saransh

Last Mile Referencer for

ACCOUNTING STANDARDS

The Institute of Chartered Accountants of India
(Setup by an Act of Parliament)

Board of Studies (Academic)

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Saransh - Last Mile Referencer for Accounting Standards

Published in January 2023 by:
Board of Studies (Academic)
The Institute of Chartered Accountants of India
'ICAI Bhawan" A-29, Sector-62,
Noida 201 309

PREFACE

BOS (Academic), the student wing of the Institute, does not leave any stone unturned in providing best-in-class services to its students. It imparts quality academic education through its value added study materials, wherein concepts are explained in lucid language. Illustrations and Test Your Knowledge Questions contained therein facilitate enhanced understanding and application of concepts learnt. Booklet on MCQs & Case Scenarios contain a rich bank of MCQs and Case Scenarios to hone the analytical skills of students, by applying the concepts learnt in problem solving. Revision Test Papers contain updates and Q & A to help students update themselves with the latest developments before each examination and revise the concepts and provisions by solving questions contained therein. Suggested Answers containing the ideal manner of answering questions set at examination also helps students revise for the forthcoming examination. Mock Test Papers help students assess their level of preparedness before each examination. BoS (Academic) also conducts live virtual classes through eminent faculty for its students across the length and breadth of the country.

To reach out to its students, the BoS (Academic) has also been publishing subject-specific capsules in its monthly Students' Journal "The Chartered Accountant Student" since the year 2017 for facilitating effective revision of concepts dealt with in different topics of each subject at the Foundation, Intermediate and Final levels of the chartered accountancy course. Each issue of the journal includes a capsule relating to specific topic(s) in one subject at each of the three levels. In these capsules, the concepts and provisions are presented in attractive colours in the form of tables, diagrams and flow charts for facilitating easy retention and quick revision of topics.

The BoS (Academic) is now coming out with a comprehensive booklet 'Saransh - Last Mile Referencer for Accounting Standards' wherein the significant concepts dealt with across topics in accounting are captured by way of diagrams, flow charts and tables. The booklet captures the substantial provisions contained in Accounting Standards forming part of the syllabi of the subject at intermediate level. The booklet encapsulates diagrams, flow charts, tables and illustrated journal entries. This one stop repository would, thus, consolidate all significant topics of accounting at one place, by capturing the key points. This would help the reader appreciate the requirements contained in each such accounting standard at a glance. It will surely facilitate the reader to grasp the essence of the subject as a whole by serving them as a ready reckoner.

Happy Reading!

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INTRODUCTION TO ACCOUNTING STANDARDS

Overview

Concepts & Benefits of Accounting Standards → Accounting Standards setting process → List of Accounting Standards → Significance of Global Standards

↓

International Financial Reporting Standards (IFRS) → International Financial Reporting Standards as global standards → Convergence to IFRS in India → Ind AS → Concept of Carve Outs

Issuance of Accounting Standards

Accounting Standards are written policy documents issued by

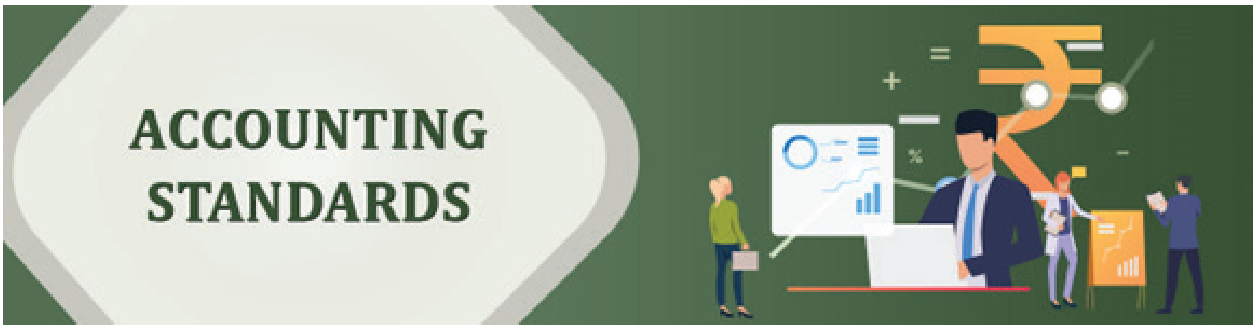
- Government e.g. (MCA) for corporate entities in consultation with NFRA
- ICAI for non corporate entities

Accounting Standards - Benefits

Recognition of events and transactions	Measurement of transactions and events	Presentation of transactions and events	Disclosures

Benefits of Accounting Standards

- ↑ Standardisation of alternative accounting treatments
- ← Comparability of financial statements
- → Enhanced disclosures



Accounting Standards Setting Process

- Identification of area
- Constitution of study group
- Preparation of draft and its circulation
- Ascertainment of views of different bodies on draft
- Finalisation of exposure draft (E.D.)
- Comments received on exposure draft (E.D.)
- Modification of the draft
- Issuance of AS

List of Accounting Standards

1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statement
4	Contingencies and Events Occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
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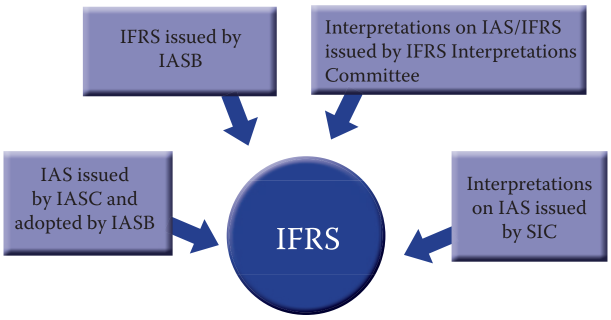
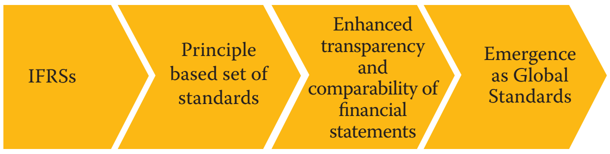
Effectively, there are now only 27 Accounting Standards.

Significance of Global Standards

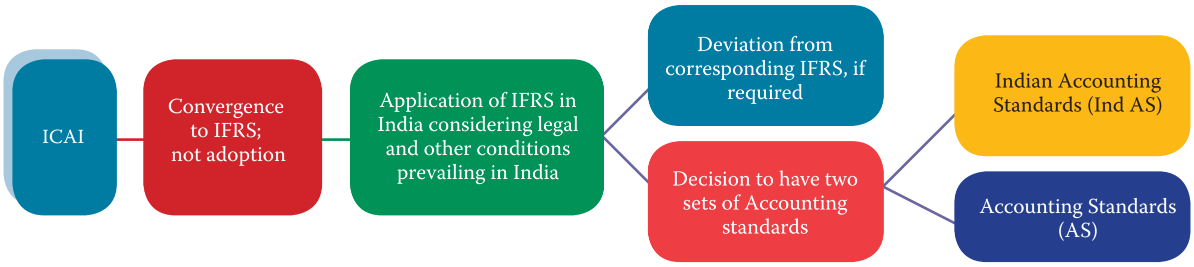
International Financial Reporting Standards (IFRS)



International Financial Reporting Standards (IFRSs) as Global Standards



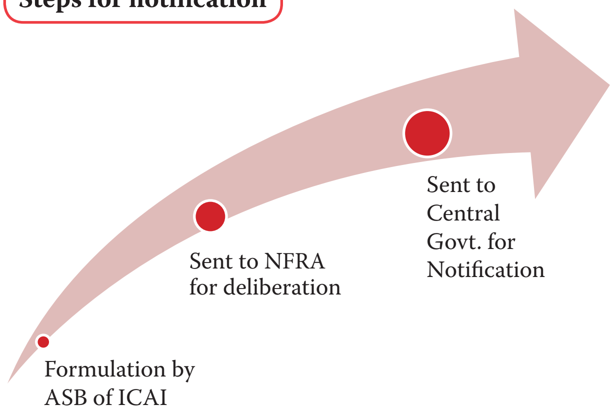
Convergence to IFRS in India



Ind AS

Ind AS are IFRS converged standards issued by the Central Government with certain carve outs.

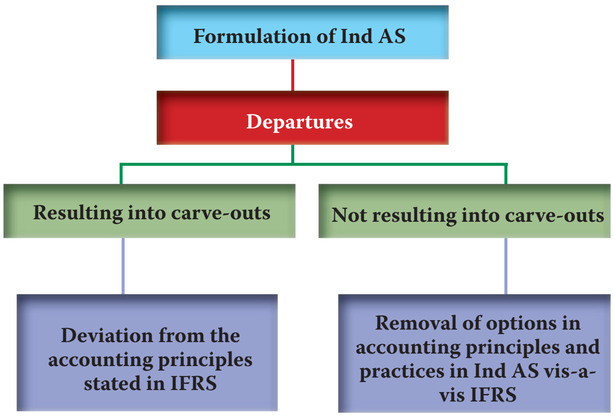
Steps for notification



Indian Accounting Standards - Benefits

Globalization and Liberalization	Transparency of financial statements	Comparability of financial statements	Enhanced Disclosure requirements

Objectives and Concepts of Carve Outs



AS 1 "DISCLOSURE OF ACCOUNTING POLICIES"

Introduction

AS 1 deals with the disclosure of significant accounting policies followed in preparation and presentation of financial statements.

AS 1 covers

Fundamental Accounting Assumptions

These assumptions underlie the preparation and presentation of financial statements.

Accounting Policies

Accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

Fundamental Accounting Assumptions

Going Concern

The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future.

It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

Consistency

Accounting policies are considered to be consistent from one period to another.

Accrual

Revenues and costs are accrued, that is, recognised as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

Considerations in selection of Accounting policies

Prudence

In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash.

Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

Substance over Form

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

Materiality

Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the users of the financial statements.

Fundamental Accounting Assumptions

If followed — Not required to be disclosed

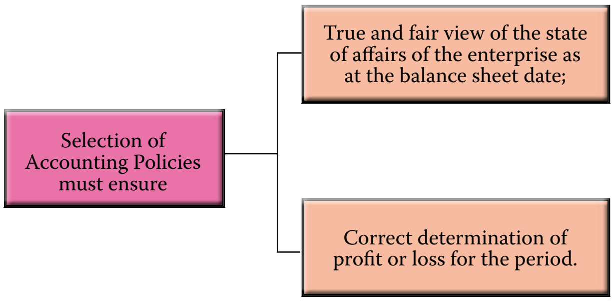
If not followed — Specific disclosure required in financial statements.

Accountant has to make decisions from various permitted alternative methods for recording or disclosing various items in the books of accounts for example:

Items to be disclosed	Method of disclosure or valuation
Inventories	FIFO, Weighted Average etc.
Cash Flow Statement	Direct Method, Indirect Method
Depreciation	Straight Line Method, Reducing Balance Method, Units of Production Method etc.

This list is not exhaustive.

Considerations in Selection of Accounting Policies



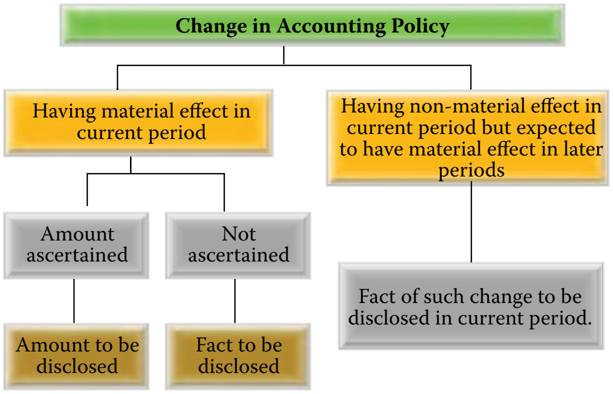
Disclosure of Accounting Policies

All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

Disclosure should form part of the financial statements.

Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

Disclosure of Changes in Accounting Policies

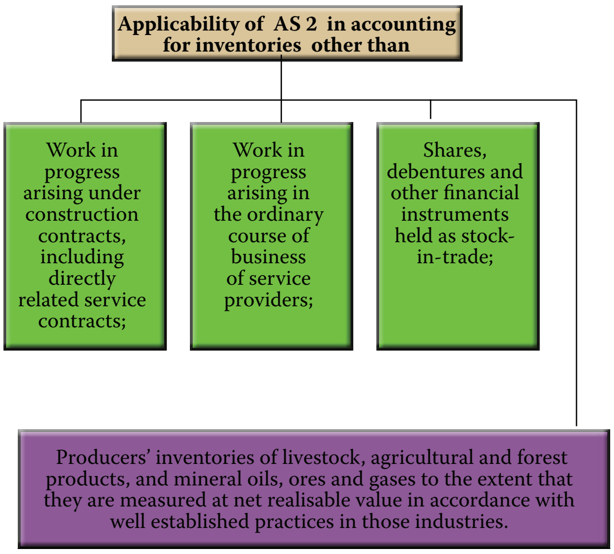


AS 2 "VALUATION OF INVENTORIES"

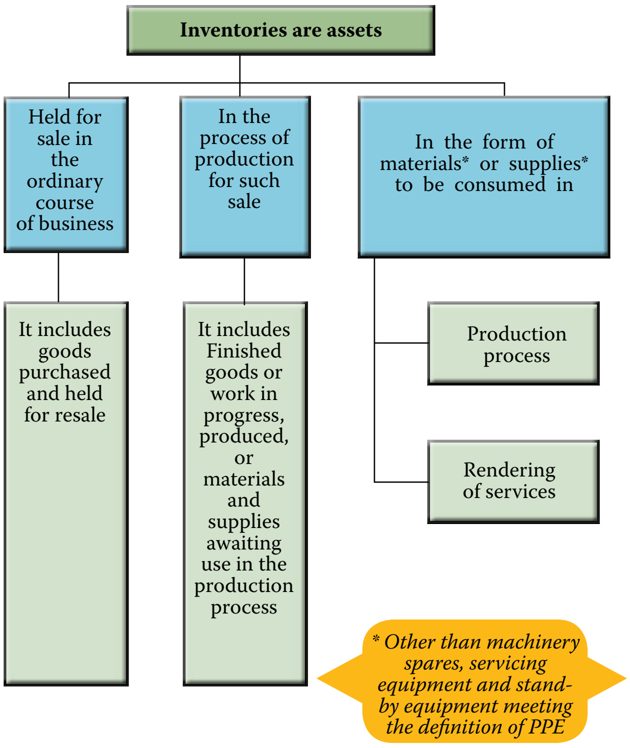
Introduction

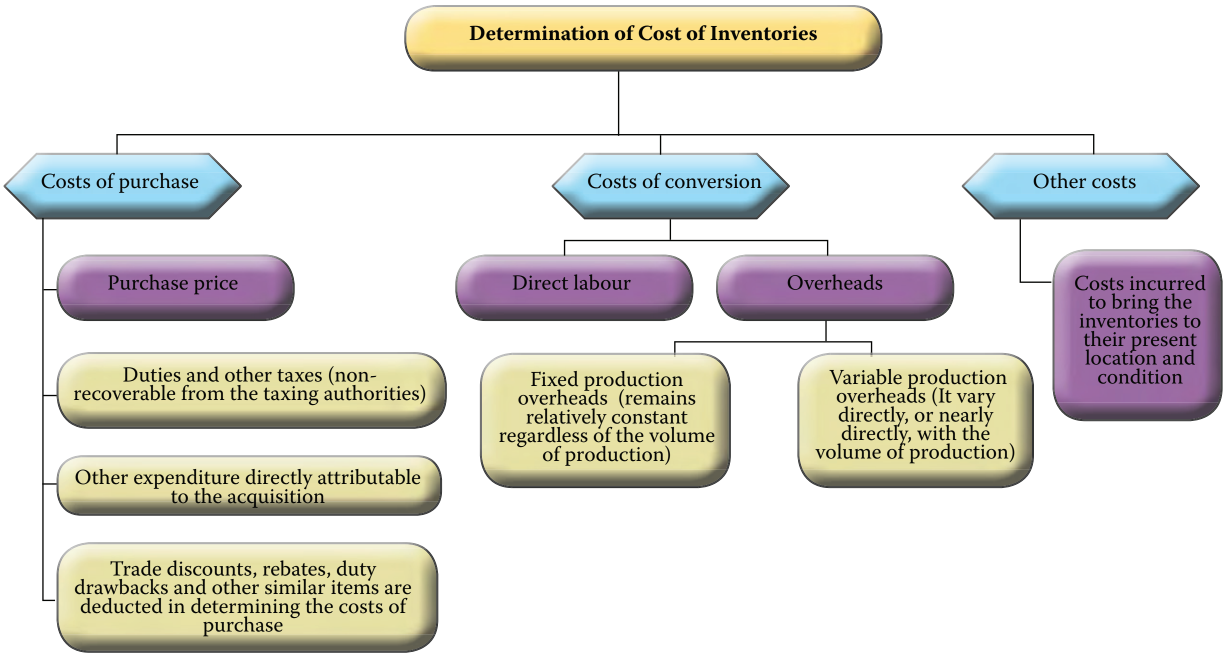
AS 2 (Revised) 'Valuation of Inventories', provides complete guidance for determining the value at which inventories, are carried in the financial statements until related revenues are recognised. It also provides guidance on the cost formulas that are used to assign costs to inventories and any write-down thereof to net realisable value.

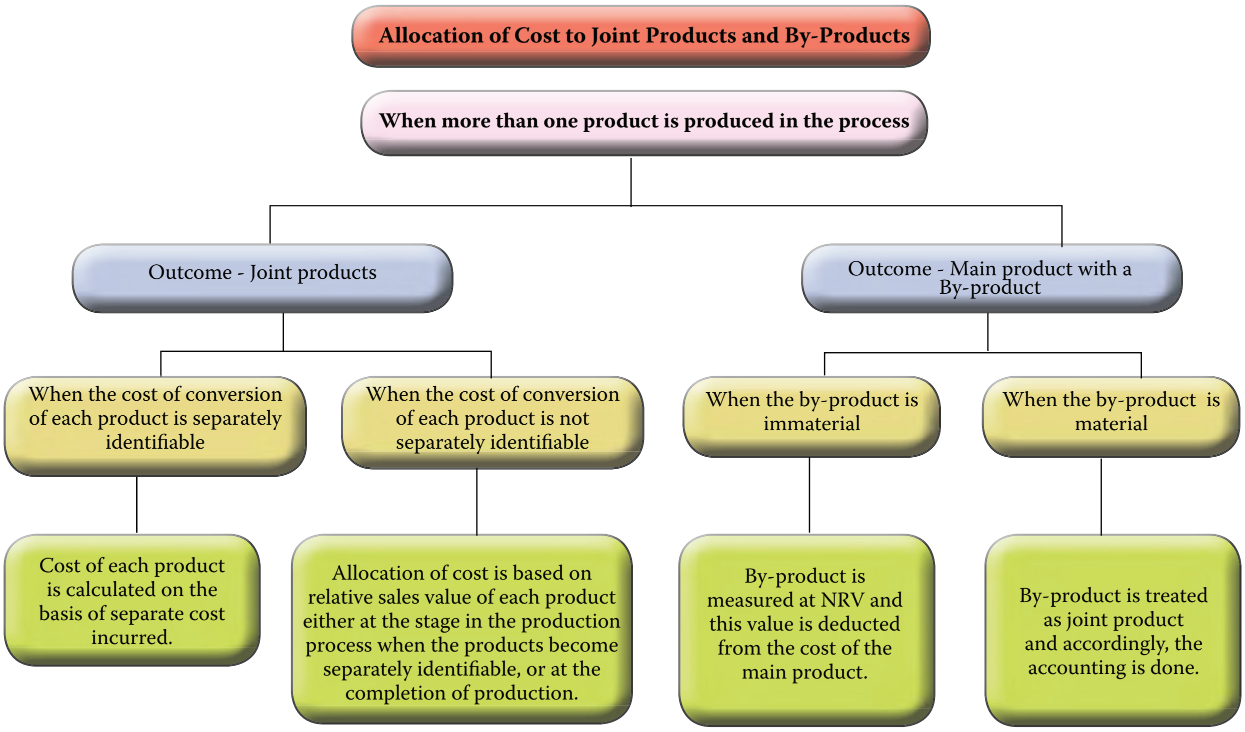
Scope of AS 2

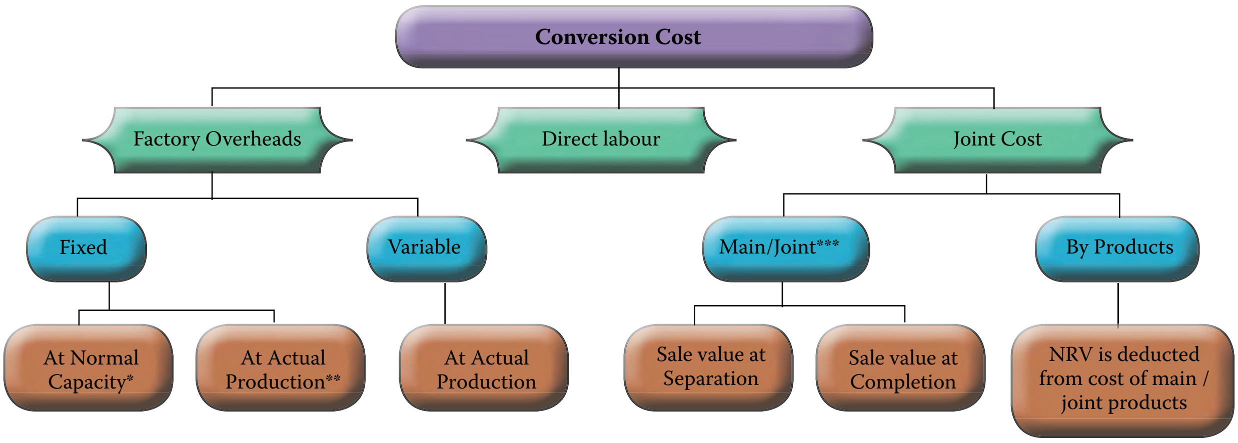


Definition of Inventories




Determination of Cost of Inventories
Costs of purchase
Costs of conversion
Other costs
Purchase price
Duties and other taxes (non-recoverable from the taxing authorities)
Other expenditure directly attributable to the acquisition
Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase
Direct labour
Overheads
Fixed production overheads (remains relatively constant regardless of the volume of production)
Variable production overheads (It vary directly, or nearly directly, with the volume of production)
Costs incurred to bring the inventories to their present location and condition


Allocation of Cost to Joint Products and By-Products
When more than one product is produced in the process
Outcome - Joint products
Outcome - Main product with a By-product
When the cost of conversion of each product is separately identifiable
When the cost of conversion of each product is not separately identifiable
When the by-product is immaterial
When the by-product is material
Cost of each product is calculated on the basis of separate cost incurred.
Allocation of cost is based on relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.
By-product is measured at NRV and this value is deducted from the cost of the main product.
By-product is treated as joint product and accordingly, the accounting is done.

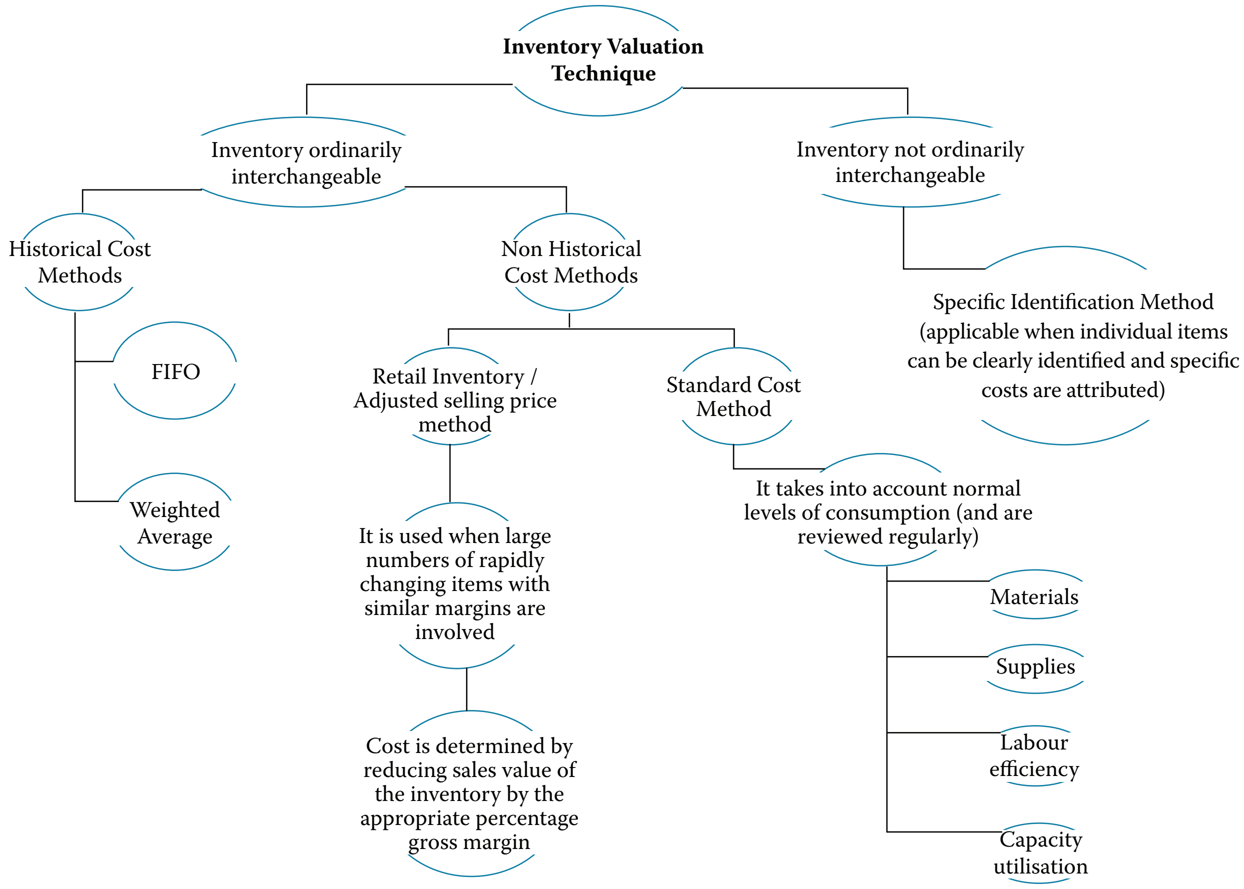


**When actual production is almost equal or lower than normal capacity.*
*** When actual production is higher than normal capacity.*
**** Allocation at reasonable and consistent basis.*

Costs excluded from the cost of inventories and recognised as expenses

- Abnormal amounts of wasted materials, labour, or other production costs;
- Storage costs, unless the production process requires such storage;
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition;
- Selling and distribution costs.

Cost Formulas



Measurement of Inventories

- Raw Materials
  - At cost (if finished goods are sold at or above cost), otherwise at replacement cost
- Finished Goods and Work in progress
  - Lower of
    - Cost
    - Net Realisable Value
      - Realisable Value *less* Selling Expenses *less* estimated cost of completion

Disclosures

Information about the carrying amounts held in different classification of inventories and the extent of changes in these assets must be disclosed in financial statements.

Common Classifications of inventories

- Stock-in-trade (in respect of goods acquired for trading),
- Stores and spares,
- Loose tools,
- Others.
- Raw materials and components,
- Work in progress,
- Finished goods,

The financial statements should disclose — Accounting policies adopted in measuring inventories, including the cost formula used. — The total carrying amount of inventories together with its classification appropriate to the enterprise.

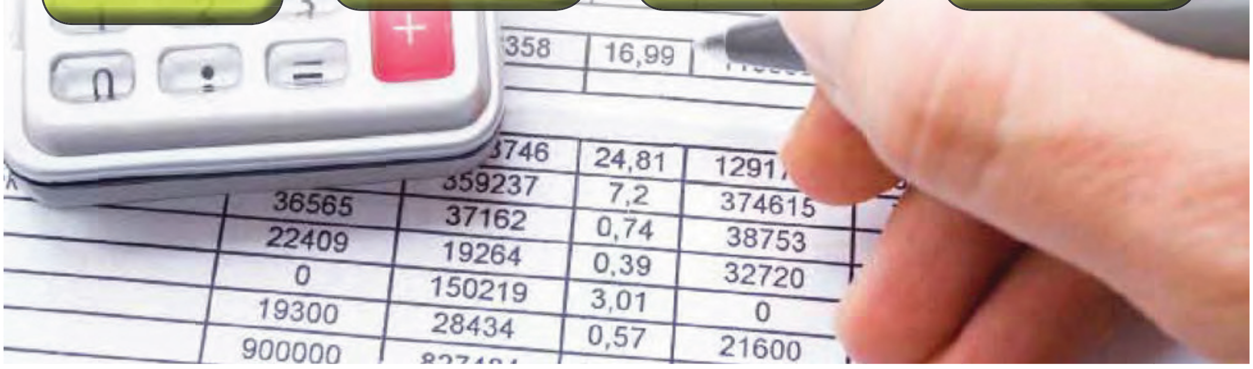
AS 3 "STATEMENT OF CASH FLOWS"

Introduction

AS 3 provides information about historical changes in cash and cash equivalents of an enterprise by mean of a cash flow statement which classifies cash flows during an accounting period into operating, investing and financing activities.

Objectives of AS 3

- To assess
  - Ability of the entity to generate cash and cash equivalents.
  - Needs of the entity to utilise those cash flows.
  - Timing and certainty of generation of cash flows.
- To require
  - Provision of information about the historical changes in cash and cash equivalents of an entity.



Presentation of a statement of cash flows

Report cash flows (inflows and outflows) during the period

Classified as

Operating activities

These are the principal revenue-producing activities of the entity other than investing or financing activities

Reporting

- Under direct method: Major classes of gross cash receipts and gross cash payments are disclosed
- Under indirect method: Profit or loss is adjusted for
  - non-cash transactions
  - any deferrals or accruals of past or future operating cash receipts or payments
  - items of income or expense associated with investing or financing cash flows

Entities are encouraged to follow the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method.

Investing activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents

Financing activities

Financing activities are activities that result in changes in the size and composition of the owner's capital and borrowings of the entity

An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities

Cash and cash equivalents

Cash: It comprises cash on hand & demand deposits with banks

Cash equivalents:
- are short-term, highly liquid investments
- are readily convertible to known amounts of cash
- are subject to an insignificant risk of changes in value
- are not for investment purposes
- has a short maturity of, say, 3 months or less from the date of acquisition

Exception: Investments in shares are excluded from cash equivalents

Cash flows arising from operating activities

Key indicator of the extent to which the operations of the entity have generated sufficient cash flows to
- repay loans
- maintain the operating capability of the entity
- pay dividends
- make new investments without recourse to external sources of financing

Generally, result from the transactions and other events that have role in the determination of net profit or loss

Examples

(a) Cash receipts from the sale of goods and the rendering of services
(b) Cash receipts from royalties, fees, commissions and other revenue
(c) Cash payments to suppliers for goods and services
(d) Cash payments to and on behalf of employees
(e) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits
(f) Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities
(g) cash receipts and payments relating to futures contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purposes.
(h) Cash flows arising from the purchase and sale of dealing or trading securities
(i) Cash advances and loans made by financial institutions since they relate to their main revenue-producing activity

Cash flows arising from investing activities

Represent the extent to which expenditures have been made for resources intended to generate future income and cash flows

Examples

(a) cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalised research and development costs and self-constructed fixed assets;
(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Note: *When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.*

Cash flows arising from financing activities

useful in predicting claims on future cash flows by providers of funds to the entity.

Examples

(a) cash proceeds from issuing shares or other equity instruments;
(b) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
(c) cash repayments of amounts borrowed.

Reporting cash flows on a net basis

Entities other than financial institutions

Cash flows arising from operating, investing or financing activities

Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity

Examples are:
(a) The acceptance and repayment of demand deposits of a bank;
(b) Funds held for customers by an investment entity; and
(c) Rents collected on behalf of, and paid over to, the owners of properties

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short

Examples are advances made for, and the repayment of:
(a) Principal amounts relating to credit card customers;
(b) The purchase and sale of investments; and
(c) Other short-term borrowings, for example, those which have a maturity period of three months or less.

Financial institutions

Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:
(a) Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
(b) The placement of deposits with and withdrawal of deposits from other financial institutions; and
(c) Cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows → Arising from transactions in a foreign currency → Recorded in an enterprise's reporting currency → Foreign currency amount ✖ Exchange rate between the reporting currency and the foreign currency at the date of the cash flow

- Cash flows denominated in a foreign currency are reported in a manner consistent with AS 11.
- Weighted average exchange rate for a period may be used for recording foreign currency transactions.

Important Points

1.	**Unrealised gains and losses arising from changes in foreign currency exchange rates**	are not cash flows.
2.	**The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency**	is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period.
		is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and Dividends

→ Cash flows from interest and dividends received and paid shall each be disclosed separately.

In case of financial institutions:
- Interest paid; Interest and dividends received → Classified as cash flows arising from operating activities
- Dividends paid → Classified as cash flows from financing activities → They are costs of obtaining financial resources

In the case of other entities:
- Dividends paid; Interest paid → Classified as cash flows from financing activities → They are costs of obtaining financial resources
- Interest and dividends received → Classified as cash flows from investing activities → They are returns on investments.

Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

Acquisitions and Disposals of Subsidiaries and Other Business Units

Cash flows arising from
- Acquisitions of subsidiaries or other businesses
- Disposal of subsidiaries or other businesses

→ Shall be classified as investing activities

→ Shall be presented separately → The cash flow effects of disposals are not deducted from those of acquisions

→ Shall disclose, in aggregate, during the period
- The total purchase or disposal consideration
- The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents.

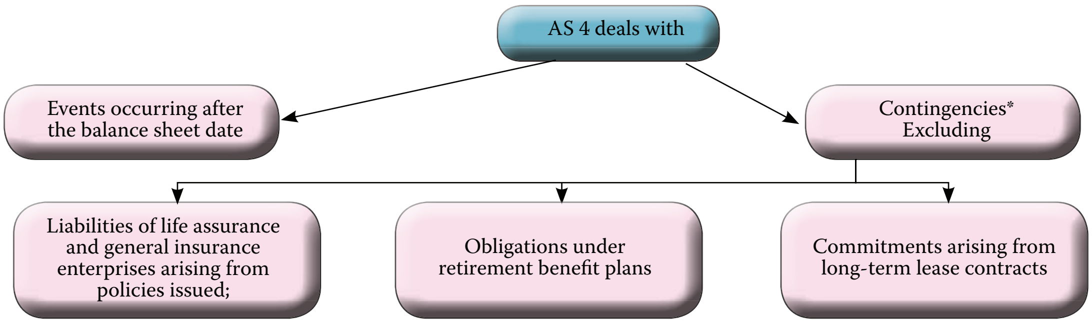
Important points/disclosures

Investing and financing transactions that do not require the use of cash or cash equivalents	shall be excluded from a statement of cash flows.
	disclosed elsewhere in the financial statements in a way that provides all relevant information.
Components of cash and cash equivalents	disclose the components of cash and cash equivalents.
	shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the balance sheet.
	discloses the policy which entity adopts in determining the composition of cash and cash equivalents.
Other disclosures	disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it.

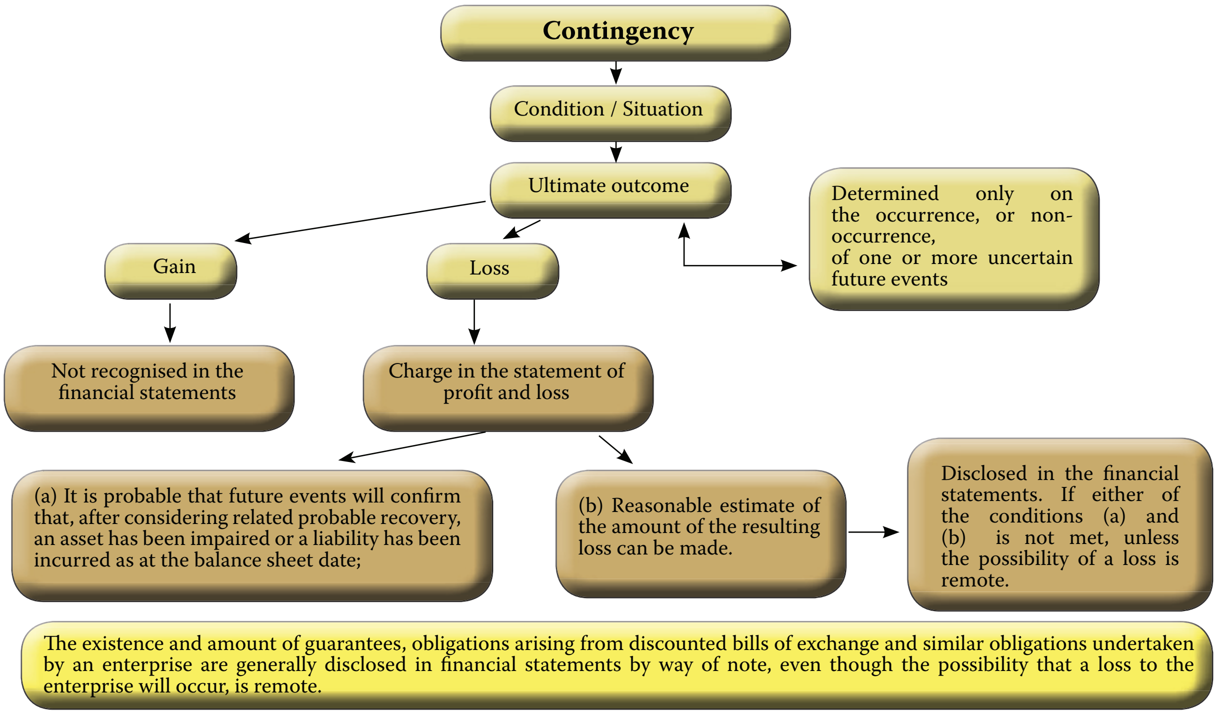
AS 4 "CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE"

Introduction

AS 4 defines contingencies and events occuring after the balance sheet date and describes the accounting treatment and disclosure requirements thereof.



** All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government.*



Events occurring after the reporting period

- Both favourable and unfavourable
- That occur between the end of the reporting period and the date when the financial statements are approved
  - By the Board of Directors in case of a company
  - By the corresponding approving authority in case of any other entity

Adjusting events → Those which provide further evidence of conditions that existed at the balance sheet date

Non-adjusting events → Those which are indicative of conditions that arose after the balance sheet date.

Disclosure

Adjusting events after the reporting period → Adjust the amounts recognised in the financial statements to reflect it

Example of adjusting events:
Events occurring after the balance sheet date may indicate that the enterprise ceases to be a going concern.
For example, Destruction of a major production plant by a fire after the balance sheet date may indicate a need to consider whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.

Non-adjusting events after the reporting period → Do not adjust the amounts recognised in the financial statements to reflect it

Example of a non-adjusting event
Decline in market value of investments between the balance sheet date and the date on which the financial statements are approved. Ordinary fluctuations in market values do not relate to the condition of the investments at the balance sheet date

If non-adjusting events after the reporting period are material, then **disclose**
- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

Dividend Declared after the reporting period but before approval of financial statements → Do not recognise it as a liability at the end of the reporting period. → Disclosed in the notes → No obligation exists at the end of reporting period.

AS 5 "NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES"

Introduction

The objective of AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss so that all enterprises prepare and present such a statement on a uniform basis. This standard requires the classification and disclosure of extraordinary and prior period items, and the disclosure of certain items within profit or loss from ordinary activities. It also specifies the accounting treatment for changes in accounting estimates and the disclosures to be made in the financial statements regarding changes in accounting policies.

This Statement does not deal with tax implications of
- Extraordinary items,
- Prior period items,
- Changes in accounting estimates, and
- Changes in accounting policies for which appropriate adjustments are made.

Net Profit or Loss for the Period

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss.

Net Profit or Loss for the Period comprises
- Ordinary Items,
- Extra Ordinary Items,
- Prior Period Items,
- Changes in Accounting Estimates and
- Changes in Accounting Polices.

Profit or Loss from Ordinary Activities

Ordinary Activities

- **Activities**: Which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.
- **Example**: Profit/ Loss on sale of merchandise.
- **Disclosure**: 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 performance of entity, Nature and amount of such items should be disclosed separately.
- **Special disclousre**
  - Write-down of inventories to net realisable value as well as the reversal of such write-downs
  - Restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring
  - Disposals of items of fixed assets and long-term investments
  - Legislative changes having retrospective application
  - Litigation settlements and other reversals of provisions

Extraordinary Items

Extraordinary items

- Income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly
- Disclosed in the statement of profit and loss
  - As a part of net profit or loss for the period.
  - Nature and amount of each item separately disclosed — in a manner that its impact on current profit or loss can be perceived.
- Examples
  - Attachment of property of the enterprise
  - An earthquake

An event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities.

Prior Period Items

Are income or expenses → Which arise in the current period as a result of → Errors or omissions → In the preparation of the financial statements → Of one or more prior periods.

Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived

Changes in Accounting Estimates

An estimate may have to be revised consequent to

changes occuring in the circumstances based on which the estimate was made, or

new information, more experience or subsequent developments.

Revision of an estimate

is neither an extraordinary item

nor a prior period item.

Residual value and the useful life of PPE → should be reviewed at each financial year-end and → if expectations differ from previous estimates → change should be accounted for → as a change in an accounting estimate.

Effect of a change in an accounting estimate

- **Included in the determination of net profit or loss**
  - Period of the change
    - if the change affects the period only.
  - Period of the change and future periods
    - if the change affects both periods.
- **Classification in statement of profit and loss**
  - Using same classification as was used previously for the estimate.
- **Disclosure**
  - Nature and amount need to be disclosed
    - which has a material effect in the current period,
    - or expected to have a material effect in subsequent periods.

Accounting Policies

- Can be changed only
  - When the adoption of a different accounting policy is required by statute; or
  - For compliance with an accounting standard; or
  - When it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.
- Conditions wherein there are no changes in accounting policies
  - Adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions,
  - Adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.
- Disclosure
  - Any change in accounting period which has material effect should be disclosed
  - The impact of, and the adjustments resulting from, such change, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change.

AS 7 "CONSTRUCTION CONTRACTS"

AS 7 prescribes the principles of accounting for construction contracts in the financial statements of contractors. The focus of the standard is on allocation of contract revenue and contract costs to the accounting periods in which construction work is performed.

What are Construction Contracts?

- Contracts specifically negotiated for the construction of an asset or combination of assets that are closely interrelated.
- Contracts for rendering of services related to construction of assets.
- Contracts for destruction or restoration of assets.

Construction contracts can be classified into two categories.

Types of construction contracts

- **Fixed price contract**: Contractor agrees to a fixed contract price or fixed rate per unit of output, which in some cases is subject to cost escalation.
- **Cost plus contract**: Contractor is reimbursed for allowable or otherwise defined costs, plus percentage of these costs or a fixed fee.

If the final outcome of the contract

- **Can be estimated reliably**: Revenue and costs recognized as per percantage of completion method considering the stage of completion of contract at reporting date.
- **Can not be estimated reliably**:
  - Revenue should be recognized only to the extent of contract costs incurred, of which recovery is probable.
  - Contract costs should be recognised as an expense in the period in which they are incurred.

Note: Any expected loss (when contract cost > contract revenue) on the construction contract should be recognised as an expense immediately in both the situations.

AS 7 prescribes conditions under which the outcome of a contract can be estimated reliably.

Outcome of contracts can be estimated reliably when

- **In fixed price contract**
  - Total contract revenue can be measured reliably.
  - It is probable that the economic benefits associated with the contract will flow to the enterprise.
  - Both contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably.
  - Contract costs attributable to contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.
- **In cost plus contract**
  - It is probable that the economic benefits associated with the contract will flow to the enterprise.
  - Contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Methods for Determination of Stage of Completion of Contracts

Determination of Stage of Completion
(Method to be chosen depending on the nature of the contract)

Proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs	Surveys of work performed	Completion of a physical proportion of the contract work

As per the standard, Contract revenue and Contract costs comprise of the following:

Contract Revenue

Initial amount of revenue agreed in the contract.	Variations in contract work, claims and incentive payments if (i) it is probable that they will result in revenue. (ii) they are capable of being reliably measured.

Contract Costs

Costs that relate directly to the specific contract.	Costs that are attributable to contract activity in general and can be allocated to the contract.	Such other costs as are specifically chargeable to the customer under the terms of the contract.

Changes in Estimates

- Application of percentage of completion on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs.
- Effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate.
- The changed estimates are used in determination of the amount of revenue and expenses recognised in the statement of profit and loss in the period in which the change is made and in subsequent periods.

When a contract covers a number of assets, each contract should be treated as separate contract if

- Separate proposals have been submitted for each asset.
- Each asset has been subject to separate negotiation and contractor and customers are able to accept or reject that part of the contract relating to each asset.
- Costs and revenues of each asset can be identified.

A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when

- Group of contracts is negotiated as a single package.
- Contracts are performed concurrently or in a continuous sequence.
- Contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin.

A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset.

Construction of the additional asset should be treated as a separate construction contract when

- Asset differs significantly in design, technology or function from the asset or assets covered by the original contract
- Price of the asset is negotiated without regard to the original contract price.

Disclosures in Financial Statements

General	Specific for contracts in progress
Amount of contract revenue recognised as revenue in the period	Amount of advances received
Methods used to determine the stage of completion of contracts in progress	Amount of retentions

Retentions are the amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

An enterprise should present gross amount for contract work in the financial statements

- Due from customers — As an asset
- Due to customers — As a liability

AS 9 "REVENUE RECOGNITION"

AS 9 explains the timing for recognition of revenue in the financial statements and also state the circumstances under which revenue recognition should be postponed.

AS 9 deals with → Bases for recognition of revenue arising in the course of the ordinary activities → In the statement of profit and loss of an enterprise.

Revenue is the gross inflow of cash, receivables or other consideration arising from

- Sale of goods
- Rendering of services
- Use by others of enterprise resources yielding interest, royalties and dividends

AS 9 does not deal with reveue arising from

- Construction contracts
- Hire-purchase, lease agreements
- Government grants and other similar subsidies
- Insurance contracts of insurance companies

Items not included within the definition of "revenue"

- Realised gains resulting from the disposal of non-current assets
- Unrealised gains resulting from the holding of non-current assets e.g. appreciation in the value of fixed assets
- Unrealised holding gains resulting from the change in value of current assets, and the natural increases in herds and agricultural and forest products
- Realised or unrealised gains resulting from changes in foreign exchange rates and adjustments due to translation of foreign currency financial statements
- Realised gains resulting from the discharge of an obligation at less than its carrying amount
- Unrealised gains resulting from the restatement of the carrying amount of an obligation

Sale of Goods

Revenue from sale of goods should be recognised when the requirements as to performance as set out in the standard are satisfied.

In sale of goods, performance should be regarded as being achieved when

- Seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred.
- No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Rendering of Services

Revenue from service transactions is usually recognised as the service is performed.

Methods of recognition of Revenue

Proportionate completion method

(i) Recognition of revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.
(ii) Performance consists of the execution of more than one act.
(iii) Revenue is recognised proportionately by reference to the performance of each act.

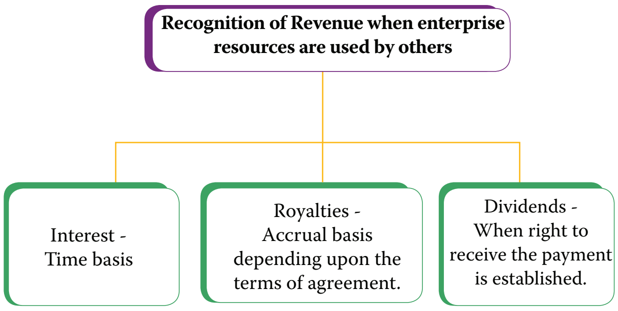
Completed service contract method

(i) Recognition of revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.
(ii) Services become chargeable.
(iii) Performance consists of the execution of a single act.

Note: Revenue from Sale of goods "for consideration" and Service transactions should be recognized only when no significant uncertainty exists regarding amount of consideration.

Use of Enterprise Resources by Other Parties

Use of enterprise resources by others may yield revenue in the form of Interest, Royalties and Dividends.



Effect of Uncertainties on Revenue Recognition

Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved.
When the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

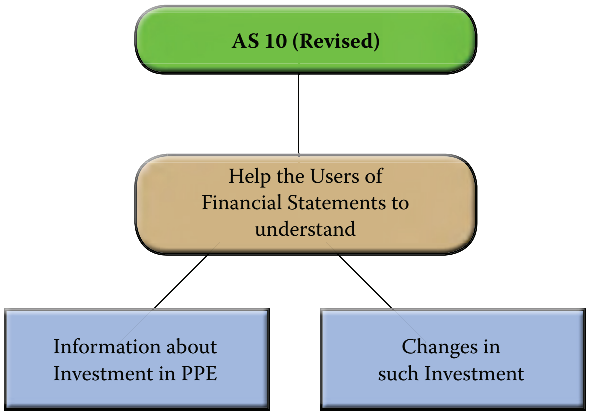
Disclosures

In addition to the disclosures required by AS 1 "Disclosure of Accounting Policies", an enterprise should disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

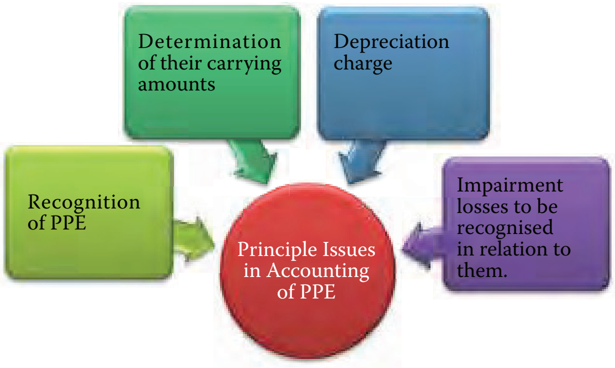
AS 10 "PROPERTY, PLANT AND EQUIPMENT"

Introduction

The objective of this Standard is to prescribe accounting treatment for Property, Plant and Equipment (PPE).

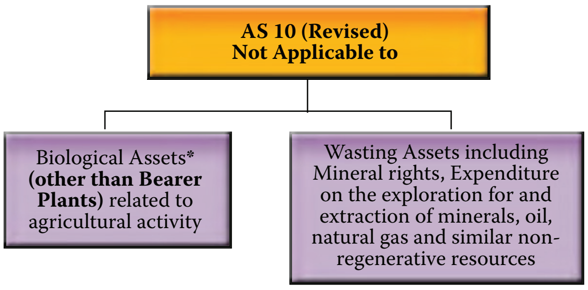


The principal issues in Accounting for PPE are:



Scope of Standard

As a general principle, AS 10 (Revised) should be applied in accounting for PPE. Except when another Accounting Standard requires or permits a different accounting treatment.

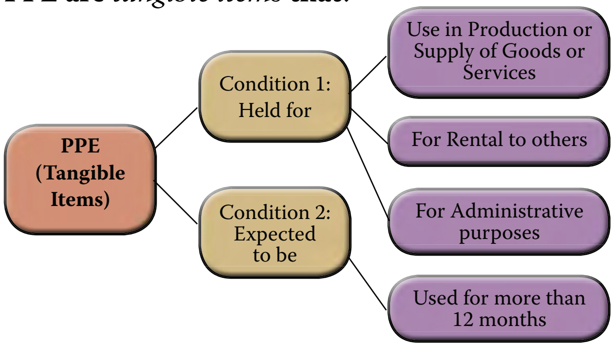


***AS 10 (Revised) applies to Bearer Plants but it does not apply to the produce on Bearer Plants.**

Clarifications:

1. AS 10 (Revised) applies to PPE used to develop or maintain the assets described above.
2. Investment property (defined in AS 13 (Revised)), should be accounted for only in accordance with the Cost model prescribed in this standard.

PPE are *tangible items* that:



Intangible items are covered under AS 26.

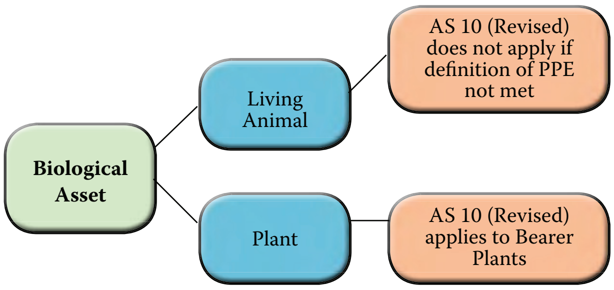
"Administrative purposes": **The term 'Administrative purposes' has been used** in wider sense **to** *include all business purposes.* Thus, PPE would include assets used for:

- Selling and distribution
- Finance and accounting
- Personnel and other functions of an Enterprise.

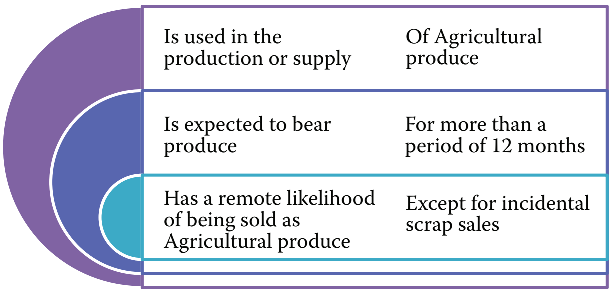
Items of PPE may also be acquired for safety or environmental reasons. The acquisition of such PPE, although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for an enterprise to obtain the future economic benefits from its other assets. Such items of PPE qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

Other definitions

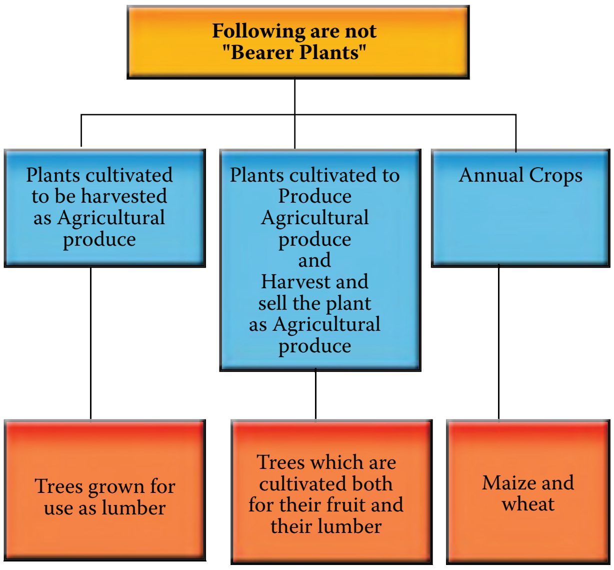
1. **Biological Asset:** Till the time, the Accounting Standard on "Agriculture" is issued, accounting for livestock meeting the definition of PPE, will be covered as per AS 10 (Revised).



2. Bearer Plant: Is a plant that (satisfies all 3 conditions):

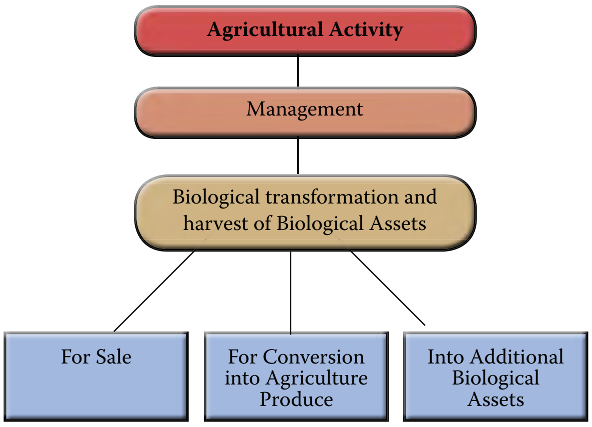


Note: When bearer plants are no longer used to bear produce they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant.



Agricultural Produce is the harvested product **of** Biological Assets **of the enterprise.**

3. **Agricultural Activity:** is the management by an Enterprise of:
   - Biological transformation and Harvest of Biological Assets



Recognition Criteria for PPE

The *cost of an item of PPE* **should be recognised as an asset** *if, and only if:*

(a) It is probable that future economic benefits associated with the item will flow to the enterprise, and

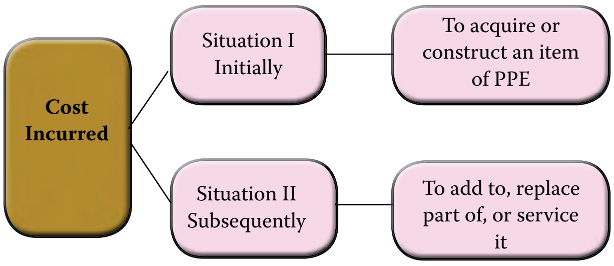
(b) The cost of the item can be measured reliably.

> ***Notes:***
> 1. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value.
> 2. An enterprise may decide to expense an item which could otherwise have been included as PPE, because the amount of the expenditure is not material.

When to apply the above criteria for Recognition?

An enterprise evaluates under this recognition principle all its costs on PPE at the time they are incurred.

These costs include costs incurred:



Treatment of Spare Parts, Stand by Equipment and Servicing Equipment

Case I If they meet the definition of PPE as per AS 10 (Revised):

- **Recognised as PPE as per AS 10 (Revised)**

Case II If they do not meet the definition of PPE as per AS 10 (Revised):

- **Such items are classified as Inventory as per AS 2 (Revised)**

Treatment of Subsequent Costs

Cost of day-to-day servicing

Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the 'Repairs and Maintenance' of the item of PPE.

An enterprise does not recognise in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the Statement of Profit and Loss as incurred.

Replacement of Parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

An enterprise recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.

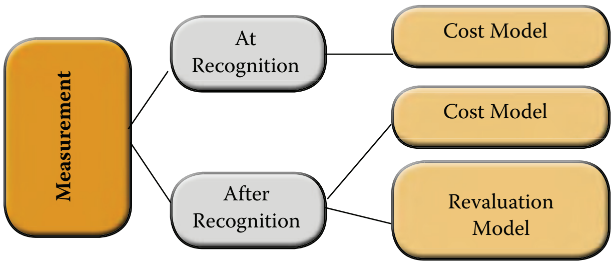
> ***Notes:*** The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions of this Standard.

Regular Major Inspections - Accounting Treatment

When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.

Measurement of PPE

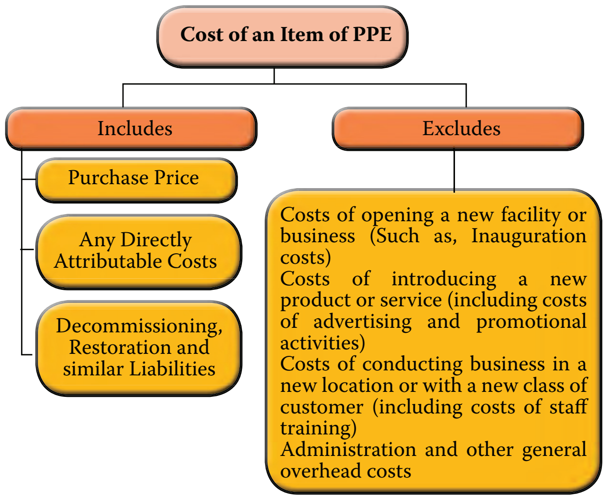


Measurement at Recognition

An item of PPE that qualifies for recognition as an asset should be measured at its cost.

What are the elements of Cost?

Cost of an item of PPE comprises:



Recognition of costs in the carrying amount of an item of PPE ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The following costs are not included in the carrying amount of an item of PPE:

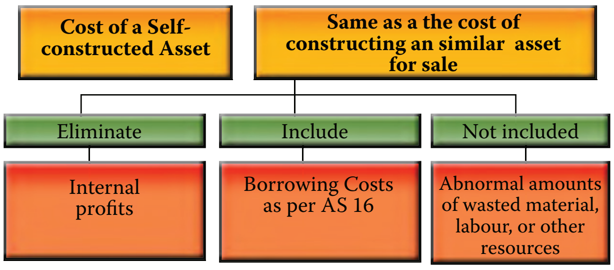
1. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
2. Initial operating losses, such as those incurred while demand for the output of an item builds up. And
3. Costs of relocating or reorganising part or all of the operations of an enterprise.

Note: Some operations occur in connection with the construction or development of an item of PPE, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities.

Decommissioning, Restoration and similar Liabilities:

The cost of an item of PPE comprises initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'Decommissioning, Restoration and similar Liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

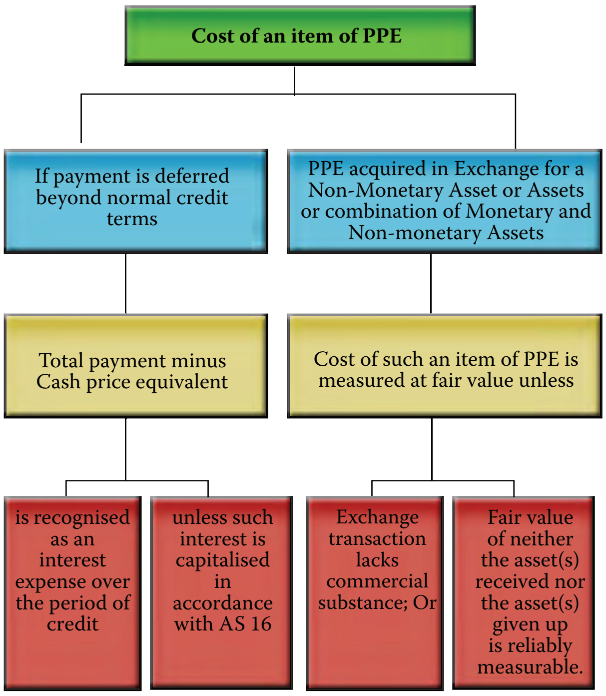
Exception: *An enterprise applies AS 2 (Revised) "Valuation of Inventories", to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.*



Bearer plants are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Measurement of Cost

Cost of an item of PPE is the cash price equivalent **at the recognition date.**



Note:

1. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up.
2. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.
3. An enterprise determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
   (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
   (b) the enterprise-specific value of the portion of the operations of the enterprise affected by the transaction changes as a result of the exchange;
   (c) and the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

PPE purchased for a Consolidated Price

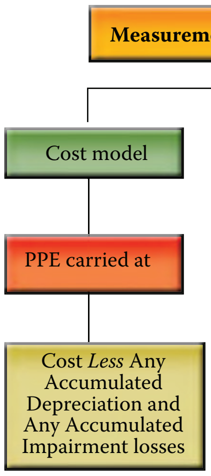
Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition.

PPE held by a lessee under a Finance Lease

The cost of an item of PPE held by a lessee under a finance lease is determined in accordance with AS 19 (Leases).

Government Grant related to PPE

The carrying amount of an item of PPE may be reduced by government grants in accordance with AS 12 (Accounting for Government Grants).



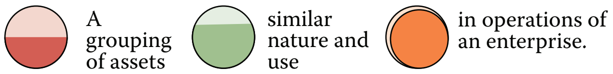
Revaluation for entire class of PPE

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

Reason:

The items within a class of PPE are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the Financial Statements that are a mixture of costs and values as at different dates.

Class of PPE is

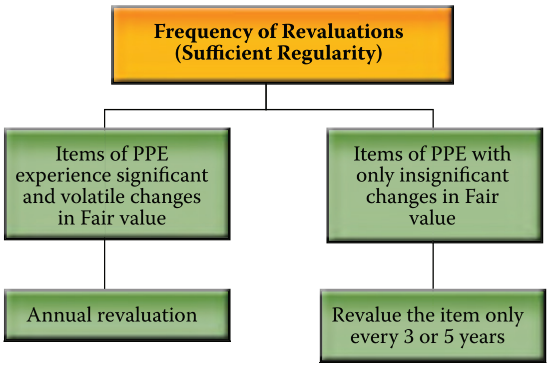


Frequency of Revaluations

Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date.

The frequency of revaluations depends upon the changes in fair values of the items of PPE being revalued.

When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.



Determination of Fair Value

Fair value of items of PPE is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.

If there is no market-based evidence of fair value because of the specialised nature of the item of PPE and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an income approach or a depreciated replacement cost approach.

Accounting Treatment of Revaluations

When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount.

At the date of the revaluation, the asset is treated in one of the following ways:

Technique 1: Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

Gross carrying amount

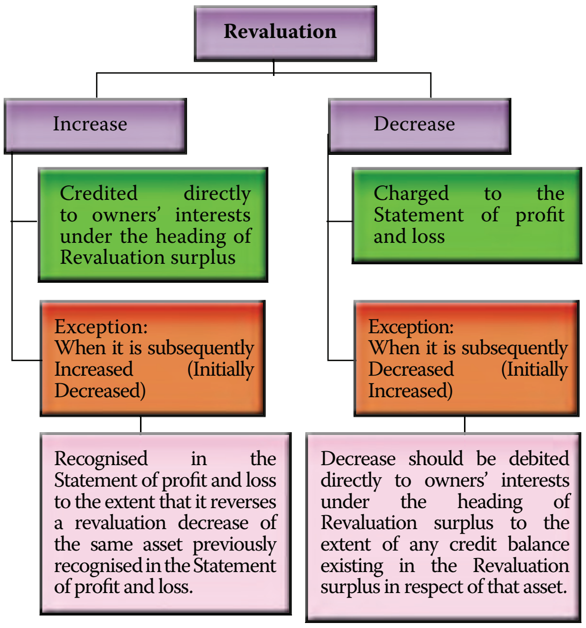
- May be restated by reference to observable market data, or
- May be restated proportionately to the change in the carrying amount.

Accumulated depreciation at the date of the revaluation is

- Adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses

Technique 2: Accumulated depreciation is eliminated against the Gross Carrying amount of the asset

Revaluation - Increase or Decrease



Treatment of Revaluation Surplus

The revaluation surplus included in owners' interests in respect of an item of PPE may be transferred to the Revenue Reserves when the asset is derecognised.

Case I : When whole surplus is transferred:

If the asset is:

- Retired; Or
- Disposed of.

Case II : Some of the surplus may be transferred as the asset is used by an enterprise:

In such a case, the amount of the surplus transferred would be:

Depreciation (based on Revalued Carrying amount) – Depreciation (based on Original Cost)

Transfers from Revaluation Surplus to the Revenue Reserves are not made through the Statement of Profit and Loss.

Depreciation

Component Method of Depreciation

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately.

A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

Depreciation charge for each period should be recognised in the Statement of Profit and Loss unless it is included in the carrying amount of another asset.

Depreciable Amount and Depreciation Period

Depreciable amount is:

Cost of an asset (or other amount substituted for cost i.e. revalued amount) -Residual value

The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

Review of Residual Value and Useful Life of an Asset

Residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

Commencement of period for charging Depreciation

Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Cessation of Depreciation

I. **Depreciation ceases to be charged when asset's residual value exceeds its carrying amount**

   The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, depreciation charge of the asset is zero unless and until its residual value subsequently decreases to an amount below its carrying amount.

II. **Depreciation of an asset ceases at the earlier of:**

   - The date that the asset is retired from active use and is held for disposal, and
   - The date that the asset is derecognised.

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

Land and Buildings

Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

A. **Land:** Land has an unlimited useful life and therefore is not depreciated.

   Exceptions: Quarries and sites used for landfill.

   Depreciation on Land:

   I. **If land itself has a limited useful life:**

   It is depreciated in a manner that reflects the benefits to be derived from it.

   II. **If the cost of land includes the costs of site dismantlement, removal and restoration:**

   That portion of the land asset is depreciated over the period of benefits obtained by incurring those costs.

B. **Buildings:**

   Buildings have a limited useful life and therefore are depreciable assets.

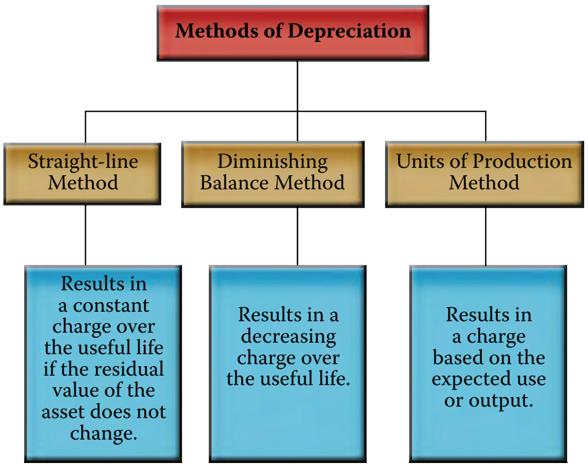
An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

Depreciation Method

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.

The method selected is applied consistently from period to period unless:

- There is a change in the expected pattern of consumption of those future economic benefits; Or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.



Review of Depreciation Method

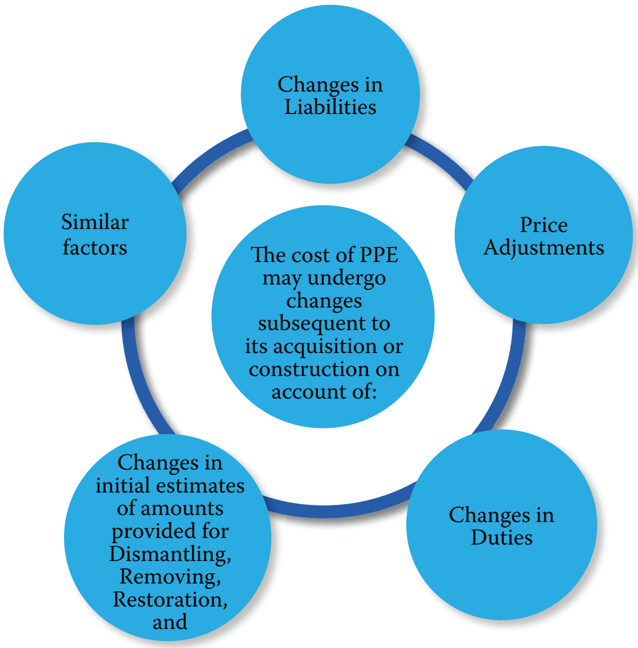
The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

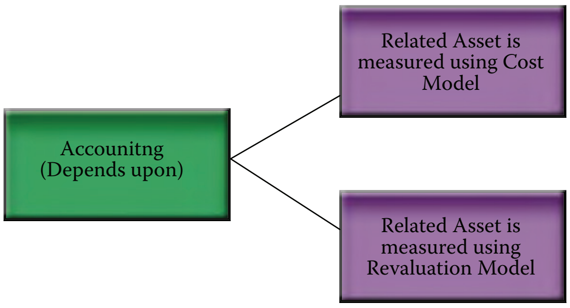
Depreciation Method based on Revenue:

A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

Changes in Existing Decommissioning, Restoration and Other Liabilities



Accounting for the above changes:



If the related asset is measured using the Cost model

Changes in the Liability should be added to, or deducted from, the cost of the related asset in the current period

> *Note:* Amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess should be recognised immediately in the Statement of Profit and Loss.

If the adjustment results in an addition to the cost of an asset

- Enterprise should consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable.

> *Note:* If it is such an indication, the enterprise should test the asset for impairment by estimating its recoverable amount, and should account for any impairment loss, in accordance with applicable Accounting standards.

If the related asset is measured using the Revaluation model

Changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

(i) **Decrease in the liability credited directly to revaluation surplus in the owners' interest**

Exception:

- It should be recognised in the Statement of Profit and Loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the Statement of Profit and Loss.

> *Note:* In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess should be recognised immediately in the Statement of Profit and Loss.

(ii) **Increase in the liability should be recognised in the Statement of Profit and Loss**

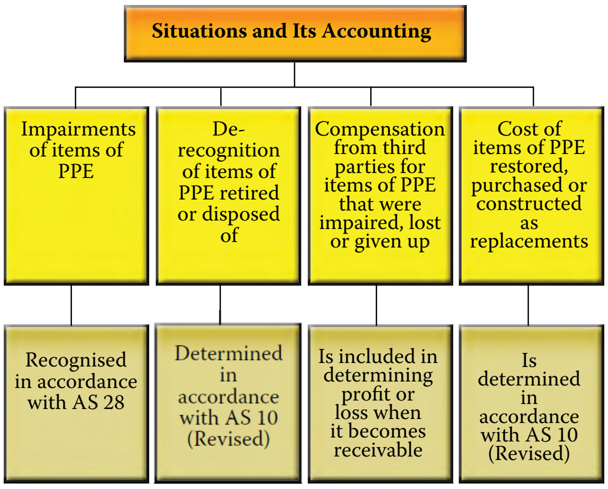
Exception:

- It should be debited directly to Revaluation surplus in the owners' interest to the extent of any credit balance existing in the Revaluation surplus in respect of that asset

> **Caution:**
> A change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

What happens if the related asset has reached the end of its useful life?

All subsequent changes in the liability should be recognised in the Statement of Profit and Loss as they occur. This applies under both the cost model and the revaluation model.



Retirements

Items of PPE retired from active use and held for disposal should be stated at the lower of:

- Carrying Amount, and
- Net Realisable Value

> *Note:* Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss.

De-Recognition

Derecognition of Carrying amount PPE:

On disposal

- By sale
- By entering into a finance lease, or
- By donation,

When no future economic benefits are expected from its use or disposal

Accounting Treatment

Gain or loss arising from de-recognition of an item of PPE should be included in the Statement of Profit and Loss when the item is derecognised unless AS 19 on Leases, requires otherwise on a sale and leaseback (AS 19 on Leases, applies to disposal by a sale and leaseback.)

Gain or loss arising from de-recognition of an item of PPE

= Net disposal proceeds (if any) - Carrying Amount of the item

Note: Gains should not be classified as revenue, as defined in AS 9 'Revenue Recognition'.

Exception:

An enterprise that in the course of its ordinary activities, routinely sells items of PPE that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.

The proceeds from the sale of such assets should be recognised in revenue in accordance with AS 9 on Revenue Recognition.

Determining the date of disposal of an item:

An enterprise applies the criteria in AS 9 for recognising revenue from the sale of goods.

Disclosure

Disclosures

- General
- Additional
- Disclosures related to Revalued Assets

General Disclosures:

(a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;

(b) The depreciation methods used;

(c) The useful lives or the depreciation rates used.

In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;

- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  (i) additions
  (ii) assets retired from active use and held for disposal
  (iii) acquisitions through business combinations
  (iv) increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in revaluation surplus
  (v) impairment losses recognised in the statement of profit and loss
  (vi) impairment losses reversed in the statement of profit and loss
  (vii) depreciation
  (viii) net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 11
  (ix) other changes.

Additional Disclosures:

The financial statements should also disclose:

- The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- The amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- The amount of assets retired from active use and held for disposal;
- The amount of contractual commitments for the acquisition of property, plant and equipment;
- If amount of contractual commitments is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss.

Disclosures related to Revalued Assets:

If items of property, plant and equipment are stated at revalued amounts, the following should also be disclosed:

- The effective date of the revaluation;
- Whether an independent valuer was involved;
- The methods and significant assumptions applied in estimating fair values of the items;
- The extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and
- The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Transitional Provisions

Previously Recognised Revenue Expenditure

Where an entity has in past recognised an expenditure in the Statement of Profit and Loss which is eligible to be included as a part of the cost of a project for construction of PPE in accordance with the requirements of this standard:

- It may do so retrospectively for such a project.

> ***Note:*** The effect of such retrospective application, should be recognised net-of-tax in Revenue reserves.

PPE acquired in Exchange of Assets

The requirements of AS 10 (Revised) regarding the initial measurement of an item of PPE acquired in an exchange of assets transaction should be applied prospectively only to transactions entered into after this Standard becomes mandatory.

Spare parts

On the date of this Standard becoming mandatory, the spare parts, which hitherto were being treated as inventory under AS 2 (Revised), and are now required to be capitalised in accordance with the requirements of this Standard, should be capitalised at their respective carrying amounts.

> ***Note:*** The spare parts so capitalised should be depreciated over their remaining useful lives prospectively as per the requirements of this Standard.

Revaluations

The requirements of AS 10 (Revised) regarding the revaluation model should be applied prospectively.

In case, on the date of this Standard becoming mandatory, an enterprise does not adopt the revaluation model as its accounting policy but the carrying amount of items of PPE reflects any previous revaluation it should adjust the amount outstanding in the Revaluation reserve against the carrying amount of that item.

> ***Note:*** The carrying amount of that item should never be less than residual value. Any excess of the amount outstanding as Revaluation reserve over the carrying amount of that item should be adjusted in Revenue reserves.

AS 11 "THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES"

Introduction

The standard deals with the issues involved in accounting for foreign currency transactions and foreign operations i.e., to decide which exchange rate to use and how to recognise the financial effects of changes in exchange rates in the financial statements.

Important points/disclosures

AS 11

Applicable

- (a) In accounting for transactions in foreign currencies.
- (b) In translating the financial statements of foreign operations.
- (c) Accounting for foreign currency transactions in the nature of forward exchange contracts.

Not applicable for

- (a) Specifying the currency in which an enterprise presents its financial statements. However, an enterprise normally uses the currency of the country in which it is domiciled. If it uses a different currency, the Standard requires disclosure of the reasons for using that currency. The Standard also requires disclosure of the reason for any change in the reporting currency.
- (b) Presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and the translation of cash flows of a foreign operation, which are addressed in AS 3 'Cash flow statement'.
- (c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
- (d) Restatement of an enterprise's financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.

Definitions of the Terms used in the Standard

A foreign currency transaction is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:

- Buys or sells goods or services whose price is denominated in a foreign currency or
- Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency or
- Becomes a party to an unperformed forward exchange contract or
- Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

Monetary items	are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Example, cash, receivables and payables.
Non-monetary items	are assets and liabilities other than monetary items. Examples: fixed assets, inventories and investments in equity shares.
Foreign operation (FO)	is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.
Integral foreign operation (IFO)	is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise and carries on its business as if it were an extension of the reporting enterprise's operations.
Non-integral foreign operation (NFO)	is a foreign operation that is not an integral foreign operation. 'Net investment in a non-integral foreign operation' is the reporting enterprise's share in the net assets of that operation.
Forward exchange contract	an agreement to exchange different currencies at a forward rate.
Forward rate	is specified exchange rate for exchange of two currencies at specified future date.
Foreign currency	is a currency other than the reporting currency of an enterprise.

Initial Recognition
A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Reporting at each Balance Sheet Date

Foreign currency items

- Monetary
  - Reported using the closing rate.
- Non-monetary
  - Carried in terms of historical cost denominated in a foreign currency → Reported using the exchange rate at the date of the transaction.
  - Carried at fair value or other similar valuation denominated in a foreign currency → Reported using the exchange rates that existed when the values were determined.
  - Contingent liability denominated in foreign currency → Disclosed by using the closing rate.

Recognition of Exchange Differences

- Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.
- An exchange difference results when there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction.
- When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period.
- When the transaction is settled in a subsequent accounting period, exchange difference recognised in each intervening period up to the period of settlement is determined by the change in exchange rates during that period.
- Alternatively, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset;
- In other cases, can be accumulated in the Foreign Currency Monetary Item Translation Difference (FCMITD) Account and (amortised over the balance period of such long term assets or liability, by recognition as income or expense in each of such periods)
- Such option is irrevocable and should be applied to all such foreign currency monetary items.

Classification of Foreign Operations as Integral or Non-Integral

The method used to translate the financial statements of a foreign operation

depends on the way in which it is financed

and operates in relation to the reporting enterprise.

foreign operations are classified as either 'integral foreign operations' or 'non-integral foreign operations.'

Translation of Integral Foreign Operations (IFO)

The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting enterprise itself.

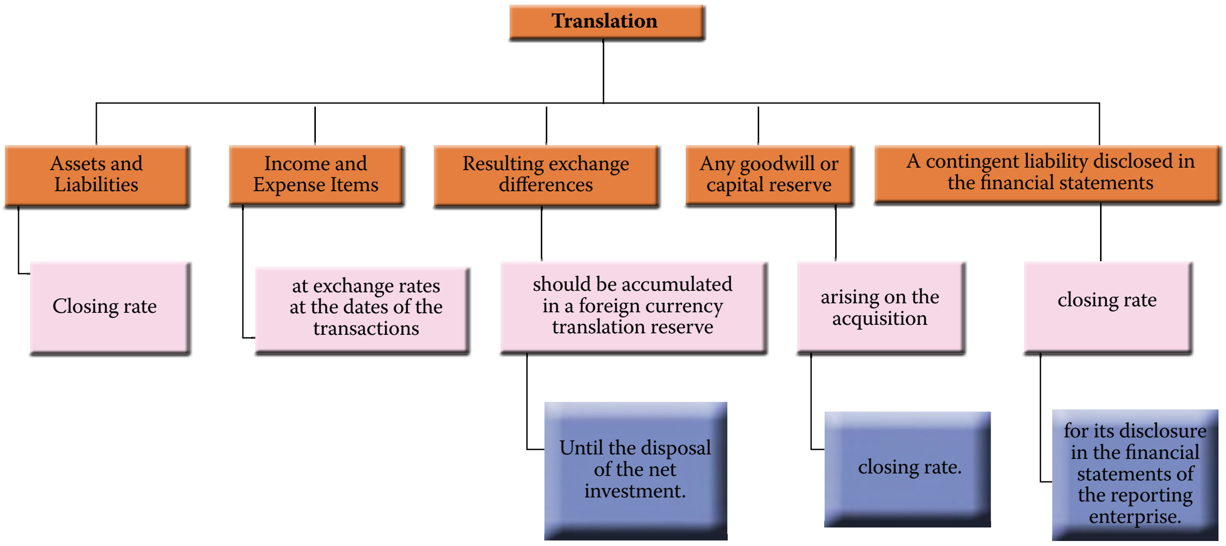
The cost and depreciation of tangible fixed assets is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value or other similar valuation, using the rate that existed on the date of the valuation.

The cost of inventories is translated at the exchange rates that existed when those costs were incurred.

The recoverable amount or realisable value of an asset is translated using the exchange rate that existed when the recoverable amount or net realisable value was determined.

Translation of Non-Integral Foreign Operations (NFO)

The translation of the financial statements of a non-integral foreign operation is done using the following procedure:



Procedure of Translation for Non-Integral Foreign Operations (NFO)

For practical reasons, a rate that approximates the actual exchange rates, for example an average rate for the period is often used to translate income and expense items of a foreign operation.

Incorporation of the financial statements of a non-integral foreign operation in those of the reporting enterprise follows normal consolidation procedures, such as the elimination of intra-group balances and intra-group transactions of a subsidiary.

When the financial statements of a non-integral foreign operation are drawn up to a different reporting date from that of the reporting enterprise, the non-integral foreign operation often prepares, for purposes of incorporation in the financial statements of the reporting enterprise, statements as at the same date as the reporting enterprise.

The exchange differences are not recognised as income or expenses for the period because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting enterprise.

When a non-integral foreign operation is consolidated, but is not wholly owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and reported as part of, the minority interest in the consolidated balance sheet.

An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandomnent of all, or part ot: that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised at the time of a write-down.

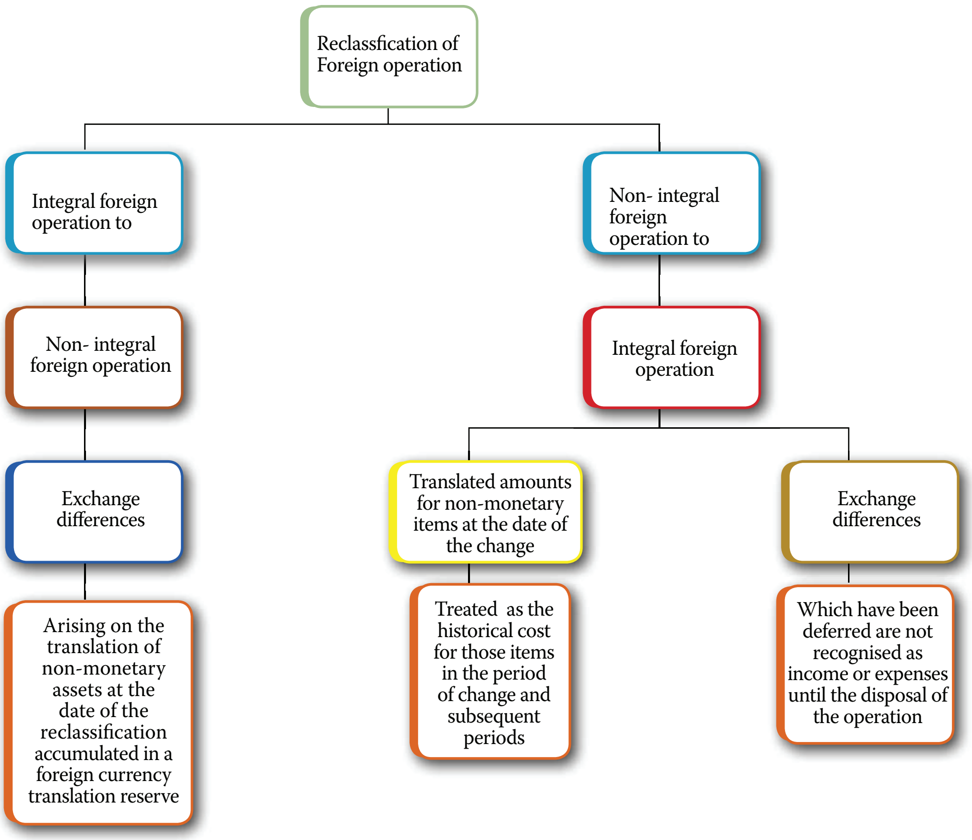
Indications that a FO is a non-integral foreign operation rather than an integral foreign operation

Indications

Control	RE may control the FOA of the FO are carried out with a significant degree of autonomy from those of the **RE**
Transactions	With the **RE** are not a high proportion of the **FOA**
Finance	**FOA** are financed mainly from its own operations or local borrowings rather than from RE
Cost	Costs of labour, material and other components of the FO'S products or services are primarily paid or **settled in the local currency** rather than in the **RE** currency
Sales	FO's sales are mainly in currencies other than the RE currency
Cash Flows	RE cash flows are insulated from the day-to-day activities of the FO rather than being directly affected by the FOA
Sales prices	Sales prices for the FO'S products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation.
Local sales market	There is an active local sales market for the FO'S products, although there also might be significant amounts of exports.

RE - Reporting Enterprise
FO- Foreign Operation
FOA - Foreign Operation Activities

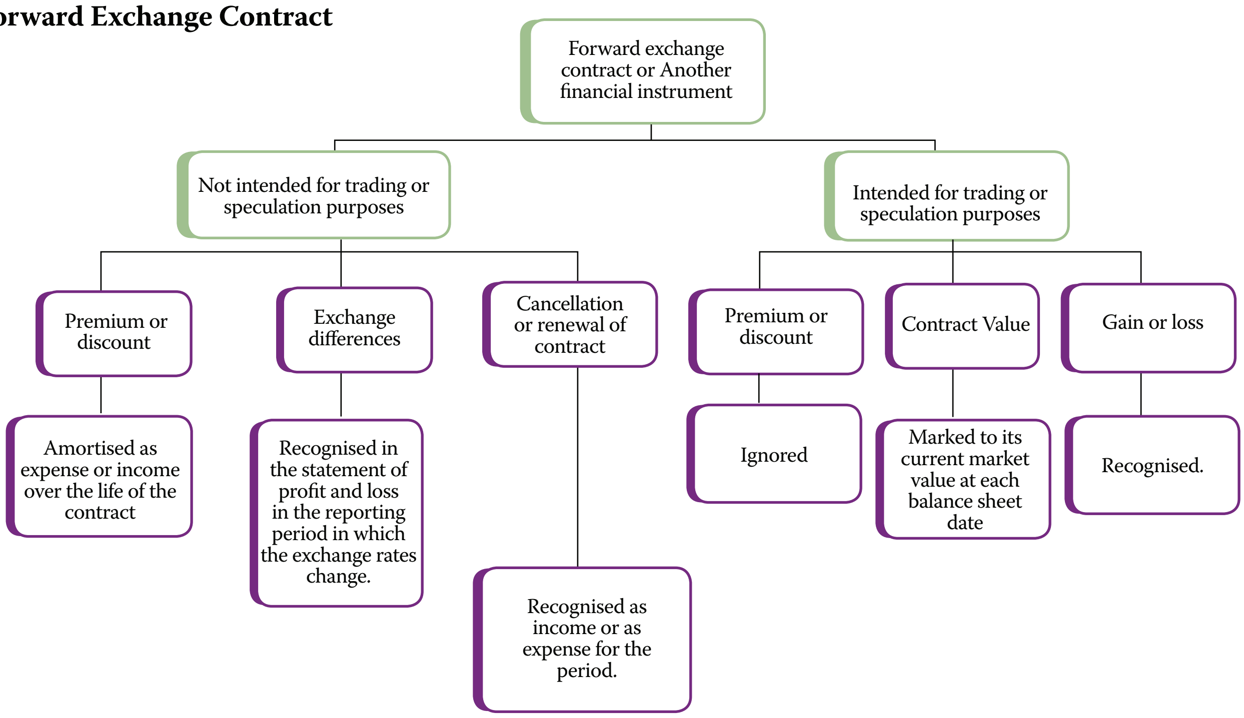
Change in the Classification of a Foreign Operation



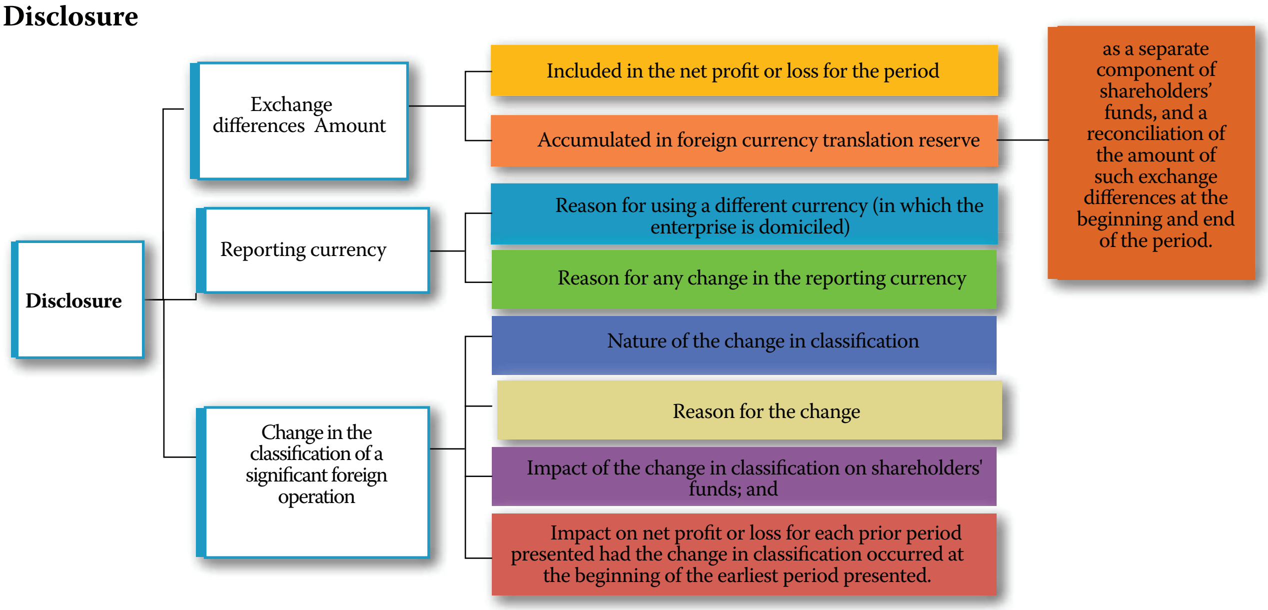
Tax Effects of Exchange Differences

Accounted for in accordance with AS 22. { Gains and losses on foreign currency transactions and exchange differences arising on the translation of the financial statements of foreign operations may have associated tax effects.

Forward Exchange Contract



Disclosure



Presentation of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)

Debit or credit balance in FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head 'Reserves and Surplus' as a separate line item.

AS 12 "ACCOUNTING FOR GOVERNMENT GRANTS"

AS 12

Deals with

◊ Accounting for government grants such as subsidies,
◊ Cash incentives,
◊ Duty drawbacks, etc.

Does not deal with:

◊ The special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

◊ Government assistance other than in the form of government grants.

◊ Government participation in the ownership of the enterprise

AS 12 describes

- Treatment of non-monetary government grants;
- Presentation of grants related to specific fixed assets;
- Revenue grants and those in the nature of promoters' contribution;
- Treatment for refund of government grants etc.

Meaning of Government Grants

Assistance by government

in cash or kind

to an enterprise for past or future compliance

with certain conditions

They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

Accounting Treatment of Government Grants

Two approaches

'Capital approach'

Grant is treated as part of shareholders' funds

Grants which have the characteristics similar to those of promoters' contribution should be treated as part of shareholders' funds.

'Income approach'

Grant is taken to income over one or more periods.

Income approach may be more appropriate in the case of other grants.

Recognition of Government Grants

A government grant is not recognised until there is reasonable assurance that

Enterprise will comply with the conditions attached to it; and

Grant will be received.

Receipt of a grant is not of itself conclusive evidence that the conditions attaching to the grant have been or will befulfilled.

Non-Monetary Government Grants

Non-Monetary Government Grants

Land or other resources,

Concessional rates — Account at their acquisition cost.

Free of cost — Recorded at a nominal value.

Presentation of Grants

Presentation of Grants

- **Related to Specific Fixed Assets**
  - **Method I :**
    - The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value.
    - The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.
    - Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.
  - **Method II:**
    - Grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
    - Grants related to non-depreciable assets are credited to capital reserve as there is usually no charge to income in respect of such assets.
    - If a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income.
- **Related to Revenue**
  - Grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, they are deducted in reporting the related expense.
- **In nature of Promoters' Contribution**
  - Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Refund of Government Grants

If certain conditions are not fulfilled grants become refundable and are treated as an extraordinary item.

Refund of Government Grant

- **Related to Revenue**
  - is applied first against any unamortised deferred credit remaining in respect of the grant
  - To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists,
  - the amount is charged immediately to profit and loss statement.
- **Related to a Specific fixed asset**
  - is recorded by increasing the book value of the asset or by reducing the deferred income balance, as appropriate, by the amount refundable.
  - In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.
- **In the nature of promoters' contribution**
  - Refundable, in part or in full, to the government on non-fulfilment of some specified conditions, the relevant amount recoverable by the government is
    - Reduced from the capital reserve.

Disclosure

- The accounting policy adopted for government grants, including the methods of presentation in the financial statements
- The nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

AS 13 "ACCOUNTING FOR INVESTMENTS"

AS 13 deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

AS 13 does not deal with

- Basis for recognition of interest, dividends and rentals earned on investments which are covered by AS 9
- Operating or finance leases
- Investments on retirement benefit plans and life insurance enterprises
- Mutual funds, venture capital funds and/ or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013

DEFINITION OF INVESTMENTS

Investments are assets held by an enterprise

- for earning income
  - Dividends
  - Interests
  - Rentals
- for capital appreciation or for other benefits

Assets held as Stock-in-trade are not 'Investments'.

Fair value

- Amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
- Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.

Market value

- Amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

CLASSIFICATION OF INVESTMENTS

Classification of Investments

- Current Investments: By nature readily realisable; intended to be held for not more than one year from the date on which such investment is made.
- Long Term Investments: Other than a current investment

Type of acquisition	Cost of investments
In Cash/ bank	Cash price including charges such as brokerages, fees and duties
By Issue of shares/ other securities	Fair value of securities issued
In exchange for another asset	Fair value of asset given up or fair value of investment acquired, whichever is more clearly evident

Accounting for
Interest accrued/Dividend declared

- **Pre-acquisition period**: ***Deducted from cost of investment***
- **Post-acquisition period**: ***Recognized as an income***

Accounting for
- Right shares
  - **Subscribed** Cost of shares added to carrying amount
  - **Not subscribed, but sold** Sale proceeds taken to P&L A/c
    - If acquired on cum-right basis & the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.
- Bonus
  - No amount is entered in the capital column of investment account.

CARRYING AMOUNT OF INVESTMENTS

Carrying Amount
- Current investments
  - Lower of cost and fair value.
    - Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the profit and loss account (and excess portion, if any, is ignored).
  - Valuation
    - on overall (or global) basis is not considered appropriate; prudent method is to carry investment individually.
- Long term investments
  - carried
    - at cost.
      - Where there is a decline, other than temporary,in the carrying amounts of long term valued investments, the resultant reduction in the carrying amount is charged to the profit and loss statement. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.
  - Valuation
    - Determined on an individual investment basis.

INVESTMENT PROPERTIES

- An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
- An investment property is accounted for in accordance with cost model as prescribed in AS 10 (Revised), 'Property, Plant and Equipment'.
- The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

DISPOSAL OF INVESTMENTS

- Difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the P & L statement.
- When part of investment is disposed, carrying amount is allocated to that part on the basis of average carrying amount of total investment.
- If investments held as stock-in-trade, cost of stocks disposed calculated as per cost formula as per AS 2.

RECLASSIFICATION OF INVESTMENTS

Reclassification of Investments
- Current to Long-term
  - Transfer at Lower of cost & fair value at the date of transfer
- Long-term to Current
  - Transfer at lower of cost & carrying amount at the date of transfer

DISCLOSURE

1. Accounting policies followed for valuation of investments;
2. Amounts included in profit and loss statement for:
   - Interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments.
   - Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid.
   - Profits and losses on disposal of current investments and changes in carrying amount of such investments.
   - Profits and losses on disposal of long term investments and changes in carrying amount of such investments.
3. Significant restrictions on the right of ownership, realizability of investments or remittance of income and proceeds of disposal.
4. Aggregate amount of quoted and unquoted investments, giving aggregate market value of quoted investments.
5. Other disclosures as specifically required by relevant statute governing enterprise.

AS 14 "ACCOUNTING FOR AMALGAMATIONS"

AS 14 (Revised) deals with the accounting to be made in the books of Transferee company in the case of amalgamation and the treatment of any resultant goodwill or reserve.

Objective

- Accounting for amalgamations
- Treatment of any resultant goodwill or reserves
- Disclosures

Scope

This standard deals with Accounting for Amalgamation i.e. acquisition of one entity by the other and the acquired entity ceased to exist	The standard does not deal with cases of acquisitions where one entity is acquired by the other and the acquired entity continues to exist.

Key Terms

Meaning of Amalgamations

In an amalgamation, two or more companies are combined into one by merger or by one taking over the other. *Amalgamation means an amalgamation*

pursuant to the relevant provisions of the Companies Act

includes "merger"

Transferor company	Company which is amalgamated into another company.
Transferee company	Company into which a transferor company is amalgamated.
Reserve	Portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.
Consideration for the amalgamation	Aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.
Fair value	Amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Types of Amalgamations and Methods of Accounting

Amalgamation may be either in the nature of

Merger	Purchase
Amalgamations where there is a genuine pooling not merely of the assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of these companies are amalgamations in the nature of merger.	Amalgamations which are in effect a mode by which one company acquires another company and as a consequence, the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued.
Method of Accounting - Pooling of Interest method	Method of Accounting - Purchase method

The standard specifies the conditions to be satisfied by an amalgamation to be considered as amalgamation in nature of merger or purchase.

Conditions for Amalgamation in the nature of Merger and Purchase

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) Consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified above.

Methods of Accounting

Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either

- By incorporating the assets and liabilities at their existing carrying amounts or
- By allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.

Pooling of Interests Method

Pooling of interests is a method of accounting for amalgamations, the object of which is to account for the amalgamation as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company.

1 Assets, liabilities and reserves of the transferor company to be recorded by the transferee company at existing carrying amounts and in the same form as at the date of the amalgamation.

2 If the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted following the amalgamation.

3 The difference between the amount of share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in reserves.

Treatment of Reserves of the Transferor Company on Amalgamation

Treatment of Reserves

Amalgamation in nature of merger

Identity of the reserves is preserved and they appear in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company.

Amalgamation in the nature of purchase

Identity of the reserves, other than the statutory reserves is not preserved. The amount of the consideration is deducted from the value of the net assets of the transferor company acquired by the transferee company. If the result of the computation is negative, the difference is debited to goodwill arising on amalgamation and if the result of the computation is positive, the difference is credited to Capital Reserve.

Statutory Reserves

Statutory reserves retain their identity in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company, so long as their identity is required to be maintained to comply with the relevant statute.

Statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g. 'Amalgamation Adjustment Reserve') which is presented as a separate line item under the head "**Reserves and Surplus**".

When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

Balance of Profit and Loss Account

Balance of the Profit and Loss Account appearing in the financial statements of the transferor company

Amalgamation in nature of merger

- Is aggregated with the corresponding balance appearing in the financial statements of the transferee company.
- Alternatively, it is transferred to the General Reserve, if any.

Amalgamation in the nature of purchase

- Debit or credit balance loses its identity.

Treatment of Goodwill

Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised on a systematic basis over its useful life.

Due to the nature of goodwill, it is frequently difficult to estimate its useful life with reasonable certainty.

It is considered appropriate to amortise goodwill over a period not exceeding 5 years unless a longer period can be justified.

Disclosure Requirements

For all amalgamations, the following disclosures are considered appropriate in the first financial statements following the amalgamation:

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- Method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

For amalgamations accounted for under the pooling of interests method, the following additional disclosures are considered appropriate in the first financial statements following the amalgamation:

- Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
- Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations accounted for under the purchase method, the following additional disclosures are considered appropriate in the first financial statements following the amalgamation:

- Consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

AS 16 "BORROWING COSTS"

The objective of AS 16 is to account for borrowing costs. It does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

BORROWING COSTS MAY INCLUDE

- Borrowing Costs
  - Interest & commitment charge on Borrowings
  - Amortisation of ancillary costs relating to Borrowings
  - Exchange Differences*
  - Amortisation of Discount / Premium on Borrowings
  - Finance charges for assets acquired on Finance Lease

*To the extent they are regarded as an adjustment to interest cost

A QUALIFYING ASSET

- An asset when acquired for its intended use or sale.
  - Necessarily takes a substantial period of time to get ready for its intended use or sale
    - Qualifying asset
      - Manufacturing plants
      - Power generation facilities
      - Inventories that require a substantial period of time to bring them to a saleable condition
      - Investment property
  - Is ready for use
    - Not qualifying asset
      - Other investment and those inventory that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time

SUBSTANTIAL PERIOD OF TIME

Substantial period of time depends on the facts and circumstances of each case

Unless a shorter or longer period can be justified on the basis of the facts and circumstances of the case.

A period of twelve months is considered as substantial period of time

In estimating the period, time which an asset takes technologically and commercially to get it ready for its intended use or sale should be considered

EXCHANGE DIFFERENCES ON FOREIGN CURRENCY BORROWINGS

Exchange differences arising from foreign currency borrowing and considered as borrowing costs are those exchange differences which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings.

Amount of exchange difference not exceeding the difference between interest on local currency borrowings and interest on foreign currency borrowings is considered as borrowing cost to be accounted for under this Standard and the remaining exchange difference, if any, is accounted for under AS 11, 'The Effects of Changes in Foreign Exchange Rates'.

Interest rate for the local currency borrowings is considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings.

BORROWING COSTS ELIGIBLE FOR CAPITALISATION

Treatment of Borrowing Costs

- Borrowing Costs
  - Directly related* for:
    - acquisition
    - construction
    - production of
      - Qualifying Assets → Capitalized
      - Assets other than Qualifying assets → Revenue Expenditure

*or that could have been avoided if the expenditure on qualifying assets had not been made.

Thus, borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowings

- **Specific borrowings**
  - Borrowed funds specifically for the purpose of obtaining a particular qualifying asset
  - Borrowing costs that directly relate to that qualifying asset can be readily identified.
  - If funds temporarily invested .
    - Capitalised borrowing costs= borrowing costs less any income earned on the temporary investment of those borrowings
- **General borrowings**
  - No Direct relationship between particular borrowings and a qualifying asset
  - Amount of borrowing costs eligible for capitalisation determined by applying a capitalisation rate to the expenditure on that asset.
    - The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.
  - The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

EXCESS OF THE CARRYING AMOUNT OF THE QUALIFYING ASSET OVER RECOVERABLE AMOUNT

When the carrying amount or the expected ultimate cost of the qualifying asset

↓

Exceeds its recoverable amount or net realisable value,

↓

Carrying amount is written down or written off in accordance with the requirements of other Accounting Standards.

↓

In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Accounting Standards.

COMMENCEMENT OF CAPITALISATION

The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied

- **Expenditure for the acquisition, construction or production of a qualifying asset is being incurred:**
  - Expenditure on a qualifying asset includes only such expenditure that has resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditure is reduced by any progress payments received and grants received in connection with the asset. The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditure to which the capitalisation rate is applied in that period.
- **Borrowing costs are being incurred.**
- **Activities that are necessary to prepare the asset for its intended use or sale are in progress:**
  - The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

SUSPENSION OF CAPITALISATION

Capitalisation of borrowing costs

- **Suspended**
  - during extended periods in which active development is interrupted.
- **Not suspended**
  - during a period when substantial technical and administrative work is being carried out.
  - when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

CESSATION OF CAPITALISATION

Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

DISCLOSURE

The financial statements should disclose:

- The accounting policy adopted for borrowing costs; and
- The amount of borrowing costs capitalised during the period.

AS 17 "SEGMENT REPORTING"

The objective AS 17 is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Information about segments helps users of financial statements to:

- Better understand the performance of the enterprise;
- Better assess the risks and returns of the enterprise; and
- Make more informed judgements about the enterprise as a whole.

For Companies - AS 17 is not mandatory for SMCs.
For Non-companies - AS 17 is not mandatory for entities falling in Level II and Level III.

SCOPE

- AS 17 should be applied in presenting general purpose financial statements.
- An enterprise should comply with the requirements of this Standard fully and not selectively.
- If a single financial report contains both consolidated financial statements and separate financial statements of parent, segment information need to be presented only on basis of the consolidated financial statements.

DEFINITION OF THE TERMS USED IN THE ACCOUNTING STANDARD

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

- The nature of the products or services
- The nature of the production processes
- The type or class of customers for the products or services
- The methods used to distribute the products or provide the services
- If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

- Similarity of economic and political conditions;
- Relationships between operations in different geographical areas;
- Proximity of operations;
- Special risks associated with operations in a particular area;
- Exchange control regulations; and
- The underlying currency risks.

A **reportable segment** is a business segment or a geographical segment identified on the basis of definitions of business segment and geographical segment for which segment information is required to be disclosed by this Standard.

Identifying Reportable Segments as Primary Segment or Secondary Segment

- If the risks and returns of an enterprise are affected predominantly by the differences in the products and services, its primary segment will be business segment and geographic segment will be secondary.
- If the risks and returns of an enterprise are affected predominantly by the fact that it operates in different geographical areas, its primary segment will be geographical segment and business segment will be secondary.

A single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country.

The risks and returns of an enterprise are influenced both by the geographical location of its operations (where its products are produced or where its service rendering activities are based) and also by the location of its customers (where its products are sold or services are rendered).

The definition allows geographical segments to be based on either:

- Location of production or service facilities and other assets of an enterprise; or
- Location of its customers.

CRITERIA FOR IDENTIFYING REPORTABLE SEGMENTS

- **Revenue Test** Segment revenue >= 10% of all segment revenues
- **Result Test** Segment result >= 10% of higher of segments in profit or loss
- **Assets Test** Segment assets >= 10% of total assets of all segments
- **Management choice-** Management may designate any segment as reportable segment despite its size even if tests are not satisfied

75% Test- Is external revenue of reportable segment < 75% of enterprise revenue

- Previous year's segment information to continue in current year
- If inconsistent, previous year figures to be regrouped to fall in line with current year

In the last test (75% Test), if total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent thresholds in other tests, until at least 75 per cent of total enterprise revenue is included in reportable segments.

SEGMENT REVENUE

Segment revenue

Is aggregate of

- Portion of enterprise revenue that is directly attributable to a segment,
- Relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
- Revenue from transactions with other segments of the enterprise.

Does not include

- Extraordinary items as defined in AS 5.
- Interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and
- Gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature.

SEGMENT EXPENSE

Segment expense

Is aggregate of

- Expense resulting from the operating activities of a segment that is directly attributable to the segment, and
- Relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment,
- Expense relating to transactions with other segments of the enterprise.

Does not include

- Extraordinary items as defined in AS 5.
- Interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.
- Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature.
- Income tax expense.
- General administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis.

SEGMENT RESULT

is segment revenue → less → segment expense.

SEGMENT ASSETS

Segment assets

Operating assets

- that are employed by a segment in its operating activities and
- that either are directly attributable to the segment or
- can be allocated to the segment on a reasonable basis.

Include

- If the segment result of a segment includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other interest or dividend generating assets.

Do not include

- income tax assets;
- assets used for general enterprise or head-office purposes.

Segment assets are determined after deducting related allowances/ provisions that are reported as direct offsets in the balance sheet of the enterprise.

Segment liabilities

- **Operating liabilities**: that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.
- **Include**: If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities.
- **Examples**: trade and other payables, accrued liabilities, customer advances, product warranty provisions, and other claims relating to the provision of goods and services.
- **Does not include**:
  - income tax liabilities;
  - borrowings and other liabilities that are incurred for financing rather than operating purposes.

Assets and liabilities that relate jointly to two or more segments should be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.

TREATMENT OF INTEREST FOR DETERMINING SEGMENT EXPENSE

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2 (Revised), and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

ALLOCATION

There is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities of reportable segments.

Segment revenue, segment expense, segment assets and segment liabilities are determined before intra-enterprise balances and intra-enterprise transactions are eliminated as part of the process of preparation of enterprise financial statements, except to the extent that such intra-enterprise balances and transactions are within a single segment.

While the accounting policies used in preparing and presenting the financial statements of the enterprise as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and basis for allocating revenues and expenses to segments.

PRIMARY AND SECONDARY SEGMENT REPORTING

Primary Reporting Format

An enterprise should disclose the following for each reportable segment identified as primary segment:

(a) segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

(b) segment result;

(c) total carrying amount of segment assets;

(d) total amount of segment liabilities;

(e) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);

(f) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and

(g) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation:

segment revenue should be reconciled to enterprise revenue	segment result should be reconciled to enterprise net profit or loss	segment assets should be reconciled to enterprise assets	segment liabilities should be reconciled to enterprise liabilities.

SECONDARY SEGMENT INFORMATION

If primary format is business segment, it should also report the following information:

- segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue;
- the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all segments.

If primary format is geographical segments (whether based on location of assets or location of customers), it should also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue or whose segment assets are 10 per cent or more of the total assets of all business segments:

- segment revenue from external customers;
- the total carrying amount of segment assets; and
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets).

If primary format of an enterprise for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then the enterprise should also report revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue.

If primary format of an enterprise for reporting segment information is geographical segments that are based on location of customers, and if the assets of the enterprise are located in different geographical areas from its customers, then the enterprise should also report the following segment information for each asset-based geographical segment whose revenue from sales to external customers or segment assets are 10 per cent or more of total enterprise amounts:

- the total carrying amount of segment assets by geographical location of the assets
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by location of the assets.

OTHER DISCLOSURES

Other Disclosures

- In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers.
- The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.
- An enterprise should indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements.

AS 18 "RELATED PARTY DISCLOSURES"

AS 18 prescribes the requirements for disclosure of related party relationship and transactions between the reporting enterprise and its related parties. The requirements of the standard apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company.

Related Parties and Related Party Relationships

Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

AS 18 deals only with related party relationships in situations when:

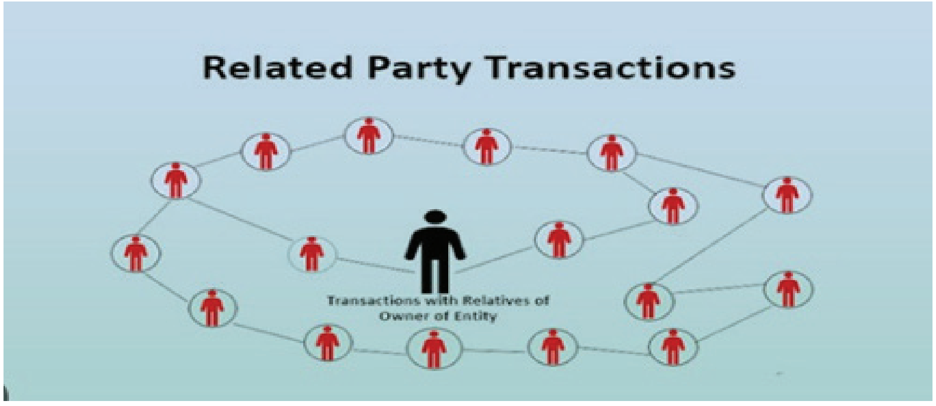
(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries).

(b) Associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture.

(c) Individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual.

(d) Key management personnel and relatives of such personnel

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.



In the context of AS 18, following are deemed not to be related parties:

- Two companies simply because they have a director in common (unless the director is able to affect the policies of both companies in their mutual dealings).
- A single customer, supplier, franchiser, distributor or general agent with whom an enterprise transacts a significant volume of business.
- Providers of finance, Trade unions, Govt. agencies and public utilities in the course of their normal dealings with an enterprise.

No disclosure is required in consolidated financial statements in respect of intra-group transactions.

Key Terms

Related Party Transaction

A transfer of → resources → or obligations → between related parties → regardless of whether or not a price is charged.

Control

Control includes

- Ownership, directly or indirectly, of more than one half of the voting power of an enterprise
- Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise
- Substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

For the purpose of AS 18, an enterprise is considered to **control the composition** of the board of directors of a company or governing body of an enterprise, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors/members of the governing body of that company/enterprise.

An enterprise is deemed to have the power to appoint a director/ member of the governing body, if any of the following conditions are satisfied:

- A person cannot be appointed as director/member of the governing body without the exercise, in his favour, by that enterprise of such a power or
- A person's appointment as director/member of governing body follows necessarily from his appointment to a position held by him in that enterprise or
- The director/member of the governing body is nominated by that enterprise; in case that enterprise is a company, the director is nominated by that company/subsidiary thereof.

Substantial Interest

An enterprise/individual is considered to have a substantial interest in another enterprise if

- That enterprise or individual owns, directly or indirectly, 20% or more interest in the voting power of the other enterprise
- That individual owns, directly or indirectly, 20% or more interest in the voting power of the enterprise.

Associate

Associate is an enterprise → in which an investing reporting party → has significant influence → and which is neither a subsidiary → nor a joint venture of that party.

Significant Influence

Significant influence is participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.

Significant influence may be gained by share ownership, statute or agreement.

As regards share ownership, if an investing party holds, directly or indirectly, through intermediaries, 20% or more of the voting power of the enterprise, it is presumed that the investing party does have significant influence, unless it can be clearly demonstrated that this is not the case.

A substantial or majority ownership by another investing party does not necessarily preclude an investing party from having significant influence.

Key Management Personnels are

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

In relation to an individual, Relative means

Spouse, son, daughter, brother, sister, father and mother → Any person who may be expected to influence → or be influenced by, that individual and which is neither a subsidiary → in his/her dealings with the reporting enterprise.

Joint Venture and Joint Control

Joint Venture is → A contractual arrangement → Whereby two or more parties → Undertake an economic activity → Which is subject to joint control.

Joint Control is → Contractually agreed → Sharing of power → To govern the financial and operating policies → Of an economic activity.

Holding Company

A company having one or more subsidiaries is a holding company.

Subsidiary Company

A company is Subsidiary

- in which another company (the holding company) holds, either by itself and/ or through one or more subsidiaries, more than one-half, in nominal value of its equity share capital; or
- of which another company (the holding company) controls, either by itself and/ or through one or more subsidiaries, the composition of its board of directors.

Fellow Subsidiary

Company is considered to be a → fellow subsidiary → of another company → if both are subsidiaries of the → same holding company.

The Related Party Issue

Related party relationships are a normal feature of commerce and business.

Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's-length basis between independent parties.

The operating results and financial position of an enterprise may be affected by a related party relationship even if related party transactions do not occur.

Sometimes, transactions would not have taken place if the related party relationship had not existed.

Disclosure

Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

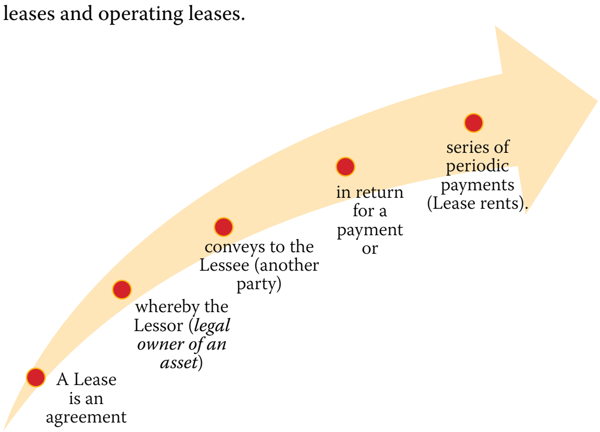
- The name of the transacting related party;
- A description of the relationship between the parties;
- A description of the nature of transactions;
- Volume of the transactions either as an amount or as an appropriate proportion;
- Any other elements of the related party transactions necessary for an understanding of the financial statements;
- Amounts or appropriate proportions of outstanding items pertaining to related parties at balance sheet date and provisions for doubtful debts due from such parties at that date;
- Amounts written off or written back in the period in respect of debts due from or to related parties.

Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises.

AS 19 "LEASES"

The objective of AS 19 is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures in relation to finance leases and operating leases.



Scope

AS 19 applies to all leases other than:

- Lease agreements to explore for or use of natural resources such as oil, gas, timber metals and other mineral rights.
- Licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
- Lease agreements to use lands.
- Agreements that are contracts for services, that do not transfer right to use assets from one contracting party to the other.

Key Terms

Non-cancellable lease is a lease that is cancellable

- Upon the occurrence of some remote contingency; or
- With the permission of the lessor; or
- If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- Upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.

The **lease term is the non-cancellable period** for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Minimum Lease Payments

Minimum lease payments are

the payments over the lease term

that the lessee is

to make excluding contingent rent,

costs for services and

taxes to be paid by and

reimbursed to the lessor,

together with:

(a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or

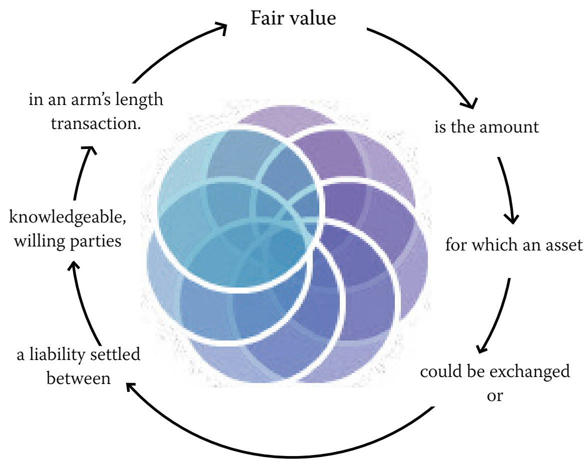
(b) in the case of the lessor, any residual value guaranteed to the lessor:

(i) by or on behalf of the lessee; or

(ii) by an independent third party financially capable of meeting this guarantee.

However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable that, at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments comprise minimum payments payable over the lease term and the payment required to exercise this purchase option.

Fair Value



Economic Life

Economic life is either: the period over which an asset is expected to be economically usable by one or more users; or the number of production or similar units expected to be obtained from the asset by one or more users.

Useful Life

Useful life of a leased asset is either: Period over which the leased asset is expected to be used by the lessee; OR Number of production or similar units expected to be obtained from the use of the asset by the lessee.

Residual Value

Residual value is the estimated fair value at the end of the lease term.

Guaranteed Residual Value

Guaranteed residual value is:
in the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party on behalf of the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable).

in the case of the lessor, that part of the residual value which is guaranteed by or on behalf of the lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee.

Unguaranteed Residual Value

Amount by which the residual value of the asset Exceeds Its guaranteed residual value.

Gross Investment

Aggregate of Minimum lease payments Under a finance lease From the standpoint of the lessor.

Unearned Finance Income

Difference between:

Gross investment in the lease; and

Present value of

(i) Minimum lease payments under a finance lease from the standpoint of the lessor; and
(ii) Any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Net investment in the lease is the gross investment in the lease **less** unearned finance income.

Interest rate implicit in the lease

Discount rate that, at the inception of the lease, causes the aggregate present value of	Minimum lease payments under a finance lease from the standpoint of the lessor; and	Any unguaranteed residual value accruing to the lessor, to be equal to the fair value of the leased asset.

Lessee's Incremental Borrowing Rate of Interest

is the rate of interest
the lessee would have to pay on a similar lease or,
if that is not determinable,
the rate that, at the inception of the lease,
the lessee would incur to borrow over a similar term
and with a similar security, the funds necessary to purchase the asset.

Contingent Rent

Contingent rent is that portion of the lease payment
that is not fixed in amount but is based on a factor
other than just the passage of time

Types of Leases

For accounting purposes, leases are classified as

Finance leases

A lease that transfers substantially, all the risks and rewards incident to ownership of an asset. Title may or may not be eventually transferred.

Operating leases

A lease is classified as an *Operating Lease,* if it does not transfer substantially all the risk and rewards incident to ownership.

Indicators of Finance Lease

Situations, which would normally lead to a lease being classified as a finance lease are:

- Lease transfers ownership of the asset to the lessee by the end of the lease term.
- Lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised.
- Lease term is for the major part of the economic life of the asset even if title is not transferred.
- At the inception of the lease, present value of the minimum lease payment amounts to at least substantially all of the fair value of the leased asset.
- Leased asset is of a specialised nature such that only the lessee can use it without major modifications being made.

Indicators of situations which individually or in combination could also lead to a lease being classified as a finance lease are:

- If the lessee can cancel the lease and the lessor's losses associated with the cancellation are borne by the lessee.
- If gains or losses from the fluctuations in the residual value accrue to the lessee
- If the lessee can continue the lease for a secondary period at a rent, which is substantially lower than market rent.

Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease had the changed terms been in effect at the inception of the lease, the revised agreement is considered as a new agreement over its revised term.

Accounting for Finance Leases (Books of Lessee)

On the date of inception of lease, lessee should show it as an asset and corresponding liability at lower of:

(i) Fair value of leased asset at the inception of the lease

(ii) Present value of minimum lease payments from the standpoint of the lessee (present value to be calculated with discount rate equal to interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used). Lease payments to be apportioned between the finance charge and the reduction of the outstanding liability.

Finance charges to be allocated to periods during the lease term so as to produce a constant rate of interest on the remaining balance of liability for each period.

A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for a leased asset should be consistent with that for depreciable assets which are owned, and the depreciation recognised should be calculated on the basis set out in AS 10 (Revised), Property, Plant and Equipment. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the lease term or its useful life, whichever is shorter.

Initial direct costs are often incurred in connection with specific leasing activities, as in negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are included as part of the amount recognised as an asset under the lease.

Computation of Interest Rate implicit on Lease (IRR)

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of

→ Minimum lease payments under a finance lease from the standpoint of the lessor; and

\+

Any unguaranteed residual value accruing to the lessor, to be equal to the fair value of the leased asset.

Disclosures made by the Lessee in case of Finance Lease

The lessee should, in addition to the requirements of AS 10 (Revised) and the governing statute, make the following disclosures for finance leases:

(a) Assets acquired under finance lease as segregated from the assets owned;

(b) For each class of assets, the net carrying amount at the balance sheet date;

(c) Reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods:
   (i) not later than one year;
   (ii) later than one year and not later than five years;
   (iii) later than five years;

(d) Contingent rents recognised as expense in the statement of profit and loss for the period;

(e) Total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date; and

(f) General description of the lessee's significant leasing arrangements including, but not limited to, the following:
   (i) the basis on which contingent rent payments are determined;
   (ii) the existence and terms of renewal or purchase options and escalation clauses; and
   (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Accounting for Finance Leases (Books of Lessor)

The lessor should recognise assets given under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease.
In a finance lease, the lessor recognises the net investment in lease which is usually equal to fair value as receivable by debiting the Lessee A/c.

Recognition of Finance Income

The unearned finance income is recognised over the lease term based on a pattern reflecting a constant periodic return on the net investment in lease outstanding.

Initial Direct Costs

For finance leases, initial direct costs incurred to produce finance income are either recognised immediately in the statement of profit and loss or allocated against the finance income over the lease term.

Review of Unguaranteed Residual Value by Lessor

AS 19 requires a lessor to review unguaranteed residual value used in computing the gross investment in lease regularly. In case any reduction in the estimated unguaranteed residual value is identified, the income allocation over the remaining lease term is to be revised. An upward adjustment of the estimated residual value is not made.

Manufacturer or Dealer Lessor

The manufacturer or dealer lessor should recognise the transaction of sale in the statement of profit and loss for the period, in accordance with the policy followed by the enterprise for outright sales.

Initial direct costs should be recognised as an expense in the statement of profit and loss at the inception of the lease.

Disclosures

The lessor should make the following disclosures for finance leases:

(a) Reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for each of the following periods:
(i) not later than one year;
(ii) later than one year and not later than five years;
(iii) later than five years;

(b) Unearned finance income;

(c) Unguaranteed residual values accruing to the benefit of the lessor;

(d) Accumulated provision for uncollectible minimum lease payments receivable;

(e) Contingent rents recognised in the statement of profit and loss for the period;

(f) General description of the significant leasing arrangements of the lessor;

(g) Accounting policy adopted in respect of initial direct costs.

Accounting for Operating Leases

Accounting treatment in the Books of lessee

Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss of a lessee on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Disclosures by Lessees

Lessees are required to make following disclosures for operating leases:

(a) Total of future minimum lease payments under non-cancelable operating leases for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years;

(iii) later than five years;

(b) Total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date;

(c) Lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;

(d) Sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;

(e) General description of the lessee's significant leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payments are determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Accounting Treatment in the books of Lessor

The lessor should present an asset given under operating lease as fixed assets in its balance sheets.

Lease income from operating leases should be recognised in the statement of profit and loss on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.

Depreciation of leased assets should be charged in books of lessor on a basis consistent with the normal depreciation policy of the lessor for similar assets.

The impairment losses on assets given on operating leases are determined and treated as per AS 28*.

Disclosures by Lessors

As per AS 19, the lessor should, in addition to the requirements of AS 10 (Revised)* and the governing statute, make the following disclosures for operating leases:

(a) For each class of assets, the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date; and

(i) the depreciation recognised in the statement of profit and loss for the period;

(ii) impairment losses recognised in the statement of profit and loss for the period;

(iii) impairment losses reversed in the statement of profit and loss for the period;

(b) Future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years;

(iii) later than five years;

(c) Total contingent rents recognised as income in the statement of profit and loss for the period;

(d) General description of the lessor's significant leasing arrangements; and

(e) Accounting policy adopted in respect of initial direct costs.

Sale and Leaseback

One vendor sells an asset for cash and then takes it back from the buyer on lease.

Lessee or seller receives cash immediately and makes periodic payment in the form of lease rents for right to use the property.

Accounting treatment of a sale and lease back depends upon the type of lease involved.

Lease payments and the sale price are generally interdependent as they are negotiated as a package.

** AS 10 and AS 28 are not covered in the syllabus of Paper 5.*

Where sale and leaseback results in finance lease

The excess or deficiency of sales proceeds over the carrying amount should not be recognized immediately but deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Where sale and leaseback results in operating lease

Case 1: Sale price = Fair Value

Profit or loss should be recognised immediately.

Case 2: Sale Price < Fair Value

Profit should be recognised immediately. The loss should also be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

Case 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.

Sale price established at fair value	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Profit	No profit	Recognise profit immediately	Not applicable
Loss	No loss	Not applicable	Recognise loss immediately
Sale price below fair value (paragraph 50)			

Sale price established at fair value	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Profit	No profit	Recognise profit immediately	No profit (note 1)
Loss not compensated by future lease payments at below market price	Recognise loss immediately	Recognise loss immediately	(note 1)
Loss compensated by future lease payments at below market price	Defer and amortise loss	Defer and amortise loss	(note 1)
Sale price above fair value (paragraph 50)			
Profit	Defer and amortise profit	Defer and amortise profit	Defer and amortise profit (note 2)
Loss	No loss	No loss	(note 1)

Note 1: Circumstances that require the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.

Note 2: Profit would be the difference between fair value and sale price as the carrying amount would have been written down to fair value in accordance with AS 19.

AS 20 "EARNINGS PER SHARE"

The objective of AS 20

is to describe principles

for determination and presentation

of earnings per share

which will improve comparison of performance

among different enterprises

for the same period and

among different accounting periods

for the same enterprise.

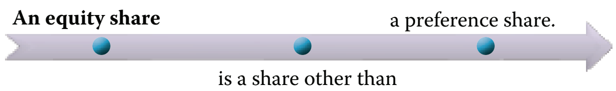
Earnings per share (EPS) is a financial ratio indicating the amount of profit or loss for the period attributable to each equity share and AS 20 gives computational methodology for determination and presentation of basic and diluted earnings per share.

This Accounting Standard is mandatory for all companies. However, disclosure of diluted earnings per share (both including and excluding extraordinary items) is not mandatory for SMCs.

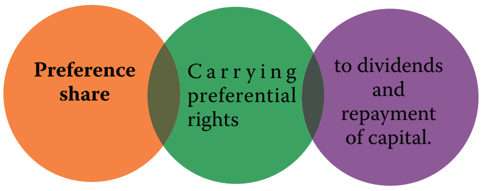
In consolidated financial statements, the information required by AS 20 should be presented on the basis of consolidated information.

Key Terms

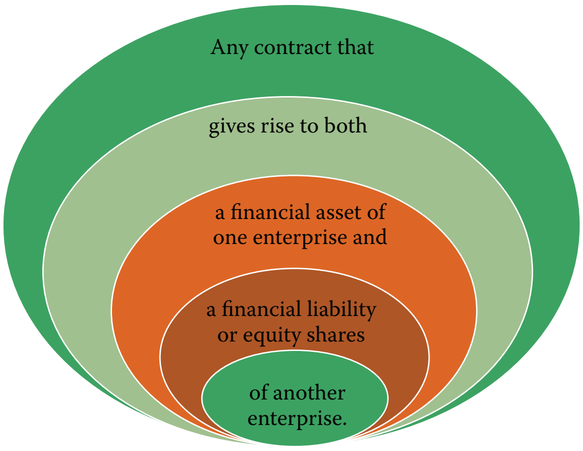
Equity Shares



Preference Share



A Financial Instrument



Financial Asset

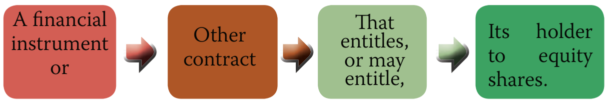
A financial asset is any asset that is

- Cash
- A contractual right to receive cash or another financial asset from another enterprise
- A contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable; or
- An equity share of another enterprise.

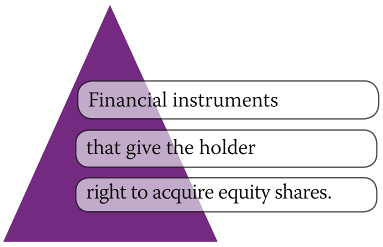
Financial Liability

- Any liability that is a
- Contractual obligation to deliver cash or another financial asset
- To another enterprise or to exchange financial instruments
- With another enterprise under conditions that are potentially unfavourable.

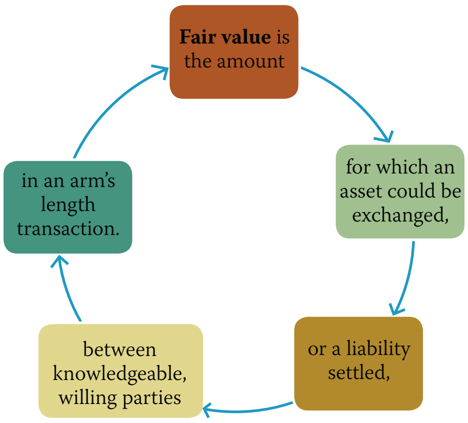
Potential Equity Share



Share Warrants or Options



Fair Value



Basic Earnings Per Share

Basic earnings per share is calculated as

$$\frac{\text{Net profit (loss) attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$$

For calculating basic earnings per share, the **net profit or loss for the period attributable to equity shareholders** should be the net profit or loss after deducting preference dividends and any attributable tax thereto for the period.

All items of income and expense which are recognised in a period, including tax expense and extraordinary items, are included in the determination of the net profit or loss for the period.

Amount of preference dividends for the period that is deducted from the net profit for the period is:	Amount of any preference dividends on non-cumulative preference shares provided for in respect of the period; and
	Full amount of the required preference dividends for cumulative preference shares for the period, whether or not the dividends have been provided for.

If an enterprise has more than one class of equity shares, net profit or loss for the period is apportioned over the different classes of shares in accordance with their dividend rights.

Earnings Per Share

The number of shares used in the denominator for basic EPS should be the weighted average number of equity shares outstanding during the period.

The weighted average number of equity shares outstanding during the period is the number of shares outstanding at the beginning of the period, adjusted by the number of equity shares bought back or issued during the period multiplied by a time-weighting factor.

Partly paid equity shares

(i) Are treated as a fraction of an equity share

(ii) to the extent that they were entitled

(iii) to participate in dividends

(iv) relative to a fully paid equity share

Where an enterprise has equity shares of **different nominal values** but with the same dividend rights, the number of equity shares is calculated by converting all such equity shares into equivalent number of shares of the same nominal value.

Equity shares may be issued, or the number of shares outstanding may be reduced, without a corresponding change in resources. Examples include: bonus issue or share splits.

In a **rights issue**, the exercise price is often less than the fair value of the shares. A rights issue usually includes a bonus element.

The number of equity shares to be used in calculating basic earnings per share for all periods prior to the rights issue is the number of equity shares outstanding prior to the issue, multiplied by the following adjustment factor:

$$\frac{\text{Fair value per share immediately prior to the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights.

Diluted Earnings per Share

Where an enterprise has equity shares of different nominal values but with the same dividend rights, the number of equity shares is calculated by converting all such equity shares into equivalent number of shares of the same nominal value.

In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period, that is:

The net profit for the period attributable to equity shares is:

- Increased by the amount of dividends recognised in the period in respect of the dilutive potential equity shares as adjusted for any attributable change in tax expense for the period;
- Increased by the amount of interest recognised in the period in respect of the dilutive potential equity shares as adjusted for any attributable change in tax expense for the period; and
- Adjusted for the after-tax amount of any other changes in expenses or income that would result from the conversion of the dilutive potential equity shares.

The weighted average number of equity shares outstanding during the period is increased by the weighted average number of additional equity shares which would have been outstanding assuming the conversion of all dilutive potential equity shares.

For the purpose of calculating diluted earnings per share, an enterprise should assume the exercise of dilutive options and other dilutive potential equity shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between the number of shares issuable and the number of shares that would have been issued at fair value should be treated as an issue of equity shares for no consideration.

Options and other share purchase arrangements are dilutive when they would result in the issue of equity shares for less than fair value. The amount of the dilution is fair value less the issue price. Therefore, in order to calculate diluted earnings per share, each such arrangement is treated as consisting of:

(a) A contract to issue a certain number of equity shares at their average fair value during the period. The shares to be so issued are fairly priced and are assumed to be neither dilutive nor anti-dilutive.

(b) A contract to issue the remaining equity shares for no consideration. Such equity shares generate no proceeds and have no effect on the net profit attributable to equity shares outstanding.

Dilutive Potential Equity Shares

Potential equity shares are anti-dilutive when their conversion to equity shares would increase earnings per share from continuing ordinary activities or decrease loss per share from continuing ordinary activities.

In considering whether potential equity shares are dilutive or anti-dilutive, each issue or series of potential equity shares is considered separately rather than in aggregate.

Potential equity shares are weighted for the period they were outstanding.

Restatement

If the number of equity or potential equity shares outstanding increases as a result of a bonus issue or share split or decreases as a result of a reverse share split (consolidation of shares), the calculation of basic and diluted earnings per share should be adjusted for all the periods presented.

If these changes occur after the balance sheet date but before the date on which the financial statements are approved by the board of directors, the per share calculations for those financial statements and any prior period financial statements presented should be based on the new number of shares.

Presentation

An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period.

AS 20 requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative .

Disclosure

An enterprise should disclose

- Where the statement of profit and loss includes extraordinary items basic and diluted EPS computed on the basis of earnings excluding extraordinary items (net of tax expense).
- The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.
- The weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share and a reconciliation of these denominators to each other.
- The nominal value of shares along with the earnings per share figures.

If an enterprise discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of net profit other than net profit or loss for the period attributable to equity shareholders, such amounts should be calculated using the weighted average number of equity shares determined in accordance with AS 20.

AS 22 "ACCOUNTING FOR TAXES ON INCOME"

AS 22 prescribes the accounting treatment of taxes on income and follows the concept of matching expenses against revenue for the period. Taxable income may be significantly different from the accounting income posing problems in matching of taxes against revenue for a period

DIVERGENCE BETWEEN TAXABLE INCOME AND ACCOUNTING INCOME

Differences between taxable income and accounting income

- Timing differences
  - For a period that originate in one period and are capable of reversal in one or more subsequent periods.
- Permanent differences
  - For a period that originate in one period and do not reverse subsequently

DEFINITIONS

Accounting income (loss)	Net profit or loss for a period, as reported in the statement of profit and loss, before deducting income-tax expense or adding income tax saving.
Taxable income (tax loss)	Amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income-tax payable (recoverable) is determined.
Tax expense (tax saving)	Aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.
Current tax	Amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.
Deferred tax	Tax effect of timing differences.

RECOGNITION

Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.

Permanent differences do not result in deferred tax assets or deferred tax liabilities.
Taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same period as the revenue and expenses to which they relate.
Such matching may result into timing differences.
Tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets or as deferred tax liabilities, in the balance sheet.

While recognising the tax effect of timing differences, consideration of prudence cannot be ignored. Therefore, deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty of their realisation.

RE-ASSESSMENT OF UNRECOGNISED DEFERRED TAX ASSETS

- At each balance sheet date,
- an enterprise re-assesses unrecognised deferred tax assets.
- Recognises previously unrecognised deferred tax assets
- to the extent that it has become reasonably certain or virtually certain,
- as the case may be,
- that sufficient future taxable income will be available against which such deferred tax assets can be realised.

MEASUREMENT

Measurement

- Current tax
  - Amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
- Deferred tax assets and liabilities
  - Measured using the tax rates and tax laws that have been enacted by the balance sheet date.
  - should not be discounted to their present value.

REVIEW OF DEFERRED TAX ASSETS

The carrying amount of deferred tax assets should be reviewed at each balance sheet date.

An enterprise should write-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, so that sufficient future taxable income will be available against which deferred tax asset can be realized.

Any such write-down may be reversed to the extent that it becomes reasonably certain or virtually certain, so that sufficient future taxable income will be available.

DISCLOSURE

Statement of profit and loss

- Under AS 22, there is no specific requirement to disclose current tax and deferred tax in the statement of profit and loss.
- Considering the requirements under the Companies Act, 2013, the amount of income tax and other taxes on profits should be disclosed.
- AS 22 does not require any reconciliation between accounting profit and the tax expense.

Balance sheet

- The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts.
- Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.
- The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

PRESENTATION

An enterprise should offset

- **Assets and liabilities representing current tax if the enterprise:**
  - has a legally enforceable right to set off the recognised amounts and
  - intends to settle the asset and the liability on a net basis.
- **Deferred tax assets and deferred tax liabilities if**
  - enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and
  - deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

TRANSITIONAL PROVISION

On the first occasion that the taxes on income are accounted for in accordance with this Statement, the enterprise should recognise, in the financial statements, the deferred tax balance that has accumulated prior to the adoption of this Statement as deferred tax asset/liability with a corresponding credit/charge to the revenue reserves, subject to the consideration of prudence in case of deferred tax assets.

The amount so credited/charged to the revenue reserves should be the same as that which would have resulted if this Statement had been in effect from the beginning.

AS 24 "DISCONTINUING OPERATIONS"

The objective of AS 24 is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations.

Assets, liabilities, revenue, and expenses are directly attributable to a component if they would be eliminated when the component is sold, abandoned or otherwise disposed of. If debt is attributable to a component, the related interest and other financing costs are similarly attributed to it.

Discontinuing Operation

A discontinuing operation is a component of an enterprise

- That the enterprise, pursuant to a single plan*
- That represents a separate major line of business or geographical area of operations
- That can be distinguished operationally and for financial reporting purposes.

*(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 or*

(ii) *Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually or*

(iii) *Terminating through abandonment.*

To qualify as a discontinuing operation, the disposal must be pursuant to a single coordinated plan.

A component can be distinguished operationally and for financial reporting purposes if these conditions are met:

- Operating assets and liabilities of the component can be directly attributed to it.
- Its revenue can be directly attributed to it.
- Majority of its operating expenses can be directly attributed to it.

Discontinuing operations are infrequent events, but this does not mean that all infrequent events are discontinuing operations.

Initial Disclosure Event

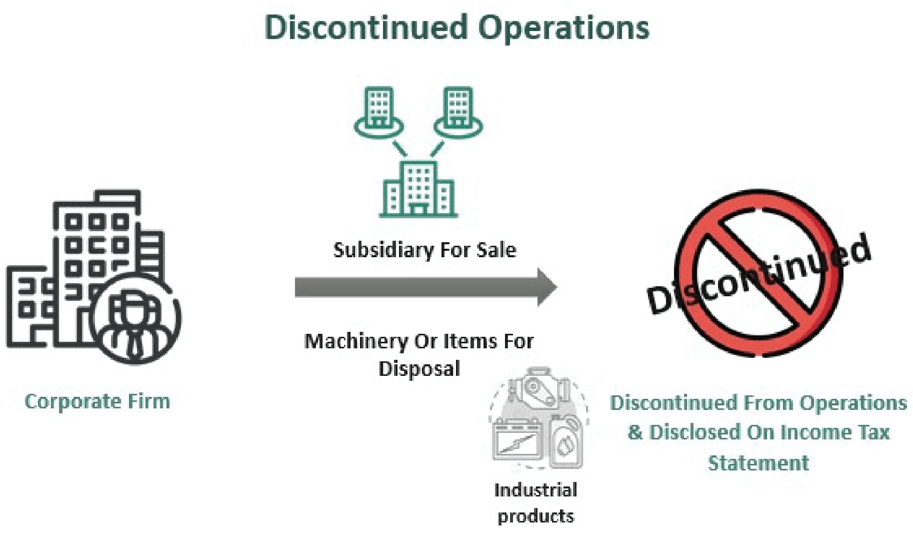
With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the events, whichever occurs earlier:

- Enterprise has entered into a binding sale agreement for substantially all of the assets attributable to discontinuing operation or
- Enterprise's board of directors or similar governing body has
  - Approved a detailed, formal plan for the discontinuance and
  - Made an announcement of the plan.

Recognition and Measurement

This AS does not provide any guidelines

- For recognizing and measuring,
- Effect of discontinuing operations,
- Relevant Accounting Standards should be referred.



Presentation and Disclosure

Initial Disclosure

An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

- A description of the discontinuing operation(s).
- The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.
- The business or geographical segment(s) in which it is reported.
- The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto.
- The date and nature of the initial disclosure event.
- The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.
- The date or period in which the discontinuance is expected to be completed if known or determinable.
- The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.

Other Disclosures

When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur:

- For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation:
  - (i) the amount of the pre-tax gain or loss
  - (ii) income tax expense relating to the gain or loss
- The net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

The disclosures should continue in financial statements for periods up to and including the period in which the discontinuance is completed. Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received.

If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefore and its effect should be disclosed.

Separate disclosure for each discontinuing operation

Any disclosures required by AS 24 should be presented separately for each discontinuing operation.

Presentation of the Required Disclosures

All disclosures should be presented in the notes to the financial statements except these disclosures which should be shown on the face of the statement of profit and loss:

- The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto
- The amount of the pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to the discontinuing operation.

Restatement of Prior Periods

Comparative information for prior periods that is presented in financial statements prepared after the initial disclosure event should be restated to segregate assets, liabilities, revenue, expenses, and cash flows of continuing and discontinuing operations.

Disclosure in Interim Financial Reports

Disclosures in an interim financial report in respect of a discontinuing operation

- Any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation and
- Any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled.

AS 26 "INTANGIBLE ASSETS"

The objective of AS 26 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. AS 26 also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

Scope

AS 26 should be applied by all enterprises in accounting for intangible assets, except

- Intangible assets that are covered by another Accounting Standard.
- Financial assets.
- Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources.
- Intangible assets arising in insurance enterprises from contracts with policyholders.

AS 26 applies to

- Other intangible assets used (such as computer software), and other expenditure (such as start-up costs), in extractive industries or by insurance enterprises.

AS 26 also applies to

- Expenditure on advertising, training, start - up cost.
- Research and development activities.
- Right under licensing agreements for items such as motion picture films, video recordings.
- Patents, copyrights.
- Trademarks.
- Goodwill.

Key Terms

Asset

An asset is a resource: Controlled by an enterprise as a result of past events and From which future economic benefits are expected to flow to the enterprise.

Monetary Assets

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Non-monetary assets are assets other than monetary assets.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Depreciable Amount

The cost of an asset **Less** its residual value.

Useful Life

Useful life is either

(a) Period of time over which an asset is expected to be used by the enterprise; or

(b) Number of production or similar units expected to be obtained from the asset by the enterprise.

Fair Value

Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An Active Market

A market where all the conditions exist:

- Items traded within the market are homogeneous.
- Willing buyers and sellers can normally be found.
- Prices are available to the public.

Impairment Loss

Amount by which → carrying amount of an asset → exceeds → its recoverable amount.

Carrying Amount

Amount at which an asset is recognised in the balance sheet,

net of any accumulated amortisation and accumulated impairment losses thereon.

Financial Asset

A financial asset is any asset that is

- Cash.
- A contractual right to receive cash or another financial asset from another enterprise.
- A contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable.
- An ownership interest in another enterprise.

Intangible Assets

An intangible asset is

An identifiable Non-monetary asset

Without physical substance

Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

If an item covered by AS 26 does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

Identifiability

The definition of an intangible asset requires that an intangible asset be *identifiable*. To be identifiable, it is necessary that the intangible asset is clearly distinguished from goodwill.

An intangible asset can be clearly distinguished from goodwill if the asset is *separable*. An asset is separable if the enterprise could rent, sell, exchange or distribute the specific future economic benefits attributable to the asset without disposing of future economic benefits that flow from other assets used in the same revenue earning activity.

If an asset generates *future economic benefits* only in combination with other assets, the asset is identifiable if the enterprise can identify the future economic benefits that will flow from the asset.

Control

An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits.

Future economic benefit is also flown from the skill of labour and customer loyalty but usually this flow of benefits cannot be controlled by the enterprise. Hence, these items don't even qualify as intangible asset.

Future Economic Benefits

The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise. Use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

Recognition and Initial Measurement of an Intangible Asset

The recognition of an item as an intangible asset requires an enterprise to demonstrate

- It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise
- The cost of the asset can be measured reliably.

An intangible asset should be measured initially at cost.

Separate Acquisition

If an intangible asset is acquired separately; cost of the intangible asset can usually be measured reliably.

Cost of an intangible asset comprises its purchase price including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities) and any directly attributable expenditure on making the asset ready for its intended use.

If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise: asset is recorded at its fair value or the fair value of the securities issued whichever is more clearly evident.

Acquisition as part of an Amalgamation

Intangible asset acquired in an amalgamation in the nature of purchase is accounted for in accordance with AS 14 (Revised).

A transferee recognises an intangible asset that meets the recognition criteria, even if that intangible asset had not been recognised in the financial statements of the transferor and

If the cost (i.e. fair value) of an intangible asset acquired as part of an amalgamation in the nature of purchase cannot be measured reliably, that asset is not recognised as a separate intangible asset but is included in goodwill.

Acquisition by way of a Government Grant

If an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, it should be accounted for on the basis of their acquisition cost or for nominal consideration.

Internally Generated Goodwill

Internally generated goodwill
is not recognised as an asset
because it is not an identifiable resource
controlled by the enterprise
that can be measured reliably at cost.

Internally Generated Intangible Assets

To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into

- Research Phase
- Development Phase

If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

No intangible asset arising from research or from the research phase should be recognised. Expenditure on research or on the research phase should be recognised as an expense when it is incurred.

Development Phase

Development is 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 prior to the commencement of commercial production or use.

An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:

a. The technical feasibility of completing the intangible asset so that it will be available for use or sale.

b. Its intention to complete the intangible asset and use or sell it.

c. Its ability to use or sell the intangible asset.

d. How the intangible asset will generate probable future economic benefits.

e. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and

f. Its ability to measure the expenditure attributable to the intangible asset during its development reliably.

Expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

Cost of an Internally Generated Intangible Asset

The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, for creating, producing and making the asset ready for its intended use from the time when the intangible asset first meets the recognition criteria. The cost includes

- Expenditure on materials and services used or consumed in generating the intangible asset.
- Salaries, wages and other employment related costs of personnel directly engaged in generating asset.
- Any expenditure that is directly attributable to generating the asset.
- Overheads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset.

The costs which are not components of the cost of an internally generated intangible asset:

- Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use.
- Clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance and
- Expenditure on training the staff to operate the asset.

Recognition of an Expense

Expenditure on an intangible item should be recognised as an expense when it is incurred unless:

- It forms part of the cost of an intangible asset that meets the recognition criteria.
- The item is acquired in an amalgamation in the nature of purchase and cannot be recognized as an intangible asset.

In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. Expenditure on research is always recognised as an expense when it is incurred.

Expenses recognised as expenses cannot be reclassified as cost of intangible asset in later years.

Nature of Expenditure	Accounting treatment
Planning	Expense when incurred
Application and Infrastructure Development	Apply the requirements of AS 10
Graphical Design and Content Development	If a separate asset is not identifiable, then expense when incurred, unless it meets the recognition criteria
Operating	Expense when incurred, unless in rare circumstances it meets the criteria, in which case the expenditure is included in the cost of the web site
Other	Expense when incurred

Subsequent Expenditure

Subsequent expenditure on an intangible asset after its purchase or its completion should be recognised as an expense when it is incurred unless

- It is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and
- Expenditure can be measured and attributed to the asset reliably.

If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

Subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance is always recognised as an expense to avoid the recognition of internally generated goodwill.

Measurement Subsequent to Initial Recognition

After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation Period

The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. Amortisation should commence when the asset is available for use.

AS 26 adopts a presumption that the useful life of intangible assets is unlikely to exceed ten years.

In some cases, there may be persuasive evidence that the useful life of an intangible asset will be a specific period longer than ten years. In these cases, the presumption that the useful life generally does not exceed ten years is rebutted and the enterprise:

- Amortises the intangible asset over the best estimate of its useful life.
- Estimates the recoverable amount of the intangible asset at least annually in order to identify any impairment loss and
- Discloses the reasons why the presumption is rebutted and the factors that played a significant role in determining the useful life of the asset.

Amortisation Method

A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the *straight-line method*, the *diminishing balance method* and the *unit of production method*. The method used for an asset is selected based on the expected pattern of consumption of economic benefits and is consistently applied from period to period.

Residual Value

Residual value is the amount, which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

The residual value of an intangible asset should be assumed to be zero unless

- There is a commitment by a third party to purchase the asset at the end of its useful life.
- There is an active market for the asset and:
  - i. Residual value can be determined by reference to that market and
  - ii. It is probable that such a market will exist at the end of the asset's useful life.

Review of Amortisation Period and Amortisation Method

The amortisation period and the amortisation method should be reviewed at least at each financial year end.

If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.

Retirements and Disposals

An intangible asset should be derecognised (eliminated from the balance sheet) if

- Disposed
- When no future economic benefits are expected from its use and subsequent disposal.

Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.

Disclosure

The financial statements should disclose for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets

- Useful lives or the amortisation rates used.
- Amortisation methods used.
- Gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - I. Additions, indicating separately those from internal development and through amalgamation.
  - II. Retirements and disposals.
  - III. Impairment losses recognised in the statement of profit and loss.
  - IV. Impairment losses reversed in the statement of profit and loss.
  - V. Amortisation recognised during the period and
  - VI. Other changes in the carrying amount during the period.

Other Disclosure

The financial statements should also disclose:

a. If an intangible asset is amortised over more than ten years, the reasons why it is presumed that the useful life of an intangible asset will exceed ten years from the date when the asset is available for use.

b. A description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the financial statements of the enterprise as a whole.

c. The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities and

d. The amount of commitments for the acquisition of intangible assets.

AS 29 "PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS"

AS 29 lays down appropriate accounting for contingent assets. The objective of AS 29 (Revised) is to ensure appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities.

Scope

AS 29 should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, other than

Those resulting from financial instruments that are carried at fair value;
Those resulting from executory contracts except where the contract is onerous*;
Those arising in insurance enterprises from contracts with policy-holders; and
Those covered by another Accounting Standard.

** An 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.*

Key Terms

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

A **Provision** is a liability which can be measured only by using a substantial degree of estimation.

A **Liability** is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

An **Obligating event** is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

A **Contingent liability is**:

(a) A possible 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

(b) A present obligation that arises from past events but is not recognised because

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) A reliable estimate of the amount of the obligation cannot be made.

A **Contingent asset** is a possible asset that arises from past events 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.

Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not

Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

A **Restructuring** is a programme that is planned and controlled by management, and materially changes either:

(a) The scope of a business undertaken by an enterprise; or
(b) The manner in which that business is conducted.

Provisions

A provision should be recognised when:

(a) An enterprise has a present obligation 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.

Present Obligation

An enterprise should determine whether a present obligation exists at the balance sheet date by taking account of all available evidence.

Where it is more likely than not that a present obligation exists at the balance sheet date, the enterprise recognises a provision (if the recognition criteria are met); and

Where it is more likely that no present obligation exists at the balance sheet date, the enterprise discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Past Event

A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the enterprise has no realistic alternative to settling the obligation created by the event.

No provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an enterprise's balance sheet are those that exist at the balance sheet date.

It is only those obligations arising from past events existing independently of an enterprise's future actions that are recognised as provisions.

An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified.

Probable Outflow of Resources Embodying Economic Benefits

For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. An outflow of resources or other event is regarded as probable if the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an enterprise discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Where there are a number of similar obligations (e.g., product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable Estimate of the Obligation

The use of estimates is an inherent part of preparing financial statements and does not undermine their reliability. Provisions require a greater degree of estimation than most other items, but it should not be impossible to determine a range of possible outcomes.

In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability will, instead, be disclosed as a contingent liability.

Contingent Liabilities

An enterprise should not recognise a contingent liability but should be disclosed. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Where an enterprise is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The enterprise recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent Assets

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise.

An enterprise should not recognise a contingent asset, since this may result in the recognition of income that may never be realised.

A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving authority where an inflow of economic benefits is probable.

Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised.

Table- Provisions and contingent liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: **(a) a present obligation the one whose existence at the balance sheet date is considered probable; or** **(b) a possible obligation the existence of which at the balance sheet date is considered not probable.**		
There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation.	*There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.*	*There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.*
A provision is recognised. Disclosures are required for the provision.	No provision is recognised. Disclosures are required for the contingent liability.	No provision is recognised. No disclosure is required.

Measurement- Best Estimate

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The estimates of outcome and financial effect are determined by the judgment of the management of the enterprise, supplemented by experience of similar transactions and, in some cases, reports from independent experts.

Risks and Uncertainties

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

Future Events

It is only those obligations arising from past events that exist independently of the enterprise's future actions that are recognised as provisions.

Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted.

Expected Disposal of Assets

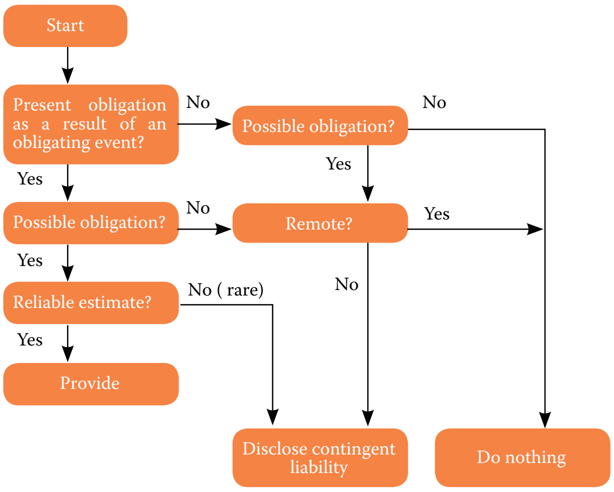
Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an enterprise recognises gains on expected disposals of assets at the time specified by the Accounting Standard dealing with the assets concerned.

Reimbursements

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation.

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The enterprise has no obligation for the part of the expenditure to be reimbursed by the other party.	*The obligation for the amount expected to be reimbursed remains with the enterprise and it is virtually certain that reimbursement will be received if the enterprise settles the provision.*	*The obligation for the amount expected to be reimbursed remains with the enterprise and the reimbursement is not virtually certain if the enterprise settles the provision.*
The enterprise has no liability for the amount to be reimbursed.	The reimbursement is recognised as a separate asset in the balance sheet and may be offset against the expense in the statement of profit and loss. The amount recognised for the expected reimbursement does not exceed the liability.	The expected reimbursement is not recognised as an asset.
No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement.	The expected reimbursement is disclosed.

Decision Tree



Changes in Provisions

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

Note: As per the amendment made in AS 29 (Revised) pursuant to MCA notification dated 30 March 2016, effective from financial year 2016-17, all the existing provisions for decommissioning, restoration and similar liabilities should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.

Use of Provisions

A provision should be used only for expenditures for which the provision was originally recognised. Only expenditures that relate to the original provision are adjusted against it.

Application of the Recognition and Measurement Rules

Future Operating Losses

Future operating losses do not meet the definition of a liability and the general recognition criteria, therefore provisions should not be recognised for future operating losses.

Restructuring

The following are examples of events that may fall under the definition of restructuring:

- Sale or termination of a line of business
- Closure of business locations in a country or region or the relocation of business activities.
- Changes in management structure.
- Fundamental re-organisations that have a material effect on the nature and focus of the enterprise's operations.

A provision for restructuring costs is recognised only when the recognition criteria for provisions are met. No obligation arises for the sale of an operation until the enterprise is committed to the sale, i.e., there is a binding sale agreement.

A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

(a) Necessarily entailed by the restructuring; and

(b) Not associated with the ongoing activities of the enterprise

Identifiable future operating losses up to the date of a restructuring are not included in a provision.

Gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

Disclosure

For each class of provision, an enterprise should disclose:

- Carrying amount at the beginning and end of the period;
- Additional provisions made in the period, including increases to existing provisions;
- Amounts used (i.e. incurred and charged against the provision) during the period; and
- Unused amounts reversed during the period.

An enterprise should disclose for each class of provision:

(a) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

b) An indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, and

(c) The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Note: SMCs are exempt from the above disclosure requirements.

Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

(a) An estimate of its financial effect,

(b) An indication of the uncertainties relating to any outflow; and

(c) The possibility of any reimbursement.

Where any of the information required by the standard is not disclosed because it is not practicable to do so, that fact should be stated.

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Last Mile Referencer for

ACCOUNTING STANDARDS

The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)

Board of Studies (Academic)

The Institute of Chartered Accountants of India
ICAI Bhawan, A-29,
Sector-62, Noida 201 309
E-mail: bosnoida@icai.in
Phone: 0120 - 3045930

www.boslive.icai.org
www.icai.org

June | 2023 | P3364 (New)

Saransh-001-0623