

AS – 11, 12, 13, 18, 19, 20, 25

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AS 11 (Revised 2003) – THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

Objective

To lay down principles for deciding which exchange rates to be used and how to recognise the financial effect of changes in exchange rates.

REPORTING AND RECOGNITION PRINCIPLES

- Initial Recognition
- Effects of changes in exchange rate subsequent to initial recognition
- Exchange differences on monetary items
- Forward exchange contracts

INITIAL RECOGNITION

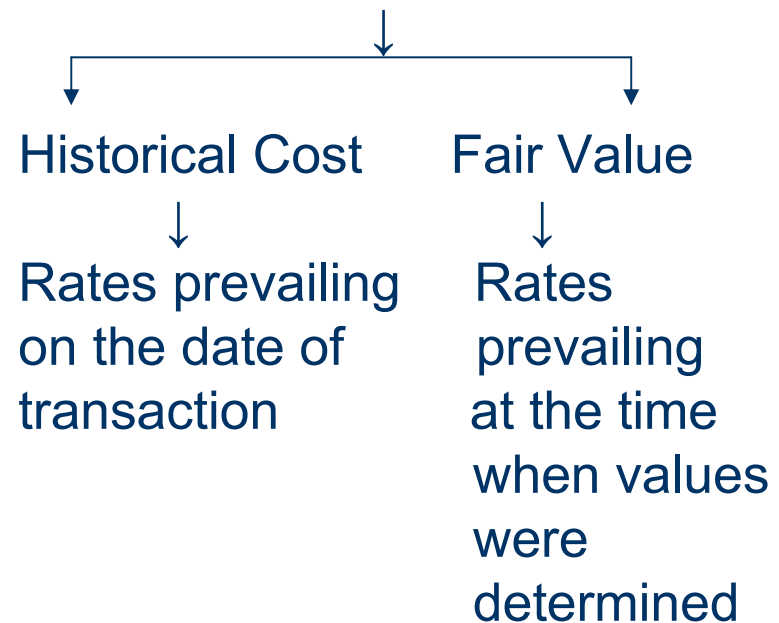
- Rate on date of transactions, or
- If no significant fluctuations, average rate if it approx. actual rate.

Effects of Changes in Exchange Rate Subsequent to Initial Recognition

Monetary Items
(fixed or determinable amount)

↓
Closing Rate or other
realistic rate

Non-monetary items,
carried in terms of



EXCHANGE DIFFERENCES ON MONETARY ITEMS

Relating to an enterprise's net investment in a non-integral foreign operation



To be accumulated in a foreign currency translation reserve until the disposal of net investment

Others



Income or expense of the period

FORWARD EXCHANGE CONTRACTS

For trading or speculative
Purposes



- Amortise premium/discount arising at the inception of the contract over the life of contract.
- Recognise the exchange difference in the profit and loss account in the reporting period in which exchange rates change.
- Recognise profit or loss arriving on cancellation or renewal, as income/expense for the period.

Others



- Ignore premium or discount.
- Mark the value of contract to its current market value on each balance sheet date and recognise the gain or loss

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

- Non-Integral Foreign Operations
- Integral foreign Operations

DIFFERENCE BETWEEN INTEGRAL FOREIGN OPERATION (IFO) AND NON-INTEGRAL FOREIGN OPERATION (NFO)

Integral Foreign Operation

- A foreign operation, the activities of which are an integral part of those of the reporting enterprise.
- IFO carries on business in a single foreign currency, i.e., of the country where it is located.
- Cash flow from operations (IFO) are directly & immediately affected by a exchange rate.
- Changes in the exchange rate affects the individual monetary items held by the IFO rather than the reporting enterprise's Net Investment in the IFO.

Non-Integral Foreign Operation

- A foreign operation that is not an integral foreign operation.
- NFO business may also enter into transactions in foreign currencies, including transactions in the reporting currency.
- Cash flow from operations (NFO) has little or no direct effect by a exchange rate.
- Changes in the exchange rate affects the reporting enterprise's net investment in the NFO rather than the individual monetary and non-monetary items held by that NFO.

NON-INTEGRAL FOREIGN OPERATIONS

- Assets & liabilities → → Closing Rate
(Monetary & non-monetary)
- Income & Expense → → Actual rate of the date of transactions
- Contingent Liabilities → Closing Rate
- Capital Reserve on → Closing Rate
acquisition

INTEGRAL FOREIGN OPERATIONS

- Individual items in FS of foreign exchange → Actual rate on the date of transaction
- Cost & depreciation of tangible fixed assets –
 - (a) When FA carried at cost → Rate at date of purchase
 - (b) When FA carried at FV → Rate that existed on the date of valuation
- Inventories –
 - (a) Cost → Rate when cost was incurred
 - (b) NRV → When NRV is determined, usually the closing rate

OTHER ISSUES

Disposal of non-integral
Operation



Recognise the cumulative amount of the exchange differences that have been deferred and which relate to that operation, as income/ expense in the period in which gain/ loss on disposal is recognised

Tax effects of exchange
Differences



Apply AS 22

Changes in classification of a foreign operation

Apply the translation procedures to the revised classification from the date of change in the Classification



Integral to non-integral
Accumulate the exchange differences arising on translation of non-monetary assets at the date of re-classification, in foreign currency translation reserve

- Non-integral to integral
- Translated amount of non-monetary items at the date of change treated as historical cost
 - Exchange differences lying in foreign currency translation reserve not to be recognised as income/expense till the disposal of operation

DISCLOSURES

- Exchange differences included in net profit or loss for the period.
- Amount accumulated in foreign exchange translation reserve
- Reconciliation of opening and closing balance of foreign exchange translation reserve.
- If reporting currency is different from the currency of the country in which entity is domiciled, the reasons for such difference.
- When there is a change in classification –
Nature and reason for change
Impact of change on shareholders' funds
Impact on net profit or loss for each prior period presented had occurred at the beginning of the earliest period presented.

AS 12 – ACCOUNTING FOR GOVERNMENT GRANTS

Objective

To lay down the accounting treatment norms of government grants such as subsidies, cash incentives, duty drawbacks, etc.

WHEN TO RECOGNISE

There is reasonable assurance that –

- the enterprise will comply with attached condition, if any
- the grant will be received

ACCOUNTING TREATMENT

**In nature of promoter's
Contribution**



Credit to Capital Reserve



Cannot be distributed as
dividend or treated as
deferred income

In nature of revenue
Two alternatives



Deduct grant
from related
expenses
(which it
Intends to
Compensate)

Credit P&L A/c on
a systematic basis
over periods
necessary to match
it with related costs

ACCOUNTING TREATMENT – DEPRECIABLE FIXED ASSET

- Deduct grant from value of asset
- Depreciation on net value (gross value - grant)
- When equals the whole or virtually the whole of the cost of the asset, show asset at nominal value
- Treat it as deferred income & recognise as income in the proportion in which depreciation is charged every year
- Depreciate on gross value

ACCOUNTING TREATMENT – NON-DEPRECIABLE FIXED ASSET

No conditions to be fulfilled



Credit to capital reserve

Conditions to be fulfilled



Credit to income over the same period over which cost of meeting such obligation is charged to income

ACCOUNTING TREATMENT – SPECIAL CASES

Contingency



If contingency arises after grant has been recognised apply AS 4 (Revised)

Non-monetary Grant



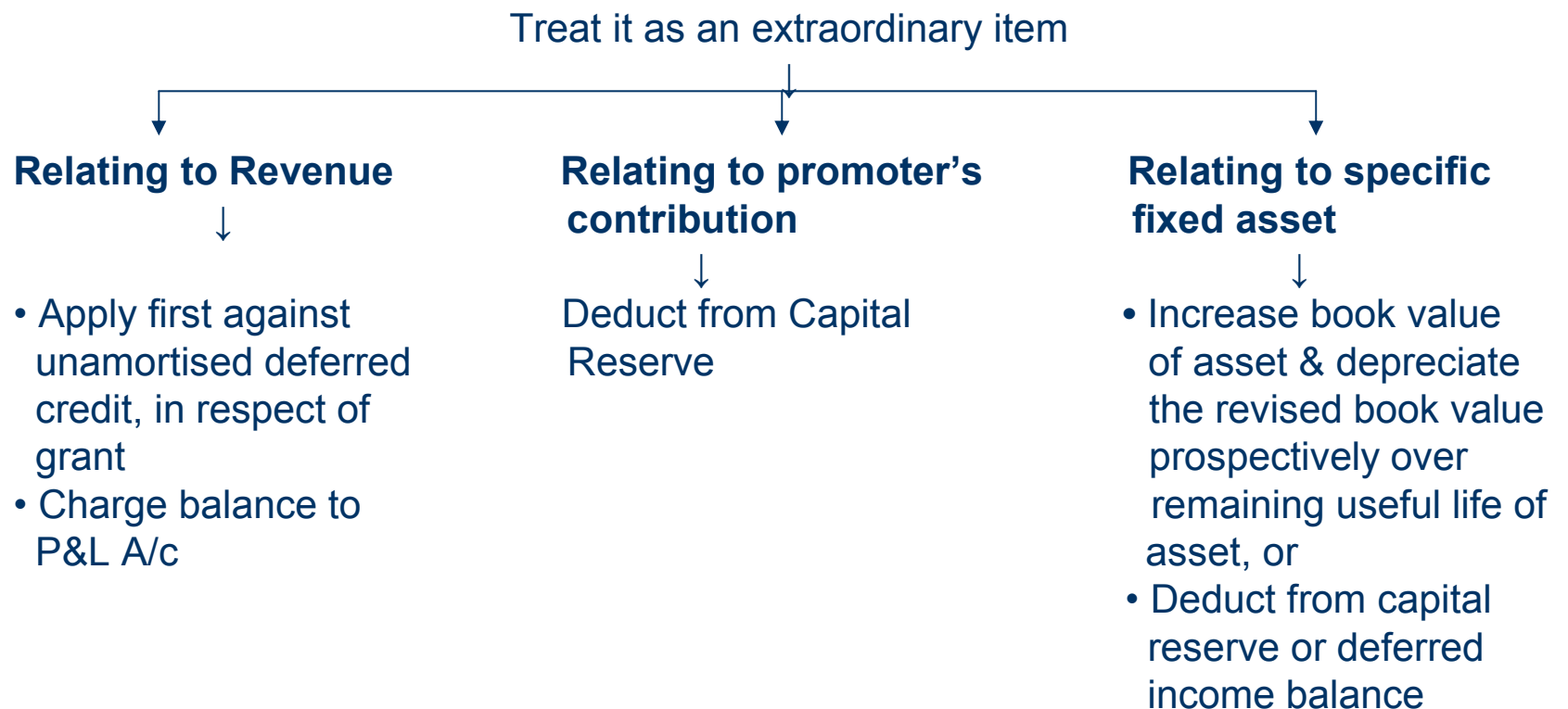
- Assets given at concessional rates
 - record at acquisition cost
- Assets given free of cost
 - record at nominal value

Extraordinary Items



- Apply AS 5 (Revised) when grant is awarded
- for giving immediate financial support & not as an incentive to undertake specific expenditure, or
 - as compensation for expenses or losses incurred in previous periods

REFUND OF GRANTS



DISCLOSURE

- Accounting policy including the methods of presentation
- Nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate of cost

AS 13 – ACCOUNTING FOR INVESTMENTS

Objective

To prescribe accounting treatment for investments in the financial statements of an enterprise and related disclosure requirements

TYPES OF INVESTMENTS

Current



- Ready realisable
- To be held for one year or less

Long Term



Intended to held for long period

COMPUTATION OF COST = Purchase Price + Incidental Expenses – Pre-Acquisition Income

Purchase price when actual cash has been paid



Take actual cash price

Acquired for consideration other than cash (fully or partly)



Issue of Securities



Fair value of securities Issued

In exchange for another asset



Fair value of asset given up of investment, whichever, is clearly evident

CARRYING AMOUNT – NOT TO BE VALUED ON GLOBAL BASIS

Current Investment



- Lower of cost and fair value
- Reduction to fair value and any reversals thereof taken to P&L A/c

Long-term Investment



- Cost
- Permanent reduction to be charged to P&L A/c
- Permanent reduction can be reversed when value of investment rises

DISPOSAL OF INVESTMENTS

Investment fully sold



- Ascertain carrying amount (a)
- Ascertain Net disposal proceeds (b)

If $a > b$, Charge difference to P&L A/c

$a = b$, No further action required

$a < b$, Credit difference to P&L A/c

Investment partly sold



- Ascertain proportionate carrying amount (through FIFO, Average Cost, etc) (a)
- Ascertain Net disposal proceeds (b)

If $a > b$, Charge difference to P&L A/c

$a = b$, No further action required

$a < b$, Credit difference to P&L A/c

RECLASSIFICATION

Current to Long-term



Transfer at lower of cost
and fair value at the date
of transfer

Long-term to Current



Transfer at lower of cost
and carrying amount at
the date of transfer

DISCLOSURE

- Accounting policies adopted for determination of carrying amounts.
- Gross income from interest, dividends, rentals separately from long-term and current investments
- TDS on gross income under 'Advance Taxes Paid'.
- Profits and losses on disposal of current investments, along with their carrying amounts.
- Significant restrictions on right of ownership, realisability or the remittance of income and proceeds of disposal.
- Aggregate amount of quoted and unquoted investments.
- Aggregate market value of quoted investments.
- Other disclosures, if any, under relevant statute.

AS 18 – RELATED PARTY DISCLOSURES

Objective

To establish the disclosure requirements of related party relationships and transactions between a reporting enterprise and its related parties

RELATED PARTY – MEANING

Ability to CONTROL or exercise SIGNIFICANT INFLUENCE over the other party in financial/ operating decisions

CONTROL & SIGNIFICANT INFLUENCE – MEANING

Control Means



- > 50% voting power
- Control over board composition
- Substantial interest in voting power + power to direct

Significant Influence

means



- Participation in financial /operating policy decisions
- If > 20% voting power, it is presumed unless proved otherwise

SCOPE

APPLIES ONLY TO

- Holding, subsidiaries, fellow subsidiaries
- Associates & Joint ventures
- Individuals & other relatives
- Key management personnel & their relatives
- Enterprises owned by directors or major subsidiaries
- Enterprises having a common key management personnel

SPECIFIC EXCLUSIONS

- 2 companies just because of a common director (provided the director is not able to affect their policies in mutual dealings)
- Single customer, supplier, franchisee, distributor or general agent, just because of significant business volume
- Following parties –
Financer, Trade unions, Public utilities, Govt. departments/agencies/bodies

DISCLOSURES

(Items of **similar nature** may be clubbed provided any item individually is not **significant**: However it should not result in obscuring the importance of significant transactions) = the materiality involved is **10% criteria**

- Name of related party –
 - Nature of related party relationship
- If there have been transactions b/w related parties –
 - Name of transacting party
 - Description of relationship & nature of transactions including volume
 - Outstanding items on balance sheet date & provision for doubtful debts due from such parties
 - Write offs during the reporting period of dues from/to related parties
 - Other necessary elements
- Items of similar nature

NO DISCLOSURE REQUIRED

- If disclosures would be in conflict with the reporting enterprise's duty of confidentiality
- With respect to intra-group transactions in consolidated financial statements
- Related party relationships and transactions between state-owned enterprises

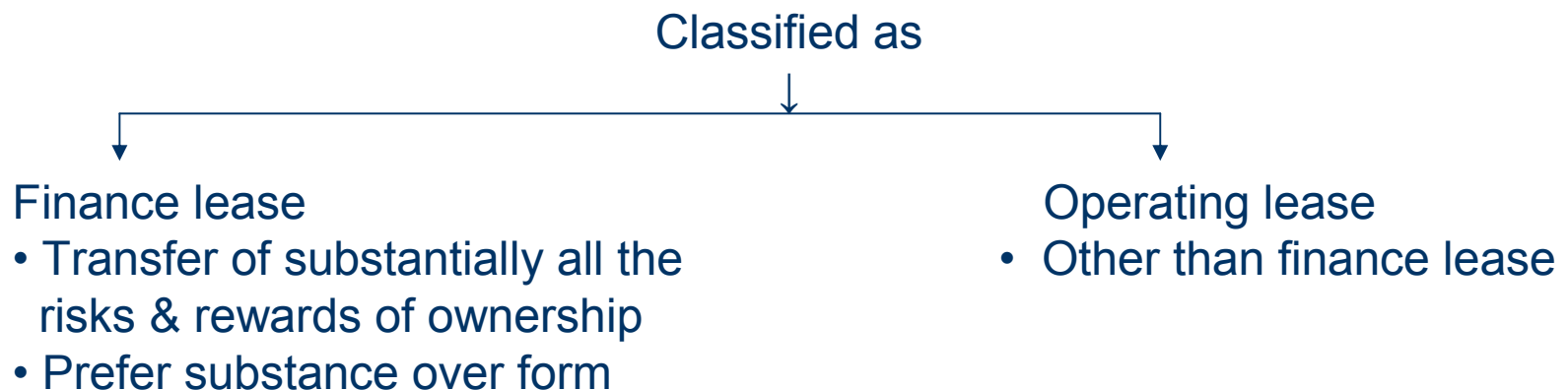
AS 19 – LEASES

Objective

To prescribe appropriate accounting treatment and disclosures in relation to finance and operating, leases in the books of lessor and lessee

CLASSIFICATION

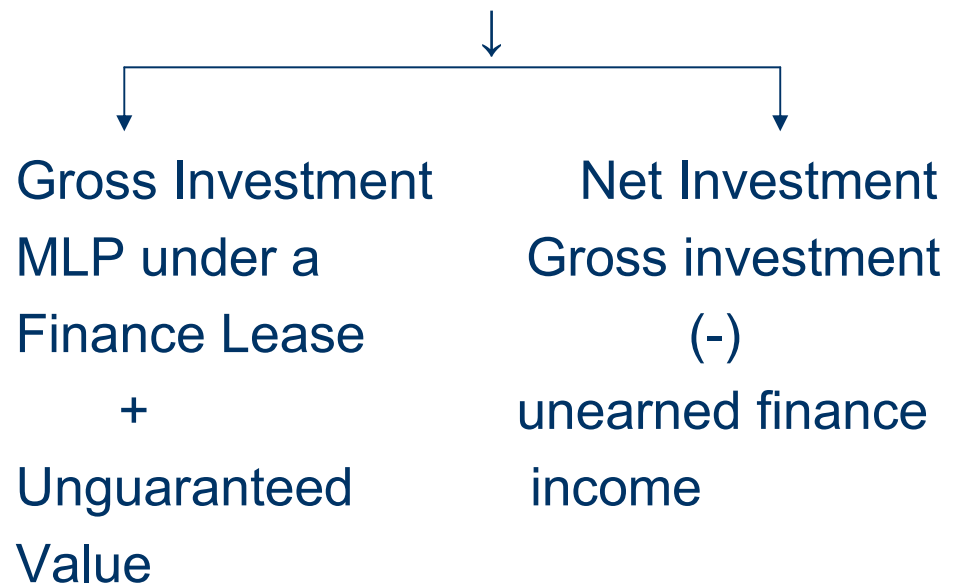
- To be done at the inception of lease (inception is earlier of date of –
→ lease agreement, or
→ a commitment by the parties to the principal provisions of lease)
- Reclassification possible but not due to changes in estimates/circumstances.



SOME KEY TERMS

Minimum Lease Payments (MLP) –
Lease payments over
Lease term
+
Residual value
guaranteed by on
behalf of lessee

Investment



SOME KEY TERMS – Contd.

Implicit Interest Rate –
Discount rate that makes present value of Gross Investment just equal to fair value (arm's length price) of leased asset.

Lessee's Incremental borrowing rate of interest –
Rate of interest that the lessee would have to pay on a similar lease .

ACCOUNTING TREATMENT – FINANCE LEASE

LESSOR –

- Recognise as receivables at an amount equal to net investment
- Recognise finance income in P&L A/c, ensure constant periodic return on net investment o/s
- Reduce lease payments from principal & unearned finance income
- Increase in unguaranteed residual value not recorded, for decrease revise income allocation
- Allocate initial direct costs against finance income over lease term or recognise immediately as an expense
- Record profit as per policy

LESSEE –

- Recognise lease as an asset & liability at inception
- Record at **higher of** –
 - Fair value at inception
 - Present value of MLP (from lessee's perspective)
- Apportion lease payment between finance charge & reduction of o/s liability (finance charge to be calculated in a manner ensuring constant periodic rate of interest)
- Depreciate the asset on a systematic basis

ACCOUNTING TREATMENT – OPERATING LEASE

LESSOR –

- Do not recognise selling profit
- Show asset on lease as fixed asset
- Recognise cost & depreciation as expense
- Allocate initial direct costs over the lease term in proportion to the recognition of rent income or treat them as period expense
- Recognise lease income on a straight line basis, unless other basis is justified

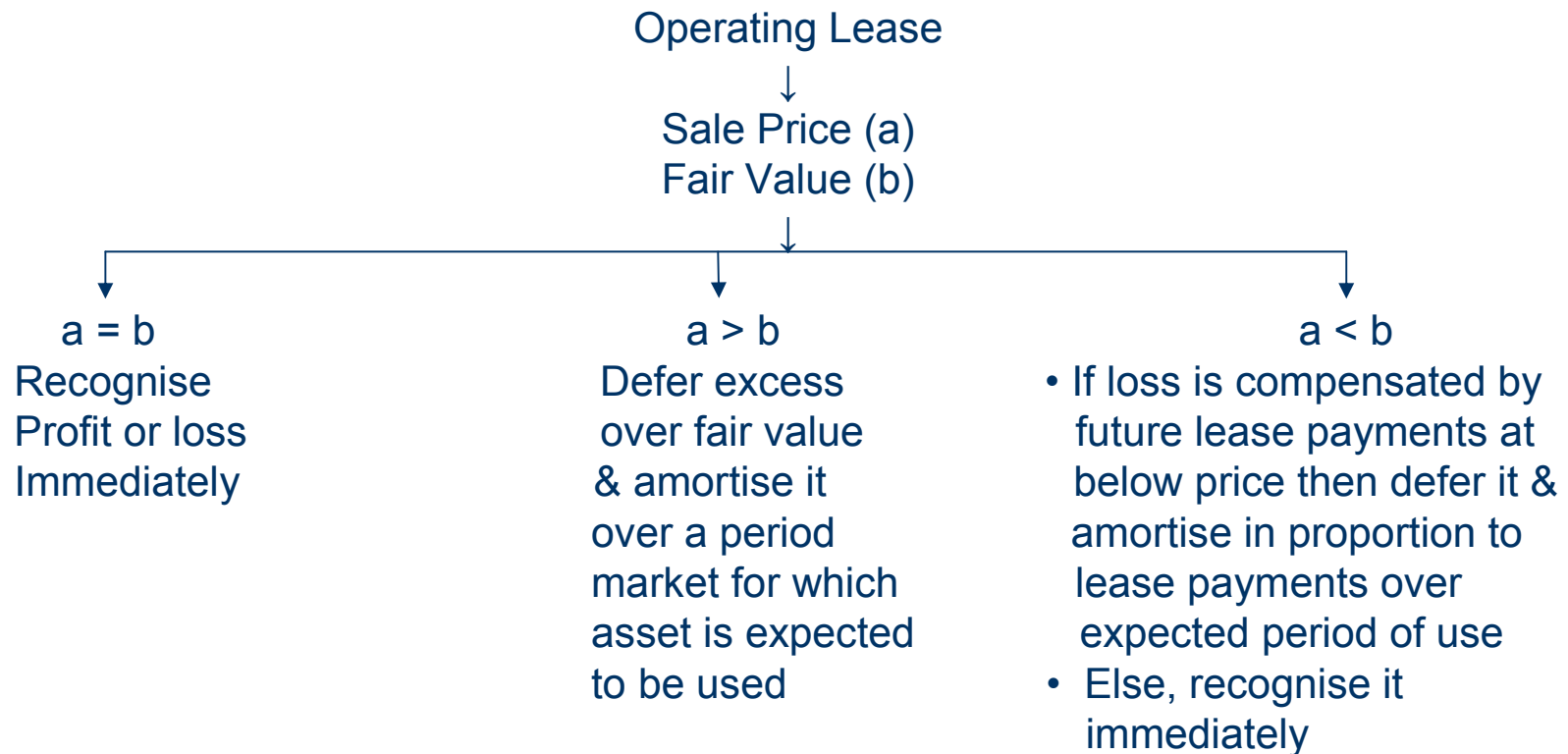
LESSEE –

- Recognised lease payments as an expense on straight line basis unless other basis is justified

SALE & LEASE BACK TRANSACTIONS – FINANCE LEASE

Defer any excess or deficiency of sale proceeds over carrying amount & amortise it over term in proportion of depreciation on leased asset

SALE & LEASE BACK TRANSACTIONS – OPERATING LEASE



DISCLOSURES – FINANCE LEASE

LESSOR

- Reconciliation b/w gross investment & present value of MLP receivable at balance sheet date.
- Unearned finance income
- Unguaranteed residual value
- Accumulated provision for uncollectible MLP recognised
- Contingent rent recognised
- General description of significant leasing agreements
- Accounting policy for initial direct costs

LESSEE

- Segregate leased asset from owned asset
- Net carrying amount at balance sheet date for each class of assets
- Reconciliation b/w MLP at balance sheet date and present value
- Contingent rents recognised
- Future minimum sub-lease payments to be received under non-cancellable sub-leases
- General description of significant leasing agreements
- AS6 (Revised) & AS 10 disclosures

DISCLOSURES – SALE & LEASE BACK

Both lessor and lessee

- Description of significant leasing arrangements
- Disclosure under AS 5 (Revised), if applicable

DISCLOSURES – OPERATING LEASE

LESSOR

- For each class of assets –
 - Gross carrying amount
 - Accumulated & period depreciation
 - Accumulated & period impairment loss
 - Impairment loss reversed for the period
- Future MLP under non-cancellable lease
- Contingent rent recognised
- General description of significant leasing agreements
- Accounting policy for initial direct costs
- AS 6 (Revised) & AS 10 disclosures

LESSEE

- Future MLP under non-cancellable lease
- Future minimum sub-lease payments receivable for non-cancellable sub-leases
- MLP & contingent rent recognised
- Sub-lease payments recognised
- General description of significant leasing agreements

AS 20 – EARNINGS PER SHARE

Objective

To lay down guidelines for calculation of 'Number of Shares' for finding EPS so as to maintain uniformity in calculating EPS

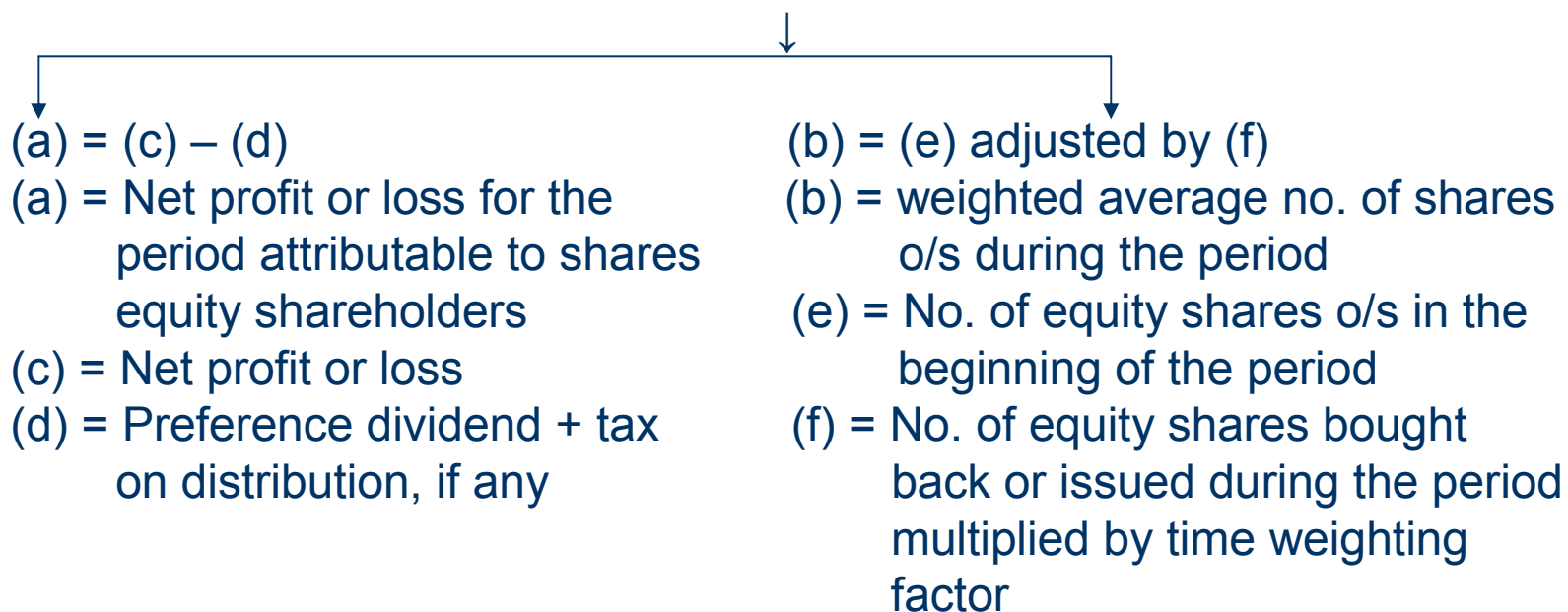
WHAT IS TO BE CALCULATED

- Basic EPS
- Diluted EPS

For each class of equity shares that carries different rights to share in net profits

HOW TO CALCULATE – BASIC EPS

$$\text{Basic EPS} = (a)/(b)$$



HOW TO CALCULATE – DILUTED EPS

$$\text{Diluted EPS} = (g)/(h)$$

(g) = (a) Adjusted for (i)

- (i) =
- Interest & dividend recognised in the period relating dilutive potential equity shares including adjustment for change in tax expense.
 - After tax amount of other changes in expenses/income resulting from conversion of dilutive potential equity shares

(h) = (b) + (j)

(j) = Weighted average no. of additional equity shares that would have been o/s if all dilutive potential equity shares had been converted

RESTATEMENT OF BASIC & DILUTED EPS

- When no. of equity or potential shares o/s changes (due to bonus, right, share split or consolidation of shares) after balance sheet date but before approval of financial statements, EPS calculations for that period and any prior period to be based on new no. of shares.
- EPS not to be adjusted for transactions occurring after balance sheet date and not affecting amount of capital used for earning profits.

DISCLOSURES

MANDATORY

- Basic & diluted EPS (whether positive or negative)
- Fact of a change in calculations of EPS due to bonus, right etc.
- Reconciliation of net profit or loss with the numerator
- Weighted average no. of equity shares for basic & diluted EPS & their reconciliation with each other
- Nominal value of shares along with EPS figure

VOLUNATRY & RECOMMENDED

- Per share amount for various components of net profit e.g., profit from ordinary activities
- Terms & conditions of contracts generating potential equity shares
- If P&L A/c includes extraordinary items (as per AS 5 (Revised)) then
→ Basic & diluted EPS on the basis of earnings excluding extraordinary items (net of tax expense)
- Post balance sheet events

AS 25 – INTERIM FINANCIAL REPORTING

Objective

To lay down what information should be provided in interim financial reporting reports and to prescribe the recognition and measurement principles

SCOPE

To be followed only when an enterprise is otherwise required to prepare and present interim financial statements (IFS)

FORM & CONTENTS

- Minimum components –
 - Condensed balance sheet, P&L A/c, cash flow statements [(CFS) containing at a minimum each of the heading & sub-heading of latest annual FS].
 - Selected explanatory notes (to be disclosed on a year to date basis).
- Basic & Diluted EPS to be presented if it is presented in annual FS.
- Should include CFS if annual financial report also contain CFS.

PERIOD FOR WHICH COMPONENTS TO BE PRESENTED

- Balance Sheet –
 - As on end of current interim period
 - Comparative as at end of immediately preceding financial year
- Profit & Loss Account –
 - For the current interim period & year to date
 - Comparative for current interim period & year to date of immediately preceding financial year
- Cash flow statement –
 - Year to date for current financial year
 - Comparative year to date of immediately preceding financial year
- For seasonal business –
 - Additional reporting for 12 months ending on interim reporting date & comparative for prior 12 month period

RECOGNITION AND MEASUREMENT PRINCIPLES

- Same as in annual financial statements
- Revenues received seasonally or occasionally & cost incurred unevenly to be anticipated or deferred at an interim date only if it would have been appropriate at year end

OTHER KEY ISSUES

- Nature & amount of changes in accounting estimates relating to final interim period to be disclosed as a note in the annual financial statements if, separate IFS are not prepared for final interim period
- A change in accounting policy for which transition is not specified by any AS, to be applied retrospectively to prior interim period of current financial year
- Accounting policy changes made in current period (and, hence, could not be presented in the latest annual financial statements) to be incorporated in the IFS of current period

TRANSITIONAL PROVISIONS

No need to present the following statements for all interim periods of a financial year for which IFS are presented for the first time –

- Comparative current & year to date statement of profit and loss for immediately preceding financial year
- Comparative CFS for the comparable year to date period of the immediately preceding financial year