

# **Accounting Standards: Quick Referencer**

(as on April 01, 2019)



**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)  
**New Delhi**

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**(As on April 1, 2019)**



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**DISCLAIMER:**

While utmost care has been taken in bringing out this publication, this is not an alternative to the full text of the Accounting Standards. It is pertinent to note that the full text of Accounting Standards should be referred for comprehensive knowledge on the subject. Also, occasionally, there may be limited as well as complete revisions to the existing Accounting Standards. Hence, the summary given in this publication may have to be updated in the light of subsequent developments. This publication has been prepared for ease of reference by various stakeholders and not a substitute to the authoritative pronouncements of the ICAI or its committees. Also, every effort is made to avoid errors or omissions in this publication, errors or mistakes, if any, are unintentional. In case of any divergence between the material of this publication and the relevant authoritative pronouncements, the later should be considered as the authoritative version.

First Edition	:	July 2019
Committee/Department	:	Accounting Standards Board
E-mail	:	asb@icai.in
Website	:	www.icai.org
Price	:	₹ 75/-
ISBN No	:	978-81-8441-961-0
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.

## Foreword

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Small and Medium enterprises (SMEs) represent over 90% of total enterprises in many countries worldwide and contribute significantly to the respective national economies through investments, employment generation, etc. Similarly, SMEs in India also have always been the backbone of the Indian economy. In view of their significance in the economy, qualitative financial reporting by such entities is called for, which can be achieved by complying with the Accounting Standards and other regulatory requirements.

Accounting Standards lay down sound principles for recognition, measurement, presentation and disclosures of information in the financial statements, which substantially improve the quality of financial statements. In this regard, role of Small and Medium Practitioners (SMPs) also assumes importance with respect to such entities and providing advisory services in the domain of financial reporting and financial management.

In order to provide a quick guide of the key provisions of the Accounting Standards, an initiative has been taken up by the Accounting Standards Board of ICAI to publish a booklet titled '*Accounting Standards: Quick Referencer*'. This publication will serve as a ready referencer of Accounting Standards to the preparers, auditors of financial statements and other stakeholders. Publication captures summary of Accounting Standards issued by the ICAI as well as Companies (Accounting Standards) Rules, 2006 notified by the Ministry of Corporate Affairs, Government of India.

I congratulate and place on record my deep appreciation of CA. M.P. Vijay Kumar, Chairman, Accounting Standards Board, CA. Sanjeev Kumar Singhal, Vice-Chairman, Accounting Standards Board, and all members of the Board for bringing out this publication.

I am confident that this publication would be extremely helpful to the Small and Medium Entities and Practitioners in discharging their role of accountants and finance managers.

New Delhi  
Date: June 27, 2019

**CA. Prafulla P. Chhajed**  
*President, ICAI*



## Preface

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Accounting Standards have a significant role to play in establishment of sound financial reporting system in the country. Implementation of the Accounting Standards in letter and spirit is an inherent requisite for establishment of sound financial reporting system in the country.

For this purpose, the Institute of Chartered Accountants of India has been issuing, from time to time, various Accounting Standards, Announcements, Guidance Notes and other literature on accounting. Accounting Standards issued by the ICAI are applicable to non-corporate entities including Small and Medium sized Enterprises. The ICAI recommends Accounting Standards to be notified by the Ministry of Corporate Affairs vide Companies (Accounting Standards) Rules, 2006 and related amendments are applicable to companies including Small and Medium sized Companies to whom Indian Accounting Standards (Ind AS) are not applicable.

In this regard, to facilitate ease of reference and to provide a bird's eye view of the Accounting Standards more particularly to Small and Medium Entities and Practitioners, a publication 'Accounting Standards: Quick Referencer' has been developed. This publication summarizes the Accounting Standards in a lucid language to address the need of a concise book for Small and Medium entities', practitioners' and other stakeholders to be used as ready referencer. The publication includes tables, charts, etc. to generate and sustain the readers' interests in Accounting Standards.

I would like to convey my sincere gratitude to our Honourable President, CA. Prafulla P. Chhajed, who had given this thought of developing a simple guide for various stakeholders to get a quick understanding of the Accounting Standards. This book was possible only because of his continuous motivation to make a book in as simple a language as possible so that every stakeholder will get an appreciation of the Accounting Standards. I am very thankful to the Vice-President, CA. Atul Gupta, for providing us the discretion of bringing out this publication as an useful tool of Accounting Standards for all accounting professionals including students. I place my sincere thanks to the Vice Chairman, CA. Sanjeev Singhal who has been a big source of support and guide in all the activities of the Board and has been championing the cause of setting standards for Small Medium Enterprises which are simple, easy to read and understand and thereby enhance compliance. My thanks are due to the members of the Board for their valuable contribution in finalizing the publication.

I sincerely appreciate the contributions made by CA. Vidhyadhar Kulkarni, Secretary, Accounting Standards Board, CA. Parminder Kaur, Deputy Secretary and CA. Savita Gupta, Consultant in preparing the draft of this publication.

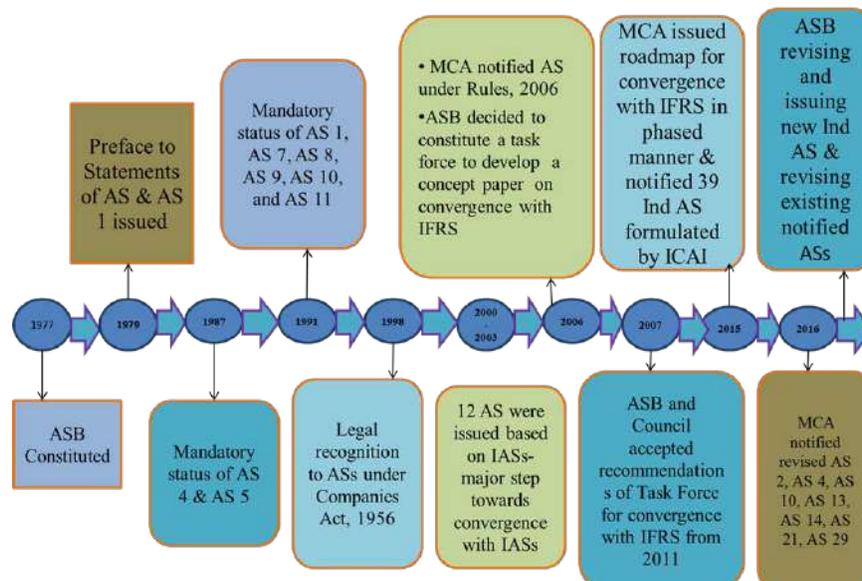
New Delhi  
Date: June 25, 2019

**CA. M.P. Vijay Kumar**  
Chairman  
Accounting Standards Board

## About the Accounting Standards Board

The Institute of Chartered Accountants of India (ICAI) being the premier accounting body in the country had set up the Accounting Standards Board (ASB) on 21st April, 1977, with key objective of formulating Accounting Standards to harmonise varied accounting policies. ICAI being the associate member of the International Accounting Standards Committee and full-fledged member of the International Federation of Accountants decided to consider the International Accounting Standards while formulating Accounting Standards and try to integrate them to the extent possible in the light of the local laws and regulations. Apart from playing sheet anchor role in standard-setting in the country, the ASB plays an active role in international standard-setting by participating in various international accounting forums.

### ASB Important Milestones



The Accounting Standards which at present are applicable to the entities not following Ind AS, are nearly more than 20 years old. Though these are well established in the country, in order to ensure that the Accounting Standards capture the contemporary business reporting needs and are in line with the economic developments of the country, the same need to be reviewed and upgraded from time to time. Further, our country's economy has grown over the period of time and there are aspirations to become 5 trillion US\$ economy in a

### **Accounting Standards : Quick Referencer**

few years. It is well recognised fact that Small and Medium Entities (SMEs) have got a significant role to play in the economic growth and development of the country, which calls for sound financial reporting by such entities. Therefore, to meet the growing financial reporting needs of the SMEs, these existing Accounting Standards are being upgraded considering the developments in financial reporting arena internationally. While doing so, considering these Accounting Standards would be applicable to SMEs, there would be lesser use of fair values and time value of money and optimal disclosures would be required.

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# AS 1, Disclosure of Accounting Policies

This Standard deals with the disclosure of significant accounting policies which are followed in preparing and presenting financial statements.

## Disclosure of Accounting Policies

To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. Such disclosure should form part of the financial statements.

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



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

<b>Consideration in Selection of Accounting Policies</b>	Primary Consideration-Financial statements should represent true and fair view
	Major considerations in achieving the primary consideration- Prudence, Substance over form, Materiality

<b>Fundamental Accounting Assumptions</b> - Disclose if not followed	Going Concern
	Consistency
	Accrual

## Change in an Accounting Policy

- ✚ Disclose change which has material effect in the current period or is reasonably expected to have material impact in later periods.
- ✚ In case of change which has material effect in the current period, disclose, to the extent ascertainable, the amount by which any item in the financial statements is affected by such change.
- ✚ If not ascertainable, wholly or in part, indicate the fact.

## AS 2, Valuation of Inventories

This Standard deals with the determination of value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realisable value.

<b>Excluded inventories (not dealt with by AS 2)</b>	work in progress arising under construction contracts
	work in progress arising in the ordinary course of business of service providers
	shares, debentures and other financial instruments held as stock-in-trade
	producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well-established practices in those industries

### Inventories are assets:

- ✚ held for sale in the ordinary course of business;
- ✚ in the process of production for such sale; or
- ✚ in the form of materials or supplies to be consumed in the production process or in the rendering of services.



Do not include spare parts, servicing equipment and standby equipment which meet the definition of PPE as per AS 10.

### Measurement- lower of cost and net realisable value

<b>Net realisable value</b>	<ul style="list-style-type: none"> <li>✚ Estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale</li> <li>✚ Assessment to be made at each balance sheet date</li> </ul>
<b>Cost of Inventories</b>	Cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location.

## AS 2, Valuation of Inventories

<p><u>Costs of purchase</u></p> <ul style="list-style-type: none"><li>✚ Purchase price excluding trade discounts, rebates, etc.</li><li>✚ Duties and taxes other than refundable duties and taxes</li><li>✚ Freight inwards</li><li>✚ Other expenditure directly attributable to the acquisition</li></ul> <p><u>Costs of conversion</u></p> <ul style="list-style-type: none"><li>✚ Allocation of fixed production overheads based on normal capacity</li><li>✚ Variable production overheads assigned to each unit of production on the basis of the actual use of production facilities</li></ul> <p><u>Exclusions</u></p> <ul style="list-style-type: none"><li>✚ Abnormal wastage</li><li>✚ Storage costs unless necessary in the production process prior to a further production stage</li><li>✚ Selling and Distribution costs</li><li>✚ Administrative overheads that do not contribute to bringing the inventories to their present location and condition</li><li>✚ Unallocated overheads</li></ul>
--

*Exception- Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.*

### Cost Formulas:

- ✚ The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs.
- ✚ For other inventories, cost can be assigned by using the first-in, first-out (FIFO), or weighted average cost formula, whichever reflects the fairest possible approximation to the cost incurred in bringing the inventories to their present location and condition.

## AS 3, Cash Flow Statements

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**For Companies** - As per the Companies Act, 2013, Cash Flow Statement is required to be prepared by every company except a one person, small and dormant company.

**For non-companies** - AS 3 is not mandatory for entities falling in Level II and Level III.

The Standard deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a Cash Flow Statement which classifies cash flows during the period from operating, investing and financing activities.

**Cash comprises cash on hand and demand deposits with banks.**

**Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.**



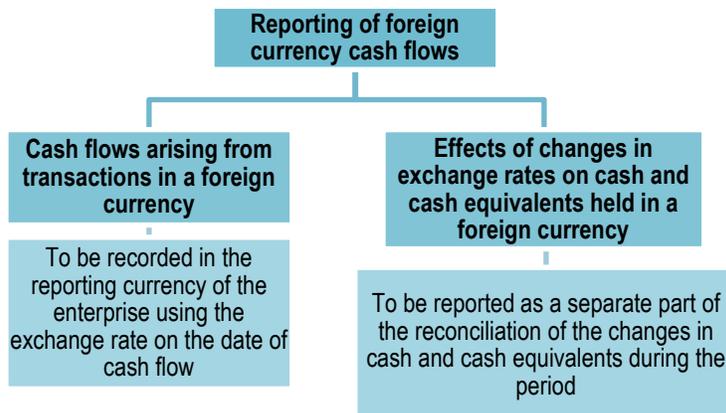
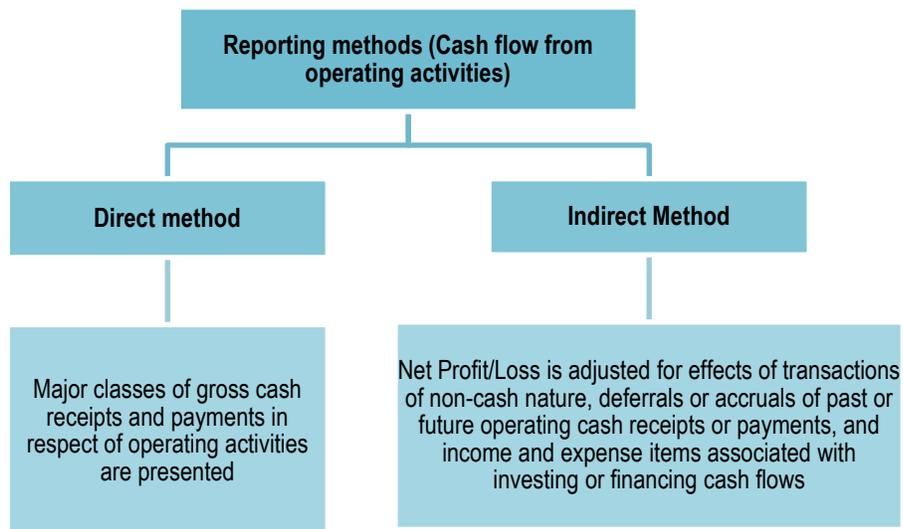
An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, 3 months or less from the date of acquisition.

### **Presentation of a Cash Flow Statement:**

The Cash Flow Statement should report cash flows during the period classified by operating, investing and financing activities.

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

## AS 3, Cash Flow Statements



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### Classification of Interests and Dividends

<b>Non-Financial Enterprises</b>			
<b>Interest paid</b>	<b>Interest received</b>	<b>Dividend Paid</b>	<b>Dividend received</b>
Financing Activities	Investing Activities	Financing Activities	Investing Activities
<b>Financial Enterprises</b>			
<b>Interest paid</b>	<b>Interest received</b>	<b>Dividend Paid</b>	<b>Dividend received</b>
Operating Activities	Operating Activities	Financing Activities	Operating Activities

**Taxes on Income**-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.

**Non-cash Transactions**-Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a Cash Flow Statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

**Components of Cash and Cash Equivalents**-An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the balance sheet.

## AS 4, Contingencies and Events Occurring After the Balance Sheet Date

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This Standard deals with the treatment of contingencies and events occurring after the balance sheet date.

**A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence or non-occurrence, of one or more uncertain future events.**

**Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company and, by the corresponding approving authority in the case of any other entity.**

**Two types of events can be identified:**

- ✚ Adjusting events: those which provide further evidence of conditions that existed at the balance sheet date; and**
- ✚ Non-adjusting events: those which are indicative of conditions that arose subsequent to the balance sheet date.**

### Accounting Treatment

#### Contingencies

- ✚** Contingent gains should not be recognised in the financial statements.
- ✚** Contingent loss should be provided for by a charge in the Statement of Profit and Loss if:
  - a) it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and
  - b) a reasonable estimate of the amount of the resulting loss can be made.

If either of the above conditions is not met, the existence of a contingent loss should be disclosed in the financial statements, unless the possibility of the loss is remote.

- ✚** Requirements relating to contingencies are applicable only to the extent not covered by other Accounting Standards. For example, impairment of

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financial assets such as, impairment of receivables (commonly known as provisions for bad and doubtful debts) is governed by this Standard.

### **Events occurring after the Balance Sheet Date**

#### Adjusting Events

- ✚ Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

#### Non-Adjusting Events

- ✚ Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

#### Proposed Dividend

- ✚ If dividend is declared after the balance sheet date, such dividends will not be recognised as a liability at the balance sheet date unless a Statute requires otherwise. Such dividends should be disclosed in the notes.

## AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

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This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the Statement of Profit and Loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

**Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.**

**Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.**

**Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.**

### Net Profit or Loss for the period

- ✚ All items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period unless an Accounting Standard requires or permits otherwise.
- ✚ 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:
  - a) profit or loss from ordinary activities; and
  - b) extraordinary items.

### Extraordinary items

Extraordinary items should be disclosed in the Statement of Profit and Loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the Statement of Profit and Loss in a manner that its impact on current profit or loss can be perceived. Example, attachment of property of the enterprise, or an earthquake.

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### Profit or loss from ordinary activities

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

### Prior period items

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

### Changes in Accounting Policy

- ✚ A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an Accounting Standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.
- ✚ Refer AS 1 for disclosures with respect to changes in accounting policies.

### Changes in Accounting Estimates

- ✚ Use of estimates is essential for preparation of financial statements. Estimates may have to be revised if changes occur regarding the circumstances on which the estimates were made or as a result of new information, more experience or subsequent developments.
- ✚ The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:
  - a) the period of the change, if the change affects the period only; or
  - b) the period of the change and future periods, if the change affects both.
- ✚ The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.



Whenever it is difficult to distinguish between change in an accounting policy and change in an accounting estimate, the change is treated as change in an accounting estimate.

## AS 7, Construction Contracts

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This Standard prescribes the accounting for construction contracts in the financial statements of contractors.

**A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.**

### Contract revenue

Contract revenue should comprise:

- a) the initial amount of revenue agreed in the contract; and
- b) variations in contract work, claims and incentive payments:
  - i. to the extent that it is probable that they will result in revenue; and
  - ii. they are capable of being reliably measured.

### Contract costs

Contract costs should comprise:

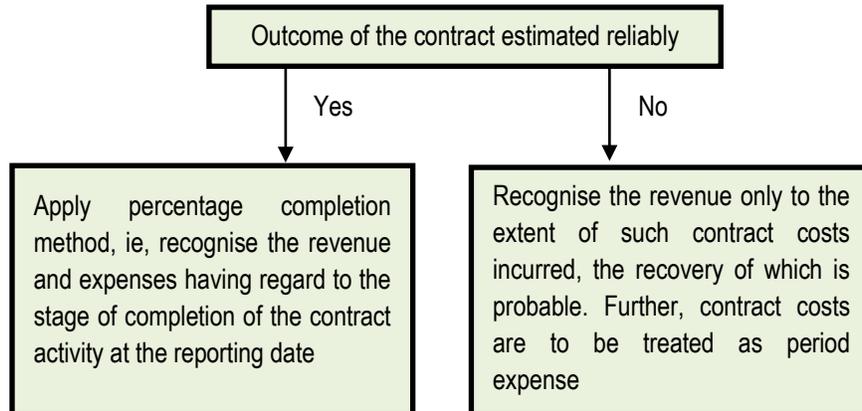
- a) costs that relate directly to the specific contract, e.g., site labour costs, cost of materials used in construction, etc.;
- b) costs that are attributable to contract activity in general and can be allocated to the contract, e.g., insurance, construction overheads, borrowing costs as per AS 16, *Borrowing Costs*, etc.; and
- c) such other costs as are specifically chargeable to the customer under the terms of the contract, e.g., general administration costs and development costs for which reimbursement is specified in the terms of contract.

-  *Exclusions*-Costs of a construction contract exclude costs that cannot be attributed to contract activity or cannot be allocated to a contract, e.g.,
- (i) general administration costs for which reimbursement is not specified in the contract;
  - (ii) selling costs;
  - (iii) depreciation of idle plant and equipment that is not used on a particular contract;

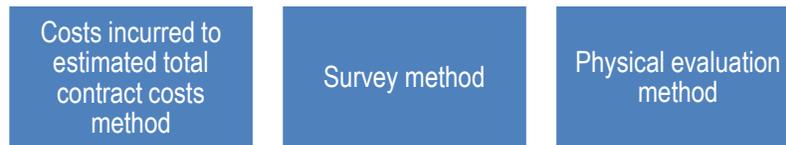
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- (iv) research and development costs for which reimbursement is not specified in the contract.

### Recognition of Contract Revenue and Expenses



### Determination of stage of completion- Examples of methods (depends on nature of the contract)



### Treatment of contract costs relating to future activity

Recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work-in-progress. Example: uninstalled material, etc.

### Treatment of expected loss on the contract

When it is probable that total contract costs will exceed total contract revenue, the expected loss on the contract should be immediately recognised as an expense.

### Uncertainty regarding collectability of an amount

When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the Statement of Profit and Loss, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment to the amount of contract revenue.

## AS 9, Revenue Recognition

This Standard deals with the bases for recognition of revenue in the Statement of Profit and Loss of an enterprise. The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from:

- a) Sale of goods
- b) Rendering of services
- c) Interest, royalties and dividends

**Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.**

### Measurement

- ✚ Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them.
- ✚ In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

### Recognition criteria

S.no.	Revenue arising from	Recognition criteria
1.	<b>Sale of goods</b>	<ol style="list-style-type: none"> <li>a) Property in goods or significant risks and rewards of ownership have been transferred</li> <li>b) No effective control is retained in the goods transferred by the seller to a degree usually associated with ownership</li> <li>c) No significant uncertainty exists regarding the amount of the consideration</li> </ol>  At the time of performance it should not be unreasonable to expect ultimate collection.
2.	<b>Rendering of services</b>	<ol style="list-style-type: none"> <li>a) Performance should be measured either under the completed service contract method or under the</li> </ol>

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		<p>proportionate completion method, whichever relates the revenue to the work accomplished.</p> <p>b) No significant uncertainty exists regarding the amount of the consideration</p>  <p>At the time of performance it should not be unreasonable to expect ultimate collection.</p>
3.	<p><b>Revenue arising from the use by others of enterprise resources yielding:</b></p> <ul style="list-style-type: none"> <li>• Interest</li> <li>• Royalty</li> <li>• Dividend</li> </ul>	<p>Recognise revenue when no significant uncertainty as to measurability or collectability exists. Revenue should be recognised on the following basis:</p> <p>Time proportionate basis                      Accrual basis (consider terms of agreement)                      When right to receive dividend is established</p>

**Completed service contract method** is a method of accounting which recognises revenue in the Statement of Profit and Loss only when the rendering of services under a contract is completed or substantially completed.

**Proportionate completion method** is a method of accounting which recognises revenue in the Statement of Profit and Loss proportionately with the degree of completion of services under a contract.

### Uncertainties w.r.t collection

Uncertainty	Effect
<b>At the time of raising claim</b>	<ul style="list-style-type: none"> <li>✚ Postpone revenue recognition to the extent of uncertainty</li> <li>✚ Recognise revenue when ultimate collection is reasonably certain</li> </ul>
<b>Subsequent to sale of goods/rendering of services</b>	<ul style="list-style-type: none"> <li>✚ Revenue already recognised should not be adjusted</li> <li>✚ Make separate provision to reflect uncertainty</li> </ul>

## AS 10, Property, Plant and Equipment

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment (PPE).

### PPE are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than a period of twelve months.

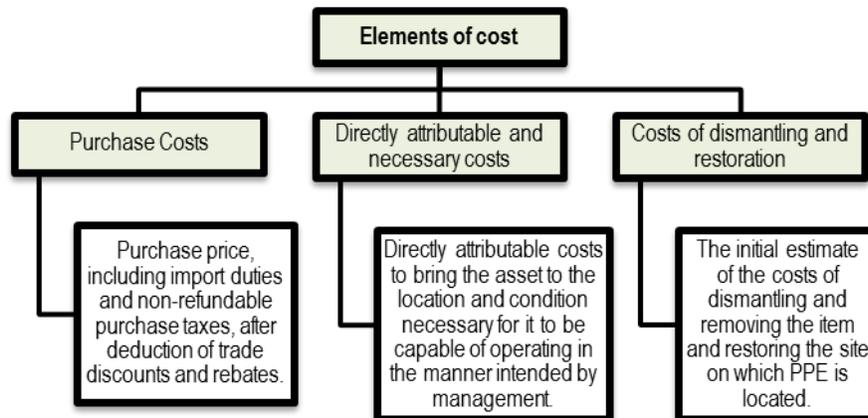
### Recognition

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

- (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and
- (b) the cost of the item can be measured reliably.

### Measurement at recognition

At the time of recognition, an item of PPE that qualifies for recognition as an asset should be measured at its cost.



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

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### **Examples of Directly Attributable Costs:**

- Costs of employee benefits arising directly from the construction or acquisition of the item of PPE
- Costs of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees
- Costs of testing whether the asset is functioning properly , after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)

### **Exclusions:**

- Administration and other general overhead costs
- Costs of opening a new facility or business, such as, inauguration costs
- Costs of introducing a new product or service (including costs of advertising and promotional activities)
- Costs of conducting business in a new location or with a new class of customer (including costs of staff training)

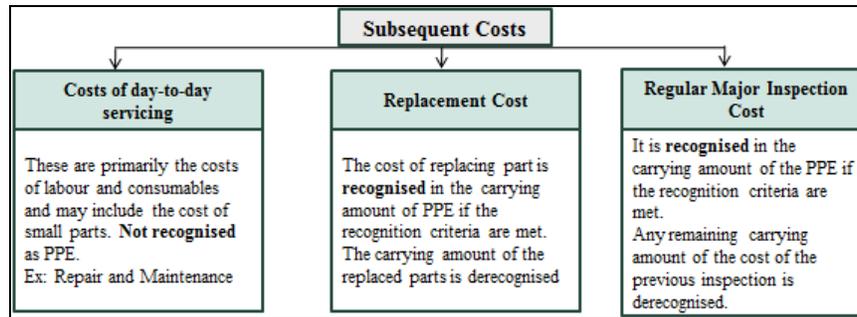
### **PPE acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets**

The cost of such an item of PPE is measured at fair value unless:

- (a) the exchange transaction lacks commercial substance; or
- (b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up. 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.

## AS 10, Property, Plant and Equipment

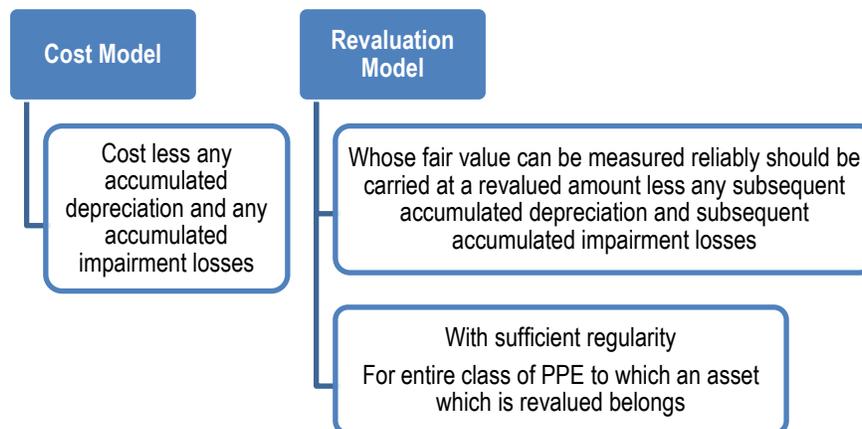


### Deferred Payment Plan

If an item of PPE is acquired under deferred payment plan, the difference of cash price equivalent and total payment is recognised as interest over the period of credit unless such interest is capitalised as per AS 16, *Borrowing Costs*.

### Measurement after recognition

An enterprise should choose either the cost model or the revaluation model as its accounting policy and apply that policy to an entire class of PPE.



### Accounting for Revaluations

- ✚ Increase in an asset's carrying amount as a result of a revaluation is credited directly to owners' interests under the heading of revaluation surplus. However, the increase should be recognised in the Statement of Profit and Loss to the extent it reverses a revaluation decrease of the same asset previously recognised in the Statement of Profit and Loss.
- ✚ Decrease in an asset's carrying amount as a result of a revaluation is

## Accounting Standards : Quick Referencer

recognised in the Statement of Profit and Loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

### 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.
- ✚ The depreciable amount should be allocated on a systematic basis over its useful life.
- ✚ 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.
- ✚ Residual value & useful life to be reviewed at each balance sheet date. Any change is accounted for as change in an accounting estimate as per AS 5.
- ✚ Depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the enterprise.
- ✚ Depreciation method to be reviewed at least at each financial year end. Any change is accounted for as change in an accounting estimate as per AS 5.
- ✚ Depreciation methods include SLM, WDV & Units of Production method.

### Retirements

Items of PPE retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down should be recognised immediately in the Statement of Profit and Loss.

### Derecognition

- ✚ The carrying amount of an item of PPE should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.
- ✚ Gain/loss on derecognition should be recognised in Statement of Profit and Loss (unless AS 19 requires otherwise in a sale and leaseback) and should not be classified as revenue.
- ✚ Gain/loss on derecognition is the difference between net disposal proceeds, if any, and the carrying amount of the derecognised item of PPE.

## AS 11, The Effects of Changes in Foreign Exchange Rates

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Activities involving foreign exchange

Accounting for transactions in foreign currencies

Translating the financial statements of foreign operations

Forward exchange contracts

AS 11 lays down principles of accounting for foreign currency transactions and foreign operations, i.e., which exchange rate to use and how to recognise in the financial statements the financial effect of changes in exchange rates.

**Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.**

**Foreign currency is a currency other than the reporting currency of an enterprise.**

**Foreign operation 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.**

**Forward exchange contract means an agreement to exchange different currencies at a forward rate.**

**Reporting currency is the currency used in presenting the financial statements.**

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

**Non-monetary items are assets and liabilities other than monetary items.**

### Foreign currency transactions

A foreign currency transaction should be recorded, on initial recognition in the

## Accounting Standards : Quick Referencer

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.



For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period.



If exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

At each balance sheet date, various items are to be stated using the following rates:

Item	Exchange Rate
Foreign currency monetary items	Closing rate with an exception where the closing rate may not reflect the amount likely to be realised or disbursed
Non-monetary items which are carried in terms of historical cost denominated in a foreign currency	Exchange rate prevailing on the date of transaction
Non-monetary items which are carried at fair value or other similar valuation, eg, net realisable value denominated in a foreign currency	Exchange rates prevailing at the time values were determined

### Recognition of exchange differences

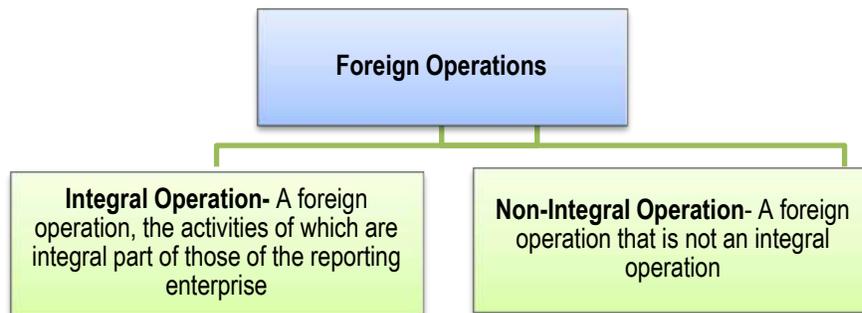
Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period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

*Exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation should be accumulated in a foreign currency translation reserve in the enterprise's financial*

## AS 11, The Effects of Changes in Foreign Exchange Rates

*statements until the disposal of the net investment, at which time they should be recognised as income or as expenses.*

### Foreign Operations



#### Translation of Integral Operations

Item	Translation
Individual items	Translated as if all the integral foreign operation's transactions had been entered into by the reporting enterprise itself
Cost and depreciation of tangible fixed assets or, if the asset is carried at fair value	Rate at the date of purchase of asset  Rate that existed on the date of valuation
Costs of inventories	Rate existing on the date when the cost was incurred
Recoverable amount or realisable value of an asset	Rate existing on the date when the recoverable amount or net realisable value was determined

#### Translation of Non-Integral Operations

Item	Translation
Assets and Liabilities (both monetary and non-monetary)	Closing Rate
Income and expense items	Rate at the date of transactions. For practical reasons, a rate that approximates the actual rate (e.g., an average rate for a period) is often used

## Accounting Standards : Quick Referencer

Item	Translation
Contingent liability disclosed in the financial statements	Closing Rate
Goodwill/capital reserve arising on acquisition	Closing Rate

### Recognition of exchange differences

- ✚ Integral Operations- Same as prescribed for foreign currency transactions
- ✚ Non-integral operations- Accumulated in a foreign currency translation reserve until the disposal of the net investment

#### Relaxation given vide paragraph 46A

Option given to account for exchange differences arising on reporting of long-term foreign currency monetary items:

- Relating to the acquisition of a depreciable capital asset- Added to or deducted from the cost of the asset and depreciated over the balance life of the asset
- Other cases- Accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortised over the balance period of such long-term asset/liability.

### **Forward Exchange Contracts**

- ✚ AS 11 is not applicable to exchange difference arising on forward exchange contracts entered into to hedge the foreign currency risk of future transactions in respect of which firm commitments are made or which are highly probable forecast transactions.

#### Contract not intended for trading or speculation purposes

- ✚ The premium or discount arising at the inception of such a forward exchange contract should be amortised as expense or income over the life of the contract.
- ✚ Exchange differences on such a forward exchange contract should be recognised in the Statement of Profit and Loss in the reporting period in which the exchange rates change.

### **AS 11, The Effects of Changes in Foreign Exchange Rates**

- ✦ Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or expense for the period.

#### Other Contracts

- ✦ A gain or loss should be computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure gain or loss on that contract for an earlier period).
- ✦ The gain or loss so computed should be recognised in the Statement of Profit and Loss for the period.
- ✦ The premium or discount on the forward exchange contract is not recognised separately.

## AS 12, Accounting for Government Grants

This Standard deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.

**Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions.**



Exclusions:

- ✚ Forms of government assistance which cannot reasonably have a value placed upon them
- ✚ Transactions with government which cannot be distinguished from the normal trading transactions of the enterprise

### Recognition

Government grants should not be recognised until there is reasonable assurance that:

- (i) the enterprise will comply with the conditions attached to them, and
- (ii) the grants will be received.

### Government grant types and their accounting treatment

S. No.	Nature of Grant	Treatment for receipt	Treatment if grant becomes refundable
1	<b>Non-monetary assets given free of cost</b>	Recorded at a nominal value.	Not applicable
2	<b>Monetary Grants</b>		
	Grants given for depreciable fixed assets	<b>Option 1:</b> Grant to be deducted from gross value of asset and depreciation to be provided on net value (Where the grant equals the whole or virtually the	Book value of asset to be increased by the amount refundable to Government and depreciation to be

**AS 12, Accounting for Government Grants**

		whole of the cost of the asset, show the asset at the nominal value).	provided on revised book value prospectively over the remaining useful life.
		<b>Option 2:</b> Treated as deferred income which is recognised in the Statement of Profit and Loss on a systematic and rational basis over the useful life of the asset.	Amount refundable to be reduced from unamortised deferred income balance. Excess amount to be charged to the Statement of Profit and Loss.
	Grants given for non-depreciable assets	<b>When the grant does not require fulfillment of certain obligations:</b> Credited to capital reserve.	Amount refundable to be reduced from Capital Reserve.
		<b>When the grant requires fulfillment of certain obligations:</b> Credited to income over the same period over which cost of meeting such obligation is charged to income.	Amount refundable to be reduced from unamortised deferred income balance. Excess amount to be charged to the Statement of Profit and Loss.
3	<b>Grants related to revenue</b>	Recognised on a systematic basis in the Statement of Profit and Loss over the periods necessary to match the grants with related costs they are intended to compensate.	Unamortised deferred credit of grant to be first utilised. Excess amount to be charged to the Statement of Profit and Loss.

**Accounting Standards : Quick Referencer**

		<p>Presentation:</p> <p><b>Option 1:</b> Shown separately under "other income".</p>	
		<p><b>Option 2:</b> Deducted in reporting related expenses.</p>	
4	<p><b>Grants of the nature of promoters' contribution</b> (They are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants.)</p>	<p>Credited to capital reserve.</p>	<p>Amount refundable to be reduced from Capital Reserve.</p>
5	<p><b>Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item if appropriate as per AS 5.</b></p>		

## AS 13, Accounting for Investments

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

<b>Scope Exclusions</b>	Recognition of interest, dividends and rentals earned on investments covered by AS 9
	Operating or finance leases
	Investment of retirement benefit plans and life insurance enterprises
	Mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013



Shares, debentures and other securities held as stock-in-trade (i.e., for sale in the ordinary course of business) are not 'investments' as defined in this Standard. However, the manner in which they are accounted for and disclosed in the financial statements is quite similar to that applicable in respect of current investments. Accordingly, the provisions of this Standard, to the extent that they relate to current investments, are also applicable to shares, debentures and other securities held as stock-in-trade, with suitable modifications as specified in this Standard.

**Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'.**

**Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller. Under appropriate circumstances, market value or net realisable value provides an evidence of fair value.**

## Accounting Standards : Quick Referencer

### Types

**Current Investment-** Readily realisable and is intended to be held for not more than one year from the date on which such investment is made

**Long term Investment-** Other than a current investment

<ul style="list-style-type: none"> <li>✚ Carrying Value- Lower of cost and fair value*.</li> <li>✚ Reduction to fair value or any reversals of such reductions are included in Statement of Profit and Loss</li> </ul>	<ul style="list-style-type: none"> <li>✚ Carried at cost</li> <li>✚ In case of decline, other than temporary, carrying amount is reduced to recognise the decline- Resultant reduction and any reversal thereof are included in the Statement of Profit and Loss</li> </ul>
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\*Determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis.

### Cost of an investment

Cost of an investment includes acquisition charges such as brokerage, fees and duties.

Mode of acquisition of investment	Acquisition cost
By actual cash payment	Actual cash price
By issue of shares or other securities	Fair value of the securities issued. In appropriate cases, this may be indicated by the issue price as determined by statutory authorities
In exchange for another asset	Fair value of the asset given up or fair value of the investment acquired, whichever is more clearly evident

- ✚ **Pre-acquisition dividend or interest-** Deducted from the purchase price
- ✚ **Right shares-** When right shares offered are subscribed for, the cost of the right shares is added to the carrying amount of the original holding. If

## AS 13, Accounting for Investments

rights are not subscribed for but are sold in the market, the sale proceeds are taken to the Statement of Profit and Loss.

- ✚ **Investment acquired on cum-right basis-** Where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired then, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.

### Investment property

**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.**

- ✚ Accounted for in accordance with cost model as prescribed in AS 10

### Disposal of an investment

- ✚ Difference between the carrying amount and net disposal proceeds should be charged or credited to the Statement of Profit and Loss.
- ✚ When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is determined on the basis of the average carrying amount of the total holding of that investment.

### Reclassification of investments

- ✚ Current to Long-term- Transfer at lower of cost and fair value at the date of transfer
- ✚ Long-term to current- Transfer at lower of cost and carrying amount at the date of transfer

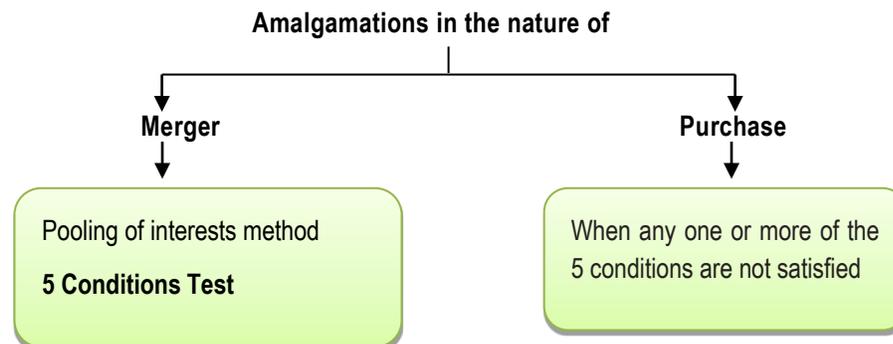
## AS 14, Accounting for Amalgamations

This Standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.

This standard does not deal with cases of acquisitions which arise when there is a purchase by one company (referred to as the acquiring company) of the whole or part of the shares, or the whole or part of the assets, of another company (referred to as the acquired company) in consideration for payment in cash or by issue of shares or other securities in the acquiring company or partly in one form and partly in the other. The distinguishing feature of an acquisition is that the acquired company is not dissolved and its separate entity continues to exist.

**Transferor company means the company which is amalgamated into another company.**

**Transferee company means the company into which a transferor company is amalgamated.**



### Test for 5 conditions- For Merger

- ✚ All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- ✚ Shareholders holding not less than 90% of face value of equity shares of the transferor company become equity shareholders of the transferee company.
- ✚ Consideration to equity shareholders of the transferor company is discharged by the transferee company wholly by the issue of equity shares, except that cash may be paid in respect of any fractional shares.
- ✚ Intention of the transferee company is to continue the business of the transferor company.

## AS 14, Accounting for Amalgamations

✚ Transferred assets and liabilities are recorded in the books of the transferee company at book values of the transferor company except to ensure uniform accounting policies.

### Methods of Accounting-Transferee company's financial statements

	<b>Pooling of Interest method</b>	<b>Purchase Method</b>
<b>Applicability</b>	Amalgamation in the nature of merger.	Amalgamation in the nature of purchase.
<b>Assets and liabilities</b>	Recorded at their existing carrying amounts (after making adjustments to ensure uniform accounting policies).	<b>Option 1:</b> Recorded at their existing carrying amounts. <b>Option 2:</b> Consideration to be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.
<b>Reserves</b>	Identity of reserves is preserved.	Only statutory reserves are recorded by debit to amalgamation adjustment account.
<b>Difference between amount of purchase consideration and value of net assets of the transferee company</b>	Not relevant. Instead, difference between the amount recorded as share capital (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferee company is adjusted in reserves of the transferee company.	Recorded as goodwill or capital reserve.
<b>Amortisation of Goodwill</b>	No goodwill will arise.	Goodwill to be amortised over a period not exceeding 5 years unless a longer period is justified.

## Accounting Standards : Quick Referencer



If a scheme of amalgamation sanctioned under a Statute prescribes a different treatment to the reserves of the transferor company after amalgamation as compared to the requirements of this Standard, the same should be followed with the following disclosures:

- (a) A description of the accounting treatment given to the reserves and the reasons for following the treatment different from that prescribed in this Standard.
- (b) Deviations in the accounting treatment given to the reserves as compared to the requirements of this Standard that would have been followed had no treatment been prescribed by the scheme.
- (c) The financial effect, if any, arising due to such deviation.

The above requirement is not applicable to any scheme of amalgamation approved under the Companies Act, 2013.

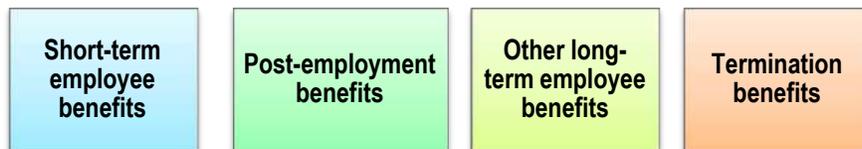
## AS 15, Employee Benefits

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The objective of this Standard is to prescribe the accounting treatment and disclosure for employee benefits in the books of employer except employee share-based payments. It does not deal with accounting and reporting by employee benefit plans.

**Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.**

Employee benefits include:



### Short-term employee benefits

**Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.**

Recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for the service rendered by the employee during an accounting period:

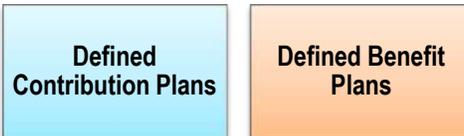
- (a) as a liability (accrued expense), after deducting any amount already paid; and
- (b) as an expense, unless another AS requires or permits the inclusion of the benefits in the cost of an asset.

### Post-employment benefits

**Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.**

**Post-employment benefit plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.**

## Accounting Standards : Quick Referencer



**Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.**

**Defined benefit plans are post-employment benefit plans other than defined contribution plans.**

### Accounting for defined contribution plans

- ✚ Enterprise's obligation is limited to the amount that it agrees to contribute to the fund.
- ✚ Actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.
- ✚ Obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.
- ✚ Enterprise should recognise the contribution payable to a defined contribution plan in exchange for the service provided by the employee:
  - ❖ as a liability (accrued expense), after deducting any contribution already paid; and
  - ❖ as an expense, unless another Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, AS 10, *Property, Plant and Equipment*).

Small and Medium-sized Company and entities falling in Level II and Level III may not discount contributions that fall due more than 12 months after the balance sheet date.

## AS 15, Employee Benefits

### Accounting for defined benefit plans

- ✚ Enterprise's obligation is to provide the agreed benefits to current and former employees.
- ✚ Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the enterprise.
- ✚ Accounting by an enterprise for defined benefit plans involves the following steps:
  - ❖ using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods.
  - ❖ discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost
  - ❖ determining the fair value of any plan assets
  - ❖ determining the total amount of actuarial gains and losses
  - ❖ where a plan has been introduced or changed, determining the resulting past service cost; and
  - ❖ where a plan has been curtailed or settled, determining the resulting gain or loss
- ✚ Actuarial gains and losses should be recognised immediately in the Statement of Profit and Loss as income or expense.

### **Other long-term employee benefits**

**Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.**

The amount recognised as a liability for other long-term employee benefits should be the net total of the following amounts:

- (a) the present value of the defined benefit obligation at the balance sheet date
- (b) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly

## Accounting Standards : Quick Referencer

For other long-term employee benefits, an enterprise should recognise the net total of the following amounts as expense or (subject to paragraph 59 of AS 15) income, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:

- (a) current service cost
- (b) interest cost
- (c) the expected return on any plan assets and on any reimbursement right recognised as an asset
- (d) actuarial gains and losses, which should all be recognised immediately
- (e) past service cost, which should all be recognised immediately
- (f) the effect of any curtailments or settlements

Small and Medium-sized Company and non-company entities falling in Level II and Level III in which average number of persons employed is 50 or more, may not follow recognition and measurement principles in respect of accounting for defined benefit plans and other long-term employee benefits. However, actuarially determined accrued liability is to be provided for. For this purpose:

- Projected Unit Credit method to be followed,
- Discount rate used should be determined by reference to market yields at the balance sheet date on government bonds & actuarial assumption to be disclosed)

In case of non-company entities falling in Level II and Level III in which average number of persons employed is less than 50, recognition and measurement principles in respect of accounting for defined benefit plans and other long-term employee benefits are not mandatory and any other rational method instead of Projected Unit Credit method may be used for calculation of accrued liability.

### Termination Benefits

**Termination benefits are employee benefits payable as a result of either:**

- a) an enterprise's decision to terminate an employee's employment before the normal retirement date; or**
- b) an employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement).**

An enterprise should recognise termination benefits as a liability and an expense when, and only when:

- (a) the enterprise has a present obligation as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Small and Medium-sized Company and non-company entities falling in Level II and Level III may not discount contributions that fall due more than 12 months after the balance sheet date.

Some disclosure exemptions are also given to SMCs and non-company entities falling in Level II and Level II.

## AS 16, Borrowing Costs

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This Standard should be applied in accounting for borrowing costs. This Standard 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.**

Inclusions:

-  Interest and commitment charges on borrowings
-  Amortisation of discounts and premiums related to borrowings
-  Amortisation of ancillary costs incurred in connection with arrangement of borrowings
-  Finance charges in respect of assets acquired under finance lease
-  Exchange differences arising from foreign currency borrowings to the extent they are regarded as adjustment to interest costs

Exchange differences on foreign currency borrowings to the extent of the difference between the interest on local currency borrowings and the interest on foreign currency borrowings are considered to be borrowing costs under this Standard.

### Accounting of Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

**A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.**



Ordinarily, a period of 12 months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

## AS 16, Borrowing Costs

<b>Computation of Amount to be capitalised in case funds are borrowed</b>	
<b>Generally</b>	<b>Specifically</b>
<ul style="list-style-type: none"> <li>✚ Capitalisation rate (weighted average of the borrowing costs outstanding during the period, other than specific borrowings) should be applied to the expenditure on qualifying assets.</li> <li>✚ <i>Amount capitalised should not exceed borrowing costs incurred during that period.</i></li> </ul>	<p>Actual Borrowing Costs less Income on temporary investment of these borrowings.</p>

<b>Commencement of Capitalisation of Borrowing costs</b>	<b>Suspension of Capitalisation of Borrowing costs</b>	<b>Cessation of Capitalisation of Borrowing costs</b>
<p><u>All</u> the following conditions to be satisfied:</p> <ul style="list-style-type: none"> <li>✚ expenditure for the acquisition, construction or production of a qualifying asset is being incurred;</li> <li>✚ borrowing costs are being incurred; and</li> <li>✚ activities that are necessary to prepare the asset for its intended use or sale are in progress.</li> </ul>	<p>During extended periods in which active development is interrupted.</p>	<ul style="list-style-type: none"> <li>✚ When substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.</li> <li>✚ When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.</li> </ul>

## AS 17, Segment Reporting

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**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.

The objective of this Standard 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.

An enterprise should comply with the requirements of this Standard fully and not selectively.

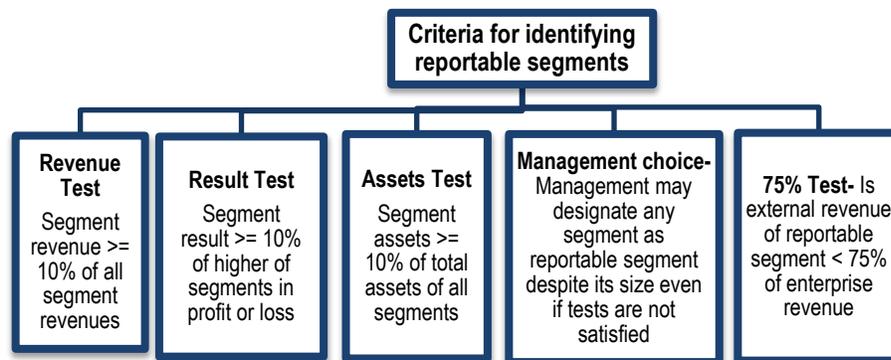
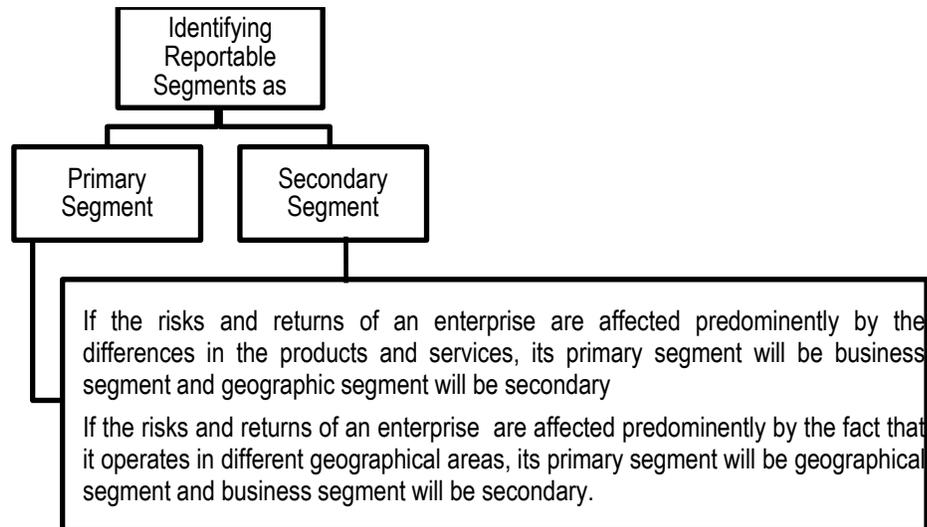
If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information needs to be presented only on the basis of the consolidated financial statements.

**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.**

**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.**

**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.**

## AS 17, Segment Reporting



- 📅 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 does not include:

### **Accounting Standards : Quick Referencer**

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

Segment Expense does not include:

- i) Extraordinary items as defined in AS 5
- ii) Income tax expense
- iii) General administrative expenses, head-office expenses and other expenses that arise at the enterprise level and related to the enterprise as a whole
- iv) Interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature
- v) Losses on sales of investments or losses on extinguishment of debt, unless the operations of the segment are primarily of a financial nature

Segment assets do not include income tax assets and segment liabilities do not include income tax liabilities.

### **Segment Accounting Policies**

- ✚ Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.
- ✚ Disclosure of additional segment information that is prepared on a different basis is permitted provided that (a) the information is reported internally to the board of directors and the chief executive officer for the purposes of making decisions about allocating resources to the segment and assessing its performance and (b) the basis of measurement for this additional information is clearly described.
- ✚ 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 are also allocated to those segments.

## AS 17, Segment Reporting

### Primary Reporting Format

- ✚ An enterprise should disclose the following for each reportable segment identified as primary segment:
  - (a) segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;
  - (b) segment result;
  - (c) total carrying amount of segment assets;
  - (d) total amount of segment liabilities;
  - (e) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);
  - (f) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and
  - (g) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.
- ✚ An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation:
  - ❖ segment revenue should be reconciled to enterprise revenue
  - ❖ segment result should be reconciled to enterprise net profit or loss
  - ❖ segment assets should be reconciled to enterprise assets
  - ❖ segment liabilities should be reconciled to enterprise liabilities

### Secondary Segment Information

- ✚ If primary format is business segment, it should also report the following information:
  - ❖ segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue;
  - ❖ the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and

## Accounting Standards : Quick Referencer

- ❖ 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.

## AS 18, Related Party Disclosures

**AS 18 is not mandatory for non-company SMEs falling in level III**

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties.

The requirements of this Standard apply to the financial statements of each reporting enterprise and also to consolidated financial statements presented by a holding company.

*Related party disclosure requirements do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator.*

### Related party relationships dealt with in AS 18:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise

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

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

(d) KMP and their relatives

(e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence.

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

**Relative in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.**

#### **Control**

(a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or

## Accounting Standards : Quick Referencer

- (b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or
- (c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.

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

Generally, if an investing party holds 20% or more of the voting power of an enterprise, it is presumed that the investing party has significant influence over that enterprise.

**Key management personnel - Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.**

### Disclosure Requirements

- ✚ 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 additionally disclose the following information:
  - ❖ Description of nature of transaction
  - ❖ Volume of transaction (amount or appropriate proportion)
  - ❖ Any other elements of related party transaction necessary for understanding of financial statements
  - ❖ Amounts written off or written back in the period in respect of debts due from or to related parties
  - ❖ Amount or appropriate proportion of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date
- ✚ Items of a similar nature may be disclosed in aggregate by the type of related party, except when separate disclosure is necessary for understanding of the effects of related party transactions.

## AS 19, Leases

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

<b>Scope Exclusions</b>	lease agreements to explore for or use 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

**A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.**

**A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.**

**An operating lease is a lease other than a finance lease.**

### Accounting Treatment in the Financial Statements of Lessees

#### Finance Leases

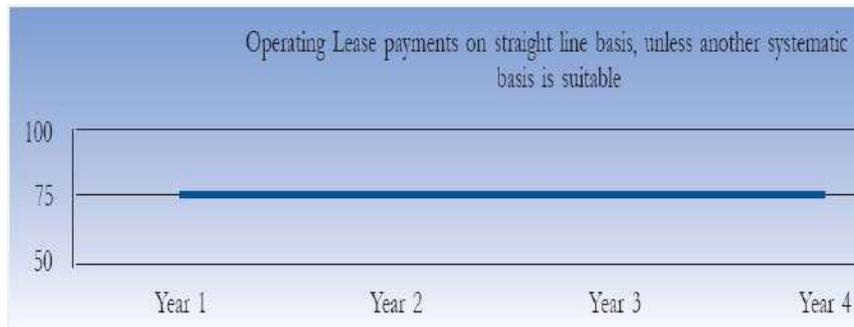
When to recognise?	What to recognise?	What next ?
<ul style="list-style-type: none"> <li>Inception of the lease</li> </ul>	<ul style="list-style-type: none"> <li>An asset and a liability at an amount equal to lower of fair value and the present value of the minimum lease payments from the standpoint of the lessee</li> </ul>	<ul style="list-style-type: none"> <li>Finance Charge - part of lease payment</li> <li>Depreciation on leased asset</li> </ul>

- ✚ For calculating present value of minimum lease payments, discount rate implicit in the lease or, if is not practicable to determine the same, the lessee's incremental borrowing rate should be used.

## Accounting Standards : Quick Referencer

- ✦ Finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
- ✦ Initial direct costs are included as part of the amount recognised as an asset under the lease.
- ✦ Depreciation policy for a leased asset should be consistent with that for depreciable assets owned.
- ✦ 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.
- ✦ To determine whether the leased asset is impaired, AS 28 should be applied.

### Operating Leases



Lease payments exclude costs for services such as insurance and maintenance.

## Accounting Treatment in the Financial Statements of Lessors

### Finance Leases

- ✦ 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.
- ✦ Finance income is allocated over the lease term in a manner that return on net investment outstanding for various periods is constant.
- ✦ Lease payments are reduced from both principal and unearned finance income.
- ✦ Initial direct costs are either recognised immediately in the Statement of Profit and Loss or allocated against the finance income over the lease term.

Operating Leases

- ✚ The lessor should present an asset given under operating lease in its balance sheet under fixed assets and recognise associated costs, including depreciation, as expense. Depreciation of leased assets should be on a basis consistent with normal depreciation policy of the lessor for similar assets. To determine whether the leased asset is impaired, AS 28, *Impairment of Assets*, should be applied.
- ✚ Lease income from operating leases (excluding receipts for services provided such as insurance and maintenance) 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.
- ✚ Initial direct cost incurred specifically to earn revenues from an operating lease are either deferred and allocated to income over the lease term in proportion to the recognition of rent income or are recognised as an expense in the Statement of Profit and Loss in the period in which they are incurred.

**Sale and Leaseback Transactions**

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor.

- ✚ Sale and leaseback transaction resulting in a finance lease

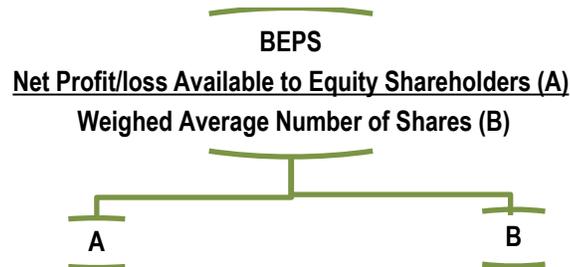
Any excess or deficiency of sales proceeds over the carrying amount should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
- ✚ Sale and leaseback transaction resulting in an operating lease
  - ❖ Sale price = Fair value: Profit or loss is recognised immediately.
  - ❖ Sale price > Fair value: Excess amount is deferred and amortised over expected period of use of the asset.
  - ❖ Sale price < Fair value: If loss is compensated by future lease payments at below market price, then it is deferred and amortised in proportion to lease payments over the expected period of use, otherwise, it should be recognised immediately.
  - ❖ 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.

## AS 20, Earnings Per Share (EPS)

AS 20 prescribes principles for the 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.

### Presentation of Basic and Diluted EPS (BEPS and DEPS)

- ✚ BEPS and DEPS to be presented 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.
- ✚ In consolidated financial statements, the information required by this Standard should be presented on the basis of consolidated information.
- ✚ BEPS and DEPS to be presented:
  - ❖ with equal prominence for all periods presented
  - ❖ even if the amounts disclosed are negative (a loss per share)



<p><u>Earnings</u></p> <ul style="list-style-type: none"> <li>✚ Profit/Loss After Tax less Preference Dividend and Tax thereon</li> <li>✚ In case of more than one class of equity shares, net profit or loss is apportioned in accordance with dividend right for each class</li> </ul> <p><u>Preference Dividend</u></p> <ul style="list-style-type: none"> <li>✚ Non-cumulative- Deduct if provided for</li> <li>✚ Cumulative- Deduct whether provided or not</li> </ul>	<ul style="list-style-type: none"> <li>✚ Number of shares outstanding at the beginning of the period adjusted for increases and decreases during the period</li> <li>✚ Weight = Number of days shares were outstanding during the period as a proportion of the total number of days in the period</li> </ul>
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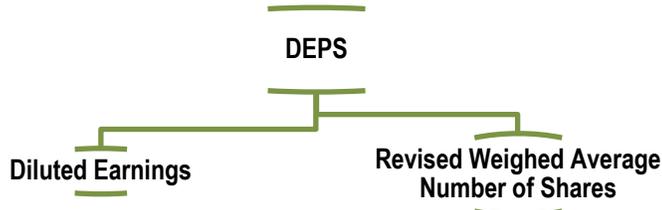
**Diluted Earnings per Share**

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.



Potential equity shares are financial instruments or other contracts that entitle or may entitle their holders to equity shares. Examples are convertible preference shares and debentures, share warrants, etc.

Potential equity shares should be treated as dilutive when, and only when, their conversion to equity shares would decrease net profit per share from continuing ordinary operations.



Profit Available to Equity Shareholders <b>plus</b> preference dividend deducted and interest recognised on dilutive potential shares adjusted for tax expense <i>plus or minus</i> after-tax amount of any change in expense or income that would result on conversion of dilutive potential equity shares	Weighted average number of shares <i>plus</i> weighted average of additional equity shares outstanding assuming conversion of all dilutive potential equity shares
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**Further considerations:**

**BEPS**

Partly paid equity shares

- ✚ Treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period

## Accounting Standards : Quick Referencer

### Bonus shares

- ✚ Affects number of shares without changing resources, hence, number of shares to be adjusted without assigning weightage to time of issue
- ✚ Adjusted EPS reported for the earliest period presented assuming the bonus issue had occurred at the beginning of the earliest period presented
- ✚ The above principles are equally applicable for share split, reverse share split, etc.
- ✚ For bonus issue, share split or reverse share split, both basic and diluted EPS for all periods presented should be based on new number of shares, even if that event takes place after the balance sheet date but before the date of approval of the financial statements by the board of directors.

### Rights issue

- ✚ Involves bonus element since rights issue is generally made at price lower than fair value
- ✚ Number of shares for the purpose of EPS calculation for all periods prior to the rights issue is number of shares outstanding prior to rights issue multiplied by the following factor:

Fair value per share immediately prior to the exercise of rights

Theoretical ex-rights fair value per share

- ✚ The above adjustment has the effect of restating EPS for all the periods prior to the rights issue for the effect of bonus element in the rights issue.
- ✚ Number of shares from the period of rights issue should be increased by the number of shares issued under the rights issue.

### Contingently issuable shares

- ✚ Equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements (contingently issuable shares) are considered outstanding, and included in the computation of basic earnings per share from the date when all necessary conditions under the contract have been satisfied.

### **DEPS**

- ✚ For calculating diluted EPS, an enterprise should assume the exercise of

## AS 20, Earnings Per Share

dilutive options and other dilutive potential equity shares. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between number of shares issuable and the number of shares that would have been issued at fair value should be treated as issue of equity shares for no consideration.

- ✚ Dilutive potential equity shares are deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of issue of such shares.
- ✚ Contingently issuable shares are considered outstanding, and included in the computation of diluted earnings per share from the date when all necessary conditions under the contract have been satisfied. If the conditions are not met, for calculating diluted EPS, they are included as of the beginning of the period (or as of the date of the contingent share agreement, if later). In this case, the number of contingently issuable shares is based on the assumption that end of the reporting period is the end of the contingency period. Restatement is not permitted, if the conditions are not met when the contingency period actually expires subsequent to the end of the reporting period.
- ✚ Potential equity shares are weighted for the period they were outstanding. Potential equity shares that were cancelled or allowed to lapse during the reporting period are included in the computation of diluted EPS only for the period during which they were outstanding. Potential equity shares that have been converted into equity shares during the reporting period are included in the calculation of diluted EPS from the beginning of the period to the date of conversion; from the date of conversion, the resulting equity shares are included in computing both basic and diluted EPS.

Disclosure of Diluted EPS (both including and excluding extraordinary items) is not mandatory for SMCs and non- company SMEs falling in Level II and Level III. Non-Company SMEs falling in Level III are exempted from additional disclosure requirements also.

## AS 21, Consolidated Financial Statements

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The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, obligations of the group and results the group achieves with its resources.

This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

**A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).**

**A parent is an enterprise that has one or more subsidiaries.**

**A group is a parent and all its subsidiaries.**

### **Control**

- (a) the ownership, directly or indirectly through subsidiary (ies), of more than one half of the voting power of an enterprise; or**
- (b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities**

**Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.**

**Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent.**

-  A parent which presents consolidated financial statements should present these statements in addition to its separate financial statements.
-  A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than the following exclusions.
-  A subsidiary should be excluded from consolidation when:
  - a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or
  - b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

## AS 21, Consolidated Financial Statements

In the consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with AS 13.

- ✚ Reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.
- ✚ Where an enterprise does not have a subsidiary but has an associate and/or a joint venture such an enterprise should also prepare consolidated financial statements in accordance with AS 23, *Accounting for Associates in Consolidated Financial Statements*, AS 27, *Financial Reporting of Interests in Joint Ventures*, respectively.
- ✚ Consolidated financial statements normally include consolidated balance sheet, consolidated Statement of Profit and Loss, and notes, other statements and explanatory material that form an integral part thereof. Consolidated Cash Flow Statement is presented in case a parent presents its own Cash Flow Statement. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.

### Consolidation Procedures

- ✚ Financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses.
- ✚ Cost of parent's investment in subsidiary and the parent's portion of equity on date of investment should be eliminated.
- ✚ Computation of goodwill/Capital Reserve  
Goodwill - Costs of parent's investment in subsidiary > Parent's portion of equity on date of investment  
Capital Reserve - Costs of parent's investment in subsidiary < Parent's portion of equity on date of investment
- ✚ Minority Interests
  - ❖ Minority interests in the net income of consolidated subsidiaries for the reporting period should be identified and adjusted against the income of the group in order to arrive at the net income attributable to the owners of the parent.
  - ❖ Minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders.
- ✚ Intragroup balances and intragroup transactions should be eliminated along with resulting unrealised profits in full. Unrealised losses resulting

## Accounting Standards : Quick Referencer

from intragroup transactions should also be eliminated unless cost cannot be recovered.

- ✚ The financial statements used in the consolidation should be drawn up to the same reporting date. If it is not practicable, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months.
- ✚ Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If not practicable, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.
- ✚ The tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

### Discontinuance of consolidation

- ✚ The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated Statement of Profit and Loss until the date of cessation of the relationship.
- ✚ The difference between the proceeds from the disposal of the investment in a subsidiary and the carrying amount of its assets and liabilities as of the date of disposal is recognised in the consolidated Statement of Profit and Loss as the profit or loss on the disposal of the investment in the subsidiary.
- ✚ An investment in an enterprise should be accounted for in accordance with AS 13 from the date that the enterprise ceases to be a subsidiary and does not become an associate. The carrying amount of the investment at the date it ceases to be a subsidiary is regarded as cost thereafter.

### Accounting for investment in subsidiaries in parent's separate financial statements

In parent's separate financial statements, investment in subsidiaries should be accounted for in accordance with AS 13.

## AS 22, Accounting for Taxes on Income

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The objective of this Standard is to prescribe accounting treatment of taxes on income.

Taxable income may be significantly different from the accounting income posing problems in matching of taxes against revenue for a period.

Reasons:

- 1) Difference between items of revenue and expenses as appearing in the Statement of Profit and Loss and the items which are considered as revenue, expenses or deductions for tax purposes.
- 2) Difference between the amount in respect of a particular item of revenue or expense as recognised in the Statement of Profit and Loss and the corresponding amount which is recognised for the computation of taxable income

### Differences between accounting income and taxable income

#### Permanent Differences

Differences that originate in one period and do not reverse subsequently

#### Timing Differences

Differences that originate in one period and are capable of reversal in one or more subsequent periods

**Accounting income (loss) is the net profit or loss for a period, as reported in the Statement of Profit and Loss, before deducting income tax expense or adding income tax saving.**

**Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.**

**Current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.**

**Deferred tax is the tax effect of timing differences.**

### Recognition

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

## Accounting Standards : Quick Referencer

- ✚ Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets (DTA).
- ✚ When there is unabsorbed depreciation or carry-forward of losses under tax laws- DTA should be recognised only to the extent there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. In other circumstances, DTA should be recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

### Measurement

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

### Review of DTA

- ✚ At each balance sheet date
- ✚ Write-down, to the extent DTA is not realisable.
- ✚ Reverse the previous write-down of DTA, to the extent realisable.

### Presentation

- ✚ An enterprise should offset assets and liabilities representing current tax if the enterprise has a legally enforceable right to set off the recognised amounts and intends to settle the asset and the liability on a net basis.
- ✚ An enterprise should offset deferred tax assets and deferred tax liabilities if the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.
- ✚ Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.

## AS 23, Accounting for Investments in Associates in Consolidated Financial Statements

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This Standard should be applied in accounting for investments in associates in the preparation and presentation of consolidated Financial Statements (CFS) by an investor.

**Associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.**

 If an investor holds, directly or indirectly, through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor has significant influence unless it can be clearly demonstrated that this is not the case.

### Accounting for Investments – Equity Method

- ✚ An investment in an associate should be accounted for in CFS under the equity method except when:
  - ❖ the investment is acquired and held exclusively with a view to its subsequent disposal in the near future; or
  - ❖ the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

Investments in such associates should be accounted for in accordance with AS 13. The reasons for not applying the equity method in accounting for investments in an associate should be disclosed in the CFS.

- ✚ Investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition.
- ✚ Carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee.
- ✚ Consolidated Statement of Profit and Loss reflects the investor's share of the results of operations of the investee.
- ✚ Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

## Accounting Standards : Quick Referencer

- ✚ Unrealised profits and losses resulting from transactions between the investor (or its consolidated subsidiaries) and the associate should be eliminated to the extent of the investor's interest in the associate.
- ✚ Unrealised losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.
- ✚ Carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.
- ✚ Where an associate presents CFS, the results and net assets to be taken into account are those reported in that associate's CFS.

### Different Reporting Dates

When reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When impracticable, financial statements drawn up to a different reporting date may be used and adjusted for the effects of any significant events or transactions between the investor (or its consolidated subsidiaries) and the associate that occur between the date of the associate's financial statements and the date of the investor's CFS.

### Uniform Accounting Policies

The investor usually prepares CFS using uniform accounting policies for the like transactions and events in similar circumstances. In case an associate uses different accounting policies other than those adopted for the CFS for like transactions and events in similar circumstances, appropriate adjustments are made to the associate's financial statements when they are used by the investor in applying the equity method. If not practicable, that fact is disclosed along with a brief description of the differences between the accounting policies.

### Cessation of Equity Method

An investor should discontinue the use of the equity method from the date that:

- ✚ it ceases to have significant influence in an associate but retains, either in whole or in part, its investment; or
- ✚ the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.

From such date, investments in such associates are accounted for as per AS 13.

## AS 24, Discontinuing Operations

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AS 24 is not mandatory for non-company entities falling in Level III.

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.

AS 24 applies to all discontinuing operations of an enterprise.

**A discontinuing operation is a component of an enterprise:**

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

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

- a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- b) the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

## Accounting Standards : Quick Referencer

**Recognition and Measurement:** An enterprise should apply the principles of recognition and measurement set out in other Accounting Standards for recognising and measuring the changes in assets and liabilities and the revenue, expenses, gains, losses and cash flows relating to a discontinuing operation.

**Separate Disclosure for each discontinuing operation:** Any disclosures required by this Standard should be presented separately for each discontinuing operation.

**Presentation and Disclosure:** Following information relating to a discontinuing operation is to be disclosed in the financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

- a) a description of the discontinuing operation(s);
- b) the business or geographical segment(s) in which it is reported as per AS 17;
- c) the date and nature of the initial disclosure event;
- d) the date or period in which the discontinuance is expected to be completed, if known or determinable;
- e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;
- f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
- g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period and the related income tax expense; and
- h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

**Other Disclosures:** When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements in this regard, it should disclose the following information when the events occur:

- a) for any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation, (i) the amount of the pre-tax gain or loss and (ii) income tax expense relating to the gain or loss; and

## AS 24, Discontinuing Operations

- b) the net selling price or range of prices (after deducting expected disposal costs) of those net assets for which the enterprise has entered into binding sale agreement(s), the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

**Updating the Disclosures:** An enterprise should include, in its financial statements, for periods subsequent to the one in which the initial disclosure event occurs, a description of any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled and events causing those changes.



Disclosures should continue in financial statements for periods upto and including the period in which the discontinuance is completed.

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

A discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received.

### Place of Disclosures

The following disclosures should be presented on the face of the Statement of Profit and Loss:

- ✚ the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation, and the related income tax expense; and
- ✚ the amount of the pre-tax gain or loss on the disposal of assets or settlement of liabilities attributable to the discontinuing operation.

All other disclosures required by the Standard should be presented in the notes to the financial statements.

### 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.

## AS 25, Interim Financial Reporting

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This Standard applies if an entity is required or elects to publish an interim financial report.

The objective of AS 25 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.

**Interim financial report means a financial report containing either a complete set of financial statements for an interim period or a set of condensed financial statements (as described in this Standard) for an interim period.**

### Contents of complete or condensed set of interim financial statements

- (a) Balance Sheet;
- (b) Statement of Profit and Loss;
- (c) Cash Flow Statement; and
- (d) Notes including those relating to accounting policies and other statements and explanatory material that are an integral part of the financial statements. In condensed financial reports only selected notes need to be presented.



Form and content of complete set of interim financial statements should conform to the requirements applicable to annual complete set of financial statements.

<b>Minimum Requirements of a set of condensed interim financial statements</b>	Headings and sub-headings used in most recent annual financial statements
	Selected explanatory notes required by AS 25
	Additional notes without which the report may be misleading
	EPS for the interim period as per AS 20

## AS 25, Interim Financial Reporting

<b>Explanatory Statements</b>	-Statement that same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements
	-If there is change in accounting policy, nature and effect of such change
	Nature and amount of unusual and extraordinary items
	Segment information
	Material changes in contingent liabilities since the last annual Balance Sheet date
	Seasonality of operations
	Nature and amount of change in estimates in comparison to prior interim period or prior financial year- if changes have material effect in current interim period
	Issuances, buy-backs, repayment and restructuring of debt, equity and potential equity shares
	Impact of changes in composition of enterprise, such as, amalgamations, restructuring and discontinuing operations
	Material events subsequent to the end of interim period that have not been reflected in the financial statements for the interim period
	Dividends, aggregate or per share, for equity and other shares

## Accounting Standards : Quick Referencer

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<b>Periods for which interim financial statements are to be presented</b>	<u>Balance Sheet</u> - End of current interim period & comparative Balance Sheet as at the end of immediately preceding financial year (FY)
	<u>Statement of Profit and Loss</u> - For the current interim period, cumulatively for current FY to date, Comparative P/L for the comparable interim period of immediately preceding FY, Comparative year to date P/L of immediately preceding FY
	<u>Cash Flow Statement</u> - Current FY to date, comparative statement for the comparable year to date period of immediately preceding FY

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### Other Aspects

#### Materiality

- ❖ In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality should be assessed in relation to the interim period financial data.

#### Accounting Policies

- ❖ An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.
- ❖ Frequency of an enterprise's reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis.

## AS 26, Intangible Assets

AS 26 prescribes the accounting treatment for intangible assets.

**Intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.**

<b>Scope</b>	Financial assets
<b>Exclusions</b>	Intangible assets covered by other AS
	Intangible assets arising in insurance enterprises from contracts with policy holders
	Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources
	Expenditure in respect of termination benefits

### Initial Recognition

An intangible asset should be recognised in the financial statements as an intangible asset if it meets the definition of intangible asset and it meets the recognition criteria as specified in the Standard.

<b>Recognition Criteria</b>	Probable that future economic benefits will flow to the enterprise
	Costs can be reliably measured

### Measurement

An intangible asset should be measured initially at cost.

<b>Direct Purchase</b>	Purchase price, including non-refundable import duties and other taxes, net of any trade discounts and rebates, and any directly attributable expenditure on making the asset ready for its intended use
<b>Exchange of asset</b>	In accordance with AS 10
<b>Issue of securities</b>	Fair value of securities issued or of asset acquired whichever is clearly evident

## Accounting Standards : Quick Referencer

<b>Acquisition by way of government grant</b>	Nominal value or acquisition cost as per AS 12 plus any expenditure that is directly attributable making the asset ready for its intended use
<b>Research &amp; Development expenses</b>	Research expenses- Expensed off in P/L Development expenses- Capitalise if certain criteria are met
<b>Acquired in an amalgamation in the nature of purchase</b>	Recognise in accordance with AS 14
<b>Internally generated Goodwill</b>	Not to be recognised

### Recognition as Expense

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

- a) it forms part of the cost of an intangible asset that meets the recognition criteria; or
- b) the item is acquired in an amalgamation in the nature of purchase and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of acquisition) should form part of the amount attributed to goodwill (capital reserve) at the date of acquisition (as per AS 14).

Expenditure on an intangible asset that was initially recognised as an expense in previous annual financial statements or interim financial reports should not be recognised as part of the cost of an intangible asset at a later date.

### Subsequent expenditure

An expenditure that has been incurred on an intangible asset subsequent to its purchase or completion may be added to the cost of the asset provided:

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

### Subsequent Measurement

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

#### Amortisation:

- ✚ The depreciable amount should be allocated on a systematic basis over the best estimate of its useful life. Method of amortisation should be based on the pattern of consumption of asset's economic benefits.
- ✚ There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years.
- ✚ Amortisation should commence when the asset is available for use.
- ✚ If control over future economic benefits from an intangible asset is achieved through legal rights that have been granted for a finite period, the useful life of the intangible asset should not exceed the period of legal rights, unless (a) the legal rights are renewable and (b) renewal is virtually certain.
- ✚ Amortisation period & method should be reviewed at least at each financial year end. Changes should be accounted for in accordance with AS 5.
- ✚ The residual value of an intangible asset should be assumed to be zero unless:
  - (a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
  - (b) there is an active market for that asset and:
    - (i) residual value can be determined by reference to that market; &
    - (ii) it is probable that such a market will exist at the end of the asset's useful life.

#### **Retirements and Disposals**

- ✚ An intangible asset should be derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.
- ✚ Gain or loss arising from the retirement or disposal is the difference between the net disposal proceeds and the carrying amount of the asset.
- ✚ Gain or loss should be recognised as income or expense in the Statement of Profit and Loss.

## AS 27, Financial Reporting of Interests in Joint Ventures

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The objective of AS 27 is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors.

**Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.**

**Joint control is the contractually agreed sharing of control over an economic activity.**

### Forms of Joint Ventures and accounting in the books of venturer

<p><b>Jointly Controlled Operations</b></p>	<p><u>Separate &amp; Consolidated Financial Statements</u></p> <p>Venturer should recognise, in its separate and consolidated financial statements,</p> <ul style="list-style-type: none"> <li>✚ assets that it controls</li> <li>✚ liabilities that it incurs</li> <li>✚ expenses that it incurs</li> <li>✚ its share of the income that it earns from the joint venture</li> </ul>
<p><b>Jointly Controlled Assets</b></p>	<p><u>Separate &amp; Consolidated Financial Statements</u></p> <p>Venturer should recognise, in its separate and consolidated financial statements,</p> <ul style="list-style-type: none"> <li>✚ its share of the jointly controlled assets, classified according to the nature of the assets</li> <li>✚ any liabilities which it has incurred</li> <li>✚ its share of any liabilities incurred jointly with the other venturers in relation to the joint venture</li> <li>✚ any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture</li> <li>✚ any expenses which it has incurred in respect of its interest in the joint venture</li> </ul>

## AS 27, Financial Reporting of Interests in Joint Ventures

<b>Jointly Controlled Entities</b>	<p><u>Separate Financial Statements</u></p> <p>Interest in a jointly controlled entity should be accounted for as an investment in accordance with AS 13.</p> <p><u>Consolidated Financial Statements</u></p> <p>A venturer should report its interest in a jointly controlled entity using proportionate consolidation except an interest in a jointly controlled entity which:</p> <ul style="list-style-type: none"> <li>✚ is acquired and held exclusively with a view to its subsequent disposal in the near future</li> <li>✚ operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer.</li> </ul> <p>Such interests should be accounted for as an investment in accordance with AS 13.</p> <p>Venturer is a party to a joint venture and has joint control over that joint venture.</p> <p>Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the:</p> <ul style="list-style-type: none"> <li>✚ assets</li> <li>✚ liabilities</li> <li>✚ income</li> <li>✚ expenses</li> </ul> <p>of a jointly controlled entity is reported as separate line items in the venturer's consolidated financial statements.</p>
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### Jointly controlled entities: Further considerations

#### ✚ Computation of goodwill/Capital Reserve

Goodwill- Costs of venturer's interest in the jointly controlled entity > Venturer's share of net assets of the jointly controlled entity on date of acquisition of interest

Capital Reserve - Costs of venturer's interest in the jointly controlled entity < Venturer's share of net assets of the jointly controlled entity on date of acquisition of interest.

## Accounting Standards : Quick Referencer

### Reporting Date

The financial statements of the jointly controlled entity used in applying proportionate consolidation are usually drawn up to the same date as the financial statements of the venturer. When it is impracticable to do this, financial statements drawn up to different reporting dates may be used provided the difference in reporting dates is not more than six months. In such a case, adjustments are made for the effects of significant transactions or other events that occur between the date of financial statements of the jointly controlled entity and the date of the venturer's financial statements.

### Uniform Accounting Policies

The venturer usually prepares consolidated financial statements using uniform accounting policies for the like transactions and events in similar circumstances. In case a jointly controlled entity uses accounting policies other than those adopted for the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to the financial statements of the jointly controlled entity when they are used by the venturer in applying proportionate consolidation. If it is not practicable to do so, that fact is disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

## AS 28, Impairment of Assets

The objective of AS 28 is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. The asset is described as impaired if its carrying amount exceeds the amount to be recovered through use or sale of the asset and AS 28 requires the enterprise to recognise an impairment loss in such cases. It should be noted that AS 28 deals with impairment of all assets unless specifically excluded from the scope of the Standard.

**Impairment Loss** (Expensed in P/L) = Carrying Amount *less* Recoverable Amount

<b>Carrying Amount</b>	<b>Recoverable Amount</b> (Higher of)	
	<b>Net Selling Price-</b> Estimated Sales proceeds <i>less</i> costs of disposal	<b>Value in use-</b> Present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life

SMCs and non-company SMEs falling in Level II and Level III are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of using the present value technique.

### Indicators of impairment

An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired.

<b>External Indicators</b>	<ul style="list-style-type: none"> <li>✚ Decline in market value of asset</li> <li>✚ Change in technology and market conditions</li> <li>✚ Increase in market interest rates leading to a decline in the present value of future cash flows arising from the asset</li> <li>✚ Carrying amount of net assets of the enterprise is more than market capitalisation</li> </ul>
<b>Internal Indicators</b>	<ul style="list-style-type: none"> <li>✚ Decline in performance of the asset</li> <li>✚ Obsolescence or damage of asset</li> <li>✚ Continued negative cash flows arising from asset</li> </ul>

## Accounting Standards : Quick Referencer

- ✚ Impairment loss of a revalued asset should be treated as a revaluation decrease under AS 10.
- ✚ When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognise a liability if, and only if, that is required by another Accounting Standard.
- ✚ After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
- ✚ If there is an indication that an asset may be impaired, recoverable amount shall be estimated for individual asset.
- ✚ If it is not possible to estimate the recoverable amount of the individual asset, the entity shall determine the recoverable amount of the cash generating unit to which the asset belongs (the asset's cash generating unit).

**A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.**

An impairment loss should be recognised for a cash-generating unit, if and only if, its recoverable amount is less than its carrying amount.

### Allocation of impairment loss to goodwill and corporate assets

- ✚ If no goodwill exists, impairment loss is allocated to assets comprising the cash-generating unit on pro-rata basis based on the carrying amount of each asset in that unit.
- ✚ If goodwill exists and is allocable to cash-generating unit, an enterprise should perform a 'bottom-up' test, that is, the enterprise should identify whether the carrying amount of goodwill can be allocated on a reasonable and consistent basis to the cash-generating unit under review and then, compare the recoverable amount of the cash-generating unit under review to its carrying amount (including the carrying amount of allocated goodwill, if any) and recognise any impairment loss.
- ✚ If goodwill exists and is not allocable to cash-generating unit, then entity should identify larger cash-generating unit that includes the cash-

## AS 28, Impairment of Assets

generating unit under review to which goodwill is allocable in order to determine carrying amount of cash-generating unit. This is called 'top-down approach'. This is in addition to 'bottom-up' test. Thereafter, impairment loss is identified and allocated to goodwill first and then to other assets.

- ✚ The impairment loss is first allocated to goodwill and then to other assets of the cash-generating unit on a pro rata basis based on the carrying amount of each asset in that unit. The 'bottom-up' test should be performed even if none of the carrying amount of goodwill can be allocated on a reasonable and consistent basis to the cash-generating unit under review.
- ✚ The 'bottom-up' test and 'top down' tests are equally applicable for corporate assets.
- ✚ While allocating impairment loss, the carrying amount within cash-generating unit should not be reduced below the highest of (a) net selling price (if determinable) (b) value in use (if determinable) and (c) zero. The amount of impairment loss that would otherwise have been allocated to the asset should be allocated to other assets of the cash-generating unit on a pro rata basis. After this, a liability should be recognised for any remaining amount of an impairment loss for a cash-generating unit, only if that is required by another Accounting Standard.

### Reversal of an Impairment Loss

- ✚ An enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset. The carrying amount of the asset should be increased to its recoverable amount as a reversal of impairment loss.
- ✚ The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.
- ✚ A reversal of an impairment loss for an asset should be recognised as income immediately in the Statement of Profit and Loss, unless the asset is carried at revalued amount in accordance with another Accounting Standard in which case any reversal of an impairment loss on a revalued asset should be treated as a revaluation increase under that Accounting Standard.

## Accounting Standards : Quick Referencer

✚ Reversal of an impairment loss for a cash-generating unit should be allocated to increase the carrying amount of the assets of the unit in the following order:

- (a) first, assets other than goodwill on a pro-rata basis based on the carrying amount of each asset in the unit; and
- (b) then, to goodwill allocated to the cash-generating unit (if any), if the two requirements in the last bullet point below are met.

These increases in carrying amounts should be treated as reversals of impairment losses for individual assets.

✚ In allocating a reversal of an impairment loss for a cash-generating unit the carrying amount of an asset should not be increased above the lower of: (a) its recoverable amount (if determinable); and (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods. The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the cash-generating unit on a pro-rata basis.

✚ As an exception, an impairment loss recognised for goodwill should not be reversed in a subsequent period, unless: (a) the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and (b) subsequent external events have occurred that reverse the effect of that event.

## AS 29, Provisions, Contingent Liabilities and Contingent Assets

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The objective of AS 29 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. The objective of this Standard is also to lay down appropriate accounting for contingent assets.

### Scope

AS 29 prescribes accounting for provisions and contingent liabilities and in dealing with contingent assets, except:

<b>Scope Exclusions</b>	those resulting from financial instruments that are carried at fair value
	those resulting from executory contracts, except where the contract is onerous
	those covered by another AS
	those arising in insurance enterprises from contracts with policy holders

- ✚ **Provision is a liability which can be measured only by using substantial degree of estimation.**
- ✚ **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.**
- ✚ **Contingent Liability is**
  - **a possible obligation arising from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or**
  - **a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of obligation cannot be made.**

## Accounting Standards : Quick Referencer

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

### Provisions, Contingent Assets & Liabilities-Recognition, Measurement and Review

	Recognition	Measurement	Review
<b>Provision</b>	<p>A provision should be recognised when:</p> <p>a) Enterprise has a present obligation as a result of a past event</p> <p>b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation</p> <p>c) Reliable estimate can be made of the amount of the obligation</p>	<p>✚ Best estimate of the expenditure required to settle the present obligation at the Balance Sheet date</p> <p>✚ <u>Other factors for consideration</u></p> <p>a) Risks and uncertainties should be considered.</p> <p>b) Future events should be considered when there is sufficient objective evidence that they will occur</p> <p>c) No discounting except in the case of decommissioning, restoration and similar liabilities that are recognised as cost of PPE</p>	<p>✚ Reviewed at each balance sheet date and adjusted to reflect the current best estimate.</p> <p>✚ Reversed, if appropriate.</p>

**AS 29, Provisions, Contingent Liabilities and Contingent Assets**

		<p>d) Gains from expected disposal of assets should not be considered.</p> <p>e) Reimbursements by another party should be considered if it is virtually certain that reimbursement will be received if the enterprise settles the obligation</p> <p>f) The reimbursement should be treated as a separate asset.</p> <p>g) Amount recognised for the reimbursement should not exceed the amount of provision</p> <p>h) In the Statement of Profit and Loss, the expense relating to a provision may be presented as net of the amount recognised for reimbursement.</p>	
<p><b>Contingent Liabilities</b></p>	<ul style="list-style-type: none"> <li>✚ Not to be recognised.</li> <li>✚ Only disclosure is required, unless the possibility of an outflow of resources embodying economic</li> </ul>	<p align="center">-</p>	<p>Assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it</p>

### Accounting Standards : Quick Referencer

	benefits is remote.		becomes probable, contingent liability is recognised as provision.
<b>Contingent Assets</b>	<ul style="list-style-type: none"> <li>✚ Not to be recognised.</li> <li>✚ Disclosure is usually made in the report of the approving authority when an inflow of economic benefits is probable and not in the financial statements.</li> </ul>	-	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.



A provision should be used only for expenditures for which the provision was originally recognised.

SMCs and non-company SMEs falling in Level II and Level III are exempted from certain disclosure requirements.

## Appendix-1

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### Criteria for Classification of Entities

#### 1. Companies

##### Small and Medium-Sized Company (SMC)

Criteria for classification of companies under the Companies (Accounting Standards) Rules, 2006

Small and Medium-Sized Company (SMC) as defined in Clause 2(f) of the Companies (Accounting Standards) Rules, 2006 means, a company-

- i) Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- ii) Which is not a bank, financial institution or an insurance company;
- iii) Whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- iv) Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
- v) Which is not a holding or subsidiary company of a company which is not a small and medium sized company.

Explanation: For the purposes of clause 2(f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

##### Non- Small and Medium-Sized Company (SMC)

Companies not falling within the definition of SMC are considered as Non-SMCs.

#### 2. Non-corporate entities (As per ICAI Pronouncements)

Level I Entities: - Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period:

- (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

### **Accounting Standards : Quick Referencer**

- (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
- (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupee ten crore at any time during the immediately preceding accounting year.
- (v) Holding and subsidiary entities of any of the above.

Level II Entities (SMEs):- Non-corporate entities which are not Level I entities but fall in any one or more of the following categories:

- (i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupee one crore but does not exceed rupee fifty crore in the immediately preceding accounting year.
- (ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupee one crore but not in excess of rupee ten crore at any time during the immediately preceding accounting year.
- (iii) Holding and subsidiary entities of any one of above.

Level III Entities (SMEs):-Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

## Appendix 2

### Applicability of Accounting Standards

Accounting Standards		Companies (Other than following Ind AS) [As per Companies (Accounting Standards) Rules, 2006]	To all Non- Corporate entities [As per ICAI Accounting Standards]
AS 1	Disclosure of Accounting Policies	Y	Y
AS 2	Valuation of Inventories	Y	Y
AS 3	Cash Flow Statements	Y See Note 1	Not mandatory for Level II & Level III entities.
AS 4	Contingencies and Events Occurring After the Balance Sheet Date	Y	Y
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Y	Y
AS 7	Construction Contracts (Revised 2002)	Y	Y
AS 9	Revenue Recognition	Y	Y
AS 10	Property, Plant and Equipment	Y	Y
AS 11	The Effects of Changes in Foreign Exchange Rates (Revised 2003)	Y	Y
AS 12	Accounting for Government Grants	Y	Y
AS 13	Accounting for Investments	Y	Y
AS 14	Accounting for Amalgamations	Y	Y
AS 15	Employee Benefits (Refer Note 3)	Y	Y
AS 16	Borrowing Costs	Y	Y

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AS 17	Segment Reporting	Y Not mandatory for SMCs	Y Not mandatory for Level II & Level III entities.
AS 18	Related Party Disclosures	Y	Y Not mandatory for Level III entities
AS 19	Leases (Refer Note 4)	Y	Y
AS 20	Earnings Per Share (Refer Note 5)	Y	Y
AS 21	Consolidated Financial Statements	Y	See Note 2
AS 22	Accounting for Taxes on Income	Y	Y
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	Y	See Note 2
AS 24	Discontinuing Operations	Y	Y Not mandatory for Level III entities
AS 25	Interim Financial Reporting (Refer Note 8)	Y	Y
AS 26	Intangible Assets	Y	Y
AS 27	Financial Reporting of Interest in Joint	Y	See Note 2
AS 28	Impairment of Assets (Refer Note 6)	Y	Y
AS 29	Provisions, Contingent Liabilities and Contingent Assets (Refer Note 7)	Y	Y

**Note 1-** Cash Flow Statement is required to be included as a part of financial statements of a company except in case of One Person Company, small company and dormant company.

## Appendix 2 — Applicability of Accounting Standards

**Note 2-** AS 21, AS 23 and AS 27 (to the extent these standards relate to preparation of consolidated financial statements) are required to be complied with by a non-corporate entity if the non-corporate entity, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents Consolidated Financial Statements.

Standards listed above are subject to certain Exemptions and Relaxations for Small and Medium Companies, Non-corporate entities falling in Level II and Level III category that are listed below:

Sl. No	Accounting Standards	Relaxations available to Small and Medium Companies, Non-corporate entities falling in Level II and Level III
Note 3	AS 15, Employee Benefits	There are some measurement and disclosure exemptions for SMCs and for SMEs, which are discussed in relevant Section. For more details please refer AS 15.
Note 4	AS 19, Leases	Requirements relating to disclosures as given in paragraphs 22 (c), (e) and (f); 25(a), (b) and (e); 37(a) and (f); and 46(b) and (d) relating to disclosures are not applicable to SMCs and level II/III non-corporate entities.  Further to these relaxations, Level III entities are exempted from disclosures required under Paragraphs 37(g) and 46(e).
Note 5.	AS 20, Earnings Per Share	Diluted earnings per share (both including and excluding extraordinary items) are not required to be disclosed for SMCs and level II/III non-corporate entities. Further, information required by paragraph 48(ii) of AS 20 regarding disclosures for parameters used in calculation of EPS, are also not required to be disclosed by Level III entities.
Note 6.	AS 28, Impairment of Assets	Value in use can be based on reasonable estimate instead of computing it by present value technique. Further, information required by paragraph 121(g) relating to discount rate used, need not be disclosed.

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Note 7.	AS 29, Provisions, Contingent Liabilities and Contingent Assets	Paragraphs 66 and 67 relating to disclosures are not applicable.
Note 8.	AS 25, Interim Financial Reporting	AS 25 is applicable only if a company/ non-corporate entity elects to prepare and present an interim financial report. Only certain Non-SMCs/Level I entities are required by the concerned regulatory to present interim financial results, e.g., quarterly financial results required by the SEBI under the Listing Agreement. Therefore, the recognition and measurement requirement of this standard are applicable to those entities.