

FAQs on IND AS

Ind AS 101 First time adoption of Ind AS

Q1. What are the requirements of Ind AS 101?

Ind AS 101 requires the entity to do the following in the opening Ind AS statement of financial position that it prepares as a starting point for its accounting under Ind AS:

- Recognise all assets and liabilities whose recognition is required by Ind AS,
- Not recognise items as assets or liabilities if Ind AS do not permit such recognition,
- Reclassify items that it recognised in accordance with previous GAAP (Indian GAAP) as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with Ind AS, and
- Apply Ind AS in measuring all recognised assets and liabilities.

Q2. Does the standard provide any exemption from the requirements in any specified areas?

This standard grant exemption (either mandatory or as an option) from the Ind AS requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.

An entity shall not apply these exemptions by analogy to other items.

Q3. Does the standard provide any exemption in the Presentation and disclosure requirements?

This Ind AS does not provide exemptions from the presentation and disclosure requirements in other Ind ASs.

Q4. Does the standard allow retrospective application of some aspects of other Ind AS?

This Ind AS prohibits retrospective application of some aspects of other Ind AS.

Ind AS 102 Share Based Payment

Q1. What are the requirements of Ind AS 102 Share Based Payment?

Share-based Payment requires goods or services received in a share-based payment transaction to be measured at fair value unless that fair value cannot be estimated reliably

Q2. How does cash for cash-settled share-based payment transactions treated?

For cash-settled share-based payment transactions, the entity recognises a cost and a corresponding liability. The cost is recognised as an expense unless it qualifies for recognition as an asset. At each reporting date and at settlement date, the recognised liability is remeasured at fair value. The remeasurements are recognised in the statement of profit and loss.

Q3. How are equity settled transactions with employees and non-employees measured?

- Equity-settled transactions with employees are generally measured based on the grant date fair value of the equity instruments granted.
- Equity-settled transactions with non-employees are generally measured based on the fair value of the goods or services obtained.

Ind AS 103 Business Combination

Q1. What is a business combination?

A business combination is a transaction or other event in which an acquirer obtains control of one or more business.

Q2. What are common control business combinations?

Ind AS 103 has defined common control business combination as a business combination in which all the combining entities or business are ultimately controlled by the same person/ persons both before and after the combination and such control is *not* transitory in nature. It further states that a company may be said to be under the control of another entity or an individual or a group of them where they exercise the right to govern its financial statements and operating policies arising out of contractual agreement(s) so as to obtain benefits from its activities.

Q3. What is the accounting treatment of common control transactions under Ind AS 103?

Ind AS 103 prescribes application of pooling of interest method to account for common control business combinations. Under this method:

- All identified assets and liabilities will be accounted at their carrying amounts, i.e. no adjustment would be made to reflect their fair values unlike in case of non-common control business combinations.
- Balance of retained earnings in the books of acquiree entity shall be merged with that of the acquirer entity, and identity of the reserves shall be preserved.
- Any difference, whether positive or negative, shall be adjusted against the capital reserves (or “Amalgamation Adjustment Deficit Account” in some cases).
- Hence, no goodwill can be recorded in books under common control transactions under Ind AS 103.

Ind AS 104 - Insurance Contracts

Q1. What is the criteria for a contract to be covered under Insurance contracts?

- Ind AS 104, Insurance Contracts describes an insurance contract as a contract that transfers significant insurance risk. Insurance risk is 'significant' if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance.
- A contract under which an insurer accepts significant insurance risk from policyholder by agreeing to compensate the policyholder if a specified uncertain future event affects adversely.

Q2. What are the exclusions to the scope?

An insurer shall not apply this standard to:

- Financial assets and liabilities held
- Product warranties issued directly
- Employers assets and liabilities
- Contractual rights or obligations that are contingent on the future use of a non-financial item. Also, a lessee's residual value guarantee embedded in a financial lease
- Financial guarantee unless otherwise previously asserted by insurer
- Contingent consideration receivable or payable
- A contract that insurer holds as a policyholder. However, the exception being reinsurance contract.

Q3. Can an insurer change its accounting policies?

An insurer can change the accounting policies if and only if the change makes the statements more relevant and no less reliable, more reliable and no less relevant to the economic decision-making of the users.

Any changes in the accounting policies must justify the requirements of Ind AS 8. However, the following has been specified in the standard

Current market interest rates

An insurer issues permitted to change the accounting policies so that it can remeasure the designated insurance policies to reflect current market interest rates. However, an insurer need not apply to this to all the liabilities as would be required by Ind AS 8.

Prudence

An insurer need not change accounting policies to eliminate excessive prudence.

Future Investment Margin

An insurer need not change the accounting policies to eliminate future investment margins. There is a rebuttable presumption that an insurer's financial statements will become less reliable and less relevant if accounting policy for future investment margins is introduced.

Shadow Accounting

An insurer issues permitted to but not required to change accounting policy so that a recognised but unrealised gain or loss had the same impact on those measurements as realised gain or loss.

Q4. How are insurance contracts recognised and measured?

For recognition and measurement of insurance contracts, Ind AS 104 requires that an insurer must assess at the end of the reporting period, if the insurance liabilities are adequate, take into consideration the current estimates of future cash flows.

The insurer must take into account all the contractual cash flows, related cash flows and also cash flows resulting from embedded options and guarantees.

- If the liabilities are adequate, no action is required.
- If the liabilities are inadequate, entire deficiency to be recognised in profit and loss.

Ind AS 105 Non-Current Assets Held for Sale and Discontinued Operations

Q1. What are the requirements of Ind AS 105?

Indian Accounting Standard (Ind AS) 105, Non-current Assets Held for Sale and Discontinued Operations requires non-current assets and some groups of assets and liabilities (known as disposal groups) to be classified as held for sale when their carrying amounts will be recovered principally through sale rather than through their continuing use.

Q2. What is a discontinued operation?

A discontinued operation is a component of the entity that either has been disposed off or classified as held for sale. Discontinued operations are limited to those operations that are a separate major line of business or geographical area, and to subsidiaries acquired exclusively with a view to resell.

Q3. What are the presentation requirements in case of discontinued operations?

Discontinued operations are presented separately on the face of the statement of profit and loss. The comparative statement of profit and loss is restated for discontinued operations.

Ind AS 107, Financial Instruments: Disclosures

Q. What are the disclosure requirements specified under Ind AS 107?

Ind AS 107 specifies comprehensive disclosure requirements for financial instruments in the financial statements.

Specific disclosure requirements include information on:

- Carrying amounts,
- Fair values,
- Items designated at fair value through profit or loss,

- Investments in equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI);
- Reclassification of financial assets between categories,
- Offsetting of financial assets and financial liabilities and the effect of potential netting arrangements;
- Collateral,
- Loss allowance for expected credit losses, and Hedge accounting

Ind AS 109, Financial Instruments:

Q1. What is a Financial Instrument?

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Trade receivables and payables, bank loans and overdrafts, issued debt, equity and preference shares, investments in securities (e.g. Shares and bonds), and various derivatives are just some of the examples of financial instruments.

Q2. What is a financial asset?

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments under certain circumstances.

Examples of financial assets are investments in equity instruments, investments in debt instruments, trade receivables, cash and cash equivalents, derivative financial assets.

Q3. What is a financial liability?

A financial liability is any liability that is:

- a contractual obligation
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments under certain circumstances

Q4. How are financial instruments recognised and measured?

Ind AS 109 requires that a financial asset (except for certain trade receivables) or a financial liability should be measured at initial recognition at its fair value plus or minus, for financial assets or financial liabilities not subsequently measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability. Trade receivables that do not contain a significant financing component (determined in accordance with Ind AS 115 *Revenue from Contracts with Customers*) are initially measured at their transaction price and not at fair value.

Ind AS 110 Consolidated Financial Statements

Q1. What is the accounting treatment for accumulated losses of subsidiaries?

An entity having a subsidiary/multiple subsidiary with accumulated losses on the date of transition to Ind AS, should account for the accumulated losses of the subsidiary(ies) in its consolidated financial statements as below:

- **When past business combinations are not restated based on the exemption in Ind AS 101, First-time adoption of Ind AS:** the entity would be required to attribute the total profit or loss and each component of other comprehensive income to the owners of the parent and to the NCI prospectively, from the date of transition
- **When past business combinations are restated:** the entity will be required to attribute the accumulated losses of the subsidiaries, to the owners of the parent and to the NCI, retrospectively from the date of application of Ind AS 103, in its consolidated financial statements on the date of transition.

Q2. How is the Consolidation of subsidiaries, associates and joint ventures in the legal form of an LLP or partnership firm treated under this standard?

The ICAI clarified that an entity that controls a Limited Liability Partnership (LLP) and/or a partnership firm, or holds such LLP and/or partnership firm as its associate or joint venture, is required to consolidate the financial statements of such LLP and/or partnership firm while preparing its consolidated financial statements.

Ind AS 112, Disclosure of Interest in Other Entities

Q1. What are the requirements of Ind AS 112, Disclosure of Interest in Other Entities?

Indian Accounting Standard (Ind AS) 112, Disclosure of Interest in Other Entities requires the entity to provide users with information that enables them to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows

Q2. What is the scope of this standard?

This Ind AS shall be applied by an entity that has an interest in any of the following:

- Subsidiaries,
- Joint arrangements (i.e. joint operations or joint ventures),
- Associates, and

Unconsolidated structured entities

Ind AS 113 Fair Value Measurement

Q1. What is Fair Value as per Ind AS 113?

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. Market participants are independent of each other, they are knowledgeable and have a reasonable understanding of the asset or liability, and they are willing and able to transact.

Q2. What are the approaches to valuations provided in Ind AS 113?

There are three general approaches to valuation, with various techniques applied under those approaches:

- The market approach: e.g. quoted prices in an active market,
- The income approach: e.g. discounted cash flows, and
- The cost approach: e.g. depreciated replacement cost

Ind AS 115, Revenue from Contracts with Customers

Q1. What are the steps for recognition of revenue from contracts with customers?

The standard provides the following five step model for recognition of revenue from contracts with customers:

- Step 1: Identify the contract with customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligation,
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Q2. How is transaction price determined for revenue recognition?

The standard provides the following five step model for recognition of revenue from contracts with customers:

- Step 1: Identify the contract with customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligation,
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Q3. What is the effective date and transition of Ind AS 115?

The standard became effective on 1 April 2018.

An entity may make the transition to the standard using one of two methods:

- Apply the standard retrospectively (with optional practical expedients) and record the effect of applying the standard at the start of the earliest presented comparative period.
- Apply the standard to open contract at the date of initial application and record the effect of applying the standard at that date. The comparative periods presented are not restated

Ind AS 1 Presentation of Financial Statements

Q1. What is the objective of Ind AS 1 Presentation of Financial Statements?

This standard prescribes the basis for presentation of general-purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of both consolidated and separate financial statements, guidelines for their structure and minimum requirements for their content.

Q2. What are the items included in a complete set of financial statements?

A complete set of financial statements comprises the following:

- A balance sheet,
- A statement of profit and loss,
- A statement of changes in equity,
- A statement of cash flows,
- Notes, including accounting policies,
- Comparative information, and
- A balance sheet as at the beginning of the preceding period in certain circumstances.

Q3. What are the compliance requirements under Ind AS and the 2013 Act related to presentation of financial statements?

In situations where compliance with the requirements of the 2013 Act including Ind AS requires any change in treatment or disclosure (including addition, amendment, substitution or deletion in the head/sub-head or any changes in the financial statements or statements forming part thereof) in the formats given in Schedule III, then Schedule III permits such changes to be made and the requirements of Schedule III would stand modified accordingly.

The disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS. Companies would be required to make additional disclosures specified in Ind AS either in the notes or by way of additional statement(s) unless required to be disclosed on the face of financial statements. Similarly, all other disclosures as required by the 2013 Act should be made in the notes in addition to the requirements of Schedule III.

Q4. What is the treatment of income tax related interest and penalties under Ind AS 1?

The obligations for current tax and those for interest or penalties arise due to reasons that are fundamentally different in nature and Ind AS 1 requires an entity to separately present items of a dissimilar nature or function unless they are immaterial except when required by law. Therefore, interest or penalties related to income tax cannot be clubbed with current tax.

Q5. How is interest related to delay in payment of taxes classified under Ind AS 1?

The ITFG clarified that local taxes not paid by due date represent interest bearing liabilities. Judgement is required to be exercised based on the evaluation of facts and circumstances of each case, to determine whether the interest payable for delay in payment of taxes is compensatory in nature for time value of money or penal in nature.

On the basis of evaluation, if an entity concluded that interest was:

- **Compensatory in nature:** Such an interest would be required to be included in finance cost
- **Penal in nature:** It would be classified as 'other expenses'.

Ind AS 2, Inventories

Q1. How is the cost of inventory determined under Ind AS 2?

The cost of inventory is generally determined under the First-In, First-Out (FIFO) or weighted average method. The use of the Last-In, First-Out (LIFO) method is prohibited.

Q2. What is NRV?

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale”

Q3. What is the definition of Inventories as per Ind AS 2?

Ind AS 2 defines inventories as assets:

- Held for sale in ordinary course of business (finished goods),
- In the process of production for such sale (work in progress), or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services (raw material and consumables).

Ind AS 7, Statement of Cash Flows

Q1. How are taxes disclosed under Ind AS 7?

Taxes paid are separately disclosed and classified as operating activities unless it is practicable to identify them with, and therefore, classify them as, financing or investing activities.

Q2. What is the treatment of foreign currency cash flows under Ind AS 7?

Taxes paid are separately disclosed and classified as operating activities unless it is practicable to identify them with, and therefore, classify them as, financing or investing activities.

Q3. How is cash flow from operating activities presented under Ind AS 7?

Cash flows from operating activities may be presented under either the direct method or the indirect method. However, in case of listed entities, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 require the use of the indirect method in preparing the cash flow statement.

Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

Q1. When can an entity change its accounting policies?

An organization shall change an accounting policy only if the change:

- (a) is ordained by an Ind AS; or
- (b) results in the financial statements providing accurate and more relevant information about the effects of transactions, other events or conditions on the entity's financial performance, financial position or cash flows.

Q. How are errors to be treated?

Errors can arise in respect of the identification, measurement, presentation or disclosure of elements of financial statements.

An entity shall rectify material prior period errors retrospectively unless impracticable, after the finding of errors in the first set of financial statements:

- (a) for the prior period(s) presented in which the error occurred by restating the comparative amounts; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

(Ind AS) 10, Events after the Reporting Period

Q1. What are adjusting events and non-adjusting events?

- **Adjusting events** – Those that provide evidence of conditions that existed at the end of the reporting period.
- **Non-Adjusting events** – Those that are indicative of conditions that arose after the reporting period.

Q2. What is the treatment of adjusting and non-adjusting events?

Adjusting Events

The financial statements are adjusted to reflect events that occur after the end of the reporting period, but before the financial statements are authorized for issue by management, if those events provide evidence of conditions that existed at the end of the reporting period.

Non-Adjusting Events

An enterprise should not adjust its financial statements for events after the reporting date that are indicative of conditions that arose after the reporting date. It shall disclose the following for each material category of non-adjusting event after the reporting period:

1. the nature of the event; and
2. an estimate of its financial effect, or a statement that such an estimate cannot be made.

Ind AS 12, Income Taxes

Q1. When is deferred tax asset or liability not recognised under Ind AS 12?

A deferred tax asset or liability is not recognised if:

- It arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and
- At the time of the transaction, it affects neither accounting profit nor taxable profit.

Q2. How are current and deferred tax assets/liabilities measured under Ind AS 12?

Current tax assets or liability will be measured as the amount expected to be recovered or paid to the tax authorities at the tax rate and laws that have been enacted or subsequently enacted by the end of the reporting period.

Deferred tax assets or liability will be measured at the expected tax rates in the period in which the asset is realised or liability paid based on the tax laws that have been enacted or subsequently enacted at the end of the reporting period.

Q3. What are the presentation requirements of current and deferred tax assets and liabilities under Ind AS 12?

An entity shall offset current tax assets and liabilities only if it is legally entitled to and it intends to settle on a net basis or to realise assets and settle liabilities simultaneously.

It can offset deferred tax assets and liabilities if:

- It has the legal right to offset current tax assets and liabilities.
- The deferred tax assets and liabilities relate to the income taxes levied by the same taxation authorities on same entities or on entities that intend to settle current tax assets and liabilities on a net basis or to realise assets and settle liabilities simultaneously.

Q4. What is the accounting treatment during tax holiday period under Ind AS 12?

Under the previous generally accepted accounting principles (previous GAAP), Accounting

Standard Interpretation (SI) 3, Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961 was issued to provide guidance on accounting for deferred taxes in the situations of tax holiday under section 80-IA and 80-IB of the Income Tax Act, 1961 (tax holiday period). The ITFG clarified that the SIs are not effective under Ind AS. To determine the treatment of deferred taxes in the tax holiday period under the Ind AS regime, reference needs to be made to the principles enunciated in Ind AS 12. Accordingly, under Ind AS, deferred taxes in respect of temporary differences which reverse during the tax holiday period are not required to be recognised to the extent the entity's gross total income is subject to the deduction during the tax holiday period.

Q5. What is the recognition criteria of deferred tax on non-depreciable assets?

Ind AS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets/liabilities. This may require the exercise of judgement based on facts and circumstances. Accordingly, ITFG clarified following points:

- **If a non-depreciable asset is measured using the revaluation model under Ind AS 16, or the entity expects to recover the carrying amount of the asset by selling it individually:** The related deferred tax asset/liability is measured based on the tax consequences of recovering the carrying amount of such asset through sale, in a slump sale
- **If the entity assesses that the non-depreciable asset will be sold through a slump sale:** The tax base of the land would be the same as its carrying amount, as an indexation benefit would not be available in a slump sale. Therefore, there would be no temporary difference and no deferred tax asset would be recognised.

Ind AS 16, Property, Plant and Equipment

Q1. What is the scope of Ind AS 16, Property, Plant and Equipment?

Ind AS 16 Property Plant Equipment is applicable to all Property and P&E (Plant & Equipment) unless and until any other accounting standard asks for a different treatment.

Ind AS 16 Property Plant Equipment is not applicable in the following cases:

- (i) Property and P&E (Plant & Equipment) which are classified as held for sale as per Ind AS 105
- (ii) Biological assets which are related to agricultural activities except bearer plants
- (iii) The measurement and recognition of exploration and evaluation assets
- (iv) Mineral rights and reserves like oil, natural gas and other such non-regenerative resources

Q2. What are the constituents of cost of PPE?

The cost of the item of PPE includes:

- (a) The purchase price, which includes the import duties and any non-refundable taxes on such purchase, after deducting rebates and trade discounts

(b) Costs which are directly attributable to bringing assets to the condition and location essential for it to operate in a manner as intended by the management

(c) Initial estimate of costs of removing and dismantling an item and restoring a site where it is located

Q3. How are spare parts recognised and depreciated under Ind AS 16?

Spare parts which meet the definition of PPE as per Ind AS 16 and satisfy the recognition criteria as given in paragraph 7 of Ind AS 16, should be capitalized as PPE separately from the equipment with which the spare part is intended to be used. If the spare part does not meet the definition and recognition criteria of Ind AS 16, then it should be recognised as inventory.

The ITFG clarified that depreciation on an item of spare part that is classified as PPE will commence when the asset is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. In case of a spare part, as it may be readily available for use, it may be depreciated from the date of purchase of the spare part. In determining the useful life of a spare part, the life of the machine in respect of which it can be used can be one of the determining factors.

Q4. What are the requirements for application of revaluation model for PPE?

The ITFG clarified that, when an entity has immovable properties such as land or building, it needs to evaluate whether the land and buildings that it holds are classified as an investment property or as PPE.

Where the entity concludes that the land and buildings are:

- **Investment property:** Only cost model can be applied for initial and subsequent measurement
- **PPE:** The land and buildings are initially measured at cost. For subsequent measurement, the entity has an option to choose either the cost model or revaluation model for a class of PPE.

Once the entity adopts the revaluation model, it is required to apply it to the entire class of asset. Accordingly, an entity may opt for revaluation model for a particular class of assets and cost model for another class of assets which are classified as PPE.

Ind AS 116, Leases

Q1. When was Ind AS 116 notified by MCA as a replacement for Ind AS 17 leases?

On 30 March 2019, MCA by way of the Companies (Indian Accounting Standards) Amendment Rules, 2019 notified Ind AS 116, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of lease transactions. Ind AS 116 is largely converged with IFRS 16, Leases, and represents a fundamental shift in accounting for leases, specifically by lessees.

Q2. What were the main details specified in the Amendment?

The amendment introduces a single lease accounting model. It requires lessees to recognise all leases (with a term greater than 12 months) in the balance sheet in the form of a right-to-use asset along with a corresponding liability. These assets and liabilities would subsequently be depreciated and accreted with interest, respectively in accordance with the relevant Ind AS.

Q3. What is the definition of Lease under Ind AS 116?

Ind AS 116 defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Q4. What is the effective date for application of Ind AS 116?

Ind AS 116 is applicable for annual reporting periods beginning on or after 1 April 2019. As a consequence of this notification, Ind AS 17 stands superseded, and is not applicable to financial statements with annual reporting periods beginning on or after 1 April 2019.

Q5. What is the accounting treatment of Lease premium collected at the time of lease deed?

The ITFG considered the accounting treatment of non-refundable lease premium (being the market value of land) received by a lessor at the time of execution of the lease deed of land for 99 years. A nominal amount of lease rent would be paid by the lessee on an annual basis. ITFG clarified that the accounting for such lease premium would depend on the classification of lease as given below:

- **Lease classified as an operating lease:** The lessor would be required to present assets subject to operating lease in its balance sheet according to their nature. Further, lease income would be recognised on a straight-line basis over the lease term, unless another systematic basis was more representative of the time pattern in which use benefit was derived.
- **Lease classified as a finance lease:** The lessor is required to recognise a receivable at an amount equal to the net investment in the lease, however since the entire lease premium is received upfront, a receivable is not recognised in the financial statements. Finance income would be recognised based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease.
The ITFG further clarified that a lease of land for 99 years is an indication for classification as a finance lease. However, entities should consider the principles for classification of lease.

Q6. What is the recognition criteria of lease liability under Ind AS 116?

Under Ind AS 116 lessees have to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts. This is a significant change compared to Ind AS 17, under which lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). Ind AS 116 gives lessees optional exemptions for certain short-term leases and leases of low-value assets.

Ind AS 19, Employee Benefits

Q1. What are the items covered under Ind AS 19?

Ind AS 19 specifies the accounting for various types of employee benefits, including:

- Benefits provided for services rendered – e.g. pensions, lump-sum payments on retirement, paid absences and profit-sharing arrangements, and
- Benefits provided on termination of employment.

Q2. What are Post-employment benefits?

Post-employment plans are classified as:

- Defined contribution plans – plans under which the entity pays a fixed contribution in to a fund and will have no further obligation, and
- Defined benefit plans – all other plans.

Q3. What are the steps in accounting of defined benefit post-employment plans?

To account for defined benefit post-employment plans, the entity:

- Determines the present value of a defined benefit obligation by applying an actuarial valuation method,
- Deducts the fair value of any plan assets,
- Adjusts for any effect of the asset ceiling, and
- Determines services costs and net interests (recognised in profit or loss) and remeasurements (recognised in OCI).

Q4. What is the recognition criteria of termination benefits?

A termination benefit is recognised at the earlier of:

- The date on which the entity recognises costs for a restructuring in the scope of the provisions standard that includes the payment of termination benefits, and
- The date on which the entity can no longer withdraw the offer of the termination benefits.

Q5. What is the Accounting treatment of increase in liability due to enhancement of the gratuity ceiling?

The Accounting Standards Board (ASB) of ICAI considered an issue where, as a result of enhancement of the gratuity ceiling from INR10 lakh to INR20 lakh under the

Payment of Gratuity (Amendment) Act 2018, there was a substantial increase in the liability of a company (ABC Ltd.).

The ASB stated that the increased liability due to such amendment would be considered a past service cost, as defined under Ind AS 19. Further, the accounting standards do not provide any exemption/one-time relief with regard to the accounting treatment of increase in liability arising on account of past service cost.

Accordingly, ABC Ltd. would be required to account for such increase in liability due to increase in gratuity ceiling as an expense as per requirements of In AS 19.

Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance

Q1. How are government grants recognition under Ind AS 20?

Government grants, including non-monetary grants at fair value, are recognised only when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received.

Q2. What is the recognition criteria in case of Non-monetary assets?

If government grant is in the form of a non-monetary asset, then both the asset and the grant are either recognised at the fair value of the non-monetary asset or at a nominal amount¹.

Q3. What is the recognition criteria of repayment of a grant related to an asset?

Repayment of a grant related to an asset would be recognised by either:

- Reducing the deferred income balance by the amount repayable, or
- Increasing the carrying amount of the related asset, if the grant was previously deducted from the carrying amount of the asset. In this case, the cumulative additional depreciation on the new carrying amount of the asset would be recognised immediately in the statement of profit and loss¹.

Ind AS 21, The Effects of Changes in Foreign Exchange Rates

Q1. What is the scope of Ind AS 21?

Ind AS 21 shall be applied:

- In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Ind AS 109, Financial Instruments,
- In translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation or the equity method, and
- In translating the entity's results and financial position into a presentation currency.

Q2. What are the items not covered under Ind AS 21?

Ind AS 21 is not Applicable to:

1. Foreign currency derivatives which are covered by Ind AS 109.
2. Hedge accounting for foreign currency items (including hedge of net investment in foreign operation). Ind AS 109 applies to hedge accounting.
3. Presentation in “Statement of cash flows”:
 - of cash flows arising from transactions in foreign currency
 - to translation of **cash flows** of foreign operations(This presentation is covered under Ind AS 7: Statement of Cash flows)
4. Long term foreign currency monetary items for which entity **opted** exemption given in Ind AS 101 (Para D13AA).

Q3. How are foreign exchange items translated in financial statements?

The financial statements of foreign operations are translated as follows:

- Assets and liabilities are translated at the closing rate,
- Income and expenses are translated at the exchange rates or appropriate averages, and
- Equity components are translated at the exchange rates at the date of the relevant transactions.

Q4. How is presentation currency determined for Consolidated Financial Statement?

Entities within a group may have different functional currencies. The ITFG clarified that Ind AS permits an entity to use a presentation currency for reporting its financial statements that is different from its functional currency. Therefore, an entity may present its stand-alone and CFS in any currency by applying the translation procedures from functional to presentation currency for itself and its group entities.

Ind AS 23, Borrowing Cost

Q1. What is the objective of Ind AS 23?

The standard requires that borrowing costs directly attributable to the acquisition, construction or production of a 'qualifying asset' are included in the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

Q2. What are borrowing costs?

Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. These include:

- Interest expense calculated using the effective interest method as described in Ind AS 109, Financial Instruments,
- Finance charges in respect of finance leases recognised in accordance with Ind AS 17, Leases,¹ and

- Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Q3. What is the criteria for capitalisation for borrowing costs?

Capitalization begins when an entity meets all of the following conditions:

- Expenditure for the asset is being incurred,
- Borrowing costs are being incurred, and
- Activities that are necessary to prepare the asset for its intended use or sale have commenced

Q4. What is the treatment of loan processing charges during capitalization of borrowing costs to the cost of the qualifying asset?

The IFRS clarified that loan processing fees are an integral part of Effective Interest Rate (EIR) of a financial instrument and should be included while calculating the EIR. In addition, processing charges could be capitalized to the cost of a qualifying asset only to the extent amortized during the period of capitalization.

Ind AS 36 Impairment of Assets

Q1. When is the test for Impairment done under Ind AS 36?

Impairment test can be conducted annually when impairment indicators occur. These are external indicators and internal indicators.

External Indicators

- Significant decline in market value
- Change in technology, market, economic or legal environment
- Change in interest rate.
- Low market capitalization

Internal Indicators

- Assets performance is declining
- Discontinuance or restructuring plan
- Evidence of physical obsolesces

Q2. What are the items covered under Ind AS 36?

The impairment standard covers a variety of non-financial assets, including:

- Property, plant and equipment,
- Intangible assets and goodwill, and
- Investments in subsidiaries, associates and joint ventures.

Q3. What is a CGU?

A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof.

Q4. How is Impairment Loss recognised and measured under Ind AS 36?

Recognition

An impairment loss shall be recognised immediately in Statement of profit or loss. An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.

Para 62 deals with where the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability.

Measurement

Impairment loss = Recoverable Value - Carrying Amount

Recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

If recoverable amount is more than carrying amount of an asset, then no impairment loss will be recognized.

Recoverable amount shall be higher of the following:

- Fair Value less cost of disposal
- Value in use

Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets

Q1. How are Contingent Liabilities and Contingent Assets recognised under Ind AS 37?

Contingent liabilities are recognised only if they are present obligations assumed in a business combination-
i.e. there is uncertainty about the outflows but not about the existence of an obligation.
Otherwise, contingent liabilities are disclosed in the notes to the financial statement

Contingent assets are not recognised in the balance sheet. If an inflow of economic benefits is probable, then details are disclosed in the notes to the financial statements.

Q2. What is the definition of provision under Ind AS 37?

A provision is a liability of uncertain timing and amount. A provision shall be recognised when:

- an entity has a present obligation (legal or constructive) that is a result of a past event;

- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised

Q3. What are onerous contracts and how are provisions recognised under onerous contracts?

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Q4. How is provision measured under Ind AS 37?

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time

Ind AS 38, Intangible Assets

Q1. What is the criteria for identification of an Intangible asset under Ind AS 38?

An intangible asset is identifiable if it either:

- Is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so, or
- Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations

Q2. What is the recognition criteria for Intangible assets under Ind AS 38?

An intangible asset shall be recognised if, and only if:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and
- The cost of the asset can be measured reliably.

Q3. What is the residual value of an Intangible asset?

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- There is a commitment by a third party to purchase the asset at the end of its useful life, or
- There is an active market for the asset and: (i) residual value can be determined by reference to that market, and (ii) it is probable that such a market will exist at the end of the asset's useful life.

Q3. When is the criteria for derecognition of an Intangible asset?

An intangible asset shall be derecognized:

- On disposal, or
- When no future economic benefits are expected from its use or disposal.

Q4. What is the useful life of an Intangible asset?

There are two types of life have been mentioned in the standard:

- Finite Life: A limited period of benefit to the entity from the asset.
- Indefinite Life: No foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Indefinite life does not mean infinite life at all.