Accounting Standards in Brief

AS-3 - CASH FLOW STATEMENTS

The standard sets out the condition that where the cash flow statement is presented, it shall disclose a movement in "cash and cash equivalents" segregating various transactions into operating, investing and financing activity. It requires certain specific items to be addressed in the cash flows and certain supplemental disclosures for non-cash transactions.

a) Cash comprises cash on hand and demand deposits with banks.

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

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

d) Operating activities are the principal revenue-generating activities of the enterprise and other activities that are not investing or financing activities. Examples, cash receipts from the sale of goods and the rendering of services cash receipts from royalties, fees, commissions and other revenue cash payments to suppliers for goods and services cash payments to and on behalf of employees.

e) Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples, cash payments to acquire fixed assets (including intangibles). These payments include those relating to capitalized
research and development costs and self-constructed fixed assets
cash receipts from disposal of fixed assets (including intangibles)
cash payments to acquire shares, warrants or debt instruments of
other enterprises and interests in joint ventures

**f) Financing activities** are activities that result in changes in the
size and composition of the owners’ capital (including preference
share capital in the case of a company) and borrowings of the
enterprise. Example, cash proceeds from issuing shares or other
similar instruments cash proceeds from issuing debentures, loans,
notes, bonds, and other short- or long-term borrowings and cash
repayments of amounts borrowed. Additionally certain items are
required to be disclosed separately, like Income Tax, Dividends,
etc. The enterprise can choose either direct method or indirect
method for presentation of its cash flows. Cash flows arising from
transactions in a foreign currency should be recorded in an
enterprise’s reporting currency by applying to the foreign
currency amount the exchange rate between the reporting
currency and the foreign currency at the date of the cash flow. A
rate that approximates the actual rate may be used if the result is
substantially the same as would arise if the rates at the dates of
the cash flows were used. The effect of changes in exchange rates
on cash and cash equivalents held in a foreign currency should be
reported as a separate part of the reconciliation of the changes in
cash and cash equivalents during the period.
AS-7 - ACCOUNTING FOR CONSTRUCTION CONTRACTS

It may be mentioned that the standard is applicable in accounting of contracts in the books of the contractor.

It is not applicable for

- Construction project undertaken by the entity on behalf of its own, for example, a builder constructing flats to be sold.
- It is also not applicable to Service Contracts which are not related to the construction of asset. According to AS-7 (Revised) the enterprise should follow only percentage completion method. Where in case the contract revenue or the stage of completion cannot be determined reliably, the cost incurred on the contract may be carried forward as Work-in-progress. All foreseen losses must be fully provided for. Under percentage of completion method, appropriate allowance for future contingencies shall be made. WIP, receipt of progressive payments, advances, retentions, receivables and certain other items are required to be disclosed.

AS-12 - ACCOUNTING FOR GOVERNMENT GRANTS

Grants should not be recognized unless reasonably assured to be realised.

- Grants towards specific assets be presented as deduction from its gross value. Alternatively, be treated as deferred income in Profit & Loss Account on rational basis over the useful life of the asset when depreciable.
• For non-depreciable asset requiring fulfillment of any obligations, it be credited to Profit & Loss Account during the concerned period to fulfill obligations. Balance of deferred income be disclosed appropriately as to promoter’s contribution, be credited to capital reserves and considered as shareholders’ funds.

• Grants in the form of non-monetary assets given at concessional rate be accounted at their acquisition cost.

• Asset given free of cost be recorded at nominal value.

• Grants receivable as compensation of losses/expenses incurred be recognized and disclosed in Profit & Loss Account in the year it is receivable and shown as extraordinary item if appropriately read with AS-5. Contingency related to grant be treated in accordance with AS-4.

• Grants when become refundable, be shown as extraordinary item read with AS-5.

• Grants related to revenue on becoming refundable be adjusted first against unamortized deferred credit balance of the grant and then be charged to Profit & Loss Account.

• Grants against specific assets on becoming refundable be recorded by increasing the value of the respective assets or by reducing Capital Reserve/Deferred Income balance of the grant. Grant to promoter’s contribution when refundable be reduced from the Capital Reserve.
Accounting policy adopted for grants including method of presentation, extent of recognition in financial statements, at concession/free of cost be disclosed.

**AS-15 - ACCOUNTING FOR RETIREMENT BENEFITS IN THE FINANCIAL STATEMENT OF EMPLOYERS**

The method of accounting of retirement benefits depends on the nature of retirement benefits and in practice it may not be incorrect to say that it also depends on the mode of funding.

On the basis of nature, a retirement benefit scheme can be classified either as defined benefit plan or defined contribution plan. Defined contribution schemes are schemes where the amounts to be paid as retirement benefits are determined by contributions to a fund together with earnings thereon e.g., provident fund schemes.

Defined benefit schemes are retirement benefit schemes under which amounts to be paid as retirement benefits are determinable usually by reference to employee’s earnings and/or years of service e.g., gratuity schemes. For defined contribution schemes, contribution payable by employer is charged to Profit & Loss Account. For defined benefit schemes, accounting treatment will depend on the type of arrangements which the employer has made.

- If payment for retirement benefits is made out of employers funds, appropriate charge to Profit & Loss Account to be made through a provision for accruing liability, calculated according to actuarial valuation.
• If liability for retirement benefit is funded through creation of trust, the excess/shortfall of contribution paid against amount required to meet accrued liability as certified by actuary is treated as pre-payment or charged to Profit & Loss Account.

• If liability for retirement benefit is funded through a scheme administered by an insurer, an actuarial certificate or confirmation from insurer is obtained. The excess/shortfall of the contribution paid against the amount required to meet accrued liability as confirmed by insurer is treated as pre-payment or charged to Profit & Loss Account. Any alteration in the retirement benefit cost should is charged or credited to Profit & Loss Account and change in actuarial method is to be disclosed. Financial statements to disclose method by which retirement benefit cost have been determined.

• The institute has issued AS-15 which is broadly on lines of IFRS-19. It is applicable for accounting periods commencing after December 7, 2007. The Standard improves the existing practices mainly in the following areas. It is broad in its applicability as it covers all short-term and long term employee benefits. For example, annual paid leave (though not encashable), long-term service rewards, subsidize goods or services, etc. are also covered.

• Additional disclosures are required in relation to any defined benefits plans including:
  
  a. The reconciliation of (opening to closing) of Projected Benefit Obligation.
b. The reconciliation of (opening to closing) of Fair Value of Plan Assets.
c. The reconciliation of (opening to closing) of Net Liability/Prepaid Asset.
d. Components of charge during the year.
e. Principal actuarial assumptions.

**AS-17 - SEGMENT REPORTING**

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

A business segment is distinguishable component of an enterprise providing a product or service or group of Products or services that is subject to risks and returns that are different from other business segments.

A geographical segment is distinguishable component of an enterprise providing products or services in a particular economic environment that is subject to risks and returns that are different from components operating in other economic environments. Internal financial reporting system is normally the basis for identifying the segments. The dominant source and nature of risk and returns of an enterprise should govern whether its primary reporting format will be business segments or geographical segments.

A business segment or geographical segment is a reportable segment if
(a) Revenue from sales to external customers and from transactions with other segments exceed 10% of total revenues (external and internal) of all segments or
(b) Segment result, whether profit or loss is 10% or more of
   (i) Combined result of all segments in profit or
   (ii) Combined result of all segments in loss whichever is greater in absolute amount or
(c) Segment assets are 10% or more of all the assets of all the segments.
If total external revenue attributable to reportable segment constitutes less than 75% of total revenues then additional segments should be identified.

Under primary reporting format for each reportable segment the enterprise should disclose external and internal segment revenue, segment result, amount of segment assets and liabilities, cost of fixed assets, acquired, depreciation, amortization of assets and other non-cash expenses. Reconciliation between information about reportable segments and information in financial statements of the enterprise is also to be provided. Secondary segment information is also required to be disclosed. This includes information about revenues, assets and cost of fixed assets acquired. When primary format is based on geographical segments, certain further disclosures are required. Disclosures are also required relating to intra-segment transfers and composition of the segment. In case, by applying the definitions of ‘business segment’ and ‘geographical segment’, contained in AS-17, it is concluded that there is neither more than one business segment nor more than one
geographical segment, segment information as per AS-17 is not required to be disclosed.

**AS-18 - RELATED PARTY DISCLOSURES**

Parties are considered to be related if, at any time during the reporting period, one party has ability to control or exercise significant influence over the other party in making financial and/or operating decisions. The statement deals with following related party relationships:

(a) Enterprises that directly or indirectly, through one more intermediaries, control or are controlled by or are under common control with the reporting enterprise

(b) Associates, Joint Ventures of the reporting entity, investing party or venture in respect of which reporting enterprise is an associate or a joint venture,

(c) Individuals owning voting power giving control or significant influence over the enterprise and relatives of any such individual,

(d) Key management personnel and their relatives, and

(e) Enterprises over which any of the persons in (c) or (d) are able to exercise significant influence. Other relationship is not covered by this Standard.

Following are not deemed related parties

(a) Two companies simply because of common director,

(b) Customer, supplier, franchiser, distributor or general agent merely by virtue of economic dependence and
(c) Financiers, trade unions, public utilities, government departments and bodies merely by virtue of their normal dealings with the enterprise. Disclosure under the Standard is not required in the following cases

(i) If such disclosure conflicts with duty of confidentially under statute, duty cast by a regulator or a component authority.

(ii) In consolidated financial statements in respect of intragroup transactions, and

(iii) In case of State-controlled enterprises regarding related party relationships and transactions with other State-controlled enterprises.

Relative (in relation to an individual) means spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in dealings with the reporting entity.

Standard also defines inter alia control, significant influence, associate, joint venture and key management personnel. If there are transactions between the related parties, during the existence of relationship, certain information is to be disclosed, viz.

- Name of the related party,
- Description of the nature of relationship,
- Nature of transaction and its volume (as an amount or proportion)
- Other elements of transaction if necessary for understanding, amount or appropriate proportion outstanding pertaining to related parties,
- Provision for doubtful debts from related parties,
• Amounts written off or written back in respect of debts due from or to related parties.
• Names of the related party and nature of related party relationship to be disclosed even where there are no transactions but the control exists.
• Items of similar nature may be aggregated by type of the related parties.

AS-19 - LEASES

The Standard applies in accounting for all leases other than -
  a) Lease agreements to explore for or use natural resources,
  b) Licensing agreements for items such as motion pictures, films, video recordings plays, etc. and
  c) Lease agreements to use lands.

Leases are classified as finance lease or operating lease.

• A finance lease is defined to mean a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Examples of situations which normally lead to a lease being classified as a finance lease are
  1) Lessor transferring the ownership at the end of the lease term
  2) Lessee has an option to purchase the asset at a price which is sufficiently lower than the fair value at the date the option becomes exercisable
  3) Lease term is for substantial part of economic life of the asset.
4) Present value of minimum lease payment at the inception of the lease is substantially equal to the assets fair value and

5) The asset leased is of specialized nature such that only lessee can use it without major modifications made to it.

- **An operating lease** is defined to mean a lease other than a finance lease.

**Treatment in the books of lessee**

**In case of finance lease**:-
At the inception of the finance the lessee should recognize the lease as an asset and a liability. The asset should be recognized at an amount equal to the fair value of leased asset at the inception. If the fair value exceeds the present value of the minimum lease payment from the standpoint of the lessee, the amount to recorded as asset and liability reckoned with the present value of the minimum lease payments that may be calculated on the basis of interest rate implicit in the lease, if practicable to determine and if not, then at lessee’s incremental borrowing rate. Lease payments should be apportioned between finance charges and the reduction of outstanding. The depreciation policy for leased asset should be consistent with that for depreciable assets that are owned. AS-6 (Depreciation Accounting) applies in such cases.

Disclosure should be made of –

a) Assets acquired under finance lease.

b) Net carrying amount at the balance sheet date.
c) Reconciliation between the total minimum lease payments at balance sheet date and their present value.

d) Total minimum lease payments at balance sheet date and their present value for periods specified.

e) Contingent rent recognized as income.

f) The total of future minimum sub-lease payments expected to be received and

g) General description of significant leasing arrangements.

**In case of operating lease:**

The lease payments should be recognized as an expense on straight line basis, unless other efficient basis is more representative of the time pattern of the user’s benefit.

**Disclosures should be made of —**

a) The total of future minimum lease payments for the periods specified.

b) The total of future minimum sub-lease payments expected to be received.

c) Lease payments recognized in the statement of Profit & Loss, with separate amounts of minimum lease payments and contingent rents.

d) Sub-lease payments recognized in the statement of Profit & Loss, and

e) General description of significant leasing arrangements.

**Treatment in the books of lessor**

**In case of finance lease:**
• The lessor should recognize the asset in its balance sheet as a receivable at an amount equal to net Investment in the lease.
• The recognition of finance income should be based on a pattern reflecting a constant periodic return on the net investment of the lessor outstanding.
• In case of any reduction in the unguaranteed residual values, income allocation over the remaining lease term should be revised.
• Initial direct cost are either recognized immediately in the profit and loss statement or allocated against the finance income over the lease term.

• Disclosure should be made of -
  (a) Total gross investment in lease and the present value of the minimum lease payments at specified periods and a reconciliation thereof at the Balance sheet date.
  (b) Unearned finance income.
  (c) Accruing unguaranteed residual value benefit.
  (d) Accumulated provision for uncollectible minimum lease payments receivable.
  (e) Contingent rent recognized.
  (f) General description of significant leasing arrangements and
  (g) Accounting policy adopted in respect of initial direct costs.

In case of operating lease -
Lessors to present an asset given on lease under fixed assets. Lease income should be recognized on a straight line basis over the lease term or other systematic basis, if representative of the time pattern over
which benefit derived gets diminished. Costs, including depreciation, incurred are recognized as an expense. Initial direct cost are either deferred and allocated to income over the lease term in proportion to rent income recognized or are recognized immediately in the profit and loss statement.

**Disclosure should be made of:-**

(a) Gross carrying amount of the leased assets, accumulated depreciation and impairment loss at the balance sheet date and depreciation and impairment loss recognized or reversed for the period.
(b) The future minimum lease payments in aggregate and for the periods specified.
(c) Total contingent rent recognized as income.
(d) A general description of the significant leasing arrangements, and
(e) Accounting policy for initial direct costs.

**Lease by manufacturer or dealer**

The manufacturer or dealer lessor should recognize the transaction in accordance with policy followed for outright sales. Initial direct costs should be recognized as an expense at the inception of the lease. Artificial low rates of interests are quoted, profit on sale should be restricted to that which would apply if a commercial rate of interest were charged.

**Sale and leaseback transactions**

If the transaction of sale and leaseback results in a finance lease, any excess or deficiency of sale proceeds over the carrying amount, it should be deferred and amortized over the lease term in proportion to
the depreciation of the leased assets. If the transaction result in an operating lease and it is clearly established to be at fair value, profit or loss should be recognized immediately. If the sale price is below the fair value, any profit or loss should be recognized immediately, except that, if the loss is compensated by future lease payments at market price, it should be deferred and amortized in proportion to the lease payments over the period for which asset is expected to be used. If the sales price is above fair value, the excess over the fair value should be deferred and amortized over period of expected use of asset. In an operating lease, if the fair value at the time of sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized instantly.

**AS-20 - EARNINGS PER SHARE**

Basic and diluted EPS is required to be presented on the face of Profit and Loss Statement with equal Prominence for all the periods presented. EPS is required to be presented even when it is negative. Basic EPS should be calculated by dividing net profit or loss for the period attributable to equity shareholders by weighted average of equity shares outstanding during the period. In arriving earnings attributable to equity shareholders preference dividend for the period and the attributable tax are to be excluded. The weighted average number of shares, for all the periods presented, is adjusted for bonus issue or any element thereof in rights issue, share split and
consolidation of shares. For calculating diluted EPS, net profit or loss attributable to equity shareholders and the weighted average number of shares are adjusted for the effects of dilutive potential equity shares (i.e., assuming conversion into equity of all dilutive potential equity). Potential equity shares are treated as dilutive when, and only when, their conversion into equity would result in a reduction in profit per share from continuing ordinary operations. The effects of anti-dilutive potential equity shares are ignored in calculating diluted EPS. For the purpose of calculating diluted EPS, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares. The amounts of earnings used as numerators for computing basic and diluted EPS and a reconciliation of those amounts with Profit and Loss Statement, the weighted average number of equity shares used as the denominator in calculating the basic and diluted EPS and the reconciliation between the two EPS and the nominal value of shares along with EPS per share figure need to be disclosed.

**AS-21 - CONSOLIDATED FINANCIAL STATEMENTS**

It is applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

Control means the ownership of more than one-half of the voting power of an enterprise or control of the composition of the board of
directors or such other governing body. Control of composition implies power to appoint or remove all or a majority of directors. Consolidated financial statements to be presented in addition to separate financial statements. All subsidiaries, domestic and foreign to be consolidated except where control is intended to be temporary or the subsidiary operates under severe long-term restriction impairing transfer of funds to the parent.

Consolidation to be done on a line by line basis by adding like items of assets, liabilities, income and expenses which involve. Elimination of cost to the parent of the investment in the subsidiary and the parent’s portion of equity of the subsidiary at the date of investment. Excess of cost over parent’s portion of equity, to be shown as goodwill. Where cost to the parent is less than its portion, of equity, difference to be shown as capital reserve.

Minority interest in the net income to be adjusted against income of the group. Minority interest in net assets to be shown separately as a liability. Intra group balances and intra-group transactions and resulting unrealized profits should be eliminated in full.

Unrealized losses should also be eliminated unless cost cannot be recovered. Where two or more investments are made in a subsidiary, equity of the subsidiary to be generally determined on a step by step basis. Financial statements used in consolidation should be drawn up to the same reporting date. If reporting dates are different, an adjustment for the effects of significant transactions/events between the
two dates to be made. Consolidation should be prepared using same accounting policies.

If the accounting policies followed are different, the fact should be disclosed together with proportion of such items. In the year in which parent subsidiary relationship ceases to exist, consolidation to be made up-to-date of cessation.

Disclosure is to be of all subsidiaries giving name, country of incorporation, residence, proportion of ownership and voting power if different, nature of relationship between parent and subsidiary, effect of the acquisition and disposal of subsidiaries on the financial position, names of subsidiaries whose reporting dates are different than that of the parent.

When the consolidated statements are presented for the first time figures for the previous year need not be given. While preparing consolidated financial statements, the tax expense to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries. Near Future’ should be considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. When there are more than one investor in a company in which one of the investors controls the composition of board of directors and some other investor holds more than half of the voting power, both these investors are required to consolidate the accounts of the investee in accordance with this Standard.
AS-22 - ACCOUNTING FOR TAXES ON INCOME

This standard should be applied in accounting for taxes on income. This includes the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements. The expense for the period, comprising current tax and deferred tax should be included in the determination of the net profit or loss for the period. Deferred tax should be recognized for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets as set out in paragraph below. Except in the situations stated below deferred tax assets should be recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws. Deferred tax assets and liabilities should be measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities should not be discounted to their present value. The carrying amount of deferred tax assets should be reviewed at each balance sheet date. An enterprise
should write-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write down may be reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available. An enterprise should offset assets and liabilities representing current tax if the enterprise:
1. Has a legally enforceable right to set off the recognized amounts and
2. Intends to settle the asset and the liability on a net basis.

An enterprise should offset deferred tax assets and deferred tax liabilities if:
1. The enterprise has a legally enforceable right to set off assets against liabilities representing current tax and
2. The deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws. Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts. The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an Enterprise has unabsorbed depreciation or carry forward of losses
under tax laws. On the first occasion that the taxes on income are accounted for in accordance with this statement, the Enterprise should recognize, in the financial statement, the deferred tax balance that has accumulated prior to the adoption of this statement as deferred tax asset/liability with a corresponding credit/charge to the revenue reserve, subject to the consideration of prudence in case of deferred tax assets. The amount so credited/charged to the revenue reserve should be the same as that which would have resulted if this statement had been in effect from the beginning.

**AS-23 - ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENT**

This statement should be applied in accounting for investments in associates in the preparation and Presentation of consolidated financial statements by an investor. An investment in an associate should be accounted for in a consolidated financial statement under the equity method except when:

(a) The investment is acquired and held exclusively with a view to its subsequent disposal in the near future, or

(b) The associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to its investors.

Investment in such associates should be accounted for in accordance with the Accounting Standard (AS)-13, Accounting for Investments. The reason for not applying the equity methods in accounting for
investments in an associate should be disclosed in the consolidated financial statements.

An investor should discontinue the use of equity method from the date that:
(a) It ceases to have significant influence in an associate but retains, either in whole or in part, its Investments, or
(b) The use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investors. From the date of discontinuing the use of equity method, investments in such associates should be accounted for in accordance with Accounting Standard (AS)-13, Accounting for Investments. For this purpose, the carrying amount of investments at that date should be regarded as the cost thereafter. Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately. In using equity method for accounting for investment in an associate, unrealized profits and losses resulting from transactions between the investor (or its consolidated subsidiaries) and the associate should be eliminated to the extent of the investor’s interest in the associate. Unrealized losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered. The carrying amount of investment in an associate should be reduced to recognize a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually. In addition to
the disclosures required by paragraphs 2 and 4, an appropriate listing and description of associates including the proportion of ownership interest and, if different, the proportion of voting power held should be disclosed in the consolidated financial statements. Investments in associates accounted for using the equity method should be classified as long-term Investments and disclosed separately in the consolidated balance sheet. The investor’s share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor’s share of any extraordinary or prior period items should also be separately disclosed. The name(s) of the associate(s) of which reporting date(s) is/are different from that of the financial statements of an investor and the differences in reporting dates should be disclosed in the consolidated financial statements. In case an associate uses accounting policies other than those adopted for the consolidated financial statements for transactions and events in similar circumstances and it is not practicable to make appropriate adjustments to the associate’s financial statements, the fact should be disclosed along with a brief description of the differences in the accounting policies. On the first occasion when investment in an associate is accounted for in consolidated financial statements in accordance with this statement, the carrying amount of investment in the associate should be brought to the amount that would have resulted had the equity method of accounting been followed as per this statement since the acquisition of the associate. The corresponding adjustment in this regard should be made in the retained earnings in the
consolidated financial statements. Adjustments to the carrying amount of investment in an associate arising from changes in the associate’s equity that have not been included in the statement of profit and loss of the associate should be directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit should be made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the associate, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve should be shown in the consolidated balance sheet.

**AS-24 - DISCONTINUING OPERATIONS**

The objective of this standard is to establish principles for reporting information about discontinuing Operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise’s cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations. A discontinuing operation is a component of an enterprise that the enterprise, pursuant to a single plan, is

(1) Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise’s shareholders or
(2) Disposing of piecemeal, such as by selling off the component’s assets and settling its liabilities individually or
(3) Terminating through abandonment and that represents a separate major line of business or geographical area of operations and that can be distinguished operationally and for financial reporting purposes. With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier
(a) The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation or
(b) The enterprise’s board of directors or similar governing body has both
(i) Approved a detailed, formal plan for the discontinuance and
(ii) Made an announcement of the plan.
An enterprise should apply the principles of recognition and measurement that are set out in other Accounting Standards for the purpose of deciding as to when and how to recognize and measure the changes in assets and liabilities and the revenue, expenses, gains, losses and cash flows relating to a discontinuing operation. When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur
(a) For any gain or loss that is recognized on the disposal of assets or settlement of liabilities attributable to the discontinuing operation,

(i) The amount of the pre-tax gain or loss and

(ii) Income tax expense relating to the gain or loss and

(b) the net selling price or range of prices (which is after deducting expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date. Any disclosures required by this statement should be presented separately for each discontinuing operation.

The disclosures requirements may be quickly assessed by referring to questionnaire below. An appendix to the Standard (though not a part of the Standard) sets out detailed illustration explaining significant disclosure requirements of the Standard.

**AS-25 - INTERIM FINANCIAL REPORTING**

Standard issued by the Council of the ICAI comes into effect in respect of accounting periods commencing on or after 1-4-2002. If an enterprise is required to prepare and present an interim financial report, it should comply with this Standard. The objective of this Statement is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in a complete or condensed financial statement for an interim period. Timely and reliable interim financial reporting improves the ability of investors,
creditors, and others to understand an enterprise’s capacity to generate earnings and cash flows, its financial condition and liquidity. Interim period is a financial reporting period shorter than a full financial year. Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Statement) for an interim period. An interim financial report should include, at a minimum, the following components
(a) Condensed balance sheet
(b) Condensed statement of profit and loss
(c) Condensed cash flow statement and
(d) Selected explanatory notes.
An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:
(a) A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change
(b) Explanatory comments about the seasonality of interim operations
(c) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence, net profit or loss for the period, prior period items and changes in accounting policies)
(d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period
(e) Issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares
(f) Dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares
(g) Segment revenue, segment capital employed (segment assets minus segment liabilities) and segment result for business segments or geographical segments, whichever is the enterprise’s primary basis of segment reporting (disclosure of segment information is required in an enterprise’s interim financial report only if the enterprise is required, in terms of AS-17, Segment Reporting, to disclose segment information in its annual financial statements).
(h) The effect of changes in the composition of the enterprise during the interim period, such as Amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and Discontinuing operations and
(i) Material changes in contingent liabilities since the last annual balance sheet date.
Interim reports should include interim financial statements (condensed or complete) for periods as
(a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year
(b) Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year
(c) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. However, the frequency of an enterprise’s reporting (annual, half-yearly, or quarterly) should not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes should be made on a year-to-date basis. Users may refer four appendices attached to the Standard (which though not a part of the Standard) set out detailed illustrations explaining inter alia
   1. Illustrative format of Condensed B/Sheet, Condensed Profit and Loss Account, Condensed Cash Flows.
   2. Illustration of periods required to be presented.
   3. Examples of applying the recognition and measurement principles.
4. Examples of use of estimates.

It may be mentioned that the companies required disclosing quarterly results are not required to follow the disclosure-related requirements of the Standard. Thus presentation format is not mandatory. However, it is a normal practice to adopt the recognition and measurement principles.

**AS-27 - FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES**

Standards define what a joint venture is. Some of the important concepts include

**Joint venture** is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

**Joint control** is the contractually agreed sharing of control over an economic activity.

**Control** is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

**Proportionate consolidation** is a method of accounting and reporting whereby a venturer’s share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer’s financial statements. The accounting treatments depend on the nature of joint venture which can be one of the three, i.e. Jointly Controlled Entity or Jointly Controlled Operations or Jointly Controlled Assets. In respect of its interests in jointly controlled operations, a venturer should recognize in its separate financial
statements and consequently in its consolidated financial statements: (a) The assets that it controls and the liabilities that it incurs and (b) The expenses that it incurs and its share of the income that it earns from the joint venture.

In respect of its interest in jointly controlled assets, a venturer should recognize, in its separate financial statements, and consequently in its consolidated financial statements: its share of the jointly controlled assets, classified according to the nature of the assets and liabilities which it has incurred; its share of any liabilities incurred jointly with the other venturers in relation to the joint venture; any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture and any expenses which it has incurred in respect of its interest in the joint venture. In respect of jointly controlled operations the accounting treatment depends upon whether it is to be accounted in stand-alone financial statements or consolidated financial statement. In case of standalone financial statements the investments are accounted at cost in accordance with AS-13 whereas in case of consolidated financial statements where these are prepared (or required to be prepared) the investment in joint venture is accounted using proportionate consolidation method unless these are subsidiaries in which case these are consolidated under AS-21.
AS-28 - IMPAIRMENT OF ASSETS

Standard should be applied in accounting for the impairment of all assets, other than:

1) Inventories (AS-2, Valuation of Inventories)
2) Assets arising from construction contracts (see AS-7, Accounting for Construction Contracts)
3) Financial assets, including investments that are included in the scope of AS-13, Accounting for Investments and
4) Deferred tax assets (AS-22, Accounting for Taxes on Income).

A prominent concept introduced by the standards includes:

- **An impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

- **Recoverable amount** is the higher of an asset’s net selling price and its value in use.

- **Value in use** is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

- **Carrying amount** is the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

- **A cash-generating unit** is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Corporate assets are assets other than goodwill that contribute to the future cash flows of both the Cash generating unit under review and other cash-generating units. At each balance sheet date it needs to be assessed as to whether there is triggering event that requires the Impairment testing to be made. Triggering event shall be assessed based on external information like fall in interest rate or industry growth rate, change in law, etc., and internal information like forecasts, obsolescence, damage, etc. Where there is a triggering event the impairment loss needs to be assessed at the level of each Cash Generating Unit. Where all the assets of the enterprise are allocated to cash generating unit, only bottom-up testing method is applied and in case there is some portion of asset that is not allocated or corporate assets, then bottom-up testing method coupled with and followed by top-down testing method is applied. In measuring value in use the Standard specifies certain factors that need to be considered in arriving the discount rate and cash flow projection. Discount rate shall be independent of capital structure of the enterprise or its incremental borrowing cost. As a starting point, the enterprise may take into account the following rates: the enterprise’s weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model the enterprise’s incremental borrowing rate and other market borrowing rates. These rates are adjusted to reflect the way that the market would assess the specific risks associated with the projected cash flows.
and to exclude risks that are not relevant to the projected cash flows. Consideration is given to risks such as country risk, currency risk, price risk and cash flow risk. Cash flow projections should be based on reasonable and supportable assumptions that represent Management’s best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. Greater weight should be given to external evidence cash flow projections should be based on the most recent financial budgets/forecasts that have been approved by management. Projections based on these budgets/forecasts should cover a maximum period of five years, unless a longer period can be justified and cash flow projections beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate should not exceed the long-term average growth rate for the products, industries, or country or countries in which the enterprise operates, or for the market in which the asset is used, unless a higher rate can be justified. Project cash flows shall not consider impact of future capital expenditure or restructuring unless these are committed. Reversal of impairment loss is allowed to an extent that would be additional carrying amount of asset had there be no impairment. However in case of reversal of impairment loss relating to goodwill additional condition needs to be satisfied.