

ICAI COVID-19 FAQs ON Ind AS



ACCOUNTING STANDARDS BOARD
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA



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PREFACE

Present Economic, Social and Geo-Political Environment

It has been seen throughout the history that as humans spread across the world, infectious diseases have become their constant companions. Some of the disastrous pandemics that have occurred over time are Plague in 1885, Spanish flu in 1918-1919, HIV-AIDS from 1981 to present, SARS in 2002-03, swine flu in 2009-10, Ebola in 2014-16, etc.

Even in this modern era, outbreaks are not uncommon. In December 2019, Coronavirus Disease (COVID-19) was reported to the World Health Organisation (WHO) and it has rapidly spread to many other countries. In the middle of March 2020, WHO has declared it as **global pandemic and today it has spread to 185 nations**. COVID-19 has not only affected the health of people across the globe, it has also caused severe disturbance to the global economic environment.

Not only the health emergencies, many natural calamities have also had regressive effect in the past which had brought down economy to standstill and restricted the movement of people in other areas; let us recollect a few high impact calamities of very recent memory; Catastrophic Bush Fires in Australia in 2019, Wildfires in Amazon rainforest and Amazon biome within Brazil, Bolivia, Paraguay, and Peru in 2019, Japan Earthquake and Tsunami in 2011, Hurricane Sandy in 2012, Gujarat, India Earthquake in 2001, Indian Ocean Tsunami in 2004, 2013 Uttarakhand, India Flash Floods, etc. Further, we also experience instances of severe financial or economic crises occasionally. Some are of high magnitude and some have global impact as well such as the unprecedented global financial crisis of 2008 which brought the economic activities and credit flows in many economies to a standstill.

India's Tectonic Move towards High Quality Financial Reporting Standards: 2015-16 onwards

With the implementation of Indian Accounting Standards (Ind AS), India's Financial Reporting Framework has substantially converged with high quality globally acceptable International Financial Reporting Standards (IFRS Standards), known as gateway to Global Capital Markets. Today, we proudly say that our nation is truly working as a global partner to embrace global best practices commensurate with its rising stature and role in at international forums such as G20.

Ind ASs are derived from IFRS Standards issued by the IFRS Foundation and developed by its standard-setting body, viz., International Accounting Standards Board (IASB). IFRS Foundation is a not-for-profit international public interest organization established with a mission to develop a single set of high quality accounting standards that bring transparency, accountability and efficiency to financial markets around the world. Its work serves public interest by fostering trust, growth and long term financial stability in the global economy. The work and mission of IFRS Foundation is supported by Global Forums/Bodies such as G20, Financial Stability Board, IOSCO, BCBS, World Bank etc. Currently, over 144 jurisdictions across the Globe either require or permit IFRS Standards for most of their Public Interest Entities (PIEs).

In the larger national interest of Indian economy and businesses, the Institute of Chartered Accountants of India (ICAI) has always endeavoured to strengthen the quality and stability of the Financial Reporting Framework in India. Over last three decades, the ICAI in co-ordination with Government and Regulatory Authorities, has made herculean efforts to uplift the Indian Financial Reporting Framework to the level of globally accepted and understood framework that has enabled the Indian Corporates level playing field at global level. Therefore, the ICAI has always advocated and considered bare minimum number of carve-outs in Ind ASs so that credibility of financial statements



of our Corporates is at par with those of global entities. We firmly believe that Ind AS Framework has enhanced the quality of financial statements of Indian entities and strengthened their competitiveness and comparability. Trinity of high quality financial reporting, sound corporate governance and robust audit mechanism is critical to the success and growth of any economy.

Setting the context for Frequently Asked Questions (FAQs)

In the present uncertain and rapidly changing economic environment with global recessionary economic scenario coupled with challenging operating environments, there is a heightened need to bear in mind the following pre-requisites of financial reporting framework for general purpose financial reporting. Ind AS Framework meets all of these pre-requisites without any need for changes and amendments.

- a) There is a need for high quality financial reporting standards framework, which must have a set of Accounting Standards that is comprehensive and it is based on neutral principles that result in preparation and presentation of reliable, relevant, consistent and comparable financial information to external users such as investors, lenders and other creditors who make economic decisions. A critical aspect to bear in mind is that principles of financial reporting standards should not change depending upon the business and economic environment, rather they should be capable of transparently reflecting the effect of the same and the entity's operating environment on its financial position, financial performance and cash flows. E.g. accounting for effects of foreign exchange differences or recognition/measurement of impairment loss provisions should not change depending upon the nature and size of its adverse impact on financial performance, i.e. statement of profit and loss; Accounting Standards should not lend themselves to measurement choices which the entities can cherry-pick based on potential impact on profitability.
- b) The financial reporting standards must be grounded in sound conceptual framework which should include fundamental accounting concepts relating to objectives of financial statements, qualitative characteristics of financial statements, robust definitions and concepts for key elements of financial statements and their recognition and measurement bases. During these depressed economic conditions and stressed environment, reporting entities need to bear in mind the following basic tenets of financial reporting framework so that the users of financial information are provided much needed transparent financial statements:
 - i) Objectives of financial statements is to enable users of financial statements to make evaluation of entity's ability to generate cash flows and the timing and certainty of those cash flows.
 - ii) If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.
 - iii) Fundamental qualitative characteristics are relevance and faithful representation
 - Information must be reliable. One of the criteria of reliability is that information must be free from bias and can be depended upon by users to represent faithfully the economic environment in which the entity operates. Information may be relevant but so unreliable that its recognition may be potentially misleading. Therefore, users of financial statements expect information to be free from material errors so as to avoid any wrong interpretation of financial results.
 - Information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. E.g. Foreign



exchange rate volatility or changes affect the Statement of Profit and Loss. Therefore, its effect on financial performance of the entity should not be obscured by amortising it over certain period or capitalising it as property, plant and equipment. If the effect of volatility or its material effect, if any, is not depicted in the Statement of Profit and Loss, it would not be a faithful representation of the economic phenomenon which the entity is experiencing.

iv) Comparability, verifiability, timeliness and understandability are enhancing qualitative characteristics:

- Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and cash flows. The verifiability criteria requires that information must assure users that information faithfully represents the economic phenomena it purports to represent. The information must also be available to decision-makers in time to be capable of influencing their decisions.
- To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

c) As mentioned above, global epidemics and pandemics or natural calamities or financial crises though not desirable, do occur and will most likely have adverse impact on the economic and business environment. High quality financial reporting standards should lend themselves to the transparent, unbiased and faithful representation of those unusual events or circumstances, rather than obscuring the true and fair presentation of its impact on the financial position, financial performance and cash flows of the entity. Financial statements should faithfully present the true and fair view of financial information of the entities communicating the health of the entity, so that professional experts can prescribe right solutions. Financial statements with deviations from well accepted accounting principles are prone to wrong or inappropriate remedial measures or actions.

d) Ind AS Framework has not only the comprehensive and robust recognition, measurement and presentation principles, but also has robust disclosure principles to complement the former ones. Many of the disclosures either permit or require the entities to disclose the effect of the unusual or exceptional events highlighted in earlier paragraphs and enable provision of much needed useful information to users in these stressed economic and operating environments.

COVID 19 pandemic has brought in severe concerns around health and safety of humanity around the globe and it has its consequential impact on the economic environment and the financial reporting. While the high quality Ind AS Framework has comprehensive and robust accounting principles, a need was felt to provide application guidance in certain areas of accounting in the form of Frequently Asked Questions (FAQs) in the context of contraction in economic activity, disruptions in financial markets and a series of actions by government, monetary and prudential authorities. In India, entities are required to follow April to March as the accounting year and at this time entities will be preparing their annual accounts for the year ending March 31, 2020. Accordingly, the ICAI on March 27, 2020, had issued an advisory on 'Impact of Coronavirus on Financial Reporting and the Auditors Consideration'. Also, two webcasts were organised with subject matter experts on the panel highlighting various areas that require particular attention while preparing financial statements for financial year 2019-20. The guidance offered in this document is applicable for annual financial statements prepared in Ind AS framework for the ending March 31, 2020.

May 6th, 2020



INVENTORIES

FAQ 1

In view of the significant contraction in the economic activity caused by COVID-19, an entity expects significant reduction in its sales in the near future. Therefore, it has decided to offer substantial amount of discount on its selling price of products and has made public announcements to this effect after March 31, 2020. How should the entity consider this policy decision while measuring its inventory as of its annual financial reporting date of March 31, 2020?

Answer

One of the primary objectives of financial statements is to present true and fair view of state of affairs of an entity. In view of this objective, it is imperative to assess the valuation of existing assets and whether there is any requirement to write it down if there are adverse factors prevailing in the market that may affect the amount that is expected to be realised either from sale or use. In the context of inventories, Ind AS 2, Inventories, (paragraph 9) requires that inventories shall be measured at the lower of cost and Net Realisable Value (NRV). Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. It may be noted that conduct of business in the period of lockdown or during the COVID-19 pandemic will also be considered as conducting business 'in the ordinary course' and, therefore, the requirement to assess NRV would still apply.

Accordingly, in the current scenario, entities may have to assess as to whether there is a decline in their future estimated selling price and, if so, write-down of carrying value of inventory is required. For example, cost of per unit of inventory is Rs. 100, but due to the prevailing restrictions with regard to the movement of inventory in lockdown period coupled with sluggish demand of the product, NRV is Rs. 80. The entity should write down Rs. 20 (Rs. 100-Rs. 80) as an expense. Writing down inventories below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use. Paragraph 34 of Ind AS 2 provides that the amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense and disclosed separately in the period the write-down or loss occurs.

It may be noted that there could be other factors also that need consideration to determine whether the selling price is expected to be below cost. (refer paragraph 28 of Ind AS 2)

It may be noted that paragraph 29 of Ind AS 2 states that inventories are usually written down to net realisable value on an item-by-item basis. However, it may be appropriate to group similar or related items when the items of inventory are related to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line.

Further, paragraph 30 of Ind AS 2 states that estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly



directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Accordingly, subsequent reduction in selling prices needs to be considered in arriving at the net realisable value at the balance sheet date as condition of COVID-19 existed at the balance sheet date which has caused reduction in the selling prices.

An important provision to note here is that, in accordance with paragraph 32 of Ind AS 2, where finished goods inventories are expected to be sold below cost, materials and other supplies held for use in production (as well as any work-in-progress) may also require a write-down.

FAQ 2

Assuming the continuation of facts in FAQ # 1 and that the entity has written down the inventory to NRV as on March 31, 2020, whether there are any disclosure requirements to be complied with?

Answer

Where an entity has written down its inventories to NRV as per the facts stated in FAQ #1, it is important to give appropriate and adequate disclosures in the financial statements of the entity for the year ended March 31, 2020, to inform users regarding the circumstances leading to, and impact of, write-down of inventories. In this regard, the following disclosures are prescribed under Ind AS:

Relevant paragraph under Ind AS	Relevant Disclosures
Ind AS 2 - Paragraph 36(e)	Amount of any write-down of inventories recognised as an expense in the period
Ind AS 1 – Paragraph 97 read with Paragraph 98(a)	Nature and amount of write-down of inventories to net realisable value, if material

FAQ 3

Consequent to the Government's decision to lockdown all working establishments from March 23, 2020 as a COVID-19 preventive measure, in the financial year ended March 31, 2020, the manufacturing units of the entity were not working during the period March 23, 2020 to March 31, 2020, and, hence, annual production capacity has reduced for the financial year 2019-20. In this scenario, what should be the entity's approach to allocate fixed production overhead while determining the cost conversion of its inventory?

Answer

Cost of inventories include a systematic allocation of fixed production overheads that are incurred in converting materials into finished goods. Paragraph 12 of Ind AS 2 provides relevant guidance in this regard. Further, paragraph 13 of Ind AS 2 provides that the allocation of fixed production overheads to the costs of conversion is based on the normal production capacity. In the event of low production or idle plant, the amount of fixed overhead allocated to each unit of production is not increased. The normal production capacity should not be reassessed for allocating fixed production overheads for the financial year 2019-2020, because the adverse impact on the utilisation of the production capacity due to the impact of COVID-19 will be akin to idle capacity. Unallocated overheads will be recognised as an expense in the period in which they are incurred.



PROPERTY, PLANT AND EQUIPMENT (PPE)

FAQ 4

Consequent to the Government's decision to lockdown all working establishments from March 23, 2020, as a COVID-19 preventive measure, in the financial year ended March 31, 2020, the manufacturing units of the entity were not working and plant and machinery were lying idle during the period March 23, 2020 to March 31, 2020. In this scenario,

- Should the entity discontinue depreciating these PPE from the date those have remained idle?
- Should the entity suspend recognizing depreciation for these items of PPE, which were depreciated by using a method other than "number of units of production method", such as straight line method, written down value method, etc., for the period those have remained idle?

Answer

With regard to the issue of depreciation during the period when an item of PPE is idle, it is important to note that paragraph 55 of Ind AS 16, Property, Plant and Equipment, provides that the depreciation of an asset begins when it is available for use, that is, after it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Further, depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Therefore, the asset continues to be depreciated even if it remains idle, unless the asset is fully depreciated.

Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes, therefore, the asset is continued to be depreciated even if it remains idle. Moreover, the useful life of an asset encompasses the entire time during which it is available for use and, therefore, the same should be depreciated over its entire useful life regardless of whether during that time it is in use or it is idle.

Apart from the above, it may be noted that as per paragraph 56 of Ind AS 16, one of the factors in determining useful life of an asset is technical or commercial obsolescence. Therefore, even when the asset is idle, the same should be depreciated due to technical or commercial obsolescence and wear and tear during that period.

In view of the above, the items of PPE that remain idle during lockdown due to COVID-19 should continue to be depreciated where the method of depreciation is other than "number of units of production method", such as straight line method, written down value method, etc. However, in case the depreciation is based on the "number of units of production method" where appropriate, the depreciation charge can be zero for the period when there is no production (Paragraph 55 of Ind AS 16).



Further, since it is a fact that these items of PPE were idle for some time during the reporting period, appropriate disclosures in this economic environment would be relevant, if the idle time during the financial year 2019-20 is material. In this regard, it may be noted that Paragraph 79(a) of Ind AS 16 encourages an entity to disclose the carrying amount of PPE that is temporarily idle. Apart from the specific disclosures in Ind AS 16, it may also be noted that paragraph 112(c) of Ind AS 1, Presentation of Financial Statements, requires an entity to provide in the notes information that is not presented elsewhere in the financial statements that is relevant to their understanding.

In view of the above, the entity shall provide suitable disclosures in its financial statements as relevant in the current economic environment of COVID-19.



IMPAIRMENT OF ASSETS

FAQ 5

COVID-19 global pandemic has caused substantial contraction in the entity's business since March 2020 and this depressed business scenario is expected to continue over next six to nine months in the next financial year 2020-21 as well. Entities are experiencing significant cancellation of its business orders and bookings by its customers. Does the entity need to carry out an impairment test to estimate recoverable amount of its non-financial assets for the year ending on March 31, 2020?

Answer

One of the fundamental objectives of general purpose financial statements is to provide information about the financial position, performance and cash flows of an entity. With this underlying objective of financial statements, Ind AS 36, Impairment of Assets, prescribes principles and guidance to ensure that non-financial assets are carried at an amount no more than their recoverable amount. If an asset's carrying amount is more than the amount recoverable through its future use (Value in use) or sale (Fair value less costs of disposal), then the asset is considered to be impaired.

Ind AS 36 lays down detailed framework containing various relevant definitions, when and how to record an impairment to an asset or a group of assets to its recoverable amount, how to measure the relevant amounts and when to do measurement exercise. It may be noted that paragraph 8 of Ind AS 36 requires estimate of recoverable amount if there are indications that the impairment loss has occurred. However, it may be noted that as per paragraph 10 of Ind AS 36, irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use and goodwill acquired in a business combination for impairment annually. Paragraphs 12 -14 of Ind AS 36 provide certain indicators of impairment. The indicators are broadly categorised into external and internal sources of information. One of the external sources of information indicating impairment is significant changes with an adverse effect on the entity that have taken place in the economic environment in which the entity operates or the market to which an asset is dedicated (Paragraph 12(b) of Ind AS 36). Accordingly, in view of the significant contraction in economic activity of the entity due to COVID-19 outbreak the likelihood that a triggering event has occurred in the January- March quarter of 2020 and impairment test is required, has increased significantly, including for assets that are required to be tested for impairment annually. Therefore, for the financial year ending March 31, 2020, the entity should perform an impairment testing including determining the recoverable amount of its non-financial assets.

For indefinite useful life intangible asset or an intangible asset not yet available for use and goodwill, Ind AS 36 requires an annual impairment testing and whenever there is an indication that these assets may be impaired. There could be an indicator that impairment testing of goodwill and indefinite useful life intangible assets are to be tested as of the reporting date even if the entity follows an annual testing cycle (for a different annual period, say, calendar year end) as per Ind AS 36. Thus, if for these assets, in case the entity concerned followed an annual cycle of impairment testing other than the reporting date (e.g. calendar year ending on 31 December), impairment testing would be required again as at 31 March, 2020, in the current circumstances.



Temporarily ceasing operations or suffering an immediate decline in demand or prices and profitability are clearly events that might indicate impairment. Further, the impact of reduced economic activity and lower revenues are likely to affect almost any entity and might also indicate impairment. Accordingly, many businesses will have to consider the potential impairment of non-financial assets and carry out formal impairment test to estimate the recoverable amount.

FAQ 6

Since the declaration of COVID-19 as global pandemic, the entity's market capitalisation in a leading capital market has declined significantly and it is much lower than the net carrying amount of its total assets. Is this an indicator of impairment?

Answer

Paragraphs 12 -14 of Ind AS 36, Impairment of Assets, provide certain indicators of impairment. As per paragraph 8 of Ind AS 36, if any of those indications is present, an entity is required to make a formal estimate of recoverable amount. The indicators are broadly categorised into external and internal sources of information. In accordance with paragraph 12(d) of Ind AS 36, one of the external source of information while assessing indication that an asset may be impaired is when the carrying amount of the net assets of the entity is more than its market capitalisation.

Accordingly, if the entity's market capitalisation has declined below the carrying amount of its assets, it is an indicator of impairment as per Ind AS 36. While there may be a decline in the market capitalisation of many entities, the magnitude of decline may vary by entity or it could be temporary for some entities. An entity needs to consider the magnitude of the decline and whether there are other indicators present.

As mentioned in the previous FAQ, COVID-19 pandemic has significantly disrupted many economies and business segments. In the current market environment, it is expected that a significant deficiency between market capitalisation and net assets will be accompanied by other impairment indicators, such as a decline in actual or forecast profits, and as a result a detailed impairment assessment will be required.

It may also be noted that market capitalisation is an indicator of value for an entity as a whole as opposed to separate cash generating units (CGUs). As a result, where the impairment indicator is triggered, the entity will also need to apply judgement to determine whether the entity needs to undertake a detailed impairment assessment for all CGUs or only a subset that have had other impairment indicators triggered.

FAQ 7

Recoverable amount is an important ingredient in the recognition of impairment loss in Ind AS 36, Impairment of Assets. What are the critical factors that need to be considered while estimating the recoverable amount?

Answer

In order to measure impairment loss to be recognised, the asset's carrying amount is compared with its recoverable amount. Ind AS 36, Impairment of Assets, defines recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount. Paragraphs 19-57 of Ind AS 36 set out the requirements for measuring recoverable amount.



In respect of fair value less costs of disposal, paragraphs 28 and 29 of Ind AS 36 contain relevant guidance. An important aspect to note here is that Ind AS 36 requires the fair value of asset or cash-generating unit to be determined in accordance with Ind AS 113, Fair Value Measurement, which is based on market participants' perspective rather than the entity perspective.

Value in Use is defined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit (CGU). Therefore, the determination of this amount requires estimation of future cash flows from the asset or CGU on present value basis. This process involves two critical steps as follows:

- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- (b) applying the appropriate discount rate to those future cash flows.

Given the high degree of uncertainty due to COVID-19, there will be challenges for an entity to forecast the future cash flows and appropriate discount rate for discounting such forecasted cash flows for measuring value in use. The estimation uncertainty will be significantly higher than normal and there will probably be a wider range of reasonably possible cash flow projections. The entity should consider the following factors:

- In order to estimate the future cash flows, entities may need to carefully evaluate the pros-cons of the use of two predominant approaches currently used i.e. the traditional approach versus the expected cash flow approach. Under the traditional approach entities develop a single set of estimated cash flows and apply discount rate that includes the effect of uncertainty about the future cash flows (known as 'rate commensurate with the risk'). Thus, discount rate used comprises risk-free rate, appropriate risk premium and uncertainty about the future cash flows. On the other hand, in the expected cash flow approach an entity considers multiple, probability-weighted cash flow projections (instead of the single most likely cash flow), i.e., entity uses a range of cash flow outcomes, weighted by the estimated probability of each. Because uncertainty about the future cash flows is considered directly in arriving at the expected cash flows, it is not reflected in the discount rate under this approach. Therefore, the discount rate used with expected cash flows only includes the risk-free rate and the appropriate risk premium. For example, the cash flow outcomes are Rs. 100, Rs. 200 or Rs. 300 with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The expected cash flow is Rs. 220. In the present situation, given the high degree of uncertainty, entities may find it helpful to consider using an expected cash flow approach.
- The assumptions and cash flow forecasts used to test for impairment should be updated to reflect the potential impact of COVID-19.
- Budgets, forecasts and other assumptions from an earlier impairment testing date that were used to determine the recoverable amount of an asset should be revised to reflect the economic conditions at the balance sheet date, specifically to address increased risk and uncertainty.
- In respect of discount rates to be used, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted, regardless of the approach used. Otherwise, the effect of some factors will be double counted. Discount



rate used to discount the cash flows must reflect the way the market would assess the COVID-19 risks associated with the asset's estimated cash flows.

- Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question.
- In respect of intangible assets with indefinite useful life, the standard has a few special considerations.
- Because the uncertainty associated with management's assumptions due to COVID 19 may be significant, it is important to give robust disclosures to help users understand the degree of estimation uncertainty that exists in estimating the recoverable amount and the sensitivity of the recoverable amount to reasonably possible changes to key assumptions.

FAQ 8

What is the length of the future period to be considered for forecasting cash flows mentioned in FAQ # 7 above?

Answer

As per paragraph 33 of Ind AS 36, in measuring value-in-use an entity shall base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset/ cash generating unit. Paragraph 35 of Ind AS 36 provides that detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, the paragraph provides that estimation of future cash flows shall be based on the most recent budgets/forecasts for a maximum of five years. Cash flow projections longer than five years can be used if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period. Entities shall bear in mind that the longer the horizon of forecasts, higher the management judgement required and lower the reliability of forecasts. Paragraphs 36-38 of Ind AS 36 provide further guidance for cash flows projections until the end of the useful life of assets.

COVID-19 outbreak should not normally affect the period over which the cash flows are estimated, i.e. cash flows should be projected over the remaining useful life of the asset/ cash generating unit subject to the guidance contained in paragraph 35 of Ind AS 36. However entity's cash flow projections shall be based on reasonable and supportable assumptions and reflect the impact of COVID-19 based on management's best estimate of economic conditions that will exist over the remaining useful life of the asset due to COVID-19. In view of the significant uncertainty about the direction, timing and magnitude of COVID-19 impact, greater weight should be given to external evidence. Global economic disruption due to COVID-19 pandemic has created scenarios with significant uncertainty which may include a lengthy period of disruption triggering a significant recession, significantly higher than normal estimation uncertainty. An entity is required to estimate the future period for cash-flow projection considering the changes in economic environment in which an entity operates. Thus, entities may need to evaluate whether the forecasts and budgets approved previously i.e. pre-COVID-19, still hold good or do they need revision with specific emphasis on the budgets/forecasts over next 12 months. Also, refer to FAQ 7 above.



FAQ 9

In view of significant uncertainty and turbulent times caused by rapidly evolving COVID-19 impact, what would be possible approach to estimate the future cash flows?

Answer

Ind AS 36 provides two approaches that can be used to project cash flows (i) the traditional approach, which uses a single cash flow projection, or most likely cash flow; and (ii) the expected cash flow approach, which uses multiple probability-weighted cash flow projections.

Paragraph A4 of Appendix A of Ind AS 36 provides that under the traditional approach, a single set of estimated cash flows and a single discount rate, often described as 'the rate commensurate with the risk' is used. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. It places most of the emphasis on selection of the discount rate. Accordingly, in the traditional approach, instead of reflecting the risk in cash flows, risk is reflected in determining the discount rate.

To better reflect uncertainties in estimated cash flows, the expected cash flow approach should be used in determining value in use. Expected cash flow approach is more effective measurement tool than the traditional approach due to following reasons:

- In developing a measurement, the expected cash flow approach considers all expectations about possible cash flows instead of the single, most likely, future cash flow. For example, a cash flow might be Rs. 100, Rs. 200 or Rs. 300 with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The expected cash flow is Rs. 220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.
- The sensitivity of the recoverable amount to uncertainties is explicit in the measurement, compared with the 'traditional' approach where it is factored into the discount rate.
- It enables management to assess the uncertain assumptions that might have the most significant impacts on the recoverable amount.
- It calculates a range of expected cash flows, instead of only considering the most likely case.

In most of the cases, it is likely that budget/forecasts for cash flow projections will reflect a single estimate of future cash flows only. For this reason, expected cash flow approach is permitted under Ind AS 36 but not required.

Considering the disruptions in economy due to COVID 19, it may be helpful to consider using an expected cash flow approach as opposed to the traditional approach to project cash flows since the expected cash flow approach inherently requires a more explicit consideration of the wider than normal range of possible future outcomes. However, whichever approach an entity adopts, in accordance with paragraph A15 of Appendix A of Ind AS 36, the interest rate used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double counted.

FAQ 10

Since the announcement of COVID-19 pandemic, financial and capital markets have been volatile. In particular, the risk free discount rates have decreased substantially and are expected to remain low over next few years. Also, asset-specific discount rate may not be available. Can the entity use another method i.e. weighted average cost of capital determined using techniques such as the Capital Asset



Pricing Model?

Answer

The purpose of discounting future cash flows is to reflect the time value of money for the period until the end of the asset's useful life and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Ind AS 36 requires that the entity should make its own estimate of future cash flows but discount rate used for cash flows projections should reflect current market assessment of time value of money. Similarly, discount rate should reflect the premium that the market would require from uncertain future cash flows estimated by the entity.

Paragraph 57 and paragraph A16 of Appendix A of Ind AS 36 provides that when an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Paragraph A16 of Appendix A of Ind AS 36, further provides that the purpose is to estimate, as far as possible, a market assessment of the time value of money for the periods until the end of the asset's useful life.

Further, as per paragraphs A17 and A18 of Appendix A of Ind AS 36, an entity can take into account the weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model, entity's incremental borrowing rate; other market borrowing rates and adjust it to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows and to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted. For the purpose, consideration should be given to risks such as country risk, currency risk and price risk.

Accordingly, as per Ind AS 36, an entity can use weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model. However, the adjustment to such rate to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows should include the risks arising from COVID-19.



FINANCIAL INSTRUMENTS

FAQ 11

A non-financial institution has a major part of its financial assets in the form of Trade Receivables that result from transactions within the scope of Ind AS 115, Revenue from Contracts with Customers. For the purpose of recognition and measurement of impairment loss for these financial assets, the entity has been following a simplified approach and recognising life time expected credit losses using a provision matrix based on its last five years robust data of loss rates. In the present economic environment of COVID-19 outbreak, can the entity continue with its old provision matrix based on historical loss rates?

Answer

Trade Receivables that result from transactions within the scope of Ind AS 115 and Lease receivables that result from transactions within the scope of Ind AS 116, Leases, are subject to impairment loss recognition and measurement requirements of Ind AS 109, Financial Instruments. According to the prescriptions of Ind AS 109, entities shall always measure the impairment loss allowance by applying an approach called 'simplified approach' for the trade receivables or contract assets that do not contain significant financing component (Refer paragraph 5.5.15 of Ind AS 109). Entities can choose to adopt this simplified approach even for trade receivables or contract assets that contain significant financing component and also for lease receivables.

Under this simplified approach the impairment loss allowance is measured at an amount equal to the life time expected credit loss instead of applying 'three-stage' model (general model) for impairment based on changes in credit quality since initial recognition. Entities often calculate Expected Credit Losses (ECL) by using a provision matrix. In respect of measurement of ECL, it is important to consider the requirements of paragraph 5.5.17 of Ind AS 109:

"An entity shall measure expected credit losses of a financial instrument in a way that reflects:

- (a)
- (b); and
- (c) **reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions."**

It may be noted from the above paragraph that the standard also requires consideration of current conditions and the forecasts of future economic conditions at the reporting date. Further, historical information or historical loss data is an important anchor or base to measure expected credit losses. However, the entity shall adjust the historical information for current observable data and also for the forecasts of future conditions that did not affect the historical data or remove those that are not relevant for the future cash flows (Refer paragraph B5.5.52 of Ind AS 109). Accordingly, the onset of COVID-19 outbreak around the financial year end of 2019-20 would have an effect on the current and future economic environment of the entity and hence the past data and assumptions may not be fully relevant in the future. Therefore, it is imperative to reassess and re-evaluate the original



provision matrix employed by the entity for any changes and considerations required to be made in regard to the changes in the current economic environment and forward looking information (including macro-economic information) for the entity in light of COVID-19 outbreak.

FAQ 12

Expected Credit Loss (ECL) approach of Ind AS 109 requires the entities to consider reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Can you explain how to comply with this requirement of forecasts of future economic conditions in this present uncertain economic scenario caused by rapidly evolving COVID-19 outbreak? What are the macroeconomic factors the entities are expected to consider?

Answer

Unexpected and sudden onset of the COVID-19 pandemic has brought in many challenges to the entities in estimating the ECL under Ind AS 109 which is not only based on historical data and information but it is required to be based on forward looking information as well. Considering the sudden onset of the COVID-19 outbreak and the fast pace at which the developments are taking place, it is natural that entities will have limited ability to develop detailed forecasts of future conditions. In this context, it is important to note the following underlying principles of Ind AS 109 and its ECL approach:

- Ind AS 109 being a principle based standard requires application of management judgment and the ECL approach permits consideration of different approaches depending upon different circumstances to faithfully reflect the impact of COVID-19 to individual entities;
- ECL approach does not require a mechanistic application of the prescriptions and it does not set bright lines rather prescribes a few rebuttable presumptions;
- It allows estimation of ECL based on reasonable and supportable information that is available without undue cost and effort, about past events, current conditions and forecast of future economic conditions including macroeconomic conditions and also economic and monetary policy measures implemented to sustain the economy.
- In these stressed economic conditions and uncertain times, Ind AS 109 ECL recognition and measurement principles along with related disclosures under Ind AS 107, Financial Instruments Disclosures will provide much needed useful and transparent financial information to the users of financial statements.

In relation to the Ind AS 109 ECL requirement to consider the forward looking information, the following aspects may be useful for the preparers:

- The estimate of expected credit losses does not require a detailed estimate for periods that are far in the future—for such periods, an entity may extrapolate projections from available, detailed information (paragraph B5.5.50 of Ind AS 109).
- Entities need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses (paragraph B5.5.51 of Ind AS 109):
 - ☐ The information used should include factors that are specific to the entity's borrowers or credit risk portfolios and more importantly to the economic environment in which the entity is operating;



- ☐ Time horizon of forecast information should be commensurate with the expected life of the credit risk portfolio;
- ☐ Source of information can be internal as well as external e.g. reports and publications from Credit Rating Agencies, International Monetary Authorities and Prudential Regulators, both domestic and global if relevant to the entity's operating environment;
- ECL measurement requires an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; ECL is a probability weighted estimate of credit losses over the expected life of financial instrument (paragraphs 5.5.17 and B5.5.28 of Ind AS 109). The standard recognises the need for different weightages to different scenarios. Similarly, entities may consider assigning appropriate weightages to different periods of forecasts with higher weights to forecast periods where detailed robust projections are possible and lower weights to long term forecasts due to lack of clear visibility of the economic scenarios. This aspect assumes more significance in the current environment of rapid changes to the facts and circumstances.
- Previously, entities may have used the forecasts of macroeconomic factors which would not have considered economic downturn scenarios like COVID-19 global pandemic. Therefore, entities need to take well informed decision about the validity of these factors in the post-COVID-19 operating environment and the size and nature of adjustments required to some of the previous projections.
- In this period of heightened uncertainty and fast moving changes around impact of COVID-19, entities may find it difficult to incorporate all the reasonable and supportable information while measuring the ECL in its credit risk measurement models. In such a situation, entities may consider post-model overlays or adjustments to its impairment models.

In respect of the type and number of macroeconomic factors to be considered, Ind AS 109 being a principle based standard, does not set any bright lines nor mandates minima-maxima thresholds in this area. However, paragraph B5.5.52 quotes a few macroeconomic indicators e.g. unemployment rate, property prices, commodity prices, etc. in the context of ensuring directional consistency between estimation of expected credit losses and these factors. It may be noted that following macroeconomic factors are commonly used in the estimation of expected credit losses in general. It is important to ensure correlation between the macroeconomic factors used in Ind AS 109 ECL estimates and the credit risk profile of the entity.

Gross Domestic Product (GDP) Growth	Inflation Rate or Consumer Price Index	Unemployment Rates
Interest Rates	Foreign Exchange Rates	Real Estate Prices
Household Consumption/ Savings	Industrial Production	Crude Oil Prices
Equity Prices	Purchasing Power Index	Investment in Fixed Assets

FAQ 13

A financial institution has a consumer loan portfolio comprising large number of accounts with average remaining tenor of 3 to 5 years. Ind AS 109 requires the entities to consider forecasts of future conditions for estimating its impairment loss under an approach commonly referred to as expected credit loss. What would be the forecast period for this purpose i.e. can it be over next 12 months or longer period of say credit cycle of 7 years?



Answer

In the context of measurement of ECL, the standard states that the entity consider the maximum contractual period over which an entity is exposed to credit risk (paragraph 5.5.19 of Ind AS 109). Further, in the context of making assessment of the significant increase in credit risk for segregation of exposures into 3 (three) stage model, the standard requires that the entity should consider likelihood of risk of default occurring over the expected life of the financial instruments (paragraph 5.5.9 of Ind AS 109). Therefore, an important factor to consider in determining the forecast future period is the period over which the entity is exposed to credit risk. Accordingly, the facts and circumstances relating to the entity's credit risk exposures plays a critical role in deciding the forecast period to be used in estimating ECL.

FAQ 14

- (i) In order to sustain the economy in this period of depressed economic conditions resulting from COVID-19 pandemic, the Government and the Prudential Regulatory Authority of Banking sector has advised financial institutions to grant loan repayment moratoriums or payment holidays to its borrowers. A financial institution is required to follow general approach ('three-stage' model i.e. Stage 1-financial assets that have not had significant increase in credit risk since initial recognition, Stage 2-financial assets that have significant increase in credit risk since initial recognition and Stage 3-financial assets that have objective evidence of impairment) for recognition and measurement of impairment for its loan portfolio of financial assets as per Ind AS 109. In the event the borrower requests and financial institution grants a loan moratorium to its customers in that loan portfolio, does it result in stage 1 exposures move to stage 2?

Answer

Ind AS 109 being a principle based standard does not require a mechanistic application of the standard nor it sets bright lines rather prescribes a few rebuttable presumptions based on past due periods. The following additional important factors are to be considered by the preparers:

- For the purpose of determination of classification of the financial instruments in Stage 2, Ind AS 109 requires evaluation of Significant Increase in Credit Risk (SICR). The entity looks at the change in the risk of a default occurring over the expected life of the financial instrument, rather than the change in the ECL, when assessing whether the credit risk on a financial instrument has increased significantly since initial recognition. An entity should compare the risk of a default at the reporting date with the risk of a default at the date of initial recognition. Entity is normally required to look at risk of default occurring over the expected life of the instrument and not just next 12 months.
- In respect of consideration of any Prudential Regulatory actions taken to sustain the economy such as loan repayment holidays, reduction in interest rates etc., it is important to bear in mind that Ind AS 109, like other the Ind ASs, is a principle based standard and requires application of management judgement, in particular regarding credit risk management aspects in ECL estimations of Ind AS 109. Therefore, prudential regulatory support measures such as temporary repayment moratoriums to tide over the current uncertain economic environment caused by COVID-19 should not be applied mechanistically to classify the financial instrument into Stage 2 category requiring lifetime expected credit losses. This assessment should be made considering all available information about past events, current conditions and forecasts of economic conditions including impact of COVID-19 and Prudential Regulatory Actions. As a guiding factor to retain these financial instruments in existing category say in Stage 1, the entities should consider whether the financial instruments where repayment moratoriums are granted were regular with



no signs of credit deterioration at the time of granting moratoriums and whether these financial instruments are expected to remain regular during relief period and thereafter.

- Assuming either that all Stage 1 exposures move to Stage 2 or 3, or alternatively that no exposures move to Stage 2 or 3, is unlikely to be appropriate in many cases. The extension of blanket financial support to all borrowers in a certain class does not automatically mean that all such borrowers have experienced a significant increase in credit risk.
- (ii) Consequent to the announcement of economic relief packages by the Government and Regulatory Authorities, a financial institution has given 3 months loans repayment moratoriums to its certain borrowers. How should this change in the loan repayment terms be considered under Ind AS 109 Financial Instruments, assuming such borrowers have not experienced a significant increase in credit risk? Specifically, whether interest income should be accrued during the interest payment deferral period?

Answer

The financial institution should assess the impact of the economic relief packages by the Government and Regulatory Authorities on the recognised loans and their conditions. Assuming, the borrowers to whom such relief has been provided have not experienced a significant increase in credit risk, the financial institution will need to assess modification of the loan balances and whether modifications lead to their derecognition. In accordance with paragraph 5.4.3 of Ind AS 109, when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate.

Ind AS 109 requires entities to perform quantitative test (the '10% test') that compares the present value of the cash flows under the revised and original terms to determine whether modified financial liabilities are to be derecognised or not. If the difference is 10% or greater, the existing liability is derecognised and a new financial liability is recognised. There is no such requirement in the standard to use a similar quantitative test for modified financial assets. However, it would be appropriate to include such a test as one of the indicators, in combination with other qualitative factors to determine whether modified financial assets are to be derecognised or not.

Interest recognition

Financial assets classified as subsequently measured at amortised cost are measured using effective interest rate method. Ind AS 109 requires interest revenue to be calculated on the gross carrying amount of the asset (that is, without deduction of expected credit loss) for Stage 1 (assets that have not had significant increase in credit risk since initial recognition) and Stage 2 financial assets (assets that have not had significant increase in credit risk since initial recognition). For Stage 3 financial assets (assets that have objective evidence of impairment) interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

FAQ 15

In measuring ECL, an entity should include the cash flows from the realisation of collateral and other credit enhancement that are an integral part of the contractual terms of the loan. Would Prudential/Government reliefs provided to industry at large be considered as integral to the contractual terms of the loan?



Answer

According to Ind AS 109, Financial Instruments, while estimating the expected cash shortfalls for measuring the expected credit losses the entity should consider the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity. (Paragraph B5.5.55 of Ind AS 109). Therefore, an important aspect to note is that the collateral or credit enhancement should be part of the contractual terms of the loan.

Economic reliefs provided by the Government or Prudential Regulatory Authority may take a variety of forms such as mandating the entities to grant loan repayment moratoriums, giving repayment guarantees on the financial obligations of the industries or providing liquidity facilities and so on. The treatment of these economic reliefs depends upon specific facts and details of those particular schemes and entities need to apply judgment.

FAQ 16

An entity was following Cash Flow Hedge accounting for its highly probable forecasted foreign currency sale during the next financial year 2020-21. In the previous financial quarter, the entity had discontinued the hedge accounting, however, it had retained the effective portion of the cumulative loss on the hedging instrument in the cash flow hedge reserve as a separate component of equity in accordance with the requirements of Ind AS 109. This is because the forecast transaction was expected to occur as planned earlier, though not considered highly probable. Now, in view the significant economic uncertainty due to COVID-19, the forecasted foreign currency sale transaction is no longer expected to occur. Can the entity continue to retain the cumulative loss on hedging instruments in separate component of equity or immediately reclassified to profit or loss?

Answer

Chapter 6 of Ind AS 109, Financial Instruments, has comprehensive prescriptions and guidelines in respect of hedge accounting framework. In respect of the issue described in the above mentioned FAQ, paragraph 6.5.12 of Ind AS 109 is relevant which is reproduced below.

“When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

- (a) if the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or until paragraph 6.5.11(d)(iii) applies. When the future cash flows occur, paragraph 6.5.11(d) applies.
- (b) if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see Ind AS 1). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.”

From above, it can be concluded that if now the entity no longer expects the forecasted foreign currency sale transaction to occur, then the effective portion of the cumulative loss on the hedging instrument accumulated in the cash flow hedge reserve as a separate component of the equity should be immediately reclassified to profit or loss as a reclassification adjustment. However, if the entity expects the forecasted foreign currency sale transaction to occur, though no longer highly probable, it may continue to recognise the effective portion of the cumulative loss (until the date hedge accounting is discontinued) to be accumulated in the cash flow hedge reserve as a separate



component of the equity. In such a case, the entity must apply management judgement on the probability of occurrence of the forecasted foreign currency sale and conclude whether it is expected to occur or not in the future.

Further, if the entity expects that all or a portion of the cumulative loss retained in the cash flow hedge reserve will not be recovered in one or more future periods, the same should be immediately reclassified to profit or loss as a reclassification adjustment.



FAIR VALUE MEASUREMENT

FAQ 17

Subsequent to the announcement of COVID-19 as global pandemic in the middle of March 2020, the financial and securities markets have been highly volatile and uncertain. In such uncertain markets, whether quoted prices can be considered to be reliable or meet the requirements of classification under Level 1 as per Ind AS 113?

Answer

The current financial and capital market environment across the globe has got affected by the rapid spread of COVID-19 and may have developed significant volatility or indications of the significant decline in market prices of financial instruments like equity, bonds and derivatives.

Ind AS 113, Fair Value Measurement, establishes a fair value hierarchy that categorises into three levels, the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Paragraph 77 of Ind AS 113 states that a quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 79 (given in the later part of this FAQ). Paragraph 78 of Ind AS 113 states that a level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
- (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

The objective of 'fair value' is to determine a price at which an orderly transaction would take place between market participants under conditions that existed at the measurement date. It would not be appropriate to adjust or disregard observable transactions, except in the extraordinarily rare circumstances where those transactions are determined to not be orderly. Generally, there is an extremely high bar to conclude that a transaction price in an active market (that is, a Level 1 input) is not orderly under Ind AS 113.

Accordingly, it is expected that the fair value of a financial asset to be calculated as the quoted price of that financial asset in an active market multiplied by the quantity held (commonly referred to as 'P times Q'). This would continue to be the case even in times of significant market volatility.

As per Paragraph 79 of Ind AS 113, an entity shall not make an adjustment to a Level 1 input except in the following circumstances (emphasis added)

- (a) when an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available



but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (eg matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy.

- (b) when a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorised within a lower level of the fair value hierarchy.
- (c) when measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph 39). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorised within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorised within a lower level of the fair value hierarchy.

FAQ 18

Factors and circumstances stated in FAQ # 17, have also resulted in substantial decrease in volume of transactions in the principal markets or the most advantageous market to which the entity has access. Whether the fair value determined in such market conditions be considered an orderly transaction between market participants?

Answer

Appendix B, Application Guidance, of Ind AS 113 provides guidance on measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased. Paragraph B37 of Ind AS 113 provides factors that should be considered in determining whether there has been a significant decrease in the volume or level of activity (relative to the normal market activity). Paragraph B38 of Ind AS 113 provides that further analysis of the transactions or quoted prices is needed in such a case. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (eg there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (eg when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

Where the decrease in volume/activity necessitates an adjustment, Paragraph B40 of Ind AS 113 provides that a change in valuation technique or the use of multiple valuation techniques might be appropriate (e.g. the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, an entity shall



consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

In this view, depending upon the facts and circumstances of each case and further analysis of transactions or quoted prices, it can be determined whether a decrease in the volume or level of activity indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly.

FAQ 19

An entity has certain equity investments which are quoted in a securities market. The equity investment is classified as fair value through profit or loss (FVTPL). As at previous reporting date the fair value measurement was classified under Level 1 Fair Value Measurement hierarchy of Ind AS 113. COVID-19 outbreak is expected to have significant adverse effect on the future profitability of the issuer of these equity investments and therefore, no transactions in this security occurred during the month of March 2020 in the securities market. Can this equity investment be now measured at cost or reclassified to fair value through other comprehensive income (FVOCI)? Further, if the quoted prices are not available what would be the approach for determining the fair value of these instruments?

Answer

As per Ind AS 109, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. The option to present changes in fair value in OCI is available only at the time of initial recognition. Accordingly, in the given situation, the entity cannot subsequently designate its equity investment at FVOCI. Ind AS 109 indicates that, in limited circumstances, cost might be used as an estimate of fair value – for example, where more recent available information is insufficient to determine fair value; or where there is a wide range of possible fair value measurements, and cost represents the best estimate of fair value within that range. Ind AS 109 paragraph B5.2.4 provides indicators of where cost might not be represent fair value. An entity should use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors (prescribed in Ind AS 109 paragraph B5.2.4) exist, they might indicate that cost is not representative of fair value. In such cases, the entity must measure fair value.

With regard to the issue on determination of fair value if the quoted prices are not available, paragraph 24 of Ind AS 113 states that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

To increase consistency and comparability in fair value measurements and related disclosures, Ind AS 113 establishes a fair value hierarchy that categorises fair value into three levels, the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

In case where the inputs used to measure the fair value of an asset or a liability are categorised within different levels of the fair value hierarchy, paragraph 73 of Ind AS 113 provides that in such cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a



particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorised.

Further, in case of unavailability of level 1 inputs, paragraph 87 of Ind AS 113 states that unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

FAQ 20

Are there any disclosure requirements about the judgments and uncertainties involved in the fair value measurements of the entity?

Answer

Ind AS 113, Fair Value Measurement, Ind AS 1, Presentation of Financial Statements, and Ind AS 107, Financial Instruments: Disclosures, provide disclosure requirements related to judgments and uncertainties involved in the fair value measurements of an entity.

Paragraph 91 of Ind AS 113 provides that an entity shall disclose information that helps users of its financial statements assess both of the following:

- (a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.
- (b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

To fulfil the objective of paragraph 91, paragraph 93 of Ind AS 113, inter alia, states that the following information should be disclosed at minimum for each class of assets and liabilities measured at fair value in the balance sheet after initial recognition:

- (a) paragraph 93 (d) - for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs (eg a market multiple or future cash flows) used in the fair value measurement.
- (b) paragraph 93 (g) - for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).



- (c) paragraph 93 (h) - for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:
- (i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed.
 - (ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity

Paragraph 95 of Ind AS 113 states that an entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred.

Paragraph 28 of Ind AS 107 also requires that in some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets. In such cases, the entity shall disclose by class of financial asset or financial liability:

- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability.
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.
- (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

Paragraph 125 of Ind AS 1, Presentation of Financial Statements, states that an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period.



LEASES

FAQ 21

The COVID-19 pandemic has led to some lessors providing relief to lessees by relieving them of amounts that would otherwise be payable. How should these lease rent concessions dealt with under Ind AS 116?

Answer

Due to COVID-19 pandemic, many lessors have provided, or are expected to provide, rent concessions to lessees. Lessees are also seeking rent concessions where not proactively offered by their landlords to lessen their economic burden. This is more likely in the retail industry and may be encouraged or required by Government.

Ind 116, Leases, sets out the accounting for changes in lease payments during the lease contract term. The Standard has specific requirements for changes in the lease term. The Standard also specifies requirements for changes in lease payments arising from change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments. Ind AS 116 defines lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease.

Applying the above referred requirements to COVID-19-related rent concessions can have the following outcomes:

- a rent concession not envisaged in the original lease agreement will often be a lease modification but
- the application of an existing contractual mechanism to adjust rent may represent a variable lease payment.

Assessing whether the rent concession is a lease modification includes determining whether there has been a change in the consideration for the lease as defined in Ind AS 116. A change in payment terms does not necessarily give rise to a change in consideration. For example, payments may be reduced in a period and then increased proportionally in later periods in a way that results in the overall consideration for the lease remaining unchanged.

Entities should also assess whether any change in consideration arising from the concession was part of the original terms and conditions of the lease. Paragraph 2 of Ind AS 116 provides that an entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. Accordingly, an entity considers changes in lease payments that result from clauses in the original contract or in applicable law or regulation as part of the original terms and conditions of the lease, even if the effect of those clauses (arising from an event such as the Covid-19 pandemic) was not previously contemplated. In such a case there is no lease modification for the purposes of Ind AS 116.

The prevalence of rent concessions during the COVID-19 pandemic is likely to make this assessment difficult in two ways:



- (a) entities may need to assess a large volume of contracts to determine whether each rent concession is a lease modification; and
- (b) the assessment itself might be difficult. For example, a lease contract or applicable law or regulation may contain clauses, such as force majeure, which were developed without contemplating the COVID-19 pandemic. It may be difficult to determine whether rent concessions offered—or mandated by government—are captured by the operation of such clauses.

1) Changes in lease payments that are lease modifications

Lessee accounting

If a change in lease payments results from a lease modification, a lessee is required to:

- (a) account for the lease modification as a separate lease if the criteria in paragraph 44 of Ind AS 116 are met;
- (b) for all other lease modifications, remeasure the lease liability by discounting the revised lease payments using a revised discount rate. In this case, a lessee also:
 - (i) decreases the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the scope of the lease, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
 - (ii) makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

If a rent concession results from a lease modification, a lessee determines a new discount rate, and remeasures the lease liability to reflect the revised lease payments using that revised discount rate and by making a corresponding adjustment to the right-of-use asset. It should be noted that lease modification should be accounted for on the effective date of the modification, i.e. the date when both parties agree to a lease modification.

Lessor accounting

Lessor accounting for a change in lease payments that results from a lease modification depends on whether the lessor classifies the lease as a finance lease or an operating lease. A lessor accounts for:

- (a) a modification to a finance lease as a separate lease if the criteria in paragraph 79 of Ind AS 116 are met.
- (b) other modifications to a finance lease by considering whether the lease would have been classified as an operating lease had the modification been in effect at the inception date. If this is the case, a lessor accounts for the lease modification as a new lease from the effective date of the modification and measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. Otherwise, a lessor applies the requirements of Ind AS 109, Financial Instruments.



- (c) a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease .

A change in the consideration for a lease by way of rent payment waiver that is a lease modification should be accounted for by lessor as per paragraph (b) and (c) above.

2) Changes in lease payments that are not lease modifications

Lessee accounting

If a waiver/reduction of lease payments does not represent a lease modification, that change would generally be accounted for as a variable lease payment. In this case, a lessee applies paragraph 38 of Ind AS 116 and generally recognises the effect of the rent concession in profit or loss in the period in which the event or condition that triggers those reduced rent payments occurs. If a change in lease payments results in the extinguishment of a part of a lessee's obligation specified in the contract (for example, a lessee is legally released from its obligation to make specifically identified payments), the lessee would consider whether the requirements for derecognition of a part of the lease liability are met applying paragraph 3.3.1 of Ind AS 109, Financial Instruments. The circumstances that give rise to rent concession as a result of the COVID-19 pandemic are likely to indicate that ROU asset may be impaired and hence ROU should be tested for impairment.

Lessor accounting

In accordance with Ind AS 116, for an operating lease, a lessor recognises the effect of the rent concession by recognising lower income from leases.

FAQ 22

The COVID-19 pandemic has led to some lessors providing relief to lessees by deferring or relieving them of amounts for the time being with condition of increased payment in future. How this lease rent payment waiver with increased lease payment later on shall be dealt with under Ind AS 116?

Answer

Due to COVID-19, it might be possible that lessors may provide relief to lessees by deferring or relieving them of amounts for the time being with condition of increased payment in future.

- (a) A change in lease payments that reduces payments in one period but proportionally increases payments in another ('deferred lease payments') does not extinguish the lessee's lease liability. Deferred lease payments do not change the consideration for the lease; they change only the timing of individual payments. Thus, there is no remeasurement of the lease liability. In such a case, the lessee must adjust the timing of the future cash flows and either (1) revise the discount rate or, (2) in effect, bifurcate the lease liability into the portion (based on the original payment schedule) that remains subject to accretion and the portion that is not (the 'interest-free' deferral). This is necessary for the lease liability and the ROU asset to both amortise to 0 by the end of the lease term.
- (b) If the total consideration for a lease decreases (because the reduction in payments is greater than any subsequent increase in payments), then the change in lease payments incorporates both (i) a forgiveness of payments and (ii) deferred lease payments.



As regards the forgiveness element, reference should be made to FAQ 21 above and for the deferral of payments, reference should be made to guidance stated in (a) above.

To summarise the above:

- If forgiveness is considered as a modification - lessee should determine a new discount rate and remeasure the lease liability to reflect the revised lease payments using that revised discount rate and by making a corresponding adjustment to the right-of-use asset.
- If forgiveness is considered as variable consideration - lessee should derecognise the relevant part of the lease liability with a corresponding credit to profit and loss account. As regards the element of deferral, reference should be made to the guidance in (a) above.

FAQ 23

An entity with multiple retail outlets located in various shopping malls has taken premises on leases with lease term of two to three years. According to Ind AS 116, it has recognised asset in the form of Right of Use (ROU) with a corresponding lease liability. Unexpected global outbreak of COVID-19 has resulted in its profitability being severely affected due to lower customer footfalls over next six to nine months as a consequence of customers behaviour regarding health and safety concerns. Does the entity need to perform impairment test and carry out estimate of recoverable amount?

Answer

In accordance with paragraph 33 of Ind AS 116, a lessee is required to apply Ind AS 36, Impairment of Assets, to determine whether the right-of-use asset is impaired and to account for any impairment loss identified. It may be noted that as per Ind AS 36, Impairment of Assets, an asset is impaired when its carrying amount exceeds its recoverable amount. Further Ind AS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset and recognise impairment loss when its carrying amount exceeds its recoverable amount.

As per Ind AS 36, Impairment of Assets, right-of-use assets would generally be allocated to cash-generating units (CGUs) and an impairment test is performed if there is any indication that an asset/CGU may be impaired. In the given situation, the significant impact on the profitability due to lower customer footfalls over next six to nine months as a result of unexpected global outbreak of COVID-19 is an impairment indicator. Hence, the entity should estimate the recoverable amount of the asset and recognise impairment when its carrying amount exceeds its recoverable amount.



REVENUE FROM CONTRACTS WITH CUSTOMERS

FAQ 24

Ind AS 115, Revenue from Contracts with Customers, paragraph 9 requires entities to account for revenue contracts i.e. start recognising in the financial statements, only when five (5) conditions are fulfilled. One of the conditions i.e. clause (e) of paragraph 9 stipulates that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customers. In compliance with this condition, an entity has started recognising revenue from a sale of goods contract from the beginning of financial year 2019-20. Now, due to COVID-19 outbreak the customer has come into serious financial difficulties and this liquidity scenario is likely to continue for another 12 months. Does the entity need to reassess this criterion due to significant deterioration in the customer's credit worthiness? What is the accounting for the initial advance/ part consideration that the entity had received from the customer whose credit worthiness has subsequently deteriorated significantly?

Answer

Under Ind AS 115, Revenue from Contracts with Customers, a company recognises revenue if, and only if, the contract passes the contract existence test in Step 1 of the five-step model for revenue recognition. One of the conditions for contract existence is collectability. In this regard, criteria laid down in paragraph 9 (e) of Ind AS 115 is that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 52).

Further as per paragraph 13 of Ind AS 115, the five criteria for identifying revenue from contract with a customer mentioned in paragraph 9 of Ind AS 115 are required to be assessed at contract inception and are not reassessed unless there is an indication of a significant change in facts and circumstances. If a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer.

In the instant case, under the current circumstances due to COVID-19 crisis, the customer is facing serious financial difficulties affecting its liquidity and such difficulties are likely to continue for another 12 months. This indicates that subsequently the customer's ability to pay has deteriorated significantly in relation to goods or services to be provided in the future. Management needs to assess, in this situation, whether it is probable that the customer will pay the amount of consideration for the remaining goods or services to be transferred to the customer. If the entity determines that the contract does not meet the collectability criteria as specified in paragraph 9 (e) of Ind AS 115, the entity will not recognise any further revenue from the time of such assessment till the time the criteria of paragraph 9(e) is fulfilled.



It is to be noted that this assessment of the customer's ability to pay having deteriorated significantly does not affect the initially recorded revenue already recognised under the said contract, on satisfactory fulfilment of the relevant performance obligations towards the customer. However, related trade receivables/contract assets are required to be assessed for impairment under Ind AS 109, Financial Instruments.

In COVID-19 situation, entities may need to develop additional procedures to properly assess the collectability of its customer arrangements.

With respect to the accounting for the initial advance/ part consideration that the entity had received from the customer whose credit worthiness has subsequently deteriorated significantly paragraphs 15 and 16 of Ind AS 115 provide as follows:

Paragraph 15 of Ind AS 115 states that when a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:

- (a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or
- (b) the contract has been terminated and the consideration received from the customer is non-refundable.

Further, paragraph 16 of Ind AS 115 states that, an entity shall recognise the consideration received from a customer as a liability until one of the events in paragraph 15 occurs or until the criteria in paragraph 9 are subsequently met (see paragraph 14). Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.



FAQ 25

An entity has a 3 years contract for supply of electricity power to an industrial undertaking. In view of the expected manufacturing activity due to depressed economic conditions of COVID-19, the entity has accepted customer's request to reduce the electricity tariff as well as the minimum quantity that will be taken over the remaining period of the contract. How should the change in terms and conditions be accounted?

Answer

This depends on whether the entity considers individual units of the electricity delivered to the entity as separate performance obligation under Ind AS 115. For example, a contract may involve a promise to transfer a number of identical units of energy, typically as individual kilowatt-hours (kWh). Under paragraph 23 of Ind AS 115, a series of distinct goods or services (e.g., each kWh) that is transferred consecutively is treated as a single performance obligation if the distinct goods or services are substantially the same and would be recognised over time using the same measure of progress. Because electricity is generally simultaneously provided and consumed, an electricity contract will likely meet these criteria.

In the instant case, there is tariff reduction by the entity and reduction in the minimum quantity to be taken by the customer over the remaining period of the contract. The issue to be determined is whether this change is associated with variable consideration or it is a case of contract modification. As per the facts of the case, this reduction has been made due to COVID-19 circumstances and has not resulted due to existence of any variability at the inception of the contract.

Further, in this regard, paragraph 18 of Ind AS 115 may be noted, which provides that a contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. In the given case, there is change in price and some other conditions of the contract, therefore, it is a case of a contract modification.

Now the entity needs to determine whether the contract modification leads to recognition of a new contract or not. In this context, paragraph 20 of Ind AS 115, provides that contract modification shall be accounted for as a separate contract if both of the following conditions are present:

- (a) the scope of the contract increases because of the addition of promised goods or services that are distinct; and
- (b) the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

In the instant case, both of the above conditions are not met, therefore, it is not to be accounted for as a separate contract and the same shall be accounted for in accordance with paragraph 21 of Ind AS 115. This means that the revenue already recognized will not change. Future revenue will be recognized taking into consideration the reduced tariff and the reduced minimum quantity.



FAQ 26

An entity, engaged in wholesale distribution of electronic equipments offers various price concessions based on the volume of purchases by customers. The price concessions are considered as variable consideration under Ind AS 115 and the entity estimates its amount of revenue recognition based on its past experience. Can the entity continue to adjust its revenue recognition based on its past experience or need to review it in the context of current and expected conditions during the post-COVID-19 era?

Answer

As per paragraph 50 of Ind AS 115, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. Variable consideration is common and takes various forms, including (but not limited to) price concessions, volume discounts, rebates, refunds, credits, incentives, performance bonuses, and other similar items. Paragraph 52 of Ind AS 115 provides that an entity's customary business practices can cause consideration to be variable if there is a history of providing discounts or concessions after the goods are sold. Management determines the total transaction price, including an estimate of any variable consideration, at contract inception and reassesses this estimate at each reporting date. Management should use all reasonably available information to make its estimate.

As per paragraph 56 of Ind AS 115, an entity shall include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In the instant case, given the current scenario, since there may be significant change in the business economic conditions of the entity and that of the customer due to COVID-19, there can be significant change in the price concessions. The entity would need to re estimate the volume of purchases by the customer and, in turn, the estimated price concessions offered when determining the amount of revenue to be recognised.



FAQ 27

An entity engaged in the manufacture and sale of heavy commercial vehicles used to offer six months interest free credit period to its customers. In view of the free credit period being less than 12 months, the entity has assessed that there is no financing component in the arrangement based on the practical expedient in paragraph 63 of Ind AS 115. Now in order to facilitate its customers to tide over liquidity crunch, the entity has decided to extend the interest free credit period for existing completed contracts by another 8 months, that is, a total of 14 months. Does this trigger application of requirements to segregate significant financing component from revenue under Ind AS 115?

Answer

As per paragraph 60 of Ind AS 115 in determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

In the instant case, the entity has extended its existing credit period of six months for the existing completed contracts by another eight months due to liquidity issues being faced by the customers in the current COVID-19 conditions. In this regard, it is important to note that the objective of adjusting the promised amount of consideration for a significant financing component is to recognise revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (ie the cash selling price).

In the instant case, the objective of extending the credit period appears to facilitate its customers to tide over liquidity crunch which has arisen due to COVID-19 circumstances. Moreover, the price being charged is not changed due to the extension of credit period, i.e., the entity is charging the same consideration that it was charging earlier with six months credit period. Further, since the existing contracts are complete and there are no further vehicles to be delivered against such contracts, it appears that a reassessment of the contract to determine the financing component is not required. However, since there is an expected delay in the realisation of the sale proceeds from the customer, the related trade receivables shall be assessed for impairment under Ind AS 109, Financial Instruments.

In cases where the contracts are only partially complete, the treatment would depend on the facts and circumstances of the case.

FAQ 28

An entity has entered into a contract to manufacture a generator for a customer before the lockdown period caused by an unprecedented outbreak of COVID-19. The generator is designed and manufactured to the customer's specifications. Generally, the entity transfers the control over the goods sold to the customers and recognises revenue on dispatch from the factory. In view of the social distancing norms imposed by the Government, the entity could not dispatch the good to the customer. In such a situation whether the entity can recognize sales revenue for this item ready for despatch to the customer?



Answer

As per paragraph 31 of Ind AS 115, revenue in a contract with a customer is recognized when control over the goods or services is transferred to the customer. Considering that the generator is designed and manufactured to the customer's specifications, the customer acceptance of the asset is an important feature of the contract for assessment of transfer of control. In the time of the COVID-19 there could be goods ready for dispatch but which could not be sent due to the lockdown.

Assuming that control transfers at a point in time and in the given case it is passed on at dispatch from the factory.

Ind AS 115 contains specific application guidance on the accounting for bill-and-hold arrangements. Paragraph B79 of Ind AS 115 states that a bill-and-hold arrangement is a contract under which an entity bills a customer for a product but the entity retains physical possession of the product until it is transferred to the customer at a point in time in the future. For example, a customer may request an entity to enter into such a contract because of the customer's lack of available space for the product, because of delays in the customer's production schedules. Paragraphs B80 to B82 of Ind AS 115 require that an entity determine when it has satisfied its performance obligation to transfer the product and sets out the criteria that must be met in order for an entity to recognize revenue for the sale of a product on a bill-and-hold basis. One of the criteria mentioned in B81 is that the reason for the bill-and-hold arrangement must be substantive (for example, the customer has requested the arrangement). In the instant case also the goods are ready but could not be dispatched due to lockdown conditions imposed by the government. Whether or not revenue can be recognised would depend on whether the stringent condition of Ind AS 115 for bill and hold transactions are met.

Certain important factors to be considered would include whether significant risks and rewards (which are part of transfer of control assessment) have been passed to the customers or not. For example, if the entity is paying for the cost of storage and insurance on the goods during the period the goods are being held by it, it would be representative that significant risks and rewards have not been transferred to the goods. Also, in case of highly customised or specialised goods (as in this case), the acceptance of goods by the customer as discussed above would also need to be considered. In situations where control is transferred only when the product is delivered to the customer's site, it would not be appropriate to recognise revenue on bill and hold basis.

FAQ 29

An entity engaged in event management business had a contract for a mega cultural event in March 2020. The entity recognises the revenue for such contracts at a point in time and it incurs certain costs to fulfil the contract. The costs incurred to fulfil the contract are not covered by other Ind ASs and in compliance with the requirements of Ind AS 115 (paragraph 95) the entity recognises those costs as assets. Following the Government's preventive measure to contain the spread of COVID-19, the planned mega cultural event could not be held and the customer has cancelled the contract. How should such contract assets (costs for fulfilling the contract) be accounted now?

Answer

Paragraph 95 of Ind AS 115 allows an entity to recognise an asset on account of the costs incurred to fulfil a contract if those costs are not within the scope of another Standard and also meet certain laid down criteria in this regard. Further, as per paragraph 101 of Ind AS 115, an impairment loss should be recorded for these assets, if the carrying amount of the asset exceeds the remaining amount of consideration the entity expects to receive less the directly attributable costs not yet recognised



as expenses. In the instant case, since the contract has been cancelled and presuming neither any consideration will be received nor the cost is expected to be recovered, impairment loss should be recognized for the asset.

As per paragraph 103 of Ind AS 115 prior to recognising an impairment loss on the contract assets, management should first apply impairment guidance for specific assets (for example, inventory). Management will then apply the impairment guidance for contract costs under Ind AS 115.

FAQ 30

An entity engaged in the provision of IT and Data Management Services incurred certain costs to obtain a new contract. These costs fulfil the criteria of incremental costs of obtaining a contract with customer and the entity had recognised these costs as per paragraphs 91 to 93 of Ind AS 115. These were amortised in a systematic manner in accordance with paragraph 99 of Ind AS 115. Now, due to onset of COVID-19 is there any change in the method of accounting for these costs?

Answer

The assets recognized from costs to obtain or fulfil a contract are amortized on a systematic basis that represents the pattern of transfer of the good or service to the customer as per paragraph 99 of Ind AS 115. Further, paragraph 100 of Ind AS 115 provides that the amortisation shall be updated to reflect a significant change in the entity's expected timing of transfer to the customer of the goods or services to which the asset relates. Such a change, as per paragraph 100 of Ind AS 115 shall be accounted for as a change in accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

In view of the above, the basis of amortization of these assets would be the entity's expected timing of transfer of the related goods and services to the customer. If due to COVID-19 circumstances, the entity expects any change in timing of transfer of services due to various factors, such as, its ability to deliver services under lockdown conditions, customer's behaviour due to changed circumstances, etc., the amortization of these assets will have to be revised accordingly.

Another significant element to be considered in these circumstances would be impairment loss to be recorded for these assets. If the carrying amount of the asset exceeds the amount of consideration receivable reduced for the related costs as per paragraph 101 of Ind AS 115, impairment loss shall be recognised. This could arise due to various factors, such as, deterioration in the customer's credit rating, liquidity condition of the customer, increase in related cost, etc.



PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

FAQ 31

An entity engaged in automobile sector has assessed the impact of COVID-19 outbreak on its future viability of business model. Senior Management has identified the need for restructuring some of its business activities and retrenching its employees in many areas. Senior Management is drawing up a plan for the consideration of the Board of Directors in their meeting scheduled in May 2020, which is subsequent to the reporting date of the current financial year i.e. March 31, 2020. Can the entity recognise provisions for restructuring costs in the financial statements of the current year i.e. 2019-20?

Answer

In accordance with paragraph 72 of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, a constructive obligation to restructure arises only when an entity has detailed formal plan for restructuring identifying the business or part of business concerned; the principal locations affected; the location, function, and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken; and when the plan will be implemented; and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Further, paragraph 75 of Ind AS 37 provides that a management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period (a) started to implement the restructuring plan; or (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

In the given case, since COVID-19 pandemic impact started during March 2020, it is likely that the senior management started drawing up the plan for restructuring of some of its business activities after the end of the reporting period, i.e., 2019-20. If that be so, as per Ind AS 37, the management decisions subsequent to reporting date do not give rise to constructive obligation as of reporting date and no provision is required for restructuring costs as at 31 March 2020.

In this regard, paragraph 75 of Ind AS 37 provides that if an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under Ind AS 10, Events after the Reporting Period, if the restructuring is material and non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

FAQ 32

An entity engaged in tourism and hospitality is heavily dependent upon the tourists from India travelling overseas and foreign nationals visiting India. In the light of COVID-19 outbreak across the globe, the entity has analysed the likely impact of customers behaviour coupled with bleak



employment scenario on its revenue over the next one year. This review has indicated possible substantial operating losses during the next financial year i.e. 2020-21. The entity is exploring the possibility of recognising certain amount of operating losses as provision in the financial statements of the current year itself i.e. 2019-20. Is this accounting permitted under Ind AS?

Answer

Ind AS 37 defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Further, in accordance with paragraph 14 of Ind AS 37 a provision is required to be recognised only when the following conditions are met:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

However, it has been specifically provided in paragraphs 63-64 of Ind AS 37 that provisions for future operating losses shall not be recognised since the same do not meet the definition of liability and also conditions set out for recognising provisions in paragraph 14.

In the given case, the entity, in the light of COVID-19 outbreak across the globe, after the review expected that there might be possible substantial operating losses during the next financial year i.e. 2020-21. In this scenario, for losses expected in the next financial year, entity cannot create provisions for operating losses in the current financial year itself in accordance with paragraphs 63 of Ind AS 37.

However, paragraph 65 of Ind AS 37 provides that an expectation of future operating losses might be an indication that certain assets of the operation may be impaired and an entity tests these assets for impairment under Ind AS 36, Impairment of Assets. FAQs on impairment of assets may be referred for further guidance.

FAQ 33

A reputed event and conference management company had obtained loss of profits insurance cover to mitigate the risk of potential business losses due to circumstances beyond its control. During the current accounting year, it has estimated a loss of profit of certain amount and initiated its discussion with the insurance company for reimbursement of the loss. The entity is confident that the insurance company will admit and honour its claims for loss of profits. Accordingly, the entity is considering recognising an asset for this insurance claim recovery. Is this accounting acceptable under Ind AS?

Answer

The entity, before it can recognise a receivable for the claim on insurance company for business interruption or popularly called Loss of Profit Insurance, must examine whether the insurance policy clearly covers pandemic situation. The entity before recognising the claim on insurance company as an asset shall examine the applicability of condition and background given in paragraphs 31 to 35 of Ind AS 37 relating to contingent asset. By the time financial statements are prepared, the insurance company may not have decided on the claim as lock down period is still continuing, the entity



should recognise loss of profit recovery as an asset only if it is virtually certain, i.e. the insurance entity has accepted the claims and the insurance entity will meet its obligations. Otherwise, it will be considered as a contingent asset that shall be accounted in accordance with paragraph 89, where an inflow of economic benefits is probable.

Further, paragraph 53 of Ind AS 37 contain certain specific provisions regarding the accounting for reimbursements from a third party for some or all of the expenditure required to settle a provision. However, these provisions are not relevant in the instant case.

FAQ 34

In order to encourage companies and organisations to generously contribute to the Government's COVID-19 relief fund, taxation laws have been amended to reckon these contributions as deductible for the current financial year i.e. year ending March 31, 2020 even if the contributions are made after the year end but within three months after year end. Similarly, such contributions to COVID-19 funds are considered for compliance with annual spends on corporate social responsibility (CSR) for the current accounting year under the Companies Act, 2013. In this scenario, whether the contributions to COVID-19 Relief Funds made subsequent to reporting date of the current accounting period can be provided for as expenses of the current accounting period?

Answer

In the above given case, the entity needs to analyse the accounting treatment in the light of the following:

- i) Current legal provisions, i.e., Section 135 (5) of the Companies Act, 2013 - it may be noted that the said section has been amended recently to make the obligation to spend the CSR amounts as mandatory, but the amended section is not yet effective;
- ii) Applicable Accounting Standards, viz., Ind AS 37, Provisions, Contingencies Liabilities and Contingent Assets, and Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities (issued by ICAI in May 15, 2015).

Applicable accounting standards

According to paragraph 14 of Ind AS 37, a provision shall be made if:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying 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 as of reporting date, no provision shall be recognised for that financial year.

Government of India issued the notification on 31st March 2020 by way of an Ordinance and hence, it is most unlikely for any entity to have had a present obligation on 31st March 2020, for such a commitment. As these conditions are not met as of reporting date of financial year 2019-20, no provision should be recognised in the financial statements for that financial year.



In the fact pattern given above, the accounting implications for the financial year 2019-2020 based on the requirements of the accounting standards/Guidance Note given above is as follows:

- Do not recognize expense/ liability for the contribution to be made subsequent to the year ended 31 March 2020 as it does not meet the criteria of a present obligation as at the balance sheet date. However, the expected spend may be explained in the notes to the accounts as the same will also be considered in measurement of deferred tax liability.
- If the entity claims a deduction in the Income Tax return for the financial year 2019-20 for that contribution made subsequent to March 31, 2020, recognise Deferred Tax Liability as there would be a tax saving in financial year 2019-2020 for a spend incurred in subsequent year.



INCOME TAXES

FAQ 35

- (i) What are the few critical requirements of Ind AS 12, Income taxes, that require particular attention in the context of COVID-19 impact on an entity's current and future financial performance?

Answer

Some critical requirements of Ind AS 12, Income Taxes, that would, inter alia, require particular attention in the context of COVID-19 impact on entities current and future financial performance are summarised below.

Paragraphs 24 and 34 of Ind AS 12 state as follows:

"24 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, a deferred tax asset shall be recognised in accordance with paragraph 44."

"34 A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised."

In view of the above provisions of Ind AS 12, it may be noted that with some exceptions, deferred tax assets arising from deductible temporary differences and carry forward of unused tax losses and credits are recognised to the extent that sufficient future taxable profit will be available against which the deductible temporary differences can be utilised.

With regard to probability of taxable profit in future, paragraphs 28 and 29 of Ind AS 12 identify the sources of taxable profits against which an entity can utilise deductible temporary differences. They include:

- (a) probable future reversal of existing taxable temporary differences;
- (b) probable taxable profit in future periods; and
- (c) tax planning opportunities.

Recoverability of deferred tax asset is an accounting estimate which is generally based on management's assumptions relating to projections of future taxable profits which are in turn driven by



projected sales, cost to be incurred, future cash flows, impairment assessments, future recoverability or settlement of an asset and liability etc.

In the current scenario, an entity should re-assess its estimation of recoverability of deferred tax asset considering the uncertainty arising out of the impact of the Covid-19 pandemic on its assumptions and likelihood of occurrence of profits. An entity's forecasted profits may be adversely affected as a result of direct and indirect (effect on customers, suppliers, service providers) factors such as decrease in production, decrease in sale prices, increase in costs, impairment of assets and various other factors that are directly connected to conditions impacting the economy as a whole and the entity particular.

Reduction in probable future taxable profits or incurrence of losses due to COVID-19 impact may result in a reassessment of whether it is probable that some or all of an entity's deferred tax assets can be recovered. Carry forwards of unused tax losses and unused credits that were otherwise expected to be utilised in the near future should also be reviewed to determine if they might expire unutilised. In fact, paragraph 56 of Ind AS 12 requires an entity to review the carrying amount of a deferred tax asset at the end of each reporting period and to reduce the same to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. (Any such reduction should be reversed to the extent that it becomes probable that sufficient taxable profit will be available). On the similar lines, an entity will have to reassess whether it is probable that future taxable profits will be available before the utilisation of unused tax credits in form of MAT Credit Entitlement would expire and accordingly, continue to recognise or otherwise of deferred tax assets on account of such unused tax credits.

Furthermore, paragraph 39 of Ind AS 12 provides that an entity is not required to recognise deferred tax liability for taxable temporary differences associated with investment in subsidiaries, branches, associates and interest in joint arrangements if it is able to control the timing of reversal of temporary difference and is probable that those differences will not reverse in future. In the changed circumstances, it may be appropriate to reconsider these conclusions if there is a change in intent with respect to the managements plan to distribute undistributed profits and tax concession or a stimulus package given to a foreign subsidiary that may give rise to temporary difference.

It also needs to be considered that whether there is any uncertainty about income tax treatments and acceptability of a particular tax treatment under tax law. If yes, then the entity may apply guidance given under Appendix C (Uncertainty over Income Tax treatments) to Ind AS 12.

Further, paragraph A4 of Application Guidance to Appendix C of Ind AS 12 requires disclosure of judgements and assumptions and estimates made in determining unused tax losses and unused tax credits, in accordance with Ind AS 1.

- (ii) An entity has a subsidiary which has substantial amount of undistributed profits and the parent has retained these profits for the purpose of planned expansion of its subsidiary's business. As a result, there were material amounts of taxable temporary difference and consequential amounts of unrecognised deferred tax liability. In view of the unexpected and sudden onset of the global pandemic COVID-19, the parent has re-examined its overall business strategy and decided to postpone the business expansion plans of this subsidiary. Instead, it is contemplating repatriation of undistributed profits of this subsidiary subsequent to the reporting date which would help tide over the liquidity problems at the parent entity. In this scenario, what are the deferred tax accounting implications for the current financial year i.e. 2019-20.



Answer

As discussed in FAQ 35(i), paragraph 39 of Ind AS 12 provides that an entity is not required to recognise deferred tax liability for taxable temporary differences associated with investment in subsidiaries, branches, associates and interest in joint arrangements if it is able to control the timing of reversal of temporary difference and is probable that those differences will not reverse in future. In the given case, previously the parent entity had not recognised deferred tax liability in respect of taxable temporary differences associated with the investment in its subsidiary which arose due to undistributed profits of the subsidiary.

However, now in the context of the changed economic environment due to the onset of the global pandemic COVID-19, repatriation of undistributed profits of the subsidiary is contemplated. Consequently, the parent entity should recognise deferred tax liability to the extent that it is probable that the aforesaid taxable temporary difference will reverse in future. This should be accounted for as a change in accounting estimate.



EMPLOYEE BENEFITS

FAQ 36

An entity has established a separate Trust to manage the defined benefit plan obligations of its employees. The Trust invests the contributions by the entity in a portfolio comprising government securities and equity investments. In the current volatile and, in some cases, inactive market activities, how should the investments of the Trust be valued and considered for the purpose of accounting under Ind AS 19?

Answer

Assuming that the employee benefits managed by the Trust are within the scope of Ind AS 19, Employee Benefits, the entity has to recognise and measure the plan assets as per paragraphs 57 and 113 of Ind AS 19. It may be noted that paragraphs 57 and 113 require the fair value of plan assets to be deducted from the present value of defined benefit obligation to determine the deficit or surplus.

Paragraph 8 of Ind AS 19 defines fair value as 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 and refers to Ind AS 113, Fair Value Measurement, for further guidance. It may be noted that the fair value measurement principles under Ind AS 113 are based on 'exit price' as of the reporting date and determined from the market participant's perspective. It may also be noted that paragraphs B37 to B47 of Ind AS 113 provide comprehensive guidance to measure the fair value when the volume or level of an activity for an asset or liability has significantly decreased. Refer FAQs in Fair Value Measurement for more guidance in this area.

FAQ 37

As a consequence to Government's preventive measures to contain the spread of COVID-19, entities have been asked to close down the offices since last week of March 2020 and employees have been advised to work from home and in some cases temporary leaves have been granted. In case of employees sent on temporary leaves but with full pay, whether the salary paid can be deferred and charged to statement of profit and loss when they resume the work?

Answer

In the given case, the employees are in the service of employer and the salaries/wages paid for temporary leaves will be categorised as short-term employee benefits as defined in Ind AS 19. The entity is required to account for these employee benefits in accordance with the provisions of paragraph 11 of Ind AS 19. In accordance with paragraph 11, the entity continues to recognise the employee salaries for temporary leave as short-term employee benefits expenses as and when incurred unless another Ind AS requires or permits the inclusion of the benefits in the cost of an asset (see, for example, Ind AS 2, Inventories, and Ind AS 16, Property, Plant and Equipment).



SHARE-BASED PAYMENTS

FAQ 38

An entity has a number of equity settled share-based payment schemes for its employee across different categories. During last financial year i.e. 2018-19, the entity had granted equity shares to senior management which will vest on April 30, 2021, and one of the conditions for final eligibility of equity shares is based on target market price of the entity's share by the end of the financial year 2020-21 i.e. March 31, 2021. Considering the current scenario affected by global pandemic, the entity expects to experience a severe depressed economic environment in its business sector and substantial decline in its financial performance and cash flows over next two years and, therefore, consequential decline in the market price of its equity shares. As of March 31, 2020, the share price of the entity's equity share is much below the target price required under the employees' share-based payment scheme. How should the entity consider this development in the accounting for its equity settled share-based payments for the current financial year 2019-20?

Answer

Equity settled share-based payments are subject to the accounting requirements of Ind AS 102 Share-based Payments. The eligibility condition of the scheme mentioned above i.e. condition of the equity shares of the entity reaching a target price at the financial year March 31, 2021, is part of a vesting condition which is market condition as defined in Appendix A of Ind AS 102.

According to paragraph 21 of Ind AS 102, Market Conditions such as a target share price upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. The standard further states that the entity shall continue to recognise the services received, provided other vesting conditions are satisfied, irrespective of whether the market condition is satisfied at each reporting date.

It may also be noted that the fair value of the shares granted is determined at the grant date and it is not revised subsequently. Therefore, neither increases nor decreases in the fair value of the equity instruments after grant date affect the equity share based payment cost recognised by the entity (other than in the context of measuring the incremental fair value transferred if a grant of equity instruments is subsequently modified).

The entity shall recognise an amount for services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates, based on the fair value determined at the grant date.

However, companies with share-based payments whose vesting depends on achieving non-market performance conditions – e.g. earnings per share targets – may need to revise their estimate of the number of instruments expected to vest, which would impact the charge in the profit and loss account over the remaining vesting period.



BORROWING COSTS

FAQ 39

An entity is in the process of development of power generation facility which is expected to take three years for the facility to get ready for its intended use. In order to fund this huge expenditure, the entity has borrowed substantial amount of money and has been capitalising the borrowing costs as per Ind AS 23, Borrowing Costs. In view of the reduced demands for its products over next one year and also the lockdown of its manufacturing units due to onset of global pandemic recently, the entity has suspended the active work on the development of this power generation facility since one month before the end of the current financial year. The entity has decided to keep this project in abeyance for another six months, however, it continues to incur the borrowing costs. In view of the fact that the suspension of active development of the power generation facility is caused by Act of God and Nature, can the entity continue to capitalise the borrowing costs that it continues to incur?

Answer

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs should be expensed in the period incurred. Ind AS 23, Borrowing Costs, has specific requirements as to qualifying assets, borrowing costs eligible for capitalisation and their method of computation and commencement, suspension and cessation of capitalisation.

Paragraphs 20 and 21 deal with the suspension of capitalisation. In particular, paragraph 20 states that an entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends the active development of the qualifying asset. Considering the entity's decision to suspend the active development of the qualifying asset for 7 months, it cannot continue to capitalise the borrowing costs during this extended period regardless of the fact that the situation is caused by factors beyond its control.

Paragraph 21 elaborates on certain situation of temporary suspension where the entities are not required to suspend the capitalisation of borrowing costs. For example, when a temporary delay is a necessary part of the process of preparing an asset for its intended use. The suspension of construction activity due to COVID-19 pandemic does not fall under this situation.



GOVERNMENT GRANTS AND ASSISTANCE

FAQ 40

In the present economic environment, many entities have been suffering from acute cash flow problems and facing serious concerns of business viability. In order to prevent huge unemployment scenario and to rescue the business entities, Government has decided to pay the employer's share of employee provident fund contribution (EPF) for March 2020. How should it be accounted for in the financial statements for the year 2019-20?

Answer

Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance, deals with a wide variety of government assistances with a few exceptions e.g. government assistance in the form of benefits available in determining taxable income or those based on taxable income or tax liability, government investment in the equity instruments of the entity etc. As per paragraph 3 of Ind AS 20, government grants are assistance by government in form of transfer of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Further, waiver of liability by government will also classify as government grant because in substance there is a transfer of resources, although it is in form of waiver of expense. Thus, contribution of employer's share to provident fund by the Government in the present case falls within the definition of government grants of Ind AS 20, therefore, the entity should recognise it in accordance with the provisions of Ind AS 20.

Entities may also note the following important aspects of Ind AS 20:

- Government grants shall be recognised only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received (paragraph 7 of Ind AS 20).
- Certain forms of government assistance are excluded from the definition of government grants and hence not required to be recognised in the financial statements. However, entities are required to disclose an indication of other forms of government assistance from which the entity has directly benefited (paragraphs 34-38 and 39(b) of Ind AS 20).

FAQ 41

Government of India is giving many economic packages including Income Tax reliefs, Goods and Service Tax reliefs and other many other assistances such as financial guarantees. Are these economic reliefs to be accounted as Government grants under Ind AS 20 or to be accounted under Ind AS 12, Income Taxes or any other Ind AS.

Answer

In this challenging economic environment, Government and Monetary Authorities may offer a number of different types of economic reliefs, concessions and assistances to business entities. These government relief measures could be fall within the scope of following Ind ASs:

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



- Ind AS 12, Income Taxes
- Ind AS 114, Regulatory Deferral Accounts

Therefore, entities are advised to assess the facts and circumstances and the substance of the underlying specific government assistance schemes, reliefs and economic packages to determine the appropriate Ind AS to be applied.



INTANGIBLE ASSETS

FAQ 42

In these rapidly evolving times of COVID-19 and changing economic environment, the public policies are also offering new business opportunities, new products development and new markets to entities e.g. some of the health and safety concerns have enabled the entities to establish new lines of business or products. An entity engaged in medical research and drug manufacturing segment has incurred substantial expenditure for the development of a new vaccine for COVID-19. Can the entity recognise this as Intangible Assets under Ind AS and what consideration should be applied for impairment testing etc.?

Answer

In the facts and circumstances stated above, the entity should consider the recognition and measurement requirements of Ind AS 38, Intangible Assets, relating to internally generated intangible assets. In order to assess the fulfilment of recognition criteria of the standard, expenditure incurred by the entity will be categorised into two phases viz. Research Phase and Development Phase.

The standard defines research as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Paragraph 56 of Ind AS 38 gives examples of activities during this research phase.

Also, the standard defines Development as 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. Paragraph 59 of Ind AS 38 gives examples of activities during this development phase.

The entity needs to assess whether its activity during the financial year 2019-20 falls within the research phase or development phase considering the above guidance. It may be noted that paragraph 52 of Ind AS 38 requires entities to apply broader meaning of the two terms, Research and Development, although these terms have been defined in the standard.

Ind AS 38 does not permit recognition of Intangible Asset for Research Phase and requires the expenditure incurred during this phase to be recognised as expense when incurred. (Paragraph 54 of Ind AS 38).

In respect of expenditure incurred during development phase, an entity can recognise it as intangible asset if, and only if the entity can demonstrate compliance with certain conditions laid down in paragraph 57 of Ind AS 38.

The company should consider the cost of development phase including cost of clinical trial, the time it will take before the vaccine is successfully launched and who else in the competition will release the vaccine first. Considering the wide ramifications of COVID-19 and need to find a suitable vaccine, it is quite likely that government will impose price restrictions. Since getting international registrations may take time, the company should consider the rules of price control in similar situation and the basis of price approved by the government and the margin permitted to be earned by the company.



Further, it must be noted that, paragraph 57(d) of Ind AS 38 requires an entity to demonstrate how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. Currently there are several entities/countries across the world who have embarked on or in the process of the discovery of the drug/vaccine for COVID-19. Considering this, the entity shall also assess its ability to meet this criterion.

If the total cost accumulated under development and implementation phase is higher than recoverable amount considering the price of vaccine, volume and competition, appropriate provisions for impairment should be made even in respect of the in-process intangible asset under development as per the requirements of Ind AS 36, Impairment of Assets.



THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

FAQ 43

An entity in order to meet its huge requirement of funds for deployment in business such as investment in plant and machinery or other business requirements raises funds from international markets in foreign currency mainly US\$. The outbreak of COVID-19 has led to significant volatility in the financial markets all around the World, depreciation in Indian Rupee (INR) has been witnessed against US\$. The entity is preparing its financial statements under Indian Accounting Standards and its functional currency is INR. The entity has not entered into derivative contracts such as Foreign Exchange Forward Contracts to hedge the foreign currency risk. Since the announcement of COVID-19 as a global pandemic, the depreciation of INR against US\$ has accelerated and it has a material impact on the profitability of the entity. Therefore, can the foreign exchange translation differences relating to foreign currency borrowings be deferred and recognized over the balance period of the foreign currency borrowings?

Answer

Ind AS 21, The Effects of Changes in Foreign Exchange Rates, defines 'Monetary items'. As per this definition, the foreign currency borrowing from the international lender is a monetary item.

With regard to treatment of foreign exchange differences arising on a monetary item, paragraph 28 of Ind AS 21 prescribes that the exchange differences arising on its settlement or on translation of the foreign currency borrowing at reporting date need to be recognised in the profit or loss section of the statement of profit and loss. Accordingly, the same cannot be deferred and amortised over the balance period of the foreign currency borrowings considering the material impact of high depreciation of INR.

The above treatment is appropriate as recognizing the foreign exchange differences in profit or loss in the instant case faithfully represents the economic phenomenon which the entity is experiencing. It may also be noted that INR has been consistently depreciating against US\$ since the year 2000; INR has depreciated from INR 43.62 = 1 US\$ as of March 2000 to INR 69 = 1 US\$ as of March 2019 and INR 75 = 1 US\$ as of March 2020. Therefore, it may not be an exceptional feature or an exceptional item.

To the above accounting treatment there is one exemption, which was given as a part of transition under Ind AS 101, First-time Adoption of Indian Accounting Standards. As per paragraphs D13AA of Ind AS 101 and 7AA of Ind AS 21, a first-time adopter of Ind AS may continue the policy adopted for accounting for exchange differences arising from the translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. Accordingly for the foreign currency borrowings prior to the transition to Ind AS, if the entity had opted for amortization of foreign exchange differences over the remaining borrowing period or capitalised the same as part of the cost of plant and machinery, the entity can continue the same accounting policy.



FAQ 44

Continuing with facts in the previous question with assumption that the borrowing referred in the question has been raised after implementation of Ind AS. Additional facts are that the entity has hedged the foreign currency risk of its US\$ foreign currency loans and it has been following the fair value hedge accounting framework of Ind AS 109, Financial Instruments. In this fact pattern, can the foreign exchange translation differences relating to foreign currency borrowings be deferred and recognized over the balance period of the foreign currency borrowings?

Answer

It may be noted that Chapter 6, Hedge Accounting, of Ind AS 109, Financial Instruments, has elaborate prescriptions and guidance in this area whose objective is to represent in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5).

One of the benefits of hedge accounting is to align the timing and amount of recognition of gains/losses of hedged risk item with that of hedging instruments. Hedge Accounting is a choice available to the entities under Ind AS 109 and it is not mandatory.

Under Hedge Accounting of Ind AS 109, hedges are required to be classified into three types of hedges as follows:

- a) Fair Value hedges e.g. hedging risk of changes in Fair Values of Fixed rate assets/liabilities, Foreign currency Assets/liabilities and Firm commitments;
- b) Cash Flow hedges e.g. hedging risk of changes in Cash flows of Variable rate assets/liabilities or highly probable forecast transactions and
- c) Hedge of Net Investment in Foreign Operation e.g. Hedging risk of Foreign Currency exposure risk of net investment in foreign operations.

Further, Ind AS 109 has specific accounting methods for recognition and measurement of the gain or loss on the hedged item and the hedging instruments. It may be useful to consider the requirements in paragraph 6.5.8 relating to fair value hedges which may be relevant in this fact pattern.

- (a) The gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5).
- (b) The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative



change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

Therefore, accounting policy to amortise the foreign currency translation difference of foreign currency loans (i.e. hedged item) will be in contravention of the fair value hedge accounting requirements of Ind AS 109.

The other requirements pertaining to hedge accounting under Ind AS 109 should also be considered. For instance, paragraph B6.4.7 states that hedge effectiveness is determined not only by the economic relationship between the hedging instrument and the hedged item but also by the effect of credit risk on the value of both the hedging instrument and the hedged item. Under COVID-19 scenario, the entity would therefore have to consider the effect of changes in both the counterparty credit risk and own credit risk in assessing the hedge effectiveness and ineffectiveness. The increased credit risk due to COVID-19 could affect both hedge effectiveness testing and measurement of hedge ineffectiveness, which could have accounting implications under Ind AS 109.



PRESENTATION OF FINANCIAL STATEMENTS

FAQ 45

In this highly challenging scenario of COVID-19, which is rapidly evolving day by day, there are significant uncertainties about the future economic scenario. How does an entity determine whether it is still a going concern? What disclosures are required to be made in the financial statements in this regard?

Answer

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue to be in operation for the foreseeable future. For the purpose of assessment whether an entity is a going concern paragraphs 25-26 of Ind AS 1, Presentation of Financial Statements, provide guidance. As per paragraph 25 of Ind AS 1, the management of an entity shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Further, as per paragraph 26 of Ind AS 1, to assess whether the going concern assumption is appropriate, management should consider all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Management typically relies upon historical financial results, known changes in the business and competitor and industry data to provide evidence of the reasonableness of the assumptions used in its assessment. However, given current economic and market conditions, historical results may be unlikely to provide a basis for future cash flows and therefore management may need to consider additional sources of information when evaluating the reasonableness of the assumptions used in its assessment. Management is expected to prepare a range of scenarios based on different dates till which the COVID-19 impact will prevail to determine the potential impact on underlying performance and future funding requirements.

As part of a going concern assessment, it is critical for management to assess what impact the current events and conditions have on an entity's operations and forecasted cash flows, with a focus on whether the entity will have sufficient liquidity to continue to meet its obligations as they fall due. Management will need to consider the existing and anticipated effects of COVID-19 on the assumptions in its assessment giving attention to significant assumptions that are sensitive or susceptible to change or are inconsistent with historical trends. Management should develop a range of scenarios (e.g., different time periods of expected lockdowns, social distancing measures etc.) to determine the potential impact on underlying performance and future funding requirements.

Arising out of the impact of COVID-19, some of the factors (indicative) which an entity may consider in assessing the ability of the entity to continue as going concern could be:

- Impact on the economy and asset prices, in general.
- Impact of current events and conditions on an entity's operations and potential impact on forecasts of future cash flows, such as, restrictions imposed by the government, etc.



- Impact of various measures taken by RBI for improving liquidity in the economy, the government assistance including economic packages announced and steps for revival of economy, etc.
- Whether the entity is operating in a sector which is highly impacted
- Whether the entity has sufficient liquidity to continue to meet its obligations as they fall due.
- Whether the entity has sufficient existing and potential borrowing/financing facilities/limits to meet its short-term needs, e.g., invoice discounting and reverse factoring etc.
- If required, has the entity initiated necessary actions to generate sufficient cash flow or access to borrowing facilities/liquidity to meet its obligations when they fall due.
- Whether the entity has plans and ability to restructure their debt obligations if required to ensure short term solvency
- Assessing financial health of key/critical suppliers and customers and their impact on the entity's operations.
- Impact of contractual covenants and commitments.

Assessment of whether the entity is a going concern is a matter of judgment. The judgment should be based on the perception developed by the management on the economic impact of changing internal and external contexts on the company's ability to continue as a going concern based on reasonable assumptions. The management must develop perception on the impact of COVID-19 based on information available from reliable sources. The impact of COVID-19 after the reporting date should also be considered and if, the management after the reporting date either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, the financial statements should not be prepared on going concern basis.

Material uncertainties that cast significant doubt on the ability to continue as a going concern, such as, extent of the impact on future costs (both fixed and variable) and revenues, unknown duration of the impact, legal claims, liquidity issues, loss of customers etc., should be disclosed. Disclosures would be required where material uncertainty exists but management prepares the financial statements on Going Concern basis. These disclosures should:

- Adequately describe the principal events or conditions that give rise to significant doubt on the ability of the entity to continue in operation and the management's plans to deal with those events and conditions.
- State clearly that there is a material uncertainty related to events or conditions which might cast significant doubt on the ability of the entity to continue as a going concern, such that it might be unable to realise its assets and discharge its liabilities in the normal course of business.

Where the management concludes, given the entity's facts and circumstances, that no material uncertainty exists that needs to be disclosed, but the conclusion required application of significant judgement, then the judgment made should be disclosed as per paragraph 122 of Ind AS 1.

Apart from the specific disclosures required under Ind AS, entity should make suitable disclosures to provide sufficient information that assessment of going concern is complete, accurate and achieves fair presentation of the financial statements.



FAQ 46

Ind AS 1, Presentation of Financial Statements, states that financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. The standard also further states that management should consider all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Considering the above requirements and in the current fragile economic environment caused by COVID-19, whether the entities can assess the going concern basis over the next 12 months only or can consider longer period than 12 months?

Answer

It is important to bear in mind that entities are required to assess whether the entity will continue to be in operation for the foreseeable future. While doing this assessment, the entity is required to consider all the information about the future and time horizon as per paragraphs 25-26 of Ind AS 1, which is at least, but not limited to twelve months, from the end of the reporting period. Therefore, the entities can consider future assessment period which may extend to the period even beyond twelve months if they are fundamentally important to the going concern assumption. In this regard, important aspects to bear in mind are that the longer the future period the higher will be the management judgement required and degree of reliability of information decreases. As a result, entities can consider a longer period than 12 months but it must consider availability of reliable and sufficiently detailed information.

It is also necessary to consider the requirements of Ind AS 10, Events after the Reporting Period. Paragraphs 14 and 15 of Ind AS 10 state that entities shall not prepare financial statements on going concern basis if the management decides after the reporting period (emphasis added) either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. Accordingly, the entities are also required to monitor the events after the reporting date but before the authorisation of the financial statements for issue.

FAQ 47

Due to COVID-19 liquidity of an entity is impacted. As a result it is not in a position to pay its liabilities that fall due during the next twelve months. Despite all efforts, neither it has been successful nor it is likely that it will be able to arrange funds particularly in respect of existing restructured accounts to pay off its liabilities. Whether the entity can still be assumed to be going concern?

Answer

COVID-19 situation which is impacting entities, assessment of going concern assumes great significance. Management of the entity needs to assess whether it continues to be a going concern. For this purpose, the management of the entity needs to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. In this regard, liquidity position of the entity is a significant factor to be considered for assessing going concern assumptions.

In the instant case, the entity is not in a position to pay its liabilities that fall due during next twelve months and after all efforts, it has not been able to arrange funds particularly in respect of existing restructured accounts to pay off its liabilities. This is a material uncertainty that casts significant doubt on the ability of the entity to continue as a going concern. Therefore, greater degree of consideration



will be required to assess whether the financial statements can be prepared on going concern basis. Apart from the aforementioned factors, the entity needs to consider all other related available information about the future while concluding on the matter, such as, expected revenue that may flow to the entity, its ability to raise funds from new sources including equity, its ability to negotiate to defer the payment of liabilities beyond twelve months, potential of availability of facilities such as invoice discounting and reverse factoring, etc. Another important factor to be kept in mind is that consideration of future events is not limited to twelve months, it may extend to a period even beyond twelve months. If the entity is able to defer its liabilities beyond twelve months and it expects that by that time its liquidity position would be such that it would be able to meet its obligations, it may continue to be going concern. But arising out of the above situation, if the management is not able to find any mitigating factors to pay its liabilities then the financial statements cannot be prepared using going concern assumption. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements. The reason why the entity is not regarded as a going concern should also be disclosed.

FAQ 48

Due to COVID-19 significant impairment is recognized in intangible assets held by the entity. Similarly, the huge loss has been recognised due to the recognition of inventory at Net Realisable Value, which is significantly lower than its cost. Can these losses be treated as extraordinary and disclosed separately in the Statement of Profit and Loss? Alternatively, can these items be considered as Exceptional Items of Income and Expense and disclosed separately?

Answer

As per Ind AS 1, no item of income or expense shall be presented as extraordinary item in the statement of profit and loss (paragraph 87). Paragraph 97 of Ind AS 1, requires that an entity shall disclose the nature and amount separately for items of income or expense that are material. Further, paragraph 98 of Ind AS 1 provides examples of circumstances that would give rise to the separate disclosure of items of income and expense. One of such examples is write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs.

Accordingly, the entity needs to determine whether the impairment loss and loss due to write-down of inventory are material. In order to determine whether these items are material, the size or nature of an item, or a combination of both, needs to be considered. If these items are material, the entity shall disclose their nature and amount separately. This information may be given on the face of the statement of profit and loss or in the notes.

Further, whether these losses can be classified as exceptional items, it may be noted that exceptional items have not been defined under Ind AS. However, as per paragraph 12 of existing Accounting Standard (AS) 5, Net profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Generally, items of income or expense fulfilling the above mentioned criteria are classified as exceptional items and are disclosed separately. From the above, it appears that all material items are not exceptional items. In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'. Accordingly, these items can be disclosed separately as 'exceptional items' in financial statements if they meet the test of 'materiality' and 'incidence'. (refer FAQ 32 of Educational Material on Ind AS 1).



In this regard, it may also be noted that Schedule III to the Companies Act, 2013, also specifically requires a line item for 'exceptional items' on the face of statement of profit and loss.

FAQ 49

A company had adopted the revaluation model for valuing its property, plant and equipment. Due to COVID-19, the company expects that fair value as at the reporting date i.e., 31st March, 2020, to be different from its carrying value. It arrives at the fair value using cash flows approach. For this purpose, it has made various estimations, such as, forecasting future revenue, business survival/growth, etc. Is the company required to make any other disclosure in this regard apart from those required in Ind AS 113, Fair Value Measurement, and Ind AS 16, Property, Plant and Equipment?

Answer

In addition to the disclosures required under various Ind ASs regarding estimates and assumptions, Ind AS 1 requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities (paragraph 125 of Ind AS 1). Ind AS 1 requires that in respect of those assets and liabilities, the notes shall include details of:

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period.

These disclosures help users of financial statements to understand the judgements that management has made about the future and about other key sources of estimation uncertainty.

In the instant case, for determine the fair value of PPE, the company has made various assumptions, estimates and judgements involving estimations, such as, forecasting future revenue, expected business survival/growth, etc. Therefore, the company shall make suitable disclosures (refer paragraphs 125-133 of Ind AS 1). The nature and extent of the disclosures will vary according to the nature of the assumption and other circumstances.

Examples of the types of disclosures that the company will be required to make include:

- The nature of the assumption or other estimation uncertainty
- The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
- An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

It is important to note here that sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity shall disclose what is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.



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