



Ind AS

Effect of Moratorium
Period granted on Term
Loans on EIR

Parikh & Associates
Chartered Accountants

Background

Due to Covid-19 Pandemic, On March 27, 2020, the Reserve Bank of India (RBI) announced that all lending institutions, such as banks and non-banking finance companies (NBFCs), should provide a three-month moratorium on all term loans payments falling between March 1, 2020 and May 31, 2020. As this Moratorium period will result into modification in contractual cash flows, it is required to assess the Impact of the same on EIR Calculation as per Ind AS 109.

Technical Literature

As per Para 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** (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate calculated in accordance with paragraph 6.5.10. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.”*

As per Para 8 of Ind AS 10:

“An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.”

Evaluation and Impact:

The Moratorium period granted by Banks or Financial Institutions will be considered as change in contractual cash flows which requires re-computation of carrying amount by discounting modified cashflows with original EIR.

Further, the announcement regarding moratorium relaxation was made on 27th of March, 2020 by RBI which is an adjusting event requiring financial statements to adjust with revised carrying value even though the Moratorium relaxation were provided by certain banks/FI in April, 2020.

In case of hedge instruments where underlying asset / liability is recorded at Amortized Cost, revised EIR will be computed and difference will be charged to P&L.

Illustration:

- **Basic Details of Borrowing**

Borrowing from Bank	10,00,000
Interest Rate	10%
Processing Fees	10,000
Tenure (Months)	36
Instalment (Monthly)	32,267
EIR	10.72%

- Original Repayment Schedule as agreed with Bank

Original Repayment Schedule					
Month	Days	Op. Balance	Interest	Repayment	Cl. Balance
01-01-2019	Date of Loan Disbursement				
31-01-2019	31	10,00,000	8,493.15	-32,267	9,76,225.96
28-02-2019	28	9,76,225.96	7,488.86	-32,267	9,51,447.63
31-03-2019	31	9,51,447.63	8,080.79	-32,267	9,27,261.23
30-04-2019	30	9,27,261.23	7,621.33	-32,267	9,02,615.36
31-05-2019	31	9,02,615.36	7,666.05	-32,267	8,78,014.22
30-06-2019	30	8,78,014.22	7,216.56	-32,267	8,52,963.58
31-07-2019	31	8,52,963.58	7,244.35	-32,267	8,27,940.74
31-08-2019	31	8,27,940.74	7,031.83	-32,267	8,02,705.38
30-09-2019	30	8,02,705.38	6,597.58	-32,267	7,77,035.77
31-10-2019	31	7,77,035.77	6,599.48	-32,267	7,51,368.06
30-11-2019	30	7,51,368.06	6,175.63	-32,267	7,25,276.50
31-12-2019	31	7,25,276.50	6,159.88	-32,267	6,99,169.19
31-01-2020	31	6,99,169.19	5,938.15	-32,267	6,72,840.15
29-02-2020	29	6,72,840.15	5,345.85	-32,267	6,45,918.81
31-03-2020	31	6,45,918.81	5,485.89	-32,267	6,19,137.51
30-04-2020	30	6,19,137.51	5,088.80	-32,267	5,91,959.12
31-05-2020	31	5,91,959.12	5,027.60	-32,267	5,64,719.53
30-06-2020	30	5,64,719.53	4,641.53	-32,267	5,37,093.87
31-07-2020	31	5,37,093.87	4,561.62	-32,267	5,09,388.30
31-08-2020	31	5,09,388.30	4,326.31	-32,267	4,81,447.42
30-09-2020	30	4,81,447.42	3,957.10	-32,267	4,53,137.33
31-10-2020	31	4,53,137.33	3,848.56	-32,267	4,24,718.70
30-11-2020	30	4,24,718.70	3,490.84	-32,267	3,95,942.35
31-12-2020	31	3,95,942.35	3,362.80	-32,267	3,67,037.96
31-01-2021	31	3,67,037.96	3,117.31	-32,267	3,37,888.08
28-02-2021	28	3,37,888.08	2,592.02	-32,267	3,08,212.91
31-03-2021	31	3,08,212.91	2,617.70	-32,267	2,78,563.42
30-04-2021	30	2,78,563.42	2,289.56	-32,267	2,48,585.79
31-05-2021	31	2,48,585.79	2,111.28	-32,267	2,18,429.87
30-06-2021	30	2,18,429.87	1,795.31	-32,267	1,87,958.00
31-07-2021	31	1,87,958.00	1,596.36	-32,267	1,57,287.16
31-08-2021	31	1,57,287.16	1,335.86	-32,267	1,26,355.84
30-09-2021	30	1,26,355.84	1,038.54	-32,267	95,127.19
31-10-2021	31	95,127.19	807.93	-32,267	63,667.93
30-11-2021	30	63,667.93	523.30	-32,267	31,924.04
31-12-2021	31	31,924.04	343.16	-32,267	0.00

- Accounting as per Ind AS 109 based on **EIR of 10.72%** up to the Date of Modification:

Month	Days	Op. Balance	Interest	Repayment	Cl. Balance
01-01-2019					
31-01-2019	30	9,90,000	8,720	-32,267	9,66,453
28-02-2019	28	9,66,453	7,945	-32,267	9,42,130
31-03-2019	31	9,42,130	8,575	-32,267	9,18,438
30-04-2019	30	9,18,438	8,090	-32,267	8,94,260
31-05-2019	31	8,94,260	8,139	-32,267	8,70,132
30-06-2019	30	8,70,132	7,664	-32,267	8,45,529
31-07-2019	31	8,45,529	7,696	-32,267	8,20,958
31-08-2019	31	8,20,958	7,472	-32,267	7,96,162
30-09-2019	30	7,96,162	7,013	-32,267	7,70,908
31-10-2019	31	7,70,908	7,016	-32,267	7,45,657
30-11-2019	30	7,45,657	6,568	-32,267	7,19,957
31-12-2019	31	7,19,957	6,553	-32,267	6,94,243
31-01-2020	31	6,94,243	6,319	-32,267	6,68,294
29-02-2020	29	6,68,294	5,690	-32,267	6,41,717
31-03-2020	31	6,41,717	5,841	-32,267	6,15,291
30-04-2020	30	6,15,291	5,419	-32,267	5,88,443
31-05-2020	31	5,88,443	5,356	-32,267	5,61,531
30-06-2020	30	5,61,531	4,946	-32,267	5,34,210
31-07-2020	31	5,34,210	4,862	-32,267	5,06,805
31-08-2020	31	5,06,805	4,613	-32,267	4,79,151
30-09-2020	30	4,79,151	4,220	-32,267	4,51,104
31-10-2020	31	4,51,104	4,106	-32,267	4,22,942
30-11-2020	30	4,22,942	3,725	-32,267	3,94,400
31-12-2020	31	3,94,400	3,590	-32,267	3,65,723
31-01-2021	31	3,65,723	3,329	-32,267	3,36,784
28-02-2021	28	3,36,784	2,769	-32,267	3,07,286
31-03-2021	31	3,07,286	2,797	-32,267	2,77,815
30-04-2021	30	2,77,815	2,447	-32,267	2,47,995
31-05-2021	31	2,47,995	2,257	-32,267	2,17,985
30-06-2021	30	2,17,985	1,920	-32,267	1,87,638
31-07-2021	31	1,87,638	1,708	-32,267	1,57,078
31-08-2021	31	1,57,078	1,430	-32,267	1,26,241
30-09-2021	30	1,26,241	1,112	-32,267	95,086
31-10-2021	31	95,086	865	-32,267	63,684
30-11-2021	30	63,684	561	-32,267	31,978
31-12-2021	31	31,978	290	-32,267	-

- Cash Flow Modification

Bank agreed to provide a Moratorium period of 3 months in relation to Instalment Payment of March, April and May, 2020. Company has availed the Option provided by the Bank. Based on the Option availed by the Company, Bank has provided a revised repayment schedule whereby the Company is not supposed to pay Instalment during March, 2020 to May, 2020. **From June, 2020 onwards Instalment amount will be revised at Rs. 33,090 as against existing Instalment of Rs. 32,267.** (Note: It is assumed that Modification doesn't result into derecognition of financial liability)

- Revised Repayment Schedule with revised Instalment of Rs. 33,090 from June, 2020:

Revised Repayment Schedule					
Month	Days	Op. Balance	Interest	Repayment	Cl. Balance
01-01-2019					
31-01-2019	31	10,00,000	8,493.15	-32,267	9,76,225.96
28-02-2019	28	9,76,225.96	7,488.86	-32,267	9,51,447.63
31-03-2019	31	9,51,447.63	8,080.79	-32,267	9,27,261.23
30-04-2019	30	9,27,261.23	7,621.33	-32,267	9,02,615.36
31-05-2019	31	9,02,615.36	7,666.05	-32,267	8,78,014.22
30-06-2019	30	8,78,014.22	7,216.56	-32,267	8,52,963.58
31-07-2019	31	8,52,963.58	7,244.35	-32,267	8,27,940.74
31-08-2019	31	8,27,940.74	7,031.83	-32,267	8,02,705.38
30-09-2019	30	8,02,705.38	6,597.58	-32,267	7,77,035.77
31-10-2019	31	7,77,035.77	6,599.48	-32,267	7,51,368.06
30-11-2019	30	7,51,368.06	6,175.63	-32,267	7,25,276.50
31-12-2019	31	7,25,276.50	6,159.88	-32,267	6,99,169.19
31-01-2020	31	6,99,169.19	5,938.15	-32,267	6,72,840.15
29-02-2020	29	6,72,840.15	5,345.85	-32,267	6,45,918.81
31-03-2020	31	6,45,918.81	5,485.89	-	6,51,404.70
30-04-2020	30	6,51,404.70	5,354.01	-	6,56,758.71
31-05-2020	31	6,56,758.71	5,577.95	-	6,62,336.66
30-06-2020	30	6,62,336.66	5,443.86	-33,090	6,34,690.52
31-07-2020	31	6,34,690.52	5,390.52	-33,090	6,06,991.04
31-08-2020	31	6,06,991.04	5,155.27	-33,090	5,79,056.31
30-09-2020	30	5,79,056.31	4,759.37	-33,090	5,50,725.68
31-10-2020	31	5,50,725.68	4,677.40	-33,090	5,22,313.07
30-11-2020	30	5,22,313.07	4,292.98	-33,090	4,93,516.06
31-12-2020	31	4,93,516.06	4,191.51	-33,090	4,64,617.56
31-01-2021	31	4,64,617.56	3,946.07	-33,090	4,35,473.63
28-02-2021	28	4,35,473.63	3,340.62	-33,090	4,05,724.25
31-03-2021	31	4,05,724.25	3,445.88	-33,090	3,76,080.13
30-04-2021	30	3,76,080.13	3,091.07	-33,090	3,46,081.20
31-05-2021	31	3,46,081.20	2,939.32	-33,090	3,15,930.52
30-06-2021	30	3,15,930.52	2,596.69	-33,090	2,85,437.21
31-07-2021	31	2,85,437.21	2,424.26	-33,090	2,54,771.47
31-08-2021	31	2,54,771.47	2,163.81	-33,090	2,23,845.28
30-09-2021	30	2,23,845.28	1,839.82	-33,090	1,92,595.10
31-10-2021	31	1,92,595.10	1,635.74	-33,090	1,61,140.84
30-11-2021	30	1,61,140.84	1,324.45	-33,090	1,29,375.29
31-12-2021	31	1,29,375.29	1,170.82	-33,090	97,456.11
31-01-2022	31	97,456.11	899.73	-33,090	65,265.84
28-02-2022	28	65,265.84	572.69	-33,090	32,748.53
31-03-2022	31	32,748.53	341.47	-33,090	-0.00

- Determination of Revised Carrying Value on the Date of Modification:

Revised carrying value is determined at present value of modified contractual cash flows that are discounted at the original effective interest rate of Borrowing as follows:

Sr No	Month	Revised Cash flow	PV Factor	PV
1	31-03-2020	-	0.9911	-
2	30-04-2020	-	0.9824	-
3	31-05-2020	-	0.9737	-
4	30-06-2020	-33,090	0.9651	-31,934
5	31-07-2020	-33,090	0.9565	-31,651
6	31-08-2020	-33,090	0.9481	-31,371
7	30-09-2020	-33,090	0.9397	-31,093
8	31-10-2020	-33,090	0.9313	-30,818
9	30-11-2020	-33,090	0.9231	-30,545
10	31-12-2020	-33,090	0.9149	-30,275
11	31-01-2021	-33,090	0.9068	-30,007
12	28-02-2021	-33,090	0.8988	-29,742
13	31-03-2021	-33,090	0.8909	-29,478
14	30-04-2021	-33,090	0.8830	-29,217
15	31-05-2021	-33,090	0.8752	-28,959
16	30-06-2021	-33,090	0.8674	-28,702
17	31-07-2021	-33,090	0.8597	-28,448
18	31-08-2021	-33,090	0.8521	-28,197
19	30-09-2021	-33,090	0.8446	-27,947
20	31-10-2021	-33,090	0.8371	-27,700
21	30-11-2021	-33,090	0.8297	-27,454
22	31-12-2021	-33,090	0.8223	-27,211
23	31-01-2022	-33,090	0.8151	-26,971
24	28-02-2022	-33,090	0.8079	-26,732
25	31-03-2022	-33,090	0.8007	-26,495
Revised Carrying Value				-6,40,949

- Determination of Gain / Loss due to cash flow modification:

Difference between original and revised gross carrying value will be **recognised to Statement of P&L as follows:**

Particulars	Amount (Rs.)
Carrying Value before Modification	6,41,717
Revised Carrying Value	6,40,949
Gain due to Modification	768

Entry:

Borrowings A/c.....Dr	Rs. 768
To Gain on Modification A/c (P&L)	Rs. 768

- Revised Accounting as per Ind AS 109 based on **EIR of 10.72%** Post Date of Modification:

Month	Days	Op. Balance	Interest	Repayment	Cl. Balance
31-03-2020	30	6,40,949	5,645	-	6,46,594
30-04-2020	30	6,46,594	5,695	-	6,52,290
31-05-2020	31	6,52,290	5,937	-	6,58,226
30-06-2020	30	6,58,226	5,798	-33,090	6,30,934
31-07-2020	31	6,30,934	5,742	-33,090	6,03,586
31-08-2020	31	6,03,586	5,494	-33,090	5,75,990
30-09-2020	30	5,75,990	5,073	-33,090	5,47,973
31-10-2020	31	5,47,973	4,987	-33,090	5,19,871
30-11-2020	30	5,19,871	4,579	-33,090	4,91,360
31-12-2020	31	4,91,360	4,472	-33,090	4,62,742
31-01-2021	31	4,62,742	4,212	-33,090	4,33,863
28-02-2021	28	4,33,863	3,567	-33,090	4,04,340
31-03-2021	31	4,04,340	3,680	-33,090	3,74,930
30-04-2021	30	3,74,930	3,302	-33,090	3,45,143
31-05-2021	31	3,45,143	3,141	-33,090	3,15,194
30-06-2021	30	3,15,194	2,776	-33,090	2,84,880
31-07-2021	31	2,84,880	2,593	-33,090	2,54,383
31-08-2021	31	2,54,383	2,315	-33,090	2,23,608
30-09-2021	30	2,23,608	1,970	-33,090	1,92,488
31-10-2021	31	1,92,488	1,752	-33,090	1,61,150
30-11-2021	30	1,61,150	1,419	-33,090	1,29,479
31-12-2021	31	1,29,479	1,178	-33,090	97,568
31-01-2022	31	97,568	888	-33,090	65,366
28-02-2022	28	65,366	537	-33,090	32,813
31-03-2022	31	32,813	277	-33,090	-0

About the Author of the Article



CA Jainam P. Shah



+91 94299 66332



cajainampshah@gmail.com



Jainam, Partner of the firm is an Ex-Deloitte and has gained hands on experience in the filed of Ind AS and have handled various assignments pursuant to Ind AS adoption, transition and implementation.

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Offices

Ahmedabad

308, Akshar Stadia,
Opp. Symphony House,
Off Sindhubhavan Road,
Bodakdev, Ahmedabad – 380054

Godhra

Swaminarayana Complex,
Bamroli Road,
Godhra. – 389001

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W: parikhandassociates.in

E: info@parikhandassociates.in



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