RC on Ind AS 102 & Ind AS 40 – Q&A

Q1. Under SBP - does receipt of service include employment service by an employee?

A – Yes, receipt of service includes employment service by an employee. It is in accordance with Para 12 of Ind AS 102.

Q2. Determination of grant date- It should be when terms were accepted by employee or there was an understanding of terms between company and employee

A – As per Appendix A of Ind AS 102, ***grant date is the date at which the entity and another party (including an employee) agree to a share-based payment arrangement***, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. ***If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.***

There are following two scenarios possible;

a. Grant date would be the date of understanding between company and employees, if the key terms and conditions were communicated to employees and employees had no opportunity to further negotiate the terms and conditions.
b. Grant date would be the date of acceptance by employees, if had an opportunity to further negotiate the terms and conditions.

Q3. Whether ESOP to employees are allowed as deduction under income tax act to the company or disallowed as capital expenditure?

A – There is no clear section under the Income Tax Act, 1961 which allows deduction for ESOP expenses. It is a debatable area and Income Tax department has taken either positions in various scenarios.

Q4. What if the condition is a combination of market and non-market condition?

A – Please refer slide no. 11of the presentation on the accounting for various conditions

Q5. How to calculate fair value of share granted? which formula to be used.

A – Please refer para 16 & 17 of Ind AS 102 for determination of fair value of equity instruments granted.

Q6. Are ESOPs during vesting period considered in Diluted earnings per share? If yes, then based on which fair value whether on grant date or each balance sheet date, no. of shares is calculated?

A – Please refer Example 5 & 5A in Appendix B of Ind AS 33 – Earnings per share

Q7. In year one why did you multiply with 1/2 instead of 1/3

A - If you can refer paragraph 3 on slide 13, it is assumed over there that the earnings condition would be met in year 2. Hence, in year 1, we multiplied by 1/2 instead of 1/3.

Q8. In case of cancellation, what is the logic of having accelerated vesting? even after ESOP grant is cancelled?

A – It is the requirement of Ind AS 102. Since the cost of service was being recorded over the vesting period, it would be assumed that the entity has received the remaining service in the year of cancellation and hence the remaining cost is recognised immediately.

Q9. ESOP policy was approved by the board and letters were issued to employees but in the first year itself board decides to keep the policy on hold then will there be any accounting entry as on March? Decision to hold the policy for previous year was taken in June board meeting when the March audited financials were adopted.

A – It appears that the decision to hold the policy would be a non-adjusting event in terms of Ind AS 10 – Events after reporting date and the company needs to recognize the ESOP expenses in March.

Q10. How the accounting for Employee Welfare General Scheme administered through a Trust works? Eg: Sponsor Co. funds loan to the Trust, Trust purchases shares in secondary market and benefits (in the form of distribution of shares or may be cash money) are devolved on employees on certain defined criteria (discretionary to be decided by Trustees and Management of Sponsor Co) over a period of time?

A – Please refer Slide 15 & 16 for the same.

Q11. If parent grants ESOPs to employees of subsidiaries, later options gets cancelled due to resignation by employee, then what will be accounting impact in the books of parents & subsidiary?

A – On the resignation of employee, the options are forfeited. The accounting treatment for forfeiture differs from cancellation. In case of forfeiture, the expense recognised to date is reversed by the entity.

Q12. If a Builder has Constructed one Building with a intend to Sale the Entire Building but could not sale the same. So he started Renting the Units of Building to OYO.. for lodging.. so whether this unit be considered as Investment Property or Fixed assets??

A – As per Ind AS 2, Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services

As per Ind AS 40, Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

As per para 57(d) of Ind AS 40, A Property is transferred to Investment Property when an operating lease is granted to a third party on the property held as inventory and upon the commencement of the lease.

In the given situation, considering the above definitions and para reference from Ind AS 2 and Ind AS 40, the property initially would be recorded as Inventory. However, when the builder starts to rent the units to OYO, the rented units cease to meet the definition of Inventory and according to para 57(d) of Ind AS 40, these leased units of buildings should be considered as Investment Property.

However, the fact pattern needs to be carefully evaluated and the accounting for reclassification needs to be applied.

Q13. Can investment property be classified as normal PPE if objective changed?

A – As per para 57 of Ind AS 40, transfer to or from Investment Property are made only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

As per para 57(a), a transfer is made from investment property to owner-occupied property at the commencement of owner- occupation.

Thus, investment property can be classified as normal PPE if changed objective meets the above criteria.

Q14. If fair value of property is not identified, then how it will be shown in books of account. Because the property value is Rs. 125000 at the time of acquisition in 1994.

A – As per para 20 of Ind AS 40, Investment Property shall be measured initially at cost. Further, as per para 56, After initial recognition, an entity shall measure all of its investment properties in accordance with Ind AS 16's requirements for cost model. Thus, the entity shall continue to show the investment property at cost in the books of accounts.

Ind AS 40 requires all entities to measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model.

As per para 53 of Ind AS 40, If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably measurable on a continuing basis, the entity shall make the disclosures required by paragraphs 79(e)(i), (ii) and (iii).

As per para 79(e), when an entity cannot measure the fair value of the investment property reliably, it shall disclose: (i) a description of the investment property; (ii) an explanation of why fair value cannot be measured reliably; and (iii) if possible, the range of estimates within which fair value is highly likely to lie.

Q15. How to account for property purchased on lease basis for the period of 60years and the same is given on rent. Whether as right of use assets or investment property??

A – As per Ind AS 40, Investment property is property held (by the owner or **by the lessee under a finance lease)** to earn rentals or for capital appreciation or both,

As per para 48 of Ind AS 116, right-of-use assets that meet the definition of investment property, which shall be presented in the balance sheet as investment property.

Thus, in the given situation, considering the intention of lessee is to earn rental by subleasing the property taken on lease, the property may be accounted and presented as Investment Property in the balance sheet.