



ICAI

Practical Issues in Implementation of Ind-AS

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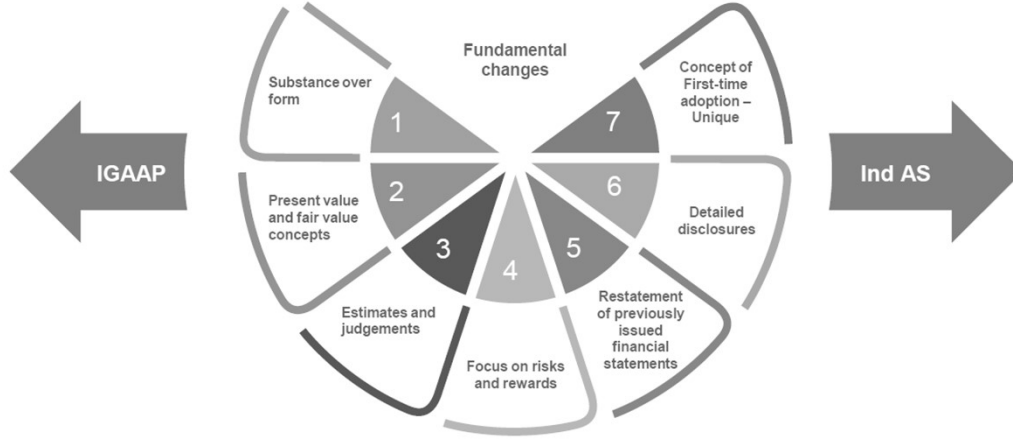
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Practical Issues in Implementation of Ind-AS



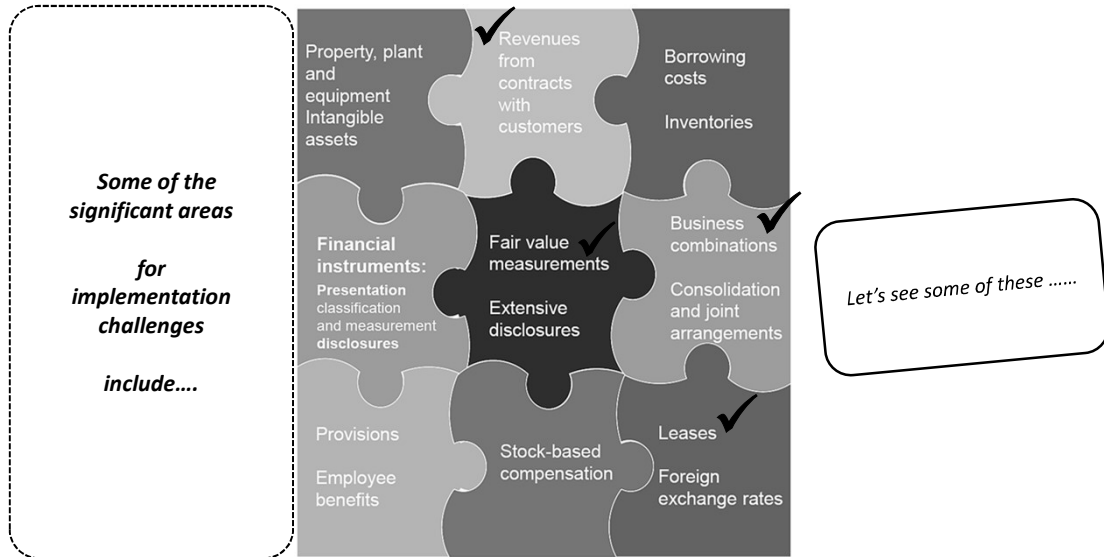
Before we move forward

Fundamental Changes under Ind-AS



***Implementation Challenges
Significant Areas***

Key Implementation Challenges



1

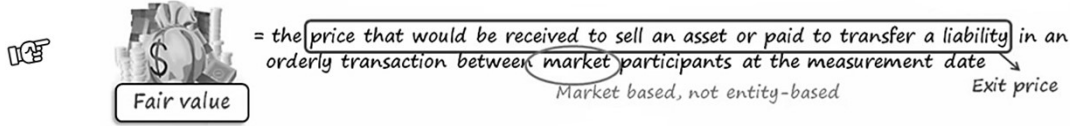
Fair Value under Ind-AS 113

What it is & How it is measured ?

Fair Value – Definition and When to apply ?

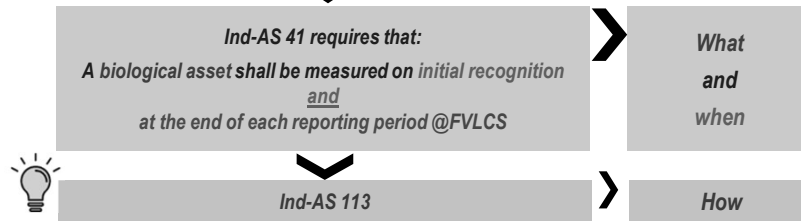
How is fair value defined under Ind-AS 113 ?

– Ind-AS 113 defines fair value as:



When to apply Ind-AS 113 ?

For example, if an entity owns a biological asset...



Valuation Techniques

When the price for an asset or a liability cannot be observed directly, it must be estimated using a valuation technique

Objective of Valuation Technique

Estimate the "Price"

Valuation Technique under Ind-AS 113 (Broad Categories) = a specific technique (such as a particular Option Pricing Model)

Market Approach

When market price and other relevant information is available

Uses (1) Price & (2) Other relevant information, generated by market transactions involving (a) identical OR (b) comparable assets or liabilities

Often used for:

- Equity securities, which are quoted on an exchange
- Real estate
- Investment properties
- Land and Building

When ... comparable transaction & prices are available

Cost Approach

e.g. Current Replacement Cost

Reflects the amount that would currently be required to replace the service capacity of an asset

Often used for valuation of:

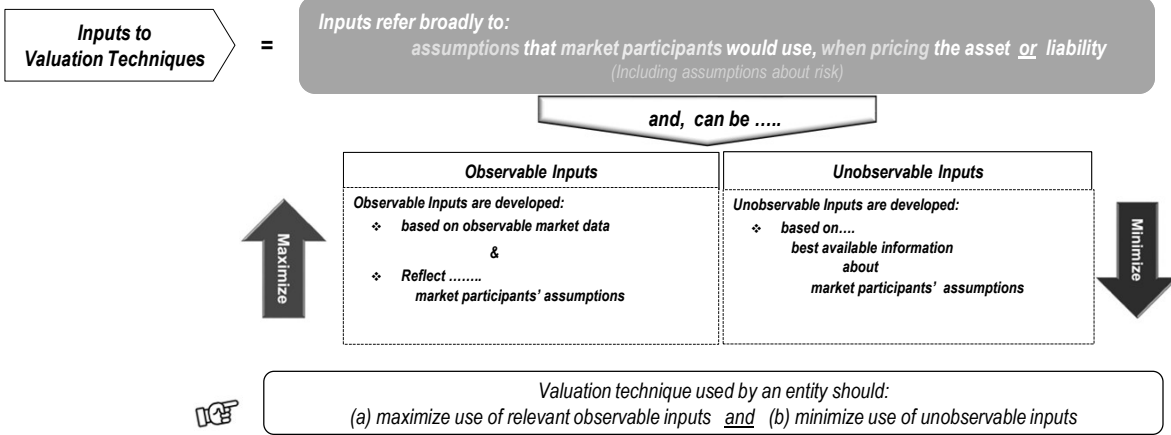
- Tangible assets (like Factory P&M)

Income Approach

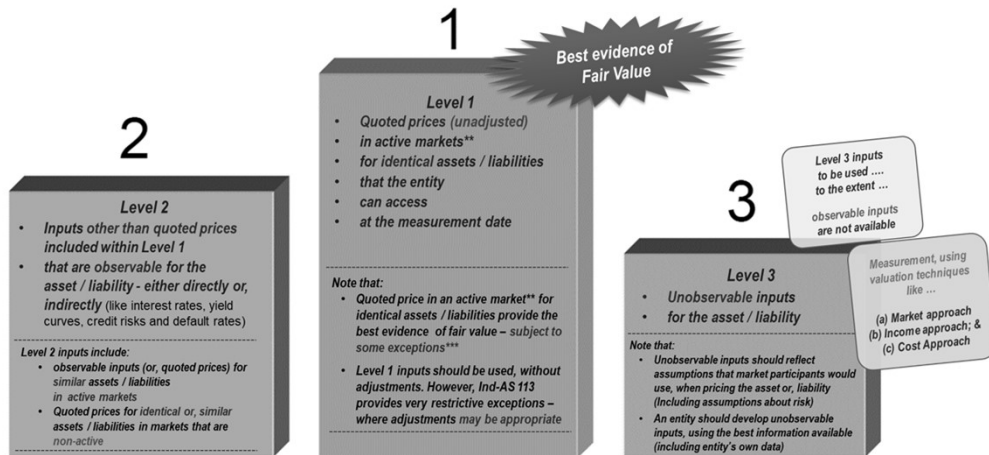
e.g. Discounted Future Cash Flows

Converts future amount (e.g. CFs or Income and Expenses) to a single, present (discounted) amount

Inputs to ... Valuation Techniques



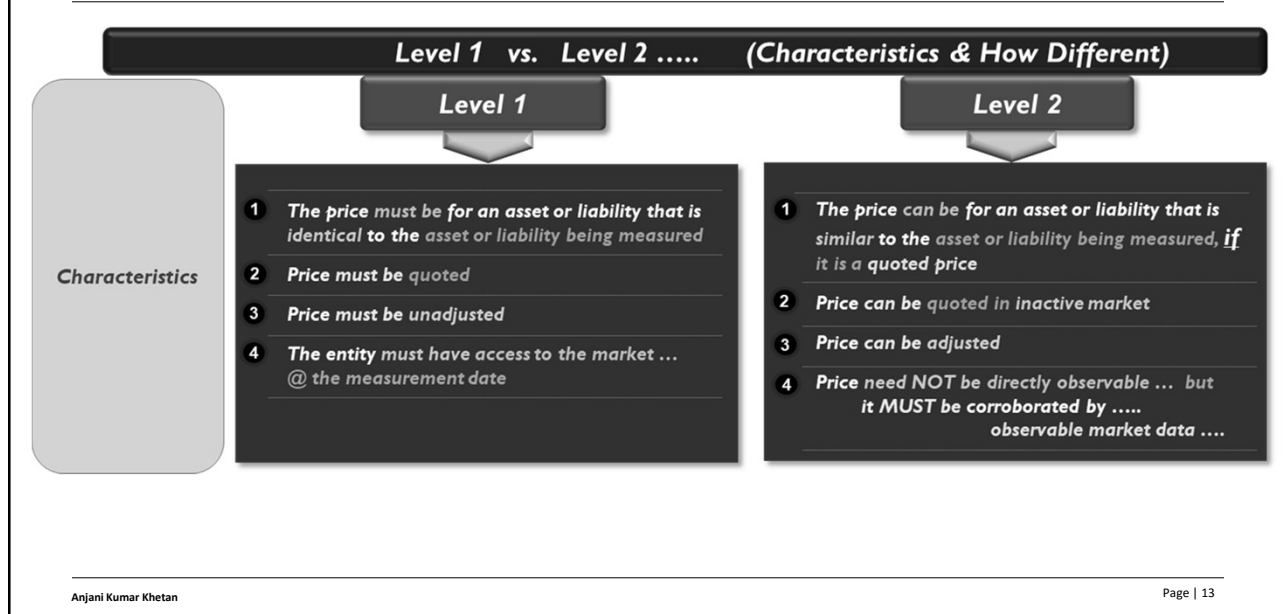
Fair Value Hierarchy ... for Inputs to Valuation Techniques



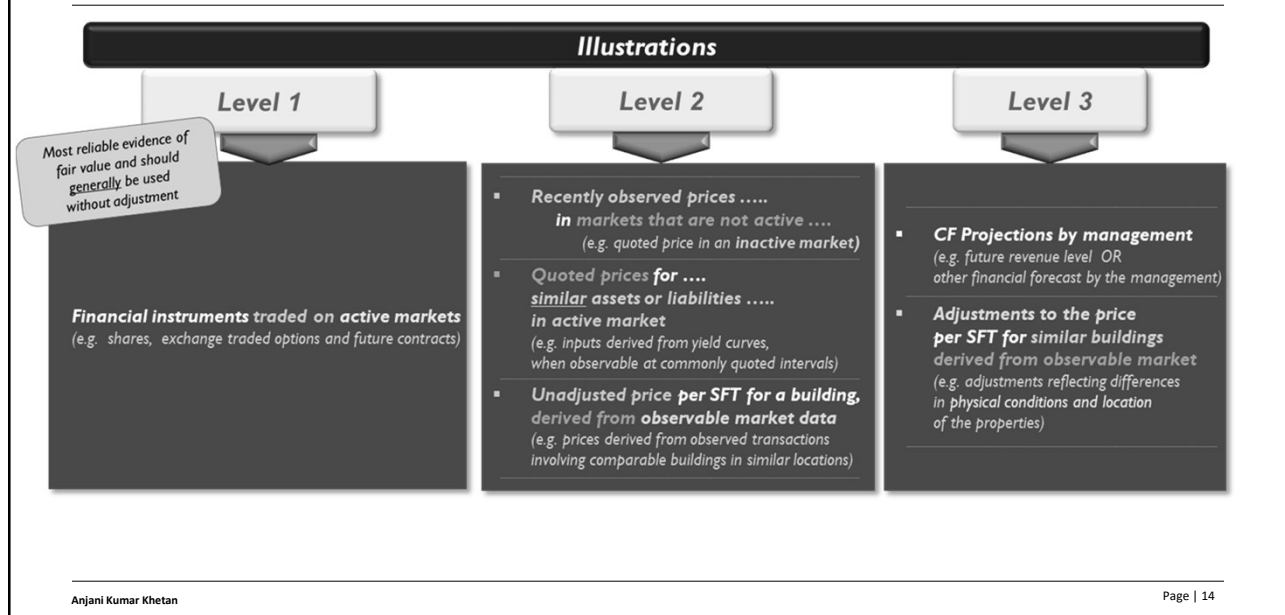
** A market is active if transactions take place with sufficient frequency and volume - to provide pricing information on an ongoing basis

*** For instance, in some circumstances, quoted price in an active market may not represent fair value at the measurement date (like when significant events take place after the close of the market but before the measurement date)

Fair Value Hierarchy ...



Fair Value Hierarchy ... for Inputs to Valuation Techniques

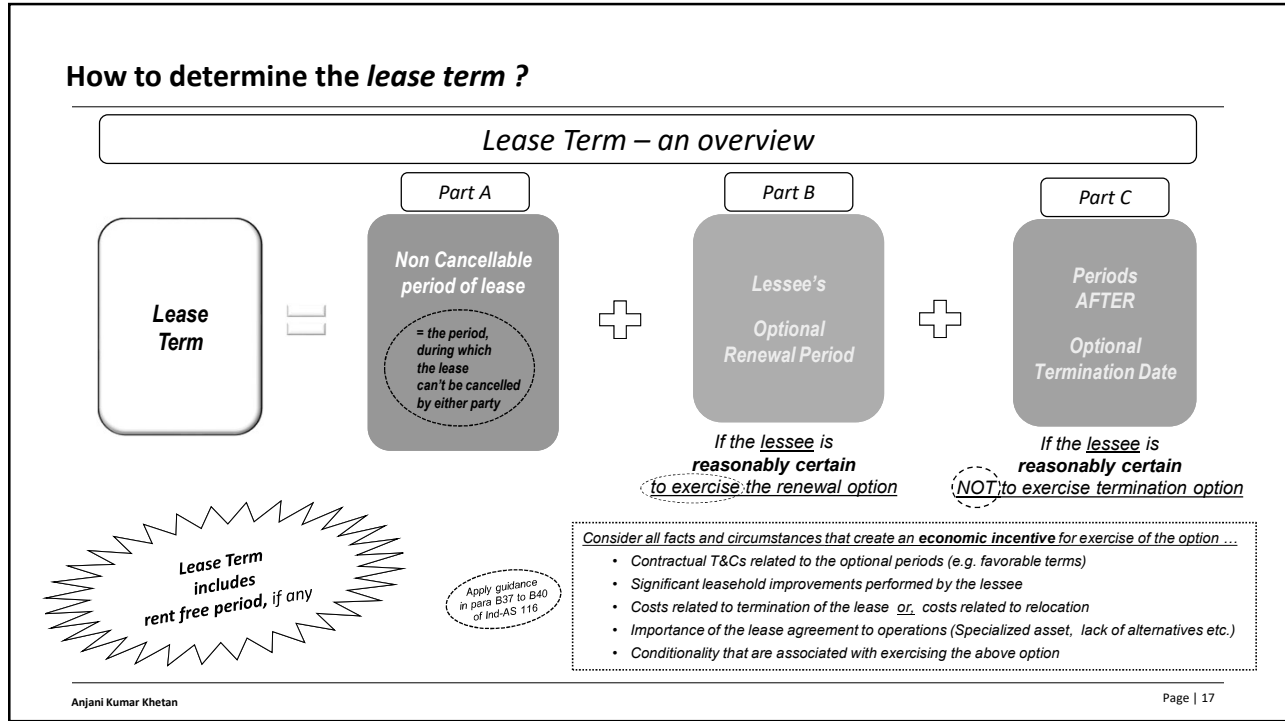


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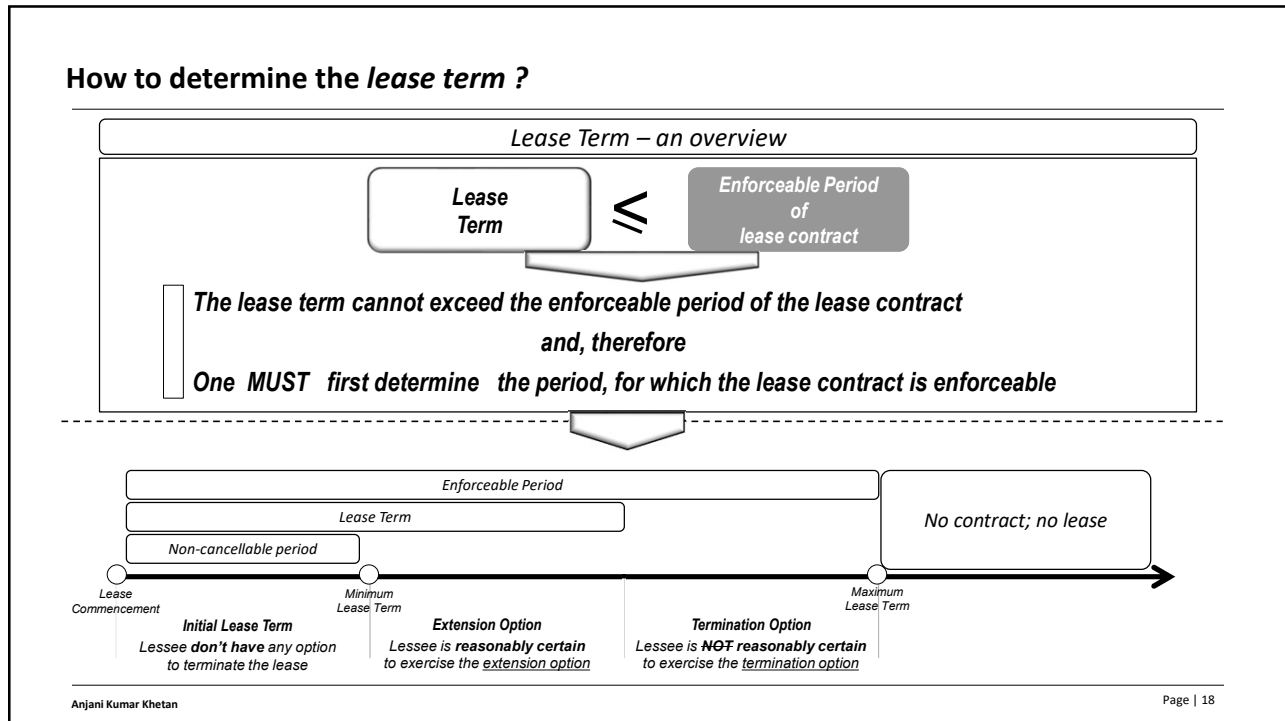
Lease Accounting
Few Key Issues under Ind-AS 116

Determining
Lease Term

How to determine the lease term ?



How to determine the lease term ?



Lease Modification vs Re-assessment

Lease Modification vs Lease Re-assessment – How Different ?

Lease Remeasurement vs. Lease Modification

Re-measurement of leases ...

= Lease re-assessment arise due to:
re-assessment of estimates, used in lease accounting

- A re-measurement of lease results from:
 - Changing circumstances or events and **NOT**, due to
 - a change / amendment to the lease agreement itself

Modification of leases ...

= Lease modification arise due to:
(a) change in scope of lease **OR** (b) change in consideration for a lease,
that was **NOT** part of the original T&Cs
AND, result from (1) re-negotiation and (2) changes to the terms of the original contract

- A lease modification results from:
 - a change / amendment to the lease agreement itself
- These changes can sometimes result in ...
a full or, partial termination of the lease agreement

There are also circumstances when a **lease term** is re-assessed

A change in the lease term will trigger **re-measurement**



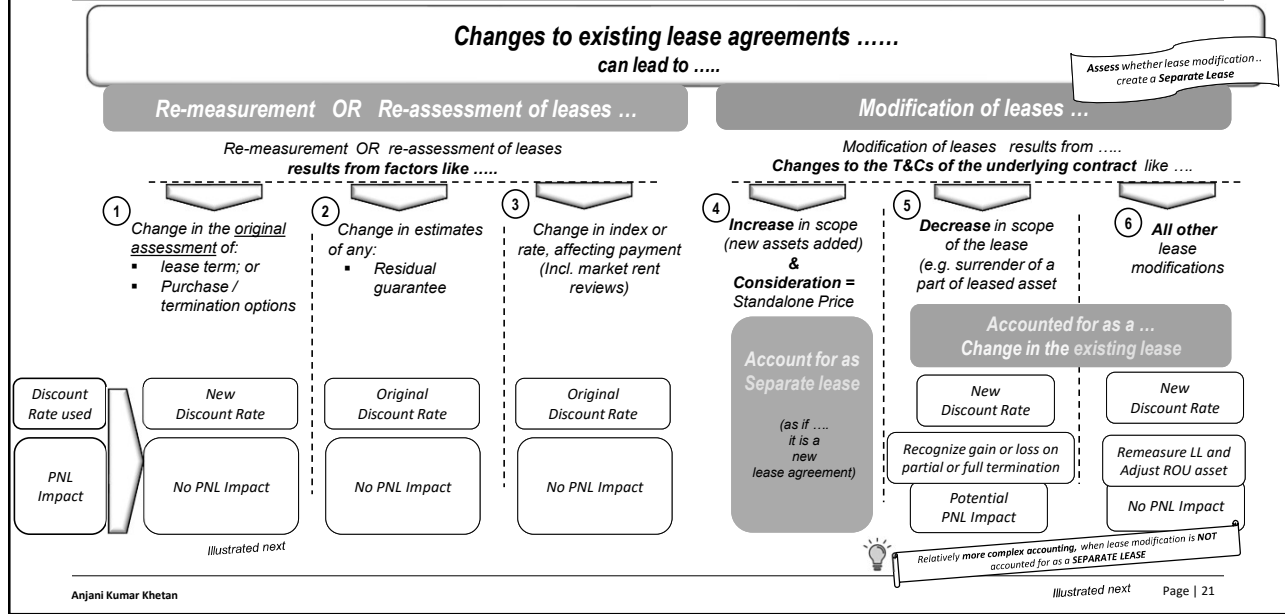
Explained & illustrated next

Lease modifications



= change in the scope, or consideration that was **NOT** part of original terms

Lease Modification vs Lease Re-assessment – How Different ?



Lease Re-assessment - Illustration

Illustration
Increase in Lease Term
Original Lease

- 10 year lease, for 5000 SFT of space
- Incremental borrowing rate for lessee = 6% p.a.
- Lease rental is Rs 100000 p.a., payable at year end
- Depreciation = SLM over 10 years

Given the above information, the original schedule for (a) lease liability, (b) ROU Asset, (c) Depreciation etc. is :

Year	Lease Rental	PV Factor @6%	PV Value @ 6%	Opening Lease Liability	Cash Payment	Interest @ IRR	Principal Repayment	Closing Lease Liability	Opening ROU Asset	SLM Depreciation	Closing ROU Asset
1	1,00,000	0.9434	94,340	7,36,009	1,00,000	22,080	77,920	6,80,169	7,36,009	73,601	6,62,408
2	1,00,000	0.8900	89,000	6,80,169	1,00,000	20,405	79,595	6,20,979	6,62,408	73,601	5,88,807
3	1,00,000	0.8396	83,962	6,20,979	1,00,000	18,629	81,371	5,58,238	5,88,807	73,601	5,15,206
4	1,00,000	0.7921	79,209	5,58,238	1,00,000	16,747	83,253	4,91,732	5,15,206	73,601	4,41,605
5	1,00,000	0.7473	74,726	4,91,732	1,00,000	14,752	85,248	4,21,236	4,41,605	73,601	3,68,004
6	1,00,000	0.7050	70,496	4,21,236	1,00,000	12,637	87,363	3,46,511	3,68,004	73,601	2,94,403
7	1,00,000	0.6651	66,506	3,46,511	1,00,000	10,395	89,605	2,67,301	2,94,403	73,601	2,20,803
8	1,00,000	0.6274	62,741	2,67,301	1,00,000	8,019	91,981	1,83,339	2,20,803	73,601	1,47,202
9	1,00,000	0.5919	59,190	1,83,339	1,00,000	5,500	94,500	94,340	1,47,202	73,601	73,601
10	1,00,000	0.5584	55,839	94,340	1,00,000	2,830	97,170	0	73,601	73,601	-
Total	10,00,000		7,36,009			1,31,996	8,68,004				

IRR = 3%

ROU = Lease Liability

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Lease Re-assessment - Illustration

Illustration

Increase in Lease Term

Changes Agreed in Year 7

At the end of Year 6, the lessor and the lessee agree to amend the lease agreement, whereby:

- The lease term is extended from the original 10 years to 14 years (viz. additional 4 years)
- The annual lease rental remains unchanged @ Rs 100000 p.a., payable at year end
- The revised incremental borrowing rate at the end of Year 6 is 7% p.a.

In this case:



- The changes to the lease agreement is NOT accounted for as a new lease
- This is because the amendment to the lease agreement does not convey the right of use of any additional asset
- The lease is for the same underlying property
- Hence, the lease will be re-measured, using the revised discount rate of 7% p.a. (and not @ original rate of 6%)
- The re-measurement will cover the balance 8 years period (viz. Year 8 through Year 14)
- This is shown in the next slide

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Lease Re-assessment - Illustration

Illustration

Increase in Lease Term

Revision in Lease Liability

Given the information in this case, the revised lease liability schedule covering year 8 through year 14 is as follows :

Year	Lease Rental	PV Factor @7%	PV Value	Op Lease Liability	Cash Payment	Interest @ IRR	Principal Repayment	Closing Lease Liability
1	1,00,000	0.9346	93,458	5,97,130	1,00,000	20,900	79,100	5,38,929
2	1,00,000	0.8734	87,344	5,38,929	1,00,000	18,863	81,137	4,76,654
3	1,00,000	0.8163	81,630	4,76,654	1,00,000	16,683	83,317	4,10,020
4	1,00,000	0.7629	76,290	4,10,020	1,00,000	14,351	85,649	3,38,721
5	1,00,000	0.7130	71,299	3,38,721	1,00,000	11,855	88,145	2,62,432
6	1,00,000	0.6663	66,634	2,62,432	1,00,000	9,185	90,815	1,80,802
7	1,00,000	0.6227	62,275	1,80,802	1,00,000	6,328	93,672	93,458
8	1,00,000	0.5820	58,201	93,458	1,00,000	3,271	96,729	0
Total	8,00,000		5,97,130			1,01,435	6,98,565	

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Lease Re-assessment - Illustration

Illustration Increase in Lease Term Adjustment to record

Given the calculations on the earlier slides, the adjustments to be recorded will be as follows:

	Original Lease Liability	Revised Lease Liability	Increase in Lease Liability
Lease Liability (Year 6 end)	3,46,511	5,97,130	2,50,619
Increase in Lease Liability (With offset in ROU Asset)			2,50,619

Accordingly, the JE to be recorded will be as follows:

	Debit	ROU asset	250,619
	Credit	Lease Liability	250,619

Lease Modification - Illustration

Illustration Decrease in Scope of Lease Original Lease

- 10 year lease, for 10000 SFT of space
- Lease rental is Rs 100000 p.a., payable at year end
- Incremental borrowing rate for lessee = 7% p.a.
- Depreciation = SLM over 10 years

Given the above information, the original schedule for (a) lease liability, (b) ROU Asset, (c) Depreciation etc. is :

Year	Lease Rental	PV Factor @ 7%	PV Value @ 7%	Opening Lease Liability	Cash Payment	Interest @ IRR	Principal Repayment	Closing Lease Liability	Opening ROU Asset	SLM Depreciation	Closing ROU Asset
				7,02,358				7,02,358	7,02,358		
1	1,00,000	0.9346	93,458	6,51,523	1,00,000	24,583	75,417	6,51,523	6,32,122	70,236	6,32,122
2	1,00,000	0.8734	87,344	5,97,130	1,00,000	22,803	77,197	5,97,130	6,32,122	70,236	5,61,887
3	1,00,000	0.8163	81,630	5,38,929	1,00,000	20,900	79,100	5,38,929	5,61,887	70,236	4,91,651
4	1,00,000	0.7629	76,290	4,76,654	1,00,000	18,863	81,137	4,76,654	4,91,651	70,236	4,21,415
5	1,00,000	0.7130	71,299	4,10,020	1,00,000	16,683	83,317	4,10,020	4,21,415	70,236	3,51,179
6	1,00,000	0.6663	66,634	3,38,721	1,00,000	14,351	85,649	3,38,721	3,51,179	70,236	2,80,943
7	1,00,000	0.6227	62,275	2,62,432	1,00,000	11,855	88,145	2,62,432	2,80,943	70,236	2,10,707
8	1,00,000	0.5820	58,201	1,80,802	1,00,000	9,185	90,815	1,80,802	2,10,707	70,236	1,40,472
9	1,00,000	0.5439	54,393	93,458	1,00,000	6,328	93,672	93,458	1,40,472	70,236	70,236
10	1,00,000	0.5083	50,835		1,00,000	3,271	96,729	0	70,236	70,236	0
Total	10,00,000		7,02,358			1,48,821	8,51,179				

ROU = Lease Liability

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Lease Modification - Illustration

Illustration

Decrease in Scope of Lease

Scope Reduction & Change in LR

At the end of Year 6, the scope of the lease is reduced, whereby:

- The leased space is reduced from 10000 SFT to 7500 SFT (signifying 25% reduction in scope)
- The lease rental is reduced from Rs 100,000 to Rs. 75,000 p.a. for Year 7 through Year 10
- The revised incremental borrowing rate for the lessee at the time of lease modification is 8% p.a.

Given the above information, the post-modification schedule for (a) lease liability and (b) ROU Asset is :

**Post
Modification**

Discount Rate (New)		8%							
Lease Liability		2,48,410							
ROU Asset		2,48,410							

Year	Lease Rental	PV Factor @8%	PV Value	Op Lease Liability	Cash Payment	Interest @ IRR	Principal Repayment	Closing Lease Liability
1	75,000	0.9259	69,444	2,48,410	75,000	9,936	65,064	1,93,282
2	75,000	0.8573	64,300	1,93,282	75,000	7,731	67,269	1,33,745
3	75,000	0.7938	59,537	1,33,745	75,000	5,350	69,650	69,444
4	75,000	0.7350	55,127	69,444	75,000	2,778	72,222	-0
Total	3,00,000		2,48,410			25,795	2,74,205	

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Lease Modification - Illustration

Illustration

Decrease in Scope of Lease

Lease Modification Accounting

Given the calculations on the earlier slides, the lease modification accounting will be as follows:

Original Space		10,000 SFT			
Revised Space		7,500 SFT			
%age reduction in scope		25%			

	Original (Pre Modification)	Proportionate (Post Modification) @75%	Difference
ROU Asset (Year 6 end)	2,80,943	2,10,707	-70,236
Lease Liability (Year 6 end)	3,38,721	2,54,041	-84,680
Step 1	Gain on lease modification		14,444
Step 2	Adjustment to the ROU Asset		5,631

LL is reduced greater than the ROU asset (being 254,041 less 248,410)

This reflects the change in consideration paid for the lease and the revised discount rate

1 Reduce Lease Liability by 84680 & ROU asset by 70236 (as computed above)

2 Record Gain of Rs 14444 to PNL (as computed above)

3 Record Adjustment to ROU asset of Rs 5631 (as computed above)

3

Business Combination

A different ball game under Ind-AS 103

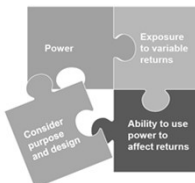
What is a Business Combination?

- A business combination is a transaction (or other event) in which:
 - an entity (“acquirer”)
 - obtains “Control” as defined under Ind-AS 110
 - of one or more businesses (“acquiree”)



Under Ind-AS 110, an investor controls an investee when:

- the investor is exposed to variable returns from its involvement with the investee; and
- has the ability to affect those returns;
- through its power over the investee’s (relevant activities)



Power = existing rights that give the current ability to affect the (relevant activities) of investee

To have power, it is necessary for investor to have existing rights that give it current ability to direct the activities that significantly affect the investee’s returns, i.e., the relevant activities

Steps involved in Acquisition Method Accounting

Acquisition Method accounting envisaged under Ind-AS 103 entails the following steps

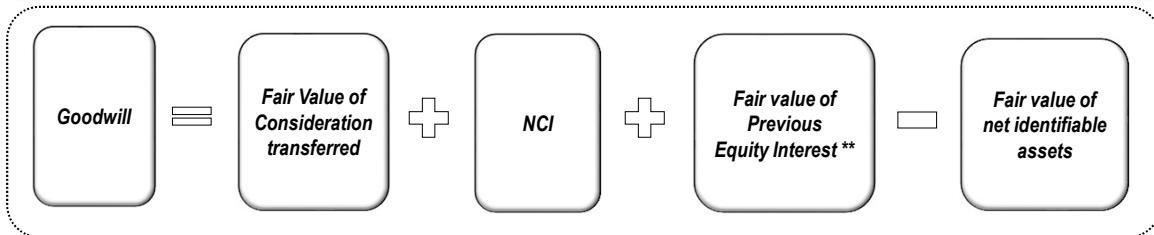


Step 1	Identify the acquirer
Step 2	Determine the acquisition date
Step 3	Identify and measure fair value of consideration transferred (including contingent consideration)
Step 4	Identify and measure identifiable net assets
Step 5	Measure Non-controlling Interest (NCI)
Step 6	Determine goodwill <u>or</u> gain on a bargain purchase
Step 7	Recognize any measurement period adjustments



Acquisition Method Accounting under Ind-AS 103 - Overview

Acquisition Method accounting views business combination from the perspective of an acquirer



** for a business combination achieved in stages

Thank You

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