



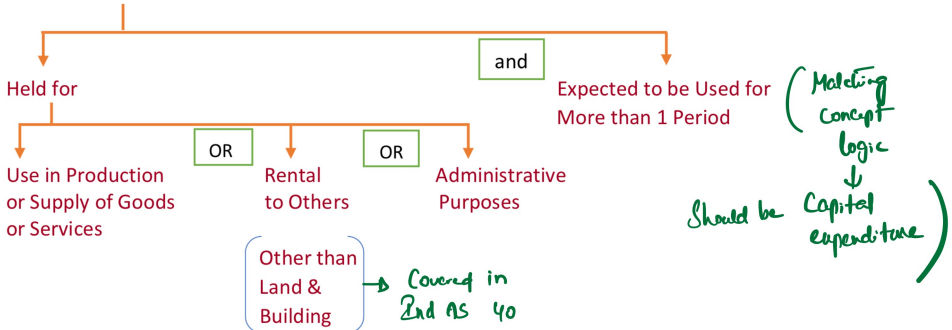
Objective of Ind AS 16

IND AS 16 PPE

One fundamental problem in financial reporting is how to account periodically for performance when many of the expenditures an entity incurs in the current period also contribute to future accounting periods. Expenditure on property, plant and equipment ('PP&E') is the best example of this difficulty.

* Meaning of PPE

PPE are Tangible Items



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* Standard does not apply to :-

- property, plant and equipment classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.
- biological assets related to agricultural activity other than bearer plants (covered by Ind AS 41, *Agriculture*). This Standard applies to bearer plants but it does not apply to the produce on bearer plants.
- the recognition and measurement of exploration and evaluation assets (covered by Ind AS 106 *Exploration for and Evaluation of Mineral Resources*).
- mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

(Not in our Syllabus)

* However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)-(d).

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* A **bearer plant** is a living plant that:

- is used in the production or supply of agricultural produce;
- is expected to bear produce for more than one period; and
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.



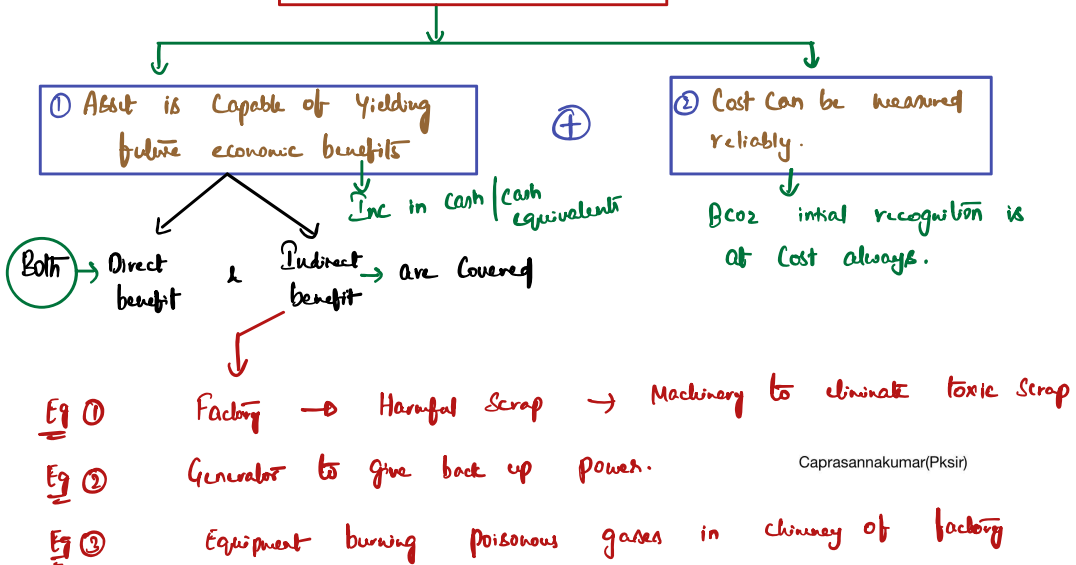
* Annual Crops like wheat, Trees grown for wood purpose & Sugarcane plant etc not bearer plants

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Imp point Accounting for Investment Properties is Covered by Ind AS 40, However Ind AS 16 is still relevant for measurement & depreciation aspects.

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* **Recognition Criteria for PPE** → Same as Q.A in Ind AS 23



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* Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

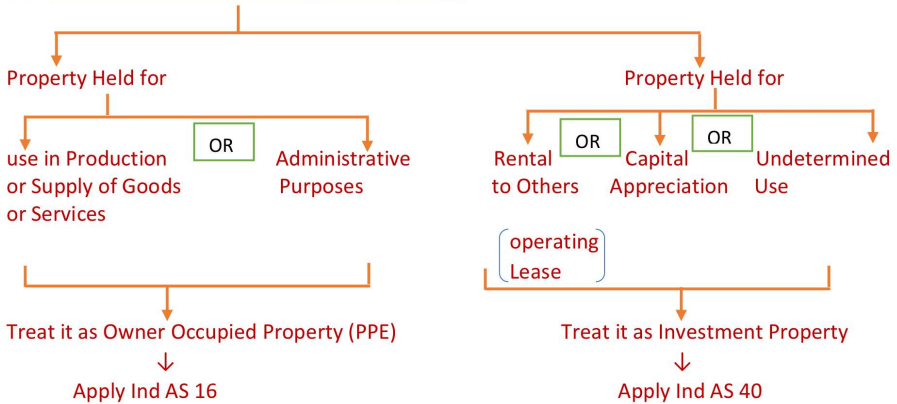
If benefits are more than one accounting period. (Ind AS 16)
 ↓
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If benefits are less than one accounting period. (Ind AS 2)



Note: -

(1) Treatment of Land & Building [i.e. Property]: -



Examples: -

- i. Business is of giving Building on Rent → Building is PPE
- ii. Business is of selling Mobile Phone & We are giving L&B on Rent + L&B is IP
- iii. Any Asset Other than L&B given on Rent → PPE
- iv. Factory Building, Office Building, Company Quarters (Building for Staff Accommodation) → PPE
- v. L&B held for Sale in Ordinary Course of Business → Inventory

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(2) Treatment of Spare Parts (E.g. Bearings, Screws etc.) and Stand-by Equipment's (Eg - Fire Extinguishers): -





Initial measurement / recognition of PPE

(1) IF PPE is Purchased or Self Constructed: (Cash | Credit)

▪ PPE is recognised at Cost	
▪ Cost includes Any directly attributable cost necessary to bring PPE to location & condition intended by Management	
▪ Calculation of Cost of PPE	
Purchase Price	xxx
(-) Trade Discount / Rebate.	(xxx)
(+) Import Duty & Purchase Taxes like Entry Tax, GST etc.	xxx
	(Only if Non-Refundable)
(+) Property Transfer Tax (Only if Non-Refundable)	xxx
(+) Stamp Duty Cost	xxx
(+) Legal fee Cost	xxx
(+) One Time Joining fee of Building Association [In Que of Property only]	xxx
(+) Initial Delivery/Transport Cast	xxx
(+) Other Handling Cast	xxx
(+) Installation & Assembling Cast	xxx
ⓀⓀ (+) Professional fee Consultant fee / Advisor fee/Architect fee	xxx
(+) Site Preparation Cast [E.g. Cost of Preparation & Levelling of Land]	xxx
(+) Building Plan Approval / Permission Cast	xxx
ⓀⓀ (+) Direct Material, Labour or Overhead Cast on Construction (Specific OH only)	xxx
(+) Employment Cost of Construction Workers	xxx
(+) Testing Coot	xxx
(+) P.V. of Estimated dismantling, decommissioning, restoration or demolition Coot	xxx
(+) Any Other direct attributable Cast	xxx

Non
Recurring

ⓀⓀ

(Specific OH only)
NOT General

Note: (

i. In Silent Situation, Assume All taxes are Non-Refundable

ii. following items are not included in Cost of PPE:-

- * } → Cost of Staff Training (Staff may leave)
- * } → Cost of Relocation of Staff Employees (else related expenses)
- Cost of opening or inauguration Ceremony
- Advertisement Cast (recurring mostly) just think if you add to asset what will happen?
- Purchase of Maintenance Contract of PPE } recurring in nature
- Day to Day Repair & Maintenance Cost } " "
- Administrative, General, Selling & Allocated Overheads } " "
- Cast of Abnormal Amount of Wasted Material, Labour or other Resources } Think from Competition point of view
[E.g. Due to faulty design, Spoiled Material, Industrial Strike, etc.]
- Operating Losses
- Cash Discount / Early Settlement Discount (See 9)
- * * } → Interest Cast on Loan taken to buy or Construct the PPE (unless allowed by Ind AS 23)

logic → Some operations occur in connection with the construction of an item of PPE but are not necessary to bring to location or condition necessary for it to be capable of operating as intended by mgmt.



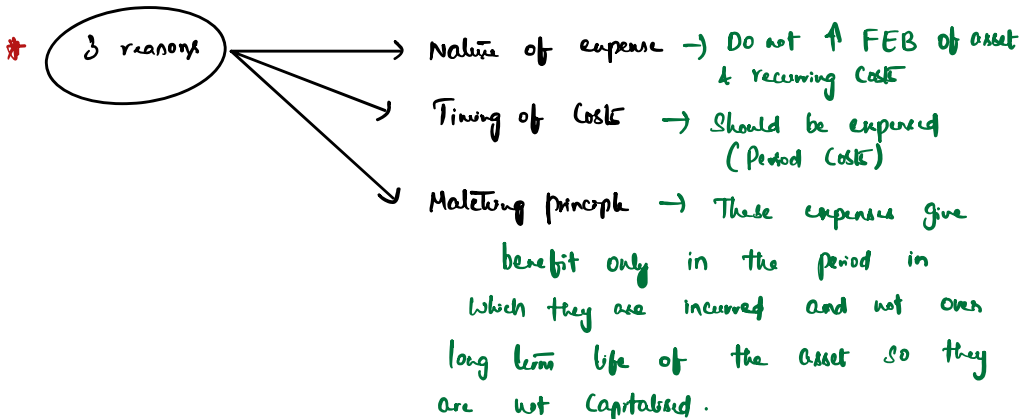
Explanation

* Purchase Price

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- (-) Trade disc
- (+) Non-refundable larvi
- (+) handling charges (loading & unloading of machine)
- (+) Transport charges
- (+) Transit Insurance
- (+) Site preparation charges (foundation for installing Machinery)
- (+) Installation expenses (labour cost)
- (+) Professional / Technical Supervision
- (+) Trial run expenses (Testing)
Set off any inflow from sale of output generated from trial run.
- (+) B.C. on pu Ind AS 23 (Int, EIR, Exchange loss (derived B.C.))
- (+) Provision for De-commissioning, restoration & other similar obligations. @ present value
↳ Pre-condition for installation of asset in most cases. i.e. promise to install.

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**

Normal Credit period in market \rightarrow 3m \rightarrow Purchase = 100 000 Price

Credit period in special case \rightarrow 4 yrs \rightarrow P. Price = 130000

↓

Recognise asset at Cash price \Rightarrow 100000 Simple.

↓

But if Ind AS 23 allows then follow Ind AS 23.

(Eg. Self Constructed assets, Beaver plants, Bought from Europe)

But how to do unwinding of discount on the above

↓

100 000 130 000 (Example Solved below)

← 4 yrs →

$$\frac{130000}{(1+r)^n} = 100000$$

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$$(1+r)^n = \frac{130000}{100000}$$

$$r = \left(\frac{130000}{100000} \right)^{1/4} - 1 = 0.067 = 6.70\% \text{ p.a.}$$

Entry

① PPE
TO Vendor

② Int Cost
TO Vendor A/c

- iii. Income from Incidental Activities done by Entity during construction of PPE but are not necessary for its construction

↓

Such Income will be recognised in P&L and not included in PPE Cost

E.g.: - Income from Car Parking on factory Promises during Construction

Accounting of PPE (Journal Entry): -

- (i) At beginning.

For PPE Purchase / Construction

PPE

xxx

To Bank/Payables

xxx

To Provision for Decommissioning Liability (if any)

At Present value



- (ii) At Each Year End
For Unwinding of Discount on Provision for Decommissioning Liability

Interest Expense / Finance Cost	(Op. Bal. of Prov. for D.L. × Discounting Rate)	xxx	
	To Provision for Decommissioning Liability		xxx
For Transferring Interest Expense to P&L			
P&L		xxx	
	To Interest Expense / Finance Cost		xxx
For Depreciation on PPE			
Depreciation		xxx	
	To PPE		xxx
OR			
Depreciation		xxx	
	To Provision for Depreciation / Accumulated Depreciation		xxx
For Transferring Depreciation to P&L			
P&L		xxx	
	To Depreciation		xxx

Example: -

A Ltd. purchased a Machine of ₹ 50,000, Useful Life = 3 yrs., Dep. = SLM Basis, Decommissioning Cost will be ₹ 10,000 after 3 yrs., Discounting Rate = 10% Pass necessary J.E. of 1st Year.

Solution:

1 st Year Beginning	PPE (50,000 + 7,510)	57,510	
	To Bank		50,000
	To Prov for D.L. (10,000 × 0.751)		7,510
1 st Year End	Int. Exp. (7,510 × 10%)	751	
	To Prov for D.L.		751
	Dep. (57,510 ÷ 3)	19,170	
	To PPE		19,170
	P&L	19,921	
	To Int Exp		751
	To Dep.		19,170

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**Working Note: - Table showing Interest Exp. on Provision for D.L.**

Year	opening Balance	Interest @ Discounting Rate	Actual Payment	Closing Balance
(A)	(B)	(C)	(D)	(E) = (B) + (C) - (D)
1	7,510	751	—	8,261
2	8,261	826	—	9,087
3	9,087	913	—	10,000

* Normally any provision shall be debited to P/L Account, but here prov for decommissioning is directly debited to the cost of the asset

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(2) If PPE is Acquired on Deferred Settlement Terms [i.e. Payment Beyond Normal Credit Terms]

Extra Amount paid over the Normal Purchase Price (Cash Price) is recognised as Interest Expense (Finance Cost) over the credit period in P&L and not included in PPE Cost

Note: - If Normal Purchase price is not given in question, then It is calculated by discounting the future payments [i.e. PV of Cash Outflow]

Example: -

A Ltd. purchased a Machine for which Payment will be made in 3 Equal Annual Instalments of ₹ 5000 starting from 1st Year End. Disc. Rate is 10% Pass J.E. for the 1st Year

Solution: -**Calculate Normal Purchase Price (Cash Price): -**

Year	Payment	PVf @ Disc. Rate	P.V.
1	5,000	0.909	4,545
2	5,000	0.826	4,130
3	5,000	0.751	<u>3,755</u>
			<u>12,430</u>

Calculation of Interest Expense: -

Year	Op. Bal.	Interest @ Disc. Rate	Actual Payment	Cl. Bal -
1	12,430	1,243	5,000	8,673
2	8,673	867	5,000	4,540
3	4,540	460	5,000	—

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Journal Entry: -

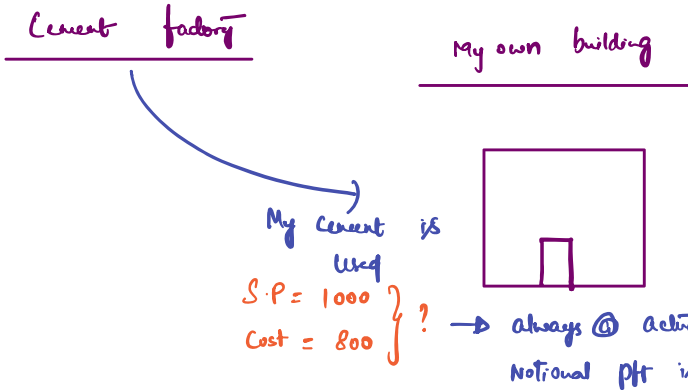
1 st Year Beginning	PPE	12,430	
	To Payables		12,430
1 st Year End	Interest Expense [P&L]	1,243	
	To Payables		1,243
	Payables	5,000	
	To Bank		5,000
	OR		
	Int. Exp.	1243	
	Payables	3757	
	To Bank		5,000

SELF CONSTRUCTED ASSETS & BEARER PLANTS

- a) All the actual costs incurred towards material, labor and other related overheads for the **construction activity** shall be capitalized.
- b) DO NOT Include any internal / Notional profits
- c) Borrowing costs can be capitalized subject to IND AS 23.
- d) Do not capitalize abnormal losses during construction

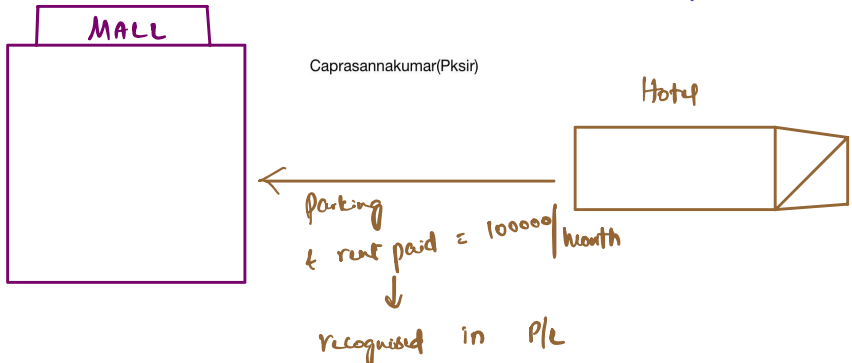
Case 1

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Case 2

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(3) If PPE is Acquired in Exchange of Assets: -

If Exchange Transaction has Commercial Substance ✓

Recognise PPE Acquired at following in Priority: -

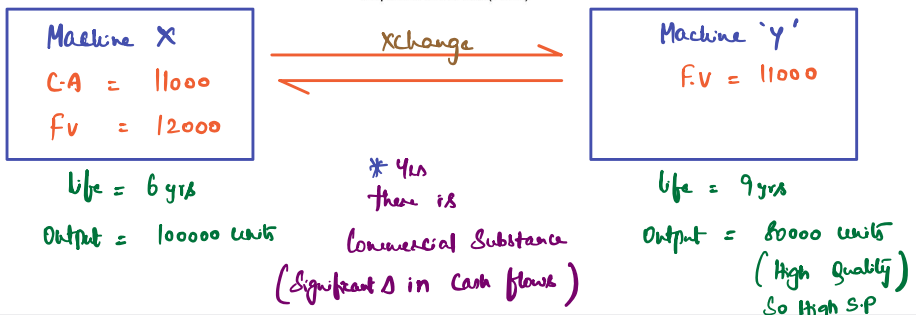
- Fair Value of Asset Given Up
- Fair Value of Asset Received.
- Carrying Amount of Asset Given Up

If Exchange Transaction Lacks Commercial Substance

Recognise PPE Acquired At Carrying Amount of Asset Given up *

Note: -

- (i) If Some Cash is also paid along with the Asset to Acquire the PPE, then Add Amount of Cash Paid in the above amount
- (ii) If Some Cash is also received along with the PPE in Exchange, then Deduct Amount of Cash Received from the above amount
- (iii) Commercial Substance means which Affects Cash flows of the Entity. (Substantially different CF)
 Eg. of Commercial Substance: - If We Acquire PPE producing 10,000 units by giving PPE producing 8,000 units
 Eg. of Lack of Commercial Substance: - If We exchange our warehouse with other Entity's Warehouse in Same Area
- (iv) Accounting of PPE Acquired in Exchange of Assets (Journal Entry)
- | | | |
|--------------------------------------|-----------------|---------------|
| PPE [Acquired] | At Above Amount | |
| Cash [Received if Any] | xxx | |
| Loss on Exchange of Asset [B/f] | xxx | |
| To Cash [Paid if Any] | | xxx |
| To Asset [Given] | | Carrying Amt. |
| To Profit on Exchange of Asset [B/F] | | xxx |
- (v) Calculation of Profit / Loss on Exchange of Asset: -
- | | | |
|--|-------------|--|
| Value at which PPE Acquired is Recognised | xxx | |
| <u>Add (Less):</u> Cash Received /(Paid) | xxx / (xxx) | |
| <u>Less:</u> Carrying Amount of Asset Given Up | (xxx) | |
| | xxx | |

Case ①

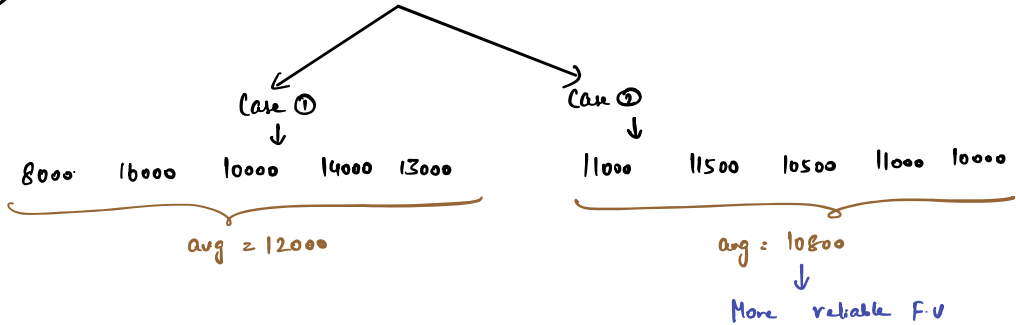


* Bcoz Both assets have diff cash flow, asset going out & asset coming in. So recognise the new asset coming in @ Fair value of asset going out.

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Q) How to find out fair value ?

a) Go to various shops & markets & enquire (Mgmt will do that)



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Case ②



PPE value = ? 60000

↓
Entry

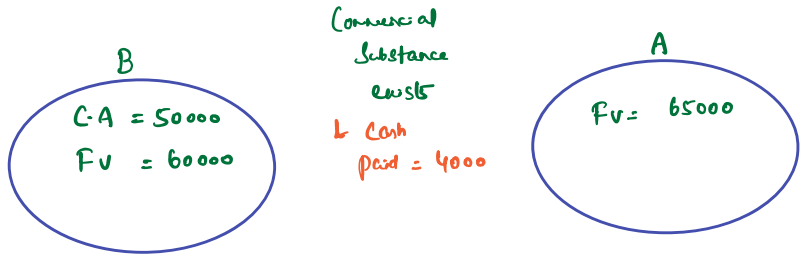
Asset 'A' or 60000

To Asset 'B' 50000

To Gain (P/L) 10000



Case 3



PPE value = ? 60000

↓
Entry

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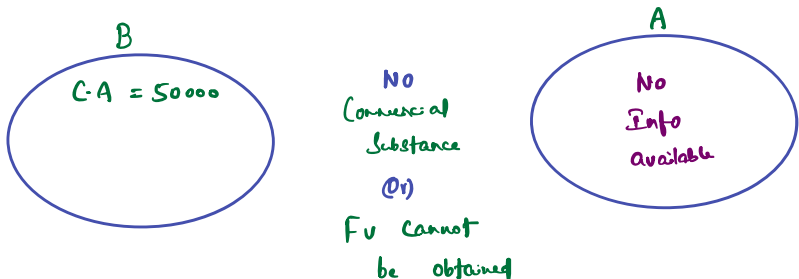
Asset 'A' or 64000 (60000 + 4000)
 To Asset 'B' 50000
 To Cash 4000
 To Gain (P/L) 10000

* Suppose if Cash received is 3000

Asset A 57000 (60000 - 3000)
 Cash/Bk 3000
 To Asset B 50000
 To P/L 10000

Case 4

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Entry

Asset 'A'	Alc	Dr	5000	
		To	Asset 'B'	Alc
				5000

(There will be no gain or loss)

Suppose in above case if cash paid is 6000, then

Asset 'A'	Alc	Dr	56000 (B.F)	
		To	Asset 'B'	50000
		To	Cash	6000

'A' number should be Balancing figure
↓
There should be no gap

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Suppose in above case if cash recd is 4000, then

Asset 'A'	Alc	Dr	46000 (B.F)	
Cash	Alc	Dr	4000	
		To	Asset 'B'	50000

Case 5

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land & building is given up to purchase aircraft

↓
Yes there is Commercial Substance as CF are significantly diff

Case 6

If PPE is acquired by way of Govt Grant (land/building)

↓
Will discuss this in Ind AS 20

(or)

Asset acquired by share as payment → Ind AS 102

Share based payments



SUBSEQUENT EXPENDITURE INCURRED ON PPE

- If the cost incurred is capable of yielding incremental future Economic benefits, such cost can be capitalized.
- Regular maintenance / Servicing costs shall be treated as an expense in P&L A/c.

Eg Single Theatre Screen to Multiple.

See ①, ②, ③, ④, ⑤, ⑥, ⑦, ⑧, ⑨, ⑩, ⑪, ⑫

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COMPONENT ACCOUNTING

Some items of assets like Aircrafts, ships, power generation facilities, Gas turbines Etc are an assembly of various parts which have different useful lives.

The standard requires that accounting is to be done for each component that has a different useful life. If any existing component is replaced with a new component the cost of new component will be capitalized and any Existing carrying amount of replaced component shall be derecognized.

MAJOR OVERHAUL / INSPECTION COSTS (Bcoz Benefit is derived over multiple year)

- Performing major Inspections for any faults in the assets, at regular Intervals may be a pre-condition for usage of assets (Eg: Ships and aircrafts)
- These major Inspection / overhaul costs has to be capitalized to the cost of PPE. Any unamortized balance of past overhaul costs shall be de-recognized.

Component Accounting

(from problem Solving point of view)

Part of a PPE which has significant Cost should be depreciated separately

[E.g: - Engine in a Car or Aircraft, Turbine in a Machine, Interior Walls of a Building, Roof of a Building, Major Inspection & Overhauling, etc.]

Note: - If Part having Significant Cost has Same Useful Life as of PPE, then No need to depreciate it separately

Example: - Car Costing ₹ 20 lakh (incl. Engine of ₹ 5 lakh), useful life of Car is 30 yrs. but of Engine is 5 yrs.

Solution: -

$$\text{Depreciation on Car Engine Part} \rightarrow \frac{5,00,000}{5} = ₹ 1,00,000 \text{ p.a.}$$

$$\text{Depreciation on Other Parts of Car} \rightarrow \frac{15,00,000}{30} = ₹ 50,000 \text{ p.a.}$$

Carrying Amount of Car at 1st Year End

$$\begin{aligned} &\rightarrow \text{Engine} + \text{Other Parts} \\ &\rightarrow [5,00,000 - 1,00,000] + [15,00,000 - 50,000] \rightarrow ₹ 18,50,000 \end{aligned}$$

If Part having Significant Cost is Replaced, then

- Cost of New Part is Added to Carrying Amount of PPE, and
- Carrying Amount of Old Part is derecognized from Carrying Amount of PPE

$$\begin{array}{rclcl} \text{i.e. New Carrying Amount} & & & & \\ \text{of PPE} & = & \text{Carrying Amount of PPE} & + & \text{Cost of} & - & \text{Carrying Amount of Old} \\ & & \text{on Part} & & \text{New Part} & & \text{Part on Part} \\ & & \text{Replacement Date} & & & & \text{Replacement Date} \end{array}$$



Note: - If Carrying Amount of Old Part on Replacement Date is not given in Question, then Calculate it in following Steps: -

Step 1: Take Cost of New Part

Step 2: PV it to the date of installation of Old Part → It is treated as the Cost of Old Part

Step 3: Deduct Depreciation on above amount up to Part Replacement Date → It is treated as the Carrying Amount of Old Part on Part Replacement Date

Assuming Useful Life of such part same as of PPE

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Example: -

Car Purchased of ₹ 10 Lakh, Useful Life is 10 Yrs.

Engine is Replaced in Car after 3 yrs, Cost of New Engine is ₹ 2 lakh

Discounting Rate is 10 %

Solution: -

Carrying Amount of Car on Replacement Date → $10 \text{ Lakh} - \left(\frac{10 \text{ lakh}}{10} \times 3 \right)$
→ 7 lakh ₹

Carrying Amt. of Old Engine on Replacement Date →

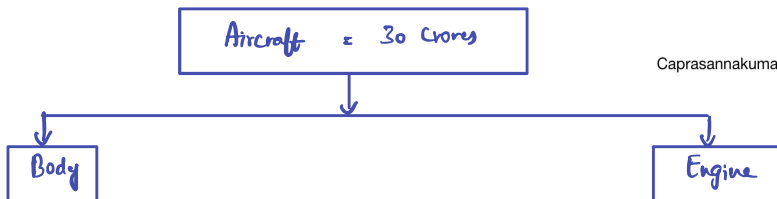
Cost of Old Engine → 2 lakh ₹ X 0.751 → ₹ 1,50,200

Carrying Amt. of Old Engine → $1,50,200 - \left(\frac{1,50,200}{10} \times 3 \right)$ → ₹ 1,05,140

∴ New Carrying Amt. of Car after 3 yrs. → 7 Lakh + 2 Lakh – 1,05,140
[After Engine Replacement]

→ ₹ 7,94,860

Case ①



20 cr

life = 20 yrs

Dep = 1 cr p/annum

10 cr

life = 5 yrs

Dep = 2 cr p.annum

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B/s @ end of year 4 ?

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Aircraft → 18 (1+2/year × 4 years)

Body
(20 - (1 × 4)) = 16

Engine
(10 - (2 × 4)) = 2

* Even though Engine can work for 1 more year, Mgmt has replaced it with a new one @ 15 Crores.

B/s @ end of year 4 ?

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Aircraft → 18 (1+2/year × 4 years)

Body
(20 - (1 × 4)) = 16

Engine
(10 - (2 × 4)) = 2

(+) Cost of new engine = 15 Crores

(-) C.A of existing engine = 2 Crores

31 Crores

Entry (If old engine is scrapped)

Air craft (new Engine) Dr 15 Cr

Dr 2 Cr

(Old engine) P/L
Scrap loss

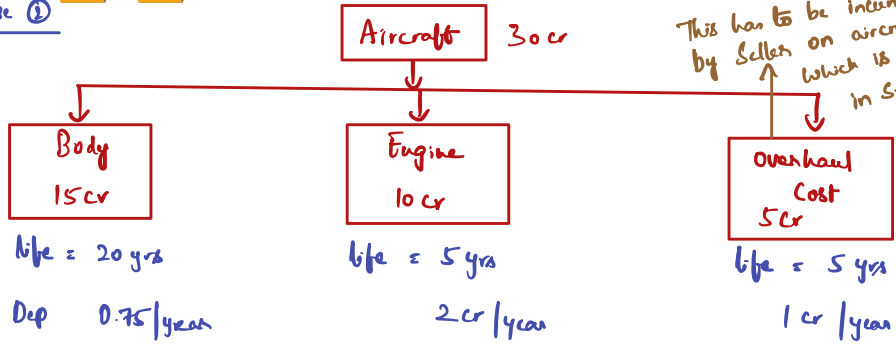
To Air Craft (Old engine) 2 Cr

To Bank 15 Cr

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Case ①



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B/s @ end of year 4 (Incurred overhaul cost of 8 cr @ year 4)

Aircraft

Ⓐ Body	12 cr	
Ⓑ Engine	2 cr	
Ⓒ Overhaul	<u>1 cr</u>	15 cr

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(+) Overhaul Cost incurred	8 cr
(-) De-recognise C.A of existing overhaul cost	(1 cr)

 22 cr

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SUBSEQUENT MEASUREMENT AFTER INITIAL RECOGNITION

- a) The Entity has to choose between the following two options
1. Cost model
 2. Revaluation Model
- b) The choice made by the Entity will become its accounting policy.

c) **COST MODEL:**

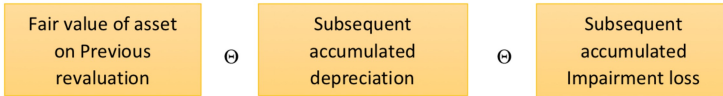
The carrying amount of the asset will be presented as under

Original Cost	xxx
(-) Accumulated Depreciation	(xxx)
(-) Accumulated Impairment loss	(xxx)
Carrying amount	xxx

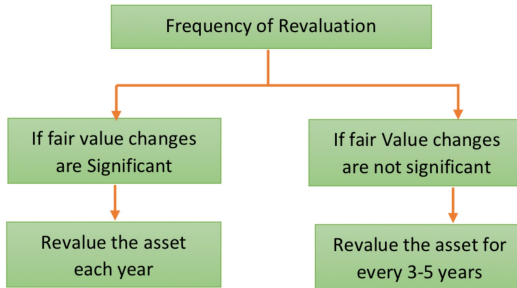


d) REVALUATION MODEL

i. The carrying amount of asset =

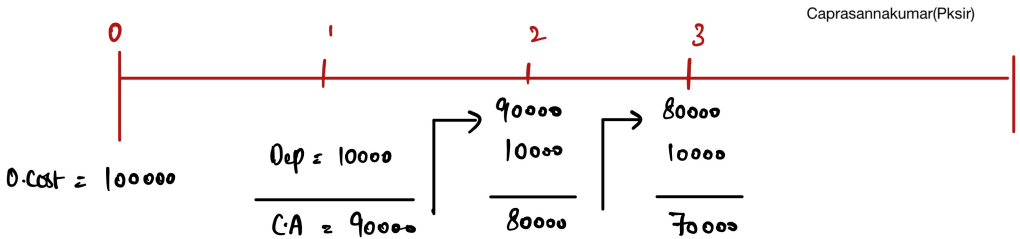


ii.

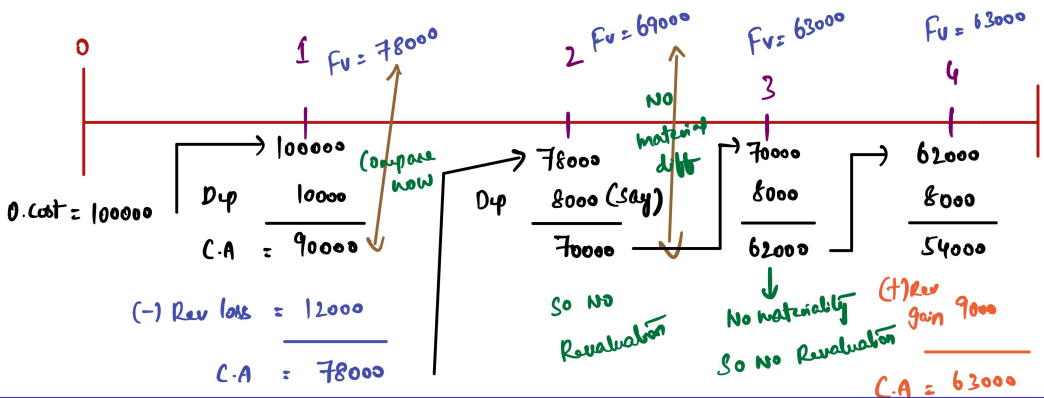


The objective is to ensure that there is no significant difference between the carrying amount & the Fair value.

Case 1 Follows Cost model :-



Follows Revaluation model :-





$$\begin{aligned}
 * \text{ C.A @ end of } Yr_1 &= \text{FV} - \text{Subsequent accumulated dep} \\
 &= 78000 - 0 \\
 &= 78000
 \end{aligned}$$

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$$\begin{aligned}
 * \text{ C.A @ end of } Yr_2 &= \text{FV} - \text{Subsequent accumulated dep} \\
 &= 78000 - 8000 \\
 &= 70000
 \end{aligned}$$

$$\begin{aligned}
 * \text{ C.A @ end of } Yr_3 &= \text{FV} - \text{Subsequent accumulated dep} \\
 &= \text{latest FV done} - \text{ " " " " } \\
 &= 78000 - (8000 + 8000) \\
 &= 62000
 \end{aligned}$$

$$\begin{aligned}
 * \text{ C.A @ end of } Yr_4 &= \text{FV} - \text{Subsequent accumulated dep} \\
 &= 63000 - 0 \\
 &= 63000
 \end{aligned}$$

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SUMMARY & ENTRIES

Subsequent Recognition of PPE (At Each Balance Sheet Date)

- PPE will be shown at either Cost Model or Revaluation Model
- Chosen Accounting Policy (i.e. Cost Model or Revaluation Model) will apply to Entire Class of PPE

Note: - Class of PPE means Group of Assets having Similar Nature & Use.

E.g.: - Land & Building, Machinery, Furniture, etc.

(1) Cost Model: -

Carrying Amount = Cost – Accumulated Depreciation – Accumulated Impairment Loss

**(2) Revaluation Model: -****(i) Carrying Amount = Fair Value At Date of Revaluation.****(ii) Depreciation will be charged on this Revalued Amount in future****(iii) Accounting in case of Revaluation of PPE: -****(A) IF Depreciation on PPE is changed directly [i.e. Depreciation To PPE]**

then It means PPE is shown in Books at Net Carrying Amount Only

Journal Entry if there is
Revaluation Gain [FV > NCA]PPE
To Revaluation Gain [FV - NCA]

OR

Journal Entry if there is
Revaluation Loss [FV < NCA]Revaluation Loss [NCA - FV]
To PPE**(B) If Provision for Depreciation (i.e. Accumulated Depreciation) is made instead of Charging Depreciation to PPE** ✓

then It means PPE shown in Books at Gross Amount

&

Provision for Depreciation (i.e. Acc. Dep.) is shown as Liability

So, Gross Carrying Amount - Accumulated Depreciation = Net Carrying Amount

Methods for Accounting for Revaluation of PPE**Method I:**Accumulated Depreciation
Elimination Approach
↓
Accumulated Depreciation is
Eliminated, & then Net
Carrying Amount shall be
increased / decreased→ Journal Entry for Eliminating
Accumulated Depreciation
Accumulated Depreciation
To PPE→ Journal Entry if there is
Reval. Gain [FV > NCA]PPE
To Reval. Gain [FV-NCA]

OR

→ Journal Entry if there is
Reval. Loss (NCA > FV)
Reval. Loss (NCA - FV)
To PPE**Method II: Restatement Approach**↓
Proportionately Adjust (Increase/ decrease)
Gross Carrying Amount & Accumulated Dep.

→ Calculate Revaluation Gain /Loss % =

$$\frac{F.V. - NCA}{NCA} \times 100$$

↓

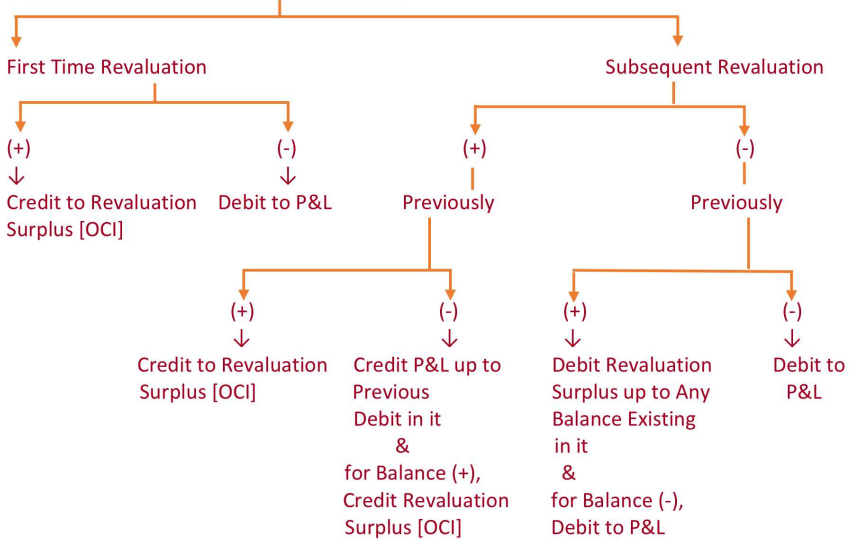
→ Journal Entry if there is Revaluation
Gain [FV > NCA]
PPE [GCA x Reval Gain%]
To Acc. Dep. [Acc. Dep. x Reval Gain%]
To Reval. Gain [FV-NCA]

OR

→ Journal Entry if there is Revaluation
Loss [FV < NCA]Acc. Dep. [Acc. Dep. x Reval. Loss%]
Reval. Loss % [NCA - FV]
To PPE [GCA x Reval Loss %]

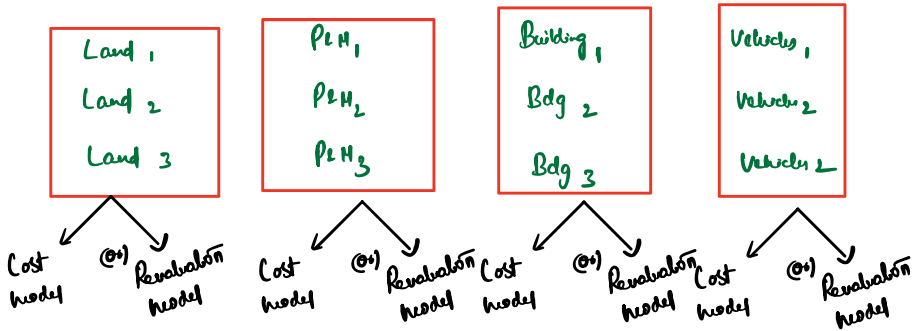


(iv) Treatment of Revaluation Gain or Loss: -



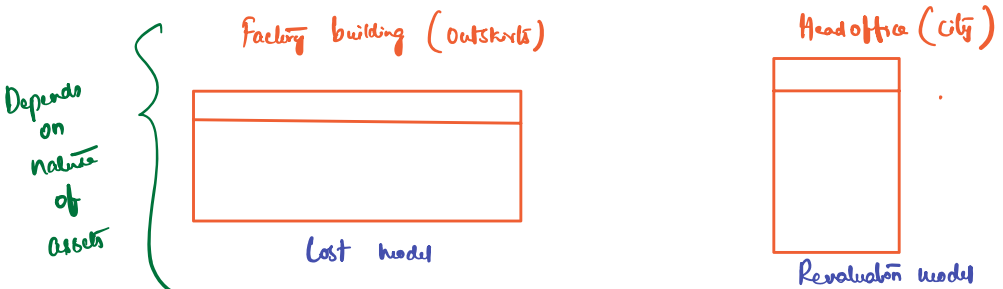
Case ①

Class of assets



Subclass of assets under class of assets

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Case ② Passing entries :-

PLM

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	<u>Existing</u>
O. Cost	1000
(-) Acc dep	(600)
C.A	400
F.V today	= 600

Alternate ①

O. Cost	1000	↑ 500	1500 ③
(-) Acc dep	(600)	↑ 500	(900) ②
C.A	400	↑ 500	F.V = 600 ①

PLM Alc 500

To Acc dep 300

To Rev Surplus (ocE) 200

Alternate ②

O. Cost	1000	→	600 ③ (BF)
(-) Acc dep	(600)	Make this 200	0 ①
C.A	400		F.V = 600 ②

Acc dep 600

To PLM 400

To Rev Surplus (ocE) 200

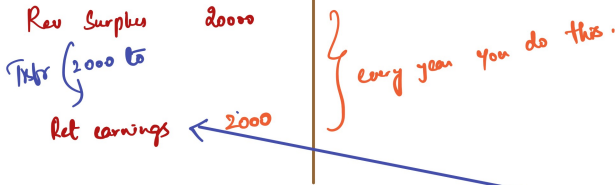
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Art 2

B/c



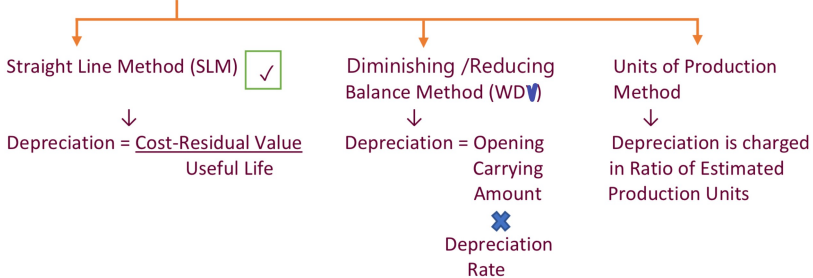
Suppose Dep = 10000 p.a as asset is Revalued.

Dep from next year = 12000 p.a ⇒ 2000 extra dep

Ill 3 & other problems

Depreciation of PPE

1) Methods for Charging Depreciation



Note: -

- (i) Depreciation on PPE begins when it is Available for Use [i.e. Ready to Use Condition]
- (ii) Depreciation on PPE ceases when PPE is
 Derecognised (i.e. Sold) OR
 Classified as Held for Sale [Ind AS 105] } Cessation of Dep
- (iii) Depreciation on PPE consisting of Land & Building Both [Eg. office Building, Factor Building]



(iv) If there is a Change in Depreciation Method, Useful Life, Residual Value

↓
 It is a Change in Accounting Estimate
 ↓

Prospective Effect will be given [i.e. Effect will be given in Remaining future Period]

- Also, In Case of Change in Depreciation Method, Useful Life, Residual Value; We Will use Carrying Amount instead of Cost in SLM Depreciation formula for calculating Depreciation for remaining future period



2) Accounting for Depreciation on PPE (Journal Entry): - At each year End

Depreciation
To PPE

OR

Depreciation

To Provision for Depreciation / Accumulated Depreciation
P&L
To Depreciation

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Additional Point

- * Logic for charging dep \rightarrow Matching FEB with expenses of asset (Dep)
- * Another name for dep \rightarrow proportionate Cost of the Asset value
- * Dep value is impacted by 3 items \rightarrow Original Cost, expected life, (fixed) Expected Residual value,
- * Dep method should be selected based on pattern of FEB the way it flows from asset.
- * If FEB are equal every year \Rightarrow SLM
- * If FEB are high during initial years & less during later years \Rightarrow Reducing balance method
- * If asset life is mentioned in a way other than years, like production, Km (Automobiles), No: of hours (Projector)
- * Mgmt each year reviews & if necessary will change any of the 3 \rightarrow life, Residual value, Dep method.

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$$\begin{aligned} \text{W.D.V rate} &= 1 - \sqrt[n]{\frac{Rv}{\text{O.cost}}} \\ &= 1 - \sqrt[3]{\frac{20000}{100000}} \end{aligned}$$

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$$= 1 - (0.20)^{1/3} \longrightarrow \textcircled{1} 0.20 \sqrt{\sqrt{15 \text{ times}}}$$

$$= 1 - 0.5848 \quad \textcircled{2} -1 =$$

$$= 0.4152 \quad \textcircled{3} \times \frac{1}{3} =$$

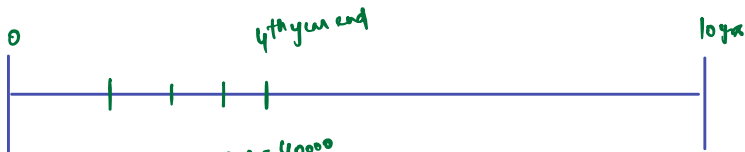
(A)

$$\text{W.D.V rate} \Rightarrow 41.52\%$$

$$\textcircled{4} +1 =$$

$$\textcircled{5} \textcircled{X} = 15 \text{ times}$$

Case 3



C.A = 40000

Exp R.v = 45000
after 10 yrs

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↓
Since $Rv > N.C.A$
No depreciation

* Whenever Δ in accounting policy happens, the rule is always the effect has to be retrospective.

* But only exception is first time when you change from Cost model to Revaluation model. The logic behind you can't go back in time & find F.V of last years. (Prospective)

* But subsequent changes in future of method of dep, it requires retrospective effect. (Jumping Topanga should have FV date of every year)



Change in Estimated Dismantling, Decommissioning Restoration or Demolition Cost

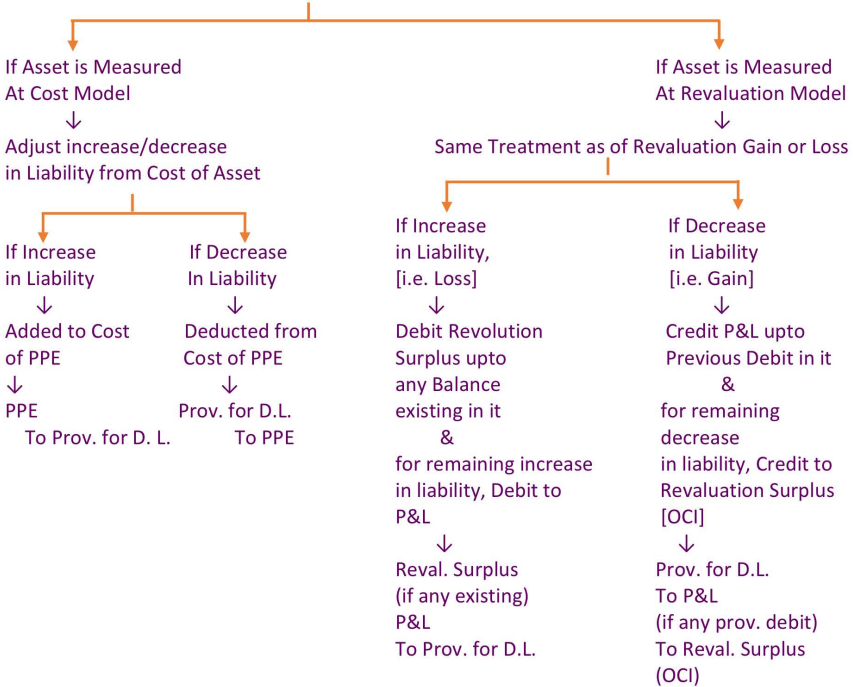
Step 1: - Check Whether Provision for Decommissioning Liability has been increased or decreased due to change in Estimated Decommissioning Cost: -

Calculate P.V. of Revised Estimated Decommissioning Cost on date of change xxx

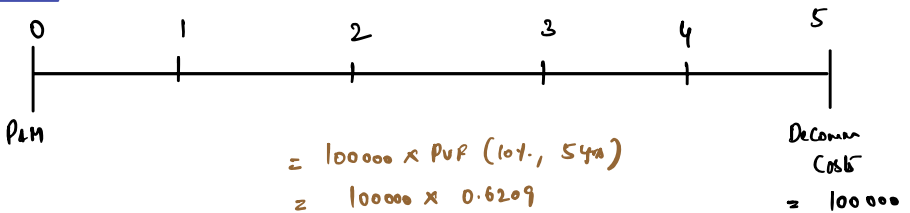
Less: - Carrying Amount of Provision for Decommissioning Liability on date of change (xxx)

Increase / (Decrease) in Liability xxx

Step 2: - Accounting for Change in Decommissioning Liability



Case ①



PV = 62090
 ↓ PPE 62090
 To prov for decom 62090



B/S @ Yr 2'

Prov for
Deconv

75129

P&M

XXX

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⊙ end of Yr 2 ⇒ Δ in ultimate is 13000 instead of 10000.

$$\begin{aligned} \therefore \text{Inc in Provision} &= 3000 \times PVF (10\%, 3\text{yrs}) \\ &= 3000 \times 0.7521 \\ &= 22539 \end{aligned}$$

PPE ~~22539~~ Before this ask whether PPE is at Cost (⊖) Revaluation model?

To prov for Deconv 22539

PPE is based on Cost model

PPE is based on Revaluation model.

(Inc in liability) PPE 22539
To Prov for Deconv 22539

(Inc in liability) Rev Surplus (⊖) P/L 22539
To prov for Deconv 22539

(Dec in liability) ⇒ Prov for Deconv XXX
To PPE XXX

logic is just imagine that you have debited PPE i.e. PPE ↑ by 22539, then its value is more than F-value. Now again Revalue it @ F.v. Then what will you do, you will book Revaluation loss.

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How will you book this Rev loss?

Rev Surplus debit is reduce (b) P/L debit

If there is ↓ in liability

Provision for Decease xxx

To Rev gain (b) P/L xxx

↓
depends on what you did earlier i.e. Same

treatment as Rev gain/loss.

De-recognition of PPE

An item of PPE should be derecognized,

- When it is sold / discarded.
- When it is estimated that PPE is not capable of Generating any future economic Benefits.

Any Gain / loss on derecognition shall be recognized in P&L A/c. Any existing Revaluation surplus relating to the asset shall be transferred to Retained Earnings.

Derecognition date

The date of disposal of an item of property, plant and equipment is the date the recipient obtains control of that item applying the principles in Ind AS 115 Revenue from contracts with customers, for sales of goods.

IMPAIRMENT

- To determine whether an item of PPE is impaired an entity applies Ind AS 36, Impairment of Assets.
- Impairment losses are accounted for accordance with Ind AS 36.

Compensation for impairment

In certain circumstances a third party will compensate an entity for an impairment loss. For example, insurance for fire damage or compensation for compulsory purchase of land for a motorway. Such compensation must be included in profit or loss when it becomes receivable. Recognizing the compensation as deferred income or deducting it from the impairment loss or from the cost of a new asset is not appropriate.



Case ①

Impairment (Ind AS 26)

B/s

Bus	50000
(-) Imp loss	9000
	<u>41000</u>

"If there are any indications of Impairment"

Sudden fall in Market Price

Fire accident on Machine

Entity should do Impairment testing.

Compare [C.A (vs) Recoverable amt.]

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* Recoverable amt is Higher of

(i) FVLCTS (Fair value less cost to sell)
 37000

(Or)

(ii) VIU (value in use)
 41000

Now Compare the value in B/s

$$\begin{aligned} \text{Impairment loss} &= \text{C.A} - \text{R.Amt} \\ &= 50000 - 41000 \\ &= 9000 \end{aligned}$$

* Imp loss 9000

To Acc Imp loss 9000

Just like acc dep

In case of this Bus (4 yrs life further)

	1	2	3	4
CF	xx	xx	xx	xx
(-) opg exp	xx	xx	xx	xxx
Net CF	xx	xx	xx	xx
Salvage value				xx
Net CF	xx	xx	xx	xx

Value in use

Pv of CF

discounted



Now recollect the formula

↓
B/Ls

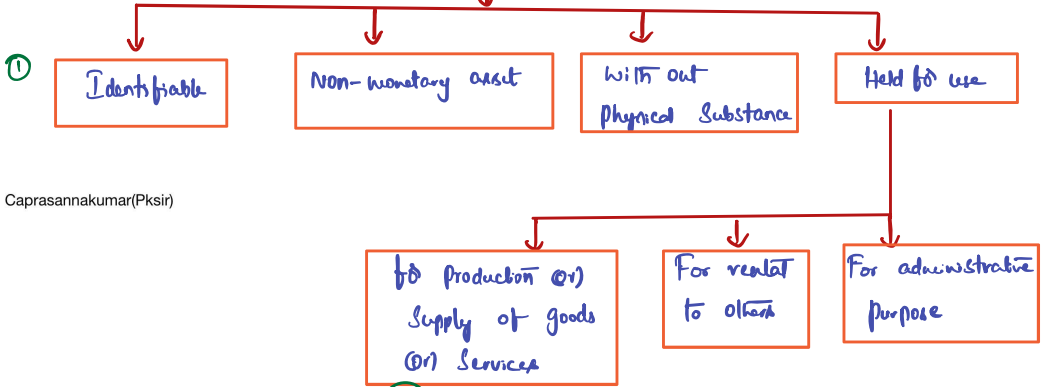
PPE @ 0. cost	xxx
(-) Acc dep	xxx
(-) Acc Imp	xxx
	xxx

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IND AS 38 - Intangible Assets (ITA)

Examples Goodwill, Patents, Trademarks, Copyrights, Software
 Technical know how, Mining licence, Telecom licence, Fishing licence
 Airport landing rights, Non-Compete fee

Def of ITA (When you will recognise ITA?)



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➡ An **ASSET** is a resource:

- (a) controlled by an entity as a result of past events; and
- (b) from which future economic benefits are expected to flow to the entity.



Identifiability (Prove existence of ITA)

Either

Separable

i.e. Separated from entity & sold

①) Can be transferred individually / together with related contract

Arise from Contractual (or) legal rights

Eg license to extract coal, Gold

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Illustration 1: Identifiability

Sun Ltd. has an expertise in the consulting business. In years gone by, the Company gained a 30% market share for its services business and intends to recognize it as an intangible asset.

Evaluate whether the action taken by the company is justified.

Solution

Market share does not meet the definition of intangible assets as is not identifiable i.e. it is neither separable and nor has arisen from contractual or legal rights.

* Goodwill doesnot meet identifiability Criteria. (not Separable)

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Non-monetary item

It should not be Cash/kt
It should not be receivable

Other than monetary items

Money + Receivables / Payable
i.e. fixed (or) Determinable amounts of money

Eg:-

L & B Inventory } → Non-monetary

BLR loan given ok exp } Monetary



Prepaid exp
Advance for sale

loan taken
Investment in Deb

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B/R
Invest in Deb } Intangible only but Covered under
Financial Instruments so eliminated
in Ind AS 38.

* But generally monetary item meant called as Intangible.

Control over ITA

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* Existence of FEB & Entity has control over those FEB

* Control over FEB means { Power to Obtain those benefits.
and
Ability to restrict others to Access those Benefits

Example 1

An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset.

For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

An entity may have a portfolio of customers or a market share and expect that, because of its efforts in building customer relationships and loyalty, the customers will continue to trade with the entity. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the entity, the entity usually has insufficient control over the expected economic benefits from customer relationships and loyalty for such items (e.g. portfolio of customers, market shares, customer relationships and customer loyalty) to meet the definition of intangible assets. In the absence of legal rights to protect customer relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of a business combination) provide evidence that the entity is nonetheless able to control the expected future economic benefits flowing from the customer relationships. Because such exchange transactions also provide evidence that the customer relationships are separable, those customer relationships meet the definition of an intangible asset.



Illustration 2 : Control

Company XYZ Ltd. has provided training to its staff on various new topics like GST, Ind AS etc. to ensure the compliance as per the required law. Discuss whether the company can recognize such cost of staff training as intangible asset.

Solution

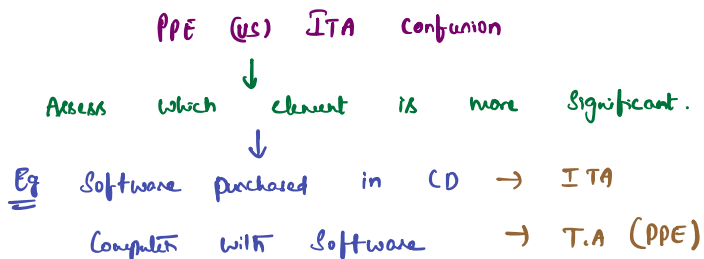
It is clear that the company will obtain the economic benefits from the work performed by the staff as it increases their efficiency. But it does not have control over them because staff could choose to resign the company at any time.

Hence the company lacks the ability to restrict the access of others to those benefits. Therefore, the staff training cost does not meet the definition of an intangible asset.

No Physical Substance

ITA does not have any Physical substance. However the Intangible element is contained in a storage device like software on a CD, Digital film storing the movie, patents recorded in legal documentation etc. The cost of this physical substance is usually not material and it will be treated as part of ITA.

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▪ Following are Not Considered as Intangible Assets: -

- Market Share since it is Not Identifiable
- Marketing & Advertisement Campaign [i.e. Promotional Activity] since FEB are Not Certain
- Staff Training Programme Since Entity has No Control over the staff as they can Resign Anytime
- Cash Paid to obtain Skilled Staff Since Entity has No Control over the staff as they can Resign Anytime

But if there is Some Restriction like Recruited Person have to work for at least Some time, then It will be Intangible Asset

* The following expenses may result into future Economic benefits should not be capitalized (V. imp)

- i. Heavy advertising expenses
- ii. Training costs
- iii. Preliminary Expenses
- iv. Relocation costs
- v. Startup costs



Recognition Criteria (Same as PPE)

Intangible Asset is recognized in Books Only if



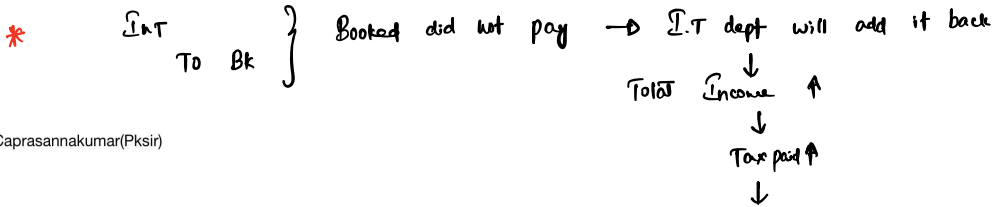
SCOPE

SCOPE: This Standard shall be applied to all intangible assets, except:

- a. intangible assets that are within the scope of another Standard, for example: Intangible assets held for sale in the ordinary course of business (Ind AS 2), Deferred tax assets (ITA) * (Ind AS 12), Leases of intangibles assets (Ind AS 116), Goodwill arising in a business combination (Ind AS 103), 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).
- b. financial assets, as defined in Ind AS 32 (Bk, Drs, Inv in bonds)
- c. the recognition and measurement of exploration and evaluation assets (see Ind AS 106, Exploration for and Evaluation of Mineral Resources); and
- d. expenditure on the development and extraction of minerals, oil, natural gases etc.

Over Head Konpany.

} Same as PPE

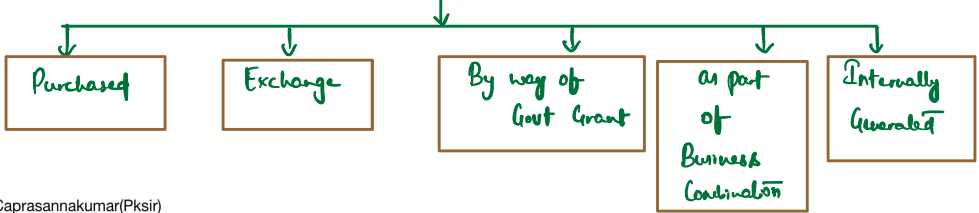


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So possibility of less tax in future ↓
 i.e. what ever extra tax you paid this year, you have right
 (or) possibility to recover the same in subsequent years.

But next year you will get deduction if you pay

Initial Measurement of ITA (always at cost)



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Initial Recognition of Intangible Asset

⊗ What value ?

④ If Intangible Asset is Purchased OR Internally Generated: -

- Intangible Asset is recognized **At Cost** (exception is Business Combination ⊗ FV)
- Cost includes Any directly Attributable Cost necessary to bring Intangible Asset to condition intended by Management.
- Calculation of Cost of Intangible Asset: -

Purchase Price	xxx
(-) Trade Discount / Rebate	(xxx)
(+) Import Duty & Purchase Taxes like Entry Tax, GST etc. [Only if Non-Refundable]	xxx
(+) Legal Fee / Cost	xxx
(+) Professional fee / Consultant fee / Advisor fee	xxx
(+) Customization Cost [Generally for Software]	xxx
(+) Testing Cost	xxx
(+) Employment Costs [E.g. Salary paid for Software Coding, etc.]	xxx
(+) Any Other Development Phase Expense [In Case of Internally Generated Intangible Asset]	xxx
(+) Any Other Directly Attributable Cost	xxx
(+) valuation exp	xxx
(+) Installation exp (ERP)	xxx

Note: If ITA is acquired on deferred settlement terms, it should be recognized at its cash price / present value.

② ITA acquired by way of a Government Grant:

The ITA received shall be recognized at fair value in accordance with IND AS 20.

③ ITA acquired by Exchange of asset: [Principles same as in IND AS 16]

Record ITA acquired at its fair value if the transaction has a commercial substance. If there is no commercial substance or fair value of asset acquired / given up cannot be determined, then use the book value of asset given up as the cost of ITA acquired. This may have to be adjusted for any cash paid / cash received.

④ ITA acquired in a Business Combination ✨

- ITA acquired in Business combination should be recorded at **fair value**, in accordance with IND AS 103.
- ITA can be recognized even though such asset is not recognized by the transferor company provided recognition criteria is met.
- If the transferor company has any development in process, it can be recognized as ITA in the books of acquirer company at fair value provided recognition criteria is satisfied.
- Any research work of acquirer entity taken over by the acquirer shall be recognized as ITA @ fair value. If the acquirer entity incurs any further research expenditure then it shall be transferred to P or L.
- Goodwill as per IND AS 103 = Purchase consideration ⊖ Fair value of net assets acquired.

⑤ SELF-GENERATED INTANGIBLE ASSETS:

Self-Generated asset like Goodwill, Brands, customer lists, formulas, publishing titles, cannot be recognized as ITA. Since their cost cannot be measured reliably.

as costs can't be measured reliably



*

A IIT absorbed B IIT → B/c

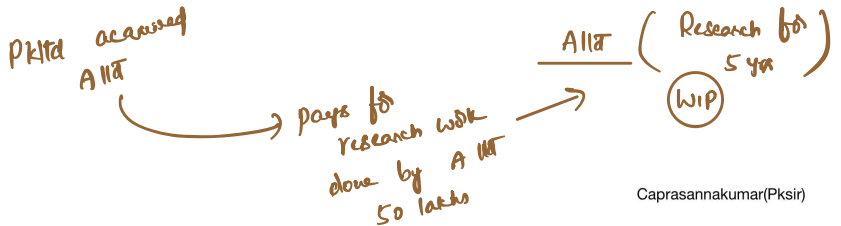
- PLM
- LIB
- DRS
- Stock

But if recognition criteria is met
A IIT can recognise this in
B/c @ F.V

Distribution license → not there in books

↓
But what if A IIT doesn't want (or) interested in distribution license, then that amount will be by default included in Goodwill & the problem is Goodwill will not have amortization benefit. That's why standard says recognise it at F.V as whether you like it (or) not any way you purchased it so its better to recognise it & amortize it. (Better)

**



Assets dr 300
Research WIP dr 50
Goodwill dr 30 (BF)
To Business purchase 380

Assets dr 300
Goodwill dr 80 (BF)
To Business purchase 380



So this is better ↓



You don't want Research exp to go to B/c but here it stays permanently.



But after this if Pk limited incurs Research exp further, it will go to P/L.

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Imp points for solving questions

- (i) In Silent Situation, Assume All Taxes are Non - Refundable
- (ii) Following Items are Not Included in Cost of Intangible Asset: -
 - Cost of Staff Training
 - Cost of Conducting Conference for introduction / launch of Intangible Asset
 - Cost of Advertisement or Promotion
 - Preliminary Expenses [Startup Cost]
 - Administrative, General, Selling & Allocated Overheads
 - Operating Losses
 - Purchase of Maintenance Contract of Intangible Asset
 - Subsequent Cost on Intangible Asset [E.g. Annual fee / Royalty as a percentage of Sales on franchisee]
 - Cash Discount / Early Settlement Discount
 - Interest on Loan taken to purchase or internally generate the Intangible Asset (unless allowed by Ind AS 23)
 - Research Phase Expense [In Case of Internally Generated Intangible Asset]

RESEARCH AND DEVELOPMENT COSTS:

- 1) Research is original and planned Investigation with an objective of gaining new knowledge, new processes or new production methods.
- 2) All costs incurred during the Research phase shall be recorded an expense in P&L A/c. This is because it is not probable that future economic benefits will be generated.
- 3) Development is a phase where successful research findings are applied to create Intangible asset. Entity can capitalize the cost incurred during Development phase if it is able to satisfy all the following six conditions.
 - ① a. Technical Feasibility of creating the Intangible asset. Any costs Incurred before establishing technical feasibility shall be recognized as Expense.
 - ② b. Ability of the Entity to use/ sell ITA.
 - ③ c. Intention of the Management to complete the Development (Planet of Apes)
 - ④ d. Availability of adequate financial and technical Resources to complete development.
 - ⑤ e. It is probable that future economic benefits can be generated (Existence of active market for the output from ITA).
 - ⑥ f. The cost can be measured reliably.

Note 1: The Research Expense will be charged to P&L A/c and would never be capitalized even if Research is successful in future.



Note 2: Similarly if any development Expense is written off to P&L A/c due to non fulfillments of any conditions it can never be capitalized again, even if the conditions are satisfied subsequently.

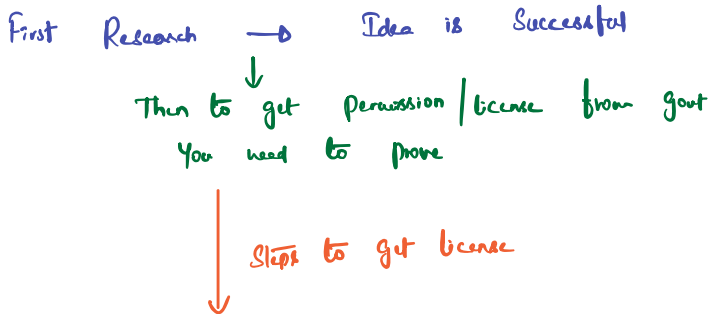
Note 3: The ITA under development should never exceed its Recoverable amount it is subject to compulsory Impairment testing each year. (C.A (us) R.A)

Note 4: Do not Include the following costs for capitalization

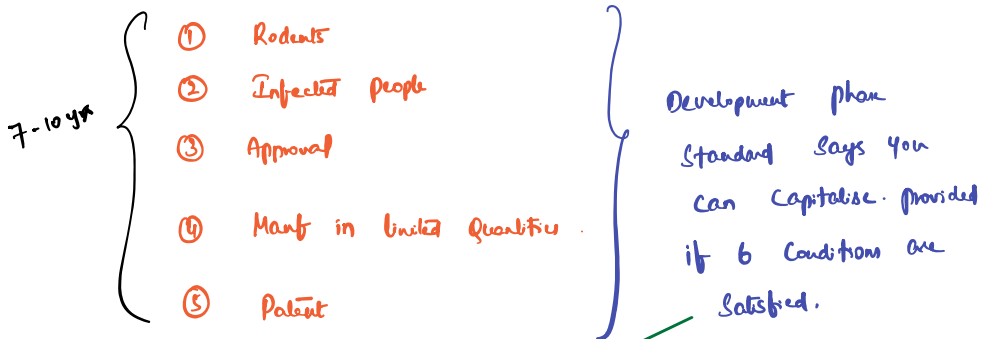
- i. General Admin and selling costs
- ii. Staff Training costs
- iii. Abnormal losses.

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Eg Pharma Industry

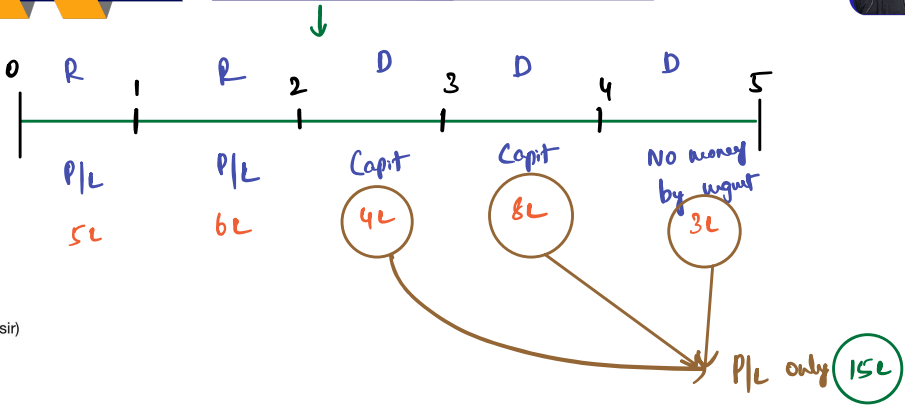


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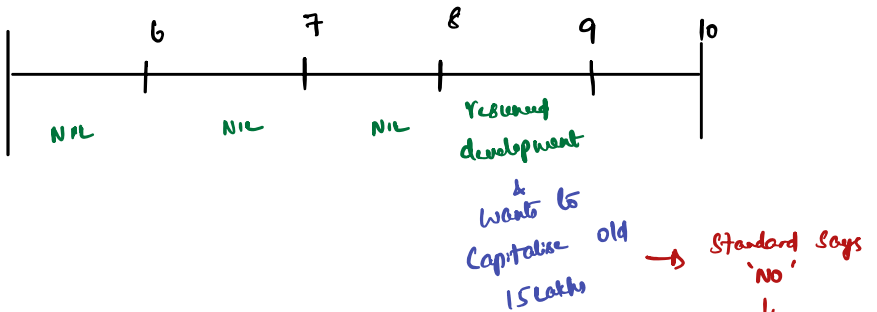


Through out the development period all these 6
 conditions should be satisfied

↓
 At any point if any one condition is not satisfied
 then stop Capitalisation and put it in P/L & can never be
 Capitalized again.



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* If Standard allow this based on logic then Mgmt will use this to manipulate profits every year.

Now final punch by Standard after all this hard work by Mgmt after successful development is to do Impairment testing every year once you start Capitalising ITA.

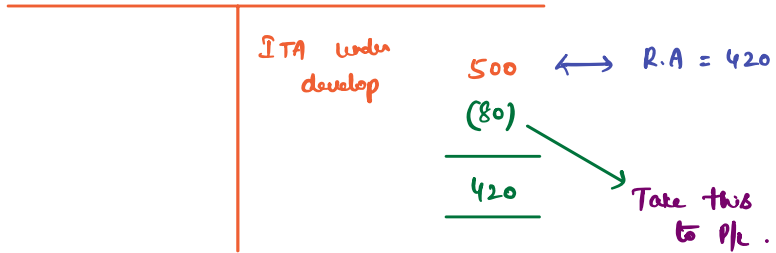
Student doubt

Sir you said Impairment testing should be done only if there are indicators na sir, yes but this is exception.

i.e C.A (US) R-A (Higher of FVLCTS (US) UIU)



B/s



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Funny thing is in reality most Pharma Companies will throw all develop exp in P/L only.. why to have all these headaches.

SUBSEQUENT EXPENDITURE ON INTANGIBLE ASSET

Further Expenditure can be capitalized only if it results into Incremental future economic benefits, otherwise it is transferred to P&L A/c.

SUBSEQUENT MEASUREMENT OF ITA ON EACH BALANCE SHEET DATE

The entity has a choice to follow either cost model or Revaluation model.

All the principles are Similar as IND AS – 16

Accounting of Intangible Asset (Journal Entry): -

(i) At Beginning

→ For Intangible Asset Purchase / Internally Generated Intangible Asset
To Bank / Payables

(ii) At Each Year End

→ For Amortization on Intangible Asset
Amortization
To Intangible Asset

OR

Amortization
To Provision for Amortization/Accumulated Amortization

→ For Transferring Amortization to P&L
P&L
To Amortization

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If Intangible Asset is Acquired on Deferred Settlement Terms



Same As in Ind AS 16

If Intangible Asset is Acquired in Exchange of Assets



Same As in Ind AS 16

If Goodwill is Acquired in a Business Combination

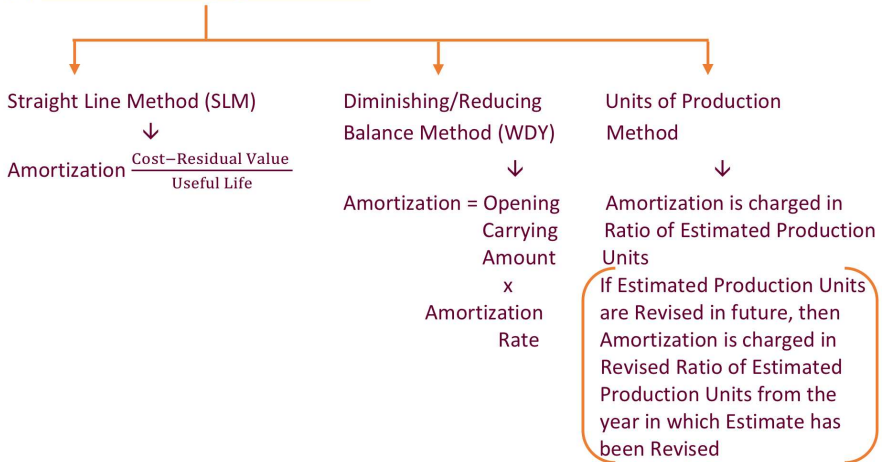


Apply Ind AS 103

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Amortization of Intangible Asset

(1) Methods for Charging Amortization



Note: -

- (i) Amortization on Intangible Asset begins when it is Available for Use [i.e. Ready to Use]
- (ii) Amortization on Intangible Asset ceases when it is
 - Derecognized (i.e. Sold)
 - Classified as Held for Sale [Ind As 105]
- (iii) If there is a Change in Amortization Method, Useful Life, Residual Value
 - ↓
 - It is a Change in Accounting Estimate
 - ↓
 - Prospective Effect will be given [i.e. Effect will be given in Remaining future Period]

❖ Also, In Case of Change in Amortization Method, Useful Life, Residual Value; We Will use Carrying Amount instead of Cast in SLM Amortization formula for calculating Amortization for remaining future period

- (iv) Estimated Useful Life is considered [Legal Life of Intangible Asset is Not Relevant]



* **The useful life** of ITA has to be estimated by the management some of the ITA may have life based on contracts. [Non-complete fees]. ITA may have finite or Indefinite life's. ITA having Indefinite life will not be amortized but tested for continuous Impairment.

* **Residual Value:**

* The Residual value of the ITA will be taken as Zero unless there is a third-party commitment or there is an active market (as defined in Ind AS 113) for the asset and residual value can be determined by reference to that market & its probable that such a market will exist at the end of useful life.

* **Amortization Method:**

ITA should be amortized over its useful life in a pattern which reflects the consumption of future economic benefits arising from the asset. If such a pattern could not be established, adopt straight line method.

Amortization of ITA should commence when the asset is ready for usage. Whenever there is a change in the estimate of useful, ~~of life~~ or pattern of consumption, it is treated as a change in accounting estimate.

* **Note:** According to **IND AS 38**, Amortization of ITA based on revenue generated by the asset is considered not appropriate.

The revenue generated by an activity that includes the usage of an ITA reflects the factors apart from the consumption of Economic benefits arising from ITA. For example, sales Revenue is effected by Quality of the products, the Inputs considered in manufacturing, selling activities and also the sales price.

However, when it can be demonstrated that the consumption of Economic benefits from ITA, is highly correlated with the revenue of the entity or the ITA itself is expressed as a measure of revenue, the Entity can amortize the ITA on the basis of revenue.

For example, an entity could acquire a concession to explore and extract gold from a gold mine, the expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (viz., a contract may allow the extraction of gold reaches Rs 2 billion) and not be based on time or on the amount of gold extracted.

(2) Accounting for Amortization on Intangible Asset (Journal Entry): - At Each Year End

Amortization

To Intangible Asset

OR

Amortization

To Provision for Amortization / Accumulated Amortization

P&L

To Amortization

Subsequent Recognition of Intangible Asset (At Each Balance Sheet Date)



Same As in Ind AS 16

Other Points

Gain or Loss on Sale of Intangible Asset is recorded in P&L



* By default Residual Value of ITA is taken as zero.

	Rvalue
* Franchise	NIL
Software license	NIL
Telecom license (selling offer) (But license is for 20 yrs)	② Considered Price.

* Active market means Buyers & Sellers should be there and there should be there & frequent sale of this kind of item should be happening.

Eg license for movies on OTT platforms

Example 2 - Separate Acquisition

Jupiter Ltd acquires new energy efficient technology that will significantly reduce its energy costs for manufacturing.

	Costs incurred include (₹)	Cost to be capitalised as per Ind AS 38 (₹)
Cost of new solar technology	10,00,000	10,00,000
Trade discount provided	(1,00,000)	(1,00,000)
Training course for staff in new technology	50,000	-
Initial testing of new technology	35,000	35,000
Losses incurred while other parts of plant shut down during testing and training	25,000	-
Total	10,10,000	9,35,000



Example 3 - An acquired customer list

A direct-mail marketing company acquires a customer list and expects that it will be able to derive benefit from the information on the list for at least one year, but no more than three years.

The customer list would be amortised over management's best estimate of its useful life, say 18 months. Although the direct-mail marketing company may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list relate only to the customers on that list at the date it was acquired. The customer list also would be reviewed for impairment in accordance with Ind AS 36, *Impairment of Assets*, by assessing at the end of each reporting period whether there is any indication that the customer list may be impaired.

Example 4 - An acquired patent that expires in 15 years

The product protected by the patented technology is expected to be a source of net cash inflows for at least 15 years. The entity has a commitment from a third party to purchase that patent in five years for 60 per cent of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years.

The patent would be amortised over its five-year useful life to the entity, with a residual value equal to the present value of 60 per cent of the patent's fair value at the date it was acquired. It may be noted that the estimated useful life has to be considered with reference to the entity only though the total life of the patent is much higher i.e., 15 years. The patent would also be reviewed for impairment in accordance with Ind AS 36 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

Example 5 - An acquired copyright that has a remaining legal life of 50 years

An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate net cash inflows for only 30 more years.

It needs to be noted that although the remaining legal life of the patent is 50 years, however the useful life from the entity's perspective is only 30 years. The copyright would be amortised over its 30-years estimated useful life. The copyright also would be reviewed for impairment in accordance with Ind AS 36 by assessing at the end of each reporting period whether there is any indication that it may be impaired.

3 Situations of mandatorily Impairment testing with out Indication

- ① Goodwill (technically not IFA as per Ind AS 38)
- ② IFA under Development Phase
- ③ IFA with Indefinite life

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**Example 6 - An acquired broadcasting licence that expires in five years**

The broadcasting licence is renewable every 10 years if the entity provides at least an average level of service to its customers and complies with the relevant legislative requirements. The licence may be renewed indefinitely at little cost and has been renewed twice before the most recent acquisition. The acquiring entity intends to renew the licence indefinitely and evidence supports its ability to do so. Historically, there has been no compelling challenge to the licence renewal. The technology used in broadcasting is not expected to be replaced by another technology at any time in the foreseeable future. Therefore, the licence is expected to contribute to the entity's net cash inflows indefinitely.

The broadcasting licence would be treated as having an indefinite useful life because it is expected to contribute to the entity's net cash inflows indefinitely. Therefore, the licence would not be amortised until its useful life is determined to be finite. The licence would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

Example 7 - The broadcasting licence in Example 6

The licensing authority subsequently decides that it will no longer renew broadcasting licences, but rather will auction the licences. At the time the licensing authority's decision is made, the entity's broadcasting licence has three years until it expires. The entity expects that the licence will continue to contribute to net cash inflows until the licence expires.

Because the broadcasting licence can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired licence would be amortised over its remaining three-year useful life and immediately tested for impairment in accordance with Ind AS 36.

Example 8 - An acquired airline route authority between two European cities that expires in three years

The route authority may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Route authority renewals are routinely granted at a minimal cost and historically have been renewed when the airline has complied with the applicable rules and regulations. The acquiring entity expects to provide service indefinitely between the two cities from its hub airports and expects that the related supporting infrastructure (airport gates, slots, and terminal facility leases) will remain in place at those airports for as long as it has the route authority. An analysis of demand and cash flows supports those assumptions.

Since the facts and circumstances support the acquiring entity's ability to continue providing air service indefinitely between the two cities, the intangible asset related to the route authority is treated as having an indefinite useful life. Therefore, the route authority would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.



Example 9 An acquired trademark used to identify and distinguish a leading consumer product that has been a market-share leader for the past eight years

The trademark has a remaining legal life of five years but is renewable every 10 years at little cost. The acquiring entity intends to renew the trademark continuously and evidence supports its ability to do so. An analysis of (1) product life cycle studies, (2) market, competitive and environmental trends, and (3) brand extension opportunities provide evidence that the trademarked product will generate net cash inflows for the acquiring entity for an indefinite period.

The trademark would be treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. Though the remaining legal life is five years, the possibility that it can be renewed every ten years and the entity's intention to renew the same leads to the conclusion that the trademark has an indefinite useful life. Therefore, the trademark would not be amortised until its useful life is determined to be finite. It would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

Example 10- A trademark acquired 10 years ago that distinguishes a leading consumer product

The trademark was regarded as having an indefinite useful life when it was acquired because the trademarked product was expected to generate net cash inflows indefinitely. However, unexpected competition has recently entered the market and will reduce future sales of the product. Management estimates that net cash inflows generated by the product will be 20 per cent less for the foreseeable future. However, management expects that the product will continue to generate net cash inflows indefinitely at those reduced amounts.

As a result of the projected decrease in future net cash inflows, the entity determines that the estimated recoverable amount of the trademark is less than its carrying amount, and an impairment loss is recognized. Since it is still regarded as having an indefinite useful life, the trademark would continue not to be amortised but would be tested for impairment in accordance with Ind AS 36 annually and whenever there is an indication that it may be impaired.

Example 11 - Trademark for a line of products that was acquired several years ago in a business combination

At the time of the business combination the acquiree had been producing the line of products for 35 years with many new models developed under the trademark. At the acquisition date the acquirer expected to continue producing the line, and an analysis of various economic factors indicated there was no limit to the period the trademark would contribute to net cash inflows. Consequently, the trademark was not amortised by the acquirer. However, management has recently decided that production of the product line will be discontinued over the next four years.

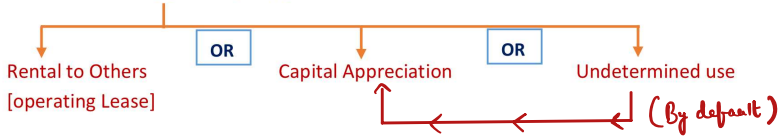
Since the useful life of the acquired trademark is no longer regarded as indefinite, the carrying amount of the trademark would be tested for impairment in accordance with Ind AS 36 and amortised over its remaining four-year useful life.



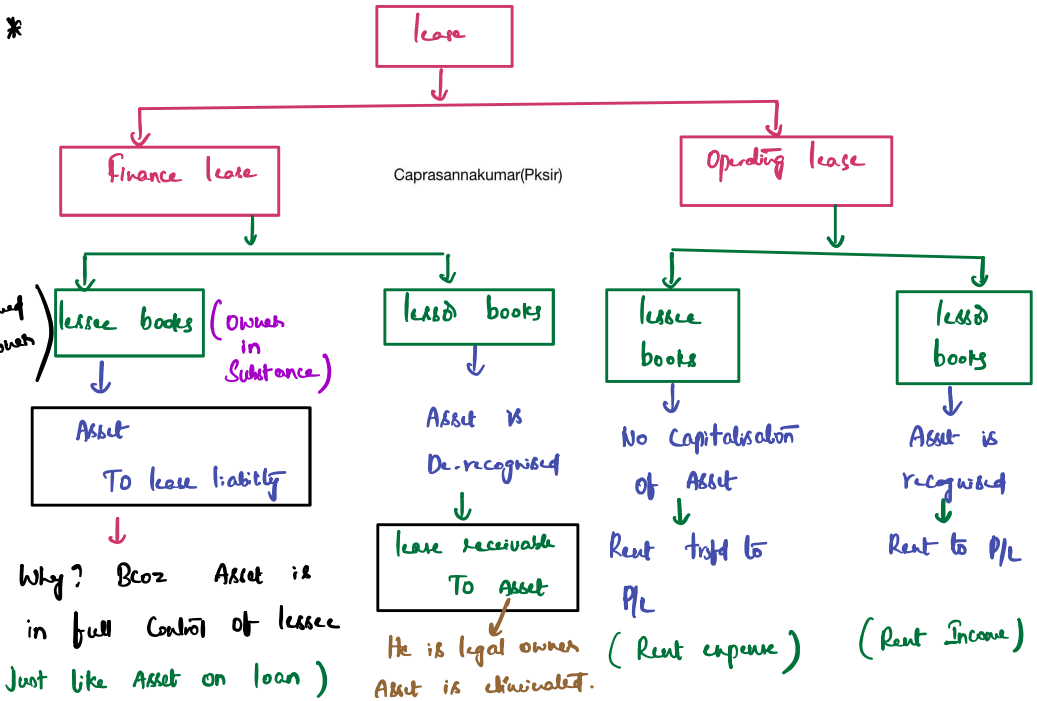
IND AS 40 - INVESTMENT PROPERTIES

Meaning of Investment Property

Land and Building [i.e. Property] Held for



- * Ind AS 40 will apply, only if Investment Property is already present in B/s.
- * Generally a building / land (Inv prop) will appear in B/s becoz of 2 reasons.

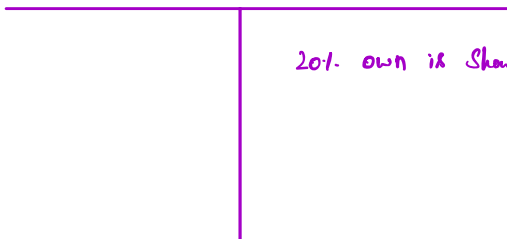




Eg Airline Company

But definition of Asset is getting satisfied here So you should show in B/Ls

← 80% flights are leased flights (They don't own)
↓
So in B/Ls



20% own is shown } But 100% flights are used to generate revenue
↓
So I imagine how about the ratio will look like

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↓
So now as per Ind AS 116 (New system)

In lessee books

↓
→ Don't ask whether it is FL OR OL as it is irrelevant

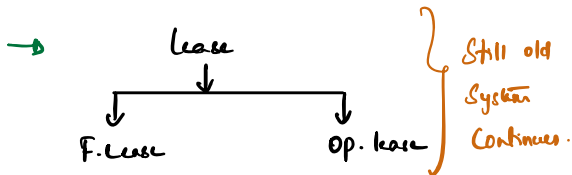
↓
In both the cases it is asset for lessee

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Just like Asset on loan

↓
Row asset
To lease liability

In lessor books

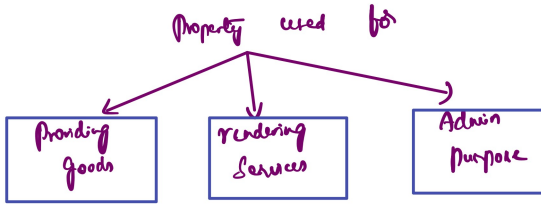


* Now Ind AS 40 will apply to lessor as per operating lease (OR) lessee as per Financial lease / opp lease and this Row asset is sublet to some body else.



* In Ind AS 40, whenever you come across a term called "Owner Occupied Property", it actually means

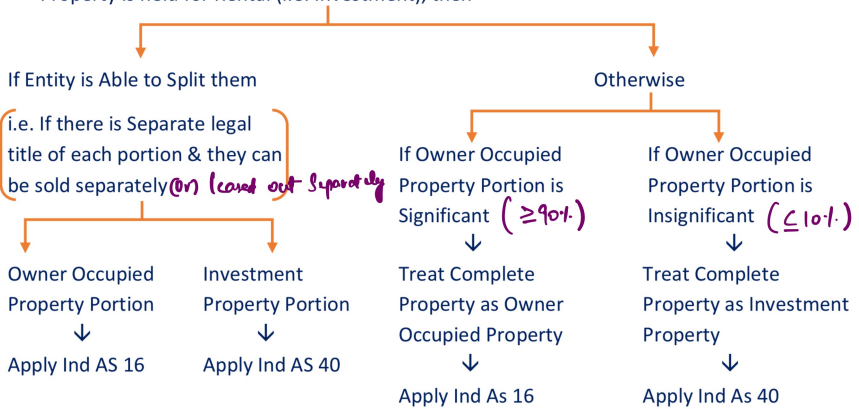
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* In other words property covered as per Ind AS 16 is referred as owner occupied property as per Ind as 40.

Property Held for More than 1 Purpose

- If some portion of Property is held for business (i.e. Owner Occupied) & some portion of Property is held for Rental (i.e. Investment), then



Note: - Significance is related to Management's Judgement

Case ①



Owner of this building provides Ancillary Service along with building

Maintenance
 Security
 Water pump back up

Minor Component } This is Investment Property

Significant Component

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Case 2

Service dominated

Hotel



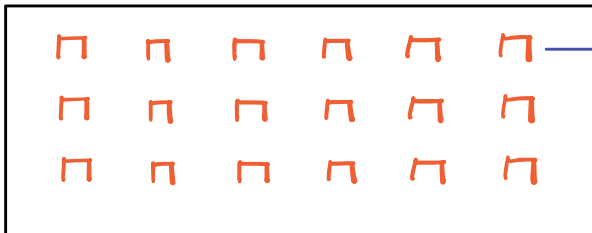
Rental Income \Rightarrow 10000/day
 Services are major component
 \downarrow
 Significant

This is PPE (owner occupied property)

- Q) How did you decide in above two cases?
 a) Simple which is the significant component (8) dominating part, where majority of your money you?

Case 3

Remote place
 \downarrow
 limestone available for cement work
 \downarrow
 Company builds township for cless
 \downarrow



given on rent to cless

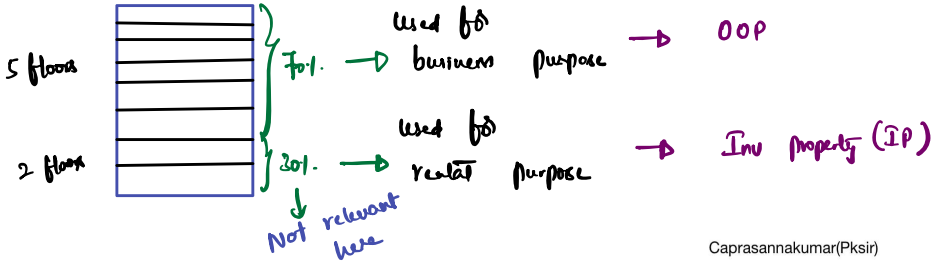
used for administration purpose as per company as it is given on rental to only your cless

So owner occupied property (OOP)

So PPE & not Investment property

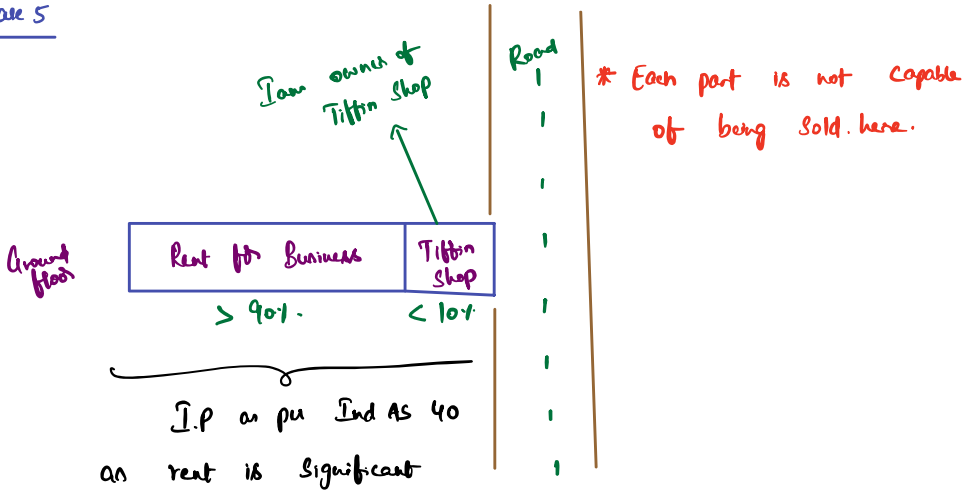


Case 4 Each part is capable of being sold (S) leased separately.



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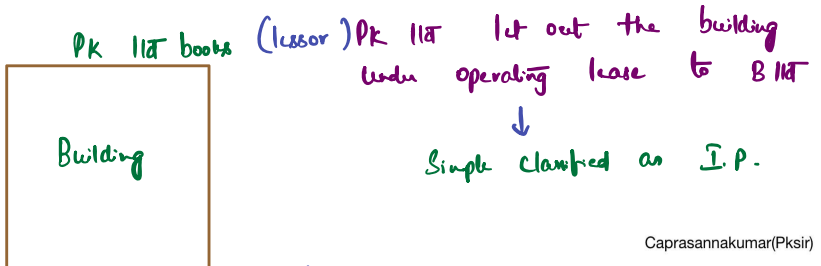
Case 5



(O) Other purpose is insignificant i.e your own Tiffin business

↓
 If it is 75% & 25%, then it will become OOP as per Ind AS 16.

Case 6



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↓ But



In Book of B IIT (lessee)

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Rou asset xxx

↓ using it for business → OOP
 using it for sublease → I.P

* Now Suppose B IIT is subsidiary of PK IIT & B IIT uses building for want goods.

* Then from B IIT point of view → OOP

* Then from

PK IIT point of view

Standalone (SFS)

CFS (group point of view)

I.P

↓
 What is group doing with this building?

↓
 Group is producing goods & rental income is fake (not real)

So OOP

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Examples of investment property

The following are examples of investment property:

- a. land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
- * b. land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
- c. a building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases. & Not Finance lease for lease.
- d. a building that is vacant but is held to be leased out under one or more operating leases.
- e. property that is being constructed or developed for future use as investment property.



Examples of items which are not investment property

The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

- a. property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see Ind AS 2, Inventories), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.
- b. owner-occupied property (see Ind AS 16 and Ind AS 116), including, (among other things)
 - i. property held for future use as owner-occupied property, (Adv. (or) Production)
 - ii. property held for future development and subsequent use as owner-occupied property,
 - iii. property occupied by employees (whether or not the employees pay rent at market rates) and
 - iv. owner-occupied property awaiting disposal.
- c. property leased to another entity under a finance lease. (Bcoz Asset is de-recognised in lessor books) } we have seen this as example

Property given on Lease / Rental to Subsidiary Co. by its Parent Co. or Vice - Versa

It will be classified in Books as follows: -



Transfer of Property to or From Investment Property in case of Change in Use

- Transfer should be done **At Carrying Amount**
- **Examples of Transfer: -**
 - (i) Commencement of Owner Occupation from Investment Property
[Ind AS 40 → Ind AS 16]
 - (ii) End of Owner Occupation to Investment Property
[Ind AS 16 → Ind AS 40]
 - (iii) Commencement of development to Sale in Ordinary Course from Investment Property
[Ind AS 40 → Ind AS 2]
 - (iv) Inception of Operating Lease on Building Held for Sale
[Ind AS 2 → Ind AS 40]
- It is Not Change in Accounting Policy or Prior Period Error. It is only due to Change in Use of Property
- Change in Use of Property should be Actual. [Mere Management's Intention of Change in Use of Property are Not Considered]



Case 1

Transfer (or) reclassification



Building used for business purpose

↓
Now there is Δ in intention of use

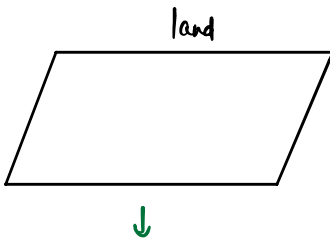
↓
Now wants to give it on rent



Standard says here Δ in intention is not enough, Show us evidence. like show process of vacating the building (b)
Show adv for inviting tenants etc.

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Case 2



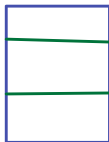
→ as of now I.P
↓
Now suddenly price of land ↑
↓
Now I want to develop & sell plots from the land.



Standard says show proof & proceed

↓
Ind AS 40 $\xrightarrow{\Delta}$ Ind AS 2

Case 3



Building used for rental purpose

↓
Now there is Δ in intention of use

↓
Now wants to give it for business purpose



Show proof of giving notice to tenants to vacate. (Ind AS 40 \rightarrow 16)

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Tabular summarization

S. No	Property	Meeting definition of Investment Property	Which Ind AS is Applicable
1.	Owned by a Company and leased out under an Operating Lease	Yes	Ind AS 40
2.	Held as a right – to –use asset and Leased out under an Operating Lease	Yes	Ind AS 40
3.	Held as a right-to-use asset and Leased out under Finance Lease	No	Ind AS 116
4.	Property acquired with a view for development and resale (Sole or plots (Inventory))	No	No Ind AS 2
5.	Property partly owner occupied and partly leased out under Operating lease	Depends	Ind AS 16 Ind AS 40
6.	Land held for currently undetermined use	Yes	Ind AS 40
7.	Property occupied by Employees paying rent at less than market rate	No	Ind AS 16
8.	Investment Property held for sale	No	Ind AS 105
9.	Existing Investment Property that is being redeveloped for continued use as Investment Property	Yes	Ind AS 40

Recognition Criteria

Investment Property is recognized in Books Only if



INITIAL MEASUREMENT:

IP should be initially recognized at cost. Cost Includes

Purchase price	xxx
(+) Non-Refundable taxes	xxx
(+) Expenses for obtaining the title	xxx
(+) Any Brokerage / consulting fees etc	xxx
	xxx

Measurement at recognition – general: An owned investment property should be measured initially at its cost. Transaction costs are included in the initial measurement.

Cost Inclusions: The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (e.g. professional fees for legal services, property transfer taxes and other transaction costs).

Cost Exclusions: The cost of an investment property is not increased by:

- start-up costs (unless they are necessary 'to bring the property) to the condition necessary for it to be capable of operating in the manner intended by management),
- operating losses incurred before the investment property achieves the planned level of occupancy, or
- abnormal losses



Day-to-day servicing costs

Under the recognition principle set out above, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in the profit or loss as incurred. Costs of day-to-day servicing are primarily the cost of labour and consumables and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

* Replacement costs (Just like Component accounting in PPE)

Parts of investment properties may have been acquired through replacement. Under the recognition principle, an entity recognises costs incurred to replace parts of the original property in the carrying amount of investment property if they meet the recognition criteria. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Investment property acquired through exchange of another asset

[same principles as discussed in IND AS 16]]

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Subsequent Recognition of Investment Property (At Each Balance Sheet Date)

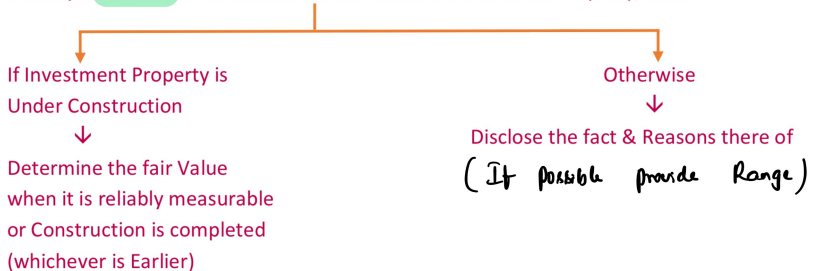
- Investment Property will be shown At Cost Model Only (as per IND AS 16)
- Carrying Amount = Cost – Accumulated Depreciation – Accumulated Impairment Loss

Disclosure regarding Investment Property in Notes to financial Statements

(MLQ Imp)

(1) Fair Value Disclosure: -

- Entity is required to disclose fair Value of Investment Property in Notes
- If Entity is not able to determine the fair Value of Investment Property, then



- Also, Disclosure of Valuation Techniques & Key Inputs Used in Valuation is given as follows: -

Valuation Technique	Key Inputs Used in Valuation	Range of Inputs Used
(Name)	(Name)	(Unit)

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(2) Measurement Disclosure of Carrying Amount: -

Gross Carrying Amount			Accumulated Depreciation			Net Carrying Amount
opening Balance	Additional (Deletion)	Closing Balance	Opening Balance	During the year	Closing Balance	Closing Balance
(A)	(B)	(C) (A) +(B)	(D)	(E)	(F) + (D) = (E)	(G) + (C) = (F)
✓	✓	✓	✓	✓	✓	✓

(3) Disclosure relating to Amount recognized in P&L for Investment Property: -

Particulars	Amount
Rental Income from Investment Properties	xxx
<u>Less:</u> - Direct Operating Expenses incurred to generate Rental Income	(xxx)
Profit Before Depreciation from Investment Properties	xxx
<u>Less:</u> - Depreciation during the year on Investment Properties	(xxx)
Profit form Investment Properties	xxx

Additional Points

- ✓ There is a rebuttable presumption that an entity can reliably measure the fair value of an investment property on a continuing basis.
- ✓ When a lessee measures fair value of an investment property that is held as a right-of-use asset, it shall measure the right-of-use asset, and not the underlying property at fair value.

DERECOGNITION; An investment property shall be derecognized (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

The disposal of property can be achieved by sale or entering into a finance lease. Gains or losses arising from the retirement or disposal of investment property shall be recognized in the statement of Profit or loss in the period of disposal.

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IND AS 41 - AGRICULTURE

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Def

- a) **Agricultural activity** refers to the **management** by an entity of the biological transformation and harvest of biological assets for **sale** or for conversion into **agricultural produce** or into **additional biological assets**.

The standard states that 'agricultural activity' covers a wide range of activities, e.g. 'raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming)'.

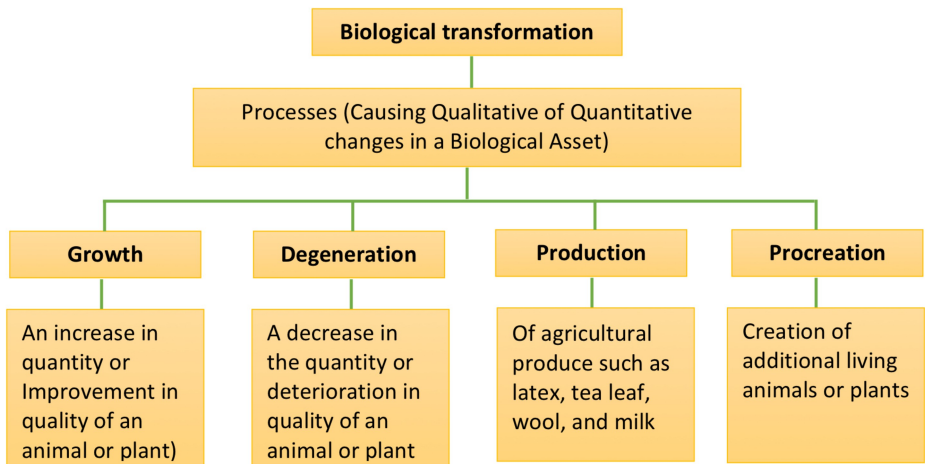
- b) A **Biological asset** is a living animal or plant.
- c) **Agricultural produce** is the harvested product from entity's Biological assets. IND AS 41 is applicable to all agricultural produce only at the **Point of harvest**. Subsequent processing of such agricultural produce is outside the scope of this standard. On the balance sheet date agricultural produce will be valued as Inventory, in accordance with IND AS 2.
- d) **Harvest** refers to detachment of produce from the Biological assets or the cessation of Biological assets life process.

output

Milk from cattle

Killing of cattle for meat

- e) **Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitatively or quantitative changes in biological asset.

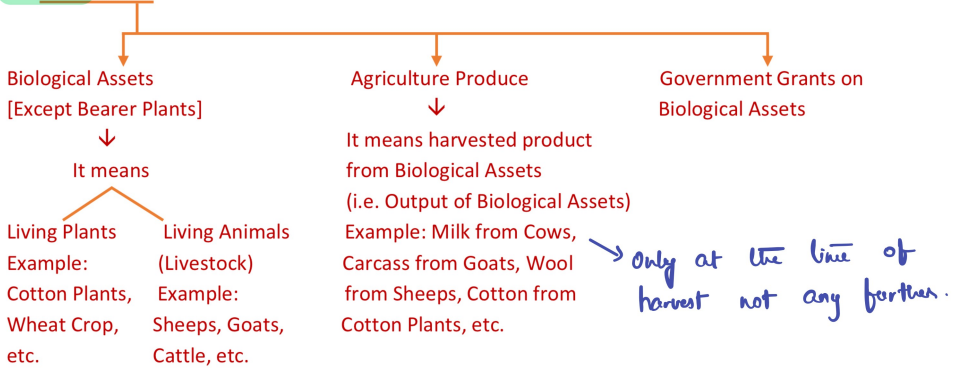


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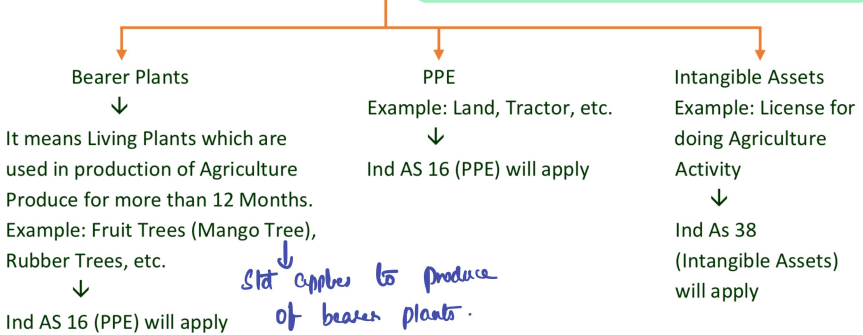


This Ind AS prescribes accounting of following items for an entity engaged in Agriculture

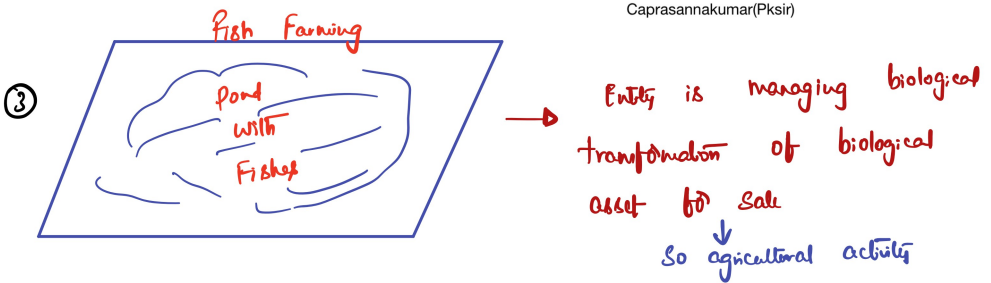
Activity: -



This Ind AS does not apply to following items even if entity is engaged in Agriculture Activity: -



- Eg
- ① Maintenance of Zoo, Circus → Not agricultural activity
 - ② Rich person with 10 dogs for security purpose → " "



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④

Fishing in
an ocean

→ No Management by Entity

↓

So NO Agricultural activity

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⑤



Strawberry juice → (PK Sir)
You buy Strawberry from
a farmer and then you
convert that to juice

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↓
PK Sir is not doing any
Agricultural activity.

* But if PK Sir takes a land & grows Strawberry & then
harvests Strawberry → Agricultural activity.

⑥

Kedarnath Visit
with horse.

→ you have 10 horses

↓

This is not agricultural activity

↓

As your main goal is to use horses
as passenger vehicles only.

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f) **Fair Value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (the definition of Fair value is as given in Ind AS 113, Fair Value measurement)

g) **Costs to sell** are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

* Bearer plants → W.K.T from Ind AS 16 PPE

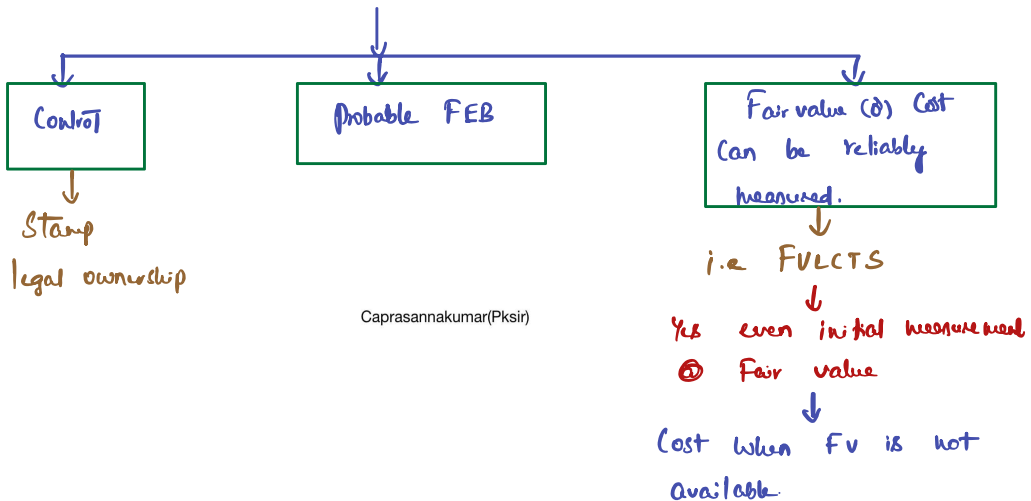
For example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are outside the scope of Ind AS 41 and covered under Ind AS 16. However, produce growing on bearer plant is a biological asset.



Biological assets	Agricultural produce (Output)	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

B) When an Entity can recognise a Biological asset? (Recognition criteria)

a) If 3 conditions are satisfied.



Accounting for Biological Assets

Initial Recognition:

Biological Asset is initially recognized at its fair Value Less Costs to sell [FVLCTS] as follows:

Biological Asset A/c

FVLCTS

Loss on Initial Recognition A/c [P&L]

Balancing figure

To Bank A/c

Total Payment to Buy Biological Asset

To Gain on Initial Recognition A/c [P&L]

Balancing figure



Note: -

(i) Fair Value Less Costs to Sell: -

Sales Price of Biological Asset	xxx
(-) Transportation Cost to transport the Asset to Auction Place borne by Seller	(xxx)
Fair Value of Biological Asset [As per Ind As 113]	xxx
(-) Casts to Sell [Transaction Cost like Auctioneer's fee borne by Seller]	(xxx)
Fair Value Less Costs to Sell [FVLCTS]	xxx

(ii) Total Payment to Buy Biological Asset: -

Purchase Price of Biological Asset	xxx
(+) Transportation Cost to transport the Asset to Entity's farm borne by Buyer	xxx
(+) Transaction Cost like Auctioneer's fee borne by Buyer	xxx
	xxx

(iii) If FVLCTS cannot be measured reliably, then Entity can initially recognize Biological Asset at its Cost. (Eg: Gmo products first of its own kind)

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Subsequent Recognition [At Each Balance Sheet Date]: -

Biological Asset is remeasured at their new FVLCTS on each Balance Sheet date.

Change in FVLCTS of Biological Asset from previous recognition will be recognized as Gain or Loss on Remeasurement of Biological Asset in P&L as follows:



Note: - FVLCTS of a Biological Asset changes due to Price Change & Physical Change in the Biological Asset.

Recognition of New Born Calves: -

New Born Calves are recognized as an Income in P&L at their FVLCTS on Birth Date as follows: -
Biological Asset A/c [New Born Calves]

To Gain of New Born Calves (Physical Change) A/c [P&L]

Note: - New Born Calves will also be subsequently remeasured at their new FVLCTS on each Balance Sheet date.

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Measurement of Biological asset & Agricultural produce



Initial
measurement

① FV/CTS

any diff b/n FV/CTS
& Amt paid is trfd
to P/L as gain/loss

↓
If F.V is not available,
you can do Initial
recognition @ Cost

Subsequent
measurement

remeasure @ FV/CTS

↓
any gain/loss trfd
to P/L on remeasurement



on B/L date

→ C.A = Cost - Acc dep

Initial
measurement on
harvest

↓
recognise @ FV/CTS
only on the date
of harvest not after

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Case 1

1.4.2021, PK Ltd purchased a cow aged 5 yrs for
50000, Selling exp of 1000 are paid by seller.

Biological asset (Cow) 49000 (FV/CTS)
P/L (loss on Initial recog) 1000
To Bank 50000

Case 2

On 31.3.22, the Fair value of cow (5yrs) is 60000
& FV of cow (6yrs) is 64000. Selling exp are ₹ 1000
(Subsequent remeasurement)

FV/CTS of 6yr old cow = 64000 - 1000
= 63000

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Biological asset Dr 14000

To P/L 14000

(gain on re-measurement)

Case 3

On 31.3.22, A Ltd extracted 20 litres of milk.

FVETS = ₹ 30/litre (Agricultural produce)

Milk (Agricultural produce) Dr 600

To P/L 600

(Free gain)

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Case 4

On 1.5.22, Cow gave birth to a calf, FVETS = 16000 (Procreation)

Biological asset (Calf) Dr 16000

To P/L (Gain) 16000

Case 5

Initial recognition of cattle (3 yrs) = 10000

ⓐ end of yr ⓐ

FVETS of 3 yrs old Cattle = 12000

FVETS of 4 yrs old Cattle = 15000

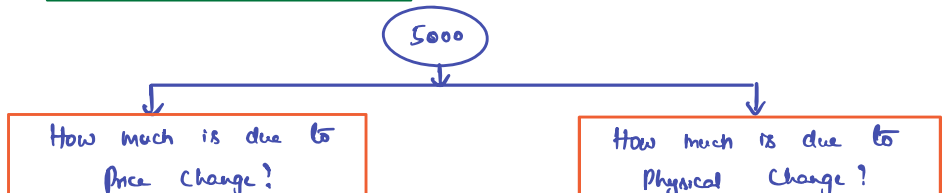
∴ Gain on re-measurement = 15000 - 10000
= 5000

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Biological asset Dr 5000

To P/L 5000

Disclosure in notes

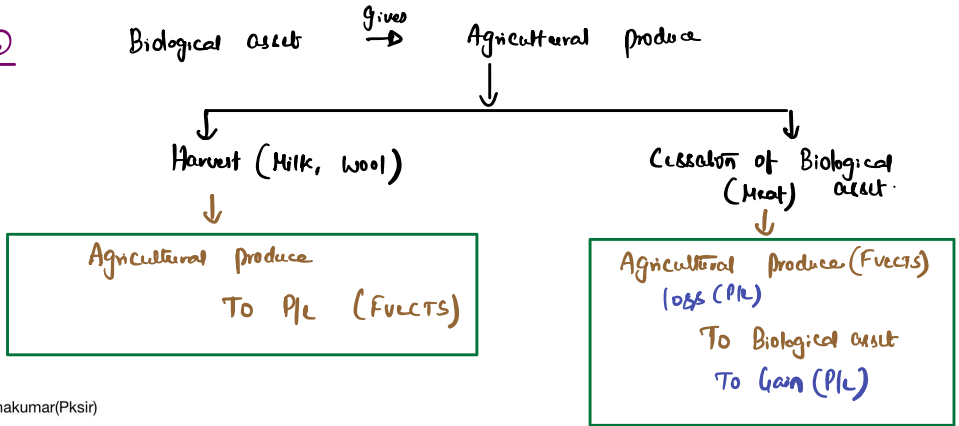




₹ 2000 (12000 - 10000)

₹ 3000

Case 6



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Case 7

Ind AS 113 (FVM)

While calculating Fair value Consider Transportation Costs and do not Consider Transaction Costs.

* FUECTS is what you get when you try to sell and not when you try to buy *

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Derecognition of Biological Asset: -

(a) On Sale of Animal:

Bank A/c

Loss on Sale of Biological Asset A/c [P&L]

To Biological Asset A/c

To Gain on Sale of Biological Asset A/c [P&L]

Net Amount Received on Sale

Balancing Figure

Proportionate Carrying Amount

Balancing figure

(b) On Death of Animal:

Loss on Death of Biological Asset A/c [P&L]

To Biological Asset A/c

(Proportionate Carrying Amount
of Biological Asset died)



(c) On Conversion of Biological Asset into Agriculture Produce [Slaughtering of Animal to get Carcass]:

Agriculture Produce A/c [Inventory]

Loss on Initial Recognition of Agriculture Produce A/c [P&L]

To Biological Asset A/c

To Bank A/c [Conversion Cost like Slaughtering Cost]

To Gain on Initial Recognition of Agriculture Produce A/c [P&L]

FVLCTS of Agriculture Produce

Balancing figure

Proportionate Carrying Amount

Cost Paid

Balancing figure

Recognition of Expenses incurred on Biological Asset: -

→ Expenses are incurred on Biological Assets for their growth or maintenance. Example: food Cost, Breeding fee, Fertilizers, Seeds, etc.

→ These are recognized as an Expense in P&L as follows:

Expense incurred on Biological Asset A/c [P&L]

To Bank A/c

{ Expense Amount
incurred }

Accounting for Agriculture Produce

Initial Recognition: -

Agriculture Produce is initially recognized as an Income in P&L at its fair Value Less Costs to sell [FVLCTS] as follows:

Agriculture Produce A/c [Inventory]

To Gain on Initial Recognition A/c [P&L]

{ FVLCTS of Agriculture
Produce }

Subsequent Recognition [At Each Balance Sheet Date]: -

Agriculture Produce is measured as per Ind AS 2 [Inventories] at each Balance Sheet date.

Government Grants on Biological Asset

If Government Grant on Biological Asset is Unconditional [i.e. Non-Refundable]



Recognize the Grant immediately in P&L as Income

If Government Grant on Biological Asset is Conditional [i.e. Refundable on failure to meet the condition of Grant]

If Grant is fully Refundable in case of failure to meet the condition of Grant



Recognize the Grant as Deferred Income in Balance Sheet & transfer it to P&L when all the conditions of Grant are met

If Grant is Partially Refundable according to Time lapsed in case of failure to meet the Condition of Grant



Recognize the Grant as Deferred Income in Balance Sheet & transfer it to P&L over the period of condition



Case 1

Govt Grant = 40 L

2 options given by Ind AS 20

option 1

option 2

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B/S

B/S

Machinery	100 L
(-) Govt Grant	40
	<u>60 L</u>

Deferred Income	
Govt Grant	40 L

Machinery 100 L

Every year some portion of this goes to P/L.

Case 2

B/S

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Biological asset = 100 (FUECTS)

(-) Govt Grant = (40) X

X 60 → This is not FUECTS

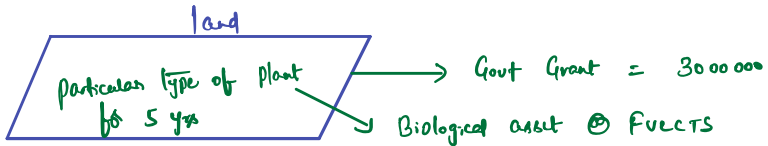
So option 1 is not allowed when Biological asset is shown @ FUECTS

So only option 2 is allowed.

* But if Biological asset is measured @ Cost & not FUECTS then either of the options you can follow (1 & 2)

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Case 3





BIs

Def Income	Biological asset	xxx
G Grant 30 00 000		

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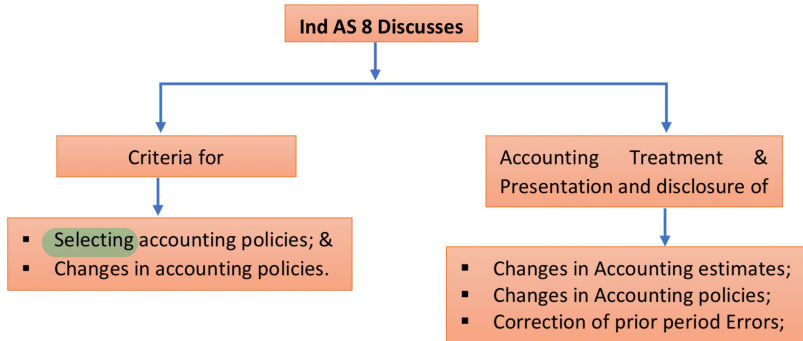
- * As you do the activity (agricultural), Grant is getting accrued proportionately → Then recognise G Grant over the period of 5 yrs.
- * Suppose after doing activity for 4 yrs & stopped. & Govt takes all Grant back as 5 yrs condition is not satisfied. Then recognise grant at the end of 5th year.



IND AS 8 - Accounting policies, Δ in Accounting estimates & Errors

* This standard tries to increase the reliability & reliance on Financial Statements.

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The Standard is meant to increase the qualitative characteristics like the relevance, reliability and comparability of an entity's financial statements.

It does not deal with the tax effect of corrections of prior period errors.

A. ACCOUNTING POLICIES

Def } Accounting Policies are specific principles, bases, conventions, rules and practices that are applied by the Entity in preparing and presenting financial statements. Examples include

1. Valuation of Inventory using methods like FIFO, weighted average cost, specific identification method etc.
2. Valuation of Investments at FVTPL or FVTOCI (Fair value through OCI)
3. Treatment of Foreign Exchange Gains / Losses.
4. Measurement Basis for PPE & Intangible Assets \rightarrow Cost Model or Revaluation Model

* Principle \rightarrow Ideally what you have to do (Providing dep) (Accrual principle)
They provide underlying logic. (Revenue Recognition principle)
(Matching principle, Consistency (dep))

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* Bases \rightarrow Measurement base (Cost model (B) Revaluation model)
Bases are Concrete Systems (B) measurement approaches used to apply principles in place.

(Historical Cost basis, FV basis, NRV basis, PV basis, Amortized Cost basis)



* Conventions → Eg calculator thrown in to P/L (Big Companies)
 (Broaden) (Accelerates) Accepted Customs Eg: Conservatism, Capital exp treatment
 (General) (of) But Practices Materiality

* Rules → explicit instructions on how accounting transactions & processes should be carried out.
 (more specific)
 (To the point) Eg PPE (Ind AS 16) specifies on how to treat recognition, measurement, dep, Impairment, revaluation etc.
 (formal)

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* practices → When there is no standard, then people will follow some practice in a given industry/company.
 (Informal) Eg Expensing R/O Costs instead of Capitalising.

Selection & Application of Accounting Policies.

- If Specific Ind AS is available for a particular transaction, then Entity shall apply Accounting Policy as determined by that Ind AS.



Otherwise Entity shall refer following Sources in descending order:-

- Any Other Ind AS on similar transaction. (Mandatory ref)
- Framework of Ind AS. (Mandatory) → Dif of Asset, liability, Income, Expense
- Pronouncement of International Accounting Standards Board [IASB] (optional ref)
- Pronouncement of Other Standard Setting Bodies [Example: US GAAP, etc.] (optional ref) (Sec 4)
- Accepted Industry Practices. (optional ref)

- Entity shall Select & Apply its Accounting Policy consistently for similar transactions.

Note 3

[Consistency of Accounting Policies]

↓
 Based on 3 fundamental accounting assumptions
 (Going Concern, Accrual, Consistency)

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PRO TIP

Anything that is like a kind of choice in the hands of the company with respect to treatment of any item it is accounting policy.



Changes in Accounting Policies

- Entity shall change an Accounting Policy only if:
 - Required by Ind As, or (**Note 10**)
 - Results in providing more relevant & reliable information [i.e. Voluntary Change of Accounting Policy] (**Note 4**) (**Ques**)
- Followings are not considered as Change in Accounting Policy:** - (**Note 5, 6**) (**Ill 2, 3**)
 - (i) Application of Accounting Policy for transactions that differ in substance from Previous.
 - Example:** Reclassification of PPE (Revaluation Model) to Investment Property (**Cost Model**). (**Fresh Transaction**)
 - (ii) Application of New Accounting Policy for transactions that did not occur previously. (**or**) **Emitted previously** (**Final line**)

Example: Measuring Newly Purchased PPE at Cast Model.

Applying Change in Accounting Policy: -

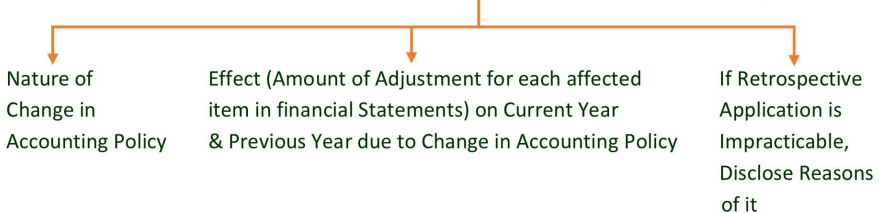
→ Entity shall account for Change in Accounting Policy retrospectively, i.e. Apply such. Accounting Policy on the transaction from the very 1st day in Past as follows:

* **Note 10**



* **Note 7** → If Retrospective Application is Impracticable, is. Entity cannot apply Accounting Policy retrospectively after making every reasonable effort to do so; then Entity should apply. Accounting Policy prospectively.

* **Note 8** ▪ **Disclosures in financial Statements regarding Change in Accounting Policy:** - (**Common points**)



Disclosure for change in Accounting Policy – General points

- i. The IND AS which has required the change of Accounting Policy. (**Initial adoption of Ind AS**)
- ii. Transitional provisions that are applied for accounting. (**Initial adoption of Ind AS**)
- iii. Details of any Retrospective effect given.
- iv. Effect of Policy change on each item in FS and on EPS.
- v. Any Reasons if retrospective application was not possible.



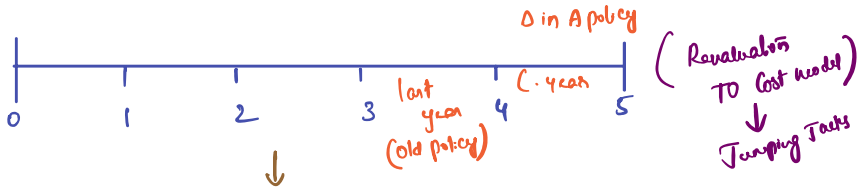
Note ① If there are transitional provisions, just apply the same.

↓ ⑦

Old Ind AS 16 (US) Ind AS 116 (lesser point of view)

Note ② Retrospective = Restatement

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Also opp B/s @

beginning of Yr₄

↓
To reflect Δ in first
3 years

↓

All Δ will go & adjust in Retained earnings

↓

That's it Game over

B/s	end of Yr 5	end of Yr 4
	New policy	restate by applying new policy

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Note ③

Examples 2 & 3

- An entity has grouped its property, plant and equipment into four classes viz., land, factory building, plant and machinery and furniture. The entity may propose to apply revaluation model only to land. It need not apply this model to building or plant and machinery.
- Ind AS 2 'Inventories' requires that inventory be valued at lower of cost and net realizable value. In identifying cost, it allows alternative cost formulas; FIFO and Weighted average. The same cost formula must be applied to items of inventory having similar nature or use, but a different cost formula can be applied to a different classification of inventory.

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Note 4

Example 4 - Voluntary change in accounting policy

As per Ind AS 27 'Separate Financial Statements', investment in subsidiaries, associates and joint ventures are accounted for in an entity's separate financial statements at cost or in accordance with Ind AS 109 (i.e., at fair value). The same accounting is required to be applied for each category of investment.

Assume that an entity decides to change its policy of measuring investment in subsidiaries (or associates or joint ventures) from cost to fair value in accordance with Ind AS 109, as this will result in the financial statements providing reliable and more relevant information.

This would constitute a voluntary change in accounting policy.

Note 5

Example 5 (Not change in Accounting policy)

A company owns several hotels and provides significant ancillary services to occupants of rooms. These hotels are, therefore, treated as owner-occupied properties and classified as property, plant and equipment in accordance with Ind AS 16. The company acquires a new hotel but outsources entire management of the same to an outside agency and remains as a passive investor. The selection and application of an accounting policy for this new hotel in line with Ind AS 40 is not a change in accounting policy simply because the new hotel rooms are also let out for rent. This is because the way in which the new hotel is managed differs in substance from the way other existing hotels have been managed so far.

Note 6

Example 6

An entity has classified as investment property, an owner-occupied property previously classified as part of property, plant and equipment where it was measured after initial recognition applying the revaluation model. Ind AS 40 on investment property permits only cost model. The entity now measures this investment property using the cost model. This is not a change in accounting policy.

Note 7

Example 8

A company has been incorporated 25 years ago and since then doing the business on pan India basis. Now, is it supposed to incorporate the changes in accounting policy for last 25 years? Will it be practicable? Will it be worth doing it? Will it be material? Such questions arise when one wants to change the accounting policy, since voluntary change in policy is required to be applied retrospectively.



Note 8

Where **an Ind AS has been issued** but is **not effective up to the date** of the financial statements the entity shall disclose

- * The above fact;
- * Title of the new Ind AS;
- * The estimated impact of the above mentioned Ind AS on the financial statements of the entity;
- * If the estimated impact of the new Ind AS cannot be reasonably measured a statement to the effect

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Accounting Estimates

Meaning of Accounting Estimates.

Many Items in financial Statements cannot be measured but only can be estimated. Estimation involves judgement on the basis of latest available information.

Examples: - Provision for Bad Debts, Warranty Obligations, Depreciation Method, Useful Life, Residual Value, etc.

Changes in Accounting Estimates.

- Entity shall revise an Accounting Estimate if circumstances change as a result of new information or more experience.
- Entity shall account for Change in Accounting Estimate **prospectively**, i.e. Apply change from the date of Change in Estimate. Fig 12

Disclosures in financial Statements regarding Change in Accounting Estimate

Nature of Change in Accounting Estimate	Effect (Amount of Adjustment for each affected item in financial Statements) on Current Year & future Years due to Change in Accounting Estimate	If it is not possible to estimate effect on future years, then this fact must be disclosed

Other Points

- Change in Accounting Estimate cannot be treated as a Correction of Prior Period Error.
- If it is difficult to distinguish between a change in accounting policy ~~or~~ change in accounting estimate, then treat it as change in accounting estimate.

Note ①

Δ in Dep method - Δ in Accounting estimate

Note ②

If Δ in A/cng estimate affects Δ in Assets, liabilities etc then adjust the C.A of relevant asset / liability. Δ If Δ does not affects A/c, then recognise it in P/L for the period it affects prospectively.

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Eg

Change in accounting estimate

During the financial year ended 31 March 2019, the management of XYZ Limited performed an operational review of its plant in Gujarat, India, which resulted in changes in expected usage of certain items of property, plant and equipment. Certain machinery, which was expected to be used in production for period of seven years from the date of acquisition, is now expected to be used in production for a period of five years from the date of acquisition, considering the introduction of new technology in the market. This has resulted in decrease in useful life of the machinery. The effect of this change on actual and expected depreciation expense, in current and future years, is as follows:

	2018-19	2019-20	2020-21
Increase in depreciation expense	150	60	11

C. ERRORS

- Def* A. Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- was available when financial statements for those periods were approved for issue; and
 - could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
- B. Errors can arise in respect of the **recognition, measurement, presentation or disclosure** of elements of financial statements. **Financial statements do not comply with Ind AS** 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.

* These are omissions & misstatements in financial statements of Previous Years.

Examples: -

Error of Commission, Error of Omission, Error of Principle, Fraud, Classification Error, etc.

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Treatment of Prior Period Errors

(Solve Example Q)

- Entity shall correct the Prior Period Errors Retrospectively, i.e. Correct such Errors from the very 1st day in Past as follows:

Restating the Comparative Amounts of Previous Year

&

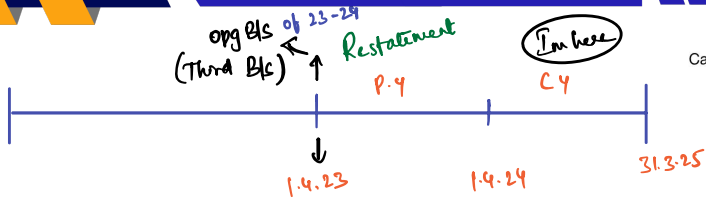
Restating the Opening Balances of Previous Year for correction relating to All Prior Periods [if Any]

Imp. (Third B/c also)

- If Retrospective Restatement is Impracticable, i.e. Entity cannot restate prior period errors retrospectively after making every reasonable effort to do so; then Entity should restate prior period errors prospectively.



Case 1



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* Last 3 yrs omitted to record an exp of 20000/annum

* Restatement → In C.Yr financial Statements, Comparative Column will be there. In that Instead of Copy pasting P.Ys year Original Financial Statement, you are going to re-write them.

Simply put Change is going to happen in the Comparative Column of C.Yr financial Statements. i.e 20000.

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↓
Then what about Balance 40000!

↓
If mistake is beyond P.Yr, then give opg Bls of P.Yr & In Retained earnings give adjustment of 40000.

Disclosures in financial Statements for Prior Period Errors

Nature of Prior Period Error

Effect (Amount of Adjustment for each affected item in financial Statements) on Previous Years due to Prior Period Error

If Retrospective Restatement is Impracticable, Disclose Reasons of it

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Examples 15-17

15. An entity presents one year comparative period in its financial statements. While preparing the financial statements for the financial year 20X4-20X5, if an error has been discovered which occurred in the year 20X1-20X2, i.e., for the period which was earlier than earliest prior period presented (which is 20X3-20X4 in this example), then, the error should be corrected by restating the opening balances of relevant assets and/or liabilities and relevant component of equity for the year 20X3-20X4. This will result in consequential restatement of balances as at 1st April, 20X3 (i.e. the third balance sheet).
16. A material error in depreciation provision of the preceding year ended 31st March, 20X2 was discovered when preparing the financial statements for the year ended 31st March, 20X3. The amount recognised in statement of profit and loss for the year ended 31st March, 20X2 was ₹ 1,00,000 instead of ₹ 50,000. In this case, when presenting the financial statements for the year ended 31st March, 20X3, depreciation for the comparative year 20X1-20X2 will be restated at ₹ 50,000. The carrying amount i.e., net book value of property, plant and equipment for the comparative year ending 31st March, 20X2 will be increased by ₹ 50,000 (due to restatement of accumulated depreciation). This will result in consequential restatement of opening balance of retained earnings and property, plant and equipment for the year 20X2-20X3.
17. Continuing with the aforesaid example, assume that the error relates to year ended 31st March, 20X1 and 20X0-20X1 is not the earliest period for which comparative information is presented. In this case, the error will be corrected by restating the opening balances of retained earnings and carrying amount i.e., net book value, of property, plant and equipment, for the year 20X1-20X2. This will result in restatement of balances as at 1st April, 20X1.

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