

IFRS Workshop

WIRC Bhavan

- IAS 16 – Property, Plant & Equipments
- IAS 38 – Intangible Assets
- IAS 40 – Investment Property



CA Chintan N. Patel
Naresh J. Patel & Co.
Chartered Accountants
Ahmedabad
chintan@nareshco.com

16 December '14

Property, Plant & Equipments

IAS – 16



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 ?

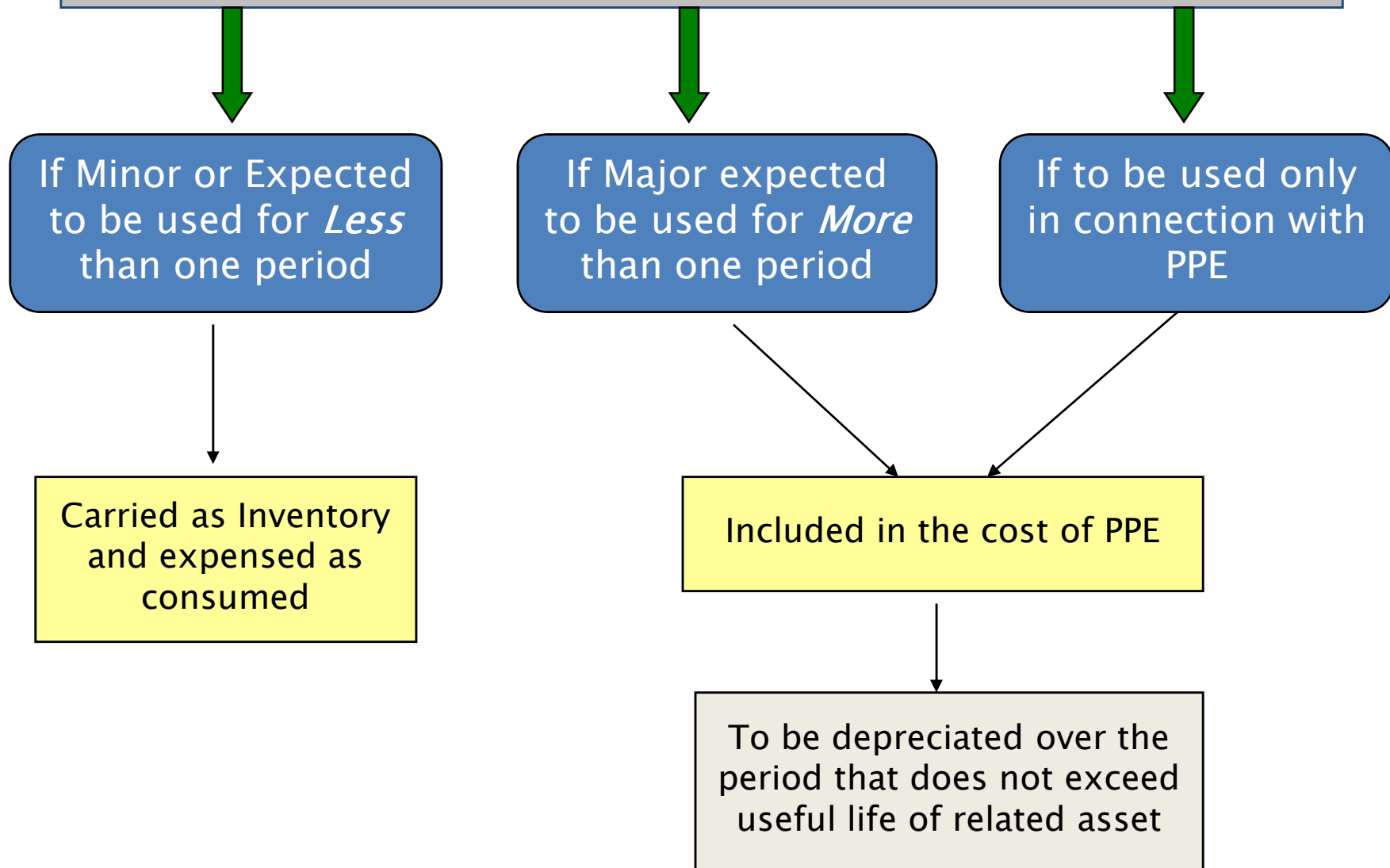
Property, Plant and Equipment?

- 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

Component Accounting

Issues involved

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



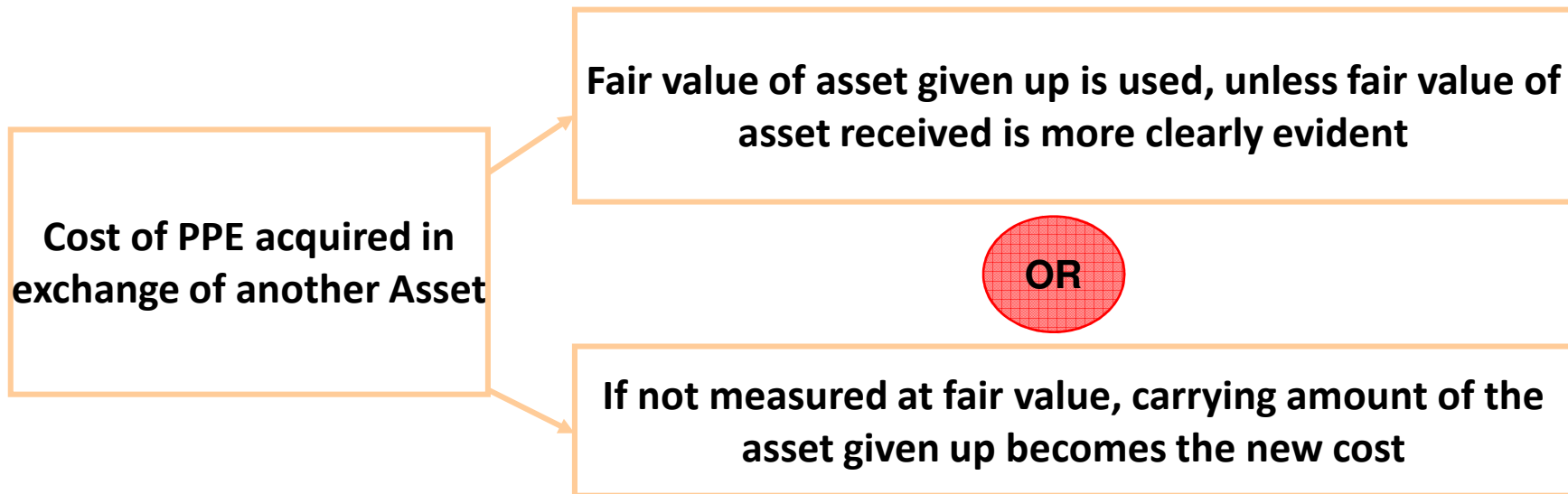
Subsequent Costs

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



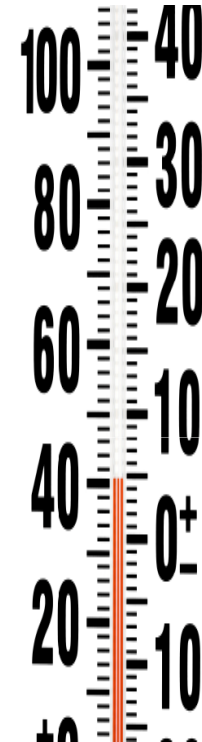
Acquired in Exchange of Another Asset

- 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

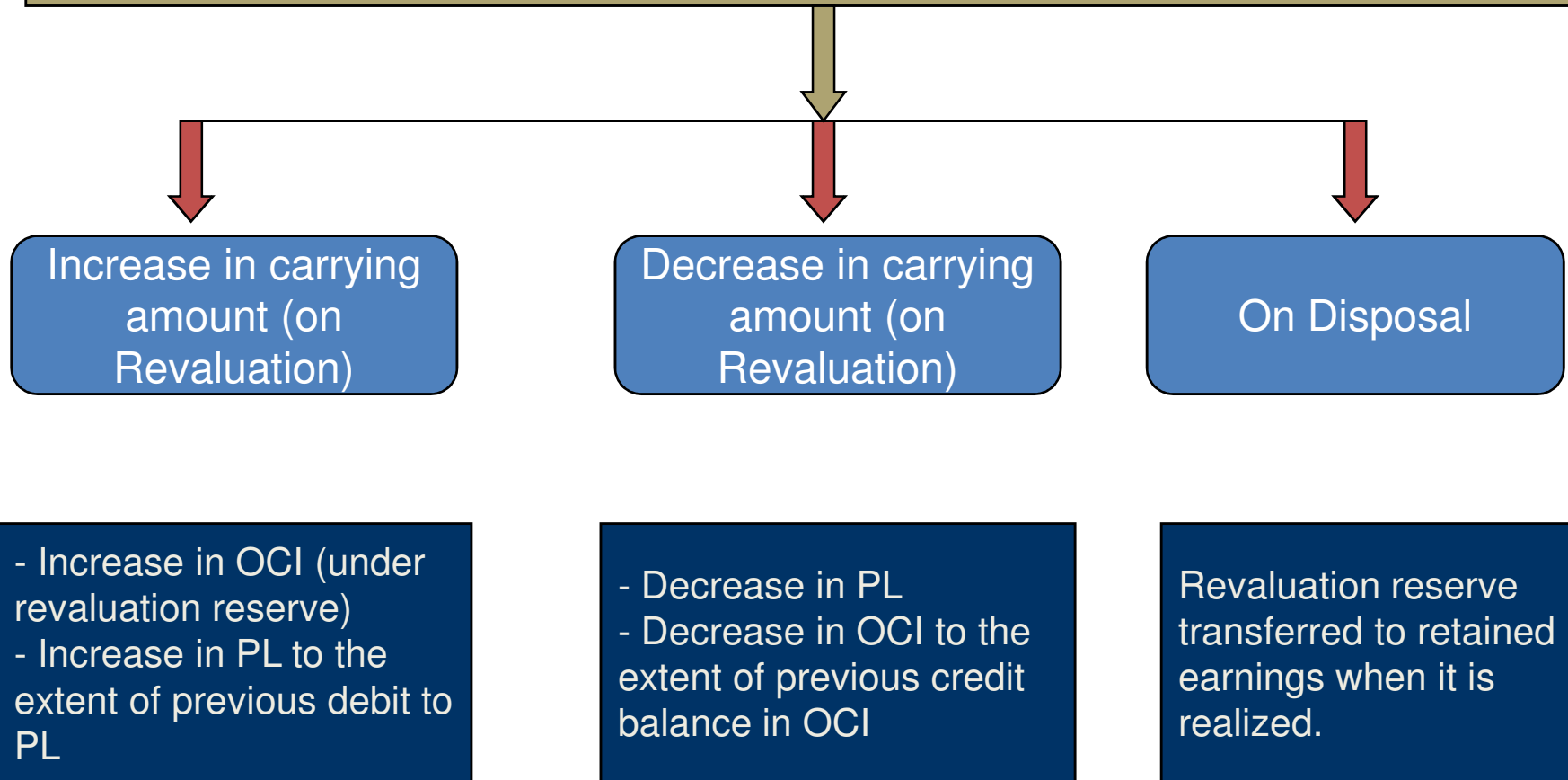


Subsequent Measurement

- **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

Disclosures

- When PPE is revalued
 - Effective date of revaluation, Whether an independent valuer was involved, Methods and significant assumptions applied in estimating the items' fair values
 - Extent to which FV is determined from
 - Observable prices in an active mkt.
 - Recent mkt. transactions
 - Estimated using other valuation techniques
 - Depreciated Cost
 - Reconciliation of revaluation surplus, Restriction on distribution of balance of Revaluation surplus

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

1 July '14

CA Chintan N. Patel
chintanl@nareshco.com

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

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

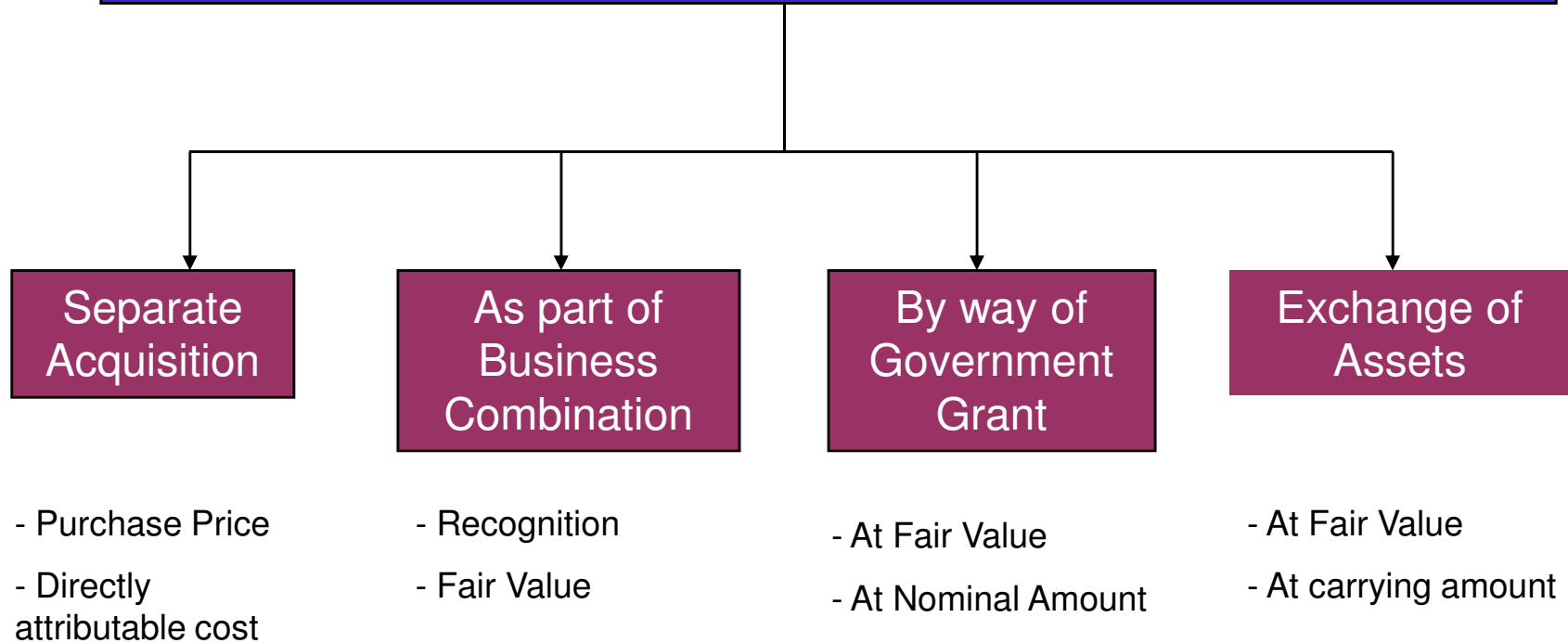
FEB expected to flow
to the entity

(B) Recognition Criteria

FEB flow to the entity
– Probable

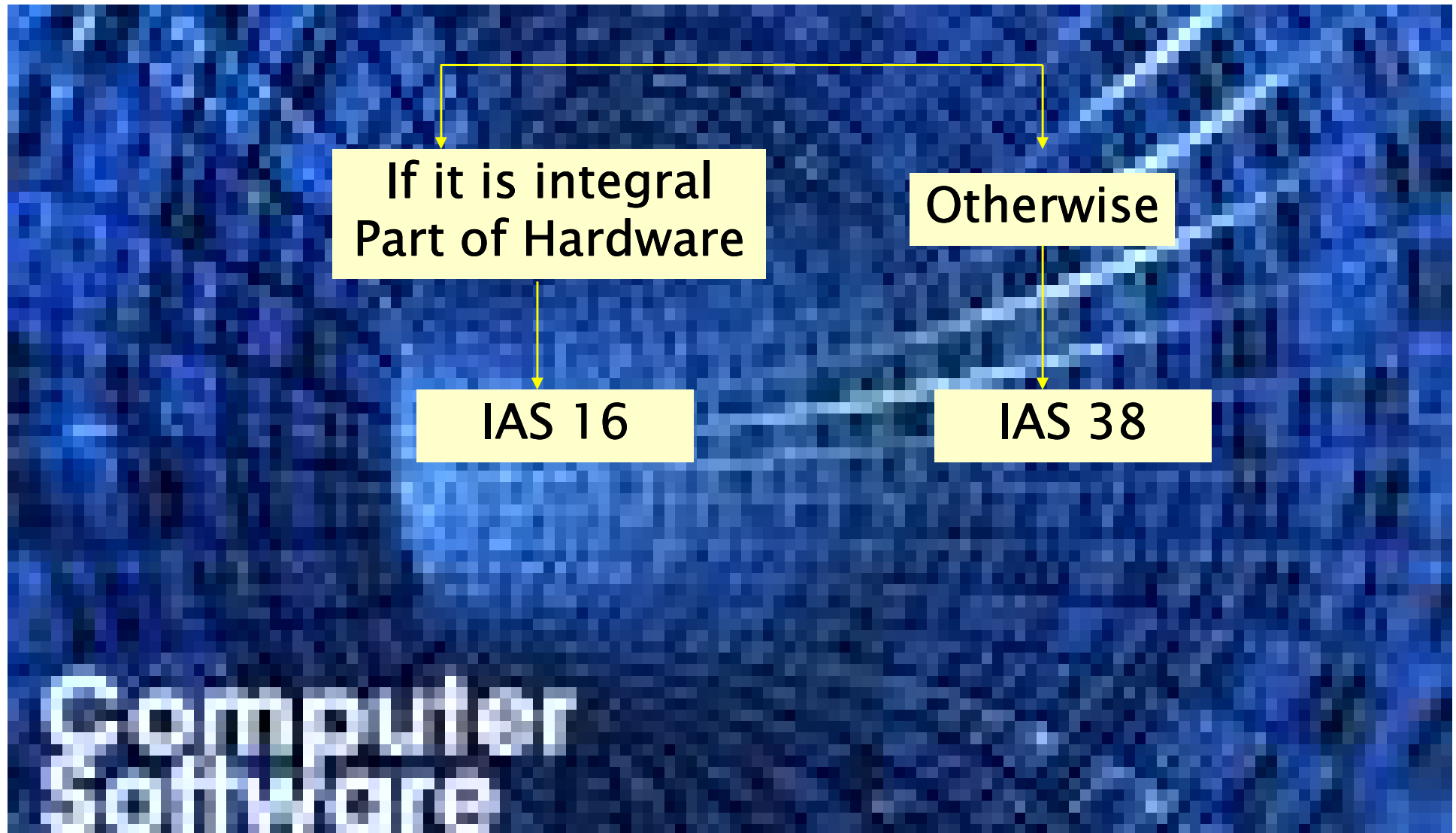
Cost Measurable

Acquisition of Intangible Assets



Subsequent expenditure - whether intangible asset?

Intangible Asset – Computer Software



Internally Generated Intangible Assets

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

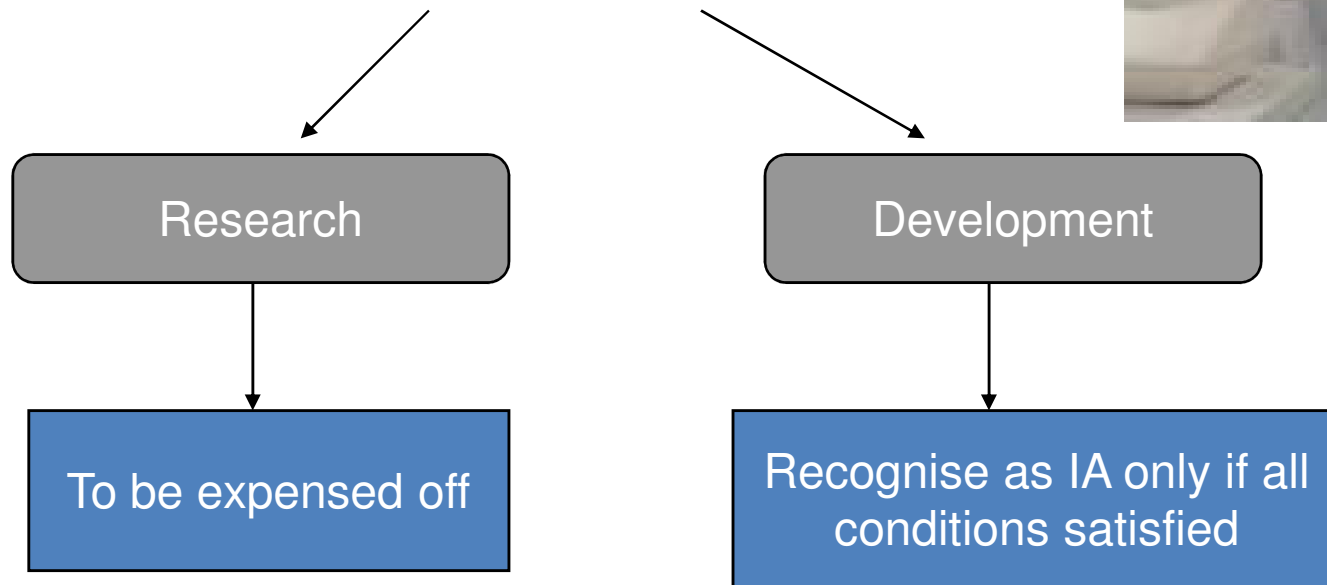
Research and Development Exp.

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.

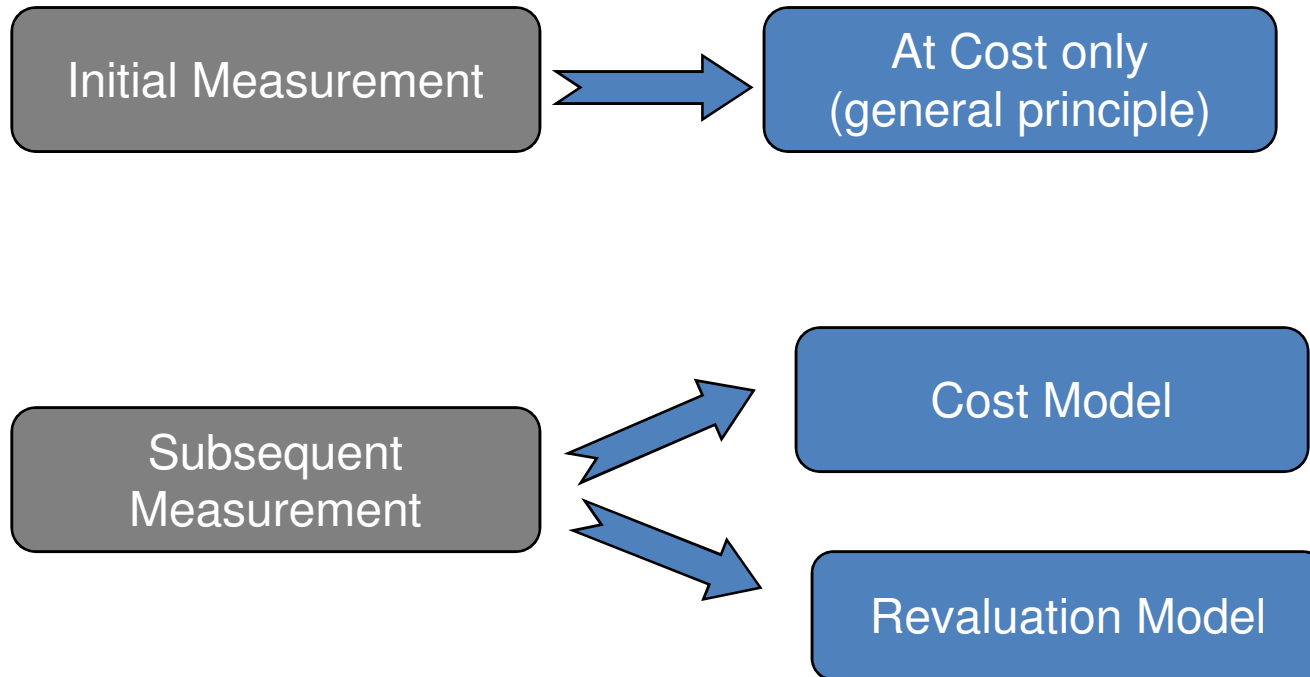


If above can not be segregated then consider entire expenses as Research

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

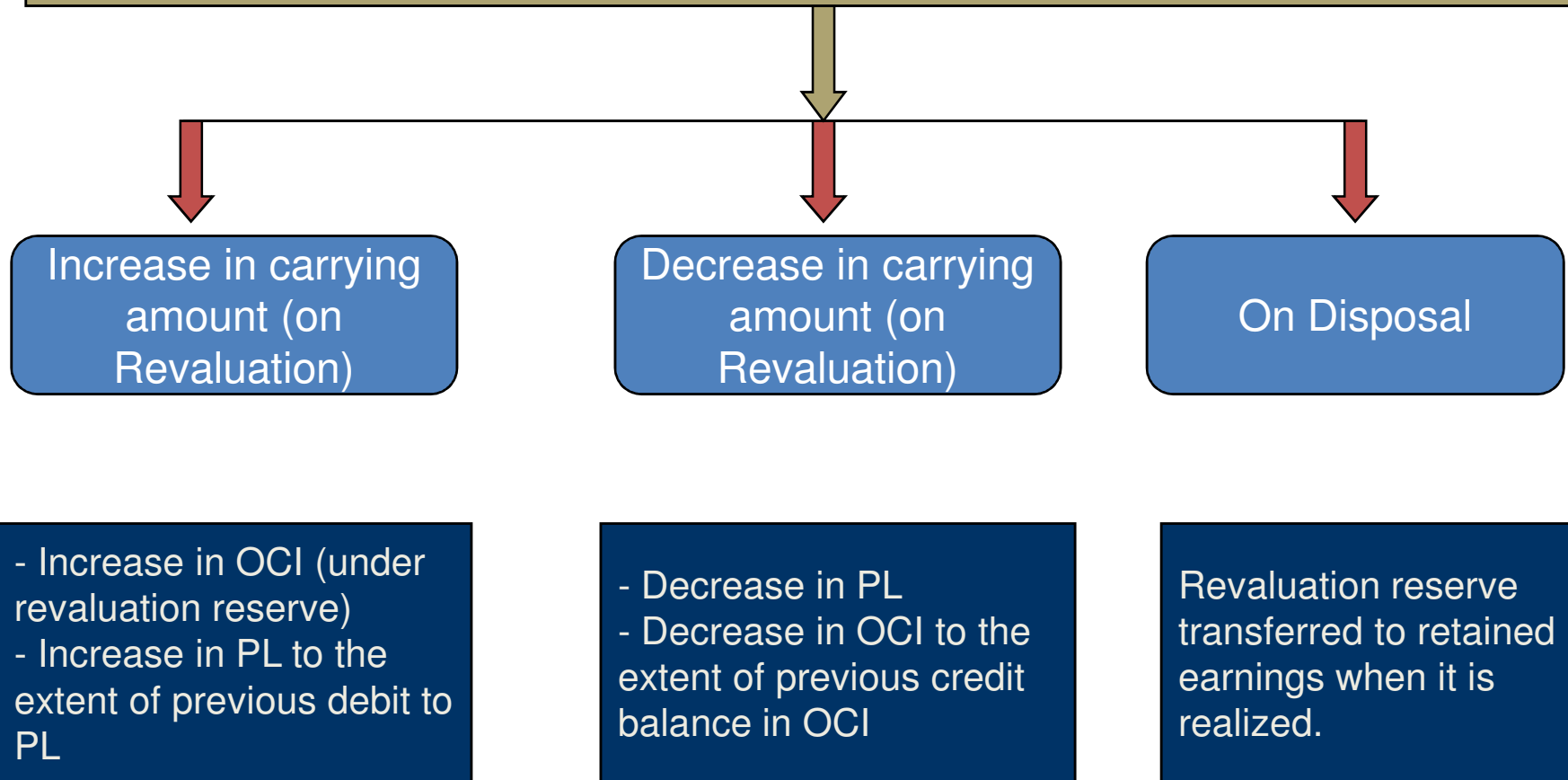
Measurement



Revaluation Model

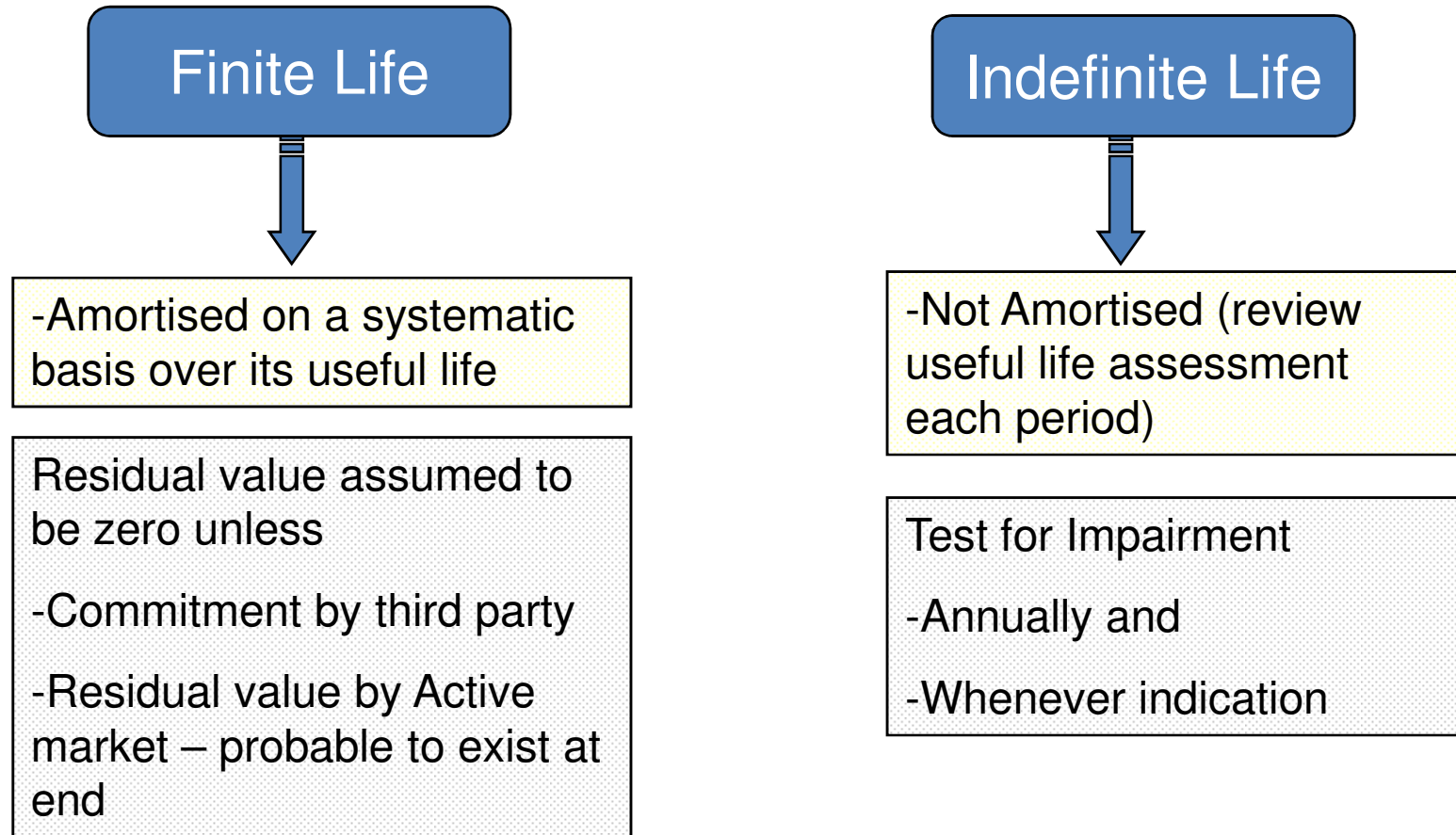
- Fair values are to be determined from an ***active market***
- **An active market** is one in which the items traded are homogeneous, willing buyers and sellers can be found at any time, *and prices* are available to the public. Therefore, **in most instances, the revaluation model will not be a realistically 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



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



INVESTMENT PROPERTY

IAS 40

1 July '14

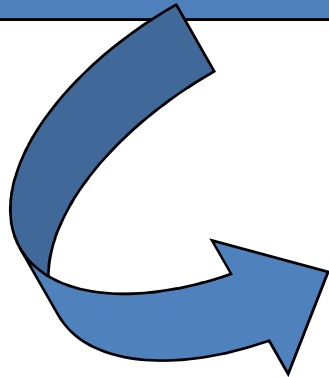
CA Chintan N. Patel
chintanl@nareshco.com

Definition of Investment Property

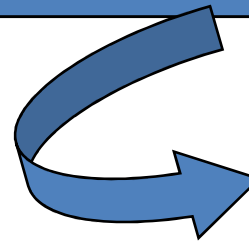


Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

- Owner
- Lessee under Finance Lease
- Lessor under Operating Lease



- Holds land or building or a part of building for earning rentals or capital appreciation.



Apply IAS - 40

IAS 40 and IAS 17

- IAS 40 applies to the **measurement** in a lessee for finance lease and to lessor for operating lease.
- IAS 40 not deal with matters of IAS17 for
 - (a) **classification** of leases as finance leases or operating leases;
 - (b) recognition of **lease income** from investment property (see also IAS 18 *Revenue*);
 - (c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
 - (d) measurement in a lessor's financial statements of its net investment in a finance lease;
 - (e) accounting for **sale and leaseback transactions**; and
 - (f) **disclosure** about finance leases and operating leases.

Situations



- 1) Property comprises separate portion both for rent and use for production/service
- 2) Owner provides ancillary services to the occupant of the property
- 3) Hotel owner providing services to the guests
- 4) Hotel owner transfers responsibilities to third party under management contract
- 5) Inter-company operating lease

Quick Check??

S. N.	Situation	Applicability of IAS-40?
1.	An entity has a factory which due to a decline in activity is no longer required and is now being held for sale.	Property held for sale in the ordinary course of business and not investment property.
2.	Farming land is purchased for its investment potential. Planning permission has not been obtained for building construction of any kind.	Land held for long term capital appreciation and therefore investment property.
3.	A factory is in the process of being constructed on behalf of government.	Property being constructed for third party and covered under IAS 11 Construction Contracts.
4.	A new office building used by entity as its head office which was specifically in the center of major city in order to exploit its capital gain potential.	Building generates cashflow as part of larger org. Owner occupied property covered under IAS 16.

Recognition

- Probable that FEB will flow to the entity
- Cost can be measured reliably

Measurement

Initial Measurement

At cost - Same as IAS 16

Subsequent Measurement

Fair value model

- **measure at** fair value
- all gains and losses **in income statement**

Cost model

- **measure at** cost less depreciation and impairment losses (*in income statement*)

Fair Value Model



- Fair value at the statement of financial position date
 - link with *International Valuation Standards*
 - encourages, but does not require, *use of independent, professionally qualified valuer*
- Unable to measure fair value reliably
 - cost model
 - only in exceptional circumstances

Fair Value



- Usually market value
 - *most probable price reasonably obtainable in the market at the statement of financial position date*
 - exclude effects of financing arrangements
- Do *not* deduct sale or disposal costs
- Avoid double counting
 - elevators, air-conditioning
 - Furniture as part of Flat rented

Transfers from Investment Property

(Fair Value model)



S. N.	Transfer from Investment Property To	Treatment
1.	Owner Occupation	IAS 16 deemed cost = FV on transfer
2.	Inventory	IAS 2 deemed cost = FV on transfer

Transfers to Investment Property

(Fair value model)



S. N.	Transfer To Investment Property From	Treatment
1.	Owner Occupation	IAS 40 deemed cost = FV on transfer; Difference between FV and carrying cost recognised in same way as Revaluation: PL/OCI
2.	Inventory	IAS 40 deemed cost = FV on transfer
3.	End of construction or development	IAS 40 deemed cost = FV on transfer Difference between FV and carrying cost recognised in PL

Disposal



- An investment property should be derecognised on *disposal* or when the investment property is *permanently withdrawn from use and no future economic benefits are expected* from its disposal.
- The gain or loss on disposal to be recognised as income or expense in the income statement.

Disclosure of Fair value even if Cost model used

- Fair value of investment property. In the exceptional cases when an entity cannot determine the fair value of IP reliably, disclose:
 - (i) a description of the investment property;
 - (ii) an explanation of why fair value cannot be determined reliably; and
 - (iii) if possible, the range of estimates within which fair value is highly likely to lie.
- Methods and significant assumptions applied in determining the fair value of investment property,
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent. If there has been no such valuation, that fact shall be disclosed.

Ind AS: Carve Outs

Investment Property

Particulars	IFRS	Ind AS
Subsequent Measurement	Cost Model or Revaluation Model	Permits only Cost Model
Disclosure related to Fair Value (even when cost model is used)	Required	Required

THANK YOU



CA Chintan N. Patel

chintan@nareshco.com

+91-90999 21163

1 July '14

CA Chintan N. Patel
chintanl@nareshco.com