WIRC OF ICIA

IND AS
CASE STUDIES

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Introduction - Basic Principles of Ind AS

Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS)

New Effective from 1st April, 2020

New Types of Transactions

- Substance over the Form
- Fair Value, and Present Value
- Cash &Cash Equivalent, Present Value
- Onerous Contract
- Combining and Segmenting of Transactions

Introduction - Basic Principles of Ind AS

Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS)

New Effective from 1st April, 2020

ASSET : A present economic resource controlled by the entity as a result of past events.

An economic resource is a right that has the potential to produce economic benefits

Liability : A present obligation of the entity to transfer an economic resource as a result of past events.

INVENTORIES

NRV = the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to make the sale

LC and NRV example:

Cost	Rs. 80
Selling price	Rs. 84
Cost to complete	Rs. 5
Cost to sell	10% of SP

NRV: Rs.84 - Rs.5 - Rs.8.40 = Rs.70.60

LC and NRV = Rs.70.60

INCOME TAX (IND AS 12)

MEASUREMENT – TAX RATES

Deferred tax assets and liabilities shall

- shall be *measured* at the tax rates
- that are expected to ***apply*** to the period
- when the asset is realized or the liability is settled
- based on the tax rates and tax laws
- that have been enacted or ***substantively*** enacted by the end of the reporting period

INCOME TAX (IND AS 12)

How recovery - Use or Sale or Use and sale

How taxed

- If use – business profits If sale – capital gains In sale – indexation

Principle - Consistent with the manner in which the entity's management expects at the balance sheet date to recover or settle the carrying amount of assets or liabilities

DTA / DTL change with changes in Tax Rates, manner of recovery of the assets.

INCOME TAX (IND AS 12)

Asset with a cost of Rs. 100 and a carrying amount of Rs. 80 is revalued to Rs. 150. No adj.s made for tax purposes. Cum. Dep for tax purposes is Rs. 30 and the tax rate is 30%. If the asset is sold for more than cost, the cumulative tax depreciation of Rs. 30 will be included in taxable income but sale proceeds in excess of cost will not be taxable.

Tax Base 70.ThusTempDiff=80

If recover by use than Future taxable income 150,thendeductibleDep=70 only.

Thus, DTL =24(80*30%)

If by sale: - Rs. 9 (30*30%) Excess of cost 50 (150 – 100) DTL= NIL

What Tax Rates to be Applied

An asset has a carrying amount of Rs. 100 and a tax base of Rs. 60. A tax rate of 20% would apply if the asset were sold and a tax rate of 30% would apply to other income.

The entity recognises a deferred tax liability of Rs. *8 (40 at 20%) if it expects to sell the asset without further use and a deferred tax liability of* Rs. *12 (40 at 30%) if it expects to retain the asset and recover its carrying amount through use.*

PPE

Property, plant, and equipment. Tangible assets that are held for use in production or supply of goods and services, for rental to others, or for administrative purposes *and are expected to* be used during more than one period.

costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial recognition at COST. Cost includes all costs necessary to bring the asset to working condition for its intended use.

PPE - Replacement

X Ltd acquired a vehicle at 100,000. Estimated useful life is 10 years. At the end of the sixth year, engine requires replacement. The remainder of the vehicle is perfectly roadworthy and is expected to last for the next four years. The cost of a new engine is 45,000. What is the treatment ?

The new part will produce economic benefits to the Co, and the cost is measurable. Hence, item should be recognized as an asset. Even if the original cost of the part is not available.

The cost of the replacement 45,000 is an indication.

Discount 45000 discounted back six years @ 5% p.a. to 33,500 [45,000 / (1.05)]6. which would be written out of the asset records. The cost of the new part, 45,000, would be added to the asset while 33500 will be reduce

COMPONET ACCOUITING

An entity has acquired a new freehold building with a useful life of 50 years for CU7,000,000. The entity has identified the following components and calculated the depreciation charge p.a. using a straight-line method as follows.

Component	**Useful life (years)**	**Cost**	**Depreciation (per annum)**
Land	Infinite	CU2,000,000	NIL
Roof	25	CU1,000,000	CU 40,000
Lifts	20	CU500,000	CU 25,000
Fixtures	10	CU500,000	CU 50,000
Remainder of building	50	CU3,000,000	CU 60,000
	TOTAL	**CU7,000,000**	**CU 175,000**

When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

Revaluation Model

An entity owns a building which originally cost CU200,000. The property is depreciated over 50 years on a straight-line basis with no residual value. The entity adopts a policy of revaluation for property. The property has so far had three valuations as follows.

At the start of year 2 – valuation CU230,000.

At the start of year 4 – valuation CU260,000.

At the start of year 6 – valuation CU300,000.

In year 1 depreciation, based on the cost of the property, is CU4,000 (i.e. CU200,000 / 50 years).

In following years the depreciation charge is based on the valuation at the start of the year

Revaluation Model

Annual depreciation:

Year 1 - CU200,000 / 50 years = CU4,000.

Year 2 - CU230,000 / 49 years = CU4,694.

Year 3 - CU230,000 / 49 years = CU4,694.

Year 4 - CU260,000 / 47 years = CU5,532.

Year 5 - CU260,000 / 47 years = CU5,532.

Year 6 - CU300,000 / 45 years = CU6,667.

Revaluation surpluses:

Start Year 2: Carrying amount is CU200,000 – CU4,000 = CU196,000.
Revalued amount is CU230,000. . Bal. trfd to Revl Surplus CU34,000.

Start Year 4: Carrying amt is CU230,000 – (CU4,694 x 2) = CU220,612.
Revalued amount is CU260,000. Bal trfd to Revl Surplus CU39,388.

Trf from Revaluation Reserve

On 1 January 2005 an entity acquired an asset for Rs. 3,000 with an economic life of ten years. Scrap Value NIL . At 31 December 2009 (when BV is Rs. 1,800) the asset is revalued at Rs. 2,700.

JV : PPE Dr 900 TO Rev Reserves 900

At 31 December 2009 = Bal usefull life = 6 yrs. Dep= 450 (2700/6)

ALSO TRF from REVL Reserves :

Reval Reserve Dr TO Retained Earnings 150

This avoids the revaluation reserve being maintained indefinitely even after the asset ceases to exist, which does not seem sensible.

Standby Equipment

Turbine bought as backup in case the installed one fails. Cost of the 2nd is nearly same as the 1st, and probability that it will be used is quite low. Can it therefore be classifies under inventory as an "emergency spare"

A–No.

Insurance Spares

- *Accounting for "Insurance Spares", whether Equipment, Depreciation on the same whether separately or as part of Equipment.*

  To be recognised separately from Equipment. Depreciation from the Date Available for Use. Spares readily available. For life of Spares, life of the equip is one of the determining factor.

- *Cost of Construction on land not owned by the Co, whether to be capitalised or expensed out.*

Depends on case to case. Capital, if capable of operating in the manner intended by the management.

INTANGIBLE ASSETS

- **Intangible asset.** An identifiable, nonmonetary asset without physical substance.
- **Asset.** A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

INTANGIBLE ASSETS - R & D

- **Research.** Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

  Examples of activities within the research phase includes: I) the search for alternative materials, devices, products, processes, systems or services; and

  (ii) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services

- **Development.** The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

  Technical and Commercial feasibility is established Intention to use or sell asset, and demonstrates how future benefits will be generated including availability of the technical, financial and other resources to complete the development phase, and that the expenses are reliably attributable to the asset

  - If can not be divided > Expense out

Intangible Cost do not include

➢Initial at Cost : - Directly attributable costs only

Cost can not include:

- introducing new products or services, e.g. advertising
- conducting new business
- Administration costs
- Costs incurred while an asset that is ready for use is awaiting deployment
- Costs of redeployment of an asset
- Initial operating losses incurred from operation

Website development

Intangible Assets—Web Site Costs.)

Web site that has been developed for the purposes of promoting and advertising an entity's products and services does not meet the criteria for capitalization of costs

Planning : Expense Out

Capitalise the following

- ✓ Application and Infrastructure Develop Phase
- ✓ Graphical Design Development Stage
- ✓ Content Development
- ✓ Operating Stage

PROVISIONS, CONTINGENT LIABILITIES, AND CONTINGENT ASSETS (Ind AS 37)

The requirements of Ind AS 37 are applicable to recognition & measurement of all provisions, contingent liabilities, and contingent assets *except*

(a) Those resulting from executory contracts except where the contract is onerous contracts (b) Those covered by other Standards

PROVISIONS : IFF all conditions are fulfilled : -

a) An entity has a *present obligation resulting from a past obligating event;*

(b) It is *probable that an outflow of resources embodying economic benefits would be required* to settle obligation; *and*

(c) R*eliable estimate can be made of the amount of obligation.*

PROVISIONS, CONTINGENT LIABILITIES, AND CONTINGENT ASSETS (Ind AS 37)

Executory Contract

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

This Standard does not apply to executory contracts unless they are onerous.

Constructive Obligation that results from an entity's actions where

(a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other (third) parties that it will accept certain responsibilities;

and

(b) As a result, the entity has created a valid expectation in the minds of those parties that it will discharge those responsibilities

CONTINGENT LIABILITY

LIABILITY

Virtual Certain	Recognise
Probable (Reliably Measurable)	Recognise

CONTINGENT LIABILITY

Probable	Disclose
Possible	Disclose
Remote	**DO NOT DEISCLOSE**

FOREX

Functional Currency is the currency of the primary economic environment in which the entity operates **(PEcoE)**

Economic Conditions :

- Generation of Cash and Expends Cash

FnC is the Currency :

- That mainly influences the prices at which goods / services are sold
- Of the country whose competitive forces and regulations influences entity's pricing structure
- That influences its costs *(Labour , Material and Other costs)*
- In which funds are generated
- In which receipts are retained

First three items are considered as more influential.

FOREX

Example: change in functional currency from FC A TO to US$

Inventory at lower of cost or NRV

	$		**K**
► Cost	1 000	@ $1 = 140	140,000
► NRV	960	@ $1 = 155	148,800

- ► If functional currency is $ = carried at NRV
- ► If functional currency is K = carried at cost

FOREX

Example: change in functional currency from FC A TO to US$

Rate at date of change $1 = FC A 15

► PPE: Cost of FCA 3000,000 and net book value of 1,980,000 Originally bought 3 years ago for $ 150,000 at a rate of $1 = FCA 20

Cost = $200,000; **NBV = $132,000**

(3000,000/15) *(1980000/15)*

Investment property

Land or building, or part of a building, or both, held by the owner or the lessee under a finance lease to earn rentals and/or for capital appreciation, **rather than** for use in production or supply of goods and services or for administrative purposes or for sale in the ordinary course of business.

Partly self occupied and partly out :

- If can be sold separately, each is accounted separately
- Else, as an Invst Property, only if insignificant portion is owner occupied. **(Insignificant 2%)**
- **If services provided are insignificant then Investment Property**
- One group co leases to another group co, at consolidation level Owner Occupied. But indiv co as an Invst Property.

QUESTIONS ???

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