Corporate Reporting

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Notes on Ind AS

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Ind. AS 108 (Operating Segments)

In today's global economy, most entities produce and market a variety of products and services and also operate in many geographical areas of the world. Each of the products and geographical areas are naturally subject to different rates of profitability, risk and opportunities and so on. It is, therefore, necessary to do segment reporting to be aware of the risks and return involved in each geographical area and for each product. This information will enable to make appropriate decisions regarding the utilisation of entity's revenue.

This Ind. AS deals with providing segments information and to establish principles for reporting financial information by segment (segment-wise). This information will enable the users of the financial statements to :-

1) Understand the entity's past information.
2) Assess the entity's risk and return
3) Make more informed decisions.

Scope :- This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind. AS) notified under Companies Act apply.

Criteria of Identifying Operating Segments :
Information on an operating segment should be separately reported if -

1) Reported revenue (External and Inter Segment) is 10% or more of the combined revenue of all operating segments.

2) The absolute amount of the segments reported profit or loss is 10% or more of the greater of :

a) The combined reported profit of all operating segment that did not report a loss and,

b) The combined loss of all operating segments that reported a loss.

3) The segments' assets are 10% or more of the combined assets of all operating segment

Two or More operating segments may be combined (aggregated) and reported as one if certain conditions are satisfied.

After the aggregation process described above, if the total external revenues reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments must be identified until at least 75% of the entity's revenue is included in reportable segments.

Ind AS 36 Accounting for 'Impairment of Assets'

Impairment of Assets means weakening in value of assets. An asset is said to be impaired when carrying amount of asset is more than its recoverable amount.

Carrying Amount is the amount at which asset are shown in the balance sheet i.e. generally at cost less accumulated depreciation or amortisation and accumulated impairment losses

Recoverable Amount of an asset is higher of the following :—

i) Fair value less cost of disposal

ii) Value-in use. i.e., Present value of estimated future cash flow arising from use of asset + Residual Price at the end of its useful life

Scope of Ind AS 36 :

This standard is applicable in accounting for the impairment of all assets other than :-

1) Inventories (As covered in Ind As 2)
2) Contract Assets (Ind AS 115)
3) Deferred Tax Assets (Ind As 12)
4) Assets arising from Employee's Benefits (Ind AS 19)
5) Biological Assets (Ind As 41)
6) Financial Assets (Ind AS 109)

7) Non-Current Assets classified as Held for Sale (Ind As 105)
8) Defferred Acquisition Cost and Intangible Assets arising from insurance contracts (Ind AS ...)

Carryin.

Q) What is fair value as per Ind AS 36?

Ans Fair value is the price that would be received to sell an asset or ~~to pay~~ paid to transfer a liability in an orderly transactions between market participants at the measurement date.

Q What is Impairment loss?

Ans Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Q) How is an asset identified for impairment?

Ans An entity shall assess at the end of each reporting period weather there is any indication that an asset may be impaired. For indication, the entity shall consider the following :-

i) External Sources of information —

~~ii)~~ a) Significant decline in market value.

b) Significant changes in technology, market, economic or legal environment which adversely affect an entity.

c) Increase in Market Interest Rates or Rate of Return.

ii) Internal Sources of Information —

a) Obsolescence ~~of~~ or Physical damage of

b) Significant Changes in use of an asset with an adverse effect on entity.

c) Internal Reporting indicating ~~&~~ worse economic performance of an asset than expected.

iii) Investment in a Subsidiary, Joint Venture or Associates —

a) Carrying amount of investment is > Carrying amount of investee's net assets (including goodwill in CFS)

b) Dividend > Total Comprehensive income of investee

Irrespective of whether there is an indication of ~~an~~ impairment, an entity is required to test following items for impairment at least annually

a) Intangible assets with an indefinite useful life

b) Intangible assets not yet available for use

c) Goodwill acquired in a business combination for impairment.

Q> What is a Cash Generating Unit (C.G.U)?

Ans C.G.U is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Ind AS 17

Objective : The objective of this standard is to prescribe, for lessee's and lessor's, the appropriate accounting policies and disclosures to apply in relation to leases.

Scope : This standard shall be applied in accounting for all leases other than.
a) leases to explore for or use minerals. oil, natural gas and similar non-regenerative resources, and
b) licensing agreements for such items as motion picture films, video recordings, plays manuscripts, patents and copyrights

Definitions
Lease = A lease is an agreement whereby the lessor ~~convince~~ conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

Finance Lease / Financial Lease = A financial lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Operating Lease = An operating lease is a lease other than a financial lease.

Non-Cancellable Lease = A non-cancellable lease is

a lease that is cancellable only :
a) Upon the occurance of some remote contingencies,
b) With permission of the lessor,
c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor or
d) Upon payment by the lessee of such an additional amount.

Minimum Lease Payment = Minimum lease payments are the payments over the lease terms that the lessee is required to make, excluding, contingent rent, cost for services and taxes to be paid by a ~~se~~ and reimbursed to the lessor.

Minimum lease Payment from the viewpoint of lessor = Payment required to be made by the lessee as stated above, together with any residual value guaranteed to the lessor by :
i) The lessee
ii) A party related to the lessee
iii) A party unrelated to the lessor

M.L.P from the viewpoint of Lessee = Payment as stated above together with any amount guaranteed by the lessee or any party related to lessee

Guaranteed Residual Value (G.R.V) = ~~For~~ ~~les~~ Guaranted Residual Value is

a) For Lessee, that part of residual value that is guaranteed by the lessee or by a party related to the lessee, and
b) For a Lessor, that part of residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor

Unguaranteed Residual Value = Unguaranteed Residual Value is that portion of residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Gross Investment = Gross investment is the aggregate of minimum lease payment receivable by the lessor and any ~~a~~ unguaranteed residual value accruing to the lessor.

Net Investment = Net Investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease. or; Net Investment is the present value of gross investment

Unearned Financial Income = Difference between gross investment and net investment is called unearned financial income.

Accounting for Financial Lease:
For Lessee
1) Recognised lease as an asset and liability
2) Recognised leased asset at lower of Fair Value of asset and present value of minimum lease

3) Lease payments allocated between finance charges and reduction of liability.
4) Depreciation of leased asset. is done on systematic basis.

For lessor
1) Recognised as receivables at an amount equal to net investment
2) Recognise finance income based on pattern reflecting a constant periodic rate of return on lease.

~~For~~ Accounting Treatment of Operating lease
In the books of lessee
1) lease payments shall be recognised as an expense on straight line basis over lease term unless either:
a) Another systematic basis that reflects time pattern of users benefit is available or
b) Payment structured to increase in line with expected general inflation.
2) leased Asset will not be recognised in financial statements.

In the books of Lessor :
1) Lessor shall present asset in financial statement according to nature of asset
2) Lease income shall be recognised on straight line basis over lease term
unless alternative basis is

Date ______
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Ind AS 24 : Related Party Disclosures

Business transactions between related parties do not have the features and character of the arms' length transaction. It affects the volume and decision of one entity for the benefit of o' or other entities. Related party relationships may have an effect on profit or loss and financial position of an entity. Related parties may also enter into transactions that unrelated would not. It is required to disclose the related party transactions for proper understanding of financial ~~pormance~~ performance and financial position of an entity.

Related Party means any party that controls or can significantly influence the management or operating policies of the company during the reporting period.

The criteria for related party relationship are as follows:

i) Control ii) Common Control iii) Joint Control
iv) Significant Influence

Objective :

The objective of this standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Definitions :

Related Party = A person or entity that is related to the entity that is preparing its financial statements.

Key Management Personnel (K.M.P) = Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director

Close Member of the Family = Those family members who may be expected to influence, or be influenced by and includes :

a) That person's children and spouse, brother, sister, father and mother.

b) Dependants of that person or that person's spouse.

Related Party

A) For Individual

A person or a close member of that person's family is related to a reporting entity if that person:

i) has control or joint control over the reporting entity

ii) has significant influence over the reporting entity

iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

B) For Entity

An entity is related to a reporting entity if:

i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)

ii) One entity is an associate or joint ventu of the other entity

iii) both entities are the joint ventures of the same third party

iv) One entity is a joint venture of a third entity and other entity is an associate of the third entity

v) the ~~An~~ entity is controlled or jointly controlled by a person or close member of that person's family.

Who are not related parties :

1) Two entities simply because they have a director or other member of KMP in common
2) Two joint venturers simply by virtue they share joint control of a joint venture.
3) Suppliers, customers, distributors etc.
4) Providers of finance, trade unions, government departments etc.

Disclosures

Disclosures shall be made separately for each of the following categories

a) The parent
b) Subsidiaries
c) Entities with joint control or significant influence over the entity
d) Associates
e) Joint ventures in which the entity is a venturer
f) Key Management Personnel of the entity or its parent and other related parties

Disclosures to be made for

A) Related party transactions :

i) Nature of related party relationship and amount of transactions
ii) Amount of outstanding balances including commitments for example guarantees given
iii) Provision for doubtful debts related

amount of outstanding balances

iv) Expenses recognised during the period in respect of bad or doubtful debts due from related parties

B) Key Management Personnel (KMP):

~~i)~~ To disclose KMP compensation in total and for each following categories:

a) Short-term employee benefits

b) Post employment benefits

c) Other long-term benefits

d) Termination benefits

e) Share-based payments

Government - Related Entities:

A reporting entity is exempt from the disclosure requirements in relation to related party transactions with:

i) A government that has control or joint control or significant influence over the reporting entity; and

ii) Another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity ~~or~~ and other entity.

However, reporting entity shall disclose:

i) The name of the government and the nature of ~~the~~ its relationships with the reporting entity

ii) ~~Formal~~ following information to understand the effect of related party transactions

a) The nature ~~of~~ and amount of individually

Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

Objective : The objective of this standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount

Scope : Applicable to all entities in accounting for provisions, contingent liabilities and contingent assets except

a) Executory Contracts other than onerous contracts

b) Those covered by another standards for example Ind AS 12, Ind AS 17, Ind AS 19, Ind AS 109, Ind AS 104

Definitions :

Provision : A provision is a liability of uncertain timing and amount

Obligating Event = An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation

Legal Obligation = Obligation arising from contract or legislation or other operation of law

* Contingent Liability : A contingent liability is :
a) A possible obligation that results from past events, whose existence will be confirmed only by the occurance or non-occurance of one or more uncertain future events not wholly in the control of the entity ; or
b) A present obligation that arises from past events that is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured reliably

Contingent Assets = A possible asset that results from past events, whose existence will be confirmed only by the occurance or non-occurance of one or more uncertain future events not wholly in the control of the entity

Onerous Contracts = Contract where the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it

Recognition

Provisions

Provisions are recognised when:

a) The entity has a present legal or constructive obligation as a result of past event.

b) It is probable that an outflow of economic benefit will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation

Contingent Liability

a) Contingent liabilities are not recognised

b) A contingent liability is disclosed ~~to~~ unless the possibility of an outflow of resources embodying economic benefits is remote.

c) They are assessed continually to determine whether an outflow of resources has become probable. If it becomes probable, then provisions will be recognised at financial statements.

Contingent Assets

a) Contingent Assets are not recognised

b) A contingent asset is disclosed where an inflow of economic benefits is probable

c) Contingent assets are assessed continuously. In case, it has become ~~vi~~ virtually certain an inflow of economic benefits will arise.

the asset and the related income are recognised

Measurement

a) ~~Based~~ Best Estimate.

1) Provisions are measured at the ~~based~~ best estimate of the expenditure required to settle the present obligation at the end of reporting period.

2) In determining the ~~based~~ best estimate, the related risks and uncertainties are taken into account

3) Gains ~~from~~ future events ~~they~~ that may affect the amount required to settle the ~~prov~~ obligation are reflected in the amount of provision where there is sufficient objective evidence that they will occur

4) Gains from the expected disposal of assets are not taken into account in measuring the provision

b) Time value of Money

1) Where the effect of time value of money is material, the amount of provision is the prese value of the expenditures expected to be required to settle the obligation. ~~Are dis.~~

c) Reimbursement

1) Reimbursements from third parties for some o all expidentiores required to settle a provisio are recognised only when it is virtually certain that the reimbursement will be recer

2) The reimbursement is treated as a sepera asset which shall not exceed the amount of the provision

Ind AS 38 Intangible Asset

<u>Objective</u> : Objective of this Ind AS is to prescribe the accounting treatment for intangible assets that is not dealt with specifically in another standard

<u>Scope</u> : ~~A~~ This Ind AS is applicable in accounting for intangible assets, except following; which prescribe accounting for specific type of intangible assets —

i) Financial Assets (Ind AS 32)
ii) Exploration for an evaluation of mineral resources (Ind AS 106)
iii) Income Taxes (Ind AS 12)
iv) Inventories (Ind AS 2)
v) Construction Contract (Ind AS 11)
vi) Employee Benefit (Ind AS 19)
vii) Goodwill acquired in Business Combination (Ind AS 103)
viii) Intangible Assets classified as held for sale (Ind AS 105)

Intangible Asset - As per Ind AS 38, Intangible Assets are identifiable, non-monetary assets without physical substance.

An as.

Identifiable Assets - Asset is ~~ideh~~ identifiable if -

i) Capable of being separated and sold, licensed, rented, transferred or exchanged ~~a~~ separately

ii) Arise from contractual or other legal rights

Recognition and Measurement

A) Separate Acquisition

B) Acquired in Business Combination

C) Government Grant

D) Internally Generated Goodwill

E) Internally Generated Intangible Asset

F) Exchange of Assets

A) Separate Acquisition

An intangible asset shall be recognised if and only if -

i) It is probable that the expected future economic benefits that are attributable to the assets will flow to the entity

ii) The cost of the assets can be measured reliably

Initial Measurement

An intangible asset shall be measured initially at cost

Recognition of Costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by manage-

B) Acquired in Business Combination

If an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

Acquirer recognises goodwill separately, irrespective of whether the acquiree had recognised it before business combination

C) Government Grant

Initially recognised at fair value.

D) Internally Generated Goodwill

Internally Generated Goodwill is not to be recognised as it is not an identifiable resource that can be measured reliably at cost.

★ E) Internally Generated Intangible Asset : Research and Development

To assess whether an internally generated intangible asset ~~needs~~ meets the criteria of recognition, an entity classifies the generation of the asset in two—

i) Research Phase

ii) Development Phase

I) Research Phase - No intangible asset arising from research shall be recognised. Expenditure on research shall be recognised as an expense when it is incurred.

An entity cannot demonstrate that an intangible assets exists that will generate

Therefore, this expenditure is recognised as an expense.

ii) Development Phase - Capitalised

Capitalised if all criteria are met -

1) Technical feasibility of completion of intangible asset
2) Intention to complete.
3) Ability to use or sell the intangible asset
4) Adequate technical, financial and other resources to complete.
5) Probable future economic benefit
6) Expenditure measured reliably

F) Exchange of Assets

Cost of such an intangible asset is measured at fair value unless the fair value of neither the asset received ~~or~~ nor the asset given up is reliably measurable.

If entity is able to measure reliably the fair value of either the asset received or asset given up, then fair value of asset given up is used to measure cost unless fair value of asset received is more clearly evident

If acquired asset not measured at fair value, it is to be measured at carrying amount of asset given up.

Recognition of Expenses

A) Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

1) It forms part of the cost of an intangible asset that meets the recognition criteria. or

ii) The item is acquired in a bus
combination and cannot be recognised
as an intangible asset. If this is
the case, it forms part of the amount
recognised as goodwill at the acquisition
date

B) Expenditure initially recognised as an
expense cannot be capitalised at a
later date.

Subsequent Measurement

(A) Cost Model

The intangible asset
shall be carried at
its cost less any
accumulated amortisation
and impairment losses

(B) Revaluation Model

(B) Revaluation Model :

1) An intangible asset shall be carried
at ~~its~~ a revalued amount, being its
fair value at the date of revaluation less
any subsequent accumulated amortisation
and impairment losses

2) Fair value is determined by referring
to active market. If ~~no~~ there is no
active market, cost model will be used.