CAPITAL & REVENUE EXPENDITURE AND RECEIPTS

CAPITAL EXPENDITURE VS REVENUE EXPENDITURE

Particulars	Capital Expenditure	Revenue Expenditure
Meaning	It is expenditure incurred for the purpose of- (a) Purchase/ Creation / Improvement of Fixed Assets (b) Expenses necessary for the above purchase / Creation (c) Increasing the earning capacity of business.	It is an expenditure, the benefit of which is immediately (normally within one year) exhausted in the process of earning revenue.
Period of benefit	Any expenditure incurred to provide a benefit over a long-term period is capital expenditure.	Any expenditure incurred to provide benefit during the current period is revenue expenditure.
Enhancement vs Maintenance	Capital expenditure is incurred for the purpose of increasing the capacity of the business. Alternatively, it also includes an expenditure to reduce the costs of the business	Revenue expenditure is incurred to maintain the earning capacity of the business.
Examples	Purchase of machine, car, furniture, etc.	Repairs and maintenance, salary of accounting staff, etc.
Treatment in Financial Statement	Capital Expenditure is shown as asset in Balance Sheet. Only depreciation portion is debited to P&L A/c.	Expenditure is charged fully in the Profit and Loss Account.

CRITERIA / CONSIDERATIONS FOR CAPITAL VS REVENUE

Whether an expenditure is Capital or Revenue in nature, depends upon the following factors-

Factor	Capital Expenditure if.....	Revenue Expenditure if......
Nature of Business	Expenditure relates to purchase of a Fixed Asset (e.g. Furniture purchased by a trader).	Expenditure relates to purchase of a Current Asset (e.g. Furniture purchased by a trader dealing in furniture).
Recurring Nature	Expenditure is incurred infrequently, or once in 2-5years (e.g. purchase of assets.)	Expenditure is incurred frequently / regularly, in the normal course of business (e.g. Salary, Rent, etc.)
Purpose of Expenses	Expenditure is for acquiring / creating capital assets or increasing their productive capacity.	Expenditure is for maintaining the capital assets.
Period of Benefit	Expenditure helps to generate revenue over more than one accounting period	Expenditure helps to generate income / revenue in the current period only.
Materiality	Expenditure is material / significant.	Expenditure is not material, i.e. insignificant.

EXAMPLES FOR CAPITAL AND REVENUE EXPENDITURES

Capital Expenditure	Revenue Expenditure
1. Purchase of Fixed Asset (Land, Building, etc.) 2. Purchase of Second hand Asset (e.g. Vehicle, Furniture, etc.) 3. Overhaul Expenses to put secondhand machinery in working condition. 4. Repairing & Painting of Old Building purchased recently by the Firm. 5. Expenditure incurred to reduce working expenses / operating expenses which generate long term benefits to the entity 6. Legal Fee paid to acquire new property. 7. Licence Fee paid by Cinema Theatre to commence its business. 8. Cost of constructing Temporary Huts which were necessary for Factory Building Construction, which were demolished when the Factory was ready.	1. Expenditure for replacement of worn-out part of an existing asset. 2. Regular Advertisement Expenses in respect of products and services. 3. Expenditure on removal of stock to new site. 4. Legal Fees incurred to file suit against a Customer from whom money is due.

CAPITAL VS REVENUE RECIEPTS

Particulars	Capital Receipt	Revenue Receipt
Meaning	Capital Receipts refer to receipts other than Revenue Receipts.	Revenue Receipts are moneys received in course of normal business activities and are recurring in nature.
Example	Capital contribution by Owner, Issue of Shares /Debentures, Sale Proceeds of Fixed Assets, etc.	Sales, Interest and Other Income Received, Bad Debts Recovered, etc.
Purpose	Capital Receipts relate to specific purpose, e.g. Capital Contribution for commencing business or expanding business, Loans taken for acquiring Fixed Assets, etc.	Revenue Receipts relate to general business purpose and are not specifically identifiable to any purpose as such.
Effect on Profit	Capital Receipts do not affect profit.	Revenue Receipts have a direct impact on the profits.
Disclosure	They are shown as Liability or Reduction from the Asset in the Balance Sheet.	They are shown on the Credit Side of the Profit and Loss Account.

Question 1 *(ICAI Study Material)*

State with reasons whether the following statements are 'True' or 'False'.

(1) Overhaul expenses of second-hand machinery purchased are Revenue Expenditure.
(2) Money spent to reduce working expenses is Revenue Expenditure.
(3) Legal fees to acquire property is Capital Expenditure.
(4) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.

Question 8 *(ICAI Study Material)*

Are the following expenditures capital in nature?

(i) M/s ABC & Co. run a restaurant. They renovate some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 10 to 13. The total expenditure was ₹ 20,000.

(ii) M/s New Delhi Financing Co. sold certain goods on installment payment basis. Five customers did not pay installments. To recover such outstanding installments, the firm spent ₹ 10,000 on account of legal expenses.

(iii) M/s Ballav & Co. of Delhi purchased a machinery from M/s Shah & Co. of Ahmedabad. M/s Ballav & Co. spent ₹ 40,000 for transportation of such machinery. The year ending is 31st Dec, 2023.

Solution:

(i) Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

(ii) Expense incurred to recover installments due from customer do not increase the revenue generating capability in future. It is normal recurring expense of the business. Thus the legal expenses incurred in this case is revenue expenditure in nature.

(iii) Expenses incurred on account of transportation of fixed asset is capital expenditure in nature.

Question 9 *(RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2020) / (RTP Nov 2023) (Similar)*

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exits in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution:

(i) Revenue Expenditure (ii) Capital Expenditure (iii) Revenue Expenditure if short term benefit and Capital Expenditure if long term benefit to entity (iv) Revenue Expenditure (v) Capital Expenditure

Question 10 *(RTP May 2018) (RTP May 2021) / (RTP Nov 2021)*

Classify each of the following transactions into capital or revenue transactions:

a) Complete repaint of existing building.

b) Installation of a new central heating system.

c) Repainting of a delivery van.

d) Providing drainage for a new piece of water-extraction equipment.

e) Legal fees on the acquisition of land.

f) Carriage costs on a replacement part for a piece of machinery.

g) Inauguration expenses of a new manufacturing unit in an existing Business.

Solution:

(a) Revenue Expenditure (b) Capital Expenditure (c) Revenue Expenditure (d) Capital Expenditure (e) Capital Expenditure (f) Revenue Expenditure (g) Revenue Expenditure

Question 11 *(RTP May 2019)*

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.
(ii) Amount received from debtors during the year.
(iii) Cost of testing whether the equipment is functioning properly.
(iv) Insurance claim received on account of machinery damaged by fire.

Solution

(i) Capital expenditure (ii) Revenue receipt. (iii) Capital expenditure. (iv) Capital receipt.

Question 12 *(RTP May 2020)*

Classify the following expenditures as capital or revenue expenditure.

(i) Money spent to reduce working expenses.
(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.
(iii) Rings and Pistons of an engine were changed at a cost of ₹ 5,000 to get fuel efficiency.
(iv) Compensation of ₹ 2.5 crores paid to workers, who opted for voluntary retirement.

Solution

(i) Capital expenditure if long term benefit (ii) Revenue expenditure. (iii) Capital expenditure.
(iv) Revenue expenditure.

Question 13 *(RTP May 2022)*

Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area.
(ii) Amount spent on painting the factory
(iii) Payment of wages for building a new office extension.
(iv) Amount paid for removal of stock to a new site.
(v) Rings and Pistons of an engine were changed to get full efficiency

Solution

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than 1 accounting period.
(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.
(iii) Payment of wages for building new office extension should be treated as Capital Expenditure.
(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.
(v) Expenditure incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

Question 14 *(RTP Nov 2022)*

Classify the following expenditures as capital or revenue expenditure:

(i) Expenses incurred to keep the machine in working condition.
(ii) Registration fees paid at the time of purchase of a building.
(iii) Expenses incurred for advertisement in newspaper.
(iv) Amount spent on renewal fee of patent rights.
(v) Cost of repairs on second-hand car purchased to bring it into working condition.

Solution
(i) Revenue Expenditure. (ii) Capital Expenditure. (iii) Revenue Expenditure. (iv) Revenue Expenditure. (v) Capital Expenditure.

Question 15 *(RTP May 2023)*

Classify the following expenditures as capital or revenue expenditure:
(i) Insurance claim received on account of inventory damaged by fire.
(ii) Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land.
(iii) Travelling expenses of the chief financial officer on trips abroad for purchase of special machinery.
(iv) Dividend received from XYZ limited during the year.

Solution
(i) Revenue Receipt. (ii) Revenue Expenditure. (iii) Capital Expenditure. (iv) Revenue Receipt.

Question 16 *(MTP Dec 2022)*

Classify the following expenditures as capital or revenue expenditure:
(i) Amount spent for replacement of a petrol driven engine by CNG kits.
(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.
(iii) Amount spent to reduce working expenses.
(iv) Insurance claim received on account of inventory damaged by fire.
(v) Expenses incurred on the repairs and white washing for the first time on purchase of an old factory.

Solution
(i) Capital Expenditure. (ii) Capital Expenditure. (iii) Capital Expenditure (assuming long term benefit) (iv) Revenue Expenditure. (v) Capital Expenditure.

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

GLOSSARY OF SIGNIFICANT TERMS

Contingency	A situation, which has not actually occurred but which is expected to happen in the near future.
Liability	Obligation to pay for any expenses / losses i.e. It represents outflow of business resources. Present financial obligation of an enterprise which arises from past events.
Probable	Chance of occurrence of an event is 50%. i.e. an event is more likely to happen
Possible	Chance of occurrence of an event is < 50% i.e. an event may or may not happen. It cannot be determined.
Present Obligation	An obligation which is probable i.e. it is more than likely that such obligation exists on the date of balance sheet is called "Present Obligation"
Possible Obligation	An obligation which is not probable i.e. on the balance date, it is not likely that such obligation may arise in future

PROVISIONS

Meaning	A Provision is "a Present Obligation, as a result of past events, which leads to probable outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made"
Features	(a) Provision is a present liability of a certain / uncertain amount. (b) Provision can be reasonably measured using a substantial degree of estimation.
Treatment	Provision should be recognized in the Books of Account.
Impact on Profits	Provision represents liability for expense/loss; So, Provision reduces the profit.
Journal Entry	Debit - Profit and Loss A/c Dr. Credit - To Provisions for Liabilities A/c
Reasoning	Debit Aspect: Provision is an expense / loss, which reduces the profits of the enterprise Hence, Profit and Loss A/c is debited. (Debit all expenses and losses) Credit Aspect: Provision is a liability payable in future. Hence, it is credited
Balance Sheet	Provision is either shown (a) on the liabilities side (or) (b) on the assets side - as a deduction from the relevant asset.
Examples	(a) Provision for Guarantees Given, when the original debtor becomes insolvent. (b) Provision for Warranties (c) Provision for Discount on Debtors (d) Provision for Bad and Doubtful Debts

CONTINGENT LIABILITY

A Possible Obligation		Present Obligation
That arises from past events and the existence of which will be confirmed only by the occurrence or non–occurrence of one or more uncertain future events not wholly within the control of the enterprise	Or	That arises from past events but is not recognized because – • it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or reliable estimate of the amount of obligation cannot be made.

Note: Possible Obligation is always a Contingent Liability, whereas Present Obligation becomes a Contingent Liability if the recognition criteria of Provision are not satisfied.

	Elements	Cases				
1.	Possible obligation	X	X	X	X	√
2.	Present obligation from past events	√	√	√	√	NA
3.	Expected outflow	√	√	X	X	NA
4.	Measurability (using substantial degree of estimation)	√	X	√	X	NA
5.	Whether: Provision(P) or Contingent Liability (CL)	P	CL	CL	CL	CL

FEATURES OF CONTINGENT LIABILITY

1. Recognition	An Enterprise should NOT RECOGNISE a Contingent Liability.
2. Disclosure	A Contingent Liability should be DISCLOSED in the notes to accounts unless possibility of outflow of a resource embodying economic benefits is remote.
3. Periodical Review	Contingent Liability should be periodically reviewed. On such review, if the character of the Contingent Liability is found to be changed and there is a probable outflow of resources, then it will be recognized as Provision and treated accordingly.
4. Impact	Contingent Liability will NOT AFFECT the profits of the concern, as it is not accounted in Books.
5. Examples	• Claims against the business, not acknowledged as debts • Guarantees given, if the principal debtor is solvent • Uncalled Liability on Partly Paid shares • Arrears of Fixed Cumulative dividends • Liability on Bills Discounted

CONTINGENT ASSETS

1. Meaning	A Contingent Asset is a POSSIBLE ASSET that arises from past events, existence of which will be confirmed only by occurrence / non-occurrence of one or more uncertain future events, not wholly within the control of the enterprise.

2. Treatment	An enterprise SHOULD NOT RECOGNISE a Contingent Asset due to CONSERVATISM Convention. Because this may result in recognition of income that may never be realized.
3. Impact	Contingent Assets will not affect the profits of the enterprise as it is not accounted in the books.
4. Certainty	If the realisation of income is certain, then it is not a Contingent Asset and the same shall be recognized in the Financial Statements.
5. Disclosure	Contingent Assets should not be disclosed in the Financial Statements but may be disclosed in the Report of the Approving Authority.
6. Examples	• Unplanned or unexpected events leading to possibility of inflow of economic benefits • Expected Gain from a legal suit. • Insurance claims for damage of a property

PRINCIPLES BEHIND PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

Nature	Principle
1. Provision	Matching Concept, Conservatism Convention
2. Contingent Liability	Full Disclosure Concept
3. Contingent Asset	Conservatism Convention

ACCOUNTING POLICIES

MEANING

1. Accounting Policies refer to – (a) The specific accounting principles and (b) the methods of applying those principles adopted by the enterprises in the preparation and presentation of financial statements.
2. Example: Inventory is valued at Cost or Net Realizable Value, whichever is lower. This is a principle. Cost can be determined either by First in First Out (FIFO) method or Weighted Average Cost (WAC) or other suitable methods.
3. Need for disclosure: Accounting Policies should be disclosed in the Financial Statements due to the following reasons-
   (a) To promote better understanding of financial Statements
   (b) To provide meaningful Inter-Firm Comparison.
   (c) To ensure compliance with Law, for example In case of Companies, disclosure is mandatory.

CHOICE OF ACCOUNTING POLICIES

1. Alternative accounting policies: The different circumstances in which enterprises operate and the situation of diverse and complex economic activities of the company has given rise to acceptability of alternative accounting principles & methods of applying those principles.
2. Decision Making: The choice of the alternatives principles & methods calls for considerable judgment by the management of the enterprises.
3. Reduction in alternatives: Various statements issued by ICAI, together with the measures of Governments, other regulatory agencies, etc. has reduced the number of acceptable policies can at best be reduced, not eliminated, as different enterprises operate in differing circumstances.
4. Illustration List of areas of alternative accounting policies.
   (a) Conversion or translation of foreign Currency items.
   (b) Treatment of – (i) Expenditure during construction.
   (c) Valuation of – (i) Inventories, (ii) Investments.

Note: Generally Companies disclose these accounting policies in the Notes of Accounting.

PRINCIPLES FOR SELECTION OF ACCOUNTING POLICIES

1. True and Fair View: Primary consideration in the selection of Accounting Policies is that financial statements prepared & presented should represent a true & fair view as under-

Balance sheet	Of the State of Affairs of the enterprises as on a certain date.
Profit & Loss Account	Of the Profit or Loss for the period ended on that date.

2. Factors: To select & apply accounting policy, the following points are considered (Secondary Consideration)

(a) Prudence	(b) Substance over form	(c) Materiality

3. Change in Accounting Policies: Accounting policies have to be consistent from year to year. However, change in accounting policies can be made in the following situations-
   (a) If the adoption of a different accounting policy is required by Statute, or
   (b) For compliance with an Accounting Standard, or
   (c) If it is considered that the change would result in a more appropriate presentation of the financial Statements.

DISCLOSURE OF ACCOUNTING POLICIES

1. Disclosure of Accounting Policies: All significant accounting policies adopted in the preparation and presentation of financial statement should be disclosed to facilitate better understanding of the financial statements.
2. Place of Disclosure: Disclosures should form part of the financial Statements. It should be disclosed at one place, instead of being scattered over several statements.
3. Change in Accounting Policies: Change in an accounting policy should be disclosed-
   (a) When such change has a material effect in the current period and
   (b) When such change is reasonably expected to have a material effect in later periods.
4. Manner of Disclosure of change in accounting policies:

Effect in Current Period	Expected Effect in later periods
• Impact of change on Profit/Loss & Balance Sheet items in the current period should be quantified, to the extent ascertainable. • Where quantification is not possible, either wholly or in part, the fact should be disclosed	• The fact of such change, and • The fact that it is likely to have effect in later periods. Should be appropriately disclosed in the period in which the change is adopted

Case:
"Change in accounting policy may have a material effect on the items of financial statements." Explain the statement with the help of an example.

Answer
Change in accounting policy may have a material effect on the items of financial statements. For example, if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit/loss.
Examples in this regard may be given as follows: "Omega Enterprises revised its accounting policy relating to valuation of inventories to include applicable production overheads."

ACCOUNTING AS A MEASUREMENT DISCIPLINE - VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

ELEMENTS OF MEASUREMENT DISCIPLINE

Measurement is vital aspect of accounting. Primarily transactions and events are measured in terms of money. Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit & loss

The 3 elements of Measurement discipline and how accounting satisfies these elements are as under-

Elements / Conditions	Does Accounting satisfy the condition?
1 Identification of objects or events to be measured	Financial transactions & events are measured in accounting. Non-financial transactions, however significant are not considered
2 Selection of Standard or Scale to be used.	The ruling currency of the country is used as the basis of money measurement, in accounting, however: (a) Money is not a stable scale having universal applicability. (b) Exchange rates between different currencies are not constant.
3 Evaluation of dimension of measurement standard	Money as a valuation base loses its value over period time. Hence, it is not stable in the dimension.

Conclusion: However, Accounting is not an exact measurement discipline because accounting measures information mostly in money terms which is (a) not a stable scale. (b) Not having universal applicability and (c) not stable in dimension for comparison over time

MEASUREMENT BASES (OR VALUATION PRINCIPLES) IN ACCOUNTING

The measurement bases or valuation principles used in accounting are-

Base	Valuation Rule for	
	Assets	Liabilities
1. Historical cost	Cash or Cash equivalent paid at the time of acquisition	Proceeds received in exchange for the obligation or the amount of cash/ cash equivalent expected to be paid to satisfy it in the normal course of business
2. Current Cost (PURCHASE ANGLE)	Cash and cash equivalent which is to be paid if same or an equivalent asset was acquired currently	Undiscounted amounts of cash and cash equivalent that would be required to settle the obligation currently
3. Realisable Value (SALE ANGLE)	Cash or cash equivalent that could currently be obtained by selling the assets in an orderly disposal	Undiscounted amounts of cash & cash equivalent that would be required to settle obligation in normal course of business
4. Present Value	Present Discounted Value of cash inflows expected to be derived from such assets over its useful life	Present Discounted value of cash outflows expected to be required to settle the liabilities in the normal course of business

Note: Different measurement bases are used according to suitability (i.e. the situational need) to depict the true and fair view of the financial position of the reporting entity.

Example:

Mohan purchased a machinery amounting ₹ 10,00,000 on 1st April, 2005. On 31st March, 2023, similar machinery could be purchased for ₹ 20,00,000 but the realizable value of the machinery (purchased on 1.4.2005) was estimated at ₹ 15,00,000. The present discounted value of the future net cash inflows that the machinery was expected to generate in the normal course of business, was calculated as ₹ 12,00,000.

1) The current cost of the machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.
2) The present value of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 12,00,000.
3) The historical cost of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.
4) The realizable value of machinery is (a) ₹ 10,00,000. (b) ₹ 20,00,000. (c) ₹ 15,00,000.

ACCOUNTING ESTIMATES

(a) Meaning: "Accounting Estimate" means an approximation of the amount of an item in the absence of a precise means of measurement.

As a result of uncertainties inherent in business activities, many financial statement items cannot be measured with precisions but can only be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

(b) Example:
- Estimate of bad debts
- Useful life and Residual value of depreciable assets
- Estimates of inventory obsolescence

(c) Change in Accounting Estimate: Change can occur in the following scenarios:
- As a result of new information
- As a result of more experience
- As a result of subsequent development

ACCOUNTING STANDARDS

Meaning	Accounting standards are written policy documents issued by expert accounting body or by government or other regulatory body (e.g. MCA issuing AS for corporates in consultation with NACAS) covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.
Issues dealt by AS	➢ Recognition of events and transactions in financial statements. ➢ Measurement of these transactions and events. ➢ Presentation of these transactions & events in the financial statements in a manner that is meaningful and understandable to the reader. ➢ The disclosure requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent & informed business decisions.
Objectives	➢ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles. ➢ To provide a standard for the diverse accounting policies and principles. ➢ To eliminate the non-comparability of financial statements. ➢ To increase/improve the reliability of the financial statements. ➢ To provide standards which are transparent for users.
Benefits	➢ Standardization of alternative accounting treatment (Reduce/eliminate the confusing variations in the accounting treatments used to prepare the financial statements) ➢ Requirement for additional disclosures. (disclosures which are not statutorily required) ➢ Comparability of financial statements.
Limitations	➢ Difficulties in making choice between different treatments. ➢ Lack of flexibilities ➢ Restricted scope (accounting standards cannot override the statute)
Formulation of AS	ICAI has constituted the Accounting Standard Board (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of AS & council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.
Process	➢ Identification of area (where standardization is required) ➢ Constitution of study groups (for research) ➢ Preparation of draft and its circulation ➢ Ascertainment of views of different bodies (like SEBI, CBDT, C&AG) ➢ Finalization of exposure draft ➢ Comments reviewed on exposure draft (public comments) ➢ Modification of the draft ➢ Issue of AS • For Non Corporate Entities by ICAI • For Corporate Entities by Central Government of India

OVERVIEW OF ACCOUNTING STANDARDS (AS) IN INDIA

AS	AS TITLE	AS	AS TITLE
1	Disclosure of Accounting Policies	16	Borrowing Costs
2	Valuation of Inventories	17	Segment Reporting
3	Cash Flow Statements	18	Related Party Disclosures
4	Events Occurring after Balance Sheet Date	19	Leases
5	Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies	20	Earnings Per Share
6	Depreciation Accounting -Withdrawn-	21	Consolidated Financial Statements (CFS)
7	Construction Contracts	22	Accounting for Taxes on Income
8	-Withdrawn-	23	Accounting for Investment in Associates in CFS
9	Revenue Recognition	24	Discontinuing Operations
10	Accounting for fixed assets Property, Plant & Equipment	25	Interims Financial Reporting
11	Effects of changes in Foreign Exchange Rates	26	Intangible assets
12	Accounting for Government Grants	27	Financial Reporting of Interest in Joint Ventures
13	Accounting for Investments	28	Impairment of assets
14	Accounting for Amalgamation	29	Provisions, Contingent Liabilities and Contingent Assets
15	Employee Benefits		