

AS 12

Government Grants

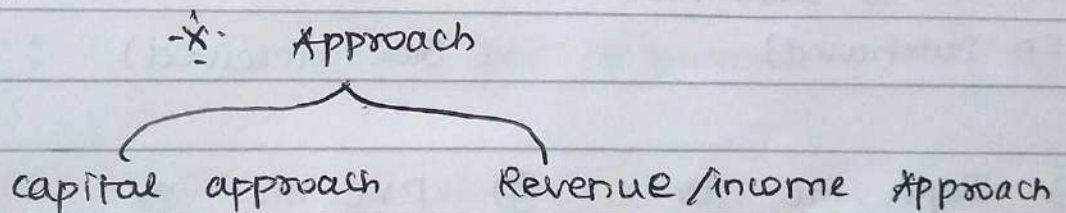


AS 12 deals with Accounting for Government grants
Ex. Subsidies, cash incentives, duty drawbacks etc.



shouldn't be recognized until the Reasonable assurance the company will comply with the conditions.

AS-12 : Government grants are ASSISTANCE by Government in cash or kind to an enterprise for past, or future compliance with certain conditions.



Important concept :

NON - MONETARY GOVT GRANT



Non monetary asset given free of cost are recorded @ NOMINAL VALUE



Even one rupee is called Nominal value
It must be recorded in Books of Accounts.

Method

Grant shown as a deduction from Gross value of Asset

Grant related to depreciable assets are treated as "DEFERRED INCOME"

↓
Recognized in P&L on systematic and rational basis.

METHOD - I : Journal entries (Sample 2 yrs)

① FA A/c Dr
TO Bank A/c
(FA Purchased)

② Bank A/c Dr
TO FA A/c
(Grnt received)

③ Depn A/c Dr
TO FA A/c
(Depn charged)

④ P&L A/c Dr
TO Depn A/c
(Trfd to P&L)

2nd year → Depreciation charged and taken into P&L

Example : FA - 50L ; salvage - 5L ; Grant - 10L ; Yr - 5yrs

$$\text{Amt of depn} = \frac{50L - 40L (\text{Grant}) - 5L}{5\text{yrs}} = 7 \text{ Lakhs}$$

while calculating Amt of depn Expense and Grant must be adjusted each other to arriving Net value of Asset.

METHOD - 2 : Journal entries

① FA A/c Dr.
TO Bank A/c

② Bank A/c Dr.
TO Deferred Govt Grant A/c
(Grant received)

③ Depn A/c Dr.
TO FA A/c

④ P&L A/c Dr.
TO Depn A/c

*
⑤ Deferred Govt Grant A/c Dr.
TO P&L A/c

(proportionate Govt grant for the 1st year taken into P&L A/c)

Example : Utilized for 5 years

$$\text{Amt of depn} = \frac{50L - 5L}{5} = 9L$$

∴ NOT to deduct the Grant Amount

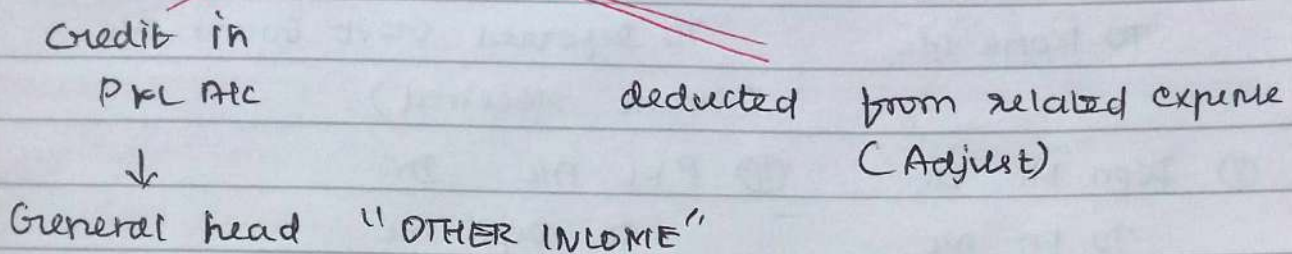
$$\text{B/C} \Rightarrow \frac{10L}{5} = 2L$$

Every year 2L only recognized as Grant
This only recognized and taken into P&L A/c.

1/3 Government grant received for a specific purpose, it should be utilized for the same

1/3 Land should given at free of cost, it should be recorded in BDA @ Nominal value.

Presentation :



Promoters contribution → Treated as CAPITAL RESERVE

Neither distribute dividend as deferred income.

Ex: Modi - solar project. → Bank A/c
TO CR A/c

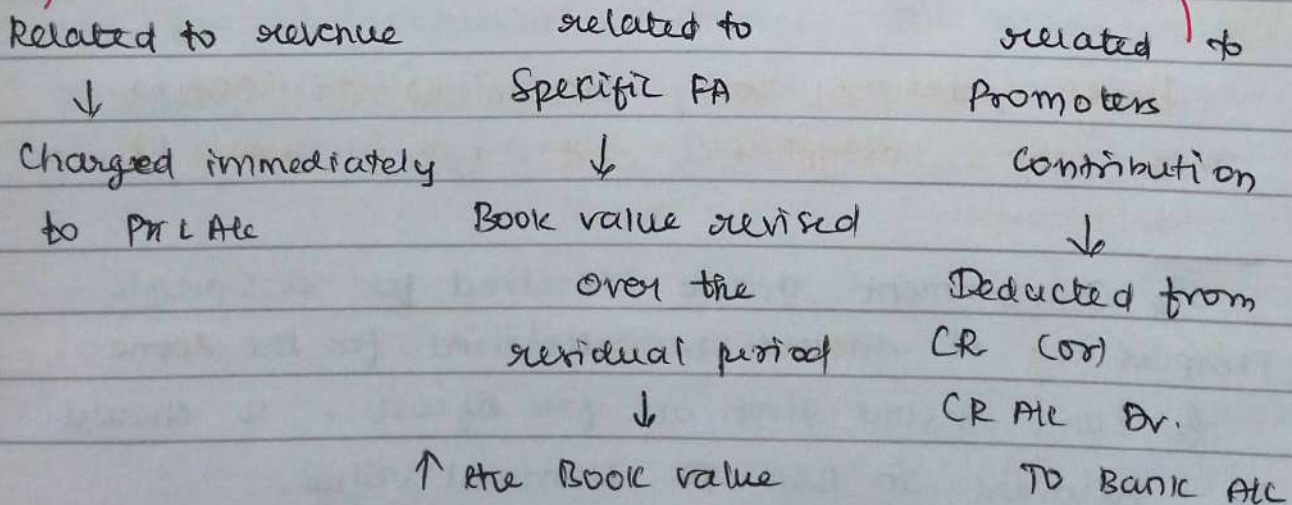
Refund of AGI

↓

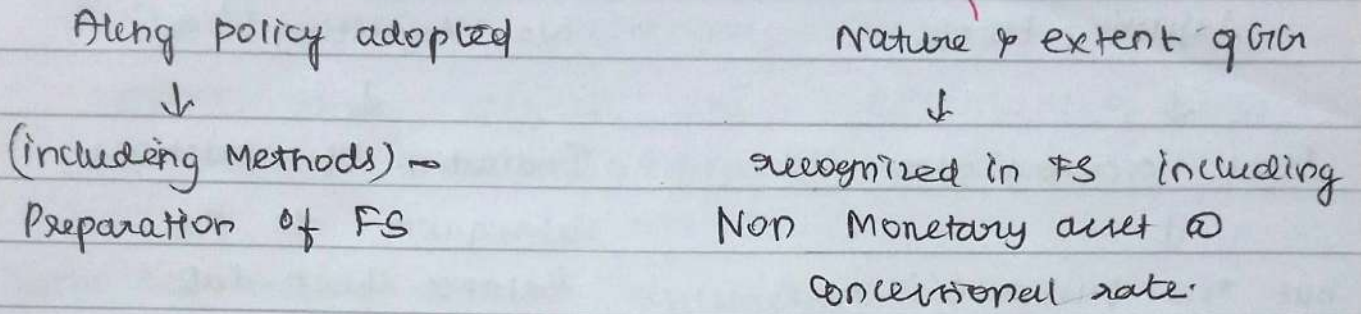
Become refundable - Certain conditions are not fulfilled.

↓

Treated as AS-5



Disclosure

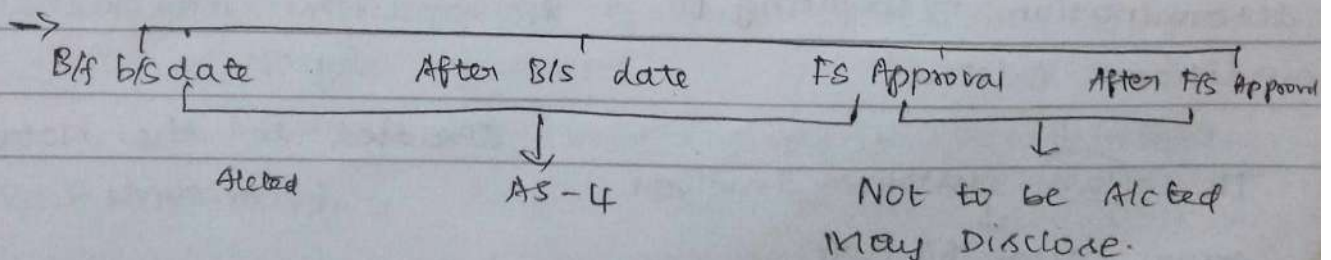


AS-4 (Revised)

Contingencies and Events occurring after the Balance sheet date

Contingency is a condition / situation the ultimate of which gain / Loss, will be known / determined only on the occurrence or non occurrence of one / more uncertain future events

→ Events occurring after balance sheet date - are those SIGNIFICANT EVENTS - Favourable & unfavourable



AS - 4

Adjusting Events

Non Adjusting Events

Event occurring after 31st.

Indication of conditions subsequent to the Balance sheet date

but the further evidence/ conditions existed in before 31st March

not appropriate for EOABISD
Do not relate to conditions existing @ the BIS date.

(Link edharadhu izukanam)

Example: Decline in MV of

Example: Sundry drs declared Party/estate insolvent (after balance sheet date). But it must be accounted. How? Provision created before BIS date !! Evidence / conditions (conditions Attached)

the Investments After the BIS date before the financial statements & approved
Do not relate to conditions Ordinary fluctuations - significance - Financial Authority reporting in FS Eventhough

Also: Events occurring after BIS date that provide addn. into "materially" affecting determination → relating to conditions existed

Another: Prop divl → after BIS date before approval
not recognized as liability
No conditions attached.

TR - Loss - customer insolvent occur after B/s date.

Disclosed in the Notes to Accounts.

EOAB/SD → indicate enterprise - Going concern

∴ Deterioration in operating results and Financial Position / unusual changes

↓
Event that affects the SUBSTRATUM of the Co.

Ex. Major Production plant by fire

↓
Case,

That the Going concern assumption is not valid

↓
Prepare Financial statements on a LIQUIDATION Basis (Based on EOAB/SD)

Conclusion

EOAB/SD date

Evidence obtained
↓
Adjusting Event

No Evidence
↓
Non Adjusting Event

↓
Adjustment to A&L is required

↓
Adjustment to A&L is not required

↓
Disclose in FS
* (Must)

↓
Disclosure in the report of the Approving Authority

DISCLOSURE - Disclosure of events o/AB/SD date

✓ Nature of event

✓ Estimate of financial effect or a statement

Such an estimate cannot be made

AS 1

Disclosure of Accounting Policies



AS 1 requires enterprises to disclose significant accounting policies actually adopted by them in preparation of Financial Statements



Promote better understanding of FS by requiring disclosure of significant Accounting Policies

Fundamental Accounting Assumptions



Going concern



Enterprise will continue its operations in foreseeable future
Neither intention nor materially curtail the scale of operations
✓ Need for sufficient retention of profit to replace assets consumed in operation
✓ Adequate provision for settlement of its liabilities

Consistency



Practice of using same Accounting Policies for similar transactions in all Accounting Periods.
• Improves comparability
Accounting Policy changed if the change is required
(i) by a statute
(ii) by an Accounting standard
(iii) if more appropriate
Presentation of FS

Accrual



Transactions recognized as soon as occur, whether cash/Cash Equivalent is actually received or paid
↓
Better matching between revenue & cost & P & L.

Accrual → more logical approach to profit determination than the cash basis of Accounting



It exposes enterprise to the risk of recognising an income before actual receipt.

Accrual basis → Overstate the divisible profits
Dividend decision

Based on overstated profit → lead to erosion of Capital.



This is the reason — Along side — No revenue should be recognized unless the Amt of consideration & actual realisation of conk obtain



companies Act makes mandatory — maintain books on accrual basis — but not necessary to express that accrual basis of accounting has been followed in preparation of FS.



In some case, Any income / expense on cash basis → fact → stated

Accounting Policies

Specific Accounting Principles and the methods of applying those principles adopted by enterprise

↓
Making decisions for recording / disclosing.

Items disclosed

Inventories

Cash flow statement

Depreciation

Method of disclosure / valuation

FIFO, Weighted Avg etc.

Direct / Indirect Method.

SLM, WDV, Depletion Method. etc

Major consi →

FS - True & Fair Performance →

Selection of Accounting Policy

Substance Over form

Transactions & other events accounted with their substance and financial reality not legal.

Materiality.

Disclose material items. Co. Act.

Prudence / Conservation

Uncertainty with future

associated Events

Profit

Losses (Anticipated)

Not Accd

↓ accounted

Provision created for Liabilities & losses

Expense:

Profits not overstated

Losses not understated

Assets not overstated

Liabilities not understated

Co. disclose notes Any income / expenditure exceeds 1% revenue from operations Co / Lakh

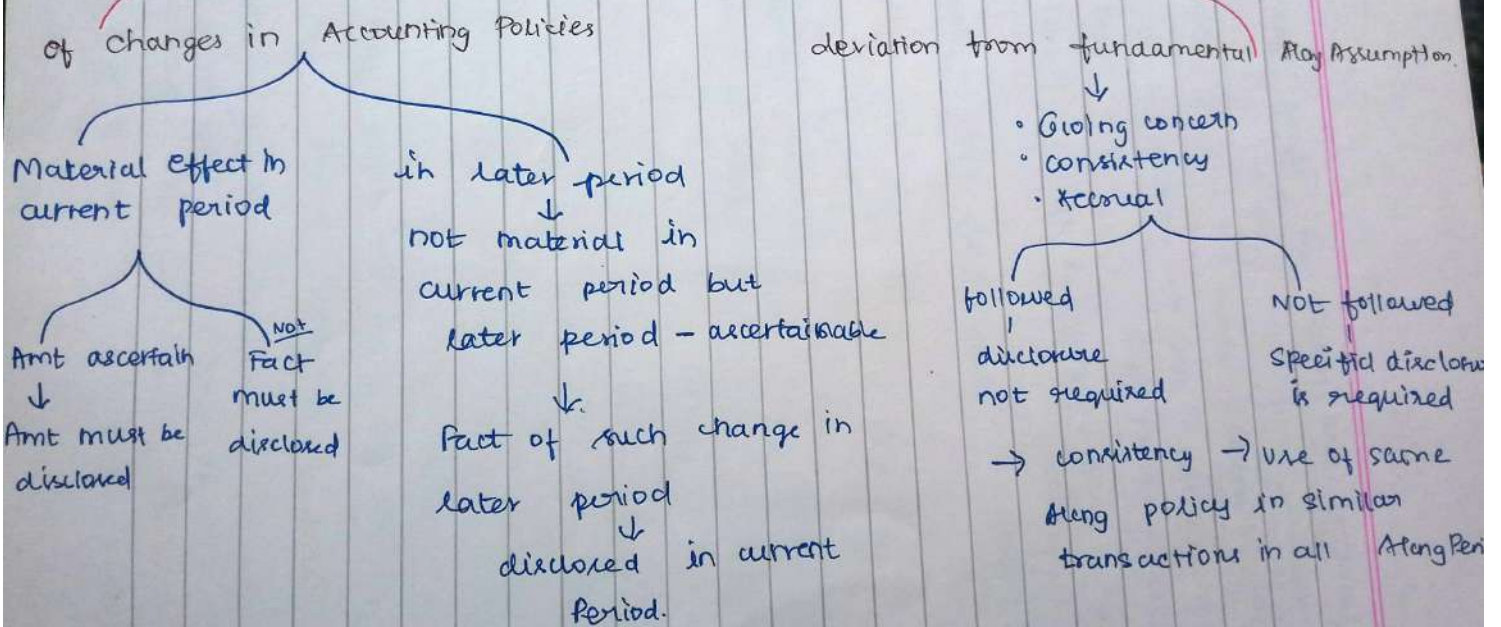
↓ whichever is higher

Shares held by each shareholder more than

5% ↓

Specifies no of shares held.

Disclosure

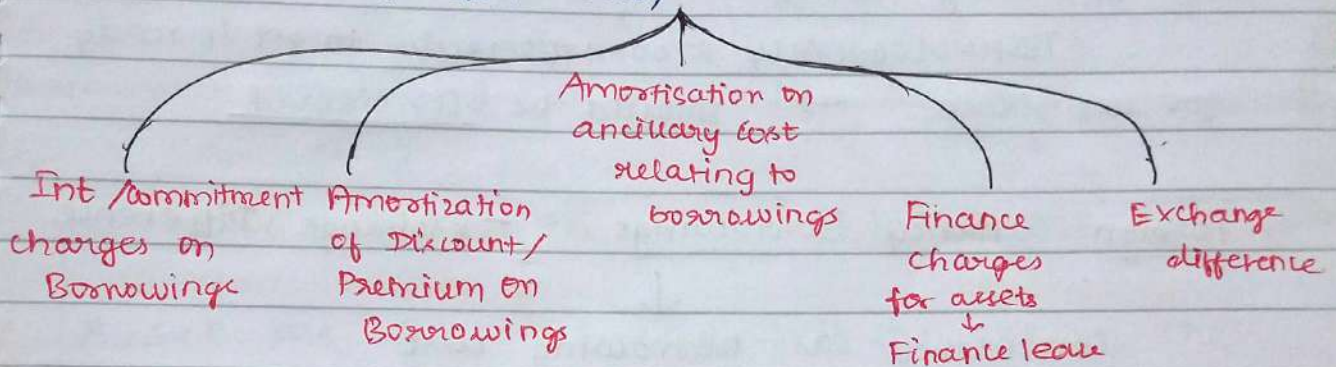


AS 16

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Borrowing costs

↓
Objective - Along for B-cost → not for Actual / imputed cost of owners equity.
(Interest / other cost)



"Qualifying Asset" → Necessarily it takes a substantial period of time to get ready for its intended use/sale

↓
Examples: Manufacturing plant, power generating facilities, inventories that are take substantial period of time, Advance to suppliers for addn. assets.

Then ...; Other investments, routinely manufactured machines, production on repetitive basis & Assets are ready for intended sale/use in the acquiring stage

↓
over a short period time

↓
Not a Qualifying Asset.

Substantial Period of Time

Primarily depends \downarrow Facts and circumstances

Generally \downarrow Period of 12 Months - SPT

* UNLESS the Facts \times \downarrow circumstances justifies Shorter/longer

while estimating Period - time which an asset takes TECHNOLOGICALLY & COMMERCIALY to get it ready for use / sale \rightarrow should be considered

Foreign Currency Borrowings - Exchange Difference

\downarrow
considered as Borrowing cost

\downarrow
Exchange diff arising from Amt of Principle of Foreign currency Borrowings.

Diff d

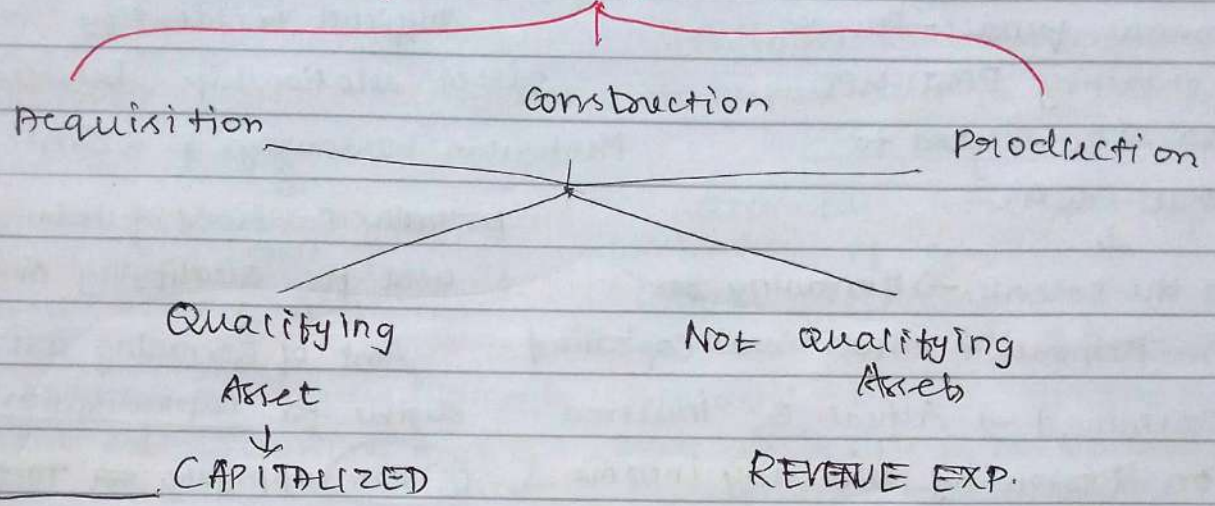
Interest on Foreign currency Borrowings and Interest on Local currency Borrowings" \rightarrow BORROWING COST

\therefore Amt of exchange diff $<$ Diff between I-on L.B and I-on F.B
not exceeding

\downarrow
Remaining exchange diff - deals - AS 11

BC → Eligible for Capitalisation

↓
Directly related for (attributable to



AICIP are B-C → Avoided → if the exp on the qualifying asset had not been made.

→ BC are ~~part~~ capitalized as a part of Q.A.

↓
Result in future economic benefits
cost measured reliably.

↓
Other BC → Recognized as Expense.

Borrowing Cost

QUANTUM

Specific Borrowings

↓
Borrow funds - Purpose of obtaining PARTICULAR Q/A → BC related to that Q/A.
↓
to the extent → Borrowing for Spe-Purpose → Assets are Capitalised
Determined → Actual BC incurred on borrowing (less any income on temporary investment of those Borrowings (tem. int. inc))

General Borrowings.

↓
Difficult to identify a Direct relationship between Particular borrowings & a Q/A
↓
Normally Borrowed funds are used for ^{obtain} qualifying Asset
↓
Amt of Borrowing cost eligible for Capitalisation
↓
C-Rate applying to the exp on that asset
C-R should be Weighted Avg of BC - applicable only to BC that are o/s during period (Excluded - Specific borrowing)

↓
The Amt of Borrowing cost capitalised during the Period should not exceed amt of BC incurred during that Pd.

DISCLOSURE

- Alchq Policy adopted for BC
- Amt of BC capitalised during the Period.

" Capitalisation of BC as a part of a QA " 29

3 Conditions Satisfied

BC are incurred.

Exp for A/C/P of a QA is being incurred



Exp on QA results

Payments of cash, Transfer of other assets / assumption of interest bearing liabilities



Exp reduced by Progress Payments (Grants etc) → carrying Amt of amt including BC previously capitalised.

Activities that are necessary to prepare asset for its intended use / use in progress.



encompass more than Physical construction of asset.

include technical & admin work prior to commencement of P constn.

Such activ - exclude Holding the asset → In case of no production/development - changes the Asset's condition

Development activity should have been commenced.

Suspension of Capitalisation



If the active development of QA is interrupted the capitalisation shall be suspended during the Period of Interruption = (I)

Cessation of Capitalisation



capitalisation is ceased when the asset is substantially ready for its intended use

Exception:

- I forms part of overall plan
- I required for overall development of QA
- Substantial administration & technical work is performed during the period of (I).

AS 2

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Valuation of Inventory (Revised)

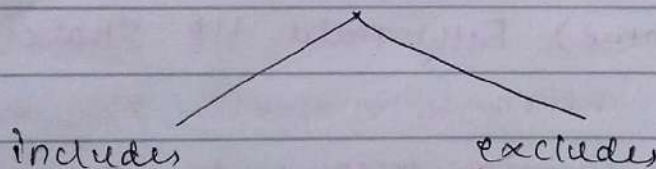
↓
Guidance for determining value @ which inventories are carried in FS until revenues are recognized.

→ Guidance to cost formulas - assign cost to inventories & write down to net NRV.

AS-2 - held

- ✓ sale in ordinary course of business
- ✓ process of production for such sale
- ✓ consumption

→ encompasses Goods purchased & held for resale by a retailer.

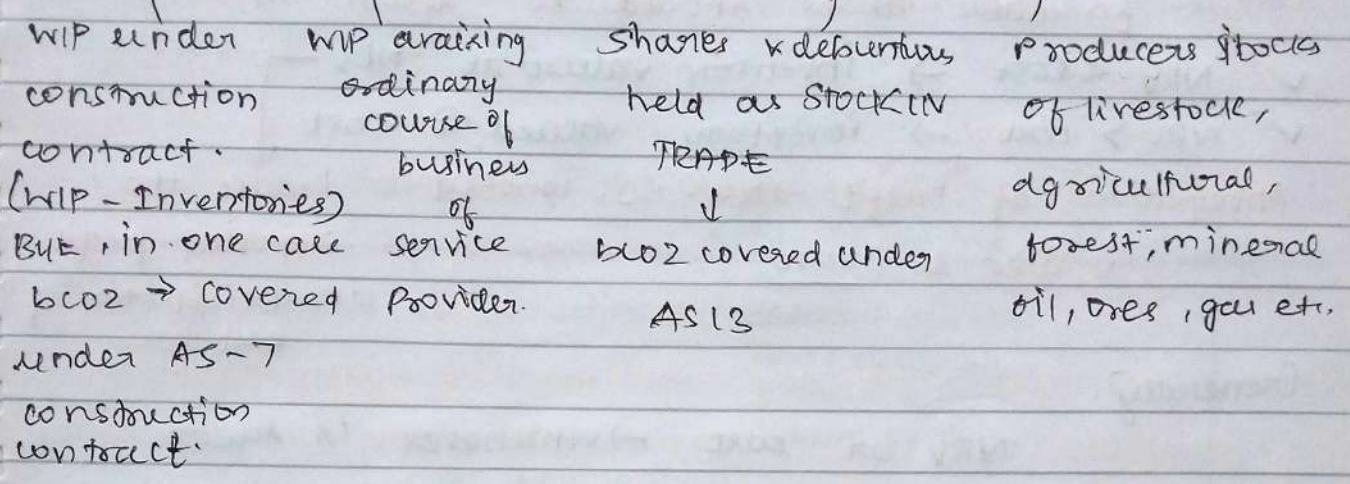


- maintenance supplies & consumables
- F&B produced
- work in progress
- materials
- Loose tools waiting for production

- spare parts
- servicing equipment
- standby equipment

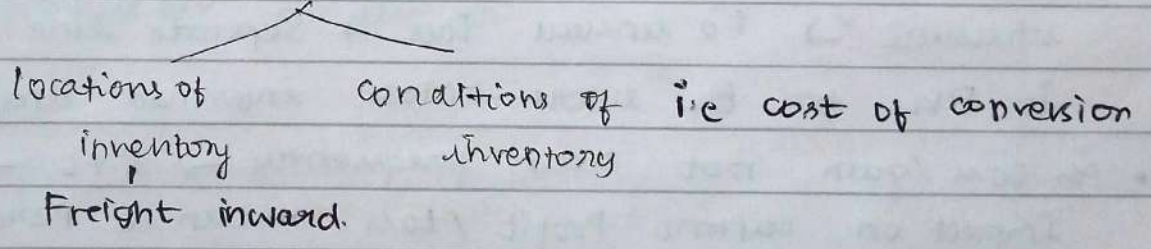
→ Anything which meet the definition of PPE (AS 10) covered under AS 10.

Exclusion of AS 2



Such assets / resources / inventories expected to generate future economic benefits to the enterprise

Such cost must be



Storage -> not generate extra economic benefits - not included unless those costs are necessary in production process prior to a further production stage. -> cost that maintain the inventory

-> valuation of inventory -> impact in measuring P&L

∴ Higher CS → Lower costs → Higher Profit

Prudence → No profit should be anticipated, all foreseeable losses should be recognized.

✓ $NRV < Cost$ → inventory valued at NRV

✓ $NRV > Cost$ → inventory valued @ $Cost$

Anticipation of profit → No. So, ignored
valued @ cost

Reduce the reported profit in anticipation of cost loss.

Generally

NRV or $cost$ → whichever is lower.

Standard says
└─ What the cost of inventory should consist of
└─ how the NRV is determined.

- Failure of an item of inventory to recover its cost is unusual → i.e. unusual loss → Separate line item in P&L for the users → More informed analysis
- Ab loss/gain not occur frequently → P&L → Impact on current Profit/Loss - can be perceived.

Net realisable value = Net selling price - Estimation of completion cost - selling expenses.

↓
MEASUREMENT OF INVENTORIES
↳

Inventories

Raw Materials

↓
At cost (if one time FG are sold @ / above cost)

↓
otherwise Replacement cost

FG and WIP

COST W-e-l NRV ***

Cost of Purchase

- includes duties & taxes
- deducted sch items Trade discounts rebates, duty drawbacks etc.

Cost of Conversion

- Directly related to Production
- ✓ DL, FOH, VOH.

Other Costs

Actual Production is less than/equal to Normal capacity, FOH are recovered on the

Basis of NC.
(AP < NP) use NP

AP is more than NP, FOH are recovered on the basis of AP
(AP > NP) use AP

Note: NC - Production expected to be achieved

on an average over a number of periods / seasons under normal circumstances

(NC = Total C - Plant maintenance time)

However low production levels / Idle plant for Ab seasons → Excluded while taking NC

may be included in cost of stock provided present location & condition → incurred

Int/Borrowing cost
↓
Provided substantial period of time → ready
Ex. wine

Amortisation of Intangible Asset (AS & silent)
↓
Part of cost of inventory

Exchange Differences
↓
not include in cost of inventory

Exclusions from the cost of inventory

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Abnormal amt
of wasted
Mat, lab etc

Storage cost,
unless required
such as storage
↓
eg. wine

Admin overheads
that do not help
for bringing
Present, location
& condition

Selling &
distribution
cost

→ COST FORMULA • FIFO • WEIGHTED AVERAGE

→ OTHER TECHNIQUES • Standard cost

• Gross margins & retail method.

Estimates of NRV → based on more reliable evidence.

• Take into consideration fluctuations of price / cost directly relating to events occurring after the balance sheet date to the extent such events confirm the conditions existing @ Balance sheet date.

DISCLOSURE

Along policies adopted, including cost formula.

Total carrying amount in different classifications of inventories.

- Raw materials & components
- WIP, FG
- Stock in trade
- Stores & spares
- Loose tools and
- Others

AS 5

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Net Profit / Loss for the Period, Prior Period Items, changes in Accounting Policies

Objective - Prescribe the classification & disclosure of certain items in the P&L. Prepare & Present in uniform basis → enhances comparability of FS of an enterprise with the FS of other enterprise.

AS 5 requires - classification and disclosure of extraordinary & Prior Period items.

- also changes in Accounting estimates &

- disclosure to be made in FS regarding changes in Accounting Policies.

* Does not deal with Tax implications.

Net Profit or Loss for the Period

P&L from ordinary activities

Any activities - part of its business, related activities in the which the enterprise engages in furtherance of business incidental to arising from these activities

- ✓ Earthquake
- ✓ attachment of Property of enterprise

Extraordinary items

Income/expense arising from Events/transactions clearly distinct from ordinary activities.

Items should disclose in P&L.
Ext. ord. items for one enterprise not for another.
ex. Earthquake losses - for EI for 1 enterprise not for Insurance co. → for him is a Risk

Exceptional Items

Income/exp within P&L from ordinary activities of size, nature, incidence ^{of size, nature, incidence} ~~disclosure~~ ^{disclosure} relevant for performance of entity.
Separate disclosure...

- ✓ Write down of Stock to NRV
- ✓ restructure grouping of activities
- ✓ Disposal of items of FA
- ✓ Disposal of Long term investment
- ✓ Legislative changes + retrospective application
- ✓ Litigation settlements

Period Period items

- inc/exp which take in current period as a result of Errors/Omission in one/more prior period in the preparation of FS
- Errors - mathematical mistakes ✓ Misrepresentation of facts.

- PPI separately disclosed in PPL - impact on current PPL.

The Nature and amt of change in Accounting estimate has material effect in the current period / which is material effect in subsequent periods should be disclosed → impracticable to find the amt → fact should be disclosed.

change in Accounting estimates

Revised

Revision of estimate - it does not mean Extraditions

or Prior Period items

For ex. inc/exp recognized

Contingency previously

could not estimated reliably

does not constitute a Prior period item

→ Residual value, useful life - are covered AS 10

→ The expectations differed from previous estimates

- AS 5

EFFECT - change affects

the period only.

Change affects both

expected to have a

Periods should be

to find the amt

disclosed.

Change in Accounting Policy

→ Specific Accounting principles and methods of applying those Principles

Accounting changed only:

- Adoption of diff Accounting Policy is required by statute

- Compliance with Accounting std.

- There are not change in Accounting

Adoption of New Accounting Policy -

for events / transactions - not occur previously

Adoption of Accounting Policy differ from previous events & transactions

change - Material effect disclosed

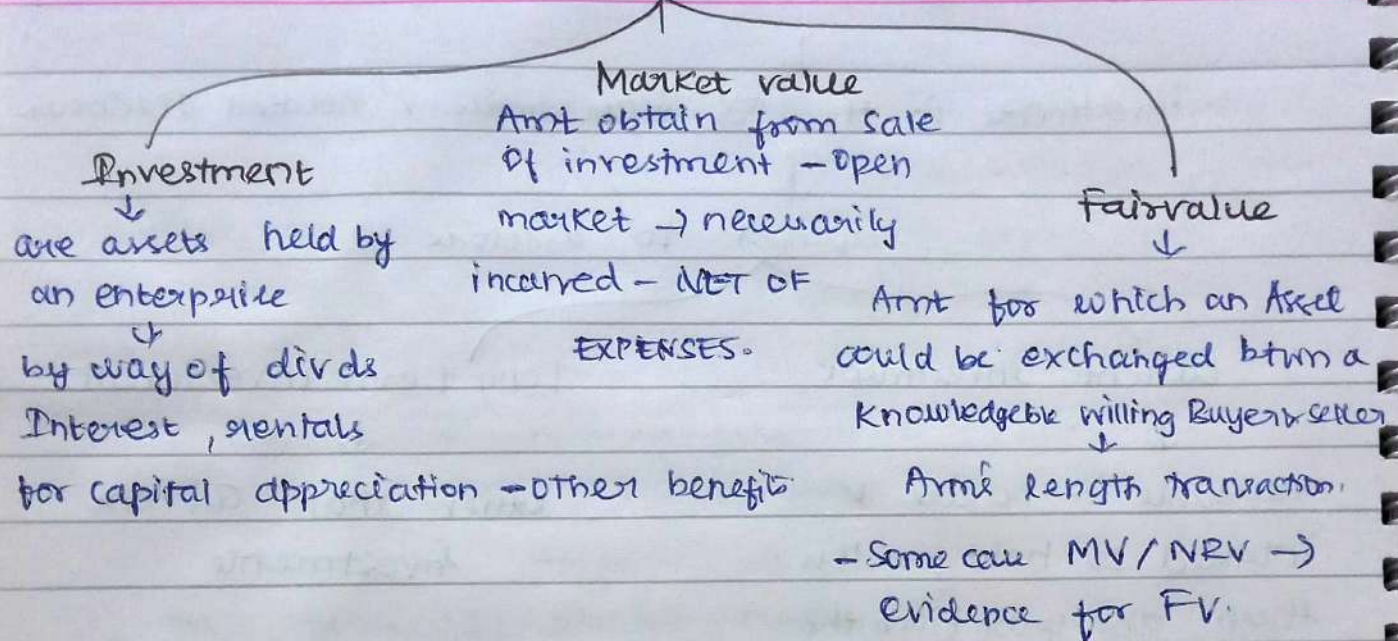
change - not ascertainable - fact

change - not material effect but has a effect in later period - disclosed

covered under

AS - 1

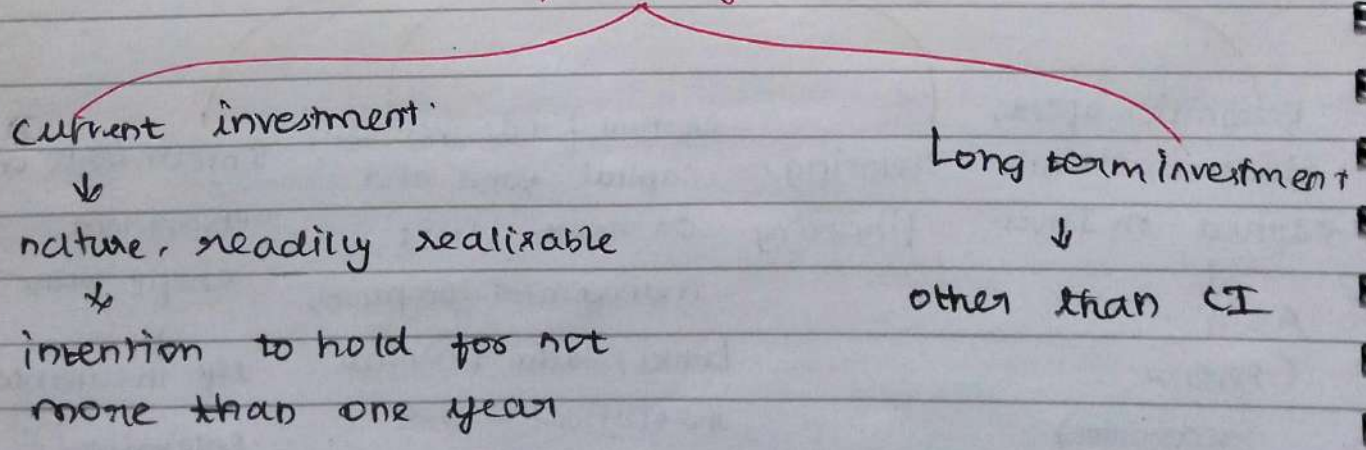
Definition of Terms



Forms of Investment

- Significant element of operations, and assessment of performance of enterprise may largely / solely -> depends Reported results.
- NO physical existence -> Certificates (shares)
- In physical existence -> Buildings

Classification of Investments



Cost of Investment

- includes acquisition charges (Brokerage, fees & duties)
- investment acquired Partly / wholly by shares / other securities → acquisition cost is fair value.

* FV are not necessarily equal to nominal/par value

- investment acquired partly/wholly by exchange for another asset → acquisition cost MORE EVIDENT.

* FV of investment / FV of asset → whichever is [^]

- Int, divs and rentals → generally income (being ROI) But some cases RECOVERY OF COST do not part of income

Carrying Amount of Investment



is the lower of cost and fair value

VALUATION → with the value of category of related current investment not with each Individual investment.

→ Most prudent appropriate Method → Carry investments individually @ the lower of cost and fair value

- Any reduction in FV - Debited in P&L A/c
- ↑ In FV (increase in the FM of CI upto COI) → credited to P/L

- Long term investment → valued at carrying Amt
 → determined on individual investment basis.
- Decline in carrying Amt → charging to P/L
 - Rise in the VOI → Reduction in carrying Amt reversed.

Investment Property

Land/Building not intended to occupy substantially for use or in operations of investing enterprise.
 covered under AS 10 "PPE"

Disposal of Investments

Diff btwn carrying Amt & Disposal proceeds (Net of exp) in recognized → P/L

In case of partly disposal Amt allocated on the basis of Average C.A of the total holding of investment

Reclassification

- Current investment → Lower of cost / FR → @ the D.O. Transfer
- Lon-T. Investment → Lower of cost / Carrying Amt → @ the D.O. Transfer

DISCLOSURE

Significant restrictions

- Right of ownership

Along Policies
 ↓
 valuation

- Amount included in P/L for
- Int, divd - - - - -
 - TDS included under Advance taxes paid
 - P/L on disposal of CI changes in CA
 - P/L on disposal of LTI changes in CA

- Realisability
- remittance of income.

Aggregate Amt of Quoted & Unquoted

Investments → Aggregate MV of "Quoted Investments"

Other disclosures

↓
 relevant statute.

- x -