Disclosure of Accounting Policies (AS-1)

- Fundamental Accounting Assumptions
  [Disclosure if not followed]
  - Going Concern
  - Consistency
  - Accrual
- Accounting Policy
  - Consideration
    - Primary
      - True & Fair view
    - Secondary
      - Prudence
      - Substance over form
      - Materiality
  - Disclosure
    - Notes to Accounts
  - Change
    - When Possible:
      - * Statutory Requirement
      - * Compliance with AS
      - * Better presentation of Financial statements
    - Disclosure
      - Material Effect
        - Current
          - Amt. ✓
            - Disclose Amt.
          - Amt. X
            - Disclose Fact
        - Later
          - Disclose Fact

Valuation of Inventories (AS-2)

- **Raw Material**
  - $SP_{FG} \geq CP_{FG}$
    - Cost Price
  - $SP_{FG} < CP_{FG}$
    - Cost or Replacement Price w.e. is lower
- **WIP & Finished Goods**
  - **Cost**
    - Standard Cost
      - On Normal consumption (Regular Review)
    - Retail Price
      - Sales value of Inventory (–) GP(%)
    - Actual Cost
  - **NRV (Net Realisable value)**
    - Estimated Selling Price
    - (–) Estimated selling Expenses
    - (–) Estimated costs of completion

*Actual Cost

- Direct Material
  - General Identification
    - FIFO
    - Weighted Average
  - Specific Identification
- Conversion Costs
  - Direct Costs
    - Direct Labour → Actuals
  - Indirect Costs
    - Fixed Overheads → Normal capacity Or Actual Prodn ↑
    - Variable Overheads → Actuals
  - Joint Cost
    - Joint/Main
      - Sales value at Separation
      - Sales value at completion
    - By Product → At NRV Deduction from cost
- Other Costs

⇒ **Purchase costs**

Basic Purchase Price
+ Non Refundable Taxes
+ Freight Inwards
+ Directly Attributable Exp.

⇒ **Exclusions from cost**

Storage costs, Selling & Distribution costs, Abnormal Loss, Administrative O/Hs, Interest & other Borrowing costs

Contingencies & Events occurring after B/s Date (AS-4)

Contingencies

Condition or situation, outcome of which gain or loss will be determined on the occurrence or non occurrence of uncertain future events

Contingency (Related to Asset on B/s date)

- Contingent Gain
  - Not to Recognise
  - When gain virtually certain then recognise the same
- Contingent Loss
  - Probable → Provide for the loss
  - Reasonable → No Provision, Disclosure in Notes to Accounts
  - Remote → No treatment

Events Occurring After B/s Date

Adjusting Event

Further/Additional evidence of conditions existing at B/s Date

↓

Adjustment to assets & liabilities as at B/s date

Non Adjusting Event

Indicative of condition that arose subsequent to B/s date or No evidence of conditions existing at B/s date

↓

No Adjustment of Assets & Liabilities

[Disclosure in Report of Approving Authority]

Exception: Going concern not appropriate

Financial statements prepared on Liquidation basis

Net Profit or Loss for period, Prior Period Items & Changes in Accounting Policies (AS-5)

Net Profit or Loss for the period

Principal Revenue producing & generating activities

Exceptional Items:

Items of such size, nature or incidence for which disclosure is relevant

Extraordinary Items

Clearly distinct from ordinary activities & not expected to recur frequently

Prior Period Items

Income/expense in current year due to error/omissions in prior periods

Nature & Amount to be separately disclosed to perceive impact on current profit/loss

Change in Accounting Estimates

Meaning: Uncertainities inherent in business activities, many items can only be estimated

When change occur: New information, more experience, Subsequent development, etc.

Note: Not a prior period or extraordinary item
Effect of change classified using same classification as used for estimate

Disclosure: If Material Effect (Current / Subsequent period)

- Quantifiable → Disclose nature & amount
- Not Quantifiable → Disclose Fact

Change in Accounting Policy

Rule: Accounting policy once adopted should be followed consistently

When change Recommended:

* Required by Statute / Law
* For compliance with AS
* More appropriate presentation of financial statements

Disclosure: Material Effect

- Current
  - Amt. ✓ → Disclose amount
  - Amt. ✗ → Disclose Fact
- Later → Disclose Fact

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Construction Contract (AS 7)

Meaning

- Contract specifically negotiated for construction of asset or interrelated assets

Types

- **Fixed Price Contract**
  - Fixed price or Fixed rate; may be subject to escalation
- **Cost plus Contract**
  - Defined Costs + % of costs / fixed fee

Combining & Segmenting Construction Contracts

- **Segment**
  - Separate Proposals
  - Separate Negotiation
  - Identifiable Costs & Revenue
- **Combine**
  - Negotiation as single package
  - Closely Interrelated
  - Performed concurrently

Contract Revenue

- Agreed Revenue
- +/(-) Variations
- + Incentive Payments
- + Claims
- + Escalation
- (-) Penalty

Contract Cost

- Direct Costs
- Allocated Costs
- Specific Costs

Recognition of Contract Revenue & Expenses

Outcome of construction contract can be estimated reliably

Yes

Conditions:

* Probable future benefits
* Contract revenue & Costs can be measured reliably

Stage of Completion:

1) $\% \text{ of completion} = \frac{\text{Costs till date}}{\text{Total estimated cost}} \times 100$
2) Survey of work performed
3) Completion of physical proportion

No

Recognise Revenue to the extent of costs of which recovery probable

&

Recognise contract costs as expense in period in which incurred

Recognition of Expected Losses

Para 35

When Total contract cost > Total Contract Revenue

Recognise expected loss immediately

Para 36

* Whether work commenced or not
* Stage of Completion
* Profits expected on other contracts

Computation of Profit

Contract Revenue × % of completion	xx
Costs till date	(xx)
Profits till date	xx
Earlier Profits	(xx)
Current Year Profits	xx

Disclosure Requirements

* Contract Revenue Recognised
* Method to determine Revenue
* Method to determine DOC
* Costs, Profits, Retentions
* Amount due from/(to) customers

Revenue Recognition (AS-9)

[Gross Inflow of Cash, receivable or other consideration. Exception: Agency]

Sale of Goods

Conditions:

1) Transfer of property or significant risks & rewards
2) No Effective control of seller

Rendering of Services

Conditions:

1) Service Performed
   - Completed Service Contract
   - Proportionate Completion

Others

- **Interest**: Time Proportion Basis
- **Royalty**: Accrual Basis
- **Dividend**: When right to receive payment is established

Common Conditions:

1) No significant uncertainity regarding consideration
2) No significant uncertainity regarding collection

Uncertanity of Collection:

(1) At time of Raising claim : Postpone Revenue Recognition

(2) Subsequently : Create Provision

Special Cases

Delivery delayed at Buyer's Request	Expectation that delivery will be made & Item on hand, identified & ready for delivery
Delivery subject to Installation, etc.	Acceptance of delivery & completion of Installation & Inspection
Goods on Approval Basis	(1) Formal Acceptance by buyer (2) Act adopting transaction (3) Lapse of time
Guaranteed Sales	Recognise sales but make suitable provision
Consignment sales	Sale by consignee to 3rd party
Cash on Delivery Sales	When cash received by seller or his agent
Sale to distributors or others	If significant risks of ownership passed; in some situations agent sale
Subscription for Publication	SLM or If value variation then sales value of Item delivered
Advertising Agencies	When advertisement appears before public
Artistic performances, banquet, etc	When event takes place
Tution fees	Over period of Instruction
Insurance Agent Commission	Effective commencement or renewal dates of related policies
Installation fees	When equipment is installed & accepted by Customer
Membership fees	If separately → when received ; If services entitled → systematic & rational basis
Price Revision	Certainity of collection
Sale / Repurchase Agreement	Financing agreement so no revenue

Property, Plant & Equipment (AS-10)

Meaning

Tangible items that are

- ✱ held for use in prodⁿ/supply/ rental / administrative purposes
- ✱ & expected use > 1 Year

Non Applicability

- Biological assets (living animal / plant) Other than Bearer plant✱
- Wasting Assets

✱
- Used in prodⁿ/supply of agricultural produce
- Expected > 12 Months
- Remote chances of being sold as agricultural produce

Recognition Criteria

Cost to be recognised as asset if

- ✱ Future Economic benefits will flow
- ✱ Cost can be reliably measured

Note: May be appropriate to aggregate individually insignificant items.

Spare Parts / Standby Eq. / Servicing Eq.

[Whether definition of PPE met]

- Yes → Apply AS10
- No → Apply AS2

Subsequent Costs

✱ Day to Day Servicing

Described as Rep. & Maint. Exp. Recognised in P&L A/c

✱ Replacement of Parts

- Old Part → DeRecognise
- New Part → Recognise if Criteria met

✱ Regular Major Inspections

- Previous Insp. → DeRecognise
- New Insp. → Recognise if Criteria met

Measurement of PPE

Initial Recognition (Cost Model)

Direct Purchase

INCL.

Purchase Price
+ Non Refundable Taxes
+ Directly Attributable costs (Site Prep., Installation, Prof. fees)
+ Decommissiong, Restoration & Liab.

EXCL.

* Cost of opening New Facility
* Cost of Introducing New Prod./Service
* Cost of Staff Training
* Cost of Relocating

Self Constructed

Internal Profits eliminated

Special cases

1) Deferred credit
   Total Payment - Cash Price
   Recognised as interest
2) Exchange
   Measured at Fair value unless
   * F.V. not measurable
   * Trans^n lacks commercial substance
   → Measured at carrying Amt. of Asset given
3) Consolidated Price
   Apportioned on Fair value basis

Subsequent Recognition

Choose Either

Cost Model

Revaluation Model

Apply to Entire class of PPE
(Assets of similar nature & use)

Revaluation Frequency

- Significant & volatile changes in Fair value → Annual
- Insignificant → Interval of 3-5 years

Revaluation : Accounting Treatment

First Revaluation

Upward

Use

Revaluation surplus (R/S)

Downward

Use

P&L A/c

Method 1 :

Proportionate Increase in both cost & Acc. Dep.

PPE A/c - Dr.

To Acc. Dep. A/c

To Rev. surplus A/c

Method 2 :

Acc. Dep. is eliminated & balance through cost

Acc. Dep. A/c - Dr

PPE A/c - Dr

To Rev. surplus A/c

Subsequent Revaluation

Ist	Use	IInd	Use
↑	R/S	↑	R/S
↓	P&L	↓	P&L
↑	R/S	↓	R/S & then P&L
↓	P&L	↑	P&L & then R/S

Transfer of Rev. surplus to Revenue Reserve

During use of Asset

Some may be tfd. as

Dep. (on Revalued Amt.)

(-) Dep. (on original cost)

When asset is derecognised

Whole surplus is transferred

Depreciation

Meaning: Systematic allocation of depreciable amount of asset over its useful life.

Component Method: Each part of PPE that is significant in relation to total cost of item should be depreciated separately. E.g.: Airframe & Engine of Aircraft

Depreciable Amount: Cost / Revalued Amount − Residual value

Useful life:
On the basis of Period: Period over which asset is expected to be used
On the basis of Units: No. of units expected to be obtained.

Commencement: When asset is available for use.

Cessation of Dep.:
1. Asset's Residual value ≥ Carrying Amount
2. Earlier of
   - Asset retired from active use & held for disposal
   - Asset is derecognised

Depreciation Method

Method should reflect pattern in which future economic benefits are expected to be consumed by the enterprise.

Straight Line Method	Diminishing Balance / WDV Method	Units of Production Method
$\frac{\text{Cost - Residual value}}{\text{Useful life}}$ OR Original cost X Rate (%)	Opening WDV X Rate (%)	$\text{Depreciable Amt.} \times \frac{\text{Prod}^n \text{ in current year}}{\text{Total estimated Prod}^n}$

Review of Depreciation Method: Change in Accounting Estimate (Prospective Effect)

Review of Residual value & useful life: Change in Accounting Estimate (Prospective Effect)

Change in Historical cost: Cost may undergo subsequent changes due to exchange rate fluctuations, Price Adjustments, Change in Duties, etc.
(Included in cost of Asset – Prospective Effect)

Land & Buildings: separable assets & accounted separately even when acquired together

Land: whether Depreciable

No since unlimited useful life.

Exception: If Land has limited useful life.

Retirement: Asset retired from active use & held for disposal

Recorded at Lower of Carrying Amt. or NRV.

Expected loss to be immediately recognised

Derecognition: On Disposal by sale/donation OR when no future benefits expected

Profit/Loss on it to be transferred to P&L A/c

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The Effects of Changes in Foreign Exchange Rates (AS-11)

- Foreign Currency Transaction
  - Initial Recognition (Exchange Rate)
    - Spot Rate i.e. Rate of Transaction
  - Subsequent Recognition (Exchange Rate)
    - Monetary Items
      - B/S Date
    - Non Monetary Items
      - At Historical cost
        - Date of Transaction
      - At Fair Value
        - Date of Valuation
- Foreign Operations
- Forward Exchange Contracts
  - Trading or Speculation
    - Gain/Loss : P&L A/c
  - Not for Trading or Speculation
    - Premium or Discount amortize over life of contract

[Exchange Difference to be transferred to P&L A/c]

PARA 46A : Special Case

Long Term Foreign Currency Monetary Item
(≥ 12 Months)

↓

Exchange Difference

- Related to Depreciable Capital Assets
  ↓
  Adjust cost of Asset (+, −)
- Others
  ↓
  Accumulate in FCMITDA & amortize over period

Foreign Operations

	Integral Foreign Operation	Non Integral Foreign Operation
1) Expense / Income	Actual Rate (If not, then Average Rate)	Actual Rate (If not, then Average Rate)
2) Opening Stock	Opening Rate	Opening Rate
3) Closing Stock	Actual Rate (If not, then Closing Rate)	Closing Rate
4) Fixed Assets	Actual Rate	Closing Rate
5) Monetary Items (Debtors, B/R, Creditors, etc.)	Closing Rate	Closing Rate
6) Goods sent to HO / HO Balance	Actual	Actual
7) Exchange Difference	P&L A/c	Foreign Currency Translation Reserve [Until disposal of Net Investment in NIFO → Recognised as income or expense in period of disposal]

Accounting for Government Grant (AS-12)

[Assistance by Government in cash / kind to enterprise for compliance with certain conditions]

- **Related to specific Fixed Asset**
  - Method 1
    - Deduction from Gross value of asset
  - Method 2
    - Depreciable Assets
      - Deferred Income (Systematic basis)
    - Non-Depreciable Assets
      - Capital Reserve
- **Related to Revenue**
  - Other Income or Deduction from related expense
- **Promoter's Contribution**
  - Capital Reserve [Cannot be distributed as dividend nor considered as deferred income]
- **Non Monetary Govt. Grant**
  - Concessional Rate
    - Acquisition Cost
  - Free of Cost
    - Nominal Value

Refund of Grant

[To be treated as Extraordinary Item as per AS-5]

- **Related to Specific Fixed Asset**
  - **If Method 1**
    - * Increase Book value of Asset
    - * Provide Depreciation on Revised Book value prospectively
  - **If Method 2**
    - **Depreciable Assets**
      - First utilize unamortize deferred credit. Excess tfd. to P&L A/c
    - **Non-Depreciable Assets**
      - Reduce Capital Reserve
- **Related to Revenue**
  - First utilize unamortize deferred credit. Excess tfd. to P&L A/c
- **Promoter's Contribution**
  - Reduce Capital Reserve

AS - 15
Employee Benefits

(Not applicable on Employee Share based payments)

Employee : Contract of Service ⟶ Can be Full time, part time, casual / temporary, permanent, etc.

Employee Benefits : * All forms of consideration for services rendered that are provided under

- Formal Agreement
- Informal Practices (E.g: Diwali Bonus)
- Legislative Requirements (E.g. Provident Fund)

* Can be paid in cash or in kind
* Include benefits provided to employee, spouse, children or other dependents.

Types of Employee Benefits

Short Term Employee Benefits (STEB)
Payable within 12 months of year end
E.g: Salaries, Wages, STCA (Leaves), Profit Sharing & Bonus, Non monetary benefits

Post Employment Employee Benefits (PEEB)
Payable after Completion of service
E.g: Gratuity, Pension, Provident Fund, Medical care, Settlement Allowance

Long Term Employee Benefits (LTEB)
Payable after 12M but before retirement
E.g: Long Term Compensated Absence, Profit sharing & bonus, Jubilee Awards, Long Term Disability Benefits
[A/c'ing Treatment same as of PEEB]

Termination Benefits (TB)
Payable on Termination
E.g: VRS, Retrenchment Compensation.
(W/off in P&L A/c)

Accounting Treatment

1) **Short Term Employee Benefits (STEB):** Recognise expense at undiscounted / absolute amount.

Salary A/c — Dr
Prepaid Salary A/c — Dr
  To Bank A/c
  To O/s salary A/c

Short Term Compensated Absence (Leaves) (Special Treatment)

- **Non Accumulating** (Used during the year)
  - No Treatment
- **Accumulating** (Unutilised at year end)
  - Can be used in Next 12 months
    - Provide for full or proportionate amount of amount payable for such leaves
  - Cannot be used
    - No Treatment

Profit sharing & Bonus Plans

Recognise expected cost as expense if:

* Enterprise has present obligation as a result of past event &
* Reliable estimate can be made.

2) Post Employment Employee Benefits (PEEB):

Defined Contribution Plans (DCP)

Obligation to pay fixed contribution into separate fund.

Record expense based on actual contribution

Eg: Provident Fund, Pension Fund, etc.

Defined Benefit Plans (DBP)**

Employer has obligation but contribution is not required.

Eg: Gratuity, Leave Salary, Settlement Allowance, etc.

** Defined Benefit Plan / Obligation : Projected unit Credit Method

Steps

1) Calculate Estimated Benefit Payable by applying Demographic & Financial Assumptions
2) Calculate Allocated Benefit based on balance service period
3) Calculate Current Service Cost
4) Calculate Finance Cost (Interest Cost) (P.V. factors in reverse manner)

Actuarial Gain / Loss : Actuary reviews the calculation & any gain / loss to be recognised immediately in P&L A/c. (No Deferment allowed)

DBO / PVDBO A/c

To Benefits Paid (Amt. paid on settlement)	xx	By Bal b/d	xx
		By Current Service Cost (CSC)	xx
		By Interest Cost (IC)	xx
To Actuarial Gain*	xx	By Actuarial Loss*	xx
To Bal c/d	xx		
	xx		xx

* Any One.

Note! If Entity has funded the obligation, then make Plan Assets A/c

Plan Assets A/c

To Bal b/d	xx	By Benefits Paid	xx
To Contribution	xx	By Actuary Loss (B.f.)	xx
To Expected Return	xx		
To Actuary Gain (B.f.N)	xx	By Bal c/d (Fair value)	xx

Assumption: Contributions & Benefits paid are in middle of year

* Expected Rate of Return! r is calculated based on management estimate.

Chargeable Rate: $\sqrt{1+r} - 1$

Income will be calculated on Half Yearly basis.

Actual Return: Expected Return ± Actuarial Gain / (Loss)

Modification in DBO

Increase

UPSC A/c - Dr
To DBO

* Unamortised Past service cost
(It can be deferred)

Curtailment

When employer reduce no. of employees or benefits under Plan.
Gain or loss is to be recognised & fy d. to P&L A/c.

Reduction in Gross Obligation	xx
Less: Proportionate reduction in UPSC	(xx)
Gain on curtailment	xx

Balance Sheet: Disclosure

PV of DBO new balance after Reduction	xx
Less: Fair value of Plan Assets	(xx)
Less: Unamortised Past service cost	(xx)
	xx

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Borrowing Costs (AS-16)

Meaning

- Interest costs
- Amortisation of premium or discount related to borrowing
- Amortisation of Ancillary costs
- Exchange Differences

  Interest on Local Borrowings
  (−) Interest on Foreign Borrowings

Recognition

Qualifying Asset

Substantial period of time to get ready for use / sale [>12M]

↓

Capitalise

Others

Ready for intended use when acquired (w/off in period in which incurred)

↓

P&L A/c

Commencement of Capitalisation

↓

Expenditure Incurred [Acquisition, construction or Production of Qualifying Asset]

+

Borrowing costs Incurred

+

Activities in Progress

Borrowing Costs eligible for capitalisation

Specific Borrowing

Actual Borrowing Costs
(-) Income from temporary Inv.

General Borrowing

Steps for capitalisation:

1) Weighted Average Expenditure
   Expenditure X Period

2) Capitalisation Amount
   a) Use specific borrowing first
   b) Use General borrowing for balance

   Amount = Expenditure X Capitalisation Rate

Suspension of Capitalisation

When active development Interrupted

Exception:

Substantial technical/admin work carried out,
Temporary delay part of process,
Unavoidable reasons, etc.

Cessation of Capitalisation

When substantially all the activities are complete

Notes:

* Amount capitalised cannot exceed borrowing costs
* Different rates for all specific borrowings
* Single rate for general borrowings

Segment Reporting (AS-17)

Types

- Business Segment → Based on Products
- Geographical Segment → Based on Area

Segment Identification

Done by Management based on Reporting patterns in entity

Dominant Risk	Primary	Secondary
Product	Bus.	Geog.
Area	Geog.	Bus.
Both	Bus./Geog.	-
None	Bus.	Geog.

Identification of Reportable Segment

- Limits Method
- Comparitive Method [Qualify Limit Last year]
- Choice Method [Management]

Any

- Segm. Revenue $\geq$ 10% of Total Segm. Revenue
- Segm. Result $\geq$ 10% of Total Segm. P/L ↑
- Segm. Assets $\geq$ 10% of Total Segm. Assets

Note: Selected Reportable segments should represent 75% of Sales. If limit not attained, then select further segments

Business Segment: Distinguishable component of business having separate risks & rewards in comparison to other segments. Such segments are broadly based on products.

Basis:

1) Nature of Products: Eg. Product Silk, Cotton, wool, etc.
2) Nature of Production process: Eg. Handmade silk, Machine made silk, etc.
3) Nature of Distribution process: Eg. Retailers, Wholesalers, Direct to home, etc.
4) Nature of Customers: Eg. Industrial, Domestic (End consumers), etc.

Geographical Segment: Distinguishable component of business having separate risks & rewards in comparison to other segments. Such segments are broadly based on Area

Basis:

1) Area: Eg. North, South, East, West, etc.
2) Economic Environment: Eg. Asia, Europe, USA, etc.
3) Currency: Eg. Rupees, Dollars, Pounds, etc.
4) Political Boundaries: Eg. India, Pakistan, Sri Lanka, etc.

Reportable Segment (Limits)

A. Revenue Based

(Seg. Rev. ≥ 10% of Total Seg. Rev.)

S.No.	Revenue	Reportable
A	600	
B	500	
C	200	
D	120	
E	80	

B. Profit/Loss ie. Result Based

(Seg. Result ≥ 10% of Total Seg. Profit/(Loss) w.e. is higher)

S.No.	Result	Reportable
A	550	
B	450	
C	(95)	
D	100	
E	(135)	

C. Assets Based

(Seg. Assets ≥ 10% of Total Seg. Assets)

S.No.	Assets	Reportable
A	700	
B	800	
C	100	
D	150	
E	250	

Segment Revenue

Segment External Sales	xx
+ Apportioned Sales	xx
+ Inter segment sale	xx
	xx

Does not Include

* Extraordinary Income
* Interest / Dividend Income
* Gain on sale of Investment

Segment Expense

Segment Direct Expenses	xx
+ Apportioned Expenses	xx
+ Inter segment Expense	xx
	xx

Does not Include

* Extraordinary Item
* Interest Expense
* Income tax expense
* Adm. & HO Expenses

Segment Assets

Segment Fixed & Current Assets
[Directly Attributable + Allocated]

Does not Include

* Income tax Assets
* Assets used for HO purpose

Segment Liabilities

Segment Operating Liabilities
[Directly Attributable + Allocated]

Does not Include

* Income tax Liabilities
* Borrowing & other liabilities for financing

Note: Segment Result = Segment Revenue - Segment Expenses

Segment Report

Primary:

1) Segment Revenue
2) Segment Result
3) Segment Assets
4) Segment Liabilities
5) Segment Fixed Assets acquired during period
6) Depreciation
7) Non cash expense other than depreciation

Secondary:

1) Segment Revenue
2) Segment Assets
3) Segment Fixed Assets acquired during period

Segment Report (Format)

Particulars	S_1	S_2	S_3	Pending Segments	Total
1. Segment Revenue	xx	xx	xx	xx	xx
- Inter segment sales					(xx)
					xx
2. Segment Result	xx	xx	xx	xx	xx
± Unallocated Items					xx
Profit / (loss)					xx
3. Segment Assets	xx	xx	xx	xx	xx
+ Unallocated Assets					xx
					xx
4. Segment Fixed Assets Acquired	xx	xx	xx	xx	xx
5. Segment Liabilities	xx	xx	xx	xx	xx
+ Unallocated Liabilities					xx
					xx
6. Depreciation	xx	xx	xx	xx	xx
7. Non Cash Expenses	xx	xx	xx	xx	xx

Related Party Disclosures (AS-18)

Related Party

One party has ability to control or exercise significant influence over other party at any time during period

Control

- VP > 50%
- Power to compose BOD
- Power to Direct + Substantial Interest (VP ≥ 20%)

Significant Influence

Power to participate in financial &/or operating policy decisions (VP ≥ 20% considered unless otherwise assumed)

No Related Parties:

1) 2 companies simply b'coz of common director
2) Single customer, supplier, franchiser, distributor, etc.
3) Providers of Finance, Trade unions, Govt. depts & agencies, etc.

Related Party Relationship

3(a): Enterprises directly or indirectly through subsidiary, control or are controlled by or are under common control with entity

3(b): Associates & Joint venture of Reporting Entity or Investors for which Reporting Entity is Associate / J.V.

3(c): Individuals who have control or significant Influence & their relatives*

3(d): Key Management Personnel (KMP) & their relatives

3(e): Entities where individuals in Para 3(c) / 3(d) have significant Influence.

*Relative : Spouse, Children, Parents, Siblings

Disclosure

Whether Related at any time during period

Yes

Any transaction took place ie. transfer of resources or obligation

Yes

Disclose:

a) Name of Related party
b) Nature of Relationship
c) Nature of Transaction
d) Amount of Transaction
e) Other Elements
f) O/s Balance
g) Amount written off/written back

No

Does control exist?

Yes

Disclose:

a) Name
b) Nature of Relationship

No → No disclosure Required

No

Exceptions of Disclosure Requirements

(i) Transactions during period when no relationship
(ii) Disclosures which are against ethics of business
(iii) Intragroup transactions in consolidated financial statements
(iv) For Govt. controlled entity
[Transactions of one Govt. entity with Other Govt. entity]

3(a)

1) $X\ Ltd. \xrightarrow{\text{controls}} Y\ Ltd.$

2) $X\ Ltd. \xrightarrow{\text{controlled by}} Y\ Ltd.$

3) $Z\ Ltd. \xrightarrow{60\%} X\ Ltd.$
$Z\ Ltd. \xrightarrow{60\%} Y\ Ltd.$

4) $X\ Ltd. \xrightarrow[(>50\%)]{\text{control}} Y\ Ltd. \xrightarrow[(>50\%)]{\text{control}} Z\ Ltd.$

5) $X\ Ltd. \xrightarrow{60\%} Y\ Ltd. \xrightarrow[\text{Power to Direct}]{25\%+} Z\ Ltd.$

6) $X\ Ltd. \xrightarrow[\text{Power to Direct}]{25\%+} Y\ Ltd. \xrightarrow{60\%} Z\ Ltd.$

3(b)

$$\text{X Ltd.} \longrightarrow \text{Associate}$$

$$\text{X Ltd.} \longrightarrow \text{Joint venture}$$

3(c)

$$\text{Mr. X} \xrightarrow[\text{Significant Influence}]{\text{Control or}} \text{A Ltd.}$$

3(d)

$$\text{Mr. X} \xrightarrow{\text{KMP}} \text{A Ltd.}$$

3(e)

1)

$$\text{Ram} \xrightarrow{\text{VP: 30\%}} \text{X Ltd.}$$

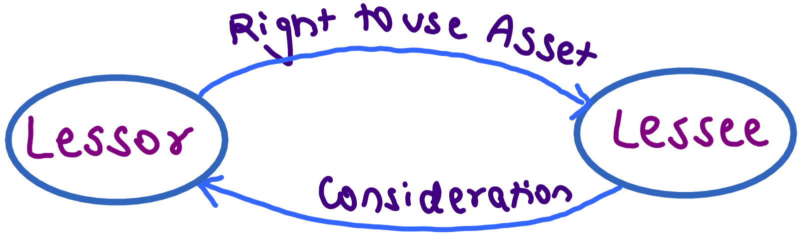
$$\text{Ram} \xrightarrow{\text{VP 25\%}} \text{Y Ltd.}$$

2)

$$\begin{array}{lcl} \text{Ram} & \xrightarrow{\text{KMP}} & \text{X Ltd.} \\ \downarrow \text{Brother} & & \\ \text{Shyam} & \xrightarrow{\text{VP 20\%}} & \text{Y Ltd.} \end{array}$$

LEASES (AS-19)

Lease means transfer of right to use asset for specified period against consideration / series of consideration.



Lease can be of 2 types:

1) Finance Lease   2) Operating Lease

Conditions of Finance Lease:

a) Transfer of ownership at end of Lease term

b) Lessee has purchase option at reduced rate & lessee is certain to opt.

c) Lease period substantially covers economic life of asset.

d) Present value of Minimum Lease payments substantially covers fair value of asset.

e) Asset is of specialised nature

FINANCE LEASE [Books of Lessee]

Journal Entries:

1) Asset on Lease A/c - Dr
   To Lessor A/c

Amount = Lower of

* Present value of Minimum Lease Payments from Stand point of Lessee (MLP_{Lessee})

$\boxed{\text{OR}}$

* Fair Value of Asset

MLP_{Lessee} => Lease Payments / Rentals
+
Guaranteed Residual value by Lessee or on his behalf

2) Lessor A/c -Dr
Finance charges A/c -Dr
To Bank A/c

3) Depreciation A/c -Dr
To Asset on Lease

4) P&L A/c -Dr
To Finance charges A/c
To Depreciation A/c

Note:
* Rate of Interest would be incremental Rate of Return (IRR)
* Whenever IRR is given, follow given IRR
* If Fair value of Asset < Present value of MLP Lessee, IRR would be recomputed

FINANCE LEASE [Books of Lessor]

Journal Entries:

1) Lease Receivable / Lessee A/c - Dr
   To Sale / Asset A/c

Amount = Net Investment

Net Investment = Present value of Gross Investment

$$\text{Gross Investment} = \underbrace{\text{Lease Rentals} + \text{Guaranteed Residual value}_{\text{Lessor}}}_{\text{MLP Lessor}} + \text{Unguaranteed Residual value}$$

$$\underbrace{\text{Guaranteed Residual value}_{\text{Lessor}} + \text{Unguaranteed Residual value}}_{\text{Residual value}}$$

GRV_{Lessor} = Higher of

GRV_{Lessee}

or

$GRV_{3rd\ Party}$

2) Bank A/c - Dr
    To Lease Receivable / Lessee A/c
    To Finance Income A/c

3) Finance Income A/c - Dr
    To P&L A/c

$$\boxed{\text{Unearned Finance Income} = \text{Gross Investment} - \text{Net Investment}}$$

OPERATING LEASE

Lessor

Rental Income

Lessee

Rental Expense

To be recognised in the Statement of P&L in the ratio of benefit derived.

If not available, then SLM is used.

SALE & LEASE BACK

Sale & Finance Lease Back:

Any Profit / loss is to be deferred in the ratio of depreciation over lease period.

Sale & Operating Lease Back:

Step 1: Calculate Impairment Loss : Carrying Amount - Fair value

To be recognised Immediately

Step 2: Calculate Deferred Income : Sale Price - Fair value

To be recognised over Lease period

Step 3: Calculate Difference : +ve or -ve

To be recognised immediately

Exception: If Loss is compensated by future lease payments then it should be amortised over the period.

LEASES (AS-19)

(Transfer of Right to use asset for specified period against consideration)

Normal Lease

Finance Lease

Lessee

Record Asset at

Lower of

P.V. of MLP_{Lessee}

or

Fair value of Asset

MLP_{Lessee} ⇒ Lease Rentals + GRV_{Lessee}

Lessor

Record Sale at

Net Inv. = P.V. of Gross Inv.

Gross Inv. =

MLP_{Lessor} [Lease Rentals + GRV_{Lessor}]

GRV_{Lessor} + UGRV = R.V.

Operating Lease

Rental Income/Expense in Ratio of Benefit derived.

If not, then SLM

Sale & Lease Back

Sale & Finance Lease Back

Profit/Loss in ratio of dep. over Lease

Sale & Operating Lease Back

- **Impairment Loss**: Recognised Immediately
- **Deferred Income**: Over Lease Period
- **Difference**: Recognised Immediately

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Accounting for Taxes on Income (AS-22)

(This AS allocates tax expense on systematic basis to each year)

Definitions:

Accounting Income : Net Profit/(Loss) as per Statement of P&L

Taxable Income : Income / loss as per Tax Laws

Tax Expense : Current Tax ± Deferred Tax

Current Tax : Tax calculated as per tax laws

Deferred Tax : Tax effect on Timing Differences

Timing Differences : Differences b/w Taxable Income & Accounting Income that originate in one period & capable of reversal in subsequent period

Permanent Differences : Other than Timing Differences

Accounting Income ≠ Taxable Income

Tax on Accounting Income ≠ Tax on Taxable Income

Tax Expense ≠ Current Tax

Tax Expense = Current Tax ± Deferred Tax

(Debited in P&L A/c) (As per Tax Laws) (Tax Effect on timing Differences)

[+DTL/-DTA]

* Permanent Differences do not result in DTA/DTL

Differences b/w Accounting Income & Taxable Income

- Timing Differences
  - E.g.
  - * Depreciation Diff.
  - * Sec 43B: Allowance On Payment Basis
  - * Deferred Revenue Exp.
  - ↓ DTA/DTL to be Created/recognised
- Permanent Differences
  - E.g.
  - * Donation
  - * 40A(3)
  - * Exempted Income
  - ↓ No Recognition of DTA/DTL

I A/c'ing Income > Taxable Income

DTL = Timing Diff. X Tax Rate

II A/c'ing Income < Taxable Income

DTA = Timing Diff. X Tax Rate

Timing Differences

- **Accounting Income > Taxable Income**
  - **Fresh Difference** → DTL = Timing Diff. × Tax Rate
  - **Earlier Difference** → DTA earlier made to be reversed
- **Accounting Income < Taxable Income**
  - **Fresh Difference** → DTA = Timing Diff. × Tax Rate
  - **Earlier Difference** → DTL earlier made to be reversed

DTA: Should be created subject to prudence limits.

Entities having unabsorbed Dep./carry forward of losses: Create DTA if there is VCCE (Virtual certainity with convincing evidence) that there will be future taxable income against which DTA can be adjusted.

Other Entities: Create DTA if there is reasonable certainity.

Note: DTA/DTL should not be discounted to their present value.

Example: Y_1 to Y_4 Profit before Dep. & Tax = 500000 Dep. as per Books = 100000 p.a.
Tax Rate = 30%. Dep. as per Income Tax = 140000, 110000, 80000, 70000

Statement of P&L

	Y_1	Y_2	Y_3	Y_4
Profit	500000	500000	500000	500000
- Dep. as per books	(100000)	(100000)	(100000)	(100000)
Profit Before Tax	400000	400000	400000	400000
- Tax Expense				
Current Tax				
Deferred Tax				
Profit after Tax				

Working Note:

Current Tax

	Y_1	Y_2	Y_3	Y_4
Profit	500000	500000	500000	500000
- Depreciation	(140000)	(110000)	(80000)	(70000)
	360000	390000	420000	430000

Tax @ 30%

Entity having Tax Holiday:

- Timing Differences will be taken on FIFO Basis
- Timing Differences which arise in tax holiday & are capable of reversal in tax holiday will be ignored

Example: Tax holiday period Y_1 to Y_5. Tax Rate 30%.

	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7
Dep. as per books	100000	100000	100000	100000	100000	100000	100000
Dep. as per Tax Laws	190000	160000	120000	80000	60000	50000	40000

Minimum Alternate Tax (MAT)

Sec 115JB of Income Tax Act, 1961

Tax Payable for the year

Higher of $\begin{bmatrix} \text{Taxable Income} \\ \times \\ \text{Tax Rate} \end{bmatrix}$ OR $\begin{bmatrix} \text{Book Profit} \\ \times \\ \text{MAT Rate} \end{bmatrix}$

MAT Credit = Excess of MAT paid over Tax on Total Income. It is an asset

Case 1:

Taxable Income = 1000000
Tax Rate = 30%

Book Profit = 2500000
MAT Rate = 15%

Case 2:

Taxable Income = 1000000
Tax Rate = 30%

Book Profit = 1200000
MAT Rate = 15%

Deferred Tax: Tax Effect of Timing Differences between Accounting Income & Taxable Income to be calculated using regular tax rates & not MAT rate.

Tax Expense = Current Tax ± Deferred Tax

$\Downarrow$

Tax Liability as per provisions of Income Tax & not Tax Payable as per Sec 115JB

* DTA/DTL not recognised on basis of Sec 115JB.

AS-23

Accounting for Investment in Associates in Consolidated Financial Statements

Meaning of Associate: Enterprise in which investor has significant influence* & which is neither subsidiary or joint venture of Investor.

* **Significant Influence:** Power to participate in financial/or operating policy decisions of investee. It may be gained by statute, agreement or share ownership (Assume 20% or more unless otherwise proved)

Example:

(a)

$$\begin{array}{ccc} & & \text{A Ltd.} \\ & & \big\downarrow 70\% \\ \text{B Ltd.} & \xrightarrow{28\%} & \text{C Ltd.} \end{array}$$

A Ltd. is holding co. of C Ltd.

C Ltd. will be associate of B Ltd.

(b)

$$\text{A Ltd.} \xrightarrow{90\%} \text{B Ltd.} \xrightarrow{11\%} \text{C Ltd.}$$

$$\text{A Ltd.} \xrightarrow{10\%} \text{C Ltd.}$$

A Ltd. is holding co. of B Ltd.

A Ltd. has total of direct & indirect (10% + 11%) 21% in C Ltd., so C Ltd. is associate of A Ltd.

For CFS, holding will be 19.9% (10% + 90% of 11%)

Accounting Treatment

Separate Financial Statements

Apply AS 13

Investments recorded at cost	xxx
– Pre Acquisition Dividend	(xxx)
	xxx

Consolidated Financial Statements

Temporary

Apply AS 13

Permanent

Use Equity Method of Accounting (AS23)

Temporary:

a) Investment is acquired & held to dispose off in near future (or)

b) Investee operates under Long Term restrictions which impair its ability to transfer funds to the investor.

Equity Method of Accounting:

1) Investment recorded at cost xxx
   – Pre Acquisition Dividend (xxx) xxx

2) Calculate Goodwill | capital Reserve (Identify | Disclose)

3) Post Acquisition Profits (Revalued): Our share

   Investment in Associate A/c – Dr
   To consolidated P&L A/c
   (Post Profits Share)

4) Post Acquisition Dividend to be deducted

* **Step Acquisition:** If shares acquired in steps, that is in parts, then Goodwill / Capital Reserve should be calculated for each part.

Example: X Ltd. acquired 10% shares of B Ltd. on 1/4 & further 15% on 1/10.
Cost of Investment for 10% ₹1,00,000 & for 15% ₹1,55,000
Net Assets of B Ltd. on 1/4 850000 & on 1/10 10,00,000.

* **If Investment in Associate becomes negative:** Discontinue recording further los
* **Use uniform Accounting Policies**
* **Treatment of Proposed Dividend:** compute investor's share of results without taking into consideration the proposed dividend.
* **Consideration of Potential Equity Share of Investee by Investor:** It should not be taken into account for determing voting power of the investor.

Discontinuing Operations (AS-24)

[Reporting/Disclosure information enhancing users ability to make projections]

Meaning

Component of enterprise

- Pursuant to single plan
  - Disposing of Substantially in Entirety
  - Piecemeal Distribution
  - Terminating through Abandonement
- Represents separate major line of business or geographical area of operations
- Can be distinguished operationally & for financial reporting purposes

Initial Disclosure Event

Earlier of

* Entered into binding sale agreement $\boxed{\text{or}}$
* BOD approved formal plan & Announcement

Disclosure

* Describe Discontinuance
* Whether business or geographical segment
* Date & Nature of IDE
* Carrying Amount of Assets & Liabilities
* Revenue & Expenses Attributable
* Pre Tax Profit/(Loss) & Tax Expense (Face of Statement of P&L)
* Net Cash flows attributable

AS 25
Interim Financial Reporting

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

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

Note: First Year of operations: Annual period may be shorter than financial year, still it is not considered as interim period.

Scope : Prescribes minimum contents of an IFR & requires that an enterprise which elects to prepare & present an IFR should comply with this AS.

It is a kind of update on complete financial statements of last year. This helps in timely, better & reliable information for users.

Note:
- AS 25 does not mandate which enterprises should be required to present IFR.
- Clause 33 & 41 of SEBI Listing Requirements has no relationship with IFR. These clauses with Interim Financial Results.

However, Recognition & Measurement principles laid down in AS 25 applied in Clause 33 & 41 Reporting.

Contents of IFR: Balance sheet, statement of P&L, cash flow statement & Notes to Accounts

- It can be complete/full, just like annual statements or condensed.
- If such statements are complete consider Interim Period as complete period & prepare financial statements
- If such statements are condensed, then Head & Subheads should be as in most recent annual financial statements

- Selected Notes to Accounts in condensed statements should be of significant events & transactions like
  - Gain / Loss on sale of PPE
  - Decline in value of Inventory
  - Reversal of Provision
  - Impairment loss
  - Related Party Transaction
  - Litigation Settlement
- Statement of Policies, methods & estimates if changed
- Disclosure of EPS, Segment Information
- Disclosure of Business Combinations
- Nature & Amount of items affecting Assets, Liab., Income, Exp. which is unusual.

Period for which Interim Financial Statements to be presented

Statement	Current Period	Comparitive Period
Balance Sheet	Last date of Interim Period (30/9/23)	Year End Previous Year (31/3/23)
Statement of Profit & Loss	For Interim Period For Year to Date Current Year (1/7/23 to 30/9/23) & (1/4/23 to 30/9/23)	For Previous Year Interim Period For Year to Date Previous Year (1/7/22 to 30/9/22) & (1/4/22 to 30/9/22)
Cash Flow Statement	Year to date Current Year (1/4/23 to 30/9/23)	Year to Date Previous Year. (1/4/22 to 30/9/22)

$\boxed{\text{Eg: FY 23-24 Interim Period 1/7/23 to 30/9/23.}}$

Recognition & Measurement

1) Income / Revenue : which is seasonal, occassional etc. should not be deferred. Recognise revenue as usual (when they occur). Apply Accrual concept.

2) Expenses : All expenses or losses, which are seasonal or infrequent cannot be deferred, unless appropriate. Recognise when incurred.

3) Change in Accounting Estimate : If any change during Interim period, its financial effect should be fully considered in Interim period.

4) Change in Accounting Policy : If any change during Interim period, its financial effect related to Interim period should be considered in the period.

Provision

* Entity should make best estimate for provision at the end of each Interim period.
* Provision for Tax : Calculate Weighted Average Tax Rate for full year & apply this rate for Interim Period.

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Intangible Assets (AS-26)

Meaning

* Identifiable
* Non Monetary Asset
* Without physical substance
* Held for economic benefits
* Under control of entity

Recognition Criteria

* Probable future economic benefits
* Cost can be reliably measured

Measurement

Separate Acquisition

Purchase Price
+ Non Refundable taxes
+ Directly Attributable Expenditure
(-) Trade discount

Govt. Grant

AS-12

Exchange

FMV of Asset Acquired
Or
FMV of Asset/Shares given w.e. is clearly evident

Subsequent Expenditure

Expense

Exception: Future economic benefits in excess of original assessed standard of performance & amount can be reliably measured

Internally Generated

Self generated Goodwill, brandname, etc.

Not to be recognised

Other Intangible Assets like Software, Patents, copyrights, Trademark, knowhow, etc.

To be Recognised

Research Phase

Recognised as expense
&
Charged to P&L A/c

Development Phase

(ie. when it meets recognition criteria)**

Capitalise the cost & disclose at Lower of Cost or Recoverable Amount

(Discounted value: Present value of Cash flows)

(Difference to be tfd. to P&L A/c)

** **Development Phase: Conditions**

* Technical feasability established
* Marketability proved
* Identification of cost incurred
* Sufficient future revenue to cover cost
* Intention to complete asset

Amortisation

- **Period**
  - Softwares & Website → 3-5 years
  - G/w arising under Amalgamation in nature of Purchase → 5 years
  - Others → 10 years
- **Method**
  - Reflecting pattern of consumption
  - ie. In ratio of future economic benefits.
  - If not obtained, then use SLM.

Note:

1) Amortisation should commence when asset is available for use.
2) Profit / Loss on disposal to be tfd. to P&L A/c.

AS 27

Financial Reporting of Interest in Joint Ventures

Meaning of Joint Venture:

- Contractual Arrangement
- Between 2 or more parties for Economic Activity
- which is subject to Joint control

Joint → Sharing

control → Power to govern Financial & operating policies so as to obtain benefits

Forms of Joint Ventures

Jointly controlled operations (JCO)

- No separate entity
- Use their own assets
- No separate books of J.V. maintained

(Draft Cons. P&L A/c prepared to ascertain Profit/Loss)

- Maintain own books & record only his own transactions
- Venturers met expenses of J.V. business from their funds
- Any Income earned from J.V. is shared by venturers as per contract.

Jointly controlled Assets (JCA)

- No separate entity
- Common control over joint assets
- No separate books of J.V.

(Draft Cons. B/S & P&L A/c prepared)

- Venturer shows only their share of asset & total income earned & expenses incurred by them.
- Expenses on Jointly held assets shared by venturers as per contract

Jointly Controlled Entities (JCE)

- Separate entity is formed
- Entity prepares its own books of Accounts & financial statements

Jointly Controlled Entity (JCE)

Entity
(Firm, Company, etc.)

* Own Books of A/cs as per Double Entry System
* Own Financial Statements in normal manner
(B/S, P&L A/c)

Partner, venturer, etc.

Separate Financial Statements

Inv. in J.V. A/c -Dr
    To Bank A/c

(AS-13)

Consolidated Financial Statements

If J.V. Temporary *

Apply AS-13

Show Inv. in J.V. only

If J.V. not Temporary

Apply Proportionate Consolidation Method as per AS 27

Assets, Liabilities, Expenses, Income shown on line by line basis for proportionate amount.
(venturer share)

Share in Asset A/c-Dr
Share in Exp. A/c-Dr
    To share in Income
    To share in Liability
    To Investment in J.V.

* Tempory J.V. (Non usage of PCM)

1) Investment is acquired & held for disposal in near future
or
2) Long Term restrictions which impair ability to transfer funds by J.V. to venturer.

Transactions between venturer & Joint venture

* Do not record gain or loss on share of assets transferred to itself.
* Gain or loss can be recorded on share of assets sold to other venturer
* If decline in market prices / NRV or impairment loss have been reported, then loss can be recorded on own share of asset also.

Fair value of what we get vs Book value of what we give

↓

Difference is Gain / Loss

AS 28
Impairment of Assets

Scope: Not applicable to assets covered by AS 2, AS 7, AS 13 & AS 22.

Applicable to PPE & Intangible Assets

Impairment Loss

Meaning

Impairment loss = Carrying Amount − Recoverable Amount

Carrying Amount → Book value after Depreciation & Amortisation at year end (This is after Revaluation)

Recoverable Amount → $\boxed{\text{Higher}}$ of Net selling Price* or Value in use**

* Net Selling Price = Expected Sale Price of Asset − Estimated selling Expenses (Excl. Tax & Finance Costs) (Eg. commission)

Expected Sale Price of Asset → Based on Price in Active market, Binding Sale Price or management best judgement

Accounting Treatment

- **Entry:**

1) Revaluation Reserve A/c − Dr
   Impairment Loss A/c − Dr
   To Accumulated Impairment Loss A/c

2) P&L A/c − Dr
   To Impairment Loss A/c

- **Balance Sheet**

Asset (Cost)	xxx
− Acc. Depreciation	(xxx)
− Acc. Impairment Loss	(xxx)
	xxx

- Depreciation of future periods will get reduced due to Impairment Loss
- Income Tax does not allow this, hence create Deferred Tax Assets on it.

** Value in Use

- Present value of $\underbrace{\text{Net Cash Inflows}}_{\text{Gross Inflows - Outflows to generate Inflows}}$ from continuous use of asset & its residual value

- Such net cash flows should be reasonable & supportable to assumptions of management.
- Cash flows should be taken for maximum 5 years, unless justified
- Generally most recent management forecasts & budgets are used for calculation of net Inflow
- Outflows include repairs for which management is committed.
- Discount Rate should be Pre Tax CAPM.

Indicators of Impairment loss

External

* Low market capitalisation
* Market Price of asset has declined substantially
* Unfavourable market conditions against entity in regard to demand, technology, Govt. policies, etc.
* Market Interest rates have increased substantially.

Internal

* Poor Economic Performance by Asset
* Physical Damage to asset
* Company has plans of Restructuring or Discontinuation.

Note: If Recoverable Amount > Carrying Amount, ignore the difference & asset shown at same book value

: Review Useful life, residual value or depreciation method as per AS 10.

Cash Generating Unit (CGU)

Smallest identifiable group of assets working together to generate cash flows that are largely independent of cash inflows from other assets or group.

If asset is capable of generating cash flows on independent basis, then such single asset is CGU else identify the lowest aggregation of assets that generate independent cash inflows.

Carrying Amount of CGU: Summation of carrying amount of all assets grouped under 1 CGU. Includes liability only if it is necessary to be considered.

Impairment loss for CGU:

- First to Goodwill allocated to CGU &
- Then to other assets on prorata basis based on carrying amount of each asset in CGU.

Goodwill: Does not generate cash flows independently from other assets or group of assets therefore recoverable amount cannot be determined.

Case 1: If G/w can be allocated on reasonable & consistent basis: Apply Bottom up test only.

Case 2: If G/w cannot be allocated on reasonable & consistent basis: Apply both Bottom up Test & Top Down Test.

Corporate Assets: Administrative assets like HO Building, EDP Equipment, Research unit, etc.

↓

Same Treatment like Goodwill.

Reversal of Impairment loss

If Indicators due to which Impairment loss recognised earlier, no longer exist then Impairment loss to be reversed.

* Reversal is Lower of following:
  * Recoverable Amt. – Carrying Amt. OR
  * Impairment loss recorded earlier

Note: Goodwill written off can be reversed only if certain conditions are met.

Disclosure Requirements:

* Impairment loss recorded in P&L A/c
* Impairment loss adjusted with Revaluation Reserve
* Segments affected by Impairment
* Indicator used for calculations
* Assumptions applied in calculation of Recoverable Amt.
* CGU & its identification
* Impairment loss reversed during year.

Provision, Contingent Liabilities & Contingent Assets (AS-29)

Provision

Recognition

* Present obligation from past events
* Expected outflow of resources
* Reliable estimate can be made

Contingent Liability

* Possible obligation

Or

* Present obligation but not recognised b'coz
  - Outflow not probable

    Or
  - Reliable estimate cannot be made

Recognition : No

Disclosure : Yes

Exception : Remote possibility

Contingent Asset

Possible asset from past events, existence confirmed only by future events.

Disclosure :

Not in financial statements

Disclosure in Director's Report

Reimbursement

Recognise : when virtually certain

* Separate asset in B/s
* Provision net of Reimbursement in P&L A/c

Restructuring

Programme that is planned & controlled by management & materially changes either :

* Scope of business
* manner in which business conducted

Make provision if recognition criteria met

Onerous Contract

Unavoidable costs of meeting obligation under contract exceed economic benefits

Provision : Lower of

* Cost of fulfilling contract
* Penalty from failure to fulfill it