# Ind AS: Tax Impact

- Property, Plant & Equipment
- Government Grants
- Intangible Assets

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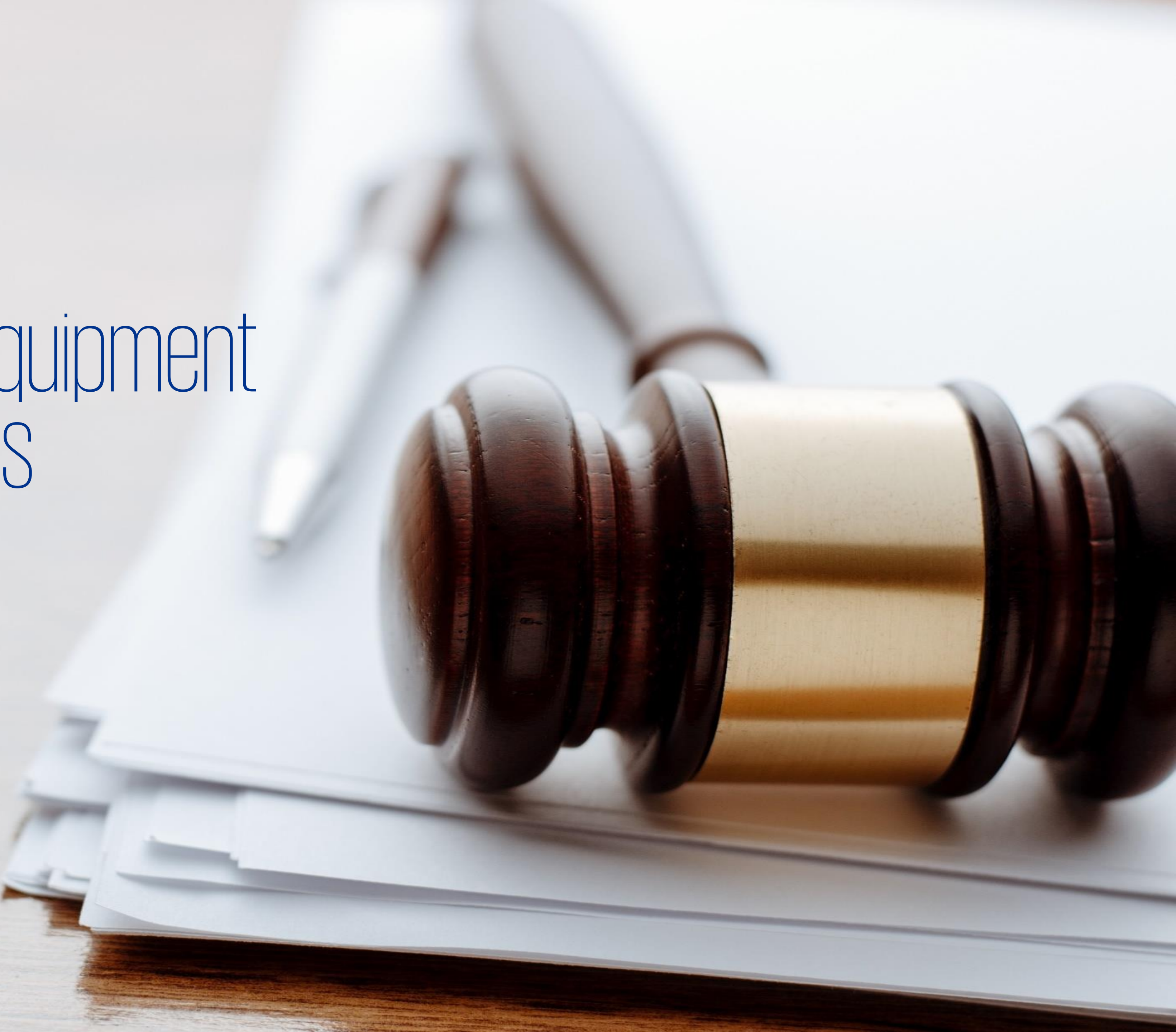

# Contents

# Ind AS 16- Property, Plant & Equipment (PPE)

# PPE: Key Concepts

## Definition

- Controlled by the entity
- Expected future economic benefits
- Expected to be used > 1 period
- Held for production, rental, administrative use

## Cost vs revaluation model

- **Cost model**
  **Cost less**:
  - Depreciation /amortisation
  - Impairment losses

- **Revaluation model:**
  **Revalued amount less**:
  - Depreciation /amortisation
  - Impairment losses

- **Revaluation to be done for the entire class with sufficient regularity**

## Component accounting

- Item consists of individual components
- Components can be physical (parts) or non-physical (e.g. overhaul costs)
- Components significant in relation to total cost of item
- Depreciation for each component to be done over its useful life

# Scope of Ind AS 16

## Initial Recognition

Expenditure directly attributable to bringing asset to location and condition necessary for intended use.

### Cost

Includes:
a) Import Duties
b) Dismantling & Removal Costs
c) Borrowing Costs on Qualifying Assets

Excludes:
a) Advertising and Promotion Cost
b) Costs of Staff Training
c) Administration and Overhead Costs

## Depreciation

### Depreciation

- Systematic allocation of cost to profit or loss over useful life
- Amount determined after deducting residual value
- Changes in depreciation method are changes in estimate
- Review of useful life and residual value at least each reporting date

## Derecognition

### Gain or Loss in Profit or Loss

**Derecognise**

Held for Sale

**OR**

Disposed Off

**OR**

No future benefits are expected

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 10 | Ind AS 16 | ICDS V |
|---|---|---|---|
| Purchase Cost | • Included in cost of asset. | • Same as Accounting Standard 10. | • Same as Accounting Standard 10. |
| Taxes | • Import duty and other non refundable taxes. | • Same as Accounting Standard 10. | • Same as Accounting Standard 10. |
| Attributable expense | • Any directly attributable cost of bringing the asset to its working condition for its intended use. | • Any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. | • Directly attributable expenses on making the asset ready for its intended use. |
| Trade Discount, Rebate | • Trade discount, rebate; if any shall be reduced. | • Same as Accounting Standard 10. | • Same as Accounting Standard 10. |
| Start-up and commissioning costs | • Start up and commissioning cost including expenditure on test runs are usually capitalized.<br>• Expenditure during prolonged delay between the date on which the asset is ready for use and the date on which the commercial production is actually incurred, is to be expensed. However such expenditure is also sometimes treated as a deferred revenue expenditure to be amortised over a period of 3-5 years. | • Start-up and pre-operating costs are not capitalised as part of the cost of property, plant and equipment unless those costs are necessary to bring the asset to its working condition examples of costs that can be capitalized include expenditure on test runs.<br>• Expenditure during prolonged periods of delay are to be expensed. | • Same as Accounting Standard 10. |

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 10 | Ind AS 16 | ICDS V |
|---|---|---|---|
| Dismantling Cost / Site restoration | • While Accounting Standard 10 did not require this, it was covered as an illustrative example in AS 29. But the general industry practice was not to account for these costs until incurred. **However, amendments to IGAAP (effective 1 April 2016) have aligned requirements to Ind AS.** | • Initial estimate of cost of dismantling and removing the item and restoring the site on which it is located to be accounted as a directly attributable cost at PV. Estimated revenue from sale of scrap not considered for Asset Retirement Obligation ('ARO') computation. | NA |

# Accounting for ARO under Ind AS- Illustration 1

| | | | | |
|---|---|---|---|---|
| ARO - Inception date of the contract | | | 1-Apr-17 | |
| Total Tenure (Years) | | | 10 | |
| End of the tenure | | | 1-Apr-27 | |
| Applicable Government Bond Rate | | | 8% | |
| Estimated ARO at the end of tenure | | | 10,000,000 | (based on technical estimate) |
| Present Value of ARO as at inception of contract | | | 4,631,935 | |
| | | | | |
| **Year** | **Opening Balance** | **Interest @ 8%** | **Closing Balance** | **As on** |
| 0 | 4,631,935 | - | 4,631,935 | 1-Apr-17 |
| 1 | 4,631,935 | 370,555 | 5,002,490 | 1-Apr-18 |
| 2 | 5,002,490 | 400,199 | 5,402,689 | 1-Apr-19 |
| 3 | 5,402,689 | 432,215 | 5,834,904 | 1-Apr-20 |
| 4 | 5,834,904 | 466,792 | 6,301,696 | 1-Apr-21 |
| 5 | 6,301,696 | 504,136 | 6,805,832 | 1-Apr-22 |
| 6 | 6,805,832 | 544,467 | 7,350,299 | 1-Apr-23 |
| 7 | 7,350,299 | 588,024 | 7,938,322 | 1-Apr-24 |
| 8 | 7,938,322 | 635,066 | 8,573,388 | 1-Apr-25 |
| 9 | 8,573,388 | 685,871 | 9,259,259 | 1-Apr-26 |
| 10 | 9,259,259 | 740,741 | 10,000,000 | 1-Apr-27 |

| | | | |
|---|---|---|---|
| **Entries on the transition date** | | | |
| | | | |
| **Date** | **Scheme of entries** | **Debit** | **Credit** |
| 1-Apr-17 | Fixed Asset | 4,631,935 | |
| | TO ARO | | 4,631,935 |
| | | | |
| 31-Mar-17 | Interest | 370,555 | |
| | To ARO | | 370,555 |
| | | | |
| 31-Mar-17 | Depreciation | 463,193 | |
| | To Fixed Asset | | 463,193 |
| | | | |

# Accounting for ARO under Ind AS- Illustration 2

| **Asset Retirement Obligation (ARO)** | |
|---|---|
| | |
| ARO - Inception date of the contract | 1-Apr-08 |
| ARO - From date of transition | 1-Apr-15 |
| End of tenure when ARO would arise | 1-Apr-18 |
| Total Tenure (Years) | 10 |
| Tenure elapsed as at 01-Apr-2015 | 7 |
| Applicable Government Bond Rate | 8% |
| Estimate of ARO at the end of tenure, on transition date | 10,000,000 |
| | |
| PV of ARO as at inception of contract | 4,631,934.88 |
| Depreciation from inception till transition date | 3,242,354.42 |
| Carrying amount post dep as at transition date | 1,389,580.46 |

| **Entry on the transition date** | | | |
|---|---|---|---|
| **Date** | **Scheme of entries** | **Debit** | **Credit** |
| 1-Apr-15 | Fixed Asset | 4,631,935 | |
| | Retained earnings | 6,548,742 | |
| | To Accumulated Dep | | 3,242,354 |
| | TO ARO | | 7,938,322 |
| | | | |
| 31-Mar-17 | Interest | 635,066 | |
| | To ARO | | 635,066 |
| | | | |
| 31-Mar-17 | Depreciation | 463,193 | |
| | To Fixed Asset | | 463,193 |
| | | | |

# PPE: Tax Impact - Dismantling/Restoration cost

<table>
<tr><th rowspan="2">Tax treatment under Accounting Standard</th><th colspan="2">Tax treatment post Ind AS</th></tr>
<tr><th>Normal Computation</th><th>MAT</th></tr>
<tr><td>• Section 33ABA of the Act provides for deduction for restoration expenses for assessee engaged in extraction or production of petroleum or natural gas (annual deduction subject to conditions).<br><br>• Assessee engaged in other activities may claim deduction for provision for site restoration under section 37(1) of the Act.<br>o Udaipur Mineral Development Syndicate (P.) Ltd v. DCIT (261 ITR 706) (Raj HC)<br>o Smt. K. Suryakumari Venu v. ACIT (159 ITD 1034) (Visakhapatnam Trib)</td><td>• Depreciation as per books of accounts on capitalised cost (dismantling cost) is ineligible for deduction under section 32 of the Act.<br><br>• Interest charged to liability eligible for deduction under section 36(1)(iii)/37(1) of the Act?<br>o Definition of 'interest' under section 2(28A) of the Act?<br>o Whether covered under residuary clause under section 37(1) of the Act?<br><br>• ICDS X – Whether ICDS recognises provision for dismantling/ restoration cost?</td><td>• Depreciation - MAT Neutral.<br><br>• Interest debited to profit and loss account may be eligible for deduction under MAT?</td></tr>
</table>

**Points for consideration:**

- Check breakup of cost of asset/interest charged to P&L to identify dismantling/restoration cost.

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 19 | Ind AS 17 | ICDS |
|---|---|---|---|
| Leasehold land | • Land leases were excluded from the standard however amount paid upfront was capitalized and amortised over lease tenure.<br><br>• These were generally capitalized and shown as land and amortised over the lease tenure. | • Land leases are included in the standard. Classification of type of lease is based on the indicators for finance and operating lease that are similar to those under IGAAP. Accounting for long term land leases classified as finance leases where consideration is paid upfront would continue without change. For land leases classified as operating leases, the amount paid upfront will be reclassified to prepaid expense which will be amortised over the lease tenure.<br><br>• Capitalised and disclosed as a leasehold land only if finance lease conditions are met (generally if tenure is > 50 years). Else to be disclosed as a prepaid expense. | NA |

# PPE: Tax Impact - Leasehold Land

| Tax treatment under Accounting Standard | Tax treatment post Ind AS<br>Normal Computation | Tax treatment post Ind AS<br>MAT |
| --- | --- | --- |
| • Leasehold land was recognized as an asset.<br><br>• Amortization of lease charges were debited to the profit and loss account and claimed as a deduction in the computation of income.<br><br>• Tax authorities usually disallow such expenditure being capital in nature. | • Whether prepaid lease charges are eligible for deduction?<br><br>○ DCIT v. Sun Pharmaceutical Ind. Ltd (227 CTR 206)(Gujarat HC)<br>○ CIT v. HMT Ltd. (67 Taxman 506) (Karnataka HC) | • No adjustment may be required. |

**Points for consideration:**

- Check classification of lease and breakup of prepaid expenditure.

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 10 | Ind AS 16 | ICDS V |
|---|---|---|---|
| Significant Overhaul | • While AS 10 permitted componentization, it was not mandatory. Schedule II of the Companies Act 2013 made componentization mandatory. This was followed by amendments to the standard on the lines of Companies Act requirements which are similar to Ind AS.<br><br>• Based on Companies Act requirement, would be capitalized as a separate component to be depreciated over the useful life which would be generally time until next overhaul. | • This would be a separate component to be depreciated over the useful life which would be generally time until next overhaul.<br><br>PPE Dr (main asset)<br>PPE Dr (component)<br>To Bank / Vendor<br><br>*(On the date of purchase of the asset the amount of overhaul exp. to be bifurcated from the purchase cost)*<br><br>PPE Dr.<br>To Bank / Vendor<br>*(For cost incurred)*<br><br>Depreciation expense Dr.<br>To Accumulated depreciation<br>*(For periodic depreciation)* | • No concept of significant overhaul.<br><br>• Criteria for capitalization of expenses<br>An expenditure that increases future economic benefits from the existing asset beyond its previously assessed standard performance is added to the actual cost.<br>• The cost of an addition or extension to an existing tangible fixed asset which is capital in nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset. |

# PPE: Tax Impact - Significant Overhaul

<table>
<tr><th rowspan="2">Tax treatment under Accounting Standard</th><th colspan="2">Tax treatment post Ind AS</th></tr>
<tr><th>Normal Computation</th><th>MAT</th></tr>
<tr><td>• Overhaul expenditure may be treated as revenue expenditure if incurred in normal course of business and does not give rise to an enduring benefit.<br>○ CIT v. Neyvelli Lignite Corporation Ltd (388 ITR 172) (Madras HC)</td><td>• In case expenditure satisfies conditions of section 31 / 37 of the Act, then a separate deduction can be claimed in the computation of income.<br><br>• Overhaul cost is capitalised to fixed asset or accounted as separate component of PPE, and accordingly amortised over requisite period. Such amortisation may not be allowed as a deduction while computing taxable income.</td><td>• No adjustment in MAT – Depreciation on overhaul cost is MAT neutral.</td></tr>
</table>

**Points for consideration:**

- Check breakup of cost of asset as per books of account and test expenditure incurred for claiming a deduction under section 31 or section 37 of the Act

# Deferred Consideration

- Under Ind AS, an item of property, plant and equipment could be acquired on payment terms that are deferred beyond normal credit terms.
- The cost, in those circumstances, is the discounted amount, being the cash price equivalent.
- The difference between this amount and the total payments is treated as interest payable over the period of credit.
- An example for deferred consideration is as under:

- Company XYZ has acquired an item of PPE on deferred payment terms. As per the terms, XYZ is required to pay 10,00,000 at the end of 3 years. Discount rate 9%.

Comments:

- Under Ind AS, the Company XYZ needs to ascertain the discounted value of deferred consideration and such discounted value shall be considered as the cost price.
- The difference between the amount payable after 3 years and discounted value shall be recognized as interest payable over the term of 3 years. Accounting entries are provided in the adjoining table.

| Date | Particulars | Dr. | Cr. |
|---|---|---|---|
| **Day 0** | **Acquisition of asset** | | |
| | Property, plant and equipment | 740,646 | |
| | Deferred consideration (present value of liability) | | 740,646 |
| **Years 1 - 3** | **Recognition of Interest** | | |
| | Interest expense (Year 1- 77,883, Year 2 – 86,073, Year 3 – 95,398) | 259,354 | |
| | Deferred consideration | | 259,354 |
| **Year 3** | **Payment by XYZ** | | |
| | Deferred consideration | 1,000,000 | |
| | Bank | | 1,000,000 |

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 10 | Ind AS 16 | ICDS V |
|---|---|---|---|
| Spare parts | • Under IGAAP these were capitalized only when they could be used in connection with a specific asset. Else were considered as an inventory and expensed when consumed.<br><br>• As per the recent amendments, accounting has been aligned to Ind AS (effective 1 April 2016) | • Spare parts , standby equipment and servicing equipment which meet the definition of PPE are capitalised and depreciation from the date of purchase.<br><br>PPE Dr.<br>To Bank / Vendor<br><br>*(For cost incurred)*<br><br>Depreciation expense Dr.<br>To Accumulated depreciation<br><br>*(For periodic depreciation)* | • Machinery spares shall be charged to the revenue as and when consumed.<br><br>• When such spares can be used only in connection with an item of tangible fixed asset **and** their use is expected to be <u>irregular</u>, they shall be capitalized. |

# PPE: Tax Impact - Spare Parts

| Tax treatment under Accounting Standard | Tax treatment post Ind AS | |
|---|---|---|
| | Normal Computation | MAT |
| • Spare parts regularly consumed in production process is allowed as deduction under section 37 of the Act.<br><br>• Deduction can also be claimed if expenditure incurred satisfies the condition of section 31 of the Act.<br><br>• However, as per ICDS spares that can be used only in connection with an item of tangible fixed asset **and** their use is expected to be irregular are to be separately capitalized. | • Similar to tax treatment under IGAAP | • No adjustment under MAT |

**Points for consideration:**

- Check breakup of cost of asset to test whether expenditure can be claimed as a deduction in computation of income.

# PPE: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 10 | Ind AS 16 | ICDS V |
|---|---|---|---|
| Overheads | • Administrative and other general overhead expenses are usually excluded.<br><br>• Expenses specifically attributable to construction of a project or acquisition of a tangible fixed asset or bringing it to its working condition shall be included as a part of cost of project or cost of tangible fixed asset. | • Administrative and general overheads are generally to be expensed. | • Same as Accounting Standard 10. |

# PPE: Tax Impact - Overheads

| Tax treatment under Accounting Standard | Tax treatment post Ind AS<br>Normal Computation | MAT |
|---|---|---|
| • General administrative and office overheads can be capitalized to the cost of asset.<br>• ICDS V provides for inclusion of directly attributable overhead in the cost of asset. | • Costs including administrative and general overheads debited to P&L relatable to the asset may be considered as cost of asset for tax purposes. | • No adjustment under MAT. |

**Points for consideration:**

- Verify components of cost of asset, details of expenditure debited to P&L account and its consequent impact on tax computation.

# Ind AS 20- Accounting for Government Grants and Disclosure of Government Assistance

# Accounting for Government Grant under IGAAP

**Government Grants** not be recognized until there is **reasonable assurance** that
(i) the enterprise will **comply with the conditions attached** to them, and
(ii) the **grants** will be **received.** Accounting can be classified into two as follows

## Monetary Grants

### Capital Grants (Two options as under)

**Net Presentation**
The grant is shown as a deduction from the gross value of the asset

**Gross presentation**
Creation of Deferred income account which is amortized over the life of asset/grant (in case conditions are to be fulfilled).

### Revenue Grants

Recognized on a **systematic basis** in the **profit and loss statement** over the periods necessary to match them with the related costs which they are intended to compensate. **Two options as under**

**Net Presentation**
Deducted from the relevant expense

**Gross presentation**
Shown separately under **'other income'**

## Non-monetary Grants

1. **Assets at concessional rates**
   Recorded at acquisition cost
2. **Assets free of cost**
   Recorded at nominal value

Government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds.

# Accounting for Government Grant under Ind AS

**Government Grants** not be recognized until there is **reasonable assurance** that
(i) the enterprise will **comply with the conditions attached** to them, and
(ii) the **grants** will be **received.** Accounting can be classified into two as follows

## Monetary Grants

### Capital Grants

**Gross presentation** Creation of Deferred income account which is amortized over the life of asset/grant

### Revenue Grants

Recognized on a **systematic basis** in the **profit and loss statement** over the periods necessary to match them with the related costs which they are intended to compensate. **Two options as under**

**Net Presentation**
Deducted from the relevant expense

**Gross presentation**
Shown separately under **'other income'**

## Non-monetary Grants

**Assets at concessional rates / free of cost**

Recorded at fair value

# Loans from Government

Loans from Government

Forgiveness of loan

Recognized as government grant

Nil or low interest loans

- Loan must be recognized at fair value as per IAS 39
- Difference between cash received and loan amount recognized is accounted as per Ind AS 20

**Points for consideration:**

- The notional interest (if any) recognised as per Ind AS shall be excluded for computing income as per the normal provisions of the Act.

# Comparison of IGAAP, Ind AS & ICDS - Key Concepts

| Key areas | Indian GAAP | Ind AS | ICDS |
|---|---|---|---|
| General | • AS 12–Accounting for Government grants does not deal with the disclosure of government assistance other than in the form of government grants. | • Ind AS deals both with the government grants and assistance. | • ICDS VII includes 'waiver, 'concessions' also as government grants. |
| Non- monetary government grants | • Non-monetary government grants received at concessional rates are usually accounted at their acquisition cost. Further, non monetary assets received free of cost are recorded at a nominal value. | • Non-monetary grants are accounted at fair value, with a corresponding credit to deferred income. Unlike Indian GAAP, the option to measure non-monetary grants at nominal value is not available. | • Non-monetary grants are accounted at their acquisition cost. |
| Monetary government grants | • Grants related to revenue are recognized in the statement of profit and loss on a systematic and rational basis over the periods necessary to match them with the related costs. | • Similar to Indian GAAP | • Where a government grants is receivable for compensation for expenses or losses incurred by a company, the same shall be recognized as an income in the period in which it is receivable. |

# Comparison of IGAAP, Ind AS & ICDS - Key Concepts

| Key areas | Indian GAAP | Ind AS | ICDS |
|---|---|---|---|
| Grant relating to depreciable assets | • Asset related grants are presented in the balance sheet either as deferred income or by deducting the grant in arriving at the asset's carrying amount. | • Asset related grant is required to be recorded as a deferred income. The option to present asset related grants, including non – monetary grants by deducting the grant in arriving at asset's carrying amount is not available under Ind AS. | • Grant related to depreciable assets needs to be deducted from the cost of the asset or from written down value of the block of assets to which the concerned asset belongs. |
| Grant relating to non-depreciable assets | • Grants related to non-depreciable assets are credited to capital reserve. However, if a grant related to a non-depreciable asset requires the fulfilling certain obligations, the grant is credited to income over the same period which the cost of meeting such obligations is charged to income. | • Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognised as income over the periods which bear the cost of meeting the obligation. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds. | • Grants for non-depreciable assets requiring fulfilment of certain obligations have to be recognised as income over the same period over which the cost of meeting such obligation is charged to income. |

# Comparison of IGAAP, Ind AS & ICDS - Key Concepts

| Key areas | Indian GAAP | Ind AS | ICDS |
|---|---|---|---|
| Government loans/ sales tax deferral | • No guidance included. | • The benefit of a government loan at a below market rate of interest should be accounted for as a government grant measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received. | • Sales tax deferral schemes offered by Government whereby sales tax collected by assessee is converted into a loan, may not qualify as Government grant as per ICDS.<br><br>• Further, interest free debt or concessional loan is a form of government assistance (specifically excluded in ICDS).<br><br>• Therefore, both will be governed by the provisions of Section 2(24)(xviii) of the Act. The Act covers any waiver/concession under the ambit of income. |
| Initial Recognition | • A grant is recognised when there is reasonable assurance that the entity will comply with the attached conditions and ultimate collection is reasonably certain. | • A grant is recognised when there is reasonable assurance that the entity will comply with the attached conditions and ultimate collection is reasonably certain. | • Initial recognition of grant cannot be postponed beyond the date of actual receipt (even if there is no reasonable assurance that the enterprise will comply with the attached conditions).<br><br>• Delhi HC has passed an order with respect to constitutional validity of ICDS (refer bottom of the table). |

# Comparison of IGAAP, Ind AS & ICDS - Key Concepts

| Key areas | Indian GAAP | Ind AS | ICDS |
|---|---|---|---|
| Repayment of grants | • Repayment of grant related to fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, if any by the amount refundable. In case where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.<br>• Repayment of grant related to income shall be applied first against any unamortised deferred credit recognised in respect of grant. To the extent such repayment exceeds any deferred credit, or where no deferred credit exists, the repayment shall be recognised immediately in profit or loss<br>• Refund of grant in the nature of promoters' contribution, the repayment is reduced from the capital reserve. | • Repayment of grant related to a fixed asset shall be recognised by reducing the deferred income balance by the amount payable<br>• Repayment of grant related to income treated similar to Indian GAAP. | • The ICDS requires that in the event of reversal of government grant, it has to be first applied to unamortized deferred credit. If the amount so repayable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged to profit and loss statement.<br>• ICDS further provides that the amount repayable in respect of a government grant related to depreciable fixed asset is recorded by increasing the actual cost of the asset or written down value of the asset, as appropriate, by the amount repayable. |

# Relevant Extract of Delhi High Court Decision

Recently the Hon’ble Delhi High Court has passed an order with respect to the constitutional validity of ICDS. Relevant extract of the order (in connection to applicability of ICDS VII – Government grants) is as under:

*“ICDS VII which provides that recognition of government grants cannot be postponed beyond the date of accrual receipt, is in conflict with the accrual system of accounting.* ***To that extent*** *it is held to be ultra vires the Act and struck down as such”*

# Ind AS 38- Intangible Asset

# Intangible Assets: Comparison of Accounting Standard, Ind AS and ICDS

| Issues | Accounting Standard 26 | Ind AS 38 | ICDS |
|---|---|---|---|
| **Definition** | • An **intangible asset** is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. | • An **intangible asset** is an identifiable non-monetary asset without physical substance.<br>• Further, the standard requires an intangible asset to be identifiable and separable. | • No specific ICDS for intangible asset<br>• However, Intangible as per Act are as under:<br>"A **intangible assets**, being know-how, patents, copyrights, trade-marks, licenses, franchises or any other business or commercial rights of similar nature" |
| **Treatment of Intangible Asset** | • Depreciable amount should be allocated on a systematic basis over its useful life . | • Depreciable amount with a finite useful life shall be allocated on a systematic basis over its useful life.<br>• Amortisation method shall reflect the pattern in which asset's future economic benefit are expected to be consumed<br>• If pattern cannot be determined reliably, straight-line method shall be used. | • No specific ICDS for intangible asset<br>• Depreciation can be claimed as per provisions of the Act. |
| **Treatment of Goodwill** | • Goodwill arising on amalgamation in the nature of purchase is amortised over a period not exceeding five year (as per AS 14). | • Not amortised but subject to annual impairment test or more frequently whenever there is an impairment indication. | • No specific ICDS for intangible asset.<br>• Depreciation can be claimed as per provisions of the Act. |

# Illustration - Goodwill

**Profit and Loss Account**

| Particulars | Amount (Rs) |
|---|---|
| Net Profit before impairment | 100 |
| **Less :**<br>Impairment of Goodwill | (10) |
| Net Profit | 90 |

**Computation of profits under section 115JB**

| Particulars | Amount (Rs) |
|---|---|
| Profit for the year | 90 |
| **Add :**<br>Amount set aside as provision for diminution in the value of asset | Nil* |
| Book Profit under section 115JB | 90 |

Whether impairment loss is MAT deductible?

**Whether impairment of Goodwill should be added to the computation of book profits under section 115JB?**

- Loss on impairment of goodwill is not a mere 'provision' and is in the nature of 'write off'
- Such impairment expense cannot be reversed and hence, may not be construed as a provision

# Illustration - Revenue Based Amortisation

**Profit and Loss Account (Option 1) Not allowed as per Ind AS for new toll SCA arising after the start of the first Ind AS reporting year under Ind AS 38 and ITFG 2**

| Particulars | Amount (Rs) |
|---|---|
| Revenue | 190 |
| **Less :**<br>Amortisation of rights received under Service Concession Arrangements (SCA) | 115 |
| Net Profit | 75 |

**Profit and Loss Account (Option 2)**

| Particulars | Amount (Rs) |
|---|---|
| Revenue | 190 |
| **Less :**<br>Amortisation of rights received under Service Concession Arrangements (SCA) | 100 |
| Net Profit | 90 |

**Estimated Revenues**

| Amount (in lakh) | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 | Yr 6 | Yr 7 | Yr 8 | Yr 9 | Yr 10 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 190 | 150 | 200 | 220 | 130 | 120 | 180 | 120 | 160 | 180 | 1650 |
| Amortisation based on Revenue (Option 1) | 115 | 91 | 121 | 133 | 79 | 72 | 109 | 72 | 97 | 109 | 1000 |
| Amortisation- SLM (Option 2) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 1000 |

# Key Takeaways

# Key Takeaways

- Identify accounting differences in financial statements (check with auditors for Ind AS adjustment entries passed)
- Carefully analyse notes to accounts of the financial statements and request for detailed break – up and reconciliation of items appearing in financial statements. For example: fixed asset, equity etc.
- Carefully analyse taxability of each item based on facts of each case
- Analyse impact on Book Profits and consequential impact on cash outflow.

# Thank You