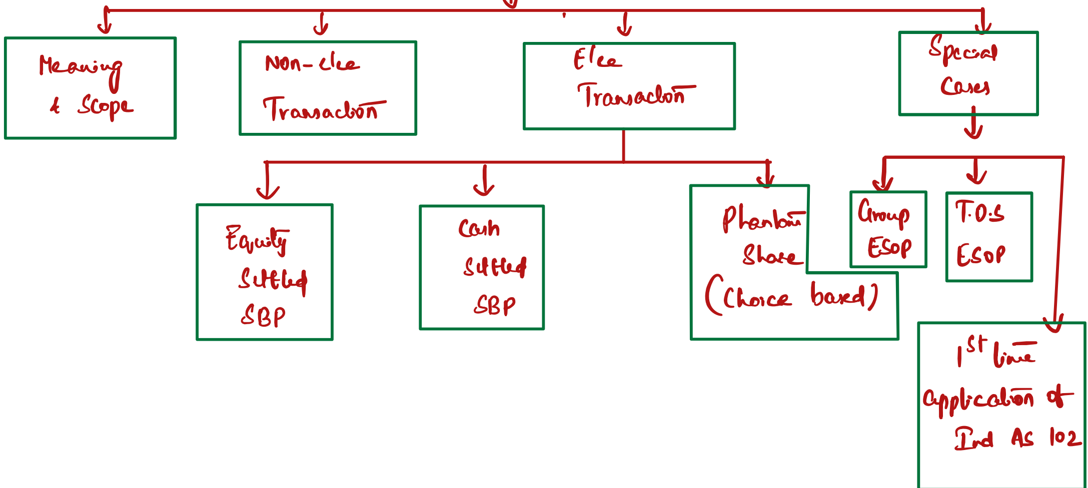
V.imp 8-12 marks in exam



① What is SBP?

a) Share based transaction ⇒ when entity acquires Goods & Services and payment is made based on Equity. i.e. Equity Settled (or) Cash based on Equity (or) Phantom Shares

Eg PK ltd purchased L&B on 1.4.24 whose payment will be made in 5500 Equity Shares of PK ltd on 31.3.25. Is it SBP?

a) Yes this is SBP → acquired goods & payment in Equity.

Eg A ltd acquired Assets & liabilities in a Business Combination. Consideration will be paid in the form of 4500 Eq. Shares.

a) Yes this is SBP but comes under exception of this Standard.

Eg PK ltd acquired land whose payment will be made in E Shares of Rohit ltd?

a) No, this is not SBP. But if Rohit is Subsidiary of PK then yes. (Same group)

Eg PK ltd issued Shares in return for cash ? Is it SBP ?

a) NO, as financial assets are not included in goods.
Debts in the place of cash also, the answer is same as acquired item is financial asset.

Eg PK ltd issued Shares to Rohit who is e'ee in capacity of shareholder. Is it SBP ?

a) NO, not ESOP

So Goods | Services can be :-

- PPE | PPE under development
- ITA | ITA under development
- I.P
- Service from e'ee
- Service from General Contractor
- Service from Director (Similar to e'ee)
- CA as Tax Advisor getting Shares.
- ~~Financial Asset (Bank, Investment in Shares, Inv in Debentures)~~
- ~~Shares issued to e'ee in capacity of shareholder~~
- ~~Business Combination~~

Exceptions

1. Business Combination (Ind AS 103)
2. Acquired Financial asset (Contracts Covered in Ind AS 109)

Non - Elee Transactions (E'ee (or) Similar to elee transaction covered later)

Grant date — Measurement date

Grant date: Date of Contract

* This is the date when all parties agreed & approval obtained
↓
No entry on Grant date

Measurement date:

* Date when goods have been received | Control obtained.
* Date when service is provided (Invoice date | Period end)
↓
Journalise date

(A) Goods | Services Dr xxx (Fair value of Goods | Services on measurement date)
(Asset | Expense)
↓
If this cannot be calculated reliably (Rare case) then use
↓
Fair value with reference to Equity.

To SBP (R) | SBP (L)
(ESSBP) | (CSSBP)

- SBP (R) (ESSBP) ↓ Item of Equity (SOCE) → Remeasurement not allowed
- SBP (L) (CSSBP) ↓ Item of liability (Mostly Non-Current liability) → Re-measurement required based on Δ in FV of Equity Share (Diff is trfd to P/L as Expense | Income)

(B) During Time of payment | allotment of Shares

SBP(R) (or) (L)	xx	
To ESC		xx
To Securities Premium		xxx

(Being amt paid)

Eg On 1.5.25 PK ltd purchased land of BP ltd whose fair value on that date was ₹ 10 00 000. Payment was to be made on 1.7.26 in form of E. Shares (no. of shares 10000, FV on 1.5.25 is 112). Contract is subject to approval by shareholders which was obtained on 1.8.25. Land was obtained / registered on PK ltd on 1.10.25. FV of land & shares ↑ by 10% & 12% respectively. On 31.3.26 FV of shares is 150. Shares were issued on 1.7.26, where FV of land was 1500 000 & share is 165. Journalise.

a) Timeline:

- 1.5.25 — Contract; Payment in shares; FV = 10 lakhs; FV = 112 / Share → No Entry
- 1.8.25 — Grant date → No Entry
- 1.10.25 — Measurement date; land obtained
  - FV of land = 10L + 10% = 11 Lakhs
  - FV of Share = 112 + 12% = 125.44
  - Measurement date ↓ FV of land = 1100 000
- 31.3.26 — FV share = 150
- 1.7.26 — Payment date; E. Shares 10000; FV land = 1500 000; FV Share = 165

1/10/25 Land Dr 1100000
To SBP (R) 1100000

31/3/26 No Remeasurement — No Entry
↳ SOCE → Other Equity → B/S

If it is SBP(L) then ⇒ P/L Dr 400000
To SBP (L) 400000 (1500000 − 1100000)
(150×10000)
↓
Current liability
is due with in a year

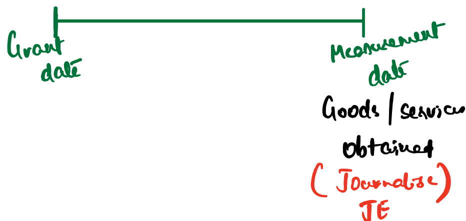
1/7/26 SBP (R) Dr 1100000
To Escapital 1000000 (Facevalue = 100)
To Securities premium 100000
(Being Shares issued)

EMPLOYEE TRANSACTIONS

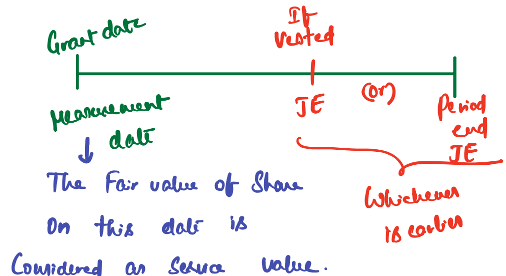
E'ee (or) Similar to e'ee cases

* These contracts has grant date i.e date when contract signed with e'ee. If is subject to approval, then grant date is approval date.
* No journal entry on Grant date
* For e'ees measurement date is Grant date
* For calculating value of services, it is very difficult to value e'ee efforts. Hence Fair value of Equity is always used

In case of buying Land



In case of buying e'ee services



↓ The Fair value of Share on this date is considered as service value.

Lets revise what we have discussed so far with logic

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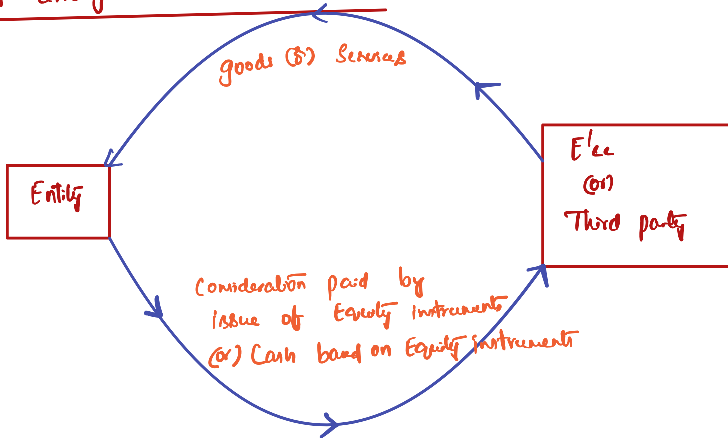
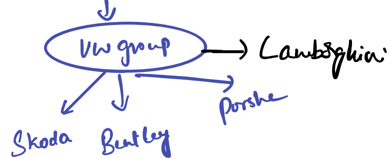


* Equity instruments = Issuing Equity Share (or) Issuing options of the entity (or) its group.



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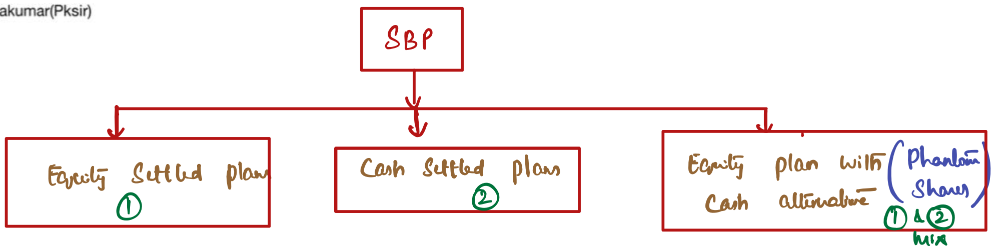

* How to pass Entries ?

a) what can you give me as a Counter party you can either give me Machinery / Services / Goods
Asset Exp Exp

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Recognition Entry

* Asset | Expenses Dr
  - To SBP – Reserve (obligation to issue shares in future)
  - (or)
  - To SBP – Liability (obligation to pay cash in future based on shares)

* Next Q → The above entry should be recorded at what amount?
↓

Case ①

Machinery 1300 000
To SBP – Reserve 1300 000
(Equity obligation)

FV of Machinery = 1300000
No: of shares to be issued after 3m = 10000 shares
FV of share today = 120
↓
If counter party is clee (or) any one offering similar services
↓
Then take FV of SBP plan
↓
In all other cases FV of Machinery.

Why? Bcoz identifying value of clee services is very difficult to obtain so we chose FV of SBP plan.

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Case ②

After 3m FV of share = 140, Face value = 10

SBP (Reserve) 1300 000
To Equity share capital (10000 shares × 10) 100000
To Securities Premium 1200000 (B.F)

Student doubt → Sir you did not even consider FV of share i.e 140 in the above entry why?

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↓ FV of option is nothing but present value of future intrinsic value on future date of exercise

B/s

Equity	Assets
Liabilities	

Assets → Many standards tell you to value assets @ Fair value

Liabilities ↓ Some liabilities should be measured @ latest value / FV (easy understanding)

Eg Foreign Currency liability restated at closing exchange value

Provisions @ latest estimates.

↓

gain / loss due to FV valuation

↓

Ultimately will be recorded in Equity only.

↓

But you will never ever fair value the Equity itself.

bcoz ultimately all this drama results in to other Equity only which means in an implied way your Equity is already @ Fair value (Think, you will get it)

Case ③ Machinery / goods / Services → I'm taking Machinery as example

* Company promised to pay cash to vendor after 3m equivalent to market price of 10000 shares.

↓

Machinery A/c Dr 1300000

To SBP - liability 1300000
(Cash obligation)

After ↓ 3 months

FV of Machine = 1300000

M.P of Share = 120/share

Your Counter party is not i'ee (or) similar one

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M.P / Share = ₹ 145.

(Increase liability) ① P&L (loss) Dr 150000 (1450000 − 1300000)
To SBP − liability 150000 (Re-measurement of liability)

(Then make payment) ② SBP − liability Dr 1450000
To Bank 1450000

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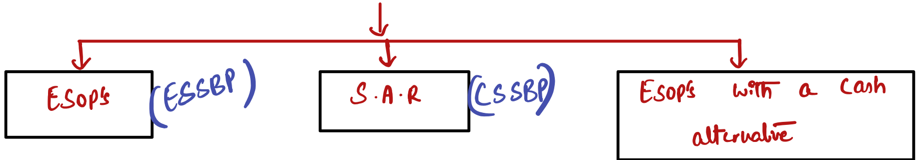
* This standard does not cover the following
  i. Issue of shares to shareholder in the capacity of shareholder.
     E.g.: - Bonus shares, Right shares etc.
  ii. Shares issued under business combination (Ind AS 103 will take care of this)
  iii. Contracts which are covered by IND AS 109. (Speculative contracts)

* 95% of this Standard is all about 3 things (e'ee related)



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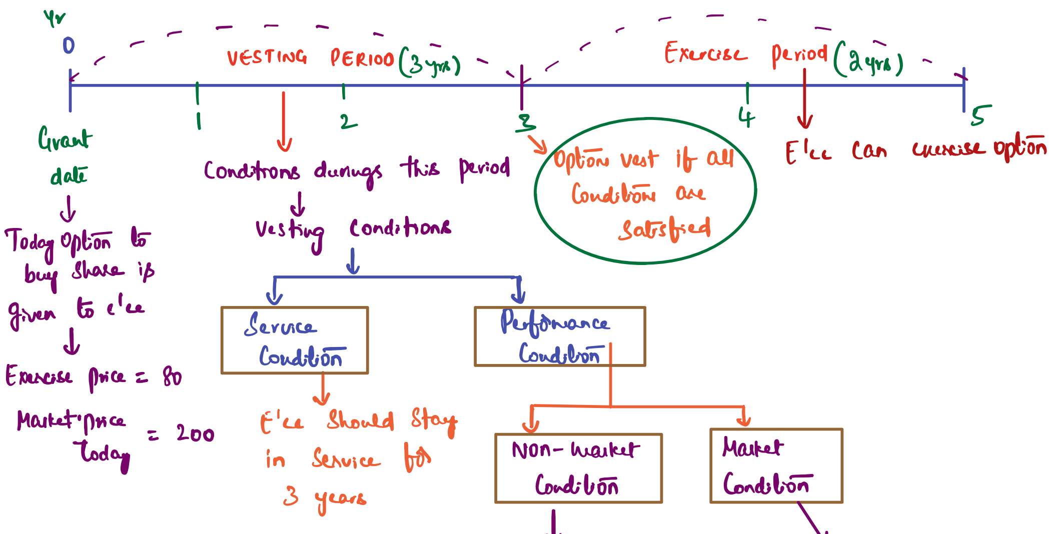
① ESOP's E'ee Stock option Scheme



Eg ① Soln Should grow @ 10% p.a Over 3 years

② Net Profit Should be doubled by 3 yrs

M.P of Share @ year 3 Should be > 500.

KFC COUPON BOOK

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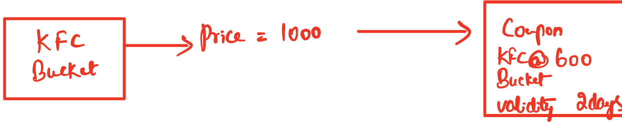

Worth of Coupon = 400 (Bcoz you need not pay this)

(Or)

Suppose you have lost the Coupon how much extra you have to pay i.e 400. So Simple that 400 is the worth of the Coupon.

↓

By applying the same logic, In above example today M.P = 200

X price = 80

worth = 120

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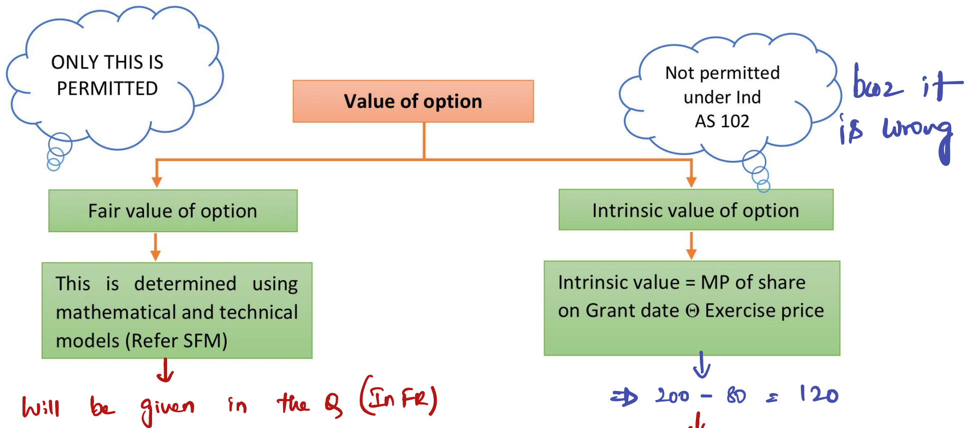
↓

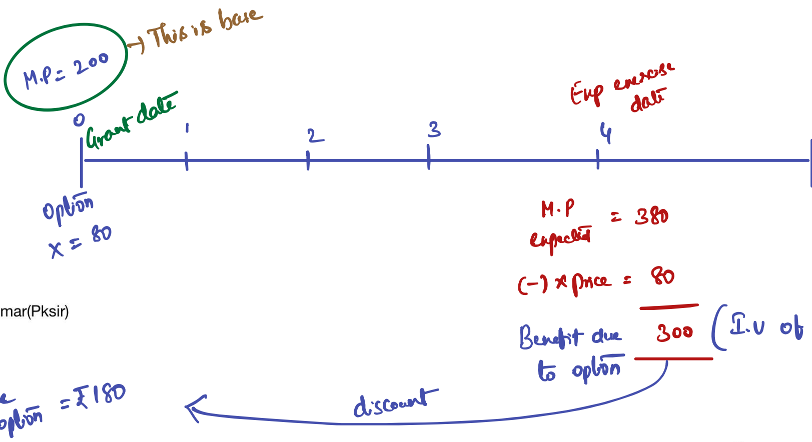
If we dig deeper, In reality you need to Compare exercise price of 80 with Market price not today but on the date of Exercising the option. So unfortunately today you dont know the value of that option



Not allowed as anyway you can't use it.

Fair Value of SBP to Employees: -

- Value of Option calculated using Option Pricing Methods Like Binomial Model, Black Scholes Model
- It will always be given in question.
- In Case of Equity Settled SBP to Employees [ESOP], fair Value of Options / Shares At Grant Date will be considered
- In Case of Cash Settled SBP to Employees [SAR], Fair Value of SAR, / Shares At Each Balance Sheet Date will be considered.



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ACCOUNTING

Case ①

ESOP for 1 e'ee, No. of options 1, X = 80 (exercise price)
FV of option = 180 on grant date, Vesting period = 3 yrs
Face value of share = 10.

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On Grant date

No Entry (Executory Contract)
↳ as nothing to account.

Option expense per annum = $\frac{180}{3 \text{ yrs}}$ = 60 p.annum

@ end of each year

		1		2		3	
①	E'ee Compensation xxx	60		60		60	
	To SBP (R) xxx		60		60		60
②	P/L	60		60		60	
	To E'ee Compensation		60		60		60
	SBP (R) →	60		120		180	

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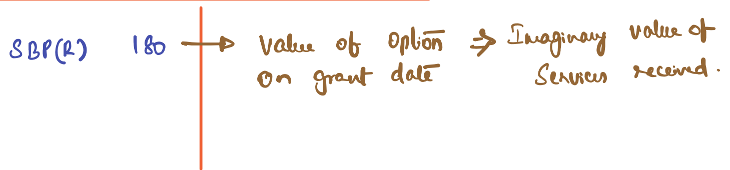
B/S @ Y3 ending



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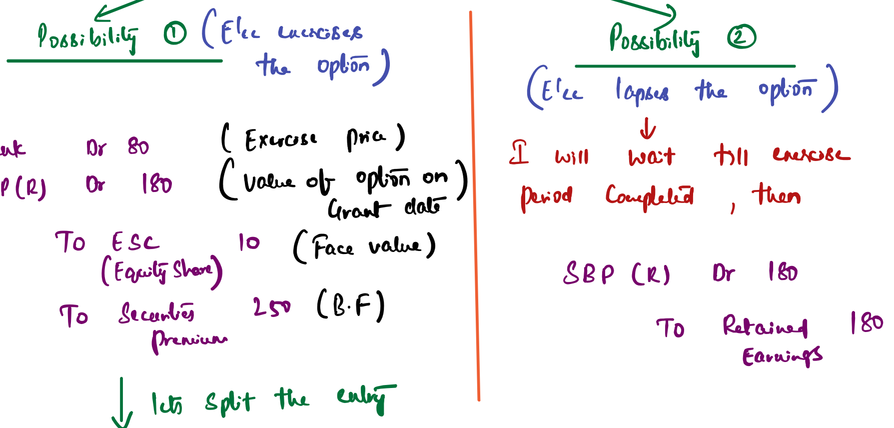

* Bank 80
To SBP (R) 80

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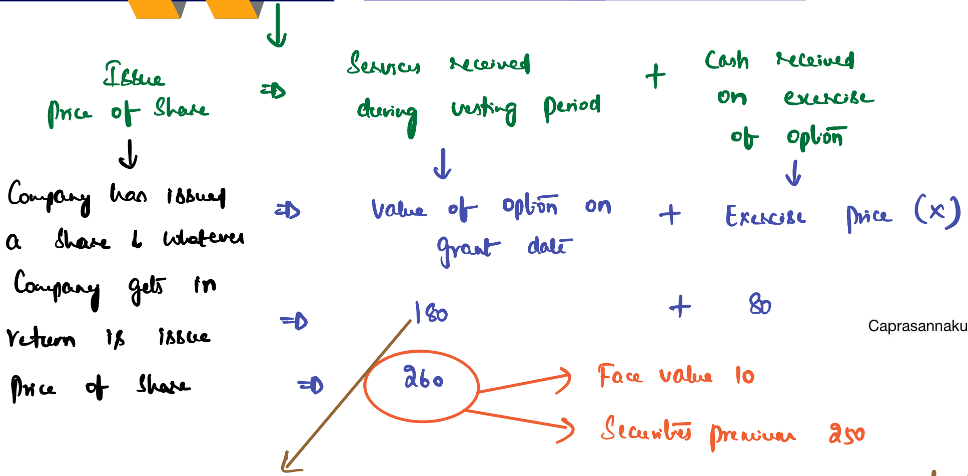
* SBP (R) 260
To ESC 10
To Sec prem 250 (B.F)



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* Service value of Elee is worth 180 only even later after grant date if Share Price increases (Taking stock market class by paying fee with RE Vintage bike)

> * PKsir note: Entries will be same in all the problems, but masala, twists & Drama will happen around Calculation of option expense / valuing.

Case ① 1000 e'ees, 1 option / elee, $X = 100$, Fair value of option on Grant date = 120

Vesting period = 3 yrs

$$\text{Option exp} = \frac{(1000'ee \times 1) \times 120}{3}$$

→ Total value of option (₹) Total value of Service recd by e'ee over 3 yrs

= 40000 / annum

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	1		2		3	
E compen (EC)	40k		40k		40k	
To SBP(R)		40k		40k		40k
P/L	40k		40k		40k	
To EC		40k		40k		40k

Formula

$$\text{Option expense} = \left[\text{No: of e'ees} \times \text{No: of options/e'ee} \times \text{Fv of option on grant date}\right] \times \frac{\text{VP Completed}}{\text{Total VP}} (-) \text{Exp recog in Earlier years}$$

Option exp for year ① $\Rightarrow (1000 \times 1 \times 120) \times \frac{1}{3} - 0 \Rightarrow 40000$

For year ② $\Rightarrow (1000 \times 1 \times 120) \times \frac{2}{3} - 40000 \Rightarrow 80000 - 4000$ $\Rightarrow 40000$

(Closing balance of SBP(R)) (opg bal of SBP (R))

For year ③ $\Rightarrow (1000 \times 1 \times 120) \times \frac{3}{3} - (40000 + 40000) \Rightarrow 120000 - 80000$ $\Rightarrow 40000$

* Same Q as Case ③ above, but 200 e'ees left in year 2

option exp for year ① $\Rightarrow (1000 \times 1 \times 120) \times \frac{1}{3} - 0 \Rightarrow 40000$

EC	40K	
To SBP(R)		40K

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For year ② $\Rightarrow (800 \times 1 \times 120) \times \frac{2}{3} - 40000 \Rightarrow 64000 - 40000$ $= 24000$

EC	24K	
To SBP (R)		24K

For year ③ $\Rightarrow (800 \times 1 \times 120) \times \frac{3}{3} - 64000 \Rightarrow 96000 - 64000$ $\Rightarrow 32000$

E.C	32K	
To SBP(R)		32K

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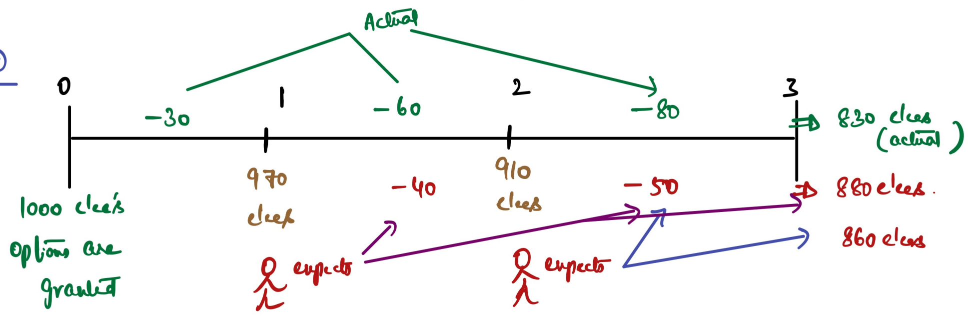
Now actual formula is

$$\Rightarrow \left(\text{No: of emp at the end of vesting period} \times \text{No: of options per emp} \times \text{FV of option on grant date}\right) \times \frac{\text{VP Completed}}{\text{Total VP}} - \text{Exp recognised in earlier periods}$$

→ No: of emps sitting in your office at year end.



So option exp @ Yr ① ⇒ (Estimate 880 emps × .... × ....) × $\frac{1}{3}$ − 0 = xxx

Yr ② ⇒ (Estimate 860 emps × ...... × ....) × $\frac{2}{3}$ − xxx = xxx

Yr ③ ⇒ (Actual 830 emps × ...... × ....) × $\frac{3}{3}$ − xxx = xxx

Note 1: The factors for computation of option expense like No. of Employees, no of options for employees, fair value of option (on grant date), total vesting period are to be considered using the latest estimates at the end of each year and therefore can be changed in each period when they are relating to service conditions / Non-market performance condition.

Note 2: Calculation of No. Employees to be considered.

- While calculating option expense in the last year of vesting period, we have to consider only the actual no. of employees to whom options are vested. There will be no need to estimates.
- However, while calculating the option expense for the remaining years we have to estimate the No. of employees who are expected to be present at the end of service period. / vesting period.

(a) If Rate of Exit (%) is given as average % over the full vesting period, then consider such % for all the years in vesting period. The actual rate of exit in preceeding period should be ignored.

(b) If just a rate of exit (%) is given and it is not mentioned that it is an average for the full vesting period then consider such rate of exit for the remaining vesting period.

Journal Entries:

1. **ON Grant – Day** No Entry
2. **During vesting period**
   a) For Recognizing option expense

      Employee compensation Exp A/c Dr.
      To SBP Reserve.

   b) Transfer to PL

      P&L A/c Dr
      To Employee compensation exp.

   Note: If option expense is negative, reverse entries will be passed.

3. **After vesting period**
   i. **If options are exercised:**

      a) For exercise price received

      Bank A/c Dr
      To SBP Reserve

      b) For Issue of shares

      SBP Reserve Dr **[Value of option + exercise price] x No of option**
      To Equity share capital
      To Securities Premium

   Alternatively,

Bank A/c Dr	**Exercise Price**
SBP Reserve A/c Dr	**Value of options**
To Equity share capital	**Face value**
To Securities premium	**(Bal. Fig)**

   ii. **If options are lapsed.**

      SBP Reserve A/c Dr
      To Retained Earnings / General Reserve.

* SUMMARY & Students doubt *

		1	2
Every year	EC To SBP(R)	100000	120000
	P/L To EC	100000	120000

3rd year you realised that If not getting vested, then

SBR(R)	220000
To EC	220000
E.C	220000
To P/L	220000

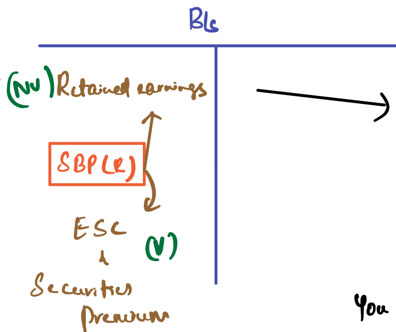
Not Vested → But going to P/L

But here benefits are not completely recd by the Company from client So Cost booked in P/L is reversed

Why difference?

Not [vested] But goes to Retained earnings

After 3rd yr when options get vested (V) | Not vested (NV)



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Here SBP(R) is Equity obligation
↓
Any Equity Obligation, You should treat it on par with Equity Share holders
↓
So it should not go to P/L
↓
Hence it goes to R.E.

For Eg: Int paid to debenture holders will be trfd to P/L as exp. But Dividend paid to ES Holder will be adjusted against R.E not P/L

And also Benefits are received by the Company from its e'ees So Cost is also booked in P/L

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SUMMARY

Service Condition + Non-market performance Condition

↓

① Option lapsed during V.P ⇒ Reversal of SBP(R) to P/L

SBP(R) xxx
To EC (P/L) xxx

↓ why?

Due to non-fulfillment of
↓
(Service Condition (or) Non-market Performance Condition)

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② Option vested but subsequently lapsed by e'ee i.e. Not exercised ⟹ SBP(R) reversed to R.E.

SBP(R) xxx
To Retained earnings xxx

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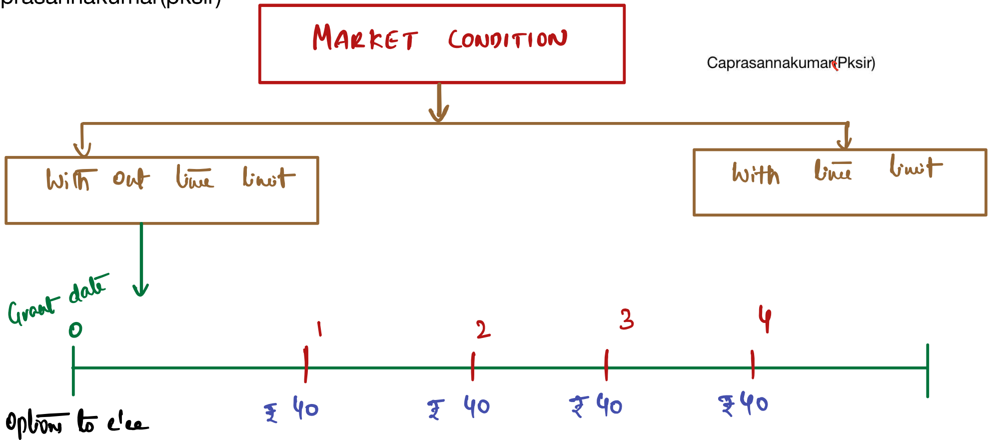

Option to e'ee

VC = option vest
When M.P > 400

Entity expects MP > 400
@ end of 4th year
↓
Based on above assumption
he will Calculate value
of option on Grant date = 160

Estimated VP = 4 yrs

Option exp = $\frac{160}{4}$ = 40 p.a

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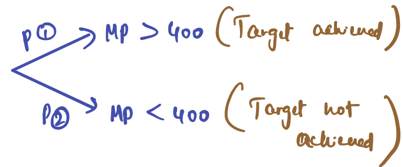
Company is doing this for its accounting purpose, poor e'ee will not even know this. He will be waiting when M.P will hit 400.

Whenever you are (company) valuing an option, the Fair value is always Avg number → You will Consider two Points While Calculating Value



Eg

6th	7th	8th	9th
90%	30%	90%	25%

10th

Avg expectation = 59%
$$\left(\frac{90+30+90+25}{4}\right)$$

↓

* In determining the F.V of option, the possibility of Market Condition failing / passing is already taken in to Consideration by the Company while Calculating the above value of option = 160 on Grant date i.e Time zero.

↓

* So book 40, 40, 40, 40 for 4 yrs irrespective of whether market Condition is Satisfied (or) not @ 4th year. Therefore any Subsequent Changes in estimates will not be Considered once you arrived at the value of option.

↓

* Exception to above rule ⇒ Acceleration of option expense (Pre-ponement i.e In above Case your Market Condition of 400 is Satisfied before estimated V.P i.e @ the end of 3rd year itself.

↓

So option exp for yr ① = (1 ee × 1 option × 160) × $\frac{1}{4}$ − 0

yr ② = (1 ee × 1 option × 160) × $\frac{2}{4}$ − 40

yr ③ = (1 ee × 1 option × 160) × $\frac{3}{4}$ − (40 + 40)
(1 ee × 1 option × 160 × $\frac{3}{3}$ − (80))

yr ④ = (1 ee × 1 option × 160) × $\frac{4}{4}$ − (40+40+40)

Q ✱ **Example**

No. of Employees covered in ESOPS = 100

No. of options per employee = 60

Fair value of the option = 17

Market price should become Rs 150 is the vesting condition and employee should stay till such period. Expected vesting period on Grant date = 4 years.

At the end year 1:

Employees left 5, expected to leave 12 and MP not estimated to cross Rs 150 within 4 years (Trap)

At the end of year 2:

Employees left 3, expected to leave in future is 4, MP will reach the target after 4 years from year 2. (Trap)

At the End of the year 3: -

Employees left 7, market price has attained the target level of Rs 150 in this year. Hence the options vested.

Calculated option expense each year.

Ans

* V.P estimated on Grant date = 4 yrs, while calculating option exp of each yr, we should not re-estimate the V.P based on when M.P of 150 will be attained.

* The reason is the FV of option ₹ 17 on Grant date is computed after considering the probability of M.P crossing & not crossing 150 by the end of yr 4. Therefore subsequent estimates are to be ignored.

Option exp for yr ① ⇒ $[(100-5-12) \times 60 \times 17] \times \frac{1}{4} - 0 = 21165$

Option exp for yr ② ⇒ $[(100-5-3-4) \times 60 \times 17] \times \frac{2}{4} - 21165 = 23715$ (6 struck out, replaced by 4)

Option exp for yr ③ ⇒ $[(100-5-3-7) \times 60 \times 17] \times \frac{3}{3} - (21165 + 23715) = 41820$

↓

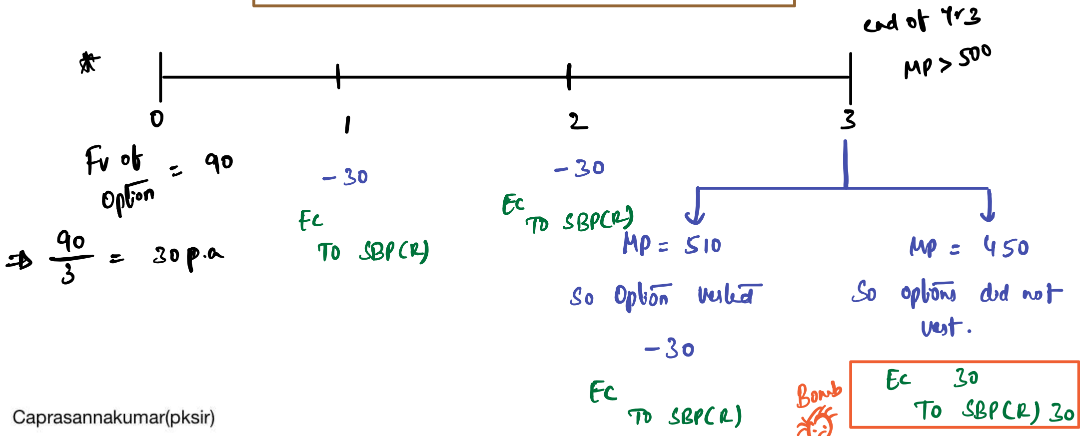
* During yr ③, M.P of share crossed 150. Options are actually vested in yr ③. We have to accelerate the option expense i.e recognise exp of yr ③ & yr ④ in yr ③ itself. (Preponement of yr ④ into yr ③)

SUMMARY

Possibility 1: Market condition without any time limit. [E.g.: options will vest whenever market price of share exceeds Rs.500]

- **a)** On grant date, the company will estimate a vesting period by which the market condition is expected to be satisfied.
- **b)** Option expense has to be recognized over this estimated vesting period. Any further estimates regarding the vesting period **shall be ignored.**
- **c)** At the end of estimated vesting period, option expense has to be recognized even if market condition is not satisfied.
- **d)** However, if market condition is actually satisfied before the estimated vesting period then there will be a **preponement of option expense.** This is called as acceleration of option expense.

Market Condition with Time Limit



B/s

SBP (R) 90

Merge it to Retained earnings.

Why should I book expense in 3rd yr when option is not vested?

We already know the answer as possibility of option not getting exercised i.e Market condition not getting satisfied is already considered in calculating value of option.

Moreover whatever service company expected from else that benefit is recd by the Company.

Student doubt ☹

But Sir, earlier when Service Condition (or) non-market Condition is not Satisfied, then we will reverse the entry i.e

SBP (R)
To EC (P/L)

& effectively taking it back to P/L. But here we are taking it to Retained earnings

earlier we used to take SBP (R) to R.E only if elee does not exercise his option after Satisfying both Service and Non-market Condition ?

PK sir answer

Simple, as in this case of market Condition we have already Considered the possibility of market Condition not getting Satisfied (failing) at the beginning on the Grant date itself when option value was Calculated.

SUMMARY

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Possibility 2: Market condition with time limit [E.g.: options will vest only if market price exceeds Rs.65 by the end of year 3]

a) Here the vesting period is defined in the ESOP contract. Therefore, option expense is to be recognized over this vesting period.

b) If the market condition is not satisfied by the end of vesting period, then options do not vest at all. However, the option expense needs to be recognized as usual. This is because the possibility of market condition not getting satisfied is already considered in determining the fair value of option on grant date. As the options do not vest, the accumulated balance in **SBP Reserve is transferred to Retained earnings.**

MODIFICATION OF ESOP'S

↓

- Favourable to elee
  - ↓
- Unfavourable to elee
  - ↓
  - ↑ in V.P
  - ↑ in X price of Share

↓

Ele demotivated & may leave the Company

↓

* So to make them stay Company reduces X price from 100 to 60. Let's say Now FV of the option is 90 after modification @ end of year ② and this end of Yr ② is Grant date for modification.

↓

Ind AS 102 Says

↓

Modification will be Treated as a Separate Plan, i.e. Incremental fair Value of Option will be recognized as an Expense over the remaining Vesting Period on SLM Basis
Incremental fair Value of Option →
Fair Value of Modified / Repriced Option on Modification Date

& Apart from this Original option expense recognition Should Continue i.e 40, 40.

↓

Inc benefit = FV (after) − FV (before)

= 90 − 30

= 60 → Recognised as expense over remaining V.P.

↑ in Target Conditions

For Accounting purpose Ind AS 102 ignores the above

↓

i.e Accounting for ESOP has to be done as if no such modification has taken place.

↓

They do not want Companies to manipulate ESOP Terms & Conditions to get desired effect on P/L.

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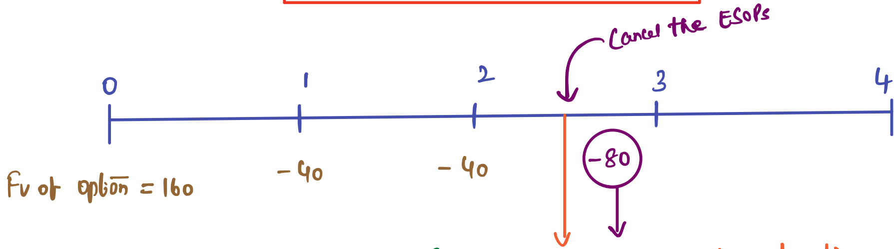
Student doubt?

Why FV of option & not exercise price?

a) If you take X price, you are indirectly doing accounting based on intrinsic value & not fair value. Ind AS 102 allows accounting based on Fair value.

CANCELLATION OF ESOP'S



Standard is trying to Stop Company from manipulating Profits by asking the Company to do like this

① Accelerate recognition of option exp

$\Rightarrow \left(160 \times \frac{3}{3}\right) - (40+40)$

$\Rightarrow 80$

② Reversal | cancel SBP (R) accumulated

SBP (R) Dr 160
  To E.C ~~X~~
  GR (or) Retained earnings 160

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Suppose Fv on Cancellation date ← is 220.

③ Cash Compensation paid to elees (250 paid)

220 Retained earnings Dr (up to Fv of option on cancellation date) ← logic ← You are paying in the capacity of Equity Share holder

30 E.C (P/L) Dr ← logic ← Excess payment over & above Fv is in the capacity of you have making elee happy as cancelled ESOP. So it is cost to company. Hence P/L.

250 To Bank

(Or)

④ If there is no Compensation paid

SBP (R)
  To GR | R.E
(Being options lapsed)

Lets revise Imp points

① General rule is before V.P Completed if options did not vest due to non - satisfaction of Service Condition, if options are lapsed during V.P including last year, then reversal should be routed through P/L.

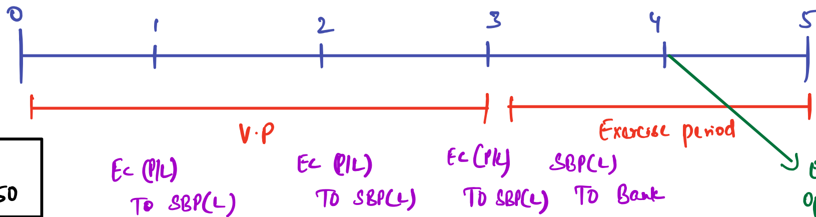
But if lapsed after V.P, i.e vested options lapsed it should be routed via R.E.

Exception to the above rule

1. In case of Market Condition failed during V.P, then you will book exp via EC & SBP (R) should be routed via R.E. not P/L.
2. Modification unfavourable to elee, Ignoring Modification, if original condition is satisfied and not revised condition then SBP(R) should be routed via R.E.
3. Cancellation → Acceleration of exp → Then SBP (R) to R.E.

STOCK APPRECIATION RIGHTS (SAR)

(SBP (Cash Settled)) (Liability) & Not Equity item



Option
X = 150

Fv of option = 120

MP = 320
X = 150
Cash paid (Gain) 170
Intrinsic value of exercise date

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In ESOPs what we do is Fv @ Grant date = 120, So Yr① 40, Yr② 40, Yr③ 40, then V.P is over by Yr③. Now if MP is 320 & X = 150, then you need to pay 170. Entry will be

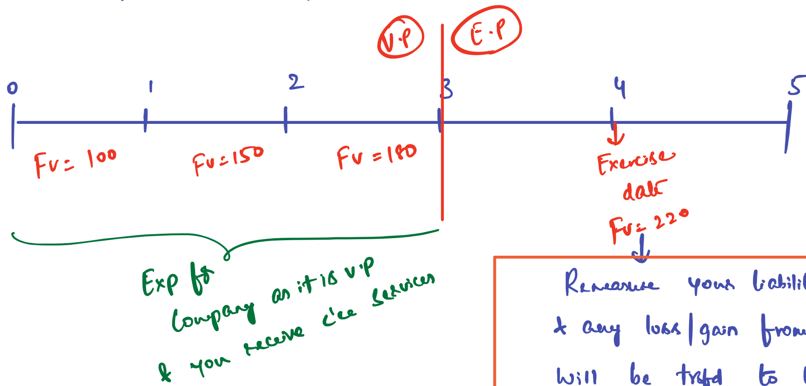
SBP (L) Dr 120 (40+40+40)
P/L Dr 50 (B.F)
To Bank 170

* But the above entry is logically wrong bcoz you are giving clear benefits of SAR for their services during V.P and not after.
But in the above case 120 you booked in V.P, but 50 major exp is booked in P/L after V.P which is wrong.

* Therefore what we do in SAR is we don't consider FV of option on Grant date rather F.V of option (later) at yr ① end (FV = 140), yr ② end (FV = 155), yr ③ end (FV = 168) (or) avg FV given in Q we will take.

* Fv of option is nothing but Present value of future Intrinsic value on future date of exercise *

* Now suppose Exercise period is 2 yrs after Vesting period of 3 yrs, then



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loss for Company as V.P is over

$$\text{Formula} = \left[\text{No: of el'ees} \times \text{No: of options} \times \text{FV of option @ end of the year}\right] \times \frac{\text{VP}}{\text{Total VP}}$$

Note: If Entity grants SAR which is immediately vested, then expense will be fully recorded on Grant date itself. Subsequently Δ in fair value will be recorded as E'ee benefit exp till the end of exercise date.

SUMMARY

STOCK APPRECIATION RIGHTS (SAR) OR CASH SETTLED SHARE-BASED PAYMENT.

1) In SAR the company agrees to pay cash to the employee after the vesting period to the extent of MP over and above the exercise price.
   Cash paid to employee = **MP of share on exercise date (-) Exercise price**
   This is called as INTRINSIC VALUE of option on EXERCISE DATE
2) Unlike ESOP's, SAR is a liability since the company has an obligation to pay cash.
3) Since SAR is a liability, it has to be remeasured each year considering the Fair value of option at the end of each year.

Journal Entries:

1. For Recognizing option expense
   Employee compensation A/c Dr | E'ee Benefit exp
   To SBP liability A/c / Provision for SAR
2. Transfer to P&L
   P&L A/c Dr
   To Employee compensation Expense.
3. On payment of cash to employee
   SBP Liability A/c Dr
   To Bank A/c

Note 1: While calculating option expense each year, we have to consider the fair value of option at the end of each year.

Note 2: If any Excess liability is created or SAR is not Exercised such excess liability shall be reversed by transferring to P&L A/c.

ESOP'S WITH CASH ALTERNATIVE

(A) Choice is with Counter party → Compound financial instrument

* logically everyone will prefer SARs over ESOPs so Companies will say Elee get to Choose

Eg (CDMA (US) GSM phones)

1300 ESOPs (8) 1000 SARs (means they won't be equal)

(Mostly with lock in Period restriction) — So slightly lower in value

(With out restriction) — So higher in value

FV of option on grant date: 30 | 32

36000 | 32000 ⇒ Diff = 4000

Higher of the above is 36000, but its Preferable to do accounting as per SARs, So Ind AS found a mixed Solution. Take diff i.e 4000 and Account it as ESOPs and Remaining is accounted as SARs. i.e 1000 options.

Essence: You have to do higher number of the two above accounting & SAR accounting. If SAR is high just do SAR accounting no need to calculate any diff.

SUMMARY

* The employees will be given a choice to select either cash (SAR) or shares (ESOP's) after the vesting period. This plan will be accounted as under.

Step 1: FV of SAR on grant date = No. of options x Fair value of option without restrictions

Step 2: FV of Equity obligation = No. of options x Fair value of option after considering Restrictions.

Step 3: Equity component = [Step 2 Θ Step 1] only if positive.

Step 4: The No of options in step 1 should be accounted as SARS throughout the vesting period and The Equity component in step 3 if any will be accounted as ESOP's

Step 5: After Vesting date.

Situation 1: Employee Opts for cash

a) Pay cash to employee from SBP Liability A/c and
b) The Balance in SBP Reserve is transferred to Equity (Retained Earnings/ General Reserve)

Situation 2: Employees opts for share

a) The Balance in SBP liability will be transferred to SBP Reserve.
b) From SBP Reserve shares are issued.

(Bcoz you will have huge SBP (L) & less SBP(R))

(B) Choice is with the Entity

* Equity Settled accounting treatment is done when there is no obligation to Settle in Cash.
* If there is present obligation to Settle in Cash, only then Treat it as Cash Settled.

Q) OK But how to find out whether there is present

obligation (or) not ?

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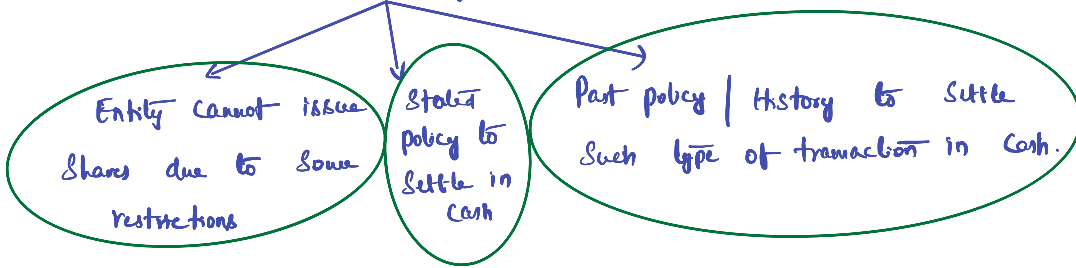
a) Following situations :-



* If Equity settled accounting has been done, but settlement need to be done in cash, then

SBP (R) A/c Dr
  To Bank A/c

(or)

SBP (R) A/c Dr
P/L A/c Dr
  To Bank A/c

Eg SBP (R) = 1000000, Settlement req in Cash = 1300000

SBP (R) Dr 1000000
P/L Dr 300000
  To Bank A/c 1300000

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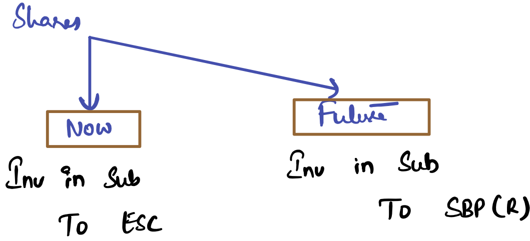
GROUP SETTLED PLANS

(Group = Parent + Subsidiary)

Scenario 1

Services are received by Subsidiary Co.
+
Shares are to be issued by parent Co.

In the books of Parent Co.	**In the Books of subsidiary Co.**
Investment in subsidiary co. Dr To SBP Reserve/ Equity share capital	Employee compensation A/c Dr To capital contribution by parent (Part of Equity)



Now	Future
Inv in Sub	Inv in Sub
To ESC	To SBP (R)

Bcoz now also parent is indirectly investing in subsidiary.

(Whoever is issuing shares, Credit SBP (R))

Bcoz services are received by Subsidiary, so book expense here.

↓

Bcoz parent is investing, it is Share Capital in Subsidiary books, so it is Credited to Equity account called Capital Contribution from Parent.

↓

If parent has really invested by buying Shares of Subsidiary then it would be reflected in ESC of Subsidiary, but that is not the case here, Parent is just giving benefit (non-cash)

Scenario - 2

Services are received by parent co.

+

Shares are to be issued by subsidiary co.

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In the books of parent co.	In the Books of subsidiary Co.
Employee compensation A/c Dr To Dividend Income (Subsidiary issuing shares out of their reserves is a kind of dividend distribution). This Dividend is an Income to parent co.	Retained Earnings/General Reserve Dr To SBP reserve/ equity share capital (SBP reserve → Future; equity share capital → Now)

Bcoz services are received by Parent, so book expense here. i.e debit E'ee Compensation

Parent is my Share holder, So it should be treated as Non-Cash dividend declared.

↓

Whoever is issuing shares, Credit SBP (R)

E'ee Stock Purchase Plan (ESPP)

M.P = 500
X = 350

→ Bank A/c Dr xxx 350
E.C A/c Dr xxx 150
(P/L)
To ESC 100 xxx (Face value)
To Sec prem 400 xxx

* Benefit to e'ee (or) Cost to Company = 500 − 350 = 150
↓
* Ok so far you have understood, Now lets give it a twist & dig deeper.
M.P = 500 → value of freely tradable share (No restrictions)
X = 350 → Exercise price of share with restrictions.
So can't compare both straight way.

→ Which means earlier calculation of 150 is wrong → YES

* Revised M.P of share with restrictions (Fair value) = say 440
Now compare this 440 with X price = 350
90 is value.

Summary

E'ee Compensation = Benefit given to e'ees
= Fair value of share with restrictions − X price offered

Ind AS 23 Borrowing Costs

link up with Ind AS 109

Meaning & Treatment of Borrowing

1) **Meaning of Borrowing Costs: -**

It means costs incurred for borrowing the funds including

→ Interest Costs

→Exchange Difference on foreign Currency Borrowing upto some extent

2) **Treatment of Borrowing Costs: -**

If Borrowing is taken for Acquisition or Construction of a Qualifying Asset Capitalize it to the Cost of that Asset

Otherwise → Recognize an Expense in P&L

Note: Qualifying Asset: -

- It means any Asset [Example: Inventory, PPE, Intangible Assets, Investment Property, etc. Which takes substantial period of time to get ready for its intended ~~we~~ use or sale [ie Installation or Construction of Asset is taking substantial period of time]
- → Substantial Period of Time is not defined under the Ind AS. It will be as per the judgement of the Entity. In silent question, we will assume that Asset is taking substantial period of time to get ready.

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Period of Capitalization of Borrowing Costs

Commencement Date of Capitalization of Borrowing Costs

↓

Capitalization of Borrowing Casts should start from Later of following dates:

(i) Loan Taken

(ii) Development Activities on the Asset has been Started.

(iii) Expense is incurred on the Asset

Cessation Date of Capitalization of Borrowing Costs

↓

- Capitalization of Borrowing Costs should stop on the date when the Asset gets ready for its intended use of sale.
- If Entity is completing construction of Asset in Parts & each part can be used individually, then Entity should stop capitalization of Borrowing Costs on completed part on the date when that part gets ready for its intended use sale.

[Example: Building Construction Project in Phases]

Note: - If Entity pause development work on the Asset for unnecessary reason, then Capitalization of Borrowing Costs on that Asset will be suspended for such period.

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LETS SEE IT IN DETAIL

① What is Borrowing Costs?

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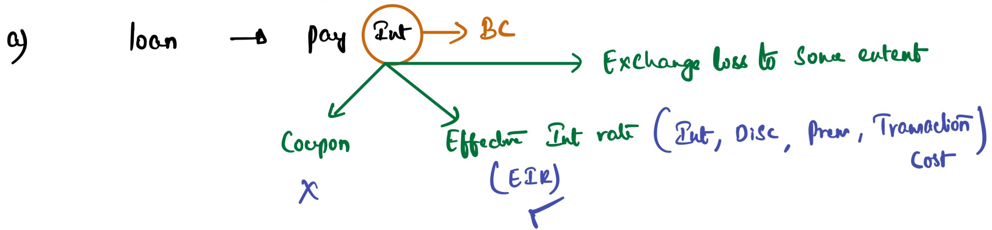

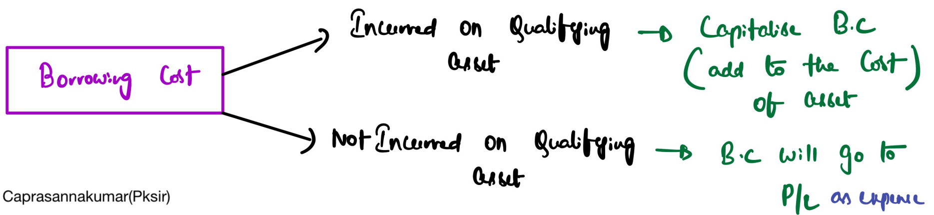

Q) Now what is Qualifying asset? (Q.A)

a) Asset that takes Substantial period of time to get ready for its intended use (or) Sale.

→ Ind AS says apply judgement & decide

Eg Manf plants, power generation facilities, Intangible assets, Investment properties, bearer plants.

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Note

Inventory produced in short period of time
Assets ready for its intended use when acquired } NOT A Q.A

Summary → B.C incurred i.e directly attributable to acquisition, Construction (or) production of Q.A will be Capitalised.

① Why BC related to Q.A should be capitalised?

a) Matching Concept → Any exp incurred should be matched with corresponding matching benefit in current year

Eg COGS —with→ Sales

Working capital loan Int —This year→ P/L

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Case①

Instances | Situations where you cannot capitalise Interest

loan 100000 @ 10% —Purchased→ PLM (ready to use)

↳ Int will be trfd to PLL as you have enjoyed benefit in Cyr, so Int will be debited in Cyr only.

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* Now suppose the same above asset which is ready for use when purchased but I did not use, kept it Idle. So can I capitalise its Interest → NO

↓

Why bcoz once asset is ready for use, irrespective of whether you use it (or) not, Int cannot be capitalised as its your mistake of not using it

↓

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Another logic is if you don't plan to use why did you buy the asset in first place. You could have purchased next year isn't it. So you paid interest unnecessarily.

Case ②

Took 100000 loan @ 10% p.a (Situations where you can capitalise BC)

B/s – Year 2000

10% loan 100000	Building WIP 60000
	+ 10000
	Capital WIP → 70000

} will take 2 years to finish.

Int 10000
To Bk 10000

→ Capitalise

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B/s @ Year 2001

	B WIP = 70000
	(+) Costs incurred = 40000 (Interiors)
	110000
	(+) Int costs (Yr 2) 10000
	Building 120000 (ready for use now)

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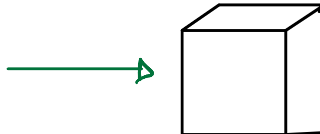
* After 2 years, you should stop capitalising B.C (Interest) in this case bcoz building is ready for use. If you say even after that I will capitalise it means you are saying I'm still incurring building construction cost even after construction is over. – Illogical

Case ⓑ

Building Construction Costs

- Mat = 20 L
- labour = 10 L
- Dep on P&M = 2 L
- OH = 5 L

→



logic behind capitalising B.C

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Int Cost on borrowed funds = 3L
Design Cost = 5L
Interior Cost = 5L
Total Cost = 50L
(+) Pft = 30L
S.P = 80L

I bought the building
↓
Building A/c Dr 80L
To Bank 80L

In the asset you have purchased, B.Cost of Previous owner has already been included

a. Borrowing costs that are directly attributable to the *acquisition, construction or production* of a qualifying asset are included in the cost of that asset i.e. must be capitalised.
(acquisition → Purchase; construction → Building / Powerplant; production → Vineyard)

b. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Such Capitalisation can be done only when

① Asset is Capable of Yielding future economic benefits
↓
Imp Condition. If no don't Capitalise

(+)

② B.C Can be measured reliably.

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Now 2 words are imp from the above
① B.C ② Qualifying Asset. lets see them

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① Qualifying Asset (Q.A)

* It means any asset which takes Substantial period of time to get ready for its intended use. (or) Sale.

Eg Installation, Inventory (Vineyard), PPE, Intangible assets, Investment property.

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* Acquisition ⇒ purchase ⇒ Bought from Germany, Takes 6 months to Come, So Q.A. (Delivery & Installation)

* Substantial period of time is not defined under Ind AS 23. It will be based on judgement of the Entity. If 'Q' is Silent, we will assume that asset is taking Substantial Period of time to get ready.

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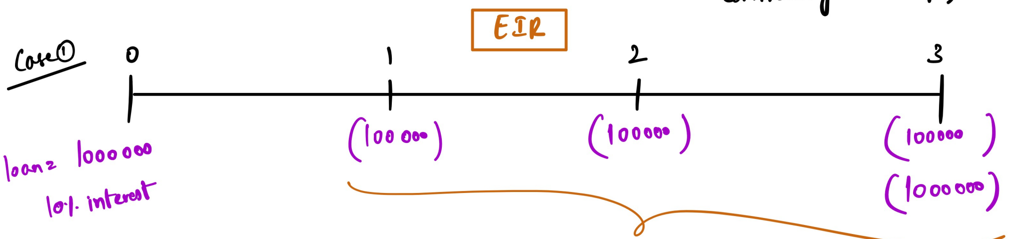
② Borrowing Costs (B.C) :-

* It means Cost incurred for borrowing the funds (→ not repayment of funds (Pre-payment Charges)) including Interest Costs (EIR), Amortization of disc / premium on borrowings, Exchange difference on foreign Currency borrowing up to some extent which are regarded as adjustment to interest Costs.
* Finance Charges in Case of lease. (Crane / dockyard leased for Constructing a Ship)



loan = 1000000
10% interest

Processing fee = 50000

Inflow = 950000 today ← Discount @ that rate where both are equal — PV of Cash outflows
↓
exactly IRR Concept
↓
But here it is Cost
↓
This is called Effective Interest rate (EIR)
↓
How to Calculate this?

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Trial & error method

1st Try ⇒ 11%

Pv of CF = 100000 × PVAF (11%, 3 yrs)
+ 1000000 × PVF (11%, 3 yrs)

= (100000 × 2.4437) + (1000000 × 0.7311)

= 975470

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2nd Try 12%

Pv of CF = (100000 × 2.4018) + (1000000 × 0.7118)

= 951980

3rd Try 12.5%

Pv of CF = (100000 × 2.3813) + (1000000 × 0.7022)

= 940430

By applying Interpolation technique

12% → 951980

12.5% → 940430

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↑ 0.5% → 11550 ↓

? ← 1980 ↓

$$\Rightarrow \frac{0.50 \times 1980}{11550} = 0.09\%$$

So E.I.R = 12% + 0.09% = 12.09%

Borrowing Cost as per Ind AS 23

Loan A/c

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Dr		Cr	
		Beg of yr ①	
		By Bank (1000000 − 50000)	950000
		End of yr ①	
To Bank	100000	By Int exp (950000 × 12.09%)	114855
Closing bal	964855		
To Bank	100000	By bal b/d	964855
To bal c/d	981506	By Int exp (964855 × 12.09%)	116651
To Bank (100000 + 1000000)	1100000	By bal b/d	981506
To bal c/d	0	By Int exp (981506 × 12.09%)	(Appx) 118494 (B.F)

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Entry

Int ... xxx To loan A/c ... xxx	Q.A / P&L ... xxx To Int exp ... xxx

The above method is officially called Amortized Cost method (ACM)

↓

We will see this in detail in Ind AS 109

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Eg :- **Understanding the Concept Of Exchange loss as B.C**

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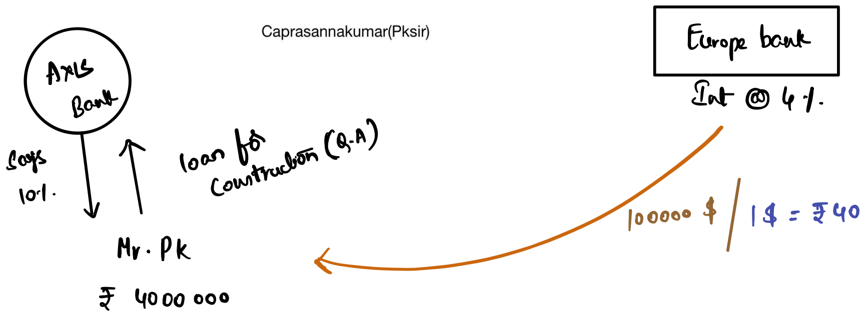

Year ① ending → 1$ = 45

Int payable = $(4\% \times \$100000) \times 45/\$$ = ₹180000 Capitalised

* All monetary items at the end of the year should be restated at closing exchange rate. (General point)

↓

So Exchange loss on Remeasurement = $100000\ \$ \times (45/\$ - 40/\$)$

= ₹ 500000

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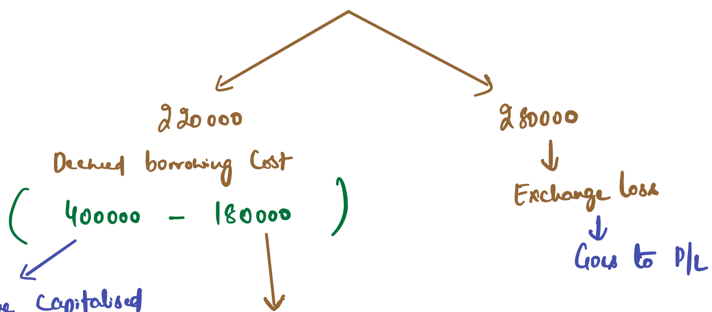

(400000 − 180000)

You would have Capitalised this much interest provided if PK has taken loan from Axis bank in India

This much Already capitalised.
So balance 220000 even though it is exchange loss. It is allowed to be Capitalised as per Ind AS 23

Examination purpose presentation

Step ① Int Cost on local borrowing (functional Currency) ($100000 \$ \times 40 \times 10\%$) — 400 000

Step ② Actual Int Cost on foreign Currency borrowing — 180 000

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Step ③ Exchange loss — 500 000

Step ④ Out of exchange loss, the lower of the following is treated as deemed B.C.

Savings → ⓐ Step ① − Step ② = 220000

ⓑ Exchange loss (Step ③) = 500000

Step ⑤ Total B.C Capitalised (Step ② + Step ④) = 400 000

Eg: ② Solved in Solutions book, ILL (1-6) Solved.

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	Year ①	Year ②
Case ①	Ex loss (5 Steps)	Ex loss (5 Steps)
Case ②	Ex gain (P/L)	Ex gain (P/L)
Case ③	Ex gain (P/L)	Ex loss (5 Steps)

Case ④ Ex loss (5 steps)

Ex gain ↓ This will go to asset and nullify the effect of exchange loss

Yr 0	1	2
1$ = 50	1$ = 55	1$ = 53

Actual loss = 3 But in year 1 I have capitalised loss of ₹5

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Eg On 1.4.16 R Ltd made a borrowing of 40000 $ @ 2%. from US Bank. The exchange rate on that date 1$ = 59. The Borrowing rate in India is 8%. The Closing exchange rate in on 31.3.17 1$ = 63 & 31.3.18 is 1$ = 61. Calculate B.C for both years 2016-17, 2017-18?

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Examination purpose presentation (2016-17)

Step ① Int Cost on local borrowing (functional Currency) — 40000$ × 8% × 59 = 188800

Step ② Actual Int Cost on foreign Currency borrowing — 40000$ × 2% × 63 = 50400

Step ③ Exchange loss — 40000$ (63-59) = 160000

Step ④ Out of exchange loss, the lower of the following is treated as deemed B.C.

Savings → ⓐ Step ① − Step ② = 138400

ⓑ Exchange loss (Step ③) = 160000

Step ⑤ Total B.C Capitalised (Step ② + Step ④) = 188400

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Examination purpose presentation (2017 − 18)

Step ① Int Cost on local borrowing (functional Currency)

Step ② Actual Int Cost on foreign Currency borrowing — 40000$ × 2% × 61 = 48800

↓ This will be Capitalised without any doubt

Step ③ Exchange gain ⇒ (63 − 61) × 40000$ = ₹ 80000

Step ④ Out of exchange loss, the lower of the following is treated as deemed B.C.

ⓐ P Yr exchange loss Capitalised = 138400

ⓑ Exchange gain (Step ③) = 80000

} Whichever is low will be Capitalised (reduced)

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Step ⑤ Total B.C Capitalised (Step ② + Step ④) =

In 2017-18, our unrealised exchange gain is 80000. In 2016-17 we have Capitalised exchange loss of 138400 as

deemed borrowing cost. This 138400 exists in the cost of Q.A. Therefore exchange gain shall be capitalised (deduction) to reduce the previous unrealised exchange loss capitalisation.

Amt of exchange gain treated as BC for capitalisation = lower of exchange loss capitalised earlier & existing in Q.A (or) Exchange gain itself.

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* Total B.C capitalised in 2017-18 = 48800 − 80000
= −31200

* A revenue item taken to B/s is capitalisation it can be + (or) −

* Note: Pre-payment of loan (Prepayment charges) will not form part of B.cost. *

Period of Capitalisation of B.c

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↓

Commencement date of Capitalisation of BC

↓

Capitalisation of B.c should start once all the below conditions are met cumulatively (or) later of the following date

↓

- loan Taken (i.e B.c incurred)
- Development activities on asset has started
  - ↓ i.e preparing the q.asset for its intended use
- Expenses incurred on the Q. Asset.

Explanation to the three conditions for commencement date

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- **Expenditures on a qualifying asset include:**
  - Those expenditures that have resulted in payments of cash
  - * transfers of other assets (Bringing diff assets at site for work)
  - *** assumption of interest-bearing liabilities (Int on loans | credit used specifically to finance the construction)

** Expenditures are reduced by any progress payments received and grants received in connection with the asset.

- **Activities necessary to prepare asset for its intended use or sale:**
  - Includes technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction.
  - excludes (doesn't include) * the holding of an asset when no production or development that changes the asset's condition is taking place.

* For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

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* Eg A construction company uses its existing equipment (cranes, vehicles) in the construction of a building. Cost of these assets and their depreciation during their use will be included.

** If it is general borrowing & on 1.6.01 we have incurred 20 lakhs. We are thinking to capitalise the interest on 20 lakhs from 1.6.01 to 31.3.02. But if Govt grant of 5 lakhs recd on 1.6.01, then capitalise the interest on 15 lakhs only. Same logic goes with part payments from third party for whom we are constructing the asset.

*** Very deep point : last year B.C capitalised (Int) (G.B & S.B) will be added to this year exp on Q.A and then multiplied by capitalisation rate in case of G.B. (See case ① in pg ⑰)

3.6.2 Suspension of capitalisation

Temporary stoppage

Construction of Toll road / bridge / flyover is suspended due to Harthal / Covid / Δ in govt / Environmental reasons / court stay order

- Capitalisation of borrowing costs shall be suspended during the extended periods in which the active development of a qualifying asset is suspended. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, the standard distinguishes between extended periods of interruption (when capitalisation would be suspended) and periods of temporary delay that are a necessary part of preparing the asset for its intended purpose (when capitalisation is not normally suspended). → Cement roads is best example. (or) Bridge on river during rainy season. (Genuine delays)
- Capitalisation of borrowing cost is not suspended when temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period when high water levels delay construction of a bridge, if such high-water levels are common during the construction period in the geographical region involved. Similarly, capitalisation continues during periods when inventory is undergoing slow transformation – the example is given of inventories taking an extended time to mature (presumably such products as Scotch whisky or Cognac, although the relevance of this may be limited as these products are likely to meet the optional exemption for 'routinely manufactured' products.

Cognac: Type of brandy made in France

Summary

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Normal / expected delay ⇒ No Suspension
Abnormal / unexpected delay ⇒ Suspension

* CESSATION DATE OF CAPITALISATION OF B.C *

Permanent stoppage

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* It should stop when asset gets ready for its intended use (or) sale. (or) partly completed & able to provide benefits from that part.

* If Entity is completing construction of asset in parts & each part can be used individually, then Entity should stop capitalisation of B.c on completed part on the date when the part gets ready for its intended use (or) sale.

Eg Building construction project in phases.

* If Entity Pause development work on the Asset for any unnecessary reason, then Capitalisation of BC on the Asset will be Suspended for such period.

Key words

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Substantially all work is Complete → Enough to Stop Capitalisation.
Eg Gated Community.

Exception to above rule ⇒

For a qualifying asset that needs to be complete in its entirety before any part can be used as intended, it would be appropriate to capitalise related borrowing costs until all the activities necessary to prepare the entire asset for its intended use or sale are substantially complete. An example of this is an industrial plant, such as a steel mill, involving several processes which are carried out in sequence at different parts of the plant within the same site.

* Eg ⑤ in Solutions book

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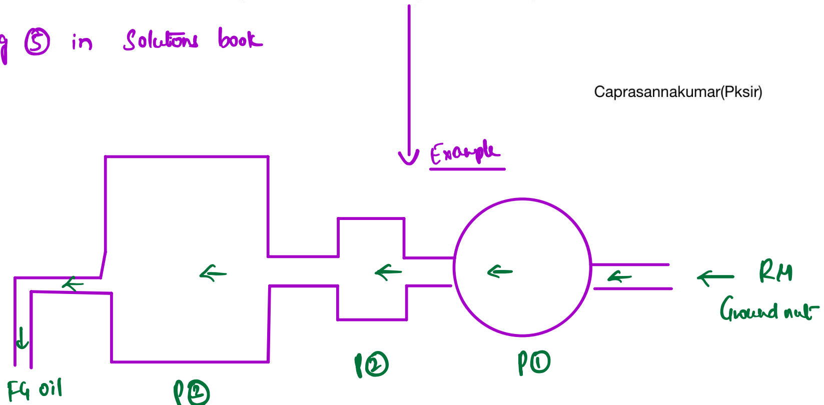

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Capitalization of Borrowing Costs

* The borrowing costs that are eligible for capitalisation are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

Since it may not always be easy to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided, the standard includes separate requirements for specific borrowings and general borrowings.

- **Entity can have 2 types of Borrowings as follows:**

Specific Borrowings

Amount Borrowed specifically for Acquisition or Construction of a Qualifying Asset

General Borrowings

All Other Barrowings of Entity which can be used for any purpose

It is assumed that:

✓ Specific Borrowings are firstly used to incur expense on qualifying asset, and then
✓ General Borrowings are used to incur remaining expense on qualifying asset

- Calculation of Borrowing Cost to be Capitalised on Qualifying Asset during the year as follows: -

① Specific borrowings

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* BC to be Capitalised = Int on Specific borrowing (−) Any income on temporary inv of borrowed funds.

Sp. borrowing 100 lakhs @ 10%.

Case ①

Commencement date 1.4.2000 — 1.10.2000 — 31.3.2001

1.4.2000: Spent ₹ 60L & invested remaining 40 L @ 3% p.a

1.10.2000: Spent 40L

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* Int Cost to be Capitalised = $\left[(60L \times 10\%) + (40L \times 10\% \times 6/12)\right] - \left[(40L \times 3\% \times 6/12)\right]$

= ₹ 7 40 000

WRONG though it sounds logical as standard says what you have spent is irrelevant.

* Correct Int Cost to be Capitalised $= (100L \times 10\%) - (40L \times 3\% \times 6/12)$

$= 10L - 0.60L$

$= 9.4L$ → Correct Ans.

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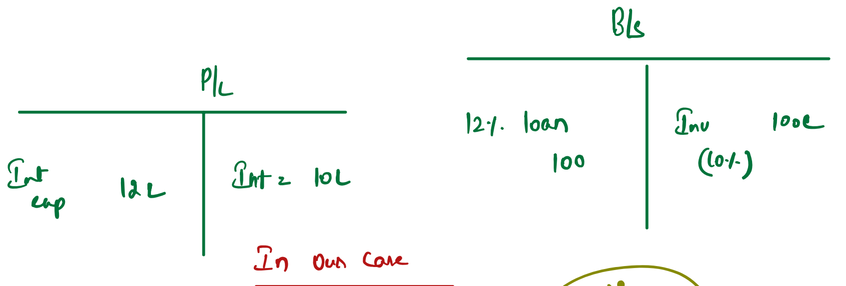
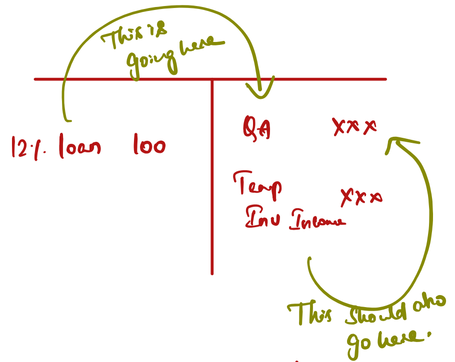
Matching Concept





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Summary

After Commencement date, full B.C of Specific borrowing Should be Capitalised irrespective of amount actually spent.

Step 1: Specific borrowing Cost:

Actual Interest Cost incurred on Specific Borrowings irrespective of expense incurred on qualifying asset on different dates. XXX

[Specific Borrowing Amount x Interest Rate on Specific Borrowing x Months / 12

Here, Months will be taken

- FROM Later of
  - Commencement Date of Capitalization
  - Year Beginning
- TO Earlier of
  - Cessation Date of Capitalization
  - Year End]

(-) Investment Income on Temporary Investment of these Specific Borrowings [if any] (xxx)

Specific Borrowing Coat to be Capitalized (xxx)

② GENERAL BORROWINGS (G.B)

↓ Other than S.B all other borrowings will come under G.B

B/s

10% loan SBI	300	P&M (WIP)	xxx
12% Red Deb	500		
8% WC loan	200		

↳ Standard takes a default assumption that the Q.A is financed by existing borrowings i.e

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↓ Pool of general borrowings

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↓

* If there is any old specific borrowings took for Q.A few yrs back for which you are paying interest today and the old Q.A is not Q.A today, so its capitalisation stopped long back. Now that old specific borrowing for which you are paying interest today will also come in to the above pool of general borrowings. (old S.B is now G.B)

↓

Now how to find out B.C in case of General Borrowing?

↓

Standard says find out weighted avg capitalisation rate

↓

Calculate Capitalization Rate [Weighted Average Borrowing Rate]

$$\Rightarrow \frac{\text{Total Actual Interest on All General Borrowings}}{\text{Total Amount of General Borrowings weighted average on time basis}} \times 100$$

↓ (on time basis) Means borrowings o/s during the year

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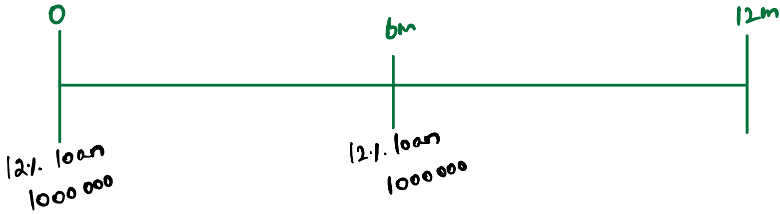
Case ①



$$\text{Capitalisation rate} = \frac{\left(1000000 \times 12\% \times \frac{12}{12}\right) + \left(1000000 \times 12\% \times \frac{6}{12}\right)}{1000000 \times \frac{12}{12} + 1000000 \times \frac{6}{12}}$$

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$$= \frac{180000}{1500000} \times 100 = 12\%$$

✱ **Note** Unlike S.B, In G.B amount spent is also imp to find out the B.C (amount) to be capitalised on Q.A ★

i.e Capitalisation rate to be applied on Exp accumulated on Q.A.

Case ② 1.4.21 Commencement date

S.B = 10L @ 10% p.a

G.B = 12% Capitalisation rate

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	1.4.21	1.7.21	1.1.22	31.3.22 (B/S date)
Amt spent	10L	12L	9L	

* Int on S.B Capitalised = 1000000 × 10% = 100000

* In on G.B ⇒ $\left(12L \times 12\% \times \frac{9}{12}\right) + \left(9L \times 12\% \times \frac{3}{12}\right)$

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⇒ 108000 + 27000 = 135000

Total B.C Capitalised → 235000

(or)

Alternatively we can calculate like this

* Int on S.B Capitalised = 1000000 × 10% = 100000

* Weighted avg expenditure on Q.A = $\left(1200000 \times \frac{9}{12}\right) + \left(900000 \times \frac{3}{12}\right)$

= 1125000

* So Int Cost on G.B = 1125000 × 12% = 135000

235000

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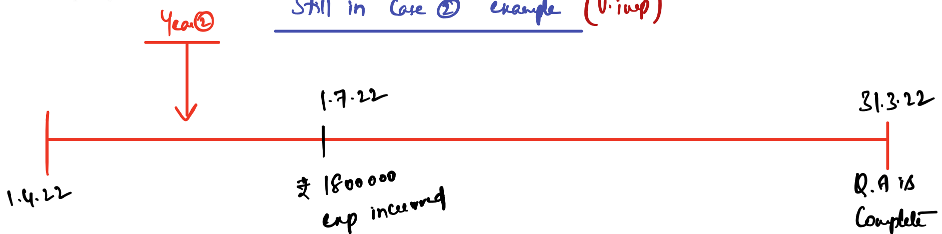
Still in case ② example (V.imp)



B.C to be capitalised in year 22-23

① Int on S.B = 10L × 10% = 100000

② B.C on G.B this year

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$\left(12L \times \frac{12}{12}\right) + \left(9L \times \frac{12}{12}\right) + \left(235000 \times \frac{12}{12}\right) + \left(1800000 \times 9/12\right)$

- 12L × 12/12 → last year exp
- 9L × 12/12 → last year exp
- 235000 × 12/12 → last year B.C on S.B & G.B.
- 1800000 × 9/12 → This year exp.

This is Avg accumulated exp on Q.A = 3685000

∴ BC Capitalised on G.B = 3685000 × 12% = 442200

(+)

Total = 542200

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Summary of above on GB

i. Calculate Capitalization Rate [Weighted Average Borrowing Rate]

$$\Rightarrow \frac{\text{Total Actual Interest on All General Borrowings}}{\text{Total Amount of General Borrowings weighted average on time basis}} \times 100$$

ii. Calculate Eligible General Borrowing Cast

$\Rightarrow$ Expense incurred on Qualifying Asset on each date (after utilizing Specific borrowing) x Capitalization Rate x $\frac{\text{Months}}{12}$

Here, Months will be taken.

- Expense incurred should be considered on Actual Outflow basis [Not Accrual]
- Borrowing Costs already capitalized on Qualifying Asset till Previous Year should also be considered as Expense incurred on Qualifying Asset for calculation of Eligible General Borrowing Cost for the Current Year

iii. Calculate General Borrowing Cost to be Capitalized

Eligible General Borrowing Cost as calculated above
OR
Total Actual Interest on All General Borrowings
— Lower

Step 3: Total Borrowing Cost to be Capitalized on Qualifying Asset during the year:
⇒ Step 1 + Step 2

Note: -

i. If specific Borrowings are taken for More than 1 Asset, then Allocate Specific Borrowing Cost to All Asset as follows:

$$\Rightarrow \text{Total Specific Borrowing Cost} \times \frac{\text{Expense incurred on 1 Asset}}{\text{Total Expense incurred on All Assets}}$$

ii. If Borrowing taken is in nature of Bonds issued at Discount, then EIR as per Ind As 109 will be considered for calculation of borrowing Casts.

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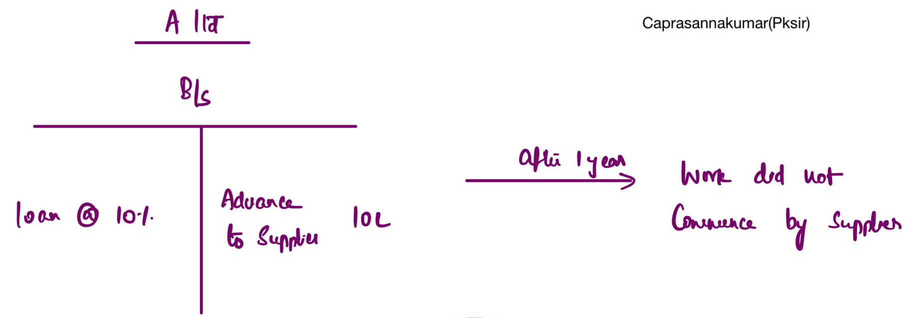
Imp

3.5.3 Expenditure to which capitalisation rate is applied

- In determining the borrowing costs to be capitalised, the amount of expenditure on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. } We know this already
- Expenditures are reduced by any progress payments received and grants received in connection with the asset (see Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*). } We know this as well
- The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period. * New Point

Eg



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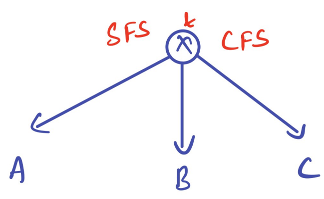
Q① Marine, Q④, Ill⑧, Q③, Q 23 RTP, Q 24 RTP, Q8, Q6

BC in group financial statements



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Eg

Parent Company

Borrow ₹ 50 lakhs @ 10% Int

Subs Company

Construction of building which is a Qualifying asset Costed ₹ 70 lakhs.

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Parent Co → Separate F/s

① B.cost incurred

② No exp on Qualifying asset.

i.e Parent Company is not eligible for Capitalisation at the time of Preparing & Presenting Separate F/s.

But Parent Co ⇒ Group F/s (Consolidated F/s)

Group point of view (Parent + Sub)

(i) B.Cost incurred by group

(ii) Exp on Qualifying asset of 70 lakhs incurred by group.

(iii) Activities started

So parent Co is eligible for Capitalisation

B.Cost Capitalised = 50 lak × 10% = 5 lakhs

In Subs Co financial Statements

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* B.Cost not incurred
* Exp incurred
* Since Subs Co did not incurr any B.Cost Therefore no Question of Capitalisation.

However in above Case, Subs Co. has taken loan from Parent Company ₹ 40 lakhs (assumed) @ 10% interest.

Then B.cost is incurred & exp of 70 lakhs is also incurred

Capitalisation of B.Cost in F/s of Sub Co } = 40 lakhs × 10% = 4 lakhs

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Another example

Subs Co incurred exp of 70 lakhs, but no borrowings from Outside. Parent Co also did not borrow from outside.

Parent Co (SFS) ⇒ No Borrowing, No Exp } No Capitalisation

Parent Co (CFS) ⇒ No B.Cost, But Exp incurred } No Capitalisation

Subs Co (SFS) ⇒ No B.Cost, But Exp incurred } No Capitalisation

Another example

Subs Co incurred exp of 70 lakhs, but borrowed 30 lakhs from parent Co. Parent Co also did not borrow from outside.

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Parent Co (SFS) ⇒ No Borrowing, No Exp } No Capitalisation

Parent Co (CFS) ⇒ No B.Cost, Exp incurred } No Capitalisation (Internal borrowing is not real borrowing)

Subs Co (SFS) => B. cost / Exp incurred } Yes, Capitalisation 30 lakhs x 10% = 3 lakhs

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SUMMARY

Capitalization of Borrowing Costs by Group Companies

(1) In SFS of each Group Company: -

- Apply Same Principles as discussed above in this Ind AS.
- Capitalize Borrowing Coats into Qualifying Asset in SFS of Company if it has taken. Borrowing & has incurred Expense on Qualifying Asset.

(2) In CFS of the Group: -

- Capitalize Borrowing Costs into Qualifying Asset in CFS by considering all the borrowings taken by each company in the group & all expense incurred on qualifying assets by each company in the group.
- If Inter Company Profit is charged on Construction of Qualifying Asset within the Group, then such profit will be eliminated in efs while considering Expense incurred on Qualifying Assets.

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3.8.3 Cessation of capitalisation for maturing inventories

- For maturing inventories, it is sometimes difficult to determine when the 'period of production' ends, i.e. when inventories are being held for sale as opposed to being held to mature. → This period B.c will be capitalised.

Example 7

Whisky is 'mature' after three years but goes on improving with age for many more years. Provided that it is consistent with the entity's business model to hold such items so that they mature further, it would seem acceptable to continue to add borrowing costs to the value of such maturing inventories for as long as it can be demonstrated that the particular item of inventory continues to increase in value solely on account of increasing age, rather than because of market fluctuations or inflation.

- If this cannot be demonstrated, then the inventories should be regarded as held for sale and no further borrowing costs should be capitalised.

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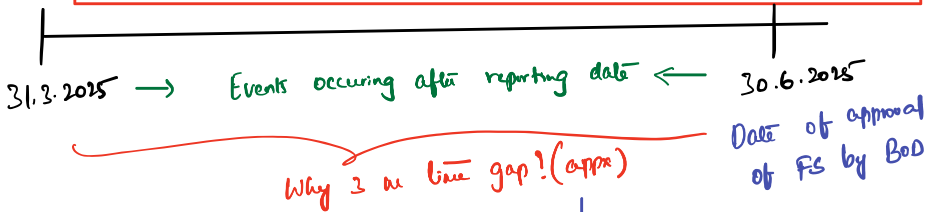
IND AS 10 - EVENTS OCCURING AFTER REPORTING DATE



a) Takes time to check whether everything is accounted (or) not, all accounting treatments are correct / not, on 31st March so many provisions we need to create, Fair valuations, Actuarial valuations in case of Elee benefits, Auditor will be doing his work with urgent.

In reality based on exp, before final FS is signed, 10-15 sets of FS would have got wasted atleast mostly when Auditor says Informally ok. Then approved by BoD, then Auditor to sign, then notices to Shareholders etc

Once Date of approval is over. No more adj to FS.

* What is the need of this Standard / logic ?

a) By 31.3.25, our basic financials are ready, but during 31.3.25 - 30.6.25 period, we got some additional Info related to Pyr and had you known this Info before, our 31.3.25 FS would have been prepared differently. That type of Info we need to consider even though Info is received subsequent to the financial yr, but still relates to Situations / Circumstances of Pyr.

So now we shall adj our financial statements, those events are called adjusting events.

Example 1

The financial year of an entity ends on 31st March, 20X2. If the board of directors approves the financial statements on 15th May, 20X2, 'after the reporting period' will be the period between 31st March, 20X2 and 15th May, 20X2 and the events occurring during this period should be considered as 'events after the reporting period'.

Example 2

The Board of Directors of ABC Ltd., in its meeting on 5th May, 20X1, reviews and approves the financial statements for the year ended 31st March, 20X1 and issues them to the shareholders. The financial statements are adopted by the shareholders in the annual general meeting on 23rd June, 20X1. The date of approval of financial statements for the is 5th May, 20X1 in accordance with the standard.

Example 3

On 18th May, 20X2, the management of an entity approves financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26th May, 20X2. The financial statements are made available to shareholders and others on 1st June, 20X2. The shareholders approve the financial statements at their annual meeting on 15th July, 20X2 and the financial statements are then filed with a regulatory body on 17th July, 20X2.

The financial statements are approved for issue on 18th May, 20X2 (date of management approval for issue to the supervisory board).

Example 4 (Same as Case 6)

Loss allowance for expected credit loss in respect of the amount due from a customer was recognised at the end of the reporting period in accordance with Ind AS 109, *'Financial Instruments'*. Subsequent liquidation order on the customer issued before the date of approval of financial statements for the reporting period indicates that nothing could be received from the customer. This confirms that the expected credit loss at the end of the reporting period on this particular trade receivable is equal to its gross carrying amount and, consequently, the entity needs to adjust the loss allowance for the expected credit loss at the end of the reporting period so that net carrying amount of this particular trade receivable at the end of the reporting period is zero.

- **Events occurring after Reporting date:** are those events, favourable and unfavorable, that occur after the Balance Sheet date and up to the date of approval of financial statements are approved by the Board of Directors (in case of a company) and by the corresponding approving authority (in case of any other entity) for issue.

- **Date of approval means the date on which the Board of Directors has finalized the FS of concluded accounting period.**
  Note: - Sometimes after approval of FS by the board a further approval may be required from a supervisory body (Eg: Audit committee) Even in this case date of approval by the board of directors is considered as "date of approval for purpose of this standard.
  If there are two dates of approval by BoD, take the final one

- **Adjusting Events:** These are events that provide additional information relating to conditions or Situations that are already Existing on Balance Sheet. These Events will be considered in preparing the FS of the Concluded period and it may lead to change in the carrying amount of Assets / liabilities or it may impact the classification. (AE)

- **Non-Adjusting Events:** Non-adjusting events are those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period). These are events other than adjusting events. Material Non-adjusting events shall be disclosed in the Notes to accounts & an estimate of its financial effect if practicable. (NAE)

Examples

AE	NAE
i. Debtor suffering heavy losses before Balance Sheet Date has become bankrupt after Balance Sheet Date	i. Loss by fire after Balance Sheet Date
ii. Discount provided after Balance. Sheet Date on goods sold before Balance Sheet Date	ii. Change in Fair Value of Investments after Balance Sheet Date
iii. Determination of Cost after Balance Sheet Date for Assets Purchased. before Balance Sheet Date	iii. Negotiation to acquire land started before Balance Sheet Date but transaction completed after Balance Sheet Date ↓ Do not adjust the amount in financial Statements. But if Non-Adjusting Event is Material, then Disclose in financial Statements: → Nature of the Event & → Estimate of its financial Effect
iv. Settlement after Balance Sheet Date of a Court Case started before Balance Sheet Date	
v. Excise Demand Notice received after Balance Sheet Date for goods.	

manufacture before Balance Sheet Date

Adjust the respective amount in financial Statements

Will do accounting

* Fraud detected after B/s date which occured in financial yr.
* Impairment of Assets.
* NRV of Inventory changed based on new sale prices
* Calculation of Bonus (or) Incentive
* Amt of provisions for Electricity, water, expenses will be revised up on receipt of actual Invoice.

OR

Statement that such Estimate Cannot be made.

For Material events will do disclosure

* Δ in Tax rates under Ind AS 12 enacted after reporting period
* Asset held for sale as per Ind AS 105, but plan is Δ now.
* Prov for restructuring is made as per Ind AS 37 for which Entity should make detailed plan & announcement. If Announcement is after reporting date, it is NAE.

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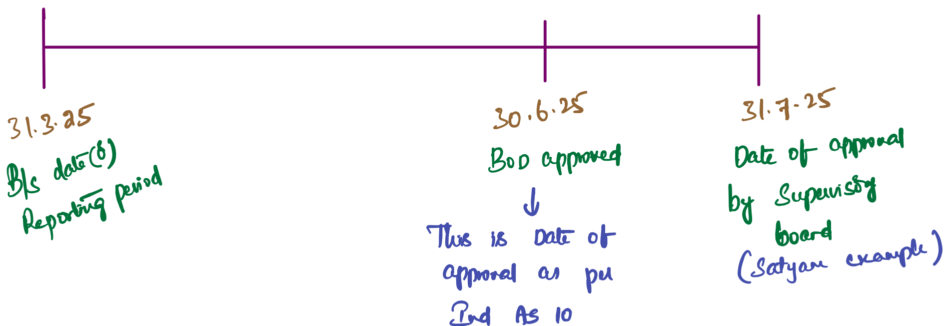
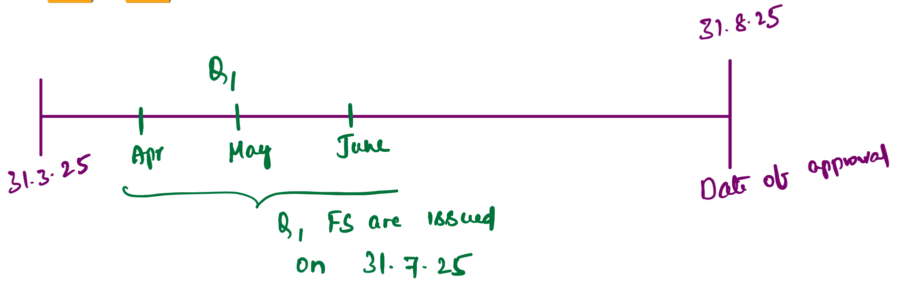
Case ①



* Suppose if there is no BoD, Mgmt is done by Supervisory board, then their approval is Date of approval. Key point Whoever is managing their approval.

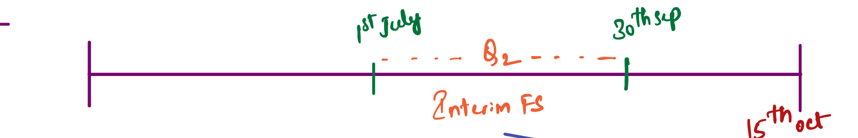
Case 2



Some are already disclosed NAE (Interim FS) In Q1 FS, then why should i show disclosure?

Standard says No you should still disclose.

Case 3



15th oct approved & issued

Should I disclose → Yes → applies for both Annual FS & Interim FS

Bcoz the key word for Ind AS 10 is Reporting period.
↓
any term for which reporting is done by preparing FS

Also Interim FS should be adjusted for AE b/n end of Interim Finan report & Date of approval by BoD

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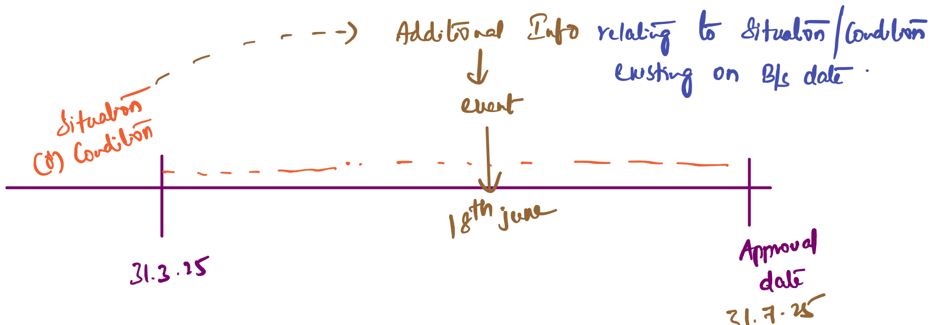
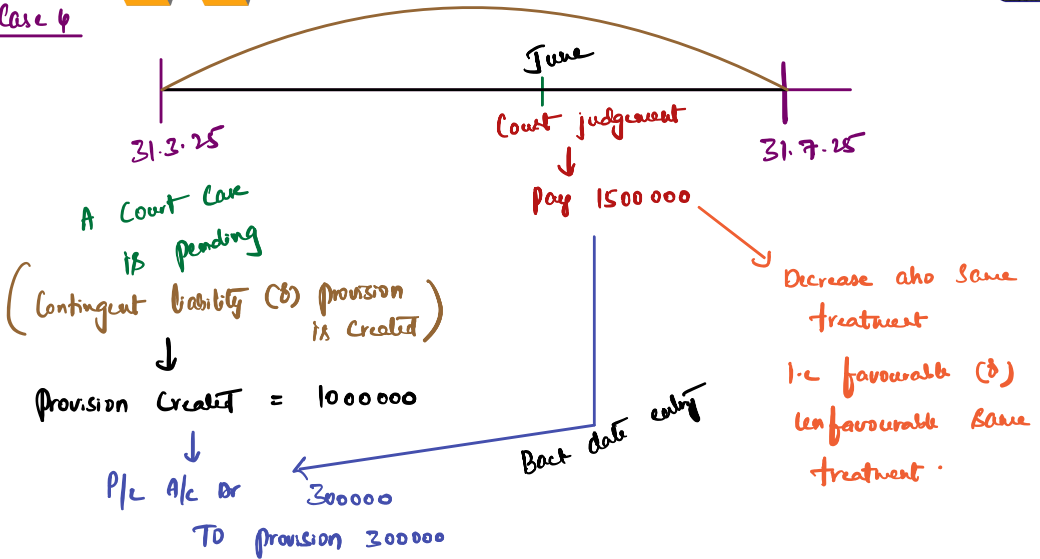
Case 4

Additional Info relating to situation/condition existing on B/s date.
↓
event



Case 4



Case 5

Company said we will pay 7% of profit as Bonus.

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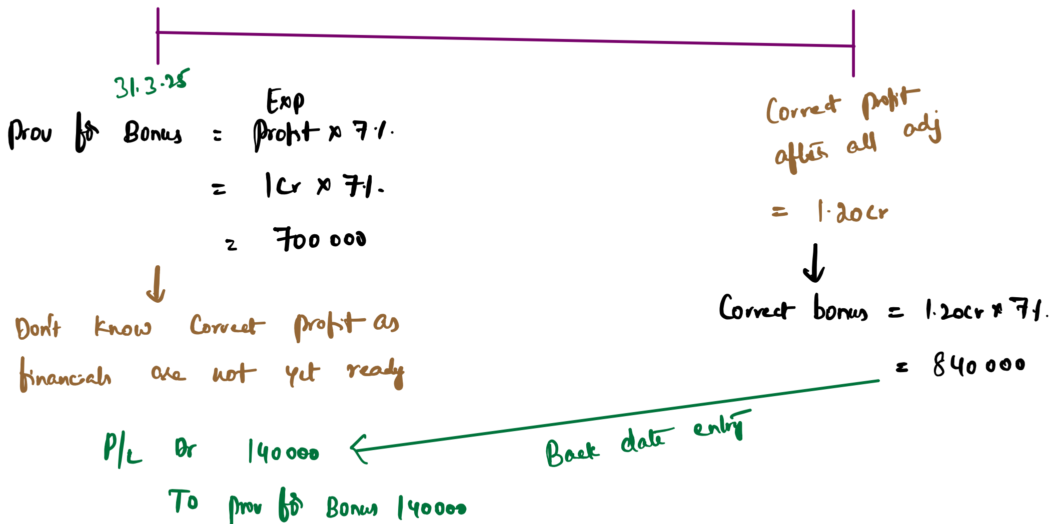

* Suppose company does not promise any bonus, but after preparing FS, it got huge profit then suddenly announces Bonus. This is a non-adjusting event (NAE)

Case 6

Timeline: 31.3.25 — 15.6.25 — Approval Date

31.3.25

B/s

Debtors	1000 000
(–) Prov	400 000
	600 000

(Earthquake) Debtor suffered major loss on 1st March
↓
Declared Insolvent on 15.6.25 = Zero

P/L Dr 600000
To Prov for Drs 600000

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* Suppose Earthquake happened on 20th April, then it will be a NAE.

Case 7 :-

Timeline: 1.2.25 — 31.3.25 —

1.2.25: Cashier embezzled cash

Cashier resigned + New cashier appointed
↓
Fraud identified
↓
AE

Whether Mgmt is aware (or) not is irrelevant. Fraud condition existed before B/s date.

Case 8 :-

Timeline: 31.3.25 — Sold @ 290 000 — 31.8.25 (Date of approval)

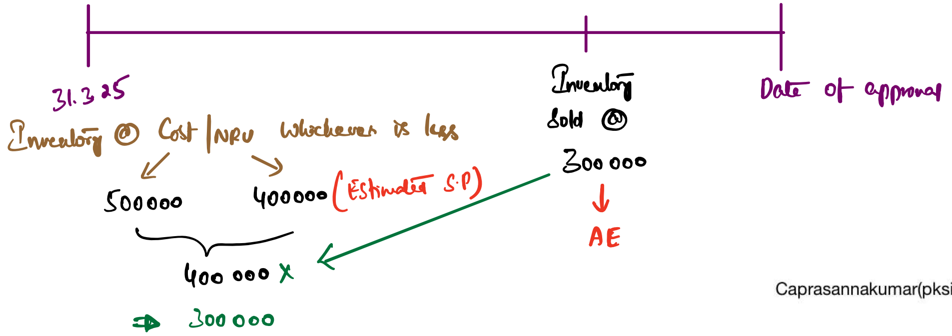
31.3.25 B/s

Inv in E Shares @ FVTPL = 250000

You did everything right here

No further adj → NAE.

Case 9 (Same logic as case 4)



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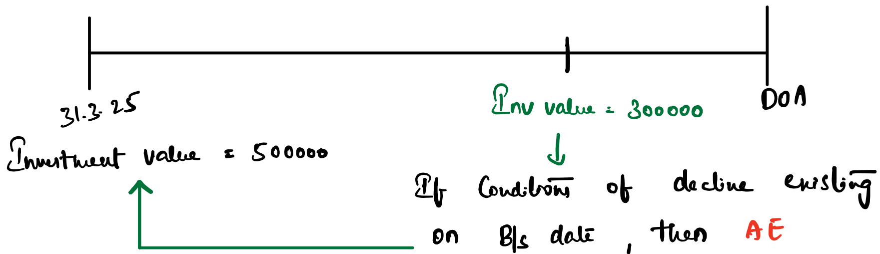
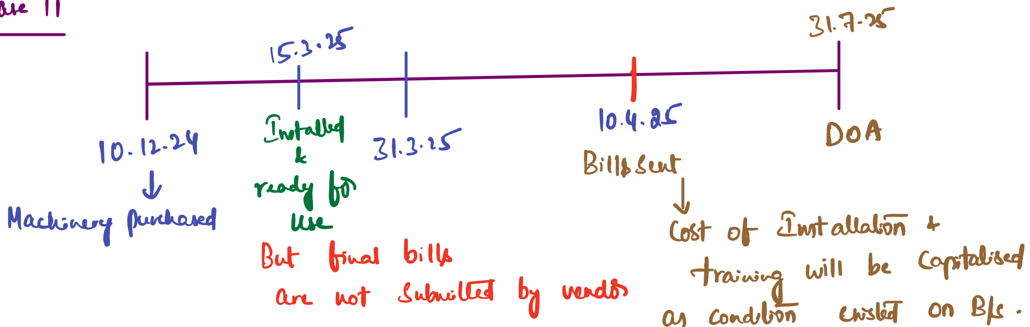
* The sale value of Inv after the reporting period normally provides evidence about NRV at the end of reporting period

Case 10

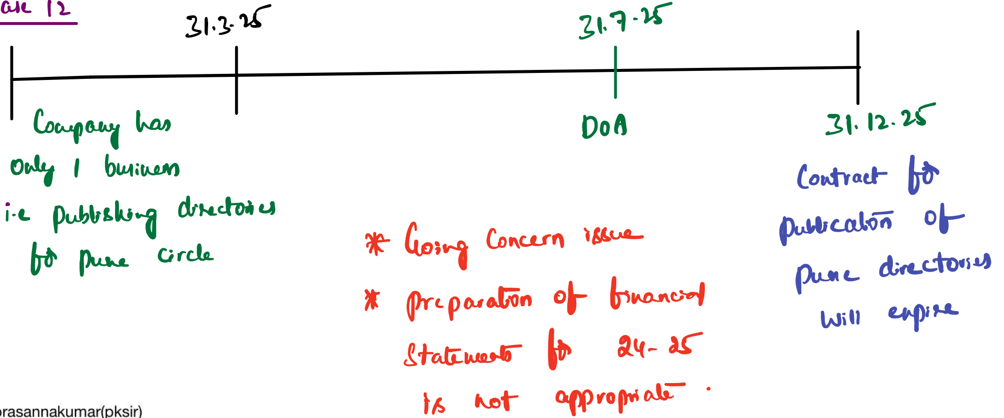


* But general market changes in value of Investment are NAE
Hence will be disclosed if material, otherwise NO disclosure

Case 11



Case 12



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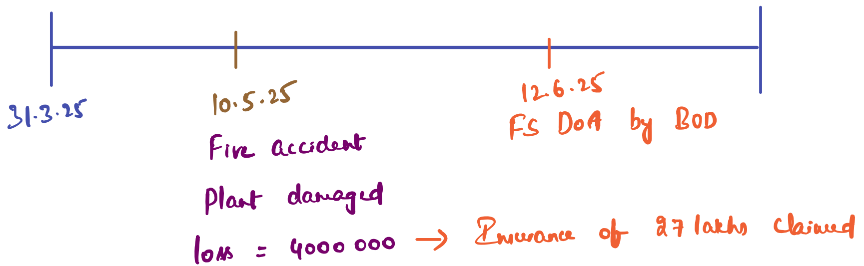
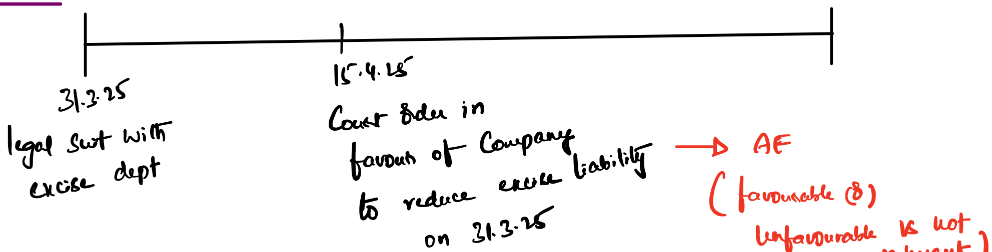
Case 13

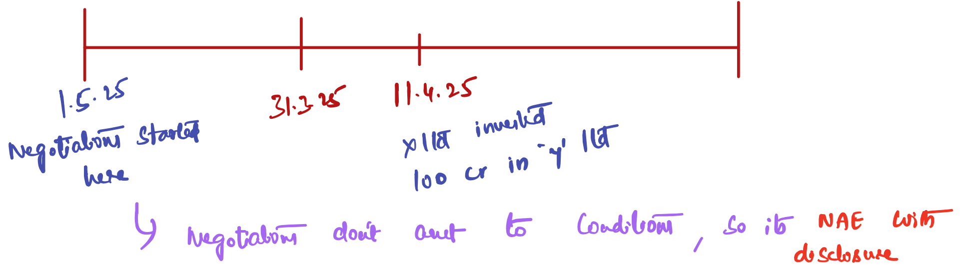


* If Going Concern is affected, then FS should be prepared on basis other than going concern.
* If Going Concern is not affected, it is NAE, but since it is material, disclosure should be done. i.e Nature of event & expected financial effect of the same.

Case 14



Case 15



Case 16

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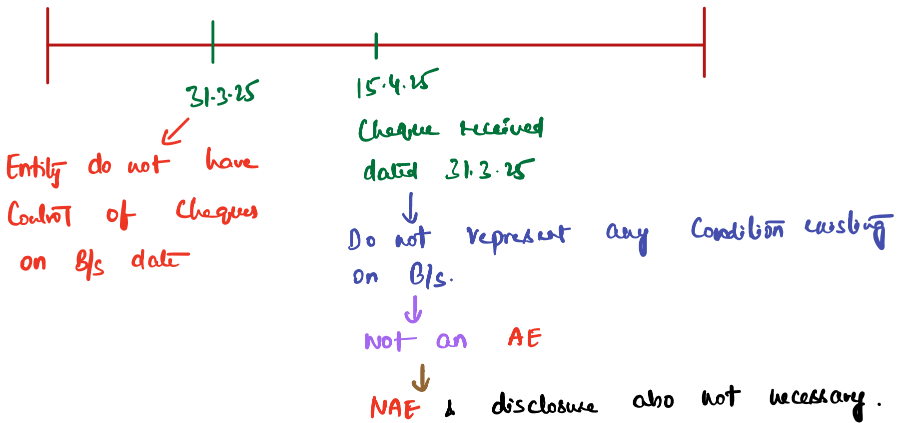
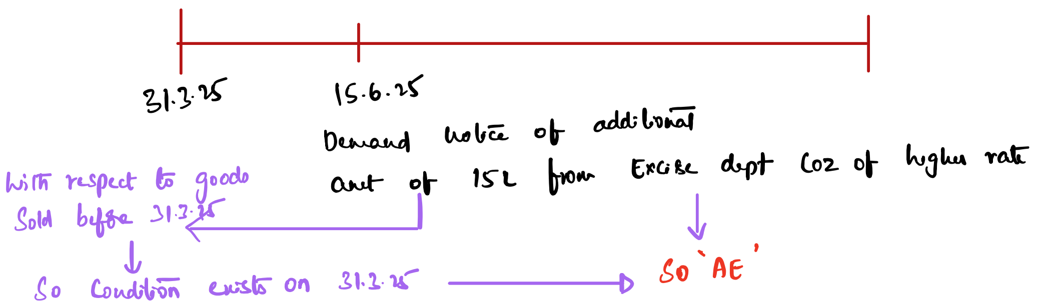


Case 17



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Dividends: - (Ill 10)

- If Entity declares dividend after Balance Sheet Date But before approval of Financial Statements, then such dividend is not recognized as a Liability at Balance Sheet Date because no obligation exists at that time. **[Non-Adjusting Event]**
- Such Dividends are disclosed in the Notes in financial Statements.

GOING CONCERN BECOMING INVALID

* If an Event occurring after Balance sheet makes the going concern Invalid. It should be treated as an Adjusting Event even though there is no situation / condition on the Balance sheet date Going Concern may become Invalid due to reasons like heavy operating losses, Ban on the products. Intention of the management etc., Deterioration in operating results and financial position after the reporting period.
* If the going concern assumption is no longer appropriate, the effect is so pervasive that this standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting. All the assets shall be presented at realizable values and all the liabilities at settlement values.
* Ind AS 1 specifies required disclosures if:
  - **a.** the financial statements are not prepared on a going concern basis; or
  - **b.** management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

Disclosure Requirements:

- **a.** Name of the approval authority of financial statements.
- **b.** Date of approval of financial statements.
- **c.** Material non-adjusting Events
- **d.** Disclosure of Events which are adjusted in financial statements.

IND AS 8 – Accounting Policies, Δ in A/cing estimates & Errors

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

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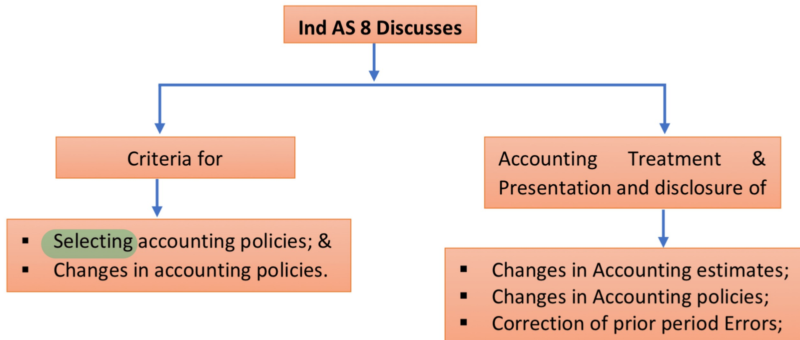

The Standard is meant to increase the qualitative characteristics like the relevance, reliability and comparability of an entity's financial statements.

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 → Cost Model or Revaluation Model

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

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* Bases → Measurement base (Cost model (or) Revaluation model)
Bases are concrete systems (or) 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)
(Broader) (General) (Guidelines (or) But Practices) Accepted Customs Eg: Conservatism, Capital exp treatment, Materiality

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

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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&D 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: -

(i) Any Other Ind AS on similar transaction. (Mandatory ref)
(ii) Framework of Ind AS. (Mandatory) → Def of Asset, liability, Income, Expense
(iii) Pronouncement of International Accounting Standards Board **[IASB]** (optional ref)
(iv) Pronouncement of Other Standard Setting Bodies **[Example: US GAAP, etc.]** (optional ref) (Ill 4)
(v) 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 ①)
  → Results in providing more relevant & reliable information [i.e. Voluntary Change of Accounting Policy] (Note 4) (Ill 5)
- **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) Immaterial previously (First time)

Example: Measuring Newly Purchased PPE at Cost 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 ②

&

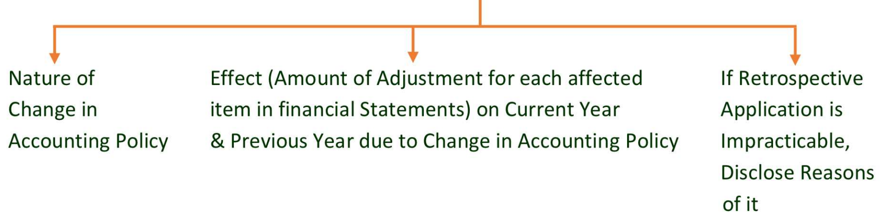
Adjusting the Comparative Amounts of Previous Year

Adjusting the Opening Balances of Previous Year for effects of change in accounting policy relating to all prior periods **[if any]**

* 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)



Nature of Change in Accounting Policy

Effect (Amount of Adjustment for each affected item in financial Statements) on Current Year & Previous Year due to Change in Accounting Policy

If Retrospective Application is Impracticable, Disclose Reasons of it

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 provision, just apply the same.

↓ Eg

Old Ind AS 16 (VS) Ind AS 116 (lessee point of view)

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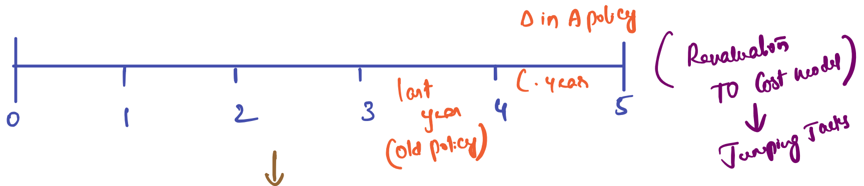
Note ② Retrospective = Restatement



↓

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

Also opg B/s @ beginning of Yr_4

↓

To reflect Δ in first 3 years

↓

All Δ will go & adjust in Retained earnings

↓

That it Game over

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Note ③

Examples 2 & 3

2. 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.

3. 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. Eg 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/cing estimate effects Δ in Assets, liabilities etc then adjust the C.A of relevant asset / liability. & If Δ does not affects A/L, 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:

a. was available when financial statements for those periods were approved for issue; and

b. 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/S 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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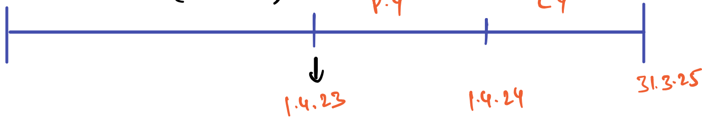

1.4.23 1.4.24 31.3.25

* 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 PYs year original Financial Statement, you are going to re-write them.

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

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↓

Then what about Balance 40000 !

↓

If mistake is beyond PYr, then give opg B/s of PYr & 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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