

Accounting Standard 1: Disclosure of Accounting Policies

- ☐ Significant Accounting Policies followed in preparation and presentation of financial statements should form part thereof and be disclosed at one place in the financial statements.
- ☐ Any change in the accounting policies having a material effect in the current period or future periods should be disclosed. The amount by which any item in financial statements is affected by such change should be disclosed to the extent ascertainable. If the amount is not ascertainable the fact should be indicated.
- ☐ If fundamental assumptions (going concern, consistency and accrual) are not followed, fact to be disclosed.
- ☐ Major considerations governing selection and application of accounting policies are i) Prudence, ii) Substance over form and iii) Materiality.
- ☐ The ICAI has made an announcement that till the issuance of Accounting Standards on (i) Financial Instruments : Presentation, (ii) Financial Instruments : Disclosures and (iii) Financial Instruments : Recognition and Measurement, an enterprise should provide information regarding the extent of risks to which an enterprise is exposed and as a minimum, make following disclosures in its financial statements:
 - a. category-wise quantitative data about derivative instruments that are outstanding at the balance sheet date,
 - b. the purpose, viz. hedging or speculation, for which such derivative instruments have been acquired, and
 - c. the foreign currency exposures that are not hedged by a derivative instrument or otherwise.

This announcement is applicable in respect of financial statements for the accounting period(s) ending on or after March 31, 2006.

Accounting Standard 2: Valuation of Inventories

- ☐ This standard should be applied in accounting for inventories other than WIP arising under construction contracts, WIP of service providers, shares, debentures and financial instruments held as stock in trade, producers' inventories of livestock, agricultural and forest products and mineral oils, ores and gases to the extent measured at net realisable value in accordance with well established practices in those industries.
- ☐ Inventories are assets held for sale in ordinary course of business, in the process of production of such sale, or in form of materials to be consumed in production process or rendering of services.
- ☐ Inventories do not include machinery spares which can be used with an item of fixed asset and whose use is irregular.
- ☐ Net realisable value is the estimated selling price less the estimated costs of completion and estimated costs necessary to make the sale.

- ☐ Cost of inventories should comprise all costs incurred for bringing the inventories to their present location and condition.
- ☐ Inventories should be valued at lower of cost and net realisable value. Generally, weighted average cost or FIFO method is used in cases where goods are ordinarily interchangeable.
- ☐ Specific Identification Method to be used when goods are not ordinarily interchangeable or have been segregated for specific projects.
- ☐ Disclose the accounting policies adopted including the cost formula used, total carrying amount of inventories and its classification.

Also refer ASI 2 – deals with accounting of machinery spares

Accounting Standard 3: Cash Flow Statements

- ☐ Prepare and present a cash flow statement for each period for which financial statements are prepared.
- ☐ A cash flow statement should report cash flows during the period classified by operating, investing and financial activities.
- ☐ Operating activities are the principal revenue producing activities of the enterprise other than investing or financing activities.
- ☐ Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.
- ☐ Financing activities are activities that result in changes in the size and composition of the owner's capital and borrowings of the enterprise.
- ☐ A cash flow statement for operating activities should be prepared by using either the direct method or the indirect method. For investing and financing activities cash flows should be prepared using the direct method.
- ☐ Cash flows arising from transactions in a foreign currency should be recorded in enterprise's reporting currency by applying the exchange rate at the date of the cash flow.
- ☐ Investing and financing transactions that do not require the use of cash and cash equivalent balances should be excluded.
- ☐ An enterprise should disclose the components of cash and cash equivalents together with reconciliation of amounts as disclosed to amounts reported in the balance sheet.
- ☐ An enterprise should disclose together with a commentary by the management the amount of significant cash and cash equivalent balances held by it that are not available for use.

Accounting Standard 4: Contingencies and Events Occurring after the Balance Sheet Date

- ☐ A contingency is a condition or situation the ultimate outcome of which will be known or determined only on the occurrence or non-occurrence of uncertain future event/s.

- ☐ 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.
- ☐ Amount of a contingent loss should be provided for by a charge in P & L A/c if it is probable that future events will confirm that an asset has been impaired or a liability has been incurred as at the balance sheet date and a reasonable estimate of the amount of the loss can be made.
- ☐ Existence of contingent loss should be disclosed if above conditions are not met, unless the possibility of loss is remote.
- ☐ Contingent Gains if any, not to be recognised in the financial statements.
- ☐ Material change in the position due to subsequent events be accounted or disclosed.
- ☐ Proposed or declared dividend for the period should be adjusted.
- ☐ Material event occurring after balance sheet date affecting the going concern assumption and financial position be appropriately dealt with in the accounts.
- ☐ Contingencies or events occurring after the balance sheet date and the estimate of the financial effect of the same should be disclosed.

Note: The underlined paras/words have been withdrawn on issuance of AS 29 effective for accounting periods commencing on or after 1-4-2004.

Accounting Standard 5: Net Profit/Loss for the Period, Prior Period Items and Changes in Accounting Policies

- ☐ All items of income and expense, which are recognised in a period, should be included in determination of net profit or loss for the period unless an accounting standard requires or permits otherwise.
- ☐ Prior period, extraordinary items be separately disclosed in a manner that their impact on current profit or loss can be perceived. Nature and amount of significant items be provided. Extraordinary items should be disclosed as a part of profit or loss for the period.
- ☐ Effect of a change in the accounting estimate should be included in the determination of net profit or loss in the period of change and also future periods if it is expected to affect future periods.
- ☐ Change in accounting policy, which has a material effect, should be disclosed. Impact and the adjustment arising out of material change should be disclosed in the period in which change is made. If the change does not have a material impact in the current period but is expected to have a material effect in future periods then the fact should be disclosed.

- ☐ Accounting policy may be changed only if required by the statute or for compliance with an accounting standard or if the change would result in appropriate presentation of the financial statements.
- ☐ A change in accounting policy on the adoption of an accounting standard should be accounted for in accordance with the specific transitional provisions, if any, contained in that accounting standard.

Accounting Standard 6: Depreciation Accounting

- ☐ Standard does not apply to depreciation in respect of forests, plantations and similar regenerative natural resources, wasting assets including expenditure on exploration and extraction of minerals, oils, natural gas and similar non-regenerative resources, expenditure on research and development, goodwill and livestock. Special considerations apply to these assets.
- ☐ Allocate depreciable amount of a depreciable asset on systematic basis to each accounting year over useful life of asset.
- ☐ Useful life may be reviewed periodically after taking into consideration the expected physical wear and tear, obsolescence and legal or other limits on the use of the asset.
- ☐ Basis for providing depreciation must be consistently followed and disclosed. Any change to be quantified and disclosed.
- ☐ A change in method of depreciation be made only if required by statute, for compliance with an accounting standard or for appropriate presentation of the financial statements. Revision in method of depreciation be made from date of use. Change in method of charging depreciation is a change in accounting policy and be quantified and disclosed.
- ☐ In cases of addition or extension which becomes integral part of the existing asset depreciation to be provided on adjusted figure prospectively over the residual useful life of the asset or at the rate applicable to the asset.
- ☐ Where the historical cost undergoes a change due to fluctuation in exchange rate, price adjustment etc. depreciation on the revised unamortised amount should be provided over the balance useful life of the asset.
- ☐ On revaluation of asset depreciation should be based on revalued amount over balance useful life. Material impact on depreciation should be disclosed.
- ☐ Deficiency or surplus in case of disposal, destruction, demolition etc. be disclosed separately, if material.
- ☐ Historical cost, amount substituted for historical cost, depreciation for the year and accumulated depreciation should be disclosed.

- ☐ Depreciation method used should be disclosed. If rates applied are different from the rates specified in the governing statute then the rates and the useful life be also disclosed.

Accounting Standard 7 : Accounting for Construction Contracts (Revised 2002)

- ☐ Applicable to accounting for construction contract.
- ☐ Construction contract may be for construction of a single/combination of interrelated or interdependent assets.
- ☐ A fixed price contract is a contract where contract price is fixed or per unit rate is fixed and in some cases subject to escalation clause.
- ☐ A cost plus contract is a contract in which contractor is reimbursed for allowable or defined cost plus percentage of these cost or a fixed fee.
- ☐ In a contract covering a number of assets, each asset is treated as a separate construction contract when there are:
 - ☐ separate proposal;
 - ☐ subject to separate negotiations and the contractor and customer is able to accept/reject that part of the contract;
 - ☐ identifiable cost and revenues of each asset
- ☐ A group of contracts to be treated as a single construction contract when
 - ☐ they are negotiated as a single package;
 - ☐ contracts are closely interrelated with an overall profit margin; and
 - ☐ contracts are performed concurrently or in a continuous sequence.
- ☐ Additional asset construction to be treated as separate construction contract when
 - ☐ assets differs significantly in design/technology/function from original contract assets.
 - ☐ a price negotiated without regard to original contract price
- ☐ Contract revenue comprises of
 - ☐ initial amount and
 - ☐ variations in contract work, claims and incentive payments that will probably result in revenue and are capable of being reliably measured.
- ☐ Contract cost comprises of
 - ☐ costs directly relating to specific contract
 - ☐ costs attributable and allocable to contract activity

- ☐ other costs specifically chargeable to customer under the terms of contracts.
- ☐ **Contract Revenue and Expenses to be recognised, when outcome can be estimated reliably up to stage of completion on reporting date.**
- ☐ **In Fixed Price Contract outcome can be estimated reliably when**
 - ☐ total contract revenue can be measured reliably.
 - ☐ it is probable that economic benefits will flow to the enterprise;
 - ☐ contract cost and stage of completion can be measured reliably at reporting date; and
 - ☐ contract costs are clearly identified and measured reliably for comparing actual costs with prior estimates.
- ☐ **In cost plus contract outcome is estimated reliably when**
 - ☐ it is probable that economic benefits will flow to the enterprise; and
 - ☐ contract cost whether reimbursable or not can be clearly identified and measured reliably.
- ☐ **When outcome of a contract cannot be estimated reliably**
 - ☐ revenue to the extent of which recovery of contract cost is probable should be recognised;
 - ☐ contract cost should be recognised as an expense in the period in which they are incurred; and
 - ☐ An expected loss should be recognised as expense.
- ☐ **When uncertainties no longer exist revenue and expenses to be recognised as mentioned above when outcomes can be estimated reliably.**
- ☐ **When it is probable that contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.**
- ☐ **Change in estimate to be accounted for as per AS 5.**
- ☐ **An enterprise to disclose**
 - ☐ contract revenue recognised in the period.
 - ☐ method used to determine recognised contract revenue.
 - ☐ methods used to determine the stage of completion of contracts in progress.
- ☐ **For contracts in progress an enterprise should disclose**
 - ☐ the aggregate amount of costs incurred and recognised profits (less recognised losses) up to the reporting date.
 - ☐ amount of advances received and

- ☐ amount of retention.
- ☐ An enterprise should present
 - ☐ gross amount due from customers for contract work as an asset and
 - ☐ the gross amount due to customers for contract work as a liability.

Accounting Standard 8: Accounting for Research and Development

Note: In view of operation of AS 26, this Standard stands withdrawn.

Accounting Standard 9: Revenue Recognition

- Standard does not deal with revenue recognition aspects of revenue arising from construction contracts, hire-purchase and lease agreements, government grants and other similar subsidies and revenue of insurance companies from insurance contracts. Special considerations apply to these cases.
- Revenue from sales and services should be recognised at the time of sale of goods or rendering of services if collection is reasonably certain; i.e., when risks and rewards of ownership are transferred to the buyer and when effective control of the seller as the owner is lost.
- In case of rendering of services, revenue must be recognised either on completed service method or proportionate completion method by relating the revenue with work accomplished and certainty of consideration receivable.
- Interest is recognised on time basis, royalties on accrual and dividend when owner's right to receive payment is established.
- Disclose circumstances in which revenue recognition has been postponed pending significant uncertainties.

Also refer ASI 14 (withdrawing GC 3/2002) deals with the manner of disclosure of excise duty in presentation of revenue from sales transactions (turnover).

Accounting Standard 10: Accounting for Fixed Assets

- Fixed asset is an asset held for producing or providing goods and/or services and is not held for sale in the normal course of the business.
- Cost to include purchase price and attributable costs of bringing asset to its working condition for the intended use. It includes financing cost for period up to the date of readiness for use.
- Self-constructed assets are to be capitalised at costs that are specifically related to the asset and those which are allocable to the specific asset.
- Fixed asset acquired in exchange or part exchange should be recorded at fair market value or net book value of asset given up adjusted for balancing payment, cash receipt etc. Fair market value is determined with reference to asset given up or asset acquired.

- Revaluation, if any, should be of class of assets and not an individual asset.
- Basis of revaluation should be disclosed.
- Increase in value on revaluation be credited to Revaluation Reserve while the decrease should be charged to P & L A/c.
- Goodwill should be accounted only when paid for.
- Assets acquired on hire purchase be recorded at cash value to be shown with appropriate note about ownership of the same. (Not applicable for assets acquired after 1st April, 2001 in view of AS 19 – Leases becoming effective).
- Gross and net book values at beginning and end of year showing additions, deletions and other movements, expenditure incurred in course of construction and revalued amount if any be disclosed.
- Assets should be eliminated from books on disposal/when of no utility value.
- Profit/Loss on disposal be recognised on disposal to P & L statement.

Also refer ASI 2 which deals with accounting for machinery spares.

Accounting Standard 11: The Effects of Changes in Foreign Exchange Rates (Revised 2003)

- The Statement is applied in accounting for transactions in foreign currency and translating financial statements of foreign operations. It also deals with accounting of forward exchange contract.
- Initial recognition of a foreign currency transaction shall be by applying the foreign currency exchange rate as on the date of transaction. In case of voluminous transactions a weekly or a monthly average rate is permitted, if fluctuation during the period is not significant.
- At each Balance Sheet date foreign currency monetary items such as cash, receivables, payables shall be reported at the closing exchange rates unless there are restrictions on remittances or it is not possible to effect an exchange of currency at that rate. In the latter case it should be accounted at realisable rate in reporting currency. Non monetary items such as fixed assets, investment in equity shares which are carried at historical cost shall be reported at the exchange rate on the date of transaction. Non monetary items which are carried at fair value shall be reported at the exchange rate that existed when the value was determined.

Note: Schedule VI to the Companies Act, 1956, provides that any increase or reduction in liability on account of an asset acquired from outside India in consequence of a change in the rate of exchange, the amount of such increase or decrease, should added to, or, as the case may be, deducted from the cost of the fixed asset.

Therefore, for fixed assets, the treatment described in Schedule VI will be in compliance with this standard, instead of stating it at historical cost.

- Exchange differences arising on the settlement of monetary items or on restatement of monetary items on each balance sheet date shall be recognised as expense or income in the period in which they arise.**
- Exchange differences arising on monetary item which in substance, is net investment in a non integral foreign operation (long term loans) shall be credited to foreign currency translation reserve and shall be recognised as income or expense at the time of disposal of net investment.**
- The financial statements of an integral foreign operation shall be translated as if the transactions of the foreign operation had been those of the reporting enterprise; i.e., it is initially to be accounted at the exchange rate prevailing on the date of transaction.**
- For incorporation of non integral foreign operation, both monetary and non monetary assets and liabilities should be translated at the closing rate as on the balance sheet date. The income and expenses should be translated at the exchange rates at the date of transactions. The resulting exchange differences should be accumulated in the foreign currency translation reserve until the disposal of net investment. Any goodwill or capital reserve on acquisition on non-integral financial operation is translated at the closing rate.**
- In Consolidated Financial Statement (CFS) of the reporting enterprise, exchange difference arising on intra group monetary items continues to be recognised as income or expense, unless the same is in substance an enterprise's net investment in non integral foreign operation.**
- When the financial statements of non integral foreign operations of a different date are used for CFS of the reporting enterprise, the assets and liabilities are translated at the exchange rate prevailing on the balance sheet date of the non integral foreign operations. Further adjustments are to be made for significant movements in exchange rates upto the balance sheet date of the reporting currency.**
- When there is a change in the classification of a foreign operation from integral to non integral or vice versa the translation procedures applicable to the revised classification should be applied from the date of reclassification.**
- Exchange differences arising on translation shall be considered for deferred tax in accordance with AS 22.**
- Forward Exchange Contract may be entered to establish the amount of the reporting currency required or available at the settlement date of the transaction or intended for trading or speculation. Where the contracts are not intended for trading or speculation purposes the premium or discount arising at the time of inception of the forward contract should be amortized as expense or income over the life of the contract. Further, exchange**

differences on such contracts should be recognised in the P & L A/c in the reporting period in which there is change in the exchange rates. Exchange difference on forward exchange contract is the difference between exchange rate at the reporting date and exchange difference at the date of inception of the contract for the underlying currency.

- Profit or loss arising on the renewal or cancellation of the forward contract should be recognised as income or expense for the period. A gain or loss on forward exchange contract intended for trading or speculation should be recognised in the profit and loss statement for the period. Such gain or loss should be computed with reference to the difference between forward rate on the reporting date for the remaining maturity period of the contract and the contracted forward rate. This means that the forward contract is marked to market. For such contract, premium or discount is not recognised separately.
- Disclosure to be made for:
 - Amount of exchange difference included in Profit and Loss statement.
 - Net exchange difference accumulated in Foreign Currency Translation Reserve.
 - In case of reclassification of significant foreign operation, the nature of the change, the reasons for the same and its impact on the shareholders fund and the impact on the Net Profit and Loss for each period presented.
- Non mandatory Disclosures can be made for foreign currency risk management policy.

Accounting Standard 12: Accounting for Government Grants

- Grants can be in cash or in kind and may carry certain conditions to be complied.
- Grants should not be recognised unless reasonably assured to be realized and the enterprise complies with the conditions attached to the grant.
- Grants towards specific assets should be deducted from its gross value. Alternatively, it can be treated as deferred income in P & L A/c on rational basis over the useful life of the depreciable asset. Grants related to non-depreciable asset should be generally credited to Capital Reserves unless it stipulates fulfilment of certain obligations. In the latter case the grant should be credited to the P & L A/c over a reasonable period. The deferred income balance to be shown separately in the financial statements.
- Grants of revenue nature to be recognised in the P & L A/c over the period to match with the related cost, which are intended to be compensated. Such grants can be treated as other income or can be reduced from related expense.

- Grants by way of promoter's contribution is to be credited to Capital Reserves and considered as part of shareholder's funds.
- Grants in the form of non-monetary assets, given at concessional rate, shall be accounted at their acquisition cost. Asset given free of cost be recorded at nominal value.
- Grants receivable as compensation for losses/expenses incurred should be recognised and disclosed in P & L A/c in the year it is receivable and shown as extraordinary item, if material in amount.
- Grants when become refundable, be shown as extraordinary item.
- Revenue grants when refundable should be first adjusted against unamortised deferred credit balance of the grant and the balance should be charged to the P & L A/c.
- Grants against specific assets on becoming refundable are recorded by increasing the value of the respective asset or by reducing Capital Reserve / Deferred income balance of the grant, as applicable. Any such increase in the value of the asset shall be depreciated prospectively over the residual useful life of the asset.
- Accounting policy adopted for grants including method of presentation, extent of recognition in financial statements, accounting of non-monetary assets given at concession/ free of cost be disclosed.

Accounting Standard 13: Accounting for Investments

- Current investments and long term investments be disclosed distinctly with further sub-classification into government or trust securities, shares, debentures or bonds, investment properties, others unless it is required to be classified in other manner as per the statute governing the enterprise.
- Cost of investment to include acquisition charges including brokerage, fees and duties.
- Investment properties should be accounted as long term investments.
- Current investments be carried at lower of cost and fair value either on individual investment basis or by category of investment but not on global basis.
- Long term investments be carried at cost. Provision for decline (other than temporary) to be made for each investment individually.
- If an investment is acquired by issue of shares/securities or in exchange of an asset, the cost of the investment is the fair value of the securities issued or the assets given up. Acquisition cost may be determined considering the fair value of the investments acquired.
- Changes in the carrying amount and the difference between the carrying amount and the net proceeds on disposal be charged or credited to the P & L A/c.

- Disclosure is required for the accounting policy adopted, classification of investments; profit / loss on disposal and changes in carrying amount of such investment.
- Significant restrictions on right of ownership, realisability of investments and remittance of income and proceeds of disposal thereof be disclosed.
- Disclosure should be made of aggregate amount of quoted and unquoted investments together with aggregate value of quoted investments.

Accounting Standard 14: Accounting for Amalgamations

- Amalgamation in nature of merger be accounted for under Pooling of Interest Method and in nature of purchase be accounted for under Purchase Method.
- Under the Pooling of the Interest Method, assets, liabilities and reserves of the transferor company be recorded at existing carrying amount and in the same form as it was appearing in the books of the transferor.
- In case of conflicting accounting policies, a uniform policy be adopted on amalgamation. Effect on financial statement of such change in policy be reported as per AS5.
- Difference between the amount recorded as share capital issued and the amount of capital of the transferor company should be adjusted in reserves.
- Under Purchase Method, all assets and liabilities of the transferor company be recorded at existing carrying amount or consideration be allocated to individual identifiable assets and liabilities on basis of fair values at date of amalgamation. The reserves of the transferor company shall lose its identity. The excess or shortfall of consideration over value of net assets be recognised as goodwill or capital reserve.
- Any non-cash item included in the consideration on amalgamation should be accounted at fair value.
- In case the scheme of amalgamation sanctioned under the statute prescribes a treatment to be given to the transferor company reserves on amalgamation, same should be followed. However a description of accounting treatment given to reserves and the reasons for following a treatment different from that prescribed in the AS is to be given. Also deviations between the two accounting treatments given to the reserves and the financial effect, if any, arising due to such deviation is to be disclosed. (Limited Revision to AS 14 w.e.f 1-4-2004)
- Disclosures to include effective date of amalgamation for accounting, the method of accounting followed, particulars of the scheme sanctioned.
- In case of amalgamation under the Pooling of Interest Method the treatment given to the difference between the consideration and the value of the net identified assets acquired is to be disclosed. In case of amalgamation under the Purchase Method the consideration and the

treatment given to the difference compared to the value of the net identifiable assets acquired including period of amortization of goodwill arising on amalgamation is to be disclosed.

Accounting Standard 15: Accounting for Retirement Benefits in the Financial Statement of Employers

- For retirement benefits of provident fund and other defined contribution schemes, contribution payable by employer and any shortfall on collection from employees if any for a year be charged to P & L A/c. Excess payment be treated as pre-payment.
- For gratuity and other defined benefit schemes, accounting treatment will depend on the type of arrangements, which the employer has entered into.
- If payment for retirement benefits out of employers funds, appropriate charge to P & L to be made through a provision for accruing liability, calculated according to actuarial valuation.
- If liability for retirement benefit funded through creation of trust, cost incurred be determined actuarially. Excess/ shortfall of contribution paid against amount required to meet accrued liability as certified by actuary be treated as pre-payment or charged to P & L account
- If liability for retirement benefit is funded through a scheme administered by an insurer, an actuarial certificate or confirmation from insurer to be obtained. The excess/ shortfall of the contribution paid against the amount required to meet accrued liability as certified by actuary or confirmed by insurer should be treated as pre-payment or charged to P & L account.
- Any alteration in the retirement benefit cost should be charged or credited to P & L A/c and change in actuarial method should be disclosed as per AS 5.
- Financial statements to disclose method by which retirement benefit cost have been determined.

Accounting Standard – 15 - Employee Benefits – Effective from accounting period commencing on or after 1 April, 2006.

- ☐ Applicable to Level II & III enterprises (subject to certain relaxation provided), if number of persons employed is 50 or more.
- ☐ For Enterprises employing less than 50 persons, any method of accrual for accounting long-term employee benefits liability is allowed.
- ☐ **Employee benefits** are all forms of consideration given in exchange of services rendered by employees. Employee benefits include those provided under formal plan or as per informal practices which give rise to an obligation or required as per legislative requirements. These include performance bonus (payable within 12 months) and non-monetary benefits such as housing, car or subsidized goods or services to current employees, post-employment benefits, deferred compensation and termination

benefits. Benefits provided to employees' spouses, children, dependents, nominees are also covered.

☐ **Short-term employee benefits** should be recognised as an expense without discounting, unless permitted by other AS to be included as a cost of an asset.

☐ **Cost of accumulating compensated absences** is accounted on accrual basis and **cost of non-accumulating compensated absences** is accounted when the absences occur.

☐ **Cost of profit sharing and bonus plans** are accounted as an expense when the enterprise has a present obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. While estimating, probability of payment at a future date is also considered.

☐ **Post employment benefits** can either be **defined contribution plans**, under which enterprise's obligation is limited to contribution agreed to be made and investment returns arising from such contribution, or **defined benefit plans** under which the enterprise's obligation is to provide the agreed benefits. Under the later plans if actuarial or investment experience are worse than expected, obligation of the enterprise may get increased at subsequent dates.

☐ In case of a **multi-employer plans**, an enterprise should recognise its proportionate share of the obligation. If defined benefit cost can not be reliably estimated it should recognise cost as if it were a defined contribution plan, with certain disclosures (in para 30)

☐ **State Plans and Insured Benefits** are generally **Defined Contribution Plan**.

☐ **Cost of Defined contribution plan** should be accounted as an expense on accrual basis. In case contribution does not fall due within 12 months from the balance sheet date, expense should be recognised for discounted liabilities.

☐ The obligation that arises from the enterprise's informal practices should also be accounted with its obligation under the formal defined benefit plan.

☐ For balance sheet purpose, the amount to be recognised as a defined benefit liability is the present value of the defined benefit obligation reduced by (a) past service cost not recognised and (b) the fair value of the plan asset. An enterprise should determine the present value of defined benefit obligations (through actuarial valuation at intervals not exceeding three years) and the fair value of plan assets (on each balance sheet date) so that amount recognised in the financial statements do not differ materially from the liability required. In case of fair value of plan asset is higher than liability required, the present value of excess should be treated as an asset.

- ☐ For determining Cost to be recognised in the profit and loss account for the **Defined benefit plan**, following should be considered :
 - ☐ Current service cost
 - ☐ Interest cost
 - ☐ Expected return of any plan assets
 - ☐ Actuarial gains and losses
 - ☐ Past service cost
 - ☐ Effect of any curtailment or settlement
 - ☐ Surplus arising out of present value of plan asset being higher than obligation under the plan.
- **Actuarial Assumptions** comprise of following :
 - ☐ Mortality during and after employment
 - ☐ Employee Turnover
 - ☐ Plan members eligible for benefits
 - ☐ Claim rate under medical plans
 - ☐ The discount rate, based on market yields on Government bonds of relevant maturity.
 - ☐ Future salary and benefits levels
 - ☐ In case of medical benefits, future medical costs (including administration cost, if material)
 - ☐ Rate of return expectation on plan assets.
- **Actuarial gains / losses** should be recognised in profit and loss account as income / expenses.
 - **Past Service Cost** arises due to introduction or changes in the defined benefit plan. It should be recognised in the profit and loss account over the period of vesting. Similarly, surplus on curtailment is recognised over the vesting period. However, for other long – term employee benefits, past service cost is recognised immediately.
 - The expected return on **plan assets** is a component of current service cost. The difference between expected return and the actual return on plan assets is treated as an actuarial gain / loss, which is also recognised in the profit and loss account.
 - An enterprise should **disclose** information by which users can evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period. For disclosures requirement refer to para 120 to 125 of the standard.
 - **Termination benefits** are accounted as a liability and expense only when the enterprise has a present obligation as a result of a past event, outflow

of resources will be required to settle the obligation and a reliable estimate of it can be made. Where termination benefits fall due beyond 12 months period, the present value of liability needs to be worked out using the discount rate. If termination benefit amount is material, it should be disclosed separately as per AS – 5 requirements. As per the transitional provisions expenses on termination benefits incurred up to 31 March, 2009 can be deferred over the pay-back period, not beyond 1 April, 2010.

- **Transitional Provisions**

When enterprise adopts the revised standard for the first time, additional charge on account of change in a liability, compared to pre-revised AS – 15, should be adjusted against revenue reserves and surplus.

Accounting Standard 16: Borrowing Costs

- Statement to be applied in accounting for borrowing costs.
- Statement does not deal with the actual or imputed cost of owner's equity/preference capital.
- Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset (assets that takes a substantial period of time to get ready for its intended use or sale. should be capitalized.) Generally, a period of 12 months is considered as a substantial period of time (ASI-1).
- Income on the temporary investment of the borrowed funds be deducted from borrowing costs.
- In case of funds obtained generally and used for obtaining a qualifying asset, the borrowing cost to be capitalized is determined by applying weighted average of borrowing cost on outstanding borrowings, other than borrowings for obtaining qualifying asset.
- Capitalization of borrowing costs should be suspended during extended periods in which development is interrupted. When the expected cost of the qualifying asset exceeds its recoverable amount or Net Realizable Value, the carrying amount is written down.
- Capitalization should cease when activity is completed substantially or if completed in parts, in respect of that part, all the activities for its intended use or sale are complete.
- Financial statements to disclose accounting policy adopted for borrowing cost and also the amount of borrowing costs capitalized during the period.
- In case exchange difference on foreign currency borrowings represent saving in interest, compared to interest rate for the local currency borrowings, it should be treated as part of interest cost for AS 16 (ASI-10).

Accounting Standard 17: Segment Reporting

- Requires reporting of financial information about different types of products and services an enterprise provides and different geographical areas in which it operates.

- A business segment is a distinguishable component of an enterprise providing a product or service or group of products or services that is subject to risks and returns that are different from other business segments.
- A geographical segment is distinguishable component of an enterprise providing products or services in a particular economic environment that is subject to risks and returns that are different from components operating in other economic environments.
- Internal organizational management structure, internal financial reporting system is normally the basis for identifying the segments.
- The dominant source and nature of risk and returns of an enterprise should govern whether its primary reporting format will be business segments or geographical segments.
- A business segment or geographical segment is a reportable segment if (a) revenue from sales to external customers and from transactions with other segments exceeds 10% of total revenues (external and internal) of all segments; or (b) segment result, whether profit or loss, is 10% or more of (i) combined result of all segments in profit or (ii) combined result of all segments in loss whichever is greater in absolute amount; or (c) segment assets are 10% or more of all the assets of all the segments. If there is reportable segment in the preceding period (as per criteria), same shall be considered as reportable segment in the current year.
- If total external revenue attributable to reportable segment constitutes less than 75% of total revenues then additional segments should be identified, for reporting.
- Under primary reporting format for each reportable segment the enterprise should disclose external and internal segment revenue, segment result, amount of segment assets and liabilities, cost of fixed assets acquired, depreciation, amortization of assets and other non cash expenses.
- Interest expense (on operating liabilities) identified to a particular segment (not of a financial nature) will not be included as part of segment expense. However, interest included in the cost of inventories (as per AS 16) is to be considered as a segment expense (ASI-22).
- Reconciliation between information about reportable segments and information in financial statements of the enterprise is also to be provided.
- Secondary segment information is also required to be disclosed. This includes information about revenues, assets and cost of fixed assets acquired.
- When primary format is based on geographical segments, certain further disclosures are required.
- Disclosures are also required relating to intra-segment transfers and composition of the segment.
- AS disclosure is not required, if more than one business or geographical segment is not identified (ASI-20).

Accounting Standard 18: Related Party Disclosures

- **Applicability of AS 18 has been restricted to enterprises whose debt or equity securities are listed in any stock exchange in India or are in the process of listing and all commercial enterprises whose turnover for the accounting period exceeds Rs 50 crores.**
- **The statement deals with following related party relationships: (i) Enterprises that directly or indirectly control (through subsidiaries) or are controlled by or are under common control with the reporting enterprise; (ii) Associates, Joint Ventures of the reporting entity; Investing party or venturer in respect of which reporting enterprise is an associate or a joint venture; (iii) Individuals owning voting power giving control or significant influence; (iv) Key management personnel and their relatives; and (v) Enterprises over which any of the persons in (iii) or (iv) are able to exercise significant influence. Remuneration paid to key management personnel falls under the definition of a related party transaction (ASI-23).**
- **Parties are considered related if one party has ability to control or exercise significant influence over the other party in making financial and/or operating decisions.**
- **Following are not considered related parties: (i) Two companies merely because of common director, (ii) Customer, supplier, franchiser, distributor or general agent merely by virtue of economic dependence; and (iii) Financiers, trade unions, public utilities, government departments and bodies merely by virtue of their normal dealings with the enterprise.**
- **Disclosure under the standard is not required in the following cases (i) If such disclosure conflicts with duty of confidentiality under statute, duty cast by a regulator or a component authority; (ii) In consolidated financial statements in respect of intra-group transactions; and (iii) In case of state-controlled enterprises regarding related party relationships and transactions with other state-controlled enterprises.**
- **Relative (of an individual) means spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in dealings with the reporting entity.**
- **Standard also defines *inter alia* control, significant influence, associate, joint venture, and key management personnel.**
- **Where there are transactions between the related parties following information is to be disclosed: name of the related party, nature of relationship, nature of transaction and its volume (as an amount or proportion), other elements of transaction if necessary for understanding, amount or appropriate proportion outstanding pertaining to related parties, provision for doubtful debts from related parties, amounts written off or written back in respect of debts due from or to related parties.**
- **Names of the related party and nature of related party relationship to be disclosed even where there are no transactions but the control exists.**
- **Items of similar nature may be aggregated by type of the related party. The type of related party for the purpose of aggregation of items of a similar nature implies related party relationships. Material transactions; i.e., more than 10% of related party transactions are not to be clubbed in an aggregated disclosure. The related party transactions which are not**

entered in the normal course of the business would ordinarily be considered material (ASI-13).

- A non-executive director is not a key management person for the purpose of this standard. Unless,
 - he is in a position to exercise significant influence by virtue of owning an interest in the voting power or,
 - he is responsible and has the authority for directing and controlling the activities of the reporting enterprise. Mere participation in the policy decision making process will not attract AS 18. (ASI-21).

Accounting Standard 19: Leases

- Applies in accounting for all leases other than leases to explore for or use natural resources, licensing agreements for items such as motion pictures films, video recordings plays etc. and lease for use of lands.
- A lease is classified as a finance lease or an operating lease.
- A finance lease is one where risks and rewards incident to the ownership are transferred substantially; otherwise it is an operating lease.
- Treatment in case of finance lease in the books of lessee:

At the inception, lease should be recognised as an asset and a liability at lower of fair value of leased asset and the present value of minimum lease payments (calculated on the basis of interest rate implicit in the lease or if not determinable, at lessee's incremental borrowing rate).

Lease payments should be appropriated between finance charge and the reduction of outstanding liability so as to produce a constant periodic rate of interest on the balance of the liability.

Depreciation policy for leased asset should be consistent with that for other owned depreciable assets and to be calculated as per AS 6.

Disclosure should be made of assets acquired under finance lease, net carrying amount at the balance sheet date, total minimum lease payments at the balance sheet date and their present values for specified periods, reconciliation between total minimum lease payments at balance sheet date and their present value, contingent rent recognised as income, total of future minimum sub lease payments expected to be received and general description of significant leasing arrangements.

- Treatment in case of finance lease in the books of lessor:

The lessor should recognize the asset as a receivable equal to net investment in lease.

Finance income should be based on pattern reflecting a constant periodic return on net investment in lease.

Manufacturer/dealer lessor should recognize sales as outright sales. If artificially low interest rates quoted, profit should be calculated as if commercial rates of interest were charged. Initial direct costs should be expensed.

Disclosure should be made of total gross investment in lease and the present value of the minimum lease payments at specified periods, reconciliation between total gross investment in lease and the present value of minimum lease payments, unearned finance income, unguaranteed residual value accruing to the lessor, accumulated provision for uncollectible minimum lease payments receivable, contingent rent recognised, accounting policy adopted in respect of initial direct costs, general description of significant leasing arrangements.

- **Treatment in case of operating lease in the books of the lessee :**

Lease payments should be recognised as an expense on straightline basis or other systematic basis, if appropriate.

Disclosure should be made of total future minimum lease payments for the specified periods, total future minimum sub lease payments expected to be received, lease payments recognised in the P & L statement with separate amount of minimum lease payments and contingent rents, sub lease payments recognised in the P & L statement, general description of significant leasing arrangements.

- **Treatment in case of operating lease in the books of the lessor:**

Lessors should present an asset given on lease under fixed assets and lease income should be recognised on a straight-line basis or other systematic basis, if appropriate.

Costs including depreciation should be recognised as an expense.

Initial direct costs are either deferred over lease term or recognised as expenses.

Disclosure should be made of carrying amount of the leased assets, accumulated depreciation and impairment loss, depreciation and impairment loss recognised or reversed for the period, future minimum lease payments in aggregate and for the specified periods, general description of the leasing arrangement and policy for initial costs.

- **Sale and leaseback transactions**

If the transaction of sale and lease back results in a finance lease, any excess or deficiency of sale proceeds over the carrying amount should be amortized over the lease term in proportion to depreciation of the leased assets.

If the transaction results in an operating lease and is at fair value, profit or loss should be recognised immediately. But if the sale price is below the fair value any profit or loss should be recognised immediately, however, the loss which is compensated by future lease payments should be amortized in proportion to the lease payments over the period for which asset is expected to be used. If the sales price is above the fair value the excess over the fair value should be amortised.

In a transaction resulting in an operating lease, if the fair value is less than the carrying amount of the asset, the difference (loss) should be recognised immediately.

Note : Leases applies to all assets leased out after 1st April, 2001 and is mandatory.

Accounting Standard 20: Earnings Per Share

- Focus is on denominator to be adopted for earnings per share (EPS) calculation.
- In case of enterprises presenting consolidated financial statements EPS to be calculated on the basis of consolidated information, as well as individual financial statements.
- Requirement is to present basic and diluted EPS on the face of Profit and Loss statement with equal prominence to all periods presented.
- EPS required being presented even when negative.
- Basic EPS is calculated by dividing net profit or loss for the period attributable to equity shareholders by weighted average of equity shares outstanding during the period. Basic & Diluted EPS to be computed on the basis of earnings excluding extraordinary items (net of tax expense). (Limited Revision w.e.f 1-4-2004)
- Earnings attributable to equity shareholders are after the preference dividend for the period and the attributable tax.
- The weighted average number of shares for all the periods presented is adjusted for bonus issue, share split and consolidation of shares. In case of rights issue at price lower than fair value, there is an embedded bonus element for which adjustment is made.
- For calculating diluted EPS, net profit or loss attributable to equity shareholders and the weighted average number of shares are adjusted for the effects of dilutive potential equity shares (i.e., assuming conversion into equity of all dilutive potential equity).
- Potential equity shares are treated as dilutive when their conversion into equity would result in a reduction in profit per share from continuing operations.
- Effect of anti-dilutive potential equity share is ignored in calculating diluted EPS.
- In calculating diluted EPS each issue of potential equity share is considered separately and in sequence from the most dilutive to the least dilutive.

- This is determined on the basis of earnings per incremental potential equity.
- If the number of equity shares or potential equity shares outstanding increases or decreases on account of bonus, splitting or consolidation during the year or after the balance sheet date but before the approval of financial statement, basic and diluted EPS are recalculated for all periods presented. The fact is also disclosed.
- Amounts of earnings used as numerator for computing basic and diluted EPS and their reconciliation with Profit and Loss statement are disclosed. Also, the weighted average number of equity shares used in calculating the basic EPS and diluted EPS and the reconciliation between the two EPS is to be disclosed.
- Nominal value of shares is disclosed along with EPS.
- It has been clarified that if an enterprise discloses EPS for complying with requirements of any source or otherwise, should calculate and disclose EPS as per AS 20. Disclosure under Part IV of Schedule VI to the Companies Act, 1956 should be in accordance with AS 20 (ASI-12).
- Note: Earnings Per Share apply to the enterprise whose equity shares and potential equity shares are listed on a recognised stock exchange. If the enterprise is not so covered but chooses to present EPS, then it should calculate EPS in accordance with the standard.

Accounting Standard 21: Consolidated Financial Statements

- To be applied in the preparation and presentation of consolidated financial statements (CFS) for a group of enterprises under the control of a parent. Consolidated Financial Statements is recommendatory. However, if consolidated financial statements are presented, these should be prepared in accordance with the standard. For listed companies mandatory as per listing agreement.
- Control means, the ownership directly or indirectly through subsidiaries, of more than one-half of the voting power of an enterprise or control of the composition of the board of directors or such other governing body, to obtain economic benefit. Subsidiary is an enterprise that is controlled by parent.
- Control of composition implies power to appoint or remove all or a majority of directors.
- When an enterprise is controlled by two enterprises definitions of control, both the enterprises are required to consolidate the financial statements of the first mentioned enterprise (ASI-24).
- Consolidated financial statements to be presented in addition to separate financial statements.
- All subsidiaries, domestic and foreign to be consolidated except where control is intended to be temporary; i.e., intention at the time of investing is to dispose the relevant investment in the 'near future' or the subsidiary operates under severe long-term restrictions impairing transfer of funds to the parent. 'Near future' generally means not more than twelve months

from the date of acquisition of relevant investments (ASI-8). Control is to be regarded as temporary when an enterprise holds shares as 'stock-in-trade' and has acquired and held with an intention to dispose them in the near future (ASI-25).

- CFS normally includes consolidated balance sheet, consolidated P & L, notes and other statements necessary for preparing a true and fair view. Cash flow only in case parent presents cash flow statement.
- Consolidation to be done on a line by line basis by adding like items of assets, liabilities, income and expenses which involves:

Elimination of cost to the parent of the investment in the subsidiary and the parent's portion of equity of the subsidiary at the date of investment. The difference to be treated as goodwill/capital reserve, as the case may be.

Minority interest in the net income to be adjusted against income of the group.

Minority interest in net assets to be shown separately as a liability.

Intra-group balances and intra-group transactions and resulting unrealised profits should be eliminated in full. Unrealised losses should also be eliminated unless cost cannot be recovered.

The tax expense (current tax and deferred tax) of the parent and its subsidiaries to be aggregated and it is not required to recompute the tax expense in context of consolidated information (ASI-26).

The parent's share in the post-acquisition reserves of a subsidiary is not required to be disclosed separately in the consolidated balance sheet. (ASI-28).

- Where two or more investments are made in a subsidiary, equity of the subsidiary to be generally determined on a step by step basis.
- Financial statements used in consolidation should be drawn up to the same reporting date. If reporting dates are different, adjustments for the effects of significant transactions/events between the two dates to be made.
- Consolidation should be prepared using same accounting policies. If the accounting policies followed are different, the fact should be disclosed together with proportion of such items.
- In the year in which parent subsidiary relationship ceases to exist, consolidation of P & L account to be made up to date of cessation.
- Disclosure is to be of all subsidiaries giving name, country of incorporation or residence, proportion of ownership and voting power held if different.
- Also nature of relationship between parent and subsidiary if parent does not own more than one half of voting power, effect of the acquisition and disposal of subsidiaries on the financial position, names of the subsidiaries whose reporting dates are different than that of the parent.

- When the consolidated statements are presented for the first time, figures for the previous year need not be given.
- Notes forming part of the separate financial statements of the parent enterprise and its subsidiaries which are material to represent a true and fair view are required to be included in the notes to the consolidated financial statements (ASI-15).

Accounting Standard 22: Accounting for Taxes on Income

- Effective date when mandatory – (a) For listed companies and their subsidiaries – 1-4-2001 (b) For other companies - 1-4-2002 (c) All other enterprises - 1-4-2003.
- The differences between taxable income and accounting income to be classified into permanent differences and timing differences.
- Permanent differences are those differences between taxable income and accounting income, which originate in one period and do not get reverse subsequently.
- Timing differences are those differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.
- Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets (DTA).

When enterprise has carry forward tax losses, DTA to be recognised only if there is virtual certainty supported by convincing evidence of future taxable income. Unrecognised DTA to be reassessed at each balance sheet date. Virtual certainty refers to the fact that there is practically no doubt regarding the determination of availability of the future taxable income. Also, convincing evidence is required to support the judgment of virtual certainty (ASI-9).

- In respect of loss under the head Capital Gains, DTA shall be recognised only to the extent that there is a reasonable certainty of sufficient future taxable capital gain (ASI - 4). DTA to be recognised on the amount, which is allowed as per the provisions of the Act; i.e., loss after considering the cost indexation as per the Income Tax Act.
- Treatment of deferred tax in case of Amalgamation (ASI-11)
- in case of amalgamation in nature of purchase, where identifiable assets / liabilities are accounted at the fair value and the carrying amount for tax purposes continue to be the same as that for the transferor enter price, the difference between the values shall be treated as a permanent difference and hence it will not give rise to any deferred tax. The consequent difference in depreciation charge of the subsequent years shall also be treated as a permanent difference.
- The transferee company can recognise a DTA in respect of carry forward losses of the transferor enterprise, if conditions relating to prudence as per

AS 22 are satisfied, though transferor enterprise would not have recognised such deferred tax assets on account of prudence. Accounting treatment will depend upon nature of amalgamation, which shall be as follows :

- **In case of amalgamation is in the nature of purchase and assets and liabilities are accounted at the fair value, DTA should be recognised at the time of amalgamation (subject to prudence).**
 - **In case of amalgamation is in the nature of purchase and assets and liabilities are accounted at their existing carrying value, DTA shall not be recognised at the time of amalgamation. However, if DTA gets recognised in the first year of amalgamation, the effect shall be through adjustment to goodwill/ capital reserve.**
 - **In case of amalgamation is in the nature of merger, the deferred tax assets shall not be recognised at the time of amalgamation. However, if DTA gets recognised in the first year of amalgamation, the effect shall be given through revenue reserves.**
 - **In all the above if the DTA cannot be recognised by the first annual balance sheet following amalgamation, the corresponding effect of this recognition to be given in the statement of profit and loss.**
-
- **Tax expenses for the period, comprises of current tax and deferred tax.**
 - **Current tax [includes payment u/s 115JB of the Act (ASI-6)] should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates.**
 - **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 and should not be discounted to their present value. Deferred Tax to be measured using the regular tax rates for companies that pay tax u/s 115JB of the Act (ASI-6).**
 - **DTA should be disclosed separately after the head 'Investments' and deferred tax liability (DTL) should be disclosed separately after the head 'Unsecured Loans' (ASI-7) in the balance sheet of the enterprise. Assets and liabilities to be netted off only when the enterprise has a legally enforceable right to set off.**
 - **The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.**
 - **The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.**
 - **The deferred tax assets and liabilities in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period. However, if timing differences reverse after the tax holiday period, DTA and**

DTL should be recognised in the year in which the timing differences originate. Timing differences, which originate first, should be considered for reversal first (ASI-3) and (ASI-5).

- On the first occasion of applicability of this AS the enterprise should recognise, the deferred tax balance that has accumulated prior to the adoption of this Statement as deferred tax asset / liability with a corresponding credit / charge to the revenue reserves.

Accounting Standard 23: Accounting for Investments In Associates In Consolidated Financial Statements

- Consolidation is applicable to all associates including foreign associates. The statement deals with accounting of associates in the preparation and presentation of CFS.
- Associates is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.
- Significant influence (ordinarily having 20% or more of the voting power) is termed as power to participate in the financial/operating policy decisions but does not have control over such policies. The potential equity shares held by the investee should not be taken into account for determining the voting power of the investor. (ASI-18).
- Investment in associates is accounted in CFS as per equity method. The equity method is not applicable where the investment is acquired for temporary period (AS 18), i.e. intention at the time of investing is to dispose the relevant investment in the 'near future' or where associates operate under severe long-term restrictions. In these circumstances, the investment should be recognised as per AS 13. The use of equity method to be discontinued from the date when investor ceases to have significant influence in an associate.
- Provision for proposed dividend made by the associate in its financial statements, should not be considered for the computation of the investor's share of the results of operations of the associate (ASI-16).
- Goodwill / Capital Reserve on the acquisition of an associate should be separately disclosed under carrying amount of investments.
- Under the equity method, unrealised profit/losses resulting from the transaction between investor and associates should be eliminated to the extent of investor's interest in the associates. However unrealised losses should not be eliminated if cost of the assets cannot be recovered.
- If associate has outstanding preference shares held outside the group, preference dividends whether declared or not to be adjusted in arriving at the investors share of profit or loss.
- If investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor will discontinue its share of loss and will show its investment at nil value.
- Where an associate presents consolidated financial statement, the results and net assets of the associate's CFS should be taken into account.

- The carrying amount of investment in associates, on an individual basis, should be reduced to recognize permanent decline in the value of investment.
- Listing and description of associates including proportion of ownership interest and proportion of voting power should be disclosed in CFS.
- The investor's share of profits or losses and any extra-ordinary or prior period items should be disclosed separately in CFS Profit and Loss A/c.
- If reporting dates or accounting policies of associates are different from that of financial statement of investor then the difference should be reported in the CFS.
- On the first occasion when investment in an associate is accounted for in CFS, the carrying amount of investment in the associate should be adjusted by using equity method, from the date of acquisition, with the corresponding adjustment to the retained earnings in CFS.

Accounting Standard 24: Discontinuing Operations

- The standard requires an enterprise to segregate information about discontinuing operations from continuing one and establishes principles for reporting information about discontinuing operations.
- A Discontinuing operation is a part of an enterprise – (a) which is being disposed of or abandoned pursuant to a single co-ordinated plan; (b) it represents separate line of business or geographical area of operations; and (c) can be distinguished operationally and for financial reporting. All these three conditions need to be satisfied simultaneously.
- Initial Disclosure Event is the earliest occurrence of one of the following :–
 - a. Entering into binding sale agreement for substantially all of the assets attributable to the Discontinuing Operation.
 - b. Enterprise's Governing body has approved a detailed, formal plan for the discontinuance and made an announcement of the plan.
- The statement does not establish any recognition and measurement principles. It requires enterprise to follow principles established in other Accounting Standard for the purpose of changes in assets, liabilities, revenue, expenses etc.
- An enterprise should give these information in its financial statements beginning with the financial period in which the 'Initial Disclosure Event' occurs: (a) Description of discontinuing operation, (b) Segment in which it is reported as per AS 17, (c) Date and nature of Initial Disclosure Event, (d) Time by which the discontinuation is expected to be completed, (e) The carrying amounts of the assets to be disposed of, (f) Revenue, expenses, pre-tax profit / loss, income-tax in relation to the ordinary activities of identified discounting operations.
- On disposal of Assets or settlement of liabilities, disclosure is required for gain/loss recognised on disposal/settlement and income tax expenses thereto.

- On entering into binding contract for sale of assets, disclosure is required for Net Selling price after deducting expected disposal cost, the expected timing of cash flow and the carrying amount of assets on the balance sheet date.
- For period subsequent to initial disclosure event period, description of any significant changes in amount or timing of cash flow is required to be disclosed.
- The disclosures to continue up to the period in which the discontinuance is completed; i.e., discontinuance plan is substantially completed or abandoned.
- In case discontinuance plan is abandoned, the disclosure is required of this fact, reason therefore and its effect on the financial statements.
- All disclosures should be separately presented for each discontinuing operation.
- Disclosure of pre-tax profit/loss from ordinary activities of the discontinuing operation, income tax expenses related thereto, pre-tax gain/loss recognised on the disposal / settlement to be made on the face of profit and loss account.
- Comparative information for prior periods to be re-stated to segregate discontinuing operations.
- In the Interim financial report, disclosure is required for any significant activities or event and any significant changes in the amount or timing of cash flows relating to disposal / settlement.

Accounting Standard 25: Interim Financial Reporting

- Interim financial reports are financial statements (complete or condensed) for on interim period that is shorter than a full financial year.
- Interim financial report should include at a minimum a condensed balance sheet, condensed profit and loss statement, cash flow and selected explanatory notes.
- They should include at least each of the heading and sub headings that were included in the most recent annual financial statements.
- Earnings per share if disclosed is to be calculated and presented as per AS 20.
- Notes to include at least
 - a statement on uniform accounting policies or any change therein.
 - explanatory comments about the seasonality of interim operations.
 - any unusual items (as per AS 5)
 - changes in estimates of amounts reported in prior interim periods/year, if material.
 - issuances, buy-backs repayments and restructuring of debt, equity and potential equity shares.
 - dividends.
 - segment reporting if required.
 - any changes in composition of the enterprise.
 - material changes in contingent liabilities.

- **Interim reports to include**
 - **Balance sheet as of the end of current interim period and a comparative balance sheet as of the end of the preceding financial year.**
 - **Statements of Profit & Loss for current interim period and cumulative for current financial year to date and comparative statements of the previous year (current and year to date)**
 - **Cash flow statement cumulatively for the current financial year to date with a comparative statement of previous year (year to date)**
- **Interim measurements may rely on estimates.**
- **For final interim period separate report not necessary as annual statements are presented.**
- **Uniform accounting policies to be applied in interim and annual financial statements.**
- **Seasonal/occasional revenues and uneven costs to be anticipated or deferred only if appropriate to do so at the end of the financial year.**
- **Estimates to be measured in such a way that resulting information is reliable and all material information disclosed.**
- **In case of change of accounting policies, other than one for which transition is specified by an accounting standard, figures of prior interim periods of current financial year to be restated.**

Note: The presentation and disclosure requirements contained in AS 25 are not required to be applied in respect of 'Interim financial results' – example, the one presented under Clause 41 of the Listing Agreement, since they do not meet the definition of 'interim financial report'. However, the recognition and measurement principles as per AS 25 should be applied.

(ASI-27)

Accounting Standard 26: Intangible Assets

- **Not applicable to intangibles covered by other AS, financial assets, mineral rights/expenditure on exploration, etc. arising in insurance enterprises from contracts with policy holders and also to expenditure in respect of termination benefits.**
- **An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. An asset is a resource:**
 - **controlled by an enterprise as a result of past events; and**
 - **from which future economic benefits are expected to flow to the enterprise.**
- **Useful life is period of time over which an asset is expected to be used or the number of production units expected to be obtained from the asset.**
- **Impairment loss is the amount by which the carrying amount exceeds its recoverable amount.**
- **An intangible asset to be recognised only if future economic benefits will flow and the cost of the asset can be measured reliably.**

- Probability of future economic benefits to be assessed using reasonable and supportable assumptions.
- An intangible asset should be measured initially at cost.
- Internally generated goodwill, brands, mastheads, publishing titles etc. should not be recognised as an asset.
- No intangible asset arising from research to be recognised and expenditure on research should be recognised as an expense, when incurred.
- An intangible asset arising from development to be recognised, if an enterprise can demonstrate its feasibility to complete, intention and ability to use or sell, generation of future economic benefits, and availability of resources for completion and ability to measure the expenditure.
- Expenditure on an intangible item that cannot be treated as an asset, should be recognised as an expense and treated as goodwill (capital reserve), in case of an amalgamation (AS 14).
- Treatment of expenditure (other than expenditure on VRS) incurred on intangible items, which do not meet the criteria of an 'intangible asset':
 - If incurred after the date of AS 26 becoming mandatory – to be expensed out when incurred;
 - The balances of expenditure incurred before the date of AS 26 becoming mandatory and appearing in the balance sheet, should continue to be expensed out over a number of years as originally contemplated;
 - If such balances have been adjusted against the opening balances of revenue reserves as on 1-4-2003, it should be rectified and treated on the above lines.
- Expenditure, on an intangible item recognised as an expense should not form part of cost of an intangible asset at a later date.
- Subsequent expenditure to be added to cost only if it is probable that the expenditure will generate future benefits in excess of the original estimates.
- An intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.
- An intangible asset should be amortised over its useful life on a systematic basis, to reflect the pattern in which the economic benefits are consumed or if the pattern cannot be determined reliably, on the straightline method.
- There is a rebuttable presumption for useful life of an intangible asset – not exceeding ten years from the date it is available for use. In case of intangible assets in form of legal rights, the useful life is not to exceed the period of the legal rights, unless renewable, which is virtually certain.
- Residual value to be taken as zero unless a commitment to purchase the asset or an active market exists.
- The amortisation period and method to be reviewed at each financial year end and any change to be accounted for as per AS 5.
- Any impairment losses to be recognised.

- The recoverable amount of each intangible asset to be estimated at each year end in case of an intangible asset which is not yet available for use and one which is amortised over a period exceeding ten years.
- An intangible asset to be derecognised on disposal or when no future economic benefits are expected from its use and gain or loss recognised.
- Disclosure for each class of intangibles, their useful lives, amortisation rate, amount and method, carrying amount (gross and net), any additions, retirements, impairment losses recognised or reversed and any other change.
- In case of useful life of an intangible asset exceeding ten years, proper disclosure of the reasons for the same should be given.
- Research and Development expenditure recognised as expense to be disclosed.
- On standard being applicable, adjustment to any intangible asset as required to be made with a corresponding adjustment to the opening revenue reserves.

Accounting Standard 27: Financial Reporting of Interests In Joint Ventures

- A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.
- In cases, wherein an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary (as per AS 21) the entity is to be consolidated under AS 21 and is not to be treated as a joint venture as per this Statement. The other venturer(s) may treat the same as a joint venture. (Limited Revision to AS 27 w.e.f 1-4-2004)
- Joint control is the contractually agreed sharing of control over an economic activity.
- For evaluating joint control, one need to consider whether the contractual arrangement provides protective rights or participating rights to the enterprise. The existence of participating rights would be evidence of joint control. With effect from 1-4-2004 this explanations is removed by Limited Revision to the Standard.
- Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.
- A venturer is a party to a joint venture and has joint control over that joint venture.
- An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.
- Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements. The venturer's share in the post acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements (ASI 28).

- **Venturer to recognise in individual and consolidated financial statements its share of assets, liabilities, incomes and expenses in the jointly controlled operations and also in jointly controlled assets.**
- **In venturer's separate financial statements any interest in a jointly controlled entity to be accounted as an investment and AS 13 to be followed.**
- **In a venturer's consolidated financial statements interest in jointly controlled entity to be reported using proportionate consolidation except**
 - **when interest is acquired and held with a view of disposal in near future to be considered as not more than 12 months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances (ASI 8)**
 - **when severe long-term restrictions that impair the ability to transfer funds to the venturer exists.**

In such cases interest to be accounted as investments as per AS 13.

The venturer's share in the post acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements (ASI-28).

- **A venturer to discontinue use of proportionate consolidation from the date**
 - **it ceases to have joint control (may retain interest)**
 - **use of proportionate consolidation is no longer appropriate.**

In such cases AS 21 to be followed if venturer becomes parent and in other cases AS 13 and/or AS 23 to be followed.

- **Cost in such cases is the venturers' share in net assets on date of discontinuance of proportionate consolidation as adjusted by any goodwill/capital reserve recognised at the time of acquisition.**
- **In case of sale of assets by a venturer to the joint venture the venturer should recognise only that portion of gain or loss as attributable to the interests of the other venturers. Full loss to be booked in case of evidence of reduction in the net realisable value of current assets or on impairment loss.**
- **In case of purchase of assets by a venturer from a joint venture, the venturer should recognise its share of profit only on a resale of the asset to an independent party. Loss to be booked in case of reduction in net realisable value of current asset or impairment loss.**
- **In case of transactions between venturer and joint venture the above principles to be followed only in consolidated financial statements.**
- **Investor to follow AS 13, AS 21 and AS 23 as appropriate, for investments in joint ventures.**
- **Operators/Managers of joint ventures to account for fees as per AS 9.**
- **A venturer to disclose separately, in respect of the joint venture, contingent liabilities and capital commitments.**

- A venturer to disclose list of joint ventures and interests in significant joint ventures.
- A venturer to disclose aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.

Accounting Standard 28 : Impairment of Assets

- Applied in accounting for the impairment of all assets, other than:
 - inventories (AS 2);
 - assets arising from construction contracts (AS 7);
 - financial assets, including investments (AS 13); and
 - deferred tax assets (AS 22).
- Recoverable amount is the higher of an asset's net selling price and its value in use.
- Value in use is the 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.
- An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- Useful life is either:
 - the period of time over which an asset is expected to be used ; or
 - the number of production or similar units expected to be obtained from the asset.
- A cash generating unit is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets.
- Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.
- An active market is a market where:
 - the items traded are homogeneous;
 - willing buyers and sellers can normally be found at any time; and
 - prices are available to the public.
 - To assess at each balance sheet date any indication, external or internal as given in AS, that an asset may be impaired and estimate the recoverable amount of the asset.
- In measuring value in use:
 - cash flow projections should be based on assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. Greater weight should be given to external evidence;
 - cash flow projections should be based on the most recent financial budgets/forecasts (maximum 5 years, unless longer period justified) that have been approved by management.
 - cash flow projections beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the

projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate should not exceed the long-term average growth rate for the products, industries, or country or countries in which the enterprise operates, or for the market in which the asset is used, unless a higher rate can be justified.

- **Estimates of future cash flows should include:**
 - projections of cash inflows from the continuing use of the asset;
 - projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
 - net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.
- **Future cash flows should be estimated for the asset in its current condition. They should not include estimated future cash inflows or outflows that are expected to arise from:**
 - a future restructuring to which an enterprise is not yet committed; or
 - future capital expenditure that will improve or enhance the asset in excess of its originally assessed standard of performance.
- **Estimates of future cash flows should not include:**
 - cash inflows or outflows from financing activities; or
 - income tax receipts or payments.
- **The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life should be the amount that is expected to be obtained from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**
- **The discount rate should be a pre tax rate that reflect current market assessments of the time value of money and the risks specific to the asset and should not reflect risks for which future cash flow estimates have been adjusted.**
- **Impairment loss is the reduction in carrying amount of the assets to its recoverable amount.**
- **An impairment loss should be recognised as an expense in the profit and loss account immediately. Impairment loss of a revalued asset should be treated as a revaluation decrease as per AS 10.**
- **If the estimated impairment loss is greater than the carrying amount of the asset, recognise a liability if, and only if, required by another AS.**
- **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 on a systematic basis over its remaining useful life.**
- **In case of any indication of impairment, the recoverable amount should be estimated for the individual asset. If it is not possible, determine the**

recoverable amount of the cash-generating unit to which the asset belongs.

- If an active market exists for the output produced by an asset or a group of assets, the same should be identified as a separate cash-generating unit, even if some or all of the output is used internally. In such case management's best estimate for future market price of output should be used:
 - in determining the value in use of this cash-generating unit, when estimating the future cash inflows that relate to the internal use of the output; and
 - in determining the value in use of other cash-generating units of the reporting enterprise, when estimating the future cash outflows that relate to the internal use of the output.
- Cash-generating units should be identified consistently from period to period for the same asset or types of assets, unless a change is justified.
- The carrying amount of a cash-generating unit should be determined consistently with the way the recoverable amount of the cash-generating unit is determined
- In testing a cash-generating unit for impairment, identify whether goodwill that relates to this unit is recognised in the financial statements. If this is the case, an enterprise should:
 - perform a 'bottom-up' test.
 - if, in the 'bottom-up' test, the carrying amount of goodwill could not be allocated on a reasonable and consistent basis to the cash-generating unit under review, the enterprise should also perform a 'top-down' test.
- In testing a cash-generating unit for impairment, identify all the corporate assets that relate to the cash-generating unit under review. For each identified corporate asset, apply 'bottom-up' test or 'bottom-up' and 'top-down' test both as required.
- Impairment loss should be recognised for a cash-generating unit if, and only if, its recoverable amount is less than its carrying amount. The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:
 - first, to goodwill allocated to the cash-generating unit (if any); and
 - then, to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit.
- These reductions in carrying amounts should be treated as impairment losses on individual assets and recognised either in P & L account or as revaluation decrease as applicable.
- In allocating an impairment loss, the carrying amount of an asset should not be reduced below the highest of:
 - its net selling price (if determinable);
 - its value in use (if determinable); and
 - zero.

- The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro rata basis.
- A liability should be recognised for any remaining amount of an impairment loss for a cash-generating unit if, required by another AS.
- At each balance sheet date, if there are indications internal or external, that an impairment loss recognised for an asset in prior accounting periods, no longer exists/has decreased, then the recoverable amount of that asset to be estimated. For the same consider the following as minimum indications:
 - An impairment loss recognised for an asset in prior accounting periods should be reversed if there is a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset should be increased to its recoverable amount.
 - 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 profit and loss account. In case of revalued assets, the same should be treated as a revaluation increase as per AS 10.
 - After a reversal 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.
 - A 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:
 - first, assets other than goodwill on a pro rata basis based on the carrying amount of each asset in the unit; and
 - then, to goodwill allocated to the cash-generating unit, if the requirements of reversal of impairment loss of goodwill are met.
 - These increases in carrying amounts should be treated as reversals of impairment losses for individual assets and recognised accordingly.
 - 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:
 - its recoverable amount (if determinable); and
 - 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 unit on a pro-rata basis.
 - An impairment loss recognised for goodwill should not be reversed in a subsequent period unless:

- the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and
 - subsequent external events have occurred that reverse the effect of that event.
- For each class of assets, the financial statements should disclose:
 - the amount of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;
 - the amount of reversals of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;
 - the amount of impairment losses recognised directly against revaluation surplus during the period; and
 - the amount of reversals of impairment losses recognised directly in revaluation surplus during the period.
- An enterprise that applies AS 17, should disclose the following for each reportable segment based on an enterprise's primary format (as defined in AS 17):
 - the amount of impairment losses recognised in the statement of profit and loss and directly against revaluation surplus during the period; and
 - the amount of reversals of impairment losses recognised in the statement of profit and loss and directly in revaluation surplus during the period.
 - If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose;
 - the events and circumstances that led to the recognition or reversal of the impairment loss;
- the amount of the impairment loss recognised or reversed;
- for an individual asset:
 - the nature of the asset; and
 - the reportable segment to which the asset belongs, based on the enterprise's primary format (as per AS 17);
- for a cash-generating unit:
 - a description of the cash-generating unit;
 - the amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprise's primary format (as defined in AS 17); and
 - if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating

unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;

- whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;
 - if recoverable amount is net selling price, the basis used to determine net selling price; and
 - if recoverable amount is value in use, the discount rate used in the current estimate and previous estimate (if any) of value in use.
- If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:
 - the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed; and
 - the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed.
- As a transitional provision any impairment loss determined before this standard becomes mandatory should be adjusted against the opening balance of revenue reserve. Impairment losses on revalued assets to be adjusted against balance in revaluation reserve and excess, if any against the opening balance of revenue reserve.

Accounting Standard 29 : Provisions, Contingent Liabilities and Contingent Assets

- This statement should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, other than those resulting from financial instruments that are carried at fair value, those resulting from executory contracts, those arising in insurance enterprises from contracts with policy – holders and those covered by another Accounting Standard.
- **Provision** is a liability, which can be measured only by using a substantial degree of estimation.
- **Liability** is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.
- **Contingent Liability** is -
 - a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
 - a present obligation, but is not recognised because it is not probable that outflow of resources embodying economic benefits will be required (or is remote) for its settlement or a reliable estimate of the amount of the obligation cannot be made.

- **Contingent asset** is a possible asset that arises from past events, the existence of which will be confirmed only by the occurrences or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
- A provision should be recognised when –
 - an enterprise has a present obligation as a result of a past event;
 - it is probable (more likely than not) that an outflow of resources will be required to settle the obligation; and
 - a reliable estimate can be made of the amount of the obligation.
- A contingent liability is not recognised in financial statements but is disclosed.
- A contingent asset is not recognised in financial statements.
- The amount of provision should be measured before tax at the best estimate of the expenditure required to settle the present obligation and should not be discounted to its present value.
- The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in arriving at the best estimate of provision to avoid its under or over statement.
- Expected future events, which are likely to affect the amount required to settle an obligation, may be important in measuring provisions.
- Gains on the expected disposal of assets should not be taken into account in measuring a provision, even if the expected disposal is closely linked with the item requiring provision.
- Whenever all or part of the expenditure relevant to a provision is expected to be reimbursed by another party, the reimbursement should be recognised only on virtual certainty of its receipt. The reimbursement should be treated as a separate asset and should not exceed the amount of the provision. In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.
- Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. The provision should be reversed, if it is no longer probable to result in a liability.
- A provision should be used only for expenditures for which the provision was originally recognised and not against a provision recognised for another purpose, so as not to conceal the impact of two different events.
- Provision should not be recognised for future operating losses, since it is not a liability nor meet the criteria for provisions.
- A restructuring provision should include only the direct expenditures, necessarily entailed by the restructuring and not associated with the ongoing activities of the enterprise.
- Disclosure
 - For each class of provision - the carrying amount at the beginning and end of the period; additional provisions made, amounts used and unused amounts reversed during the period.
 - Also for each class of provision – description of the nature of the obligation, the expected timing of any resulting outflows of

economic benefits, the uncertainties about those outflows and the amount of any expected reimbursement (also stating the amount of any asset recognised therefor)

- **For each class of contingent liability – a brief description of its nature and where practicable, an estimate of its financial effect, the uncertainties relating to any outflow and the possibility of any reimbursement. If the information is not disclosed, being not practicable, the fact thereof is to be disclosed.**
- **In extremely rare cases, disclosure of any information can be expected to prejudice seriously the position of the enterprise in a dispute with other parties; in such cases the information need not be disclosed but, the fact and reason for such non-disclosure alongwith the general nature of dispute should be disclosed.**