

Accounting Standard Interpretations

Accounting Standard Interpretation – 1 (AS – 16)

Meaning of the word substantial period:

Substantial period is the period of 12 months. However an enterprise may take a slightly shorter or longer period as substantial period.

Accounting Standard Interpretation – 10 (AS – 16)

Borrowing costs may include “exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs”.

The Paragraph covers exchange differences on the amount of principal of the foreign currency borrowings to the extent of difference between interest on local currency borrowings and interest on foreign currency borrowings. For this purpose, the interest rate for the local currency borrowings should be considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings. If the difference between the interest on local currency borrowings and the interest on foreign currency borrowings is equal to or more than the exchange difference on the amount of principal of the foreign currency borrowings, the entire amount of exchange difference is covered under that paragraph.

Example:

A Ltd. has taken a loan of USD 1, 00,000 on 1.4.2008, at an interest rate of 4% p.a. payable annually. The exchange rate was Rs.40/\$ on that date. The exchange rate on 31.3.2009 was Rs.43/\$. The corresponding amount could have been borrowed at an interest rate of 10% p.a. on 1.4.2008. Suggest the accounting treatment of borrowing cost.

Interest obligation in dollar	= \$ 100000 x 4%	
	=	\$ 4000
Conversion of rupees	= 4000 x 43 =	172000 (@Rs. 43)

Had the same loan be taking in India.

Interest liabilities would have been = 40L x 10% = 4L

Saving in interest	= (400000 – 172000)	Rs. 2, 28,000.
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Exchange difference on loan = 100000 x (43 – 40) = 300000

This exchange difference to the extent of 228000 is treated as interest cost remaining exchange fluctuation Rs. 72000 will be treated as foreign exchange fluctuation loss that will be dealt as per AS-11

Accounting Standard Interpretation – 12 (AS-20)

Every company, which is required to give information under Part IV of the Schedule VI to the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20, whether its equity shares or potential equity shares are listed on a recognized stock exchange in India or not.

Hence EPS shall be computed and presented by unlisted companies also.

Accounting Standard Interpretation – 14 (AS – 9)

The Accounting Standards Board considered the matter of disclosure of revenue from sales transactions (also known as ‘turnover’) in financial statements. The Board noted that some enterprises disclose turnover net of excise duty while others disclose turnover at gross amount. With a view to bring about uniformity, it is recommended that the amount of turnover be disclosed in the following manner on the face of the statement of profit and loss:

Turnover (Gross)	xxx
<u>Less: Excise Duty</u>	<u>xxx</u>
Turnover (Net)	xxx

Accounting Standard Interpretation 29 (AS – 7)

Turnover in case of contracts:

1. The amount of contract revenue recognized as revenue in the statement of Profit & Loss as per the requirements of AS – 7 should be considered as ‘turnover’.

Accounting Standards Interpretation 30 (AS – 29)

Applicability of AS 29 to onerous contracts:

1. An ‘**onerous contract**’ is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.
2. If an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as per provisions as per AS - 29