

# इवरानइह

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

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While due care has been taken in preparing this booklet, if any errors or omissions are noticed, the same may be brought to the notice of the Director, BoS. The Council of the Institute is not responsible in any way for the correctness or otherwise of the matter published herein.

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**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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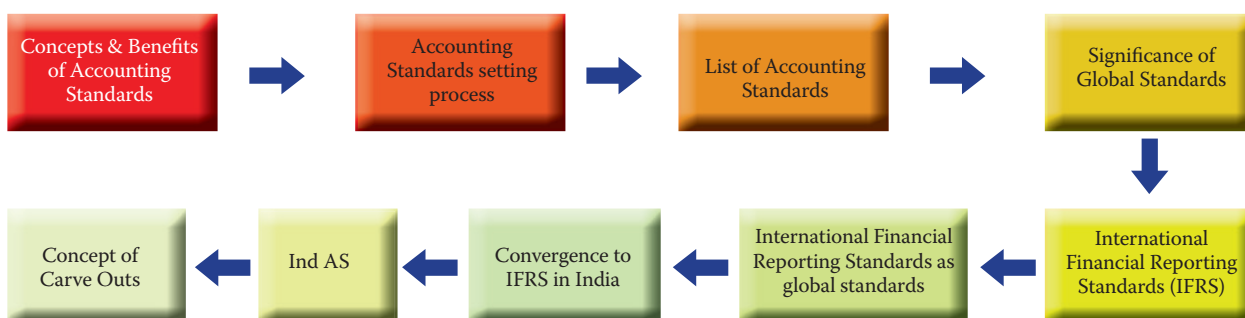
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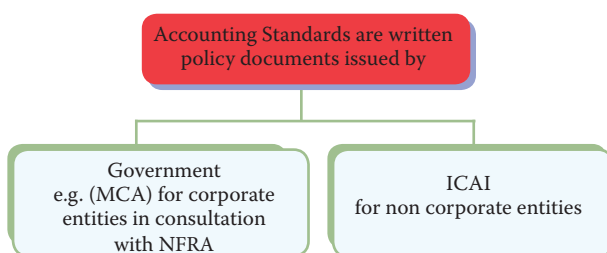


## INTRODUCTION TO ACCOUNTING STANDARDS

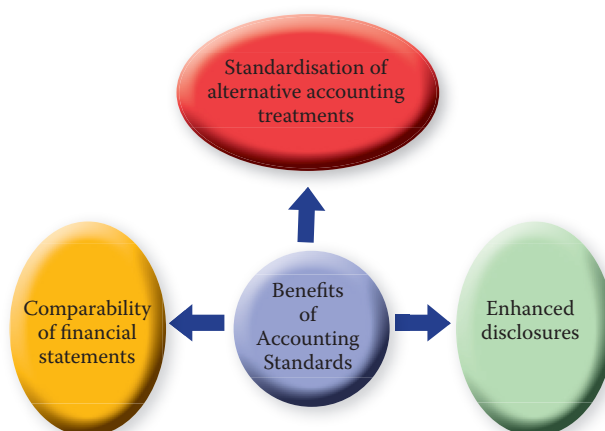
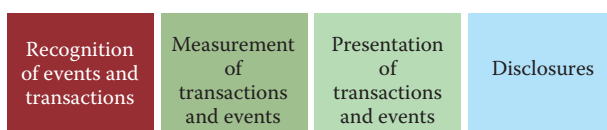
## Overview



## Issuance of Accounting Standards



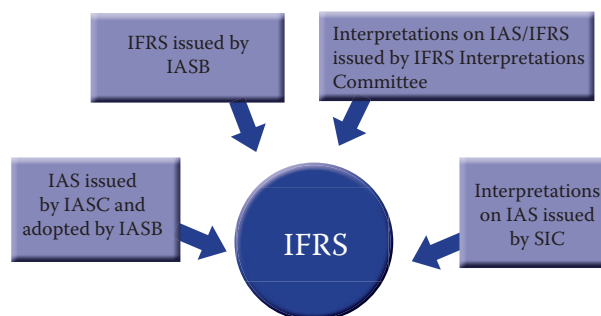
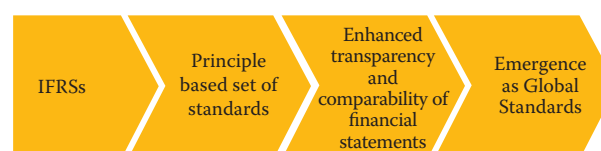
## Accounting Standards - Benefits

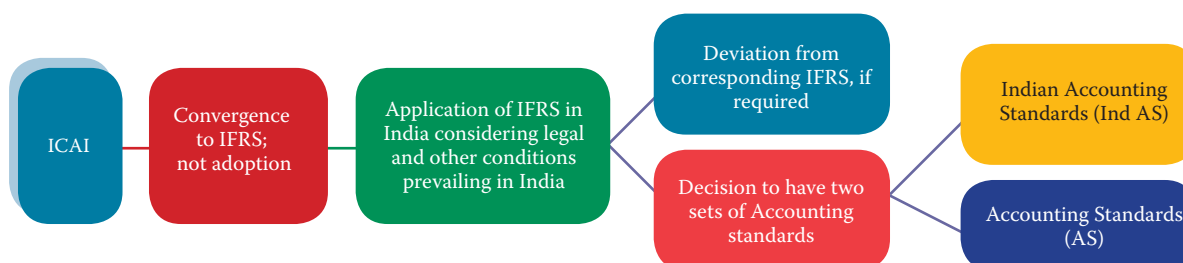


**Accounting Standards Setting Process****List of Accounting Standards**

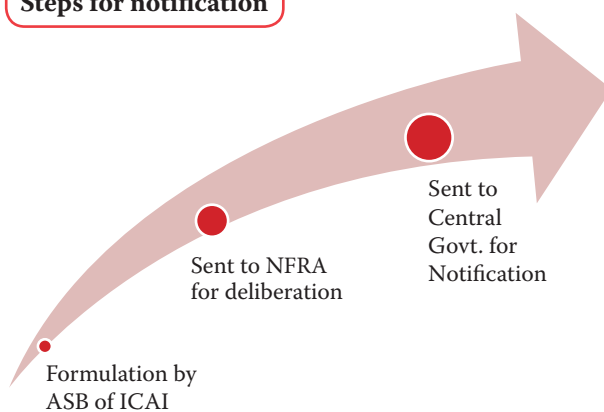
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statement
4	Contingencies and Events Occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
7	Construction Contracts
9	Revenue Recognition
10	Property, Plant and Equipment
11	The Effects of Changes in Foreign Exchange Rates
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
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20	Earnings Per Share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for Investments in Associates in Consolidated Financial Statements
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25	Interim Financial Reporting
26	Intangible Assets
27	Financial Reporting of Interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets

Effectively, there are now only 27 Accounting Standards.

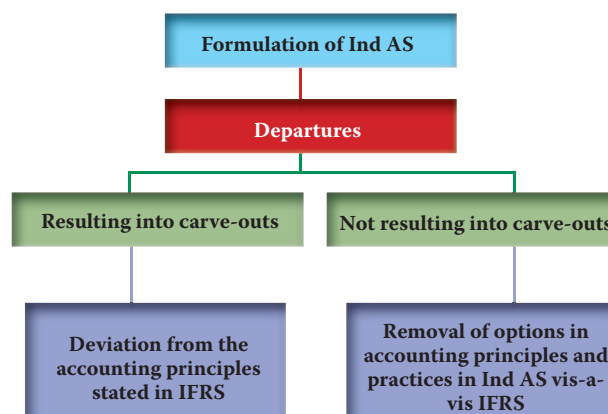
**Significance of Global Standards****International Financial Reporting Standards (IFRS)****International Financial Reporting Standards (IFRSs) as Global Standards**

**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**

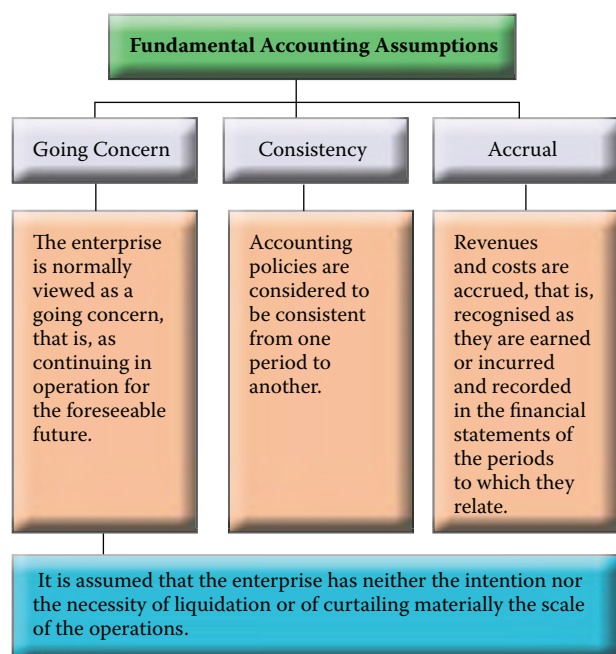
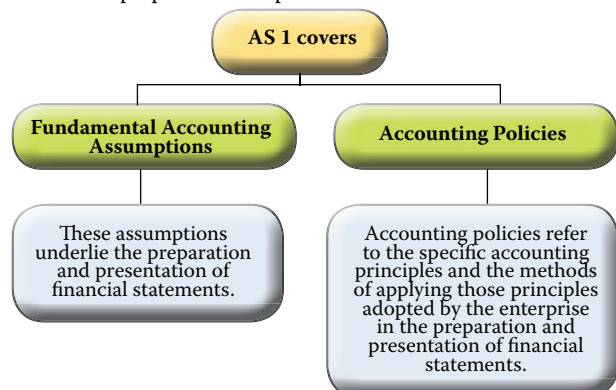
Globalization and Liberalization	Transparency of financial statements	Comparability of financial statements	Enhanced Disclosure requirements
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**Objectives and Concepts of Carve Outs**

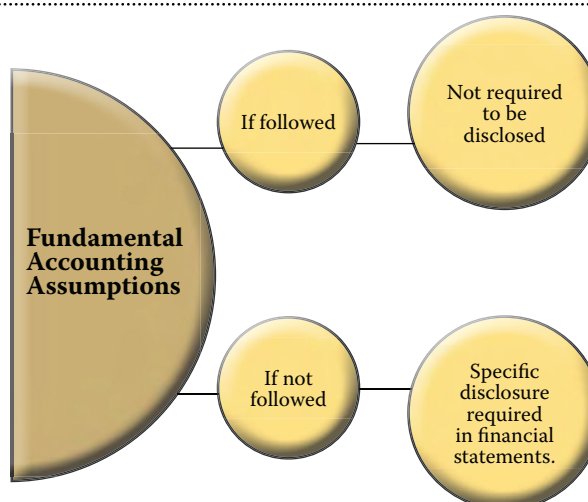
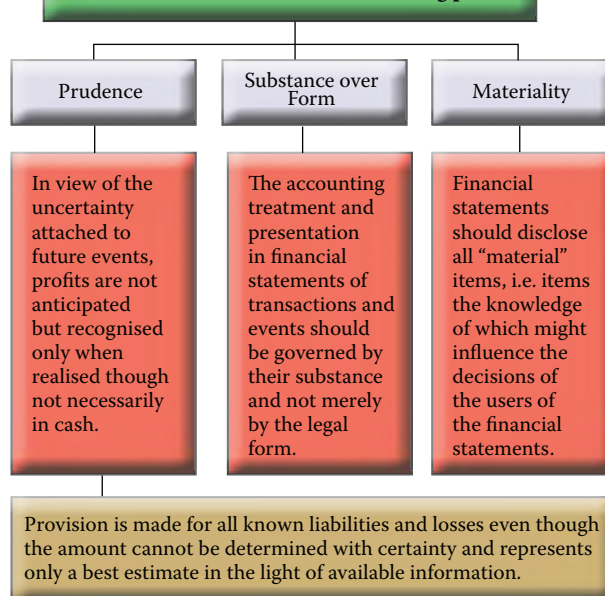
## AS 1 "DISCLOSURE OF ACCOUNTING POLICIES"

## Introduction

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



## Considerations in selection of Accounting policies

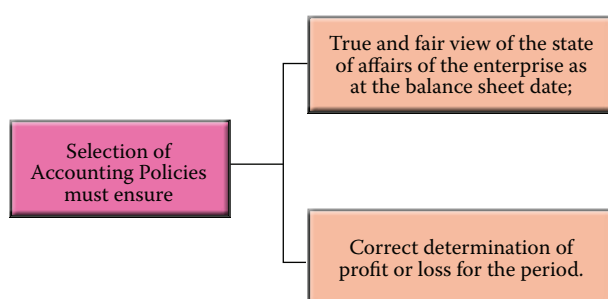


Accountant has to make decisions from various permitted alternative methods for recording or disclosing various items in the books of accounts for example:

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



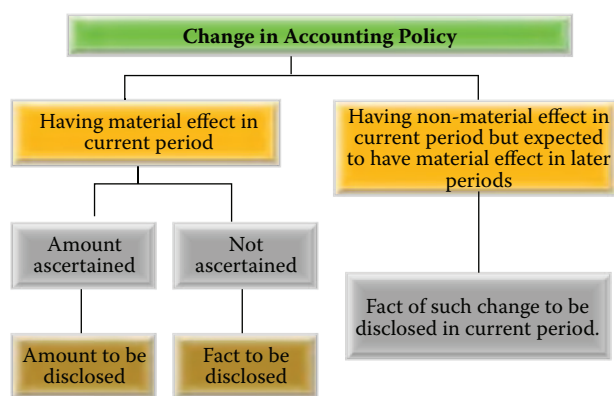
### Disclosure of Accounting Policies

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

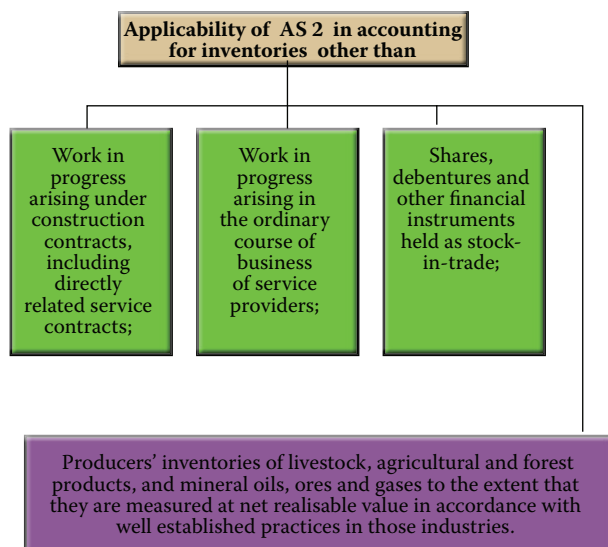


## AS 2 “VALUATION OF INVENTORIES”

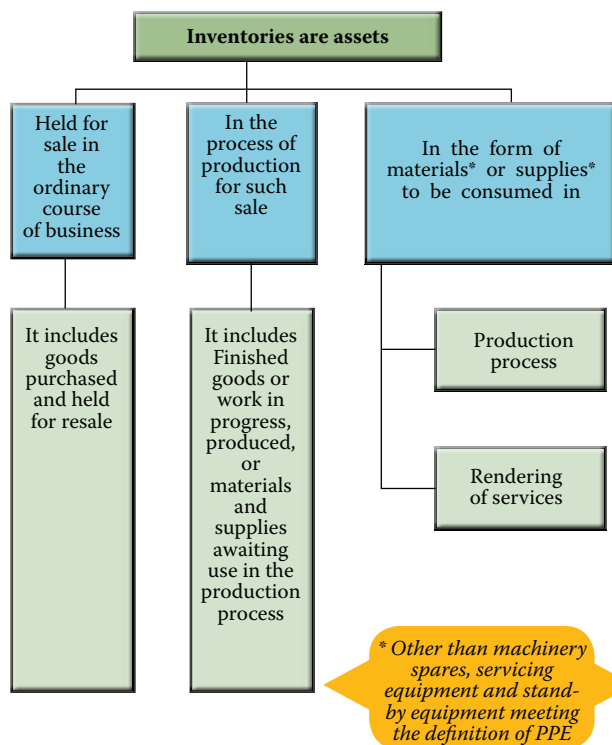
### Introduction

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.

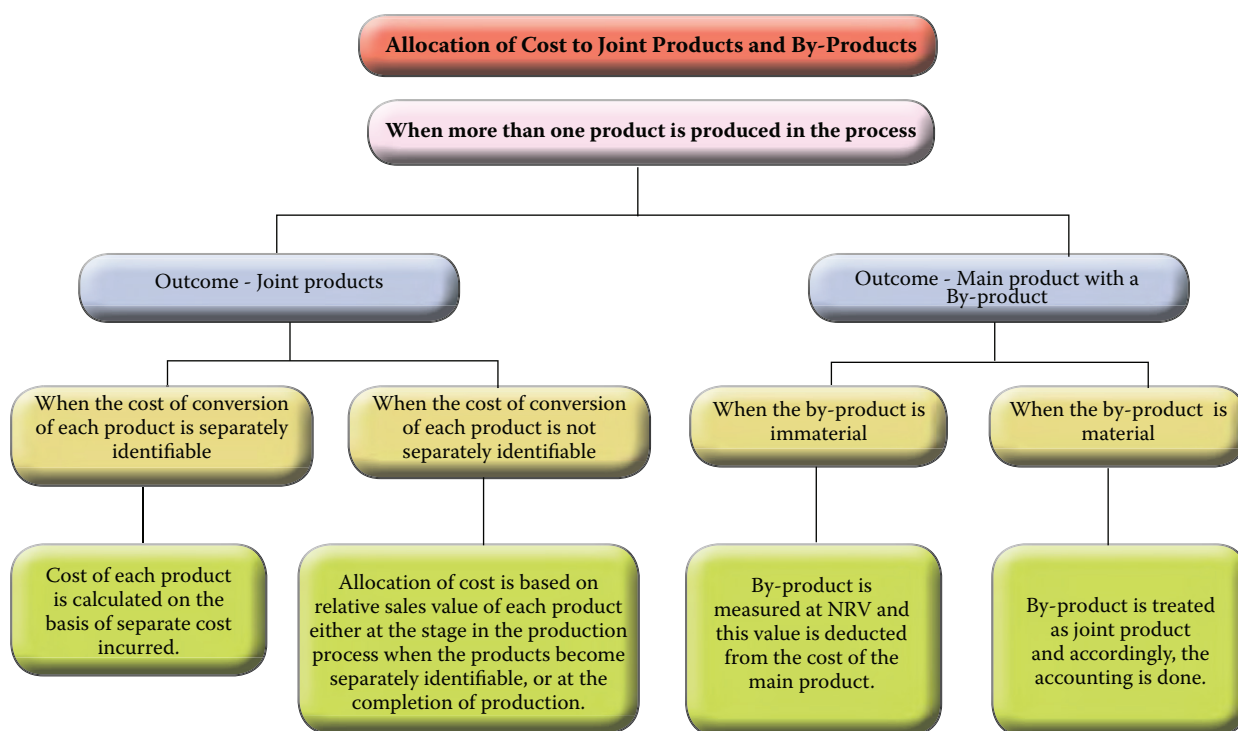
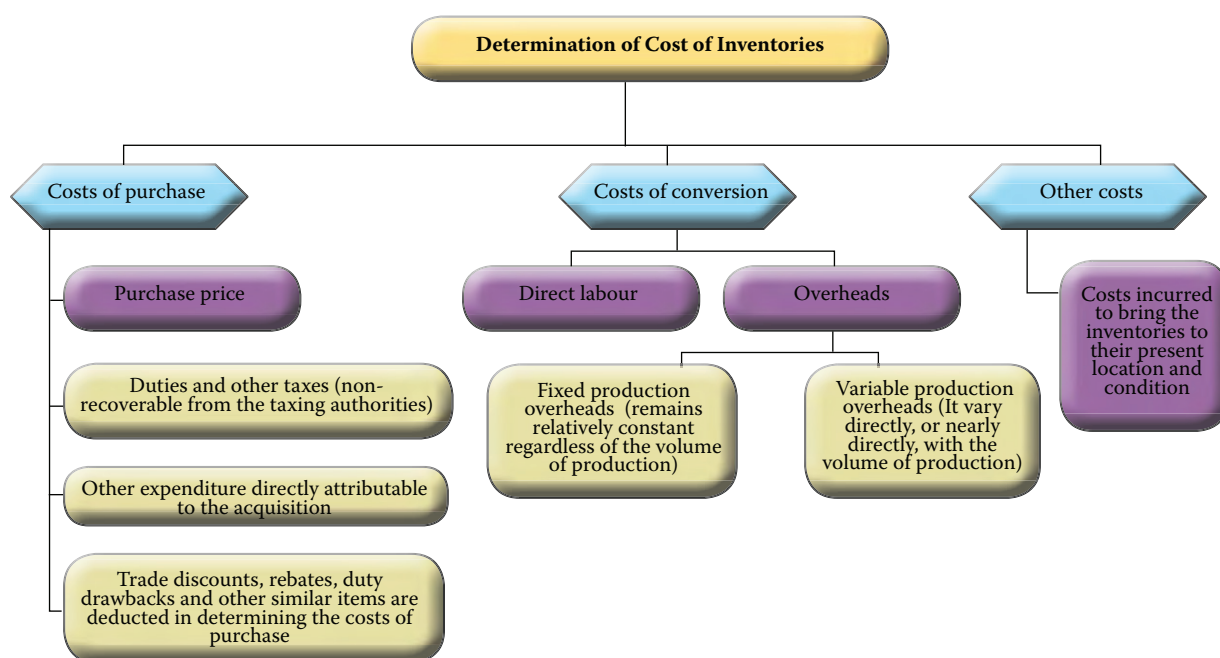
### Scope of AS 2

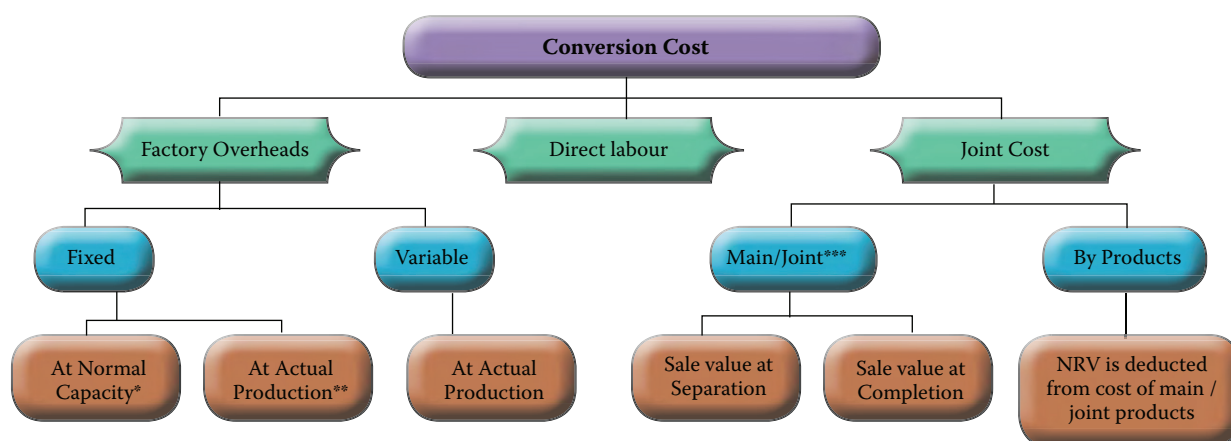


### Definition of Inventories





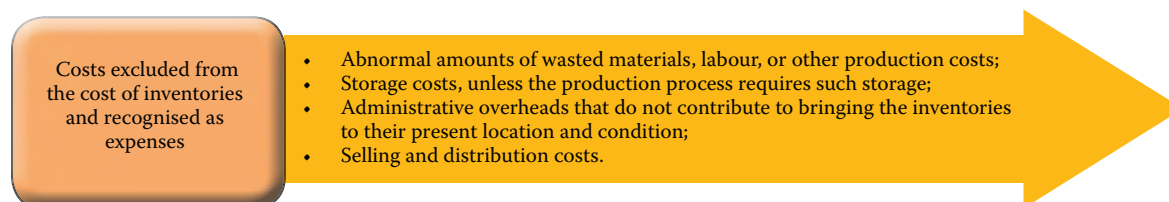




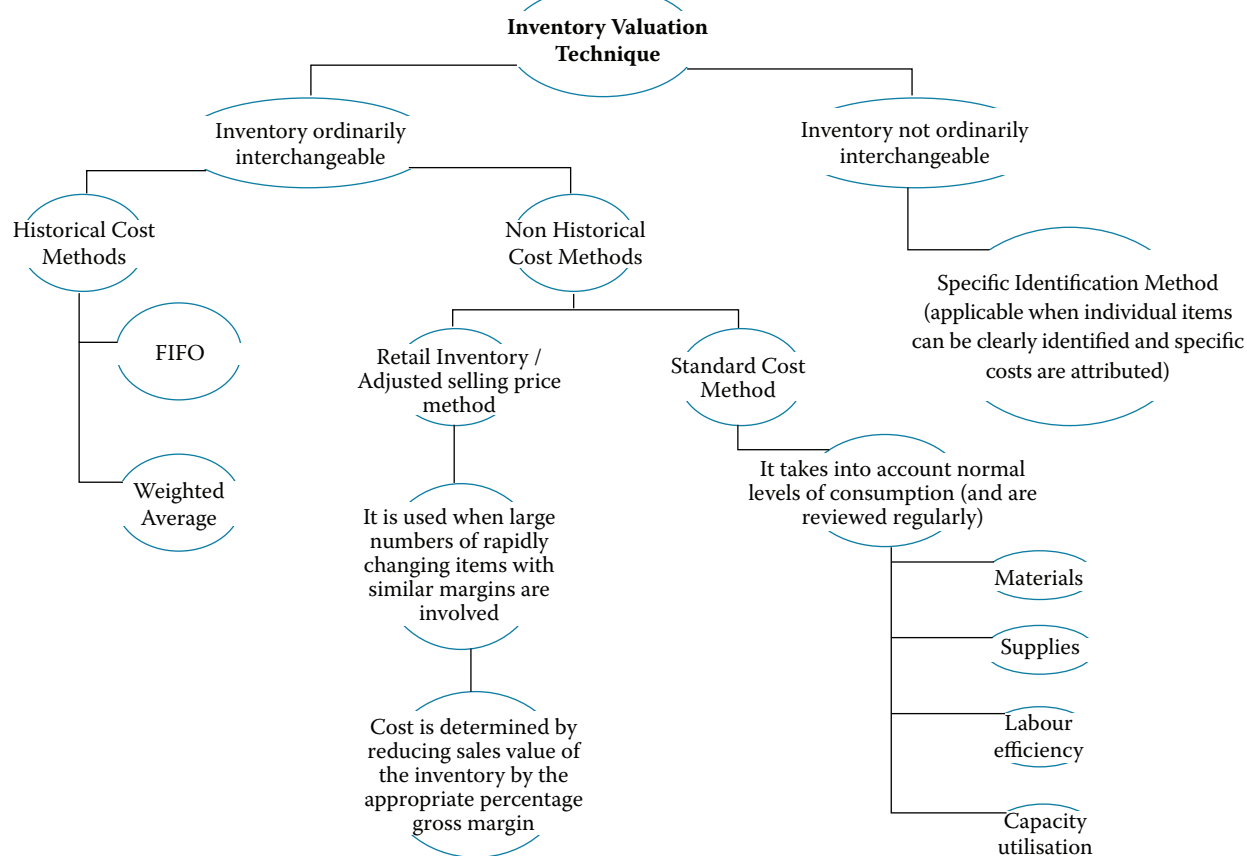
\*When actual production is almost equal or lower than normal capacity.

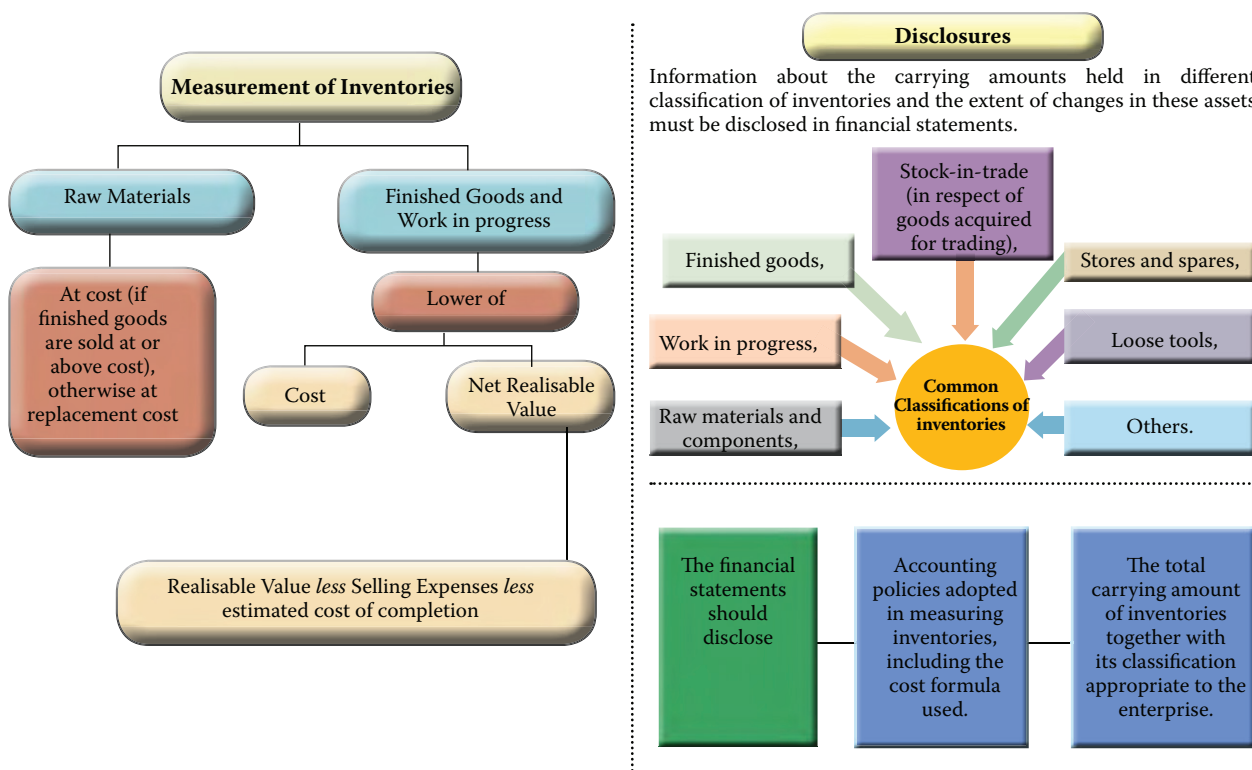
\*\* When actual production is higher than normal capacity.

\*\*\* Allocation at reasonable and consistent basis.



### Cost Formulas

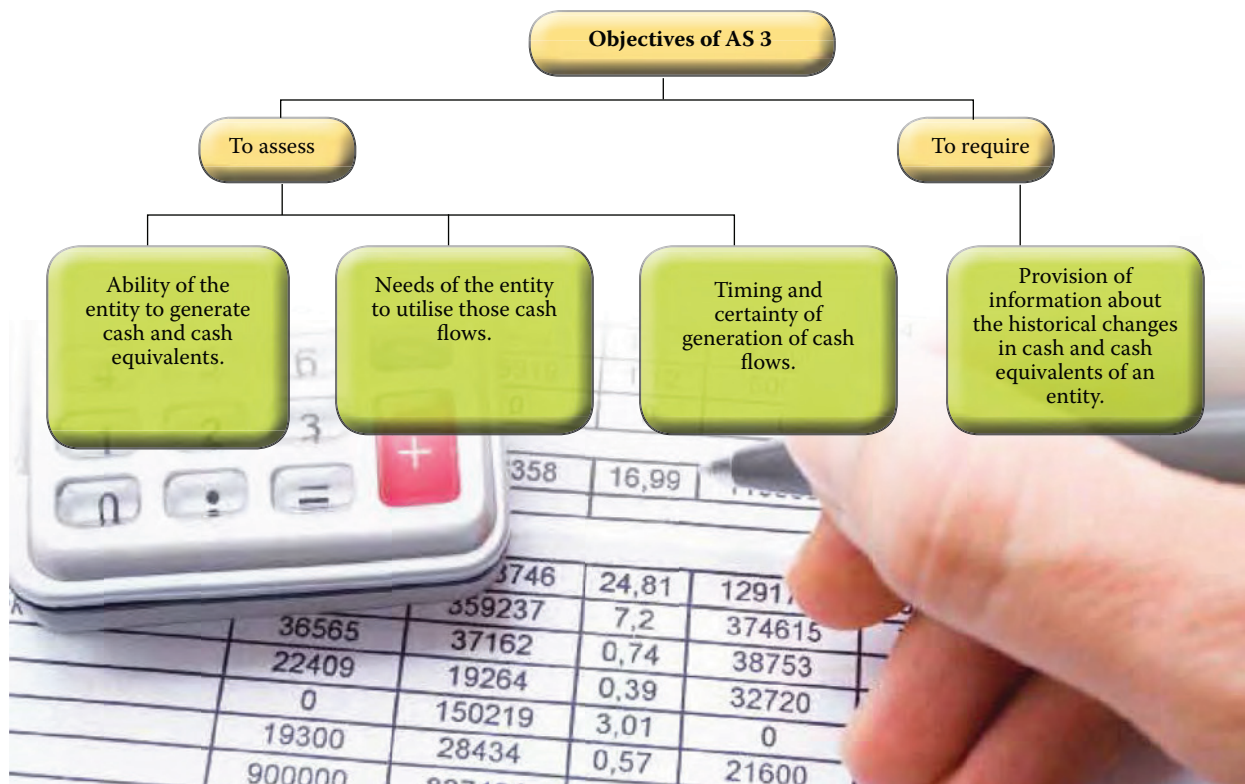


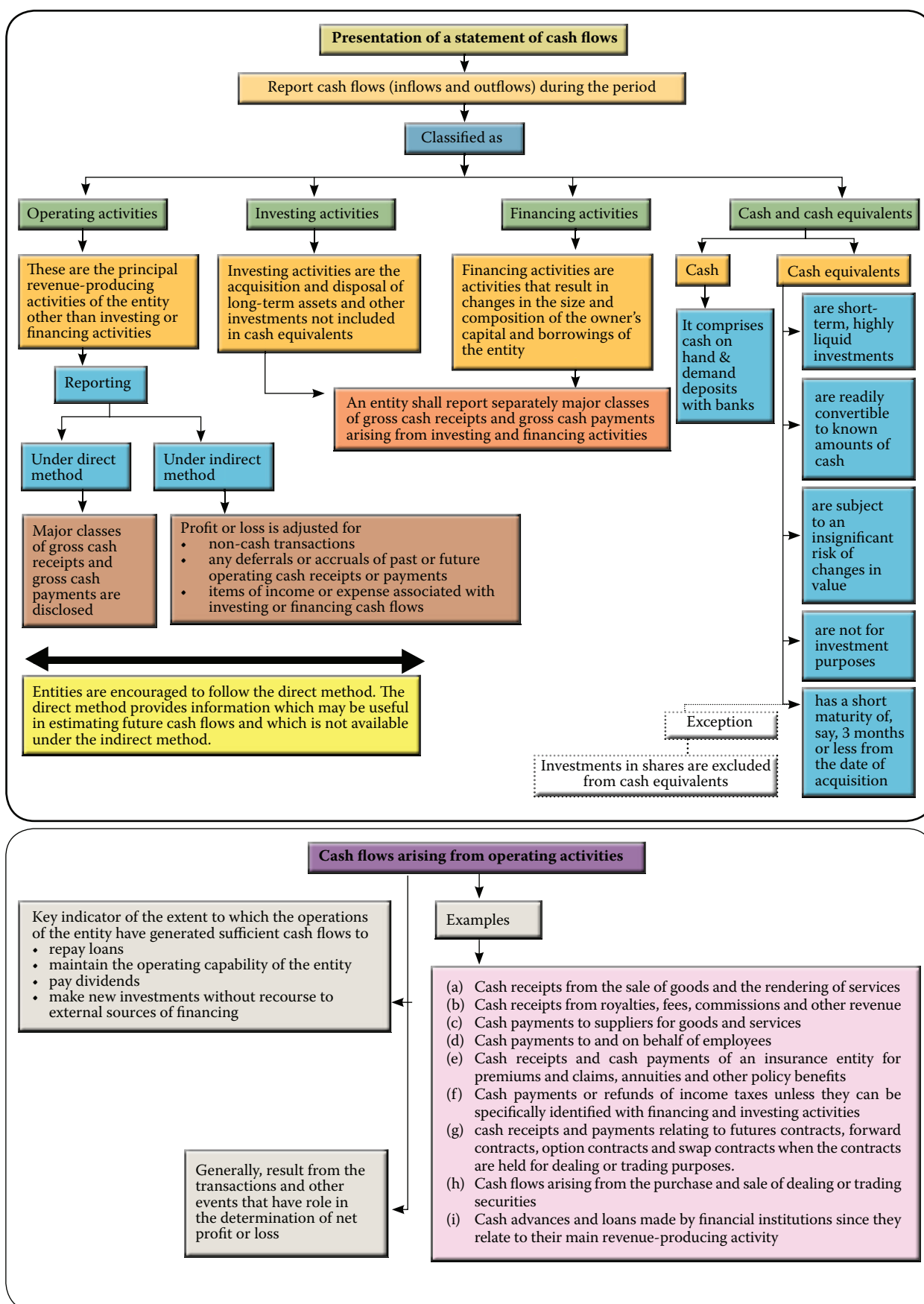


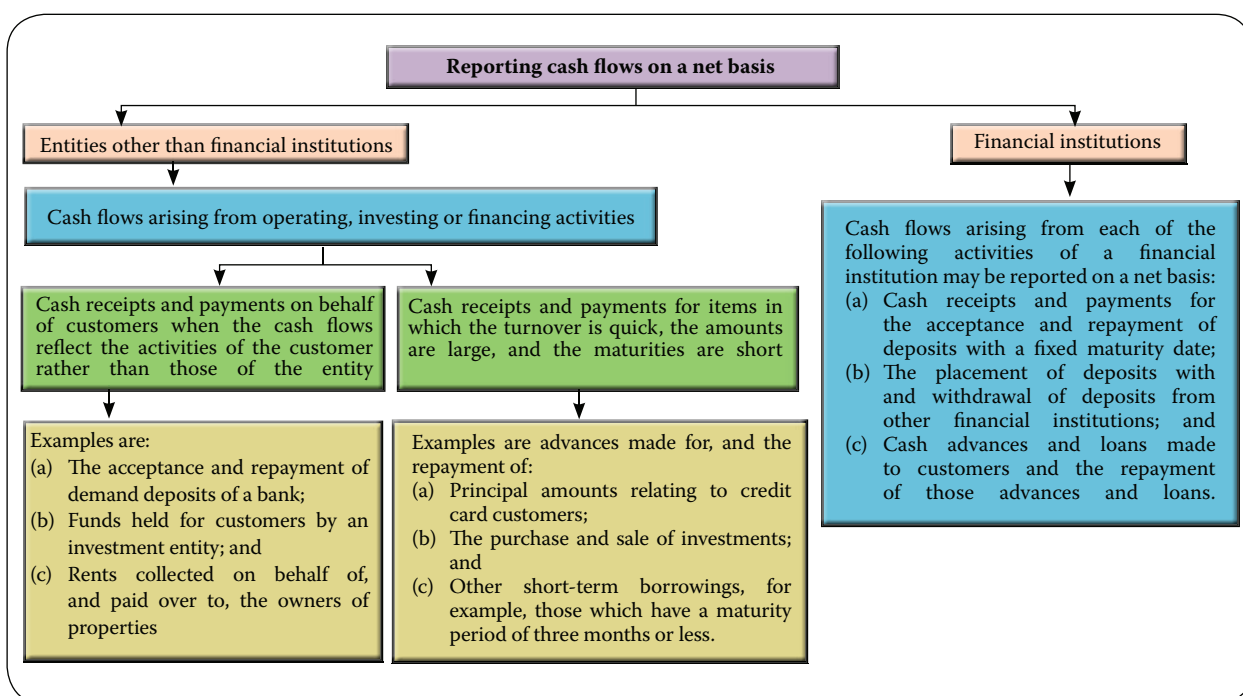
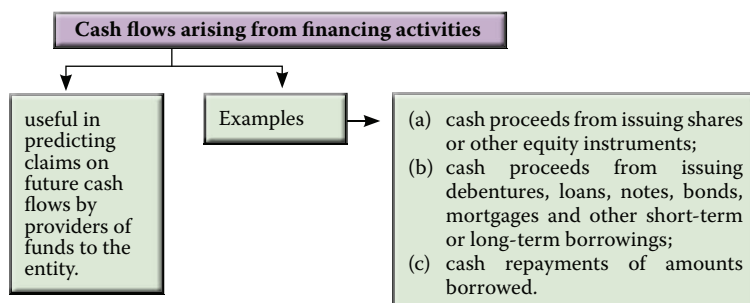
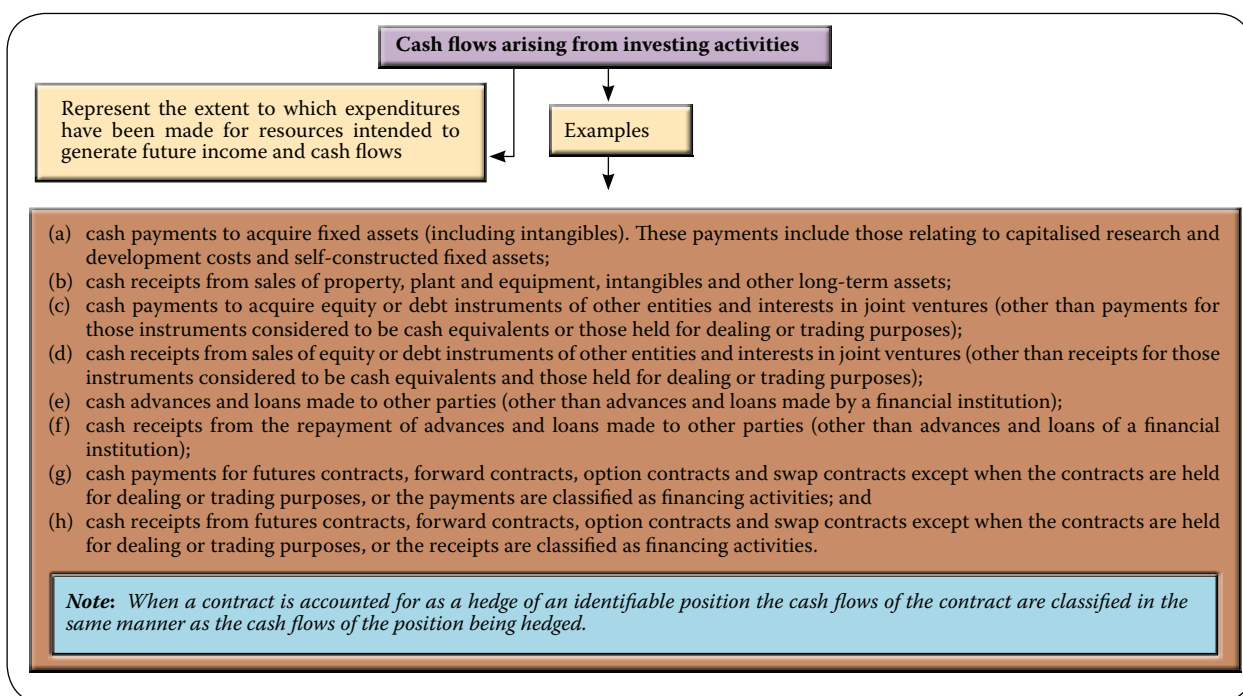
### AS 3 “STATEMENT OF CASH FLOWS”

#### Introduction

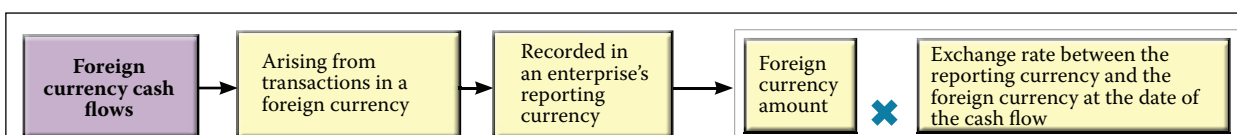
AS 3 provides information about historical changes in cash and cash equivalents of an enterprise by mean of a cash flow statement which classifies cash flows during an accounting period into operating, investing and financing activities.







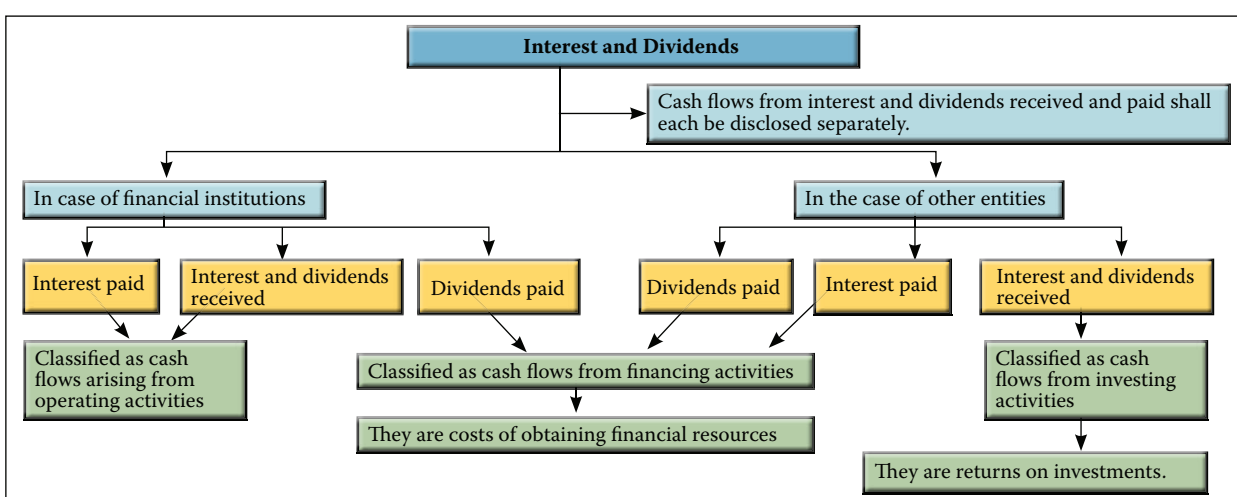




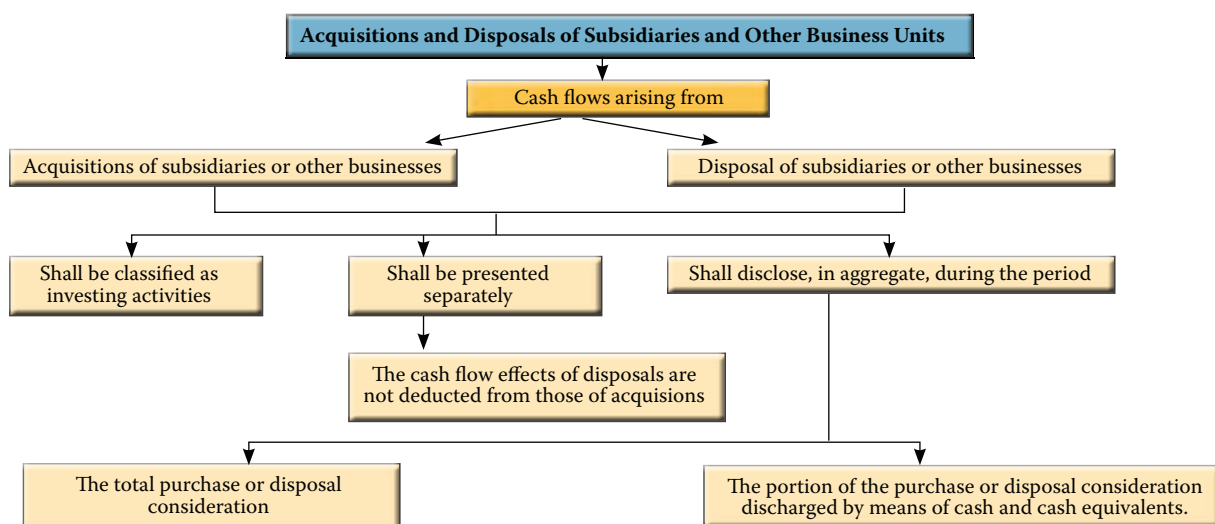
- Cash flows denominated in a foreign currency are reported in a manner consistent with AS 11.
- Weighted average exchange rate for a period may be used for recording foreign currency transactions.

### Important Points

1.	<b>Unrealised gains and losses arising from changes in foreign currency exchange rates</b>	are not cash flows.
2.	<b>The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency</b>	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.



*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.*



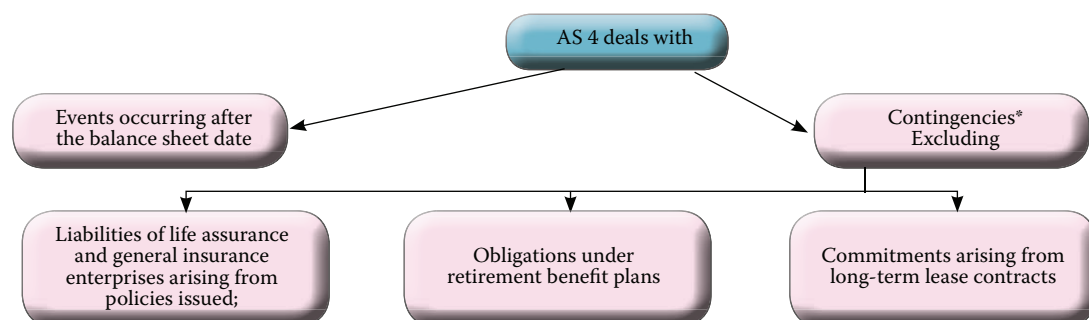
**Important points/disclosures**

<b>Investing and financing transactions that do not require the use of cash or cash equivalents</b>	shall be excluded from a statement of cash flows.
	disclosed elsewhere in the financial statements in a way that provides all relevant information.
<b>Components of cash and cash equivalents</b>	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.
<b>Other disclosures</b>	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.

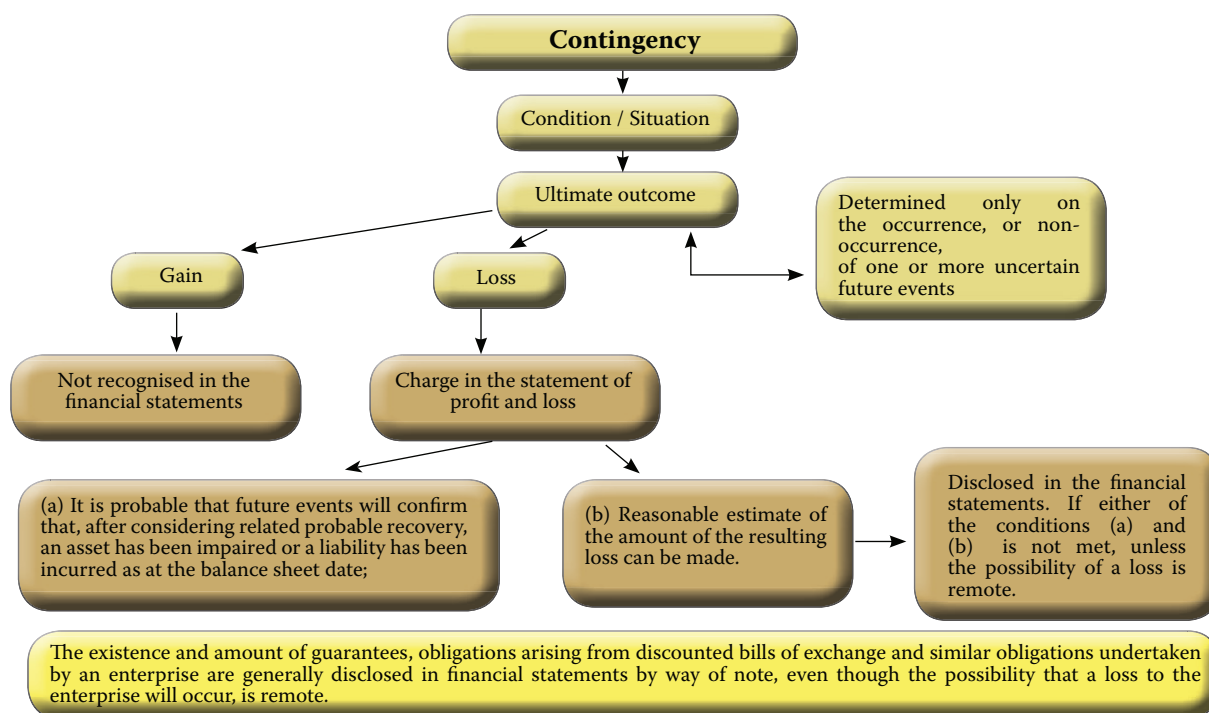
## AS 4 “CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE”

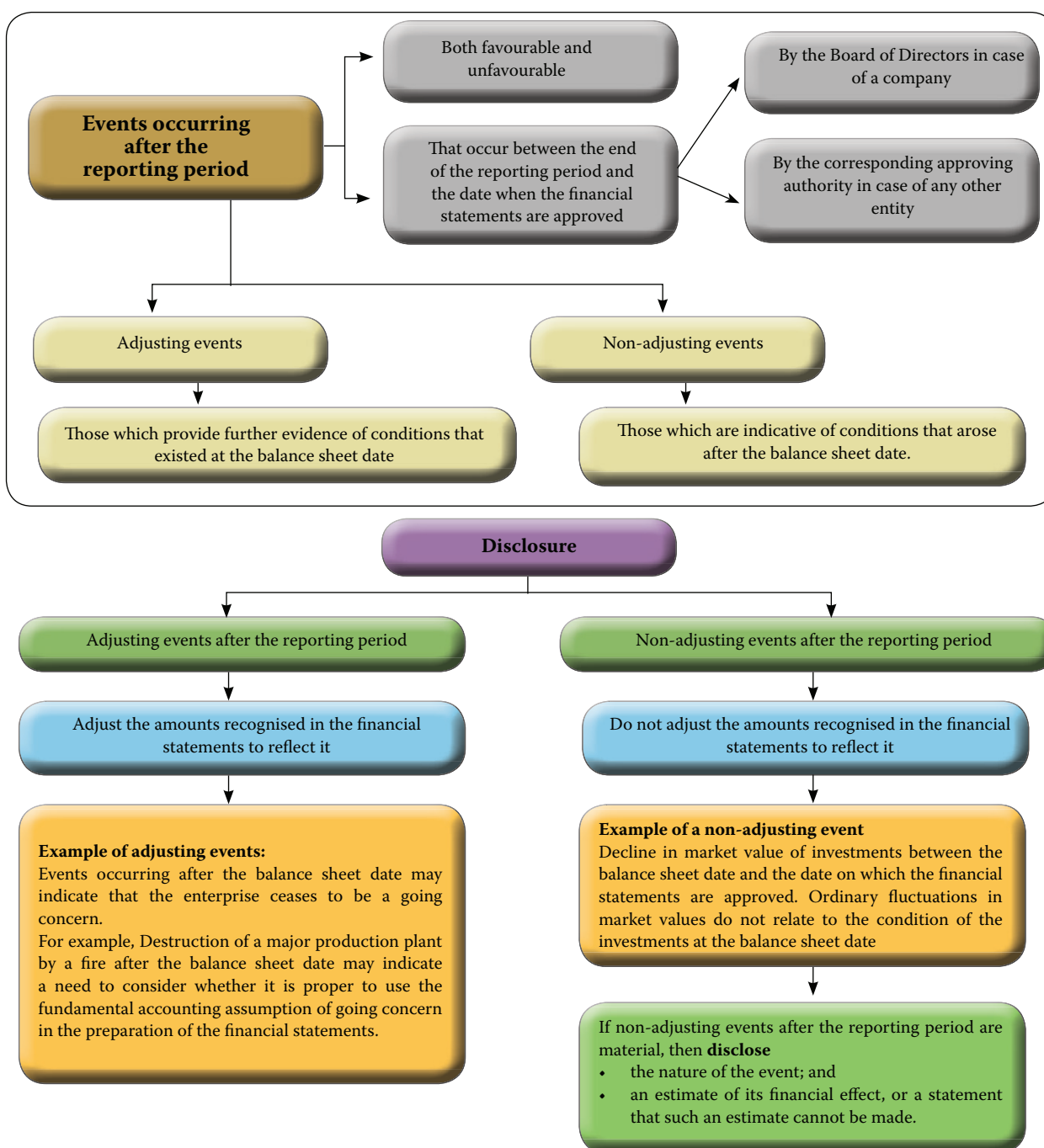
### Introduction

AS 4 defines contingencies and events occurring 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.*





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.

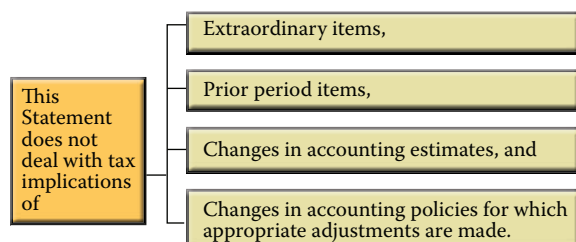
Disclosed in the notes

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”

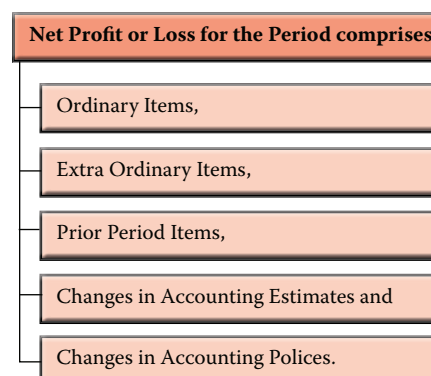
### Introduction

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.

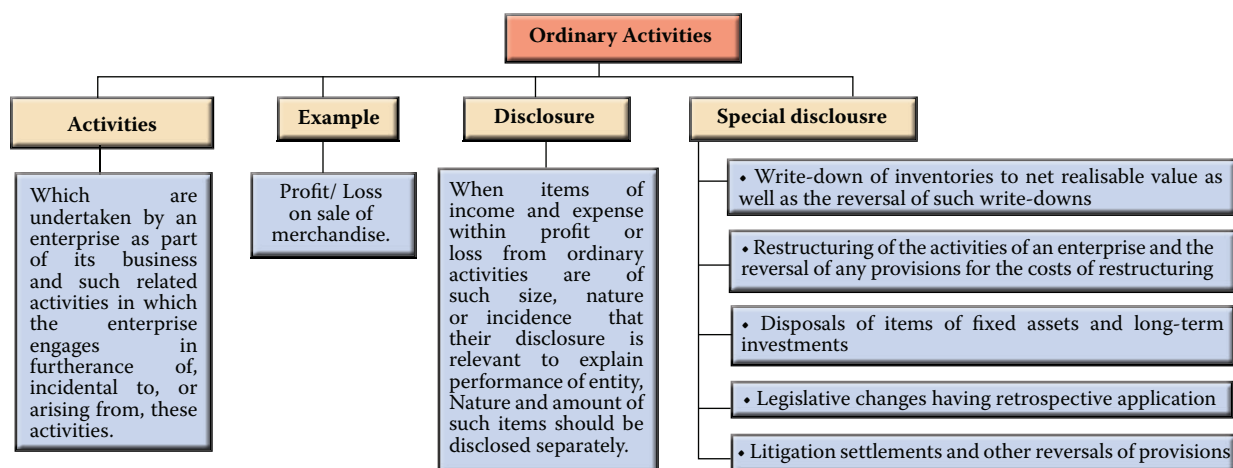


### Net Profit or Loss for the Period

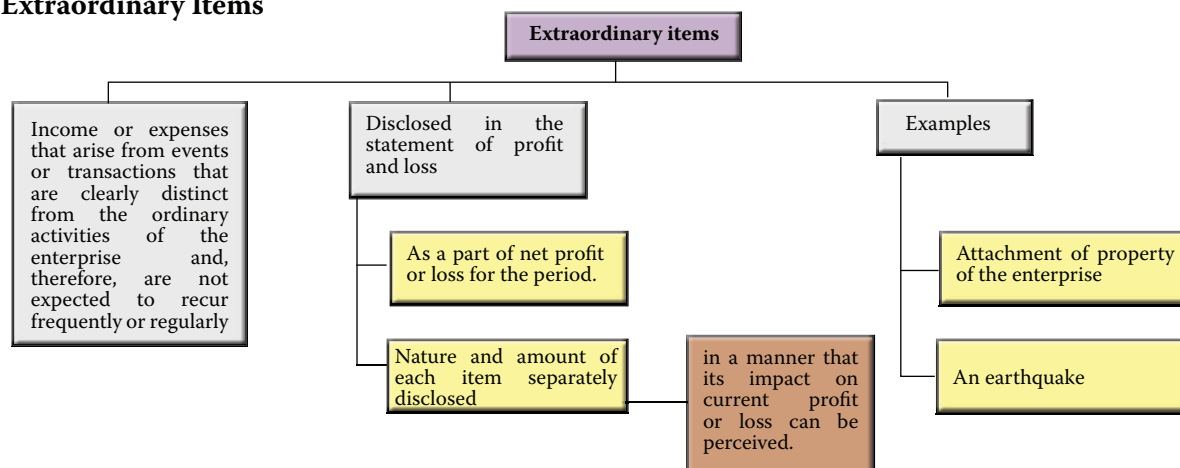
The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss.



### Profit or Loss from Ordinary Activities

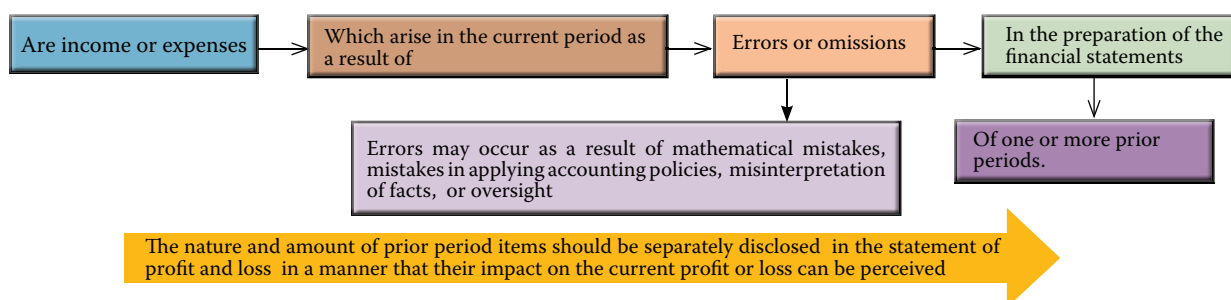
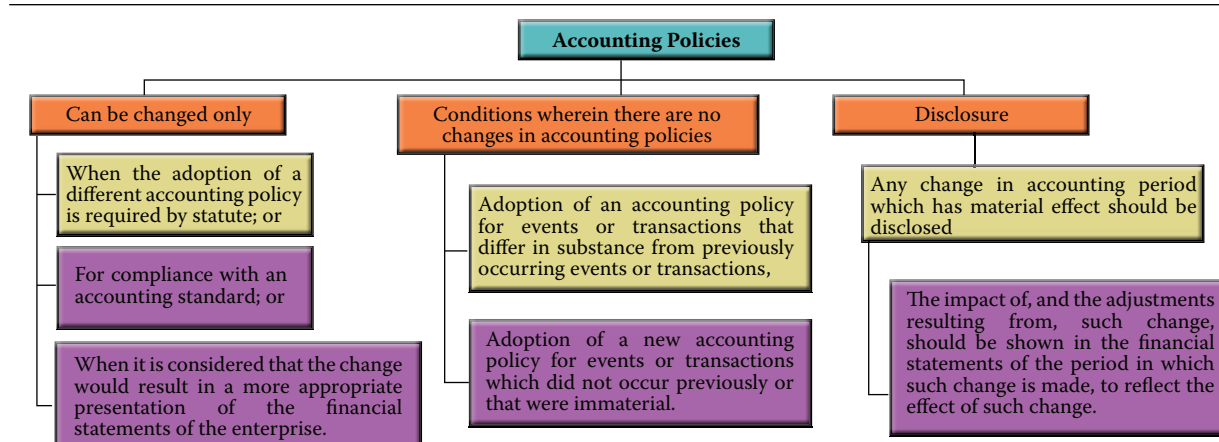
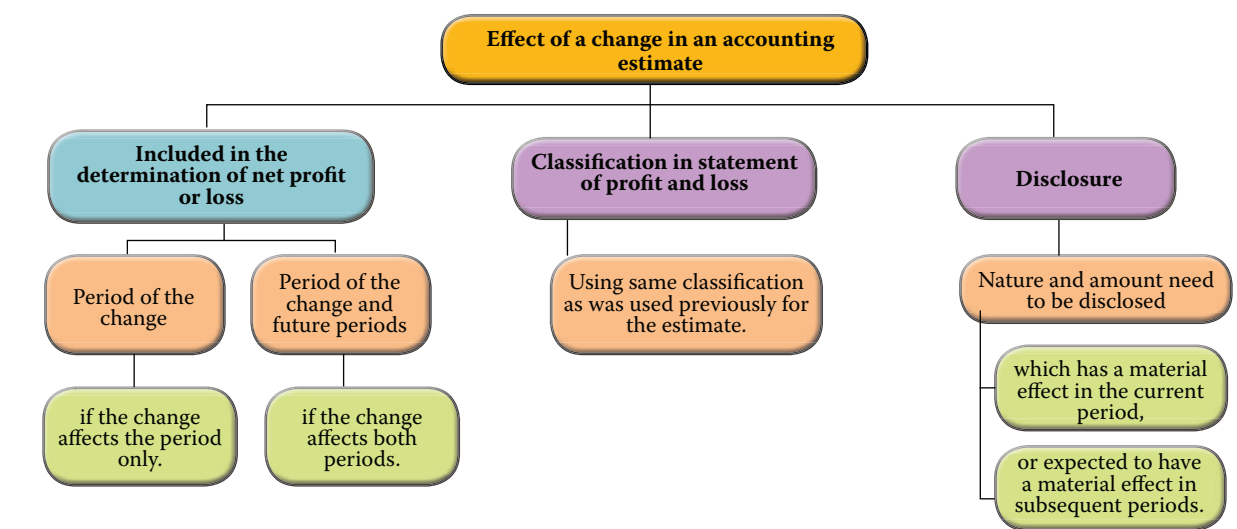
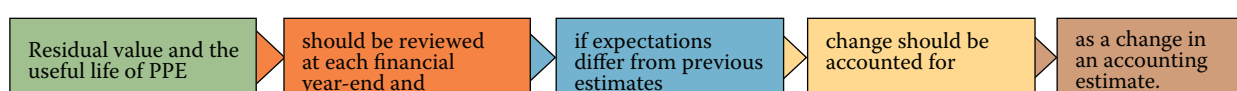
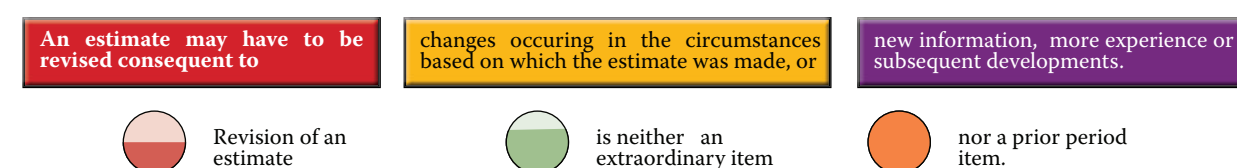


### Extraordinary Items



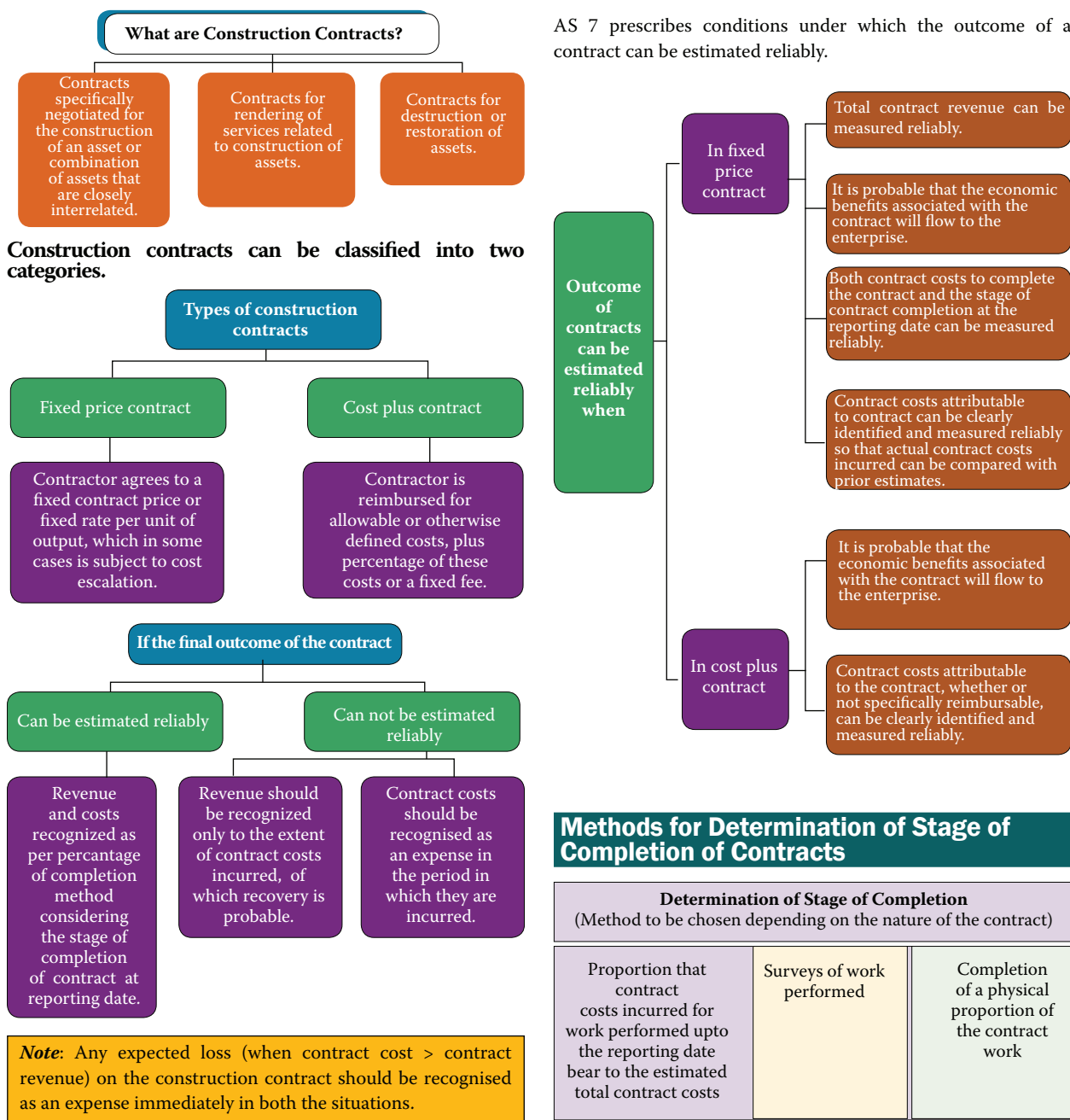
An event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities.



**Prior Period Items****Changes in Accounting Estimates**

### 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.



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.

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

**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.

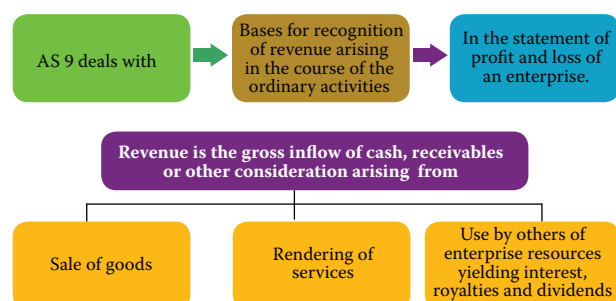
Contracts are performed concurrently or in a continuous sequence.

Contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin.

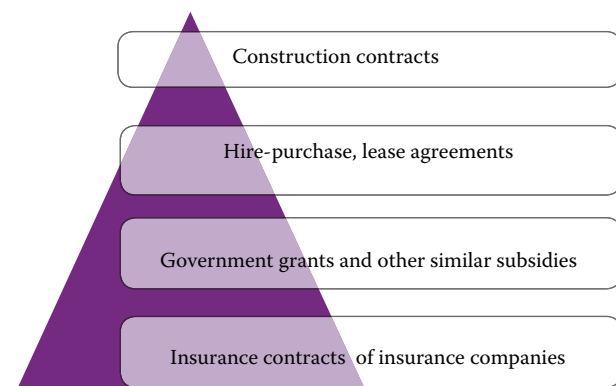


## AS 9 “REVENUE RECOGNITION”

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 does not deal with revenue arising from



## 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

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

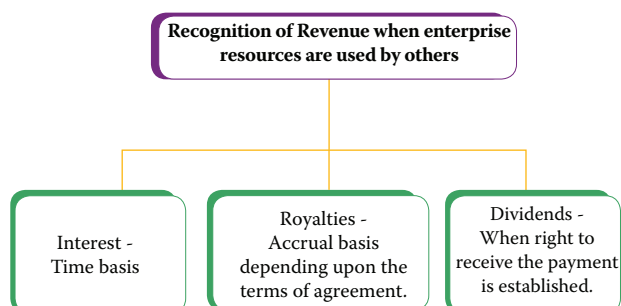
Completed service contract method

- Recognition of revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.
- Services become chargeable.
- 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**

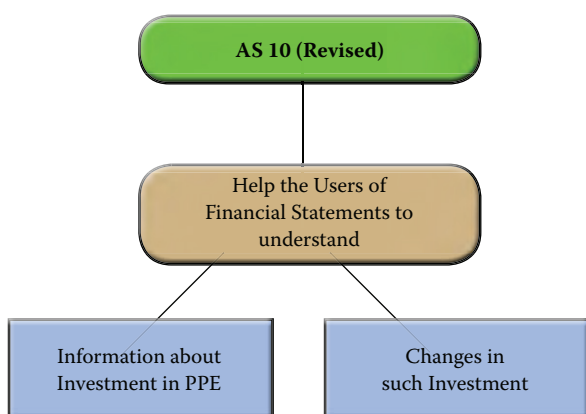
In addition to the disclosures required by AS 1 "Disclosure of Accounting Policies", an enterprise should disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.



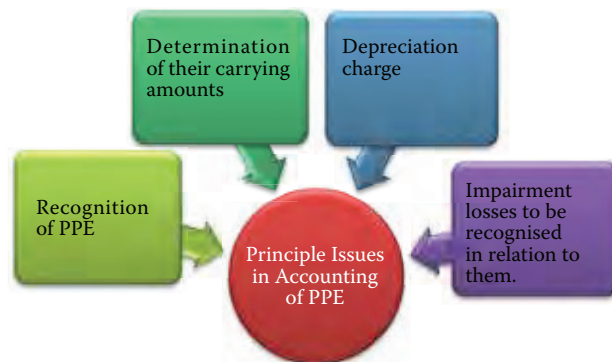
## AS 10 “PROPERTY, PLANT AND EQUIPMENT”

### Introduction

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

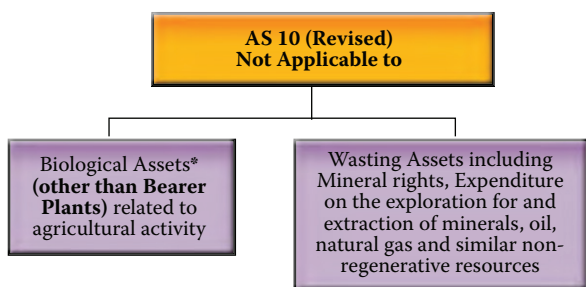


### The principal issues in Accounting for PPE are:



### 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.

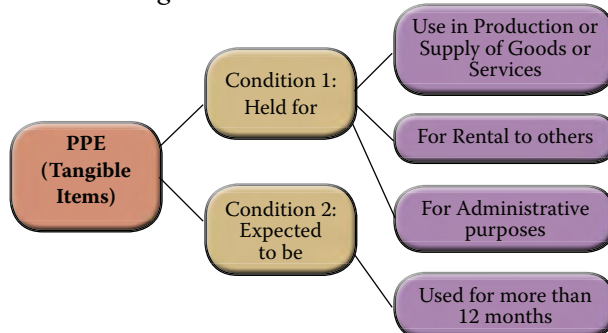


**\*AS 10 (Revised) applies to Bearer Plants but it does not apply to the produce on Bearer Plants.**

#### Clarifications:

- AS 10 (Revised) applies to PPE used to develop or maintain the assets described above.
- 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.

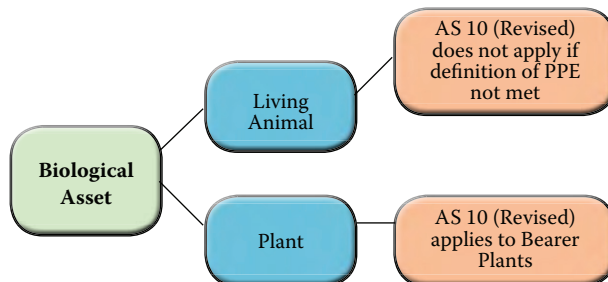
Items of PPE may also be acquired for safety or environmental reasons.

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

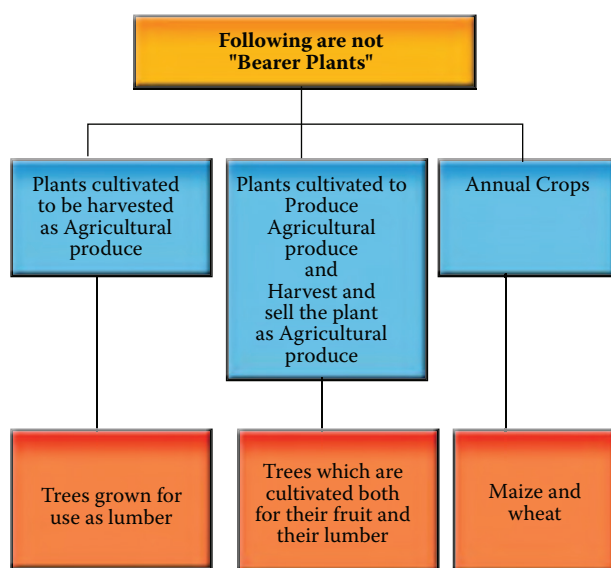
- Biological Asset:** Till the time, the Accounting Standard on “Agriculture” is issued, accounting for livestock meeting the definition of PPE, will be covered as per AS 10 (Revised).



- Bearer Plant:** Is a plant that (satisfies all 3 conditions):

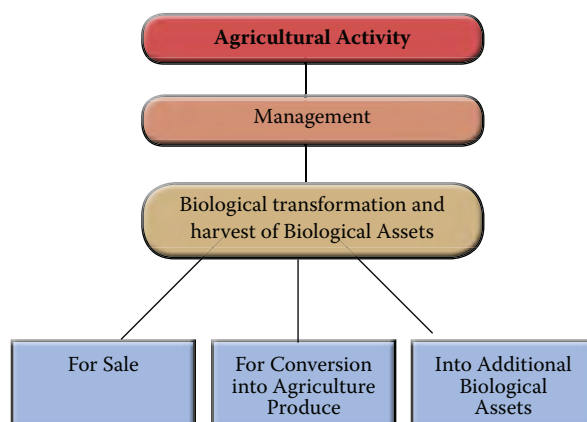
Is used in the production or supply	Of Agricultural produce
Is expected to bear produce	For more than a period of 12 months
Has a remote likelihood of being sold as Agricultural produce	Except for incidental scrap sales

**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:

- It is probable that future economic benefits associated with the item will flow to the enterprise, and
- The cost of the item can be measured reliably.

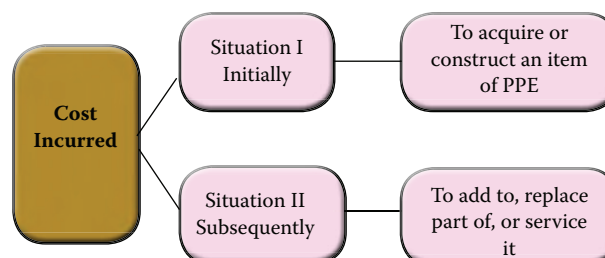
**Notes:**

- It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value.
- 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.

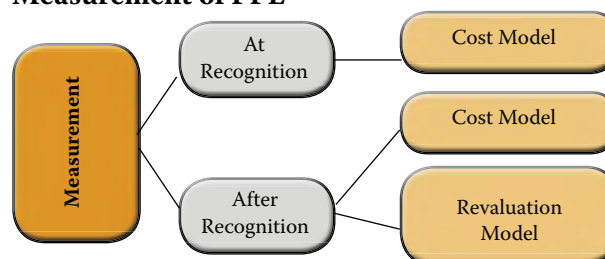
**Notes:** The carrying amount of those parts that are replaced is derecognised in accordance with the de-recognition provisions of this Standard.

### 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

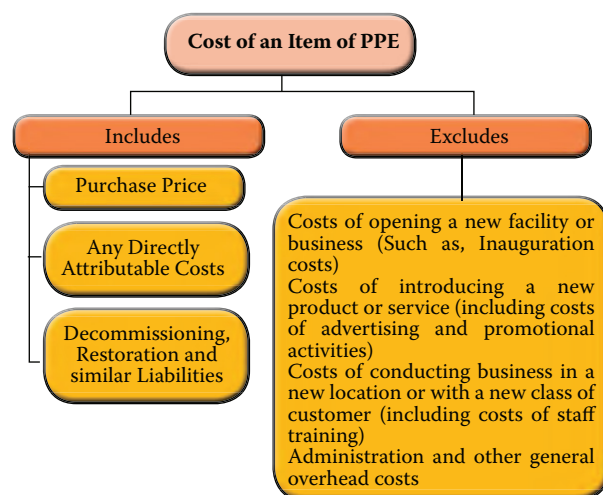


### Measurement at Recognition

**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:

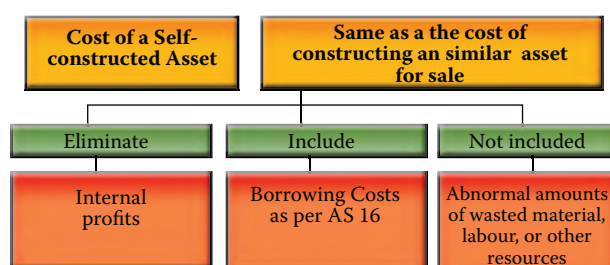
1. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
2. Initial operating losses, such as those incurred while demand for the output of an item builds up. And
3. Costs of relocating or reorganising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

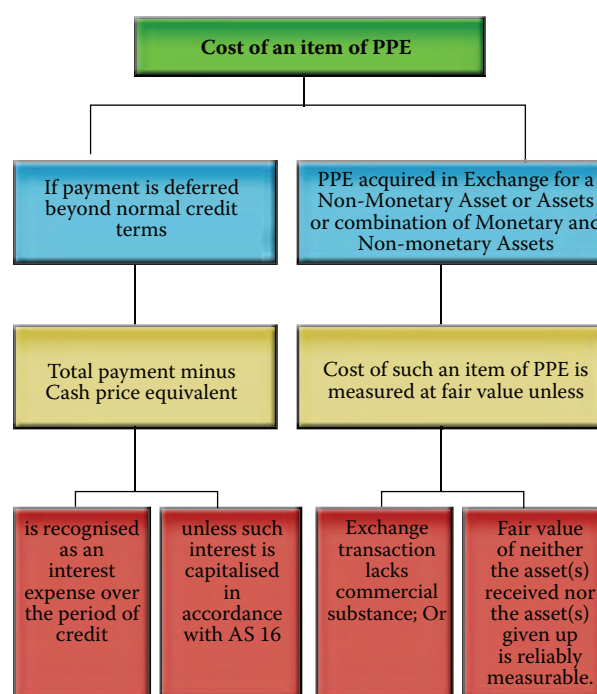
**Exception:** An enterprise applies AS 2 (Revised) "Valuation of Inventories", to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during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

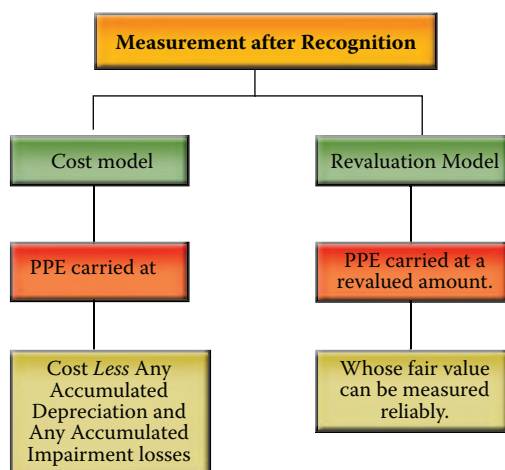
Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition.

#### 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

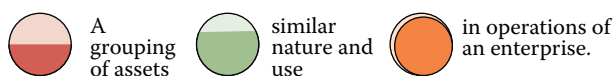
The carrying amount of an item of PPE may be reduced by government grants in accordance with AS 12 (Accounting for Government Grants).

**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:**

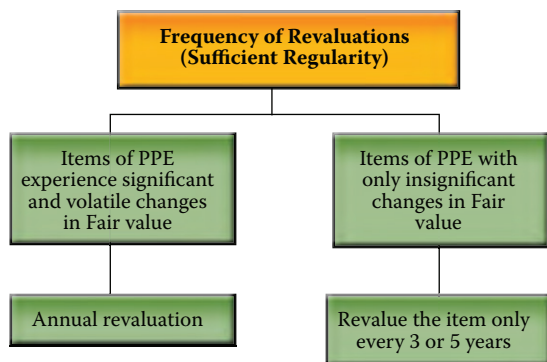
The items within a class of PPE are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the Financial Statements that are a mixture of costs and values as at different dates.

**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.

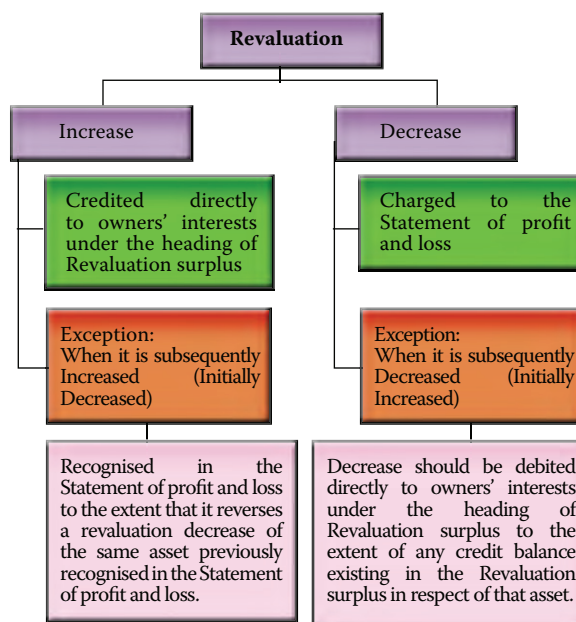
Gross carrying amount

- 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:

- 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.

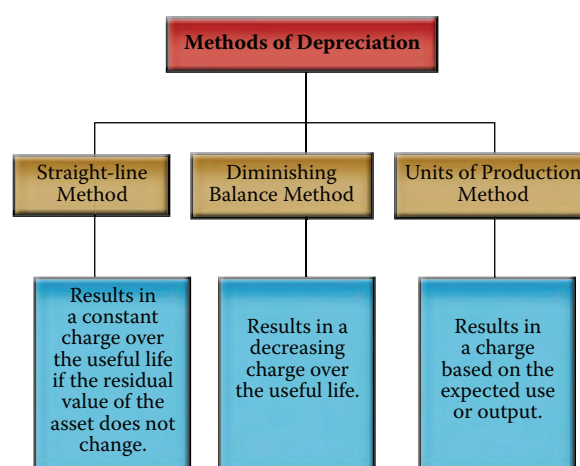
An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

## 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

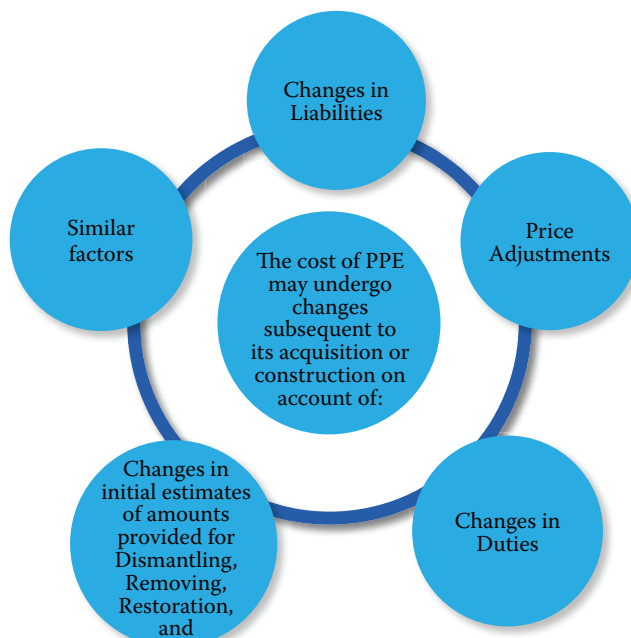
The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

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

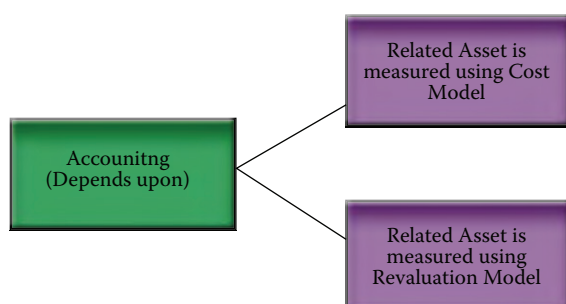
## Depreciation Method based on Revenue:

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:

- 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.

- Increase in the liability should be recognised in the Statement of Profit and Loss**

#### Exception:

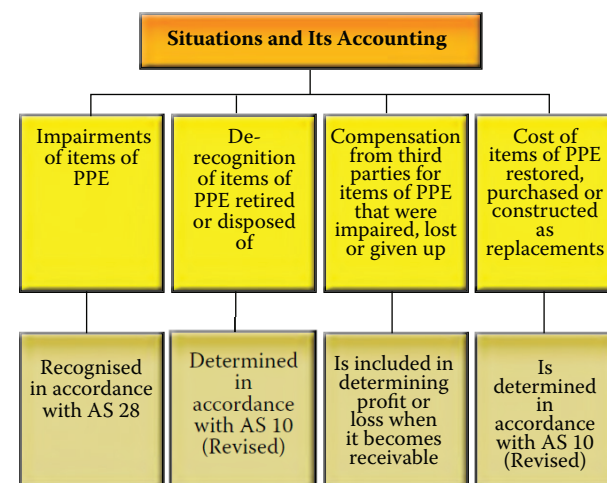
- It should be debited directly to Revaluation surplus in the owners' interest to the extent of any credit balance existing in the Revaluation surplus in respect of that asset

#### 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.



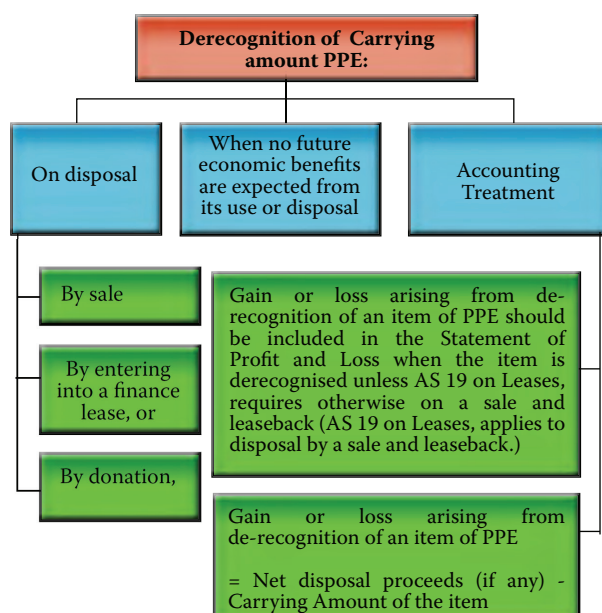
### Retirements

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



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

## Exception:

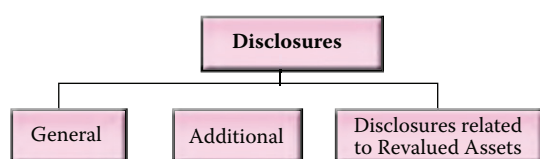
An enterprise that in the course of its ordinary activities, routinely sells items of PPE that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.

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

**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.

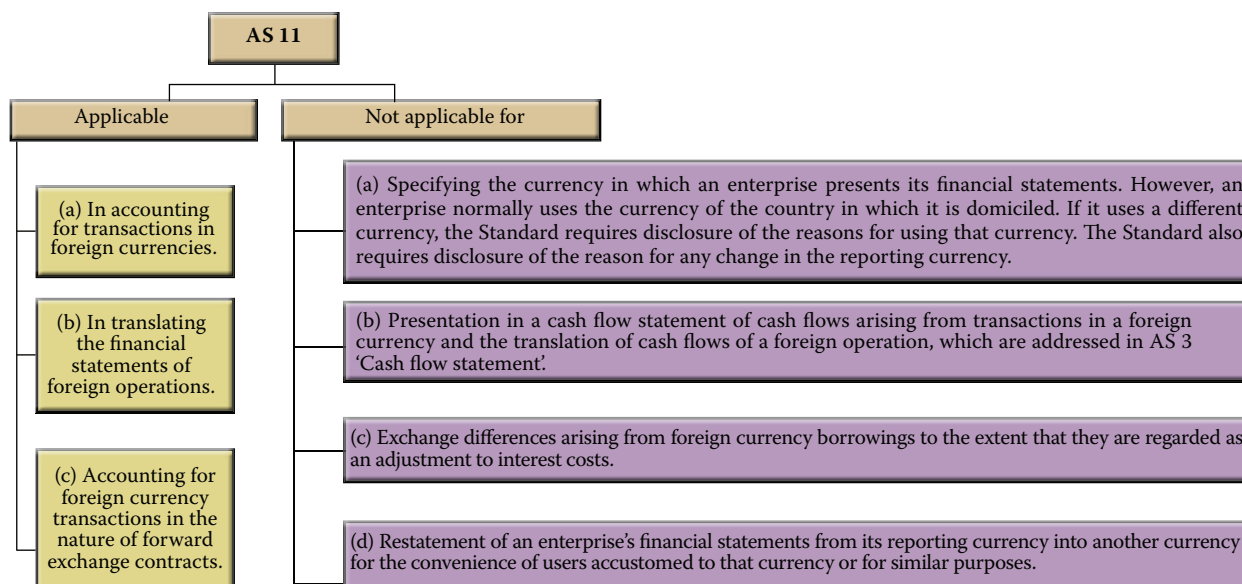
**Note:** The carrying amount of that item should never be less than residual value. Any excess of the amount outstanding as Revaluation reserve over the carrying amount of that item should be adjusted in Revenue reserves.

## 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



### 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

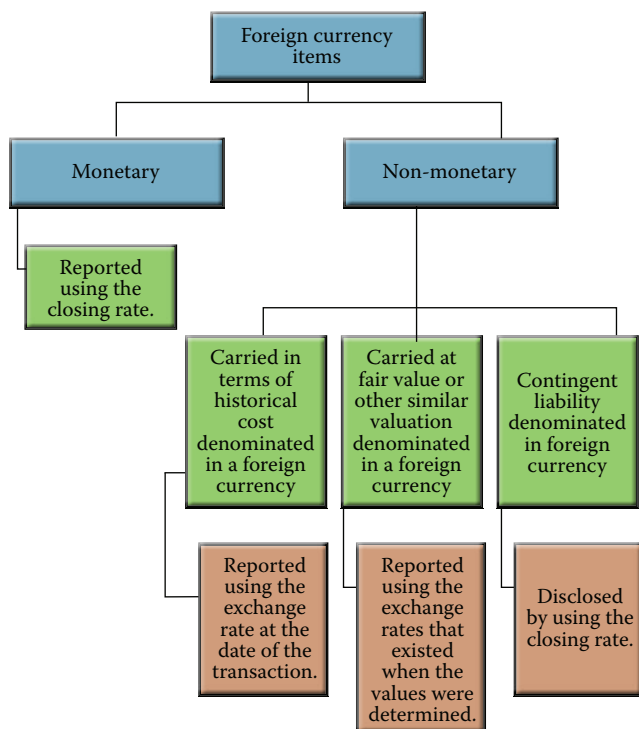
Becomes a party to an unperformed forward exchange contract or

Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

<b>Monetary items</b>	are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Example, cash, receivables and payables.
<b>Non-monetary items</b>	are assets and liabilities other than monetary items. Examples: fixed assets, inventories and investments in equity shares.
<b>Foreign operation (FO)</b>	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.
<b>Integral foreign operation (IFO)</b>	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.
<b>Non-integral foreign operation (NFO)</b>	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.
<b>Forward exchange contract</b>	an agreement to exchange different currencies at a forward rate.
<b>Forward rate</b>	is specified exchange rate for exchange of two currencies at specified future date.
<b>Foreign currency</b>	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.

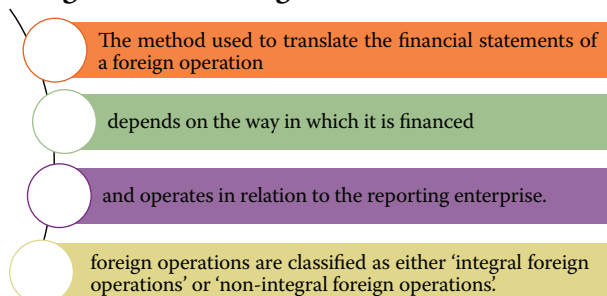
**Reporting at each Balance Sheet Date**

- 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****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.

**Recognition of Exchange Differences**

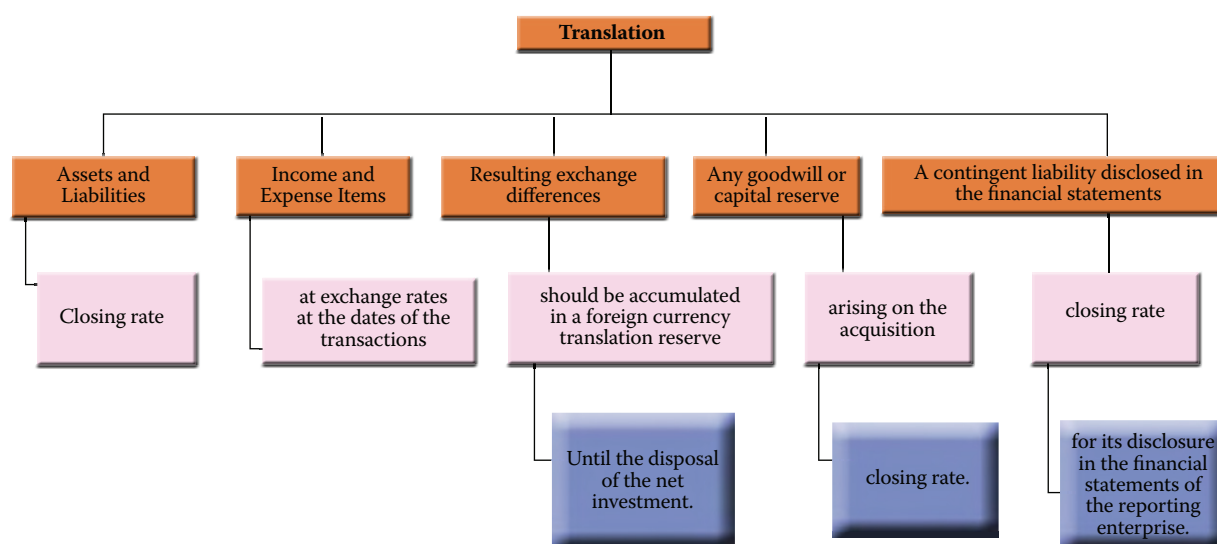
- Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period 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.

### 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.

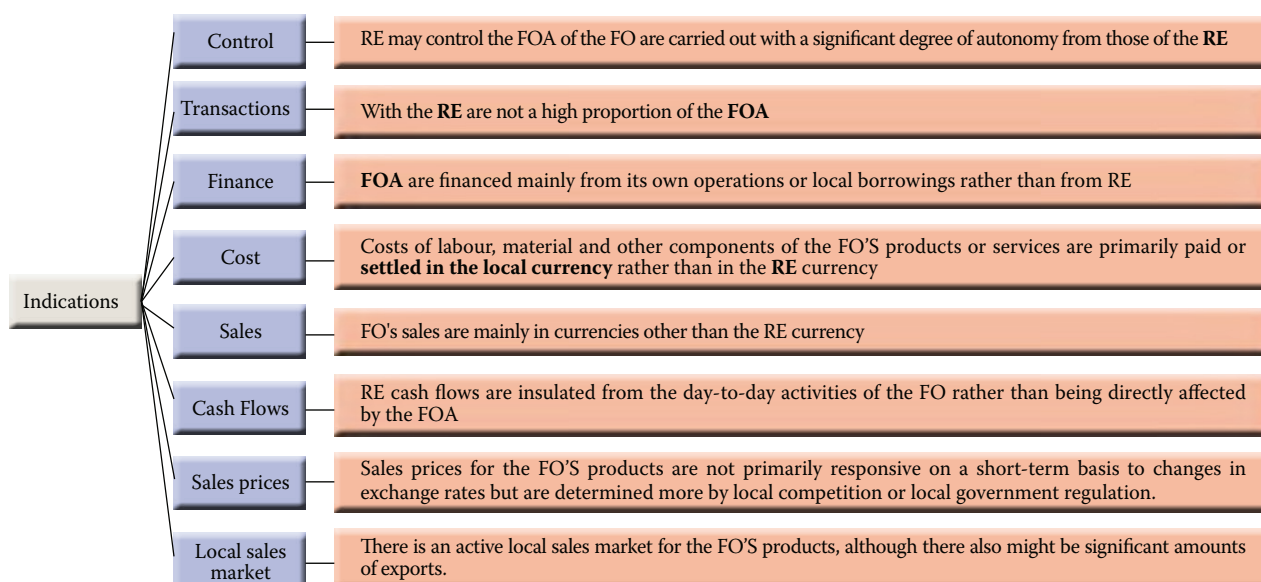
When the financial statements of a non-integral foreign operation are drawn up to a different reporting date from that of the reporting enterprise, the non-integral foreign operation often prepares, for purposes of incorporation in the financial statements of the reporting enterprise, statements as at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

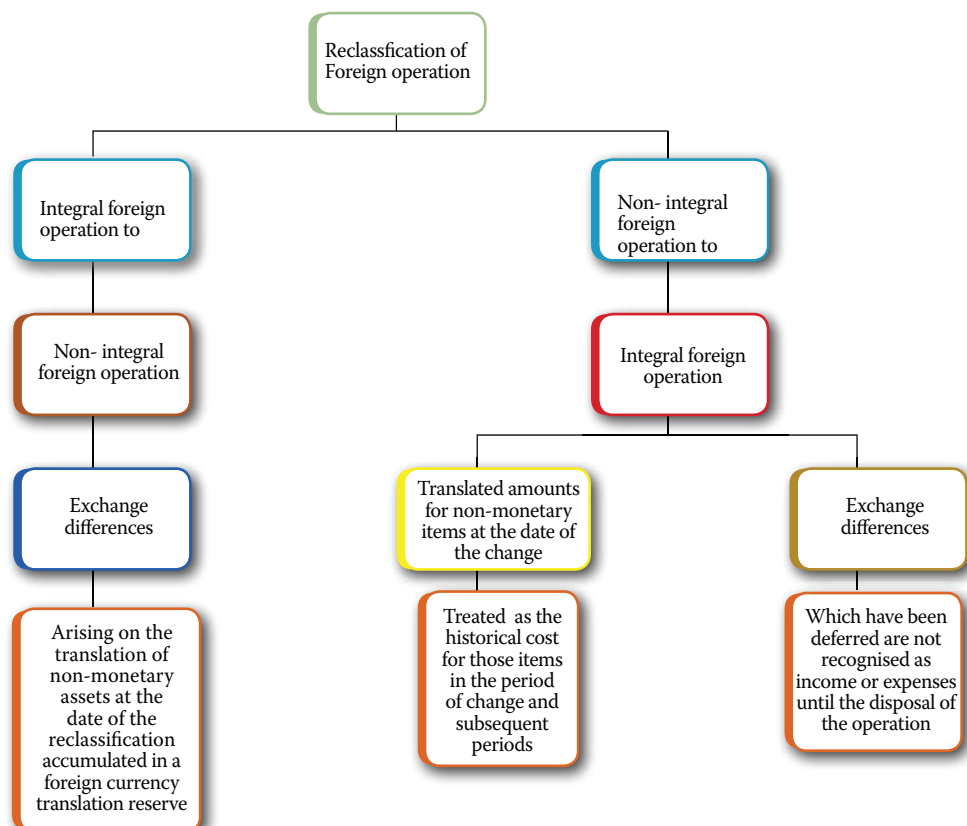


RE - Reporting Enterprise

FO- Foreign Operation

FOA - Foreign Operation Activities

### Change in the Classification of a Foreign Operation

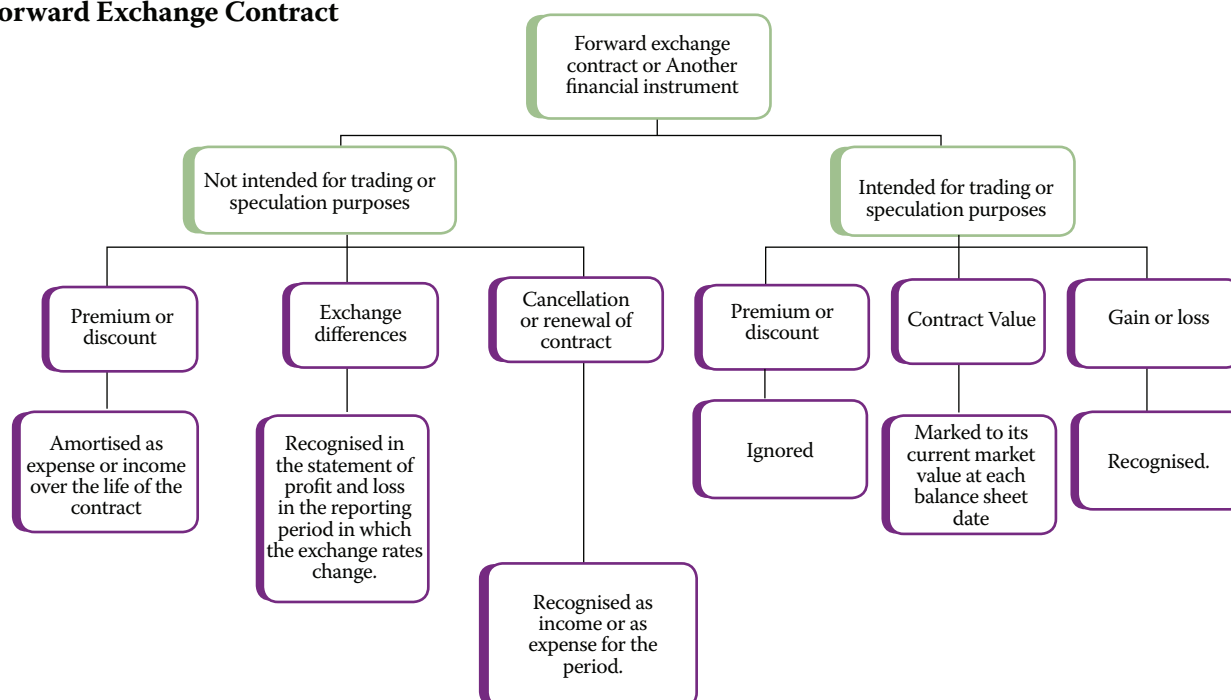


### Tax Effects of Exchange Differences

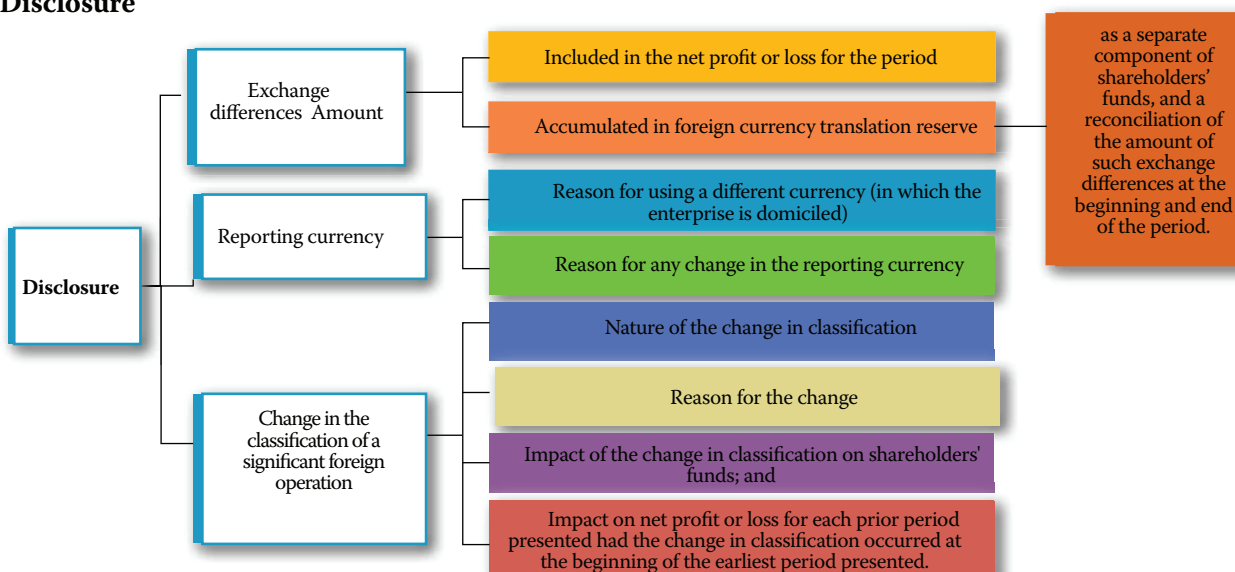
Accounted for in accordance with AS 22.

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



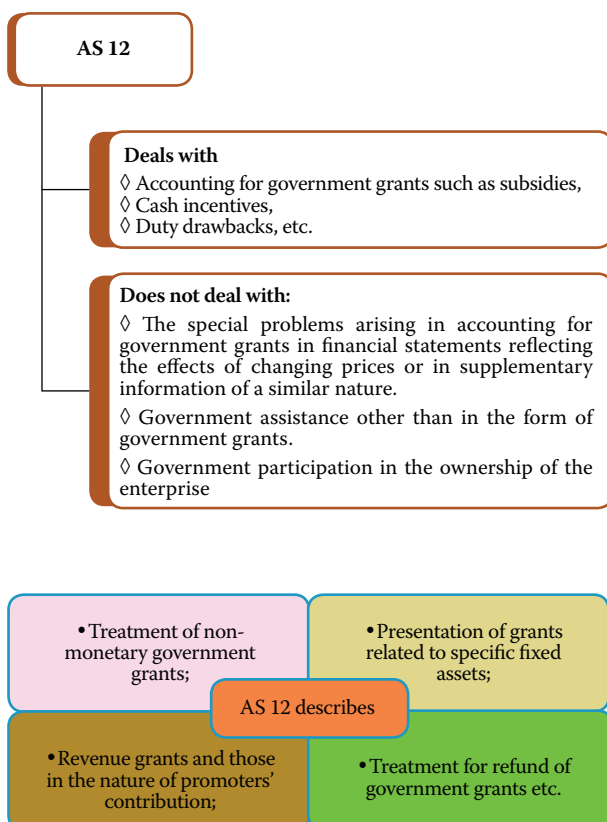
### Disclosure



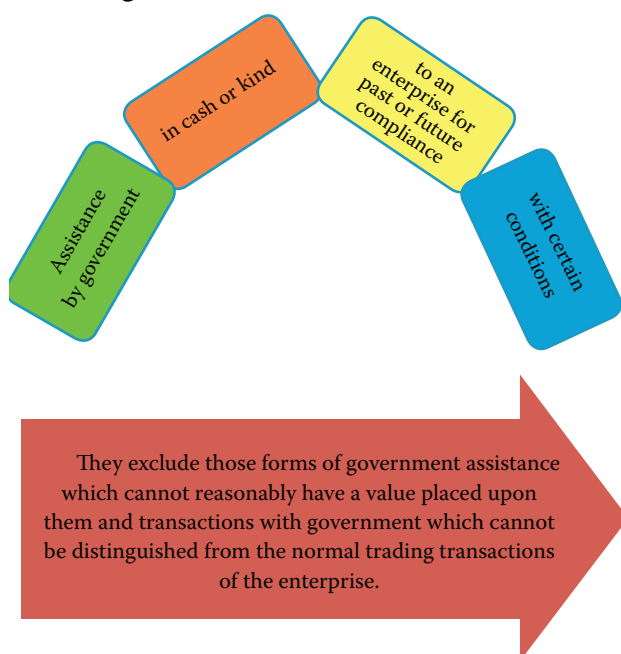
### Presentation of Foreign Currency Monetary Item Translation Difference Account (FCMITDA)

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.

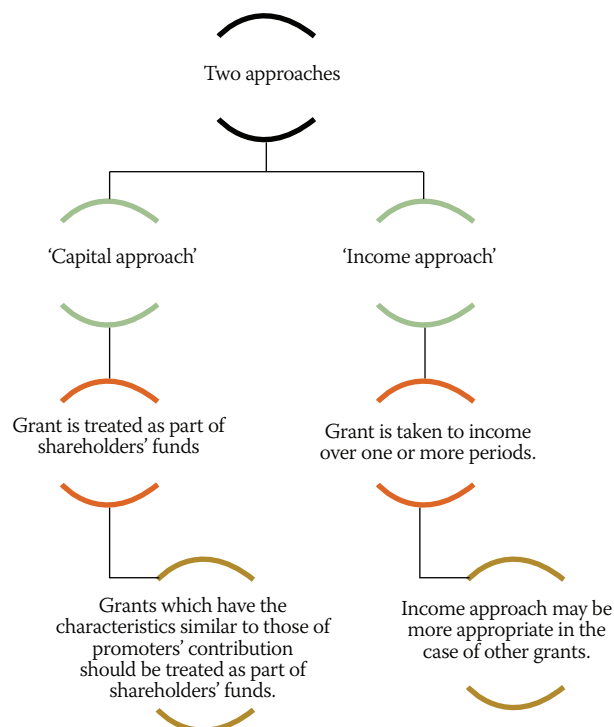
## AS 12 "ACCOUNTING FOR GOVERNMENT GRANTS"



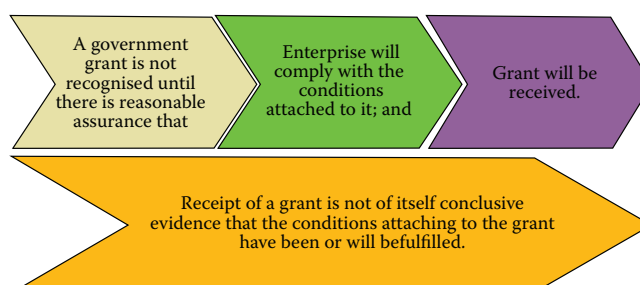
## Meaning of Government Grants



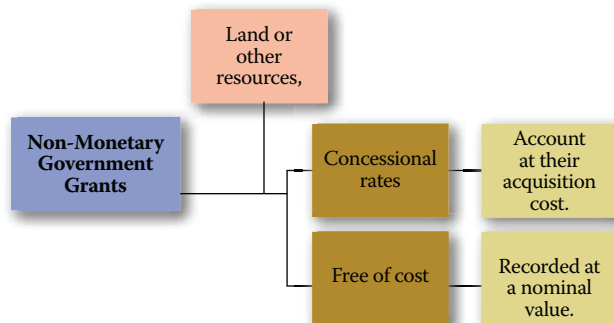
## Accounting Treatment of Government Grants



## Recognition of Government Grants

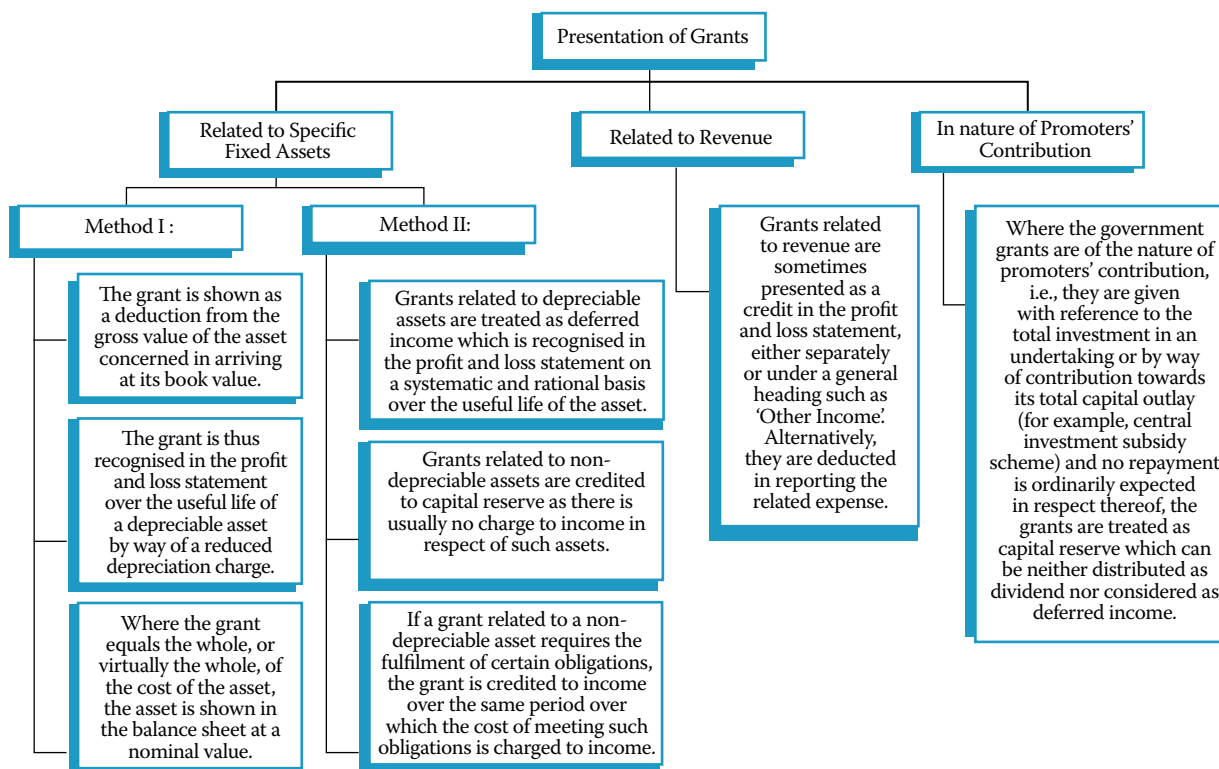


## Non-Monetary Government Grants



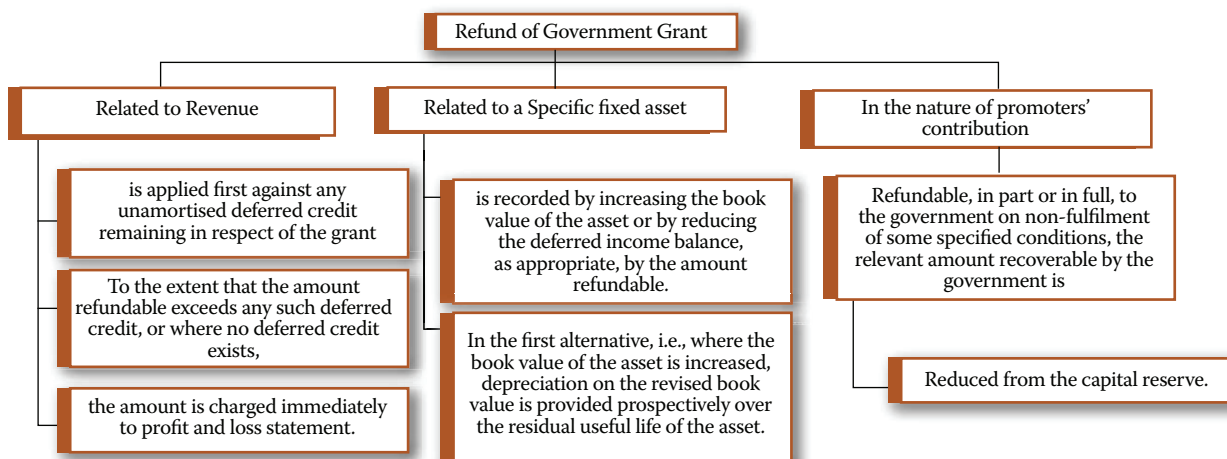


### Presentation of Grants

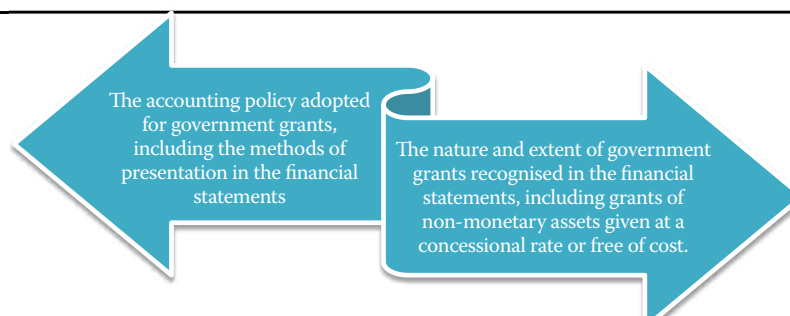


### Refund of Government Grants

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

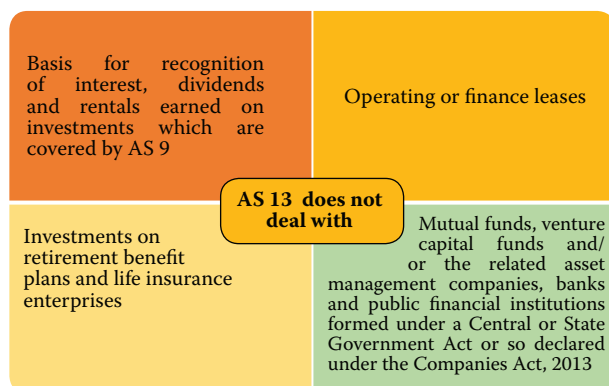


### Disclosure

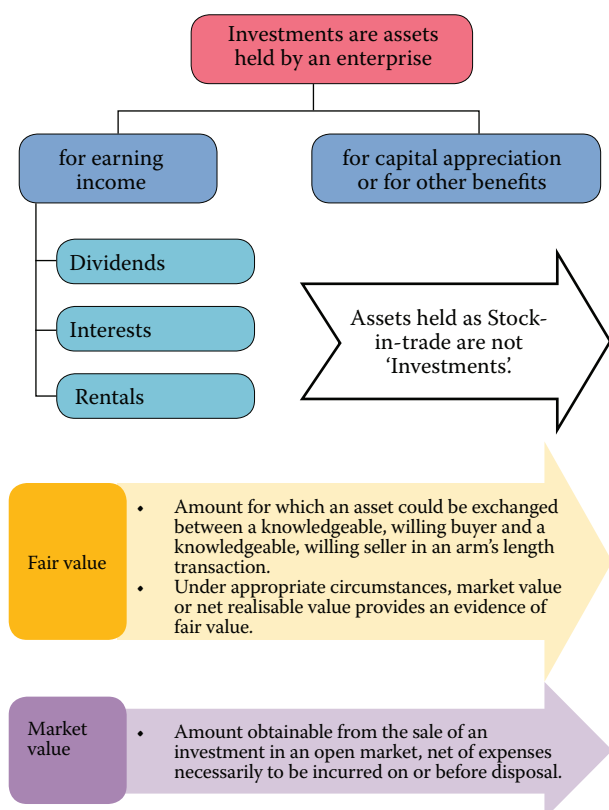


## AS 13 “ACCOUNTING FOR INVESTMENTS”

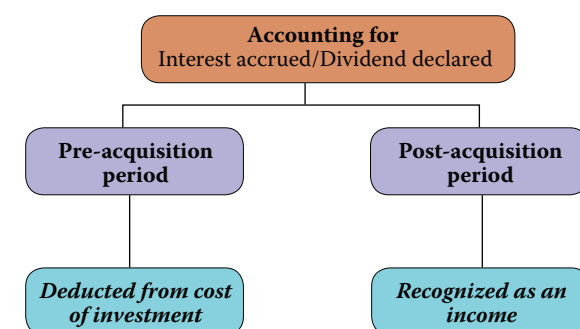
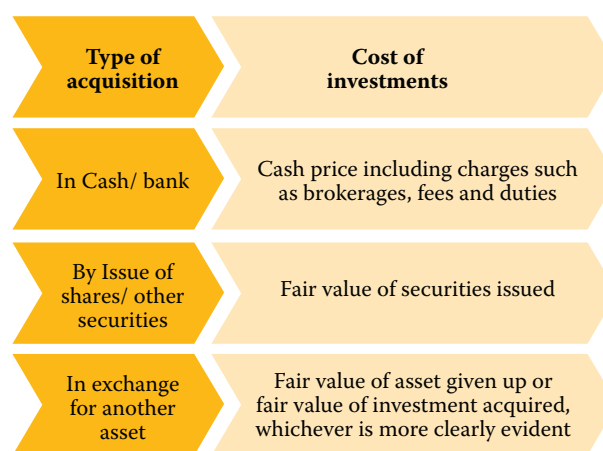
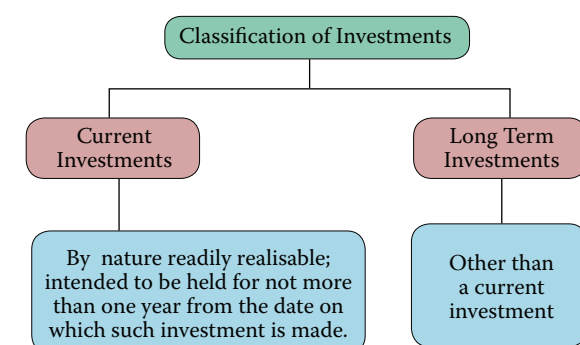
AS 13 deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

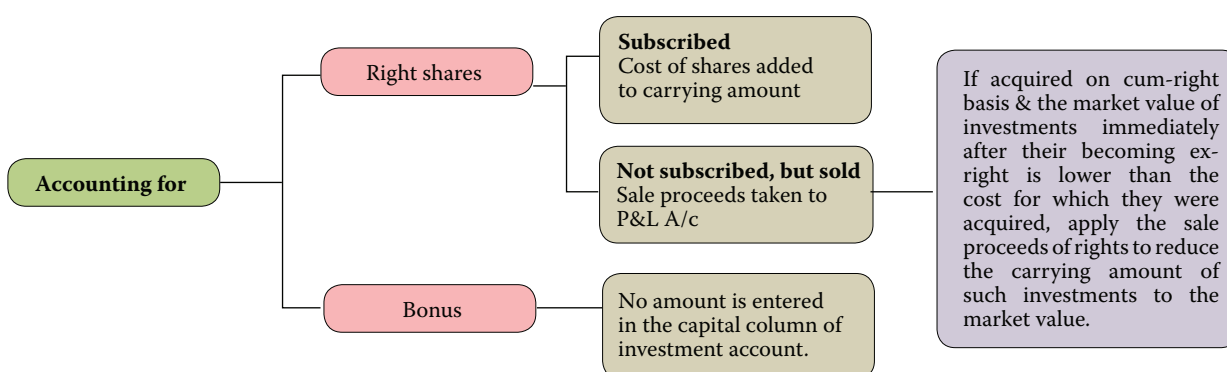


## DEFINITION OF INVESTMENTS

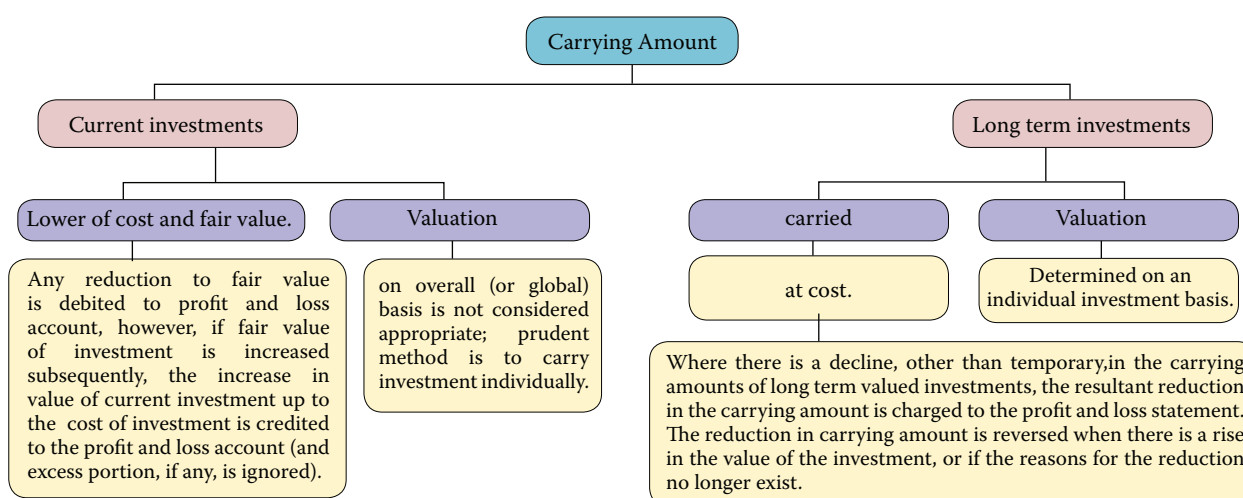


## CLASSIFICATION OF INVESTMENTS





## CARRYING AMOUNT OF INVESTMENTS



## 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.

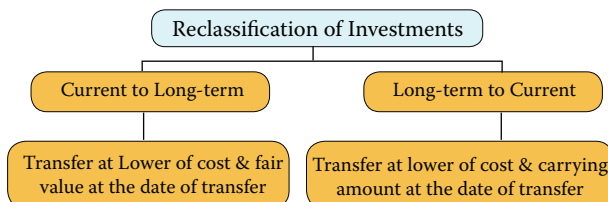
## DISPOSAL OF INVESTMENTS

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



## DISCLOSURE

Accounting policies followed for valuation of investments;

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.

Significant restrictions on the right of ownership, realizability of investments or remittance of income and proceeds of disposal.

Aggregate amount of quoted and unquoted investments, giving aggregate market value of quoted investments.

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

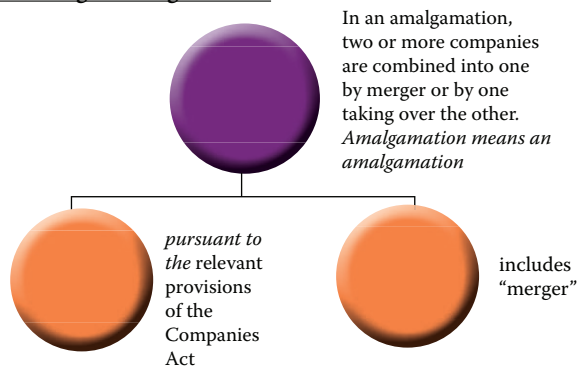
Treatment of any resultant goodwill or reserves

Disclosures

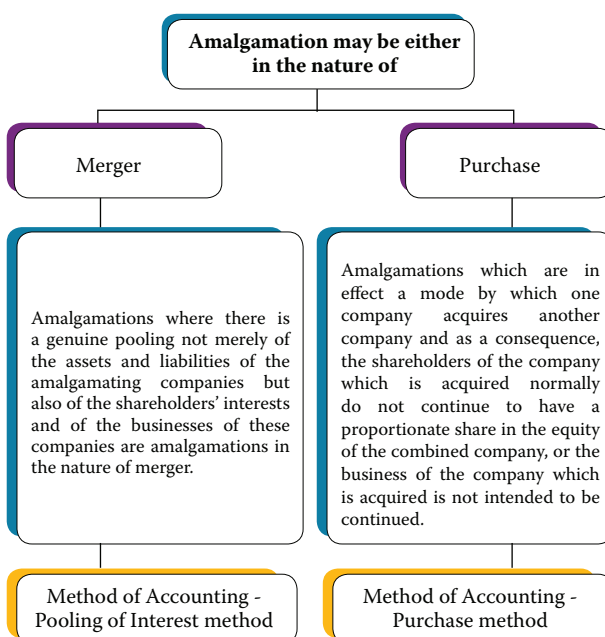
**Scope**

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**

<b>Transferor company</b>	Company which is amalgamated into another company.
<b>Transferee company</b>	Company into which a transferor company is amalgamated.
<b>Reserve</b>	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.
<b>Consideration for the amalgamation</b>	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.
<b>Fair value</b>	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**

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

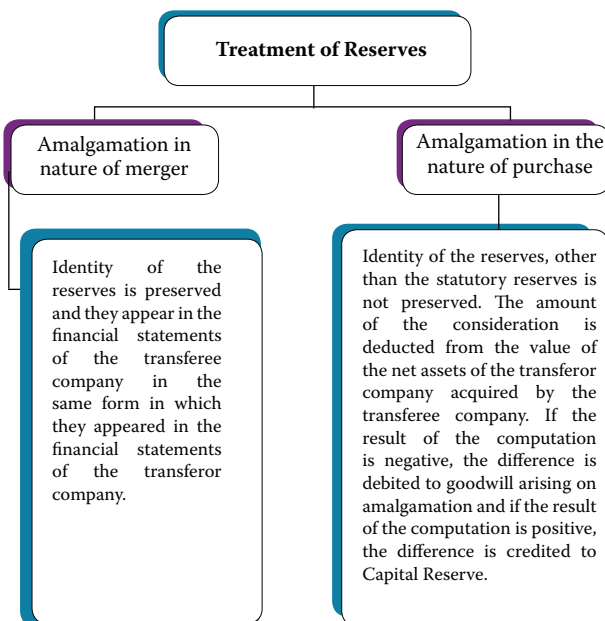
- By incorporating the assets and liabilities at their existing carrying amounts or
- By allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.

#### 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



### Statutory Reserves

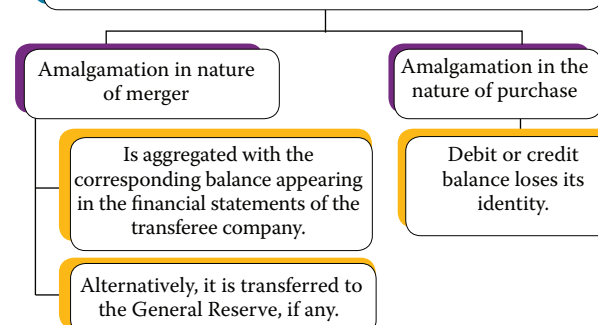
Statutory reserves retain their identity in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company, so long as their identity is required to be maintained to comply with the relevant statute.

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



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.

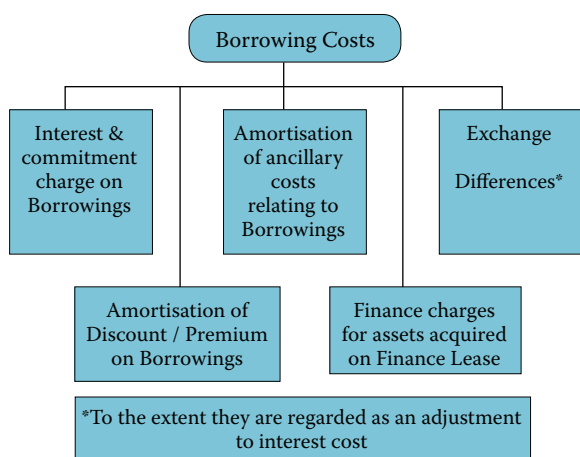


## AS 16 “BORROWING COSTS”

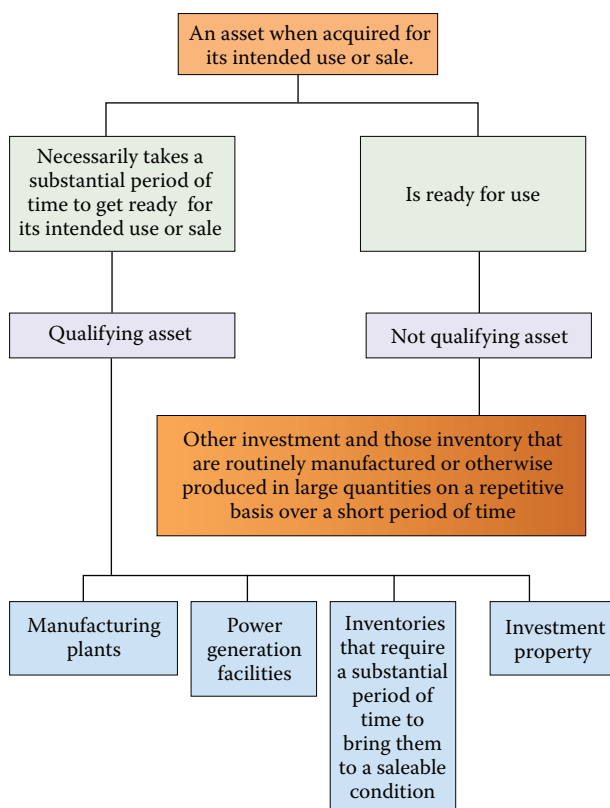
The objective of AS 16 is to account for borrowing costs. It does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.

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

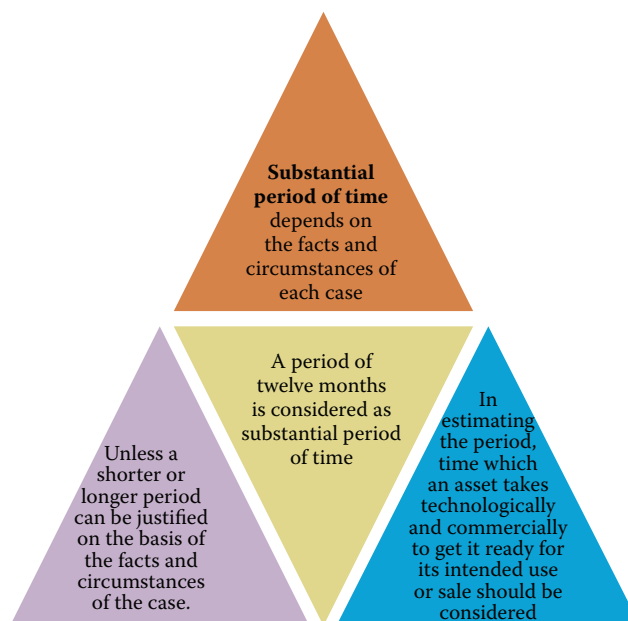
## BORROWING COSTS MAY INCLUDE



## A QUALIFYING ASSET



## SUBSTANTIAL PERIOD OF TIME



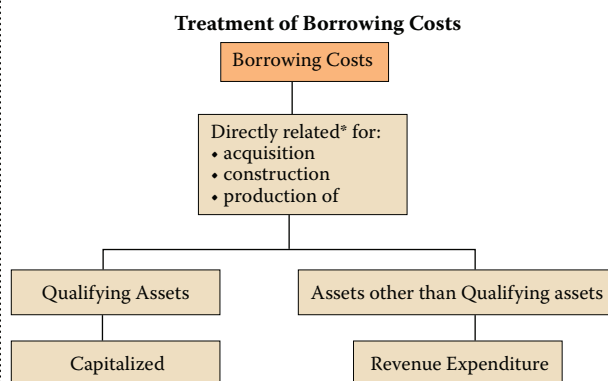
## EXCHANGE DIFFERENCES ON FOREIGN CURRENCY BORROWINGS

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'.

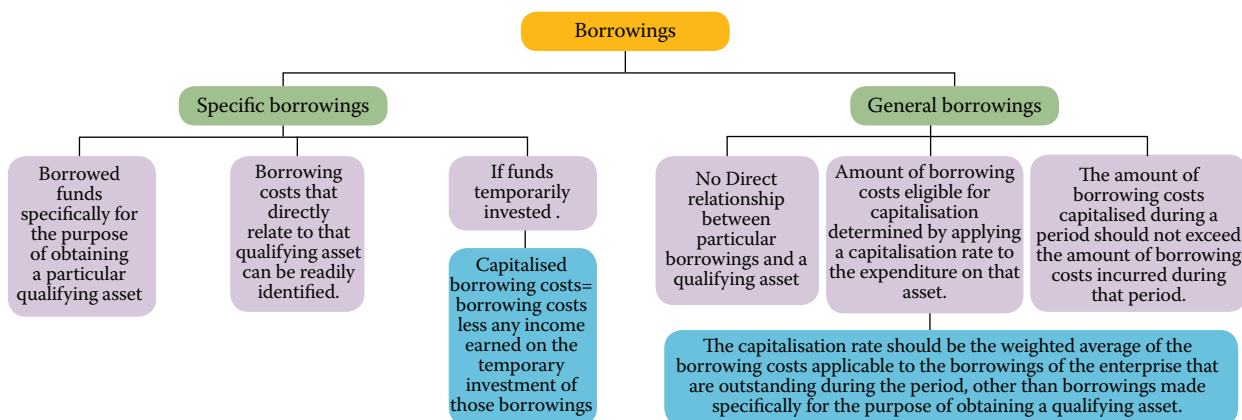
Interest rate for the local currency borrowings is considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings.

## BORROWING COSTS ELIGIBLE FOR CAPITALISATION

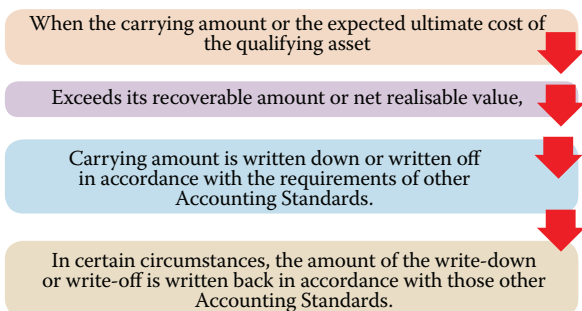


\*or that could have been avoided if the expenditure on qualifying assets had not been made.

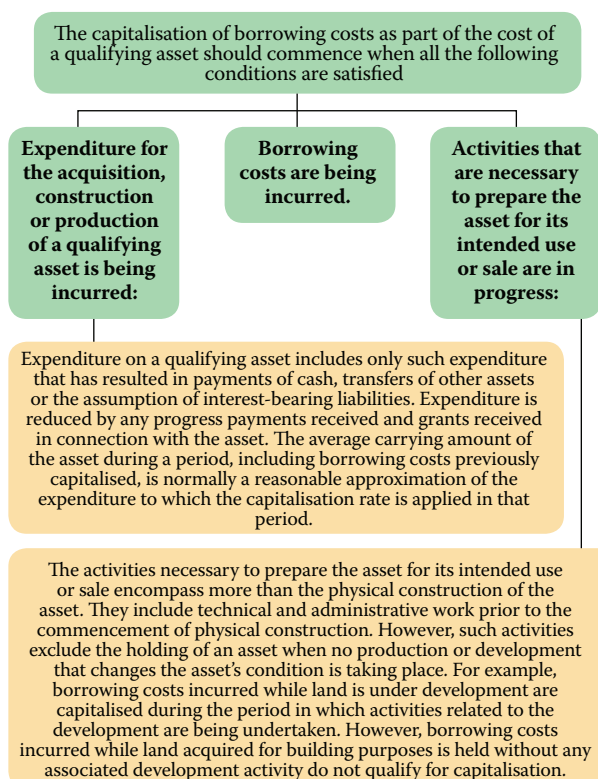
Thus, borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.



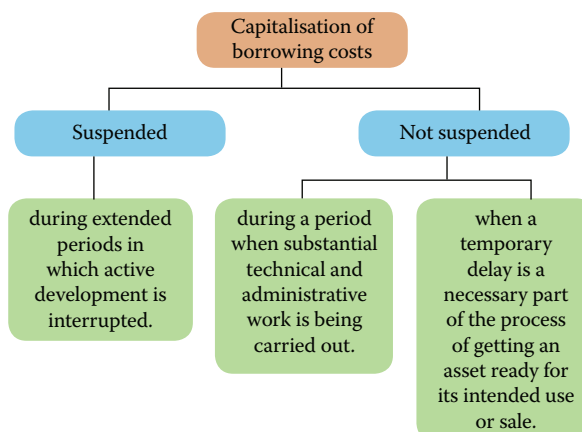
#### EXCESS OF THE CARRYING AMOUNT OF THE QUALIFYING ASSET OVER RECOVERABLE AMOUNT



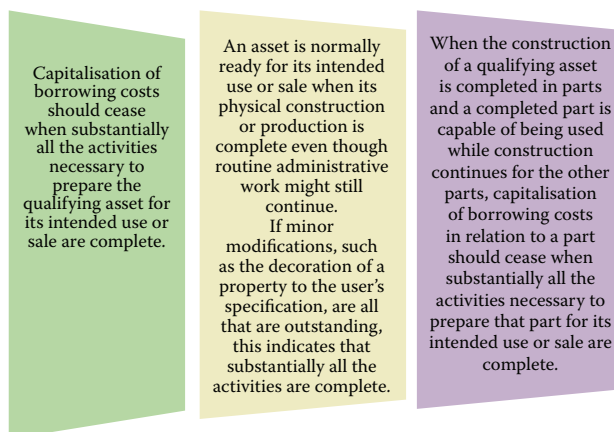
#### COMMENCEMENT OF CAPITALISATION



#### SUSPENSION OF CAPITALISATION

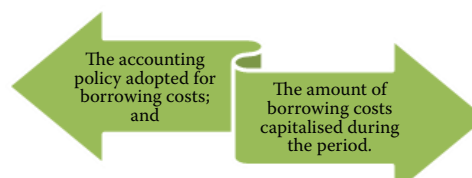


#### CESSATION OF CAPITALISATION



#### DISCLOSURE

The financial statements should disclose:



## 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.

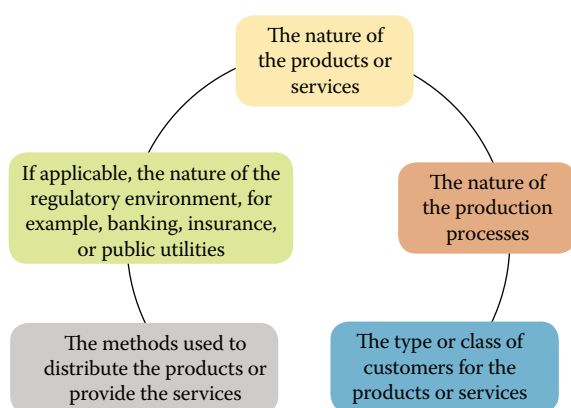
For Non-companies - AS 17 is not mandatory for entities falling in Level II and Level III.

## 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:



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.

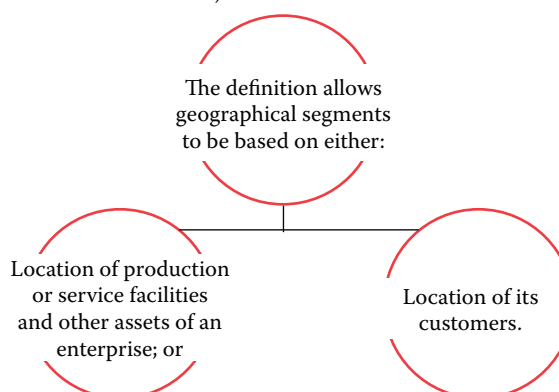
## Identifying Reportable Segments as Primary Segment or Secondary Segment

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).



### CRITERIA FOR IDENTIFYING REPORTABLE SEGMENTS

**Revenue Test** Segment revenue  $\geq$  10% of all segment revenues

**Result Test** Segment result  $\geq$  10% of higher of segments in profit or loss

**Assets Test** Segment assets  $\geq$  10% of total assets of all segments

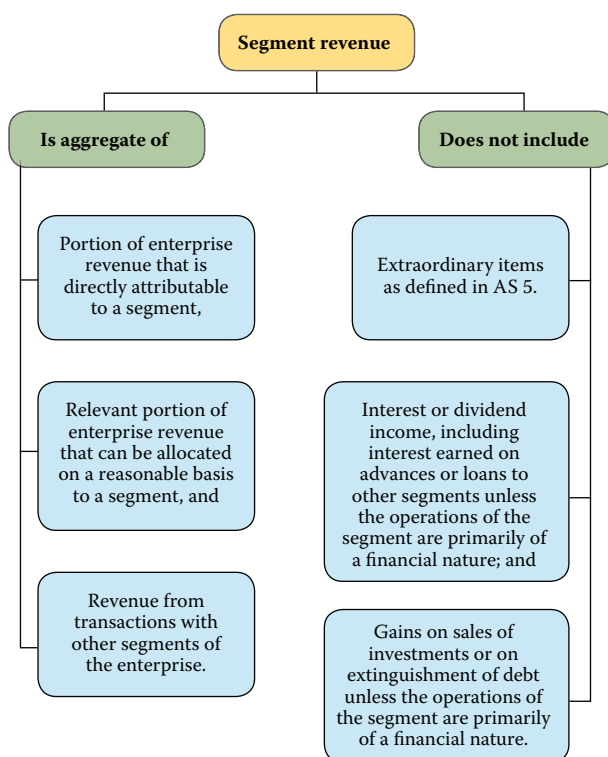
**Management choice-** Management may designate any segment as reportable segment despite its size even if tests are not satisfied

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

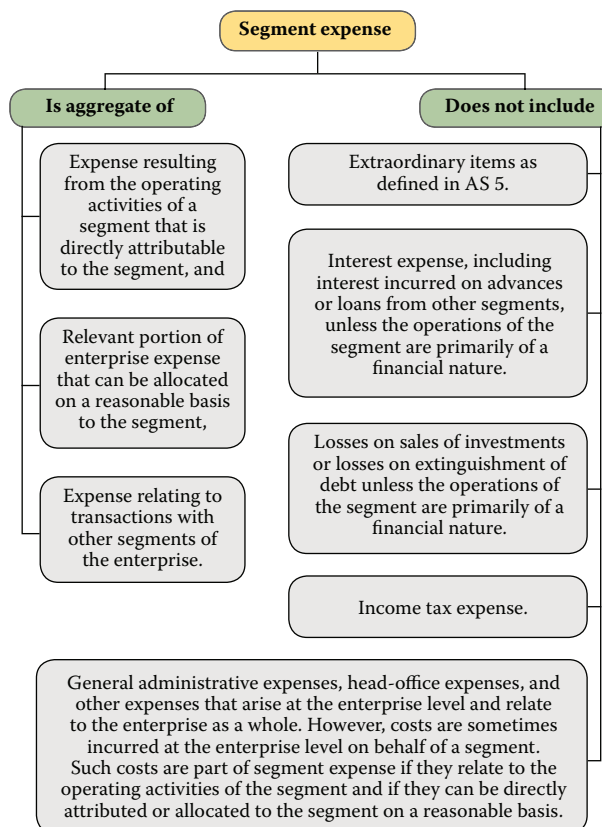
- Previous year's segment information to continue in current year
- If inconsistent, previous year figures to be regrouped to fall in line with current year

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



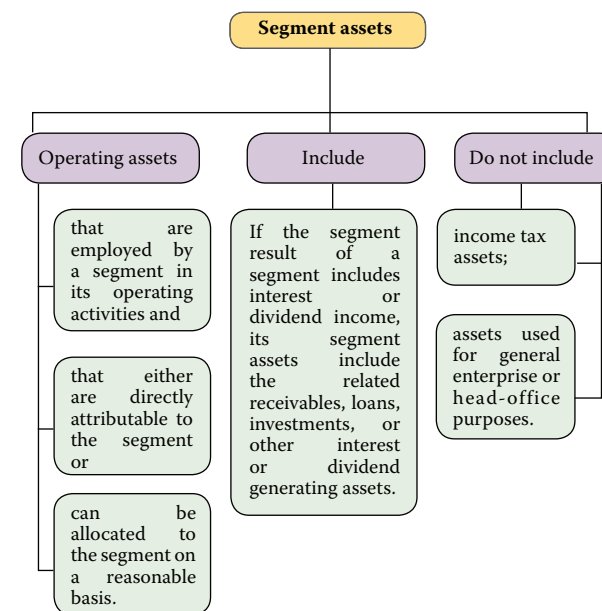
### SEGMENT EXPENSE



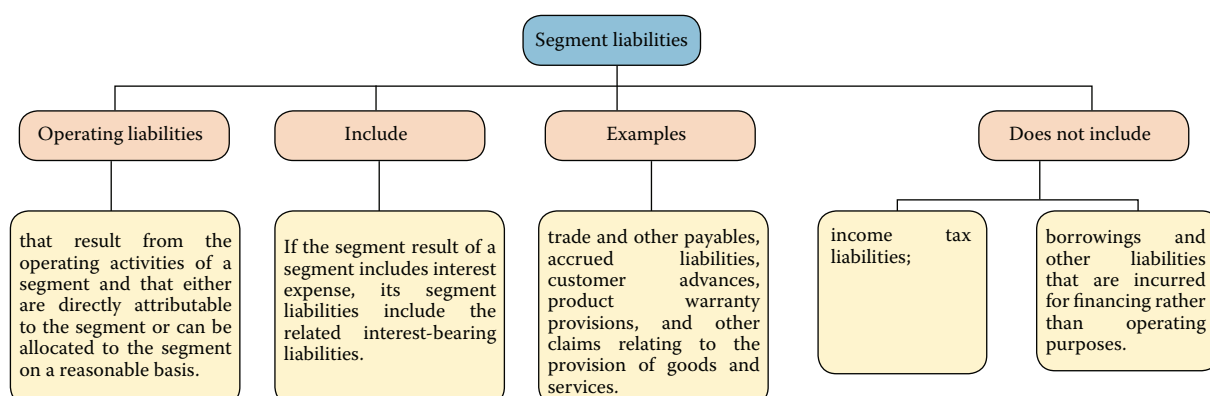
### SEGMENT RESULT



### SEGMENT ASSETS



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



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.
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## 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:*

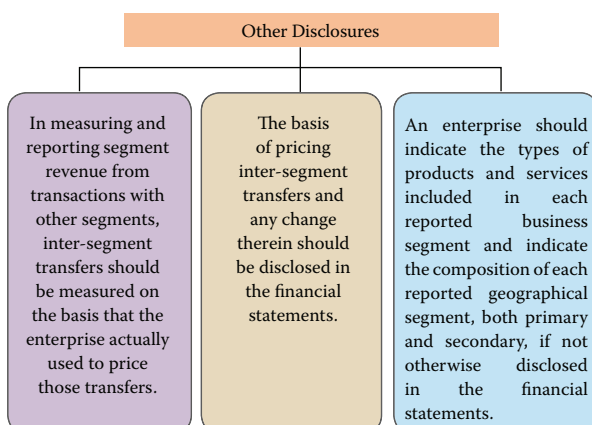
- segment revenue from external customers;
- the total carrying amount of segment assets; and
- the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets).

*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

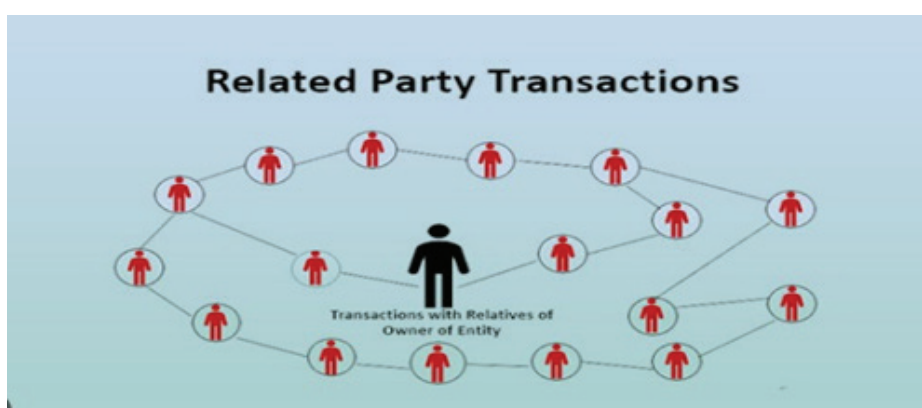
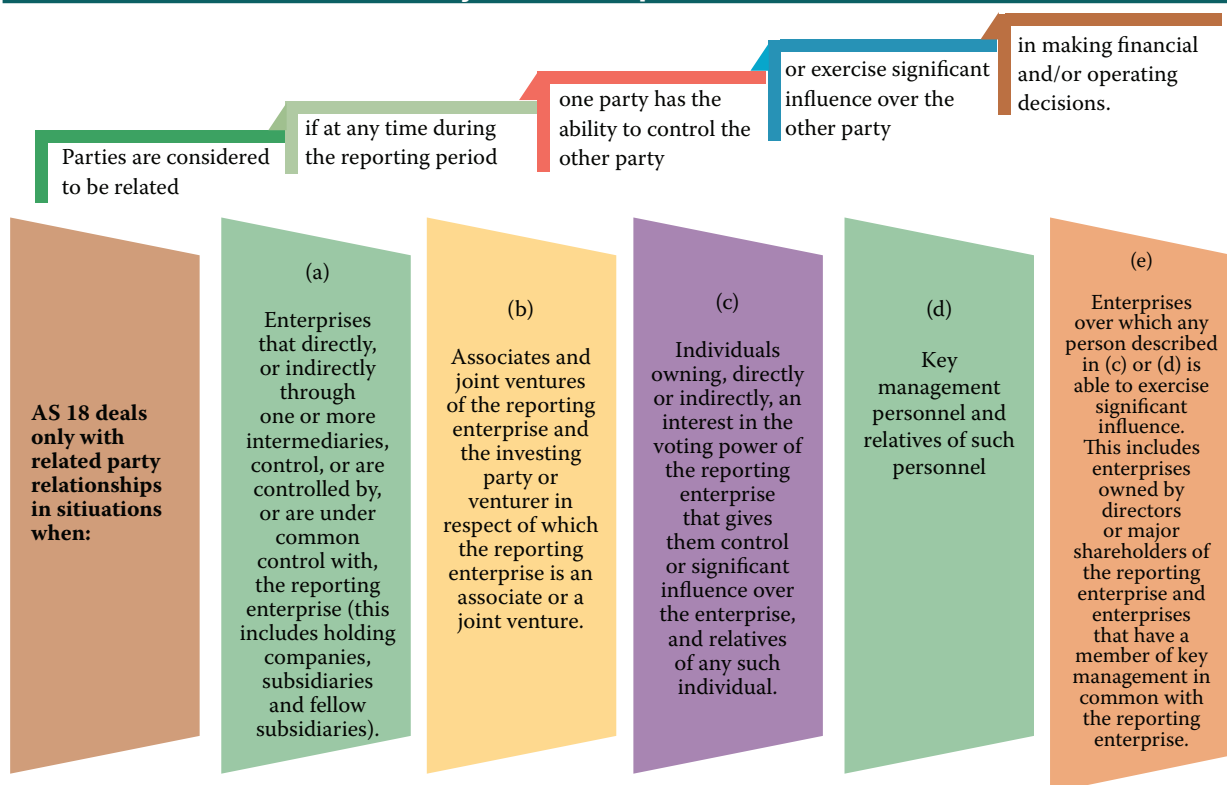




### AS 18 “RELATED PARTY DISCLOSURES”

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

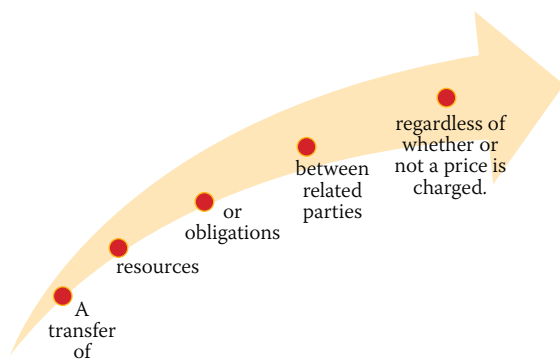


- In the context of AS 18, following are deemed not to be related parties:**
- Two companies simply because they have a director in common (unless the director is able to affect the policies of both companies in their mutual dealings).
  - A single customer, supplier, franchiser, distributor or general 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.

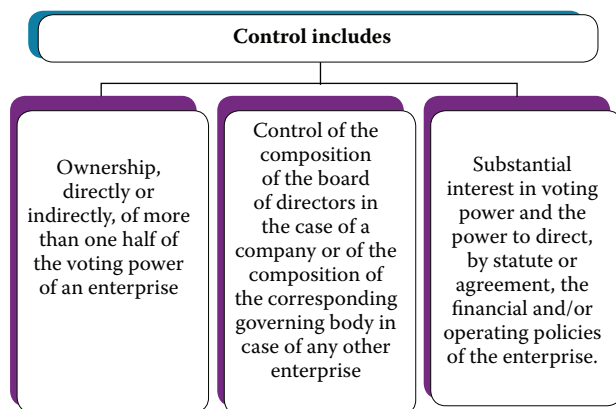
No disclosure is required in consolidated financial statements in respect of intra-group transactions.

### Key Terms

#### Related Party Transaction



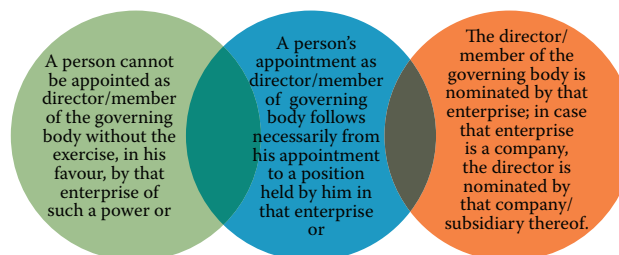
#### Control



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:**



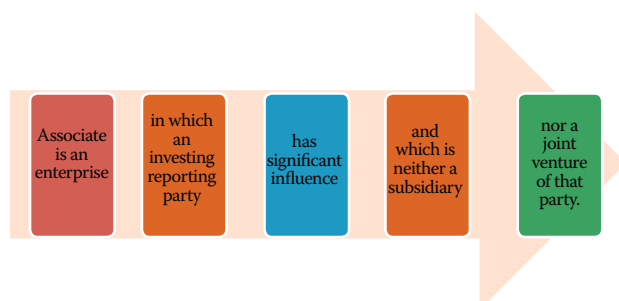
#### Substantial Interest

**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



#### Significant Influence

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

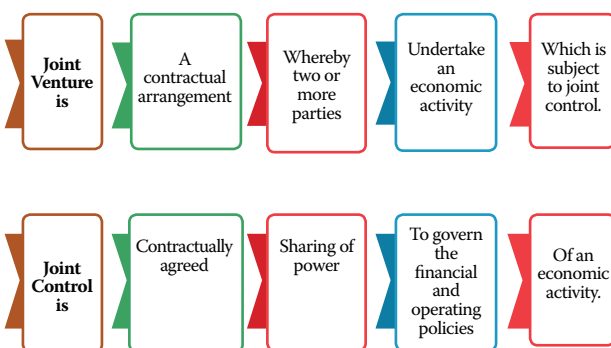
Significant influence may be gained by share ownership, statute or agreement.

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.

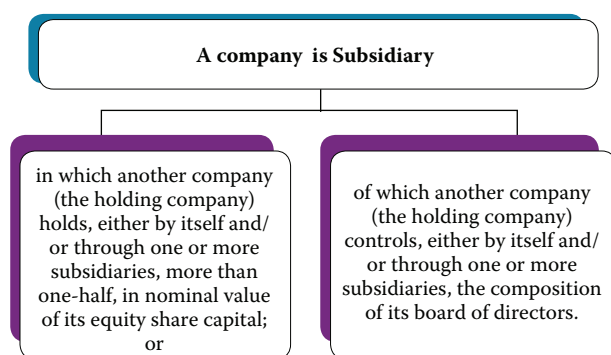
A substantial or majority ownership by another investing party does not necessarily preclude an investing party from having significant influence.

**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****Joint Venture and Joint Control****Holding Company**

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

**Subsidiary Company****Fellow Subsidiary****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;

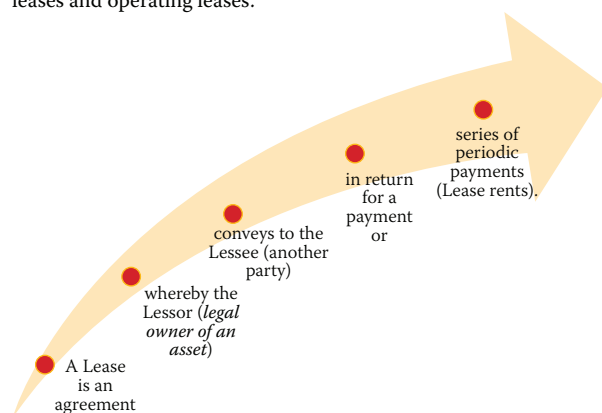
Amounts written off or written back in the period in respect of debts due from or to related parties.

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

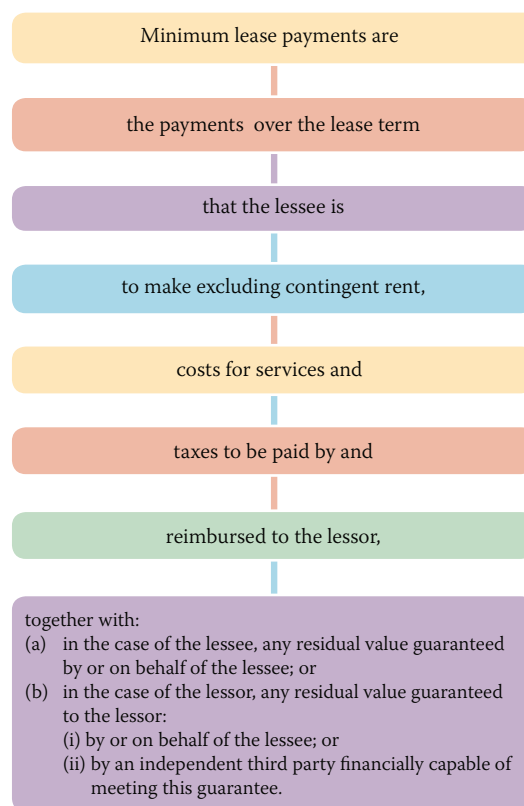
With the permission of the lessor; or

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.

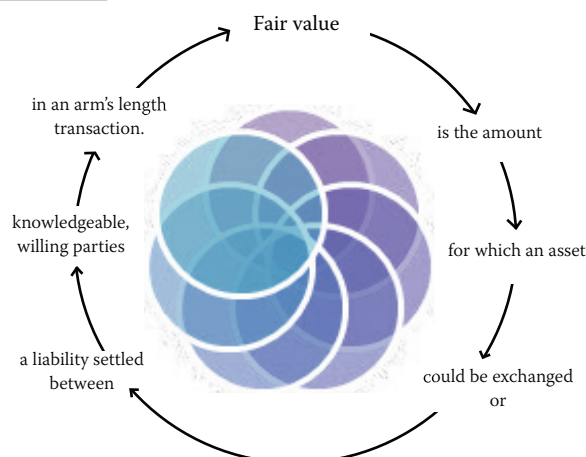
The **lease term** is the **non-cancellable period** for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably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

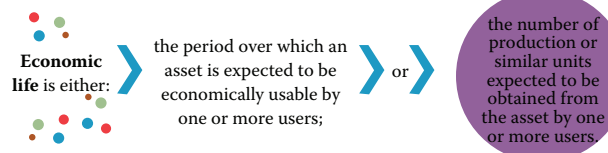
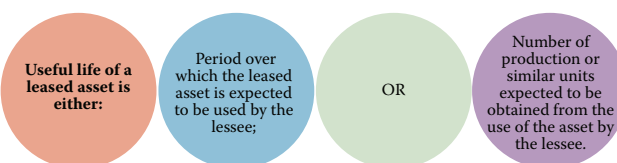
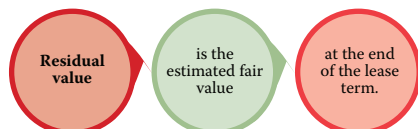
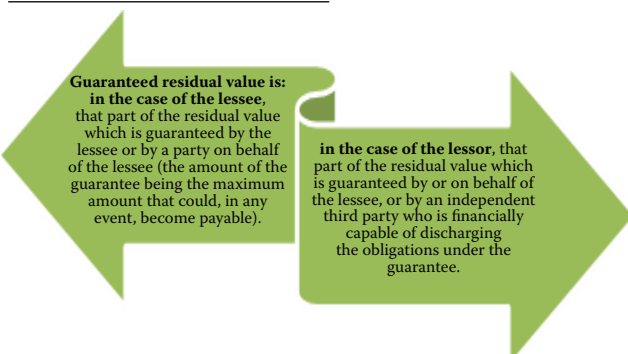
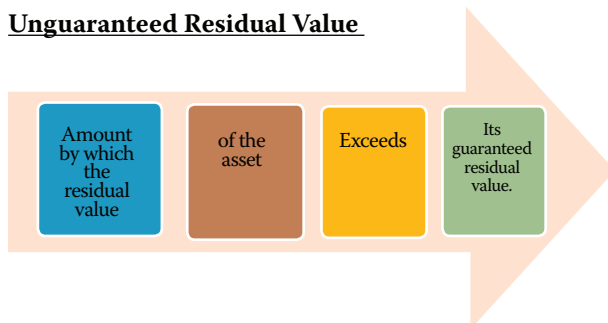
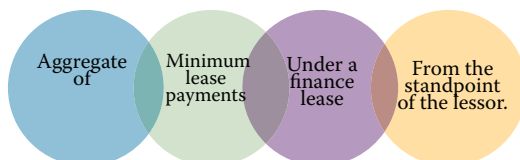
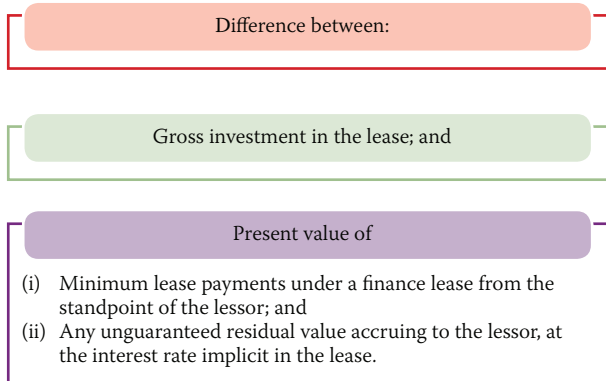
## Minimum Lease Payments



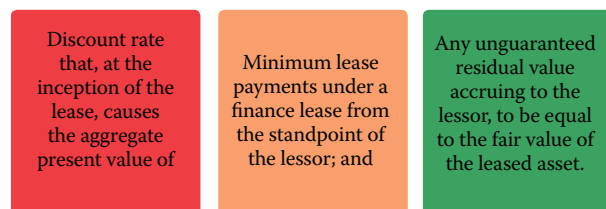
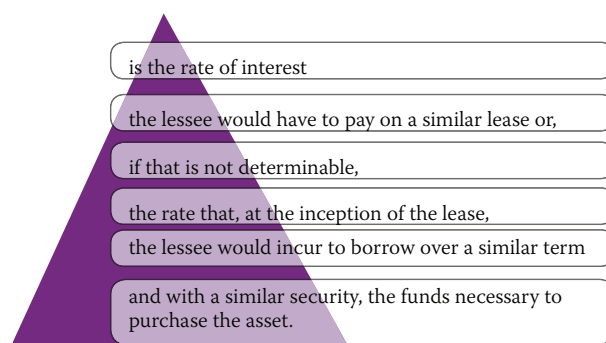
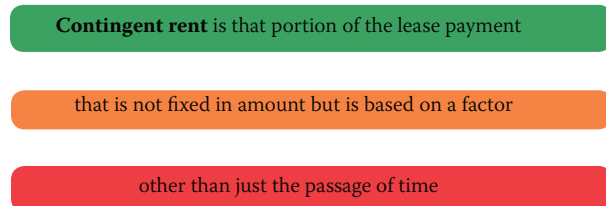
However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable that, at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments comprise minimum payments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

## Fair Value

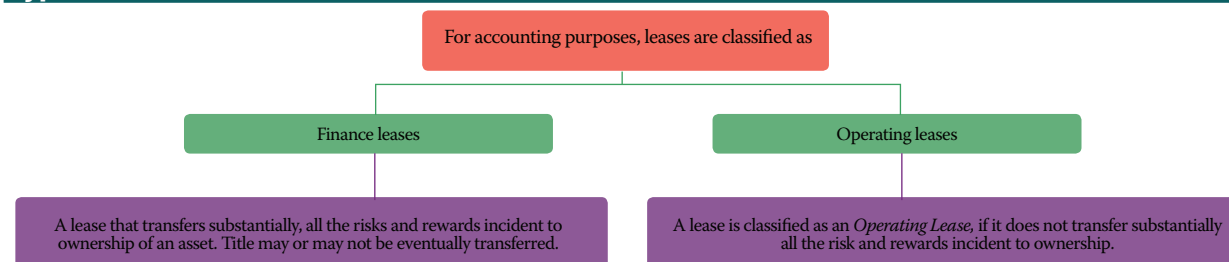


Economic LifeUseful LifeResidual ValueGuaranteed Residual ValueUnguaranteed Residual ValueGross InvestmentUnearned Finance Income

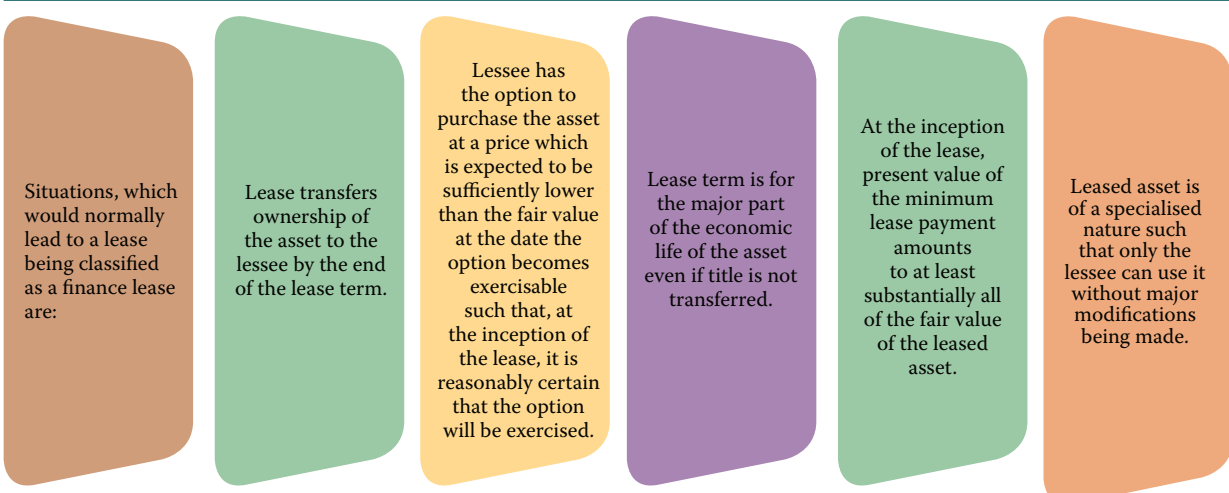
**Net investment in the lease** is the gross investment in the lease **less** unearned finance income.

Interest rate implicit in the leaseLessee's Incremental Borrowing Rate of InterestContingent Rent

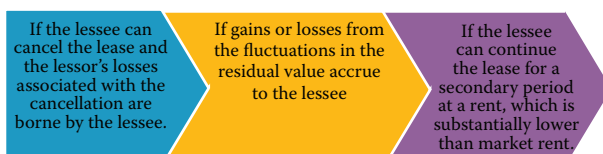
## Types of Leases



## Indicators of Finance Lease



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



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:

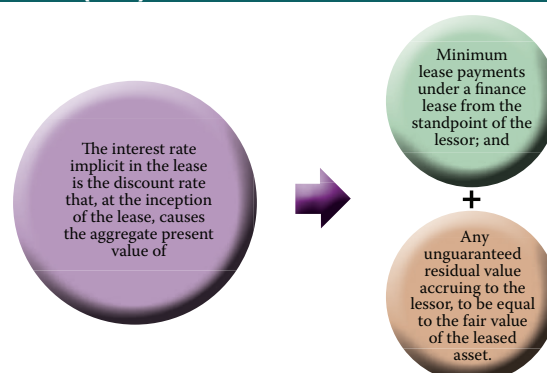
- Fair value of leased asset at the inception of the lease
- Present value of minimum lease payments from the standpoint of the lessee (present value to be calculated with discount rate equal to interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental 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)





### 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;

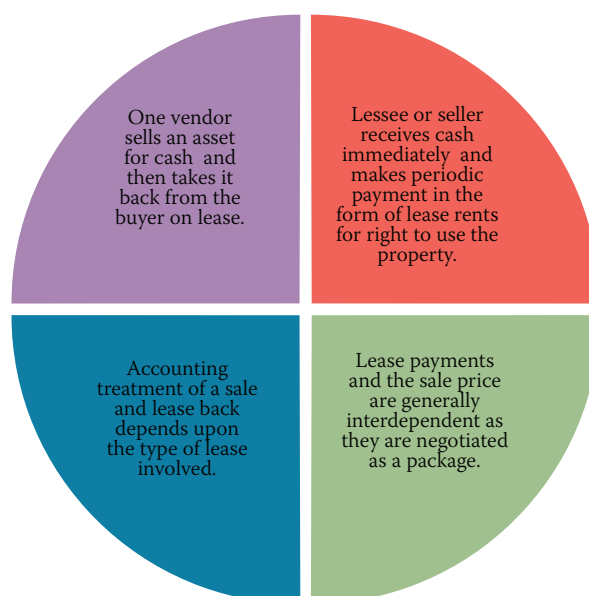
- (b) Future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods:
  - (i) not later than one year;
  - (ii) later than one year and not later than five years;
  - (iii) later than five years;

- (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



\* 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
<b>Profit</b>	No profit	Recognise profit immediately	Not applicable
<b>Loss</b>	No loss	Not applicable	Recognise loss immediately
<b>Sale price below fair value (paragraph 50)</b>			

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

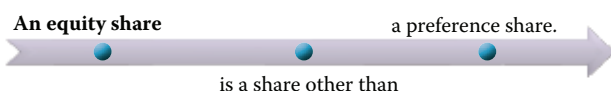
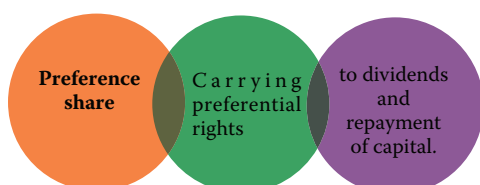
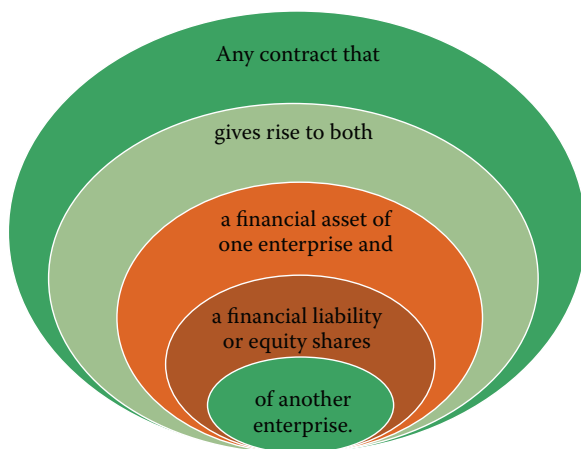
**AS 20 “EARNINGS PER SHARE”****The objective of AS 20**

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.

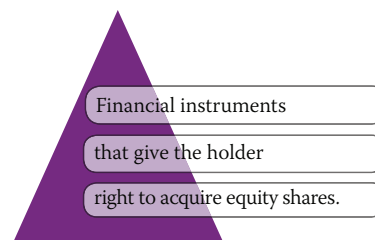
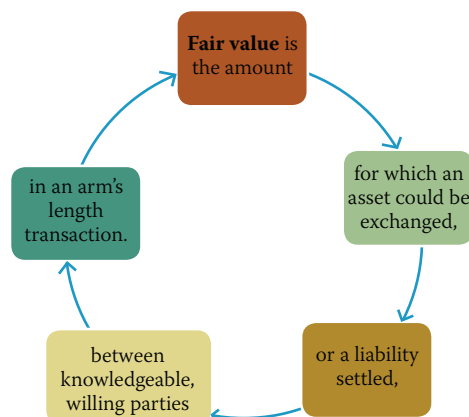
**Financial Liability**

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.

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

(ii) to the extent that they were entitled

**Partly paid equity shares**

(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:

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.

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.

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 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.
- 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

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 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 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 nominal value of shares along with the earnings per share figures.

An enterprise should disclose

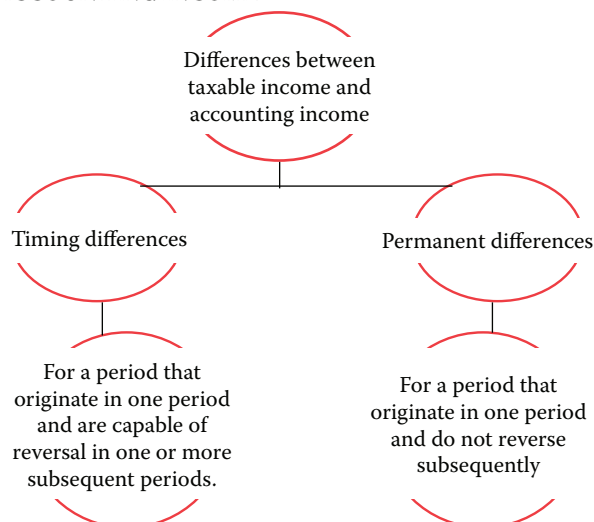
If an enterprise discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of net profit other than net profit or loss for the period attributable to equity shareholders, such amounts should be calculated using the weighted average number of equity shares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

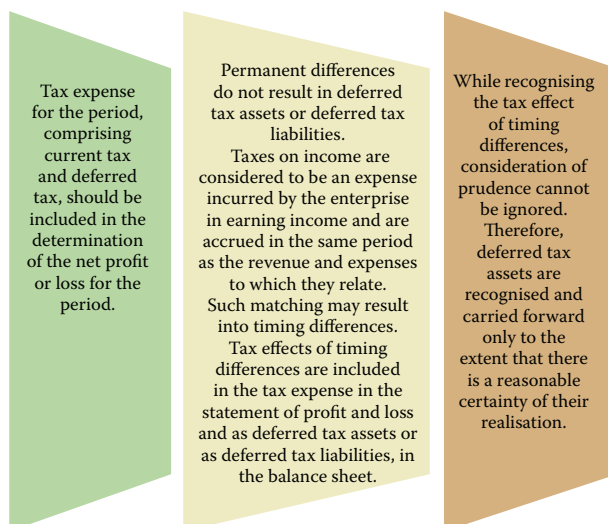


## DEFINITIONS

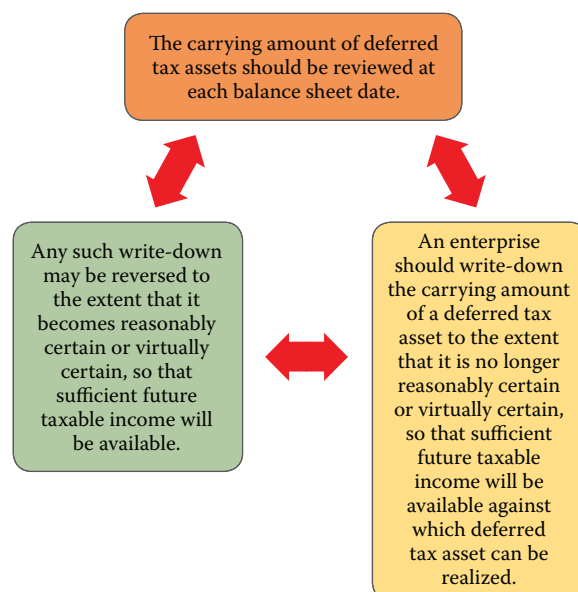
<b>Accounting income (loss)</b>	Net profit or loss for a period, as reported in the statement of profit and loss, before deducting income-tax expense or adding income tax saving.
<b>Taxable income (tax loss)</b>	Amount of the income (loss) for a period, determined in accordance with the tax laws, based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



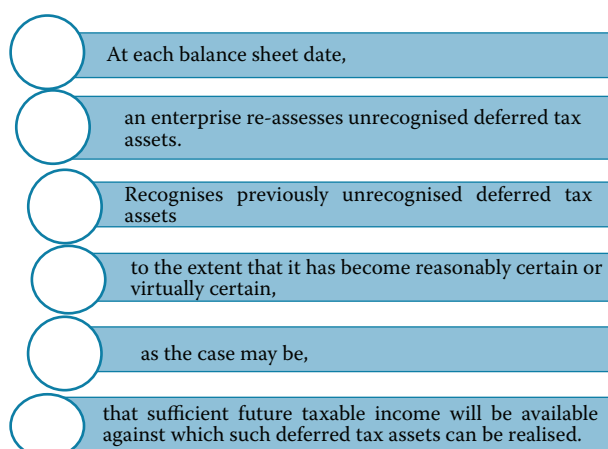
## RECOGNITION



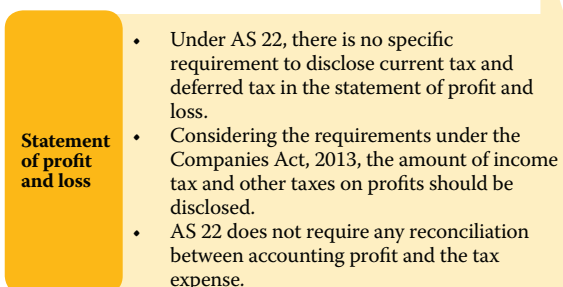
## REVIEW OF DEFERRED TAX ASSETS



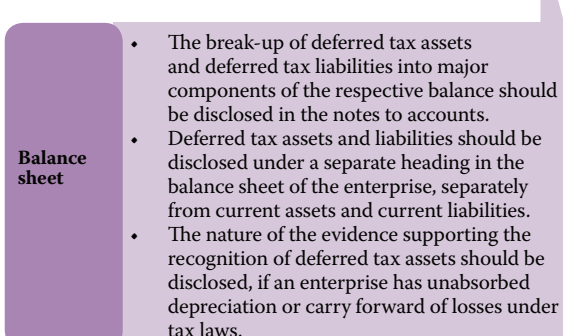
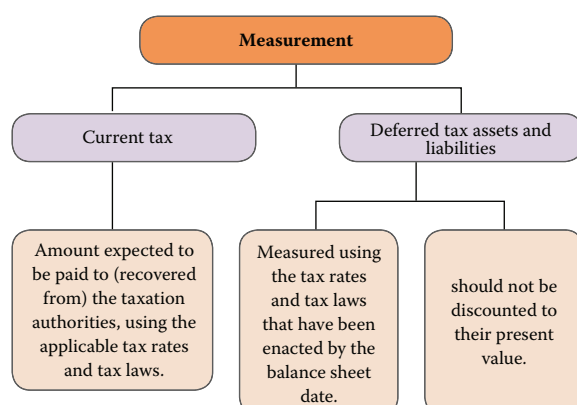
## RE-ASSESSMENT OF UNRECOGNISED DEFERRED TAX ASSETS



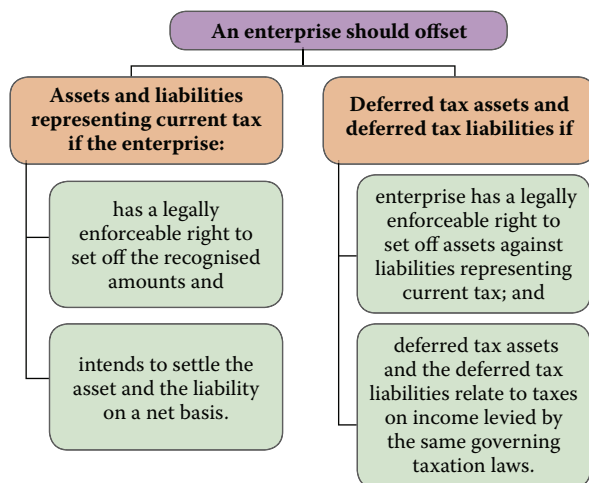
## DISCLOSURE



## MEASUREMENT



## PRESENTATION



## 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.

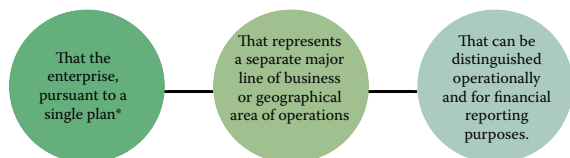
## AS 24 “DISCONTINUING OPERATIONS”

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



- \*(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.*

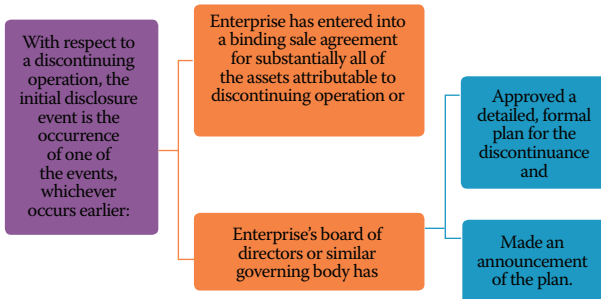
To qualify as a discontinuing operation, the disposal must be pursuant to a single coordinated plan.

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

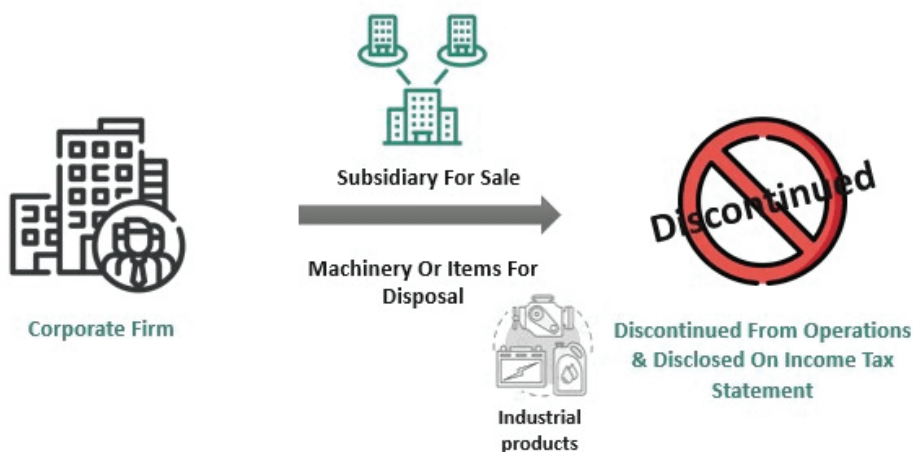


### Recognition and Measurement

This AS does not provide any guidelines

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

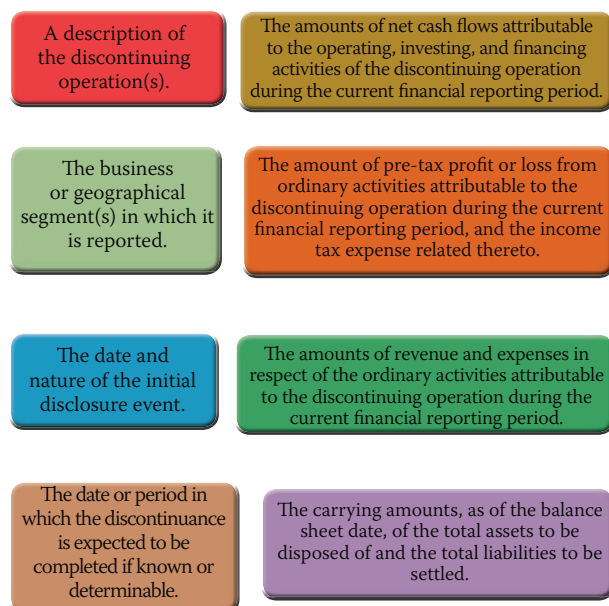
### Discontinued Operations



## 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:



### 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:
  - the amount of the pre-tax gain or loss
  - 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.

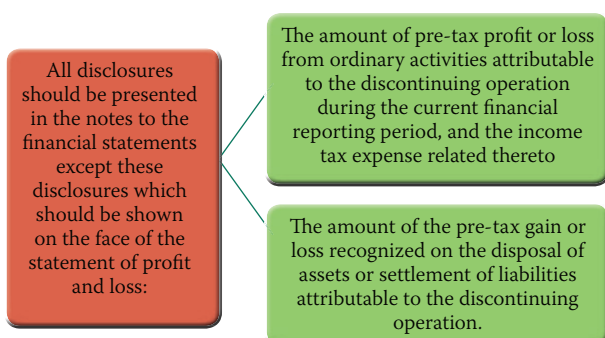
The disclosures should continue in financial statements for periods up to and including the period in which the discontinuance is completed. Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received.

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



## 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.

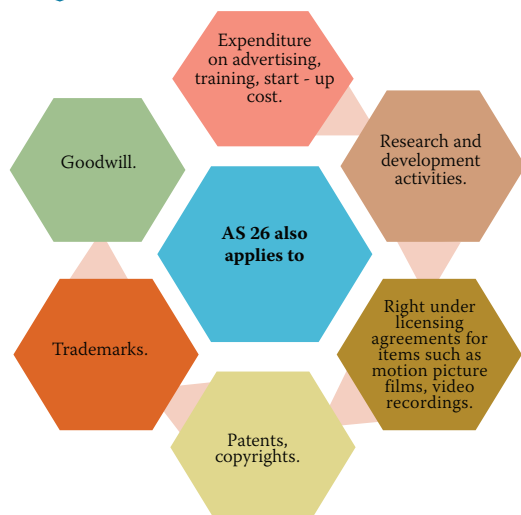
### Scope

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

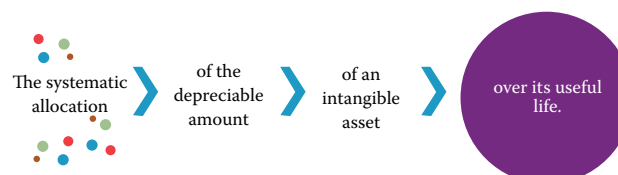
- Intangible assets that are covered by another Accounting Standard.
- Financial assets.
- Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources.
- Intangible assets arising in insurance enterprises from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

AS 26 applies to

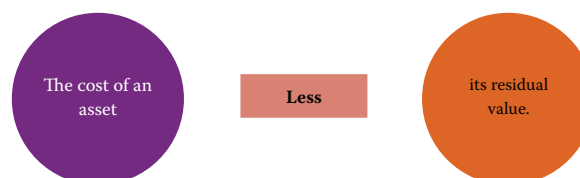
- Other intangible assets used (such as computer software), and other expenditure (such as start-up costs), in extractive industries or by insurance enterprises.



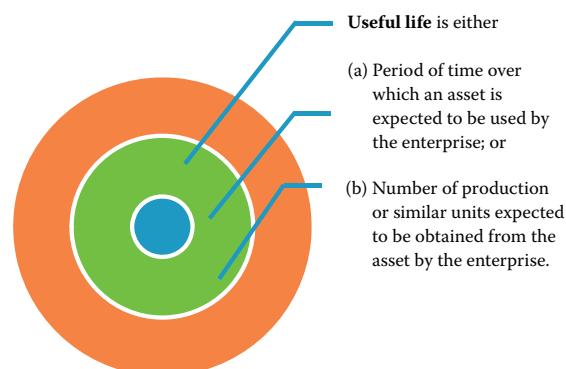
### Amortisation



### Depreciable Amount

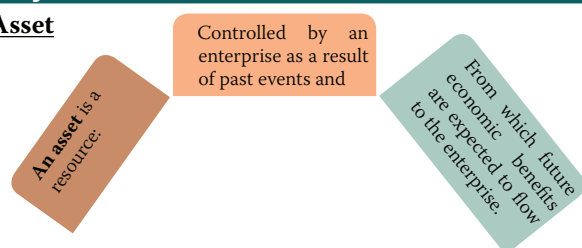


### Useful Life

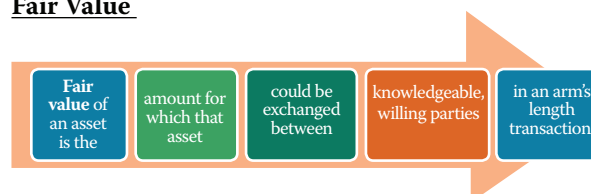


### Key Terms

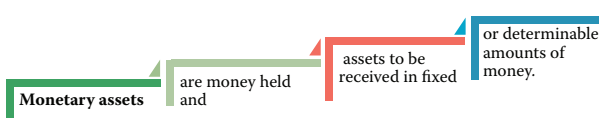
#### Asset



#### Fair Value

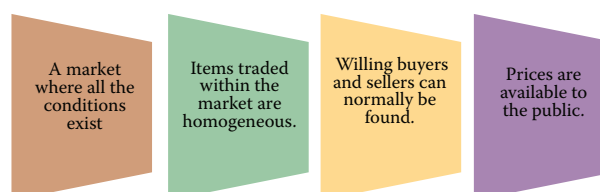


#### Monetary Assets

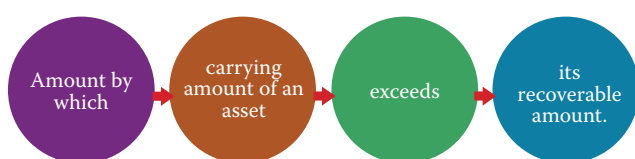


**Non-monetary assets** are assets other than monetary assets.

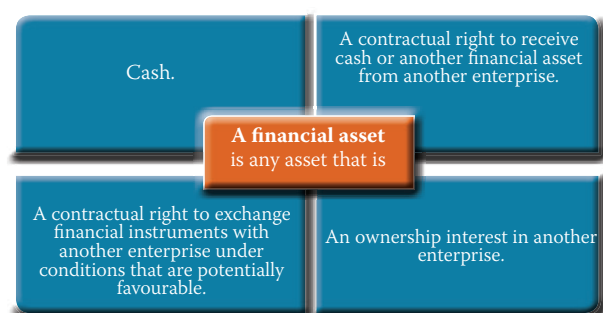
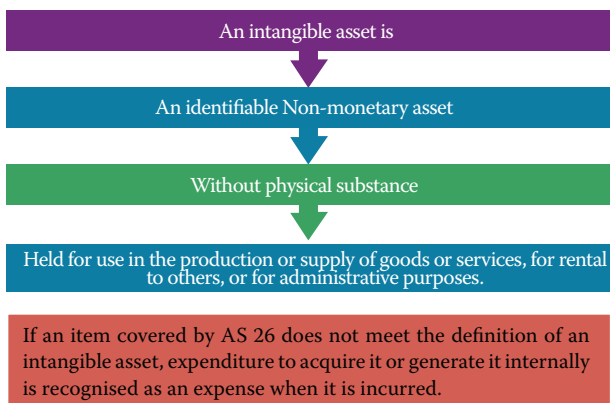
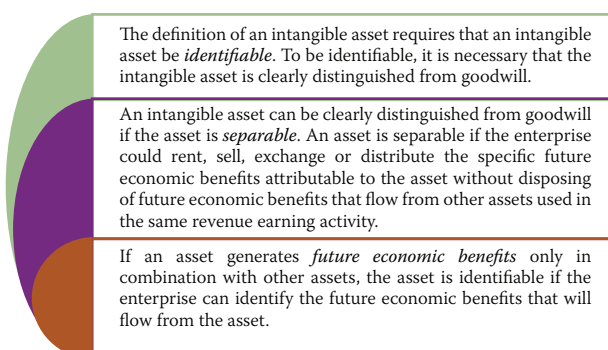
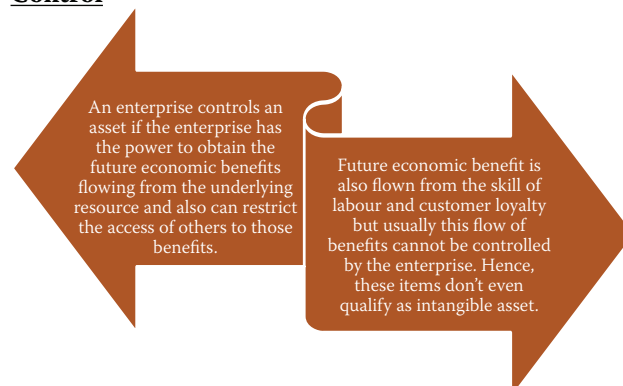
#### An Active Market



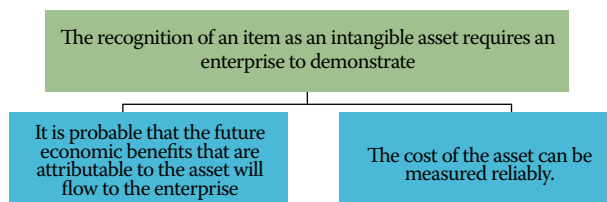


Impairment LossCarrying Amount

Amount at which an asset is recognised in the balance sheet,  
net of any accumulated amortisation and accumulated impairment losses thereon.

Financial AssetIntangible AssetsIdentifiabilityControlFuture 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

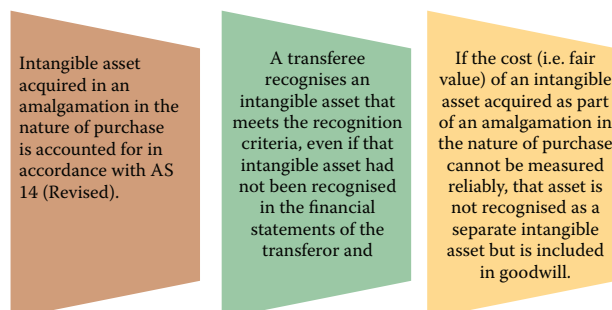
An intangible asset should be measured initially at cost.

Separate Acquisition

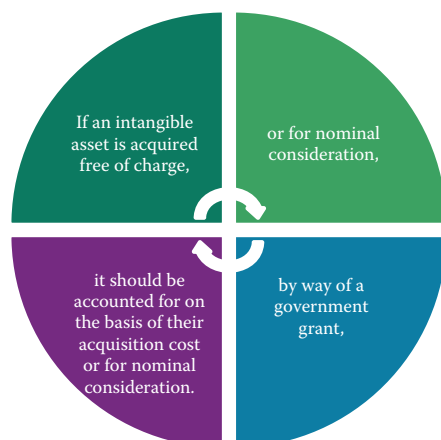
If an intangible asset is acquired separately; cost of the intangible asset can usually be measured reliably.

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

### Acquisition by way of a Government Grant



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:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset and
- 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.

### 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.

### 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

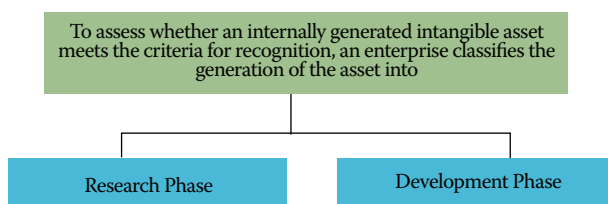
Expenditure on materials and services used or consumed in generating the intangible asset.

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.

### Internally Generated Intangible Assets



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.

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.

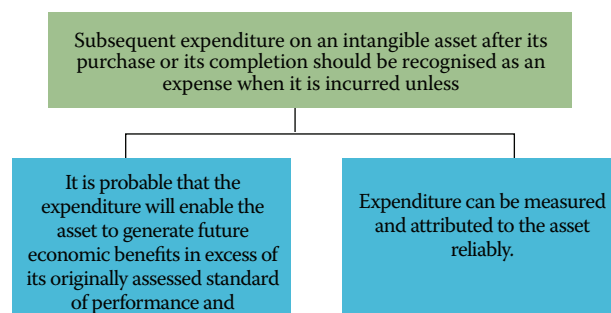
The item is acquired in an amalgamation in the nature of purchase and cannot be recognized as an intangible asset.

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



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

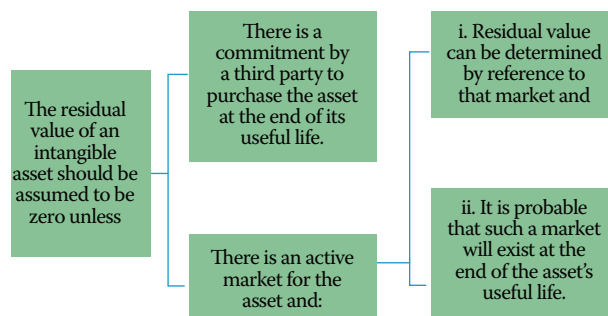
Discloses the reasons why the presumption is rebutted and the factors that played a significant role in determining the useful life of the asset.

### 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

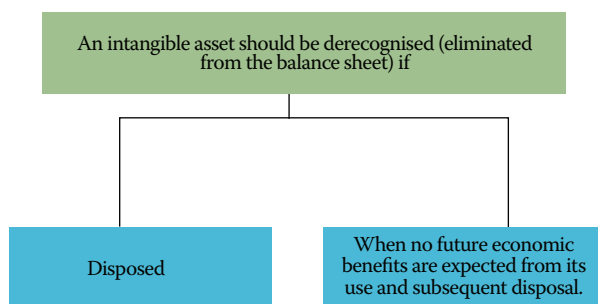
Residual value is the amount, which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.



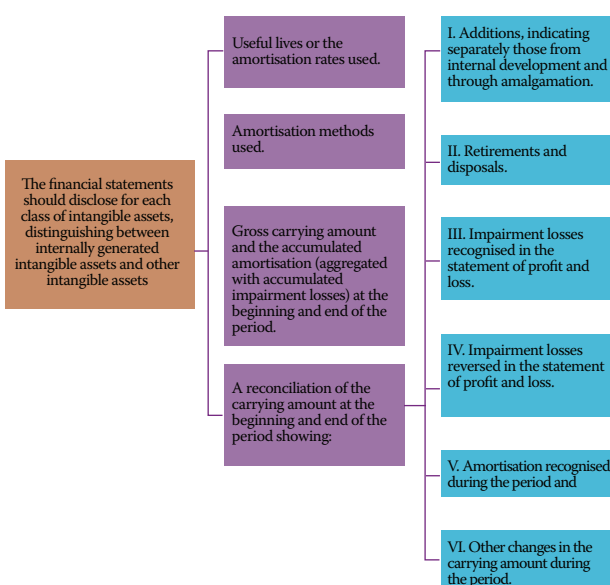
### Review of Amortisation Period and Amortisation Method

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**

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****Other Disclosure**

The financial statements should also disclose:

- 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.
- 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.
- 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
- 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.

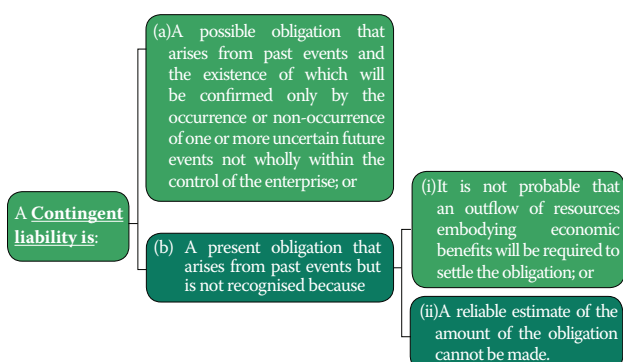
**Key Terms**

**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 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.

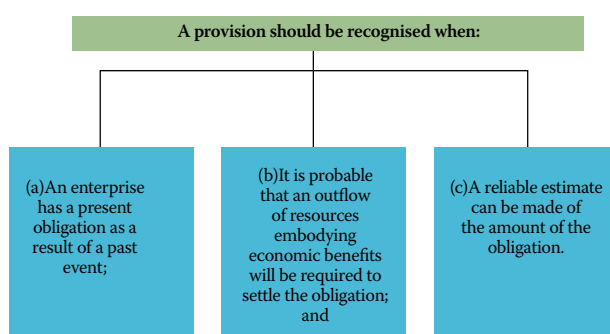
**Present obligation** - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not

**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



### 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.

### 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.

### 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.

### 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.

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.		
<i>There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation.</i>	<i>There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.</i>	<i>There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.</i>
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

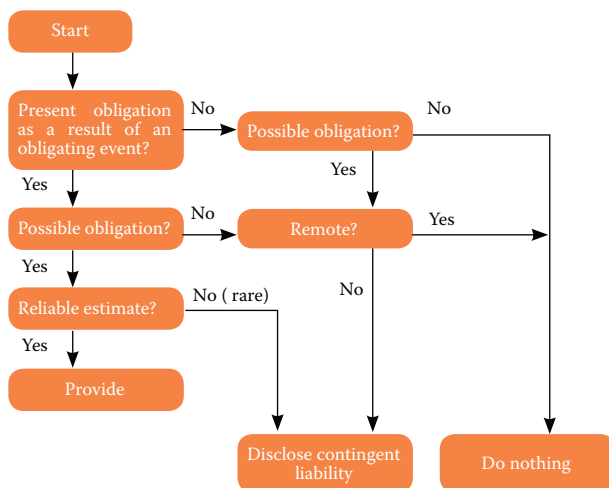
The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.

<b>The enterprise has no obligation for the part of the expenditure to be reimbursed by the other party.</b>	<i>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.</i>	<i>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.</i>
<b>The enterprise has no liability for the amount to be reimbursed.</b>	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.
<b>No disclosure is required.</b>	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

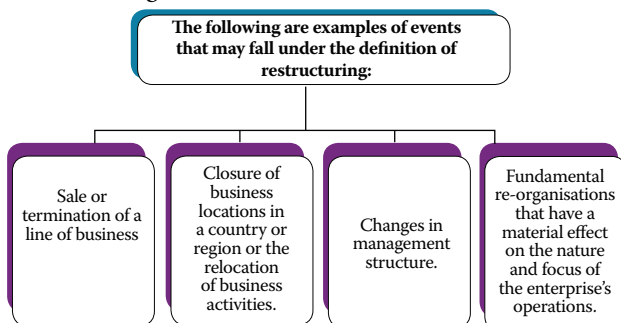
A provision should be used only for expenditures for which the provision was originally recognised. Only expenditures that relate to the original provision are adjusted against it.

### 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



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.

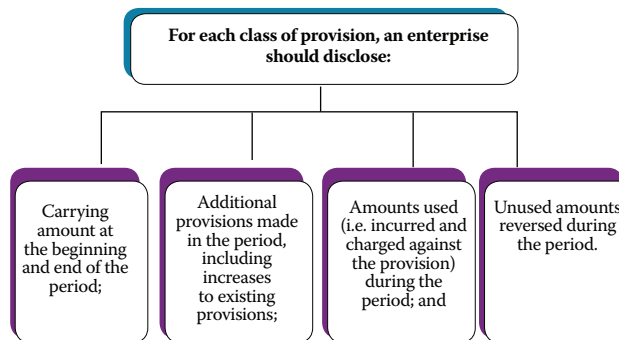
A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

- (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



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.

# सारांश

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## 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](mailto:bosnoida@icai.in)

Phone: 0120 - 3045930

[www.boslive.icai.org](http://www.boslive.icai.org)

[www.icai.org](http://www.icai.org)

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