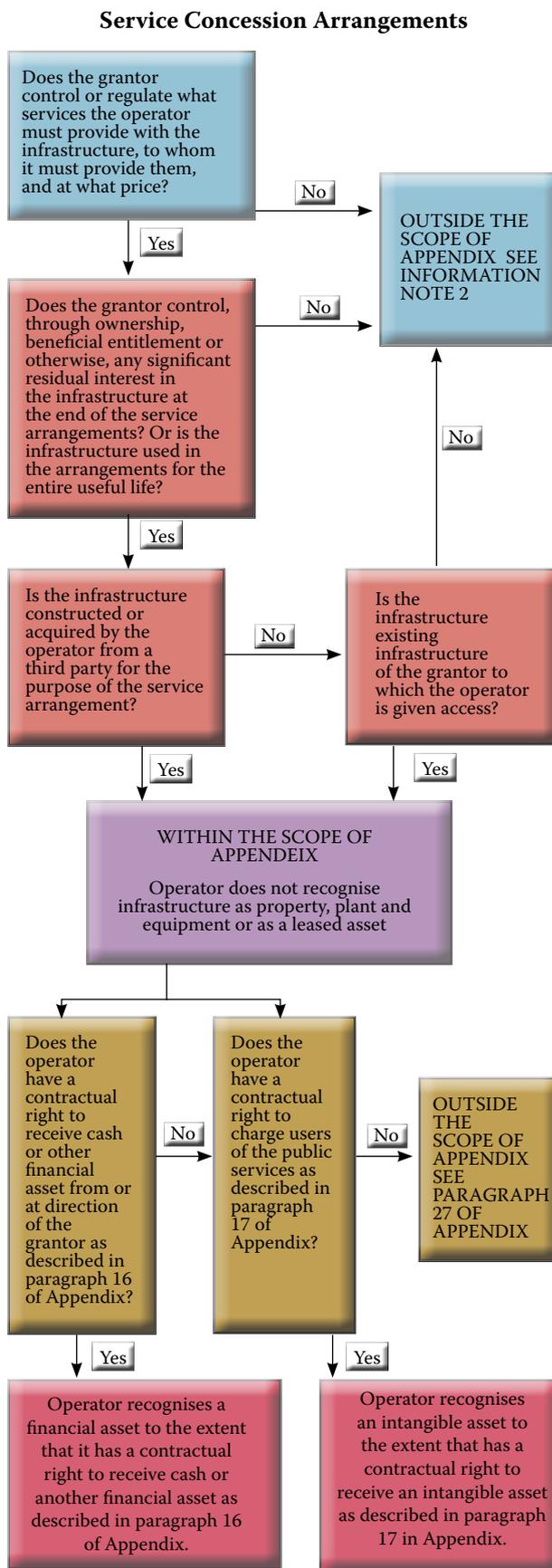
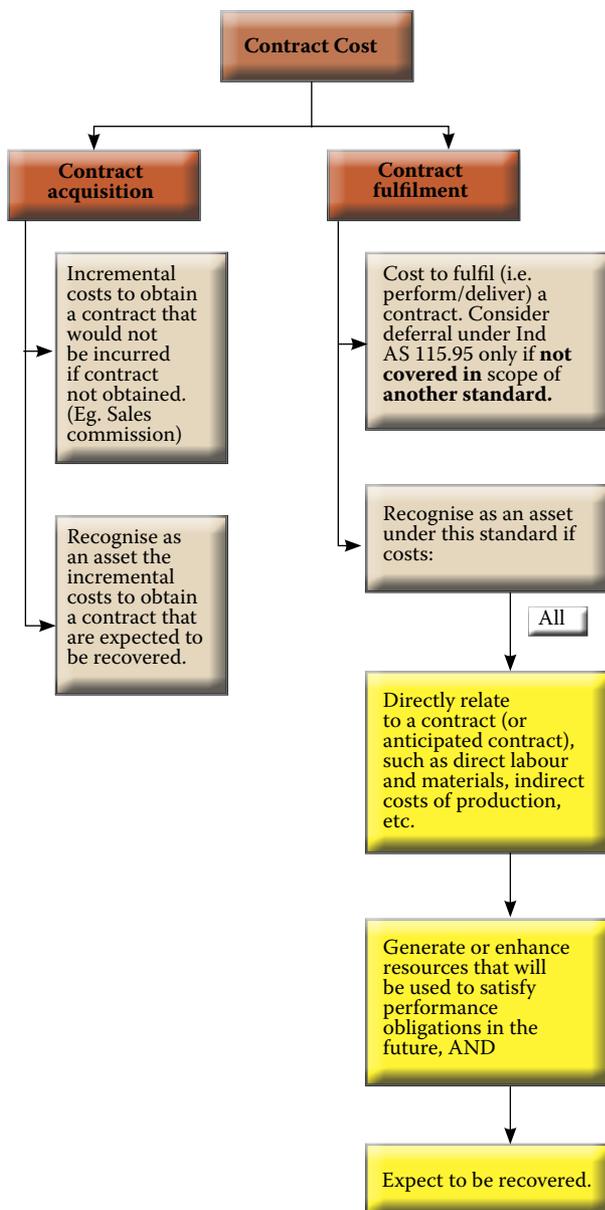
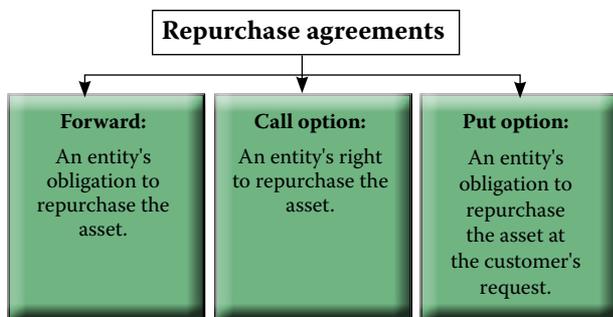
## Transfer of control over a period of time



## Transfer of control at a point in time

Where a company does not meet any of the criteria for recognising revenue over a period of time, then revenue shall be recognised at a point in time.





## Final (new course) Paper 1 - Financial Reporting: A Capsule for Quick Revision

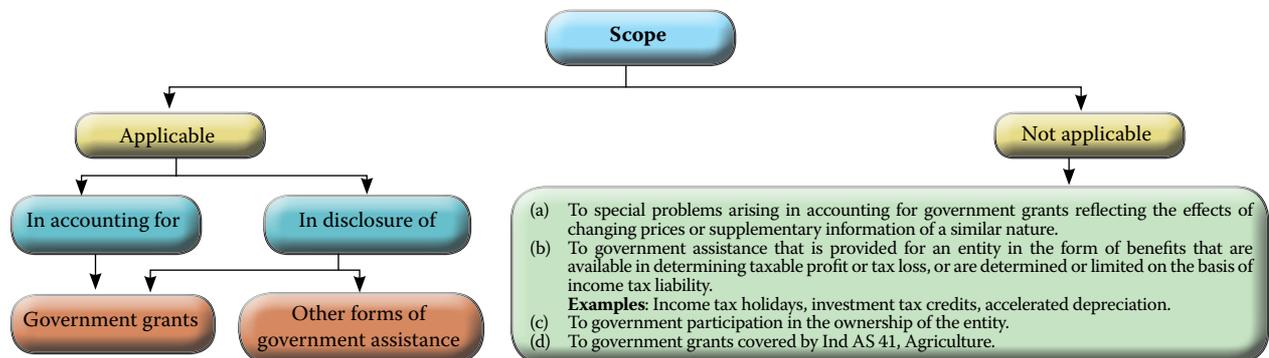
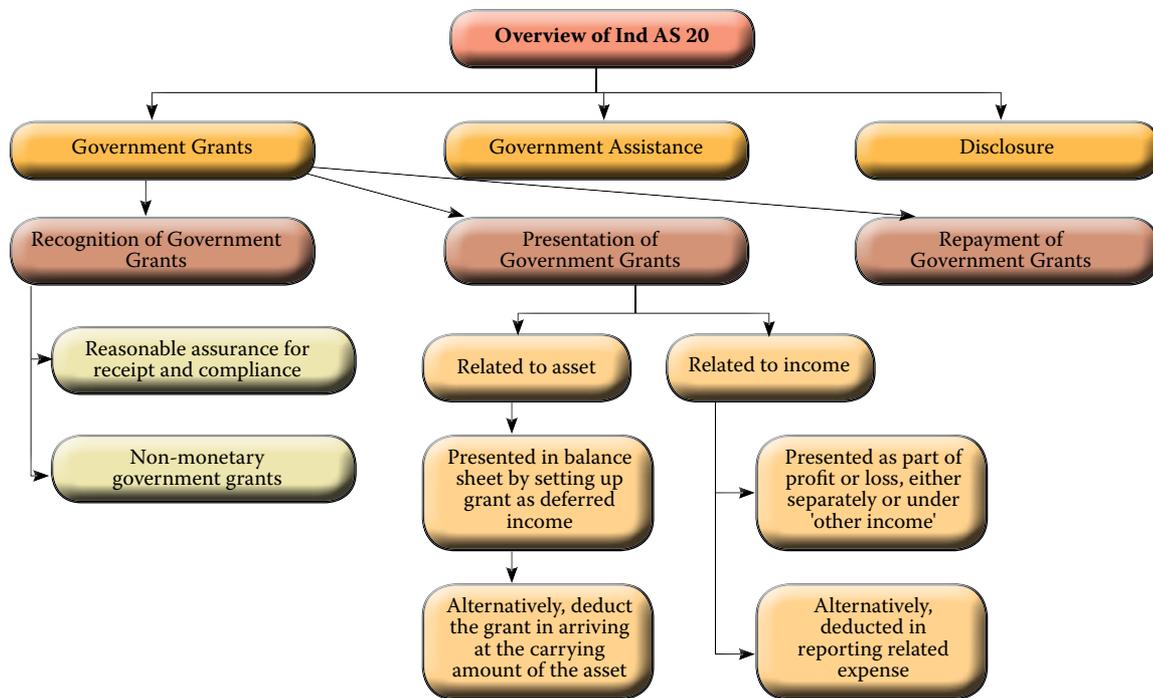
In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject, the Board of studies bring forth a crisp and concise capsule on Final new course Paper 1: Financial Reporting. This capsule is third in the series of capsules on paper on Financial Reporting.

The syllabus of this paper covers almost all Indian Accounting Standards. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018 and May, 2019 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any.

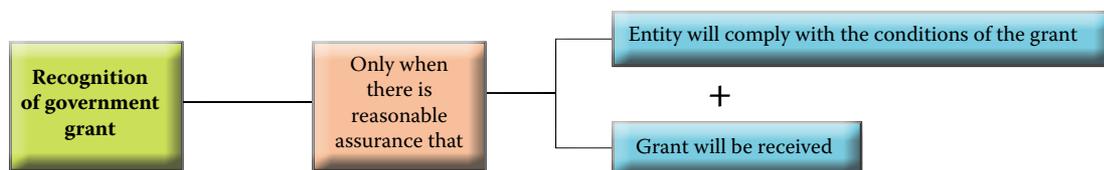
In this capsule we have covered Ind AS 20, 105, 33 and 41. Significant provisions of these Ind AS have been presented through pictorial/tabular presentations for better understanding and quick revision.

Students are advised to refer the study material or bare text of these Ind AS for comprehensive study and revision. Under no circumstances, does this capsule substitute the detailed study of the material provided by the Board of Studies. Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

### Indian Accounting Standard (Ind AS) 20 : Accounting for Government Grants and Disclosure of Government Assistance

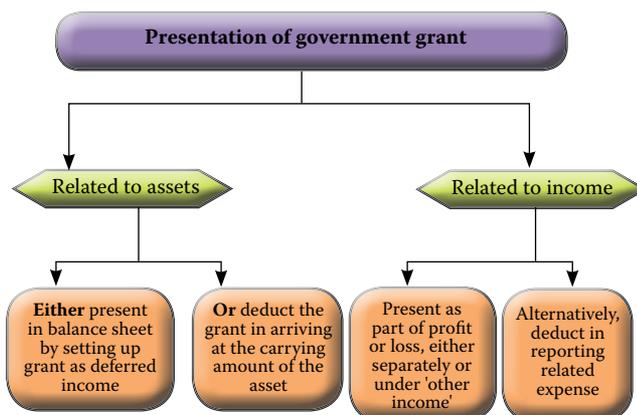
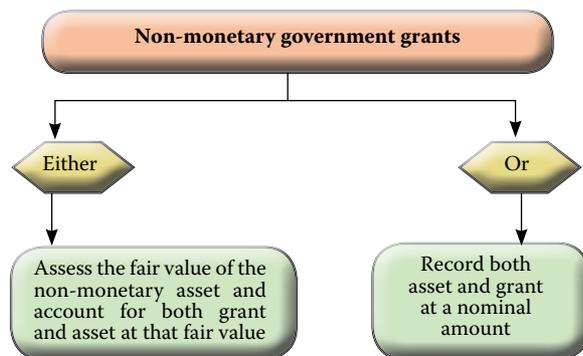


# FINANCIAL REPORTING

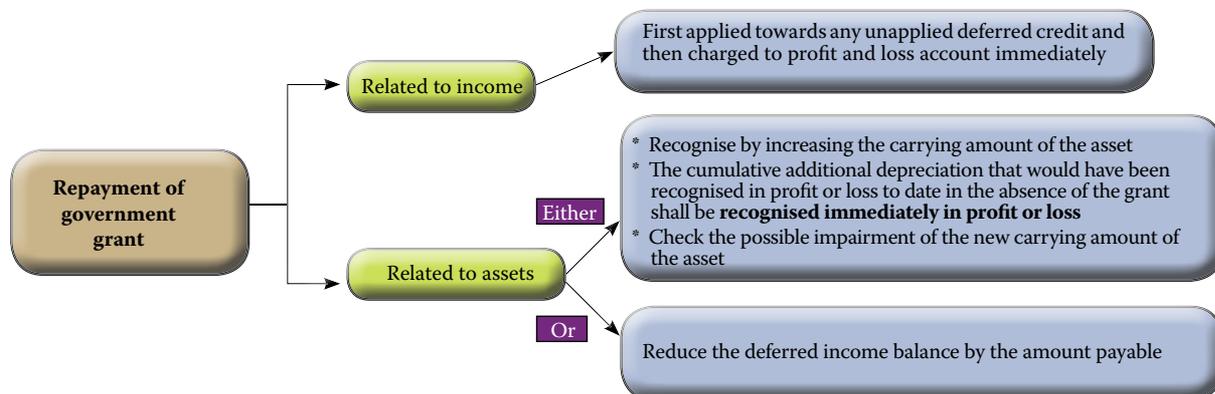


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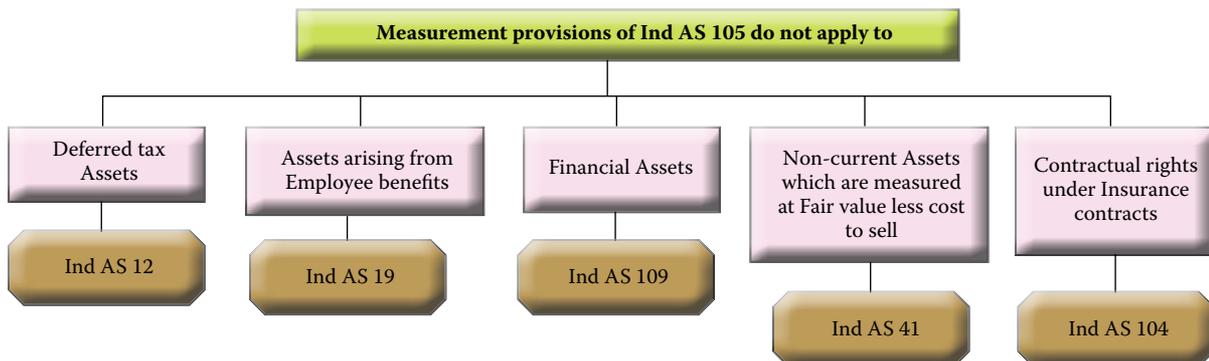
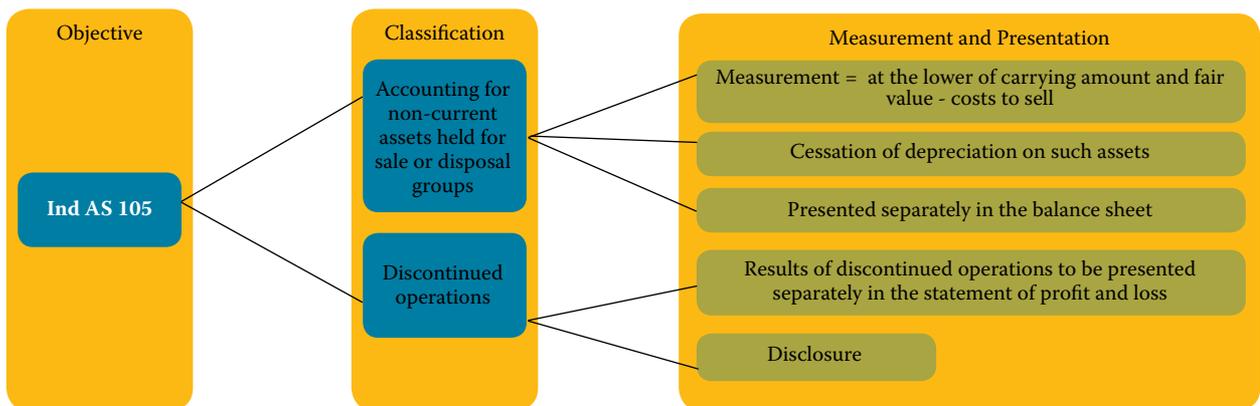
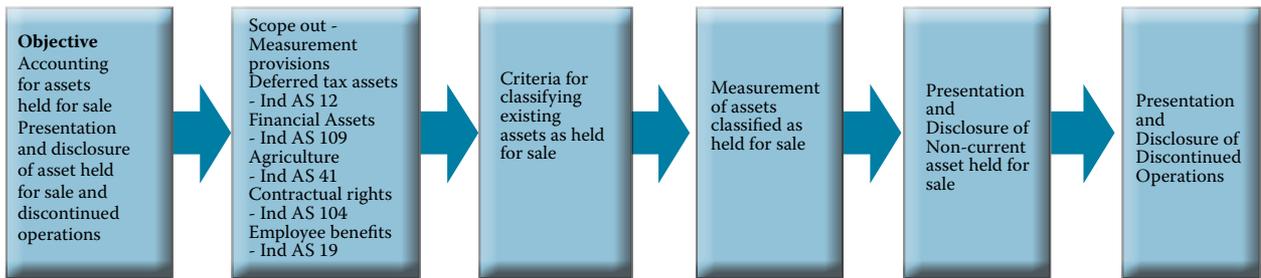
S. No.	Type	Treatment
1.	Grant whether received in cash or as a reduction of a liability to the government	Same manner of accounting is followed for all grants
2.	Forgivable loan from government	Treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness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



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



## Indian Accounting Standard (Ind AS) 105 : Non-current Assets Held for Sale and Discontinued Operations



### Note:

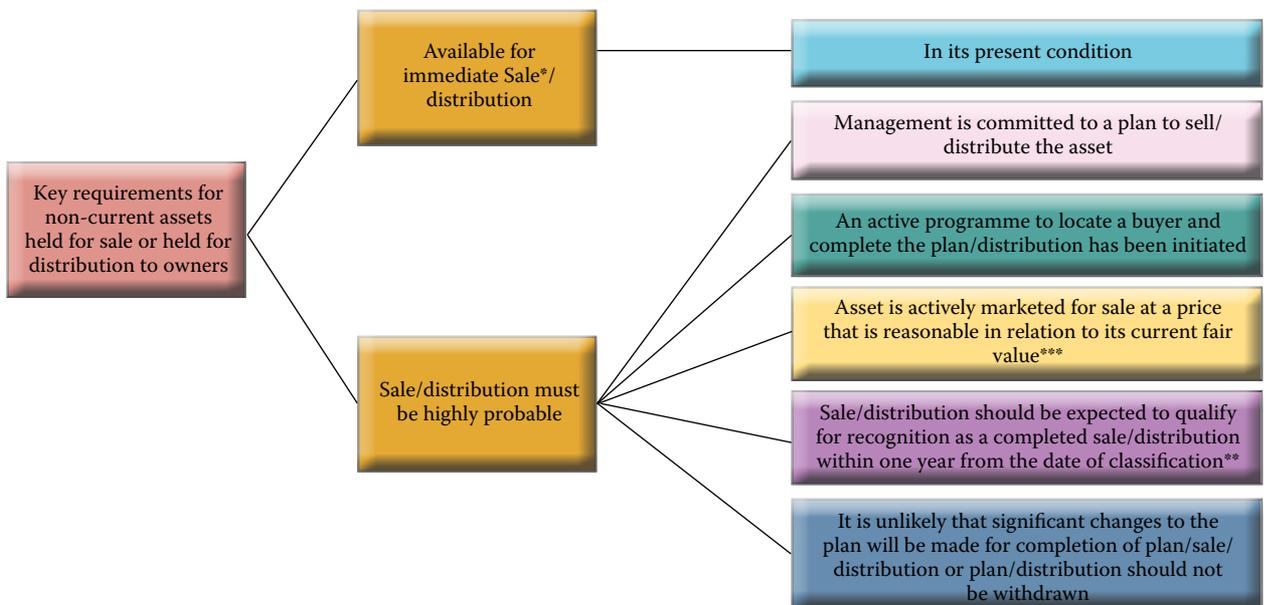
- Assets classified as non-current (as per Ind AS 1), shall not be reclassified as *current assets* until they meet the criteria to be classified as held for sale as per Ind AS 105.
- Non-current assets acquired exclusively for resale shall not be classified as current unless they meet the criteria to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

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

# FINANCIAL REPORTING

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

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



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

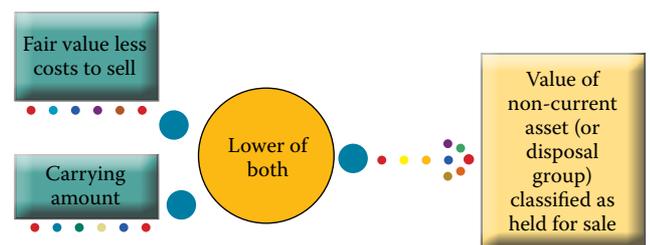
\*\*If the entity remains committed to its plan to sell the asset (or disposal group), events or circumstances beyond the entity's control may extend the period to complete the sale beyond one year

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

### Note:

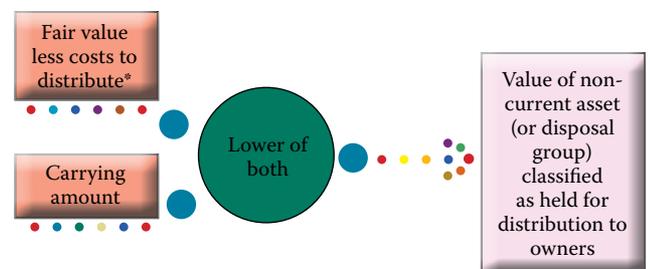
S. No.	Particular	Details
1.	Acquisition of non-current asset (or disposal group) with intention to subsequent sale within a year	Classify the non-current asset (or disposal group) as held for sale subject to the conditions specified in the above chart
2.	Non-current assets that are to be abandoned	It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

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



### Note:

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



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

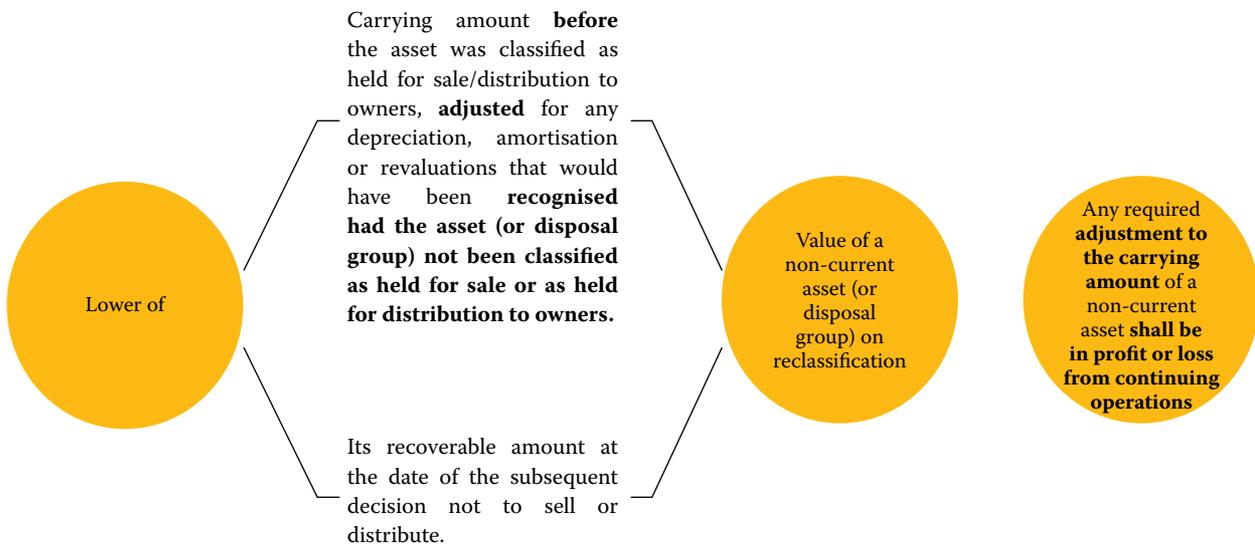
## Recognition of impairment losses and reversals

- An entity shall **recognise an impairment loss for any initial or subsequent write-down of the asset** (or disposal group) to fair value less costs to sell.
- An entity shall **recognise a gain for any subsequent increase in fair value less costs to sell** of an asset to the extent of the cumulative impairment loss that has been recognised previously
- An entity shall **not depreciate (or amortise)** a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale.
- Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

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

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

## Measurement in case of above changes



## Presentation and Disclosure of a non-current asset (or disposal group) classified as held for sale

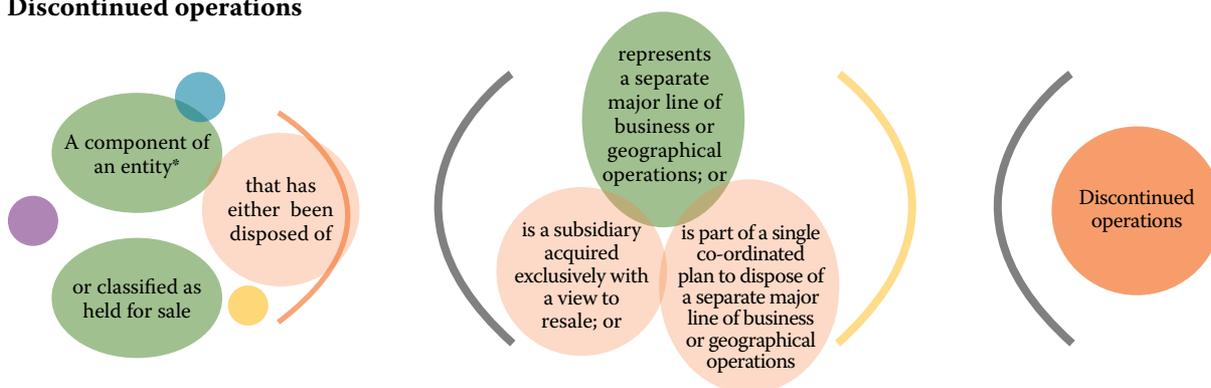
### Presentation

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

## Disclosure

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

## Discontinued operations

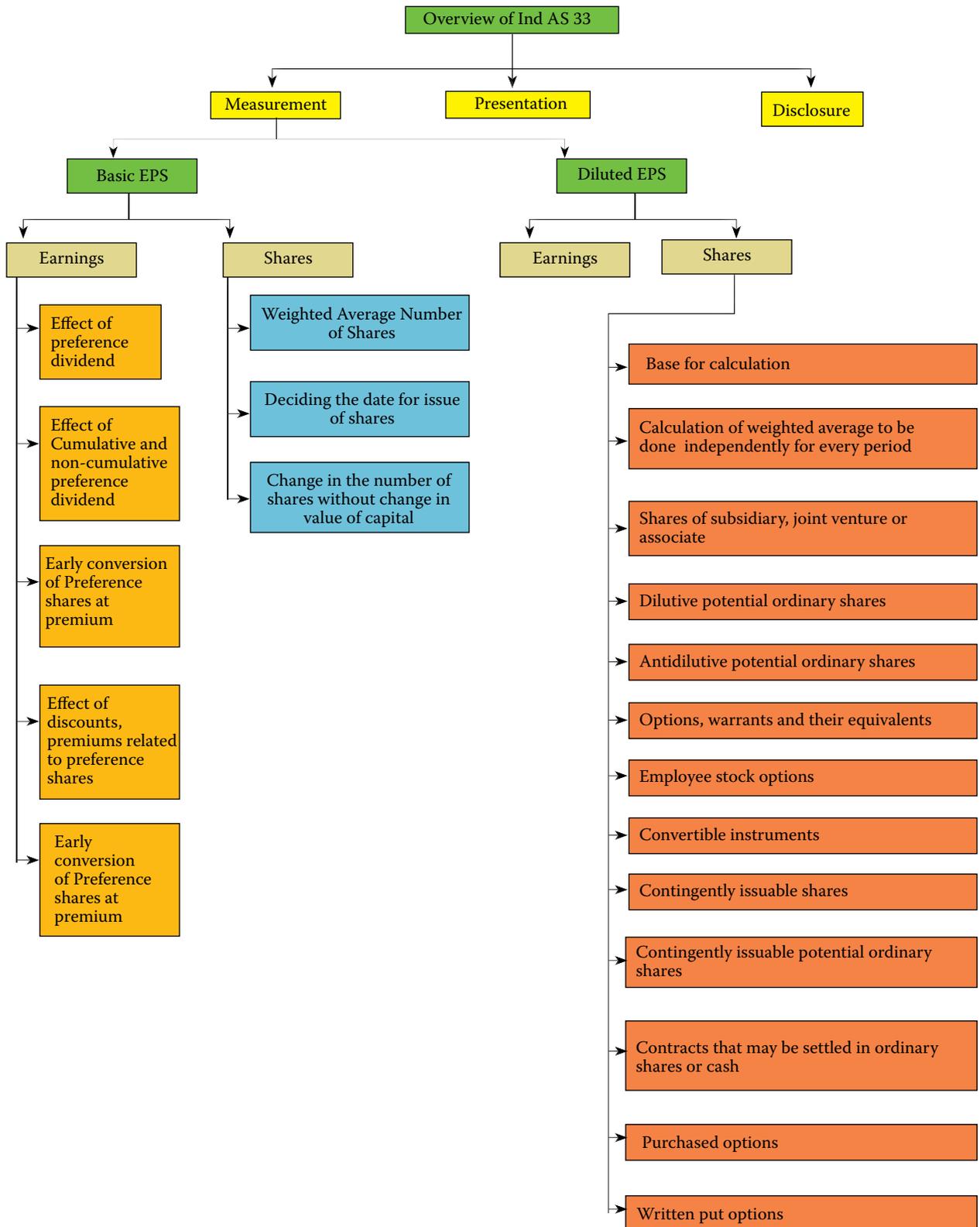


\* A component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use

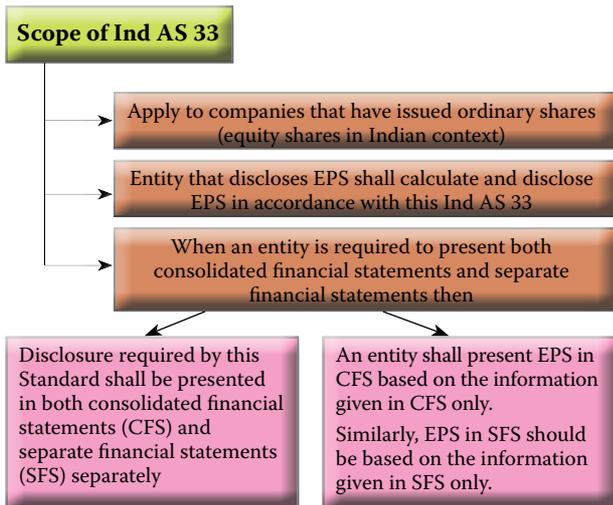
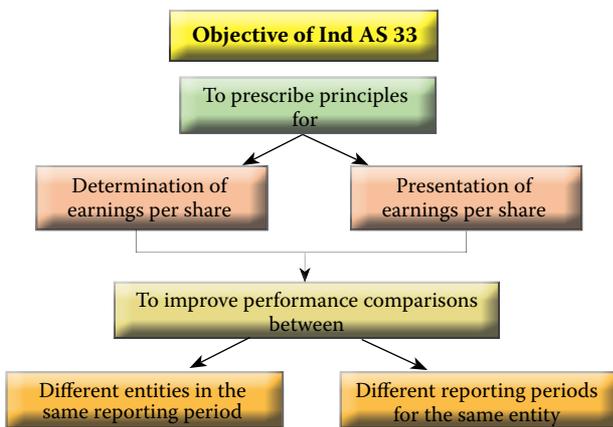
## Presentation and Disclosure of Discontinued Operations

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

## Indian Accounting Standard (Ind AS) 33 - Earnings Per Share



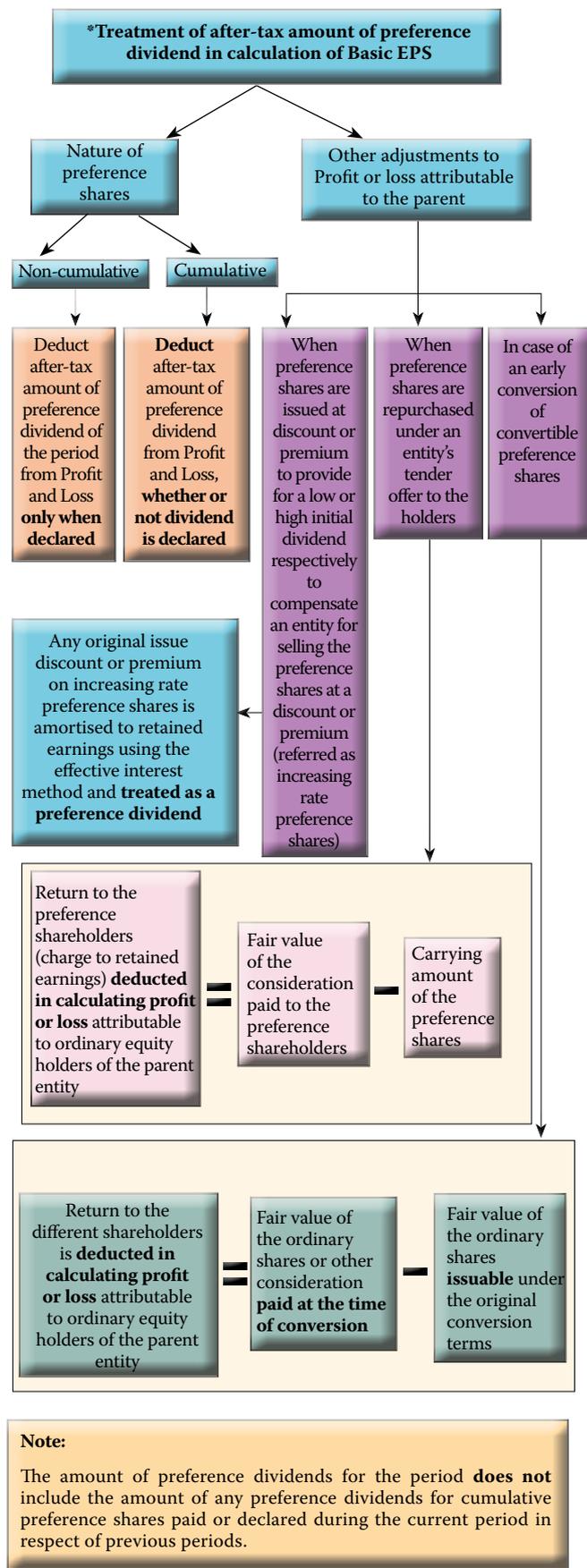
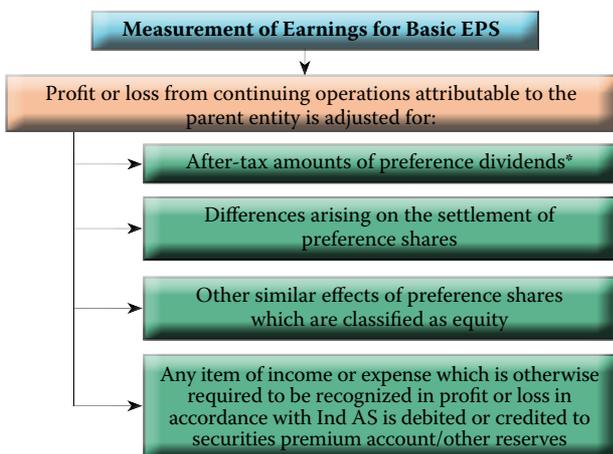
# FINANCIAL REPORTING



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

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

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



**Note:**

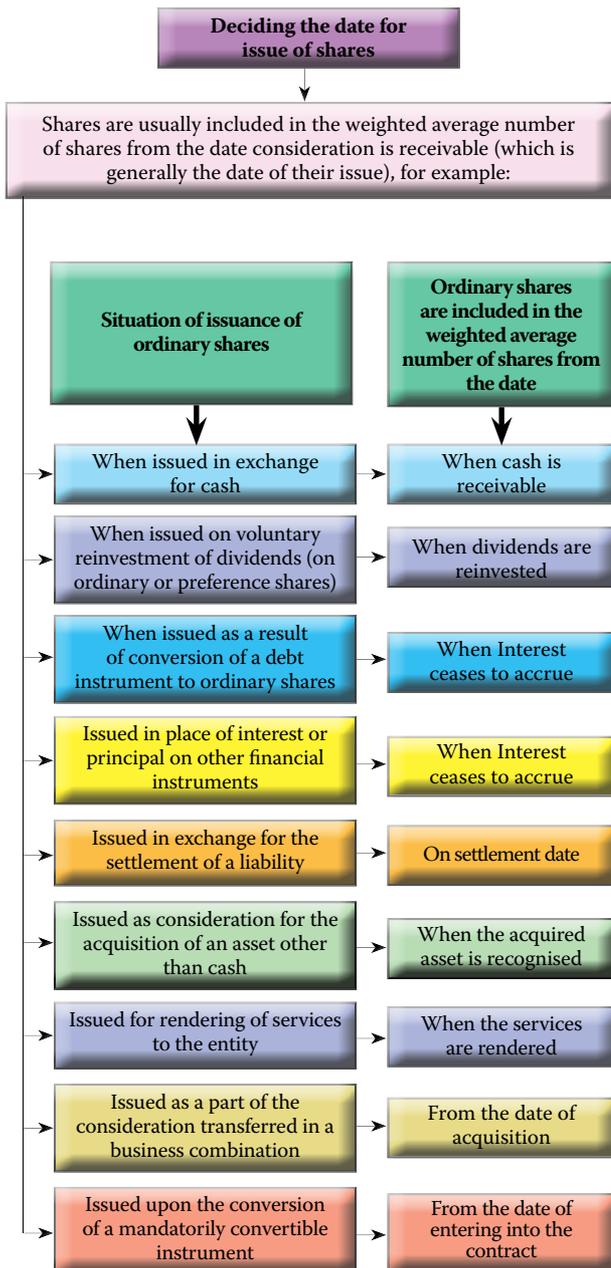
The amount of preference dividends for the period **does not** include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

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

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

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

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

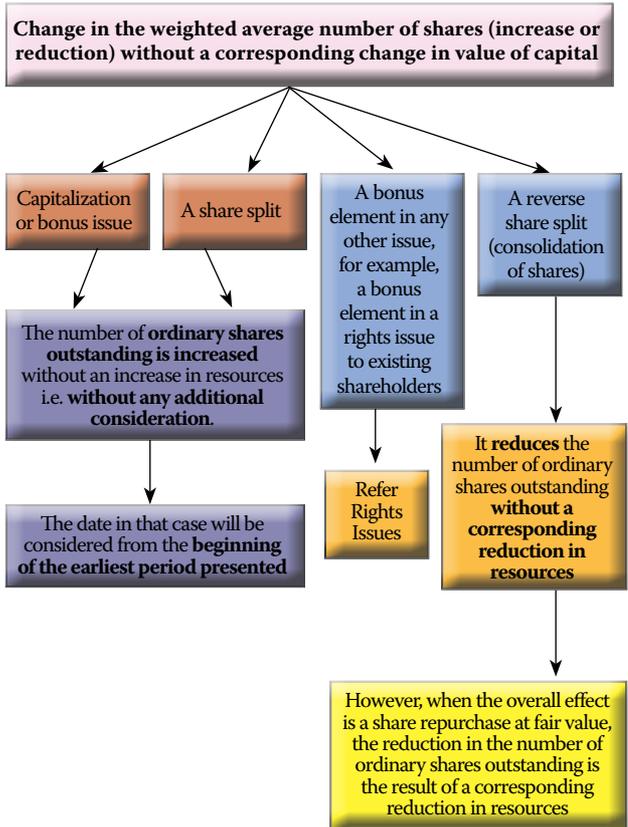


## Important points:

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

Where,

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.



## Rights issues

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

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

where,

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

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

# FINANCIAL REPORTING

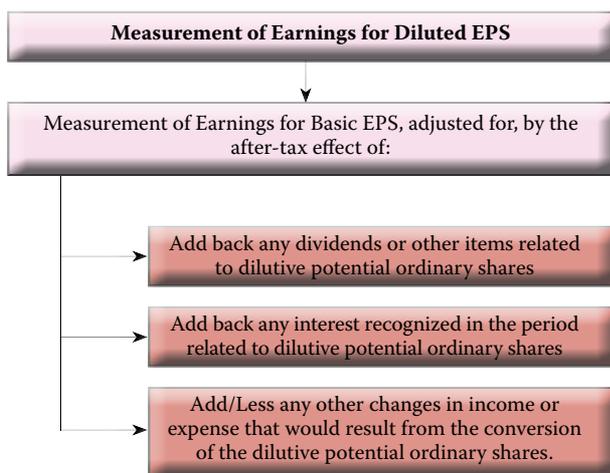
<i>Dilution</i>	It is a <b>reduction in earnings per share</b> or an <b>increase in loss per share</b> resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
<i>Antidilution</i>	It is an <b>increase in earnings per share</b> or a <b>reduction in loss per share</b> resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
<i>Potential ordinary share</i>	It is a <b>financial instrument or other contract</b> that may entitle its holder to ordinary shares.  Examples of potential ordinary shares are: (a) financial liabilities or equity instruments, including preference shares, that are convertible into ordinary shares (b) options and warrants (c) shares that would be issued upon the satisfaction of conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

The formula can be mathematically expressed as follows:

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

## Measurement of Earnings for Diluted EPS:

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



### Note:

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

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

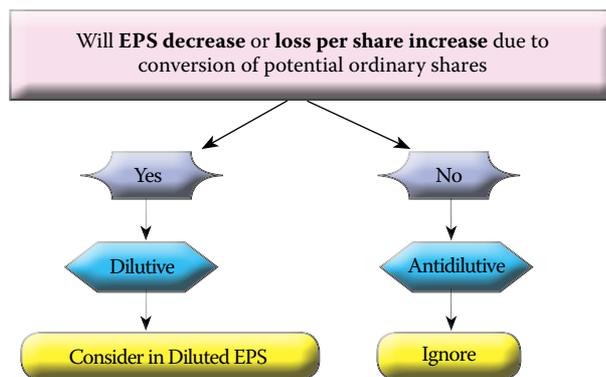
Existing weighted average number of ordinary shares + Weighted average number of ordinary shares that would be issued on the

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

### Important points to be considered:

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

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



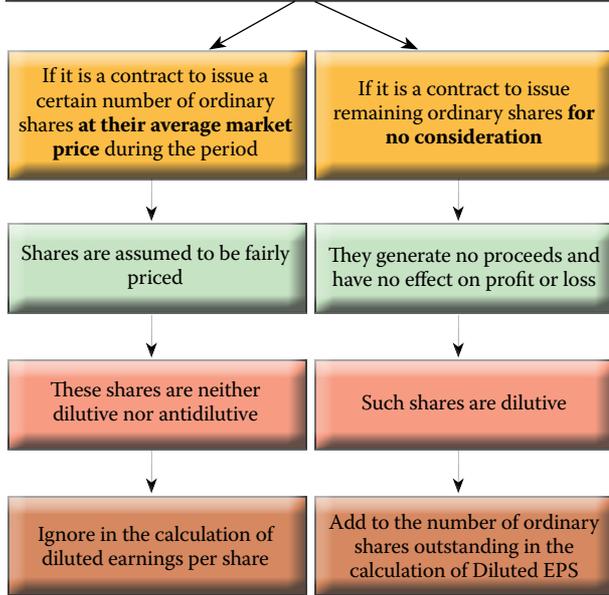
### Note:

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

## Options, warrants and their equivalents

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

## Treatment of options, warrants and their equivalents



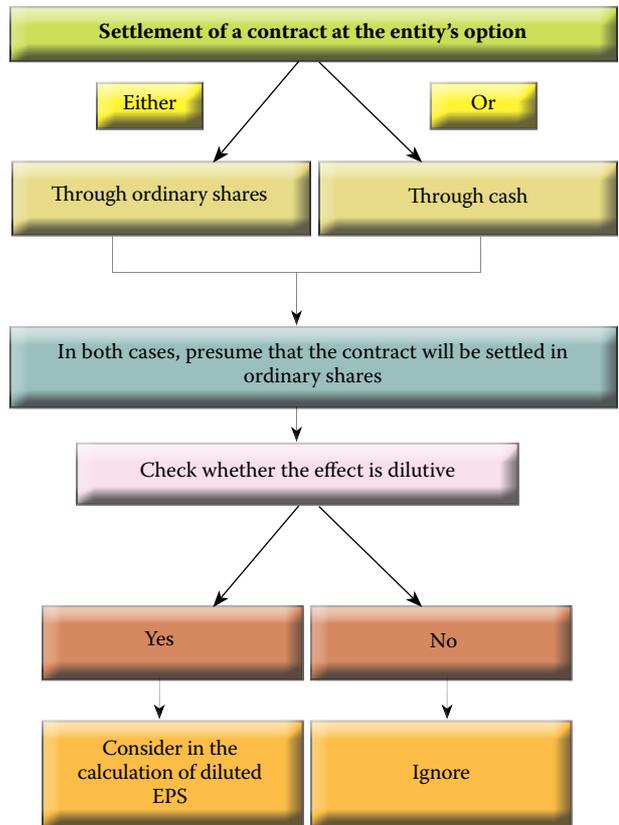
### Note:

- Options and warrants have a dilutive effect only when the **average market price of ordinary shares** during the period **exceeds the exercise price of the options or warrants** (i.e. they are 'in the money').
- Previously reported earnings per share are **not retroactively adjusted** to reflect changes in prices of ordinary shares.
- Employee share options with fixed or determinable terms and non-vested ordinary shares are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. **They are treated as outstanding on the grant date.**
- Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

### Contingently issuable shares

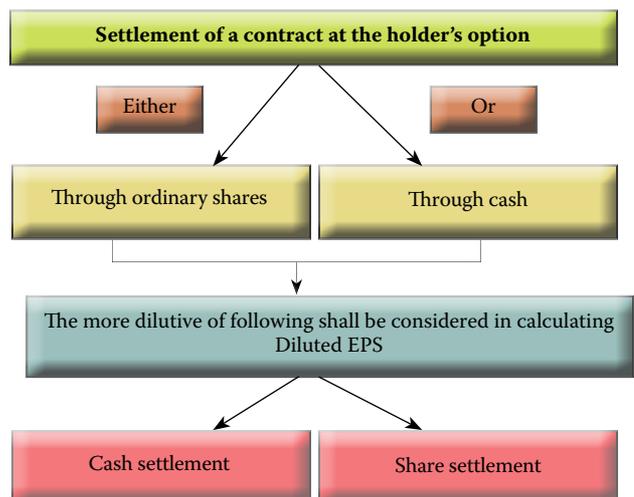
- Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.
- A *contingent share agreement* is an agreement to issue shares that is dependent on the satisfaction of specified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

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



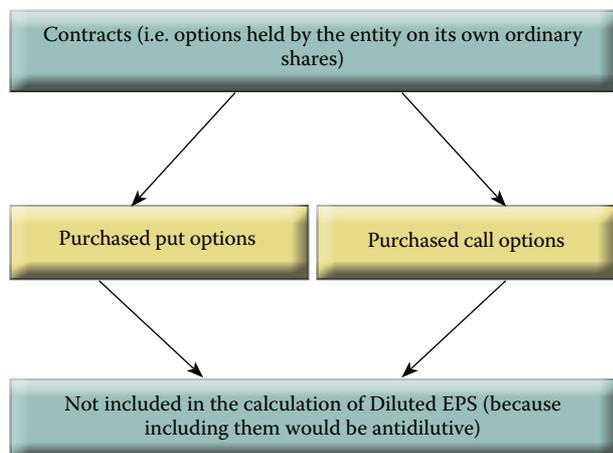
### Note:

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



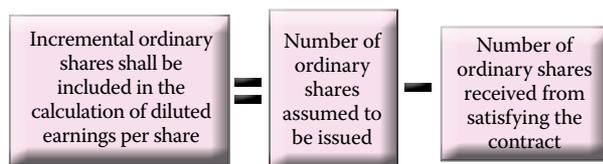
# FINANCIAL REPORTING

## Purchased options

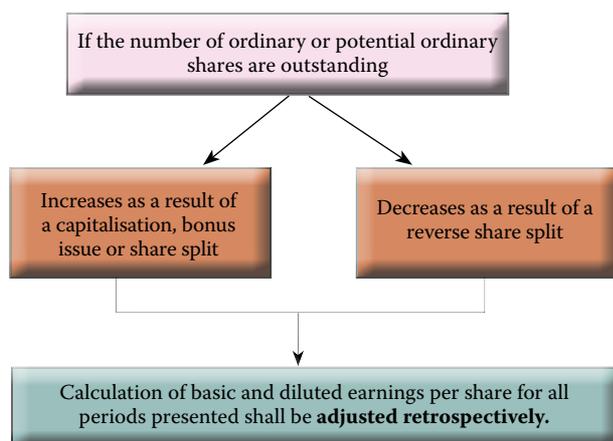


## Written put options

Contracts that require the entity to repurchase its own shares, such as written put options and forward purchase contracts, are reflected in the calculation of diluted earnings per share if the effect is dilutive.



## Retrospective adjustments



### Note:

1. Basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.
2. An entity does not restate diluted earnings per share of any prior period presented for changes in the assumptions used in earnings per share calculations or for the conversion of potential ordinary shares into ordinary shares.

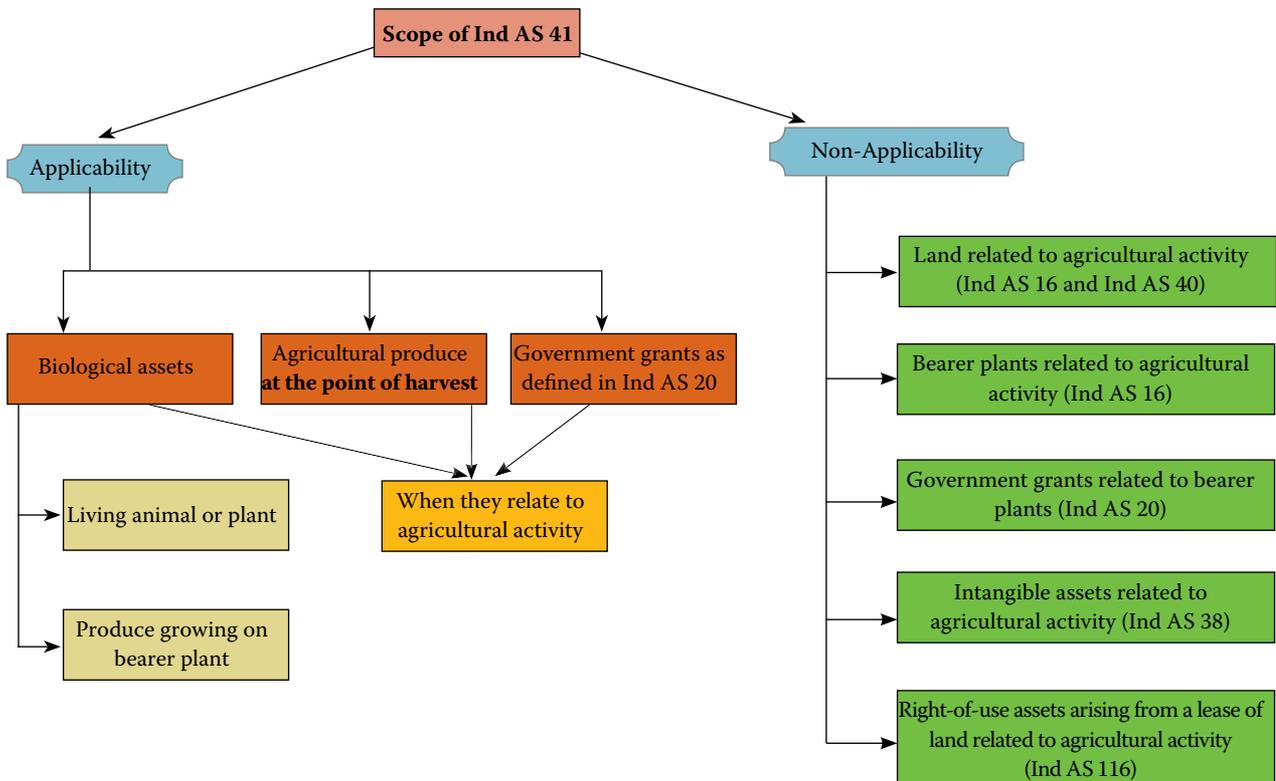
## Presentation as per Ind AS 33

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

## Disclosure as per Ind AS 33

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

## Indian Accounting Standard 41: Agriculture



**Note:**

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

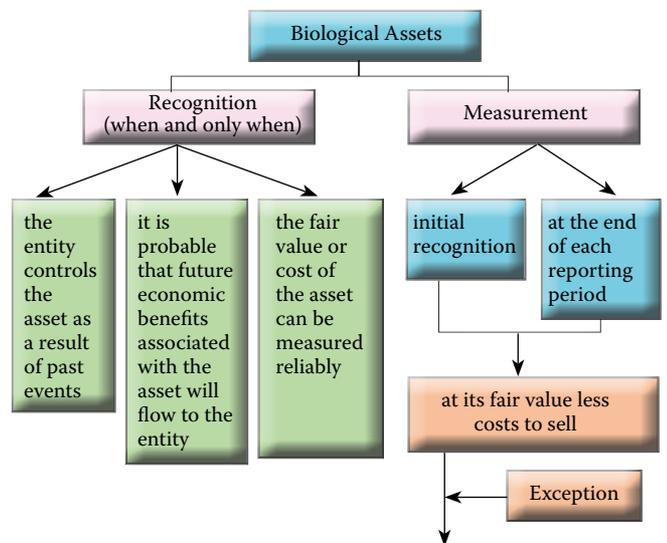
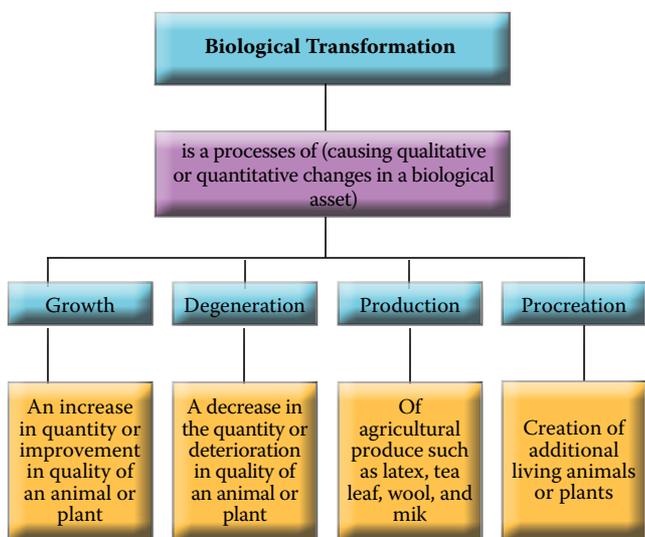
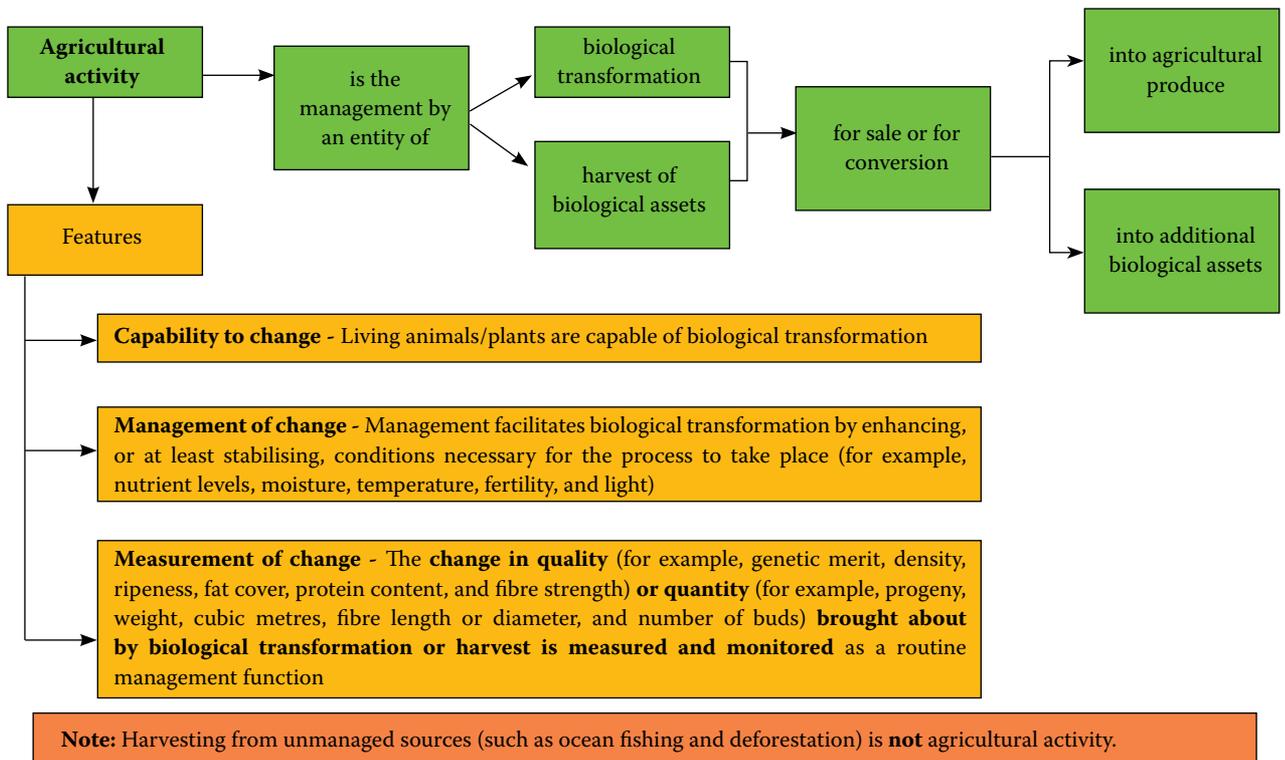
The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled Trees	Logs, lumber
Dairy Cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Rubber trees	Harvested latex	Rubber products

**Note:**

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

# FINANCIAL REPORTING



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

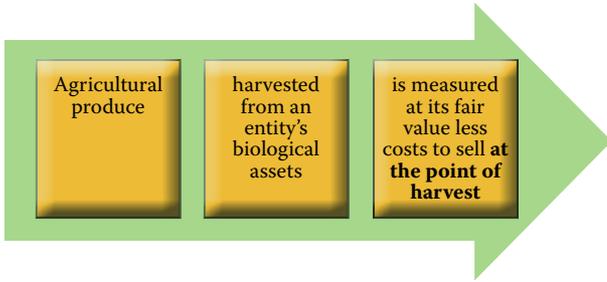
This presumption **can be rebutted only on initial recognition for a biological asset** when

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

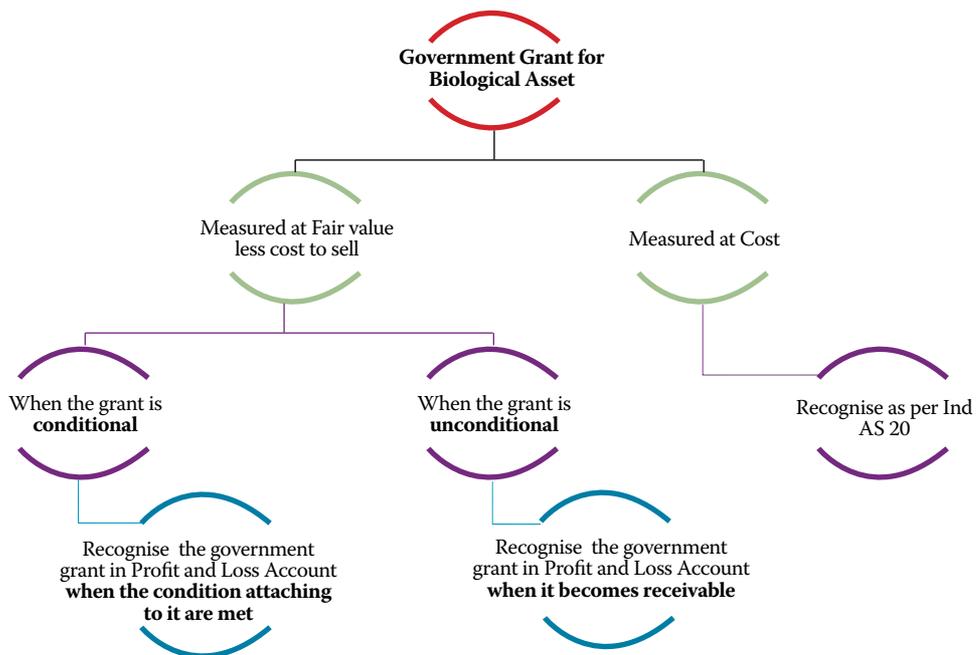
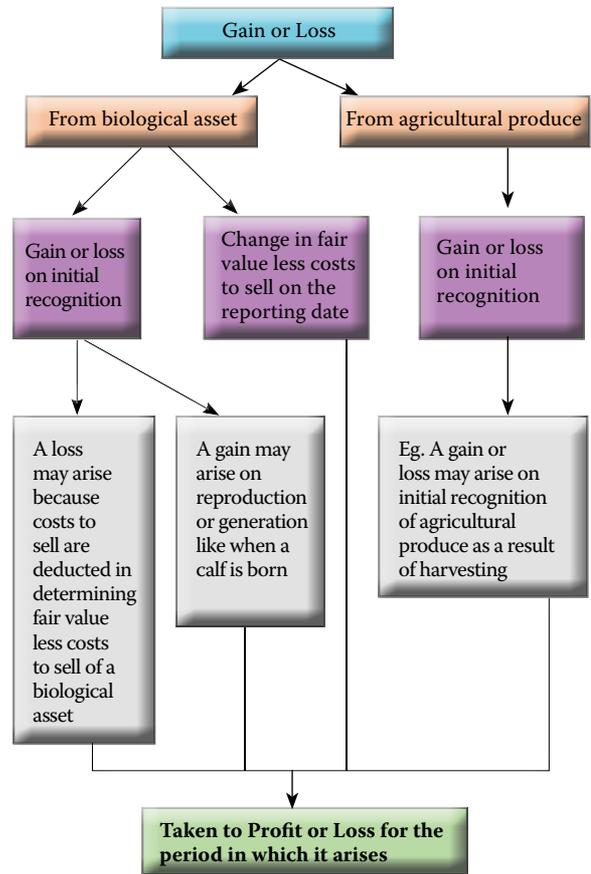
In such a case, it shall be **measured at its cost less any accumulated depreciation and any accumulated impairment losses**.

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

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



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



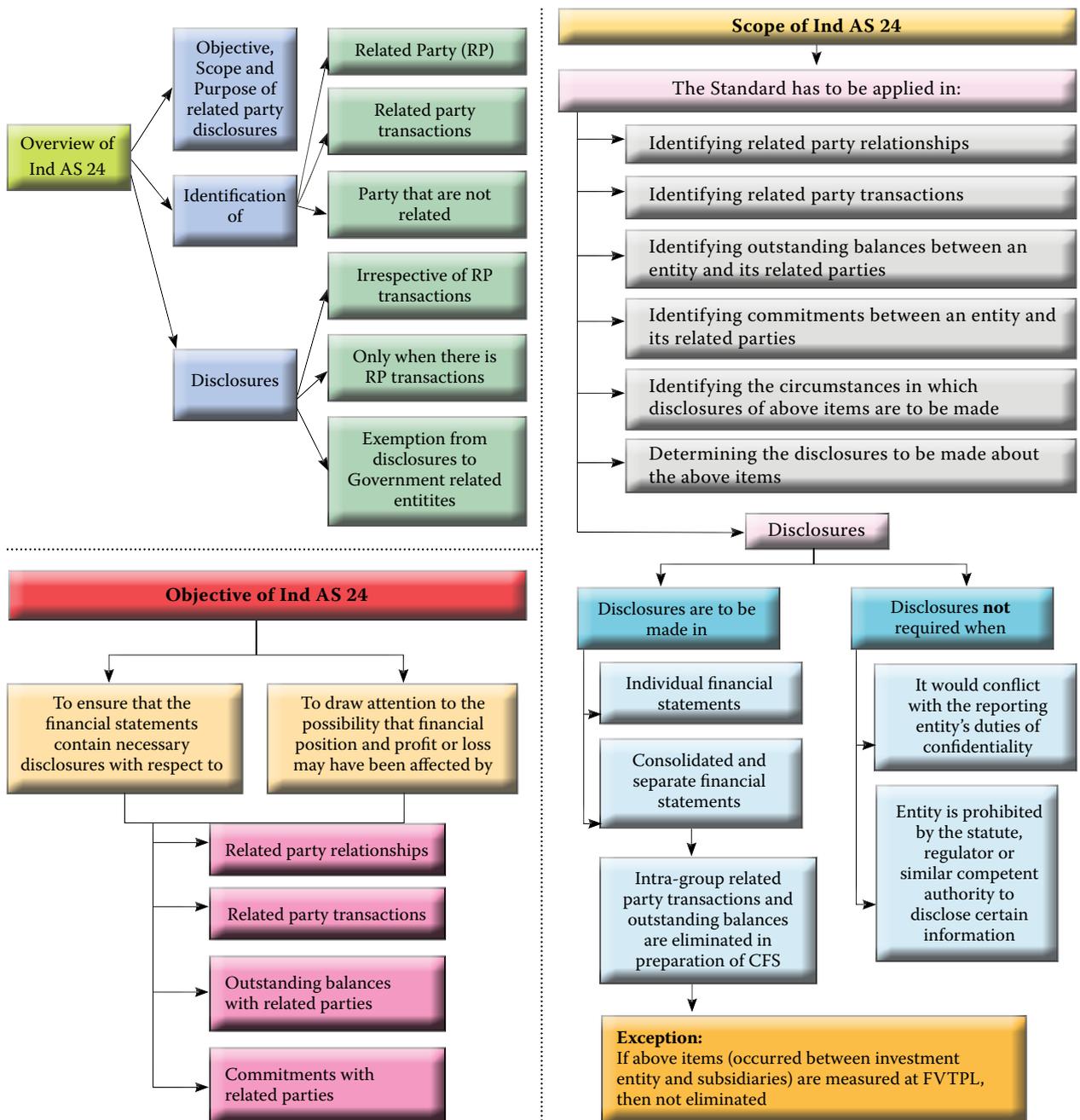
For disclosure, refer paragraphs 40-57 of bare text of Ind AS 41.

# FINANCIAL REPORTING

## Final (new course) Paper 1 - Financial Reporting: A Capsule for Quick Revision

In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject, the Board of studies bring forth a crisp and concise capsule on Final new course Paper 1 : Financial Reporting. This capsule is fourth in the series of capsules on paper on Financial Reporting. The syllabus of this paper covers almost all Indian Accounting Standards. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. In this capsule we have covered Ind AS 24 and Ind AS 37. Significant provisions of these Ind AS have been presented through pictorial/tabular presentations for better understanding and quick revision. Students are advised to refer the study material or bare text of these Ind AS for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies. Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

### Indian Accounting Standard (Ind AS) 24 - Related Party Disclosures



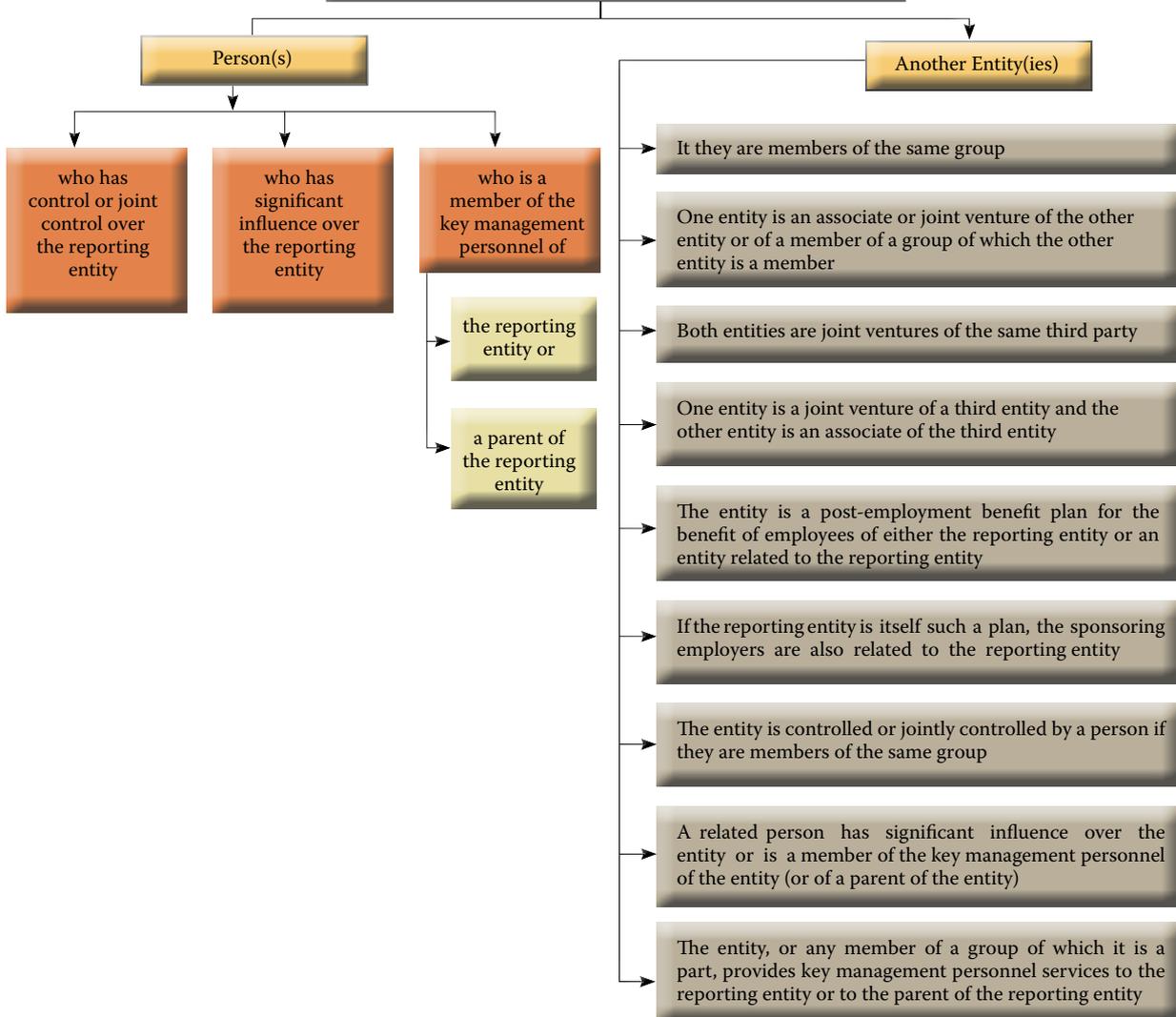
## Purpose of Related Party Disclosures

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

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



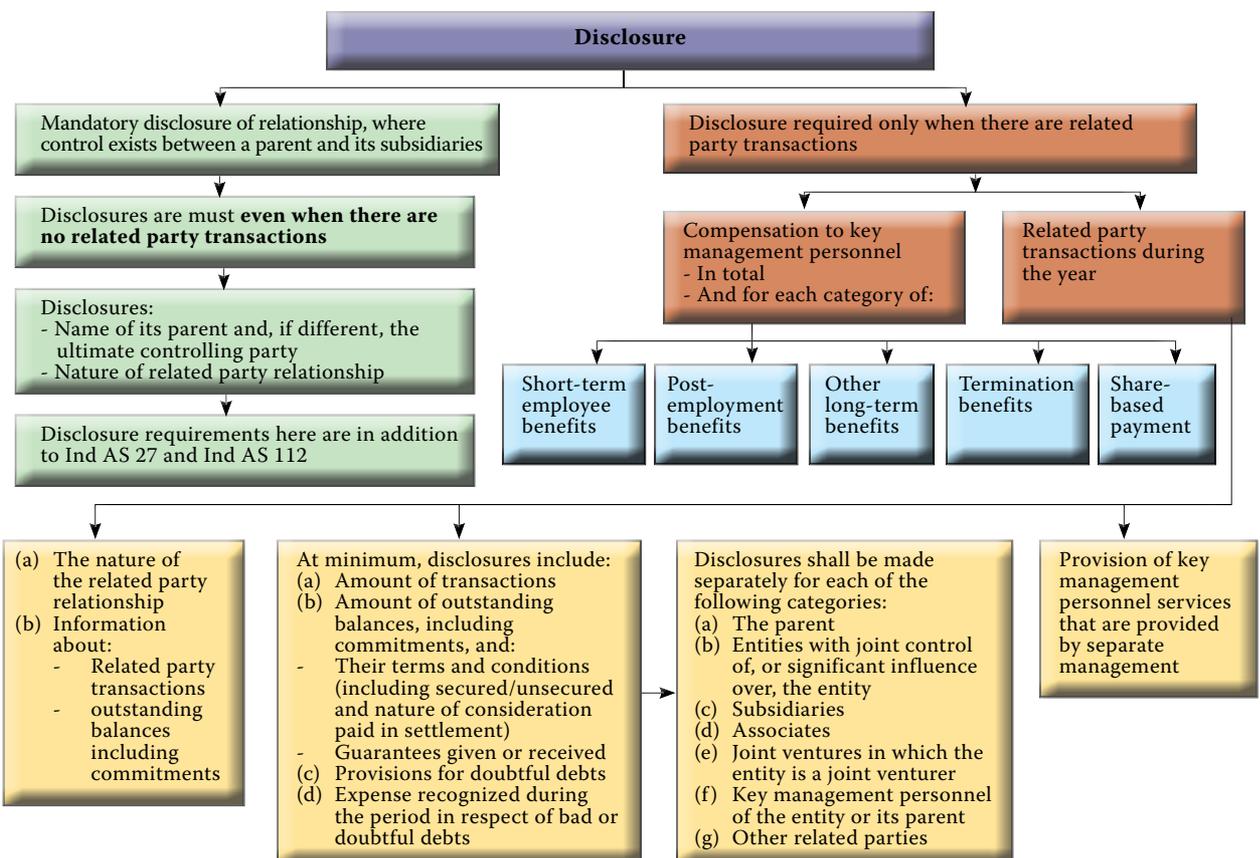
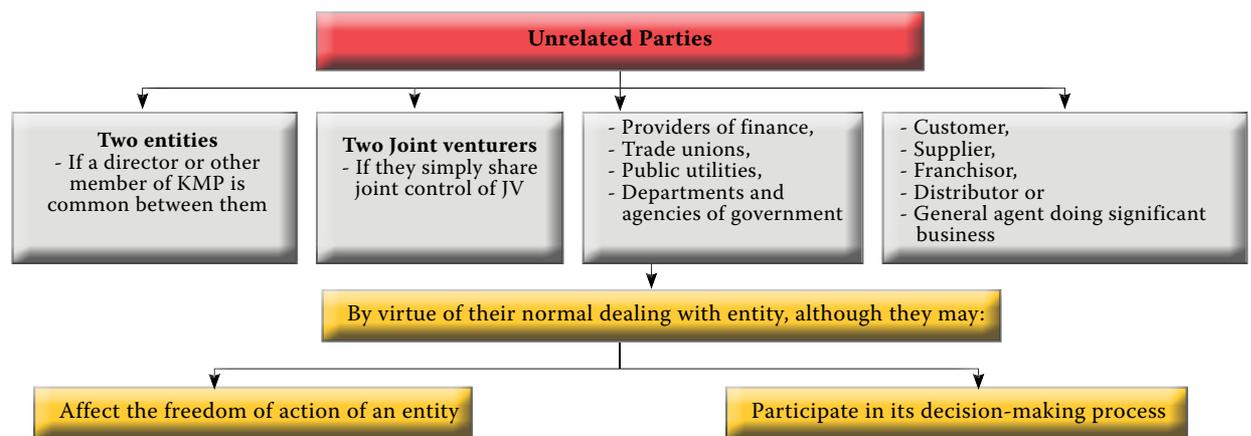
## Determining related party of reporting entity



# FINANCIAL REPORTING

## Important definitions:

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

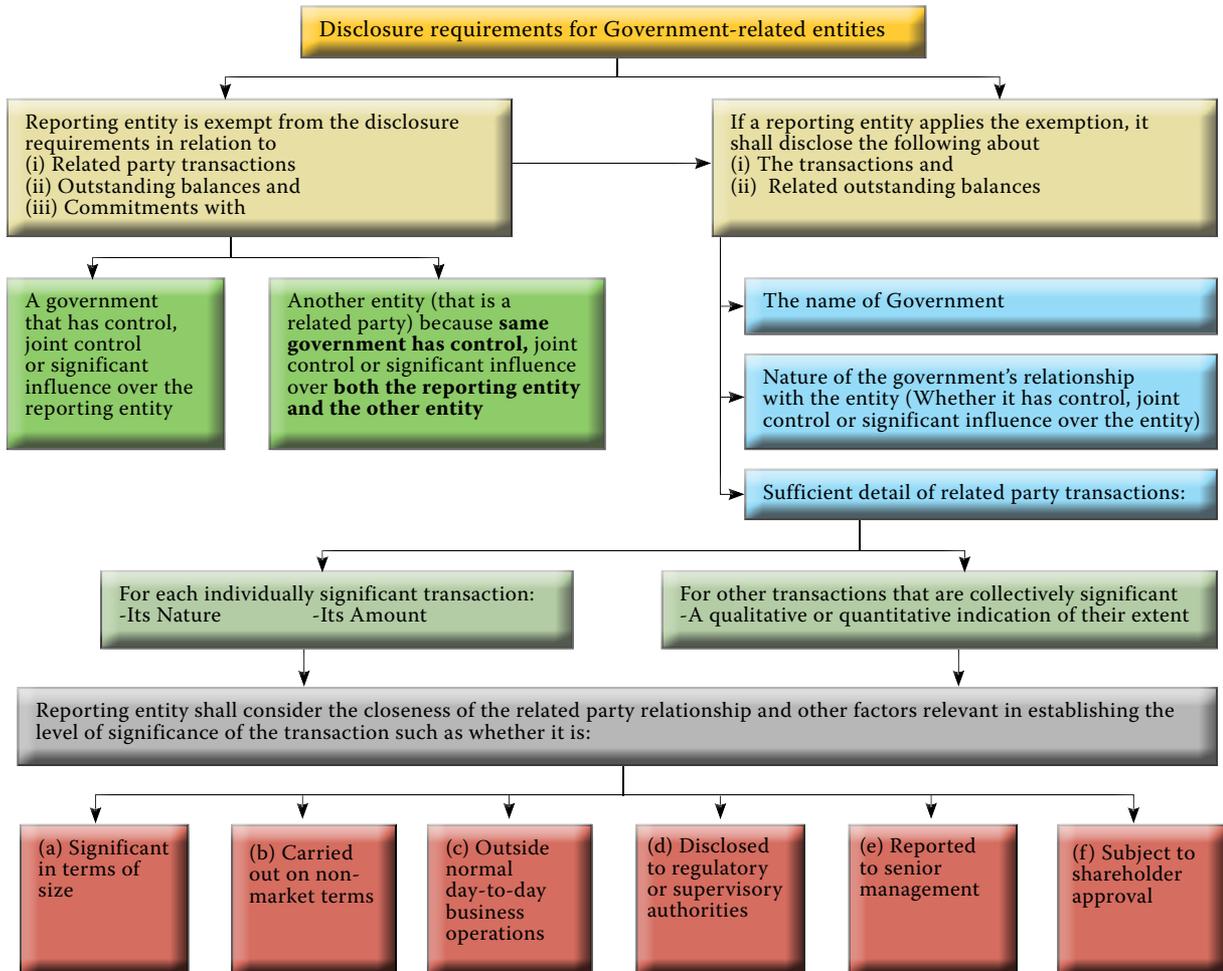


Following are examples of transactions that are disclosed if they are with a related party

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

**Note:**

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

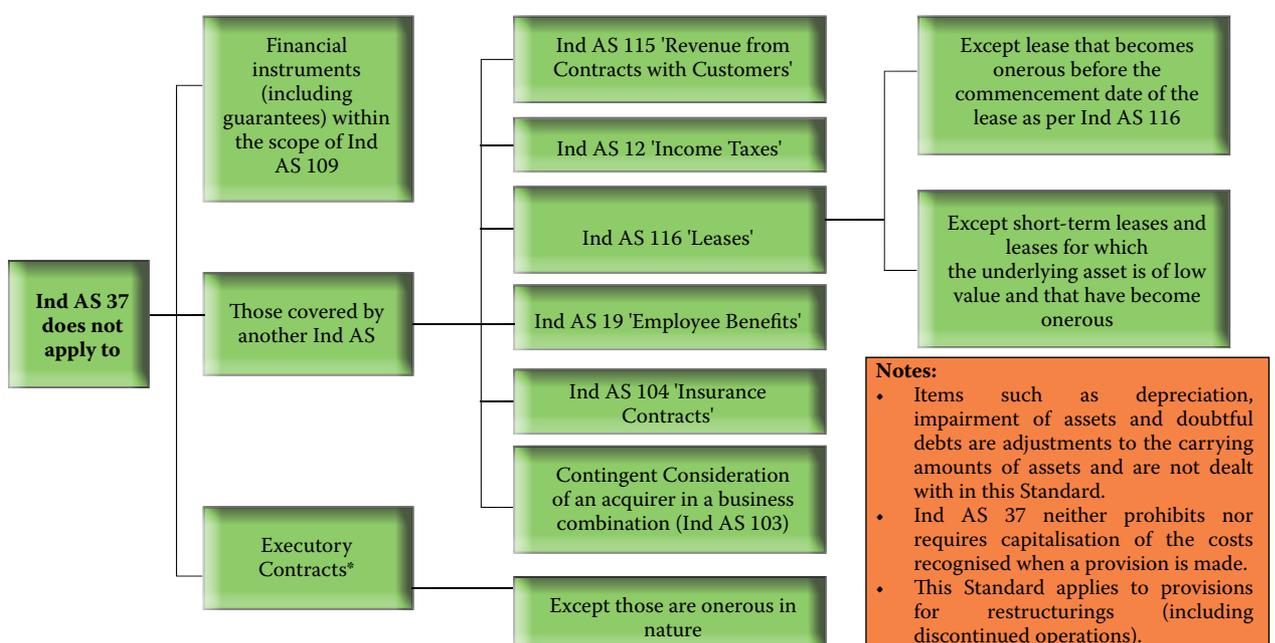
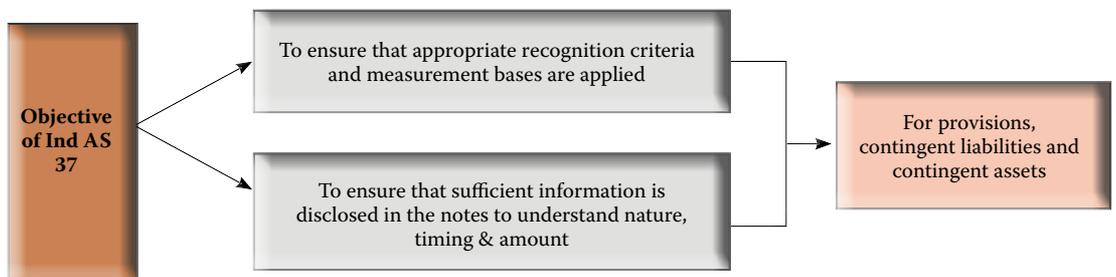
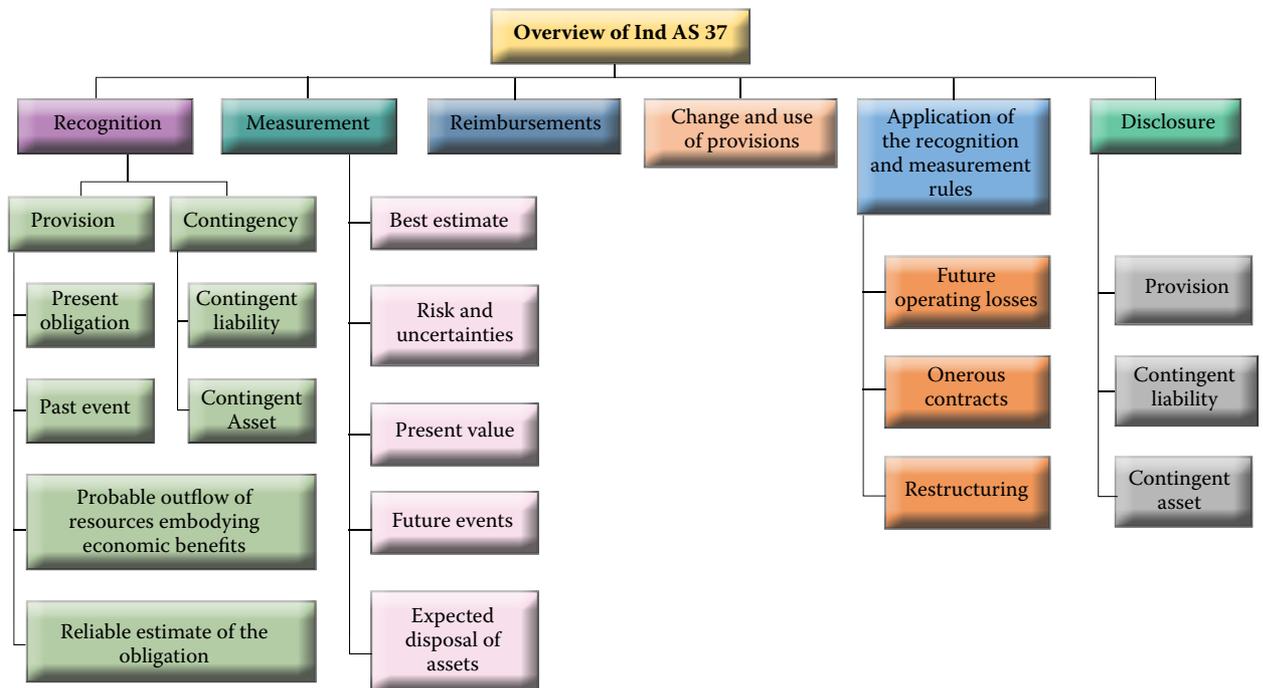


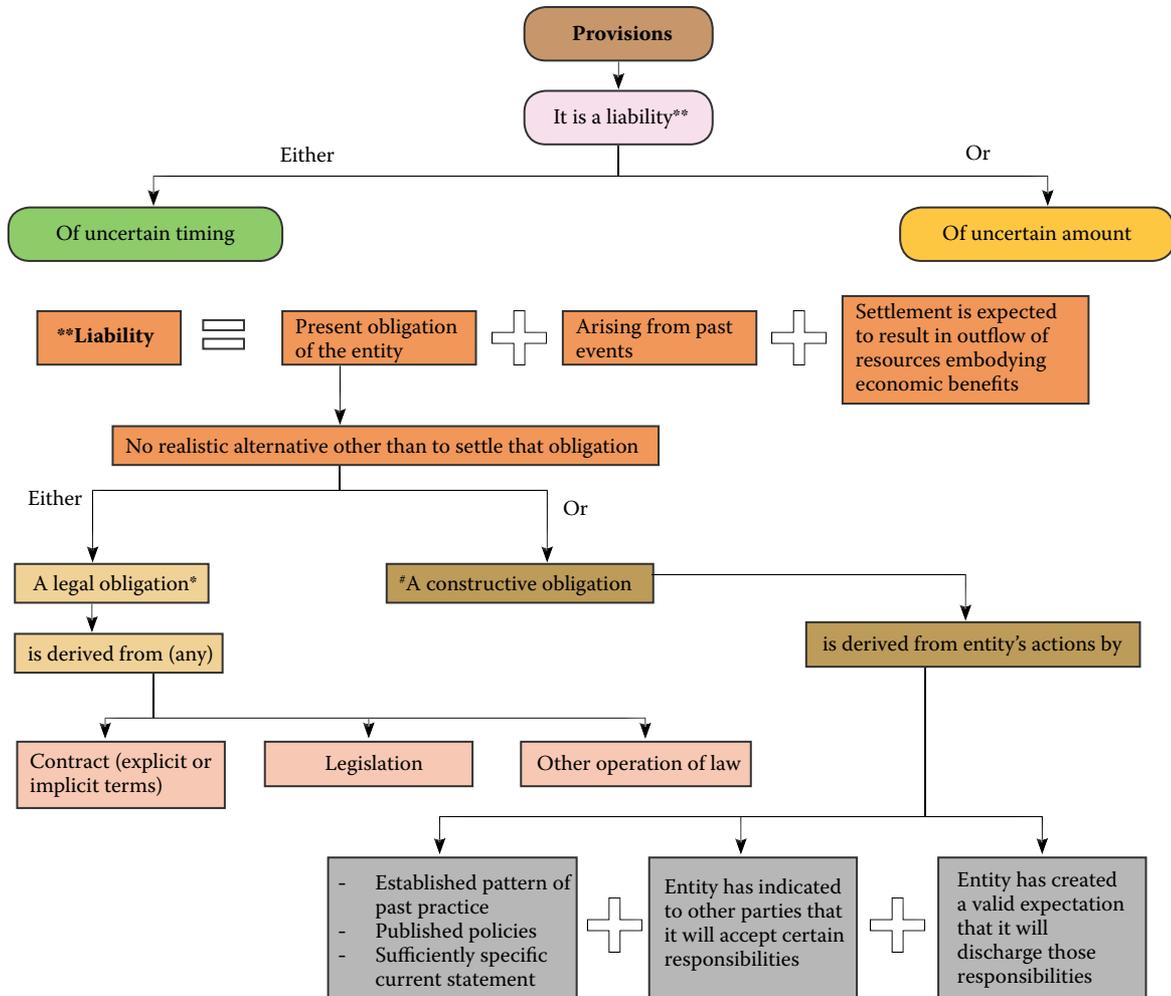
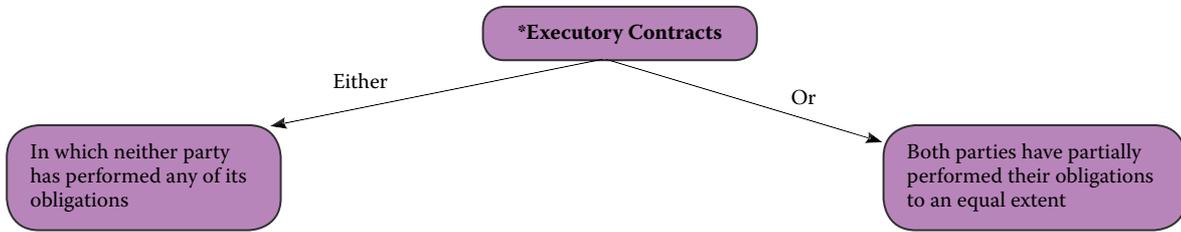
**Note:**

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

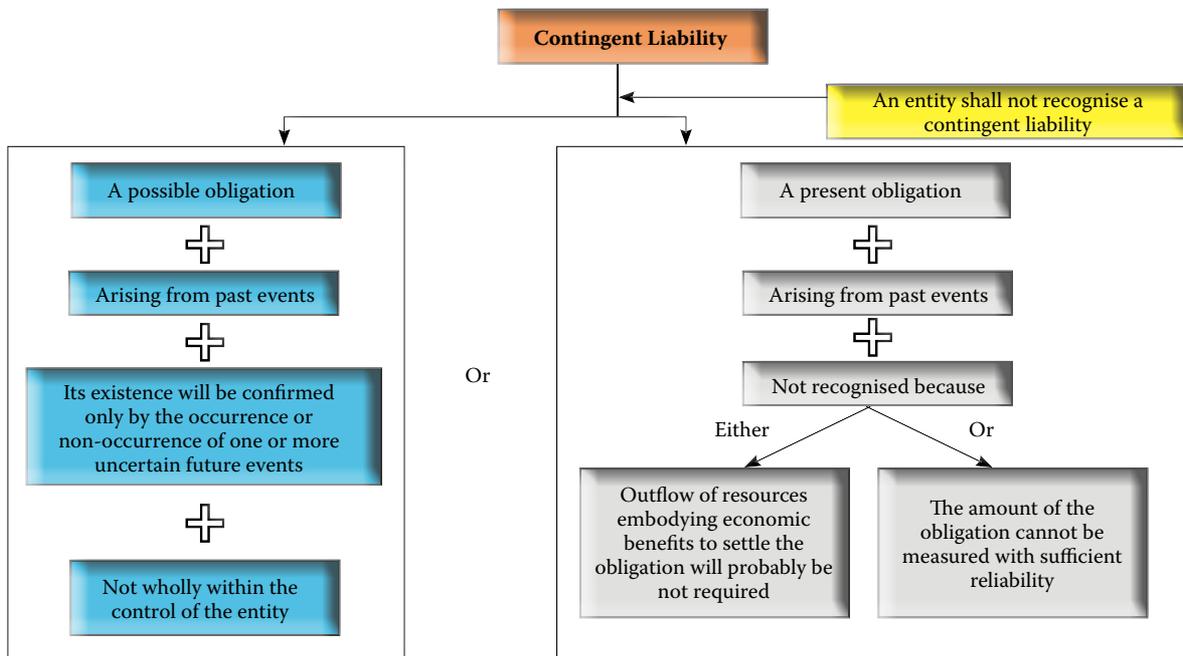
# FINANCIAL REPORTING

## Ind AS 37 : Provisions, Contingent Liabilities and Contingent Assets



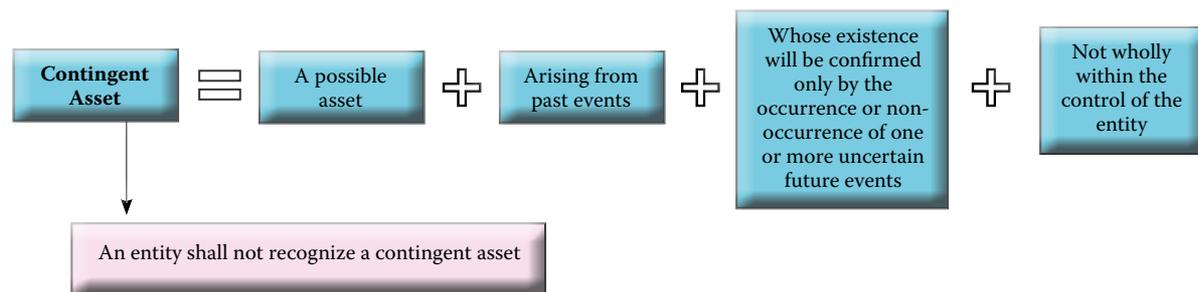


# FINANCIAL REPORTING



**Notes:**

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



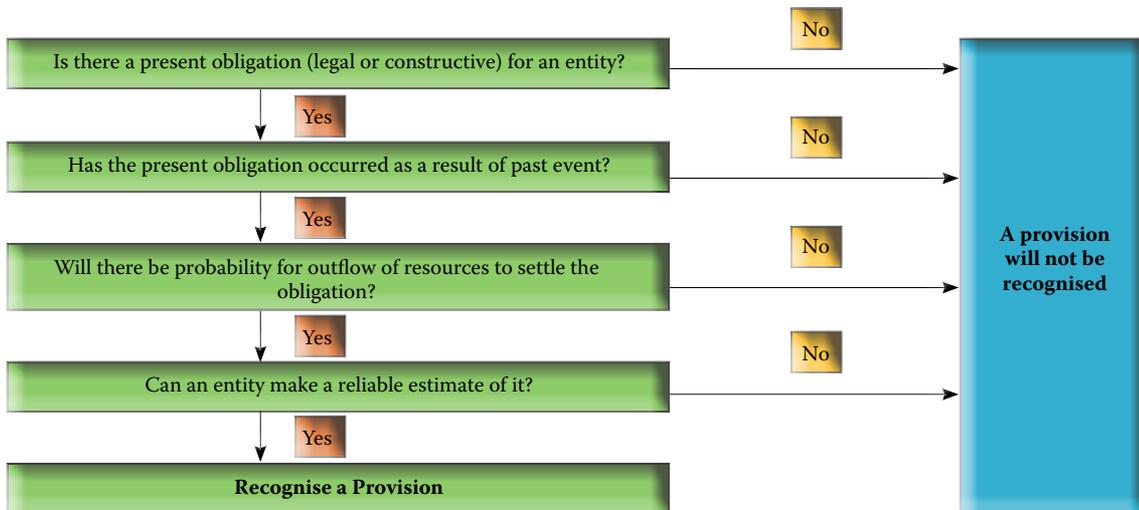
**Notes:**

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

**Differences between Provisions & Other Liabilities**

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

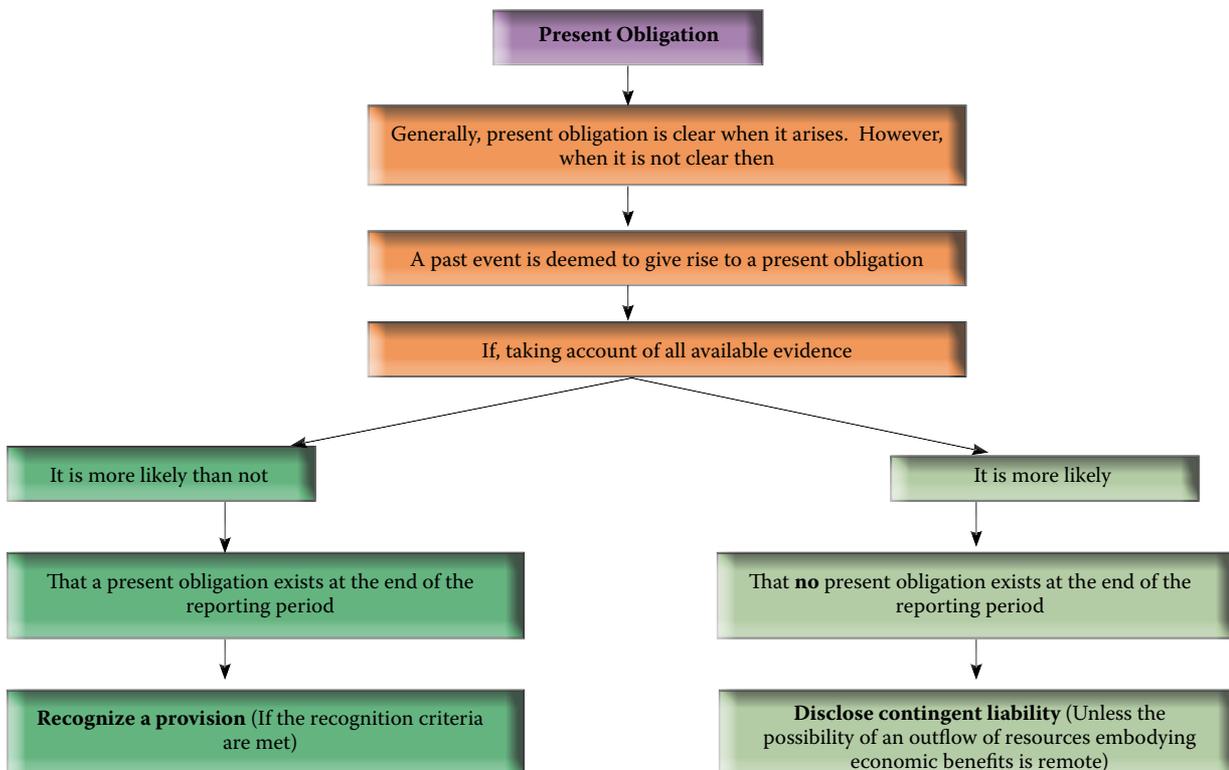
## Recognition of a Provision



### Notes:

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

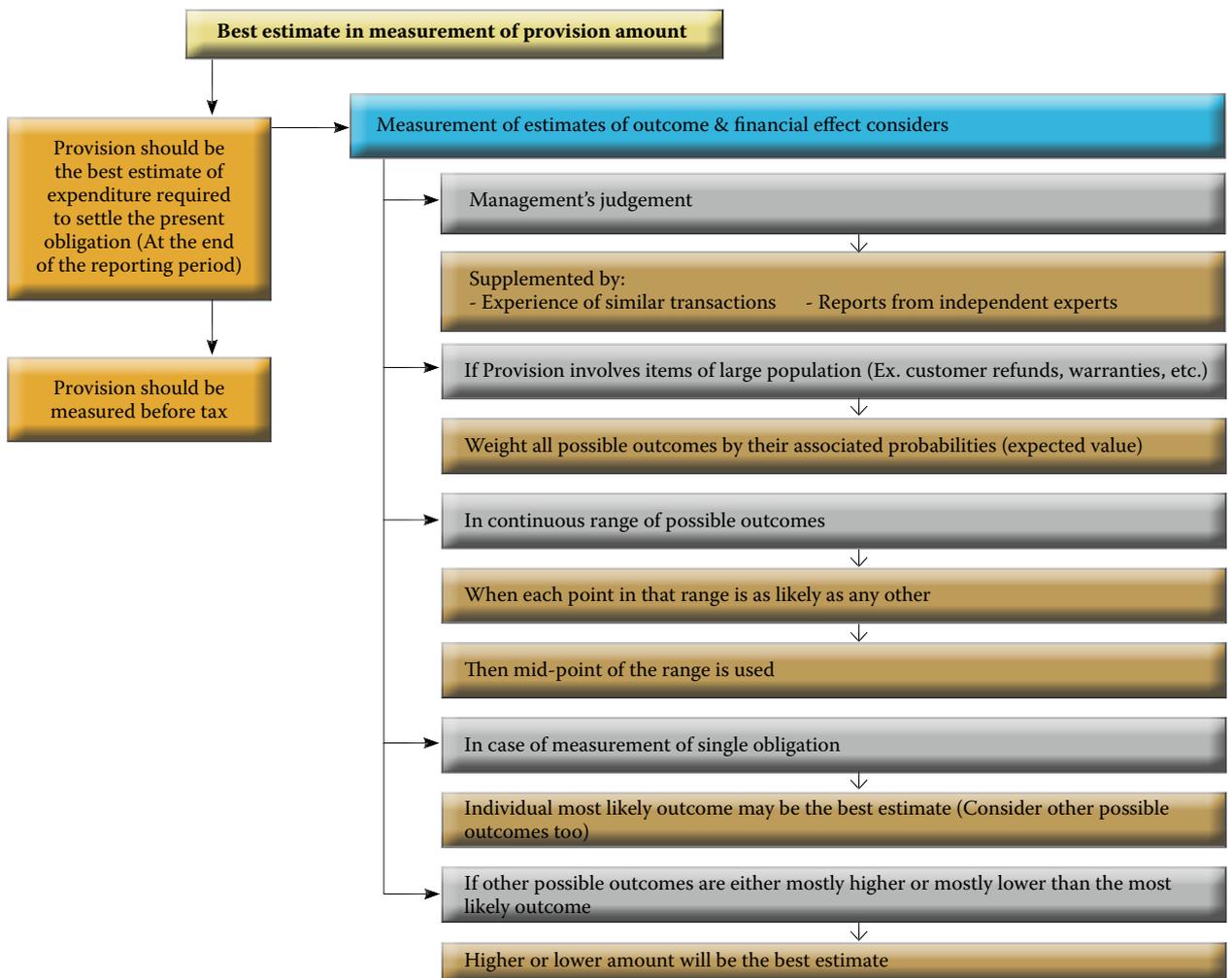
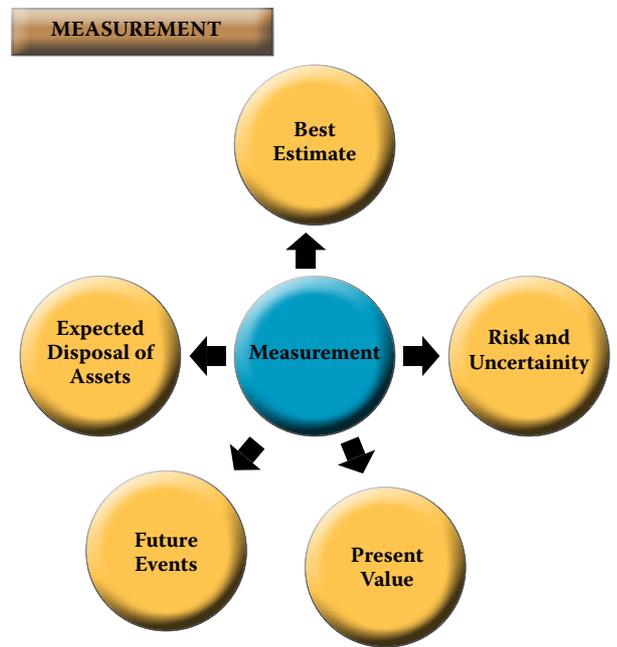
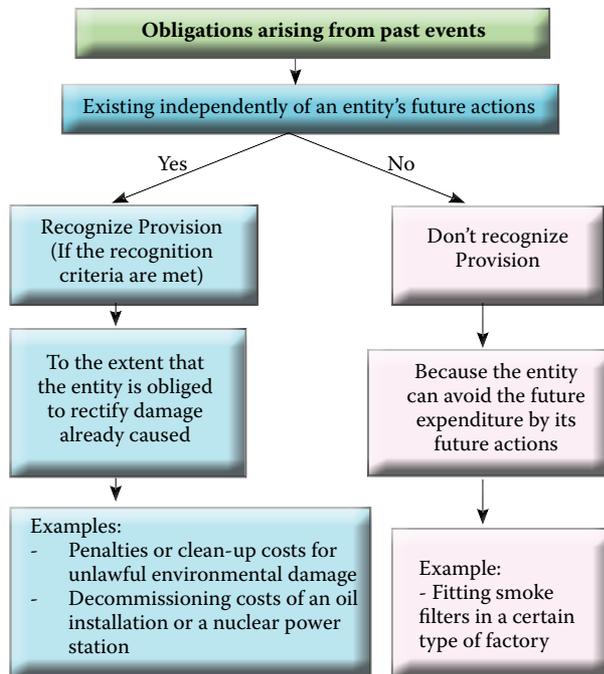
## Present Obligation

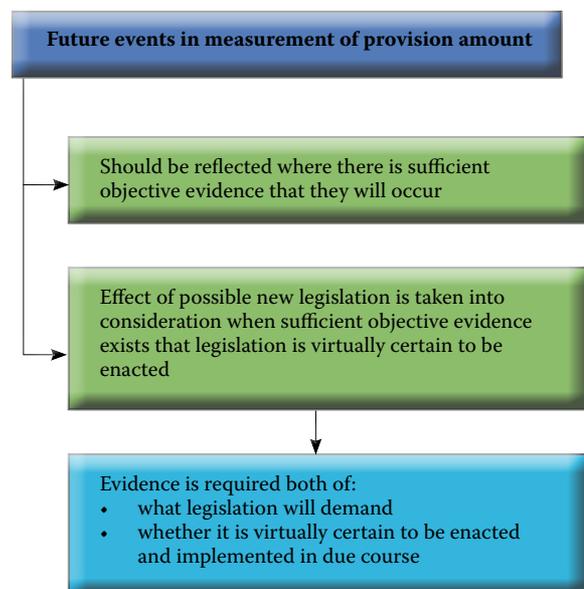
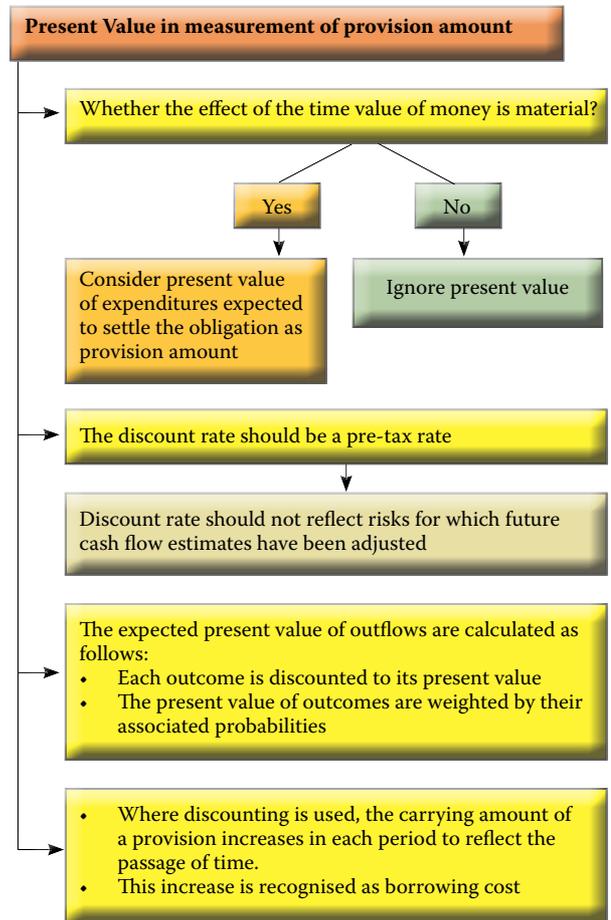
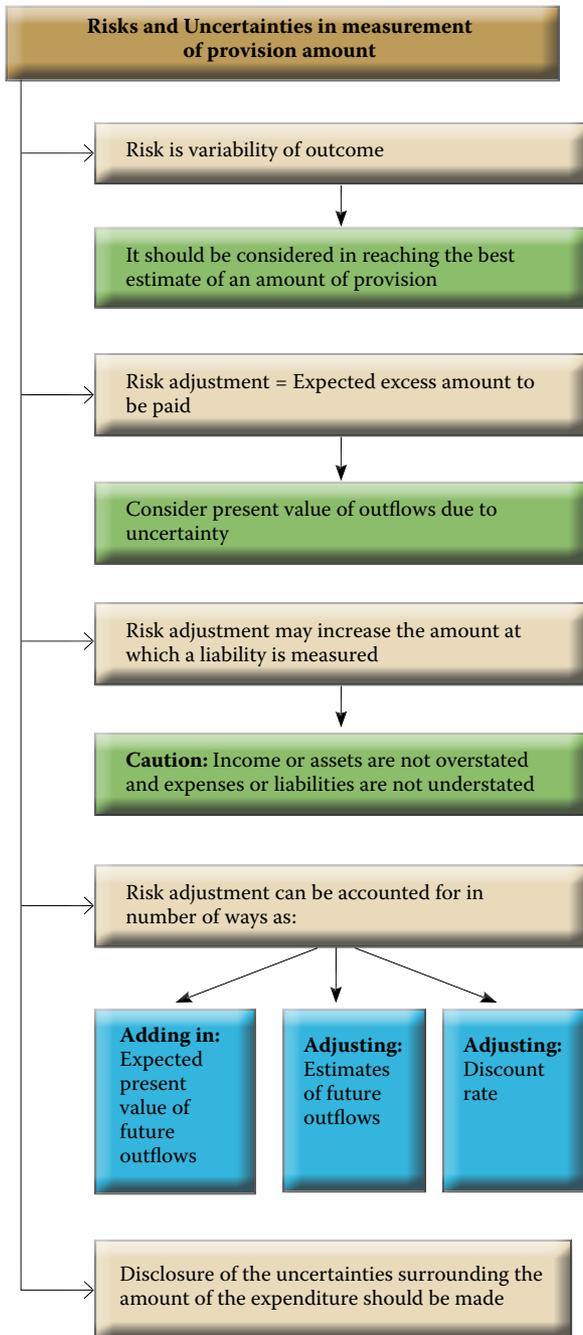


### Notes:

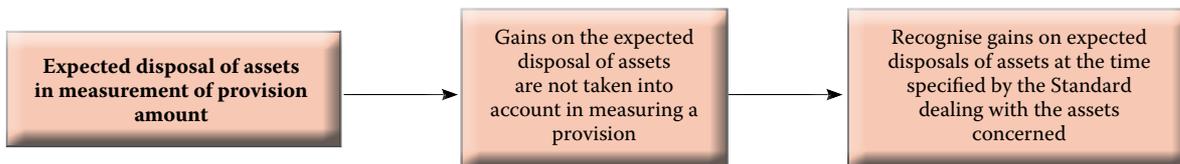
- No provision is recognised for costs that need to be incurred to operate in the future.
- Only those liabilities are recognised in an entity's balance sheet which exist at the end of the reporting period.

# FINANCIAL REPORTING

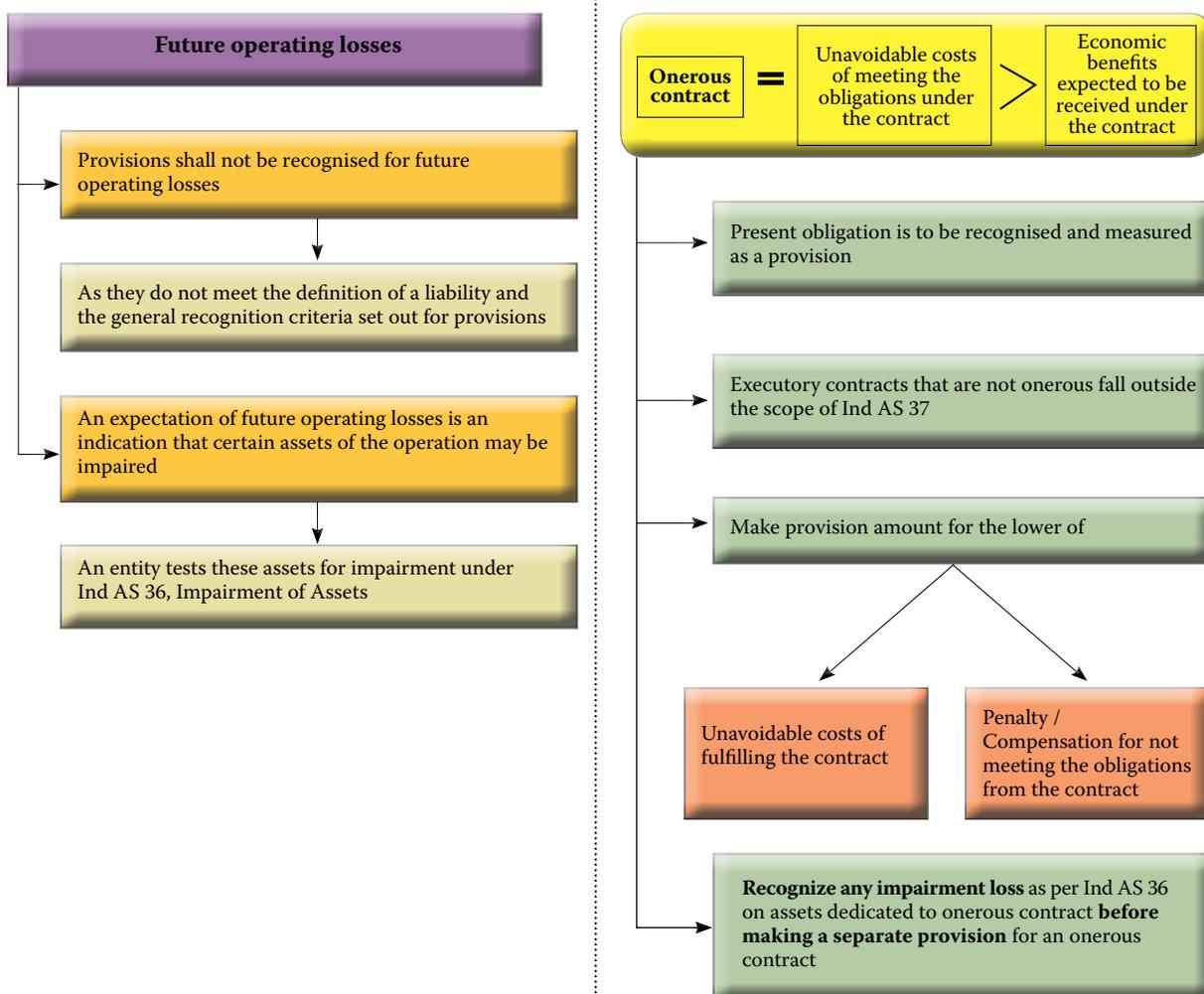


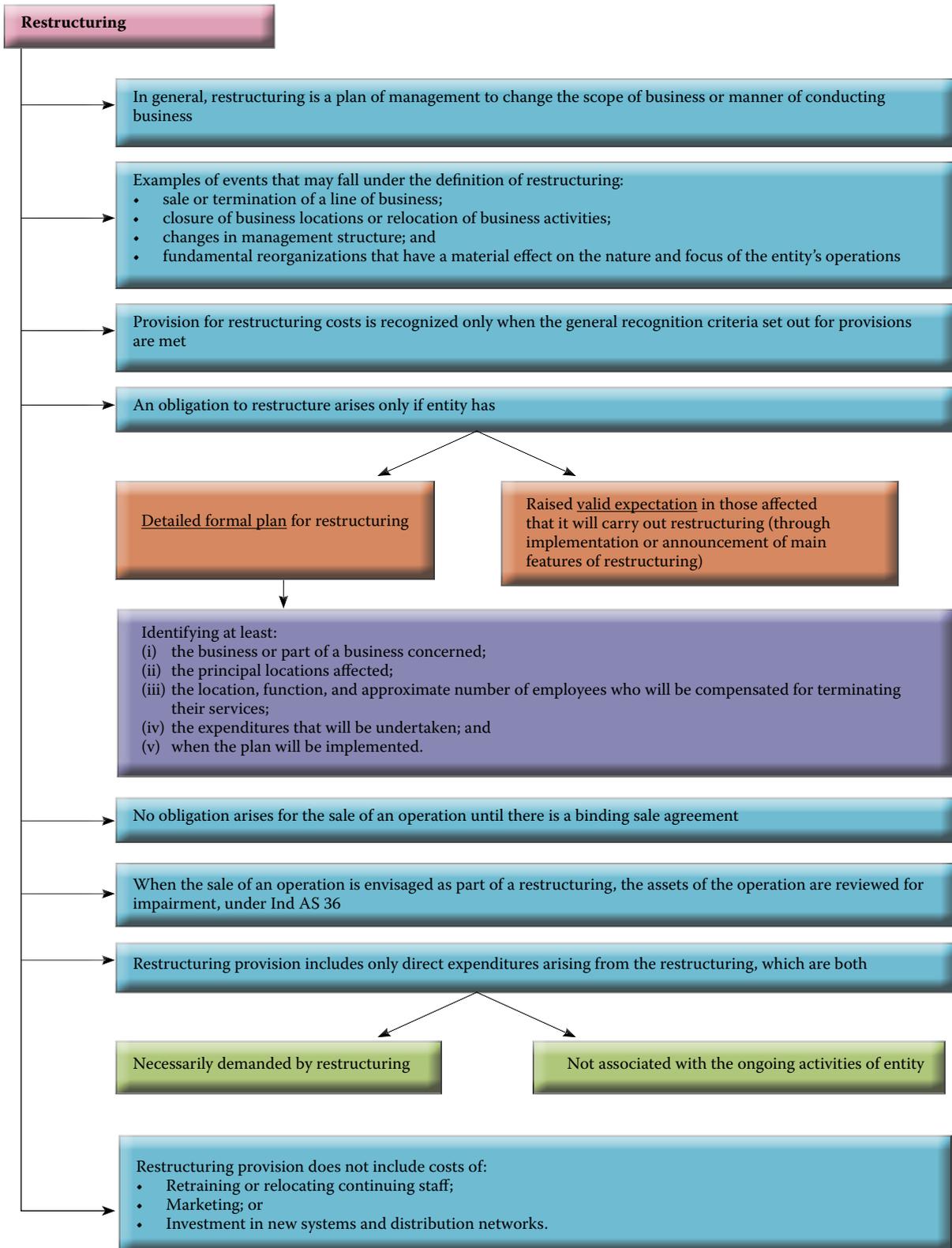


# FINANCIAL REPORTING

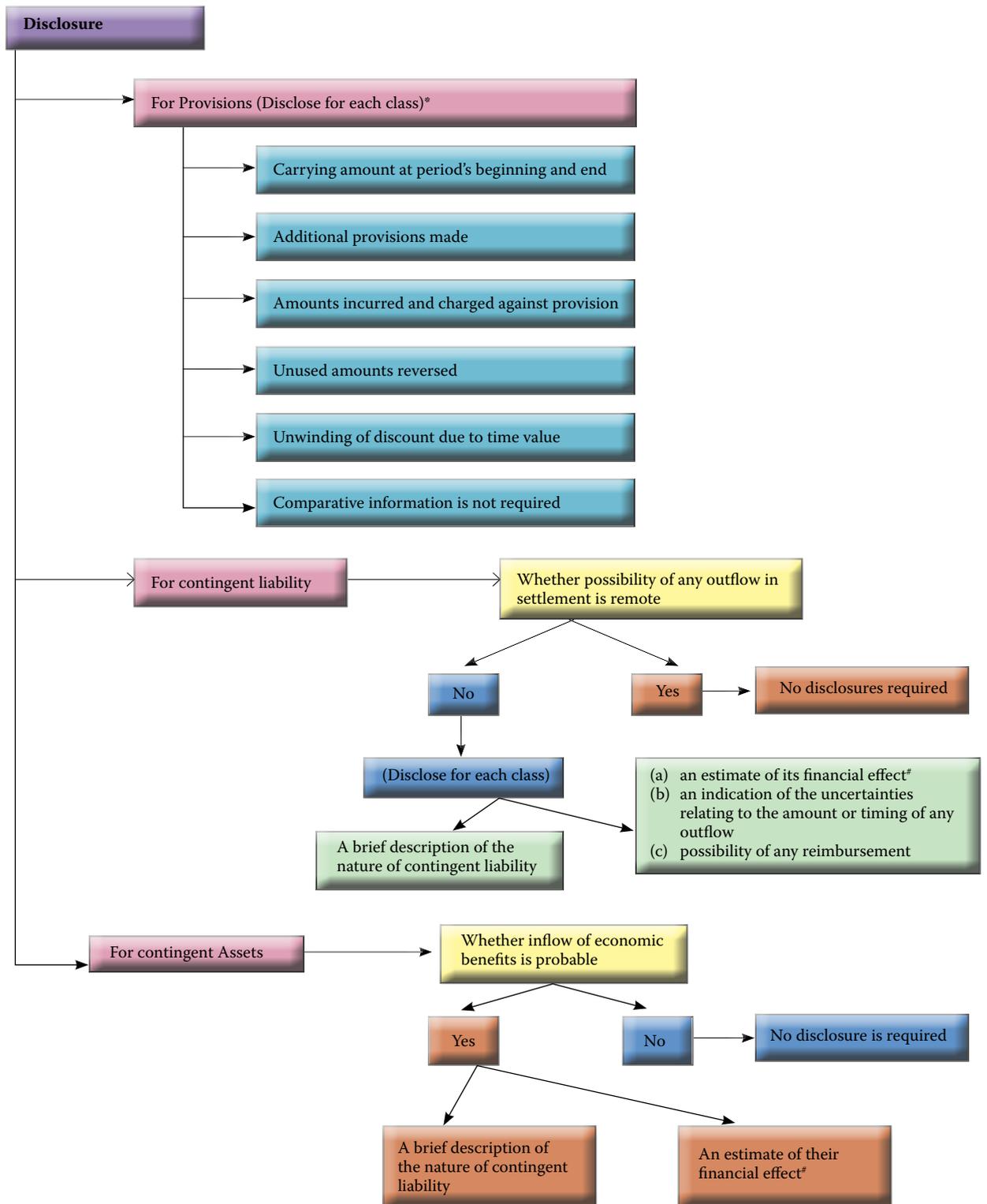


Reimbursements			
Situation	The entity has no obligation for the part of the expenditure to be reimbursed by the other party	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party and it is virtually certain that reimbursement will be received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





# FINANCIAL REPORTING



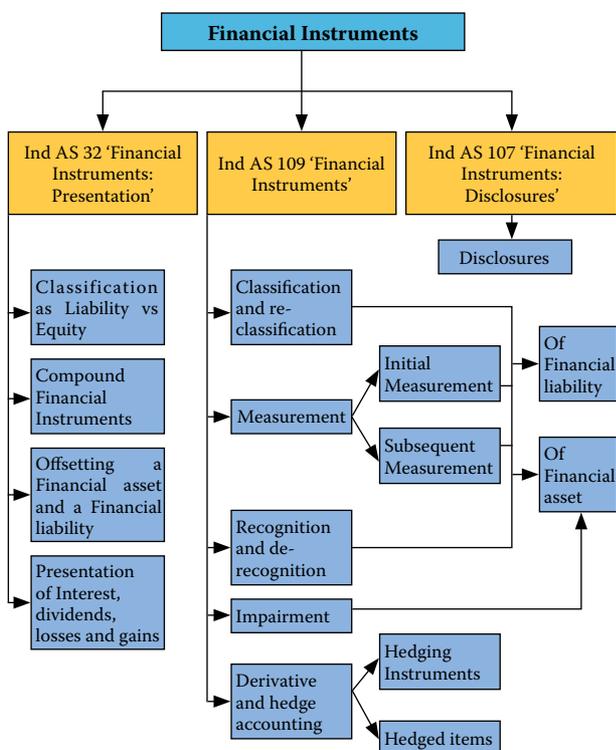
\* Disclose the following for each class of provision:  
 a) Nature of obligation and expected timing of any resulting outflows  
 b) Uncertainties about the amount or timing of those outflows  
 c) Any expected reimbursement  
 Provisions or contingent liabilities may be aggregated to form a class, but consider whether the nature of items is sufficiently similar for a single statement

# If required information is not disclosed since not practicable to do so, that fact shall be stated

This capsule in Final Paper 1 Financial Reporting is fifth in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019, August, 2019 and October, 2019 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. In this capsule we have covered significant provisions of Ind AS 32 through pictorial/tabular presentations for better understanding and quick revision.

### FINANCIAL INSTRUMENTS

#### Overview of standards providing guidance on financial instruments



#### INDIAN ACCOUNTING STANDARD 32: 'FINANCIAL INSTRUMENTS: PRESENTATION'

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

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

#### Scope of Ind AS 32

Applied by **all** entities to **all types of financial instruments**

#### Exceptions:

Interests in subsidiaries, associates or joint ventures that are accounted for in accordance with Ind AS 110, Ind AS 27, or Ind AS 28

**Note:** Entities shall apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures

Employers' rights and obligations under 'Employee benefit plans' to which Ind AS 19 applies

Insurance contracts as defined in Ind AS 104

**Exception 1:** Derivatives that are embedded in insurance contracts -if accounted separately by the issuer, as required by Ind AS 109.

**Exception 2:** Financial guarantee contracts -if the issuer applies Ind AS 109 in recognising and measuring the contracts. However, issuer can elect applying Ind AS 104 in recognising and measuring them

Financial instruments within the scope of Ind AS 104 (because they contain a discretionary participation feature). However, exemption is limited to paragraphs 15- 32 and AG25-AG35 which relates to the distinction between financial liabilities and equity instruments.

**Note:** Ind AS 32 applies to derivatives that are embedded in these instruments

Financial instruments, contracts and obligations under share-based payment transactions to which Ind AS 102 applies,

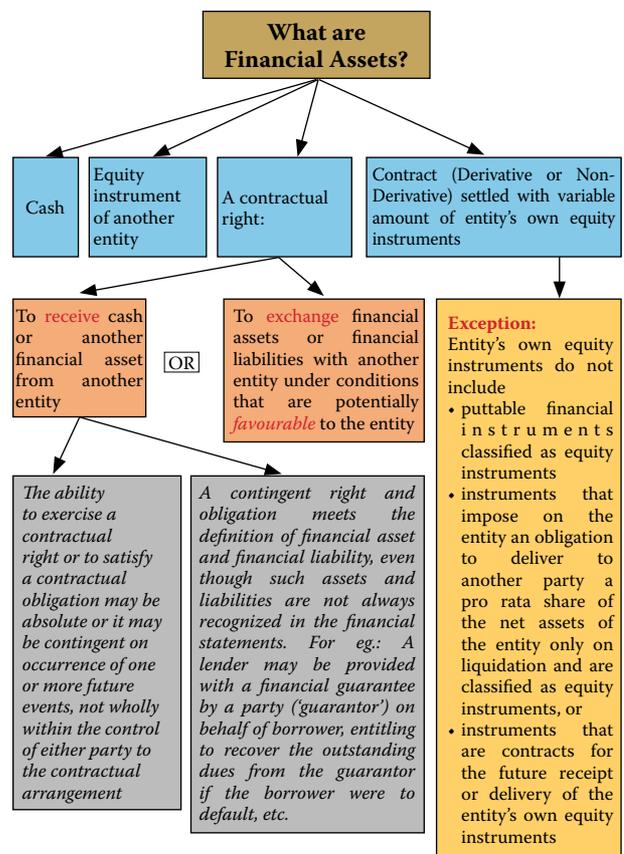
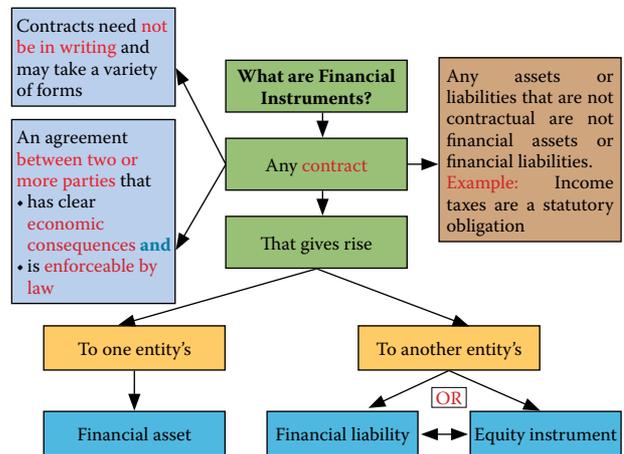
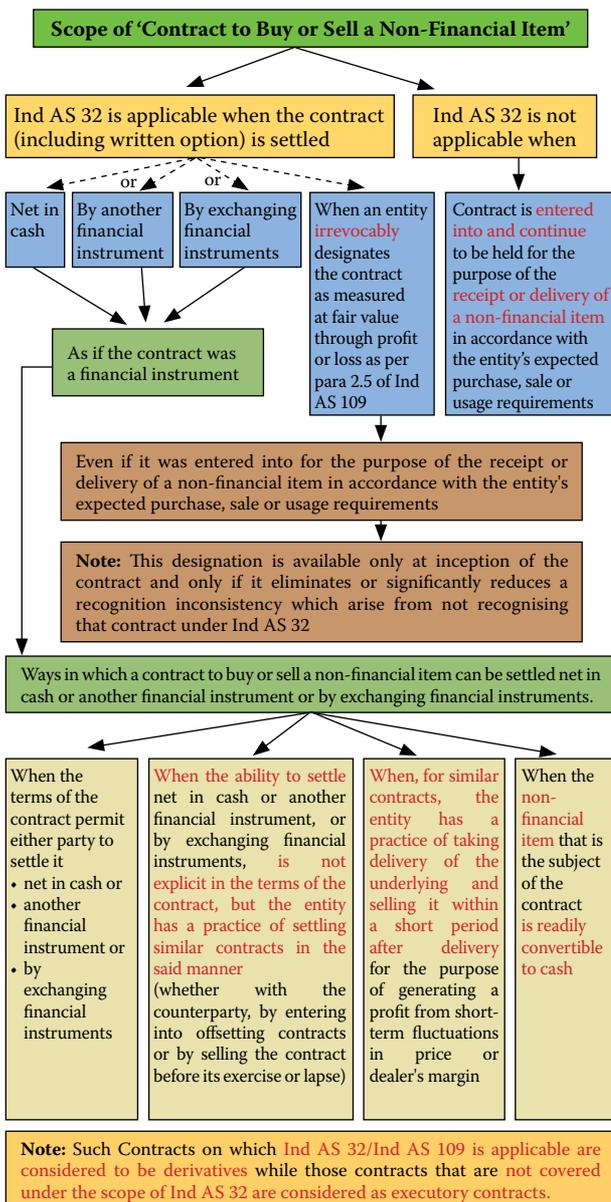
**Exception 1:** Contracts within scope of paras 8-10 of Ind AS 32

**Exception 2:** Treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements to which paras 33, 34 of Ind AS 32 applies

#### Summary of the transaction outside the scope Financial Instruments:

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

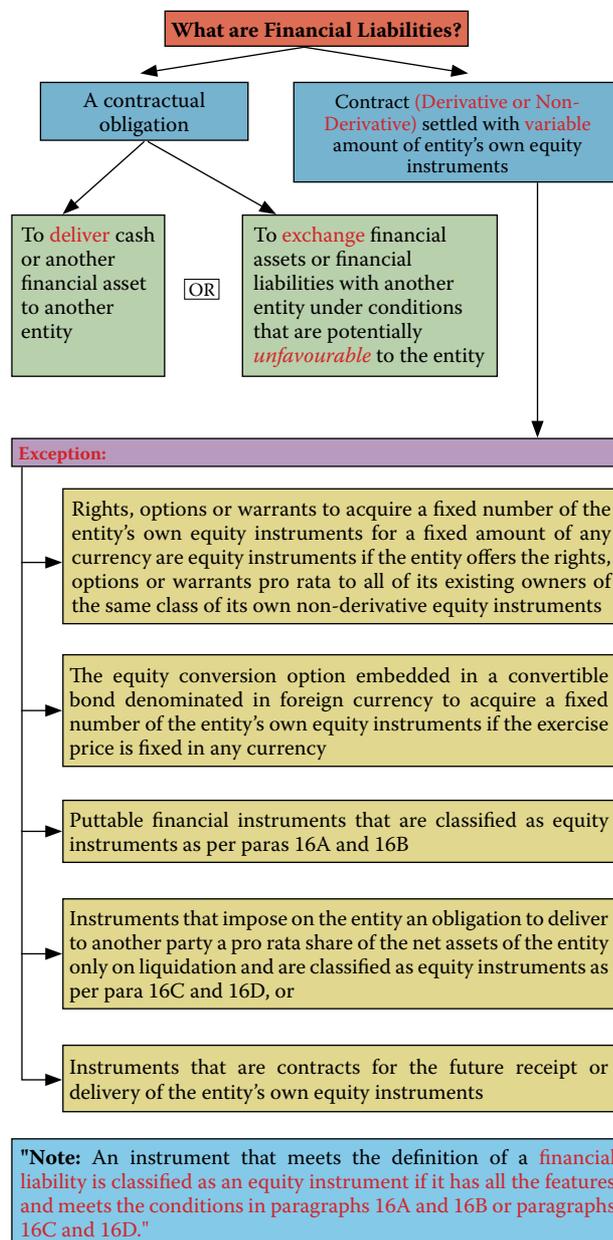
S. No.	Particulars	Covered under Ind AS 109	Covered under Ind AS 32	Applicable Ind AS
6	Rights and obligations under an insurance contract	No	No	Ind AS 104
7	Forward contract arising in case of business combination	No	No	Ind AS 104
8	Loan commitment other than covered under Ind AS 109 and Ind AS 32	No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



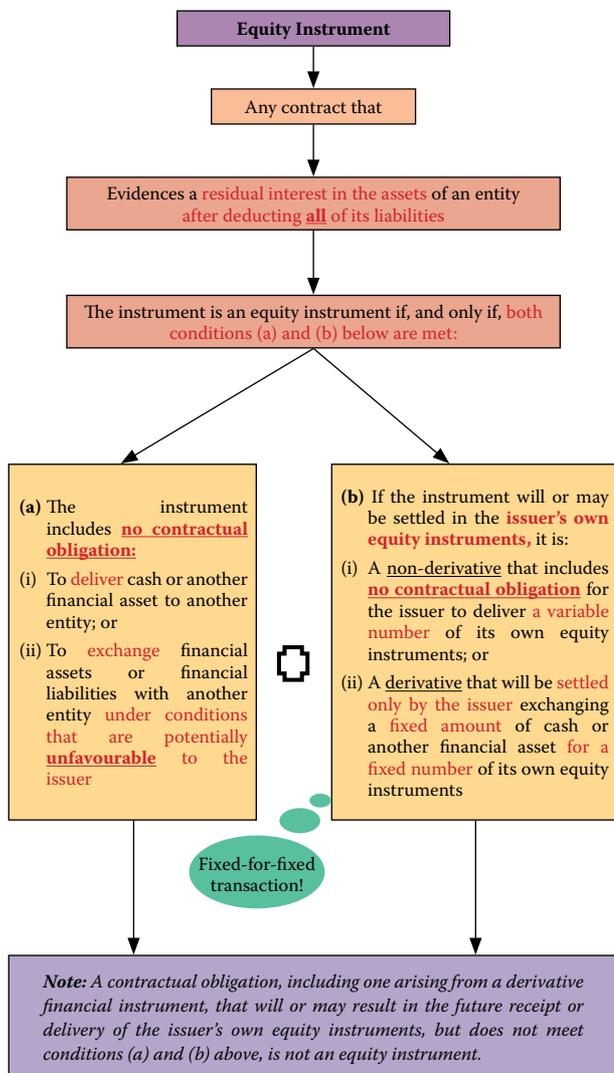
**Important Points**

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

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



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



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

<b>No contractual obligation</b>	<ul style="list-style-type: none"> <li>❖ A key characteristic of equity instruments is that they carry <b>no contractual obligation throughout for any payment or distribution towards the holders of such instruments.</b></li> <li>❖ However, following type of instruments as an exception are 'equity' classified even if they contain an obligation to deliver cash or other financial asset, provided certain requisite criteria are met –             <ol style="list-style-type: none"> <li>1. Puttable financial instruments that meet certain conditions</li> <li>2. An instrument, or a component of an instrument, that contains an obligation for the issuing entity to deliver to the holder a pro rata share of the net assets of the issuing entity only on its liquidation</li> </ol> </li> </ul>
----------------------------------	--

## Settlement in own equity instruments

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

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

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

This may be the case following the:

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

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

**Examples of equity instruments include:**

Non-puttable ordinary shares, for example: equity shares issued by companies

Some puttable instruments (if they meet requisite criteria and are not classified as financial liabilities)

Some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (if they meet requisite criteria and are not classified as financial liabilities)

Some types of preference shares (where repayment and distribution is at the discretion of the Issuer);

Warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset.

❖ Other instruments convertible into fixed number of equity shares, etc.

## Important Points

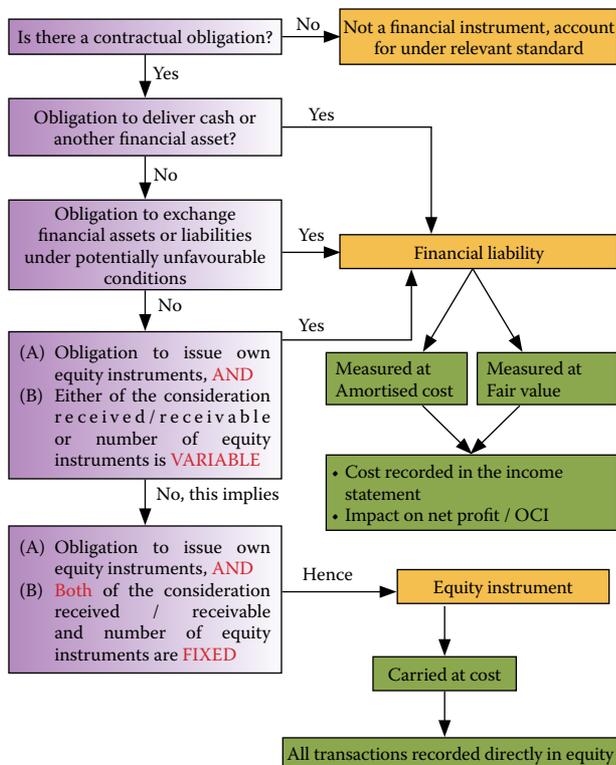
- The classification of a financial instrument under Ind AS 32 is done from the perspective of the issuer and not from the perspective of the holder
- For some financial instruments, although their legal form may be equity, the substance of the arrangements may be that they are liabilities. Paragraphs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

# FINANCIAL REPORTING

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

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

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



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

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

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

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

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

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

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

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

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

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

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

The above requirements are summarised in the table below:

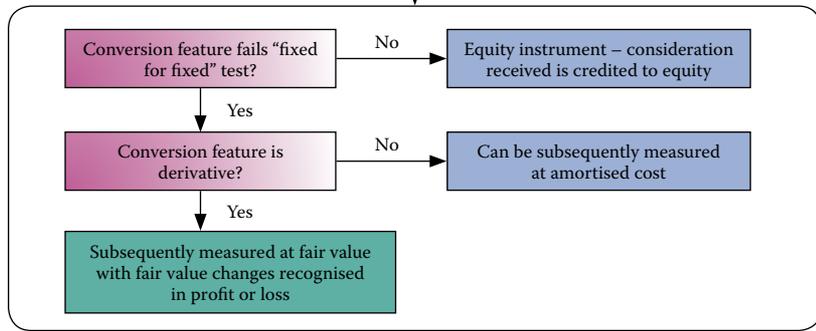
S.no. 2 in table is also called "fixed for fixed" test for equity classification  
i.e. fixed amount of cash or other financial asset for fixed number of own equity instruments

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

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

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

In short, the treatment can be explained as follows

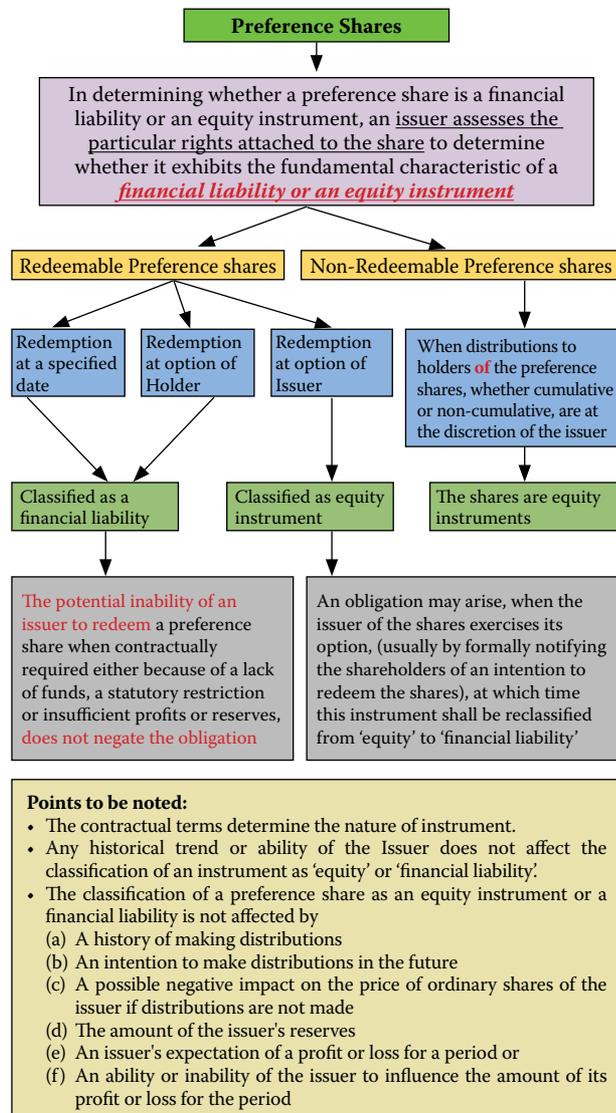


## Important Points

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

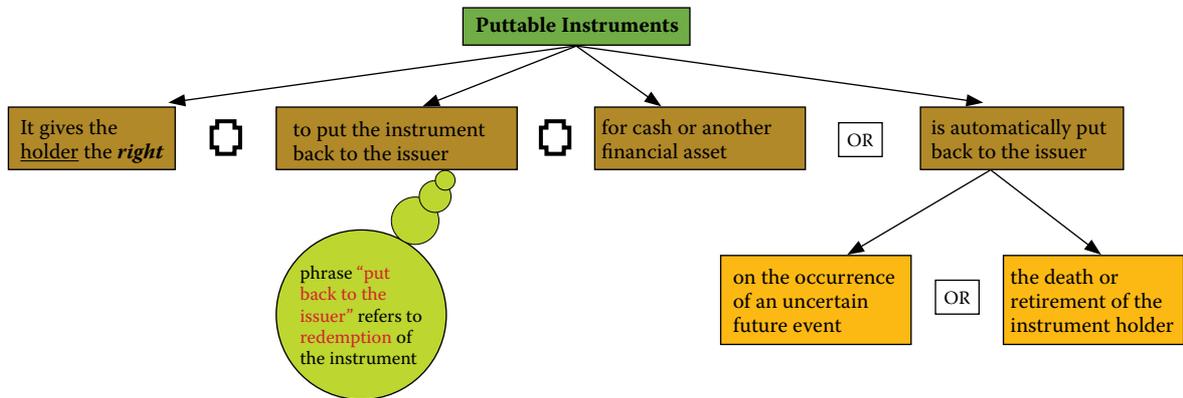
## Contracts settled in own equity instruments but classified as 'financial liability' (where equity instrument is treated as currency):

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



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

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

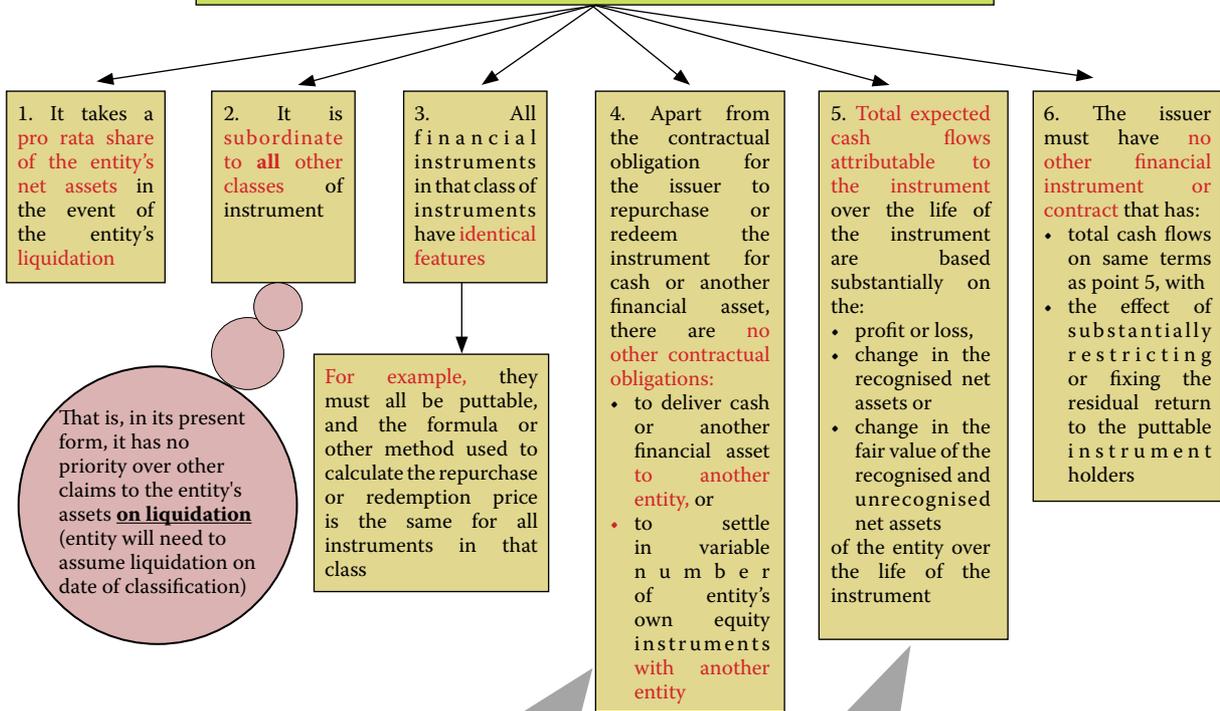


A puttable financial instrument includes a **contractual obligation for the issuer** to repurchase or redeem that instrument for cash or another financial asset *on exercise of the put*

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

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

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



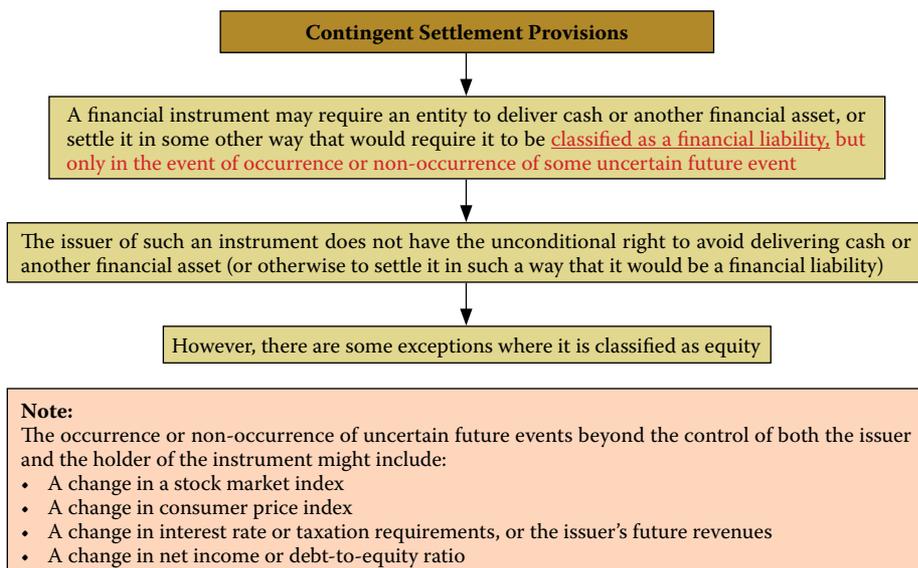
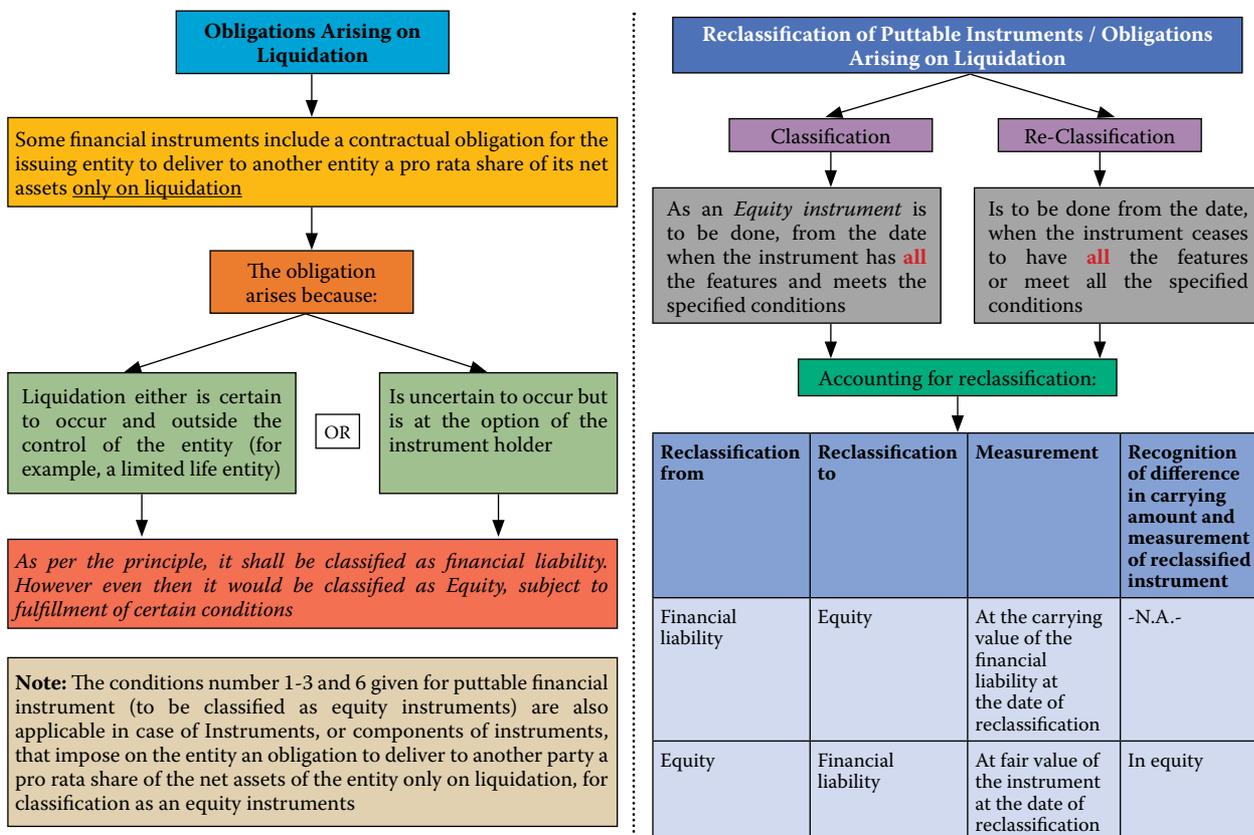
That is, in its present form, it has no priority over other claims to the entity's assets **on liquidation** (entity will need to assume liquidation on date of classification)

For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class

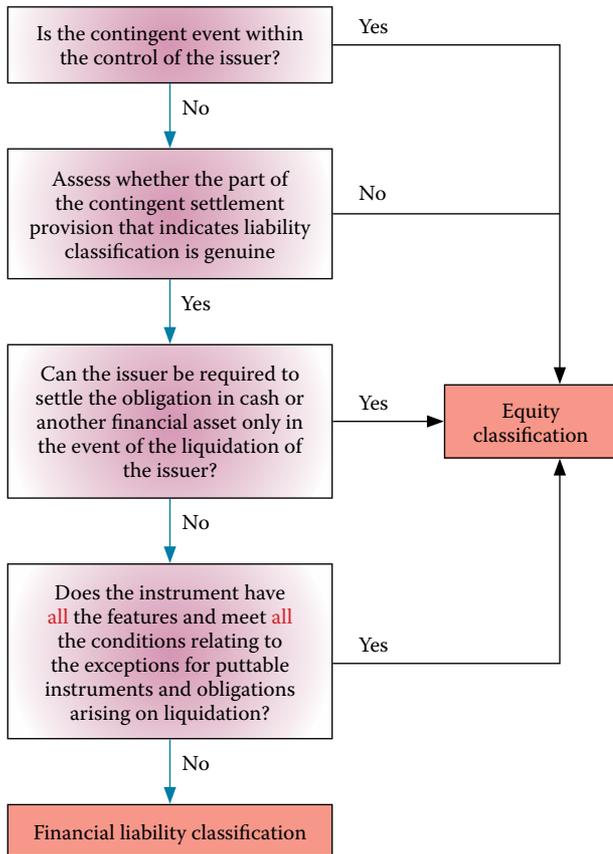
In other words, there are no other features of the instrument which could satisfy the definition of “financial liability”

Or say, if the cash flows are attributable to any factors other than the three listed above, ex., an index, the puttable instrument will fail the equity classification

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

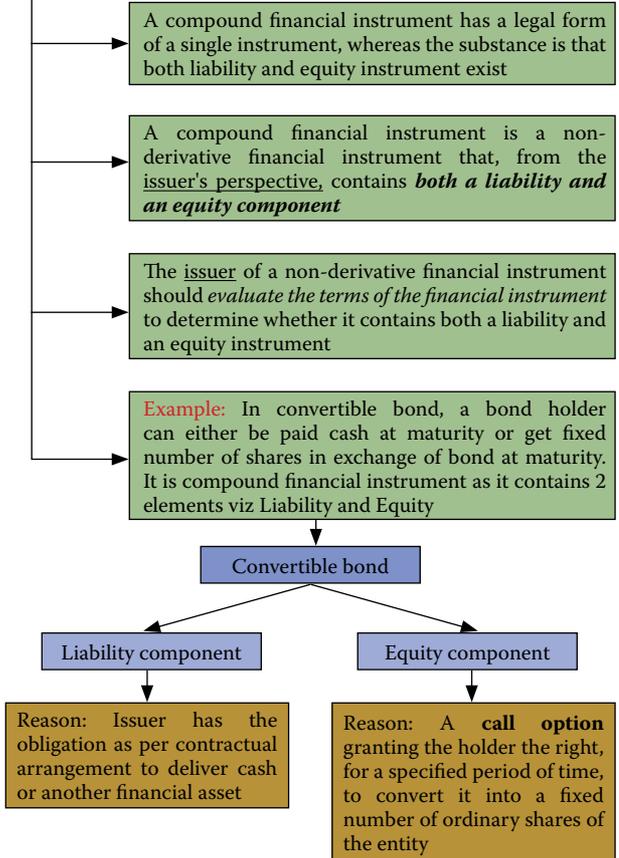


## Classification of Contingent Settlement Provisions into Liability or Equity

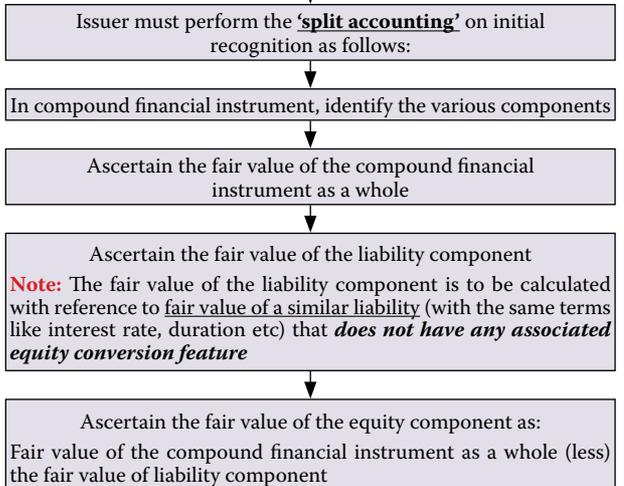


TEST YOUR KNOWLEDGE	
Contingent settlement event	Within the issuer's control?
Issue of an IPO prospectus prior to the conversion date	Yes
Successful completion of IPO	No
A change in accounting, taxation, or regulatory regime which is expected to adversely affect the financial position of the issuer	No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

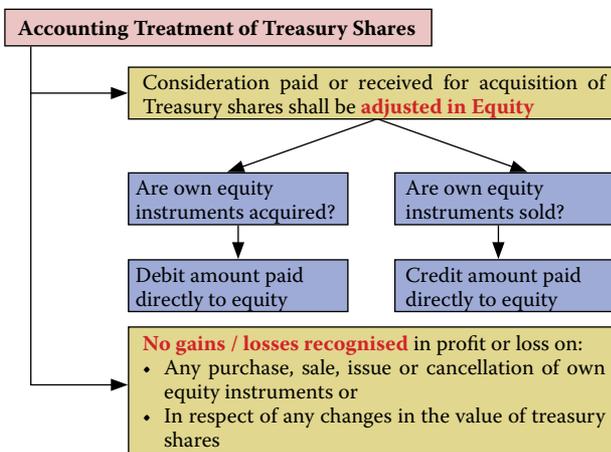
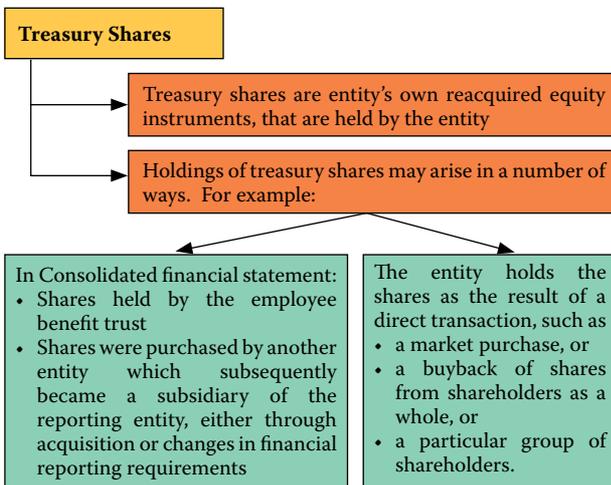
## Compound Financial Instruments



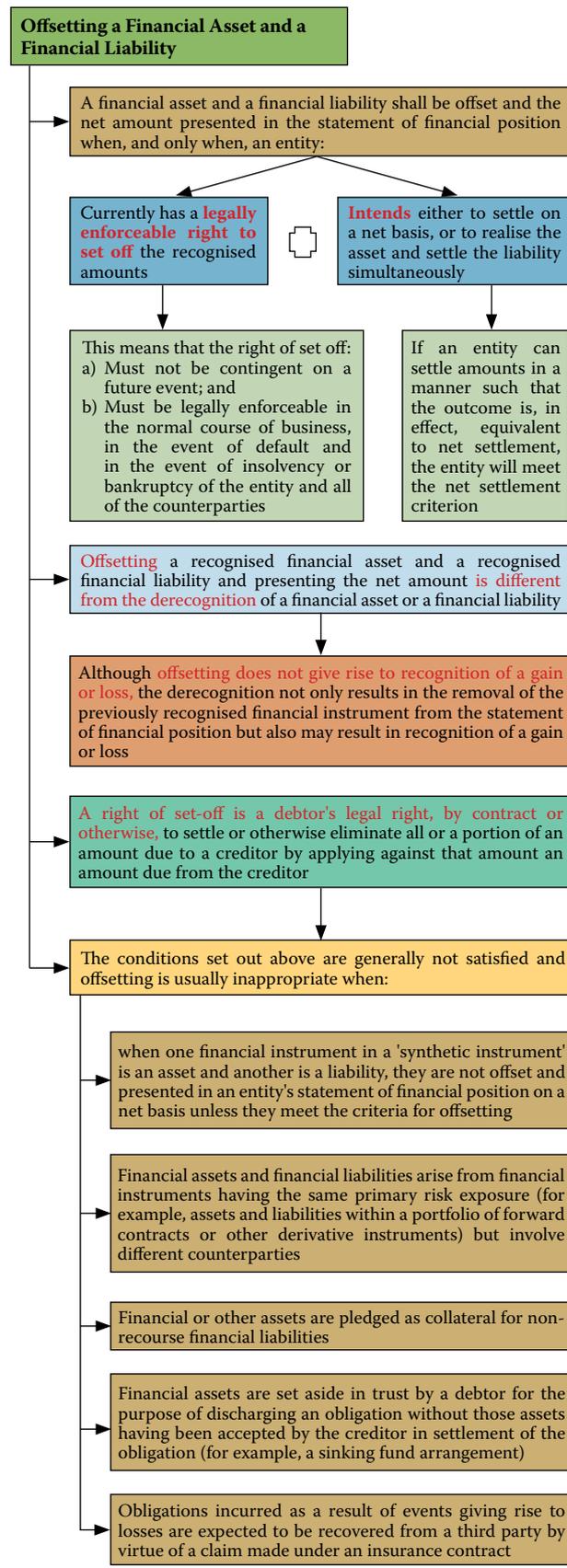
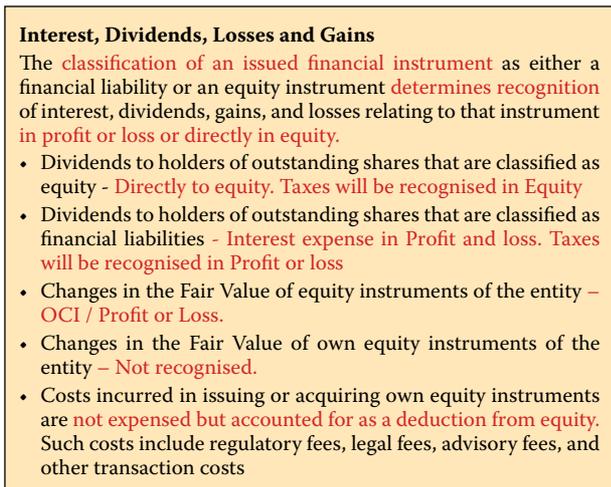
## Accounting Treatment of Compound Financial Statements in Issuer's Books



This step ensures no gain or loss on initial recognition



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



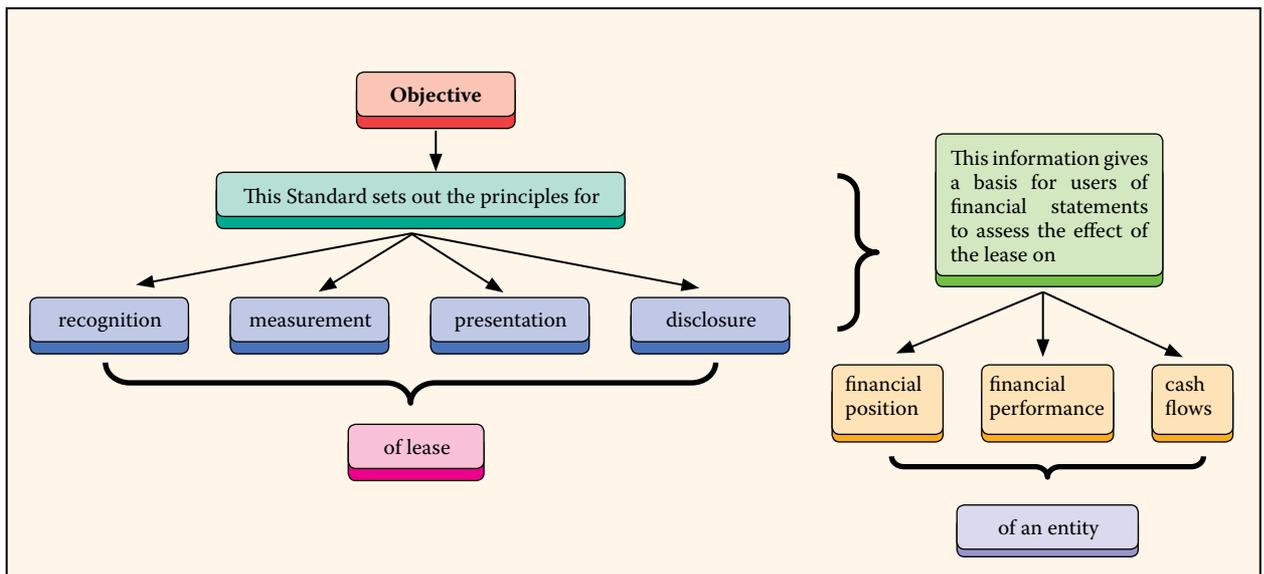
## CA FINAL - PAPER 1 - FINANCIAL REPORTING

This capsule in Final Paper 1 Financial Reporting is sixth in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019, October, 2019 and November, 2020 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any.

In this capsule we have covered significant provisions of Ind AS 116 through pictorial/tabular presentations for better understanding and quick revision. However, Ind AS 116 is a big standard, hence its capsule will be published in two parts. The capsule covered in this issue of the Journal is Part 1 of Ind AS 116. Remaining part will be published in August, 2021 issue of the Journal.

Students are advised to refer the study material or bare text of Ind AS 116 for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

### INDIAN ACCOUNTING STANDARDS (IND AS) 116 : LEASES - PART I

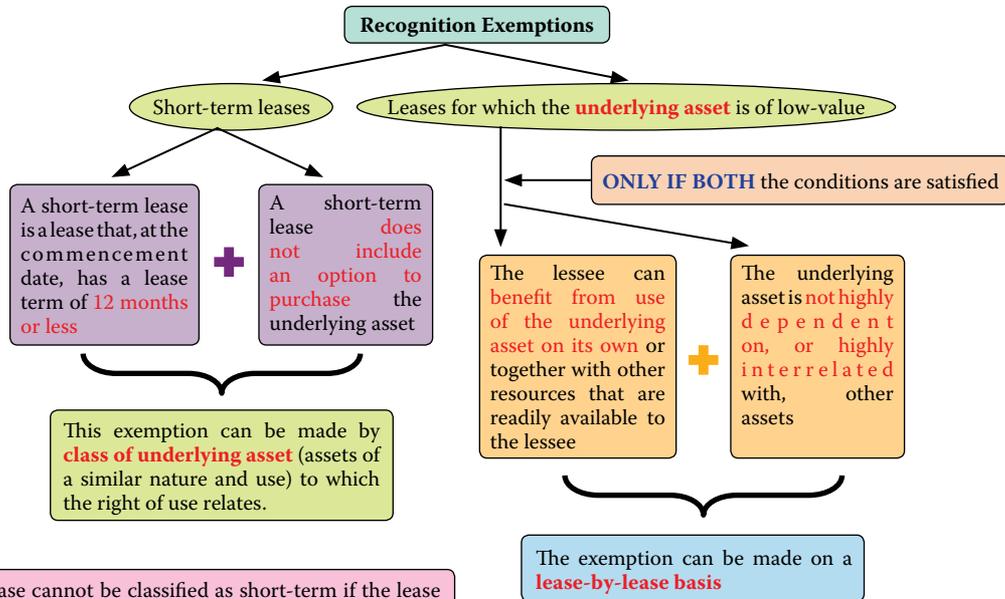


#### Scope

Ind AS 116 shall be applied to **ALL LEASES**, including leases of Right-of-Use (ROU) assets in a sub-lease, **EXCEPT** for:

Sr. No.	Particulars	Reason
1	Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	Within the scope of Ind AS 106 'Exploration for and Evaluation of Mineral Resources'
2	Leases of biological assets held by a lessee	Within the scope of Ind AS 41 'Agriculture'
3	Service concession arrangements	Within the scope of Appendix D of Ind AS 115 'Revenue from Contracts with Customers'
4	Licences of intellectual property granted by a lessor	Within the scope of Ind AS 115 'Revenue from Contracts with Customers'
5#	Rights held by a lessee under licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights	Within the scope of Ind AS 38 'Intangible Assets'

#A lessee may, but is not required to, apply Ind AS 116 to leases of intangible assets other than those described herein.



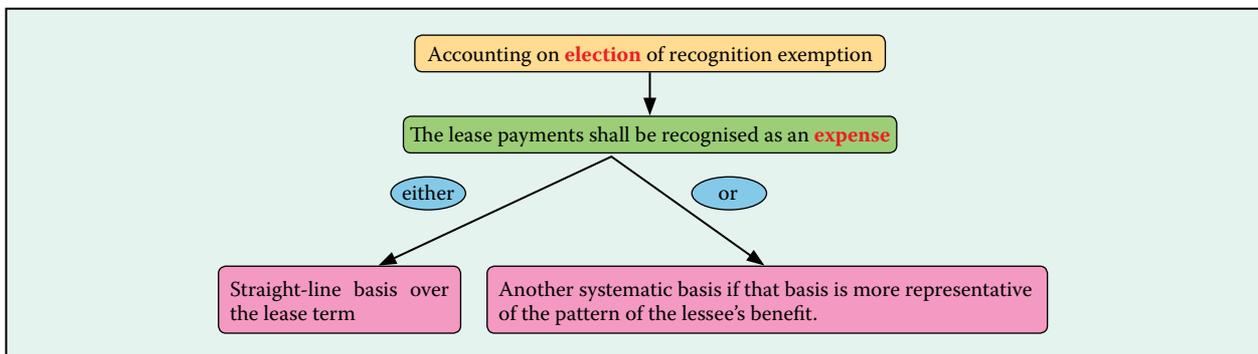
**Note:** A lease cannot be classified as short-term if the lease term is subsequently reduced to less than 12 months

- Note:**
- The exemption for leases of low-value items intend to capture leases that are high in volume but low in value
  - If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset, i.e., an intermediate lessor who subleases, or expects to sublease an asset, cannot account for the head lease as a lease of a low-value asset

**Important points regarding the leases of low-value assets**

Value of an underlying asset to be assessed based on the value of the asset <b>when it is new</b> , regardless of the age of the asset being leased *	Leases of low-value assets are exempted regardless of whether those leases are material to the lessee
Examples of low-value underlying assets can include: - tablet - personal computers, - small items of office furniture - telephones	The assessment performed on an absolute basis. It is not affected by the size, nature or circumstances of the lessee

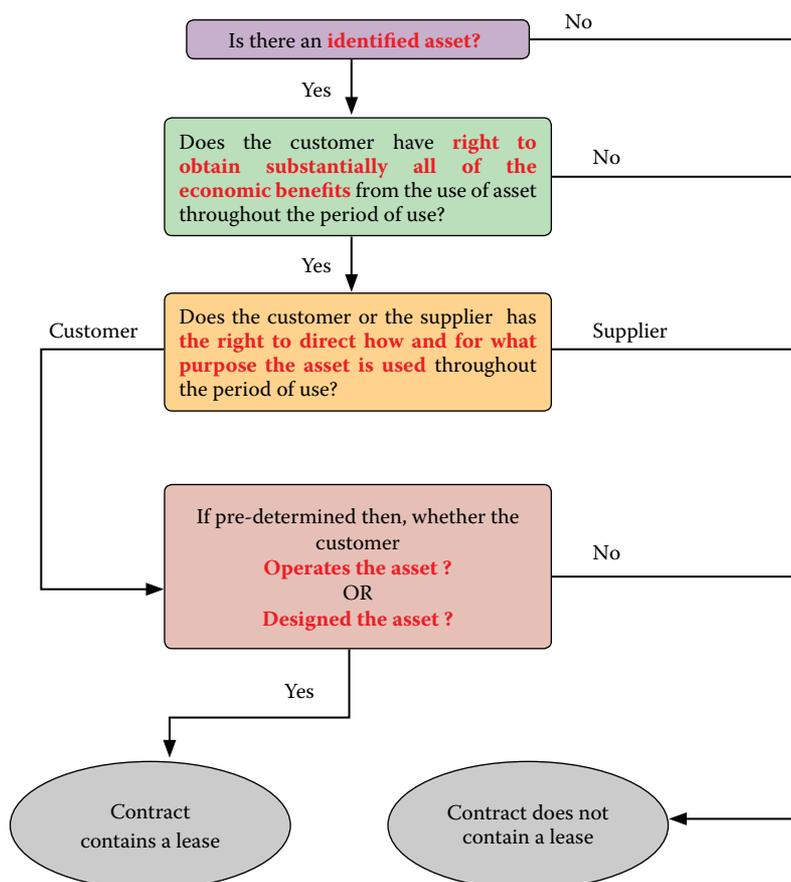
\* A lease of an underlying asset does not qualify as a lease of low value asset if the nature of the asset is such that, when new, the asset is typically not of low value. **For e.g.**, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.



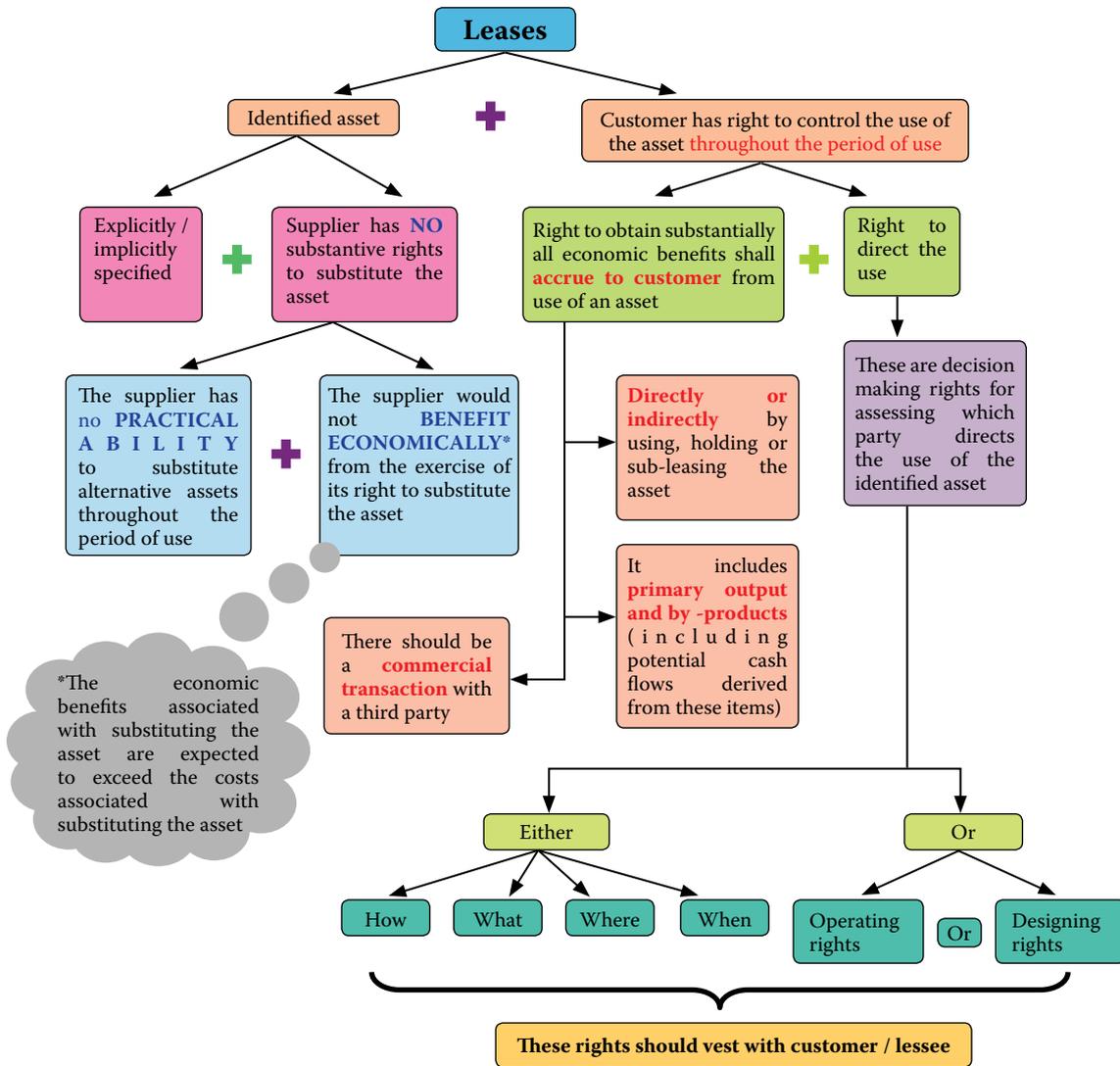
## Lease as per Ind AS 116

Definition	A lease is defined as a contract, or part of a contract that conveys the <b>right to control</b> the use of an <b>identified asset</b> for a <b>period of time</b> in <b>exchange for consideration</b> .
Date to identify the contract as a lease	Ind AS 116 requires customers and suppliers to determine whether a contract is or contains a lease <b>at the inception of the contract</b> .
Inception date	The inception date is defined as the <b>earlier</b> of the following dates: <ul style="list-style-type: none"> <li>• date of a lease agreement</li> <li>• date of commitment by the parties to the principal terms and conditions of the lease</li> </ul>

## Whether an Arrangement contains Lease?



The above chart can be elaborated as follows:

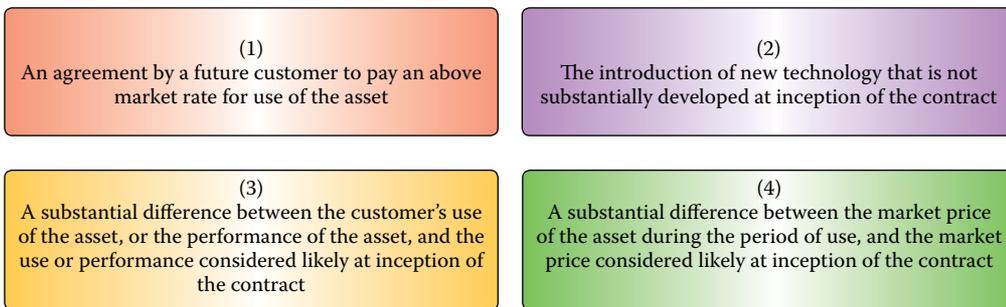


**Note:**

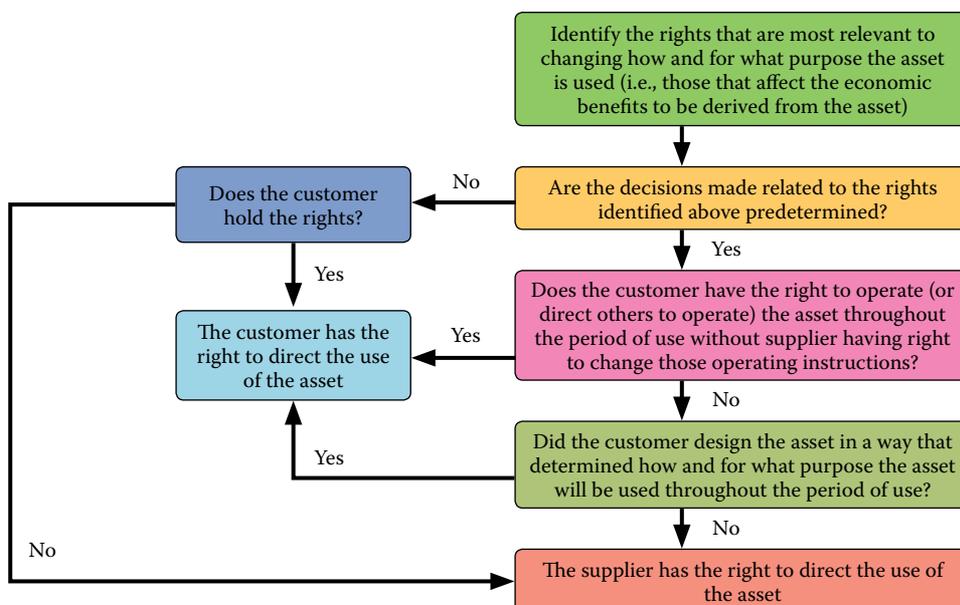
- In the case of substitution rights, the analysis primarily considers factors from the supplier's perspective.
- If the supplier has a right or an obligation to substitute the asset only on or after either a **particular date**, or the occurrence of a specified event, the supplier's substitution right is **not substantive** because the supplier does **not have the practical ability** to substitute alternative assets **throughout the period of use**.
- An entity's evaluation of whether a supplier's substitution right is substantive is based on **facts and circumstances at inception** of the contract. At inception of the contract, an entity should not consider future events that are not likely to occur.
- Contract terms that allow or require a supplier to substitute alternative assets only when the underlying **asset is not operating properly** (for e.g., a normal warranty provision) or when a **technical upgrade** becomes available **do not create a substantive substitution right**.
- Circumstances, at inception of the contract, if are not likely to occur, are **excluded** from the evaluation of whether a supplier's substitution right is substantive throughout the period of use:
- The right to control the use of an asset may not necessarily be documented, in form, as a lease agreement.
- A customer should **presume** that a supplier's substitution right is **not substantive** when the customer **cannot readily determine** whether the supplier has a substantive substitution right. This requirement is intended to clarify that a **customer is not expected to exert undue effort to provide evidence that a substitution right is not substantive**.
- An identified asset must be physically distinct. A physically distinct asset may be an entire asset or a portion of an asset. Similarly, a capacity or other portion of an asset that is not physically distinct is not an identified asset unless it represents **substantially all** of the capacity of the asset and thereby provides the customer with the **right to obtain substantially all of the economic benefits** from use of the asset.

# FINANCIAL REPORTING

Examples of circumstances that, at inception of the contract, are not likely to occur and, thus, are **excluded** from the evaluation of whether a supplier's substitution right is substantive throughout the period of use:



## Right to Direct the Use



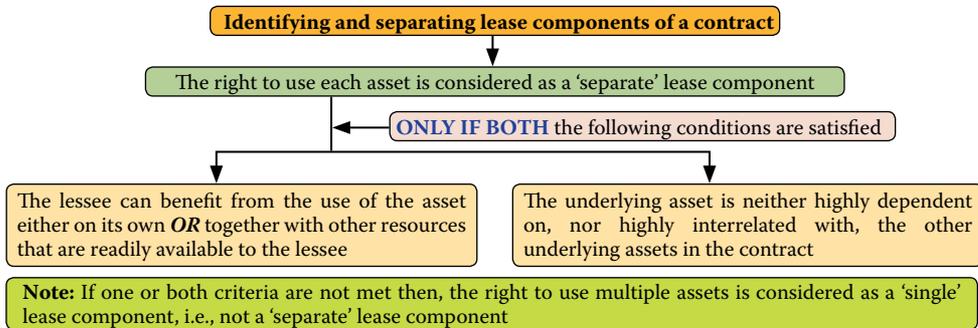
## Examples of relevant decision-making rights that grant the right to change how and for what purpose the asset is used

1	Lease of trucks / aircraft / rail cars etc	<ul style="list-style-type: none"> <li>Which goods are transported?</li> <li>When the goods are transported and to where?</li> <li>How often the asset is used?</li> <li>Which route is taken?</li> </ul>
2	Retail unit	<ul style="list-style-type: none"> <li>Which goods will be sold?</li> <li>Prices at which the goods will be sold?</li> <li>Where and how the goods are displayed?</li> </ul>
3	Power plant	<ul style="list-style-type: none"> <li>How much power will be delivered and when?</li> <li>When to turn the power plant on/off?</li> </ul>
4	Fibre-optic cable	<ul style="list-style-type: none"> <li>When and whether to light the fibres?</li> <li>What and how much data the cable will transport?</li> <li>How to run the cable?</li> <li>Through which routes the data will be delivered?</li> </ul>

<i>Specifying the output of an asset before the period of use</i>
<ul style="list-style-type: none"> <li>If a customer can only specify the output from an asset before the beginning of the period of use and cannot change that output throughout the period of use, the customer does <b>not have the right to direct the use of that asset unless</b> it designed the asset, <b>OR</b> specific aspects of the asset.</li> <li>If the customer did not design the asset or aspects of it, the customer's ability to specify the output in a contract that does not give it any other relevant decision-making rights relating to the use of the asset (<i>for e.g.</i>, the ability to change when, whether and what output is produced) gives the customer the same rights as any customer that purchases goods or services in an arrangement (i.e., a contract that does not contain a lease).</li> </ul>

<i>Protective rights</i>
<ul style="list-style-type: none"> <li>A supplier's protective rights, <b>in isolation, do not prevent the customer from having the right to direct the use</b> of an identified asset.</li> <li>Protective rights typically define the scope of the customer's right to use the asset without removing the customer's right to direct the use of the asset. Protective rights are intended to protect a supplier's interests.</li> <li>Protective rights typically define the scope of the customer's right of use but do not, in isolation, prevent the customer from having the right to direct the use of an asset.</li> </ul>

## Separation of Lease and Non-Lease Components

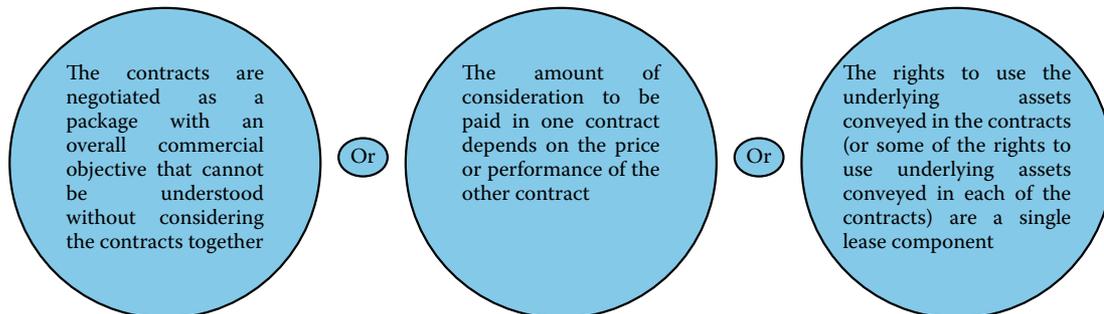


1.	Separating lease components from non-lease components	<p>Only items that <b>contribute to securing the output</b> of the asset <b>are lease components</b>.</p> <p><b>Costs incurred by a supplier to provide maintenance</b> on an underlying asset, as well as the materials and supplies consumed as a result of the use of the asset, <b>are not lease components</b>.</p> <p>The <b>non-lease components are identified and accounted for separately</b> from the lease component in accordance with other standards. <i>For e.g.</i>, the non-lease components may be accounted for as executory arrangements by lessees (customers) or as contracts subject to Ind AS 115 by lessors (suppliers).</p> <p>Costs related to <b>property taxes and insurance</b> that do not involve the transfer of a good or service, are fixed in the contract. Hence, they should be <b>included in the overall contract consideration to be allocated to the lease and non-lease components</b>.</p>
2.	Lessee reimbursements – whether a separate component of a contract?	<p><b>Reimbursements (or certain payments on behalf of lessor) by lessee</b> that do not transfer a good or service to the lessee are <b>not separate components of the contract</b>.</p> <p>Such items are considered as part of the total consideration which is allocated to the separately identified components of the contract (i.e., the lease and non-lease components, if any).</p>
3.	Optional exemption of using Practical Expedient – not to separate non-lease component	<p>Ind AS 116 provides a practical expedient that permits lessees to make an <b>accounting policy election</b>, by <b>CLASS OF UNDERLYING ASSET</b>, to account for each separate lease component of a contract and any associated non-lease components as a <b>SINGLE LEASE COMPONENT</b>.</p> <p>This practical expedient is <b>not permissible for lessor</b>.</p> <p>Lessees that make the <b>policy election</b> to account for each separate lease component of a contract and any associated non-lease components as a <b>SINGLE LEASE COMPONENT</b>, <b>allocate ALL of the contract consideration to the lease component</b>.</p> <p>Practical expedient does not allow lessees to account for multiple lease components of a contract as a single lease component, if it meets the conditions given in point 1 above.</p>
4.	Determining and allocating the consideration in the contract – Lessee	<p>Lessees that do not use the practical expedient, are required to <b>allocate</b> the consideration in the contract to the lease and non-lease components on a <b>RELATIVE STAND-ALONE PRICE BASIS</b>.</p> <p>If observable stand-alone prices are not readily available, lessees <b>estimate</b> stand-alone prices, maximising the use of observable information.</p>
5.	Determining and allocating the consideration in the contract – Lessors	<p>Lessors are required to <b>allocate</b> the consideration in the contract to the lease and any associated non-lease components as per <b>paragraphs 73 – 90 of Ind AS 115 Revenue from Contracts with Customers</b>.</p>

# FINANCIAL REPORTING

## Contract Combinations

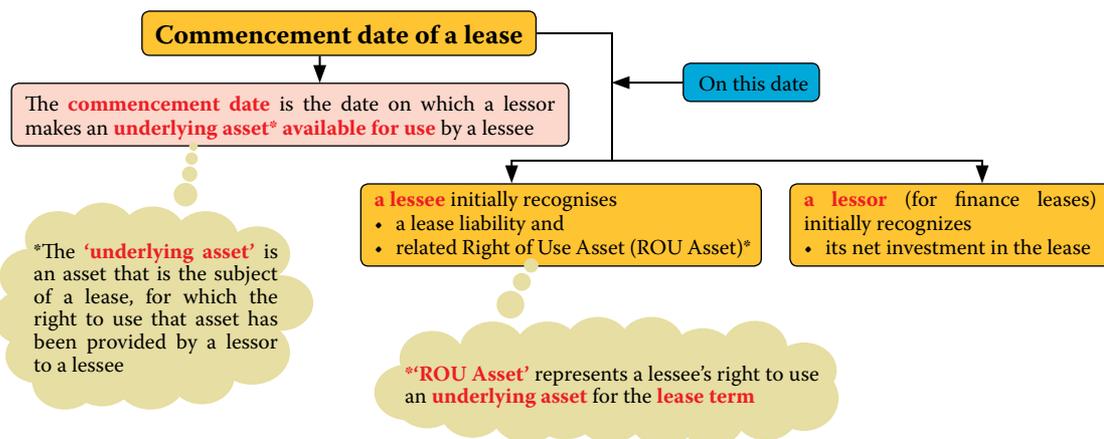
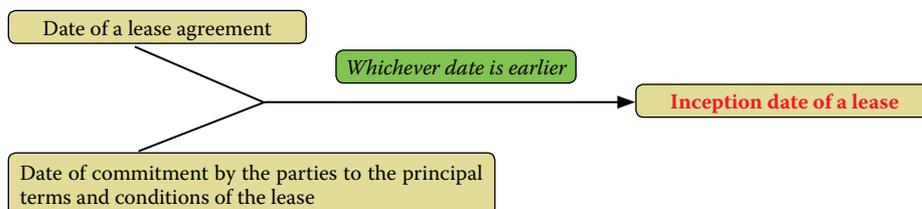
Ind AS 116 requires that two or more contracts entered into at or near the **same time** with the **same counterparty (or related parties of the counterparty)** be considered a **'single' contract** IF ANY ONE of the following criteria is met:



## Portfolio Application

- Ind AS 116 **includes a practical expedient** that allows entities to use a portfolio approach for **leases with similar characteristics** if the entity reasonably expects that the **effects on the financial statements would not differ materially** from the application of the standard to the individual leases in that portfolio.
- If accounting for a portfolio, an entity uses estimates and assumptions that reflect the size and composition of the portfolio.
- A decision to use the portfolio approach would be similar to a **decision some entities make today to expense, rather capitalise, certain assets** when the accounting difference is, and would continue to be, immaterial to the financial statements.

Determination of contract that whether it contains a lease is done at the **inception of the contract**.



**Note:**

- In certain cases, the commencement date of the lease may be before the date stipulated in the lease agreement.
- The timing of when lease payments begin under the contract **does not affect** the commencement date of the lease.

**Lease Term**

The assessment of the lease term is a critical estimate and a key input to the amount of the lease liability.

	Particulars	Years
1	Rent free period	XXX
2	Non-cancellable period	XXX
3	Optional renewable periods (where lessee is reasonably certain to extend the lease)	XXX
4	Periods covered by option to terminate the lease (where lessee is reasonably certain not to terminate early)	XXX
	<b>Total Lease terms</b>	<b>XXXX</b>

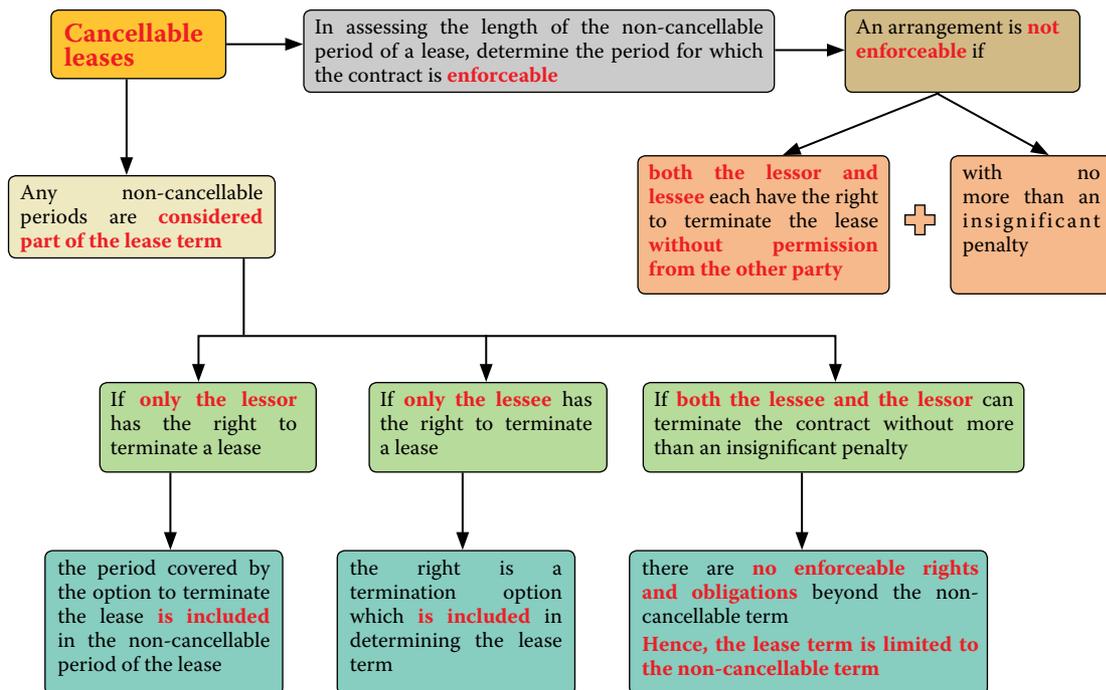
**Notes:**

- Lease term begins **at the commencement date** and include any rent-free period.
- Termination options held **by the lessor are not considered** when determining the lease term.
- The assessment of whether it is reasonably certain that a lessee will exercise an extension or termination option **should be done on lease commencement date.**

An entity should consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Example of relevant factors to consider are:

Contractual terms vis-a vis market rates		Asset related factors	
1.	Lease rentals in optional period, ex. Termination penalties and residual value guarantees	1.	Specialised asset
2.	Variable or contingent payment	2.	Location of underlying asset
3.	Terms and condition after initial optional period. Example: Purchase option	3.	Availability of suitable alternatives
4.	Cost relating to the termination of the lease and signing of new replacement lease	4.	Existence of significant leasehold improvement



# FINANCIAL REPORTING

## Explained through an example:

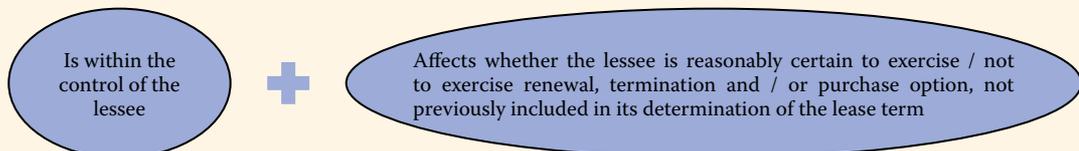
Suppose the term of a contract is 10 years and the non-cancellable / lock-in period is 6 years. The lease term shall be as follows:

If the termination option is with 'Lessor'	If the termination option is with 'Lessee'	If the termination option is with 'Both' (i.e., any party can terminate)
<p>The lease term shall be <b>10 years</b>.</p> <p><i>Because even after 6<sup>th</sup> year, the lessee would be contractually bound until 10<sup>th</sup> year i.e. lessee cannot refuse to make the payment till the expiry of the contract and also, has the right to use the asset until 10<sup>th</sup> year, unless lessor terminates the contract.</i></p>	<p>The lease term shall be <b>10 years</b> assuming reasonable certainty.</p> <p><i>Because after the expiry of 6<sup>th</sup> year, though the lessee is not contractually bound till 10<sup>th</sup> year, i.e., the lessee can refuse to make payment anytime without lessor's permission but, it is assumed that the lessee is reasonably certain that it will not exercise this option to terminate. Hence, though there is no enforceable obligation from lessee's point of view beyond 6<sup>th</sup> year but, basis the said assumption, the lease term shall be 10 years.</i></p>	<p>The lease term shall be <b>6 years</b>.</p> <p><i>Because after 6<sup>th</sup> year, either party can terminate the contract without the consent of the other party and hence, the contract is not enforceable after 6<sup>th</sup> year <b>ONLY IF</b> there is insignificant penalty for termination.</i></p>

## Reassessment of lease term and purchase options

### A. For lessees

Lessees are required to **reassess** the lease term upon the occurrence of either a **significant event** OR a **significant change** in the circumstances that:



Following are some of the examples of significant events or significant changes in circumstances within the lessee's control:

- 1) Constructing significant leasehold improvements that are expected to have significant economic value for the lessee when the option becomes exercisable
- 2) Making significant modifications or customisations to the underlying asset
- 3) Making a business decision that is directly relevant to the lessee's ability to exercise, or not to exercise, an option (e.g., extending the lease of a complementary asset or disposing of an alternative asset)
- 4) Subleasing the underlying asset for a period beyond the exercise date of the option

**Note:** Changes in market-based factors (*for e.g.*, a change in market rates to lease or purchase a comparable asset) are not within the lessee's control, and therefore, they **do not trigger a reassessment by themselves**.

### Revision of Lease Term

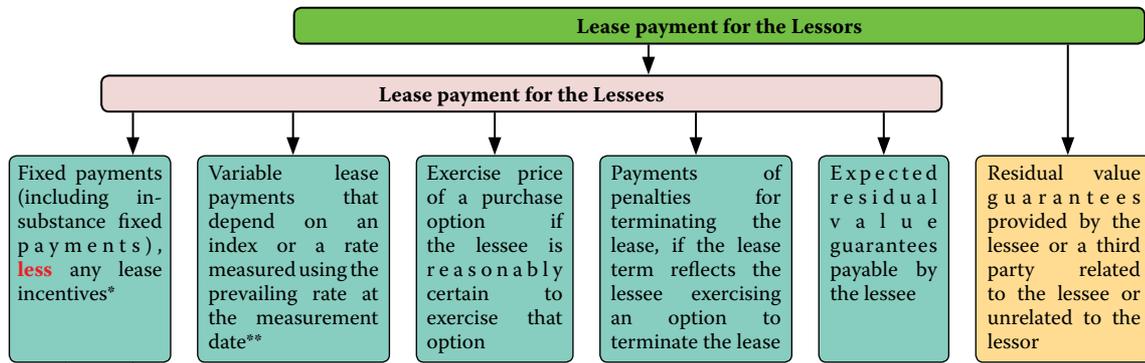
Lessees are required to revise the lease term if there is change in the non-cancellable period of lease. Following are the example which leads to change in non-cancellable period of a lease:

If the lessee <b>exercises an option</b> not previously included in the entity's determination of the lease term	If the lessee <b>does not exercise an option</b> previously included in the entity's determination of the lease term
<span style="border: 1px solid orange; border-radius: 15px; padding: 5px; display: inline-block;">Change in non-cancellable lease period</span>	
An event occurs that <b>contractually obliges the lessee</b> to exercise an option not previously included in the entity's determination of the lease term	An event occurs that <b>contractually prohibits</b> the lessee from exercising an option previously included in the entity's determination of the lease term

### B. For lessors

Lessor revises the lease term to account for the lessee's exercise of an option to extend or terminate the lease or purchase the underlying asset when exercise of such options was not already included in the lease term.

**Lease Payments**



It includes any **in-substance fixed lease payments** which are the payments that may, **in form, contain variability but in substance, are unavoidable**

**\*Lease incentives**

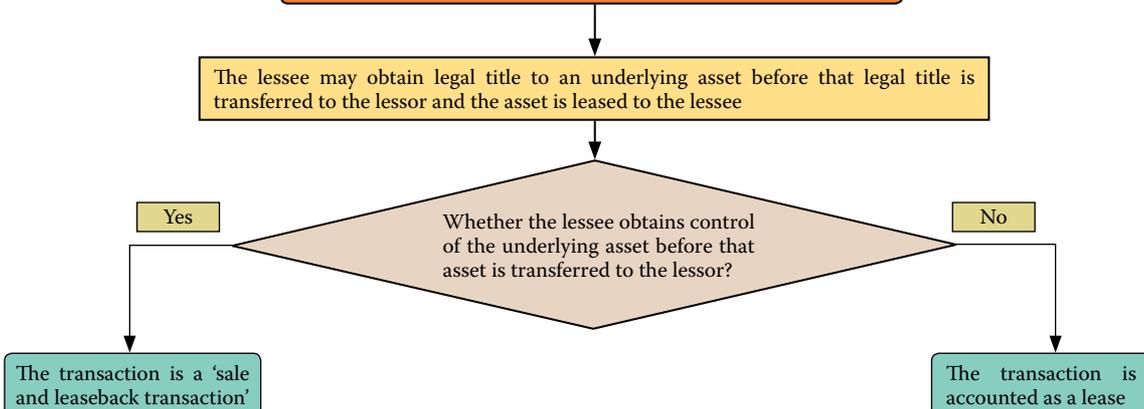
- **For lessee** - lease incentives that are paid or payable to lessee by the lessor are deductible from lease payments and reduce the initial measurement of lessee' ROU asset.
- **For lessors** - lease incentives are also deducted from lease payments and affect the lease classification test.
  - **For finance leases**
    - lease incentives reduce the expected lease receivables at the commencement date and thereby the initial measurement of the lessor's net investment in the lease.
    - selling profit or loss is not affected.
  - **For operating leases**
    - defer the cost of any lease incentives paid or payable to the lessee and recognise that cost as a reduction to lease income over the lease term.

\*\*Lessees subsequently remeasure the lease liability if there is a change in the cash flows (i.e., when the adjustment to the lease payments takes effect) for future payments resulting from a change in index or rate used to determine lease payments.

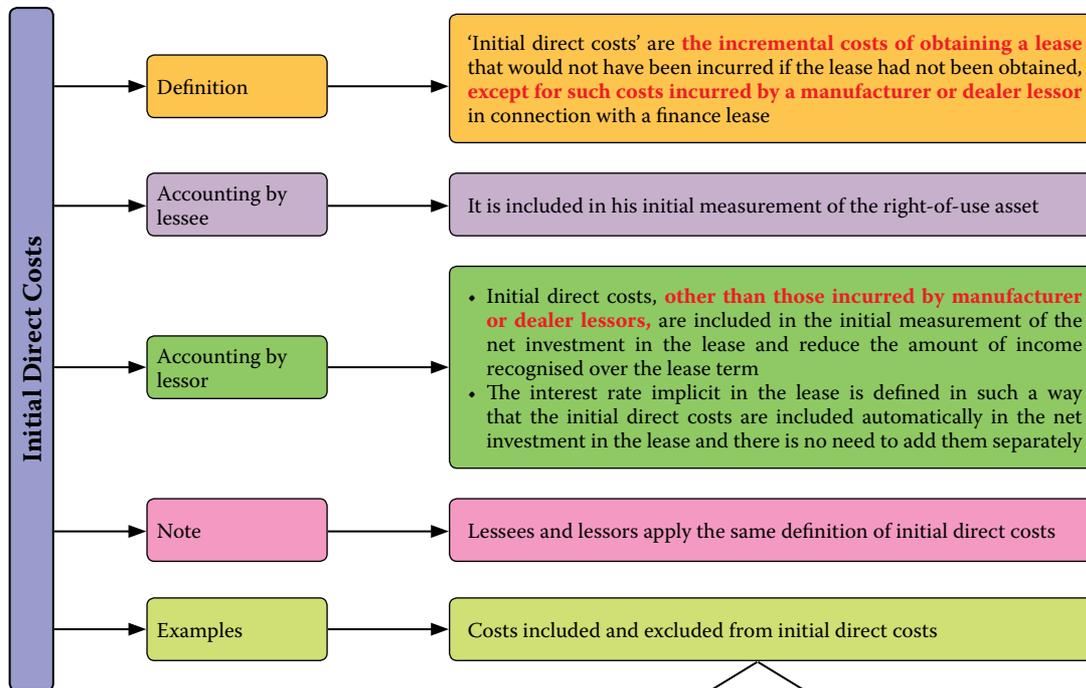
**Exclusion of payments for calculating lease liability:**

- a. **Lease payments allocated to non-lease components of a contract**, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.
- b. Variable lease payments that **do not** depend on index or rate. They are recognised in profit or loss in the period in which the event that triggers the payment occurs.

**Lessee Involvement before Commencement Date**



# FINANCIAL REPORTING



Inclusion	Exclusion
Commission (including payments to employees acting as selling agents)	Employee salaries
Legal fees resulting from the execution of the lease	Legal fees for services rendered before the execution of the lease
Lease document preparation costs incurred after the execution of the lease	Negotiating lease term and conditions
Certain payments to existing tenants to move out	Advertising
Consideration paid for a guarantee of a residual asset by an unrelated third party	Depreciation and amortization

## Discount Rates

Discount rates are used to determine the present value of the lease payments, which are used to determine **Right-of Use asset and Lease liability in case of a lessee** and **to measure a lessor's net investment** in the lease.

**For a Lessee**  
Discount rate to be used should be:

THE INTEREST RATE IMPLICIT IN THE LEASE, if that rate can be readily determined **OR** If not, then the lessee shall use THE LESSEE'S INCREMENTAL BORROWING RATE

Where,  
'Interest rate implicit in the lease' is defined as the rate of interest that causes the following:

The present value of lease payments made by the lessee for the right to use the underlying asset + The unguaranteed residual value = The fair value of the underlying asset + Any initial direct costs of the lessor

- Lessee's **incremental borrowing rate** is the rate of interest that
  - the lessee would have to pay to borrow over a **similar term**
  - and with a **similar security**
  - the funds necessary to obtain an asset of a **similar value** to the Right of use Asset
  - in a **similar economic environment**.
- In determining the incremental borrowing rate, the lessee considers borrowings with a similar term and security to the ROU Asset (**NOT the underlying asset**).
- If the contract requires lease payments to be made in a foreign currency then, the incremental borrowing rate of the lessee should be determined based on a borrowing of a similar amount in that foreign currency.

**For a Lessor:**

Lessor to use the interest rate implicit in the lease.

## Fair Value

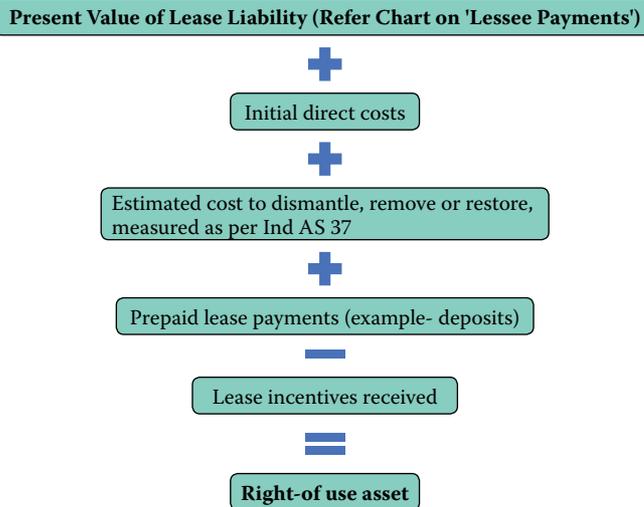
The fair value for the purposes of applying the lessor accounting requirements in Ind AS 116 is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Note:** For the purposes of determination of fair value under Ind AS 116, above stated definition is to be considered, hence Ind AS 113 "Fair Value Measurement" is not applicable for determination of fair value.

## Accounting in the Books of Lessee

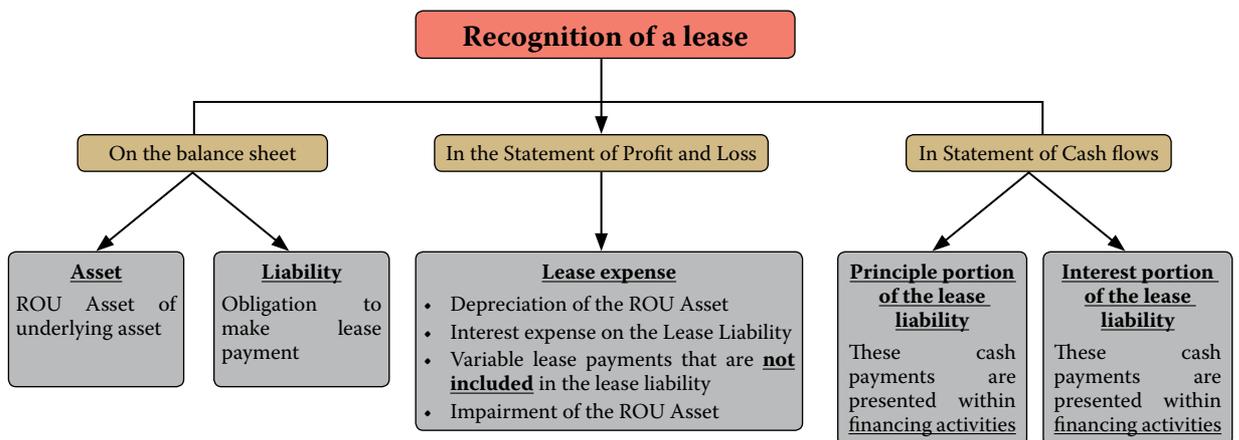
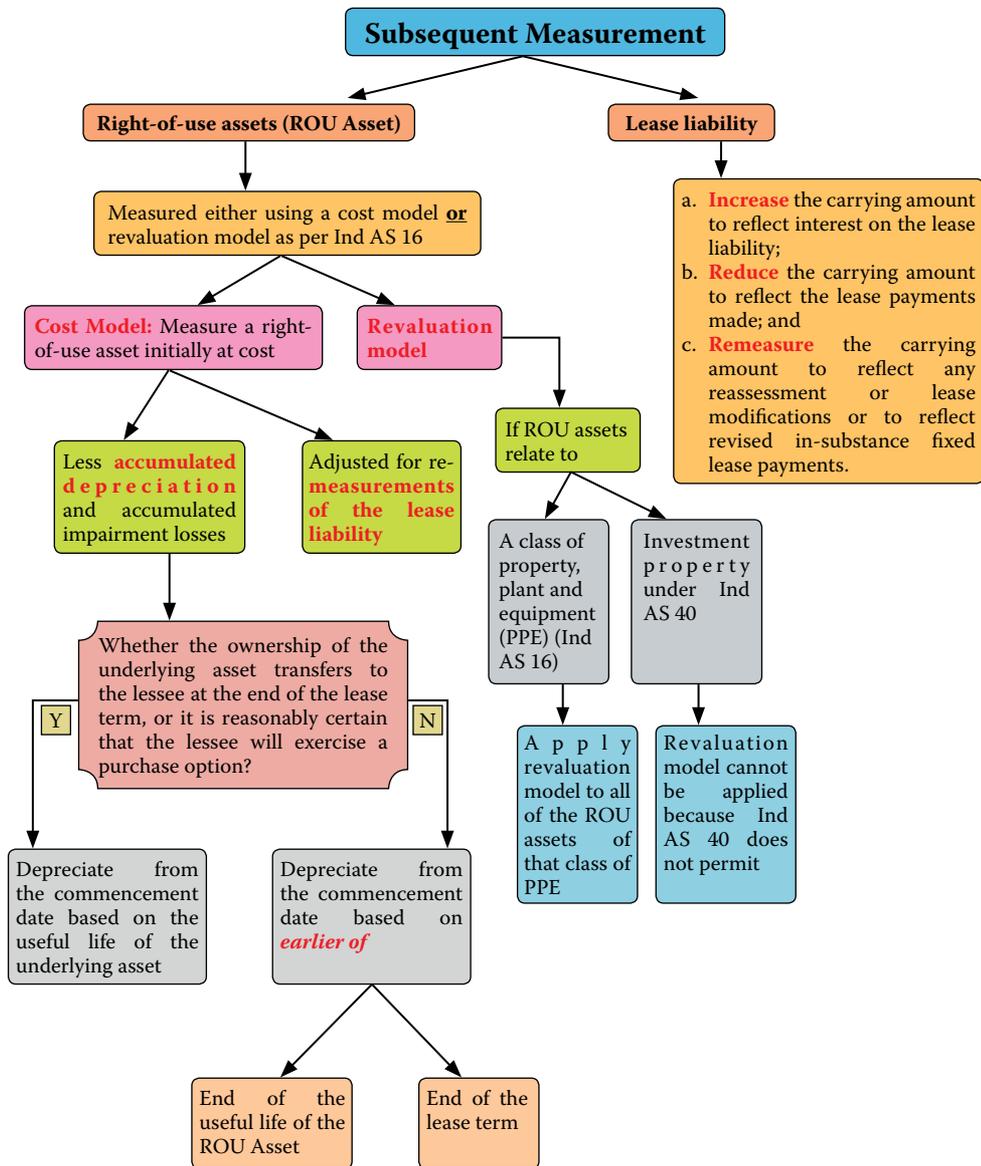
- A '**lessee**' is defined as an entity that obtains the right to use an **underlying asset** for a period of time in exchange for consideration.
- **At the commencement date**, a lessee shall recognise a ROU Asset and a Lease Liability.
- A lessee initially measures the ROU Asset at **COST**, which consists of **ALL** of the following:

### Initial Measurement of Right-of Use Asset (ROU Asset)



**Journal entry in the books of lessee**

ROU Asset	Dr.	Sum total of all below items
To Lease liability	Cr.	Present Value of outstanding lease payments by lessee using interest rate implicit in lease
To Lessor / Supplier	Cr.	Any lease payment made on or before the commencement date <i>less</i> lease incentives received
To Bank / Creditor	Cr.	Initial direct costs incurred by lessee
To Provision for dismantling / removing the underlying asset	Cr.	Estimate of costs to be recognised only when lessee incurs an obligation for these costs (Ind AS 37)

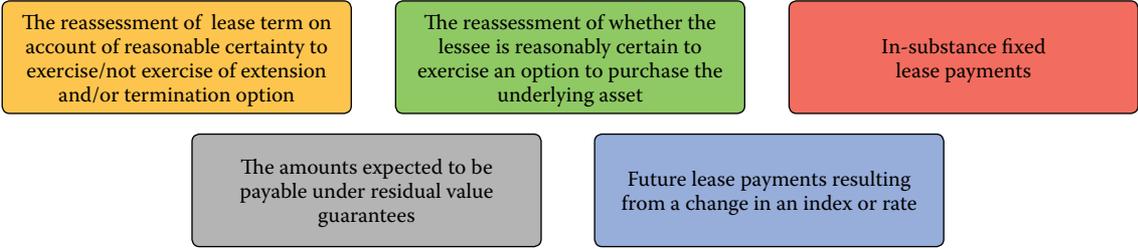


**Leases denominated in a foreign currency**

Lease Liability	Applying Ind AS 21, Lessees remeasure the foreign currency-denominated lease liability using the exchange rate at each reporting date, <b>like they do for other monetary liabilities</b> .
	Any <b>changes</b> to the lease liability due to exchange rate changes are <b>recognised in profit or loss</b> .
ROU Asset	Since <b>ROU Asset is a non-monetary asset</b> measured at historical cost, it is <b>not affected by changes in the exchange rate</b> .

**Remeasurement**

Remeasure lease liabilities upon a change in lease payments on account of **ANY** of the following:



**When to use the 'original' and a 'revised' discount rate?**

Revised Discount Rate	Original Discount Rate
Lessees use a <b>revised</b> discount rate when lease payments are updated for - reassessment of the lease term <b>OR</b> - a reassessment of a purchase option. The revised discount rate is based on the interest rate implicit in the lease for the <b>REMAINDER</b> of the lease term. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate.	Lessees use the <b>original</b> discount rate when lease payments are updated for - a change in expected amounts for residual value guarantees <b>AND</b> - payments dependent on an index or rate, <b>unless</b> the rate is a floating interest rate. - the variability of payments is resolved so that they become in-substance fixed payments.

**Note:** A lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the ROU Asset. However, if the carrying amount of the ROU Asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee recognises any remaining amount of the remeasurement in profit or loss.

CA FINAL - PAPER 1 - FINANCIAL REPORTING

In a pursuit to provide quality academic inputs to the students to help them in grasping the intricate aspects of the subject, the Board of studies bring forth a crisp and concise capsule on Final new course Paper 1 : Financial Reporting.

The syllabus of this paper covers almost all Indian Accounting Standards. Earlier in July, 2018, May, 2019, August, 2019, October, 2019 and November, 2020 issues, we have covered the concepts on many other Ind AS. For a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any.

This is part 2 of the sixth capsule in the series of Final Paper 1 : Financial Reporting. Part 1 of the sixth capsule was published in July, 2021 issue of this Journal. In continuation to Part I, this capsule contains remaining concepts of Ind AS 116 : Leases.

Students are advised to refer the study material or bare text of Ind AS 116 for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

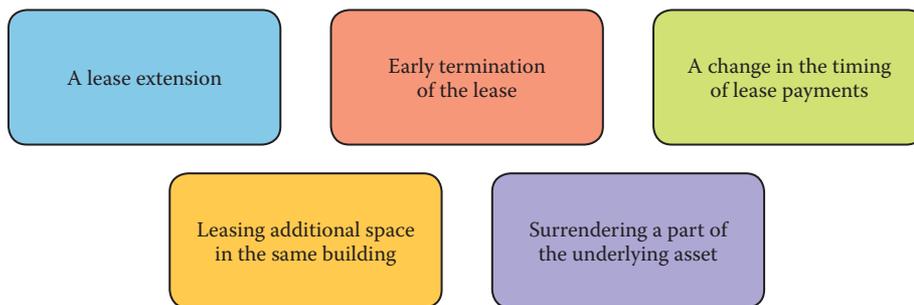
Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

INDIAN ACCOUNTING STANDARDS (IND AS) 116 : LEASES - PART II

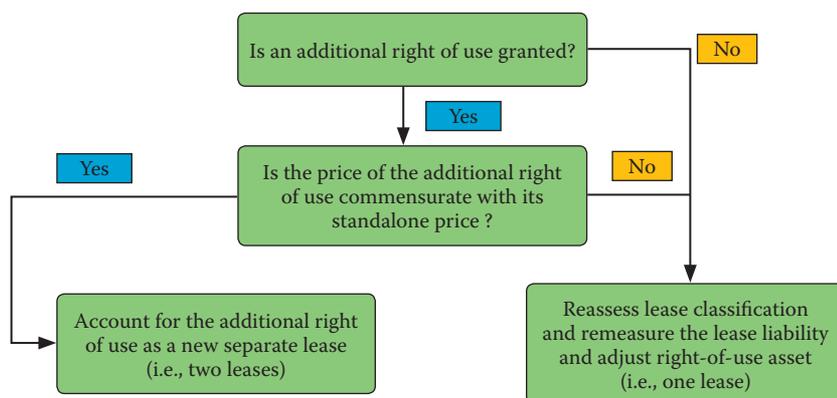
Lease Modifications in the Books of Lessee

A 'lease modification' is a **change** in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Examples of lease modifications that may be negotiated after the lease commencement date:

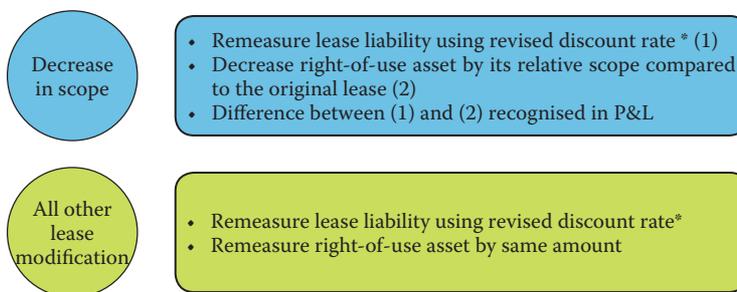


Lessee's Analysis of a Change in Lease



The exercise of an existing purchase or renewal option or a change in the assessment of whether such options are reasonably certain to be exercised are **not lease modifications but can result in the remeasurement** of Lease Liabilities and ROU Assets.

## Accounting Treatment for Lease Modifications that are not Accounted for as Separate Leases



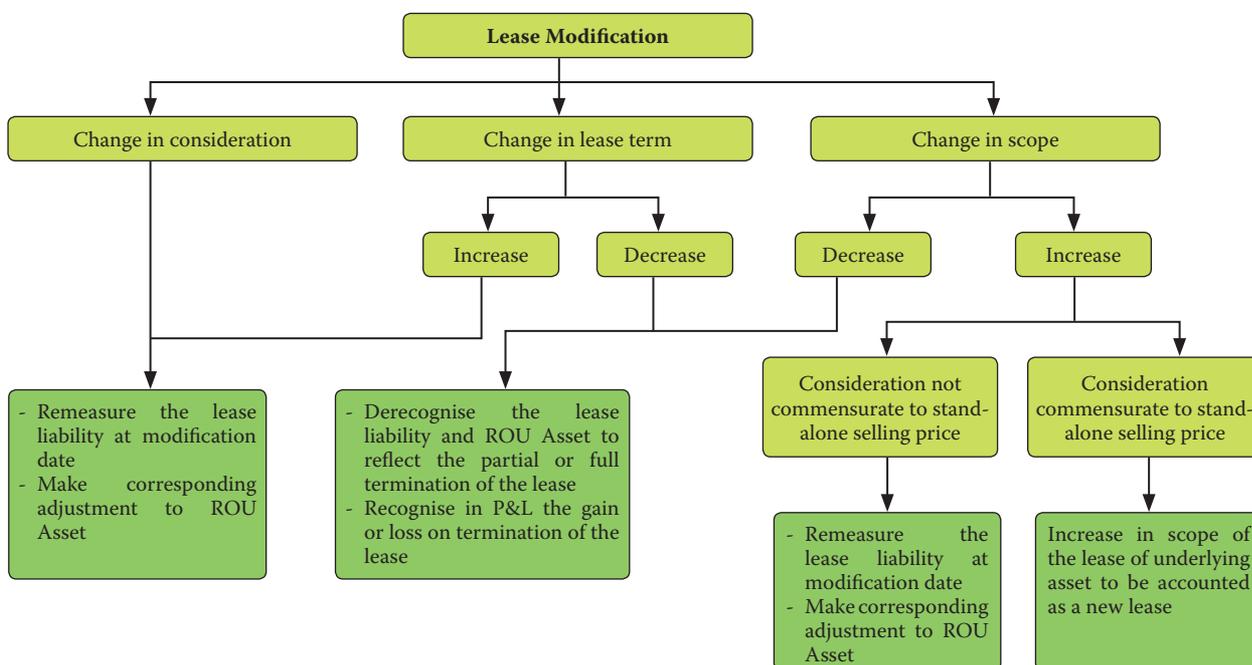
\* The implicit rate in the lease is to be used. If it cannot be readily determined, the incremental rate of borrowing is to be used.

- The re-measurements occur as of the effective date of the lease modification on a prospective basis.
- In some cases, the lessee and lessor may agree to a modification to the lease contract that starts at a later date (i.e., the terms of the modification take effect at a date later than the date when both parties agreed to the modification). This can be understood with the help of a following example:

**Case study:** A lessee enters into a lease arrangement with a lessor to lease an asset for 10 years. At the beginning of year 8, the lessee and lessor agree to a modification to the contract that will take effect from the beginning of year 9.

Scenario 1 (Increase in scope – Not a Separate Lease)	Scenario 2 (Increase in scope – Separate Lease)	Scenario 3 (Decrease in scope)
Lessee will re-allocate the consideration in the modified contract to each of the existing lease and non-lease components and Remeasure the lease liability <b>at the date both parties agreed to the modification</b> (the beginning of year 8).	Lessee will <b>allocate the consideration</b> in the modified contract <b>to each of the existing and new lease and non-lease components</b> at the date both parties agreed to the modification (the beginning of year 8). The lessee will <b>remeasure the lease liability for the existing lease components</b> at that date as well. However, <b>recognition of the lease liability and ROU Asset for any new lease component occurs at the commencement date of the new lease component</b> (the beginning of year 9).	Lessee will <b>re-allocate the consideration</b> in the modified contract <b>to each existing lease and non-lease component</b> and <b>remeasure the lease liability and ROU Asset at the effective date of the modification</b> (the beginning of year 8).

### Summarised Flowchart for Lease Modification in the Books of Lessee:



**Presentation in the Books of Lessee**

Balance Sheet	Statement of profit and loss	Statement of cash flows
<p><b>ROU Assets:</b> They are presented either:</p> <ul style="list-style-type: none"> <li>- Separately from other assets (e.g., owned assets) <b>OR</b></li> <li>- Together with other assets as if they were owned, with disclosures of the balance sheet line items that include ROU Assets and their amounts</li> </ul> <p>ROU Assets that meet the definition of investment property are presented as investment property</p> <p><b>Lease Liabilities:</b> They are presented either:</p> <ul style="list-style-type: none"> <li>- Separately from other liabilities <b>OR</b></li> <li>- Together with other liabilities with disclosure of the balance sheet line items that includes lease liabilities and their amounts</li> </ul>	<p><b>Depreciation and Interest:</b> Depreciation on Right of use asset and interest expense accreted on lease liabilities are presented <b>separately</b> (i.e., they <b>CANNOT</b> be combined).</p> <p>This is because interest expense on the lease liability is a component of <b>finance costs</b></p>	<p><b>Principal portion of the lease liability:</b> - These cash payments are presented within <b>financing activities</b></p> <p><b>Interest portion of the lease liability:</b> - These cash payments are presented within <b>financing activities</b></p> <p><b>Short-term leases and leases of low-value assets:</b> - Lease payments pertaining to them (i.e., not recognised on the balance sheet as per Ind AS 116) are presented within <b>operating activities</b></p> <p><b>Variable lease payments not included in the lease liability:</b> - These are also presented within <b>operating activities</b></p> <p><b>Non-cash activity:</b> Such activity is disclosed as a supplemental non-cash item (e.g., the initial recognition of the lease at commencement)</p>

**Disclosures in the Books of Lessee**

Ind AS 116 requires lessees to present all disclosures in:

- a single note **OR**
- separate section in the financial statements.

Quantitative Disclosure Requirement		
Balance Sheet	Statement of profit and loss	Statement of cash flows
<ul style="list-style-type: none"> <li>- Additions to right-of-use assets</li> <li>- Carrying value of right-of-use assets at the end of the reporting period by class</li> <li>- Maturity analysis of lease liabilities separately from other liabilities based on Ind AS 107 requirements</li> </ul>	<ul style="list-style-type: none"> <li>- Depreciation for assets by class</li> <li>- Interest expense on lease liabilities</li> <li>- Short-term leases expensed*</li> <li>- Low-value leases expensed*</li> <li>- Variable lease payments expensed</li> <li>- Income from subleasing</li> <li>- Gains or losses arising from sale and leaseback transactions</li> </ul>	<ul style="list-style-type: none"> <li>- Total cash outflow for leases</li> </ul>

- \* These disclosures need not include leases with lease terms of one month or less.
- All of the above disclosures are required to be presented in tabular format, unless another format is more appropriate.
- The amounts disclosed include costs that a lessee has included in the carrying amount of another asset during the reporting period.
- Other disclosure requirements also include:
  - ▶ Commitments for short-term leases if the current period expense is dissimilar to future commitments.
  - ▶ For right-of-use assets that meet the definition of investment property, the disclosure requirements of Ind AS 40, *Investment Property*, with a few exclusions.
  - ▶ For right-of-use assets where the revaluation model has been applied, the disclosure requirements of Ind AS 16, *Property, Plant and Equipment*.
  - ▶ Entities applying the short-term and / or low-value lease exemptions are required to disclose that fact.

Qualitative Disclosure Requirements
<ul style="list-style-type: none"> <li>- A summary of the nature of the entity's leasing activities;</li> <li>- Potential cash outflows the entity is exposed to that are not included in the measured lease liability:                             <ul style="list-style-type: none"> <li>• Variable lease payments;</li> <li>• Extension options and termination options;</li> <li>• Residual value guarantees;</li> <li>• Leases not yet commenced to which the lessee is committed;</li> <li>• Restrictions or covenants imposed by leases;</li> <li>• Sale and leaseback transaction information.</li> </ul> </li> </ul>

# FINANCIAL REPORTING ||

In providing additional information, lessees are required to consider:

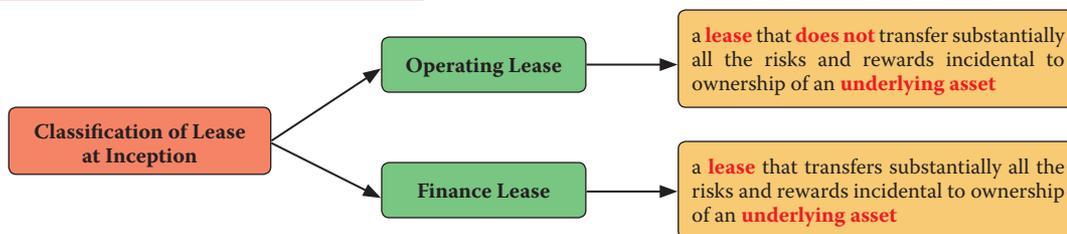
- (a) Whether that information is relevant to the users of the financial statements. The additional information is included **ONLY IF** that information is **expected to be relevant** to users of financial statements. For e.g., this is likely to be relevant if it helps those users to understand:

The flexibility provided by leases	for e.g., a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions
Restrictions imposed by leases	for e.g., by requiring the lessee to maintain particular financial ratios
Sensitivity of reported information to key variables	for e.g., future variable lease payments
Deviations from industry practice	for e.g., unusual or unique lease terms and conditions that affect a lessee's lease portfolio
Exposure to other risks arising from leases	

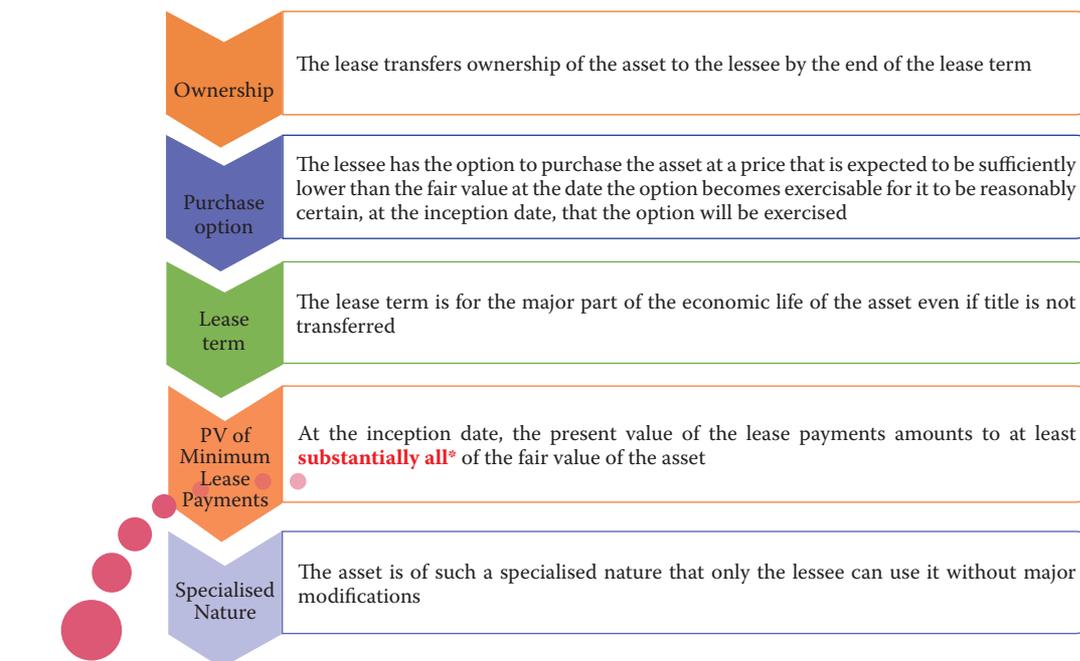
- (b) Whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes.

**Note:** A lessee need not duplicate information that is already presented elsewhere in the financial statements.

## Accounting in the Books of Lessor

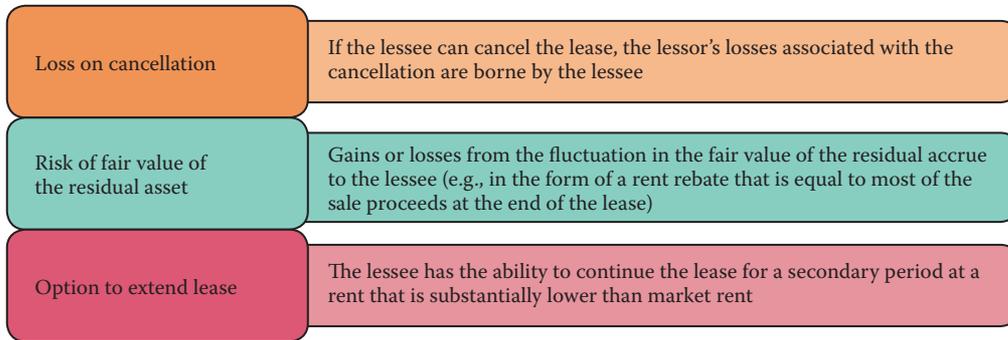


## Examples that Individually, or in Combination, would normally Lead to a Lease being Classified as a FINANCE LEASE



\*The term "substantially all" is not defined in Ind AS 116.

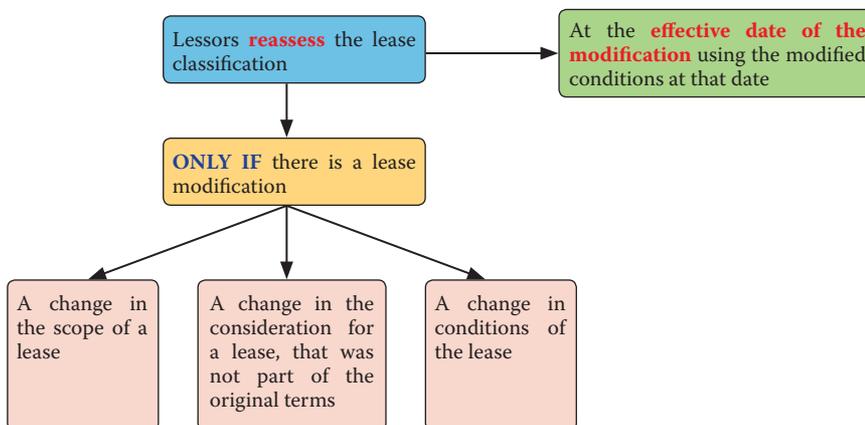
Additionally, Ind AS 116 lists the following indicators of situations that, **individually or in combination**, could also lead to a lease being classified as a **FINANCE LEASE**



## Lease Classification Test for Land and Buildings by the Lessor

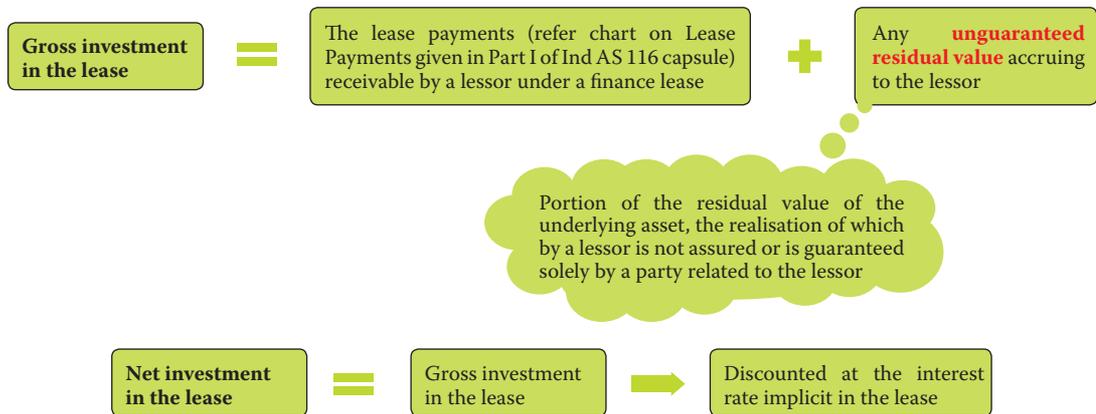
<b>Classification assessment</b>	<ul style="list-style-type: none"> <li>Lessor <b>separately assesses</b> the classification of each element as a finance lease or an operating lease, <b>having fact that land normally has an indefinite economic life</b></li> <li>If the lease payments <b>cannot be allocated reliably</b> between the land and the buildings elements, the <b>entire lease is classified as a finance lease</b></li> <li>If <b>both elements</b> (land and building) of the lease payments <b>are operating leases, the entire lease is classified as an operating lease</b></li> </ul>
<b>Allocation of lease payments</b>	<ul style="list-style-type: none"> <li>Allocate lease payments between the land and the buildings elements <b>in proportion to the relative fair values</b> of the leasehold interests in the land element and buildings element of the lease <b>at the inception date</b></li> </ul>
<b>Single unit - Economic life</b>	<ul style="list-style-type: none"> <li>When the amount for the land element is <b>immaterial</b> to the lease, the lessor may treat the land and buildings as a <b>single unit</b> for the purpose of lease classification and classify it as a finance lease or an operating lease.</li> <li>In such a case, the lessor regards the economic life of the buildings as the economic life of the <b>entire</b> underlying asset</li> </ul>

## Reassessment of Lease Classification by the Lessor



**Note:** If a lease modification results in a separate new lease, that new lease would be classified in the **same manner** as any new lease.

# FINANCIAL REPORTING ||



## Accounting for Initial Direct Costs

By Lessor	
<b>Finance Lease:</b>	
•	<b>Lessors (other than manufacturer or dealer lessors)</b> are required to include initial direct costs in the initial measurement of their net investment in finance leases and reduce the amount of income recognised over the lease term.
•	The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease and they are <b>not added separately</b> .
•	Initial direct costs related to finance leases incurred <b>by manufacturer or dealer lessors are expensed at lease commencement</b> .
<b>Operating Lease:</b>	
•	Ind AS 116 requires lessors <b>to include initial direct costs in the carrying amount of the underlying asset in an operating lease</b> .
•	These initial direct costs are <b>recognised as an expense over the lease term</b> on the same basis as lease income.

## Finance Leases- Recognition by the Lessor

At the commencement date, a lessor shall recognise assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the **net investment in the lease**.

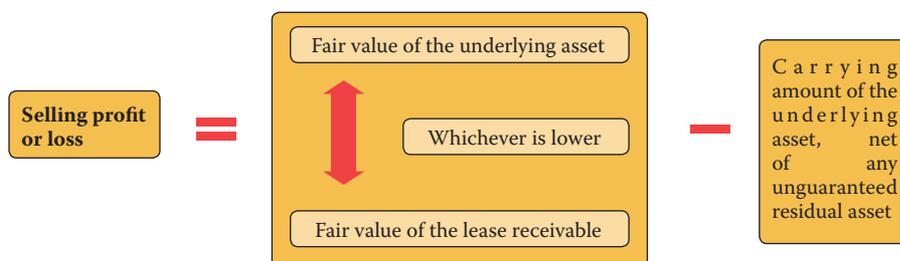
## Initial Measurement by the Lessor

Journal entry for finance lease

Finance lease receivable	Dr.	Net investment
To Underlying asset		Carrying amount

(Balancing figure is profit or loss)

For finance leases (other than those involving manufacturer and dealer lessors), initial direct costs are included in the initial measurement of the finance lease receivable, hence are **not added separately to the net investment in lease**.



**Initial Measurement – Manufacturer or Dealer Lessors**

- At the commencement date, a manufacturer or dealer lessor recognises selling profit or loss in accordance with its policy for outright sales to which Ind AS 115 applies.
- Therefore, at lease commencement, a manufacturer or dealer lessor recognises the following:

The fair value of the underlying asset as revenue **OR** the present value of the lease payments discounted using a market rate of interest, whichever is **lower**.

The cost (or carrying amount) of the asset (less) the present value of the unguaranteed residual value, as cost of sale.

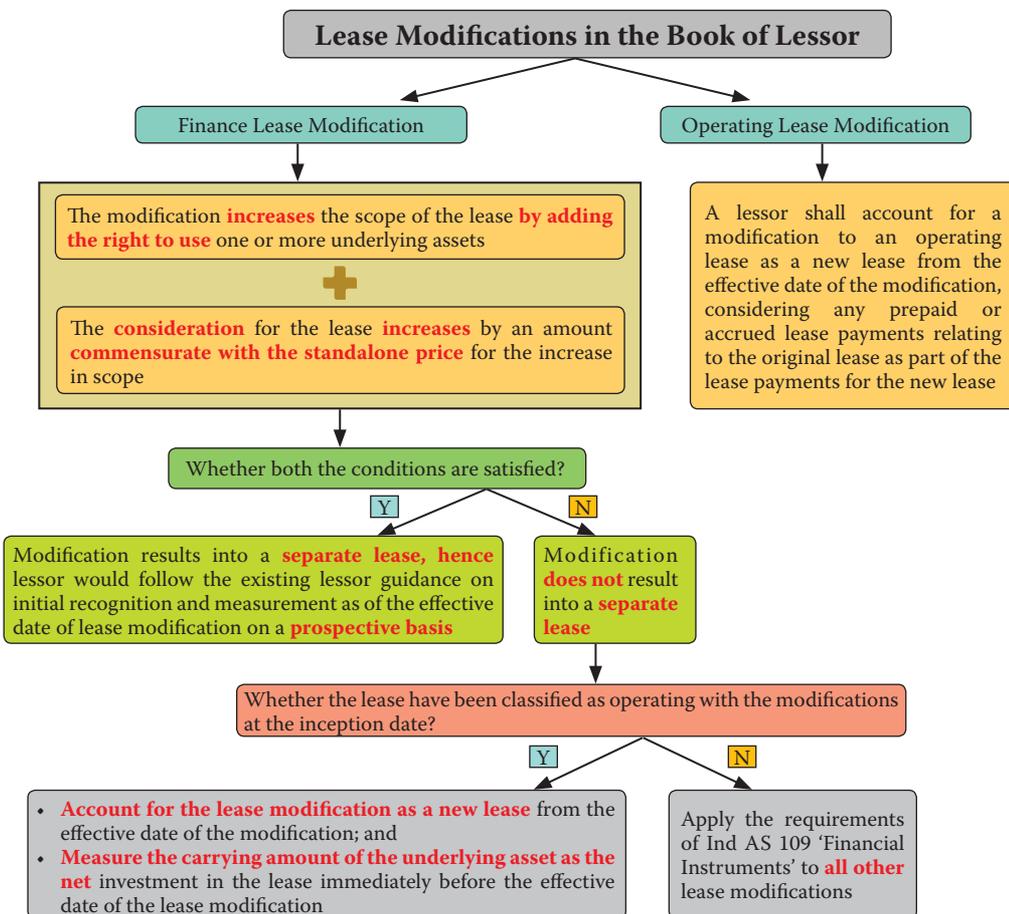
The selling profit or loss in accordance with the policy for outright sales.

- At the commencement date, a manufacturer or dealer lessor recognises selling profit or loss on a **finance lease**, regardless of whether the lessor transfers the underlying asset as described under Ind AS 115.
- Costs incurred by a manufacturer or dealer lessor in connection with **obtaining a finance lease are recognised as an expense at the commencement date** and are **excluded** from the net investment in the lease.

**Summary-Accounting Treatment in the Books of a Lessor**

Particulars	Finance Leases	Operating Leases
<b>Initial measurement</b>		
Balance sheet	<ul style="list-style-type: none"> <li>• <b>Derecognise the carrying amount</b> of the underlying asset</li> <li>• <b>Recognise the net investment</b> in the lease i.e. a finance lease receivable (equal to the present value of the lease payments to be received)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continue to present</b> the underlying asset</li> <li>• <b>Add any initial direct costs</b> incurred in connection with obtaining the lease to the carrying amount of the underlying asset</li> <li>• A <b>manufacturer or dealer lessor does not recognise any selling profit</b> on entering into an operating lease because it is not equivalent of a sale</li> </ul>
Statement of Profit and loss	<ul style="list-style-type: none"> <li>• Recognise in profit or loss, any <b>selling profit or selling loss</b></li> </ul>	
<b>Subsequent measurement</b>		
Balance sheet	<ul style="list-style-type: none"> <li>• <b>Reduce the net investment</b> in the lease for lease payments received (net of finance income calculated above)</li> <li>• <b>After</b> lease commencement, the net investment in a lease is <b>NOT REMEASURED UNLESS</b> either:                             <ul style="list-style-type: none"> <li>▪ The lease is modified and the modified lease is not accounted for as a separate contract</li> </ul> <p style="text-align: center;"><b>OR</b></p> <li>▪ The lease term is revised when there is a change in the non-cancellable period of the lease</li> <li>• Recognise any impairment of the net investment in the lease, if there has been a <b>reduction in the estimated unguaranteed residual value</b></li> </li></ul>	<ul style="list-style-type: none"> <li>• <b>Calculate depreciation</b> in accordance with Ind AS 16 and Ind AS 38</li> <li>• <b>Apply Ind AS 36</b> to determine whether an underlying asset is impaired and to account for any impairment loss identified</li> </ul>
Statement of Profit and loss	<ul style="list-style-type: none"> <li>• <b>Apportion the amount received</b> between the finance income and reduction in receivable</li> <li>• Finance income will be computed to give a constant periodic rate of return</li> <li>• <b>Separately recognises income</b> from variable lease payments that are not included in the net investment in the lease in the period in which that income is earned</li> <li>• <b>Revise the income allocation</b> over the lease term and recognise immediately any reduction in respect of amounts accrued, if there has been a <b>reduction in the estimated unguaranteed residual value</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Recognise lease income</b> over the lease term, typically on a straight line basis</li> <li>• <b>Recognise depreciation</b> expense related to the underlying asset</li> <li>• <b>Recognise variable lease payments</b> that do not depend on an index or rate (e.g., performance- or usage- based payments) <b>as they are earned</b></li> </ul>

# FINANCIAL REPORTING ||



## Presentation in the Books of Lessor

Finance Leases	Operating Leases
<ul style="list-style-type: none"> <li>• <b>Recognise assets in the balance sheet</b> and present them as a receivable at an amount equal to the net investment in the lease</li> <li>• Net investment in the lease is subject to the <b>same considerations</b> as other assets in classification as current or non-current assets in a balance sheet.</li> </ul>	<p><b>Present underlying assets</b> according to the nature of that asset in the balance sheet</p>

## Disclosure in the Books of Lessor

The lessor disclosure requirements are more extensive to enable users of financial statements to better evaluate the amount, timing and uncertainty of cash flows arising from a lessor's leasing activities.

Quantitative Disclosure Requirements	
Finance Leases	<ul style="list-style-type: none"> <li>– Selling profit or loss;</li> <li>– Finance income on the net investment;</li> <li>– Income from variable lease payments;</li> <li>– Qualitative and quantitative explanation of changes in the net investment; and</li> <li>– Maturity analysis of lease payments receivable.</li> </ul>
Operating Leases	<ul style="list-style-type: none"> <li>– Lease income, separately disclosing variable lease payments;</li> <li>– Disclosure requirements of Ind AS 16 for leased assets, separating leased assets from non-leased assets;</li> <li>– Other applicable disclosure requirements based on the nature of the underlying asset (eg. Ind AS 36, Ind AS 38, Ind AS 40 and Ind AS 41); and</li> <li>– Maturity analysis of lease payments.</li> </ul>

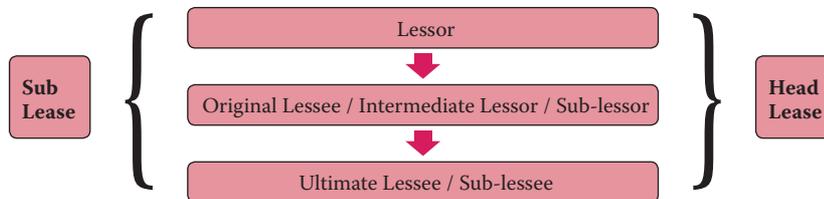
**Note:** The standard prescribes that the quantitative disclosures should be presented in a tabular format, unless another format is more appropriate to be presented.

**Qualitative Disclosure Requirements**

This disclosure include the nature of the lessor's leasing activities and how the lessee manages risks associated with those activities, including risk management on rights retained in underlying assets and risk management strategies including:

- Buy-back agreements;
- Residual value guarantees;
- Variable lease payments for excess use; and
- Any other risk management strategies.

**Sub-Leases**



<b>Definition</b>	A 'Sub-lease' is a transaction for which an underlying asset is re-leased by a lessee ('intermediate lessor' or 'sub-lessor') to a third party, and the original lease ('head lease') between the head lessor and lessee remains in effect.										
<b>Treatment</b>	In some cases, the sublease is a separate lease agreement while, in other cases, though the third party assumes the original lease, yet the original lessee remains the primary obligor under the original lease.										
<b>Recognition and Measurement</b>	<p><b>Intermediate Lessor (sub-lessor)</b></p> <ul style="list-style-type: none"> <li>• The sublease is classified using the classification criteria <b>BUT</b>, it should be by reference to the 'ROU Asset' in the head lease (and <b>NOT</b> the 'underlying asset' of the head lease).</li> </ul> <table border="1"> <thead> <tr> <th></th> <th><i>Sublease is a 'Finance Lease'</i></th> <th><i>Sublease is an 'Operating Lease'</i></th> </tr> </thead> <tbody> <tr> <td>Balance sheet</td> <td> <ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul> </td> </tr> <tr> <td>Statement of Profit and Loss</td> <td> <ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul> </td> <td> <ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul> </td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• However, when the head lease is a short-term lease, the sublease is classified as an operating lease.</li> <li>• Lessor may use the discount rate for the head lease (<b>adjusted for initial direct costs, if any, associated with the sublease</b>) to measure the net investment in the sublease, if the interest rate implicit in the lease cannot be readily determined.</li> <li>• When contracts are entered into at or near the same time, an intermediate lessor is required to consider the criteria for <b>combining contracts</b>. If the contracts are required to be combined, the intermediate lessor accounts for the head lease and sublease as a <b>single combined transaction</b>.</li> <li>• An intermediate lessor who subleases, or expects to sublease an asset, <b>CANNOT</b> account for the head lease as a lease of a low-value asset <b>even when</b> the required criteria w.r.t. 'leases of low-value assets' are satisfied.</li> </ul> <p><b>Sub-lessee Accounting</b> A sub-lessee accounts for its lease as a new lease following Ind AS 116's recognition and measurement provisions for accounting in the books of lessee.</p>			<i>Sublease is a 'Finance Lease'</i>	<i>Sublease is an 'Operating Lease'</i>	Balance sheet	<ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul>	Statement of Profit and Loss	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul>
	<i>Sublease is a 'Finance Lease'</i>	<i>Sublease is an 'Operating Lease'</i>									
Balance sheet	<ul style="list-style-type: none"> <li>• <b>Derecognise the ROU Asset on the head lease</b> at the sub-lease commencement date</li> <li>• <b>Continue to account for the original lease liability</b> in accordance with the lessee accounting model</li> <li>• <b>Recognise a net investment in the sublease</b> and evaluate it for impairment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continue</b> to account for the <b>lease liability and ROU asset on the head lease</b></li> <li>• If the total remaining carrying amount of the ROU asset on the head lease exceeds the anticipated sublease income, this may indicate that the ROU asset associated with the head lease is impaired (as per Ind AS 36)</li> </ul>									
Statement of Profit and Loss	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge interest expense on head lease</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise finance income from sub-lease</li> <li>• Charge depreciation and interest expense on lease liability</li> </ul>									
<b>Presentation</b>	<p>Intermediate lessors are <b>not permitted</b> to offset</p> <ul style="list-style-type: none"> <li>• lease liabilities and lease assets that arise from a head lease and a sublease, respectively, <b>unless</b> those liabilities and assets meet the requirements in Ind AS 1 for offsetting.</li> <li>• depreciation and interest expenses and lease income relating to a head lease and a sublease of the same underlying asset, respectively, <b>unless</b> the requirements for offsetting in Ind AS 1 are met.</li> </ul>										
<b>Disclosure</b>	Entities ( <b>including intermediate lessors</b> ) are required to disclose <b>qualitative</b> and <b>quantitative</b> information which gives a <b>basis</b> for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor (refer the disclosures for 'lessors' and 'lessees')										

# FINANCIAL REPORTING

## Sale and Leaseback Transactions

A sale and leaseback transaction involves two transactions:

- the transfer (sale) of an asset by an entity (the seller-lessee) to another entity (the buyer-lessor) and
- the leaseback of the same asset by the seller-lessee.

### How to determine whether the transfer of an asset is a sale:

When determining whether the transfer of an asset should be accounted for as a sale or purchase, both the seller-lessee and the buyer-lessor shall apply the requirements of Ind AS 115 on when an entity satisfies a performance obligation by transferring 'control' of an asset.

If Control is passed	If Control is NOT passed
If the control of an underlying asset is <b>passed</b> to the buyer-lessor, the transaction is accounted for as a ' <b>sale or purchase</b> ' of the asset and a ' <b>lease</b> '.	If the control of an underlying asset is <b>NOT passed</b> to the buyer-lessor, both the seller-lessee and the buyer-lessor account for the transaction as a ' <b>financing transaction</b> '.

**Note:** If the seller-lessee has a '**substantive repurchase option**' for the underlying asset (i.e., a right to repurchase the asset), '**NO sale**' has occurred because the buyer-lessor has **NOT** obtained control of the asset.

## Accounting Treatment for Sale and Leaseback Transaction

Particulars	Seller-lessee	Buyer-lessor
<b>Transfer of asset is a sale</b>	<b>Apply accounting for sale</b> <ul style="list-style-type: none"> <li>• Recognise the cash received</li> <li>• Derecognise the underlying asset</li> </ul> <b>Apply ROU Accounting</b> <ul style="list-style-type: none"> <li>• Apply the lessee accounting model to the leaseback asset</li> <li>• Measure the ROU asset at the retained portion of the previous carrying amount</li> <li>• Recognise a gain or loss related to the portion of the assets transferred to the buyer-lessor</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise the underlying asset based on the nature of the asset</li> <li>• Apply the lessor accounting model to leaseback asset</li> </ul>
<b>Transfer of asset is not a sale</b>	<ul style="list-style-type: none"> <li>• Continue to recognise the underlying asset</li> <li>• Account for the transaction as financing transaction</li> <li>• Recognise a financial liability under Ind AS 109 for any amount received from the buyer-lessor</li> <li>• Decrease the financial liability by the payments made (as and when) less the portion considered as interest expense</li> </ul>	<ul style="list-style-type: none"> <li>• Do not recognise the underlying asset</li> <li>• Recognise a financial asset under Ind AS 109 for any amount paid to the seller-lessee i.e. account for the amount paid as a receivable</li> </ul>

**Note:**

- When a sale occurs, both the seller-lessee and the buyer-lessor account for the leaseback in the same manner as any other lease (**with adjustments for any off-market terms**).
- A seller-lessee recognises a lease liability and ROU asset for the leaseback (**subject to the optional exemptions** for short-term leases and leases of low-value assets).

An entity shall make the following adjustments to measure the sale proceeds at fair value if:

- the fair value of the consideration for the sale of an asset does not equal the fair value of the asset **OR**
- the payments for the lease are not at market rates

Following are the two possibilities of the sale price **OR** the present value of the lease payments being 'less' or 'greater' than the fair value of the asset **OR** present value of the market lease payments:

When Sale Price or Present Value is <b>LESS</b>	When Sale Price or Present Value is <b>GREATER</b>
Using the more readily determinable basis: <ul style="list-style-type: none"> <li>• When the sale price is <b>LESS</b> than the underlying asset's fair value <b>OR</b></li> <li>• The present value of the lease payments is <b>LESS</b> than the present value of the market lease payments,</li> </ul> A seller-lessee recognises the difference as an <b>increase</b> to the sales price and the initial measurement of the ROU asset as a ' <b>lease prepayment</b> '.	Using the more readily determinable basis: <ul style="list-style-type: none"> <li>• When the sale price is <b>GREATER</b> than the underlying asset's fair value <b>OR</b></li> <li>• The present value of the lease payments is <b>GREATER</b> than the present value of the market lease payments,</li> </ul> A seller-lessee recognises the difference as a <b>reduction</b> in the sales price and an ' <b>additional financing received</b> ' from the buyer-lessor.

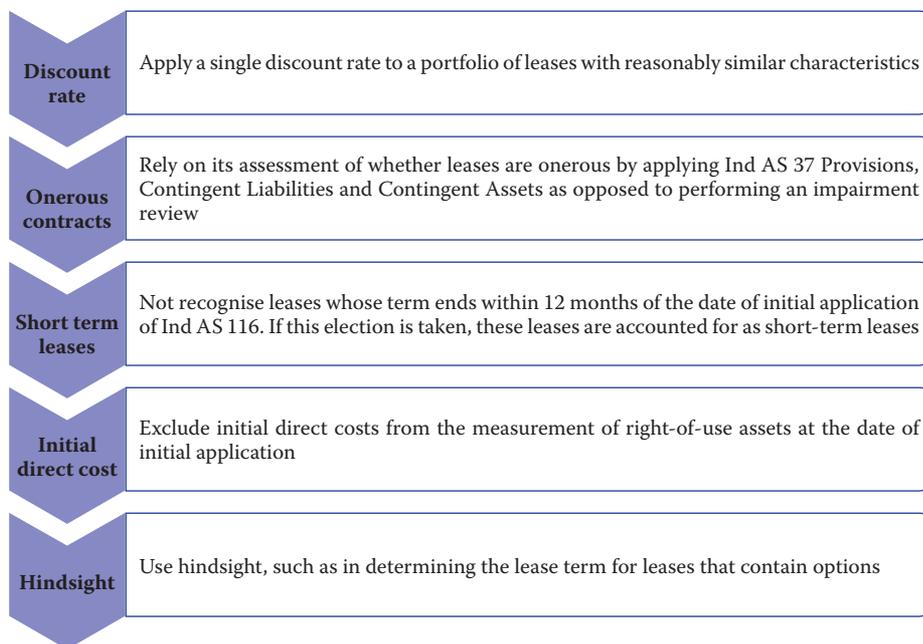
Buyer-lessors are also required to **adjust the purchase price** of the underlying asset for any off-market terms. Such adjustments are recognised as:

- '**lease prepayments**' made by the seller-lessee **OR**
- '**additional financing provided**' to the seller-lessee.



# FINANCIAL REPORTING ||

Additionally, a lessee is also permitted to apply the following practical expedients to leases previously classified as operating leases (when applying modified retrospective approach), on a **lease-by-lease basis**:



## Disclosures

Disclosure requirements vary in accordance with the Transition Approach opted. The lessee shall disclose the following as required by Ind AS 8 (except that it is impracticable to determine the amount of the adjustment):

<b>Full Retrospective Approach</b>	<b>Modified Retrospective Approach</b>
<ul style="list-style-type: none"> <li>(a) the title of the Ind AS;</li> <li>(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;</li> <li>(c) the nature of the change in accounting policy;</li> <li>(d) when applicable, a description of the transitional provisions;</li> <li>(e) when applicable, the transitional provisions that might have an effect on future periods;</li> <li>(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:                             <ul style="list-style-type: none"> <li>(i) for each financial statement line item affected; and</li> <li>(ii) if Ind AS 33 <i>Earnings per Share</i> applies to the entity, for basic and diluted earnings per share;</li> </ul> </li> <li>(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and</li> <li>(h) if retrospective application required by Ind AS 8 is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.</li> </ul>	<ul style="list-style-type: none"> <li>(a) the title of the Ind AS;</li> <li>(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;</li> <li>(c) the nature of the change in accounting policy;</li> <li>(d) when applicable, a description of the transitional provisions;</li> <li>(e) when applicable, the transitional provisions that might have an effect on future periods;</li> <li>(f) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the balance sheet at the date of initial application; and an explanation of any difference between:                             <ul style="list-style-type: none"> <li>(i) operating lease commitments disclosed applying Ind AS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application; and</li> <li>(ii) lease liabilities recognised in the balance sheet at the date of initial application.</li> </ul> </li> <li>(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and</li> <li>(h) if retrospective application required by Ind AS 8 is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.</li> </ul> <p>Further, if a lessee uses one or more of the practical expedients (already discussed above), it shall disclose that fact.</p>

### Transition Options for Lessors

- A lessor is **not required** to make any adjustments on transition for leases in which it is a lessor and account for those leases applying Ind AS 116 from the date of initial application.
- However, in case of an **'Intermediate Lessor'**, the entity shall:
  - (a) **reassess subleases that were classified as operating leases applying Ind AS 17 and are ongoing at the date of initial application**, to determine whether each sublease should be classified as an operating lease or a finance lease applying Ind AS 116. The intermediate lessor shall perform this assessment at the date of initial application on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date with reference to the ROU Asset associated with the head lease and not the underlying asset.
  - (b) **for subleases that were classified as operating leases applying Ind AS 17 but, finance leases applying Ind AS 116**, account for the **sublease as a new finance lease** entered into at the date of initial application. Any gain or loss arising on the sublease arrangement is included in the cumulative catch-up adjustment to retained earnings at the date of initial application.

### Sale and Leaseback Transactions before the date of Initial Application

- An entity shall not reassess sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset satisfies the requirements under Ind AS 115 to be accounted for as a sale.
- Leaseback is accounted for on transition in the following manner, depending on the classification:

<i>Finance Lease</i>	<i>Operating Lease</i>
If a sale and leaseback transaction was accounted for as a sale and a <b>finance lease</b> applying Ind AS 17, the seller-lessee shall: <ol style="list-style-type: none"> <li>(a) account for the leaseback in the same way as it accounts for any other finance lease that exists at the date of initial application <i>AND</i></li> <li>(b) continue to amortise any gain on sale over the lease term.</li> </ol>	If a sale and leaseback transaction was accounted for as a sale and <b>operating lease</b> applying Ind AS 17, the seller-lessee shall: <ol style="list-style-type: none"> <li>(a) account for the leaseback in the same way as it accounts for any other operating lease that exists at the date of initial application; <i>AND</i></li> <li>(b) adjust the leaseback ROU asset for any deferred gains or losses that relate to off-market terms recognised in the balance sheet immediately before the date of initial application.</li> </ol>

### Amounts Previously Recognised in respect of Business Combinations

The lessee shall

- Derecognise the acquired asset or liability and
- Adjust the carrying amount of the ROU asset by a corresponding amount at the date of initial application.

### Amendment in Accounting of Rent Concessions arising due to COVID-19 Pandemic

Following amendments have been made with respect to accounting of COVID-19 related rent concessions such as rent holidays and temporary rent reductions:

As a practical expedient, a lessee **may elect not to assess** a rent concession as a lease modification **only** if **ALL** of the following conditions are met:

- a) the change in lease payments results in revised consideration for the lease that is **substantially the same as, or less** than, the consideration for the **lease immediately preceding the change**;
- b) any reduction in **lease payments affects only payments originally due on or before the 30<sup>th</sup> June, 2022\*** (for example, a rent concession would meet this condition if it results in **reduced lease payments on or before the 30<sup>th</sup> June, 2022\* and increased** lease payments that **extend beyond the 30<sup>th</sup> June, 2022\***); and
- c) there is **no substantive change** to other terms and conditions of the lease.

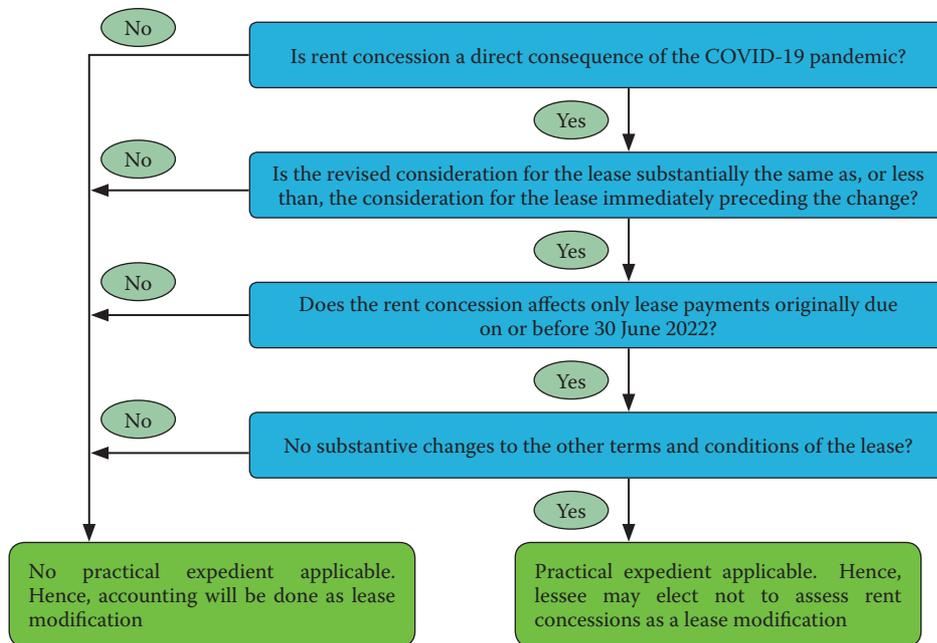
A lessee that makes this election shall account for any change in lease payments resulting from the rent concession as if the change were not a lease modification.

**Note:** The above practical expedient **applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic.**

\*As per the amendment made by the MCA on 18<sup>th</sup> June, 2021.

# FINANCIAL REPORTING ||

The key conditions for applying the practical expedient are as follows:



## Disclosures

Lessees applying practical expedient are required to disclose:

- The fact that if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of contracts to which they have applied the practical expedient and
- The amount recognized in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

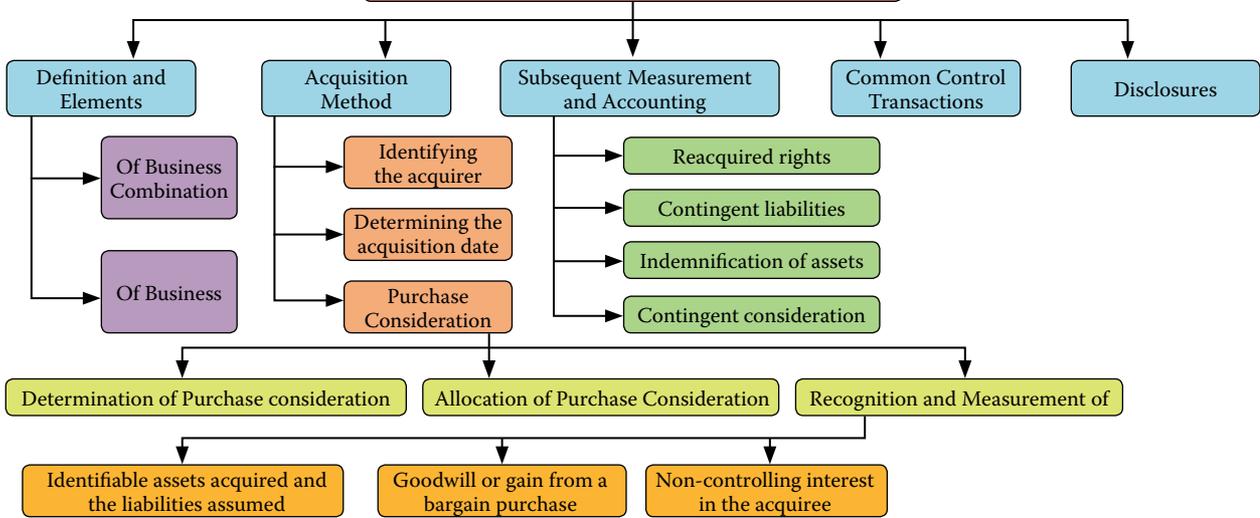
**Note:** The disclosure requirements of paragraph 28(f) of Ind AS 8 do not apply on initial application of these amendments.

CA FINAL - PAPER 1 - FINANCIAL REPORTING

This capsule in Final Paper 1 Financial Reporting is seventh in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019, October, 2019, November, 2020 and July/August, 2021 issues of this Journal. Therefore, for a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. In this capsule we have covered significant provisions of Ind AS 103 through pictorial/tabular presentations for better understanding and quick revision. Students are advised to refer the study material or bare text of Ind AS 103 for comprehensive study and revision. Under no circumstances, this capsule substitute the detailed study of the material provided by the Board of Studies.

INDIAN ACCOUNTING STANDARD (IND AS) 103 : BUSINESS COMBINATIONS

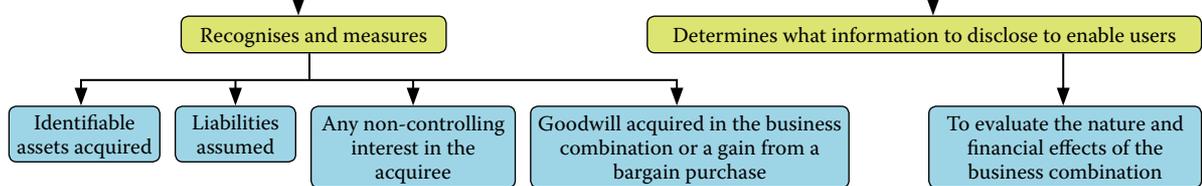
Overview of Ind AS 103: Business Combinations



Objective

To improve the relevance, reliability and comparability of the information provided in the financial statements about a business combination and its effects

To accomplish that, this Ind AS establishes principles and requirements for how the **acquirer**, in its financial statements



Scope

This Ind AS applies to a transaction or other event that meets the definition of a business combination

This Ind AS does not apply to:

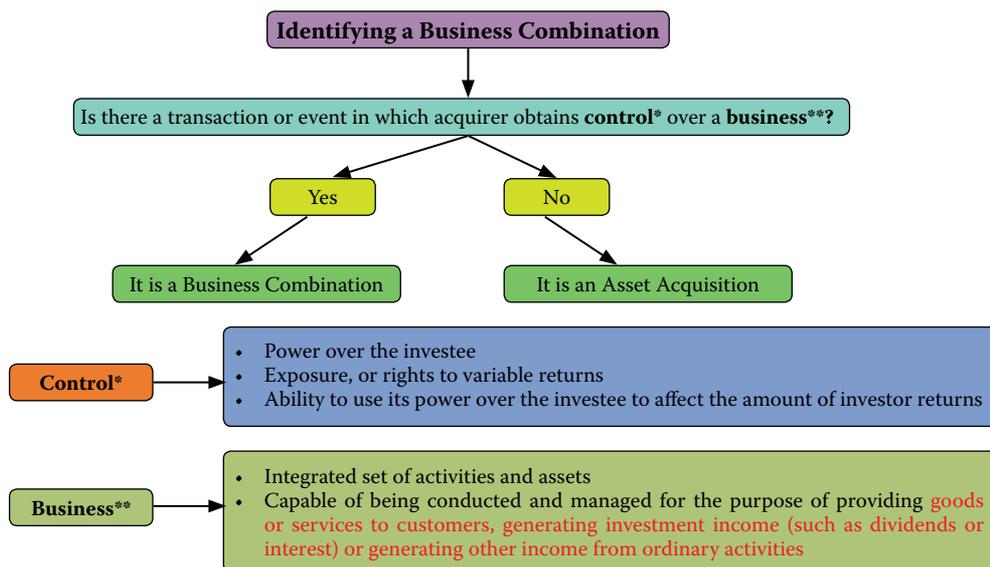
- Accounting for formation of a joint arrangements
- Acquisition of an asset or group of assets that is not a **business**
- Acquisition by an investment entity in subsidiary which is **measured at FVTPL**
- Combination of entities or businesses under common control

- In such cases the acquirer shall identify and recognise the individual identifiable assets acquired and liabilities assumed
- The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase
- No goodwill arises in asset acquisition

An entity shall account for each business combination by applying the **Acquisition Method**

### Steps for Accounting of Business Combination (Acquisition Method)

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

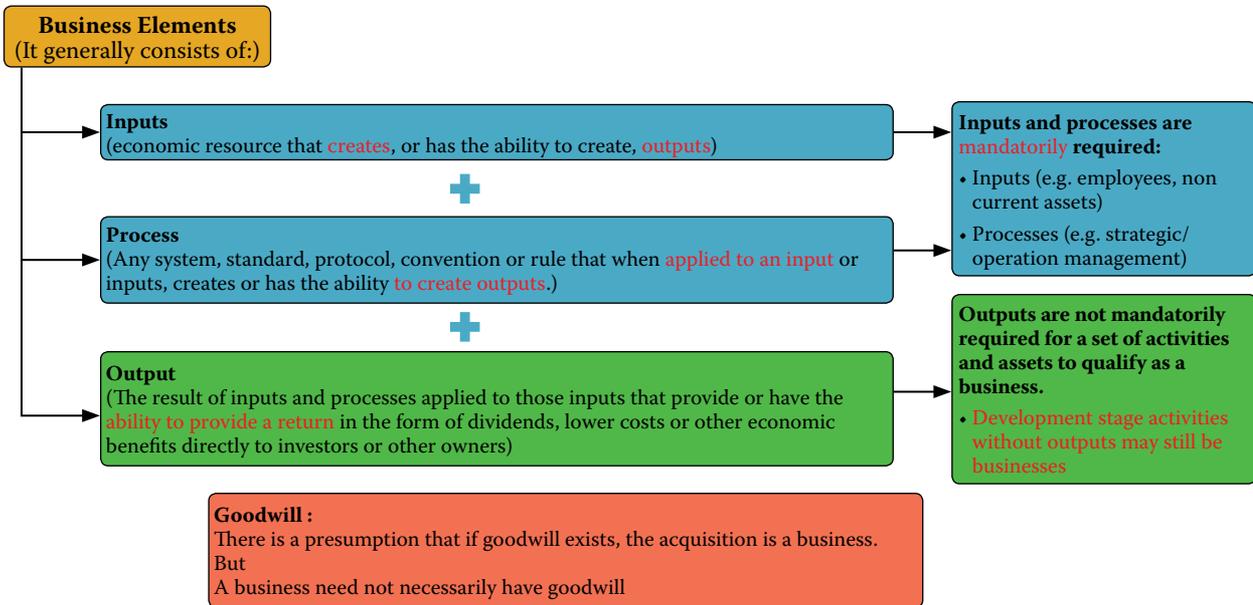


A business combination may be structured in a variety of ways for legal, taxation or other reasons, which **include but are not limited to:**

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

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

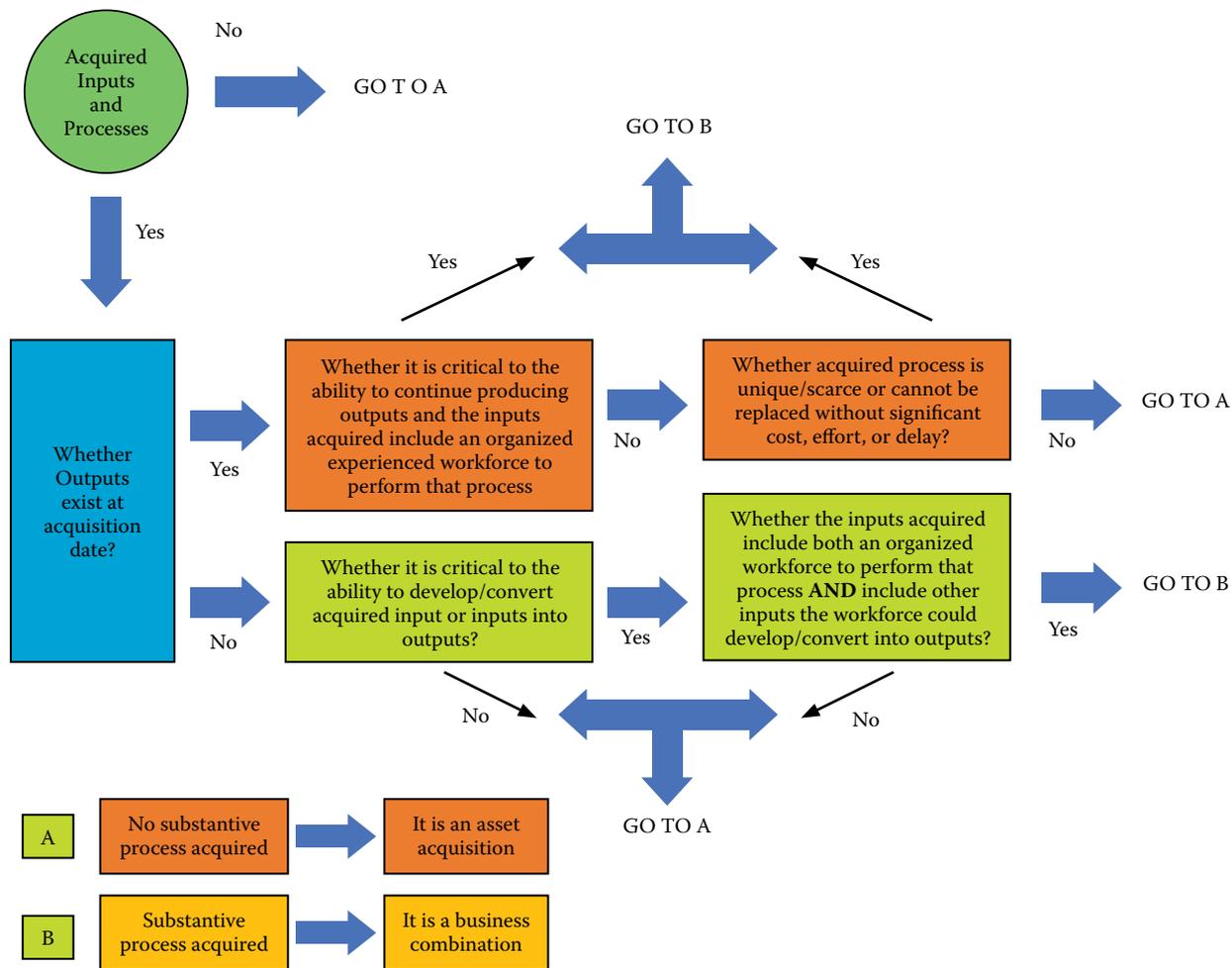
- (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a business)
- (b) by incurring liabilities
- (c) by issuing equity interests
- (d) by providing more than one type of consideration
- (e) without transferring consideration, including by contract alone



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

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

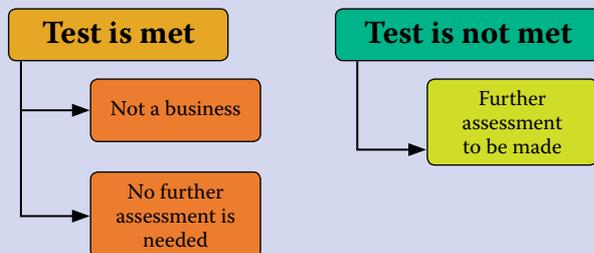
## Further Assessment to Determine Whether Transaction is Business or not:



### Concentration Test

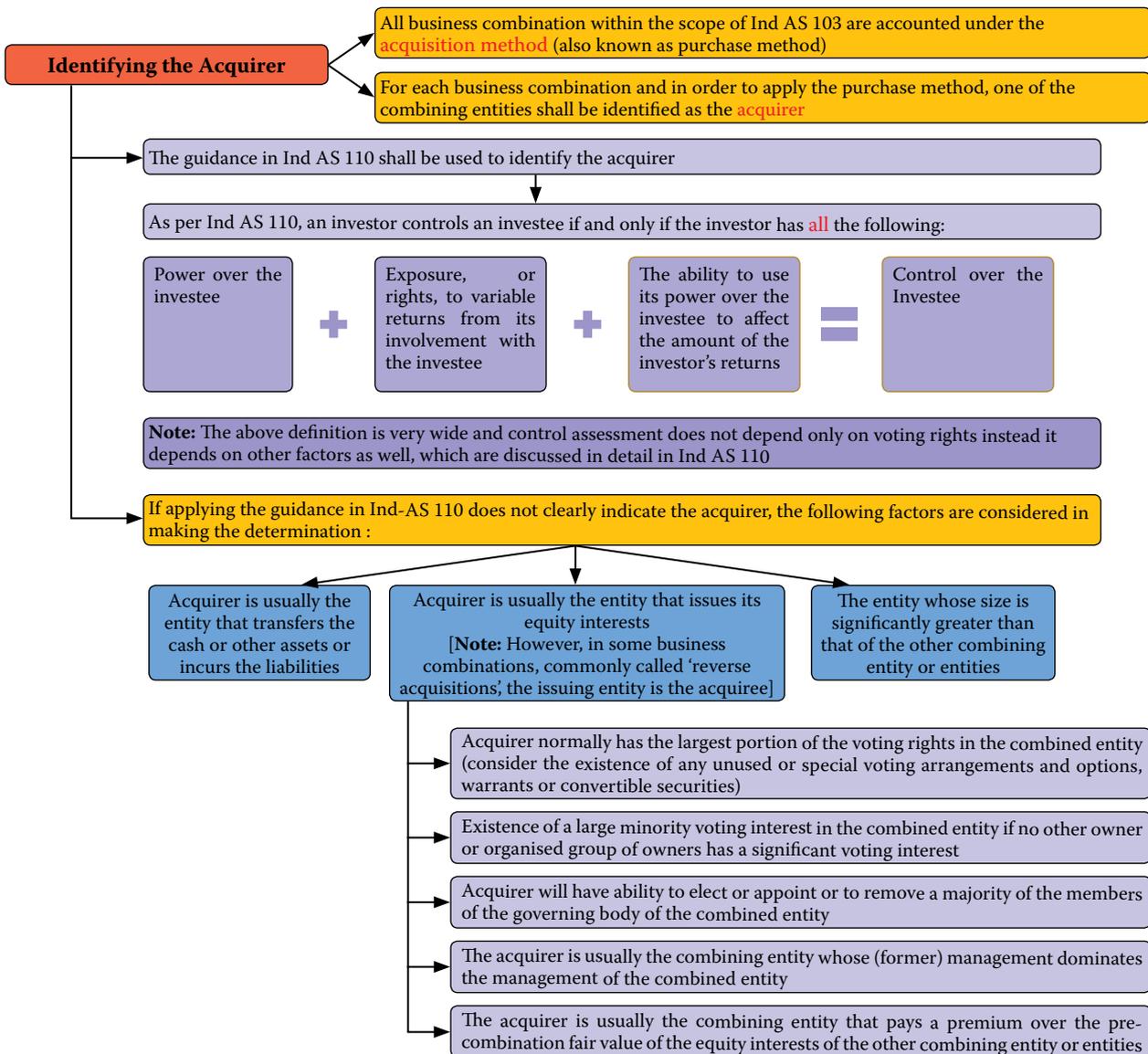
An optional test (the concentration test) has been introduced in Ind AS 103 to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

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



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

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



# FINANCIAL REPORTING

## Date of Acquisition

The date on which the acquirer obtains control of the acquiree (as identified by the acquirer)

In general, the **date of obtaining the control** is the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree

However, the acquirer might obtain control on a date that is either earlier or later than the closing date

## Classification

The acquirer classifies and designates assets and liabilities *at acquisition date* based on:

- acquirer's economic conditions
- contractual terms of the assets/liabilities
- acquirer's operating or accounting policies
- other pertinent conditions existing at the acquisition date

Exception to the classification:

- classification of a lease contract in which acquiree is the lessor as either an operating lease or a finance lease in accordance with Ind AS 116, Leases
- Classification of a contract as an insurance contract in accordance with Ind AS 104, Insurance Contracts

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (and not on the acquisition date)

## Recognition and Measurement Principle

At the acquisition date, the acquirer shall **recognise**, separately from goodwill:

- the identifiable assets acquired
- the liabilities assumed and
- any non-controlling interest in the acquiree

**Exceptions to recognition principle:** contingent liabilities, deferred taxes, employee benefits, assets indemnifications, leases in which acquiree is the lessee

The acquirer shall **measure** the identifiable assets acquired and the liabilities assumed at their **acquisition-date fair values**

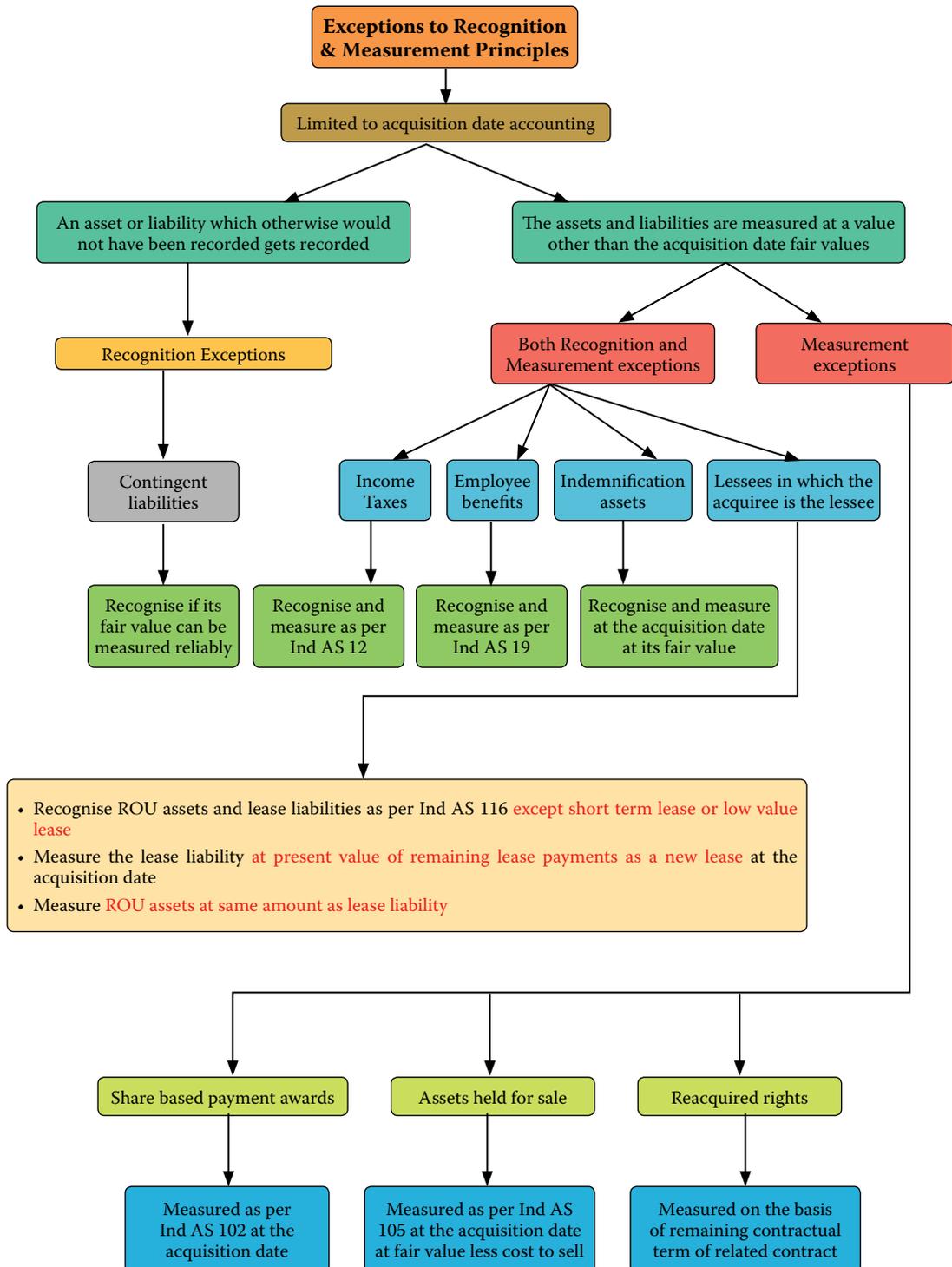
**Exceptions to measurement principle:** deferred taxes, employee benefits, assets indemnifications, leases in which acquiree is the lessee, reacquired rights, share-based payments, assets held for sale

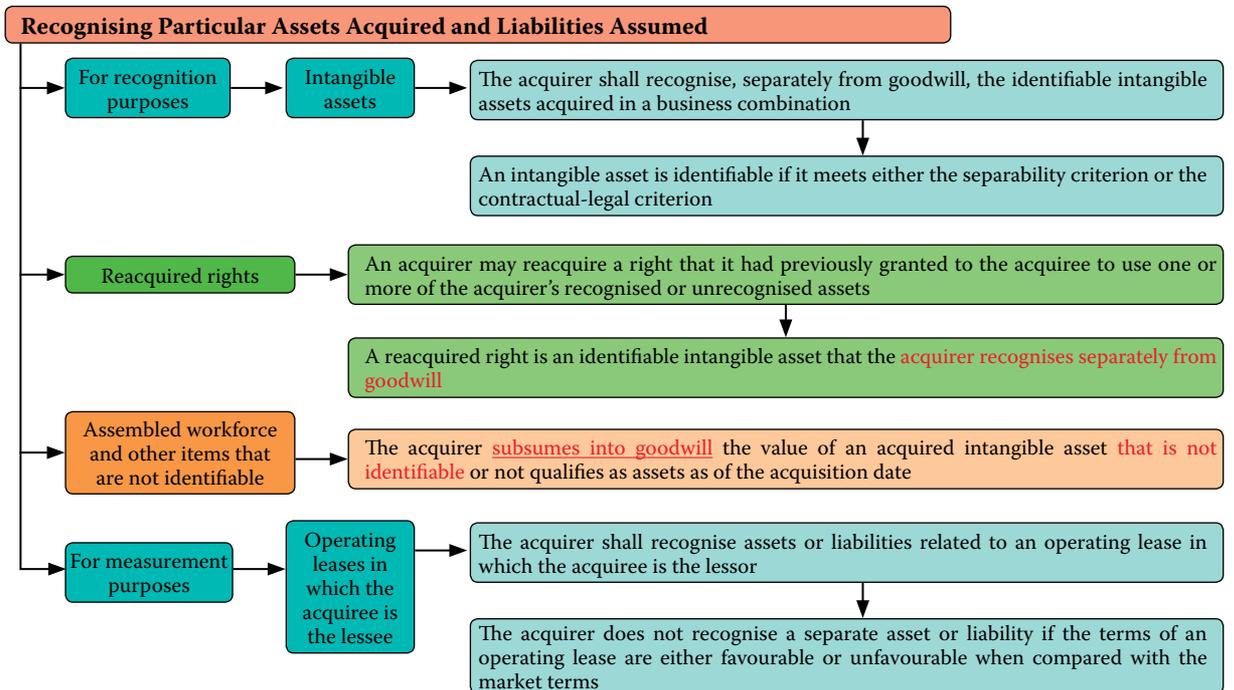
For recognition of identifiable assets acquired/ liabilities assumed as part of the acquisition method, these assets/ liabilities

- must meet the definitions of assets and liabilities in the Framework issued by ICAI at the acquisition date
- must be part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction

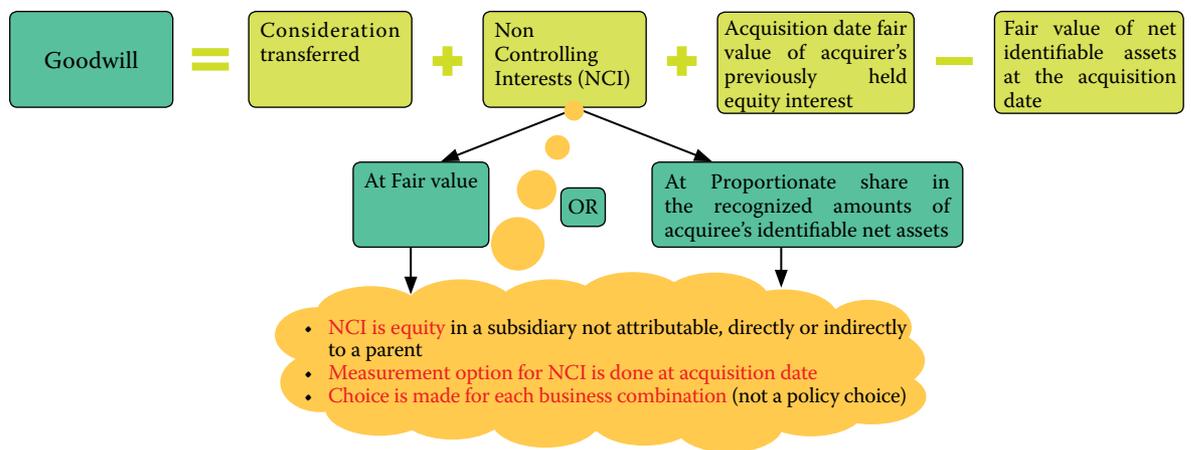
The acquirer shall determine which assets acquired or liabilities assumed, if any, are the result of separate transactions, they are to be accounted for in accordance with their nature and the applicable Ind AS

The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements





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



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

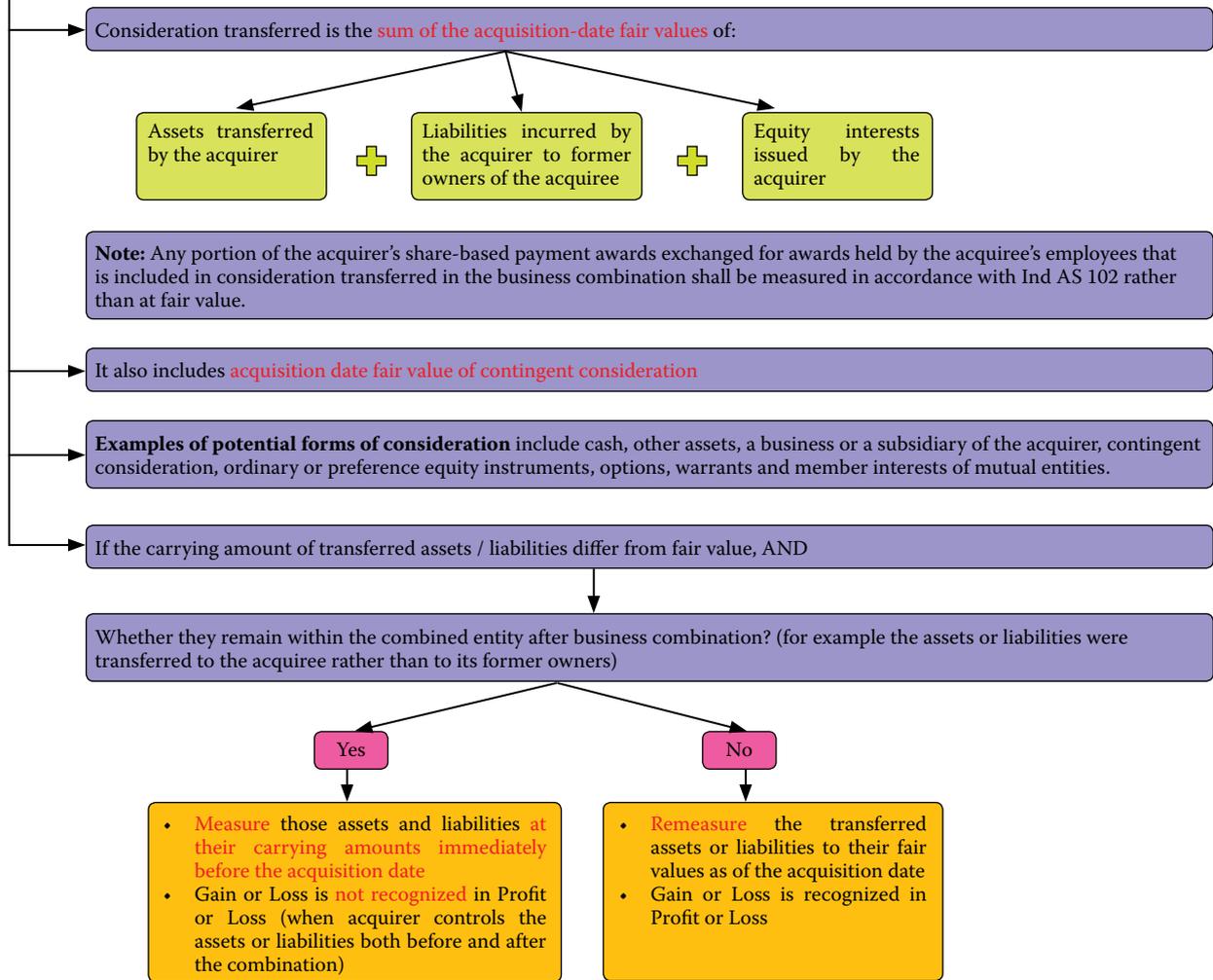
In case of bargain purchase, the acquirer should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed

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

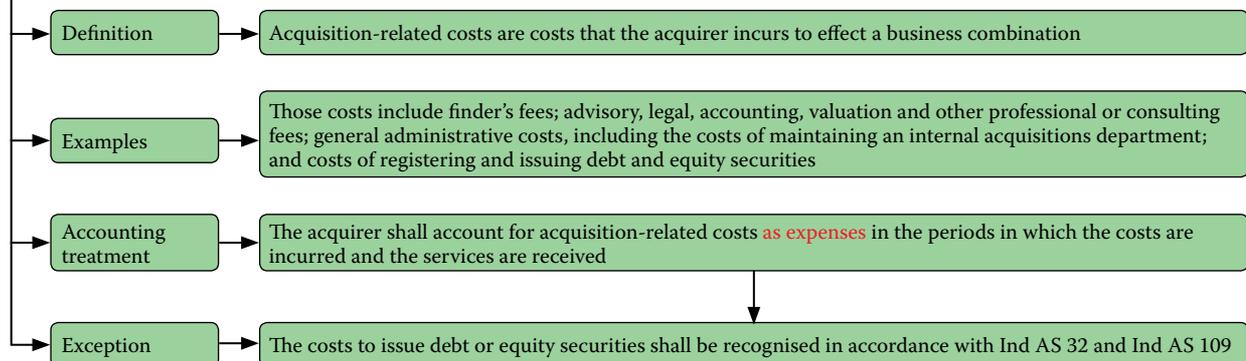
To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree in place of the acquisition-date fair value of the consideration transferred

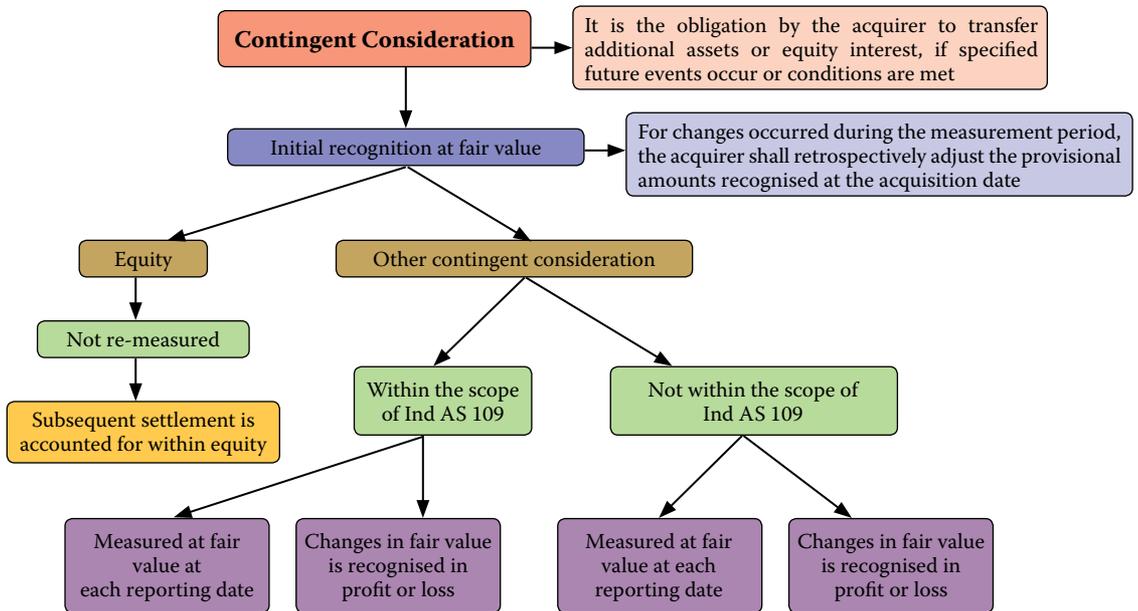
**Note:** Acquisition related costs charged to P&L except, debt securities issue cost—incorporated in effective interest rate (Ind AS 109) and Equity issue cost recognized in equity (Ind AS 32).

**Consideration Transferred**

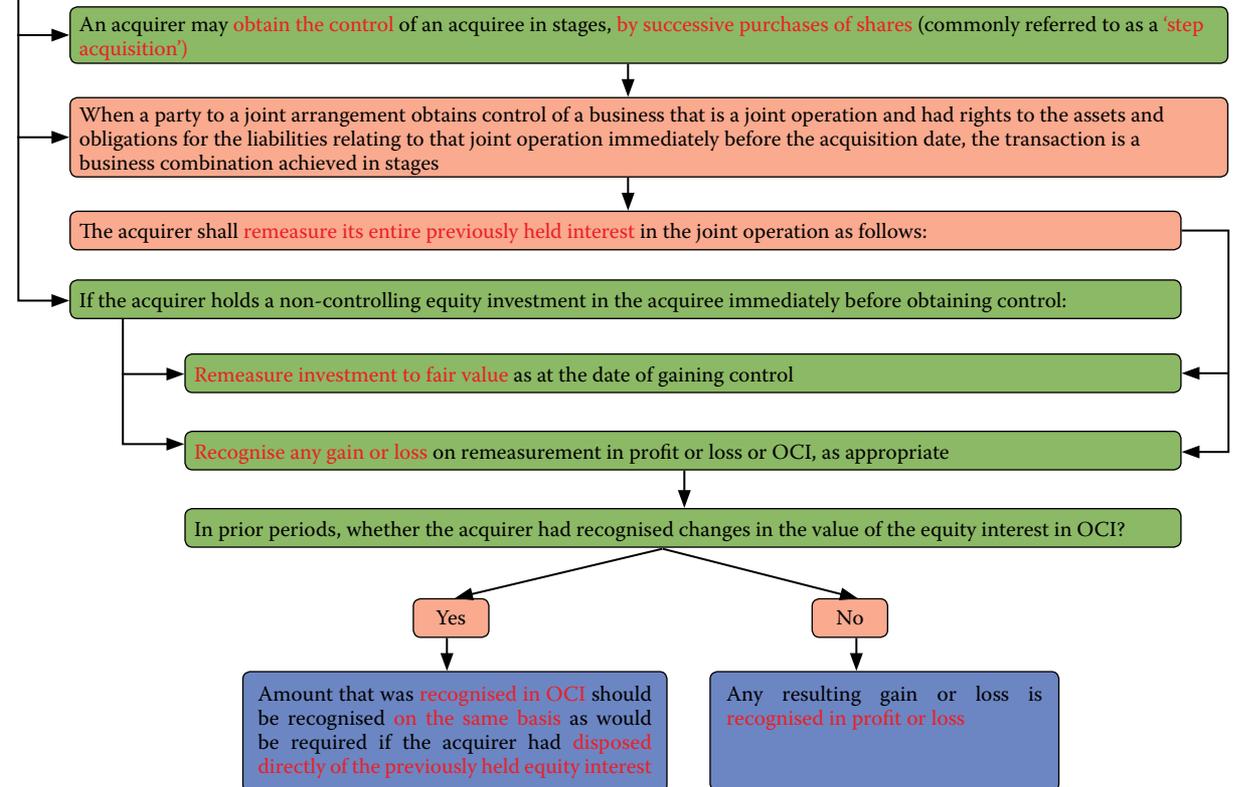


**Acquisition-Related Costs**





## A Business Combination Achieved in Stages



**A Business Combination Achieved Without the Transfer of Consideration**

The **acquisition method of accounting** applies to such business combinations

It includes following circumstances:

The acquiree repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control

Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights

The acquirer and acquiree agree to combine their businesses by contract alone

**Example:** Bringing two businesses together in a stapling arrangement or forming a dual listed corporation

The **equity interests in the acquiree** held by parties other than the acquirer are a **non-controlling interest in the acquirer's post-combination financial statements** even if the result is that all of the equity interests in the acquiree are attributed to the non-controlling interest

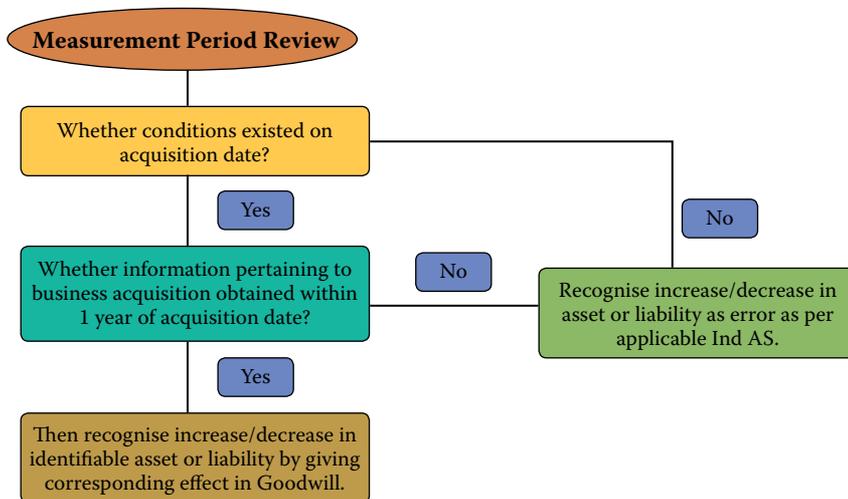
**Measurement Period**

**Definition** → It is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination

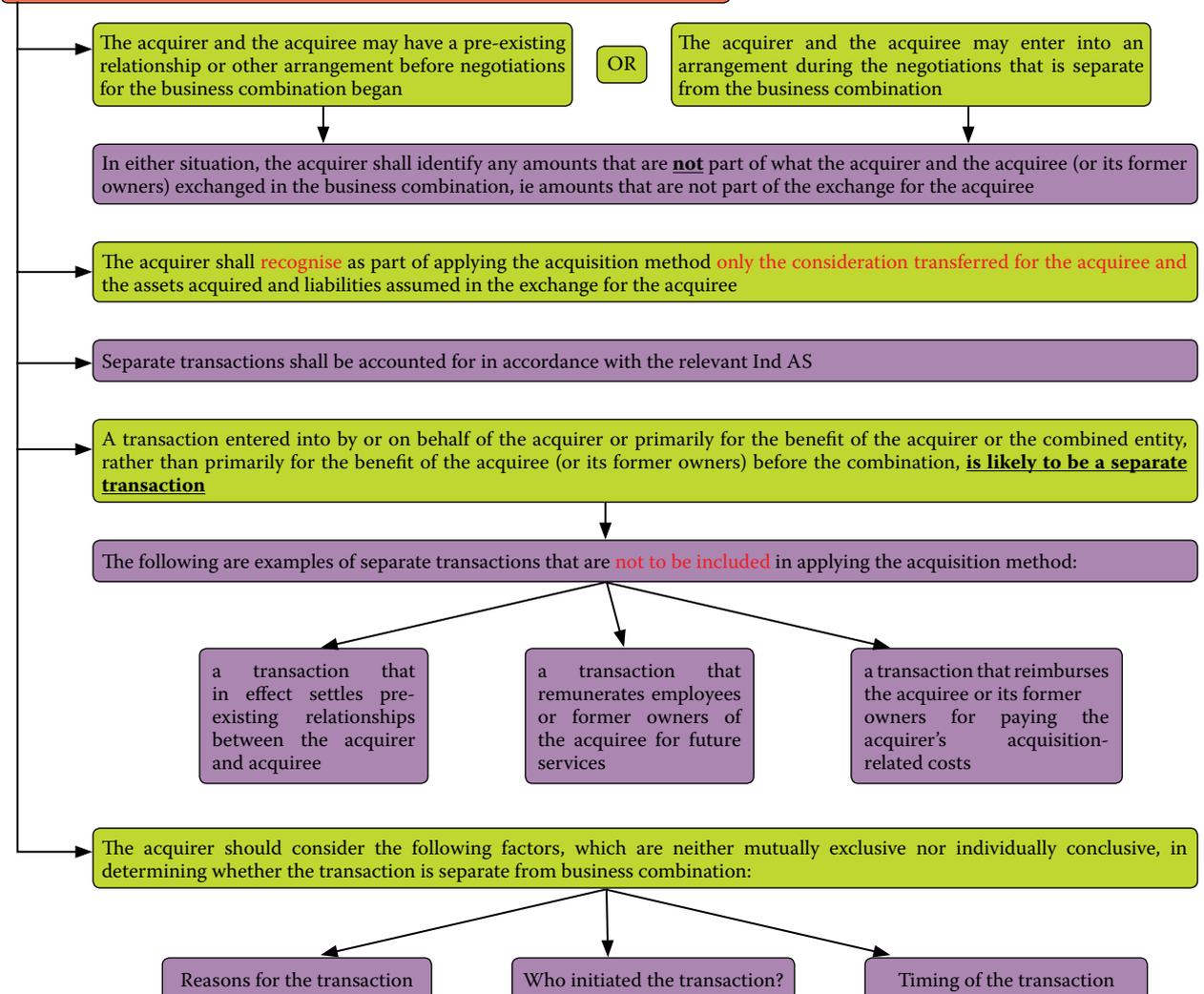
**Duration** → It ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable

**Note:** The measurement period shall not exceed one year from the acquisition date

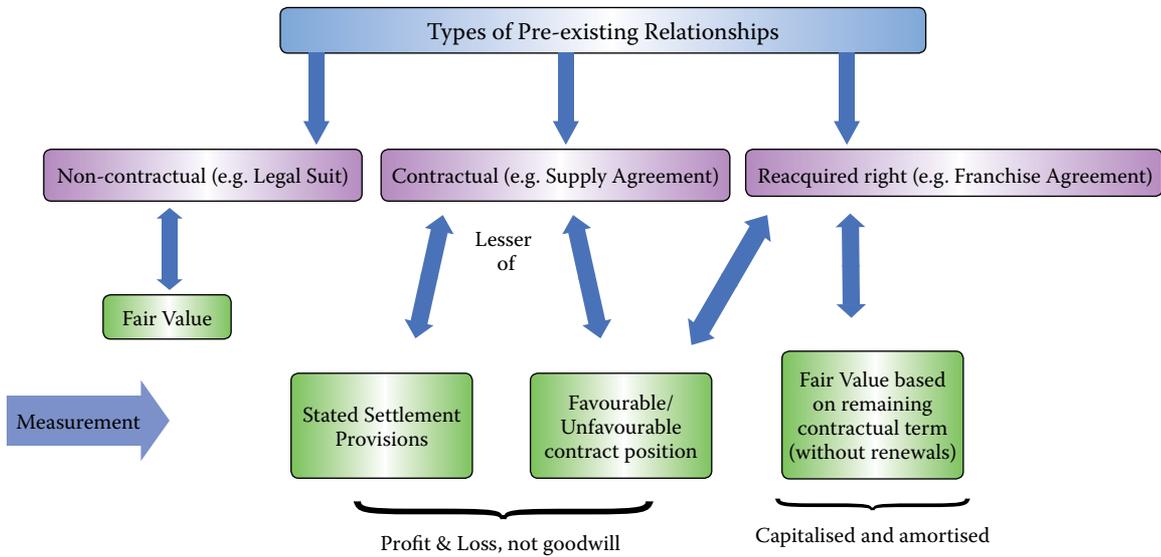
Time of occurrence of information and its accounting/adjustment	Information that existed at the acquisition date	Accounting / Adjustment:
	Information occurred during the measurement period	<ul style="list-style-type: none"> <li>Retrospectively adjust the provisional amounts</li> <li>Recognise new assets/liabilities to reflect the new information</li> <li>Adjust the goodwill accordingly</li> </ul>
	Post-measurement period information	<ul style="list-style-type: none"> <li>Include adjustments for such developments after the acquisition date but during the measurement period only (like changes in estimates)</li> <li><b>Prospectively adjust the provisional amounts</b> to reflect new information arising after the acquisition date</li> <li><b>No</b> adjustment to goodwill</li> <li><b>Correct the errors retrospectively</b> in accordance with Ind AS 8</li> </ul>
		<ul style="list-style-type: none"> <li><b>No adjustment</b> to the accounting for the business combination</li> <li>Accounting for a business combination is <b>amended only to correct an error</b> as per Ind AS 8</li> </ul>



## Determining what is Part of the Business Combination Transaction

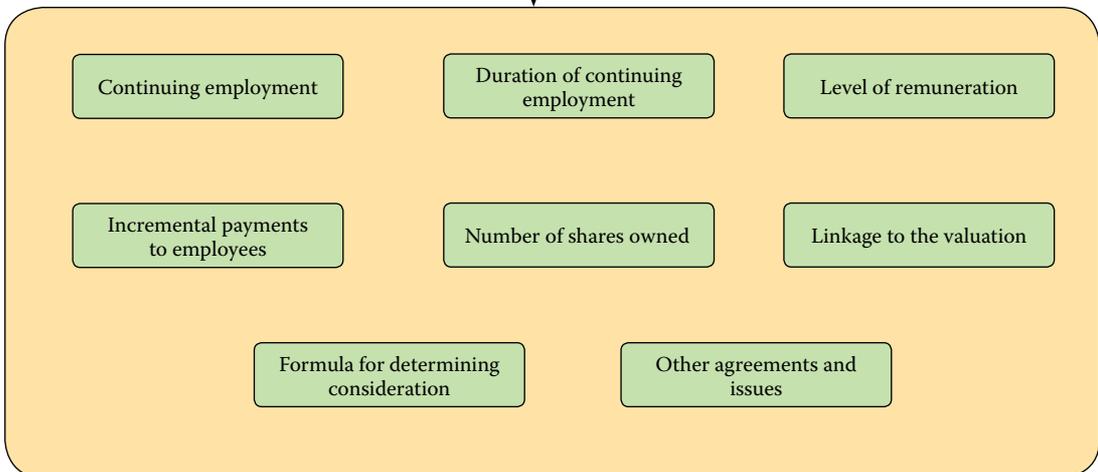


**Accounting for a Pre-existing Relationship**

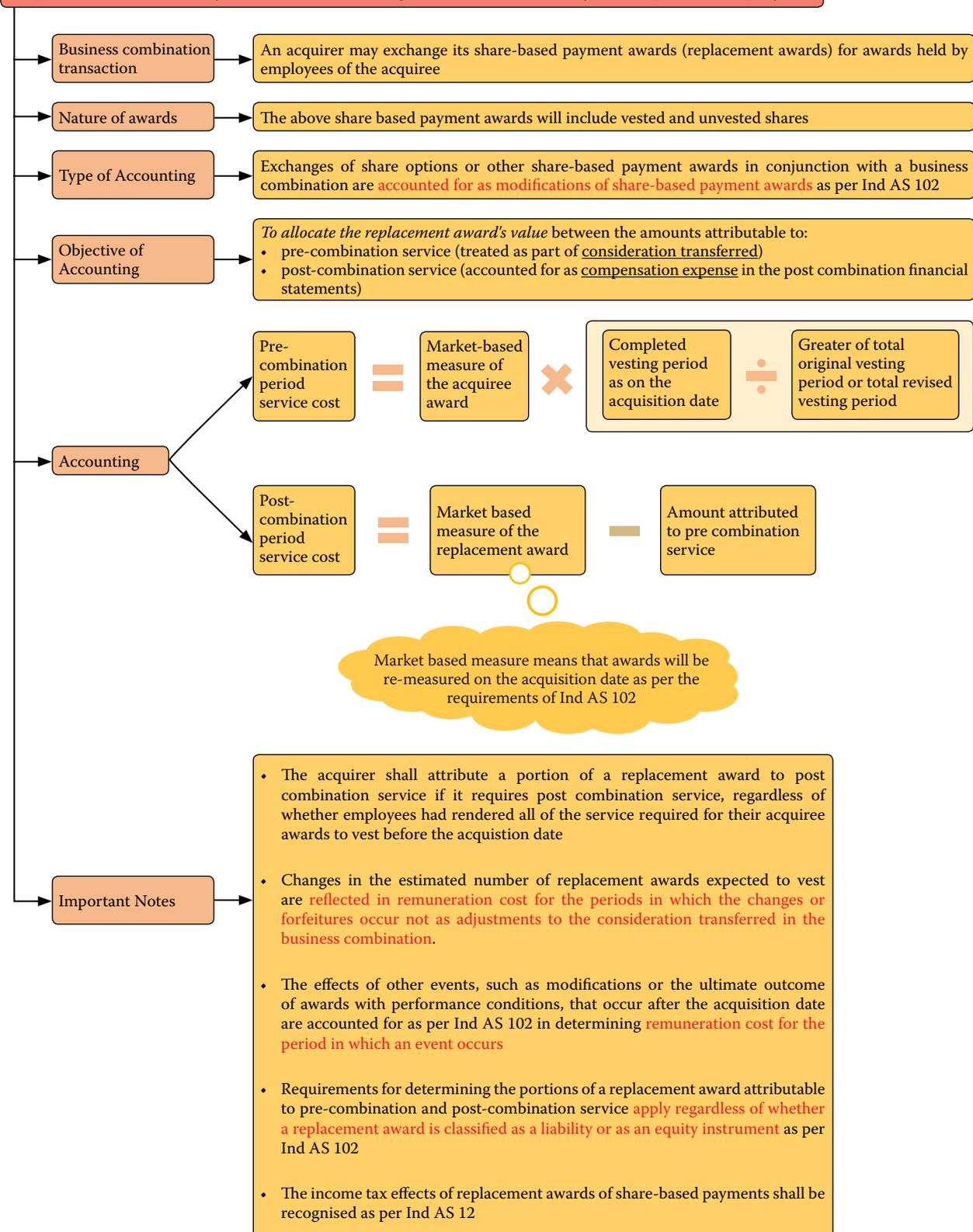


**Contingent Payments to Employees or Selling Shareholders**

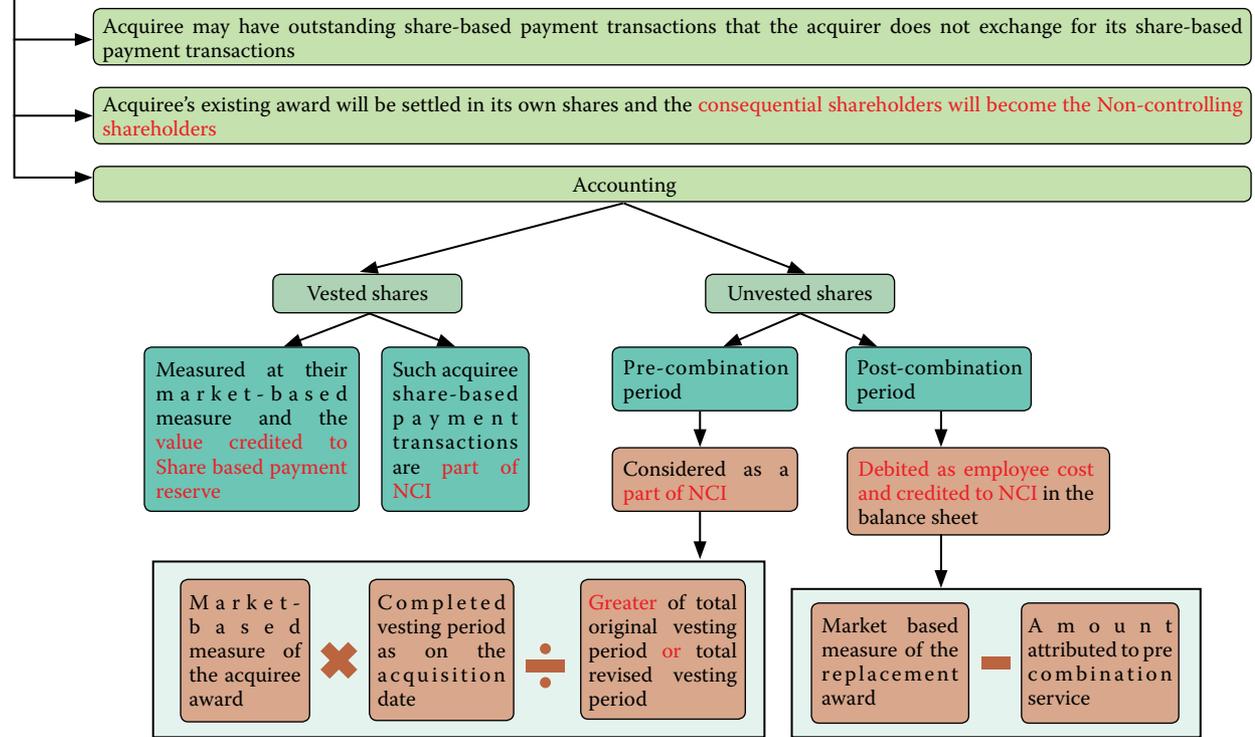
To identify an arrangement for payments to employees or selling shareholders is part of the exchange for the acquiree or is a transaction separate from the business combination, the acquirer should consider the following indicators:



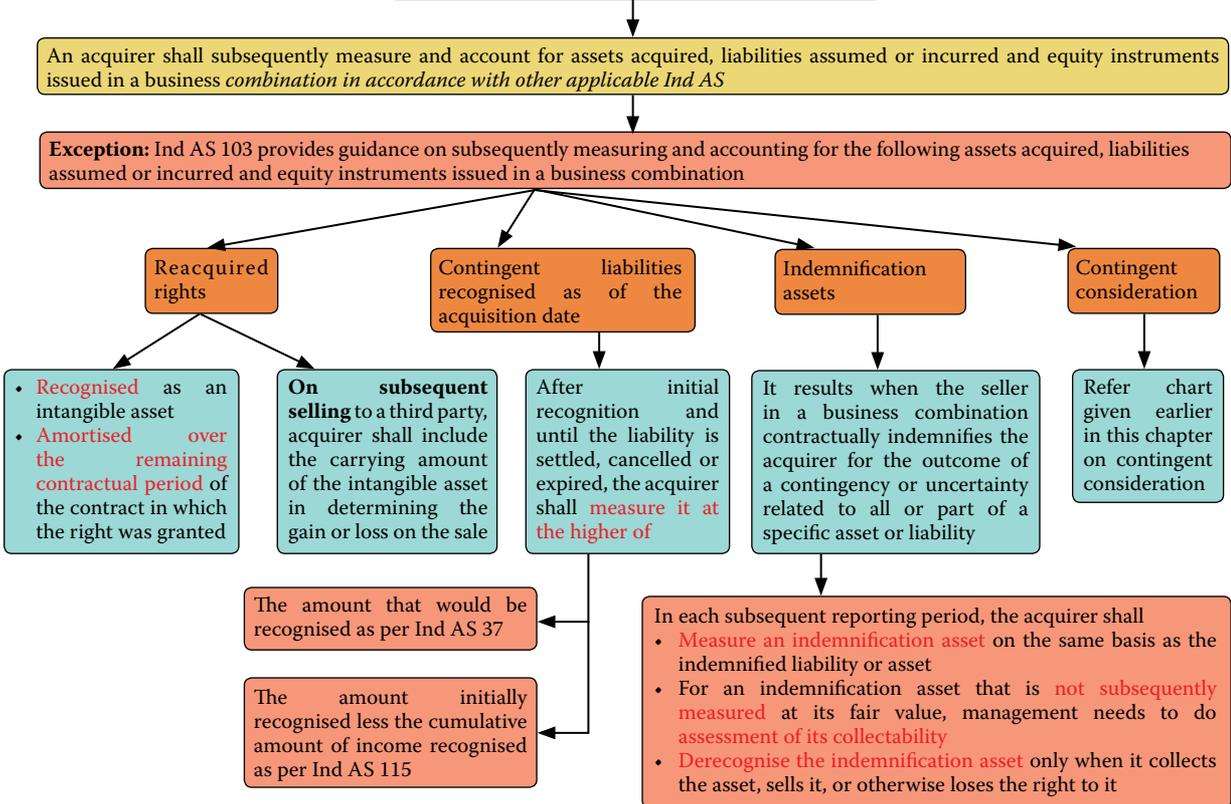
## Acquirer Share Based Payment Awards Exchanged for Awards Held by the Acquiree's Employees



**Equity-Settled Share-Based Payment Transactions of the Acquiree**



**Subsequent Measurement and Accounting**



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

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

## Common Control Business Combinations

- Applicable pronouncement → Appendix C of Ind AS 103 deals with accounting for business combinations of entities or businesses under common control
- Definition → It is a business combination involving entities or businesses in which all the combining entities or businesses are ultimately **CONTROLLED** by the **SAME** party or parties both **BEFORE** and **AFTER** the business combination, and that control is not transitory
- Inclusion → Common control business combinations will include transactions, such as transfer of subsidiaries or businesses, between entities within a group
- Role of NCI →
  - The extent of NCI in each of the combining entities before and after the business combinations is **not** relevant to determine whether a combination involves entities under common control
  - Partially owned subsidiary is always under the control of the parent entity
- Scope →
  - It is not necessary that combining entities are included as part of the same CFS
  - A group of individuals shall be considered as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities, and that ultimate collective power is not transitory
- Accounting → Business combinations involving entities or businesses under common control shall be accounted for using the **pooling of interests method**

**Method of Accounting for Common Control Business Combinations**

Business combinations involving entities or businesses under common control shall be accounted for using the **pooling of interests method**

Assets and liabilities of the combining entities are reflected at their **carrying amounts**

Only adjustments that are made are to harmonise accounting policies

No adjustments are made to reflect **fair values**, or recognize any new assets or liabilities

No **'new' goodwill is recognized** as a result of the combination

Any **expenses** of the combination are **written off immediately in the P&L**

Financial information in financial statements in respect of prior periods should be restated **as if business combination had occurred from beginning of preceding period in financial statements**, irrespective of actual date of combination

However, if business combination had occurred after that date, prior period information shall be restated only from that date

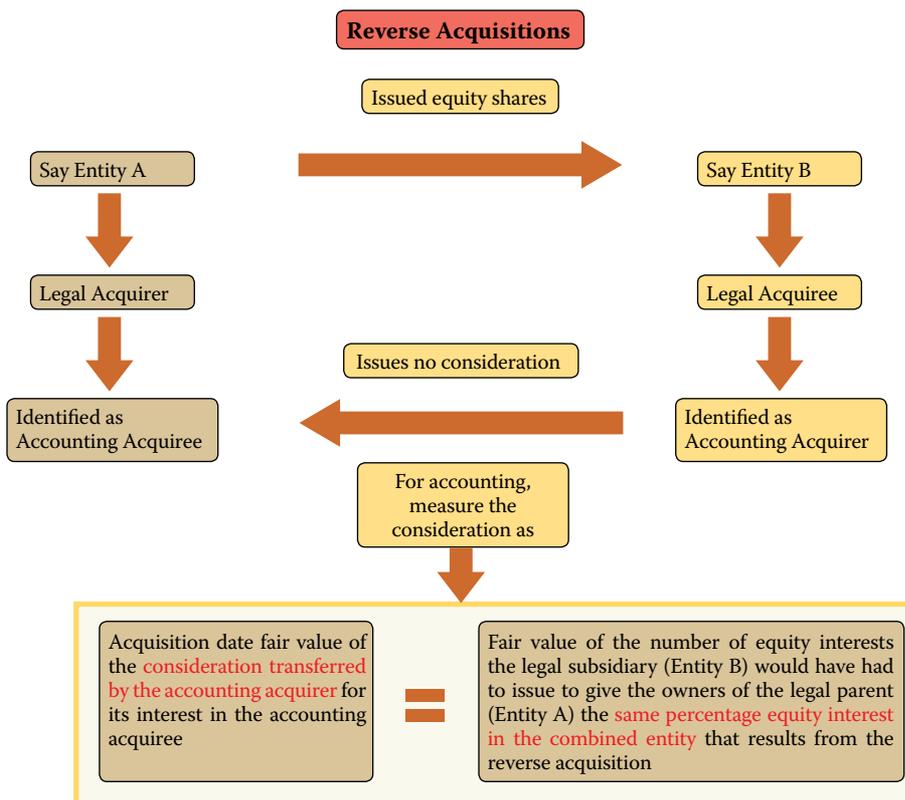
- Consideration for business combination may consist of securities, cash or other assets
- Securities shall be recorded at nominal value
- Assets other than cash shall be considered at their fair values

Identity of reserves shall be preserved and shall appear in financial statements of transferee in same form in which they appeared in financial statements of transferor

General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the business combination would also be available for distribution as dividend after the business combination.

Difference, if any, between amount recorded as share capital issued plus any additional consideration in form of cash or other assets and amount of share capital of transferor **shall be transferred to capital reserve and should be presented separately from other capital reserves with disclosure of its nature and purpose in the notes**

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



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

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

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

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

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

- (a) the assets and liabilities of the legal subsidiary (the accounting acquirer) recognised and measured at their pre-combination carrying amounts.
- (b) the assets and liabilities of the legal parent (the accounting acquiree) recognised and measured in accordance with this Ind AS.
- (c) the retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.
- (d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the business combination to the fair value of the legal parent (accounting acquiree).
- (e) in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets *even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date*.

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

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

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

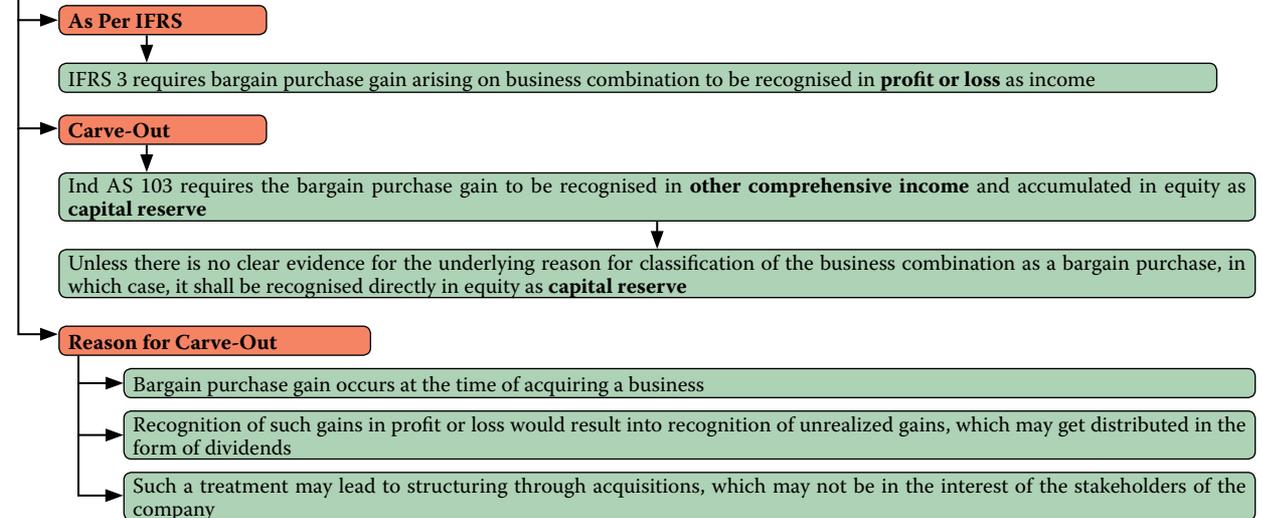
**For Earnings per Share for the comparative period**  
 The basic earnings per share for each comparative period before the acquisition date presented in the consolidated financial statements following a reverse acquisition shall be **calculated by dividing**:

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

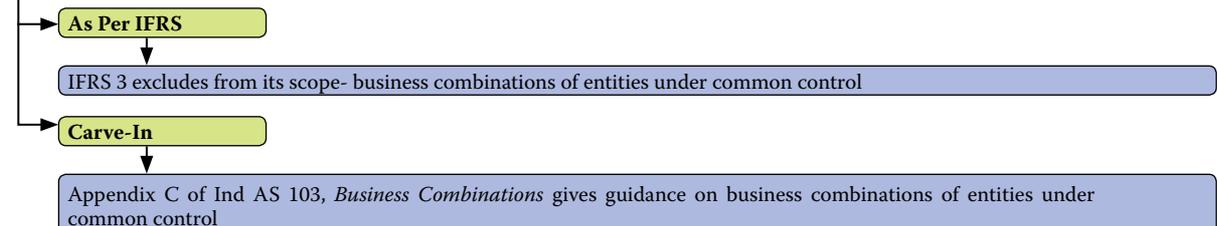
## Main Disclosures

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

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



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

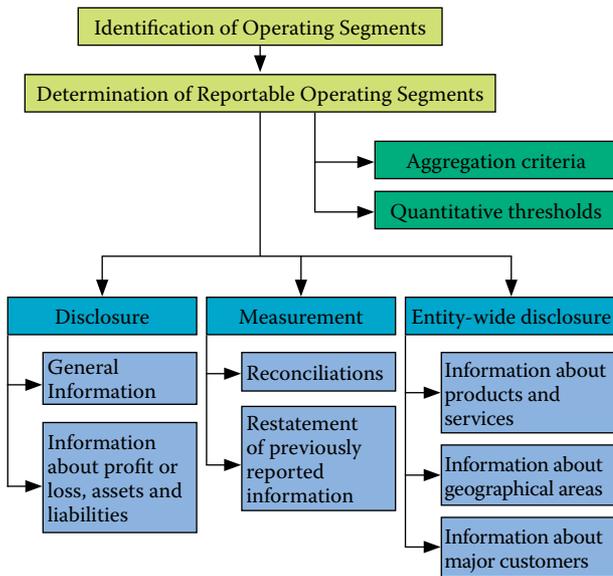


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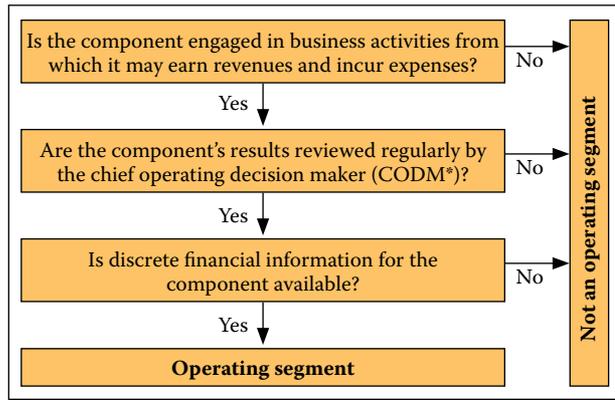
This capsule in Final Paper 1: Financial Reporting is eighth in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018; May, 2019; August, 2019; October, 2019; November, 2020; July/August, 2021 and October, 2021 issues of this Journal. For a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. In this capsule, we have covered significant provisions of Ind AS 108 and Ind AS 21 through pictorial/tabular presentations for better understanding and quick revision. Students are advised to refer the study material or bare text of these two standards for comprehensive study and revision. Under no circumstances, this capsule substitutes the detailed study of the material provided by the Board of Studies. Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

IND AS 108: OPERATING SEGMENTS

Overview



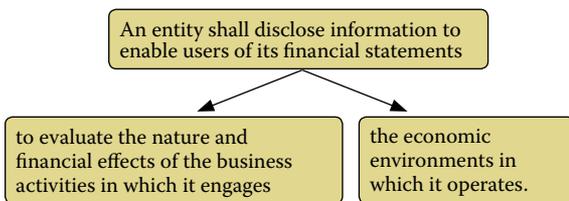
Identification of Operating Segment (a component of an entity)



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

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

Core Principle



Important points:

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

Important Points regarding identification of operating segment

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

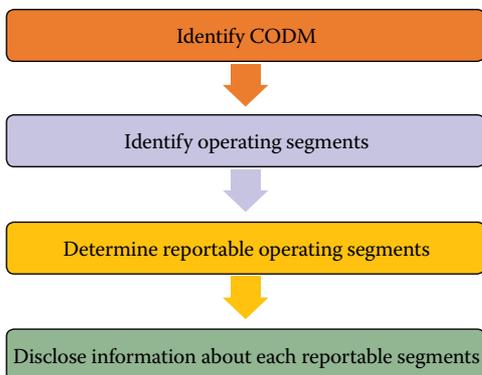
\* The term '**segment manager**' identifies a function, **not necessarily a manager with a specific title**. He is directly accountable to and maintains regular contact with the chief operating decision maker. A CODM may also be a segment manager for some operating segments.

## Reportable segments

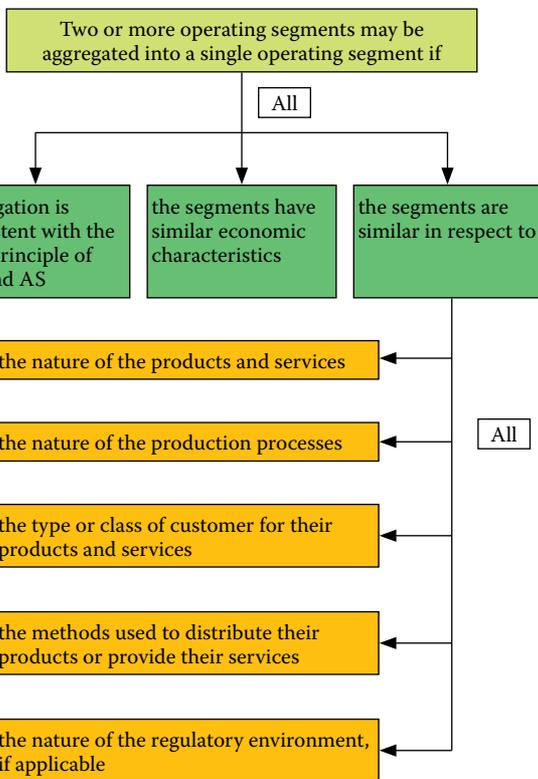
An entity should report separately information about each operating segment that:

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

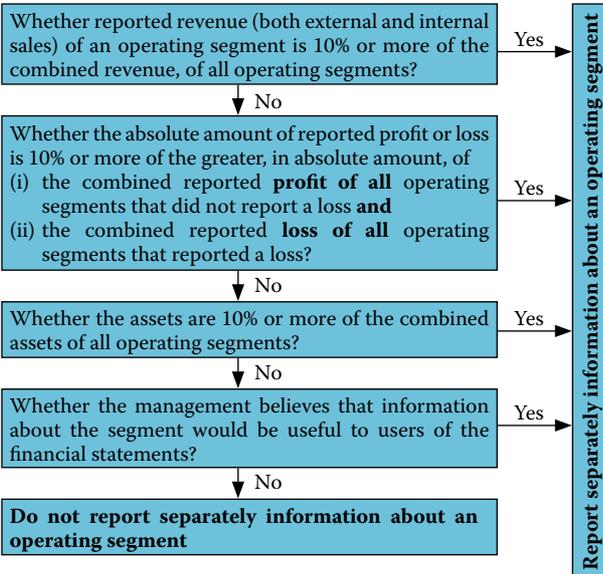
Standard specifies other situations in which separate information about an operating segment should be reported.



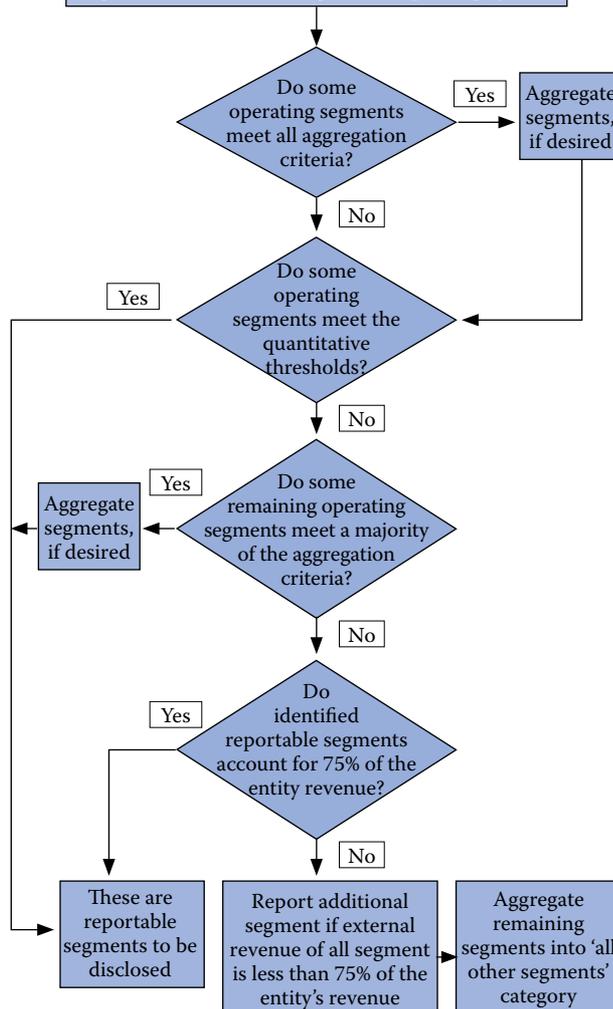
## Aggregation Criteria



## Quantitative Thresholds Criteria



## Overall determination of reportable operating segments based on management reporting system



## Important points:

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

## Disclosure

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

**General information:**

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

**Information about reported segment profit or loss, including**

- specified revenues and expenses included in reported segment profit or loss,
- segment assets,
- segment liabilities; and
- the basis of measurement.

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

## Note:

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

## Measurement

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

## Reconciliations

An entity shall provide **reconciliations of all** of the following:

- (a) the total of the reportable segments' revenues to the entity's revenue.
- (b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations.
- (c) the total of the reportable segments' assets to the entity's assets if the segment assets are reported.
- (d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported.
- (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

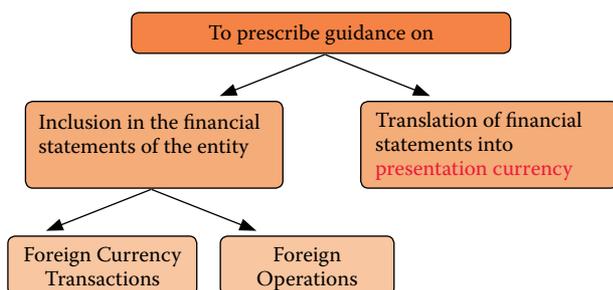
All material reconciling items shall be separately identified and described.

## Other information to be disclosed

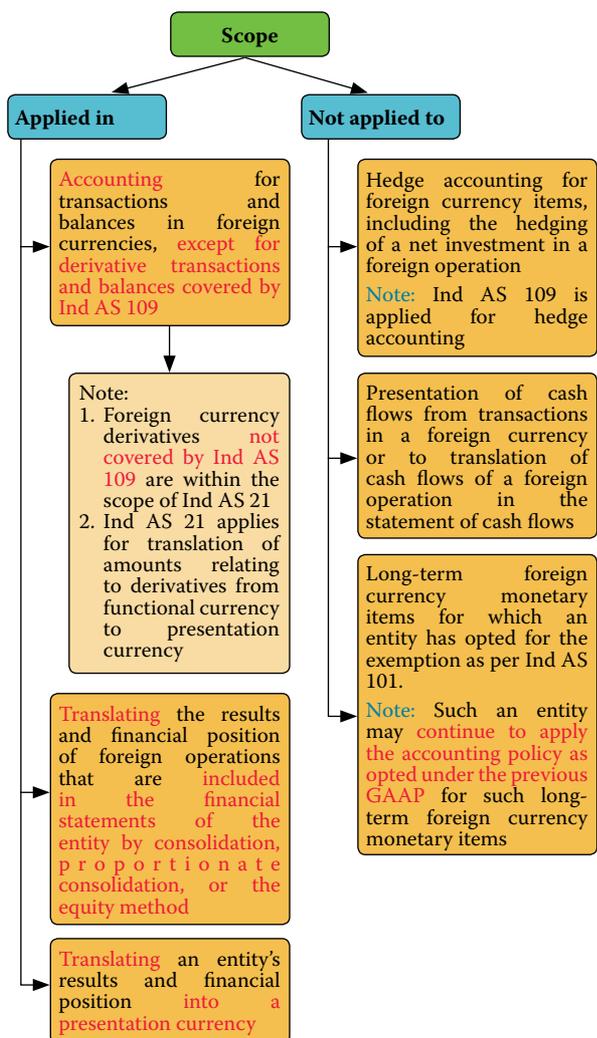
1. An entity should report the following geographical information, if possible:
  - (a) revenues from external customers
    - (i) attributed to the entity's country of domicile and
    - (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external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

## INDIAN ACCOUNTING STANDARD 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

### Objective



### Scope



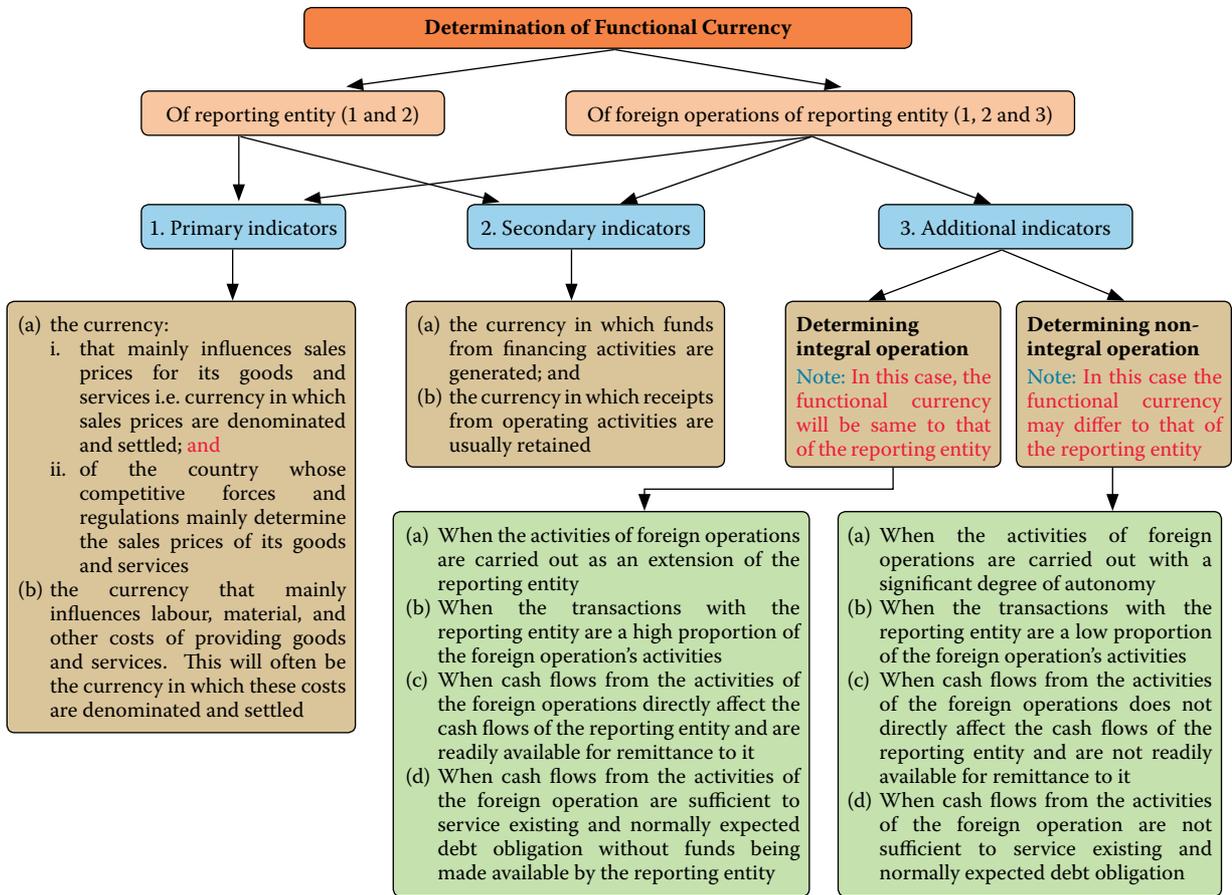
### Key Definitions

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

### Functional Currency

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

**Determination of Functional Currency**

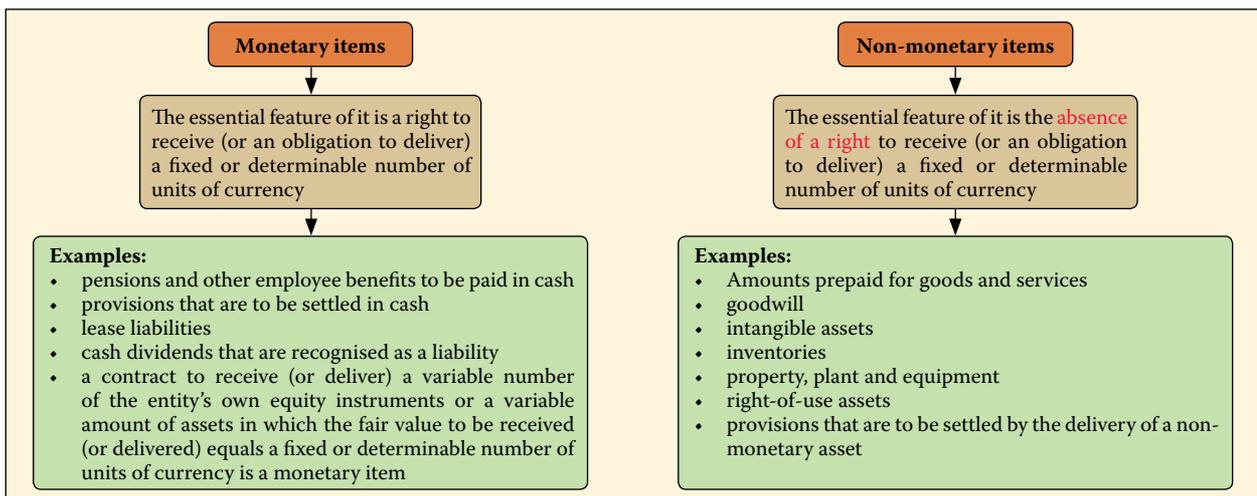


**Note:**

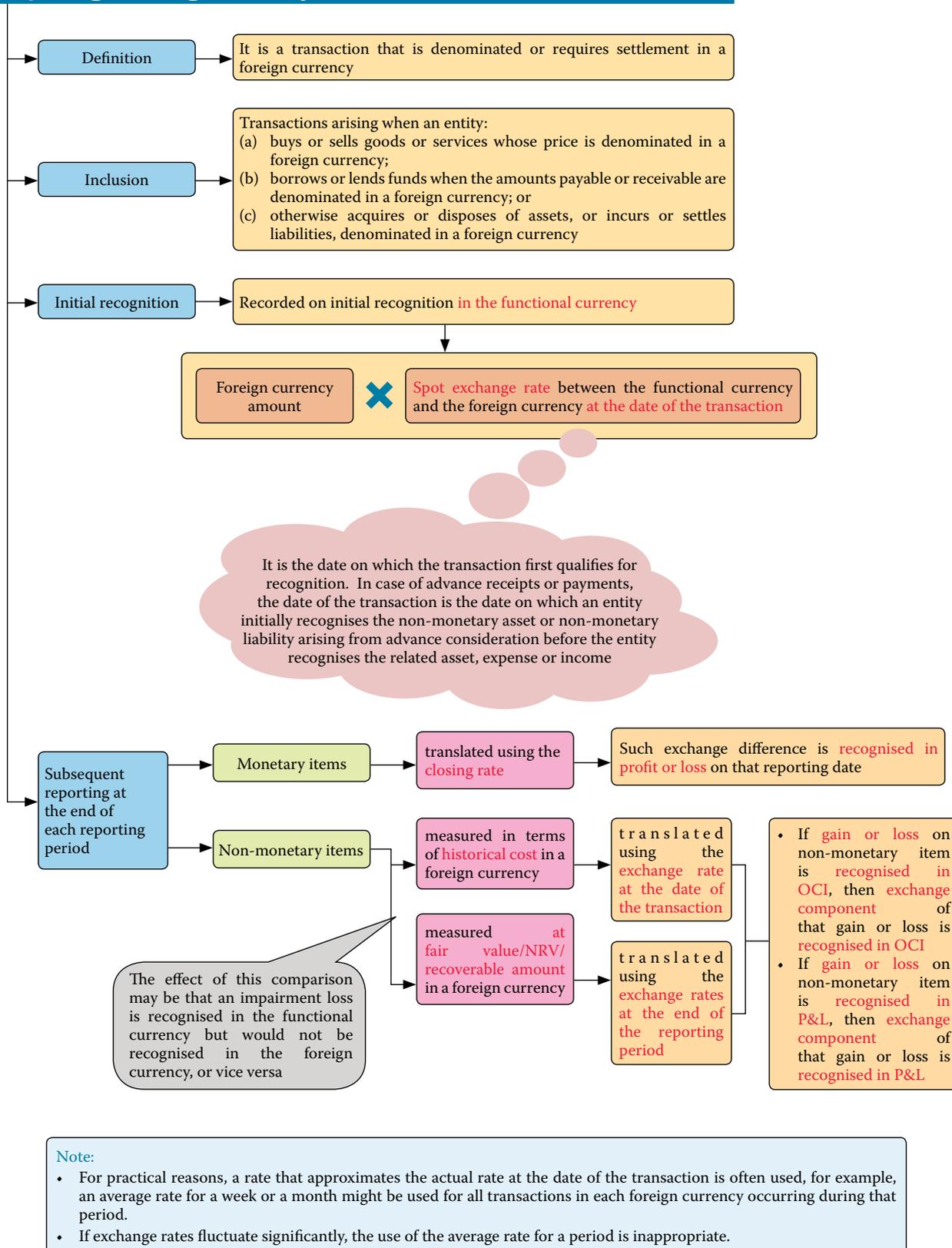
When the above indicators are mixed and the functional currency is not obvious, the management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Accordingly, management has to give priority to the primary indicators before considering the other indicators, which provide additional supporting evidence to determine an entity's functional currency.

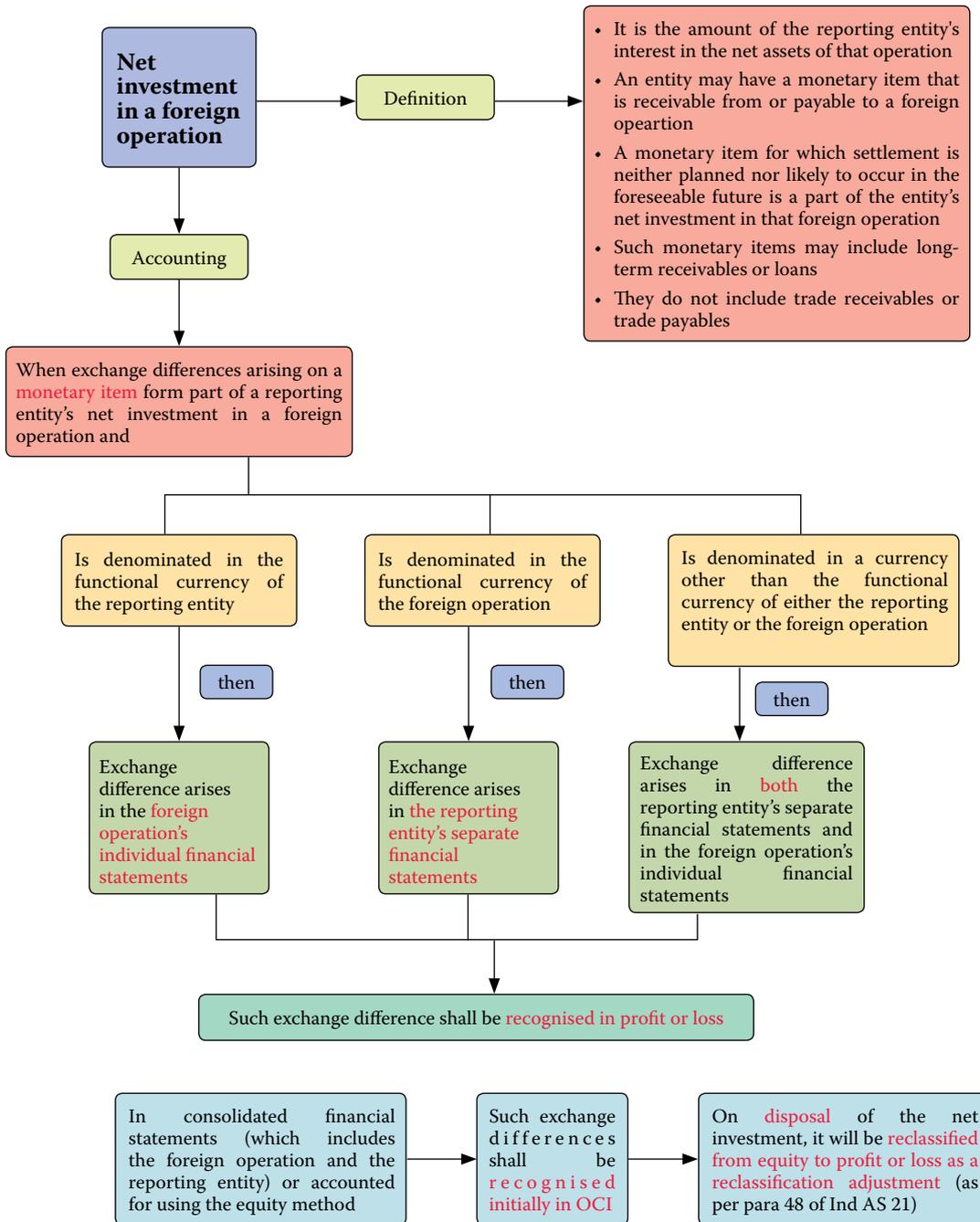
**Monetary & Non-monetary items**



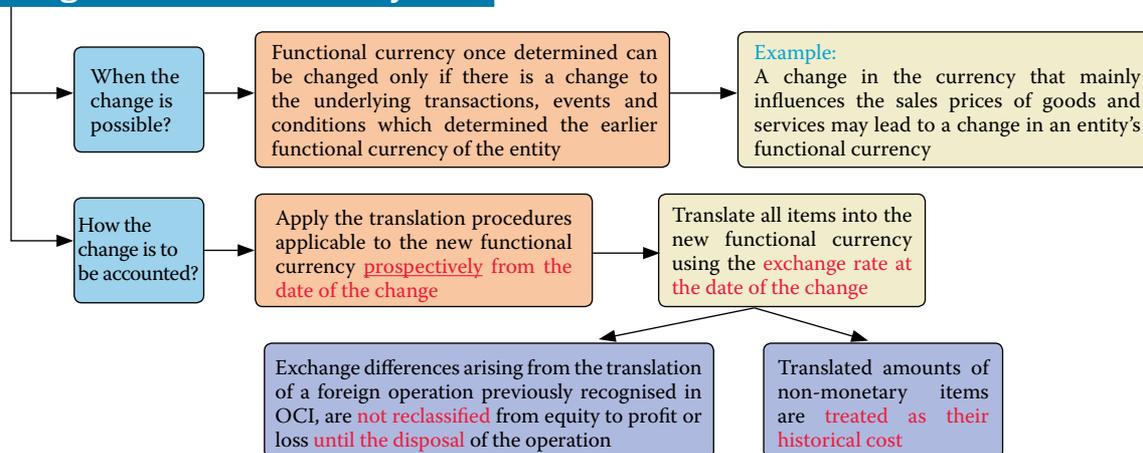
## Reporting of Foreign Currency Transactions



Net investment in a foreign operation



## Change in Functional Currency



## Translation to the presentation currency

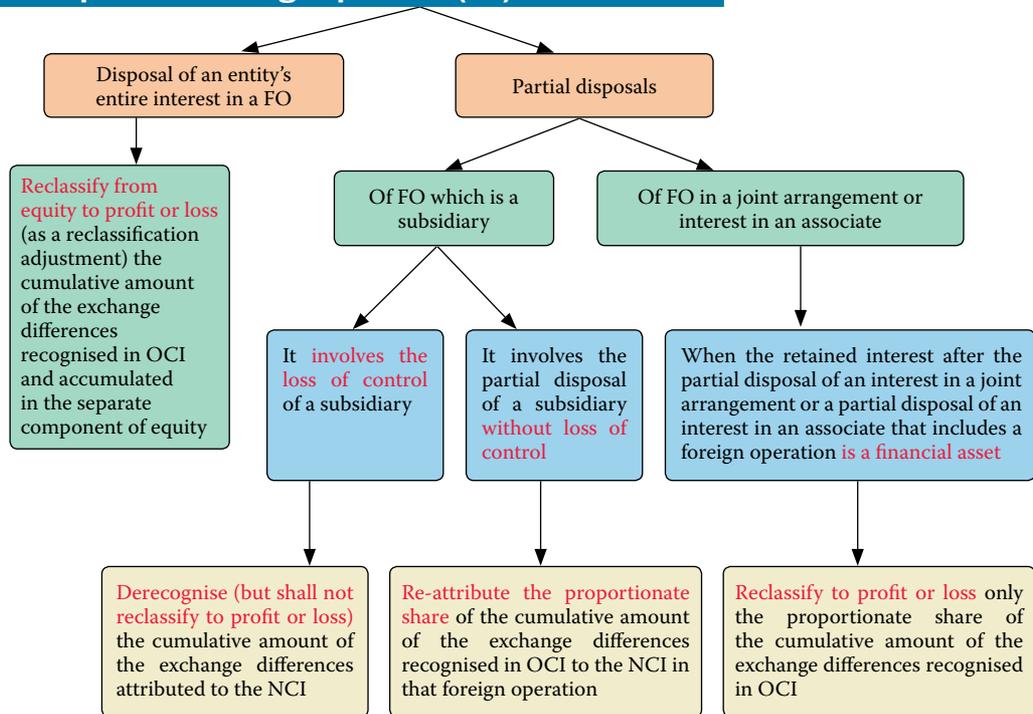
1.	Why to translate?	<ul style="list-style-type: none"> <li>An entity may <b>present its financial statements in any currency</b> (or currencies).</li> <li>If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation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

**Note:**

Tax effects of all exchange differences

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

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



**Note:**

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

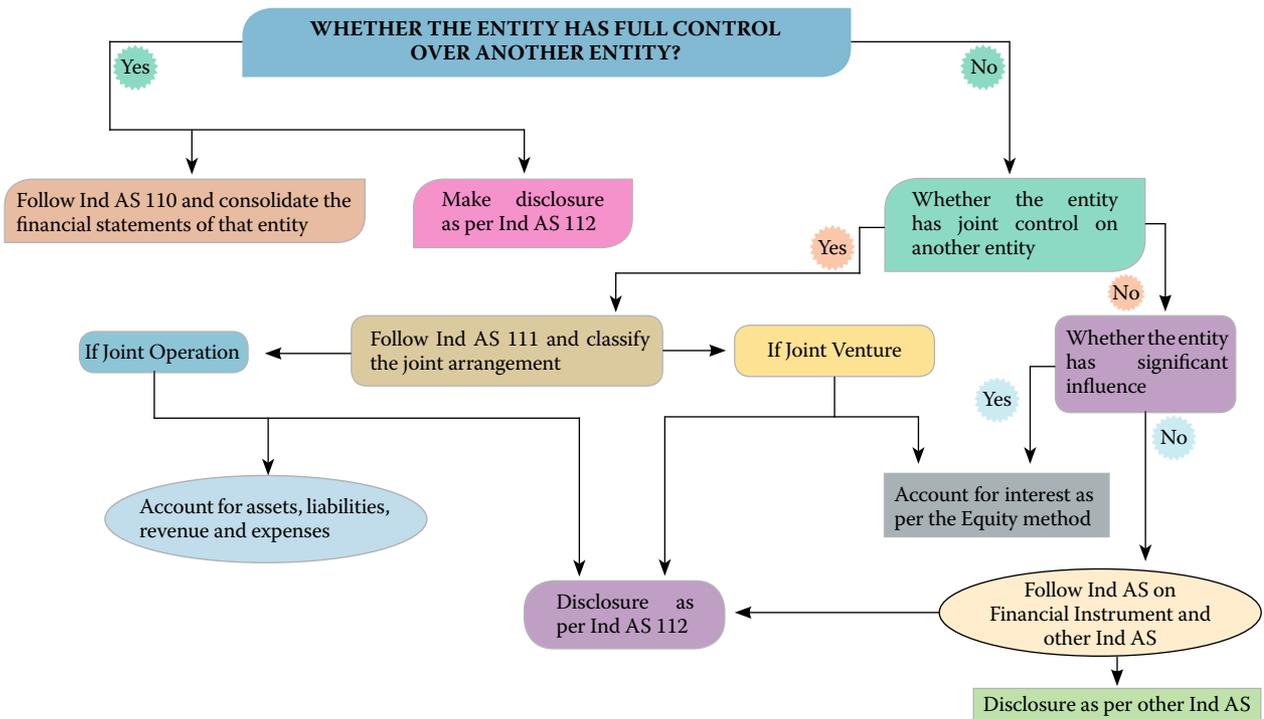
**Disclosure**

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

CA FINAL - PAPER 1 - FINANCIAL REPORTING

This capsule in Final Paper 1 Financial Reporting is ninth in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019, October, 2019, November, 2020, July/August, 2021, October, 2021 and June, 2022 issues of this Journal. For a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. All the earlier published capsules are also available on the BOS knowledge portal at <https://resource.cdn.icai.org/59892bos48771finalp1.pdf> This month's Journal covers capsule on significant provisions of Ind AS 28. Students are advised to refer the study material and bare text of this standard for comprehensive study and revision. Under no circumstances, this capsule substitutes the detailed study of the material provided by the Board of Studies. Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

ACCOUNTING FOR INVESTMENT IN OTHER ENTITY- AN OVERVIEW



INDIAN ACCOUNTING STANDARD 28: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

OBJECTIVE

To prescribe the accounting for investments in **associates**

To set out the requirements for the application of **equity method**

Equity method is applied in accounting for investments in **associates** and **joint ventures**

SCOPE

Ind AS 28 is applied by **all** entities that are:

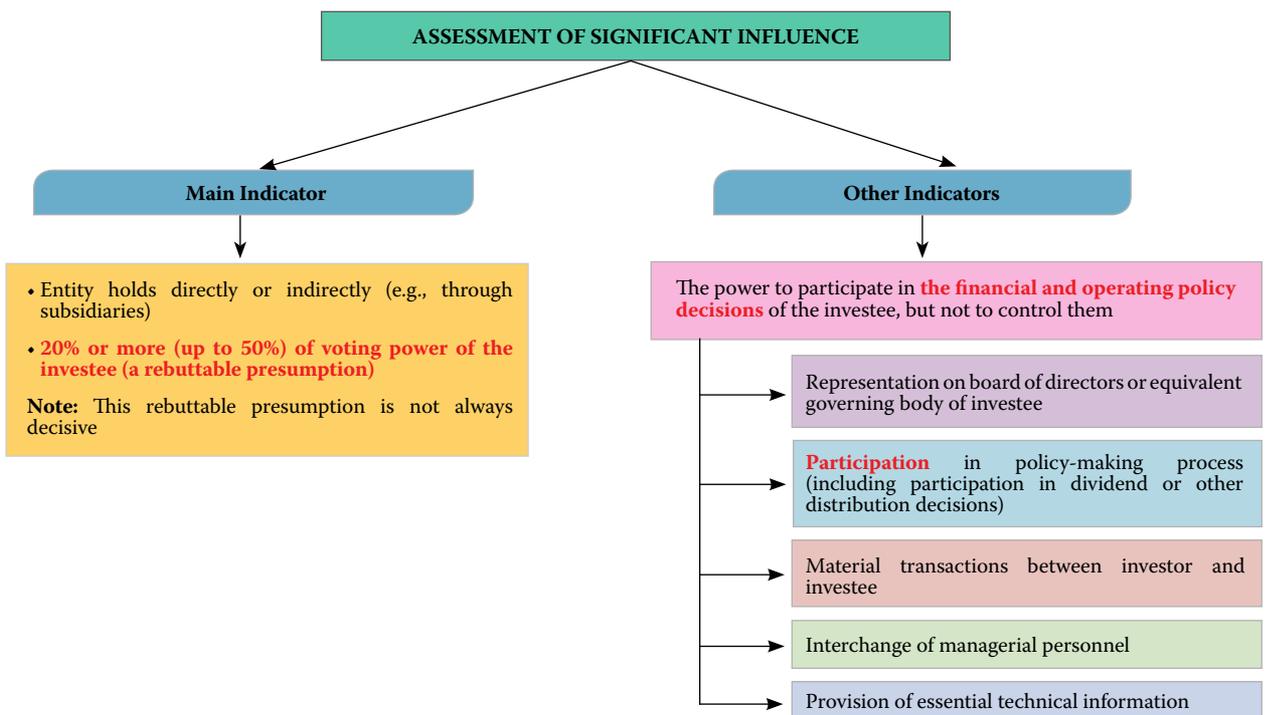
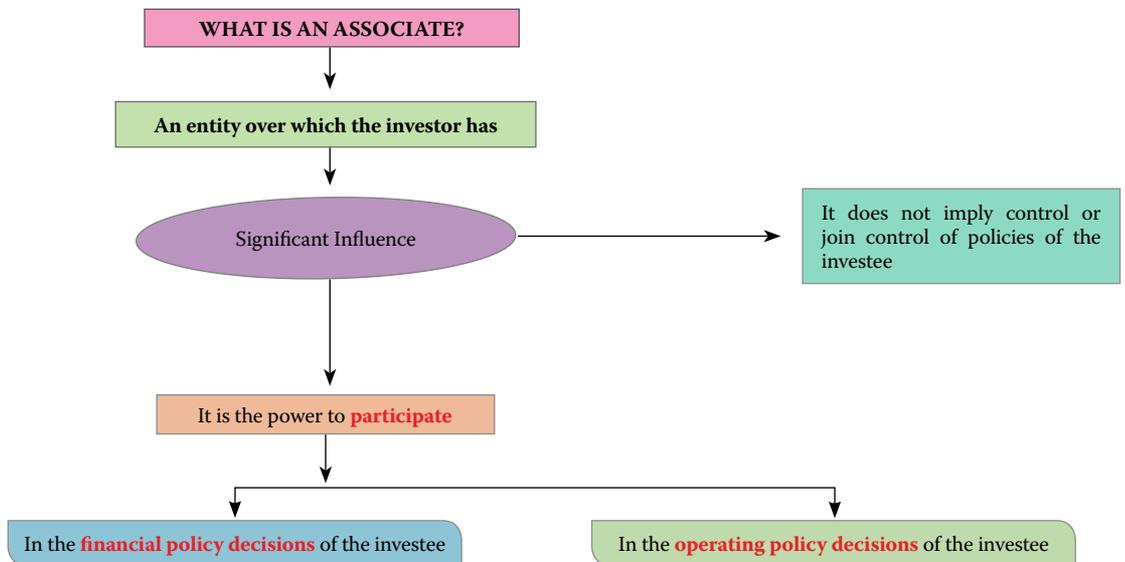
Investors with **joint control** of an investee i.e., **joint venture** of the investor

Investors with **significant influence** over an investee i.e., **associate** of the investor

KEY DEFINITIONS

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

# FINANCIAL REPORTING ||



## OTHER POINTS

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

**LOSS OF SIGNIFICANT INFLUENCE**

An investor loses significant influence over an investee when it loses the power to participate in investee's

Financial policy decisions

Operating policy decisions

The loss of significant influence can occur with or without a change in absolute or relative ownership levels

Example

When an associate becomes subject to the control of a government, court, administrator, or regulator

Loss of significant influence may occur because of a contractual arrangement

**EQUITY METHOD**

An investor is required to account its investments in associates and joint ventures as per:

**EQUITY METHOD**

- Equity method is not applied for accounting of investments in associates and joint ventures in the separate financial statements of the investor
- In separate financial statements, an investor shall apply the guidance given in Ind AS 27

**EQUITY METHOD**

- 1 • Investment is initially recognized at cost
- 2 • Subsequently at the reporting date, the carrying amount of investment is adjusted : to recognize the investor's share of post-acquisition profit or loss of the investee
- 3 • Adjustments to the carrying amount of the investment may also arise from changes in the investee's OCI (e.g., due to revaluation of PPE or foreign exchange translation differences)  
• The investor's share of those changes is recognized in OCI of the investor
- 4 • Goodwill remains included in the carrying amount of the investment
- 5 • Distributions received from an investee (e.g., dividend) reduces the carrying amount of investment
- 6 • Equity Method Accounting is applied from the date significant influence arises to the date significant influence ceases
- 7 • The investment, or any retained interest in the investment (not classified as held for sale) shall be classified as a **non-current asset**

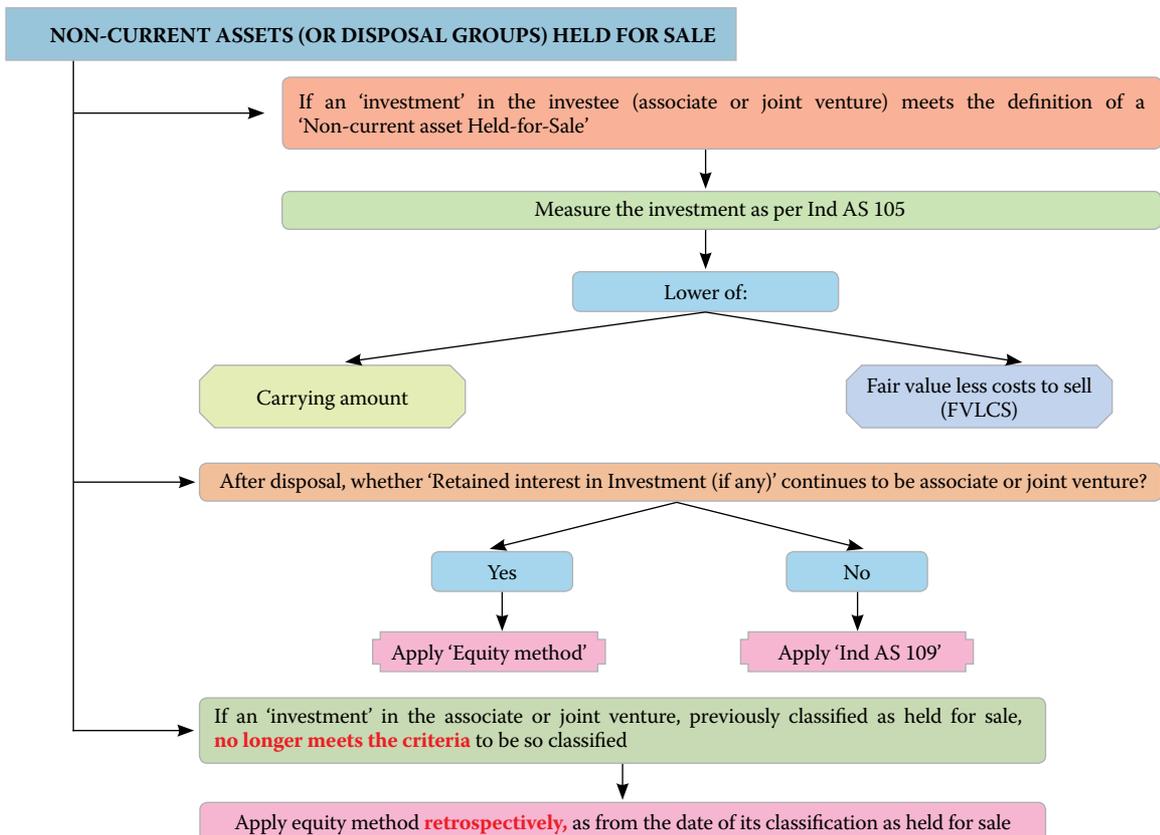
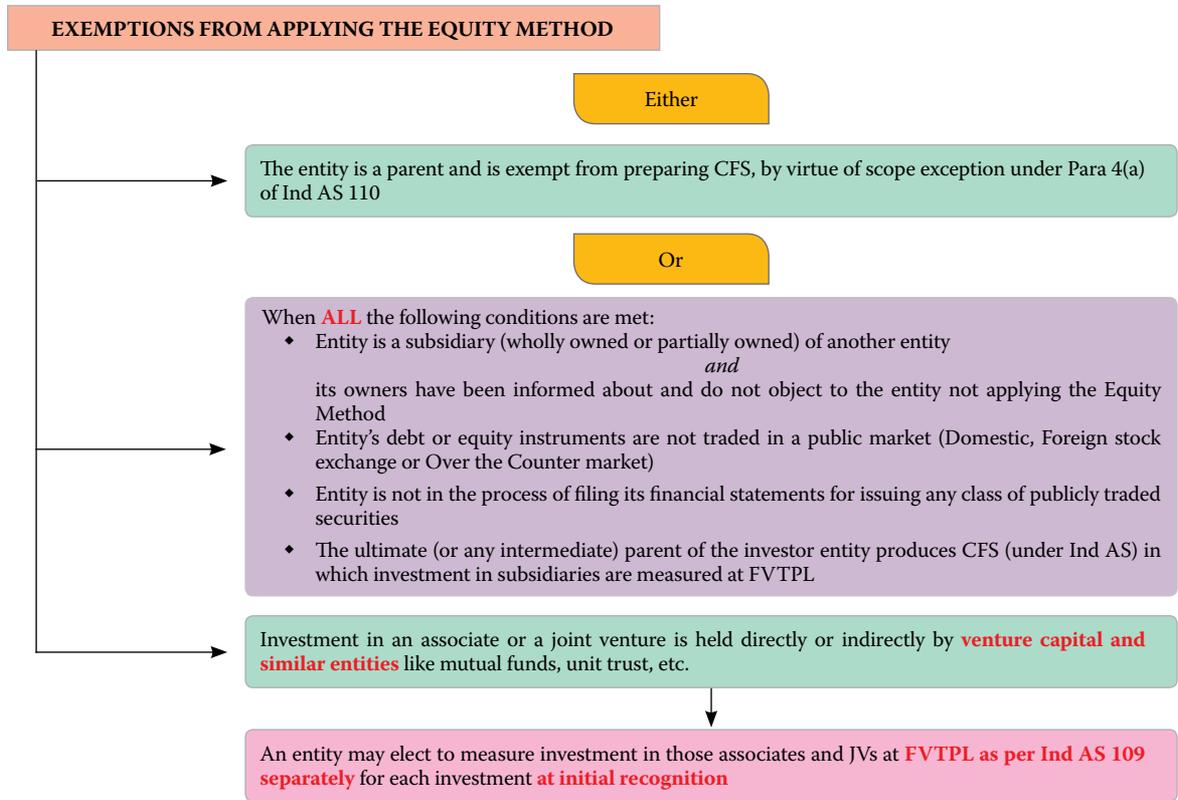
# FINANCIAL REPORTING ||

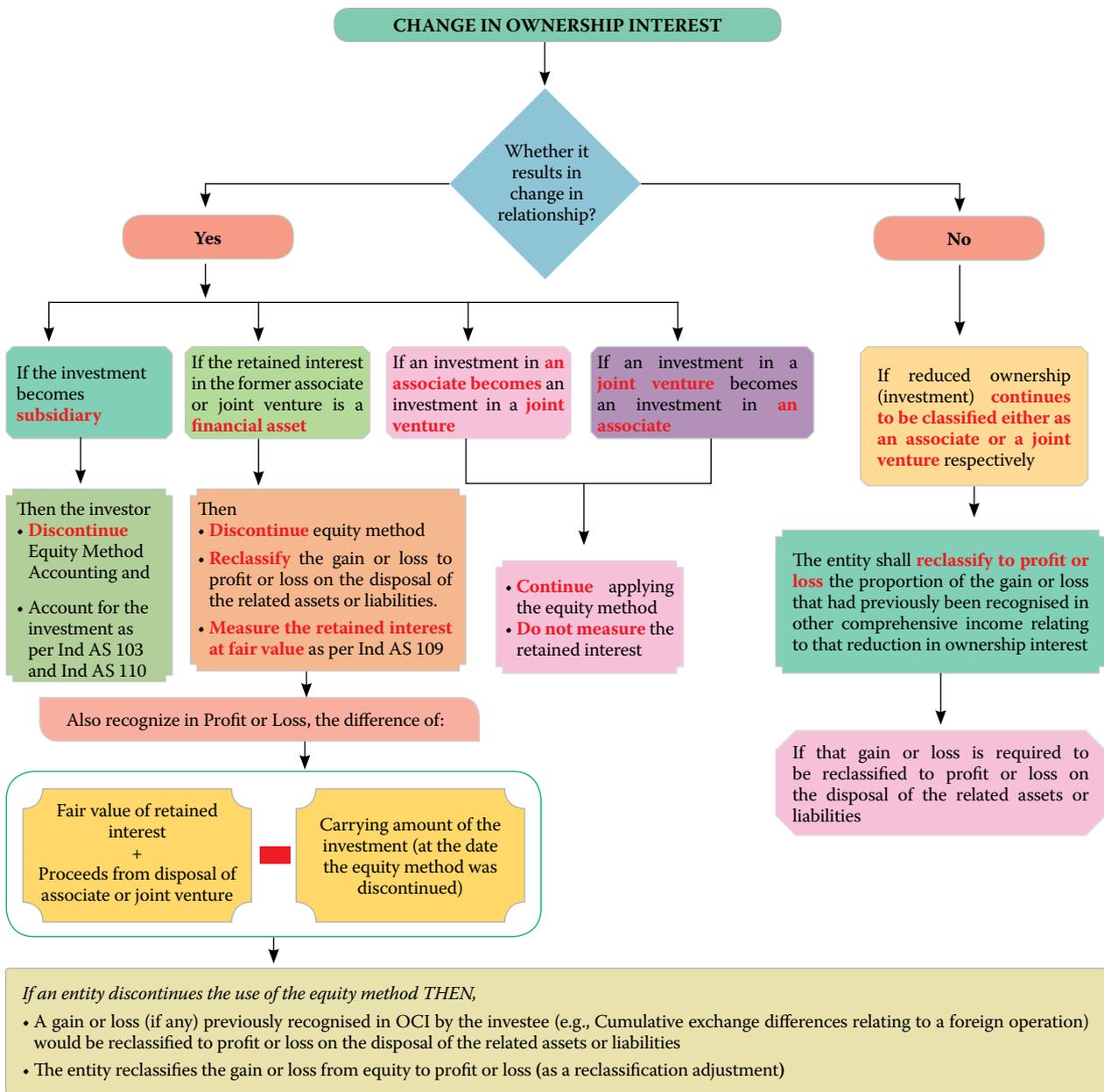
## Determination of carrying amount of investment under Equity Method

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

## EQUITY METHOD ACCOUNTING:

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

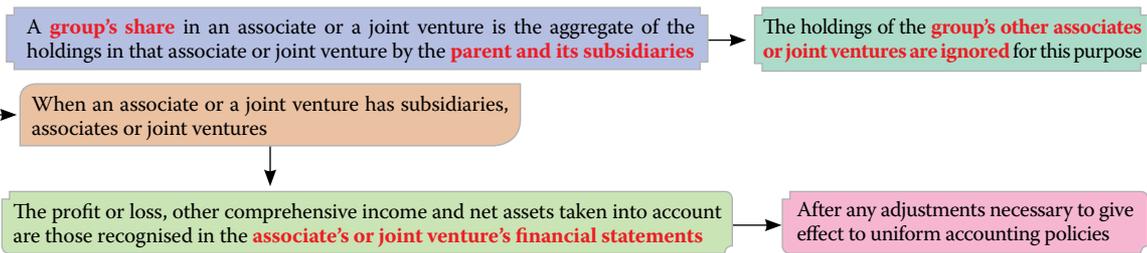




**Note:** The fair value of retained interest should be regarded as fair value on initial recognition.

## EQUITY METHOD PROCEDURES

### A. DETERMINATION OF GROUP'S SHARE



**B. MUTUAL TRANSACTIONS**

They are transactions between an investor entity (including subsidiaries) and its associate or joint venture

Eliminate the investor's share in the associate's or the joint venture's gains or losses resulting from these transactions

Mutual transactions are of two types

Gains and losses from such transactions are **recognised** in the investor entity's financial statements **only to the extent of unrelated investors' interests in the associate or joint venture**

Upstream

Downstream

Example:  
Sales of assets from an associate or a joint venture to the investor

Example:  
Sales or contributions of assets from the investor to its associate or its joint venture

When upstream transactions provide evidence of a **reduction in the NRV** of the assets to be purchased or of an **impairment loss** of those assets

When downstream transactions provide evidence of a **reduction in the NRV** of the assets to be sold or contributed, or of an **impairment loss** of those assets

The investor shall **recognise its share in those losses**

The investor shall **recognise in full those losses**

Share in loss of in Associate./JV Dr.  
To Investment in Associate./JV

Loss on sale of asset Dr.  
To Asset

**Note:**

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

**C. DIFFERENT REPORTING DATES**

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

**D. UNIFORM ACCOUNTING POLICIES**

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

Two Exceptions to the above rules are

**Exception 1**

In case of an associate (*not joint venture*), the adjustment for uniformity of accounting policies with those of the entity will not be done **if it is impracticable to do so**.

**Exception 2**

- An entity may have interest in an associate or a joint venture that is an **investment entity**.
- Such an associate or a joint venture may also have interest in one or more subsidiaries.
- When this is the case, such associate or joint venture, being an investment entity, would **account for its interest in subsidiaries at fair value**. Hence, in such case, the **entity can elect to retain** the fair value measurement used by the associate or joint venture.

# FINANCIAL REPORTING ||

## E. CUMULATIVE PREFERENCE SHARES

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

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

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

## F. LOSS MAKING ASSOCIATE OR JOINT VENTURE

- In case of a loss making associate or joint venture, an investor entity's share of losses of such associate or joint venture may equal or exceed its **interest in the associate or joint venture**. In such case, the investor entity discontinues recognizing its share of further losses.
- After the investor entity's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred **legal or constructive obligations or made payments** on behalf of the associate or joint venture.
- If the associate or joint venture **subsequently reports profits**, the investor entity resumes to recognize its share of those profits **only after** its share of the profits equals the share of losses not recognized.

## IMPAIRMENT LOSSES

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

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

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

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

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

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

Significant **financial difficulty** of the associate or joint venture

**Breach of contract**, such as a default in payments by the associate or joint venture

The entity **granting a concession** to associate or joint venture (because of its financial difficulties)

It becoming probable that the associate or joint venture will enter **bankruptcy or other financial reorganisation**

**Disappearance of an active market** for the net investment because of financial difficulties of the associate or joint venture

**Adverse effect** in the environment (technological, market, economic or legal) in which associate or joint venture operates

**Significant or prolonged decline in the fair value** of an investment in an equity instrument below its cost

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

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

**If goodwill** on acquisition of associate or joint venture is recognized as **part of the carrying amount of the net investment** in associate or joint venture, **then** such goodwill is **not tested separately** for impairment; **rather the entire carrying amount** of the investment is **tested for impairment as a single asset** when there is objective evidence of impairment.

Any impairment loss recognized is **not allocated** to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture.

**Reversal of impairment loss**

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

**PRESENTATION AND DISCLOSURE**

- Investments in associates are **generally classified as non-current assets.**
- Investments in associates are **only classified as current assets** if they meet the criteria to be **classified as 'held for sale'** in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'.
- No disclosures are specified in Ind AS 28.
- Instead, Ind AS 112 '*Disclosure of Interests in Other Entities*' outlines the disclosures required for entities with joint control of, or significant influence over, an investee.

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

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

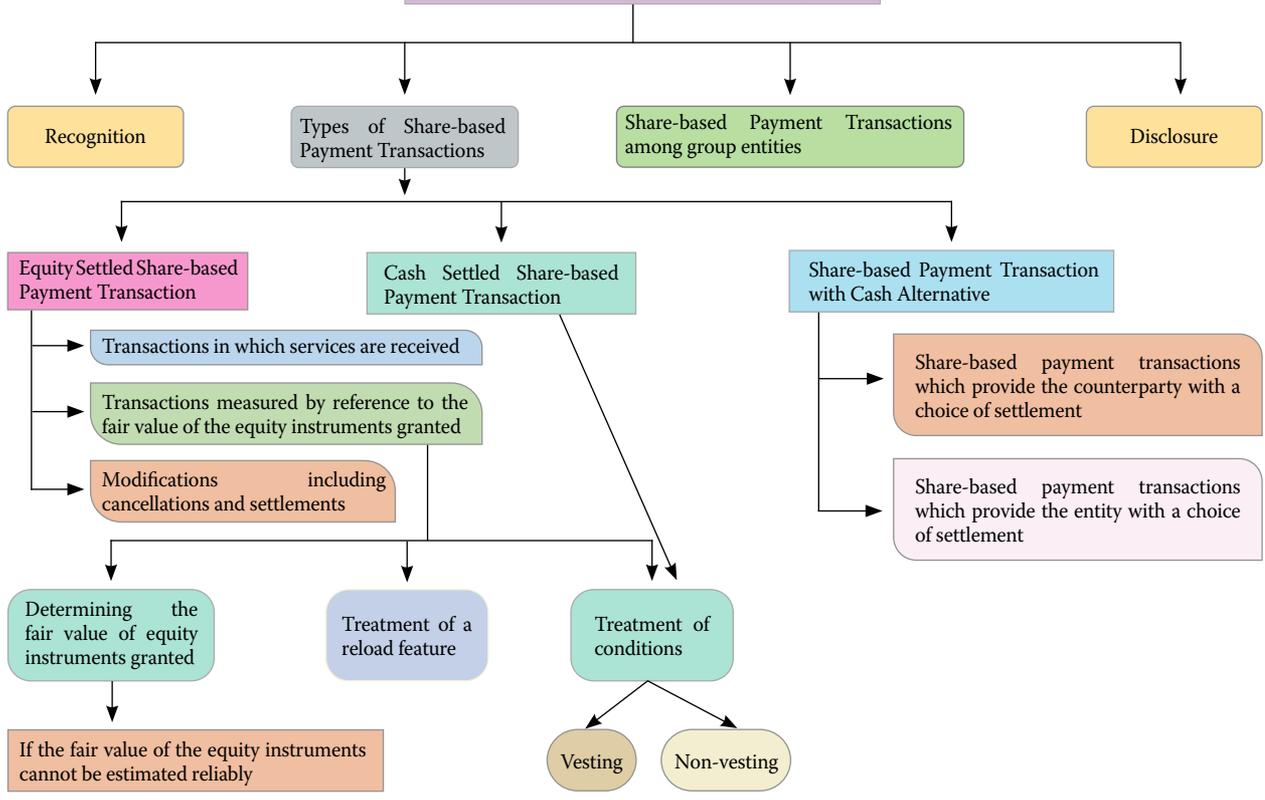
CA FINAL (NEW COURSE) - PAPER 1 - FINANCIAL REPORTING: A CAPSULE FOR QUICK REVISION

This capsule in Final Paper 1 Financial Reporting is tenth in the series. Many of the Ind AS have already been covered in the capsules on Financial Reporting published in July, 2018, May, 2019 and August, 2019, October, 2019, November, 2020, July/August, 2021, October, 2021, June, 2022 and December, 2022 issues of this Journal. For a comprehensive revision of the Ind AS, students should also refer to these capsules along with the amendments notified after their release, if any. All the earlier published capsules are also available on the BOS knowledge portal at <https://resource.cdn.icai.org/59892bos48771finalp1.pdf>

This month's Journal covers capsule on significant provisions of Ind AS 102. Students are advised to refer the study material and bare text of this standard for comprehensive study and revision. Under no circumstances, this capsule substitutes the detailed study of the material provided by the Board of Studies. Further, students are advised to enhance their ability to address the issues and solve the problems based on Ind AS by working out the examples, illustrations and questions given in the study material, revision test papers and mock test papers.

INDIAN ACCOUNTING STANDARD 102: SHARE-BASED PAYMENT

Overview of Ind AS 102: Share-based Payment



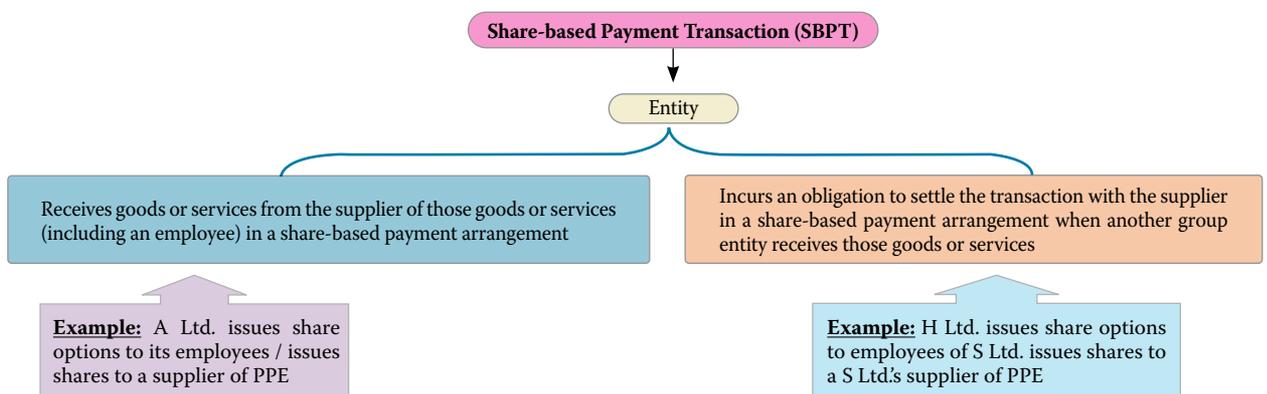
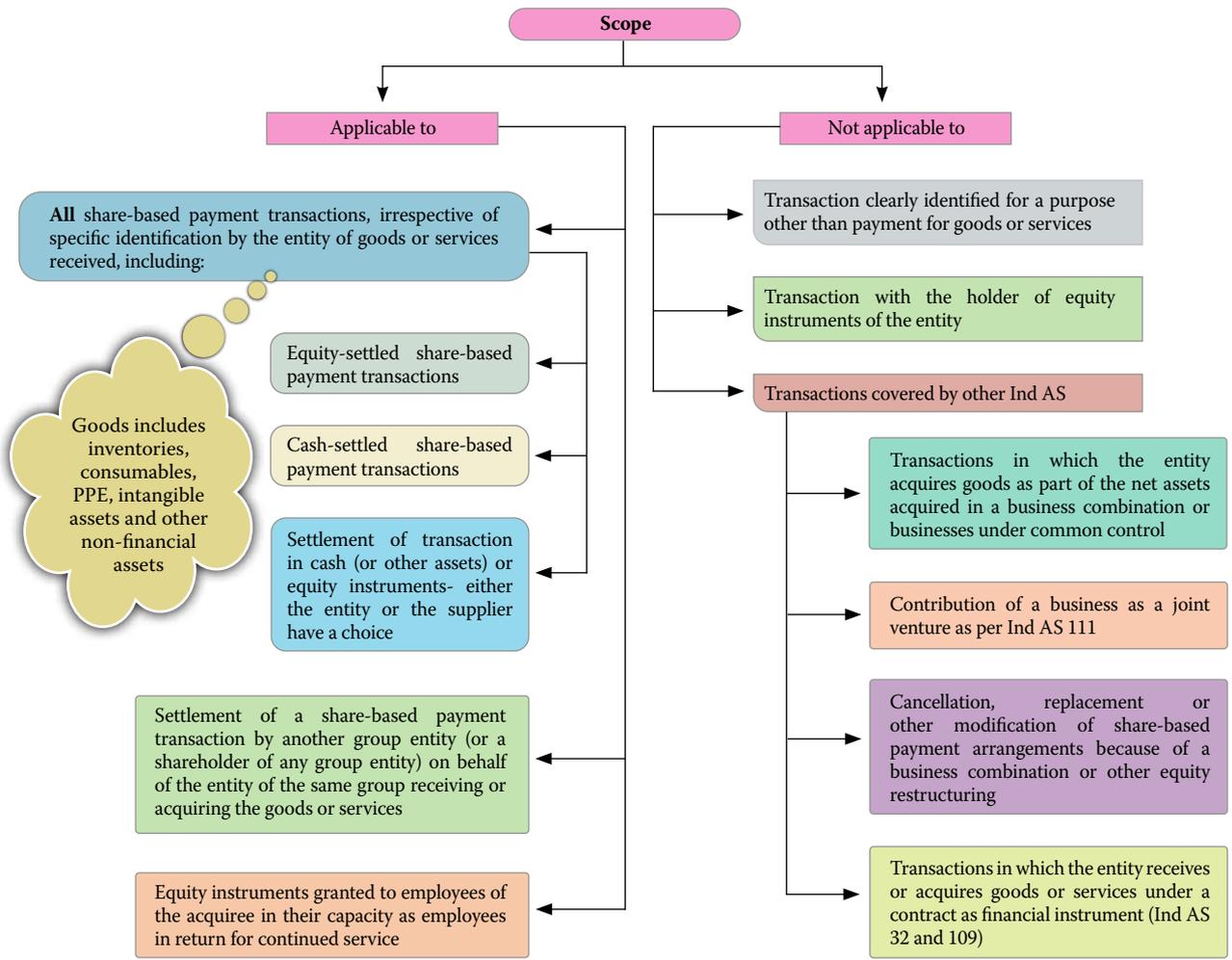
Objective

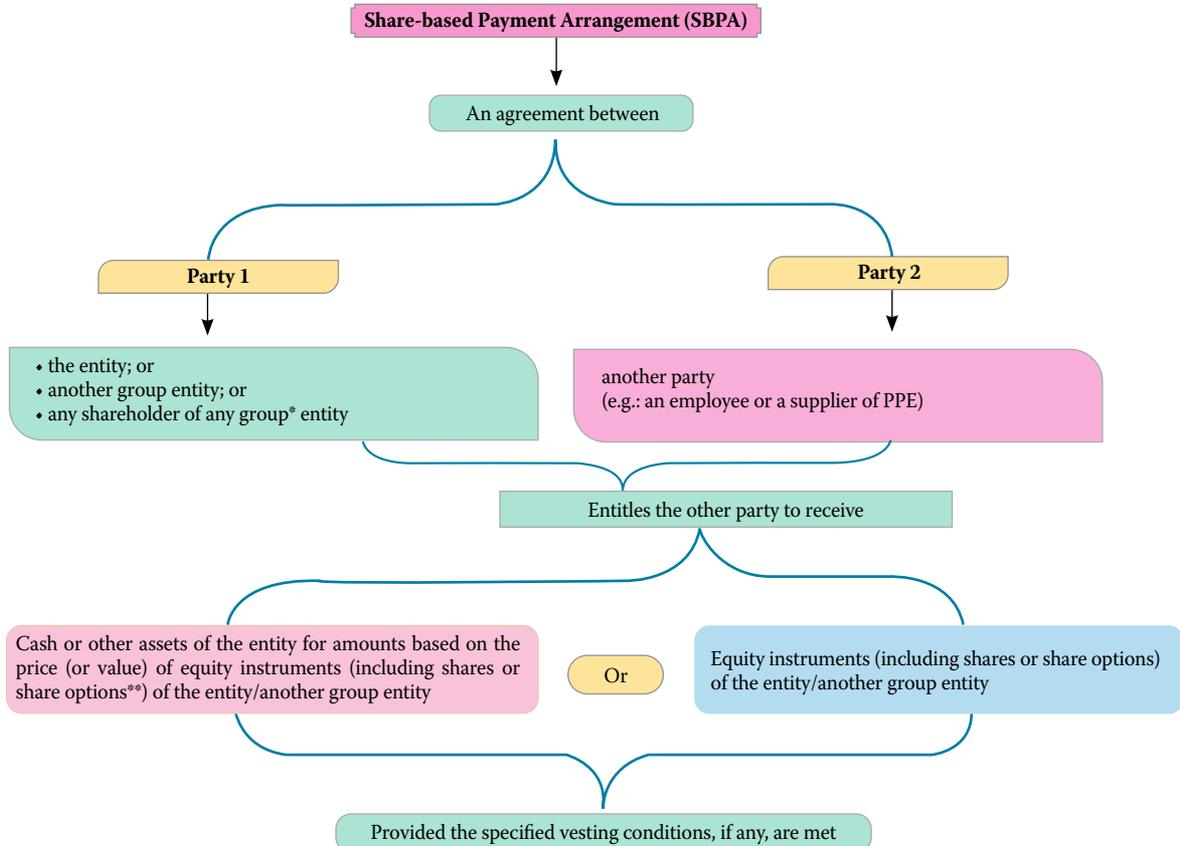
To specify financial reporting for an entity when it undertakes a share-based payment transaction

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



\*Share-based Payment Arrangement



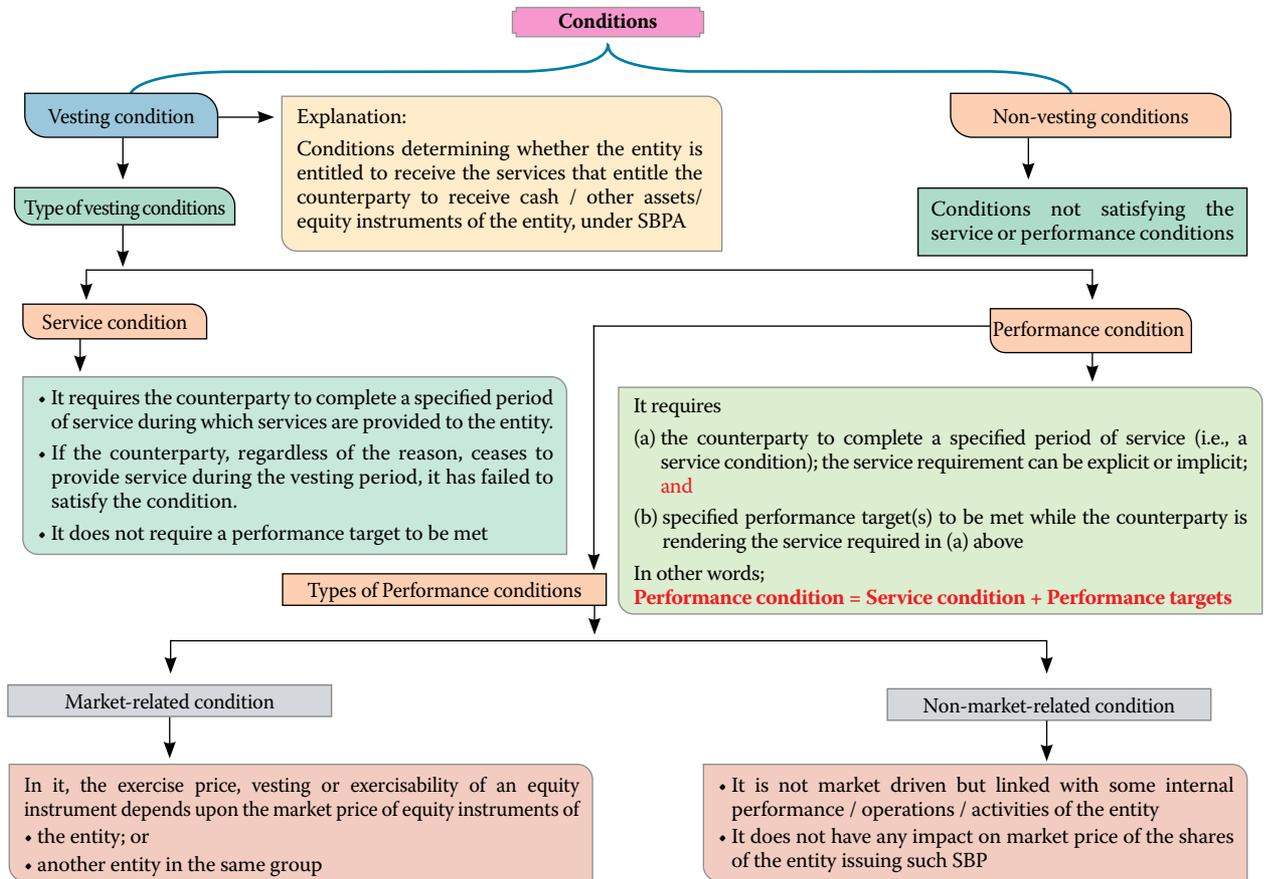


**Note:**

\*As per Ind AS 110, a group means 'a parent and its subsidiaries' from the perspective of the reporting entity's ultimate parent.

\*\*Share option is a contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.

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

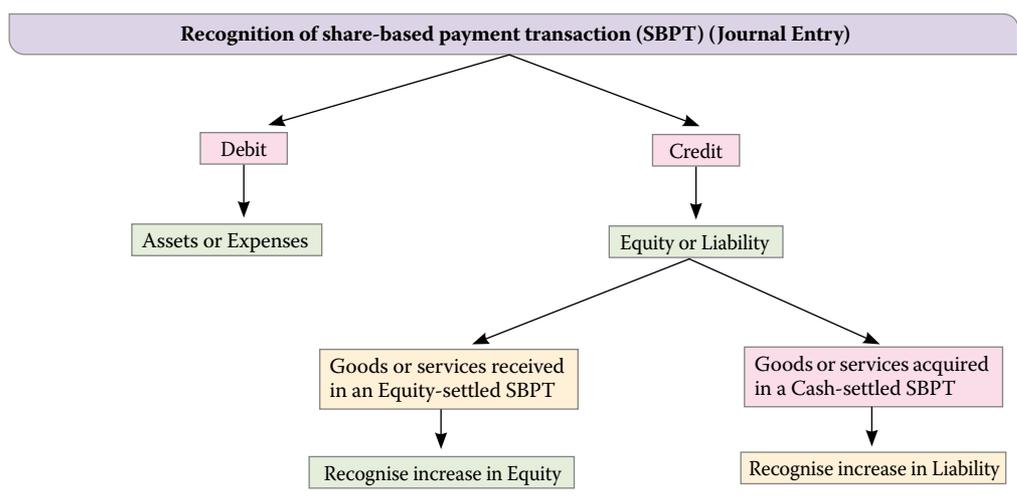
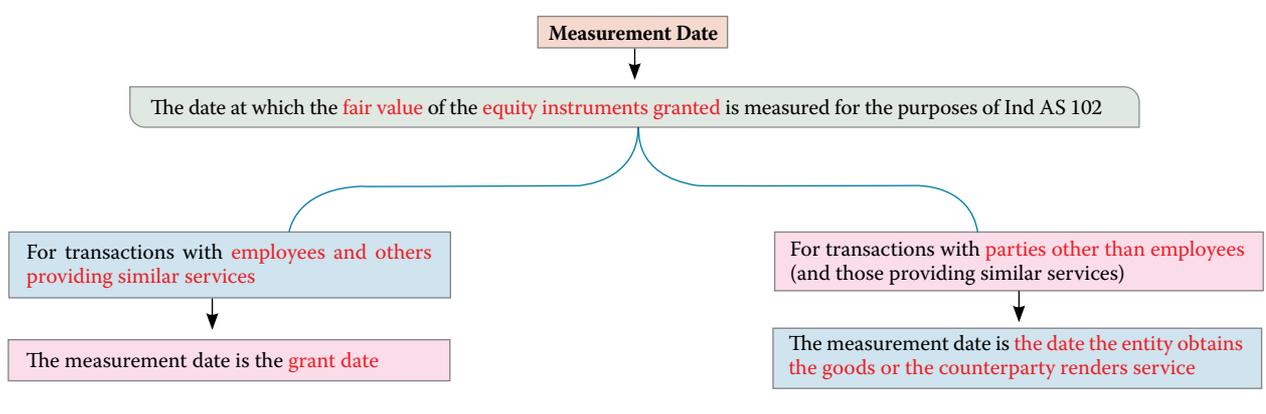
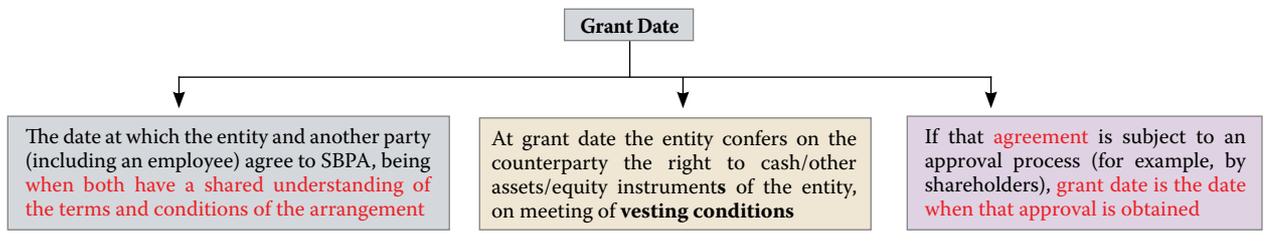
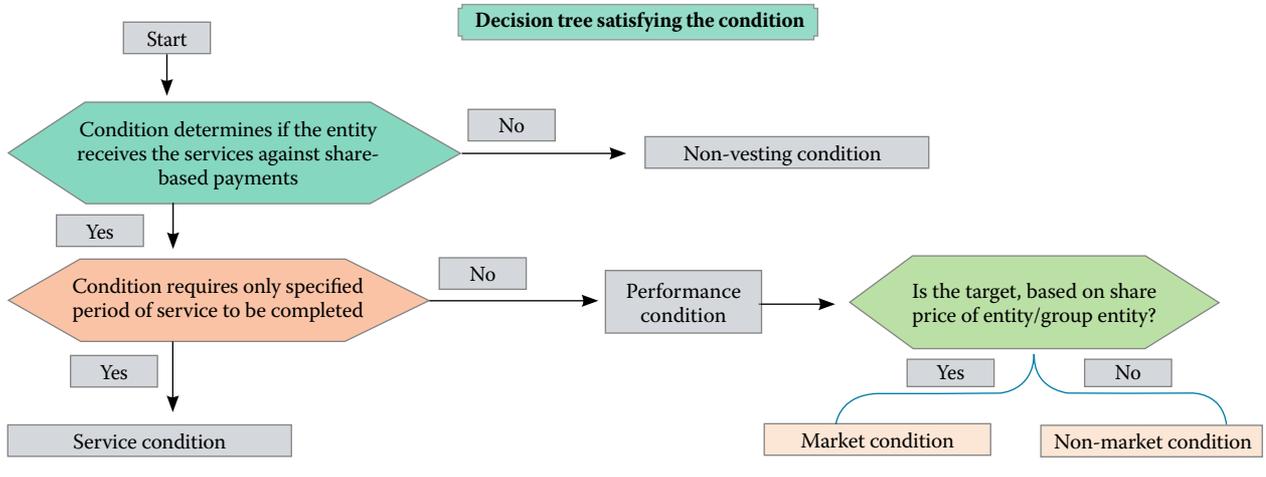


## Service Condition Vs Performance Condition

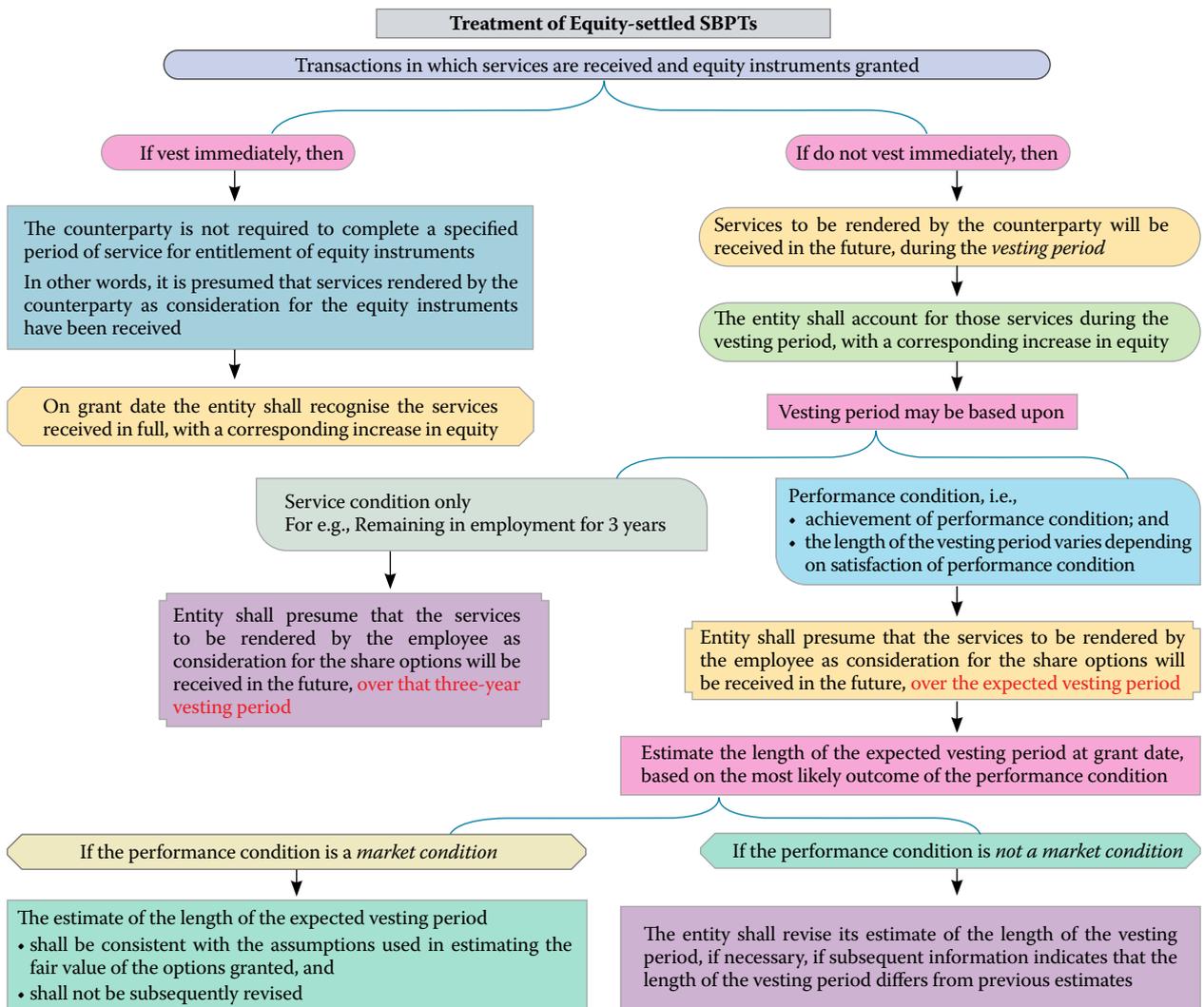
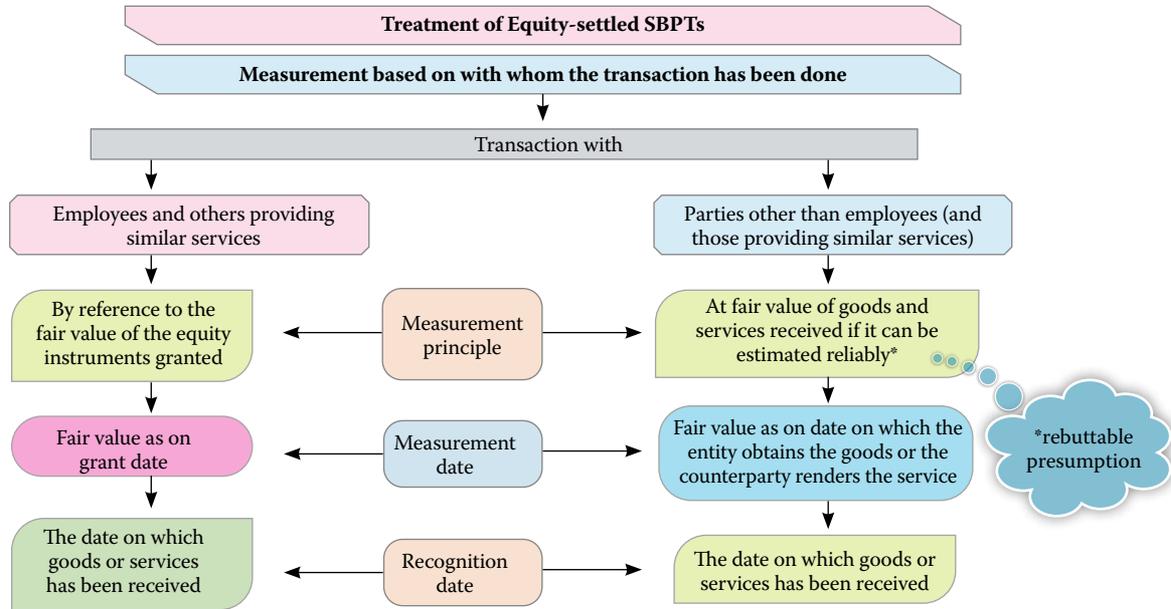
S. No.	Aspects	Service Condition	Performance Condition
1.	Condition	Counterparty should complete a specified period of service, during which services are provided to the entity	(a) Complete a specified period of service, and (b) Achieve specified performance targets during that period
2.	Performance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

## Market-related condition Vs Non-market related condition

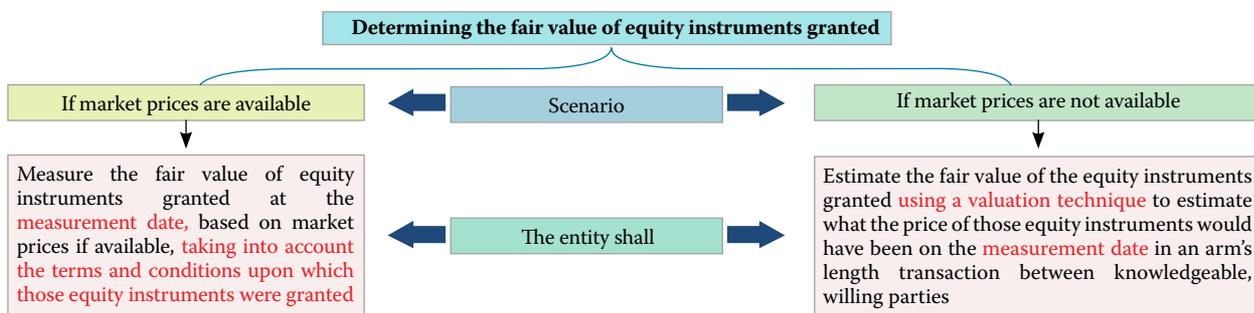
S. No.	Aspects	Market-related Condition	Non-market related Condition
1.	Basis of performance target	Target is based on the price (or value) of the equity instruments of the entity/another group entity (including shares and share options)	Target is based on the entity's own operations (or activities)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





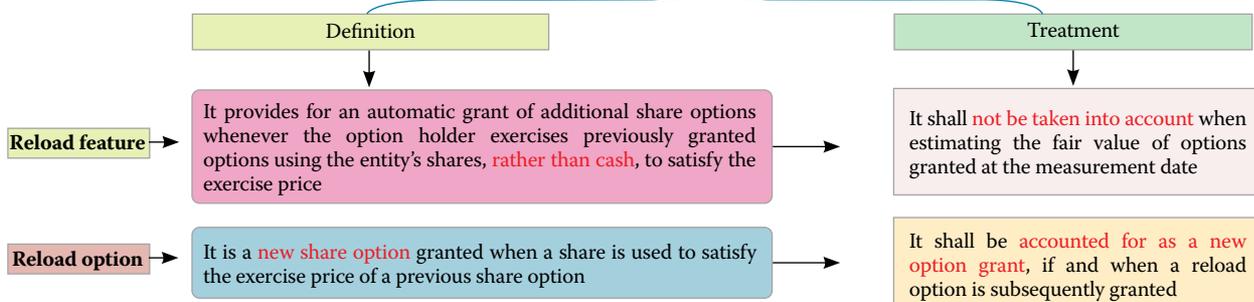


## Transactions measured by reference to the fair value of the equity instruments granted



## Treatment of Equity-settled SBPTs

### Treatment of a reload feature



## Accounting of Equity-settled SBPTs

- **Initially**, at the measurement date, the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest.
- **Subsequently at every reporting date during vesting period**, it shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.
- **On vesting date**, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested.

### Journal Entries

At the measurement date			
Employee benefits expenses To Share based payment reserve (equity) (Recognition of proportionate amount of expected equity instruments to be vested based on the vesting period)	Dr.		
Subsequently, at every reporting date during vesting period			
Employee benefits expenses To Share based payment reserve (equity) (Recognition, till reporting date, of proportionate amount of expected equity instruments to be vested based on the vesting period <i>less</i> proportionate amount already recognised in the previous year)	Dr.		
On vesting date			
Employee benefits expenses To Share based payment reserve (equity) (Final value of equity instruments vested)	Dr.		
Share based payment reserve (equity) To Share Capital (Re-allocation of equity by issuing of shares)	Dr.		

#### Note:

- The entity shall not subsequently reverse the amount recognised for services received from an employee if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised.
- However, this requirement does not preclude the entity from recognising a transfer within equity, i.e., a transfer from one component of equity to another.

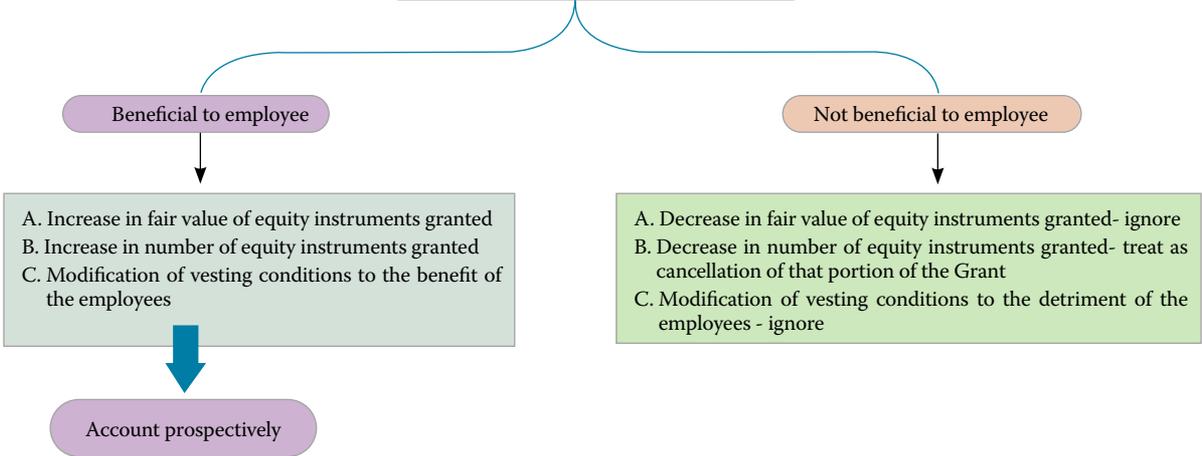
Treatment of Equity-settled SBPTs

Modifications to the Terms and Conditions of the Plan



Treatment of Equity-settled SBPTs

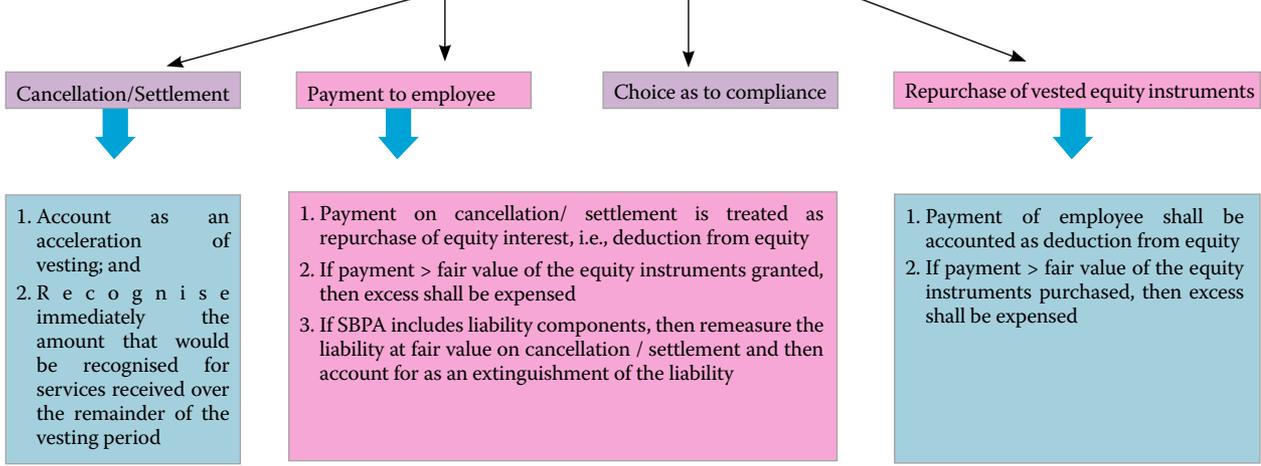
Types of Modification to SBPA



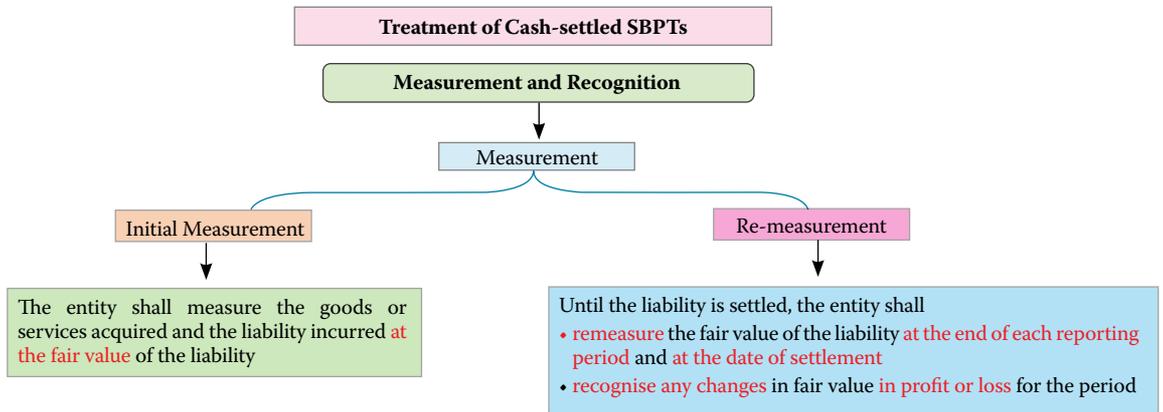
Treatment of Equity-settled SBPTs

Cancellation/Settlement of the Grant

Aspects of Cancellation/Settlement



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



**Note:**

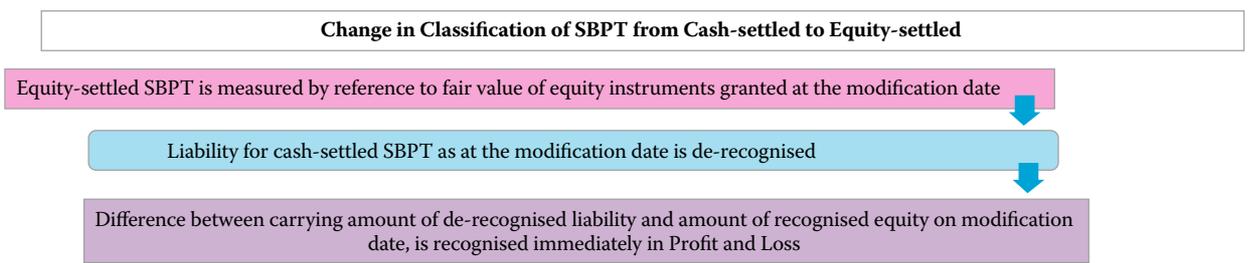
- These SBPTs result in a liability, as they represent an obligation to pay cash
- Same as equity settled SBPTs
  - Expenditure to be spread over the vesting period if SARs vest over period of service
  - Recognised immediately if no criteria for vesting period
  - Treatment of vesting conditions

**Accounting of Cash-settled SBPTs**

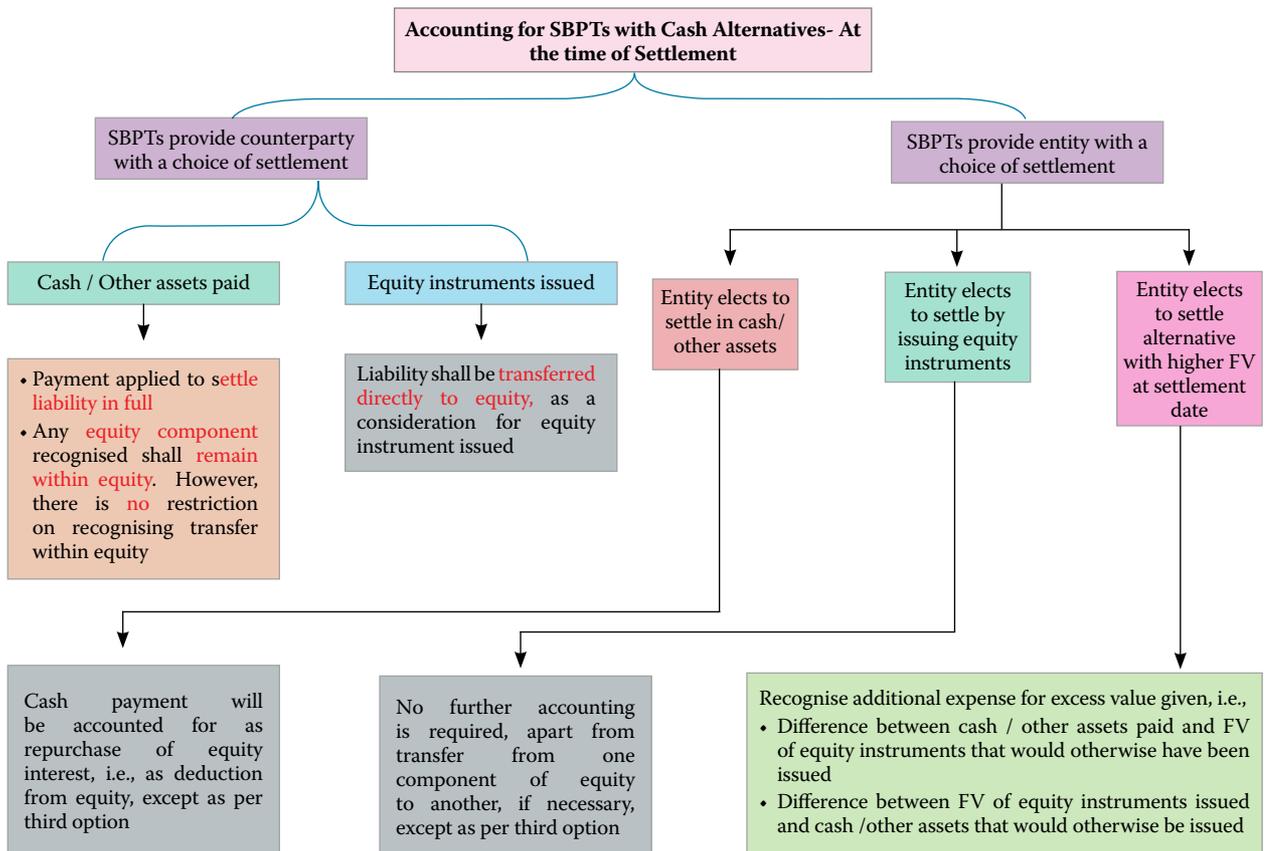
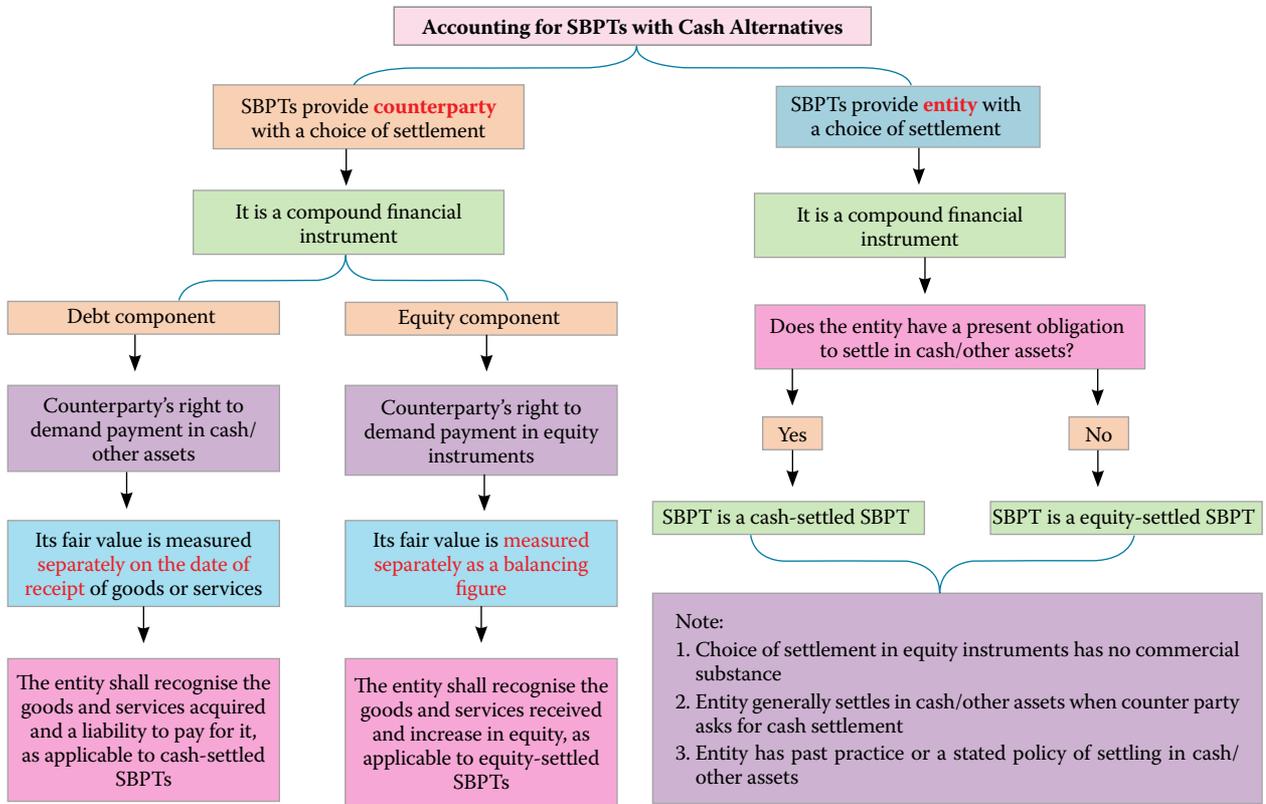
**Journal Entries**

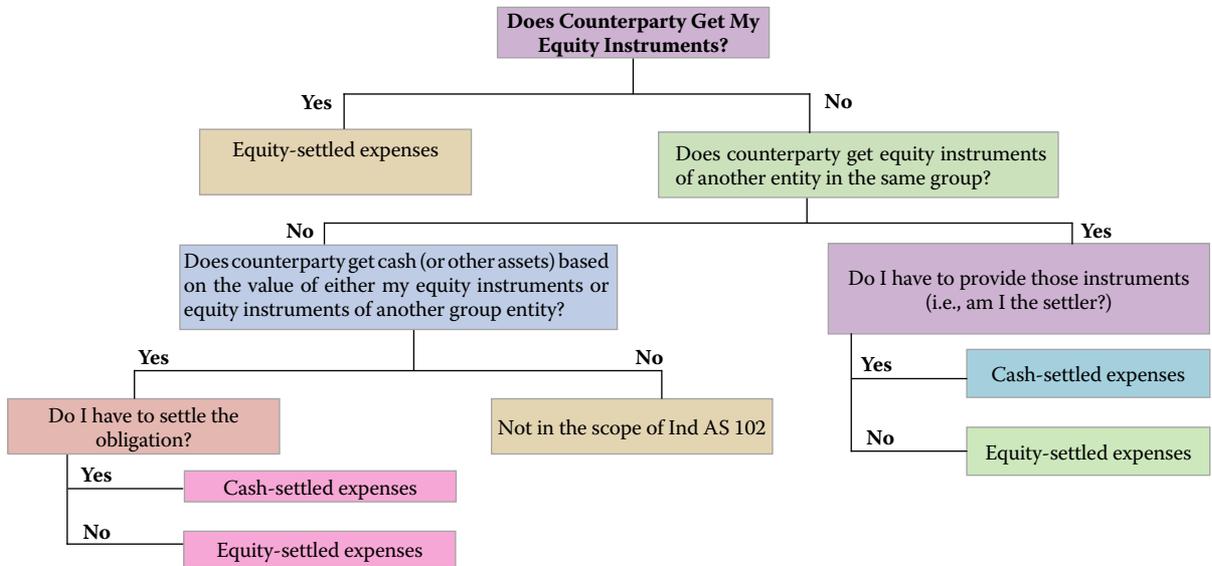
<b>At the measurement date</b>			
Employee benefits expenses To Share based payment liability (Recognition of SBP liability at fair value)	Dr.		
<b>Subsequently, at every reporting date during vesting period</b>			
Employee benefits expenses To Share based payment liability (Recognition of increase in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

**Treatment of Cash-settled SBPTs**

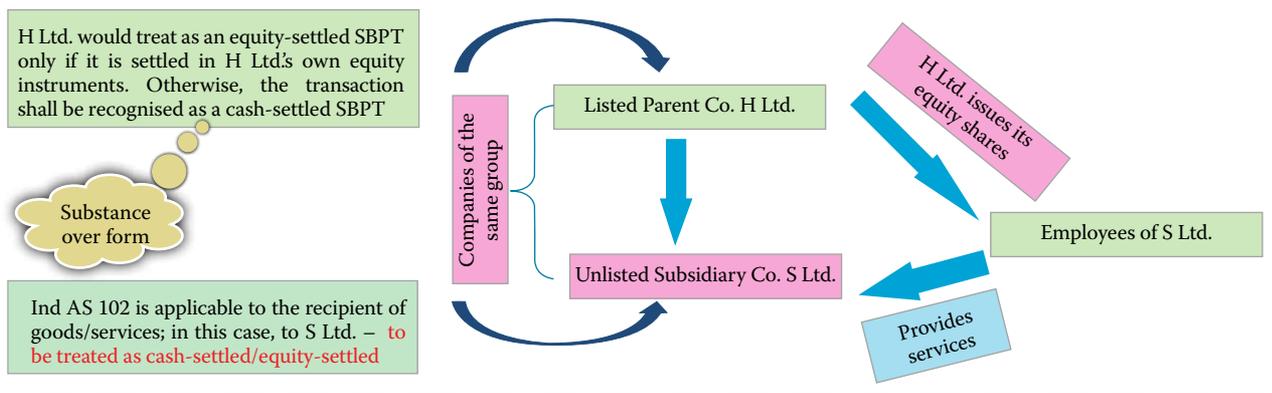


**Note:** Such a transaction is accounted for, from the date of modification

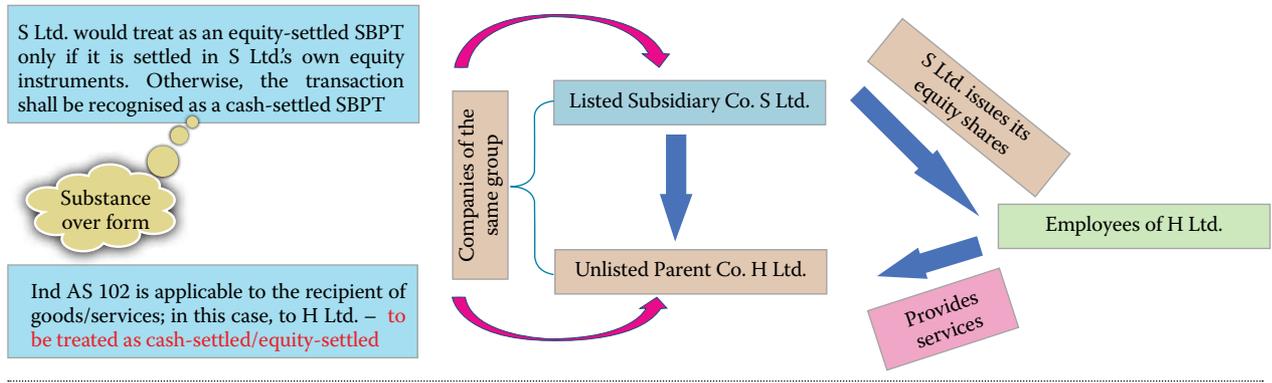




### Accounting for SBPTs among Group Entities



### Accounting for SBPTs among Group Entities



### Disclosures

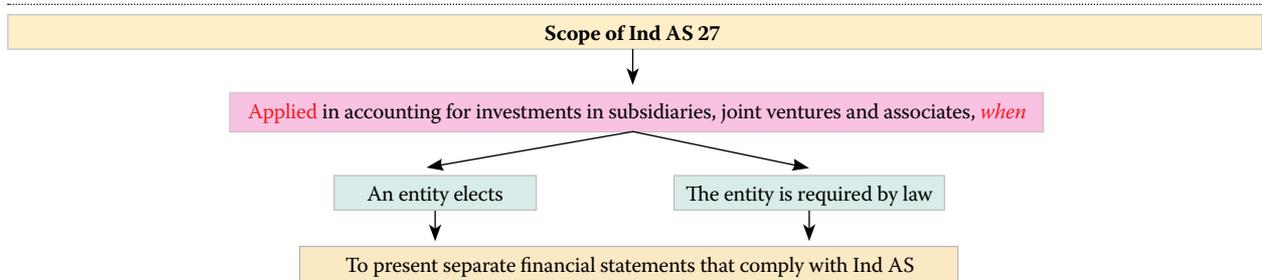
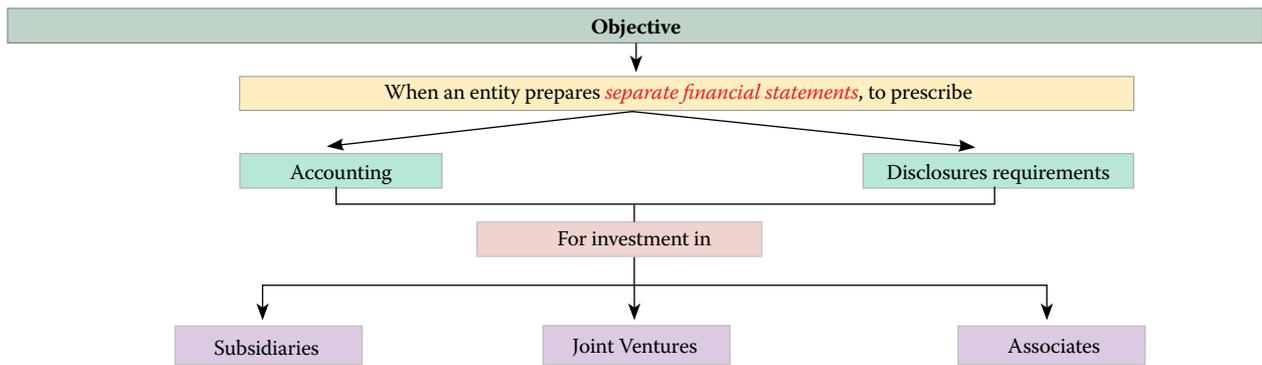


CA FINAL – PAPER 1 – FINANCIAL REPORTING

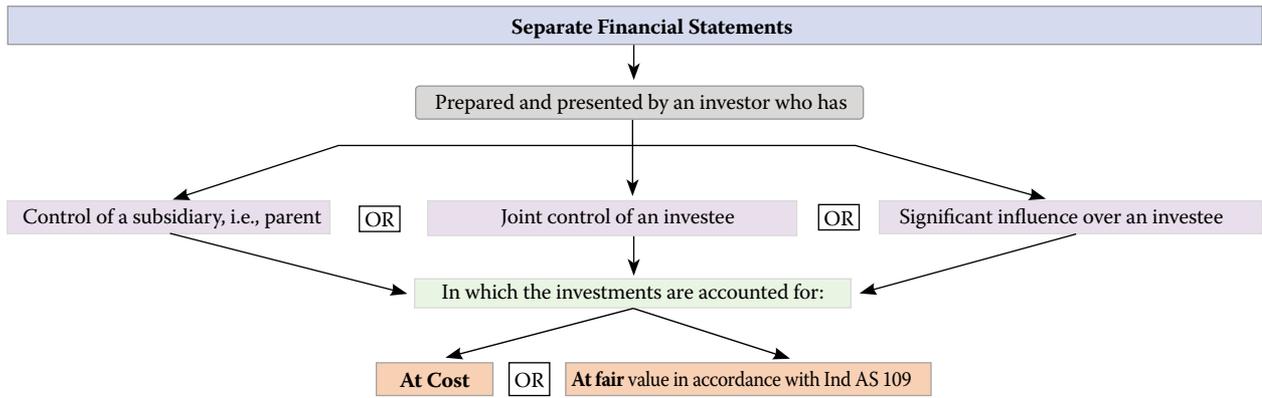
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INDIAN ACCOUNTING STANDARD (IND AS) 27: SEPARATE FINANCIAL STATEMENTS

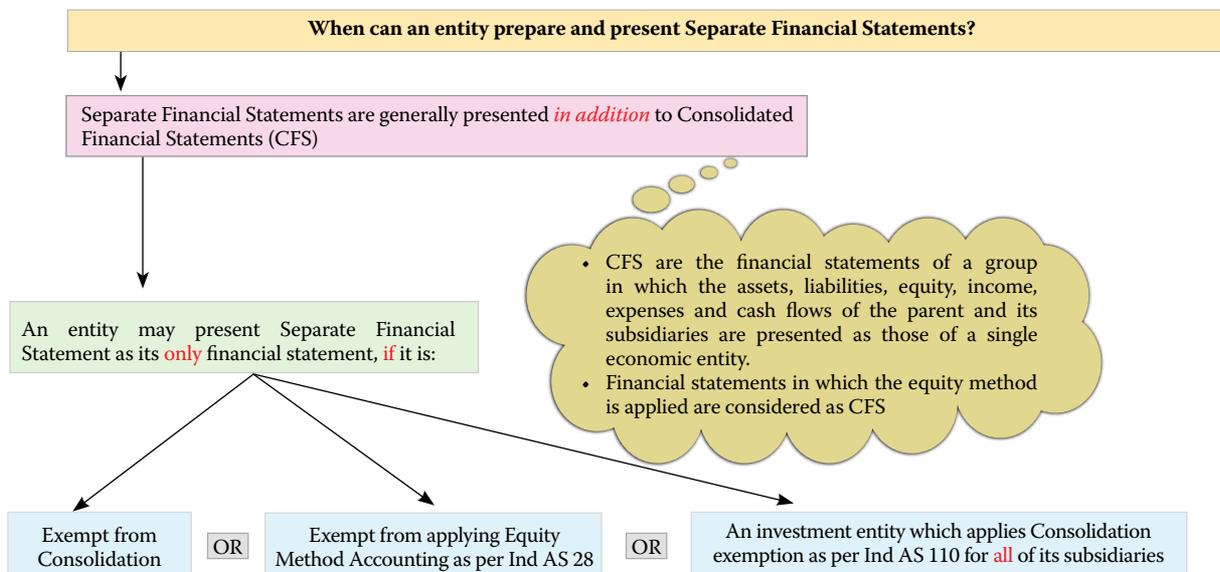


**Note:**  
Ind AS 27 does not mandate which entities should produce separate financial statements rather it mandates application of Ind AS 27 when an entity prepares separate financial statements that comply with Ind AS.



**Note:** Equity method is not allowed under Ind AS 27

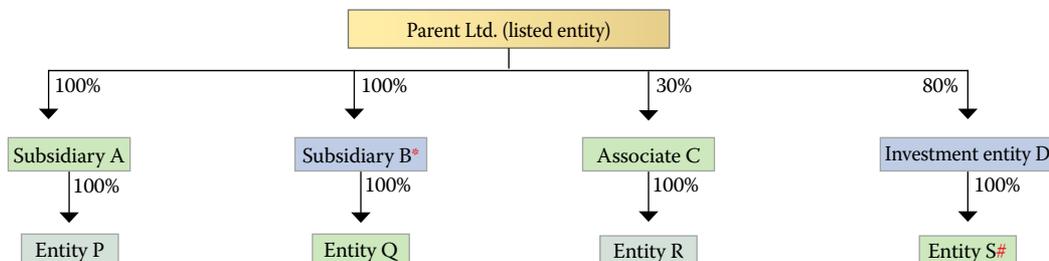
# FINANCIAL REPORTING ||



**Important Notes:**

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

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



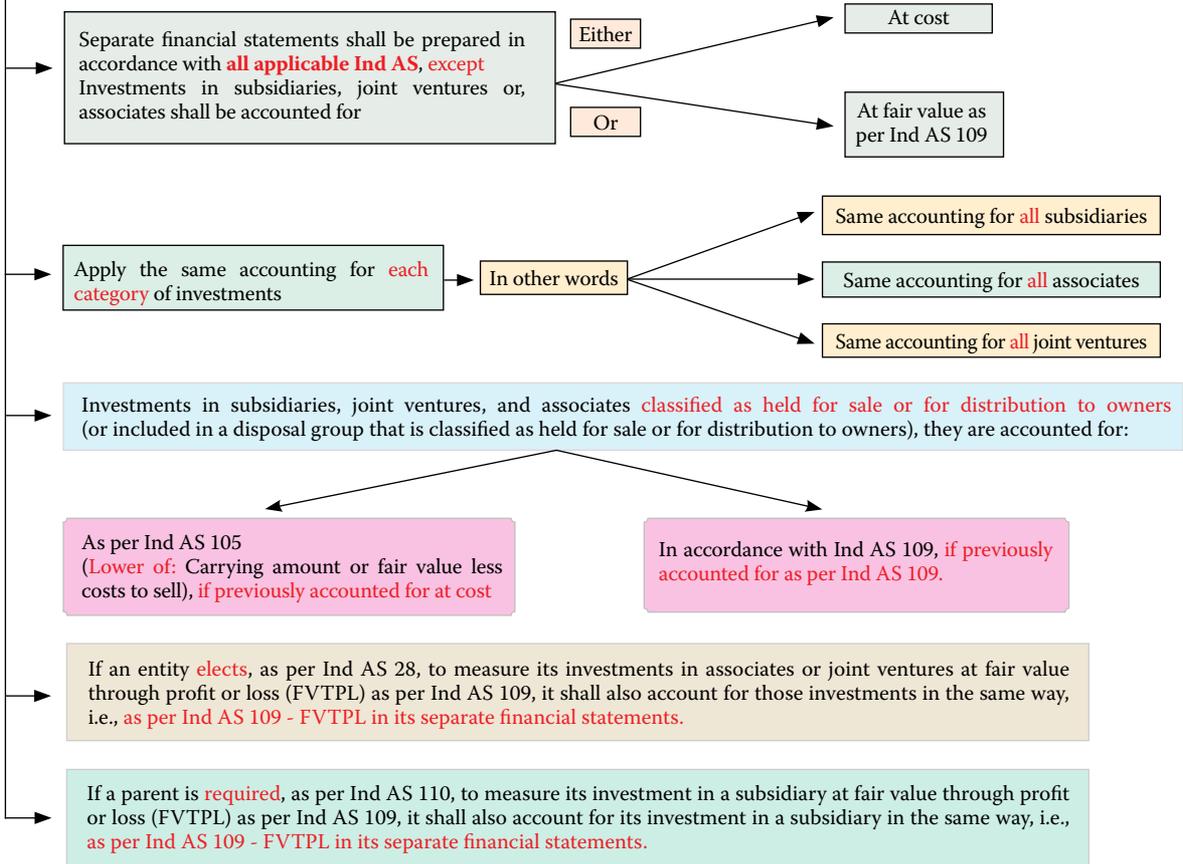
\* Subsidiary B has availed the exemption from preparation of consolidated financial statements as per paragraph 4(a) of Ind AS 110

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

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

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

## Preparation of Separate Financial Statements (for accounting of investments in subsidiaries, associates, and joint ventures)



### Investments Held by Investment Entities and Similar Entities

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

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

### Accounting when a parent ceases to be an investment entity

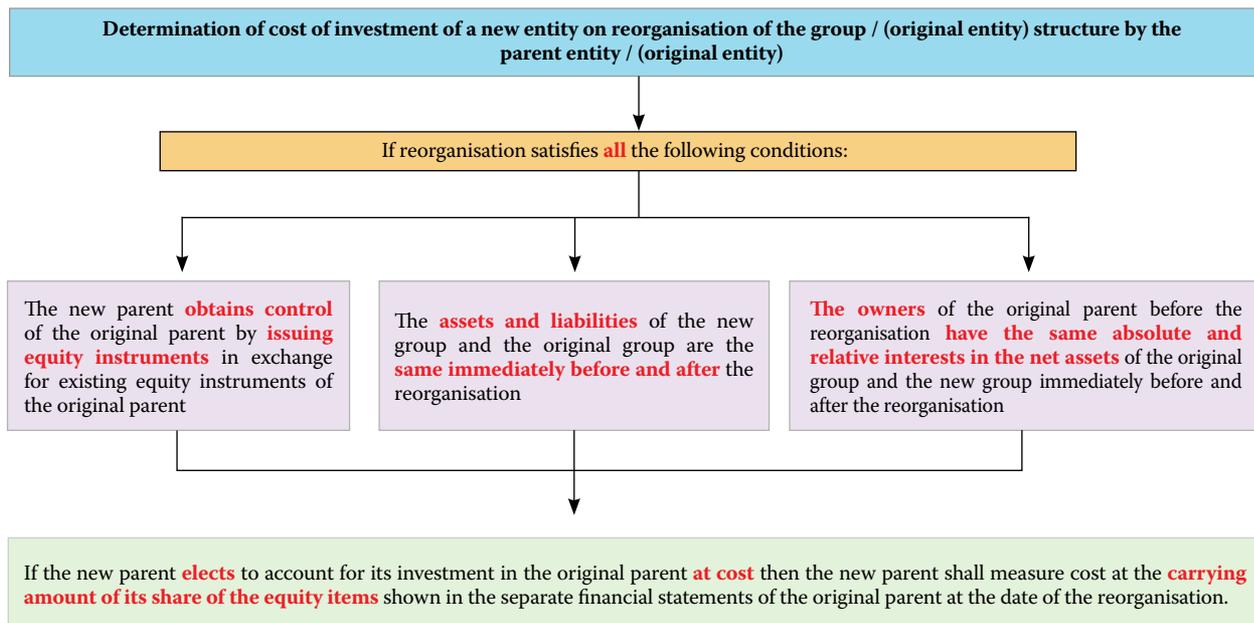
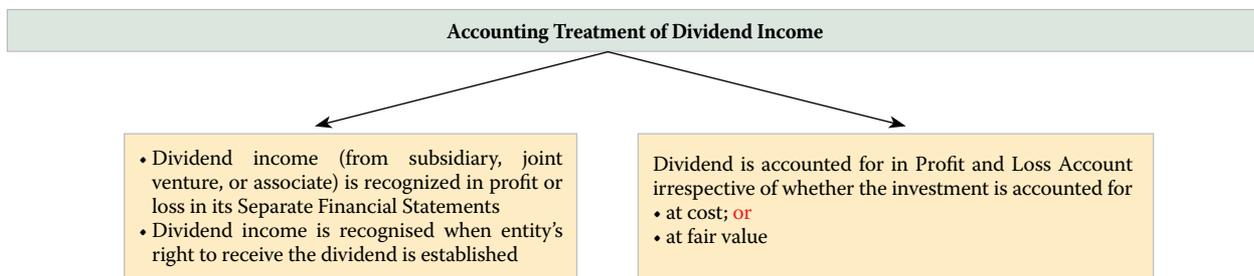
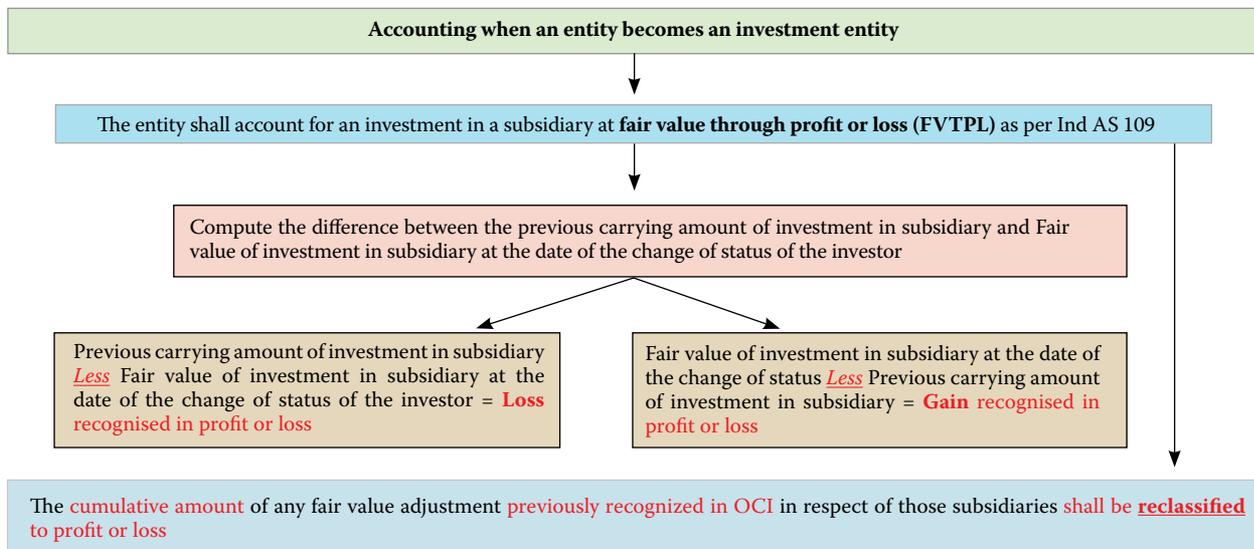
Then entity shall account for an investment in a subsidiary in either of the following ways:

EITHER

OR

**Account at cost.**  
The fair value of the subsidiary **at the date of change of status** shall be used as **deemed cost at that date**

**Continue** to account for in accordance with **Ind AS 109**



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

## Significant Disclosure

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

### Disclosures in separate financial statements

The fact that:

- the financial statements are separate financial statements;
- the exemption from consolidation has been used;
- the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with Ind AS have been produced for public use; and
- the address where those consolidated financial statements are obtainable.

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

- the name of those investees.
- the principal place of business (and country of incorporation, if different) of those investees.
- its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

A description of the method used to account for those investments

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

### That the financial statements are separate financial statements

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

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

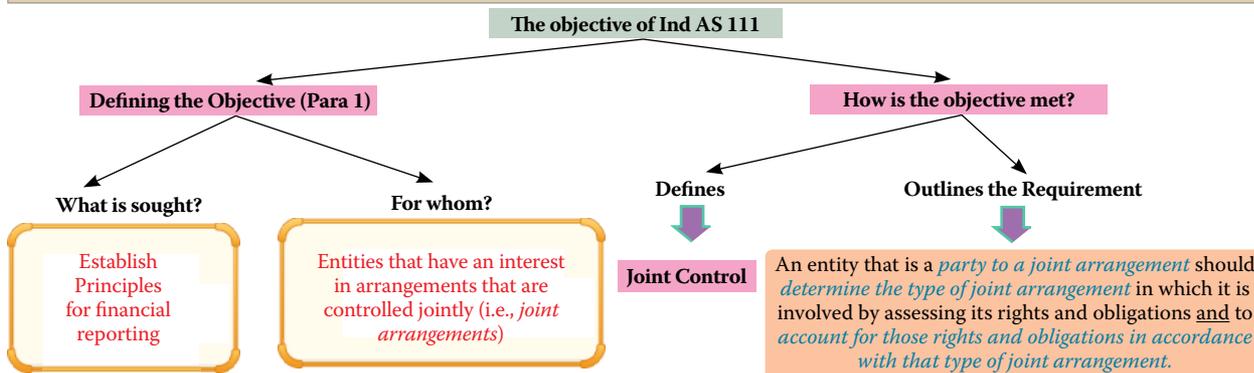
### The financial statements prepared in accordance with Ind AS 110, Ind AS 111, or Ind AS 28 to which they relate

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

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

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

### Objective and Scope



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

### Appendix A: Defined Terms

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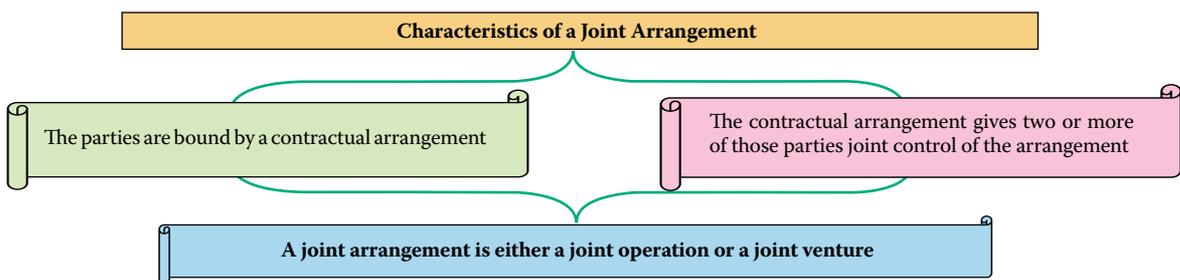
**Joint Arrangement** → An arrangement of which two or more parties have **joint control**.
- 

**Joint Control** → The contractually agreed sharing of control of an arrangement, which exists **only when decisions about the relevant activities require the unanimous consent of the parties sharing control**.
- 

**Joint Operation** → A joint arrangement whereby the parties that have joint control of the arrangement have **rights to the assets, and obligations for the liabilities**, relating to the arrangement.
- 

**Joint Venture** → A joint arrangement whereby the parties that have **joint control** of the arrangement have **rights to the net assets** of the arrangement.

### The Concept of Joint Arrangements



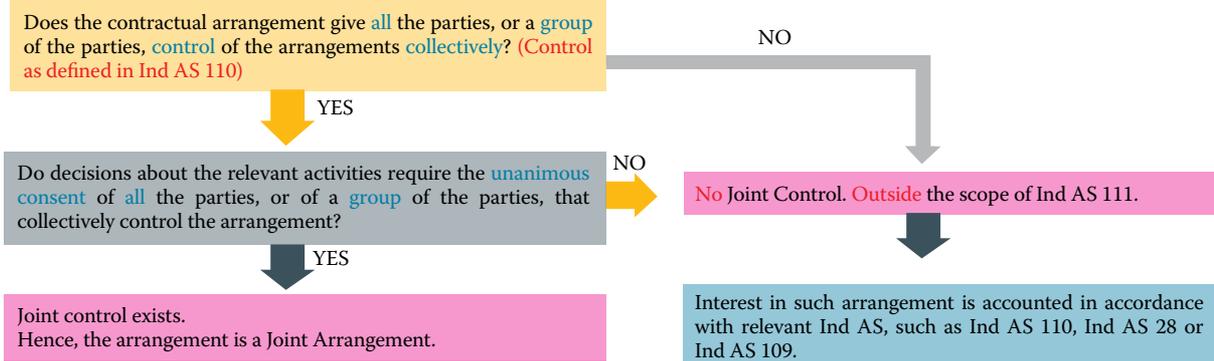
In assessing whether an entity has joint control of an arrangement, an entity shall **assess** first whether **all the parties, or a group of the parties, control the arrangement**.

**Assessment of Joint Control** →

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

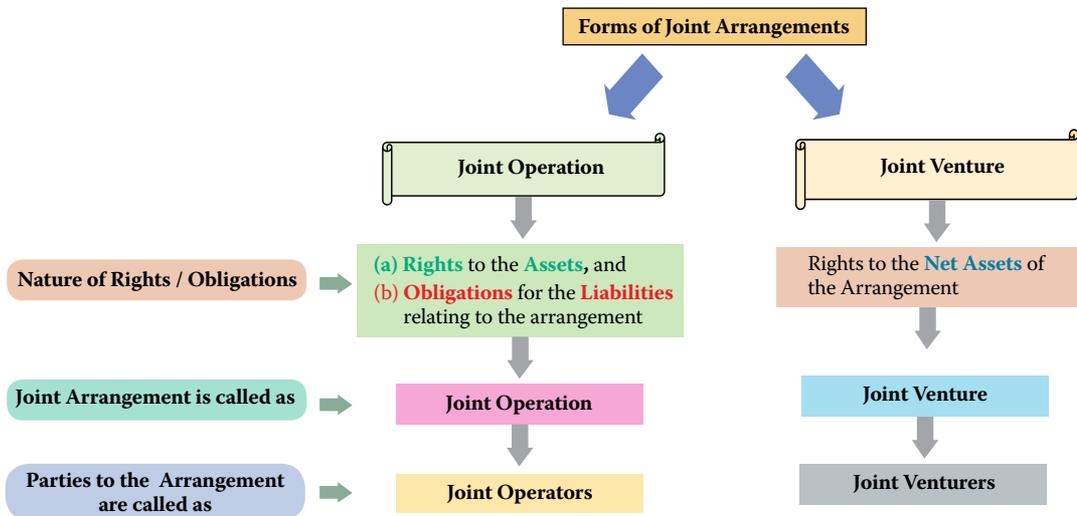
When **all the parties, or a group of the parties, considered collectively, are able to direct the activities** that significantly affect the returns of the arrangement (i.e., the relevant activities), the **parties control the arrangement collectively**.

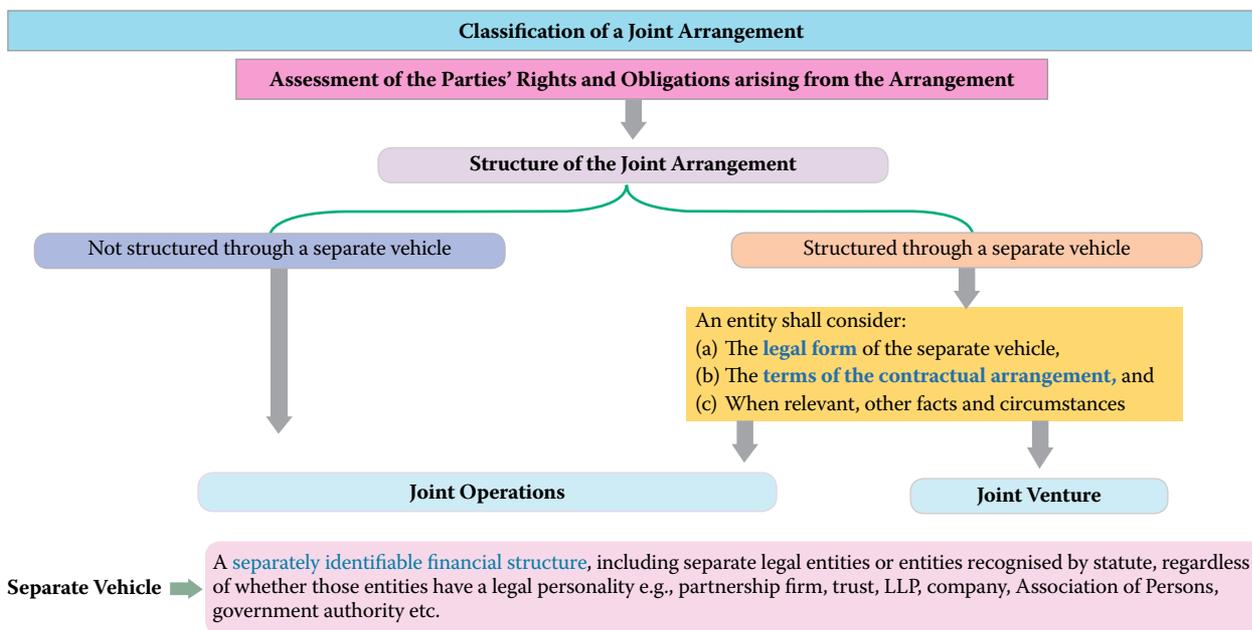
**The Concept of Joint Arrangements**



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

**Types / Forms of Joint Arrangements**





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

	Joint Operation	Joint Venture
<b>The terms of the contractual arrangement</b>	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
<b>Rights to assets</b>	The parties to the joint arrangement share all interests (e.g. rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (i.e., no rights, title or ownership) in the assets of the arrangement.
<b>Obligations for liabilities</b>	The parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them). The parties to the joint arrangement are liable for claims raised by third parties.	The joint arrangement is liable for the debts and obligations of the arrangement. The parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both. The creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
<b>Revenues, expenses, profit or loss</b>	Revenues and expenses are allocated on the basis of the relative performance of each party to the joint arrangement. However, the parties might have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion such as the parties' ownership interest in the arrangement. This would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.	Each party has share in the profit or loss relating to the activities of the arrangement.
<b>Guarantees</b>	The parties to joint arrangements might provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (whether they are guaranteed by the parties or not is irrelevant).	

**Classification of a Joint Arrangement**

**Assessing Other Facts and Circumstances**

When to assess?

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

How to determine whether joint operation or joint venture?

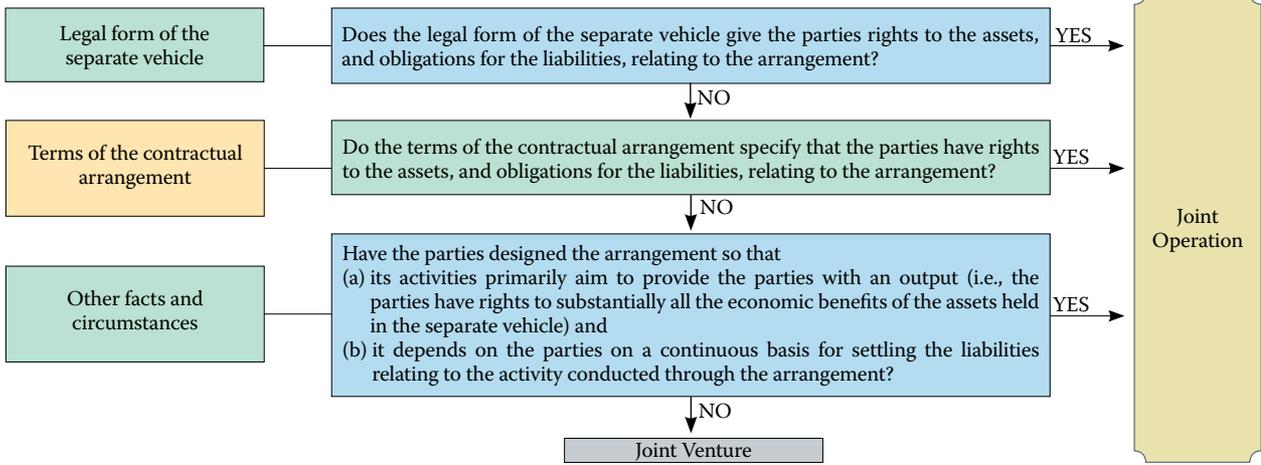
The **activities** of the arrangement are **primarily designed for the provision of output to the parties**, (i.e., the parties have rights to substantially all the economic benefits of the assets held in the separate vehicle).

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

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

**Classification of a Joint Arrangement**

**Classification of a Joint Arrangement structured through a Separate Vehicle**

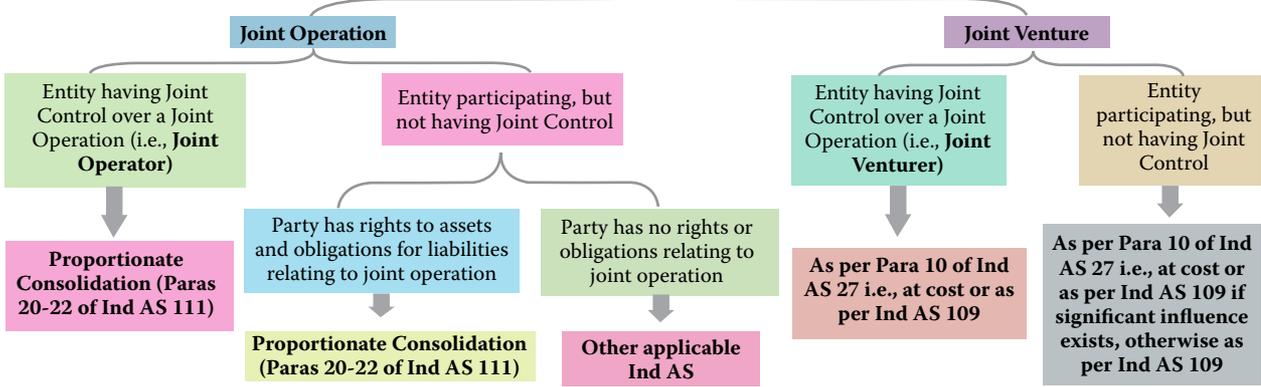


**Classification of a Joint Arrangement**

**Why is it essential to classify a Joint Arrangement as a Joint Operation or a Joint Venture**

It is because the **accounting treatment followed is different** for a Joint Operation as compared to a Joint Venture

**Accounting for Interests in Joint Arrangements in Separate Financial Statements**



## Accounting of Joint Arrangements

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

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

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

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

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

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

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

#### Purchase of Assets from a Joint Operation

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

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

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

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