

PRESENTATION &

DISCLOSURE

BASED

ACCOUNTING

STANDARDS

AS 1 - Disclosure of Accounting Policies.

Meaning of Accounting Policy: (Rules / Protocols / Principles)

Specific Accounting principles & the methods of applying those principles adopted by enterprise in preparation & presentation of financial statements.

Requirements of AS 1: (Manner)

- ① All Significant Accounting policies adopted by entities should be disclosed. → So that users can understand & Analyse the financial statement & take proper decision.
- ② Such disclosure shall form part of financial statement → without the disclosure of A/c policies, financial statements are treated as incomplete.
- ③ Disclosure shall be made in one place → under Financial Statements disclosure is generally made in 'Notes to Accounts & Significant A/c policies statements'.

Fundamental Accounting Assumptions

- ① Going Concern: Business will run for foreseeable future.
- ② Consistency: Entity has followed same A/c policies which it had followed in the past years.
- ③ Accrual: Financial statements are prepared as per Accrual basis not as cash basis.

- 1) No specific disclosures are required if above fundamental Acc assumptions are followed.
- 2) If fundamental Acc Assumptions are not followed by entity than fact should be disclosed.

Selection of Accounting Policy:

Consider following 3 principles to select any Acc policy for any transaction or event.

① Substance over legal form:

Always consider the substance (truth / happening) of Transaction not its legal form.

② Materiality:

Select the Acc policy based on Material Facts.

③ Prudence:

Acc policy should be such that it should consider for-seable losses or outflow of future.

Change in Accounting Policy:

Entity can change its Acc policy when any one out of three conditions are satisfied.

- ① Adoption of different Acc policy is required by law / regulations.
- ② Adoption of different Acc policy is because of compliance with Accounting Standards Requirement.
- ③ Change in Acc policy would result in more appropriate presentation of financial statements.

Effect of Change in Acc policy

Material in
Current Period.

Non-Material in Current
Period but ascertainable
in later period.

Amt.
Ascertained.

Amt Not
Ascertained.

Fact of such change
in later period.

Amt. to be
disclosed.

Fact of non-
ascertainable

Should be disclosed
in current period.

Should be disclosed

AS 3: CashFlow Statement.

Applicability:

CFS to be prepared by all companies.

Except: One person company.

Small company.

Deemant company.

Startup Private company.

Important Meanings:

① Cash & cash equivalents:

Held for meeting short term cash commitments & includes short term investments.

→ Investments must be easily converted into cash.

→ Has low level of risk in changes in Market value.

② Operating Activities:

Main Revenue generating activities of an enterprise.

③ Financing Activities:

Activities Related to Capital & Borrowings.

④ Investing Activities:

Outflow of acquired resources for generating future cashflow & incomes.

Methods of Preparing Cashflow Operating Activities:

① Direct Method:

Major class of Receipts & Payments are directly taken into consideration.

Identify all cash collections & payments related to operating Activities:

② Indirect Method:

Step 1: Take out the net profit Before Tax.

(if NPBT is not given then closing P&L less opening P&L can be taken.)

Step 2: Eliminate Non cash items such as Depreciation, Provisions, deferred taxes etc.

Step 3: Eliminate Non-Operating items relating to investing or financing Activities.

Step 4: Consider effects of changes in Working Capital.
(Closing - opening)

CA $\uparrow$ = Deduct

CA $\downarrow$ = Add.

CL $\uparrow$ = Add

CL $\downarrow$ = Deduct.

Treatment of Important Items.

- 1) Foreign currency Cashflow:
Must be included in reporting currency
FC Amt. $\times$ Ex rate on date of cashflow (Spot rate)
- 2) company having financial activities as main activities then:
Shall be covered under operating activity.
- 3) Taxes on income:
Must be included under operating activity except ^{specifically} it could be related to the financing / investing.
- 4) Acquisition / Disposal of Business units / Subsidiaries:
Must be shown as investment activities ~~or~~ separately.

(Gains - losses)
to be shown as
other - $\dots$
to be shown as
other - $\dots$
to be shown as

AS 17: Segment Reporting

Business Segment:

a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services & that is subject to risk & return that are different from those other business segments.

- Distinguishable component &
- Individual product or service or
- Related group of product or service &
- Independent risk & returns.

Geographical Segment:

A distinguishable components of an enterprise that is engaged in providing products or service within a particular economic environment & that is subject to risks & returns that are different from those of components operating in other economic environments.

- Distinguishable components &
- product or service within economic environment &
- independent returns & risks.

→ How to Decide Primary & Secondary?

Risks & Returns affected by

↓
product &
services.

then

BS = Primary.

GS = Secondary.

↓
Geographical
Location

then

GS = Primary

BS = Secondary.

↓
Both.

then

BS = primary

GS = secondary.

① Segment Revenue.

- Includes →
- ① Directly Attributable Revenue
 - ② Allocable Revenue from enterprise common Revenue.
 - ③ Inter Segment Revenue.
 - ④ Interest & Dividend (if Financing Business)

- Excludes →
- ① Extraordinary items.
 - ② Interest & Dividend (unless Financing business)
 - ③ Gain on sale of investment.

② Segment Expenses

- Includes →
- ① Directly attributable expenses
 - ② Allocable expenses from enterprise common expenses.
 - ③ Inter Segment expenses.
 - ④ Interest (if financing business)

- Excludes →
- ① Extraordinary items.
 - ② Interest (unless Financing Business)
 - ③ Loss on sale of investment
 - ④ Income tax expense
 - ⑤ General enterprise expenses.

③ Segment Assets & Segment Liabilities

Operating → Directly Attributable + Reasonable Attributable Assets

Note: ① Do not include DTA (DTL)

② take advances & investments when interest & Dividend is considered in revenue.

How to decide Reportable Segments? (Para 27)

① Segment Revenue = 10% or more of all segments Revenue.

OR

② Result = 10% or more of all

Segment in loss
or

Segment in profit

whichever is higher.

OR

③ Segment Assets = 10% or more of all segment Assets

External Revenue = 75% or more of Total
of Reportable segment external revenue.

↓

If No

Add more segments

Disclosure Requirements: Important Points

- Total Revenue.
 - Segment Revenue.
 - Segment Result.
 - Segment A/L
 - External Revenue
 - Rev. of segment of enterprise.
- Any segment which was reportable in P4 because of para 27, such segment shall be reportable segment in current year even though it does not fulfill para 27.
- First time reportable segment = restate P4 comparative info.

AS 18: Related Party Disclosure:

Applicability: Independent Financial Statements.
Consolidated Financial Statements (except for intra group transactions)

→ Related Party

- ① Ability to control: - More than half voting Power.
- Composition of BOD / Governing body.
- A substantial interest.
(20% or more voting power)

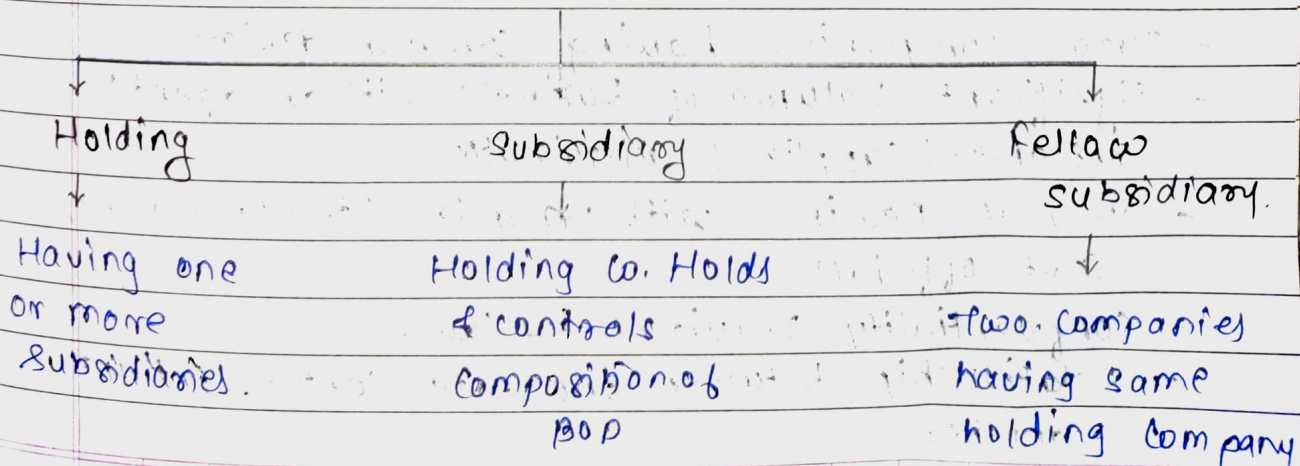
- ② Exercise of significant influence: participation in financing & / or operating Policy Decision.

→ Related Party Transactions

- Transfer of Resources
- between Related parties.
- whether or not charged.

→ Related Party Relationships, As contemplated under AS-18

- ① Enterprises that directly or indirectly control or be controlled through intermediaries or under common control (Includes)



- DATE:
- ② Joint venture: Contracted contractual obligation to undertake eco. Activity subject to joint control.
Associate: Investing Reporting party having significant interest in other entity.
Not being subsidiary of JV.
→ Investee of venture for whom reporting entity is JV or associate.

- ③ Individual having control & significant influence: & his Relatives. → Father / Mother.
Spouse
Brother / Sister
Son / Daughter

- ④ Key Managerial Person: Those having authority & responsibility to plan, direct & control activities.
- Relatives of KMP.

- ⑤ Enterprises on which persons described in ③ or ④ exercise significant influence (includes):
- Enterprise controlled by Director or Majority share holders.
- Enterprises with common EMP of Reporting entity.

- Related Party Does Not Cover
- Two Companies having common debtors.
- Significant Volume of business with an agent / customer / supplier / distributor.
- Normal Dealings with Financier / trade unions / Govt. officials.
- Confidentiality required by law.
- Relationship between one state control entity & another.

→ Related Party - Disclosure

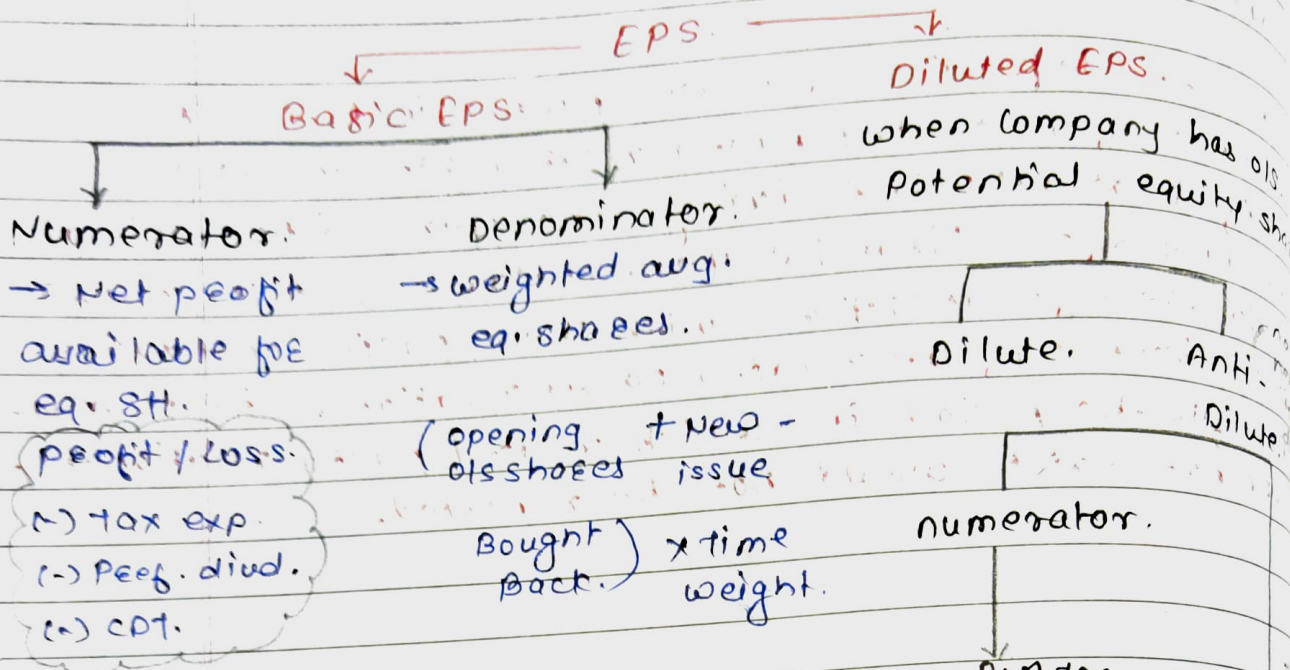
① exercise control: Disclose Name & Relation
Transaction is there or not.

② Exercise significant Influence: Disclose only if transaction is there.

→ Disclosure Requirement

- Name & Description of Relationship.
- Description of Nature of Transactions.
- Volume of Transaction (in amt. or proportion)
- Any outstanding amount to/from related party.
- Any provision made against receivables under related parties.
- Amt. w/ off or w/ back in respect of debts.
- Any other element of RP transaction to understand Fin. Statement.

AS 20: Earning Per Share.



Right Issue

Step 1: Theoretical Ex-Right price.

$$= \left[\frac{\text{Fair value before Right} \times \text{No. of shares before Right}}{\text{Right shares}} + \text{Exercise Price} \right]$$

No. of shares after Right.

Step 2: Right factor OR Adjustment element.

$$= \frac{\text{Fair value price to Right (Cum right price)}}{\text{Theoretical ex-right price}}$$

Step 3: Basic EPS.

Net P/L for ESH

$$= \left[\text{Total eq. shares before right} \times \text{Right factor} \right] \times \text{time weight} + \left[\text{total no. of shares after right issue} \times \text{time weight} \right]$$

WAFS for basic EPS.	
+	
New issue on conversion of debt. / Pref SH.	× time weight
+	
issue of stock option for free of cost.	

time weight calculated from when..?

- 1) Public issue! Cash Receivables (Allotment date)
- 2) Conversion of debentures or Pref. sh! Conversion date.
- 3) Issue in lieu of Int. or Principle on another loan:
when int. ceases to accrue.
- 4) Issued in exchange of liability settlement:
settlement becomes effective
- 5) Issue in case of Amalgamation.

<u>Merge</u> From beginning of Reporting period.	<u>Purchase</u> From Acquisition Date.
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Special Cases:

- a) Reduce Cumulative Preference dividend - if proposed or not reduce non cum. PD - only if declared.
- b) Different face value or partly paid share - (EPF x use amount of equity Capital insted of No.s. paid up)
- c) Bonus / split / Reserve Reverse split -
Date is always irrelevant (time weight always 12/12)
+ last financial EPS $\rightarrow$ restate.

Example of Potential equity shares:

- Convertible Debentures.
- Convertible preference.
- ESOP
- Share warrants.

Re-statement:

When no. of shares Increase / Decrease on Conversion.

- Take new no. of "shares" if change happens between:
B/s date & Approval of Accounts.
- For exp: share split or share consolidation.

Presentation:

- Both EPS & DEPS } with equal prominence;
on the face of SPL. } to both.
- Negative EPS & DEPS both.
- Consolidated EPS & DEPS in CFs.

EPS (Basic) in
case of Right Issue.

cy Profit = 25,00,000/- (22-23)

PY Profit = 18,00,000/- (21-22)

opening equity = 100,000 shares

Right issue on 1/8/22 $\Rightarrow$ 1:5 i.e.

20,000 shares

@ 21/-

Cum - Right price = 40/-

Solution

Step 1: Theoretical ex-right price =

$$\frac{(100,000 \times 40) + (20,000 \times 21)}{120,000} = \underline{\underline{36.83/-}}$$

Step 2: Right factor = $\frac{\text{Cum Right Price}}{\text{ex-right price}} = \frac{40}{36.83}$

Apply this to 100,000

Step 3: Current year EPS =

$$\frac{25,00,000}{\left(\frac{100,000 \times 40}{36.83} \times 4 \right) + \left(\frac{120,000 \times 8}{12} \right)} = \underline{\underline{4.50/-}}$$

Step 4: Restated EPS =

$$\frac{18,00,000}{\frac{100,000 \times 40}{36.83} \times 12} = \underline{\underline{16.51/-}}$$

Diluted ordinary + Potential equity.

EPS

↓
Securities → Future → equity.

EBIT

ex. FY 22-23

EAESH = 15,00,000/-

Tax Rate = 20%.

Old equity = 150,000 shares.

FV = 100/-

9% convertible debentures = 10,00,000 (convertible after 2 years in 25,00,000 equity).

Solution.

Basic

EBIT.

15,00,000.

(-) Int.

(90,000)

14,10,000.

(-) Tax @ 20%

(2,82,000)

EAESH.

11,28,000.

$$\text{Basic EPS} = \frac{11,28,000}{150,000} = \underline{\underline{7.52/-}}$$

Diluted

EAESH = 11,28,000.

+ 9,00,000 @ 80%.

12,10,000.

$$\text{Weighted Avg} = 150,000 + 25,000 = 175,000$$

$$\text{DEPS} = \frac{12,10,000}{175,000} = \underline{\underline{6.86/-}}$$

ESOP

PAID UP = 30,00,000/-

Ordinary equity = 300,000 shares.

Basic EPS = 10/-

01s ESOP (not yet exercised by employees) $\Rightarrow$ 60,000 no.

exercise price $\Rightarrow$ 60/-

MV per share $\Rightarrow$ 100/-

Funds to be generated = $\frac{60,000 \times 60}{100} = 36,000 \text{ no.s}$

DEPS = $\frac{30,00,000}{300,000 + 24,000}$

$= \frac{30,00,000}{324,000}$

$= 9.261/-$

non-dilutive
inse EPS me
fate rhi
pdego.
only.
24,000 consid
krange.

AS24 : Discontinuing Operation

Definition / Meaning:

- A discontinuing operation is a component of an enterprise
- (a) That the enterprise, pursuant to a single plan, is:
- i) Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
 - ii) Disposing of piecemeal, such as by selling off the component's assets & settling its liabilities individually or
 - iii) Terminating through abandonment; &
- (b) That represent a separate major line of business or geographical area of operations.
- (c) That can be distinguished operationally & for financial reporting purposes.

Discontinuing operation does not include discontinuation of a single product only or discontinuing a ~~Big~~ Business in a particular area.

→ Below cases are not always a Discontinuing Operations

- 1) Phasing out - PLS
- 2) Cutting down any process for cost reduction.
- 3) Shifting Plant / Dept. to new location.
- 4) Cutting down several products
- 5) In CFS - sale of subsidiary in similar business line

Plan is cancelled! Disclosure with reason

Initial Disclosure:

- ① Binding Agreement on a specific date
OR
BOD approves & Announces formal Plan
- whichever is earlier.

- ② Initial disclosure event after BIS date - Apply AS4
- Non-adjusting event.

③ Initial Disclosure:

- operation description
- Date & Nature
- Expected completion of Discontinuation
- CA of ATL
- Revenue & expenses of ordinary Activities.
- PBT or loss of ordinary Act & tax
- CF's from Operating, Financing, Investing Act.

④ Other Disclosures:

(when Asset sold / Liabilities settled)

- Recognised PBT / loss & tax
- SP of Assets / Range of Price
- expected time of receipts of CFs.
- CA of such ATL.

- Disclosure of face SPL others - in Notes to A/c.

Assets / Liabilities / Incomes / Expenses of Discontinued operations

↓
Disclosure in notes to A/c.

(No need to disclose separately on the face of BIS & P/L)

Important Notes:

- Separate Disclosure for each.
- Disclosure until completion.
- Revenue / expenser or ATL calculation
 - as per other AS.
- Date of Agreement is important
 - sale to off. Receipt may be later.
- Going Concern Assumption.
 - NOT Affected.

AS 25: Interim Financial Reporting:

Interim Period: a Financial Reporting Period shorter than a full financial year.

Interim Financial Report: a financial report containing either a complete set of financial stat. or a set of condensed financial stat. for an interim period.

→ If an enterprise presents basic EPS & diluted EPS in its annual financial statements, then it has to present basic & diluted EPS on the face of stat. of profit & loss complete or condenses for an interim period also.

→ Same accounting policies has been changed, then a description of the nature & effect of the change.

Periods for which interim financial stat. are required to be presented.

Statement.	Current Period.	Comparative period.
Balance sheet.	End of current interim period.	End of financial year immediately preceding financial year.
Statement of Profit & loss.	Current interim period & cumulative for the year-to-date.	Comparable interim period & year-to-date of immediately preceding financial year.
Cash flow Statement.	Cumulatively for the current financial year to date.	Comparable year to date of immediately preceding financial year.

→ An enterprise that reports more frequently than half yearly measures income & expenses on a year-to-date basis for each interim period using information available when each set of financial statements is being prepared.

- Required to consider any changes in accounting policies that will be applied for the next annual financial statements, & to implement the change for interim reporting purposes.

→ Costs that are incurred unevenly during an enterprise's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year.

Revise Q.11, Q.10 & M10.Q. 4