J.K. SHAH®
CLASSES
CAFC→INTER CA→FINAL CA↗

FINAL CA
MAY '19
REVISION NOTES
Financial Reporting

Part - V

/officialjksc Jkshahclasses.com/revision

Ind AS 7/AS 3 - STATEMENT OF CASH FLOWS

(1) Definitions

The following terms are used in this Standard with the meanings specified:

a) Cash comprises cash on hand and demand deposits.

b) Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

c) Cash flows are inflows and outflows of cash and cash equivalents.

d) Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

e) Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

f) Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(2) Presentation of a statement of cash flows

The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

(3) Reporting cash flows from operating activities

An entity shall report cash flows from operating activities using either:

a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

b) The indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

(4) Reporting cash flows from investing and financing activities

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are reported on a net basis.

(5) Reporting cash flows on a net basis

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

a) Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and

b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

(6) Foreign currency cash flows

Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

JKSC

(7) The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

(8) Interest and dividends

Cash flows from interest and dividends received and paid shall each be disclosed separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial institution should be classified as cash flows arising from operating activities. In the case of other entities, cash flows arising from interest & dividends paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities.

(9) Taxes on income

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

(10) Investments in subsidiaries, associates and joint ventures

Changes in ownership interests in subsidiaries and other businesses

a) The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

b) An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries and other businesses during the period each of the following:

   I. the total consideration paid or received;
   II. The portion of the consideration consisting of cash and cash equivalents;
   III. The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and
   IV. The amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.

(c) Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities

(d) Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.

(11) Non-cash transactions

Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about the investing and financing activities which are non-cash in nature

(12) Components of cash and cash equivalents

An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.

Ind AS 10/AS 4 - EVENTS AFTER THE REPORTING PERIOD

(1) Definitions

(a) Event after the reporting period: An event (favourable or unfavourable) that occurs between the end of the reporting period and the date that the financial statements are adopted by the BOD of the Company.

(b) Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

(c) Non-adjusting event: An after balance sheet date event which is not an adjusting event.

(2) Accounting

- Adjust financial statements for adjusting events
- Do not adjust for non-adjusting events
- If an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. It is a non-adjusting event.

(3) Going concern issues arising after end of the reporting period

An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

(4) Disclosure

Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. The required disclosure is (a) the nature of the event and (b) an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made.

JKSC

Ind AS 2/ AS 2 – INVENTORIES

(1) Objective

The objective of Ind AS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determining the cost of inventories and for subsequently recognising an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

(2) Scope

Inventories include assets held for sale in the ordinary course of business (finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

However, Ind AS 2 excludes certain inventories from its scope:

- Work in process arising under construction contracts
- Financial instruments
- Biological assets related to agricultural activity and agricultural produce at the point of harvest

Also, while the following are within the scope of the standard, Ind AS 2 does not apply to the measurement of inventories held by:

- producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value (above or below cost) in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change
- commodity brokers and dealers who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

(3) Fundamental principle of Ind AS 2

Inventories are required to be stated at the lower of cost and net realisable value (NRV).

(4) Measurement of inventories

Cost should include all:

- costs of purchase (including taxes, transport, and handling) net of trade discounts received
- costs of conversion (including fixed and variable manufacturing overheads) and
- other costs incurred in bringing the inventories to their present location and condition

(5) Interest & other borrowing costs can be included in the cost of inventory if time plays a major role in bringing about a change in the condition of inventory

(6) Inventory cost should not include:

- abnormal waste
- storage costs
- administrative overheads unrelated to production
- selling costs
- foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency
- interest cost when inventories are purchased with deferred settlement terms.

(7) The standard cost and retail methods may be used for the measurement of cost, provided that the results approximate actual cost.

(8) For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.

(9) For items that are interchangeable, Ind AS 2 allows the FIFO or weighted average cost formulas.

(10) The same cost formula should be used for all inventories with similar characteristics as to their nature and use to the entity. For groups of inventories that have different characteristics, different cost formulas may be justified.

(11) Write-down to net realisable value

NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Any write-down to NRV should be recognised as an expense in the period in which the write-down occurs. Any reversal should be recognised in the income statement in the period in which the reversal occurs.

(12) Expense recognition

Ind AS 18 Revenue addresses revenue recognition for the sale of goods. When inventories are sold and revenue is recognised, the carrying amount of those inventories is recognised as an expense (often called cost-of-goods-sold). Any write-down to NRV and any inventory losses are also recognised as an expense when they occur.

(13) Disclosure

Required disclosures:

- accounting policy for inventories
- carrying amount, generally classified as merchandise, supplies, materials, work in progress, and finished goods. The classifications depend on what is appropriate for the entity
- amount of any write-down of inventories recognised as an expense in the period
- amount of any reversal of a write-down to NRV and the circumstances that led to such reversal
- carrying amount of inventories pledged as security for liabilities
- cost of inventories recognised as expense (cost of goods sold)

Ind AS 17/ AS 19 - LEASES

Objective

The objective of this Standard is to prescribe, for lessees and lessors, accounting policies and disclosure to apply in relation to leases.

Scope/Exclusions

This Standard shall be applied in accounting for all leases other than:

- leases to explore for or use minerals, oil, natural gas and similar non- regenerative resources; and
- Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

(a) Property held by lessees that are accounted for as investment property
(b) Investment property provided by lessors under operating leases
(c) Biological assets held by lessees under finance leases; or
(d) Biological assets provided by lessors under operating leases.

This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Definitions

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

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Residual value is the Fair value at the end of lease term

MLP (lessee) =
MLP (lessor) =
Gross Invt. In lease =
Net Invt. In lease =
Unearned Finance income =
Unguaranteed residual value =

Classification of leases

A lease is classified as a finance lease if any one of the following indicator is satisfied.

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;

- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Leases in the financial statements of lessees

Finance leases

Initial recognition

At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset

Subsequent measurement

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.
A finance lease gives rise to depreciation expense. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with Ind AS 16, Property, Plant and Equipment and Ind AS 38, Intangible Assets.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Operating leases

Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either:

- another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or
- the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.2

Leases in the financial statements of lessors

Finance leases

Initial recognition

Lessors shall recognise assets held under a finance lease in their balance sheets and present them as a receivable at an amount equal to the net investment in the lease.

Subsequent measurement

The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Manufacturer or dealer lessors shall recognise selling profit or loss in the period, in accordance with the policy followed by the entity for outright sales. If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate

of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the selling profit is recognised.

Operating leases

Lessors shall present assets subject to operating leases in their balance sheet according to the nature of the asset.

Lease income from operating leases (excluding amounts for services such as insurance and maintenance) shall be recognised in income on a straight-line basis over the lease term, unless either:

- Another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or
- The payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met.3

Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with Ind AS 16 and Ind AS 38.

Sale and leaseback transactions

- If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.
- If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.
- For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

Operating Leases—Incentives

Accounting Principles

1. All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.
2. The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.
3. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Ind AS 38/ AS 26 – INTANGIBLE ASSETS

1) Objective

The objective to prescribe the accounting treatment for intangible assets

This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met.

The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

2) Scope

This Standard shall be applied in accounting for intangible assets, except:

- intangible assets that are within the scope of another Standard;
- financial assets, as defined in Ind AS 32, Financial Instruments: Presentation;
- the recognition and measurement of exploration and evaluation assets (see Ind AS 106, Exploration for and Evaluation of Mineral Resources); and
- Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.
- Intangible assets covered by another standard.

3) Definitions

The following terms are used in this Standard with the meanings specified:

a) Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

b) An asset is a resource:
   - controlled by an entity as a result of past events; and
   - From which future economic benefits are expected to flow to the entity.

c) Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.

d) Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

e) 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.

f) An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

g) An intangible asset is an identifiable non-monetary asset without physical substance.

h) Useful life is:
   (i) The period over which an asset is expected to be available for use by an entity; or
   (ii) The number of production or similar units expected to be obtained from the asset by an entity.

JKSC

4) Recognition and measurement

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.

5) An intangible asset shall be measured initially at cost.

6) Separate acquisition

The cost of a separately acquired intangible asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any directly attributable cost of preparing the asset for its intended use.

Examples of directly attributable costs are:

- costs of employee benefits (as defined in Ind AS 19) arising directly from bringing the asset to its working condition;
- professional fees arising directly from bringing the asset to its working condition; and
- Costs of testing whether the asset is functioning properly.

Examples of expenditures that are not part of the cost of an intangible asset are:

- costs of introducing a new product or service (including costs of advertising and promotional activities)
- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- Administration and other general overhead costs.

7) Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

- costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and
- initial operating losses, such as those incurred while demand for the asset's output builds up.

8) If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with Ind AS 23, Borrowing Costs.

9) Acquisition as part of a business combination

In accordance with Ind AS 103, Business Combinations, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date.

10) Acquisition by way of a government grant

In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. In accordance with Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, an entity recognises both the intangible asset and the grant initially at fair value.

11) Exchanges of assets

One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The cost of such an intangible asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

12) Internally generated Assets

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

- A research phase; and
- A development phase.

Research phase

No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

Development phase

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

13) The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

- costs of materials and services used or consumed in generating the intangible asset;
- costs of employee benefits (as defined in Ind AS 19) arising from the generation of the intangible asset;
- fees to register a legal right; and
- Amortisation of patents and licences that are used to generate the intangible asset.

  Ind AS 23 specifies criteria for the recognition of interest as an element of the cost of an internally generated intangible asset.

The following are not components of the cost of an internally generated intangible asset:

- selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use
- identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
- Expenditure on training staff to operate the asset.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

14) Measurement after recognition

An entity shall choose either the cost model or the revaluation model in as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Cost model

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model

a. After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

   Fair value shall be measured by reference to an active market.

b. If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

c. If the fair value of a revalued intangible asset can no longer be measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

d. If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

e. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

f. The cumulative revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the entity; in such a case, the amount of the surplus realised is the difference between amortisation based on the revalued carrying amount of the asset and amortisation that would have been recognised based on the asset's historical cost. The transfer from revaluation surplus to retained earnings is not made through profit or loss.

15) Useful life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite.

An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The accounting for an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.

16) Intangible assets with finite useful lives

Amortisation period and amortisation method

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, and shall cease at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

If that pattern cannot be determined reliably, the straight-line method shall be used.

A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. (For E.g. straight-line method, the diminishing balance method and the units of production method)

There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate.

Amortisation is usually recognised in profit or loss.

17) Residual value

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 (as defined in Ind AS 113) 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.

18) Review of amortisation period and amortisation method

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change then such changes shall be accounted for as changes in accounting estimates in accordance with Ind AS 8.

19) Intangible assets with indefinite useful lives

An intangible asset with an indefinite useful life shall not be amortised.

In accordance with Ind AS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount

- annually, and
- whenever there is an indication that the intangible asset may be impaired.

20) Review of useful life assessment

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with Ind AS 8.

21) Retirements and disposals

An intangible asset shall be derecognised:

- on disposal; or
- When no future economic benefits are expected from its use or disposal.

The gain or loss arising from the recognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognized.

Gains shall not be classified as revenue.

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale.

22) Disclosure

- whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- the amortisation methods used
- the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) Additions, indicating separately those from internal development, those acquired separately, and those acquired through business combinations;
  - (ii) Assets classified as held for sale or included in a disposal group classified as held for sale
  - (iii) Increases or decreases during the period resulting from revaluations
  - (iv) Impairment losses recognised
  - (v) Impairment losses reversed
  - (vi) Any amortisation recognised during the period;
- For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset.

23) Intangible assets measured after recognition using the revaluation model

If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

a. by class of intangible assets:
   - (i) the effective date of the revaluation;
   - (ii) the carrying amount
   - (iii) the carrying amount had the revalued class of intangible assets been measured after recognition using the cost model

b. the amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period.

JKSC

Ind AS 8/ AS 5 – ACCOUNTING POLICIES, CHANGES IN ACOUNTING ESTIMATES AND ERRORS

(1) Definitions

- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- A change in accounting estimate is an adjustment of the carrying amount of an asset or liability, or related expense, resulting from reassessing the expected future benefits and obligations associated with that asset or liability.
- Materiality - Omissions or misstatements of items are material if they could, by their size or nature, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements.
- Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available and could reasonably be expected to have been obtained and taken into account in preparing those statements. Such errors result from mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

(2) Changes in accounting policies

An entity is permitted to change an accounting policy only if the change:

- is required by a standard or interpretation; or
- Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

  If a change in accounting policy is required by a new Ind AS or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively unless it is impracticable

(3) Changes in accounting estimates

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in:

- The period of the change, if the change affects that period only, or
- The period of the change and future periods, if the change affects both.

However, to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it is recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of the change.

(4) Errors

The general principle in Ind AS 8 is that an entity must correct all material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- 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.

Retrospective treatment prescribed above can be avoided if it is impracticable.

Ind AS 23/ AS 16 – BORROWING COSTS

Core principle

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Scope/Exclusions

The Standard does not apply to actual or imputed cost of equity, including preference capital not classified as a liability.

An entity is not required to apply Standard to borrowing costs directly attributable to the acquisition, construction or production of:

- a qualifying asset measured at fair value, for example, a biological asset within the scope of Ind AS 41 Agriculture; or
- inventories that are manufactured or otherwise produced, in large quantities on a repetitive basis.

Definitions

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

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

Borrowing costs may include:

Interest expense calculated using the effective interest method.

Finance charges in respect of finance leases.

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

In case if, there is gain then such gain to the extent of the loss previously recognised as an adjustment should also be recognised as an adjustment to interest.

Recognition

An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset & other borrowing costs as an expense in the period in which it incurs them.

When an entity applies Ind AS 29 Financial Reporting in Hyperinflationary Economies, it recognises as an expense the part of borrowing costs that compensates for inflation during the same period.

JKSC

Types of Borrowings

Specific Borrowings

The amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

General Borrowings

The amount of borrowing costs eligible for capitalisation will be calculated by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs;

Commencement of capitalisation

An entity will commence capitalisation on the date when all the following conditions are satisfied :

- it incurs expenditures for the asset;
- it incurs borrowing costs; and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Suspension of capitalisation

An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset due to abnormal reasons.

Cessation of capitalisation

An entity shall cease capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When an entity completes the construction of a qualifying asset in parts and each part is capable of being used, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

Disclosure

An entity shall disclose:

- the amount of borrowing costs capitalised during the period; and
- the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.

1. Objective

The objective of IND AS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties

2. Who are related parties?

A related party is a person or entity that is related to the reporting entity

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

(i) Has control or joint control of the reporting entity;

(ii) Has significant influence over the reporting entity; or

(iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. The following are deemed not to be related:

- two entities simply because they have a director or key manager in common
- providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process)
- a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence

4. A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged

5. Disclosure

Relationships between parents and subsidiaries - Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so must also be disclosed

6. **Management compensation -** Disclose key management personnel compensation in total and for each of the categories like short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits etc.

7. **Key management** personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity.

8. **If there have been transactions between related parties,** disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure would be made separately for each category of related parties and would include:
   - the amount of the transactions
   - the amount of outstanding balances, including terms and conditions and guarantees
   - provisions for doubtful debts related to the amount of outstanding balances
   - expense recognised during the period in respect of bad or doubtful debts due from related parties

JKSC

Ind AS 37/ AS 29 – INTANGIBLE ASSETS

1. (a) **This statement should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except :**
   - (i) those resulting from financial instruments that are carried at fair value ;
   - (ii) those resulting from executory contracts ;
   - (iii) those arising in insurance enterprises from contracts with policy - holders ; and
   - (iv) those covered by another Ind AS.

   (b) Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

   (c) Where another Ind AS deals with a specific type of provision,contingent liability or contingent asset, an enterprise applies that Statement instead of this Statement. For example, certain types of provisions are also addressed in other Ind AS on :
   - (i) construction contracts ;
   - (ii) taxes on income ;
   - (iii) leases ; and
   - (iv) Employee benefits.

   (d) This statement defines provisions as liabilities which can be measured only by using a substantial degree of estimation. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts : these are adjustments to the carrying amounts of assets and are not addressed in this statement.

2. **Definitions: The following terms are used in this statement with the meaning specified :**

   A provision is a liability which can be measured only by using a substantial degree of estimation.

   A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

   An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

   A contingent liability is :

   (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise ; or

   (b) a present obligation that arises from past events but is not recognised because ;
   - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation ; or
   - (ii) a reliable estimate of the amount of the obligation cannot be made.

   A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

   Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

A restructuring is a programme that is planned and controlled by management, and materially changes either :

(a) the scope of a business undertaken by an enterprise ; or

(b) the manner in which that business is conducted.

3. **Provisions : A provision should be recognised when :**

(a) an enterprise has a present obligation as a result of a past event ;

(b) it is probable that an outflow of resources employing economic benefits will be required to settle the obligation ; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised. The amount of provision should be calculated before tax and is not discounted to its present value, unless the effect of time value of money is material.

4. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the enterprise has no realistic alternative to settling the obligation created by the event.

5. Financial statements deal with the financial position of an enterprise at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an enterprise's balance sheet are those that exist at the balance sheet date.

It is only those obligation arising from past events existing independently of an enterprise's future actions (i.e. the future conduct of its business) that are recognised as provisions.

6. Where there are a number of similar obligations (e.g. product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

7. **Contingent liabilities :** An enterprise should not recognised a contingent liability.

A contingent liability is disclosed,unless the possibility of an outflow of resources embodying economic benefits is remote.

Where an enterprise is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable.

8. **Reimbursements :** Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

9. **Changes in Provisions :** Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

10. Provision should not be recognised for future operating losses.

An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An enterprise tests these assets for impairment under Accounting Standard (AS) 28/ Ind AS 36, Impairment of Assets.

11. Contingent Assets : An enterprise should not recognise a contingent asset.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.

Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

A contingent asset is to be disclosed in the financial statements,where an inflow of economic benefits is probable.

Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

12. Restructuring : The following are examples of events that may fall under the definition of restructuring :

(a) Sale or termination of a line of business ;

(b) The closure of business locations in a country or region or the relocation of business activities from one country or region to another ;

(c) Changes in management structure, for example, eliminating a layer of management; and

(d) Fundamental re-organisations that have a material effect on the nature and focus of the enterprise's operations.

A restructuring provision does not include such costs as :

(a) Retraining or relocating continuing staff ;

(b) Marketing; or

(c) Investment in new systems and distribution networks.

13. Disclosure : For each class of provision, an enterprise should disclose :

(a) The carrying amount at the beginning and end of the period ;

(b) Additional provisions made in the period, including increases to existing provisions;

(c) Amounts used (i.e., incurred and charged against the provision) during the period; and

(d) Unused amounts reversed during the period.

An enterprise should disclose the following for each class of provision :

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits ;

(b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet data a brief description of the nature of the contingent liability and, where practicable :

(a) an estimate of its financial effect;

(b) an indication of the uncertainties relating to any outflow ; and
(c) the possibility of any reimbursement.

14. Tables - Provisions, Contingent Liabilities and Reimbursements

Provisions and Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of : (a) a present obligation the one whose existence at the balance sheet date is considered probable ; or (b) or possible obligation the existence of which at the balance sheet date is considered not probable.

There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of	There is a possible obligation or a present obligation that may, but probably will not, require an out flow of resources.	There is a possible obligation or a present obligation where the likelihood of an Outflow of resources is remote.
A provision is recognised. Disclosures are required for the provision.	No provision is recognised. Disclosures are required for the contingent liability	No provision is recognised. No disclosure is required.

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.

The enterprise has no obligation for the part of the expenditure to be reimbursed by the other party.	The obligation for the amount expected to be reimbursed remains with the enterprise and it is virtually certain that reimbursement will be received if the enterprise settles the provision.	The obligation for the amount expected to be reimbursed remains with the enterprise and the reimbursement is not virtually certain if the enterprise settles the provision.
The enterprise has no liability for the amount to be reimbursed.	The reimbursement is recognised as a separate asset in the balance sheet and may be offset against the expense in the statement of profit and loss. The amount recognised for the expected reimbursement does not exceed the liability.	The expected reimbursement is not recognised as an asset.
No disclosure is required	The reimbursement is disclosed together with the amount recognised for the reimbursement.	The expected reimbursement is disclosed.