

3 Days Workshop on IFRS/Ind AS

WIRC Bhavan

- IAS 16 – Property, Plant & Equipments
- IAS 38 – Intangible Assets
- IAS 36 – Impairment of Assets
- IFRS 5 – Non-Current Assets held for Sales



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Property, Plant & Equipments

IAS – 16



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Scope of IAS 16

- Applies in accounting for PPE except
 - a) PPE classified as held for sale as per IFRS 5
 - b) Biological Assets as per IAS 41
 - c) Recognition and Measurement of exploration and evaluation assets
 - d) Mineral rights and mineral reserves

Applies to PPE used to develop or maintain the assets in (b) to (d)

-IAS 17 Leases ?

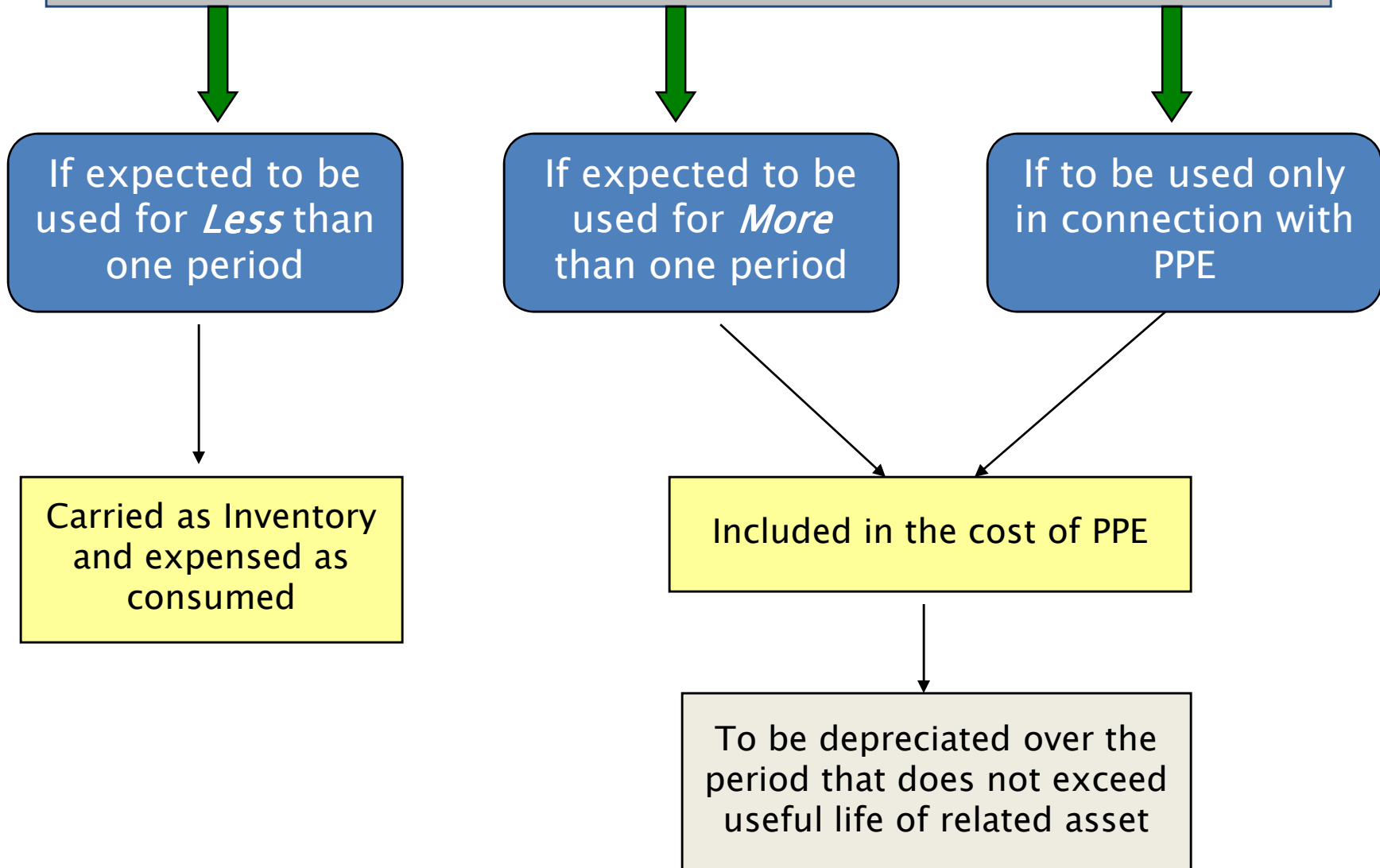
Property, Plant and Equipment?

- Tangible items that are
 - Held for use
 - In the production or supply of goods or services, for rental to others, or for administrative purposes
 - Expected to be used during more than one period

Recognition Principle

- To be recognised if
 - It is probable that FEB associated with the item will flow to the entity
 - Reliable measurement of the cost of the item
- Safety/Environmental Equipments

Spare parts & Servicing Equip.



Cost of Acquired or Self-Constructed Assets

INCLUDES

Purchase price (including import duties and non-refundable purchase taxes)

Less

- any discounts or rebates deducted
- implicit interest in deferred payment

Plus

- borrowing costs in the case of “qualifying assets” (refer IAS 23)
- any other directly attributable costs (e.g. employee benefits, site preparation, initial delivery and handling costs etc.)
- initial estimate of costs of dismantling & removing the item & restoring the site on which it is located

EXCLUDES

Costs related to

- Abnormal amounts of wasted material, labour and other resources
- Opening a new facility
- introducing a new product or service (including costs of advertising and promotional activities)
- Conducting business in a new location or with a new class of customer (including costs of staff training)
- Administration & other general overhead costs
- Using or redeploying an item
- Certain incidental operations
- Period when construction is interrupted, unless certain criteria are

Quick Check?

- Installation or erection charges?
- Testing cost ?
- Administration and general overheads ?
- Initial operating loss while demand for item's output builds up ?
- Sale of samples during trial run ?
- Cost of relocating or re-organising ?

Issues / Examples

- A Ltd. is constructing a building on a particular site. A Ltd. uses that part of the site pending for construction as a car park. A Ltd. had reduced the cost of the building by the income received from car park. Is the treatment given by A Ltd. proper?

Component Accounting

Issues involved

- Identification of components
- How much detailed
- Maintaining Fixed Assets Register
- Subjectivity



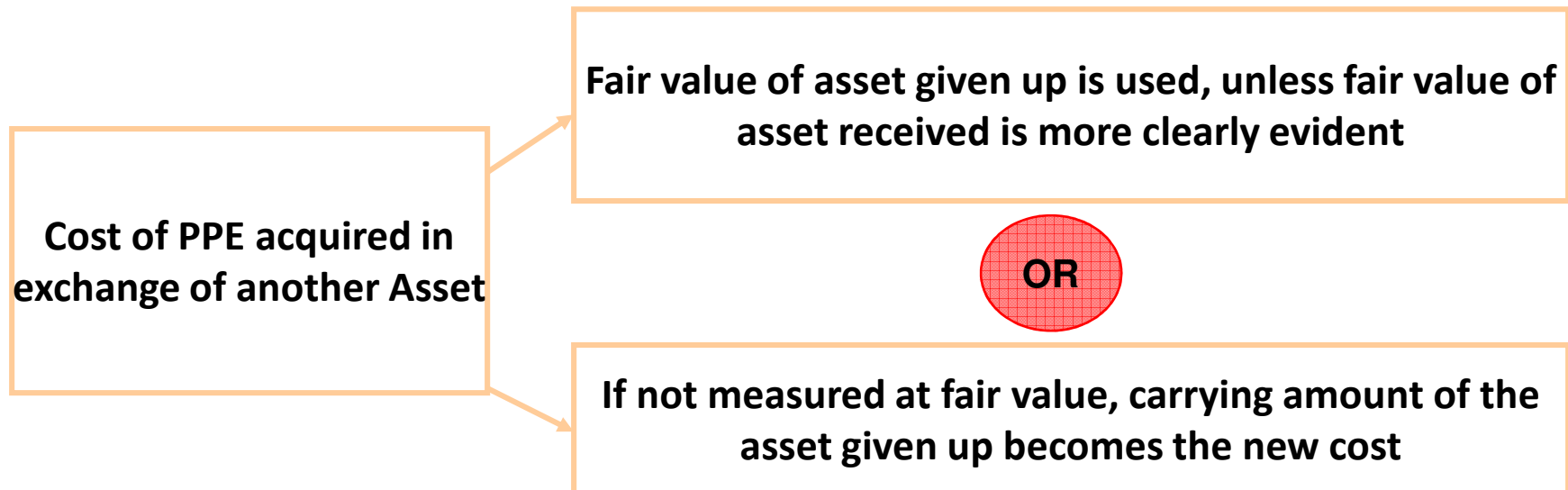
Subsequent Costs

- Day-to-day servicing cost
- Major inspection and Replacement



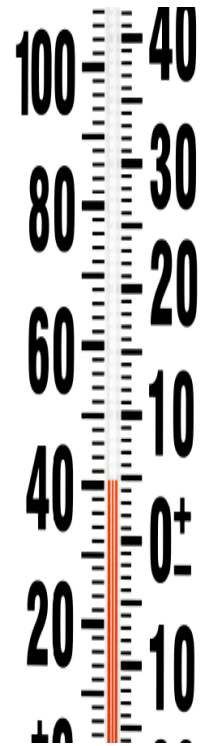
Acquired in Exchange of Another Asset

- Cost of exchanged asset is measured at fair value unless
 - Exchange transaction lacks commercial substance, or
 - Fair value of neither asset received nor given up can be measured reliably

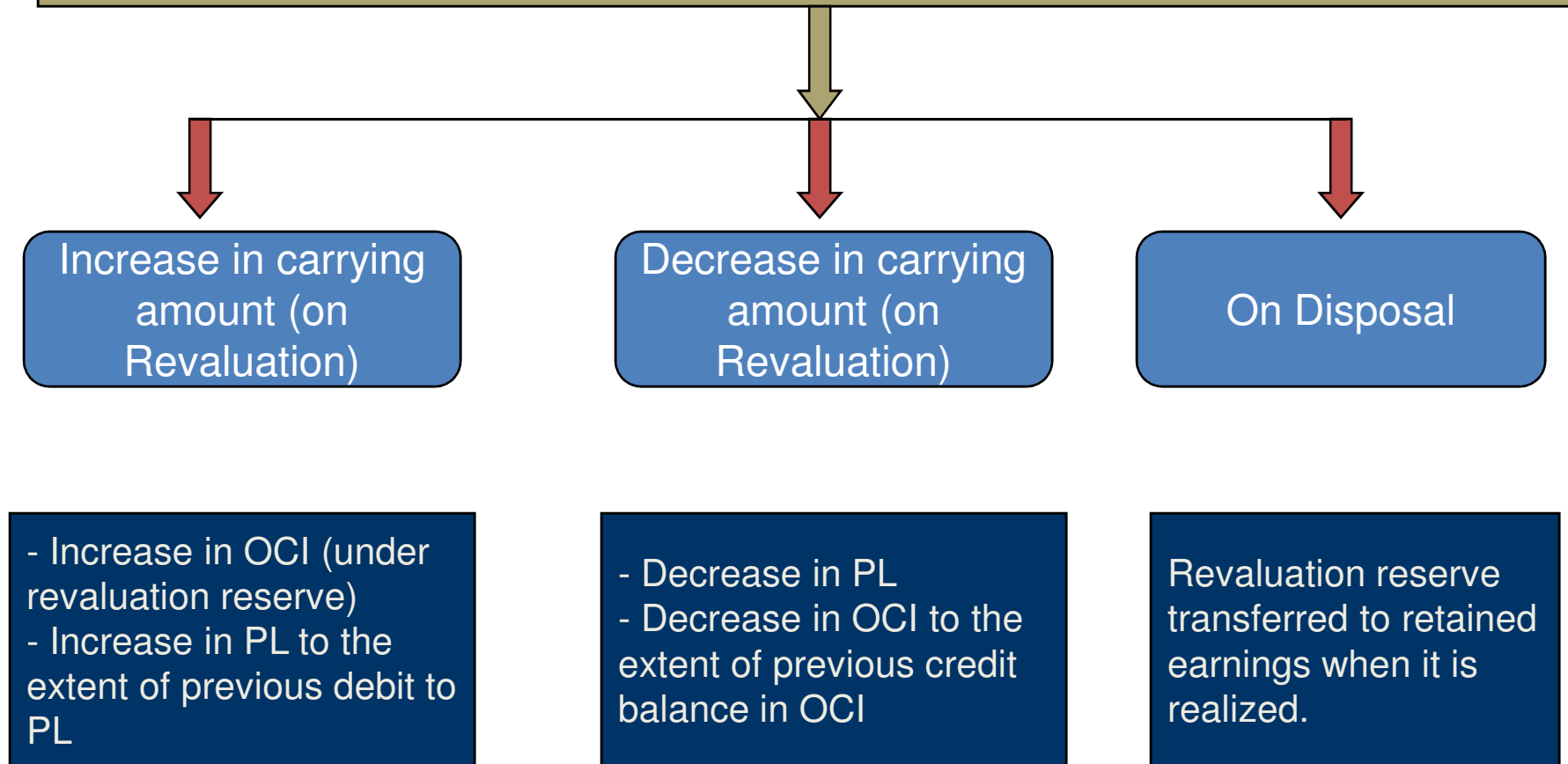


Subsequent Measurement

- **Cost Model**
 - At component cost
- **Revaluation Model**
 - Entire class of PPE to be revalued
 - Methods of Revaluation
 - Gross Adjustment Method
 - Net Adjustment Method
 - Revaluation surplus to be transferred directly to retained earnings, when the asset is derecognised.



Treatment of Revaluation Reserve



Under no circumstances can the revaluation reserve, or part thereof, be credited to the income statement.

Depreciation



- Component depreciation to be recognised in IS
- Begins when the asset is available for use
- Annual review of Useful Life, Residual Value and Depreciation Method
- Treatment of changes in Useful Life, Residual Value and Depreciation Method
- Ceases at the earlier of
 - Classification as Held for Sale
 - Date of derecognition of the Asset

Derecognition

- To be derecognised
 - On disposal or
 - When no FEBs are expected from its use
- Gain or loss on de-recognition to be recognised in Income Statement
- Gain not to be classified as revenue

Property, Plant & Equipment

Particulars	IFRS	Indian GAAP
Component Accounting	IAS 16 mandates component accounting. Under this approach, each major part of an item of PPE with a cost that is significant, is depreciated separately.	AS 10 does not require full adoption of component approach. It nearly recognise the said approach in one paragraph by stating that accounting for tangible fixed assets may be improved if total cost thereof is allocated to its various parts.
Depreciation	Depreciation to be calculated based on Useful life	Depreciation calculation is based on higher of useful life or Schedule XIV rates
Review of Useful Life, Depreciation Method & Residual value	IAS 16 requires review atleast Annually	AS 10 does not specify such requirement

Property, Plant & Equipment

Particulars	IFRS	Indian GAAP
Depreciation Method	Variety of methods can be used for depreciation e.g. SLM, reducing balance method, units of prod.	Permitted Method – SLM and WDV
Cost of Major Inspection and Overhauls	Capitalised as part of carrying value of PPE.	Cost of major inspection are expensed when incurred.
Asset dismantle, removal and restoration costs	Present value of such cost, the obligation of which an entity incurs as a consequence of installing the item, is included as part of the cost of PPE.	As per AS 29 Provisions, Contingent Liabilities and Contingent Assets, best estimate of obligation of removal/restoration cost to be included in cost of asset. No discounting is required.

Property, Plant & Equipment

Particulars	IFRS	Indian GAAP
Treatment of fixed assets acquired on deferred settlement terms	separated	Financing element is not separated
Revaluation Model	Either cost model or revaluation model	AS 10 recognises revaluation. Adhoc in nature. E.g. may revalue a class of assets within one unit and ignores assets in the same class at another unit.

Property, Plant & Equipment

Particulars	IFRS	Indian GAAP
Depreciation on Revalued portion	Can not be recouped out of revaluation reserve (OCI)	Can be recouped out of revaluation reserve
Frequency of revaluation	Regular so that carrying amount not differ materially from fair value.	No requirement to perform revaluation at regular interval.
Change in Depreciation Method	Change in accounting estimates and treated prospectively	Change in accounting policy. Change in method only when required by law or compliance with AS or more appropriate presentation. Depreciation to be calculated retrospectively.

INTANGIBLE ASSETS

IAS – 38, SIC - 32

SCOPE

The Standard does ***not apply*** to those *intangible assets covered by other Standards, such as*

- Intangible assets held for sale in the ordinary course of business (IAS 2)
- Deferred tax assets (IAS 12)
- Leases within the scope of IAS 17
- Assets arising from employee benefit plans (IAS 19)
- Financial assets covered by IAS 39; IAS 27, IAS 28, or IAS 31
- Goodwill acquired in a business combination (IFRS 3)
- Deferred acquisition costs and intangible assets arising from insurance contracts (IFRS 4) (However, the disclosure requirements for such intangible assets are applicable.)
- Non-current intangible assets classified as held for sale in accordance with IFRS 5.

DEFINITIONS OF KEY TERMS

- **Intangible asset.** An identifiable, non-monetary asset without physical substance.
- **Asset:** a resource controlled by an entity as a result of past events and from which FEB are expected to flow to the entity
- **Useful life.** The period over which an asset is expected to be utilized, or the number of production units expected to be obtained from the use of the asset.

Identifiability

An asset is identifiable if it either:

- (a) is ***separable*** i.e is capable of being separated from the entity and ***sold, transferred, licensed, or rented*** either individually or in combination with a related contract, asset, or liability, regardless of whether entity intends to do so ; *or*
- (b) ***Arises from contractual or other legal rights***, regardless of whether those rights are transferable or separable from the entity or other rights or obligations.

Recognition of Intangible Assets

(A) Intangible Assets

Identifiable

Non- Monetary Asset

Without Physical
Substance

Entity Controls the
Asset

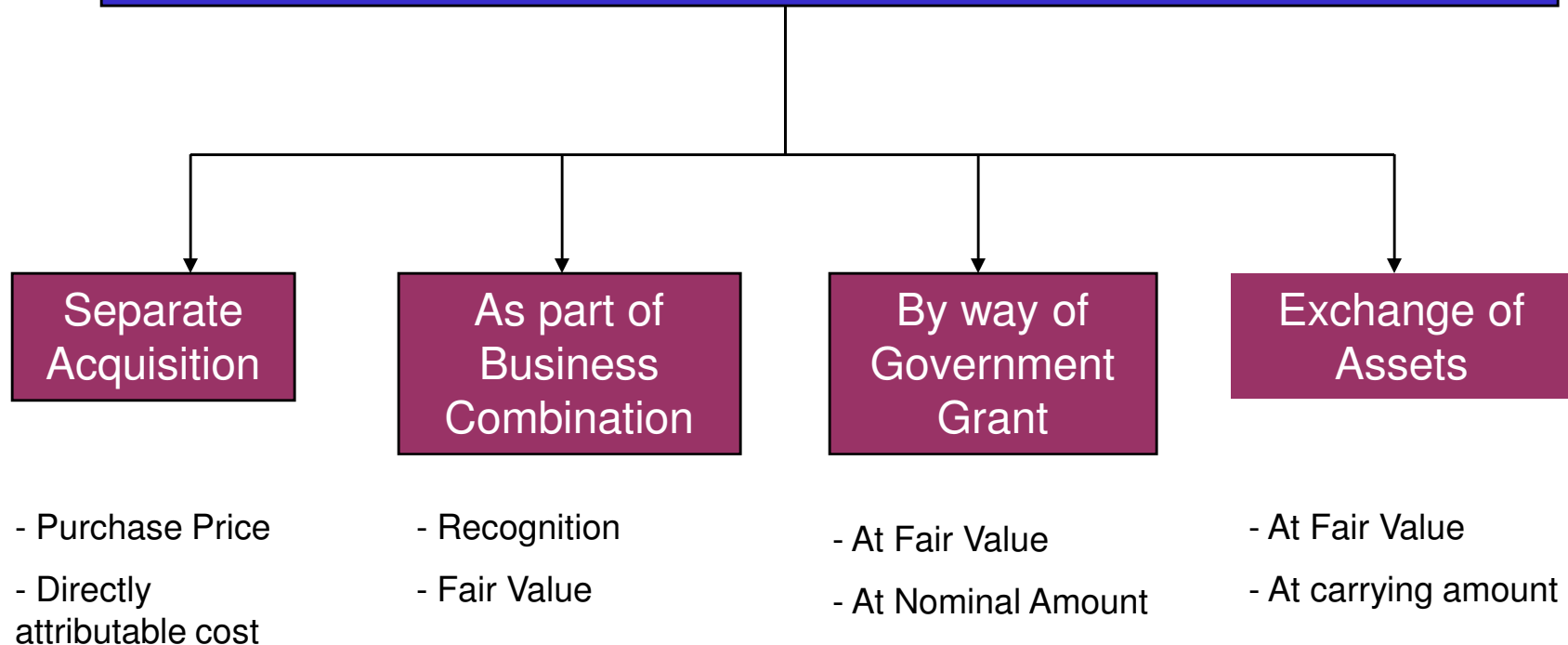
FEB expected to flow
to the entity

(B) Recognition Criteria

FEB flow to the entity
– Probable

Cost Measurable

Acquisition of Intangible Assets



Subsequent expenditure - whether intangible asset?

Intangible Asset – Computer Software

If it is integral
Part of Hardware

IAS 16

Otherwise

IAS 38

Computer
Software

Internally Generated Intangible Assets

- Internally Generated Goodwill
- internally generated brands, mastheads, publishing titles, customer lists, and similar items, and expenditure thereon

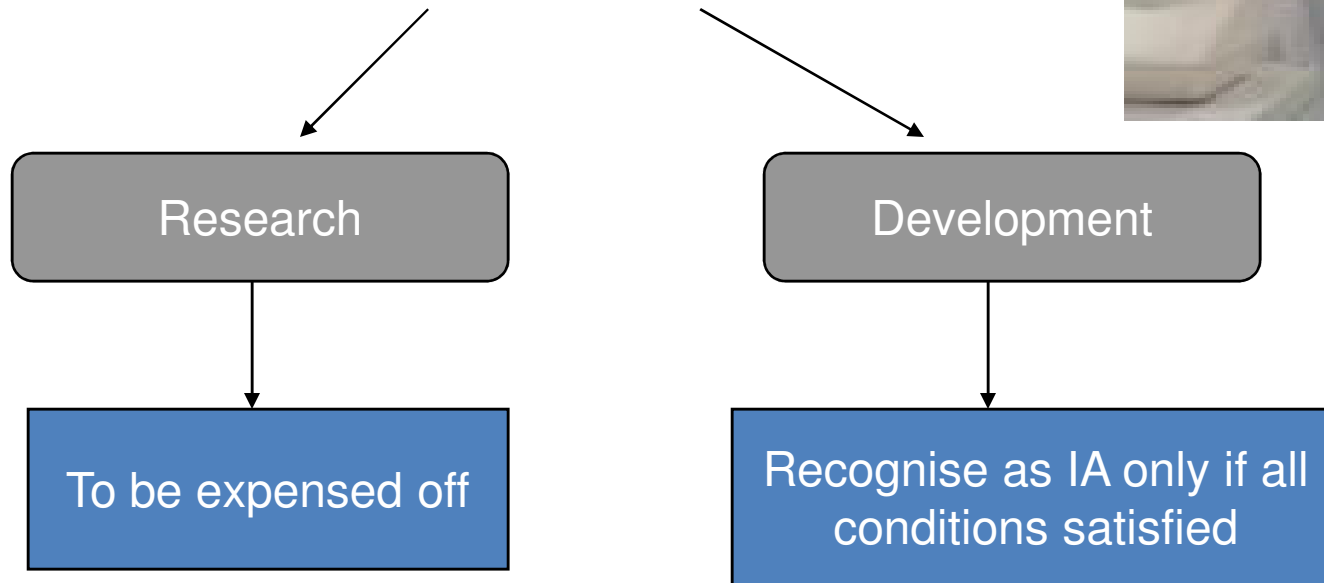
Research and Development Exp.

Definition

Research: Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development: The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

Research and Development Exp.



If above can not be segregated then consider entire expenses as Research

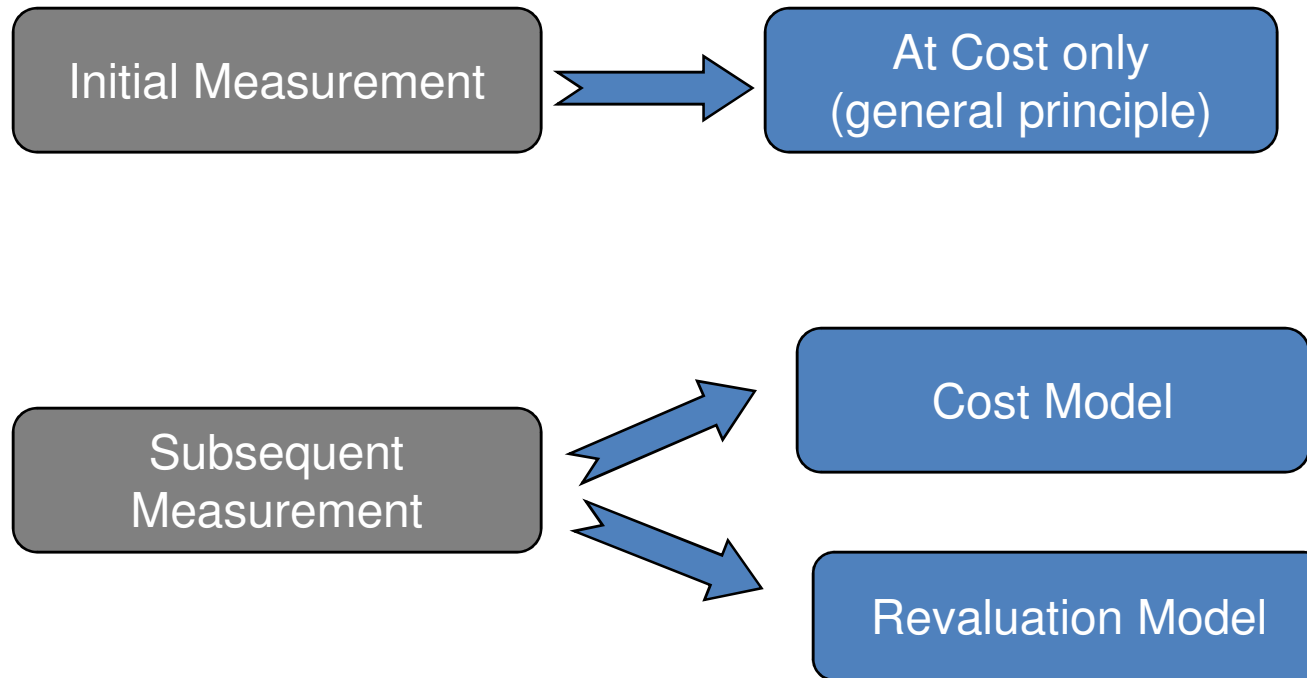
Research and Development Exp.

- Development expenditure may be recognized as an intangible asset when, and only when, **ALL** of the following can be demonstrated:
 - ✓ The technical feasibility of completing the asset so that it will be available for use or sale
 - ✓ The intention to complete the asset and use or sell it
 - ✓ The ability to use or sell the asset
 - ✓ How the asset will generate probable future economic benefit, including demonstrating a market for the asset's output, or for the asset itself, or the asset's usefulness
 - ✓ The availability of sufficient technical, financial, and other resources to complete the development and to use or sell the asset
 - ✓ The ability to reliably measure the expenditure attributable to the asset during its development

Quick Check?

S. N.	Nature of Item	Capitalised?
1.	Pre-operating cost of business facility	No
2.	Recipes, secret formulas, models and designs, prototype	Yes
3.	Training, customer loyalty, and market share	No
4.	Licensing, royalty, and stand-still agreements	Yes
5.	In-house– developed software	Yes
6.	Operating and broadcast rights	Yes
7.	Internally generated goodwill	No
8.	A license to manufacture a steroid by means of a government grant	Yes
9.	A television advertisement that will stimulate the sales in the technology industry	No

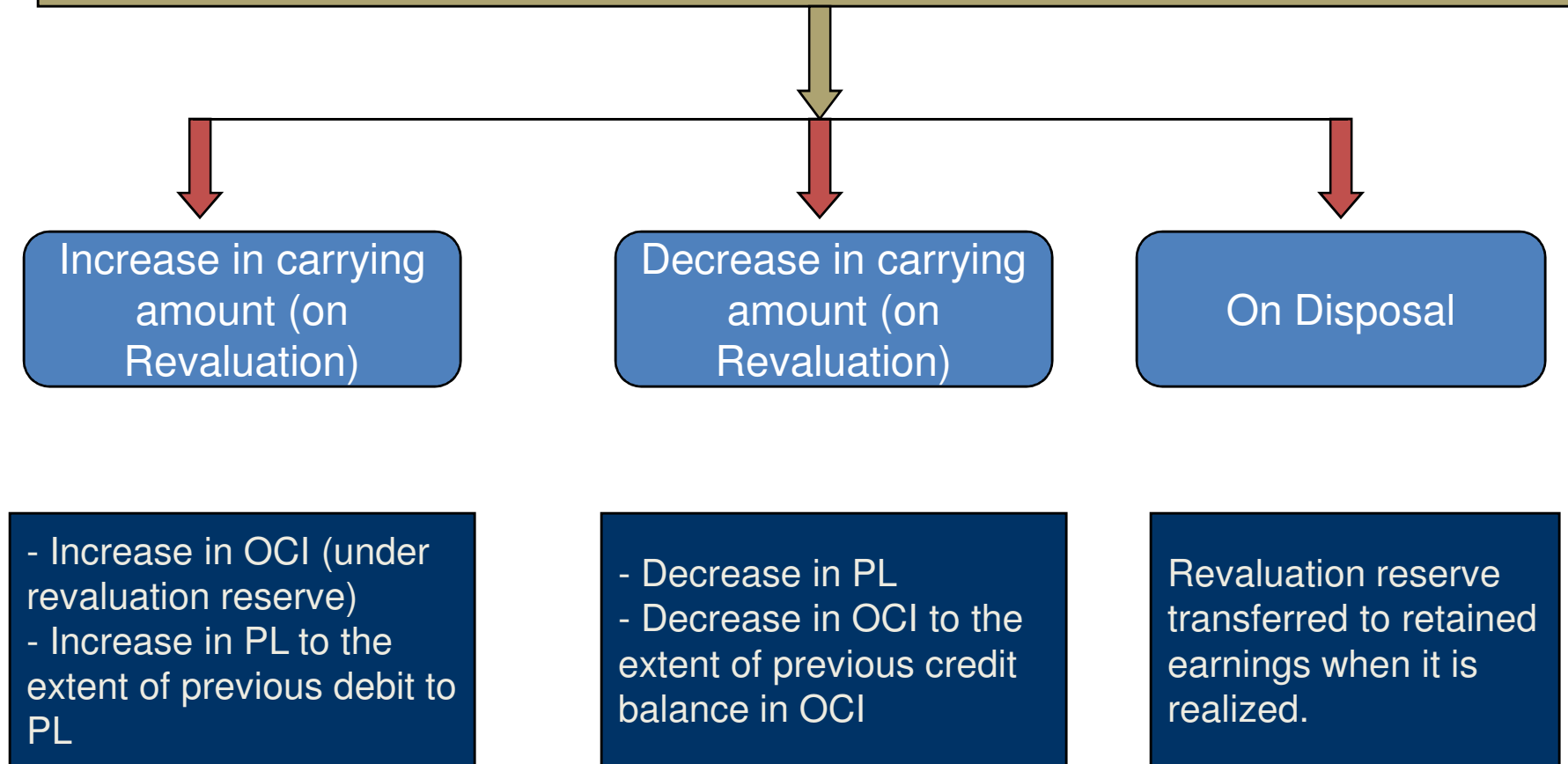
Measurement



Revaluation Model

- Fair values are to be determined from an **active market**
- **An active market** is one in which the items traded are homogeneous, willing buyers and sellers can be found at any time, *and prices* are available to the public. Therefore, **in most instances, the revaluation model will not be a realistically usable model.**
- Revaluations are to be determined only by reference to an active market. **Use of valuation models and other techniques is not permitted.**
- If an intangible assets in a class of revalued intangible asset can not be revalued ??
- If subsequently fair value of revalued intangible asset no longer determined as active market not exist ??

Treatment of Revaluation Reserve



Under no circumstances can the revaluation reserve, or part thereof, be credited to the income statement.

Amortisation of Intangible Assets

Finite Life

-Amortised on a systematic basis over its useful life

Residual value assumed to be zero unless

- Commitment by third party
- Residual value by Active market – probable to exist at end

Indefinite Life

-Not Amortised (review useful life assessment each period)

Test for Impairment

- Annually and
- Whenever indication

Amortisation of Intangible Assets

- Amortization shall commence *when the asset is ready for use and shall cease when it is fully depreciated or is reclassified as held for sale*
- Residual value & Useful Life be reassessed **at each balance sheet date.**
- Amortisation period and amortisation method to be reviewed at each balance sheet date.
- *Any changes are to be treated as changes in accounting estimates.*

SIC 32 Web Site Development Costs

- SIC 32 lays down guidance on the treatment of Web site costs consistent with the criteria for capitalization of costs established by IAS 38 - a Web site that has been developed for the purposes of promoting and advertising an entity's products and services does not meet the criteria for capitalization of costs under IAS 38. Thus costs incurred in setting up such a Web site should be expensed.

Application of SIC - 32

Sr. No.	Website Development Stage	Accounting Treatment
1.	Planning	Expense
2.	Application and infrastructure development (domain name, operating software, developing code etc.)	Expense Unless IAS 38 recognition and development criteria fulfilled
3.	Graphical Design Development	
4.	Content Development	
5.	Operating (updating graphics, revising etc.)	Expense (except IAS 38 intangible asset and recognition)
6.	Other (Selling, Admin. Other Overheads)	Expense

Major Differences with Indian GAAP:

Intangible Assets

Particulars	IFRS	Indian GAAP
Valuation Models	Cost Model or Revaluation Model	Cost Model only
Life	An entity shall assess whether the useful life is either finite or indefinite	Rebuttable presumption of 10 years
Share issue expenses	Expensed in the year of issue	Expensed over a period of 5 years or Securities Premium

Ind AS: Carve Outs

Intangible Assets

Particulars	IFRS	Ind AS
Acquisition of intangible assets by Government Grant	Either at Fair Value or Nominal Value	At Fair Value Only



IAS 36

IMPAIRMENT OF ASSETS

Objective

- To ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is calculated.

Scope

IAS 36 applies to all assets except: [IAS 36.2]

- inventories (see IAS 2)
- assets arising from construction contracts (see IAS 11)
- deferred tax assets (see IAS 12)
- assets arising from employee benefits (see IAS 19)
- financial assets (see IAS 39)
- investment property carried at fair value (see IAS 40)
- certain agricultural assets carried at fair value (see IAS 41)
- insurance contract assets (see IFRS 4)
- assets held for sale (see IFRS 5)

Impairment v. Depreciation

- Impairment is diminution in the value of asset otherwise than depreciation.

Depreciation

- The objective is to charge the cost of asset over its useful economic life.
- Matching concept is applied.

Impairment

- The objective is to bring down the carrying amount to its recoverable amount.
- Prudence concept is applied.



Impairment



Carrying Amount > Recoverable Amount

Higher of

**Net Selling Price
(Fair Value less cost to Sell)**

Value in Use

Definitions

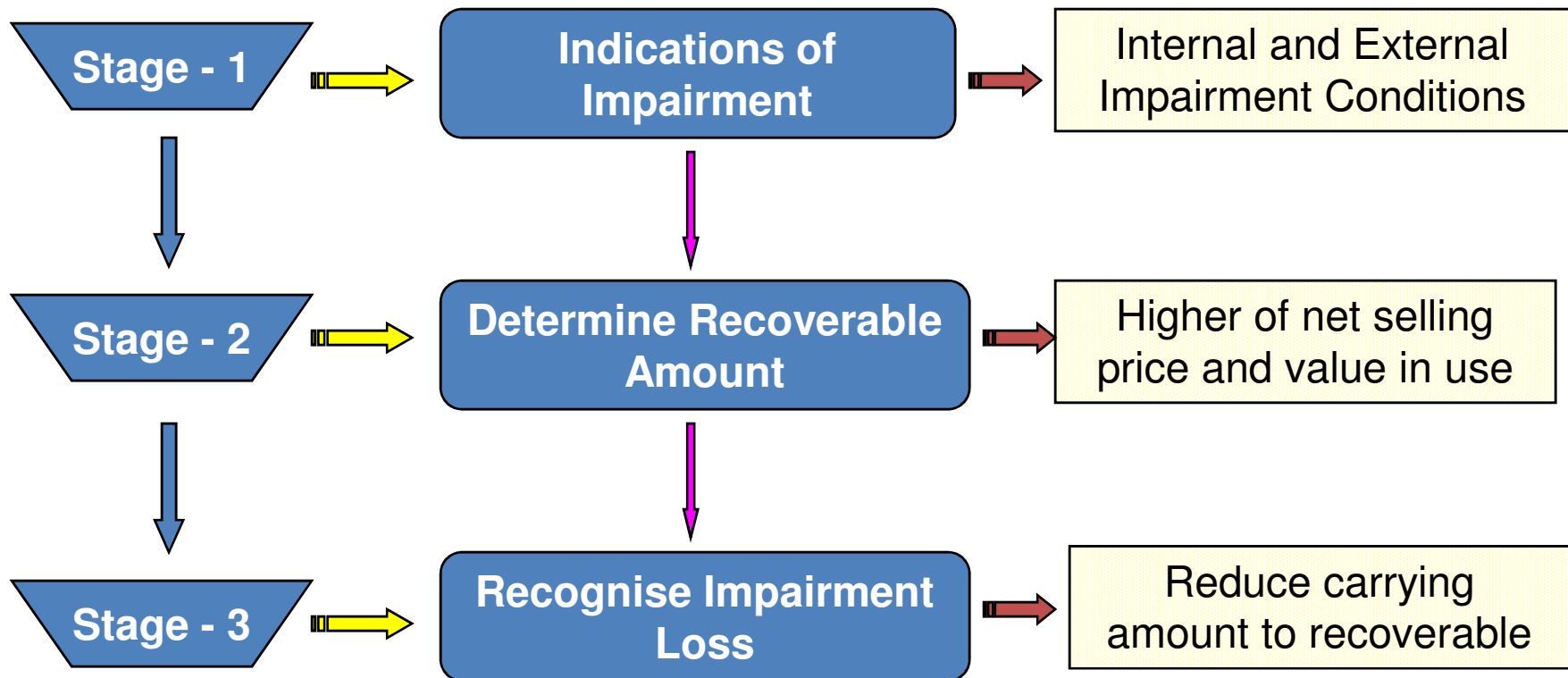


- Carrying amount: the amount at which an asset is recognised in the statement of financial position after deducting accumulated depreciation and accumulated impairment losses
- Fair value: The amount obtainable from the sale of an asset in arms length transaction between knowledgeable, willing parties.
- Value in use: The discounted present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.

Frequency of Impairment Testing

- Assess ***at the end of each reporting period*** whether there is indication of impairment
- Irrespective of indication- test at least annually
 - Intangible Assets with indefinite useful life
 - Intangible Assets not yet available for use
 - Goodwill acquired in a business combination

Impairment – 3 stages approach



Indications of impairment – Illustrative list

External sources

- market value declines
- negative changes in technology, markets, economy, or laws
- increases in market interest rates
- company stock price is below book value

Internal sources

- obsolescence or physical damage
- asset is part of a restructuring or held for disposal
- worse economic performance than expected

Impairment of Assets

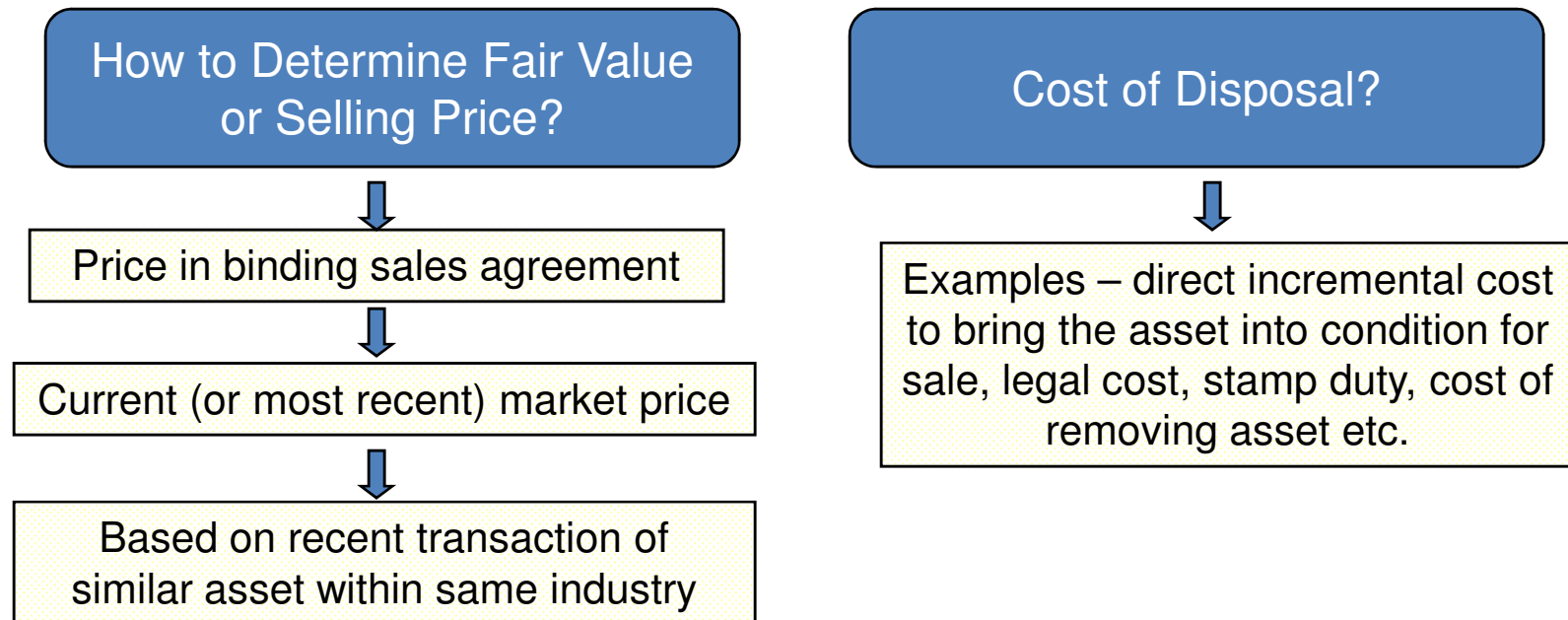
Is asset impaired?

Cost	1,000
Accumulated depreciation	<u>400</u>
Carrying amount	<u>600</u>
Recoverable amount	<u>900</u>
Asset is <i>not</i> impaired	

Cost	1,000
Accumulated depreciation	<u>400</u>
Carrying amount	<u>600</u>
Recoverable amount	<u>400</u>
Asset <i>is</i> impaired	
Reduce carrying amount	

Recoverable Amount – FVLCTS: Net Selling Price

- Amount obtainable from sale in an arm's length transaction between knowledgeable, willing parties less costs of disposal



Recoverable Amount – Value in Use

- Present value of estimated future cash flows expected to arise from:
 - continuing use of the asset *and*
 - disposal at the end of its useful life

- DCF calculation
 - Cash flows and discount rate

Cash Generating Units

- Smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets
- **Allocating Goodwill to CGU**
 - Goodwill is allocated to CGUs that is expected to benefit from the synergies of the combination.
 - Each unit or group of units to which goodwill is allocated shall
 - represent lowest level within entity at which goodwill is monitored for internal management purpose
 - Not be larger than operating segment determined in accordance with IFRS 8

Goodwill

- Allocating goodwill to CGU
 - Disposal of operation within CGU
 - Re-organisation of reporting structure
- Testing CGU with Goodwill for impairment
- Timing of impairment tests
 - Use of most recent calculations

Impairment Loss

- Allocate impairment loss to assets in the following order:
 - 1) goodwill allocated to the cash-generating unit
 - 2) other assets on a pro-rata basis
- Do not reduce carrying amount of any asset below the highest of:
 - the asset's net selling price,
 - asset's value in use and
 - zero

Issues

- Corporate Assets
- Minority Interest in Goodwill

Reversal of Impairment Loss

- Internal and External indication for reversal if change in the estimates used to determine recoverable amount
- On reversal of impairment loss
 - Increase in carrying amount
 - Recognised in profit or loss (except revaluation)
- *Reversal of impairment loss for goodwill is prohibited*

IFRS 5

Non Current Assets Held for Sale and Discontinued Operations

Objective

The objective of this IFRS is to specify

- the accounting for Non-current assets held for sale, and
- the presentation and disclosure of discontinued operations.



Scope

- Classification and Presentation requirements
 - apply to all recognized *non-current assets* and to all *disposal groups* of an entity.
- Measurement requirements
 - Apply to non-current assets and disposal groups with some exceptions
- A "***Disposal Group***" is a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit. The group may include any assets and any liabilities of the entity, including current assets, current liabilities.

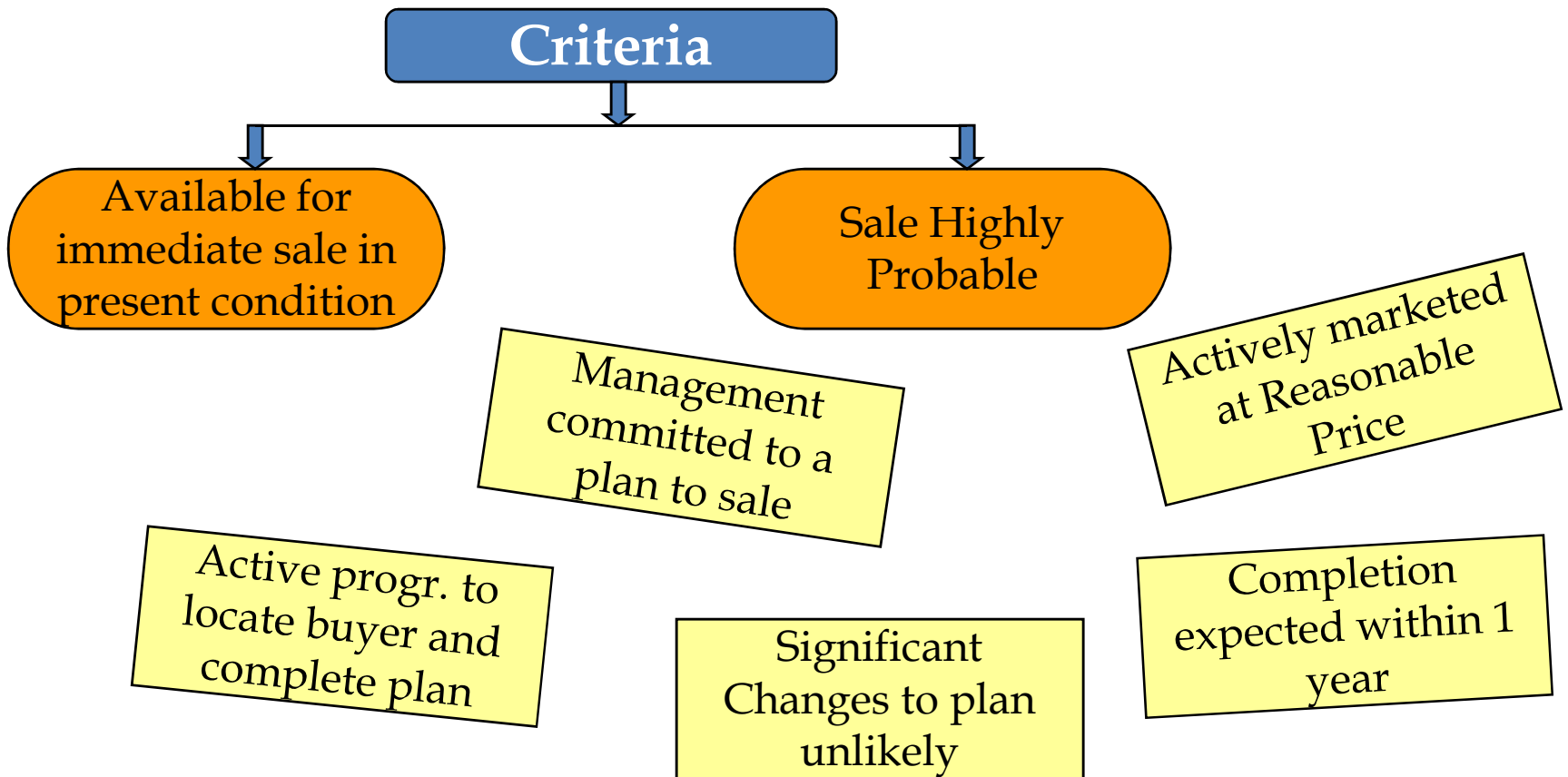
Exception to Measurement

(Disposal Group)

- (a) Deferred tax assets (**IAS 12** Income Taxes).
- (b) Assets arising from employee benefits (**IAS 19** Employee Benefits).
- (c) Financial assets within the scope of **IAS 39** Financial Instruments: Recognition and Measurement.
- (d) Non-current assets that are accounted for in accordance with the fair value model in **IAS 40** Investment Property.
- (e) Non-current assets that are measured at fair value less costs to sell in accordance with **IAS 41** Agriculture.
- (f) Contractual rights under insurance contracts as defined in **IFRS 4** Insurance Contracts.

Classification as HELD FOR SALE

- If carrying amount will be *recovered principally through selling transaction rather than through continuing use*



Case Study

An entity committed to plan of selling Headquarter Building and has appointed a real estate dealer to find a buyer. The entity intends to vacate the building on registration of transfer. Does it satisfy the condition that the asset is available for immediate sale?

Case Study

An entity committed to plan of selling Headquarter Building and has appointed a real estate dealer to find a buyer. The entity intends to vacate the building unless construction of a new building is completed. Does it satisfy the condition that the asset is available for immediate sale?

Extension of One year period condition

At the classification date, reasonable expectation of other party imposing conditions and ***action can begin after firm purchase commitment only***
(e.g. time of regulatory approval known only after buyer known)

After firm purchase commitment,
unexpectedly imposed conditions
(e.g environmental damage – action taken timely and favourable resolution expected)

Unforeseen circumstances/events happened during one year period
- Taken necessary actions and conditions met

Case Study

X is committed to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. X is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. Can the NCA be classified as HFS?

Case Study

X is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date. During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. Can the NCA be classified as HFS?

Non current assets which are to be abandoned

- Not qualify as sale, therefore asset is ***not classify as held for sale***
- If it meets the criteria of discontinued operations, entity to present/disclose as ***discontinued operation***



Measurement Principles

- **Measurement**:- At lower of carrying amount and fair value less cost to sell
- **No depreciation** on non-current assets held for sale
- **Impairment loss**:- write down of the asset to fair value less cost to sell
- **Reversal of impairment loss**:- subsequent increase in fair value less cost, upto cumulative impairment loss

Measurement of Non current assets (or disposal groups)

The following principles apply:

- At the time of classification as held for sale.
 - Immediately before the initial classification as held for sale, measured in accordance with applicable IFRSs.
- After classification as held for sale.
 - Measured at the lower of carrying amount and fair value less costs to sell.
- Sale is expected to occur beyond one year:
 - Measure the costs to sell at their present value.
 - Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Impairment

- **Timing- both** at the time of classification as held for sale and subsequently:
- **At the time of classification as held for sale.**
 - Measure and recognise impairment in accordance with the applicable IFRSs (generally IAS 16, IAS 36, IAS 38, and IAS 39).
 - Any impairment loss is recognised in profit or loss unless the asset had been measured at revalued amount under IAS 16 or IAS 38, in which case the impairment is treated as a revaluation decrease.
- **After classification as held for sale.**
 - Difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell.
 - *Any impairment loss must be recognised in profit or loss, even for assets previously carried at revalued amounts.*

Changes to Plan of Sale

- If the criteria for such classification are no longer met, the entity shall **cease** to classify the asset (or disposal group) as held for sale.
- Measure at the **lower** of:
 - a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized ***had the asset (or disposal group) not been classified as held for sale***, and
 - b) its ***recoverable amount*** at the date of the subsequent decision not to sell
- Adjustment to the carrying amount in profit or loss from continuing operations in the period in which the asset cease to be held for sale are no longer met.

Discontinued operation

- A component of entity that has been ***disposed off or classified as held for sale*** and
 - (a) Represent a separate major line of business or geographical area of operations,
 - (b) Is part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
 - (c) Is a subsidiary acquired exclusively with a view to resale
- A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

Presentation and Disclosures

Discontinued Operations:

(A) Statement of Comprehensive Income:

a single amount (post tax) of discontinued operations

(B) Disclosure in notes or statement of comprehensive income

- revenue, expense, pre-tax profit or loss from discontinued operations
- related income tax expense
- gain or loss recognised on measurement/disposal
- related income tax expense

(C) Statement of Cash Flow or notes

Net cash flow attributable to operating, financing and investing activities

(D) **Prior- period restated/re-classified** to confirm comparability as per discontinued operations on reporting date

DISCONTINUED

Presentation and Disclosures

Disposal Group classified as held for sale:

- (A) If not fulfills the definition of discontinued operations – gain/loss part of continuing operation
- (B) Statement of Financial Position-
 - Assets/Liability of held for sale shown separately from other assets/liabilities
 - Major classes of A/L to be disclosed separately in statement or notes
- (C) Not to re-classify or restate prior period Asset/Liability

Case Study

An entity reports quarterly. In 3rd Quarter, an impairment is identified in the asset of an operation that the entity is considering selling. However the operation is being actively marketed and by the end of 4th Quarter (full year), the operation qualifies as discontinued operation under IFRS 5. How the impairment charge to be shown in full year's FS? (IAS 36 v IFRS 5)

Ans.: In Full Financial Year

-Single Line Item after heading 'Tax Expense' as post tax results of discontinued operations

-In Notes or on the face of Income Statement disclose:

-Revenue, expense and pre-tax profit/loss of discontinued operations (including third quarter impairment loss)

-Related tax expense

-Gain or loss recognised on measurement to FVLCTS (impairment loss of fourth quarter) and related tax expense

Major Differences with Indian GAAP:

Non current Assets held for sale and
discontinued Operations

Particulars of Difference	IFRS	Indian GAAP
Scope	IFRS - 5 sets out requirements for classification, measurement and presentation	There is no specific standard AS 10 measurement AS 24 disclosure of discontinuing operation
Period of disposal	To be completed within 1 year with limited exceptions	No time frame prescribed
Measurement Principles	Lower of carrying value or fair value less cost to sell	AS -10 fixed asset, AS – 28 impairment, AS- 29 provisions

QUESTIONS



THANK YOU



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