

FINANCIAL REPORTING

B.Com

(V SEMESTER)

CORE COURSE

(Finance specialization)

(2014 Admission onwards -CUCBCSS)



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

Calicut university P.O, Malappuram Kerala, India 673 635.



UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

STUDY MATERIAL

FINANCIAL REPORTING

Core Course

(Finance specialization)

B.Com

V Semester

Prepared by

Unit 1, 2 & 5

Sri. MuhammedSalim.K.C
Assistant Professor
Post Graduate & Research Department of
Commerce
Govt. College Madappally

Unit 3 &4

Sri. Praveen.M.V
Assistant Professor
Post Graduate & Research Department of
Commerce
Govt. College Madappally

Layout: Computer Section, SDE

©
Reserved

CONTENTS	PAGE No
UNIT -1	05
UNIT-2	16
UNIT-3	35
UNIT-4	54
UNIT-5	74

Unit - 1

BASICS OF FINANCIAL REPORTING

Introduction

Accounting is a financial information system. As a financial information system, accounting is a process of identifying, measuring, recording and communicating information to interested parties. Accounting system that converts inputs into outputs. Inputs are the business transactions and external events. Outputs are the financial statements prepared from the record of business transactions and events. Outputs include income statement, balance sheet, Cash flow statement, etc. these statements provide information for decision making. At the end of each accounting year, every business enterprise is curious to know whether it has earned a profit or suffered a loss during the accounting period. Similarly, it also wants to know its financial position. It is for these purpose financial statements are prepared.

Meaning of financial statements

Financial statements are the statements showing the financial position and results of business operation at the end of the accounting period. The basic traditional statements are balance sheet and profit and loss account. General purpose financial statements are financial statements which are used by all categories of users. These include balance sheet, statement of profit or loss, cash flow statement, notes to financial statement etc.

Objectives of preparing financial statements

1. To show the position of asset or liabilities
2. To provide various information to various stakeholders
3. To present true and fair view of the business
4. To forecast earning capacity of the business
5. To assess credit worthiness of the business
6. To decide about future of the business

Uses of financial statement to users

1. **To owners of an entity:** Financial statements help owners to get valuable information regarding the financial soundness of their organization. It enables them to know financial position and growth of their business.
2. **To management:** For the professional management of a joint stock company, managers need various information. Financial statements provide most of the information for their decisions. Financial statements serve as “eyes and ears to management”.

3. **To suppliers and creditors:** The suppliers of goods and services are interested in the liquidity position of the company. Creditors also interested in the financial position and credit worthiness of a firm. They will take decision on long term continuity of business according the available information in the statement.
4. **To customers:** Customers are also interested in the affairs of the company. It helps them to know about quality of the product, price and so on.
5. **To financial institutions:** Lenders will get valuable information about the creditworthiness of the company from the financial statements. Financial statements enable them to know future payment of interest and instalments.
6. **To employees and trade unions:** Employees need information regarding profitability and continuity of the business. Potential employees are also interested in the financial statements to decide whether to join the enterprise or not. Existing employees will demand for higher wages and other incentives according to the information available in the financial statement.
7. **To Government and other agencies:** Financial statements assist Government to frame taxation policies, Exim policies, annual budget etc. These statements help controlling agencies like SEBI, RBI, IRDA etc., to exercise control over them.
8. **To public:** Public are interested in the development of infrastructure, employment opportunities, etc. Financial statements also help them to know whether the company is doing its social responsibility.

Concept of Accounting Standards:

Generally Accepted Accounting Principles (GAAP) aims at bringing uniformity and comparability in the financial statements. It can be seen that at many places, GAAP permits a variety of alternative accounting treatments for the same item. For example, different methods for valuation of stock give different results in financial statements. Such practices sometimes can misguide intended users in taking decision relating to their field. Keeping in view the problems faced by many users intended users in taking decision relating to their field. Keeping in view the problem faced by many users of accounting a need for the development of common accounting standard was aroused.

Meaning of Accounting Standards:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information. Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

Nature of Accounting Standards:

- 1. Serve as a guide to the accountants:** Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.
- 2. Act as a dictator:** Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own but to opt for practices other than those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.
- 3. Serve as a service provider:** Accounting standards comprise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.
- 4. Act as a harmonizer:** Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

Objectives of Accounting Standards:

In earlier days, accounting was just used for recording business transactions of financial nature. Its main emphasis now lies on providing accounting information in the process of decision making.

- 1. For bringing uniformity in accounting methods:** Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6(Revised) states the methods for depreciation accounting.
- 2. For improving the reliability of the financial statements:** Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.
- 3. Simplify the accounting information:** Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash in terms of 'operating activities', 'investing activities' and 'financing activities'.
- 4. Prevents frauds and manipulations:** Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimize

- 5. Helps auditors:** Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts.

Accounting Standard Boards of India (ASB)

On 21st April 1977, The Institute of Chartered Accountants of India, as a premier accounting body in our country, set up the “Accounting Standard Board” (ASB) to harmonise the diverse accounting policies and practice prevalent in our country. The primary duty of ASB is to formulate the accounting standards for India. These standards may be established by the Council of the Institute in India. During formulation of accounting standards, the ASB considered the applicable laws, usages, customs and the business environment existing in our country. For this purpose ASB took the valued views and guidelines of various industrial houses, the Government and other interested parties. The body consists of the following members: Company Law Board, CBDT, Central Board of Excise and Customs Controller General of Accounts, SEBI, Comptroller & Auditor General of India, UGC, Educational and Professional Institutions, Council of the Institute and representatives of Industry, Banks.

The Accounting Standards will, however, be issued under the guidance of the Council. As such, ASB has given the authority of propagating the Accounting Standards and instituting the parties to prepare and present the accounts on the basis of Accounting Standards. ASB will explain the basic concepts on which accounting principles should be oriented and will also explain the accounting principles on which the practice and procedures should conform while performing its functions. However, this Council of the Institute of Chartered Accountants of India (ICAI) has issued 32 Accounting Standards (AS) so far.

Requirements for international accounting standards

1. Financial analysis is more costly and less efficient
2. Lack of comparability causes the credibility of accounting to suffer
3. It does not make economic sense for every country to incur the enormous cost of developing its own national standards
4. Most stock exchanges already accept IAS for cross-border listings
5. European Union (EU) law will require European listed companies to adopt IAS in 2005

IASB (International Accounting Standard Board)

The IASB (International Accounting Standards Board) is the independent standard-setting body of the IFRS Foundation. All meetings of the IASB are held in public and webcast. In fulfilling its standard setting duties the IASB follows a thorough, open and transparent due

process. This process leads to publication of consultative documents, such as Discussion Papers and Exposure Drafts, for public comment. The IASB engages closely with stakeholders around the world, including investors, analysts, regulators, business leaders, accounting standard-setters and the accountancy profession.

FASB (Financial Accounting Standard Board)

Financial Accounting Standards Board (FASB) is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut, that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP). The FASB is recognized by the Securities and Exchange Commission as the designated accounting standard setter for public companies. FASB standards are recognized as authoritative by many other organizations, including state Boards of Accountancy and the American Institute of CPAs (AICPA). The FASB develops and issues financial accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to investors and others who use financial reports.

Role of IASB in IFRS Setting Process

1. **Setting the agenda:** The IASB, by developing high quality financial reporting standards, seeks to address a demand for better quality information that is of value to those users of financial reports. When deciding whether a proposed agenda item will address users' needs the IASB considers: The relevance to users of the information and the reliability of information that could be provided, Existing guidance available, The possibility of increasing convergence, The quality of the IFRS to be developed, Resource constraints. To help the IASB in considering its future agenda, its' staff is asked to identify, review and raise issues that might warrant the IASB's attention. New issues may also arise from a change in the IASB's Conceptual Framework for Financial Reporting. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.
2. **Planning the project:** When adding an item to its active agenda, the IASB decides whether to conduct the project alone or jointly with another standard-setter. Similar due process is followed under both approaches. When considering whether to add an item to its active agenda, the IASB may determine that it meets the criteria to be included in the annual improvements process. The IASB assesses the issue against criteria such as Clarifying, Correcting, Well defined and sufficiently narrow in scope that the consequences of the proposed change have been considered, Completed on a

timely basis, All criteria must be met to qualify for inclusion in annual improvements. Once this assessment is made, the amendments included in the annual improvements process will follow the same due process as other IASB projects. The primary objective of the annual improvements process is to enhance the quality of IFRSs by amending existing IFRSs to clarify guidance and wording, or correcting for relatively minor unintended consequences, conflicts or oversights. After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage and a project team for the project will be selected. The project manager draws up a project plan under the supervision of the directors of the technical staff and the project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

3. **Developing and publishing the discussion paper:** A discussion paper is not a mandatory step in the IASB's due process. Normally the IASB publishes a discussion paper as its first publication on any major new topic as a vehicle to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state its reasons. Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its authors or the IASB, and an invitation to comment. This approach may differ if another accounting standard-setter develops the research paper. Discussion papers may result either from a research project being conducted by another accounting standard-setter or as the first stage of an active agenda project carried out by the IASB. If research has been performed by another accounting standard-setter, issues related to the discussion paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB. If the discussion paper includes the preliminary views of other authors, the IASB reviews the draft discussion paper to ensure that its analysis is an appropriate basis on which to invite public comments. For discussion papers on agenda items that are under the IASB's direction, or include the IASB's preliminary views, the IASB develops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and presentations from invited parties. All discussions of technical issues related to the draft paper take place in public sessions. When the draft is completed and the IASB has approved it for publication the discussion paper is published to invite public comment.
4. **Developing and publishing the exposure draft:** Publication of an exposure draft is a mandatory step in due process. An exposure draft is the IASB's main vehicle for consulting the public. Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed IFRS (or amendment to an IFRS). The development of an exposure draft begins with the IASB considering issues on the

basis of staff research and recommendations, as well as comments received on any discussion paper, and suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and arising from public education sessions. After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, with a minimum of nine votes necessary to publish an exposure draft, the IASB publishes it for public comment. An exposure draft contains an invitation to comment on a draft IFRS, or draft amendment to an IFRS, that proposes requirements on recognition, measurement and disclosures. The draft may also include mandatory application guidance and implementation guidance, and will be accompanied by a basis for conclusions on the proposals and the alternative views of dissenting IASB members (if any).

- 5. Developing and publishing the standard:** The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft. Changes from the exposure draft are posted on the website. After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft. As it moves towards completing a new IFRS or major amendment to an IFRS, the IASB prepares a project summary and feedback statement. These give direct feedback to those who submitted comments on the exposure draft, identify the most significant matters raised in the comment process and explain how the IASB responded to those matters. At the same time, the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The analysis will therefore attempt to assess the likely effects of the new IFRS on: The financial statements of those applying IFRSs, The possible compliance costs for preparers, The costs of analysis for users (including the costs of extracting data, Identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model, The comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period, and The quality of the financial information and its usefulness in assessing the future cash flows of an entity. When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS.

IFRS Adoption or Convergence in India

1. Voluntary adoption

Companies can voluntarily adopt Ind AS for accounting periods beginning on or after 1 April 2015 with comparatives for period ending 31 March 2015 or thereafter. However, once they have chosen this path, they cannot switch back.

2. Mandatory Applicability

Phase I

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2016**, with comparatives for the period ending **31 March 2016** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of 500 crore INR or more.
2. Companies having net worth of 500 crore INR or more other than those covered above.
3. Holding, subsidiary, joint venture or associate companies of companies covered above.

Phase II

Ind AS will be mandatorily applicable to the following companies for periods beginning on or after **1 April 2017**, with comparatives for the period ending **31 March 2017** or thereafter:

1. Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 crore.
2. Unlisted companies other than those covered in Phase I and Phase II whose net worth are more than 250 crore INR but less than 500 crore INR.
3. Holding, subsidiary, joint venture or associate companies of above companies.

IFRS (International Financial Reporting Standards)

International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. They are the rules to be followed by accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external.

Ind AS

Indian Accounting Standards, (abbreviated as Ind AS) are a set of accounting standards notified by the Ministry of Corporate Affairs which are converged with International Financial Reporting Standards (IFRS). These accounting standards are formulated by Accounting Standards Board of Institute of Chartered Accountants of India. Now India

will have two sets of accounting standards viz. existing accounting standards under Companies (Accounting Standard) Rules, 2006 and IFRS converged Indian Accounting Standards (Ind AS). The Ind AS are named and numbered in the same way as the corresponding IFRS.

Financial Statements

A financial statement (or financial report) is a formal record of the financial activities and position of a business, person, or other entity.

Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis:

1. A balance sheet, also referred to as a statement of financial position, reports on a company's assets, liabilities, and owners' equity at a given point in time.
2. An income statement, also known as a statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report, reports on company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.
3. A Statement of changes in equity, also known as equity statement or statement of retained earnings, reports on the changes in equity of the company during the stated period.
4. A cash flow statement reports on a company's cash flow activities, particularly its operating, investing and financing activities.

For large corporations, these statements may be complex and may include an extensive set of footnotes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements.

Conceptual Framework for IFRS

A framework is the foundation accounting standards. A conceptual framework acts as a constitution for the standard setting process. Concepts are the ground work, the basis, the foundation upon which the superstructure of standard can be created. Without conceptual framework, a constant approach to standard – setting cannot be achieved.

Elements of Conceptual Framework

The elements of a conceptual framework are:

1. Objective
2. Qualitative Characteristics of accounting information

3. Elements of financial statements
4. Recognition and measurement
5. Measuring attributes
6. Units of measure
7. Capital maintenance

Recognition

Recognition is the process of incorporating in the Statement of Financial Position or statement of Comprehensive Income an item that meets the definition of an element and satisfies the criteria for recognition.

Measurement

Measurement simply refers to valuation. The term measurement is used to describe the process for determining which numbers to present or disclose in the financial statement. It is the process of determining the monetary amount at which the elements of the financial statements are to be recognized and carried in the financial statements.

Presentation and Disclosure

Financial elements are shown in financial statements. Assets, liabilities, equity, income and expenses, including gains and losses, contributions by and distributions to owners and cash flows should be shown separately. That information along with other information in the notes, assist users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Questions for Practices

I. Short Answer Type

1. Define financial reporting.
2. What are the general purpose financial statements?
3. Define accounting standard.
4. What are international accounting standards?
5. What are the main functions of IASB?
6. What is recognition of financial elements?
7. Define the term "equity"
8. What is capital maintenance?
9. Define financial elements.
10. What is IFRS convergence?

II. Short Essay Type

1. What are the objectives of financial statements?
2. What are the steps involved in financial reporting?
3. Define Accounting standards. What are the objectives of accounting standards?
4. Explain the role of ASB in Indian Accounting Standard setting.
5. What are the objectives of IASB?
6. State the role of IASB in developing IFRS.
7. What are the benefits of IFRS convergence?
8. What are the criteria of recognition of asset?
9. What are the principles of recognition of financial elements?
10. What are the bases of measurement of financial elements?

III. Essay Type

1. Define financial reporting? Discuss the rationale of financial reporting.
2. Discuss the uses of financial statements to different stakeholders.
3. Compare IFRS with Indian accounting standard.
4. What are the functions of FASB?
5. Discuss the principles of presentation and disclosure of financial elements.

Unit -2**ASSETS BASED ACCOUNTING STANDARDS****INTRODUCTION**

This sets of standards ensures fair measurement, timely recognition, de-recognition and amortisation of various assets, whether tangible or intangible, owned by an entity irrespective of its size and legal form. Assets are the resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Proper presentation and disclosure of various aspects of the assets help the users for their economic decisions. In forming a safe environment for stakeholders, corporate governance rules should focus on creating a culture of transparency.

I. PROPERTY, PLANT AND EQUIPMENT (Ind AS 16 and IAS 16)**OBJECTIVE**

Objective for the introduction of this standard is to prescribe the accounting treatment for property, plant and equipment (PPE). The standard specifies the following:

- Timing of the recognition, de-recognition and amortization.
- Fixation of carrying amount of the asset under the cost model and the revaluation model.
- Recognition of depreciation charges and impairment losses in profit or loss.
- Disclosure requirements.

SCOPE

This standard shall be applied in accounting for property, plant and equipment, including property which is held by lessee under a finance lease. But this standard does not apply to:

- Property, plant and equipment which are classified as held for sale.
- Biological assets related to agricultural activities.
- Exploration assets.
- Mineral rights and mineral reserves, such as oil or natural gas.

DEFINITIONS

- *Property, plant and equipment* are the tangible items that are held for use in the production or supply of goods or services, or for rental to others, or for administrative purpose and expected to use for more than one accounting period.
- *Cost* is the amount paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.
- *Fair value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

- *Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.
- *Depreciation* is the systematic allocation of the depreciable amount of an asset over its useful life.

- *Impairment loss* is the amount by which the carrying amount of an asset exceeds recoverable amount. Recoverable amount is the higher of an asset's net selling price and its value in use.

- *The residual value* of asset is the estimated amount that an entity would currently obtain from disposal of the asset.

- *Useful life* is the intended period over which an asset is expected to be available for use by an entity.

- *Entity-specific value* is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

ACCOUNTING TREATMENT

Initial measurement

1. An item of property, plant and equipment should be recognised as an asset only if :
 - a) It is probable that future economic benefits associated with the item will flow to the entity; and
 - b) Cost of the item can be reliably measured.

2. Property, plant and equipment is initially recognised at cost, but the standard does not prescribe unit of account for recognition.

3. Safety and environmental assets will be included in this class, if they enable the entity to increase future economic benefits from related assets in excess of what it could derive if they had not been acquired.

4. Cost incurred in respect of day to day servicing are recognised in the profit and loss and not capitalised in this class. Consumables of servicing are usually carried as inventory and recognised in profit or loss when consumed.

5. Parts of some property, plant and equipment may require replacement frequently and the cost of such replacement is included in the carrying amount of the asset, if the criteria of recognition are fulfilled.

6. Cost of an item of property, plant and equipment includes:
 - a. Purchase price and duties paid.
 - b. Cost of transportation and cost incurred to make it capable of operating in its intended manner.
 - c. Initial estimate of the cost of dismantling and removing the asset and restoring site.
 - d. Material, labour and other inputs for self-constructed asset.
7. Cost of an item excludes general and administrative expenses and start-up cost.
8. The cost of an item of property, plant, and equipment might include the effects of Government Grants (IAS 20) deducted from cost or set-up as deferred income. Ind AS 20 does not permit the option of reducing carrying amount.
9. When an asset is exchanged and the transaction has commercial substance, it is recorded at the fair value of the asset received. If the acquired item is not measured at fair value, asset is recorded at the carrying amount.

Subsequent measurement

1. Subsequent to initial measurement, the standard permits two accounting models as its accounting policy and the policy should be applied to an entire class:
 - a. Cost model: The asset is carried at cost less accumulated depreciation and impairment.
 - b. Revaluation model: The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably.
2. If a revaluation results in an increase in value, it should be credited to equity under the heading "revaluation surplus" unless it represents the reversal of the revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised as an income.
3. A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset.
4. The depreciable amount (cost less prior depreciation, impairment, and residual value) should be allocated on a systematic basis over the asset's useful life. The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with IAS 8/Ind AS 8.

5. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8/ Ind AS 8. Depreciation should be charged to the statement of comprehensive income, unless it is included in the carrying amount of another asset. Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle.
6. Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable.
7. Carrying amount of an asset should be derecognised and removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its use or disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the statement of comprehensive income, except for sale and lease back transaction, which have specific rules in IAS 17/Ind AS 17.

PRESENTATION AND DISCLOSURE

1. For each class of property, plant, and equipment, the following must be presented:
 - a) Measurement bases for determining carrying amount.
 - b) Depreciation method used.
 - c) Useful lives or depreciation rates used.
 - d) Gross carrying amount and accumulated depreciation (together with accumulated impairment losses) at the beginning and end of the period.
 - e) A reconciliation of the carrying amount at the beginning and end of the period, showing:
 - Additions and disposals, including assets classified as held for sale.
 - Acquisitions through business combinations.
 - Depreciation.
 - Increases or decreases resulting from revaluations and impairment losses recognised or reversed directly in other comprehensive income.
 - Impairment losses recognised in profit or loss.
 - Impairment losses reserved in profit or loss.
 - Net exchange differences arising on translation of financial statement.
 - Any other movements.
2. Financial statements should also disclose:

- a) The existence and amounts of restrictions on title and asset pledged as security for liabilities.
 - b) The amount of expenditure recognised in the carrying amount during the course of construction.
 - c) The amount of contractual commitments for the acquisition of an asset.
 - d) Compensation from third parties for impairments included in profit or loss.
3. Following must be disclosed along with depreciation method adopted and estimated useful lives or rate of depreciation:
- a) Depreciation, whether recognised in profit or loss or as a part of the cost of other assets.
 - b) Accumulated depreciation at the end of the period.
4. Disclose the nature and effect of a change in an accounting estimate with respect to:
- a) Residual values.
 - b) The estimated costs of dismantling, removing or restoring items of property, plant and equipment.
 - c) Useful lives.
 - d) Depreciation methods.
5. If items of property, plant, and equipment are stated at revalued amounts, the following must be disclosed:
- a) Effective date of revaluation.
 - b) Involvement of independent valuer.
 - c) Methods and assumptions applied in estimating the fair value.
 - d) Reference to observable prices in an active market.
 - e) Carrying amount that would have been recognised had the assets been carried under the cost model.
 - f) Revaluation surplus.

II. INTANGIBLE ASSETS (Ind AS 38 and IAS 38)

OBJECTIVE

An intangible asset is one that has no physical form, although it exists from contractual and legal rights and has an economic value. The objective of this standard is to allow entities to identify and recognize separately the value of intangible assets on the Statement of Financial Position. The standard enables users to assess the value as well as the makeup of assets of the entity more accurately.

SCOPE

This standard applies to all intangible assets that are not specifically dealt with in any other standards. Standard prescribes the accounting treatment of intangible assets, including:

- The definition of an intangible asset.
- Recognition as an asset.
- Determination of the carrying amount.
- Determination and treatment of impairment losses.
- Disclosure requirements.

DEFINITION

- *An intangible asset* is identifiable non-monetary asset without physical substance; is capable of being separated from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or that arises from contractual or other legal rights.
- *Development* is the application of research findings or other knowledge to a plan or design for the production of new products or services before the start of commercial production or use.
- *Research* is original and planned investigation for gaining new technical knowledge and understanding.

ACCOUNTING TREATMENT

Recognition

- 1) An intangible asset is recognized as an asset if it meets the definition of an intangible asset; it is probable that the future economic benefits attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.
- 2) Internally generated goodwill may not be recognised. Other internally generated intangible assets that may not be recognised include brands, mastheads, customer lists, and similar items that are not acquired through a business combination.
- 3) Development expenditure is recognised as an intangible asset if the final product is available for sale or use and subject to the availability of adequate resources to complete the development of the intangible asset. Moreover, the entity should have intention to complete the intangible asset and ability to use and sell it. Development expenditure previously recognised as an expense cannot be subsequently capitalised as an asset. Research expenditure is recognised as an expense when incurred.

- 4) Certain expenses like internally generated brands, start-up costs, training costs, advertising and promotion, redundancy and other termination costs, etc. are not recognized as intangible assets and are expensed.

Initial Measurement

- 1) On initial recognition, an intangible asset is measured at cost, whether it is acquired externally or developed internally.
- 2) In case of an internal project, expenditure of creating an intangible asset is treated differently. The research phase and development phase should be distinguished from one another. Research expenditure is treated as an expense. Development expenditure qualifying for recognition is measured at cost and is capitalised.

Subsequent Measurement

- 1) Subsequent to initial recognition, an entity should select either the cost model or the revaluation model as its accounting policy for intangible assets and should apply that policy to an entire class of intangible assets.
- 2) In cost model the carrying amount of an intangible asset is its cost less accumulated amortization.
- 3) In revaluation model the carrying amount of an intangible asset is its fair value less subsequent accumulated amortization and impairment losses.

Amortization and impairment

A firm should assess whether the useful life of an intangible asset is finite or infinite. If it is finite, the entity should find the length of its life or the number of units that can produce. An intangible asset with finite useful life is amortized on a systematic basis over the useful life. An intangible asset with an infinite useful life should be tested for impairment annually, but not amortized. The firm should review the useful life and the residual value on an annual basis.

Revaluation gain or loss

Increases should be credited directly to other comprehensive income under the heading of revaluation surplus. A reversal of a previous loss for the same asset is reported in profit or loss. Decreases should be recognised in profit or loss. A reversal of a profit previously taken to other comprehensive income can be debited to other comprehensive income.

PRESENTATION AND DISCLOSURE

- 1) Each class of intangible assets should be separately mentioned as internally generated and other intangibles. Accounting policies should clearly specify bases of measurement, amortization methods, and useful lives / amortization rates.
- 2) The Statement of Comprehensive Income and notes should disclose the amortization charge for each class of asset, indicating the line item in which it is included and the total amount of research and development costs recognised as an expense.
- 3) The Statement of Financial Position and notes should disclose:
 - a) Gross carrying amount less accumulated depreciation of each class of asset at the beginning and end of a period.
 - b) Carrying amount of intangible asset pledged as security and carrying amount of asset whose title is restricted.
 - c) Capital commitments for the acquisition.
 - d) A description on the carrying amount and remaining amortization period of any intangible asset that is material to the financial statement as a whole.
- 4) For intangible asset acquired by way of Government grant and initially recognised at fair value, the fair value recognised initially, carrying amount and the method of measurement (at benchmark or any alternative treatment) should be disclosed.

III. IMPAIRMENT OF ASSET (Ind AS 36 & IAS 36)

OBJECTIVE

The main objective of this standard is to give guidance to determine whether an asset is impaired and how the impairment should be recognised. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and disclosure requirements also. The principles in this standard apply to all assets where impairment is not specifically addressed in another standard.

SCOPE OF THE STANDARD

- This Standard shall be applied in accounting for the impairment of all assets except inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, financial assets that are within the scope of Ind AS 39/ IAS 39, biological assets related to agricultural activity that are measured at fair

value less costs to sell and non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105/ IFRS 5.

- This Standard also applies to financial assets including subsidiaries (as defined in Ind AS 27 / IAS 27 Consolidated and Separate Financial Statements), associates (as defined in Ind AS 28 / IAS 28 Investments in Associates) and joint ventures (as defined in Ind AS 31/ IAS 31 Interests in Joint ventures).
- IAS 36 / Ind AS 36 prescribes, the circumstances in which an entity should calculate the recoverable amount of its assets including internal and external indicators or impairment; the measurement of recoverable amounts for individual assets and cash-generating units; and the recognition and reversal of impairment losses.

DEFINITION

- *An impairment loss* is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.
- *The recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
- *Value in use* is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. If either the net selling price or the value in use of an asset exceeds its carrying amount, the asset is not impaired.
- *A cash-generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of 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.
- *Costs of disposal* are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

ACCOUNTING TREATMENT

1. On the date of reporting the recoverable amount of an asset should be estimated if there is an indication that the asset could be impaired. But the recoverable amount of the below given assets should be determined annually irrespective of whether there is an indication of impairment.
 - a) Intangible assets with an indefinite useful life.

- b) Intangible assets not yet ready for use.
 - c) Goodwill.
2. For assessing the indication of impairment, a firm should consider the external sources of information like decline in market value of an asset, increase in market interest rate, whether the carrying amount of the net asset of the entity is more than its market value, etc. and internal sources of information like evidence of physical damage; and evidence from internal reporting indicating an asset is performing worse than expected.
 3. While calculating value in use the following factors are to be reflected:
 - a) Estimate of future cash flows that an entity expected to receive from the asset.
 - b) Expectation on chance of variation in the amount future ash flows and in its timing.
 - c) The time value of money, represented by the current market risk-free rate of interest.
 - d) The price for bearing the uncertainty inherent in the asset.
 - e) For calculating the value in use firm should use pre-tax future cash flows and pre-tax discount rate.
 4. Cash flow estimates for the asset in its present condition should be based on the following:
 - a) It should reflect management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.
 - b) Estimates should be on the basis of most recent financial budgets and forecasts approved by management for a maximum period of five years.
 5. If the recoverable amount of an asset is lower than its carrying amount, that carrying amount shall be decreased to its recoverable amount and that reduction is an impairment loss. Impairment loss should be recognised in the profit or loss unless the asset is carried at the revalued amount in accordance with IAS 16 or IAS 38. Once impairment loss is recognised, the depreciation charge for the subsequent period is based on the revised carrying amount.
 6. An entity should reassess the asset at each reporting date to know the indication on an impairment loss recognised in a prior period no longer exist or has reduced. If any such indication exists, firm should estimate the recoverable amount of that asset and impairment loss recognised in prior periods should be reversed.

7. Recoverable amount of an asset should be estimated individually. If it is not possible, the firm should calculate the recoverable amount for the cash generating unit to which the asset belongs. If it is difficult to allocate an asset to cash generating units on a reasonable basis, the entity should identify the units to which assets can be allocated on a reasonable and consistent basis.
8. Impairment loss should be allocated to reduce the carrying amount of the cash generating unit in a particular order. First it should be allocated to goodwill then to other assets of the unit on a pro rata basis. The carrying amount of any asset in the cash-generating unit should not be reduced below its recoverable amount, which is the highest of its fair value less costs to sell or its value in use and zero.
9. A reversal of an impairment loss should be recognized in profit or loss unless the asset is carried at the revalued amount in accordance with IAS 16 or IAS 38, in which case the reversal is treated as a revaluation increase in accordance with that standard. Impairment loss of goodwill may never be reversed.

PRESENTATION AND DISCLOSURE

1. Following should be disclosed for each class of assets and for each IFRS 8's reportable segment.
 - a) Amount of impairment losses and reversal of impairment losses recognised in the statement of comprehensive income.
 - b) Amount of impairment loss and reversal of impairment losses recognised directly in comprehensive income.
2. Impairment loss of an individual asset or a cash generating unit is recognised or reversed the below given matters also be disclosed:
 - a) The situation that led to the loss being recognised or reversed.
 - b) Amount of loss recognised or reversed.
 - c) Details on the nature of asset and the reportable segment.
 - d) Whether the recoverable amount is the net selling price or value in use.
 - e) Basis of determining selling price or the basis of discount rate used to determine value in use.
3. If the recoverable amount is based on value in use or fair value less cost to sell, the following should be disclosed:
 - a) Description of the key assumptions used.
 - b) A description of the approach to determine the values assigned to each assumption.
 - c) The period over which the cash flow has been projected.
 - d) The growth rate and the discount rate.

IV. INVENTORIES (IAS 2 & Ind AS 2)

OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard deals with determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also deals with the cost formulas that are used to assign costs to inventories and the type of inventory method adopted.

SCOPE

- This standard applies to all inventories that are:
 - a) Held for sale in the normal operation of a business.
 - b) Used in the process of production for sale.
 - c) Kept in the form of materials or supplies to be consumed in the production process.
 - d) Used in the rendering of services.

DEFINITIONS

- *Inventories should be measured at cost or NRV whichever is lower.*
- *Net realisable value* is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
- *Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- *Cost of inventories* comprises all the costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

ACCOUNTING TREATMENT

Measurement

1. Cost of inventories include:
 - a) Purchase cost such as the purchase price, import charges, non-recoverable taxes, and other directly attributable transport and handling cost.
 - b) Cost of Conversion such direct labour, production overhead including variable and fixed overhead allocated at normal production capacity.
 - c) Other cost such as design cost and borrowing cost.
2. Cost inventories exclude the following:

- a) Abnormal amount of wasted materials, labour and overhead.
 - b) Storage cost, if they are not necessary prior to a further production process.
 - c) Administrative overhead.
 - d) Selling cost.
3. Inventory cost of service providers is measured at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service including supervisory personnel, and attributable overheads. But it does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.
4. In case of sale of inventories, the carrying amount of the items sold shall be recognised as an expense in the period in which related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. If any reversal of written down of inventory arising from an increase in net realisable value, shall be recognized as reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.
5. There are cases in which some inventories may be allocated to other asset accounts and the allocated items are recognized as an expense during the useful life of that asset.

Cost formula

1. The cost of inventories that are not ordinarily interchangeable and those produced and segregated for specific projects are assigned by specific identification of their individual costs.
2. Cost of inventories, other than those mentioned in the above paragraph should be determined by using either of the following formulas
 - a) Weighted average cost or
 - b) First in first out (FIFO)
3. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

Technique for the measurement

1. Standard cost method or the retail method can be used as the techniques for the measurement of cost for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency

and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

2. The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.
3. The cost of the inventories cannot be recoverable if those inventories are damaged or they have fully or partly obsolete or their selling prices have decreased. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
4. NRV is the estimated selling price less the estimated costs of completion and costs necessary to make the sale. These estimates are based on the most reliable evidence at the time the estimates are made. The purpose for which the inventory is held should be taken into account at the time of the estimate. Inventories are usually written down to NRV after considering the following:
 - a) Items are treated on an item by item basis.
 - b) Same or similar items are normally grouped together.
 - c) All the services are treated as separate items.
5. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.
6. An estimate of NRV is made in each subsequent period and if there is any indication that the circumstance previously caused inventories to be written down

below cost no longer exist or there is an evidence of an increase in NRV because of any change in economic condition, the amount of written down is reversed.

PRESENTATION AND DISCLOSURE

1. The financial statements should disclose the following:
 - a) Accounting policies adopted for measuring inventories and cost formula used.
 - b) Total carrying amount of inventories and amount per category
 - c) Amount of inventory recognised as an expense during the period (cost of sales)
 - d) Amount of inventory carried at fair value less costs to sell
 - e) Circumstances led to the reversal of a written down
 - f) Inventory pledged as security for liabilities

.V. BORROWING COST (IAS23 &Ind AS23)

OBJECTIVE

The acquisition, construction, or production of certain assets can take long period than one accounting period. If borrowing costs incurred during a period are directly attributable to specific qualifying assets, under certain circumstances it will be legitimate to regard these costs as forming part of the costs of getting such assets ready for their intended use or sale.

This standard defines a qualifying asset and provides guidance on which borrowing costs should be capitalized and included in the carrying amount of a qualifying asset. This guidance addresses instances in which the funds are specifically borrowed to obtain a qualifying asset and where the entity utilizes funds from their general borrowings.

SCOPE

- This standard applies to borrowing cost incurred by an entity in connection with borrowing of funds.
- This guidance is not applicable to borrowing costs that are directly attributable to qualifying assets measured at fair value or inventories that are produced in large quantities on a repetitive basis over a short period of time.
- The Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.

.DEFINITION

- *Borrowing costs* mean interest and other costs that an entity incurs in connection with the borrowing of funds. It includes:

- a) Interest calculated using the effective interest rate method as described in Ind AS 39/ IAS 39.
- b) Finance charges in respect of finance -leases as set out in Ind AS 17 /IAS 17.
- c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost.

➤ *Qualifying assets* are those assets that require a substantial time to bring to their intended use or saleable condition. Examples are inventories requiring a substantial period to bring them to a saleable condition, manufacturing plants, power generating facilities etc.

ACCOUNTING TREATMENT

Recognition

1. Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset should be capitalised when it is probable that they will bring future economic benefit to the entity and the costs can be measured reliably.
2. Borrowing costs not coming in the above category are recognised as an expense in the period in which they are incurred. Capitalisation should be suspended during extended periods in which the active development of the asset is interrupted.
3. Capitalisation commences when all of the below given conditions have been met:
 - a) Expenditure on a qualifying asset are being incurred.
 - b) Borrowing costs are being incurred.
 - c) Works necessary to bring the asset for its intended sale or use are in progress.
4. An entity shall cease capitalising when the asset is materially ready for its intended use or sale or when the construction is completed in part and the complete part can be independently used. Capitalisation should not cease when there is a brief interruption in activities or when it is delayed and that delays are inherent in the asset acquisition process.

Measurement

1. If funds are specifically borrowed to obtain a particular asset, the amount qualifying for capitalisation is the actual cost less income earned on the temporary investment of those borrowings.
2. If funds are borrowed generally and used to obtain an asset, the amount of borrowing costs to be capitalised should be determined by applying the weighted average of the borrowing costs to the expenditure on that asset.

3. The amount capitalised during a period should not exceed the amount of borrowing costs incurred during that period. If the carrying value of an asset (inclusive of capitalised interest) exceeds the net realisable value, the asset should be written to the NRV.

DISCLOSURE

1. An entity shall disclose the following:
 - a) The amount of borrowing cost capitalised during the period.
 - b) The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.

Questions for Practices

I. Short Answer Type

1. What are the two different accounting treatments specified for the subsequent measurement of an asset?
2. What are the factors considered when estimating the useful life of a depreciable asset?
3. How is revaluation gain accounted as per Ind AS 16?
4. Define Intangible assets.
5. Define depreciation and depreciable asset.
6. What do you mean by carrying amount?
7. How an intangible asset is acquired?
8. What do you mean by development cost?
9. Comment on 'value in use'.
10. How is an intangible asset with indefinite useful life recognised as per Ind AS 38?
11. What are the two different indications of possible impairment?
12. Define impairment.
13. What do you mean by reversal of impairment loss?
14. Define fair value.

15. Define carriage inwards as an element of cost of goods produced.
16. What do you mean by cost to complete and sell?
17. What will be the effect on current ratio when the closing inventory is understated by a certain amount?
18. Define borrowing cost.
19. What is a qualifying asset as per Ind AS 23?
20. Define capitalisation rate as per Ind AS 23.

II. Short Essay Type

1. Discuss the review of depreciation method in light of Ind AS 16.
2. State whether the following is correct or incorrect and quantify your views in brief: 'Ind AS 16 applies to tangible non-current assets including biological assets and mineral rights'.
3. How impairment loss on property, plant and equipment is dealt with as per Ind AS 16?
4. How is revaluation decrease accounted for when there exists a previously made revaluation increase which is shown as revaluation surplus under equity?
5. Comment on the components of cost of asset as per Ind AS 16.
6. How is cost of an internally developed intangible asset recognised as per Ind AS 38?
7. How is an intangible asset with finite useful life amortised as per Ind AS 38?
8. State whether the following is correct or incorrect and quantify your views in brief. 'Ind AS 38 deals with the recognition of internally generated brands, mastheads, publishing titles and customer lists and similar items of intangible assets'
9. How is the disposal or retirement of intangible assets accounted for as per Ind AS 38?
10. How an intangible asset is measured when it is recognised initially? List out the conditions to be fulfilled for recognising the same as an intangible asset.

III. Essay Type

1. What are the disclosure requirements for each class of property, plant and equipment as per Ind AS 16?
2. How the retirements and disposals of property, plant and equipment is dealt with in Ind AS 16?
3. How is the research and development cost is recognised as an intangible asset as per Ind AS 38?
4. How is the useful life of an intangible asset assessed as per Ind AS 38?
5. Which are the assets that must be tested for impairment annually even when there are no indications of impairment? Discuss the steps in testing the said assets for impairment.
6. Define various components that form part of cost of purchase?
7. Elaborate the various methods used for the valuation of inventories?
8. What is the accounting treatment for fixed and variable production overheads in the cost of production?
9. Describe the method used for cessation of capitalisation where the asset is completed in different stages.
10. Discuss the cases where the capitalisation of borrowing cost is to be done.

Unit- 3

REVENUE AND LIABILITY BASED ACCOUNTING STANDARDS

An increase in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in equity (other than those relating to contributions from equity participants) is called as income. Income comprises both revenue and gains. *Revenue* is defined as the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an enterprise (such as sales of goods, sales of services, interest, royalties, and dividends). A *gain* is the amount received that is in excess of the asset's carrying amount (book value). *Liabilities* are present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

The present chapter is dealing with dealing with Recognition, Measurement, Presentation and disclosure of Revenue and Liabilities such as:

1. Revenue from contract with customer (IFRS 15 and Ind AS 115)
2. Income Tax (IAS 12 and Ind AS 12)
3. Employee Benefits (IAS 19 and Ind AS 19)
4. Provisions, Contingent liabilities and Contingent Assets (IAS 37 and Ind AS 37)
5. Share Based Payment (IFRS 2 and Ind AS 102)

I. REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS -15 and IND AS-115)

OBJECTIVE

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

An entity shall consider the terms of the contract and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard, including the use of any practical expedients, consistently to contracts with similar characteristics and in similar circumstances.

SCOPE

Applies to all contracts with customers, except:

1. Lease contracts (refer to IAS 17)
2. Insurance contracts (refer to IFRS 4)
3. Financial instruments and other contractual rights or obligations (refer to IFRS 9/IAS 39, IFRS 10, IFRS 11, IAS 27, and IAS 28)
4. Certain non-monetary exchanges.

The standard can significantly change how entities recognise revenue, especially those that currently apply industry-specific guidance. The standard will also result in a significant increase in the volume of disclosures related to revenue.

DEFINITIONS

1. *Contract*: An agreement between two or more parties that creates enforceable rights and obligations.
2. *Revenue*: Income arising in the course of an entity's ordinary activities
3. *Performance obligation*: A promise to transfer to the customer either:
 - (i) A distinct (bundle of) good(s) or service(s)
 - (ii) A series of substantially the same distinct goods or services that have the same pattern of transfer to the customer, and the pattern of transfer is both over time and represents the progress towards complete satisfaction of the performance obligation.
4. *Customer*: A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
5. *Income*: Increases in economic benefits in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity (other than those from equity participants).
6. *Stand-alone selling price*: The price at which a good or service would be sold separately to a customer.
7. *Contract cost*, entities sometimes incur costs (such as sales commissions or mobilisation activities) to obtain or fulfill a contract.
8. *Variable consideration* - Entities may agree to provide goods or services for consideration that varies upon certain future events which may or may not occur. Examples include refund rights, performance bonuses and penalties. This can sometimes be driven by the past practice of an entity or industry, for example, if there is a history of providing discounts or concessions after the goods are sold.

MEASUREMENT AND RECOGNITION

- (i) Entities need to apply IFRS 15 for reporting periods ***beginning on or after 1 January 2017*** (early application permitted);
- (ii) ***IFRS 15 will replace*** the following standards and interpretations:

- IAS 18 Revenue,
- IAS 11 Construction Contracts
- SIC 31 Revenue – Barter Transaction Involving Advertising Services
- IFRIC 13 Customer Loyalty Programs
- IFRIC 15 Agreements for the Construction of Real Estate and
- IFRIC 18 Transfer of Assets from Customers

(iii) The **core principle of IFRS 15** is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or services.

While applying the Ind AS 115(IFRS 15), entities will have to follow the following five-step process:

1. Identify the contract with a customer - Contracts can be oral or written.
2. Identify the separate performance obligations in the contract - A performance obligation is a promise to transfer a distinct good or service to a customer. The promise can be explicit, implicit or implied by an entity's customary business practice.
3. Determine the transaction price - The transaction price is the amount of consideration that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of a third party.
4. Allocate the transaction price to the separate performance obligations - The transaction price is allocated to the separate performance obligations in a contract based on the relative stand-alone selling prices of the goods or services promised.
5. Recognise revenue when (or as) each performance obligation is satisfied - The final step in the model is recognising revenue. An entity will recognise revenue when (or as) a good or service is transferred to the customer and the customer obtains control of that good or service.

Under this, revenue is to be measured at the amount of consideration to which the entity expects to be entitled (rather than contractually specified) in exchange for transferring promised goods & services. Unlike AS 9 where no guidance is available, this standard introduced the concept of variable consideration. Under the new standard, if transaction price is subject to variability, an entity would be required to estimate transaction price by using either (i) the expected value (probability-weighted) approach or (ii) the most likely amount approach depending on which method the entity expects to better predict the amount of consideration to which the entity is entitled.

As far as services are concerned, entity should recognize revenue over time by measuring progress towards completion. Under the new standard, entities recognise revenue as “control” of the goods or services underlying a performance obligation are transferred to the customer. This control-based model differs from the risks-and-rewards model generally applied under current revenue recognition guidance. Entities must first determine whether control is transferred over time.

Contract cost, entities sometimes incur costs (such as sales commissions or mobilisation activities) to obtain or fulfill a contract. Contract costs that meet certain criteria will be capitalised as assets and amortised as revenue under the new standard. Such capitalised costs will require a periodic review for recoverability and impairment, if applicable.

DISCLOSURE

Ind AS 115 and IFRS 15 prescribes a cohesive set of disclosure requirements including both qualitative and quantitative information about the nature, amount, timing and uncertainty of revenue and cash flows from contract with customer, specially information about;

- (i) Disaggregated information - Revenue recognised from contract with customer, including disaggregation of revenue into appropriate categories.
- (ii) Contract balances - including opening and closing balances of receivables, contract assets and contract liabilities and a description of its significant changes.
- (iii) Performance obligations – Including when the entity typically satisfies its performance obligation and transaction price that is allocated to the remaining performance obligations and an explanation of when revenue is expected to be recognised.
- (iv) Significant judgments and changes in judgments – made in applying the requirement of those contracts. And
- (v) Asset recognised – from costs to obtain or fulfill a contract with a customer

II. INCOME TAX (IAS 12 and Ind AS 12)

OBJECTIVE

The key objectives of IAS 12 are to prescribe the accounting treatment for income taxes and the reconciliation of the legal tax liability (actual tax payable per tax regulations) with the tax liability and expense for accounting disclosure purposes. Other issues addressed include:

1. the distinction between permanent and timing differences;
2. the future recovery or settlement of the carrying amount of deferred tax assets or
3. Liabilities in the Statement of Financial Position; and recognizing and dealing with losses for income tax purposes.

SCOPE

This standard must be applied to accounting for all income taxes, including domestic, foreign and withholding taxes, as well as the income tax consequences of dividend payments.

DEFINITIONS

1. *Accounting profit* is net profit or loss for a period before deducting tax expense.
2. *Taxable profit* (or tax loss) is the profit (or loss) for a period, determined in accordance with the rules established by the taxation authorities, based on which income taxes are payable (or recoverable).
3. *Tax expense* (or tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current tax and deferred tax.
4. *Current tax* is the amount of income taxes payable (or recoverable) on the taxable profit (or tax loss) for a period, in accordance with the rules established by the tax authorities.
5. *Deferred tax liabilities* are the amounts of income taxes payable in future periods for taxable temporary differences.
6. *Deferred tax assets* are the amounts of income taxes recoverable in future periods for:
 - deductible temporary differences;
 - the carry-forward of unused tax losses; and
 - The carry-forward of unused tax credits.
7. *Temporary differences* are differences between the carrying amount of an asset or liability in the Statement of Financial Position and its tax base. Temporary differences may be either:
 - *Taxable temporary differences*, which are temporary differences that will result in taxable amounts in determining taxable profit (or tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
 - *Deductible temporary differences*, which are temporary differences that will result in amounts that are deductible in determining taxable profit (or tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
8. *The tax base* of an asset or liability is the amount attributed to that asset or liability for tax purposes.
 - The tax base of an asset is the amount *deductible for tax purposes* against any taxable economic benefits that will flow to the entity as it recovers the carrying amount of the asset through use or sale.
 - The tax base of a liability is an amount *taxable for tax purposes* in respect of the liability in future periods.

RECOGNITION AND MEASUREMENT

1. Current tax should be recognized when taxable profits are earned in the period to which it relates in the following manner:

- a. A current tax expense or income item should be recognized in the income statement.
- b. A current tax liability should be recognized to the extent that amounts owing are unpaid to tax authorities.
- c. A current tax asset should be recognized for any amounts paid in excess of the amounts due for the relevant period.

2. Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted (announced by the government) at the reporting date.

3. A **deferred tax liability** is recognized for **all taxable temporary differences**, except when those differences arise from:

- a. the initial recognition of goodwill; or
- b. The initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting nor taxable profit or loss.

4. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that they are recoverable from future taxable profits. A recent loss is considered evidence that a deferred tax asset should not be recognized. A deferred tax asset is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss.

5. Deferred tax balances are measured using the tax rates and tax laws that have been substantively enacted at the reporting date.

6. Deferred tax assets and liabilities are not discounted.

7. Temporary differences that arise when the carrying amounts of investments in subsidiaries, branches, associates, or joint ventures are different from their tax bases will result in the recognition of a deferred tax liability or asset, except when both the following occur:

- a. The parent, investor, or venturer can control the timing of the reversal of temporary differences (for example, it controls the dividend policy of the investee entity).
- b. It is probable that the temporary difference will not reverse (in the case of a liability) or will reverse (in the case of an asset) in the foreseeable future. If a deferred tax asset is recognized there must be taxable profit against which the temporary difference can be utilized.

8. Current and deferred taxation **expense or income** must be recognized in the same manner in which the underlying item is recognized, that is:

- a. If the tax relates to an item that affects profit or loss (such as a depreciable asset) then the related taxation is recognized in profit or loss except if the tax arises from a business combination.
- b. If the tax relates to an item that affects other comprehensive income (such as an available-for-sale asset) or directly in equity (such as the equity component of a compound financial instrument), then the related taxation is recognized in other comprehensive income or equity.

9. The income tax consequences of *dividends* are recognized when a liability to pay the dividend is recognized.

DISCLOSURE

1. Taxation balances should be presented as follows:

The balances are shown separately from other assets and liabilities in the Statement of Financial Position.

- a. Deferred tax balances are distinguished from current tax balances.
- b. Deferred tax balances are noncurrent.
- c. Taxation expense (income) should be shown for ordinary activities on the face of the Statement of Comprehensive Income.
- d. Current tax balances can be **offset** when:
 - There is a legal enforceable right to offset; and
 - There is an intention to settle on a net basis.
- e. Deferred tax balances can be **offset** when:
 - There is a legal enforceable right to offset; and
 - Deferred tax assets and liabilities relate to the same tax authority on either: the same taxable entity; or different taxable entities that intend to settle on a net basis.
- f. The tax expense or income related to profit or loss from **ordinary activities** shall be presented in the statement of comprehensive income.

2. **Accounting policy disclosure:** the method used for deferred tax should be disclosed.

3. **The Statement of Comprehensive Income and notes** should contain:

- i. Major components of tax expense (income), shown separately, including:
 - a. Current tax expense (income);
 - b. Deferred tax expense (income)
 - c. Any adjustments recognized in the current period for tax of prior periods;

- d. Tax benefits arising from previously unrecognized tax losses, credits, or temporary differences of a prior period that is used to reduce the current or deferred tax expense as relevant;
- e. deferred tax arising from the write-down (or reversal of a previous write-down) of a deferred tax asset; and
- f. deferred amount relating to changes in accounting policies and fundamental errors treated in accordance with IAS 8—allowed alternative;
- ii. reconciliation between tax amount and accounting profit or loss in monetary terms, or a numerical reconciliation of the applicable tax rate;
- iii. the amount of income tax relating to each component of other comprehensive income;
- iv. in respect of discontinued operations:
 - the amount of tax expense related to the gain or loss on discontinuance; and
 - the amount of tax expense related to the profit or loss from ordinary activities of discontinued operation for the period;
- v. explanation of changes in applicable tax rates compared to previous period(s); and
- vi. for each type of temporary difference, and in respect of each type of unused tax loss and credit, the amounts of the deferred tax recognized in the Statement of Comprehensive Income.

4. The Statement of Financial Position and notes should include:

- i. aggregate amount of **current** and **deferred** tax charged or credited directly to equity;
- ii. amount (and expiration date) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized;
- iii. aggregate amount of temporary differences associated with investments in subsidiaries, branches, associates, and joint ventures for which deferred tax liabilities have not been recognized;
- iv. for each type of temporary difference, and in respect of each type of unused tax loss and credit, the amount of the deferred tax assets and liabilities;
- v. amount of a deferred tax asset and nature of the evidence supporting its recognition,
- vi. amount of income tax consequences of dividends to shareholders that were proposed or declared before the reporting date, but are not recognized as a liability in the financial statements; and
- vii. the nature of the potential income tax consequences that would result from the payment of dividends to the enterprises' shareholders, that is, the important features of the income tax systems and the factors that will affect the amount of the potential tax consequences of dividends.

III.EMPLOYEE BENEFITS (IAS 19 & Ind AS 19)

OBJECTIVE

The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits, requiring an entity to recognise a liability where an employee has provided service and an expense when the entity consumes the economic benefits of employee service.

SCOPE

IAS 19 applies to (among other kinds of employee benefits):

- wages and salaries, compensated absences (paid vacation and sick leave), profit sharing and bonuses, medical and life insurance benefits during employment, non-monetary benefits such as houses, cars, and free or subsidised goods or services, retirement benefits, including pensions and lump sum payments, post-employment medical and life insurance benefits, long-service or sabbatical leave, 'jubilee' benefits, deferred compensation programmes, Termination benefits.

IAS 19 does not apply to employee benefits within the scope of IFRS 2 *Share-based Payment* or the reporting by employee benefit plans (see IAS 26 *Accounting and Reporting by Retirement Benefit Plans*).

DEFINITIONS

1 *Employee benefits* can be provided in terms of either:

legal obligations, which arise from the operation of law (for example, agreements and plans between the entity and employees or their representatives); or *constructive obligations*, which arise from informal practices that result in an obligation whereby the entity has no realistic alternative but to pay employee benefits (for example, the entity has a history of increasing benefits for former employees to keep pace with inflation even if there is no legal obligation to do so).

2. *Employee benefits* are all forms of consideration given by an entity in exchange for services rendered by employees.

3. *Short-term employee benefits* are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

4. *Postemployment benefits* are employee benefits (other than termination benefits) that are payable after the completion of the employment.

5. *Equity compensation plans* are formal or informal arrangements under which an entity provides equity compensation benefits for one or more employees. These are accounted for in terms of IFRS 2 and not IAS 19.

6. *Vested employee benefits* are employee benefits that are not conditional on future employment.

7. *Defined contribution plans* are postemployment benefit plans under which an entity pays fixed contributions into a separate entity. The reporting entity has no legal or constructive obligation if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

8. *Defined benefit plans* are postemployment benefit plans other than defined contribution plans.

9. *Plan assets* comprise assets held by the long-term employee benefit fund and qualifying insurance policies.

10. *Return on plan assets* comprises interest, dividends, and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

11. *Actuarial gains and losses* comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

12. *Past service cost* is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, postemployment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

13. *Termination benefits* are payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy in exchange for those benefits.

14. *Other long-term employee benefits* are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within the 12 months after the end of the period in which the employees render the related service.

IV. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37 and Ind AS 37)

OBJECTIVE

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

SCOPE

IAS 37 prescribes the appropriate accounting treatment as well as the disclosure requirements for all provisions, contingent liabilities, and contingent assets to enable users to understand their nature, timing, and amount.

The standard sets out the conditions that must be fulfilled for a provision to be recognized. It guides the preparers of financial statements to decide when, with respect to a specific obligation, they should:

- a. Provide for it (recognize it);
- b. Only disclose information; or
- c. Disclose nothing.

IAS 37 is applicable to all entities when accounting for provisions and contingent liabilities or assets, except those resulting from:

1. Financial instruments carried at fair value (IAS 39);
2. Executory contracts (for example, contracts under which both parties have partially performed their obligations to an equal extent)
3. Insurance contracts with policyholders (IFRS 4); and
4. Events or transactions covered by any another IAS (for example, income taxes and lease obligations).

DEFINITIONS

1. **A provision** is a liability of **uncertain timing or amount**. Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.
2. **A liability** is defined in the framework as a **present obligation** of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
3. **A contingent liability** is either:
 - a. a **possible obligation**, because it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
 - b. a **present obligation** that does not meet the recognition criteria, either because an outflow of resources embodying economic benefits probably will not be required to settle the obligation, or because a sufficiently reliable estimate of the amount of the obligation cannot be made.
4. **Contingent liabilities** are not recognized because:
 - a. their existence will be confirmed by uncontrollable and uncertain future events (that is, not liabilities); or
 - b. They do not meet the recognition criteria.
5. **A contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by uncertain future events not wholly within the control of the entity (for example, the entity is pursuing an insurance claim whose outcome is uncertain).

ACCOUNTING TREATMENT

I. Provisions

- a. A provision should be **recognized** only when:
- an entity has a present obligation (legal or constructive) as a result of a past event (obligating event);
 - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - A reliable estimate can be made of the amount of the obligation.
- b. A past event is deemed to give rise to a present obligation if it is more likely than not that a present obligation exists at Statement of Financial Position date.
- c. A **legal** obligation normally arises from a contract or legislation. A **constructive** obligation arises only when **both** of the following conditions are present:
- The entity has indicated to other parties, by an established pattern of past practice, published policies, or a sufficiently specific current statement, that it will accept certain responsibilities.
 - As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
- d. **The amount recognized** as a provision should be the best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date.
- e. **Some** or all of the expenditure required to settle a provision might be expected to be reimbursed by another party (for example, through insurance claims, indemnity clauses, or suppliers' warranties). These reimbursements are treated as follows:
- Recognize **reimbursement** when it is virtually certain that there reimbursement will be received if the entity settles the obligation. The amount recognized for there reimbursements should not exceed the amount of the provision. Treat there reimbursement as a separate asset.
 - The entity may choose to present the expense relating to a provision net of the amount recognized for a reimbursement in the Statement of Comprehensive Income.
- f. **Provisions** should be reviewed at each Statement of Financial Position date and adjusted to reflect the current best estimate.
- g. A **provision** should be used only for expenditures for which the provision was originally recognized.
- h. **Recognition and measurement** principles for (a) future operating losses, (b) onerous contracts, and (c) restructurings should be applied as follows:
- **Provisions** should not be recognized for **future operating losses**. An expectation of future operating losses is an indication that certain assets of the operation could be impaired. IAS 36, Impairment of Assets, would then be applicable.

- The present obligation under an **onerous contract** should be recognized and measured as a provision. An onerous contract is one in which the unavoidable costs of meeting the contract obligation exceed the economic benefits expected to be received under it.
- **Restructuring** is a program planned and controlled by management that materially changes either the scope of business or the manner in which that business is conducted. A provision for restructuring costs is recognized when the normal recognition criteria for provisions are met.

Where a restructuring involves the sale of an operation, no obligation arises for the sale until the entity is committed by a binding sale agreement.

II. Contingent liabilities

An entity should *not* recognize a contingent liability. An entity should disclose a contingent liability, but only when:

- An entity has a present obligation (legal or constructive) as a result of a past event (obligating event);
- It is possible, but not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- The possibility of an outflow of resources embodying economic benefits is not remote.

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. When such an outflow becomes probable for an item previously dealt with as a contingent liability, a provision is recognized.

III. Contingent Assets

An entity should not recognize a contingent asset since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate under the framework.

A contingent asset should be disclosed where an inflow of economic benefits is probable.

Presentation and Disclosure

I. **Provisions:** Disclose the following for each class separately:

- a detailed itemized reconciliation of the carrying amount at the beginning and end of the accounting period (comparatives are not required);

- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- an indication of the uncertainties about the amount or timing of those outflows; and
- The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

II. Contingent liabilities: Disclose the following for each class separately:

- brief description of the nature of the liability;
- estimate of the financial effect;
- indication of uncertainties relating to the amount or timing of any outflow of economic benefits; and
- The possibility of any reimbursement.

III. Contingent assets: Disclose the following for each class separately:

- Brief description of the nature of the asset; and
- Estimate of the financial effect.

V. SHARE-BASED PAYMENTS [IFRS 2 and Ind AS 102]

OBJECTIVE

A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of;

- a. Equity,
- b. Cash, or
- c. Equity or cash.

SCOPE

IFRS 2 applies to all entities. There is no exemption for private or smaller entities. Furthermore, subsidiaries using their parent's or fellow subsidiary's equity as consideration for goods or services are within the scope of the Standard.

There are two exemptions to the general scope principle.

1. The issuance of shares in a business combination should be accounted for under IFRS 3 Business Combinations. However, care should be taken to distinguish share-based payments related to the acquisition from those related to employee services.
2. IFRS 2 does not address share-based payments within the scope of paragraphs 8-10 of IAS 32 Financial Instruments: Disclosure and Presentation, or paragraphs 5-7 of IAS 39 Financial Instruments: Recognition and Measurement. Therefore, IAS 32 and 39 should be applied for commodity-based derivative contracts that may be settled in shares or rights to shares.

IFRS 2 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares, and the issuance of additional shares are therefore outside its scope.

DEFINITIONS

1. A *share-based payment transaction* is a transaction in which the entity receives goods or services as consideration for equity instruments of the entity, its parent entity, or another entity within the consolidated group (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other equity instruments of the entity. Share-based payment transactions include transactions where the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or through the issuance of equity instruments.
2. In an *equity-settled share-based payment transaction*, the entity receives goods or services as consideration for equity instruments (including shares or share options) of the entity, its parent, or another entity within the consolidated group. An *equity instrument* is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
3. In a *cash-settled share-based payment transaction*, the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price or value of the entity's shares or other equity instruments.
4. The *grant date* is the date at which the entity and another party (including an employee) agree to a share-based payment arrangement. At grant date, the entity confers on the counterparty the right to cash, other assets, or the entity's equity instruments, provided that the specified vesting conditions are met. If the transaction is subject to an approval process (for example by shareholders or the board), the grant date is the date that the necessary approval is obtained.
5. *Employees and others providing similar services* are individuals who render personal or similar services to the entity.
6. The *vesting period* is the period during which all the specified vesting conditions of a share-based payment arrangement should be satisfied.

7. *Fair value* is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's-length transaction.
8. *Intrinsic value* is the difference between the fair value of the shares to which the counterparty has the right to subscribe or which it has the right to receive, and the price the counterparty is required to pay for those share.
9. *Market condition* is a condition that is related to the market price of the entity's equity instruments.
10. A *share option* is a contract that gives the holder the right but not the obligation to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.

RECOGNITION AND MEASUREMENT

IFRS 2 requires an expense to be recognised for the goods or services received by a company. The corresponding entry in the accounting records will either be a liability or an increase in the equity of the company, depending on whether the transaction is to be settled in cash or in equity shares. Goods or services acquired in a share-based payment transaction should be recognised when they are received. In the case of goods, this is obviously the date when this occurs. However, it is often more difficult to determine when services are received. If shares are issued that vest immediately, then it can be assumed that these are in consideration of past services. As a result, the expense should be recognised immediately.

Alternatively, if the share options vest in the future, then it is assumed that the equity instruments relate to future services and recognition is therefore spread over that period.

a. Equity settled Transaction

Equity-settled transactions with employees and directors would normally be expensed and would be based on their fair value at the grant date. Fair value should be based on market price wherever this is possible. Many shares and share options will not be traded on an active market. If this is the case then valuation techniques, such as the option pricing model, would be used. IFRS 2 does not set out which pricing model should be used, but describes the factors that should be taken into account. It says that 'intrinsic value' should only be used where the fair value cannot be reliably estimated. Intrinsic value is the difference between the fair value of the shares and the price that is to be paid for the shares by the counterparty.

The objective of IFRS 2 is to determine and recognise the compensation costs over the period in which the services are rendered. For example, if a company grants share options to

employees that vest in the future only if they are still employed, then the accounting process is as follows:

- i. The fair value of the options will be calculated at the date the options are granted.
- ii. This fair value will be charged to profit or loss equally over the vesting period, with adjustments made at each accounting date to reflect the best estimate of the number of options that will eventually vest.
- iii. Shareholders' equity will be increased by an amount equal to the charge in profit or loss. The charge in the income statement reflects the number of options vested. If employees decide not to exercise their options, because the share price is lower than the exercise price, then no adjustment is made to profit or loss. On early settlement of an award without replacement, a company should charge the balance that would have been charged over the remaining period

The issuance of shares or rights to shares requires an increase in a component of equity. IFRS 2 requires the offsetting debit entry to be expensed when the payment for goods or services does not represent an asset. The expense should be recognised as the goods or services are consumed. For example, the issuance of shares or rights to shares to purchase inventory would be presented as an increase in inventory and would be expensed only once the inventory is sold or impaired.

The issuance of fully vested shares, or rights to shares, is presumed to relate to past service, requiring the full amount of the grant-date fair value to be expensed immediately. The issuance of shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expensed over the vesting period.

As a general principle, the total expense related to equity-settled share-based payments will equal the multiple of the total instruments that vest and the grant-date fair value of those instruments.

a. Cash settled transaction

Cash settled share-based payment transactions occur where goods or services are paid for at amounts that are based on the price of the company's equity instruments. The expense for cash settled transactions is the cash paid by the company.

As an example, share appreciation rights entitle employees to cash payments equal to the increase in the share price of a given number of the company's shares over a given period. This creates a liability, and the recognised cost is based on the fair value of the instrument at the reporting date. The fair value of the liability is re-measured at each reporting date until settlement.

Disclosure:

IFRS 2 requires extensive disclosures under three main headings:

1. Information that enables users of financial statements to understand the nature and extent of the share-based payment transactions that existed during the period.
2. Information that allows users of financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments which have been granted during the period, was determined.
3. Information that allows users of financial statements to understand the effect of expenses, which have arisen from share-based payment transactions, on the entity's profit or loss in the period.

The standard is applicable to equity instruments granted after 7 November 2002 but not yet vested on the effective date of the standard, which is 1 January 2005. IFRS 2 applies to liabilities arising from cash-settled transactions that existed at 1 January 2005.

Questions for Practices

I. Short answer type questions:

1. What are deals with Ind AS - 15?
2. Define the term 'Revenue'.
3. Define the term 'Income'.
4. What is performance obligation?
5. What is stand - alone price?
6. Differentiate accounting profit and taxable profit.
7. What is deferred tax asset?
8. What is deferred tax liability?
9. What is temporary difference?
10. What you mean by 'Tax base'?
11. What is employee benefit?
12. Define "defined contribution plan".
13. What is termination benefit?
14. What are deals with IAS-19?
15. What are short term employee benefits?

II. Short Essay type questions

1. State the objective and scope of Ind AS 115.
2. Differentiate between Provision and Contingent liability with suitable examples.
3. What are accounting treatment of Provision and Contingent liability and contingent Asset?
4. How do you measure and recognise "Revenue from contract with customer"?

5. What are disclosure requirement as per IFRS 15?
6. How do you measure current tax liability and deferred tax liability?
7. What are disclosure requirements as per IAS-12, 'Income Tax'?
8. Briefly state objectives and scope of IFRS 2, Share based payment'.
9. How do you measure and recognise 'Share based payment transaction'?
10. Briefly explain disclosure requirement of IFRS 2 'Share based transaction.

III. Essay type questions:

1. Briefly explain revenue and liability related Indian accounting standards.
2. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 115 (IFRS 15).
3. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 12 (IAS 12).
4. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 19 (IAS 19).
5. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 37 (IAS 37).

Unit-4

DISCLOSURE RELATED ACCOUNTING STANDARDS

In forming a safe environment for stakeholders, corporate governance rules should focus on creating a culture of transparency. Transparency refers to making information on existing conditions, decisions, and actions accessible, visible, and understandable to all market participants. Disclosure refers more specifically to the process and methodology of providing the information and of making policy decisions known through timely dissemination and openness. Transparency is a prerequisite for accountability, especially to borrowers and lenders, issuers and investors, national authorities, and international financial institutions. Here arises the importance of disclosure standards.

The adoption of internationally accepted financial reporting standards is a necessary measure to facilitate transparency and contribute to proper interpretation of financial statements. This chapter specially dealing with disclosure related accounting standards such as:

1. Accounting for financial and operating leases (IAS 17 and Ind AS 17)
2. Accounting for basic and diluted EPS (IAS 33 and Ind AS 33)
3. Accounting for agriculture (IAS 41 and Ind AS 41)
4. Disclosure of related party transaction (IAS 24 and Ind AS 24)
5. Interim reporting (IAS 34 and Ind AS 34)
6. Operating segment (IFRS 8 and Ind AS 108)

I. ACCOUNTING FOR FINANCIAL AND OPERATING LEASES (IAS 17 AND IND AS 17)

Lease is an agreement whereby the lessor conveys to lessee in return for a payment or series of payments the right to use an asset for an agreed period of time including contracts giving hirer an option to acquire title to asset by paying an extra amount usually at end of the contract (as in the case of hire purchase contracts)

OBJECTIVE

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

SCOPE

IAS 17 applies to all leases other than lease agreements for minerals, oil, natural gas, and similar regenerative resources and licensing agreements for films, videos, plays, manuscripts, patents, copyrights, and similar items.

However, IAS 17 does not apply as the basis of measurement for the following leased assets:

- a) Property held by lessees that are accounted for as investment property for which the lessee uses the fair value model set out in IAS 40.
- b) Investment property provided by lessors under operating leases
- c) Biological assets held by lessees under finance leases
- d) Biological assets provided by lessors under operating leases

DEFINITIONS

1. *A lease* is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
2. *Financial lease*: A lease that transfers substantially all the risks and rewards incidental to ownership. The title may or may not eventually be transferred.
3. *Operating lease*: lease other than a financial lease.
4. *Minimum lease payments* comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required exercising it.
5. *Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
6. *Unearned finance income* is the difference between : (a) the gross investment in the lease, and (b) the net investment in the lease.
7. *Gross investment* in the lease is the aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease, and (b) any unguaranteed residual value accruing to the lessors.
8. *Unguaranteed residual value* is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

MEASUREMENT AND RECOGNITION

Accounting by Lessees:

- Lease payments under an operating lease shall be recognised as an expense on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit
- At commencement of the lease term, finance leases should be recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments (discounted at the interest rate implicit in the lease, if practicable, or else at the enterprise's incremental borrowing rate);

- Finance lease payments should be apportioned between the finance charge and the reduction of the outstanding liability (the finance charge to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability);
- The depreciation policy for assets held under finance leases should be consistent with that for owned assets. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease – the asset should be depreciated over the shorter of the lease term or the life of the asset;

Accounting by Lessors:

1. Operating leases

- Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of the asset.
- The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with IAS 16 and IAS 38.
- Lease income from operating leases shall be recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2. Finance Leases

- Lessors shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease.
- The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Sale and Leaseback transactions

A sale and leaseback is a transaction where one entity sells an asset to another entity (often a bank) and leases back the same asset. If it results in a finance lease ownership never really passes and remains with the seller/lessee. If it results in an operating lease ownership passes to the buyer/lessor. If the leaseback is a finance lease, it is inappropriate to recognize the profit as income immediately. Any excess of sales proceeds over the carrying amount of the related asset should be deferred (an unearned income liability is recognized) and amortized to profit and loss over the lease term. The transaction is a means whereby the lessor provides finance to the lessee and the lessor retains risks and rewards of ownership.

PRESENTATION AND DISCLOSURE:

Lessees—Finance Leases:

Lessee in financial lease must present and disclose:

1. The net carrying amount at reporting date for *each* class of asset;
2. A reconciliation between the total future minimum lease payments and the present values of the lease liabilities in **three periodic bands**, namely:
 - not later than one year;
 - later than one year but not later than five years; and
 - later than five years;
3. All related disclosures under IAS 16, IAS 36, IAS 38, and IAS 40 as relevant to the leased asset;
4. General description of material leasing arrangements, such as the basis for contingent rent, the existence and terms of renewal, purchase options and escalation clauses, and restrictions imposed for further leasing;
5. Distinction between current and noncurrent lease liabilities;
6. The total future minimum sublease payments expected to be received under non-cancellable subleases at reporting date;
7. Contingent rents recognized in expenses for the period; and
8. The relevant requirements of IFRS 7, for example liquidity analysis, impairment, and credit risk.

Lessees—Operating Leases: should disclose:

1. General description of significant leasing arrangements (same information as for finance leases above);
2. lease and sublease payments recognized as an expense in the current period, separating minimum lease payments, contingent rents, and sublease payments;
3. future minimum no cancellable lease payments in the **three periodic bands** as described for finance leases; and
4. The total future minimum sublease payments expected to be received under noncancellable subleases at reporting date.

Lessors—Finance Leases: Should disclose:

1. a reconciliation of the total gross investment in the lease and the present value of minimum lease payments receivable at reporting date, in the **three periodic bands** as described above;
2. unearned finance income;

3. the accumulated allowance for uncollectible minimum lease payments receivable;
4. contingent rents recognized in income in the period;
5. general description of material leasing arrangements; and
6. Unguaranteed residual values accruing to the lessor.

Lessors—Operating Leases: Should disclose

1. All related disclosures under IAS 16, IAS 36, IAS 38, and IAS 40 as relevant to the leased asset;
2. general description of leasing arrangements;
3. total future minimum lease payments under noncancellable operating leases in the **three periodic bands** as described; and
4. Total contingent rents recognized in income for the period.

For sale and leaseback transactions, the same disclosure requirements as for lessees and lessors above apply. Some items might be separately disclosable in terms of IAS 1

II.ACCOUNTING FOR BASIC AND DILUTED EPS (IAS 33 AND IND AS 33)

Earnings per share are prime variable used for evaluating the performance of an entity. It allows investors to make an accurate comparison of the results of entities functioning in different sectors and industries.

OBJECTIVE

The principal objective of this standard is to prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. However, the prime focus of this Standard is on the denominator of the earnings per share calculation. The standard distinguishes between the notions, calculation methods, and disclosures of basic as well as diluted earnings per share

SCOPE

This standard is not mandatory on all entities. However, entities whose share are listed or are in process of listing for trading in public and any other entity voluntarily presents EPS must comply with this standard.

DEFINITIONS

1. An *ordinary share* is an equity instrument that is subordinate to all other classes of equity instruments.
2. A *potential ordinary share* is a financial instrument or other contract that may entitle its holder to ordinary shares
3. *Earning per share* is the interest of each ordinary share of an entity in the profit or

loss of the entity for the reporting period.

4. *Dilution* is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.
5. *Basic earnings per share* is the profit or loss attributable to each ordinary share in issue at reporting date. It is calculated by dividing basic earnings (numerator) by the weighted average number of ordinary shares outstanding during the period (denominator):

$$\frac{\text{Basic earnings as adjusted}}{\text{Weighted average number of ordinary shares outstanding}}$$

(Weighted average number of ordinary shares outstanding)

6. *Diluted earnings per share* are the profit or loss attributable to each ordinary and potential ordinary share in issue at reporting date. It is calculated by adjusting the basic earnings per share calculation for the effect of dilutive potential ordinary shares:

$$\frac{\text{Diluted earnings}}{\text{Weighted average number of ordinary + weighted average number of potential ordinary shares outstanding}}$$

(Weighted average number of ordinary + weighted average number of potential ordinary shares outstanding)

7. *Diluted earnings* is the profit or loss attributable to ordinary equity holders of the parent entity and (if presented) profit or loss from continuing operations attributable to those equity holders, adjusted for the effects of all dilutive potential ordinary shares.

MEASUREMENT AND RECOGNITION

- a. An entity should present basic and diluted EPS for each class of ordinary share that has a different right to share in profit for the period. The EPS should be presented for all periods presented and with equal prominence.
- b. If an entity presents only a statement of comprehensive income, EPS is reported in that statement. If it presents both a statement of comprehensive income and a separate statement of comprehensive income, EPS is reported only in the separate statement of comprehensive income.
- c. An entity that reports a discontinued operation shall disclose the basic and diluted amounts per share for the discontinued operation either in the statement of comprehensive income or in the notes.
- d. EPS is reported for profit or loss attributable to equity holders of the parent entity,

for profit or loss from continuing operations attributable to equity holders of the parent entity, and for any discontinued operations.

- e. In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- f. Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. In other words, basic EPS=earnings numerator: after deduction of all expenses including tax, and after deduction of non-controlling interests and preference dividends/denominator: weighted average number of shares outstanding during the period.
- g. The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources
- h. Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- i. Diluted EPS calculated as follows:
 - earnings numerator: the profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
 - denominator: adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and
 - Anti-dilutive potential ordinary shares are excluded from the calculation.
- j. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.

PRESENTATION AND DISCLOSURE

1. Basic and diluted earnings per share are shown with equal prominence on the face of the Statement of Comprehensive Income for each class of ordinary shares with different rights. Information presented should include:

- a. profit or loss from continuing operations attributable to ordinary equity holders of the parent entity;
 - b. profit or loss attributable to ordinary equity holders of the parent entity; and
 - c. any reported discontinued operation.
2. Basic and diluted losses per share are disclosed when they occur.
 3. Amounts used as numerators for basic and diluted earnings per share and a reconciliation of those amounts to the net profit or loss for the period should be disclosed.
 4. The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other, must be disclosed.
 5. If earnings per share figure in addition to that required by IAS 33 are disclosed, the following effects must be disclosed:
 - The amounts shall be calculated using the weighted average number of shares determined in accordance with IAS 33.
 - Related basic and diluted amounts per share should be disclosed with equal prominence.
 - That figure should be disclosed in the notes
 - The basis on which the numerator is determined should be indicated, including whether amounts are before or after tax.
 - A reconciliation of the numerator and reported line item should be provided in the Statement of Comprehensive Income.
 - The same denominator should be used as for basic earnings per share or dilutive earnings per share (as appropriate).

When discussing companies, investors and others commonly refer to earnings per share. If a company has a simple capital structure, one that contains no convertible bonds or preferred shares, no warrants or options, and no contingent shares, it will present only its basic earnings per share. For complex capital structures, both basic earnings per share and diluted earnings per share are generally reported. A complex capital structure is one where the company does have one or more of the following types of securities: convertible bonds, preferred shares, warrants, options, and contingent shares.

III.ACCOUNTING FOR AGRICULTURE (IAS 41 AND IND AS 41)

OBJECTIVE

IAS 41 prescribes the accounting treatment, financial statement presentation, and disclosures related to biological assets and agricultural produce at the point of harvest insofar as they relate to agricultural activity.

Agricultural activity is a specialized industry, and therefore its accounting treatment is not covered by other standards. IAS 41 prescribes a fair value model for the accounting of agricultural produce, with the objective of recognizing changes in the fair value of biological assets over their lifetime rather than on sale or realization.

The accounting treatment of related government grants is also prescribed.

SCOPE

This standard should be applied to the following when they relate to agricultural activity:

- a) Biological assets
- b) Agricultural produce at the point of harvest
- c) Government grants

IAS 41 does not apply to:

- a) land related to agricultural activity [IAS 16] or
- b) Intangible assets related to agricultural activity [IAS 38]

IAS 41 does not deal with processing agricultural produce after harvest; for example, it does not deal with processing grapes into wine or wool into yarn. Such processing is accounted for as inventory in accordance with IAS 2, Inventory

DEFINITIONS

1. *Agricultural activity* is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.
2. *Biological assets* are living animals and plants.
3. *Agricultural produce* is the harvested product from biological assets.
4. *Point of sale costs*: Commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes. Point of sale costs do not include transport and other costs necessary to get assets to a market
5. *Harvest* is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

Notes: All the accounting treatment in Ind AS 41 is in line with IAS 41 except the following;

IAS 41, *Agriculture*, requires measurement of biological assets, viz., living animals and plants at fair value and recognizing gains and losses arising on such measurement in profit or loss, unless ascertainment of fair value is unreliable. It

has been decided to revise this requirement.

ACCOUNTING TREATMENT

An enterprise should recognize a biological asset or agriculture produce only when the enterprise controls the asset as a result of part events, it is probable that future economic benefits will flow to the enterprise, and the fair value or cost of the asset can be measured reliably. Biological assets should be measured on initial recognition and at subsequent reporting dates at fair value less estimated point-of-sale costs, unless fair value cannot be reliably measured. Agricultural produce should be measured at fair value less estimated point-of-sale costs at the point of harvest. Because harvested produce is a marketable commodity, there is no 'measurement reliability' exception for produce. The gain on initial recognition of biological assets at fair value, and changes in fair value of biological assets during a period, are reported in net profit or loss. A gain on initial recognition of agricultural produce at fair value should be included in net profit or loss for the period in which it arises. All costs related to biological assets that are measured at fair value are recognized as expenses when incurred, other than costs to purchase biological assets.

IAS 41 presumes that fair value can be reliably measured for most biological assets. However, that presumption can be rebutted for a biological asset that, at the time it is initially recognized in financial statements, does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are determined to be clearly inappropriate or unworkable. In such a case, the asset is measured at cost less accumulated depreciation and impairment losses. But the enterprise must still measure all of its other biological assets at fair value. If circumstances change and fair value becomes reliably measurable, a switch to fair value less point-of-sale costs is required.

MEASUREMENT

The following guidance is provided on the measurement of fair value:

- A quoted market price in an active market for a biological asset or agricultural produce is the most reliable basis for determining the fair value of that asset.
- If reliable market-based prices are not available, the present value of expected net cash flows from the asset should be use, discounted at a current market-determined pre-tax rate.
- in limited circumstances, cost is an indicator of fair value, where little biological transformation has taken place or the impact of biological transformation on price is not expected to be material;

- The fair value of a biological asset is based on current quoted market prices and is not adjusted to reflect the actual price in a binding sale contract that provides for delivery at a future date.

Other Issues

The change in fair value of biological assets is part physical change (growth, etc.) and part unit price change. Separate disclosure of the two components is encouraged, not required. Fair value measurement stops at harvest. IAS 2, Inventories, applies after harvest. Agricultural land is accounted for under IAS 16, Property, Plant and Equipment. However, biological assets that are physically attached to land are measured as biological assets separate from the land. Intangible assets relating to agricultural activity (for example, milk quotas) are accounted for under IAS 38, Intangible Assets. Unconditional government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable. If such a grant is conditional (including where the grant requires an entity not to engage in certain agricultural activity), the entity recognizes it as income only when the conditions have been met.

DISCLOSURE:

Disclosure requirements in IAS 41 include:

- Description of an enterprise's biological assets, by broad group.
- Change in fair value during the period.
- Fair value of agricultural produce harvested during the period.
- Description of the nature of an enterprise's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period.
- Information about biological assets whose title is restricted or that are pledged as security.
- Commitments for development or acquisition of biological assets.
- Financial risk management strategies.
- Methods and assumptions for determining fair value.
- reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences

Disclosure of a quantified description of each group of biological assets, distinguishing between consumable and bearer assets or between mature and

immature assets, is encouraged but not required.

If fair value cannot be measured reliably, additional required disclosures include: description of the assets, an explanation of the circumstances, if possible, a range within which fair value is highly likely to fall, gain or loss recognized on disposal, depreciation method, useful lives or depreciation rates, gross carrying amount and the accumulated depreciation, beginning and ending. If the fair value of biological assets previously measured at cost now becomes available, certain additional disclosures are required. Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases in the expected level of grants.

IV. DISCLOSURE OF RELATED PARTY TRANSACTIONS [IAS 24 and Ind AS 24]

OBJECTIVE

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

SCOPE

This Standard shall be applied in:

- (a) Identifying related party relationships and transactions;
- (b) Identifying outstanding balances, including commitments, between an entity and its related parties;
- (c) Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- (d) Determining the disclosures to be made about those items.

DEFINITIONS

1. A party is related to an entity if:

- (a) Directly, or indirectly through one or more intermediaries, the party:
 - i. Controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - ii. Has an interest in the entity that gives it significant influence over the entity; or
 - iii. has joint control over the entity;
- (b) The party is an associate (as defined in IAS 28 *Investments in Associates*) of the entity;

- (c) The party is a joint venture in which the entity is a venturer (see IAS 31 *Interests in Joint Ventures*);
- (d) The party is a member of the key management personnel of the entity or its parent;
- (e) The party is a close member of the family of any individual referred to in (a) or (d);
- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

2. A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;
- (b) children of the individual's domestic partner; and
- (c) Dependants of the individual or the individual's domestic partner.

ACCOUNTING TREATMENT (RECOGNITION)

When assessing a related-party relationship, the reporting entity must consider the substance of the relationship over its legal form. Examples of entities that are not related include:

- two entities that have a mutual director or manager, unless that director has a substantial interest and voting power;
- two venturers that jointly control an entity (the entity is a related party of the venturers but the venturers are not related parties of each other);
- financiers, public utilities, trade unions, and government departments that are parties with the reporting entity simply due to normal business dealings; and
- Customers, agents, suppliers, and similar entities with whom a significant volume of business occurs merely due to the dependence the entity may have on these parties.

A related-party transaction comprises a transfer of resources or obligations between related parties, regardless of whether a price is charged; this transfer of resources includes transactions concluded on an arm's-length basis. The following are examples of related-party transactions:

- ⇒ purchase or sale of goods;
- ⇒ purchase or sale of property or other assets;
- ⇒ rendering or receipt of services;

- ⇒ agency arrangements;
- ⇒ lease agreements;
- ⇒ transfer of research and development;
- ⇒ transfers under license agreements;
- ⇒ transfers under finance agreements, including loans and equity contributions;
- ⇒ provision of guarantees and collaterals; and
- ⇒ Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities.

DISCLOSURE

Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) Share-based payment.

If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:

- (a) the amount of the transactions;
- (b) the amount of outstanding balances and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and (ii) details of any guarantees given or received;
- (c) provisions for doubtful debts related to the amount of outstanding balances; and
- (d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

The disclosures required by paragraph 17 of IAS 24 shall be made separately for each of the following categories:

- (a) the parent;
- (b) entities with joint control or significant influence over the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a venture;
- (f) key management personnel of the entity or its parent; and
- (g) Other related parties.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

V.INTERIM REPORTING (IAS 34 and Ind AS 34)

OBJECTIVE

In order to make economic decisions, users require the latest financial information of an entity and cannot wait a full year for the annual report. Interim financial information enhances the accuracy of forecasting earnings and share prices and improves users' ability to understand the financial conditions and liquidity of the entity by providing information on a more regular basis. Interim reporting also helps users understand seasonal fluctuations, trends, and liquidity of the entity.

The objective of this standard is to prescribe the minimum content of an interim financial report and the recognition and measurement principles for an interim financial report.

SCOPE

This is not a mandatory statement for all enterprises. This Standard applies if an entity is required or elects to publish an interim financial report in accordance with International Financial Reporting Standards. It applies to entities required by legislation or other pronouncements or that elect to publish interim financial reports.

IAS 34 does not apply where interim financial statements included in a prospectus. Standard does not mandate which entities should produce interim financial reports.

DEFINITIONS

1. *Interim financial report* means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period.
2. *Interim period* is a financial reporting period shorter than a full financial year.

ACCOUNTING POLICIES

Principles for recognizing assets, liabilities, income and expenses are same as in the most recent annual financial statements, unless:

- There is a change in an accounting policy that is to be reflected in the next annual financial statements.
- Tax recognised based on weighted average annual income tax rate expected for the full year.
- Tax rate changes during the year are adjusted in the subsequent interim period during the year.

Recognition and Measurement

1. Prescribes the comparative periods for which interim financial statements are required to be presented.
2. Materiality is based on interim financial data, not forecasted annual amounts.
3. The notes in an interim financial report provide an explanation of events and transactions significant to understanding the changes since the last annual financial statements.
4. Same accounting policies as used in annual financial statements.
5. Revenue and costs are recognised when they occur, not anticipated or deferred.
6. Change in accounting policy - restate previously reported interim periods.

DISCLOSURE

Components of an interim financial report are:

- a. condensed statement of financial position;
- b. condensed statement of comprehensive income presented either as a condensed single statement or a condensed separate statement of comprehensive income and a condensed statement of comprehensive income;
- c. condensed statement of changes in equity;
- d. condensed statement of cash flows; and
- e. Selected explanatory notes.

The condensed statements are required to include at least:

- Headings and subtotals included in most recent annual financial statements
- Selected minimum explanatory notes - explaining events and transactions significant to an understanding of the changes in financial position/performance since last annual reporting date
- Selected line items or notes if their omission would make the condensed financial statements misleading

- Basic and diluted earnings per share (if applicable) on the face of statement of comprehensive income.

VI. OPERATING SEGMENTS [IFRS 8 and Ind AS 108]

OBJECTIVE

IFRS 8 establishes principles for reporting information by operating segments, that is, information about the different business activities of an entity and the different economic environments in which it operates. IFRS 8 requires the identification of operating segments on the basis of internal reports that senior management (also referred to as the chief operating decision maker) use when determining the allocation of resources to a segment and assessing its performance. The presentation of segment information based on the management approach will enable the users of financial statements to review the entity's performance through the eyes of management and allow users to make their decisions based on the information presented to management.

SCOPE

This standard applies to the stand-alone financial statements of individual entities and the consolidated financial statements of a group with a parent, whose equity or debt securities are traded in a public securities market or that are in the process of issuing such instruments. Other entities that voluntarily choose disclosure under this standard should comply fully with the requirements of IFRS 8.

A parent entity is required to present segment information only on the basis of its consolidated financial statements. If a subsidiary's own securities are publicly traded, it will present segment information in its own separate financial report. (Financial statement disclosure of equity information for associated investments would mirror this requirement.

DEFINITIONS

1. *An operating segment* is a component of an entity:
 - ⇒ That engages in business activities from which it may earn revenues and incur expenses;
 - ⇒ whose operating results are regularly reviewed by the entity's chief operating decision maker for allocating resources to the segment and assessing its performance; and
 - ⇒ For which discrete financial information is available.
2. *A reportable segment* is an operating segment or results from the aggregation of two or more operating segments that meets any of the following quantitative thresholds:
 - its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of

- all operating segments; or
- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
 - Its assets are 10 per cent or more of the combined assets of all operating segments.
3. *The chief operating decision maker* identifies a function and not necessarily a person; for example, it could be the board of directors or the executive management team. The function of the chief operating decision maker is to allocate resources to operating segments and assess the performance of the operating segments of an entity.

MEASUREMENT AND RECOGNITION

- ⇒ The amount of each segment item reported is the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance, irrespective of whether this measure is IFRS compliant. Adjustments, eliminations, and allocations made in preparing an entity's financial statements should be included in determining the segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker.
- ⇒ IFRS 8 does not define segment revenue, segment expense, segment profit or loss, segment assets, or segment liabilities. The standard does however require that an entity should explain the measurements of segment profit or loss, segment assets, and segment liabilities for each reportable segment.
- ⇒ An entity should report information for each operating segment that meets the definition of an operating segment or results from the aggregation of two or more segments in line with the requirements; and exceeds the quantitative thresholds.
- ⇒ Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins would be expected for two operating segments with similar economic characteristics. Two or more operating segments may be aggregated into a single operating segment for disclosure purposes.
- ⇒ If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

- ⇒ Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.
- ⇒ Small segments might be combined as one if they share a substantial number of factors that define a business or geographical segment, or they might be combined with a similar significant reportable segment. If they are not separately reported or combined, they are included as an unallocated reconciling item.
- ⇒ A segment that is not judged to be a reportable segment in the current period should none the less be reported if it is significant for decision-making purposes (for example, future market strategy).

DISCLOSURE:

Required disclosures include:

- a. General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;
- b. Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and
- c. Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.
- d. Some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and services.
- e. Analyses of revenues and certain non-current assets by geographical area - with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments.
- f. Information about transactions with major customers.
- g. Considerable segment information at interim reporting dates.

Questions for Practices

I.Short Answer type.

1. Define the term 'lease'.
2. What is financial lease?
3. What is operating lease?
4. What is Minimum Lease Payment (MLP)?

5. What is “gross investment”?
6. Define ‘Unearned finance income’.
7. What is sale and leaseback transaction?
8. What is ‘Basic earnings per share’?
9. What is ‘diluted earnings per share’?
10. Differentiate ordinary share from potential earning per share.
11. What is biological asset? Give examples.
12. What is harvest?
13. State the scope of IAS 41?
14. Give examples of ‘point of sale cost’.
15. Who is “Related party”?

II. Short Essay type questions

1. State the objective and scope of Ind AS 17.
2. Differentiate between financial lease and operating lease with suitable examples.
3. What is accounting treatment of financial and operating lease?
4. How do you measure and recognise “earning per share”?
5. What are disclosure requirement as per IAS 24 and Ind AS 24?
6. How do you measure Basic EPS and diluted EPS?
7. What are disclosure requirements as per IAS-33?
8. Briefly state objectives and scope of IFRS 8, operating segment’.
9. How do you measure and recognise ‘Related party transaction’?
10. Briefly explain accounting treatment of “interim financial reporting, IAS 34”.

III. Essay type questions:

1. Briefly explain disclosure related reporting standards.
2. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS (IAS 17).
3. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 33 (IAS 33).
4. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 34 (IAS 34).
5. Briefly state objective, scope, measurement and recognition and disclosure requirements under Ind AS 24 (IAS 24).

Unit-5

PREPARATION OF SINGLE ENTITY FINANCIAL STATEMENTS

The objective of preparing general purpose financial statements of a single entity is to provide information about the entity's financial position, performance and cash flows that is useful for economic decision-making by a broad range of users (eg:- owners who are not involved in managing the business, potential owners, existing and potential lenders and other creditors) who are not in a position to demand reports tailored to meet their particular information needs. This chapter deals with most of the aspects for preparing a complete set of financial statements. A complete set of a single entity's financial statements generally include, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows.

I. PRESENTATION OF FINANCIAL STATEMENTS (IAS 1 & Ind AS 1)

Objectives

This standard specifies the basis for presentation of general purpose financial statements to ensure that the financial statements are in accordance with IFRS and it also ensures comparability with entity's previous years financial statements and with same of other entities. Standard ensures the structure and minimum requirement for the content of financial statements.

Scope

1. This standard has wide coverage in the following areas:
 - a) What constitute a complete set of financial statements?
 - b) The overall requirements for the presentation of financial statement, including guidelines for their structure.
 - c) Distinction between current and non-current elements.
 - d) Minimum requirements for the content of financial statements.
2. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34 / Ind AS 34 Interim Financial Reporting.

Definition

- a. **Fair presentation:** Fair presentation means the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the framework. The financial statements should present fairly the financial position, financial performance, and cash flows of the entity.
- b. **Current Asset:** An asset is classified as current asset when it:
 - a) Is expected to be realized or intended for sale or consumption in the entity's normal operating cycle.
 - b) Is held primarily for trading.
 - c) Is expected to be realized within 12 months after the reporting date.
 - d) Is cash or cash equivalents asset which is not restricted in its use.

- c. **Current Liability:** A liability should be classified as current liability when it:
 - a) Is expected to be settled in the entity's normal operating cycle.
 - b) Is held primarily for trading.
 - c) Is due to be settled within 12 months after the reporting date.
 - d) Liabilities for which the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period.
- d. **Non-current asset and Non-current Liabilities:** Non-current assets and Non-current liabilities are expected to be settled after 12 months from the date of reporting. Proportion of non-current interest bearing liabilities to be settled within 12 months after the reporting date can be classified as non-current liabilities if the original term is greater than 12 months and it is the intention to refinance or reschedule the obligation.
- e. **Other Comprehensive Income:** Other comprehensive income comprises of income and expenses they are not recognised in profit or loss as permitted. These include:
 - a) Changes in revaluation surplus of fixed or intangible assets in terms of IAS 16 and IAS 38.
 - b) Actuarial gain and losses on defined benefit plans recognised in accordance with IAS 19.
 - c) Gains or losses arising from translating the financial statement of a foreign operation recognised in terms of IAS 21.
 - d) The effective portion of gains and losses on hedging instruments in a cash flow hedge in terms of IAS 39.
- f. **Total Comprehensive Income:** Total comprehensive income is the change in equity during a period resulting from transactions, other than those changes resulting from transactions with owners in their capacity as owners. That is, the sum of profit or loss for the period and other comprehensive income.

Accounting Treatment

1. Financial statements should provide information about an entity's financial position, performance, and cash flows that is useful to a wide range of users for economic decision making.
2. A return journey from the requirements of an IFRS is allowed only in the extremely rare case in which the application of IFRS would be so misleading as to conflict with the objectives of financial statements. In such cases, the firm should disclose the following:
 - a) Whether the management has concluded that the financial statements present fairly the entity's financial position, performance and cash flows.
 - b) Whether the entity has complied with the applicable IFRSs.
 - c) Whether it has departed from the title of the IFRS.
 - d) Nature and reason for the departure.
 - e) Financial effect of the departure.

3. To maintain consistency the presentation and classification of items in the financial statements should stay the same from one period to another. There are two exceptions to this. A change is permitted when; the change is required by an IFRS or the change results in a more appropriate presentation of Financial Statements.
4. A complete set of financial statements comprises of the following components:
 - a) Statement of financial position (formerly balance sheet) as at the end of the reporting period.
 - b) A statement of profit or loss and other comprehensive income for the reporting period.
 - c) Statement of changes in equity for the reporting period.
 - d) Statement of cash flows.
 - e) Notes to financial statement explaining the significant accounting policies and other information.
 - f) A statement of financial position as at the beginning of the earliest comparative period.
5. In addition, IAS 1 / Ind AS 1 encourage, a financial review by the management, environmental reports and a value added statement. But, the reports presented outside of the financial statements are outside the scope of IFRSs.
6. The financial statements should present fairly the financial position, financial performance and cash flow of an entity. Following points are specified by the standard to address this issue:
 - a) Compliance with IFRS should be disclosed.
 - b) Compliance with all requirements by each standard is compulsory.
 - c) Disclosure cannot rectify inappropriate accounting treatments.
 - d) Requirement of a new or revised standard is adopted before the effective date; this matter also should be disclosed.
7. Financial statements of an entity are prepared on going concern basis unless the management intends to liquidate the business or cease trading. If the going concern assumption is not followed, the fact must be disclosed with basis adopted for preparing the statements and the reason for not considering the business as going concern.
8. Financial statements are usually prepared annually. If the annual reporting period changes and financial statements are prepared for a different period, then the enterprise must disclose the reason for the change and a warning about problems of comparability.
9. The accrual basis of accounting should be applied when preparing the financial statements, except for cash flow information. Entity should prepare their financial statements on the basis that transaction are recorded in them, not as the cash is paid or received, but as the revenue or expenses are earned or incurred.

10. All the material items must be disclosed in the financial statements. Aggregation of immaterial items of a similar nature is permitted, but the material items should not be aggregated. Items of dissimilar nature should be presented separately.
11. IAS1/ Ind AS1 do not permit asset and liabilities to be offset against each other unless it is required by another IFRS. Income and expenditure can be offset only when an IFRS permits to do so. However, immaterial gain, losses and related expenses arising from similar transaction can be offset.
12. For comparison purpose numerical information of the previous period should be disclosed in the financial statements. Relevant descriptive and narrative information also should be disclosed.
13. If the publication for financial statements is delayed too long after the reporting period, their usefulness will be severely diminished. So the standard compels entities to publish their financial statements within six months of the end of the reporting period.

Presentation and Disclosure

Financial statements should be clearly distinguished from the document published. Each component of the financial statements should be clearly identified with following information:

- a) Name of the reporting entity.
- b) Whether the statement is of an individual entity or of a group of entities.
- c) Reporting date and period of reporting.
- d) Presentation currency.

Statement of Financial Position (Balance Sheet)

This statement provides information about the financial position of an entity. Statement of financial position should normally distinguish between current and non-current assets, and between current and non-current liabilities, where a presentation based on liquidity provides more relevant and reliable information. Irrespective of the method of presentation adopted, an entity should disclose the amount expected to be recovered or settled within and after more than 12 months of the reporting period for each asset and liability line.

1. An entity should disclose the following information on capital either in the Statement of Financial Position, Statement of Changes in Equity, or in the notes.
 - a) Number of shares authorized.
 - b) Number of shares issued and fully paid; and issued but not fully paid.
 - c) Face value per share or that it has no par value.
 - d) Reconciliation of the number of shares at the beginning and end of year.

- e) Rights, preferences, and restrictions attached to that class, including restrictions on dividends and the repayment of capital.
- f) Shares in the entity held by the entity itself or by its subsidiaries or associates.
- g) Number of shares reserved for issue under options and sales contracts, including the terms and amounts.
- h) A description of the nature and purpose of each reserve within equity.
2. Minimum information must be presented in the face of a Statement of Financial Position.

Assets	Liabilities and Equity
Property, plant, and equipment	Trade and other payables
Investment property	Provisions
Intangible assets	Financial liabilities
Financial assets	Current tax liabilities
Investments accounted for using the equity method	Deferred tax liabilities
Biological assets	Liabilities included in disposal groups held for sale
Deferred tax assets	Equity
Inventories	Issued capital and reserves attributable to owners of the parent
Trade and other receivables	Reserves
Current tax assets	Non-controlling interests
Cash and cash equivalents	
Assets held for sale	
Assets included in disposal groups held for sale	

3. Other information must appear on the face of the statement of financial position and it includes details on nature and purpose of each reserve, shareholders for dividend not formally approved and amount cumulative preference dividend not recognised.

Statement of Profit or Loss and Other Comprehensive Income

The performance of a company is reported in the statement of profit or loss and other comprehensive income. IAS 1, *Presentation of Financial Statements*, defines profit or loss as ‘the total of income less expenses, excluding the components of other comprehensive income’.

AS 1 permit to present incomes and expenses either in a single statement called “statement of profit or loss and other comprehensive income”; or in two statements, a separate statement for profit or loss and a statement for other comprehensive income. But, Ind AS 1 allows the single statement approach only.

1. Standard lists the following items as minimum to be disclosed in the Statement of profit or loss and other comprehensive income
 - a) Revenue
 - b) Finance cost
 - c) Share of profit or loss of associates and joint venture.
 - d) Tax expenses
 - e) A single amount comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
 - f) Profit or loss
 - g) Each component of other comprehensive income classified by nature, excluding amount in (h).
 - h) Share of the other comprehensive income of associates and joint ventures accounted for using the equity method.
 - i) Total comprehensive income.
2. The following items must be disclosed in the statement as allocation of profit or loss for the period:
 - a) Profit or loss attributable to non- controlling interest.
 - b) Profit or loss attributable to owners of the parent.
3. Following items are to be presented on the face of the statement or in the notes:
 - a) Analysis of expenses based on either, in their nature or function (Ind AS1 requires only nature wise classification)
 - b) Depreciation charges for tangible assets; amortisation charges for intangible assets; employee benefit expenses; and dividends recognised and the related amount per share are required to be disclosed if the expenses are classified by function.
4. IFRS never permits presentation of any items of income or expense as extraordinary items.

Statement of Changes in Equity

The statement of changes in equity shows information about the increase or decrease in net assets or wealth of an entity. IAS 1 requires preparation of a

Statement of Changes in Equity as a separate statement. Ind AS 1 requires the statement of changes in equity to be shown as a part of the balance sheet.

1. The minimum information to be presented on the face of the statement of changes in equity includes:
 - a) Total comprehensive income for the period showing separately the total amount attributable to owners of the parent and non-controlling interest.
 - b) The effects of retrospective applications or restatements recognised in accordance with IAS 8 on each of the components of equity.
 - c) Reconciliation between the carrying amount at the beginning and end of the period for each components of equity.
2. Following details are also to be presented on the face of the statement of changes in equity or in the notes as other information.
 - a) Capital transaction with owners and distributions to owners.
 - b) The amount of dividend recognised as distribution to owners during the period and the related per share information.
 - c) Reconciliation of the balance of accumulated profit or loss at the beginning and end of the year.
 - d) Reconciliation of the carrying amount of each class of equity capital, share premium, and each reserve at the beginning and end of the period.

Format and Presentation of Financial Statements

1. Statement of Comprehensive Income

a. Single statement approach

Statement of Comprehensive Income of ABC Ltd. Co. for the year ended 31st March 2016.

	2015-16	2014-15
Revenue	XXXX	XXXX
Cost of Sales	(XXX)	(XXX)
Distribution costs	(XXX)	(XXX)
Administrative expenses	(XXX)	(XXX)
Finance costs	(XXX)	(XXX)
Share of profit of associates	(XXX)	(XXX)
Profit before tax	XXXX	XXXX
Income tax expense	(XXX)	(XXX)
Profit for the year from continuing operations	XXXX	XXXX

Loss for the year from discontinued operations	(XXX)	(XXX)
Profit for the year	XXXX	XXXX
Other Comprehensive Income		
Exchange differences on translating foreign operations, net of tax	XXX	XXX
Actuarial gains on defined benefit pension obligations, net of tax	(XX)	(XX)
Share of associate's other comprehensive income	(XX)	(XX)
Other comprehensive income for the year, net of tax	XXX	XXX
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	XXXX	XXXX

b. **Two statement approach**

Consolidated Income statement of ABC Ltd. Co. for the year ended 31st March 2016

	2015-16	2014-15
Revenue	XXXX	XXXX
Cost of Sales	(XXX)	(XXX)
Distribution costs	(XXX)	(XXX)
Administrative expenses	(XXX)	(XXX)
Finance costs	(XXX)	(XXX)
Share of profit of associates	(XXX)	(XXX)
Profit before tax	XXXX	XXXX
Income tax expense	(XXX)	(XXX)
Profit for the year from continuing operations	XXXX	XXXX
Loss for the year from discontinuing operations	(XXX)	(XXX)
PROFIT FOR THE YEAR	XXXX	XXXX
Profit for the year is attributable to:		
Owners of the parent company	XXXX	XXXX
Non-controlling interests	XX	XX
	XXXX	XXXX

	Note	2015-16	2014-15
Profit for the year		XXXX	XXXX
Other comprehensive income:			
Exchange differences on translating foreign operations, net of tax	16	XXX	XXX
Actuarial gains on defined benefit pensions obligations, net of tax	17	(XX)	(XX)
Share of associate's other comprehensive income	13	(XXX)	(XXX)
Other comprehensive income for the year, net of tax	18	XXX	XXX
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		XXXX	XXXX
Total Comprehensive income for the year is attributable to:			

Owners of the parent		XXXX	XXXX
Non-controlling interests		XX	XX
		XXXX	XXXX

2. Statement of Financial Position

Performa of Statement of Financial Position of ABC Ltd. for the year ended 31st March, 2016

	2015-16	2014-15
ASSETS		
Current Assets		
Cash and Cash equivalents	XXX	XXX
Trade receivables	XXX	XXX
Other financial assets – derivative hedging instruments	XXX	XXX
Inventories	XXX	XXX
Other current assets	XXX	XXX
Total current assets	XXXX	XXXX
Non-current assets		
Financial assets – Investments in shares	XXX	XXX
Investments in associates		
- Carried at fair value	XXX	XXX
- Carried at cost less impairment	XXX	XXX
Investment in jointly controlled entities		
- Carried at fair value	XXX	XXX
- Carried at cost less impairment	XXX	XXX
Investment property – Carried at fair value	XXX	XXX
Property, Plant and Equipment – Carried at cost less accumulated depreciation	XXX	XXX
Biological assets		
- Carried at fair value	XXX	XXX
- Carried at cost less impairment	XXX	XXX
Goodwill	XXX	XXX
Other intangible assets	XXX	XXX
Deferred tax assets	XXX	XXX
Total non-current assets	XXXX	XXXX
Total assets	XXXXXX	XXXXXX
LIABILITIES AND EQUITY		
Current liabilities		
Bank overdrafts	XXX	XXX
Trade and other payables	XXX	XXX
Short-term borrowings	XXX	XXX
Current portion of bank loans	XXX	XXX

Current portion of obligations under finance leases	XXX	XXX
Current portion of employee benefit obligations	XXX	XXX
Current tax payable	XXX	XXX
Short-term provisions	XXX	XXX
Total current liabilities	XXXX	XXXX
Non-current liabilities		
Bank loans	XXX	XXX
Obligations under finance leases	XXX	XXX
Environmental restoration provision	XXX	XXX
Long-term employee benefit obligations	XXX	XXX
Deferred tax liabilities	XXX	XXX
Total non-current liabilities	XXXX	XXXX
Total liabilities	XXXX	XXXX
Equity		
Share capital	XXX	XXX
Retained earnings	XXX	XXX
Actuarial gains on defined benefit pension plan	XXX	XXX
Gains on hedges of foreign exchange risks of firm commitments	XXX	XXX
Total equity attributable to owners of the parent	XXXX	XXXX
Non-controlling interests	XXX	XXX
Total equity	XXXX	XXXX
Total equity and liabilities	XXXXX	XXXXX

3. Statement of Changes in Equity

Performa Statement of changes in equity, of ABC Ltd. for the period ended 31st March, 2016

	Share Capital	Retained Earnings	Equity instruments	Revaluation Surplus	Total	Non-controlling interest	Total Equity
Balance as on 1st April 2014	XXXX	XXXX	XXXX	-	XXXX	XXXX	XXXX
Correction of a prior period error	-	XXX	XXX	-	XXX	XXX	XXX
Changes in accounting policy	-	XXX	-	-	XXX	XXX	XXX
Restated balance as on 1st April 2014	XXXX	XXXX	XXXX	-	XXXX	XXXX	XXXX
Changes in equity							
Dividends	-	(XXX)	-	-	(XXX)	-	(XXX)
Total comprehensive income for the year	-	XXX	XXX	XXX	XXX	XXX	XXX

Balance as on 31st March 2015	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Changes in equity for the period 2015-16							
Issue of share capital	XXX	-	-	-	XXX	-	XXX
Dividend	-	(XXX)	-	-	(XXX)	-	(XXX)
Total comprehensive income for the year	-	XXX	XXX	XXX	XXX	XXX	XXX
Transfer to retained earnings	-	XXX	-	(XXX)	-	-	-
Balance as on 31st March 2016	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX

Note that, where there has been a change of accounting policy, necessitating a retrospective restatement, the adjustment is disclosed for each period. So, rather than just showing an adjustment to the balance on 1st April, 2015, the balance for 2014-15 is restated. Gains and losses on cash flow hedges or on the translation of foreign operation would be shown in additional column.

Notes to Financial Statements

The notes to the financial statements should present information about the basis of preparation of the financial statements and accounting policies, judgments made in applying accounting policies, information required by IFRSs but not disclosed elsewhere and additional information that is not presented elsewhere, but is relevant to an understanding of the financial statements.

Other disclosures

- Domicile of the entity.
- Legal form of the business.
- Country of incorporation.
- Address of the registered office.
- Nature of principal operation.
- Name of the parent entity and ultimate parent entity of the group.
- Quantum of dividend proposed or declared before the authorised issue of the financial statements, but not recognised as a distribution to owners during the period.
- Amount of any cumulative preference dividends not recognised.

II. ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATES AND ERRORS (AS8 and Ind AS8)

Objective

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial

statements and the comparability of those financial statements over time and with the financial statements of other entities.

Scope

IAS 8 / Ind AS8 Covers the following areas:

- a) Selection and application of accounting policies
- b) Accounting for changes in accounting policies
- c) Changes in accounting estimates
- d) Corrections of prior period errors

Definitions

- a. **Accounting Policies:** Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- b. **Change in accounting estimate:** A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset. These changes are the results of new information or new developments. But they are not the correction of errors.
- c. **Prior period errors:** Prior-period errors are the omissions or misstatements in entity's financial statement for one or more prior periods.
- d. **Retrospective application:** Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
- e. **Retrospective restatement:** Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.
- f. **Prospective application:** Prospective applications of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:
 - i) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
 - ii) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Accounting Treatment

1. When a standard or interpretation specifically applies to a transaction, the accounting policies related to that item should be determined by relevant IAS / Ind AS, and should consider the implementation guidance issued by the standard setting body.
2. In the absence of specific guidance or accounting policies, the management should use its judgement in developing and applying accounting policy that results in relevant and reliable information.

3. Accounting policies must select and apply consistently for similar transactions, events and conditions, unless a different treatment permitted by any of the standards.
4. A change in accounting policy is permitted only, if the change is:
 - a. Required by a standard,
 - b. Required to provide more appropriate presentation of event or transaction
5. In case of a change in accounting policy results from the application of a new standard or interpretation, specific provisions in the standard or interpretation should be followed for applying that particular change. If there is no such provision, the change should be applied in the same way as a voluntary change.
6. A voluntary change in accounting policies is applied as follows:
 - a. Policies are applied retrospectively and prior periods restated as though the new policy had always applied, unless it is impracticable to do so.
 - b. Opening balances are adjusted at the earliest period presented
 - c. Policies are applied prospectively if it is impracticable to restate prior periods or to adjust opening balances
7. The carrying amount of various assets and liabilities should be adjusted when changes in accounting estimates necessitate a change in the same. Changes in accounting estimates should be included in profit or loss in the period of change or in the period of change and future periods, if the change affects both.
8. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind AS / IAS, if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

Presentation and Disclosure

1. In case of voluntary change in accounting policies by an entity, it should disclose the following:
 - a. The nature of the change.
 - b. Supporting evidence to prove the availability of relevant information through the policy change.
 - c. Adjustments made in current and each prior period presented and line items affected.
 - d. Adjustment to the basic and diluted earnings per share in current and prior periods.
 - e. Adjustments to period prior to those presented.

- f. If retrospective application is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
2. In considering an impending change in accounting policy, an entity should disclose:
 - a. The title of the new standard.
 - b. The nature of the pending implementation of a new standard.
 - c. The planned application date.
 - d. Known or reasonably estimable information relevant to assessing the possible impact of new standards.
3. An entity should disclose nature of the change in accounting estimate and also should disclose amount of the change and its effect on the current and future period. If estimation of future effect is impracticable, that fact should be disclosed.
4. In considering prior-period errors, an entity should disclose
 - a. The nature of the error.
 - b. The amount of correction in each prior period presented and the line items affected;
 - c. The correction to the basic and diluted earnings per share;
 - d. The amount of correction at the beginning of the earliest period presented.
 - e. The correction relating to periods prior to those presented.
5. These disclosures need not be repeated in the subsequent periods.

III. EVENTS AFTER THE REPORTING DATE (AS 10 & Ind AS10)

Objective

There will always be a time delay between the end of the reporting period and the date on which the financial statements are authorized for issue. In the meantime, some events will take place and they should be accounted in the financial statements. Objective of this standard is to prescribe:

- a. When an entity should adjust its financial statement for events after the reporting period.
- b. The disclosure that an entity should give about the date when the financial statement is approved for issue and about events after reporting period.

Standard also suggests that an entity should not prepare its financial statement on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

This standard covers the following:

- i) Accounting treatment of events after the reporting period
- ii) Disclosure on events after the reporting period

Definition

Events after the reporting period: Events after the reporting period are those events, both favourable and unfavourable, that occur between the reporting date and the date on which the financial statements are authorised for issue. Two types of events can be identified:

- i) Events that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period)
- ii) Events that are indicative of conditions that arose subsequent to the reporting period (non- adjusting events after the reporting period)

Accounting Treatment

1. Amounts recognised in the financial statements of an entity shall adjust to reflect the adjusting events after the reporting period.
2. An entity shall not adjust the amount recognised in the financial statement to reflect non-adjusting events after the reporting period.
3. Dividend declared after the reporting period is a special case. Even if they are stated to be in respect of the period covered by the financial statements, they should not be provided for. They should simply be disclosed in the notes.
4. An entity should not prepare financial statements on a going-concern basis if management determines after the reporting period that it intends to either liquidate the entity or cease trading.

Presentation and Disclosure

1. Disclosure requirements in connection with authorisation for issue of financial statements are:
 - a. Date of authorisation given for issuing financial statements
 - b. Name of the person who gave authorisation
 - c. Name of the person having power to amend the statements after issuance.
2. Material non-adjusting events after the reporting period will influence the economic decision of the users, if it is not disclosed in the statements. Disclosure requirements related to the material non-adjusting events after reporting period are as follows:
 - a. The nature of such events
 - b. An estimate of the financial effect, or a statement that such an estimate cannot be made
3. An entity needs to update the disclosure in the financial statements to reflect the information received after the reporting period, even when the information does not affect the amount that it recognises in its financial statements.

IV. CASH FLOW STATEMENT (IAS 7 & Ind AS7)

Objective

Users of the financial statements require estimates on cash resources and use of cash resources of an entity for assessing the solvency and liquidity position. The purpose of IAS7/ IndAS7 is to provide guidance on the manner in which the cash flow information should be presented. Cash flow statements are relevant for identifying details like movement in cash balance for the period, timing and certainty of cash flow, ability of the entity to generate cash resources and prediction of future cash flows.

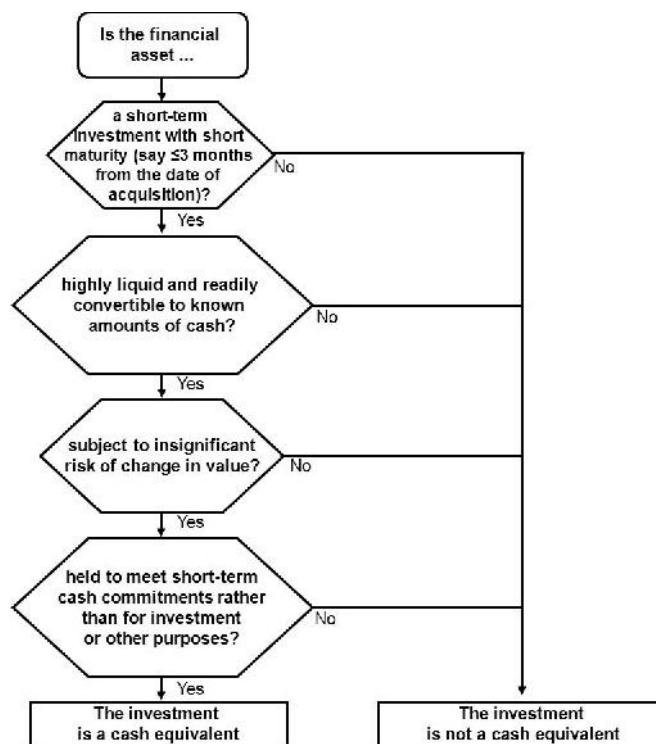
Scope

An entity shall prepare a statement of cash flows in accordance with the requirements of this standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

Definition

1. **Cash:** Cash comprises cash on hand and demand deposits (net of bank overdrafts repayable on demand).
2. **Cash Equivalents:** Cash equivalents are short-term, highly liquid investments (such as short-term debt securities) that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

DECISION TREE showing cash equivalent



3. **Cash Flows:** Cash flows are the inflows and outflows of cash and cash equivalents.
4. **Operating activities:** Operating activities are the major revenue producing activities of the entity and other activities that are not investing or financing activities.
5. **Investing activities:** Investing activities are the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
6. **Financing activities:** Financing activities are activities that result in changes in the size and composition of the equity capital and borrowings of the entity.

Accounting Treatment

Cash Flows from Operating Activities

1. Operating activities are the prominent part of the statement because it shows whether, and to what extent, entity can generate cash from their principal operation. Most of the items of cash flows from operating activity are affecting the profitability of the entity. The standard suggests the following as examples of cash flows from operating activities.
 - a) Proceeds of the sale of goods or rendering of services
 - b) Royalties, fees, commissions and other revenue received
 - c) Payments to suppliers of goods and services
 - d) Payments made to employees
 - e) Cash receipts and cash payments of an insurance entity for premiums and claims
 - f) Cash payments or refunds of income taxes unless they can be specifically identifies with financing and investing activities
 - g) Cash receipts and payments from contract held for dealing or trading purposes
2. Cash flows from operating activities are reported using either the direct or indirect method. Entities are encouraged to use direct method because it provides additional information that may be useful in estimating future cash flows.
 - a) Direct method discloses major classes of gross cash receipts and gross cash payments
 - b) In indirect method, net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferral or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows

Cash Flows from Investing Activities

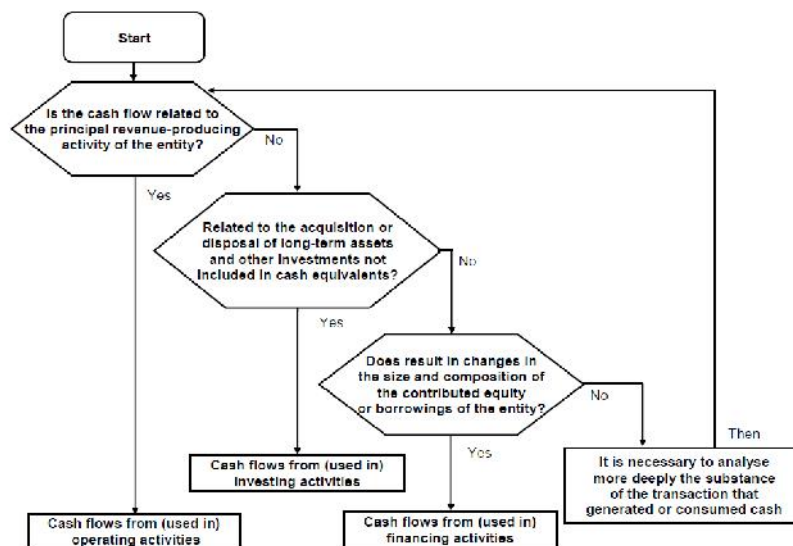
1. Cash flows from investing activities represent the inflows and outflows from the acquisition and disposal of assets and other investments. Examples for cash flows arising from investing activities are;
 - a) Payments to acquire property, plant and equipment, intangible and other long-term assets, including the payment made for capitalised development and self-constructed property, plant and equipment.
 - b) Receipt from sale of property, plant and equipment, intangible and other long term assets.
 - c) Cash payments to acquire share or debentures of other entities.
 - d) Cash receipts from sale of share or debentures of other entities.
 - e) Cash advances and loan made to other parties.
 - f) Receipts from repayment of loans and advances.
 - g) Cash payments for future contracts, forward contract, option contracts and swap contracts, if they are not held for trading purpose.
 - h) Cash receipts from future contracts, forward contract, option contracts and swap contracts, if they are not held for trading purpose.
2. Cash flows from investing activities are reported as follows:

- a) Major classes of gross cash receipts and gross cash payments are reported separately
- b) The aggregate cash flows from acquisitions or disposals of subsidiaries and other business units are classified as investing

Cash Flows from Financing Activities

1. Cash flows from financing activity represent the inflows and out flows of cash resulting from changes in the size and composition of the equity capital and borrowings of the entity. Examples for cash flows from financing activities are:
 - a) Cash proceeds from issue of shares.
 - b) Cash payments to owners acquire or redeem equity shares.
 - c) Cash proceeds from issue of debentures, loans, notes, etc. and other short term and long-term borrowings.
 - d) Repayments of amount borrowed.
 - e) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
2. Cash flows from financing activities are reported by separately listing major classes of gross cash receipts and gross cash payments.
3. Cash flows of the following activities may be reported on a net basis;
 - a) Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity.
 - b) Cash receipts and payments for items in which the turnover is quick, the amount is large, and the maturities are short.

DECISION TREE showing Classification of cash flows among



4. Cash flow generating from transaction made in foreign currency shall be recorded in functional currency after considering the exchange rate at the date of cash flow. The cash flows of a foreign subsidiary shall be translated by applying the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.
5. In case of associates and joint ventures, where the equity method is used, the statement of cash flows should report only cash flows between the investor and the investee. Cash flows from joint ventures are proportionately included in the statement of cash flows if the joint venture is proportionally consolidated.
6. Interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period.
7. Cash flows arising from taxes on income shall be separately disclosed and are normally classified as operating, unless they can be specifically identified with financing or investing activities.

Presentation and Disclosure

1. An entity should disclose the following;
 - a) Components of cash and cash equivalents and a reconciliation of the amount in its cash flow statement with the same items reported in the statement of financial position.
 - b) Details about non-cash investing and financing transactions (example: conversion of equity in to debt).
 - c) Amount of cash and cash equivalents that are not available for use by the group.
 - d) The amount of undrawn borrowing facilities which are available .
 - e) Aggregate amount of cash flows from each of the three activities related to interest in joint ventures that are proportionally consolidated.
 - f) Amount of cash flows arising from each of the three activities regarding each reportable operating segment.
 - g) Cash flows that represent an increase in operating capacity and those that represent the maintenance of it.
2. Below given items related to purchase or sale of a subsidiary or business unit should be disclosed in aggregate:
 - a) Total consideration of purchase or disposal.
 - b) Consideration paid in cash and equivalents.
 - c) Amount of cash or equivalents available in purchased or disposed entity.
 - d) Total of assets and liabilities other than cash or equivalents in the entity purchased or disposed.

Performa of Cash Flow Statement:**a. Direct Method****Statement of Cash flows for the year ended 31st March, 20XX**

Particulars	Amount	Amount
Cash flows from operating activities		
Cash receipts from customers	XXXXX	
Cash payments to suppliers and employees	(XXX)	
Net cash generated by operations	XXXX	
Interest paid	(XXX)	
Taxation paid	(XXX)	
Dividends paid	(XXX)	
<i>Net cash from / (used in) Operating activities</i>		XXXX
Cash flow from investing activities		
Purchases of Property, Plant and Equipment	(XXXX)	
Sale proceeds of Machinery	XXX	
Dividend received	XXX	
Interest received	XXX	
Loan to directors	(XXX)	
<i>Net cash from / (used in) Investing activities</i>		(XXXX)
Cash flows from financing activities		
Decrease in long term loan	(XXX)	
Repayment of Share capital	(XXX)	
<i>Net cash from / (used in) financing activities</i>		(XXXX)
Net increase/(decrease) in bank balance for the period	XXX	
Bank balance at the beginning of the year	XXX	
Cash and cash equivalents / (Overdraft) at the end of the year		XXX

b. Indirect Method**Statement of Cash flows for the year ended 31st March, 20XX**

Particulars	Amount	Amount
Cash flows from operating activities		
Net profit before taxation and extra-ordinary items	XXXX	
Adjustment for:		
Depreciation	XXX	
Foreign exchange loss	XXX	
Interest Income	(XXX)	
Dividend income	(XXX)	
Interest expense	XXX	
Operating profit before working capital changes	XXXX	
Increase in sundry debtors	(XXX)	
Decrease in inventories	XXX	
Decrease in sundry creditors	(XXX)	