

UNIT I

Accounting Standards- Objectives, Benefits, Limitations

[Financial statements](#) have incredible importance for both internal and external stakeholders. They basically are a report card for the company. So it is important that they are regulated and do not report misleading information. And the Accounting Standards (AS) provide us with a framework for this regulation. Let us take a look.

Accounting Standards (AS)

Accounting Standards (AS) are basic policy documents. Their main aim is to ensure transparency, reliability, [consistency](#), and comparability of the financial statements. They do so by standardizing [accounting policies](#) and principles of a nation/[economy](#). So the [transactions](#) of all companies will be recorded in a similar manner if they follow these accounting standards.

These Accounting Standards (AS) are issued by an accounting body or a regulatory board or sometimes by the [government](#) directly. In India, the [Indian Accounting Standards](#) are issued by the Institute of Chartered Accountants of India (ICAI).

Accounting Standards mainly deal with four major issues of accounting, namely

- i. Recognition of financial events
- ii. Measurement of financial transactions
- iii. Presentation of financial statements in a fair manner
- iv. Disclosure requirement of companies to ensure stakeholders are not misinformed

Objectives of Accounting Standards

Accounting is often considered the language of business, as it communicates to others the financial position of the company. And like every language has certain syntax and grammar rules the same is true here. These rules in the case of accounting are the Accounting Standards (AS). They are the framework of rules and regulations for accounting and reporting in a country. Let us see the main objectives of forming these standards.

1. The main aim is to improve the reliability of financial statements. Now because the financial statements have to be made following the standards the users can rely on them. They know that not conforming to these standards can have serious consequences for the [companies](#).

2. Then there is comparability. Following these standards will allow for inter-firm and intra-firm comparisons. This allows us to check the progress of the firm and its position in the market.
3. It also looks to provide one set of accounting policies that include the necessary disclosure requirements and the valuation methods of various financial transactions.

Benefits of Accounting Standards

Accounting Standards are the ruling authority in the world of accounting. It makes sure that the information provided to potential investors is not misleading in any way. Let us take a look at the benefits of AS.

1] Attains Uniformity in Accounting

Accounting Standards provides rules for standard treatment and recording of transactions. They even have a standard format for financial statements. These are steps in achieving uniformity in [accounting](#) methods.

2] Improves Reliability of Financial Statements

There are many [stakeholders](#) of a company and they rely on the financial statements for their information. Many of these stakeholders base their decisions on the data provided by these financial statements. Then there are also potential investors who make their investment decisions based on such financial statements.

So it is essential these statements present a true and fair picture of the financial situation of the [company](#). The Accounting Standards (AS) ensure this. They make sure the statements are reliable and trustworthy.

3] Prevents Frauds and Accounting Manipulations

Accounting Standards (AS) lay down the accounting principles and methodologies that all entities must follow. One outcome of this is that the management of an entity cannot manipulate with financial data. Following these standards is not optional, it is compulsory.

So these standards make it difficult for the management to misrepresent any financial information. It even makes it harder for them to commit any frauds.

4] Assists Auditors

Now the accounting standards lay down all the accounting policies, rules, regulations, etc in a written format. These policies have to be followed. So if an auditor checks that

the policies have been correctly followed he can be assured that the financial statements are true and fair.

5] Comparability

This is another major objective of accounting standards. Since all entities of the country follow the same set of standards their financial accounts become comparable to some extent. The users of the financial statements can analyze and compare the financial performances of various companies before taking any decisions.

Also, two statements of the same company from different years can be compared. This will show the growth [curve](#) of the company to the users.

6] Determining Managerial Accountability

The accounting standards help measure the performance of the management of an entity. It can help measure the management's ability to increase profitability, maintain the solvency of the [firm](#), and other such important financial duties of the management.

Management also must wisely choose their accounting policies. Constant changes in the accounting policies lead to confusion for the user of these financial statements. Also, the principle of consistency and comparability are lost.

Limitations of Accounting Standards

There are a few limitations of Accounting Standards as well. The regulatory bodies keep updating the standards to restrict these limitations.

1] Difficulty between Choosing Alternatives

There are alternatives for certain accounting treatments or valuations. Like for example, stocks can be valued by LIFO, FIFO, weighted average method, etc. So choosing between these alternatives is a tough decision for the management. The AS does not provide guidelines for the appropriate choice.

2] Restricted Scope

Accounting Standards cannot override the laws or the statutes. They have to be framed within the confines of the laws prevailing at the time. That can limit their scope to provide the best policies for the situation.

Procedure Adopted by the Expert Committee in the issue of an Accounting Standard(AS)

1. Determination of the need of an AS

First, the Accounting Standard Board determines the **broad areas** in which accounting standards need to be formulated.

2. Constituting Study Group

Study Group will be constituted consisting the members of the Institute of Chartered Accountants of India. The **motive** behind constitution of this group is to assist the accounting Standard Board in its activities.

3. Drafting the Standard

The Study Group Prepares draft of the proposed Standard. The proposed draft enlists the following areas

- a) **Objective** of the standard.
- b) **Scope** of the Standard.
- c) **Definitions** of the terms used in the standard
- d) **Recognition & Measurement** Principles
- e) **Presentation & Disclosure** requirements.

4. Analyzing the Draft

ASB in this stage considers the **Preliminary draft** prepared by the Study Group. In case anything needs to be revised than Accounting Standard Board takes the following steps.

- a) ASB makes the revision
- b) ASB refers the same to the study Group

5. Circulation of the Draft

In this step the ASB **circulates** the AS draft to the council members of the Institute of Chartered Accountants of India and the following specifies bodies for their comments.

- a) The Institute of Works & Cost Accountants of India
- b) The Institute of Company Secretaries of India.
- c) Ministry of company affairs.
- d) Comptroller & Auditor General of India
- e) Central Board of Direct Taxes
- f) Standing Committee of Public Enterprises
- g) Reserve Bank of India
- h) India Banks Association
- i) Securities & Exchange Board of India
- j) Associated Chamber of Commerce & Industry, Confederation of Indian Industry and Federation of Indian chambers of commerce & Industry
- k) Any other body considered relevant by the ASB

6. Holding Discussion and Finalizing Exposure Draft

ASB **holds meeting** with the representatives of above mentioned bodies for the purpose of determining their views on the Draft Accounting Standard. Based on

analyses of the discussion ASB finalizes the exposure draft of proposed accounting standards.

7. Circulation the exposure Draft

The exposure Draft of the proposed standards is issued **for comments** the members of the ICAI and the public.

8. Finalizing the exposure draft

Based on the comments received, the ASB **finalizes** the draft of the proposed standards.

It then submits the same to the council of the ICAI.

9. Modifying & Issuing the Accounting Standard.

The council of the ICAI **considers** the finalized draft standard and if necessary **modifies** the same in consultation with the ASB. The ICAI then issues the Accounting Standard after modification if any on the relevant subject.

Convergence of IFRS and Indian AS

Indian Accounting Standards are formulated by the Accounting Standard Board (ASB) of the ICAI as notified by the Ministry of Corporate Affairs. These standards are framed keeping in mind the economic environment and practices of India. They are made to suit the Indian companies and the disclosure requirements of the Indian government.

The IFRS, on the other hand, are made keeping global standards and environment in mind. Convergence would mean bridging the gap between the two, i.e. the IFRS and the India AS. Convergence will involve alignment of the two sets of standards. The compromise is done by adopting the policies of the IFRS either fully or at least partially.

Following are the few benefits of Convergence.

Benefits of Convergence

1] Beneficial to the Economy

If the accounting standards are converged it will promote international business and increase the influx of capital into the country. This will help India's economy grow and expand. International investing will also mean more capital for domestic companies as well.

2] Beneficial to Investors

Convergence is a boon for investors who wish to invest in foreign markets or economies. It makes it much easier for them to study and compare the financial statements of foreign companies. Since the financial statements are made using the same set of standards it is also easier for the investors to understand and analyze them.

3] Beneficial to the Industry

With globally accepted standards the industry can also surge ahead. So convergence is important for the industry as well. It will allow the industry to lower the cost of foreign capital. If companies are not burned by adopting two different sets of standards it will allow them easier entry into the market.

4] More Transparency

Convergence will benefit the users of the financial statements as well. It will make it easier for them to understand the financial statements. And this will generate better transparency and raise the confidence of the investors to invest funds.

5] Cost Saving

Firstly it will exempt [companies](#) from maintaining separate accounting books according to separate standards. This will save a lot of work hours and money for the finance department. And also planning and executing auditing will also become easier.

It will be especially helpful for those companies that have subsidiaries in many countries. And the cost of capital will also reduce since capital would be more accessible and easily available.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

INTRODUCTION

Accounting is the art and science of recording business transactions in best possible manner with proper selection and adoption of accounting policies and principles. Over the time it was felt necessary to ensure easy comparability the enterprises should follow uniform accounting methods. In India the Institute of Chartered Accountants of India governs the profession of accountancy. The institute ensures professionalism and prudence in preparation and presentation of financial statements by issuing guidelines, accounting standards from time to time.

In today's world of globalization business enterprises have become more dependent on each other, across the nation and across the world. The globalization has forced more and more countries to open their doors for business expansion across borders and to

foreign investments. Traditionally companies raised funds from domestic capital markets and financial institutions. The business was restricted to very few countries. The rapid expansion of international trade and internationalization of firms, the development of new communication technologies, and the

emergence of international competitive forces has made it extremely necessary to have uniform and internationally acceptable accounting standards. Now it has been realized that under this global business scenario the business community is badly in need of a common accounting language that should be spoken by all of them across the world.

A financial reporting system supported by a strong governance, high quality standards and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. Different countries have local accounting standards which spell out the accounting treatment and disclose your requirements for preparing of financial statements, some sort of compatibility or convergence is necessary to enable all the stake holders to take appropriate economic decisions. This is sought to be ensured through the International Financial Reporting Systems (IFRS) adopted by International Accounting Standards Board (IASB). Most of the countries have started adopting IFRS or making their local GAAP convergent with IFRS. Major stock exchanges across the world today accept IFRS.

MEANING OF IFRS:

- IFRSs are principle-based standards.
- The principle-based standards have distinct advantage that the transactions cannot be manipulated easily to achieve a particular accounting.
- The Financial Accounting Standards Board (FASB), USA, is having a convergence project with the IASB and is broadly adopting the principle-based approach instead of rule-based approach.
- IFRSs lay down treatments based on the economic substance of various events and transactions rather than their legal form.
- The application of this approach may result into events and transactions being presented in a manner different from their legal form.

- To illustrate, as per IAS 32, preference shares that provide for mandatory redemption by the issuer are presented as a liability.

OBJECTIVES OF IFRS:

WHY IFRS?

A single set of accounting standards would enable internationally to standardize training and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. It would be beneficial to regulators too, as a complexity associated with needing to understand various reporting regimes would be reduced.

OBJECTIVES OF IFRS:

1. The main objective of IFRS is to develop in the public the interest of a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.
2. To promote the use and rigorous application of those standards; in fulfilling the objectives associated with it.
3. To take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.
4. To bring about convergence of national accounting standards and International Accounting standards and IFRS to high quality solutions.

SCOPE OF IFRS:

All International Accounting Standards (IASs) and Interpretations issued by the former IASC (International Accounting Standard Committee) and SIC (Standard Interpretation Committee) continue to be applicable unless and until they are amended or withdrawn. IFRSs apply to the general purpose financial statements and other financial reporting by profit-oriented entities -- those engaged in commercial, industrial, financial, and similar activities, regardless of their legal form. Entities other than profit-oriented business entities may also find IFRSs appropriate.

General purpose financial statements are intended to meet the

common needs of shareholders, creditors, employees, and the public at large for information about an entity's financial position, performance, and cash flows. Other financial reporting includes information provided outside financial statements that assists in the

interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. IFRS apply to individual company and consolidated financial statements. A complete set of financial statements includes a balance sheet, an income statement, a cash flow statement, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a summary of accounting policies, and explanatory notes.

If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment, financial statements may be described as conforming to IFRS whichever treatment is followed. In developing Standards, IASB intends not to permit choices in accounting treatment. Further, IASB intends to reconsider the choices in existing IASs with a view to reducing the number of those choices. IFRS will present fundamental principles in bold face type and other guidance in non-bold type (the 'black-letter'/'grey-letter' distinction). Paragraphs of both types have equal authority. The provision of IAS 1 that conformity with IAS requires compliance with every applicable IAS and Interpretation requires compliance with all IFRSs as well.

LIST OF IFRS:

- IFRS 1: First-time Adoption of International Financial Reporting Standards
- IFRS 2: Share-based Payment
- IFRS 3: Business Combinations
- IFRS 4: Insurance Contracts
- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRS 7: Financial Instruments: Disclosures
- IFRS 8: Operating Segments
- IFRS 9: Financial Instruments

International Accounting Standards (IAS)

IAS relates to standards on various aspects of accounting issues. These are mainly relevant for maintenance of accounts as well as disclosure of Information.

- IAS 1: Presentation of Financial Statements.
- IAS 2: Inventories
- IAS 7: Cash Flow Statements
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10: Events After the Balance Sheet Date
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 16: Property, Plant and Equipment (summary)
- IAS 17: Leases
- IAS 18: Revenue
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated Financial Statements
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 31: Interests in Joint Ventures
- IAS 32: Financial Instruments: Presentation
- IAS 33: Earnings per Share
- IAS 34: Interim Financial Reporting
- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IAS 40: Investment Property
- IAS 41: Agriculture

CHALLENGES OF IFRS

Economic Environment

- Some IFRSs require fair value approach to be followed, examples include:
 - IAS 39, Financial Instruments: Recognition and Measurement
 - IAS 41, Agriculture
- The markets of many economies such as India normally do not have adequate depth and breadth for reliable determination of fair values.
- With a view to provide further guidance on the use of fair value approach, the IASB is developing a document.
- Till date, no viable solution of objective fair value measures is available.

SME concerns

SMEs face problems in implementing IFRSs because of:

- Scarcity of resources and expertise with the SMEs to achieve compliance
- Cost of compliance not commensurate with the expected benefits

Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs.

Training to Preparers

- Some IFRSs are complex.
- There is lack of adequate skills amongst the preparers and users of Financial Statements to apply IFRSs.
- Proper implementation of such IFRSs requires extensive education of preparers

Interpretation

- A large number of application issues arise while applying IFRSs.
- There is a need to have a forum which may address the application issues in specific cases.

CONVERGENCE WITH IFRSS: INDIAN PERSPECTIVE

- Indian Accounting Standards (ASs) are formulated on the basis

of the IFRSs.

- While formulating ASs, the endeavor of the ICAI remains to converge with the IFRSs.
- The ICAI has till date issued 29 ASs corresponding to IFRSs.
- Some recent ASs, issued by the ICAI, are totally at par with the corresponding IFRSs, e.g., the Standards on 'Impairment of Assets' and 'Construction Contracts'.
- While formulating Indian Accounting Standards, changes from the corresponding IAS/ IFRS are made only in those cases where these are unavoidable considering:
 - Legal and/ or regulatory framework prevailing in the country.
 - To reduce or eliminate the alternatives so as to ensure comparability.
 - State of economic environment in the country
 - Level of preparedness of various interest groups involved in implementing the accounting standards.

BENEFITS OF IFRS

The forces of globalization prompt more and more countries to open their doors to foreign investment and as businesses expand across borders the need arises to recognize the benefits of having commonly accepted and understood financial reporting standards. Following are some of the benefits of adopting IFRS -

- Transparency and comparability
- Low cost of capital
- Eliminates need for multiple reporting
- True value of acquisition
- Cross border transaction
- Sets a benchmark
- Improvement in planning and forecasting

FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS:

This Framework sets out the concepts that underlie the preparation and presentation of financial statements for external

users. The Framework deals with: The objective of financial statements; the qualitative characteristics that determine the usefulness of information in financial statement; The Definition, recognition and measurement of the elements from which financial statements are constructed; and Concept of capital and capital maintenance. The Objective of Financial statements is to provide useful information to users of financial statements in making economic decision. Financial Statements are prepared to provide information on Financial Position, Operating Performance and changes in financial position of an entity Financial Statements are normally prepared on the assumption that entity is a going concern and will continue in operation for the foreseeable future, and prepared on accrual basis of accounting. The four Qualitative characteristics are Understandability, relevance; reliability and comparability are the attributes that make the financial information

useful to users. The elements directly related to the measurement of financial position are assets, liabilities and equity. An item that meets the definition of an element should be recognized if: it is probable that any future economic benefit associated the item will flow to or from the entity. The item has a cost or value that can be measured with reliability. Measurement is the process of determining the monetary amounts at which each element in the financial statements is to be recognized and carried in the Balance Sheet and Income statement. The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured.

IFRS -1: FIRST TIME ADOPTION OF IFRS

An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. An entity need not present its opening IFRS balance sheet in its first IFRS financial statements. In general, the IFRS requires an entity to comply with each IFRS effective at the end of its first IFRS reporting period. In particular, the IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRSs: recognize all assets and liabilities whose recognition is required by IFRSs. not to recognize items as assets or liabilities if IFRSs do not permit such recognition; IFRS-1. IFRS-1 reclassify items that it recognized under previous GAAP as one type of asset, liability or component of equity, but are different type of asset, liability or component of equity under IFRSs. Apply IFRSs in measuring all recognized assets

and liabilities. The IFRS grants limited exemptions from these requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. The IFRS also prohibits retrospective application of IFRSs in some areas; particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entities reported financial position, financial performance and cash flows.

OBJECTIVE OF THIS STANDARD: The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

IFRS -2: SHARE-BASED PAYMENTS

The IFRS requires an entity to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. There are no exceptions to the IFRS, other than for transactions to which other Standards apply. This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity. This IFRS sets out measurement principles and specific requirements for three types of share-based payment transactions: (a) equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options); (b) cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities 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 of the entity; and (c) transactions in which the entity receives or acquires goods or services and 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 by issuing equity instruments.

The IFRS also sets out requirements if the terms and conditions of an option or share grant are modified (e.g. an option is reprised) or if a grant is cancelled, repurchased or replaced with another grant of equity instruments. For example, irrespective of any modification, cancellation or settlement of a grant of equity instruments to employees, the IFRS generally requires the entity to

recognize, as a minimum, the services received measured at the grant date fair value of the equity instruments granted. For cash-settled share-based payment transactions, the IFRS requires an entity to measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity is required to re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognized in profit or loss for the period.

IFRS -3: BUSINESS COMBINATIONS:

The objective of the IFRS is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects. It does that by establishing principles and requirements for how an acquirer:

- (a) Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire;
- (b) Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase.
- (c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Points: Core principle an acquirer of a business recognizes the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition. Applying the acquisition method a business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

IFRS -4: INSURANCE CONTRACTS:

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires: limited improvements to accounting by insurers for insurance contracts. disclosure that identifies and explains the amounts in an insurer's financial statements arising

from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

IFRS -5: NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS:

The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires: assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

IFRS-6: EXPLORATION FOR AND EVALUATION OF MINERALS:

The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources. POINTS: Exploration and evaluation expenditures are expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Exploration and evaluation assets are exploration and evaluation expenditures recognized as assets in accordance with the entity's accounting policy.

IFRS-7: FINANCIAL INSTRUMENTS DISCLOSURE:

The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate: the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

IFRS-8: OPERATING SEGMENTS:

This IFRS shall apply to:

(a) The separate or individual financial statements of an entity: whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

(b) The consolidated financial statements of a group with a parent: whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS-8

IFRS - Indian Context

Convergence with IFRS has gained momentum in recent years all over the World.

India is committed to adopt IFRS from 2011.

United States of America has announced its intention to adopt IFRS from 2014 and it also permits foreign private filers in the U.S. Stock Exchanges to file IFRS compiled Financial Statement, without requiring the presentation of reconciliation statement.

In this scenario of globalization, India cannot insulate itself from the developments taking place worldwide. In India, so far as the ICAI is concerned, its aim has always been to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards. The ICAI, being a member of the International Federation of Accountants (IFAC), considers the IFRS and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The Preface to the Statements of Accounting Standards, issued by the ICAI, categorically recognizes the same. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective to harmonize with globally accepted accounting standards.

In the present era of globalization and liberalization, the World has become an economic village. The globalization of the business world and the attendant structures and the regulations,

which support it, as well as the development of e-commerce make it imperative to have a single globally accepted financial reporting system. A number of multinational companies are establishing their businesses in various countries with emerging economies and vice versa.

The entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on the stock exchanges outside their country. Capital markets are, thus, becoming integrated consistent with this World-wide trend. The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore,

increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRS.

The paradigm shift in the economic environment in India during last few years has led to increasing attention being devoted to accounting standards as a means towards ensuring potent and transparent financial reporting by any corporate.

ICAI, being a premier accounting body in the country, took upon itself the leadership role by establishing ASB, more than twenty five years back, to fall in line with the international and national expectations. Today, accounting standards issued by the Institute have come a long way.

The ICAI as the accounting standard - setting body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so. Indian Accounting Standards have withstood the test of time. As the world continues to globalize, discussion on convergence of national accounting standards with International Financial Reporting Standards (IFRS) has increased significantly.

At present, the ASB of ICAI formulates the AS based on IFRS. However, these standards remain sensitive to local conditions, including the legal and economic environment. Accordingly, AS issued by ICAI depart from corresponding IFRS in order to ensure consistency with legal, regulatory and economic environment of India.

Formation of IFRS Task Force by the Council of ICAI
Recommendation of the IFRS Task Force submitted to the Council Full adoption of IFRS from accounting period commencing on or after 1 April 2011 Proposed to be applicable to listed entities and public interest entities such as banks, insurance companies and large sized entities Involvement of various regulators (MCA, RBI, IRDA, Tax authorities and SEBI)

Draft Schedule VI and Accounting Standard 1 (Exposure Draft) consistent with IFRSs Convergence Strategy presented by Technical Directorate of ICAI on 02.02.2009:

– ICAI has begun the process of issuing IFRS equivalent AS with following proposed changes:

1. Removal of alternative treatments
2. Additional disclosures, where required
3. AS number will continue but IFRS number will be given in parenthesis
4. IFRICs will be issued as appendices

– ICAI has constituted a Group in liaison with government & regulatory authorities and this group has constituted separate core groups to identify inconsistencies between IFRS and various relevant acts.

An entity:

- i Whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or
- ii Which is a bank (including a cooperative bank), financial institution, a mutual fund, or an insurance entity; or
- iii Whose turnover (excluding other income) exceeds rupees one hundred crores in the immediately preceding accounting year; or
- iv Which has public deposits and/or borrowings from banks and financial institutions in excess of rupees twenty five crores at any time during the immediately preceding accounting year; or
- v Which is a holding or a subsidiary of an entity which is covered in (i) to (iv) above

Transition to IFRS – Things to remember

First year of reporting:

Accounting period commencing on or after 1 April 2011
(Normally 1 April 2011 – 31 March 2012)

Date of adoption:

The first day of the first reporting financial year (1 April 2011)

Date of reporting:

The last day of the first reporting financial year (31 March 2012)

Comparative year:

Immediately preceding previous year (1 April 2010 – 31 March 2011)

Date of transition:

The beginning of the earliest period for which an entity presents full comparative information (1 April 2010)

First time adoption of IFRS on the date of reporting envisages-

1. Restatement of opening balances as at 1 April 2010
2. Presentation of comparative financial statements for the year 2010-11
3. Preparation and presentation of financial statements for the first year of reporting 2011-12
4. Explicit and unreserved statement of compliance with IFRS

All the above statements (as stated in 1 to 3 above) have to be drawn as per the IFRS in force on the date of reporting.

List of Indian Accounting Standards along with comparative Accounting Standard (AS):

Ind AS	Objective/ Deals with	Relevant Accounting standard or Guidance note
Ind AS 101 – First-time adoption of Ind AS	Its main objective is to prepare first financial statements as per Ind AS containing high quality information that is transparent, comparable and prepared at economical cost, suitable starting point for accounting in accordance with Ind AS.	N.A.
Ind AS 102 – Share Based payments	It deals with accounting of share-based payment transactions and reflect effect of such payment on profit or loss and financial statements of entity.	Guidance note on Employee Share Based Plans
Ind AS 103 – Business Combination	It applies to transaction or other event that meets the definition of a business combination. This standard helps in improving the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.	AS 14

Ind AS 104 – Insurance Contracts	This standard specifies financial reporting for insurance contracts by insurer entity.	N.A.
Ind AS 105 – Non-Current Assets Held for Sale and Discontinued Operations	This standard specifies accounting for assets held for sale, and presentation and disclosure of discontinued operations.	AS 24
Ind AS 106 – Exploration for and Evaluation of Mineral Resources	This standard specifies financial reporting for exploration and evaluation of mineral resources.	N.A.
Ind AS 107 – Financial Instruments: Disclosures	This standard require entities to provide disclosures related to financial instruments that will enable users to evaluate significance of financial instruments for entity's financial position and performance and nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.	AS 32
Ind AS 108 – Operating Segments	This standard discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.	AS 17
Ind AS 109 – Financial Instruments	This Standard establish principles for financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.	AS 30, AS 31 and Guidance note on derivative contract
Ind AS 110 – Consolidated Financial Statements	This standard establish principles for the presentation and preparation of consolidated financial statements when an	AS 21

	entity controls one or more other entities.	
Ind AS 111 – Joint Arrangements	This standard establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (known as joint arrangements).	AS 27
Ind AS 112 – Disclosure of Interests in Other Entities	This standard requires an entity to disclose information that enable users of its financial statements nature risk and effect of such interest in other entities.	AS 21, AS 23 and AS 27
Ind AS 113 – Fair Value Measurement	This standard defines fair value, set outs framework for measuring fair value and disclosures about fair value measurements. Such fair measurement principle will apply when another Ind AS requires or permits use of fair value.	N.A.
Ind AS 114 – Regulatory Deferral Accounts	This Standard specifies financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.	Guidance note on accounting for rate regulated activities
Ind AS 115 – Revenue from Contracts with Customers	This Standard establishes principles that an entity shall apply to report useful information to users of financial statements about nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.	AS 7 & AS 9
Ind AS 1 – Presentation of Financial Statements	This standard sets out overall requirements for presentation of financial statements, guidelines for their structure and minimum requirements for their content to ensure comparability.	AS 1
Ind AS 2 – Inventories Accounting	Its deals with accounting of inventories such as measurement of inventory, inclusions and exclusions in its cost, disclosure requirements, etc.	AS 2
Ind AS 7 –	It deals with cash received or paid during the period from operating, financing and	AS 3

Statement of Cash Flows	investing activities. It also shows any change in the cash and cash equivalents of any entity.	
Ind AS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	It prescribes criteria for selecting and changing accounting policies together with accounting treatments and disclosures.	AS 5
Ind AS 10 – Events after Reporting Period	It deals with any adjusting or non-adjusting event occurring after reporting date and	AS 4
Ind AS 12 – Income Taxes	This standard prescribes accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax	AS 22
Ind AS 16 – Property, Plant and Equipment	This standard prescribes accounting treatment for Property, Plant And Equipment (PPE) such as recognition of assets, determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.	AS 10
Ind AS 116 – Leases	This standard prescribes appropriate accounting policies and principle for lessees and lessors.	AS 19
Ind AS 19 – Employee Benefits	This standard prescribes accounting and disclosure requirements relating to employee benefits.	AS 15
Ind AS 20 – Accounting for Government Grants and Disclosure of Government Assistance	This Standard shall be applied in accounting for and in disclosure of, government grants and in disclosure of other forms of government assistance.	AS 12
Ind AS 21 – The Effects of Changes in Foreign Exchange Rates	This Standard prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial	AS 11

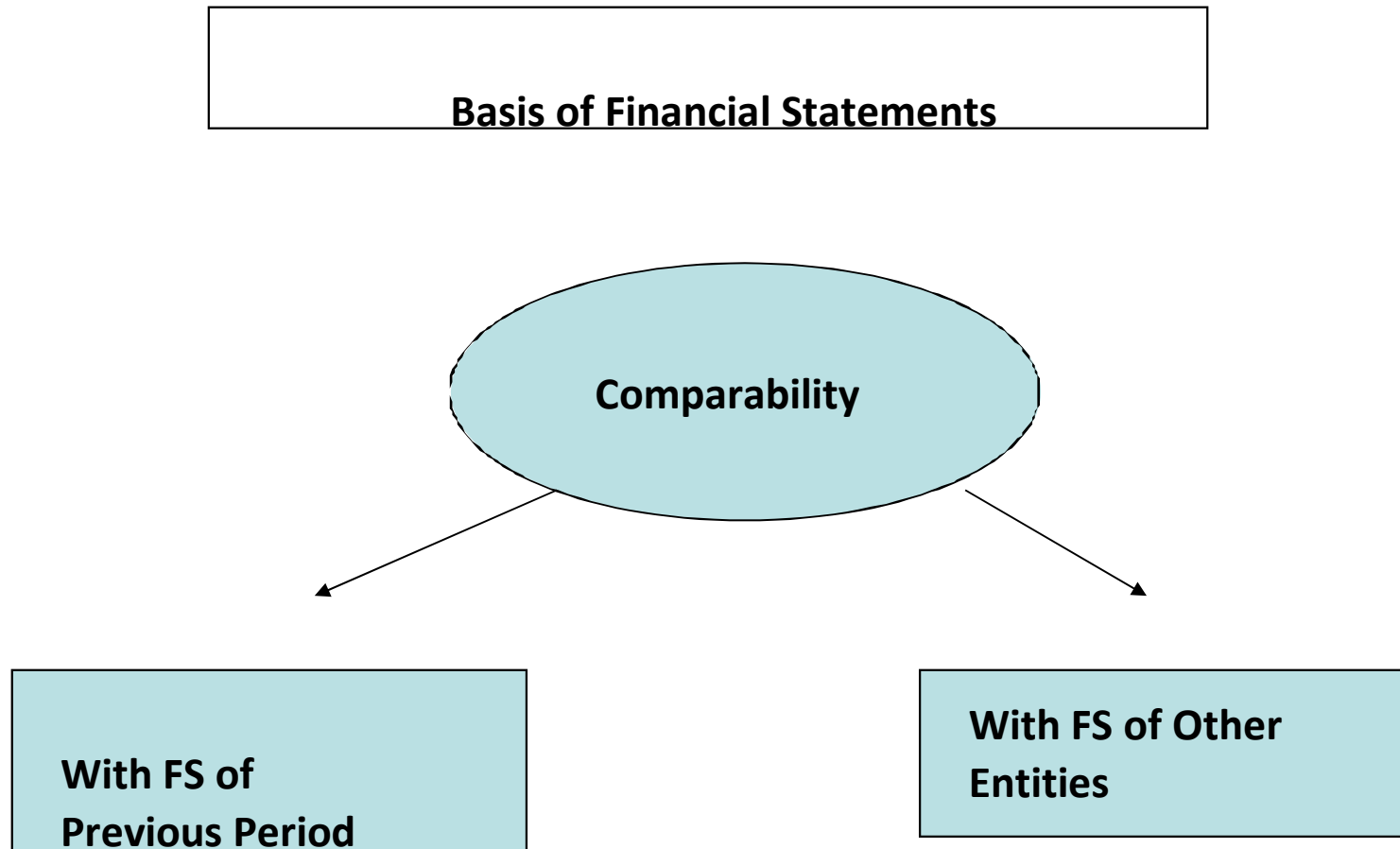
	statements into a presentation currency.	
Ind AS 23 – Borrowing Costs	It provides borrowing cost incurred on qualifying asset should form part of that asset, it also guides on which finance cost should be capitalised, conditions for capitalisation, time of commencement and cessation of capitalisation of borrowing cost.	AS 16
Ind AS 24 – Related Party Disclosures	This standard ensures that an entity's financial statements contains necessary disclosures 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.	AS 18
Ind AS 27 – Separate Financial Statements	This Standard prescribes accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	AS 13
Ind AS 28 – Investments in Associates and Joint Ventures	This standard prescribes accounting for investments in associates and to set out requirements for the application of equity method when accounting for investments in associates and joint ventures.	AS 23, AS 27
Ind AS 29 – Financial Reporting in Hyperinflationary Economies	This standard will gives inclusive list of characteristics that will categorise an economy as hyper inflationary and reporting of operating results and financial position.	N.A.
Ind AS 32 – Financial Instruments: Presentation	This Standard establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.	AS 32
Ind AS 33 – Earnings per Share	This Standard prescribe principles for the determination and presentation of earnings per share	AS 20
Ind AS 34 –	This Standard prescribes minimum content of an interim financial report and	AS 25

Interim Financial Reporting	principles for recognition & measurement in complete or condensed financial statements for an interim period.	
Ind AS 36 – Impairment of Assets	This Standard prescribe procedures that an entity applies to ensure that an asset’s carrying amount is not more than its recoverable amount.	AS 28
Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets	This Standard ensures that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and proper disclosures are made in the notes to enable users to understand their nature, timing and amount.	AS 29
Ind AS 38 – Intangible Assets	This Standard prescribes accounting treatment for intangible assets. It specifies conditions for recognition of intangible asset and how to measure carrying amount at which intangible asset should be recognised.	AS 26
Ind AS 40 – Investment Property	This Standard prescribes accounting treatment for investment property and related disclosure requirements.	AS 13
Ind AS 41 – Agriculture	This Standard prescribes accounting treatment and disclosures related to agricultural activity.	N.A.

UNIT II

Ind AS 1 – Objective of Ind AS 1 –

Presentation of Financial Statements (FS)



Objective of Ind AS 1

- **Financial Statements provide information about an entity's**
 - Assets
 - Liabilities
 - Equity
 - Income and Expense incl gains and losses
 - Contribution by and Distribution to owners
 - Cash Flows

Scope of Ind AS 1

An entity shall apply this Standard

- in preparing and presenting general purpose financial statements
- in accordance with Indian Accounting Standards (Ind ASs).

Complete Set of Financial

Statements (FS)

- Financial Statements comprise of

Balance Sheet (Changes in Equity)

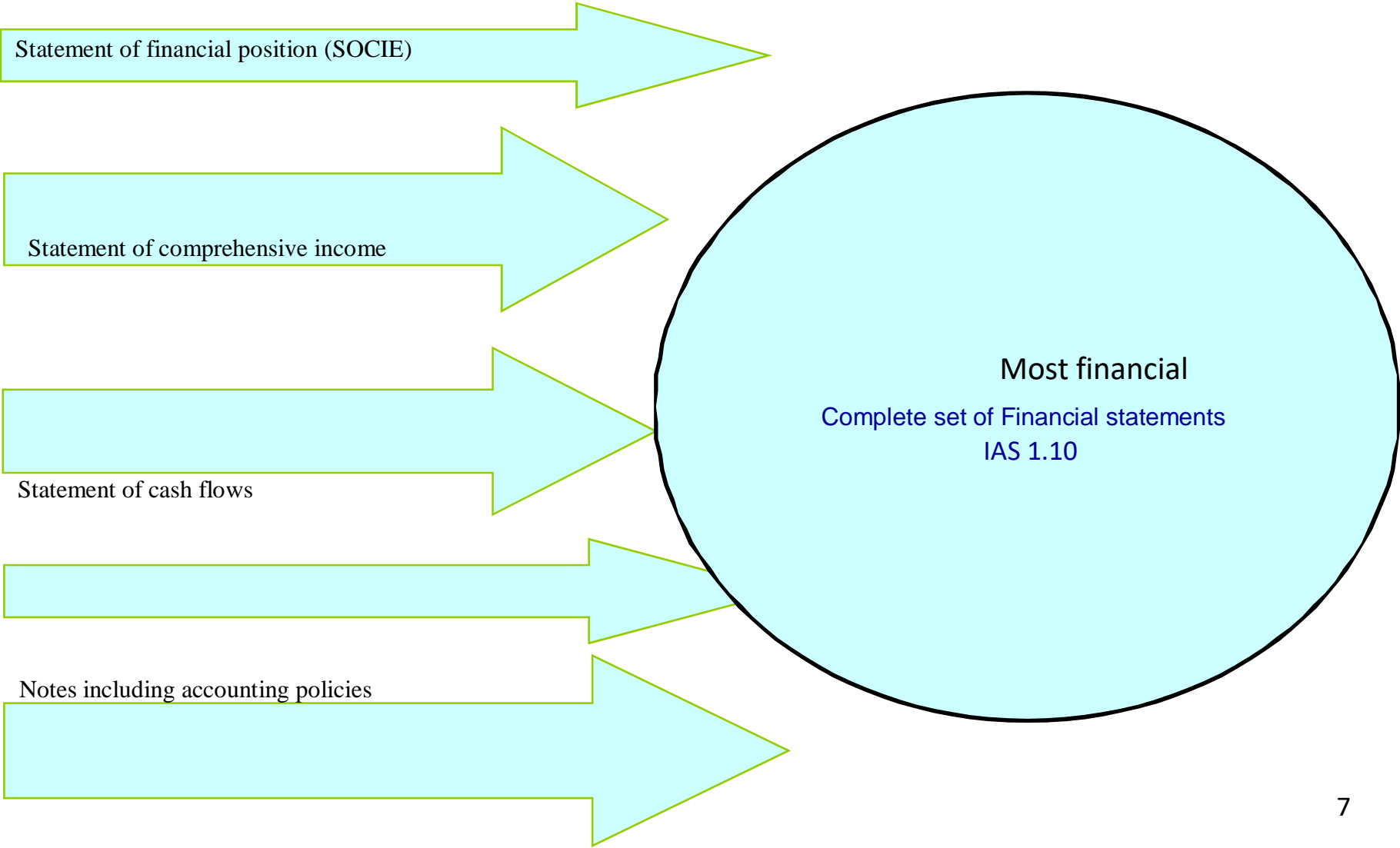
Statement of Profit or Loss

Statement of Changes in Cash Flows

Notes comprising of significant A/cing policies and other
information

Balance Sheet at the end of the earliest comparative period

Components of financial statements



Statement of financial Position at the beginning of earliest comparative period

Fundamental Assumptions

Going Concern

**Accrual Basis of
Accounting**

Consistency in

Other Considerations

Fair Presentation

Materiality and Aggregation

Offsetting

Comparatives

Reporting Period

- There is a presumption that financial statements will be prepared **at least annually**.
- **The presumption is that compliance with Accounting Standards with additional disclosures will lead to True and Fair View**

Structure and Content of

Financial Statements in General

Clearly Identify

- the financial statements
- the reporting enterprise
- whether the statements are for the enterprise or for a group
- the date or period covered
- the presentation currency
- the level of precision (thousands, millions, etc.)

Balance Sheet

As a minimum, the balance sheet shall include line items that present the following amounts

- (a) property, plant and equipment**
- (b) investment property**
- (c) intangible assets**
- (d) financial assets (excluding amounts shown under (e), (h), and (i))**
- (e) investments accounted for using the equity method**
- (f) biological assets**
- (g) inventories**
- (h) trade and other receivables**
- i) cash and cash equivalents**

- (j) assets held for sale**
- (k) trade and other payables**
- (l) provisions**

Balance Sheet

- (m) **financial liabilities (excluding amounts shown under (k) and (l))**
- (n) **liabilities and assets for current tax, as defined in IAS 12**
- (o) **deferred tax liabilities and deferred tax assets, as defined in IAS 12**
- (p) **liabilities included in disposal groups**
- (q) **non-controlling interests , presented within equity and**
- (r) **issued capital and reserves attributable to owners of the parent**

Share Capital Reserves

Regarding issued share capital and reserves, the following disclosures are required

- **Numbers of shares authorised, issued and fully paid, and issued but not fully paid**
- **Par value**
- **Reconciliation of shares outstanding at the beginning and the end of the period**
- **Description of rights, preferences, and restrictions**

Share Capital Reserves

- **Treasury shares, including shares held by subsidiaries and associates**
- **Shares reserved for issuance under options and contracts**
- **A description of the nature and purpose of each reserve within equity**

Current and Non Current

- An entity shall present current and non- current assets, and current and non- current liabilities, as separate classifications on the face of its balance sheet unless a presentation based on liquidity provides reliable information that is more relevant.

Current Assets

An asset shall be classified as current when it satisfies any of the following criteria:

- it is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle (e.g. potentially exceeding 12 months after the reporting date)
- it is held primarily for the purpose of being traded
- it is expected to be realized within 12 months after the reporting date
- it is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date

All other assets shall be classified as non-current.

Current Liabilities

A liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the entity's normal operating cycle (i.e. may be more than 12 months)
- it is held primarily for the purpose of being traded
- it is due to be settled within 12 months after the reporting date
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date

All other liabilities shall be classified as non-current.

Non – Current Assets

- Property, Plant & Equipment
- Investment Property
- Goodwill
- Other intangible assets
- Investments in associates
- Available for sale financial assets
- Finance lease receivables
- Deferred tax assets

Current Assets

- Inventories
- Trade Receivables
- Other Current Assets
- Held for Trading Financial Assets
- Cash and cash equivalents
- Non-Current assets held for sale

Non – Current Liabilities

- Long term borrowings
- Retirement benefit obligation
- Deferred tax liabilities

- Obligation under finance leases – due after one year
- Long term provisions

Current Liabilities

- Trade and other payables
- Current portion of long term borrowings
- Retirement benefit obligation
- Obligations under finance leases – due within one year
- Bank overdrafts loans
- Short term provisions
- Liabilities directly associates with non – current assets held for sale
- Statement of Profit and Loss

An entity shall present all items of income and expense including components of other comprehensive income recognized in a period in a single statement of profit and loss.

Components of OCI:-

recognised in Equity

Items of income and expense

Effective portion of cash flow
hedges

Actuarial gains/losses on
Defined Benefit Pension Plans

Effect of translation of FS Of
foreign operations

Re measurement of AFS

Change in Revaluation Surplus of
PPE and Intangibles

Statement of Profit or Loss

- Minimum items on the face of the statement of Profit or Loss should include: [IAS 1.81]

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations;

(e) tax expense; and

(f) profit or loss.

Statement of Profit or Loss

An entity shall disclose the following items in the statement of profit and loss as allocations for the period:

(a) profit or loss for the period attributable to:

(i) non-controlling interests, and

(ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

(i) non-controlling interests, and

(ii) owners of the parent.

Statement of Profit or Loss

- Certain items must be disclosed either on the face of the income statement or in the notes, if material, including:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinuing operations;

(f) litigation settlements; and

(g) other reversals of provisions.

Statement of changes in equity

For each component of equity, a reconciliation between the opening and closing balances, disclosing changes resulting from:-

❖ profit or loss

❖ each item of other comprehensive income

❖ Transactions with owners in their capacity as owners This **Statement of Changes in Equity** is a part of the **Balance Sheet**

Statement of Cash Flows

- Information on cash flows provides a basis to assess an entity's ability to generate cash, and the utilization of those cash flows.
- All entities are required to provide a cash flow statement regardless of their size and the industry they operate in.
- There are no exemptions for subsidiaries whose parents have also published a cash flow statement
- Major Components
 - operating cash flows
 - investing cash flows
 - financing cash flows

Notes to financial statements

The notes shall

- present information about the basis of preparation of the financial statements and the specific accounting policies used
- disclose any information required by IFRSs that is not presented elsewhere in the financial statements and
- provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them
- Notes should be cross-referenced from the face of the financial statements to the relevant note.

Disclosure of accounting policies

- Entity should give disclosure of the measurement bases and the accounting policies an entity uses
- The entity's accounting policies should be clearly stated and presented
- The disclosure given in respect of an accounting policy should be sufficiently detailed that it is understandable

Disclosure about Dividends

- In addition to the distributions information in the statement of changes in equity (part of B/S), the following must be disclosed in the notes
 - “ the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share and the amount of any cumulative preference dividends not recognised”

Capital Disclosures

An entity should disclose information about its objectives, policies and processes for managing capital. To comply with this, the disclosures include:

- qualitative information about the entity's objectives, policies and processes for managing capital, including
 - description of capital it manages
 - nature of external capital requirements, if any
 - how it is meeting its objectives
- quantitative data about what the entity regards as capital
- changes from one period to another
- whether the entity has complied with any external capital requirements and
- if it has not complied, the consequences of such non-compliance.

Disclosures about Puttable

Financial Instruments

The following additional disclosures if an entity has a puttable instrument that is classified as an equity instrument:

- summary quantitative data about the amount classified as equity
- the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period
- the expected cash outflow on redemption or repurchase of that class of financial instruments and
- information about how the expected cash outflow on redemption or repurchase was determined.

Difference between Ind AS 1 and

IAS 1

IAS 1 *Presentation of Financial Statements* permits companies to present all items of income and expense recognized in a period either in a single statement, or in two statements.

Ind-AS 1 does not permit the two statements approach. It requires all items of income and expense to be presented in a single statement of profit and loss.

Difference between Ind AS 1 and

IAS 1

- **IAS 1** requires a company to present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the company.

- However, **Ind-AS 1** mandates only nature-wise classification of expenses.

IND AS 7 – Statement of Cash Flows

Applicability, Scope & Objective

Applicability –

Cash flow statement is applicable to **all** the companies and there is **no exemption** available to any type of entity from preparation and presentation of the cash flow statement but as per existing AS this statement is not mandatory for small and medium enterprises.

Scope –

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

Objective –

Assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances comparability.

Definitions

Cash –

Cash comprises cash on hand and demand deposits.

Cash equivalents –

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

Cash flows –

Cash flows are inflows and outflows of cash and cash equivalents.

Notes –

1. Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents.
2. An investment normally qualifies as cash equivalent only when it has a short maturity, say 3 months or less from the date of acquisition.

Operating Activities –

are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Examples –

1. cash receipts from sale of goods or rendering of services;
2. Cash receipts from royalties, fees, commissions and other revenue;
3. Cash payments to suppliers for goods and services
4. An entity may hold securities and loans for dealing or trading purposes, in which they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities.

Notes – Cash payment to manufacture or acquire assets held for rental to others and subsequently held for sale as described in para 68A of Ind AS 16, as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flow from operating activities.

Investing Activities –

are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

Example –

1. Cash payment to acquire property, plant and equipment, intangibles and other long-term assets
2. Cash receipts from sale of property, plant and equipment, intangibles
3. Cash payment to acquire equity or debt instruments
4. Cash advances and loans made to other parties
5. Cash payment for future contracts, forward contracts, option contracts

Financing Activities –

are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Example –

1. Cash proceeds from issuing of share or other equity instruments
2. Cash payment to owners to acquire or redeem the equity's shares
3. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages
4. Cash repayments of amount borrowed and
5. Cash repayment by lessee for the reduction of the outstanding liability

Note –

Cash flows arising from the operating, investing or financing activities may be reported on net basis.

Foreign currency cash flows –

Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Note –

Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash.

Others

Interest & Dividend–

Cash flows from interest and dividends received and paid shall each be disclosed separately.

In case of financial institutions – cash flow arising from interest paid and interest and dividend received should be classified as cash flow arising from operating activities.

In case of other entities –

Interest paid should be classified as part of financing activities.

Interest and dividend received should be classified as part of investing activities.

Dividend paid should be classified as part of financing activities.

Cash flows arising from taxes on income shall be separately disclosed and shall be classified as part of operating activities unless they can be separately identified with investing and financing activities.

Investing and financial transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows.

Example –

- a. The acquisition of assets either by assuming directly liabilities or by means of a finance lease
- b. The acquisition of an entity by means of an equity issue
- c. The conversion of debt into equity

Indian Accounting Standard (Ind AS) 8 Accounting Policies, Changes in Accounting Estimates and Errors# (This Indian Accounting Standard includes paragraphs set in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)

Objective 1 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.

2 Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in Ind AS 1, Presentation of Financial Statements.

Scope

3 This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors. **4** The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with Ind AS 12, Income Taxes. **Definitions 5** The following terms are used in this Standard with the meanings specified: Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. 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, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. # This Ind AS was notified vide G.S.R. 111(E) dated 16th February, 2015 and was amended vide Notification No. G.S.R. 310(E) dated 28th March, 2018. Indian Accounting Standards (Ind ASs) are Standards prescribed under Section 133 of the Companies Act, 2013. Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis

of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were approved for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied. 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. Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: (a) the effects of the retrospective application or retrospective restatement are not determinable; (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and (ii) would have been available when the financial statements for that prior period were approved for issue from other information. Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are: (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change. 6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards issued by the Institute of Chartered Accountants of India states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions. Accounting policies Selection and application of accounting policies 7 When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS. 8 Ind ASs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from Ind ASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows. 9 Ind ASs are accompanied by guidance that is integral part of Ind AS to assist entities in applying their requirements. Such guidance is mandatory. 10 In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is: (a) relevant to the economic decision-making needs of users; and (b) reliable, in that the financial statements: (i) represent faithfully the financial position,

financial performance and cash flows of the entity; (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form; (iii) are neutral, ie free from bias; (iv) are prudent; and (v) are complete in all material respects. 11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in Ind ASs dealing with similar and related issues; and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework. 12 In making the judgement described in paragraph 10, management may also first consider the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11. Consistency of accounting policies 13 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an Ind AS specifically requires or permits categorisation of items for which different policies may be appropriate. If an Ind AS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category. Changes in accounting policies 14 An entity shall change an accounting policy only if the change: (a) is required by an Ind AS; or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. 15 Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14. 16 The following are not changes in accounting policies: (a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial. 17 The initial application of a policy to revalue assets in accordance with Ind AS 16, Property, Plant and Equipment, or Ind AS 38, Intangible Assets, is a change in an accounting policy to be dealt with as a revaluation in accordance with Ind AS 16 or Ind AS 38, rather than in accordance with this Standard. 18 Paragraphs 19–31 do not apply to the change in accounting policy described in paragraph 17. Applying changes in accounting policies 19 Subject to paragraph 23: (a) an entity shall account for a change in accounting policy resulting from the initial application of an Ind AS in accordance with the specific transitional provisions, if any, in that Ind AS; and (b) when an entity changes an accounting policy upon initial application of an Ind AS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively. 20 For the purpose of this Standard, early application of an Ind AS is not a voluntary change in accounting policy. 21 In the absence of an Ind AS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of International Accounting Standards Board and in absence thereof those of the other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy. Retrospective application 22 Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if

the new accounting policy had always been applied. Limitations on retrospective application 23 When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change. 24 When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period. 25 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable. 26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with an Ind AS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable. 27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50–53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods. Disclosure 28 When initial application of an Ind AS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: (a) the title of the Ind AS; (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions; (c) the nature of the change in accounting policy; (d) when applicable, a description of the transitional provisions; (e) when applicable, the transitional provisions that might have an effect on future periods; (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) if Ind AS 33, Earnings per Share, applies to the entity, for basic and diluted earnings per share; (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, 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. Financial statements of subsequent periods need not repeat these disclosures. 29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: (a) the nature of the change in accounting policy; (b) the reasons why applying the new accounting policy provides reliable and more relevant

information; (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share; (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, 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. Financial statements of subsequent periods need not repeat these disclosures. 30 When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose: (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application. 31 In complying with paragraph 30, an entity considers disclosing: (a) the title of the new Ind AS; (b) the nature of the impending change or changes in accounting policy; (c) the date by which application of the Ind AS is required; (d) the date as at which it plans to apply the Ind AS initially; and (e) either: (i) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or (ii) if that impact is not known or reasonably estimable, a statement to that effect. Changes in accounting estimates 32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of: (a) bad debts; (b) inventory obsolescence; (c) the fair value of financial assets or financial liabilities; (d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and (e) warranty obligations. 33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. 34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. 35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. 36 The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both. 37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change. 38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods Disclosure 39 An entity shall disclose the nature and amount of a change in an accounting estimate that has

an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. 40 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact. Errors 41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs 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 (see paragraphs 42–47). 42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by: (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Limitations on retrospective restatement 43 A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. 44 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period). 45 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable. 46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable. 47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods. 48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error. Disclosure of prior period errors 49 In applying paragraph 42, an entity shall disclose the following: (a) the nature of the prior period error; (b) for each prior period presented, to the extent practicable, the amount of the correction: (i) for each financial statement line item affected; and (ii) if Ind AS 33 applies to the entity, for basic and diluted earnings per share; (c) the amount of the correction at the beginning of the earliest prior period presented; and (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been correcte

IND AS 10 -

Events After the Reporting Period CA Kushal Soni on 23 March 2019 1. To understand any accounting standard in a better way, it is of most importance to know the objective of the standard. Objectives primarily cover key areas which standard address and reason why standard came into existence

. Objective of Ind AS-10: To prescribe when entity adjust its financial statements (FS) for events after the reporting period To disclose the date when FS was approved and events after the reporting date 2. To know about coverage/applicability of standard you should look into the

scope of it. Ind AS-10 is applicable to accounting and disclosure of events after the reporting date. 3. Definitions Events after the reporting period: are those favorable and unfavorable events that occur between the end of the reporting period and the date when FS are approved. Two types of events can be identified: Adjusting Events: are those that provide evidence of the condition that existed at the end of the reporting period Non-adjusting Events: are those that are indicative of the condition that arose after the reporting period. Breach of material provision of a long term loan arrangement (like default in repayment or shortage of primary security) on or before the end of the reporting period is always an adjusting event even if lender agrees not to demand repayment. In some organizations, FS first approved by the management then further approved by supervisory management or top management, date of approval shall be the date when FS was first approved by management. Entity shall adjust its FS to reflect adjusting events after the reporting period. Following are example of adjusting events: Existence of a present obligation of a court case at the end of the reporting period. Information received after end of the reporting period that asset was impaired at the end of the reporting period. Discovery of any fraud or error that shows that FS is incorrect. Effect of non-adjusting events after the reporting period should not be made in FS. If non-adjusting events after the reporting period is material, then it is mandatory to give its disclosure. Following are the example of non-adjusting events after reporting period which generally calls for disclosure Major business combination Plan for discontinuation of operations Major purchase of assets Destruction of major production plants by fire Announcement or commencement of major restructuring Abnormal changes in assets prices or foreign exchange held Significant changes in tax rates Significant commitments or material contingent liabilities Commencing major litigations Dividend declared after the reporting period should not be recognized as a liability at the end of the reporting period (reason being, dividends do not meet the criteria of a present obligation as per Ind AS-37, Provisions Contingent Liabilities and Contingent Assets Entity shall not prepare its FS on a going concern basis if management after the reporting period has the intention to liquidate the entity or to cease trading. If going concern assumption is not appropriate then it affects is so pervasive that it calls for fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized. Disclosures: Date when FS was approved for issue, who gave the approval.

If owners or others have the power to amend the FS after issue, the entity shall disclose this fact.

UNIT III

Ind AS 16 Property Plant Equipment

Ind AS 16 prescribes the accounting treatment for Property and P&E (Plant, and Equipment). The principal issues covered in the standard includes: –

1. Timing of recognizing an asset
2. Determining the carrying amounts of the assets
3. Depreciation to be recognized in the financial statements

Applicability and Scope

Ind AS 16 Property Plant Equipment is applicable to all Property and P&E (Plant & Equipment) unless and until any other [accounting standard](#) asks for a different treatment.

Ind AS 16 Property Plant Equipment is not applicable in the following cases:

- (i) Property and P&E (Plant & Equipment) which are classified as held for sale as per Ind AS 105
- (ii) Biological assets which are related to agricultural activities except bearer plants
- (iii) The measurement and recognition of exploration and evaluation assets
- (iv) Mineral rights and reserves like oil, natural gas and other such non-regenerative resources

Recognition

The cost of any item of PPE must be recognized as an asset only when:

- (a) It is apparent that the future economic benefits related to such asset would flow to the business; and
- (b) Cost of such asset could be reliably measured

Constituents of cost

The cost of the item of PPE includes:

- (a) The purchase price, which includes the import duties and any non-refundable taxes on such purchase, after deducting rebates and trade discounts

- (b) Costs which are directly attributable to bringing assets to the condition and location essential for it to operate in a manner as intended by the management
- (c) Initial estimate of costs of removing and dismantling an item and restoring a site where it is located

Measurement after recognition

A business must choose cost model or revaluation model as the accounting policy and should apply such policy to its entire class of PPE.

Cost model

After recognizing an asset, PPE should be carried at the cost as reduced by the accumulated depreciation and accumulated impairment losses (if any).

Revaluation model

After recognizing an asset, PPE whose fair value could be reliably measured should be carried at the revalued amount, being the fair value at revaluation date and reduced by successively accumulated depreciation and successive accumulated impairment losses (if any).

- (a) Revaluations must be made with adequate regularity for ensuring that carrying amount doesn't differ substantially from that which would be determined if fair value at end of the reporting period is used
- (b) In case an item of PPE is revalued, whole class of such PPE to which such asset belongs should be revalued
- (c) In case the carrying amount of an asset increases due to revaluation, such increase should be credited to other comprehensive income and should be accumulated in equity. However, such increase should be recognized in P/L statement to the extent of reversal of a revaluation decrease of similar asset recognized previously in the P/L statement
- (d) In case the carrying amount of an asset is decreased due to revaluation, such decrease should be recognized in the P/L statement. However, such decrease should be debited to other comprehensive income to the extent of credit balances available in revaluation surplus with respect to such similar asset

Depreciation

Each part of PPE with a cost which is substantial with respect to the total cost of the PPE should be separately depreciated. The amount of depreciation should be allocated on an orderly basis over the useful life of an asset.

The standard also requires:

1. The method of depreciation used should reflect an asset's pattern of future economic benefits
2. At each balance sheet date, three standard requires review of

- (i) Residual value and the useful life of assets
- (ii) Depreciation method employed

Derecognition

The carrying amount of items of PPE should be derecognized:

- (a) At the time of their disposal; or
- (b) When there are no future economic benefits anticipated from the use or disposal of such asset

Any gain or loss arising from such derecognition should be included in the P/L statement when such item is derecognized. Gains arising from such derecognition shouldn't be classified as part of revenue.

Disclosure Requirements

Ind AS 16 prescribes financial statements should disclose, for every class of PPE:

- (i) Measurement basis for determining carrying amount
- (ii) Depreciation methods used
- (iii) Depreciation rates/ Useful lives of the assets
- (iv) Aggregate carrying amount and accrued depreciation at the start and at the end of period
- (v) Existence and value of restrictions on the title and PPE pledged as collateral for liabilities
- (vi) Amount of expenditure recognized in carrying amount of an item of PPE during its construction
- (vii) Amount with respect to contractual commitment for acquisition of PPE

Major differences between Ind AS 16 & 6

Particulars	Ind AS 16 Property Plant Equipment	AS 10 & 6
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Change in the methods of depreciation	Ind AS 16 considers such change as changes in the accounting estimate and is applied prospectively.	AS 10 necessitates retrospective recalculation of the depreciation and accounted for prospectively. This change is considered as the changes in accounting policy.
Reviewing residual value	The residual value must be reviewed at the end of every financial year at least and, any change must be accounted for as changes in the accounting estimate.	As per AS 10, estimates with respect to residual value aren't required to be updated and reviewed.
Reassessing the useful life	Ind AS 16 requires reviewing at the end of every financial year and applied prospectively.	AS 10 required periodical review and prospective application.
Government grant received for PPE	Ind AS doesn't allow the same.	AS 12 gives an option to reduce the grant so received from gross value of such asset
Cost of major Inspections	As per Ind AS 16, the cost of any major inspections must be recognized in carrying the amount of the PPE	As per AS 10, the cost of major inspections are usually expensed as and when they're incurred.

Ind AS-17 Leases

Posted on [May 7, 2016](#)

This standard is a replacement for the erstwhile Accounting standard issued by the ICAI, AS-19- Leases.

The objective of this standard is to define criteria for identifying Finance and operating leases and also to set up defined guidelines to account the same in the books of both, the Lessor and the Lessee.

This standard does not apply to leases to explore for or use non-regenerative resources like minerals, oil, natural gas, etc, licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights, Biological assets and Investment property.

What is a Lease?

Agreement > Transfer the right to use an Asset > for a series of Payments > for a period of time

It includes Hire purchase agreement with an option to take over the hired asset by hirer on fulfillment of certain agreed conditions

As we might know, for every leasehold transaction, there are two parties.

A) The Lessor – One who gives the asset on lease and gets lease rent

B) The Lessee- One who takes the asset on lease and pays rent periodically or as per agreed terms.

Classification:

Leases are classified into two types- Finance Lease and Operating Lease.

Finance Lease : Type of Lease that involves the transfer of Risk and Rewards incidental to the ownership of an asset. The lease period covers a substantial portion of the useful life of the asset when it is a finance lease. The present Values of the Minimum Lease Payments (MLP, meaning the periodic rent that the lessee pays for the asset) is almost equal to the Fair value of the leased asset. A finance Lease may or may not end up in the asset getting transferred to the lessee at the end of the lease period.

Operating Lease : All leases other than Finance Leases are Operating Leases.

What is the purpose of such classification?

To enable proper accounting methods to it.

Minimum Lease Payments?

Gross Investment?

RECOGNITION

In case of Finance Lease :

In the Books of the Lessee:

Initial Recognition:

Amount of Fair Value (or) whichever is lower

Present Value of Minimum Lease Payments

Plus- Initial Direct Costs.

The Appropriate discount rate for computing the Present Value of Minimum Lease Payments shall be the Interest Rate and if that is not available, then the Implicit Borrowing Rate can be used.

Also, The asset and the liability so recognised must be of equal values except the addition of the Initial Direct Costs to the Asset side.

Presentation in Balance Sheet?

Shown separately as an Asset and a Liability. It can also be classified as Current and Non-current based on the applicable criteria.

Subsequent Measurement:

The minimum Lease Payments are apportioned between the Finance Charge and the Liability Outstanding amount. In a finance lease, Depreciation expense and Finance Charges reflect in the Statement of Profit and Loss.

How to account for such Depreciation?

It must be accounted as per the policy adopted, for both, tangible and intangible assets as per the respective standards.

In case of Operating Lease :

In the Books of the Lessee:

Generally lease payments are recognized as an expenses in P/L on a straight line basis

Unless, a systematic pattern is available to better represent the time pattern of the user's benefit.

Lease payments excludes costs for services such as insurance and maintenance. These costs are apportioned on a straight line basis or any other systematic manner identified.

The standard also mentions a few additional disclosures to be made for both types of leases.

Sale and Lease Back transactions

Say I sell an asset to you for a fixed amount today on an agreement that I will lease it from you for a certain rent for a certain period of time. Such arrangements between two parties are called Sale and Leaseback transactions.

So how is such an arrangement accounted for in the books?

In the books of the Lessor:

In case of Finance Lease:

Initial Recognition:

Recognise the Asset at an amount equal to the Net Investment in the Asset and show it as Receivables in the Balance Sheet. The Lease Payments that are received are treated as amount received towards the principal and the finance cost.

Subsequent Measurement:

The Recognition of Finance Income shall be based on a pattern that reflects the constant periodic return on the Lessor's net investment.

An asset under a finance lease that is classified as held for sale should be classified as Non-current Assets Held for Sale and Discontinued Operations, in accordance with Ind AS 105.

Special provisions are given in case the lessor is a Manufacturer or a dealer Lessor.

Prominent issues dealt with in the standard:

Upfront Cash Payments- How is it treated in the books in case of Operating Lease?

Transactions/Arrangements like Lease and Lease Back

A) How to identify if such actions are linked and if they

are to be accounted as “One” or as a “Single” transaction?

B) Does such an arrangement meet the definition of a lease under this method?

Yes. Only if the substance of such an arrangement involves the conveyance/transfer of the right to use the asset for an agreed period of time.

C) If such an arrangement is not a Lease as per the definition of this standard, then how the entity must account for other obligations resulting from the arrangement?

Other obligations shall be accounted as per their respective governing standards (Ind AS- 37/39/104) based on the nature and terms of such obligations.

D) How the entity should account for a fee that it might receive from an investor?

To recognise the fee, the criteria mentioned in the Ind AS-18, Revenue shall apply. However, where the earning of such fee is based on some conditions to perform or refrain from some activities, or where there are restrictions and limitations to use such underlying asset, or where there is a possibility to reimburse any part of the fee or pay additional amount, then such incomes are not to be recognised as revenue.

Such fee shall be presented in the Statement of Profit and Loss based on its economic substance and Nature.

Disclosure of Arrangements that are not “lease”:

A) Description of Arrangement

B) Accounting treatment applied to any fee received ,amount recognised as income in the period and the line item in the Statement of Profit and Loss in which it is included.

E) How to determine whether an arrangement is a lease or not as defined in the Standard?

F) When must the Assessment/Reassessment of whether the arrangement contains a lease or not, must be made?

Assessment: Shall be made on

a) The date of Arrangement Or

b) The date of commitment by the parties , to the principal terms of the arrangement,

Whichever is Earlier.

Re-Assessment: Shall be made only if any one of the following conditions is met:

1. There is a change in the contractual terms (Other than Renewal/ extension)

- 2. A renewal or Extension is agreed to by the parties (other than the one initially included in the Lease Agreement)
- 3. A change in the determination of whether fulfillment of the activity is dependent on a specific asset
- 4. Substantial change in the physical features of the asset.

Changes in Estimates does not trigger Reassessment

If an arrangement is reassessed and determined to contain lease(or otherwise),lease accounting shall be applied (Or cease to apply) from :

- 1. The date of such change – In cases 1,2 and 4
- 2. The date of inception of renewal or Extension period-In case 3.

G) If any arrangement is/or contains a lease, then how the payments for the lease should be separated from payments for any other elements in the arrangement.

- It shall be separated at the time of the inception of the assessment/reassessment of the Lease based on fair values.
- Minimum Lease Payments – It contains only the “For Lease” components of payments.

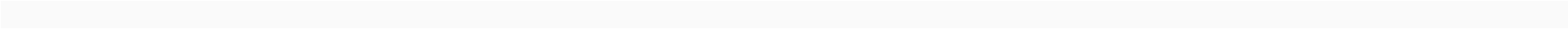
IND AS 18 Revenue Recognition

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[IND AS 18 Revenue Recognition](#) sets the guidelines as to when to recognize the revenue arising from certain types of transactions and the accounting treatment of the same.

Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

In this article we cover the following topics w.r.t IND AS 18 Revenue Recognition:



Applicability of IND AS 18 Revenue Recognition

This Standard should be applied in accounting for revenue arising from the following transactions:

1. Sale of goods
2. Rendering of Services
3. Use of entity assets yielding Interest, Royalties or Dividends

Important Definition

I. Income is the increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in the liabilities that result in an increase in equity, other than contributions from equity participants.

II. Revenue is income that arises in the course of ordinary activities of an entity and if referred to by the variety of different names including sales, fees, interest, dividends, and royalties.

III. Fair Value (FV) is the amount for which an asset could be exchanged or the liability settled between knowledgeable, willing parties in an arm's length transaction.

Measurement of Revenue

Revenue is measured at FV of the consideration received or receivable after deducting trade discounts and rebates. When the inflow of cash (or cash equivalents) is deferred, FV can be less than the nominal amount of cash.

Under an effective financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Interest Revenue = Fair Value of consideration - Nominal Amount of consideration

The imputed rate of interest is the more clearly determinable of either:

- (a) Prevailing rate for a similar instrument of an issue with a similar credit rating
- (b) Rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services

Identification of Transaction

This standard is usually separately applied to each transaction but to reflect the substance of the transaction, it can be applied to separately identifiable components of a single transaction.

For example, when the product price includes a substantial amount for subsequent servicing, that amount is deferred and recognized as revenue when that service is performed.

On the other hand, to understand the commercial effect of series of transactions, recognition criteria can be applied together on two or more transactions at the same time.

Sale of Goods

Recognise revenue from the sale of goods when all below conditions are met:

- 1. Transfer of significant risks and rewards of ownership
- 2. Neither continuing managerial involvement nor effective control
- 3. Probable future economic benefits
- 4. Reliable measurement of revenue
- 5. Reliable measurement of costs

Rendering of Services

Sl.No	Event	Revenue Recognition
1	Outcome estimated reliably	Recognise revenue by reference to stage of completion (percentage of completion method) at end of reporting period
2	Outcome not estimated reliably	Recognise revenue only to extent of expenses recognized that are recoverable (no profit recognized)

Criteria to be considered for reliably estimating the outcome of the transaction:

- 1. Reliable measurement of revenue
- 2. Probable future economic benefits
- 3. Reliable measurement of stage of completion
- 4. Reliable measurement of completion cost

The stage of completion of a transaction may be determined based on the nature of the transaction using the following:

- (a) Survey of work performed
- (b) Services performed to date as a percentage of total services to be performed
- (c) The proportion of the costs that are incurred to date bear to the estimated total costs of the transaction.

Using the percentage of completion method also provides useful information on the extent of service activity and the performance during the period.

Interest, Royalty & Dividend

To recognize revenue related to interest, royalties, and dividends, the below-mentioned conditions are to be met:

- 1. Probable future economic benefits
- 2. Reliable measurement of revenue

Sl.No	Income Nature	Revenue Measurement
1	Interest	Effective interest method (as per Ind AS 109)
2	Royalties	Accrual basis in accordance with substance of the agreement
3	Dividends	Shareholder's right to receive payment is established

Disclosure Requirements



Any contingent liabilities and contingent assets should be disclosed in accordance with IND AS 37. Few examples are warranty costs, claims, penalties or possible losses.

Comparison with AS 9

Some of the key differences between IND AS 18 and [AS 9](#) are given below:

SI.No	IND AS 18 Revenue Recognition	AS 9 Revenue Recognition
1	Revenue covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants	Revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends
2	Real estate revenue is specifically not covered	Does not exclude Real estate revenue
3	Revenue has to be measured at fair value of the consideration receivable	Revenue is recognized at the nominal amount of consideration receivable
4	Specific guidance regarding barter transactions involving advertising services is given	No such specific guidance
5	Uses, only percentage of completion method for revenue recognition for rendering of service	Permits the use of completed service contract method

6	Requires interest to be recognized using effective interest rate method	Uses time proportion basis for interest recognition
7	IND AS 18 does not specifically deal with the same	Existing AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions
8	Disclosure requirements are more detailed	Not that detailed as IND AS 18

Indian Accounting Standard 12 – Income Taxes

1.Introduction

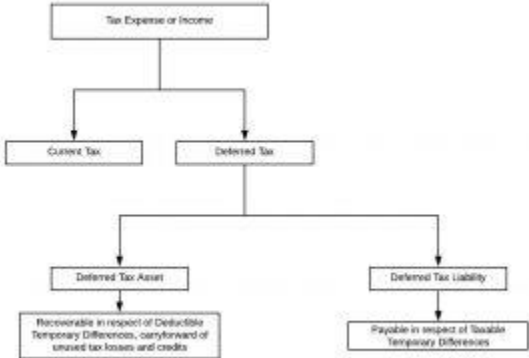
Income taxes as per this standard include both domestic and foreign taxes, which are based on taxable profits. It also includes withholding taxes.

The objective of this standard is to prescribe the accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for current and future tax consequences of:

- Future settlement of carrying amount of assets and liabilities that are recognised in the balance sheet of an organisation. If it is probable that the settlement of the carrying amount will result in a variance of tax amount which should then be recognised as deferred tax.
- Events and transactions that are recognised in the current period. The treatment for the tax related to the events will be the same as the events.

Ind AS 12 is based on the Balance Sheet approach. It requires recognising tax consequences of the difference between the carrying amounts of assets and liabilities and their tax base.

2. What is Tax expense or Income?



Tax expense or Tax income is the aggregate amount included in the determination of profit or loss in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable/recoverable in respect of the current profit/ loss for a period.

Deferred Tax liability is the amount of income tax payable in future periods with respect to the taxable temporary differences.

Deferred tax asset is the income tax amount recoverable in future periods in respect to the deductible temporary differences, carry forward of unused tax losses, and carry forward of unused tax credits.

Temporary differences are the differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Tax Base of an asset or liability is the amount attributed to the asset or liability for tax purposes.

3. Recognition of current tax assets and current tax liabilities

- Taxes to the extent unpaid for current and prior periods will be recognised as a liability. If the amount already paid for current and prior periods exceeds the actual amount due, then it will be recognised as an asset.
- A tax loss that can be used to recover current tax of a previous period is recognised as an asset in the period in which tax loss occurred.

4. Recognition of deferred tax liabilities

Deferred tax liability will be recognised for all taxable temporary differences. However, the following are exceptions to the same:

- The initial recognition of goodwill.
- The initial recognition of asset or liability which is not a business combination and neither affects accounting profit or taxable profit at the time of transaction.

5. Recognition of deferred tax assets

A deferred tax asset will be recognised for all the deductible temporary differences, provided it is probable that the taxable profit will be available for utilisation of deductible temporary differences. The restrictions being that if the asset arises from the initial recognition of asset or liability in a transaction that which is not a business combination and neither affects accounting profit or taxable profit at the time of transaction.

6. Measurement of current and deferred tax assets/liabilities

Current tax assets or liability will be measured as the amount expected to be recovered or paid to the tax authorities at the tax rate and laws that have been enacted or subsequently enacted by the end of the reporting period.

Deferred tax assets or liability will be measured at the expected tax rates in the period in which the asset is realised or liability paid based on the tax laws that have been enacted or subsequently enacted at the end of the reporting period.

7.Presentation of current and deferred tax assets and liabilities

An entity shall offset current tax assets and liabilities only if it is legally entitled to and it intends to settle on a net basis or to realise assets and settle liabilities simultaneously.

It can offset deferred tax assets and liabilities if:

- It has the legal right to offset current tax assets and liabilities.
- The deferred tax assets and liabilities relate to the income taxes levied by the same taxation authorities on same entities or on entities that intend to settle current tax assets and liabilities on a net basis or to realise assets and settle liabilities simultaneously.

8.Disclosure of current and deferred tax assets and liabilities

The major components of tax expense or income will be disclosed separately.

9.Allocation

As per this standard, an entity must account for tax consequences in the same way as it accounts for the transactions and other events. Therefore, if the transaction and other events are recognised in profit and loss, then the related tax consequences should also be recognised in profit and loss.

If the transaction and event is recognised outside profit and loss that is in other comprehensive income or directly in equity, then the tax consequence will also be recognised outside the profit and loss that is in other comprehensive income or directly in equity..

Ind AS 11 Construction Contracts

Ind AS 11 Construction Contracts prescribes the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the

contracting activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed.

Scope Of Ind AS 11 Construction Contract

The Standard shall be applied in accounting for construction contracts in the financial statements of contractors A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.

The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Contract revenue shall comprise: (a) the initial amount of revenue agreed in the contract; and (b) variations in contract work, claims and incentive payments: (i) to the extent that it is probable that they will result in revenue; and (ii) they are capable of being reliably measured. Contract revenue is measured at the fair value of the consideration received or receivable.

Contract costs shall comprise: (a) costs that relate directly to the specific contract; (b) costs that are attributable to contract activity in general and can be allocated to the contract; (c) such other costs as are specifically chargeable to the customer under the terms of the contract.

Recognition of contract revenue and expenses

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contracting activity at the end of the reporting period.

When the outcome of a construction contract cannot be estimated reliably: (a) revenue shall be recognized only to the extent of contract costs incurred that it is probable will be recoverable, and (b) contract costs shall be recognized as an expense in the period in which they are incurred.

Recognition of expected losses

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

An entity shall disclose the amount recognized as contract revenue in the period, the method used to determine the contract revenue recognized and stage of completion of contracts in progress.

For the contracts in progress at the end of the period, an entity shall disclose the aggregate costs incurred and recognized profits to date, the amounts of retentions and advances received.

Appendix A of Ind AS 11 gives guidance on accounting by operators for public-to-private service concession arrangements. It sets out principles for recognition and measurement of the obligations and related rights in service concession arrangements. The Appendix prescribes that an operator shall not recognize the public service infrastructure (within the scope of this appendix) as its Property, Plant, and Equipment because the contractual service arrangement does not convey the right to control the use of the infrastructure. It only gives operator the access to

operate the infrastructure to provide public service on behalf of the grantor.

The operator shall account for revenue and costs relating to the construction or upgrade services in accordance with Ind AS 11 and those relating to operation services in accordance with Ind AS 18. The consideration received or receivable shall be recognized at its fair value. The consideration may be rights to a financial asset or an intangible asset.

The operator recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

UNIT IV

Ind AS 20– ACCOUNTING FOR GOVERNMENT

Scope

- Assistance.

- **Applied in accounting for & disclosures of**
Govt. Grants ; and

In the disclosure of other forms of Government

Ind AS 20 does not deal with

- Government participation in the ownership of the enterprises;
- Government grants covered by Ind AS 41, Agriculture
- Income Tax incentives offered by the Government

Certain Definitions

- Government grants are assistance by government in the form of **transfers of resources** in return for past or future compliance with certain conditions relating to the operating activities of an entity.
- Government grants are sometimes called as subsidies, subventions or premium.

Definitions Contd..

Forgivable loans are loans which lender undertakes to waive repayment under certain prescribed conditions.

Government Assistance

- Excluded from the definition of government grants are certain forms of government assistance which **cannot reasonably have a value placed upon them** and **transactions with government which cannot be distinguished from the normal trading transactions of the entity**.

Examples:

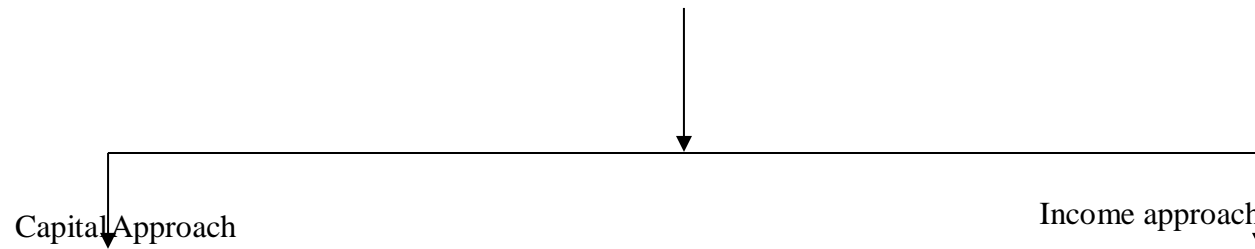
- Free technical or marketing advice.
- Provision of guarantees.
- Minimum Support prices

Recognition Criteria of GG

- ❖ A) The entity will comply with the conditions attached to the grant;
and

- ❖ B) The grants will be received.

Accounting Treatment Of Government Grants under AS-12.



- Credited directly to shareholders interest (This approach is not prescribed by Ind-As 20)

- Grant is taken as income over one or more period

Types and Presentation of Grants

- Ind AS 20 prescribes the accounting treatment for the following three types of grants:
 - a. Grants relating to assets;
 - b. Grants relating to income;
 - c. Non-monetary government grants.
 - d. Government Loan at below Market rate

GRANTS RELATING TO ASSETS

Ind AS 20 permits the following method of presentation:

- Present the grant **as deferred income** which is recognised in the profit or loss account on a **systematic and rational basis** over the useful life of the asset.

Grants Relating To Income

- Ind AS 20 prescribes the following methods for these types of grants:
 - **Gross Disclosure:** Present grant received in income statement, either separately or under a general heading such as “Other Income”;
 - **Net Disclosure:** Alternatively, they are deducted in reporting the related expenses.

Non Monetary Government Grants

A) The fair value of the non-monetary asset should be assessed and

B) the asset and grant should be accounted for at fair value. Grant is to be presented as Deferred Income.

GOVERNMENT LOAN ATBELOW MARKET RATE

Measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received.

Repayment Of A Grant

- Accounted as a revision to an accounting estimate** under Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. *Prospective adjustment*

- Repayment of a grant related to income:**
 - First adjusted against any unamortised deferred credit
 - Balance shall be recognised immediately in profit or loss.

- Repayment of a grant related to an asset & non monetary assets:**
 - reduce the deferred income balance by the amount repayable.

- □ Balance shall be recognised immediately in profit or loss.

FIRST TIME ADOPTION -- 101

- **Government loans –Interest Free or below market rate of interest**

Requirement of Ind As 20 and Ind AS 109 Financial Instruments are applied prospectively.

Alternatively Ind-As20 may be applied retrospectively, if required information was obtained at the time of initially recognition.

Disclosure Requirements

- Ind AS 20 requires the following matters to be disclosed:
 - ✓ **Accounting policy** adopted for grants, including methods of presentations adopted in the financial statements;
 - ✓ **Nature and extent of grants** recognised in the financial statements;
 - ✓ **Other forms of government assistance** from which the entity has directly benefited;
 - ✓ **Unfulfilled conditions and contingencies** attaching to recognised grants

Differences between Ind AS 20 and AS 12

Topic	Indian GAAP	Ind AS
Government Assistance	No specific guidance.	Deals with both government grants and disclosure of government assistance.

Forgivable Loans

No specific guidance.

Forgivable loans are treated as government grants when there is a reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Differences contd....

Topic	Indian GAAP	Ind AS
Government loans with below market rate of interest	No specific guidance.	Benefit of government loans with below market rate of interest should be accounted for as government grant-measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received.
Promoters Contribution	Government grants in the nature of promoters' contribution are credited directly to shareholders' funds.	Government grants are not directly credited to shareholders' interests.

Differences contd....

Topic	Indian GAAP	Ind AS
Non-Monetary Assets	AS 12 requires government grants in the form of non-monetary assets, given at a concessional rate , to be accounted for on the basis of their acquisition cost only . If a non-monetary asset is given free of cost, it should be recorded at a nominal value.	Ind-AS 20 requires entities to account for government grants in the form of non-monetary assets at their fair value .

Differences contd....

Topic	Indian GAAP	Ind AS
Fixed Assets related	<p>Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value.</p> <p>Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognized in the profit or loss on a systematic and rational basis over the useful life of the asset.</p>	<p>Ind-AS 20 requires an asset related grant to be presented in the balance sheet by setting up the grant as deferred income. The grant set up as deferred income is recognized in the profit or loss on a systematic basis over the useful life of the asset.</p>

Differences contd....

Topic	Indian GAAP	Ind AS
Repayment of grants relating to fixed assets	Recognised either by increasing the carrying amount of the asset or reducing the deferred income or capital reserve, as appropriate, by the amount repayable. If the carrying amount of the asset is increased, depreciation on the revised carrying amount is provided prospectively over the residual useful life of the asset. Classified as an extraordinary item.	Recognised by reducing the deferred income balance by the amount repayable. Prohibited to be classified as an extraordinary item.

