Ind AS-1 Presentation of Financial Statements

- Objective
    - Prescribes basis for presentation of FS to ensure Comparability with Previous periods & Other entities
    - It provides guidelines & minimum requirement for the content of financials statements

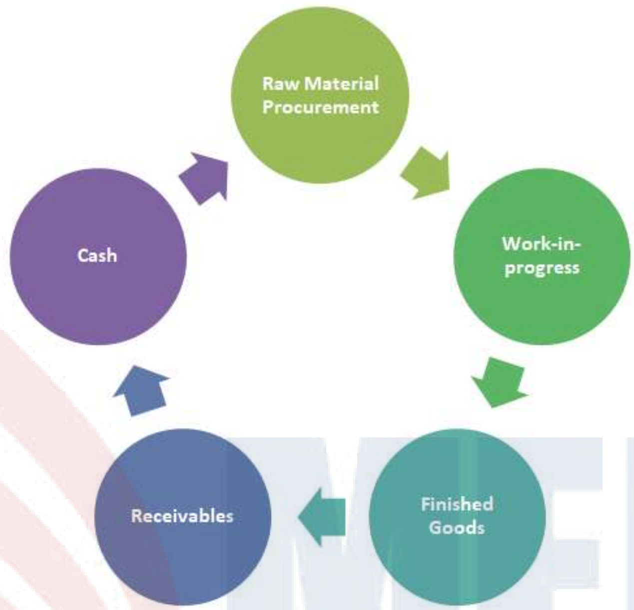
- Components of Financial Statements
    - **Comparative** Balance sheet (Minimum 1 year Comparative)
    - **Comparative** Statement of P& L
    - **Comparative** Cash flow Statement
    - **Comparative** Statement of changes in equity
    - Notes to accounts & Other explanatory notes
    - Additional BS if
        - Change in policy or error in prior period
        - Reclassification of Financial Line items (non current to current)
        - First Time adoption of Ind AS (separate Ind AS)

Balance sheet

- What is BS
    - Statement of Financial position (Assets, Liability & Equity)
- Ind AS contains minimum items to presented in BS
- It does not specify the order of presentation but order given by schedule III
- Total 3 divisions of schedule 3
    - Division 1- For AS
    - Division 2- For Ind AS (Part1 BS & Part2 P&L)
    - Division 3- For NBFC
- Before format of BS following Points should be cleared
    - Operating Cycle
    - Classification of Non current & Current
    - Financial Assets & Financial liabilities

Operating Cycle

- The time between the acquisition of assets for processing and their realization in cash or cash equivalents



- Calculated as Follows
  - **Average** Raw material Holding period (eg. 3 Months)
  - **Average** WIP holding period (eg. 4 Months)
  - **Average** FG holding period (eg. 3 Months)
  - **Average Trade receivable** collection period (eg. 6 Months)
    (Total operating Cycle 16 months)
  - Creditors Holding period is not deducted in CFR
- If operating cycle is not identifiable assume it to be 12 months
- Who are included in the above operating cycle
  - Assets
    - Inventory (raw material, WIP & FG)
    - Trade receivable (debtors & BR)
    - Prepaid Expenses
  - Liabilities
    - Trade payable
    - Outstanding Expenses
- **These are called as net working capital Items**
- What are non-working capital Items
  - **Loans**
  - **Equity**
  - **Plant & machinery**

- Fulfils any 1 condition out of the 4 conditions

Condition 1.

It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle (**from accounting date)**

- **Realize-** Converted in cash like debtor
- **Sell -** FG
- **Consume-** RM or WIP

Examples

1. An item of RM which is intended to consume within 2 months (avg RM Holding period 3M)
2. An item of RM which is intended to consume within 4 months
3. An item of RM which is intended to consume within 8 months
4. An item of RM which is intended to consume within 18 months
5. A Debtors is expected to pay in 3 months
6. A Debtors is expected to pay in 8 months
7. A Debtors is expected to pay in 17 months

Example 2
Suppose operating cycle is 9 Months

1. An item of RM which is intended to consume within 4 months
2. An item of RM which is intended to consume within 10 months

Condition 2

It expects to realise the asset within twelve months **after** the **reporting period (balance sheet date)**

Example 3. (normal Operating Cycle-14 Months)

1. A Debtors is expected to pay in 3 months
2. A Debtors is expected to pay in 15 months
3. A Debtors to whom Machinery is sold is expected to pay in 3 months
4. A Debtors to whom Machinery is sold is expected to pay in 13 months
5. A Debtors to whom Machinery is sold is expected to pay in 16 months

Example 4. (operating cycle 14 months)

1. An item of RM purchased on 01/01/2022 intended to be consumed within 6 months will be reported current or non-current on 31/03/2022?
2. An item of RM purchased on 01/01/2022 intended to be consumed within 12 months will be reported current or non-current on 31/03/2022?
3. An item of RM purchased on 01/01/2022 intended to be consumed within 15 months will be reported current or non-current on 31/03/2022?
4. An item of RM purchased on 01/01/2022 intended to be consumed within 16 months will be reported current or non-current on 31/03/2022?

Condition 3

urpose of trading

Is stock in trade held for purpose of trading? Yes. Always a current asset

Condition 3 Applies to **derivative** Instruments also

- It derives its value from some other assets
- Eg. Futures, Options
- Receivables in case of derivatives held for trading will be classified as current asset
- Payable in case of derivatives held for trading will be classified as current liability

Condition 4

- The asset is cash or a cash equivalent as defined in Ind AS 7 unless the asset is **restricted** from being exchanged or used to settle a liability for at least twelve months after the reporting period.
- Cash and cash equivalent also include deposits of less than 3 months

Practice Questions

1. Operating cycle- 13 Months
    a. RM intended to be consumed in 6 months
    b. FG intended to sold in 5 months
    c. FG intended to sold in 15 months
    d. A debtor intended to be realized in 2 months
    e. A debtor intended to be realized in 13 months
    f. A debtor intended to be realized in 16 months
    g. A non-trade debtor intended to be realized in 2 months
    h. A non-trade debtor intended to be realized in 13 months
2. Operating cycle- 8 Months
    a. RM intended to be consumed in 6 months
    b. FG intended to sold in 9 months
    c. A debtor intended to be realized in 2 months
    d. A debtor intended to be realized in 12 months
    e. A debtor intended to be realized in 16 months
    f. A non-trade debtor intended to be realized in 9 months
    g. A non-trade debtor intended to be realized in 14 months
    h. A non-trade debtor intended to be realized in 12 months
    i. Bank balance restricted to be used for 5 Months
    j. Bank balance restricted to be used for 9 Months
    k. Bank balance restricted to be used for 13 Months
    l. Fixed deposit maturing after 2 Months
    m. Fixed deposit maturing after 7 Months
    n. Fixed deposit maturing after 10 Months
    o. Fixed deposit maturing after 14 Months

Current Liability

- Fulfils any 1 of the 4 conditions
  - it expects to **settle** the liability in its normal operating cycle
  - it holds the liability primarily for the purpose of trading
  - the liability is due to be settled within twelve months after the reporting period
  - it **does not** have an **unconditional right** to defer settlement of the liability for at least twelve months **after** the reporting period.

Example (Operating Cycle 16 months)

1. Trade creditors expected to be settled in 6 months
2. Trade creditors expected to be settled in 12 months
3. Trade creditors expected to be settled in 14 months
4. Trade creditors expected to be settled in 18 months
5. Non-Trade creditors expected to be settled in 6 months
6. Non-Trade creditors expected to be settled in 11 months
7. Non-Trade creditors expected to be settled in 13 months
8. Non-Trade creditors expected to be settled in 17 months
9. Loan to be settled after 8 months
10. Loan to be settled after 12 months
11. Loan to be settled after 15 months
12. Loan to be settled after 17 months
13. Loan to be settled after 8 months and the company has unconditional right to defer for 3 months
14. Loan to be settled after 8 months and the company has unconditional right to defer for 10 months
15. Loan to be settled after 8 months and the company has unconditional right to defer for 15 months
16. Loan to be settled after 8 months and the company has unconditional right to defer for 18 months

Liability to be settled within 12 months will always be current even if

- Original period was more than 12 months
- **Refinancing** done after BS date but before approval of financials statements will still be considered as current liability (exception- Expectation & Discretion to refinance)

Examples.

1. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2021
2. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2022
3. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023
4. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has refinanced it for another 3 years on 15/02/2023
5. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has refinanced it for another 3 years on 15/05/2023
6. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has refinanced it for another 3 years on 15/06/2023 but the financials were

- **Expectation & Discretion** to refinance or roll over an obligation is important, **ability** is not important
  Example
  1. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has expectation & discretion to refinance for another 3 years
  2. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has discretion but no expectation to refinance for another 3 years
  3. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has expectation & discretion to refinance for another 3 years as per loan agreement and it refinanced on 15/02/2023
  4. Loan taken on 30/06/2020 for 3 years will be classified as current or non-current on 31/03/2023 when the company has expectation & discretion to refinance for another 3 years as per loan agreement and it refinanced on 15/05/2023

- Breach of a **provision** of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand.
- Even if the lender agreed, **after** the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

Financial Assets & Financial Liabilities

- Financial Assets- A **contractual (not legal)** Right to receive cash & cash equivalent or other financial Assets
- Financial Liability- A **contractual (not legal)** obligation to pay cash & cash equivalent or other financial Assets

Example

1. Debtor
2. Debtor for machinery
3. Stock
4. Insurance claim receivable
5. Loan Given
6. Prepaid Expenses
7. Accrued Income
8. Advance Tax or TDS
9. Investment (other than investment properties)
10. Investment Properties
11. Creditors
12. Outstanding Expenses
13. Loan taken
14. Provision for tax
15. Income received in Advance

Format of Balance sheet (Division 2)

DIVISION II of the schedule III of the companies Act 2013 , Part 1 – BALANCE SHEET

Particulars	Notes no	Figures at the end of current reporting period	Figures at the end of previous reporting period
1. Non-current assets			
a. Property, plant and equipment			
b. Capital WIP			
c. Investment property			
d. Goodwill			
e. Other intangible assets			
f. Intangible assets under developments			
g. Biological plant other than bearer plant			
h. Financial assets			
i. investments			
ii. trade receivables			
iii. loans			
iv. others			
i. Deferred tax asset(net)			
j. Other non-current assets			
2. Current assets			
a. Inventories			
b. Financial assets			
i. Investments			
ii. Trade receivables			
iii. Cash and cash equivalents			
iv. Bank balance other than (iii)			
v. Loans			
vi. Others			
c. Current tax assets(net)			
d. Other current assets			
3. Non- current assets held for sale(as per Ind AS 105)			
Total assets			

Equity and liabilities			
Equity			
a. Equity share capital			
b. Other equity			
Liabilities:			
1. **Non-current liabilities**			
a. Financial liabilities			
i. Borrowings			
ii. Trade payables			
iii. Other financial liabilities			
b. Provisions			
c. Deferred tax liability(net)			
d. Other non-current liabilities			
2. **Current liabilities**			
a. Financial liabilities			
i. Borrowings			
ii. Trade payables			
iii. Other financial liabilities			
b. Provisions			
c. Current tax liability(net)			
d. Other current liabilities			
3. **Liabilities directly associated with non-current asset held for sale**			
Total equity and liabilities			

Important Points

- Property, Plant & Equipment will include assets **for use** only
- Investment property will include assets **for investments** only
- Biological Plants includes livestock, Plants for harvesting
- Bearer Plants include fruit bearing plants like coffee, tea, Mango, etc and it will be added in PPE
- Steps for Identifying **OTHERS- Step 1. Current or non-current. Step 2. Financial or non-Financial**
- Investment- up to 3 months will cash & cash Equivalent, 3 months to 12 months will be current investment and more than 12 months will be non-current. Eg. Debtor for Machinery for less than 12 months will be other financial current assets.
- Bank Balance- fixed deposit for less than 3 months will be cash & cash equivalent, 3 months to 12 months will be other bank balance and more than 12 months will be other non current financial assets
- Equity share capital will not include preference share capital but will include potential equity share capital. If preference share redeemable by conversion then it will be part of equity share capital, but redeemable in cash then it will be part of liability just like debenture.
- Other equity means reserves & surplus

Statement of Profit & loss

STATEMENT OF PROFIT AND LOSS:-

DIVISION II of the schedule III of the companies Act 2013, Part 2-statement of profit and loss

	Particulars	Note no.	Figures at the end of current reporting period	Figures at the end of previous reporting period
i.	Revenue from operations			
ii.	Other income			
iii.	Total income			
iv.	Expenses:			
a.	Cost of material consumed			
b.	Purchase of stock in trade			
c.	Changes in inventories of finished goods, stock in trade and WIP			
d.	Employees benefit expense			
e.	Finance costs			
f.	Depreciation and amortization expense			
g.	Other expenses			
	Total expenses (iv)			
v.	Profit/(loss) before exceptional items and tax(iii-Iv)			
vi.	Exceptional items			
vii.	Profit/(loss) before tax			
viii.	Tax expense: i. Current tax ii. Deferred tax			
ix.	Profit (loss) for the period from continuing operation(vii – viii)			
x.	Profit (loss) from discontinued operation			
xi.	Tax expense of discontinued operation			
Xii	Profit (loss) from discontinued operation after tax(x-xi)			
Xiii	Profit (loss) for the period(ix + xii)			
Xiv	Other comprehensive income(OCI) A (i) items that will not be reclassified to profit or loss (ii) income tax relating to items that will not be reclassified to profit or loss B (i) items that will be reclassified to profit or loss (ii) income tax relating to items that will be reclassified to profit or loss			
XV	Total comprehensive income for the period(xiii + xiv) (i.e. profit(loss) for current period and OCI)			

XVI	Earnings per share(for continuing operation) i. Basic			
	ii. Diluted			
Xvii	Earnings per share(for discontinued operation) i. Basic ii. Diluted			
xviii	Earnings per share(for discontinued & continuing operation) i. Basic ii. Diluted			

- Two parts of P&L
    - First part- Normal P&L
    - Second Part- **Other Comprehensive Income**
    - **Normal P&L +OCI is total comprehensive income**
- Changes in Inventory- Opening stock less Closing stock
- Exceptional Items
    - Write down of Inventories, PPE & their reversals
    - Restructuring activities
    - Disposal of PPE
    - Disposals of inventory
    - Litigation settlement
    - Others provisions & their reversal
- There is no extraordinary items in division 2. These items like loss due to theft etc will be shown in other expenses
- **OCI-** Items not in control of Management but there is exhaustive list
- Many IND AS states list of items to be considered in OCI (these items generally include **Unrealized** gains or loss)
    - Revaluation Surplus
    - Actuarial gain/ loss on remeasurement of Defined Benefit Plan
    - Exchange gain or loss on Translation of foreign currency items
    - Other items as per IND AS 109
- Some items in OCI will be reclassified to P&L- (if reclassification then Additional BS)
    - Revaluation Surplus- not to be reclassified
    - Exchange gain or loss on Translation of foreign currency items- reclassified
    - Actuarial gain/ loss on remeasurement of Defined Benefit Plan-not to be reclassified

Example.

1. Cost of land as on 31/03/2023 is 800. Market value is 900. Where will this revaluation be shown. What will be the treatment if the land is sold for 950?
2. An asset purchased in USA for 1000dollar when rate of dollar is 75. On Balance sheet date rate of dollar is 80. The asset is sold for 1000 dollar when the rate of dollar is 82

Statement of Changes in Equity

- Equity- Equity Share capital & Other Equity

Statement of Changes in Equity for the year ended ______________

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Instruments entirely equity in nature ^

a. Compulsorily Convertible Preference Shares

Balance at the beginning of the reporting period	Changes in compulsorily convertible preference shares during the period	Balance at the end of the reporting period

b. Compulsorily Convertible Debentures

Balance at the beginning of the reporting period	Changes in compulsorily convertible debentures during the period	Balance at the end of the reporting period

c. [Instrument] (Any other instrument entirely equity in nature)

Balance at the beginning of the reporting period	Changes in [Instrument] during the period	Balance at the end of the reporting period

C. Other Equity

	Share application money pending allotment	Equity component of compound financial instruments	Reserves and Surplus				Debt instruments through Other Comprehensive Income	Equity instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements of a foreign operation	Other items of Other Comprehensive Income (specify nature)	Money received against share warrant	Total
			Capital Reserve	Securities Premium Reserve	Other Reserves (specify nature)	Retained Earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated														

balance at the beginning of the reporting period														
Total Comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

Notes to accounts

- Inclusive list
    - Measurement basis – Historical cost, NRV,etc
    - Accounting Policies
    - Contingent liabilities
    - Disclosure Requirement as per IND AS
    - Disclosure Requirement other than IND AS necessary for understanding
    - **Non compliances** if any
    - Areas in which judgement is used- Provision for doubtful debt

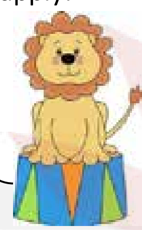
ACCOUNTING STANDARD 10
PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than a period of twelve months

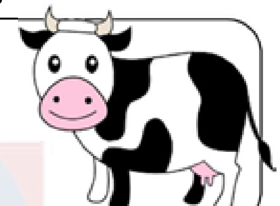
What are the assets on which AS 10 is not applicable?

This Standard should be applied in accounting for property, plant and equipment except when another Accounting Standard requires or permits a different accounting treatment

AS 10 does not deal with accounting for the following items to which special considerations apply:



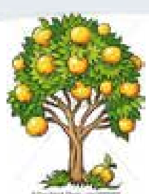
i. biological assets related to agricultural activity other than bearer plants



ii. wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources;

Expenditure on individual items of fixed assets used to develop or maintain the activities covered in (i) and (ii) above, but separable from those activities, are to be **accounted for in accordance with this Statement.**

Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory

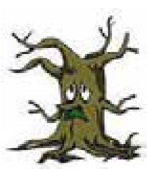


Bearer plant is a plant that
(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than a period of twelve months; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:

(i) Plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(iii) Annual crops (for example, maize and wheat).



When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

Recognition

The cost of an item of property, plant and equipment should be recognized as an asset if, and only if:
(a) it is probable that future economic benefits associated with the item will flow to the enterprise; and
(b) The cost of the item can be measured reliably

What are the requirements of AS 10 regarding ascertaining the cost of Fixed Assets?

The cost of an item of property, plant and equipment comprises:
(a) Its purchase price, including import duties and non –refundable purchase taxes, after deducting trade discounts and rebates.
(b) Any costs *directly attributable to bringing the asset to the location and condition* necessary for it to be capable of operating in the manner intended by management.
(c) the initial estimate of the *costs of dismantling, removing the item and restoring the site* on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples

Costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;
costs of site preparation;
initial delivery and handling costs;
installation and assembly costs;
costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
professional fees

Examples of costs that are not costs of an item of property, plant and equipment are

costs of opening a new facility or business, such as, inauguration costs;
costs of introducing a new product or service(including costs of advertising and promotional activities);
costs of conducting business in a new location or with a new class of customer (including costs of staff training);
administration and other general overhead costs

Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the asset:

1. Consultants fees for choosing the new asset

2.A trade discount received of 5% of the purchase price of the asset

3.A discount received for paying the invoice within 90 days

4.Interest paid on a short term loan taken to provide the necessary cash for payment of the purchase price

5. Import duties paid

6. Shipping costs and cost of road transport

7. Insurance for the shipping

8. An economic development rebate from the state

9. VAT paid on the purchase

10. Cost of laying a new concrete slab and installing special rubber mounted footings for the new press in order to reduce vibration during use
11.Hire of a crane to transfer the press from the vehicles into the factory
12. Costs associated with removing a section of the factory roof to allow the machine to be
dropped into place and subsequently refitting the roof
13. Cost of installing soundproofing in the roof at the same time in order to provide protection for workers in other parts of the factory building
14. Professional fees charged by consulting engineer for overseeing the installation process
15. Electricians fees for connecting the press to the power supply
16. A portion of the operating costs (salaries, office expenses) of the purchasing department
17. Costs of materials (papers and inks) used in calibrating the machine and setting it up for operation
18. Costs of training the operators of the new machine
19. A portion of the inefficiencies in production for the first month of use while the operators
became comfortable with using the machine

Answer

Included in Cost: Point no. 2,5,6,7,8,10,11,12,14,15 and 17

Excluded from Cost: Point no. 1,3,4,9,13,16,18 and 19

Entity A has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The following incremental costs will be incurred:
1. Setup costs of `5,00,000 to install machinery in the new location.
2. Rent of ` 15,00,000
3. Removal costs of ` 3,00,000 to transport the machinery from the old location to the temporary location.
Can these costs be capitalised into the cost of the new building?

Solution

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The costs to be incurred by the company do not meet the requirement of AS 10 and therefore, cannot be capitalised

Entity A, which operates a major chain of supermarkets, has acquired a new store location.
The new location requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the supermarket will be closed. Management has prepared the budget for this period including expenditure related to construction and remodelling

costs, salaries of staff who will be preparing the store before its opening and related utilities costs.What will be the treatment of such expenditures?

Solution

Management should capitalise the costs of construction and remodelling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management. The supermarket cannot be opened without incurring the remodelling expenditure, and thus the expenditure should be considered part of the asset. However, the cost of salaries, utilities and storage of goods are operating expenditures that would be incurred if the supermarket was open. These costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and should be expensed.

An amusement park has a 'soft' opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is three months later. Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable of operating in the intended manner. Accordingly, the net operating costs incurred should be capitalised. Comment.

Solution

The net operating costs should not be capitalised, but should be recognised in the Statement of Profit and Loss. Even though it is running at less than full operating capacity (in this case 80% of operating capacity), there is sufficient evidence that the amusement park is capable of operating in the manner intended by management. Therefore, these costs are specific to the start-up and, therefore, should be expensed as incurred.

On March 01, 2012, X Ltd. purchased Rs. 5 lakhs worth of land for a factory site. Company demolished an old building on the property and sold the material for Rs. 10,000. Company incurred additional cost and realized salvaged proceeds during the March 2012 as follows:

Legal fees for purchase contract and recording ownership	**Rs. 25,000**
Title guarantee insurance	**Rs. 10,000**
Cost for demolition of building	**Rs. 50,000**

Compute the balance to be shown in the land account on March 31, 2012 balance sheet.

Solution

Calculation of the cost for Purchase of Land

Particulars		Rs.
Cost of Land		5,00,000
Legal Fees		25,000
Title Insurance		10,000
Cost of Demolition	50,000	
Less: Salvage value of Material	(10,000)	40,000
Cost of the Asset		5,75,000

A newly set up Lion Private Ltd. manufacturing company has incurred following expenditures for the acquisition of plant & Machinery:

(i) Foreign tour expenses of directors for purchasing Plant & Machinery.

(ii) Technical staff's salary for erection of Plant & Machinery.

(iii) Non-techincal staff's salary during the period of installation of Plant & Machinery

(iv) Other sundry expenses such as stationery, printing, postage, telegram and telephone and local conveyance charge etc.

The company intends to capitalize the above expenses. Is the company justified? State with reasons.

(i) Yes, as foreign tour expenses of directors for purchase of Plant and Machinery is for the acquisition of the asset, therefore it should be capitalised.

(ii) Yes, salary of technical staff for erection of Plant and Machinery is the cost directly attributable for bringing the asset to its working conditions for its intended use. Therefore, it should be capitalised.

(iii) No, as per para 9 of AS 10 only salary of technical staff can be said to as directly attributable to bring the asset to its working conditions for its intended use. Therefore, salary of non-technical staff cannot be capitalised.

(iv) No, as per para 9.3 of AS 10, 'administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset.' Hence the same should not be capitalized.
PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction: **Materials 16,00,000** **Direct Expenses 3,00,000** **Total Direct Labour 6,00,000** **(1/15th of the total labour time was chargeable to the construction)** **Total Office & Administrative Expenses 9,00,000** **(4% is chargeable to the construction)** **Depreciation on assets used for the construction of this asset 15,000** **Calculate the cost of the fixed asset.** Materials 16,00,000 Direct expenses 3,00,000 Direct labour (1/15th of Rs. 6,00,000) 40,000 Office and administrative expenses (4% Rs. 9,00,000) 36,000 Depreciation on assets 15,000 Cost of fixed asset 19,91,000 **Note:** It is assumed that 4% of office and administrative expenses are specifically attributable to construction of a fixed asset. Alternatively, it may be assumed that 4% of office and administrative expenses are only allocated to construction project and is not specifically attributable to it. In such a case, the cost of fixed assets will be Rs. 19,55,000.
Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were Rs.47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs.15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at Rs.16,500 per month after adding 10% profit margin. The machine was purchased at invoice value of ` 52,78,000. Sales Tax was charged at 4% on the invoice and ` 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ` 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. Ascertain the amount at which the asset should be capitalized under AS 10.
Fixed assets are stated at cost of acquisition or construction including attributable interest and financial cost till such assets are put to use less specific grants received. Comments

Measurement of Cost

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.
If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with AS 16

property, plant and equipment may be acquired in exchange for a non-monetary asset	•The cost of such an item of property, plant and equipment is measured at fair value unless •(a) the exchange transaction lacks commercial substance or •(b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable
Fair value not known	•If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up
commercial substance	•the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or •the enterprise-specific value of the portion of the operations of the enterprise affected by the transaction changes as a result of the exchange; •and the difference in (a) or (b) is significant relative to the fair value of the assets exchanged

If an enterprise is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident

Property , plant and equipment are purchased for a consolidated price	• the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition • In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

**Entity A exchanges surplus land with a book value of ` 10,00,000 for cash of ` 20,00,000 and plant and machinery valued at ` 25,00,000. What will be the measurement cost of the assets received?** **Solution** Since the transaction has commercial substance. The plant and machinery would be recorded at 25,00,000, which is equivalent to the fair value of the land of 45,00,000 less the cash received of ` 20,00,000.
Entity A exchanges car X with a book value of ` 13,00,000 and a fair value of ` 13,25,000 for cash of 15,000 and car Y which has a fair value of 13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received? **Solution** The entity recognises the assets received at the book value of car X. Therefore,it recognises cash of 15,000 and car Y as PPE with a carrying value of ` 12,85,000.
ABC Ltd. gave 50,000 equity shares of Rs.10 each (fully paid up) in consideration for supply of certain machinery by X & Co. The shares exchanged for machinery are quoted on Bombay Stock Exchange (BSE) at Rs.15 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of the company?

As per paragraph 22 of AS 10 'Accounting for Fixed Assets' , fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at Rs.7,50,000. (i.e., 50,000 shares * Rs.15 per share being the market price)

Measurement after Recognition

Cost Model	Revaluation Model
• should be carried at its cost • less any accumulated depreciation • And any accumulated impairment losses.	• property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount • being its fair value at the date of the revaluation • less any subsequent accumulated depreciation • and subsequent accumulated impairment losses • Revaluations should be made with sufficient regularity

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued

If there is no market-based evidence of fair value?

Items of specialized nature or items is rarely sold

- an enterprise may need to estimate fair value using an income approach (for example, based on discounted cash flow projections) or
- a depreciated replacement cost approach which aims at making a realistic estimate of the current cost of acquiring or constructing an item that has the same service potential as the existing item.

10.1 Entity A is a large manufacturing group. It owns a number of industrial buildings, such as factories and warehouses and office buildings in several capital cities. The industrial buildings are located in industrial zones, whereas the office buildings are in central business districts of the cities. Entity A's management want to apply the revaluation model as per AS 10 to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings. State whether this is acceptable under AS 10 or not with reasons?

Solution

Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location. AS 10 permits assets to be revalued on a class by class basis. The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement. All properties within the class of office buildings must, therefore, be carried at revalued amount.

Technique I

PPE is revalued to `1,500 consisting of `2,500 Gross cost and 1,000 Depreciation based on observable market data.

Details of the PPE before and after revaluation are as follows:

Particulars Cost/Revalued Accumulated Net book value

Cost depreciation

PPE before revaluation	1,000	400	600
Fair Value			1,500
Revaluation Gain			900
Gain allocated proportionately			
to cost and depreciation	1,500	600	900
PPE after revaluation	2,500	1,000	1,500

The increase on revaluation is `900 (i.e., ` 1,500 – ` 600).

Technique 2:

Accumulated depreciation

Is eliminated against the Gross Carrying amount of the asset Case Study on Technique II

(Taking the information given in the above Example)

Details of the PPE before and after revaluation are as follows:

Particulars	Cost/Revalued Cost	Accumulated Depreciation	Net book value
PPE before revaluation	1,000	400	600
PPE after revaluation	1,500		1,500
Revaluation gain	500	400	

The increase on revaluation is ` 900 (i.e.,` 500 + ` 400).

Subsequent Costs

- Day to day servicing cost are not capitalized

- Replacement of an item is capitalized and carrying amount of old part is derecognized/
- **A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.**

What happens if the cost of the previous part/inspection was/ was not identified in the transaction in which the item was acquired or constructed?

Solution

De-recognition of the carrying amount occurs regardless of whether the cost of the previous part/inspection was identified in the transaction in which the item was acquired or constructed

What will be your answer in the above question, if it is not practicable for an enterprise to determine the carrying amount of the replaced part/inspection?

Solution

It may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/existing inspection component was when the item was acquired or constructed

XYZ Ltd. has acquired a heavy road transporter at a cost of `1,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, the power train (one of its component) requires replacement, as further maintenance is uneconomical due to the off-road time required. The remainder of the vehicle is perfectly roadworthy and is expected to last for the next four years. The cost of a new power train is `45,000. Can the cost of the new power train be recognized as an asset, and, if so, what treatment should be used?

Answer

The new power train will produce economic benefits to XYZ Ltd., and the cost is measurable. Hence the item should be recognized as an asset as per AS 10 (Revised) as the recognition criteria is satisfied. The original invoice for the transporter did not specify the cost of the power train. However, its cost of the replacement is `45,000 which can be used as an indication (usually by discounting factor) of the likely cost, six years previously.

If an appropriate discount rate is 5% per annum, `45,000 discounted back six years amounts to `33,570 (45,000 x 0.746), which would be written out of the asset records.

The cost of the new power train, `45,000, would be added to the asset record, resulting in a new asset cost of `1,11,430 (`1,00,000–`33,570 + `45,000)

A Ltd. has carried out certain works on various machines in their engineering plant, which manufactures high quality metal patterns and templates for use in industry.

Determine in each case whether the costs of the improvements can be added to the existing carrying value of the assets concerned?

1. **The cost of an annual machine overhaul which will maintain the originally assessed standard of performance of the machine for the coming 12 months.**
2. **The cost of repairs to a press machine, which was damaged by the emergency services while trying to extricate the arm of a worker who had become trapped in the press.**
3. **Modifications to a cutting machine which will increase its rate of output from 500 to 560 patterns per shift.**
4. **Modifications to a lathe which will replace the current water cooling system with an oil-based system, thereby extending the life of the lathe by a forecast 2 years.**
5. **The upgrading of a cutting machine with new software which will improve the accuracy of its measurement and cutting tolerances by a number of microns, thereby raising the quality of output.**
6. **Alterations to a production line which will allow automatic feeding from a machine to the next one in the production process, thereby removing the need for an employee to manually load the second machine.**

Answer

Point 1: No. This may not be capitalized as subsequent expenditure, since it merely maintains the originally assessed standard of performance of the asset.

Point 2: Yes. An impairment loss should have been recognized when the damage occurred and any insurance payment received as compensation should have been recognized as income in the Statement of Profit and Loss when received.

When expenditure is incurred to restore the asset, such expenditure is added to the carrying amount of the asset to the extent that it is probable that future economic benefits will flow to the enterprise.

Point 3: Yes. The cost of such modifications may be added to the carrying amount of the asset.

Point 4: Yes. Such costs may be capitalized.

Point 5: Yes. Such costs may be capitalized.

Point 6: Yes. Such costs may be capitalized.

What are the requirements of AS 10 regarding disposal of Fixed Assets?

Material items retired from active use and **held for disposal** should be stated at the **lower of their net book value and net realizable value** and **shown separately** in the financial statements.

Fixed asset should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.

Losses arising from the retirement or gains or losses arising from disposal of fixed asset which is carried at cost should be **recognized in the profit and loss statement**.

What is the accounting entry to be passed as per AS 10 for the following situations:
(a) Increase in value of fixed asset by Rs.50,00,000 on account of revaluation.
(b) Decrease in the value of fixed asset by Rs.30,00,000 on account of revaluation.

Journal entries

(a) Fixed asset A/c Dr.	50,00,000	
To Revaluation reserve A/c		50,00,000
(Being the increase in value of fixed asset due to upward revaluation)		
(b) Profit and loss A/c Dr.	30,00,000	
To Fixed asset A/c		30,00,000
(Being the decrease in net book value of fixed asset due to downward revaluation)		

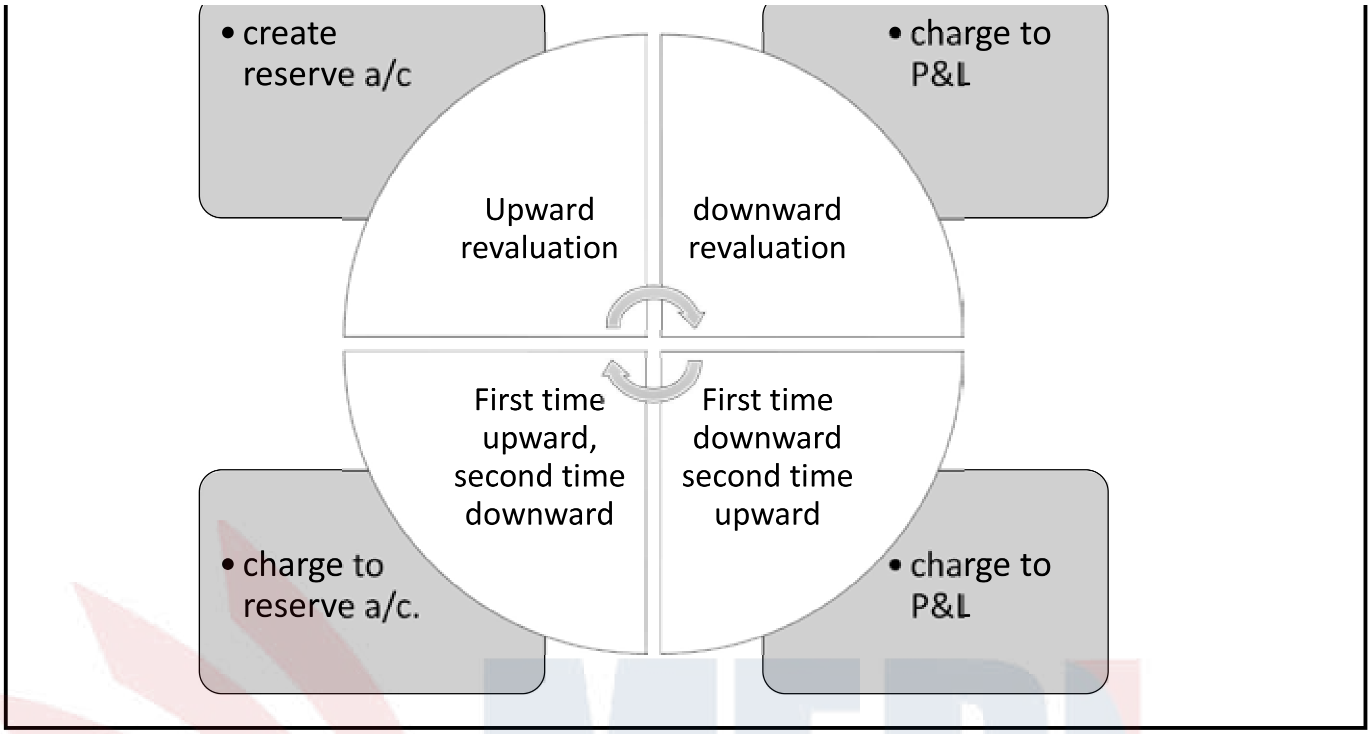
Revaluation of Assets

An increase in net book value arising on revaluation of fixed assets should be credited directly to owners' interests **under the head of revaluation surplus**,

except that, to the extent that such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss statement, **it may be credited to the profit and loss statement**.

A decrease in net book value arising on revaluation of fixed asset should be **charged directly to the profit and loss statement**

except that to the extent that such a decrease is related to an increase which was previously recorded as a credit to revaluation surplus and which has not been subsequently reversed or utilized, it may be charged directly to that account.



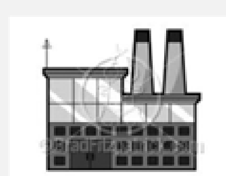
On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss statement except that to the extent that such a loss is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilised, it may be charged directly to that account.

What are the requirements of AS 10 under specific situations of acquiring Fixed Assets?

Recorded on cash value

Fixed assets acquired **on hire purchase** terms should be recorded at their cash value, which, if not readily available, should be calculated by assuming an appropriate rate of interest.

They should be shown in the balance sheet with an appropriate narration to indicate that the enterprise does not have full ownership thereof.



Factory purchased on partnership- proportionate asset

In the case of fixed assets owned by the enterprise jointly with others, the extent of the enterprise's share in such assets, and the proportion of the original cost, accumulated depreciation and written down value should be stated in the balance sheet. Alternatively, the pro rata cost of such jointly owned assets may be grouped together with similar fully owned assets with an appropriate disclosure thereof.

Goodwill should be recorded in the books **only when some consideration in money or money's worth has been paid for it**. Whenever a business is acquired for a price (payable in cash or in shares or otherwise) which is in excess of the value of the net assets of the business taken over,

What are the disclosure requirements stated in AS 10?
The following information should be disclosed in the financial statements:
i. **gross and net book values** of fixed assets at the beginning and end of an accounting period **showing additions, disposals, acquisitions and** other movements;
ii. **expenditure incurred on account of fixed assets in the course of construction** or acquisition; and
iii. **revalued amounts** substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

A company is engaged in the manufacture of electronic products and systems. As per Chief Accountant a prototype system was installed at one of the customer's locations in June 2010 for getting acceptance on the performance of the system. The Chief Accountant has stated that as the ownership of the system installed for field trials was vested with the company, for accounting & control purposes, the prototype system installed at customer's location in 2010 was capitalized in the accounts for the year 2010-11 at its bought-out cost. State whether the accounting treatment adopted by the company is correct or not?
As per para 3 of AS-2 'Valuation of Inventories', inventories mean assets held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.
And as per para 6.1 of AS 10 'Accounting for fixed Assets', fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
Accordingly, the system installed by the company at customer's site for his acceptance, based on the field trials of the system, is an item of inventory, and is not a fixed asset. Installation of such prototype system at customers' sites for their acceptance is akin to sale of goods on approval basis. Therefore, the capitalisation of such prototype system at its bought-out-cost is not correct.
At the time of installation of such systems at the customers' site, value of the same should be transferred to a separate account such as 'Goods sent for approval account'.
As it does not qualify the definition of fixed asset, therefore, no depreciation can be charged on it.

An entity acquires the right to use an underground cave for gas storage purposes for a period of 50 years. The cave is filled with gas, but a substantial part of that gas will only be used to keep the cave under pressure in order to be able to get gas out of the cave. It is not possible to distinguish the gas that will be used to keep the cave under pressure and the rest of the gas. Evaluate whether AS 10 would apply or AS 2?
Answer
The total volume of gas must be virtually split into
- (i) Gas held for sale, and
- (ii) Gas held to keep the cave under pressure.

The former must be accounted for under AS2 as Inventories. The latter must be accounted for as PPE under AS 10 and depreciated over the period the cave is expected to be used.

An entity operates an oil refining plant. For the refining process to take place, the plant must contain a certain minimum quantity of oil. This can only be taken out once the plant is abandoned and would then be polluted to such an extent that the plant's value is significantly reduced. Evaluate whether AS 10 would apply or AS 2?
Answer
The part of the crude that is necessary to operate the plant and cannot be recouped (or can be recouped but would then be significantly impaired), even when the plant is abandoned, should be considered as an item of PPE under AS 10 and amortized over the life of the plant.

Comparison

Ind AS 16	AS 10
Asset held with the intention of being used for the purpose of producing or providing goods or services and in not held for sale in the ordinary course of business	Asset held with the intention of being used for the purpose of producing goods or services and in not held for sale in the ordinary course of business

Ind AS 16	AS 10
Immaterial assets cannot be expensed off	Enterprise has the option to expense off immaterial assets

Ind AS 16	AS 10
Cost comprises: 1. Purchase price including import duty and non refundable taxes after deducting trade discounts and rebates 1. Any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management 2. Initial estimate of cost of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purpose other than to produce inventories during the period	1. Purchase price including import duty and non refundable taxes after deducting trade discounts and rebates 2. Any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Ind AS 16	AS 10
Fixed asset acquired in exchange for another asset, cost is determined with reference to FMV of the consideration given. If FMV of asset received is more clearly evident, it shall be considered Asset received in exchange of shares, it is usually recorded at FMV of shares issued.	Fixed asset acquired in exchange for another asset, cost is determined with reference to Book value of the consideration given. If FMV of asset received is more clearly evident, it shall be considered Asset received in exchange of shares, it is usually recorded at FMV of shares issued.

Ind AS 16	AS 10
Major inspections are capitalized if recognition criteria are satisfied. Remaining amount of previous inspection is derecognized	Major inspections are expensed when incurred

Ind AS 16	AS 10
Ind AS 16 does not exclude such developers from its scope.	Existing AS 10 specifically excludes accounting for real estate developers from its scope

Ind AS 16	AS 10
Ind AS 16, apart from defining the term property, plant and equipment, also lays down the following criteria which should be satisfied for recognition of items of property, plant and equipment: (a) it is probable that future economic benefits associated with the item will flow to the entity, and (b) the cost of the item can be measured reliably	No such guidance

Ind AS 16	AS 10
Ind AS 16 requires that spare parts, stand-by equipment and servicing equipment are recognized in accordance with this Ind AS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.	only those spares are required to be capitalized which can be used only in connection with a fixed asset and whose use is expected to be irregular.

Ind AS 16	AS 10
Ind AS 16 is based on the component approach. Under this approach, each major part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately	neither existing AS 10 nor existing AS 6 deals with the aspects such as separate depreciation of components, capitalising the cost of replacement, etc

Ind AS 16	AS 10
Ind AS 16 requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of property plant and equipment. It requires that under revaluation model, revaluation be made with reference to the fair value of items of property plant and equipment. It also requires that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.	Existing AS 10 recognizes revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, as it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis

Ind AS 16	AS 10
Ind AS 16 provides that the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with Ind AS 16. Similarly,	Existing AS 10 does not contain this requirement

the concept of cash price equivalent has been followed in case of disposal of fixed assets also.	

Ind AS 16	AS 10
Ind AS 16 requires that change in depreciation method should be considered as a change in accounting estimate and treated accordingly.	it is considered as a change in accounting policy and treated accordingly

IND AS 16

Objective- Accounting treatment of PPE

- Covers all PPE **Except**
    - PPE as IND AS 105
    - Biological Assets other than Bearer Plants
    - Recognition and measurement of exploration and evaluation assets (Ind AS 106)
    - Mineral rights and mineral reserves such as oil, natural gas and similar nonregenerative resources
    - However, cost model in this standard will be applicable to IND AS 40 (investment Property)

What is PPE **(same as AS -10)**

- **Tangible** assets
    - Held for **use** (not for sale)
        - In production or supply of goods
        - For Rent (Main activity is rent then PPE or else IP as per IND AS 40)
        - For admin purpose
    - Expected to be used for **more than 1** accounting period
- Why bearer plants is PPE- It satisfies the above 2 conditions
- Are all animals covered in IND AS 41?
    - Animals used in Agriculture then IND AS 41
    - Animals used in admin will be PPE (Security dogs, Circus)
    - Animals held for sale- Inventory

When to be recognised as asset (same points in IND AS 40, IND AS 38)

- Probable that future economic benefits will flow to the entity
- Cost can be measured reliably

Initial Recognition- **Always at cost**

- Purchase cost + Non-refundable taxes
    - Trade discount will be deducted
    - Cash discount not deducted
    - GST not added even if final sale is exempt
- Directly attributable cost
    - Labour
    - Cost of preparing the site
    - Installation
    - Freight & Delivery
    - **Testing cost,** (cost incurred to bring ready to use)
- Decommission/Restoration/ dismantling- **Estimate future cost at present value**
- Elements of costs not included
    - Advertising and promotion cost of a new product.
    - Cost of relocating
    - Initial losses when asset is operating at low level
- Incidental Operations- Not required for bringing asset to ready to use hence transferred to P&L (Income earned as car parking facility till construction starts)
- Cessation of capitalisation- ceases when the asset is in **location and condition** necessary for it to be capable of operating in an intended manner.

- Recognition of spares, stand by equipment & servicing equipment
    - It meets the definition of PPE then recognised here otherwise as Inventory.

Deferred Credit

- Difference between cash price and total payment is Interest and will be treated as per IND AS 23 borrowing cost.

Exchange

PPE acquired in exchange of other non-monetary asset or a combination of monetary & non-monetary assets

- Measure cost at fair value of asset given in exchange

Question. ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

1. Cost of the plant (cost per supplier's invoice plus taxes) ₹ 25,00,000

2. Initial delivery and handling costs ₹ 2,00,000

3. Cost of site preparation ₹ 6,00,000

4. Consultants used for advice on the acquisition of the plant ₹ 7,00,000

5. Interest charges paid to supplier of plant for deferred credit ₹ 2,00,000

6. Net present value of estimated dismantling costs to be incurred after 7 years ₹ 3,00,000

7. Operating losses before commercial production ₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalized in accordance with Ind AS 16.

Solution

According to Ind AS 16, these costs can be capitalized:

1. Cost of the plant ₹ 25,00,000

2. Initial delivery and handling costs ₹ 2,00,000

3. Cost of site preparation ₹ 6,00,000

4. Consultants' fees ₹ 7,00,000

5. Net present value of estimated dismantling costs to be incurred after 7 years ₹ 3,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Question

X Ltd. Sets up a plant at the purchase price of ₹5,00,000 plus GST at 18% (Intra-state). Freight paid ₹ 20,000 plus GST at 18% (Intra-state). Paid ₹10,000 as employee expenses for installation of the planet. After the plant was put to use maintenance cost incurred ₹ 5,000. Measure the initial cost to be recognized and pass journal. Estimated dismantling cost ₹30,000, present value ₹12,000.

Solution:

An asset is recognized in the class Machinery under the item PPE in the non-current group of assets. The initial cost of the asset is measured as —

Purchase Price	5,00,000
Freight	20,000
Installation cost	10,000
Present value of dismantling cost	12000
	5,42000

GST and maintenance cost not to be recognized in initial cost of asset.

Journal	Dr.	Cr.
Machinery A/c Dr.	5,42,000	
Input CGST A/c Dr.	46,800	
Input SGST A/c Dr.	46,800	
Maintenance Exp. A/c Dr.	5,000	
To, Bank A/c		6,28,600
To Liability for Dismantling A/c		12,000

Subsequent cost

- Repairs & Maintenance- day to day servicing cost transferred to P& L
- **Replacement** & **Major Inspection**- capitalize if recognition criteria met & previous carrying amount is de recognised
  Eg. Aircraft costing 50 crores
- Engine (cost 20crores) life 10 years
- Furniture & Fixture (Cost 10 Crores) life 5 years
- Other body parts (Cost 20 Crores) 20 years

If Furniture replaced after 4 years at 12 Crores, new furniture cost will be added to PPE & remaining WDV of old will be written off to P&L.

Question on Inspection & Overhaul cost

A ship which cost ₹ 20 million with a 20-year life must have major overhaul every five years. The estimated cost of the overhaul at the five-year point is ₹ 5 million (included in current cost of 20 million). The depreciation charge for the first five years of the asset's life will be as follows:

	Overhaul component (million)	Ship (other than overhaul component) (million)
Cost	5	15
Years	5	20
Depreciation per year	1	0.75

Total accumulated depreciation for the first five years will be ₹ 8.75 (₹ (1 + 0.75) x 5), and the carrying amount of the ship at the end of year 5 will be ₹ 11.25 million (₹ 20 less 8.75).

Assume that the actual overhaul costs incurred at the end of year 5 are ₹ 6 million. This amount will now be capitalised into the costs of the ship, to give a carrying amount of ₹ 17.25 million (being ₹ 11.25 million plus 6 million).

The depreciation charge for years 6 to 10 will be as follows:

	Overhaul component	Ship (other than overhaul component)
Cost	6	11.25
Years	5	15
Depreciation per year	1.2	0.75

Annual depreciation for years 6 to 10 will now be ₹ 1.95 million [₹ (1.2 + 0.75)].

Measurement after recognition

- Cost Model
  - Cost-Accumulated depreciation-impairment loss
- Revaluation model
  - FV at date of revaluation-subsequent accumulated depreciation-subsequent impairment loss

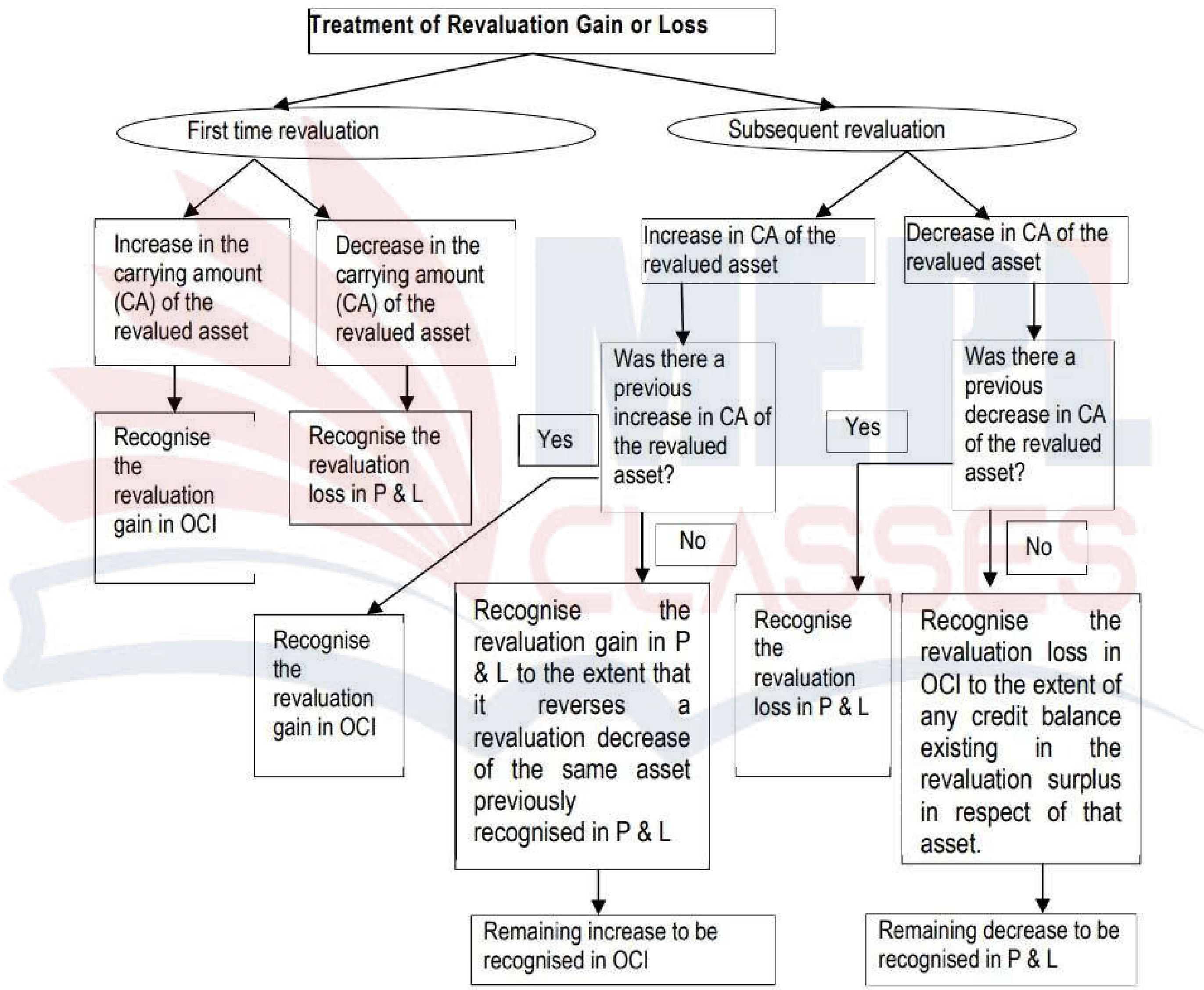
Separate model can be applied to different class of asset but not to each different asset
Eg. A company own many office building & factory building. Can different method be used for depreciation?

- If insignificant- every 3 to 5 years

Accumulated depreciation on the date of valuation
- Depreciation elimination
- Restatement approach

Question
Jupiter Ltd. has an item of property, plant and equipment with an initial cost of ₹ 100,000. At the date of revaluation accumulated depreciation amounted to ₹ 55,000. The fair value of asset, by reference to transactions in similar assets, is assessed to be ₹ 65,000. Find out the entries to be passed?

Treatment of revaluation gain and loss is summarized in the below diagram :



Utilisation of Revaluation Surplus

Question

An item of PPE was purchased for ₹ 9,00,000 on 1st April, 20X1. It is estimated to have a useful life of 10 years and is depreciated on a straight-line basis. On 1st April, 20X3, the asset is revalued to ₹ 9,60,000. The useful life remains unchanged as ten years. Show the necessary treatment as per Ind AS 16 to calculate depreciation and revaluation surplus for 20X3-20X4

Solution:

Calculation of Additional Depreciation:	(₹)
Actual depreciation for 20X3-20X4 based on revalued amount (9,60,000/8)	1,20,000
Depreciation for 20X3-20X4 based on historical cost (9,00,000/10)	(90,000)
Additional Depreciation	30,000

In the profit or loss for 20X3-20X4, a depreciation expense of ₹ 1,20,000 will be charged. A reserve transfer, which will be shown in the statement of changes in equity, may be undertaken as follows:

Revaluation surplus	Dr.	30,000	
To Retained earnings			30,000

The closing balance on the revaluation surplus on 31st March, 20X4 will therefore be as follows:

Balance arising on revaluation (9,60,000 – 7,20,000)	2,40,000
Transfer to retained earnings	(30,000)
	2,10,000

Depreciation

- depreciable amount of an asset should be allocated on a systematic basis over its useful life
- The depreciation charge for each period should be recognised in profit or loss unless it is included in the carrying amount of another asset
- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately
- Land and buildings are separable assets and are accounted for separately, even when they are acquired together.
- Land can also be depreciated-leasehold, Dismantling, restoration, etc

- Commencement of depreciation- Ready to use
- Cessation of depreciation
    - Asset reclassified as held for sale
    - Derecognition of asset
    - Residual value >= to carrying amount
- Even if the asset is idle, depreciation is charged. (exception- usage method)

Question.

Revision of Useful Life An asset which cost ₹ 10,000 was estimated to have a useful life of 10 years and residual value ₹ 2000. After two years, useful life was revised to 4 remaining years. Calculate the depreciation charge for the years 1,2,3.

Solution:

	₹ Year-1	Year-2	Year-3
	10,000	10,000	10,000

Less: Accumulated Depreciation	(800)	(1,600)	(3,200)
Carrying Amount	9,200	8,400	6,800
Charges for year	800	800	1,600 (8400-2000/4)

Question:

XYZ Ltd. purchased an asset on 1st January, 20X0, for ₹ 1,00,000 and the asset had an estimated useful life of ten years and a residual value of nil. The company has charged depreciation using the straight-line method at ₹ 10,000 per annum. On 1st January, 20X4, the management of XYZ Ltd. Reviews the estimated life and decides that the asset will probably be useful for a further four years and, therefore, the total life is revised to eight years. How should the asset be accounted for remaining years?

Solution:

Change in useful economic life of an asset is change in accounting estimate, which is to be applied prospectively, i.e., the depreciation charge will need to be recalculated. On 1st January, 20X4, when the asset's net book value is ₹ 60,000. The company should amend the annual provision for depreciation to charge the unamortized cost (namely, ₹ 60,000) over the revised remaining life of four years. Consequently, it should charge depreciation for the next four years at ₹ 15,000 per annum.

Thus, depreciation should be charged in future ie from 9th year onwards at ₹ 11,500 per annum (₹ 46,000 / 4 years).

Impairment

- IND AS 36
- Compensation
    - Included in P&L when receivable

Derecognition

- Carrying amount should be derecognised
    - On disposal
    - No future economic benefit is expected
    - If held for sale then apply IND AS 105
- Gain or loss included in P&L

Question

MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000. The discount rate assumed is 5%.

Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used?

Solution

The new turbine will produce economic benefits to MS Ltd., and the cost is measurable. Hence, the item should be recognised as an asset. The original invoice for the machine did not specify the cost of the turbine; however, the cost of the replacement ₹ 45,00,000 can be used as an indication (usually by discounting) of the likely cost, six years previously.

If an appropriate discount rate is 5% per annum, ₹ 45,00,000 discounted back six years amounts to ₹ 33,57,900 [₹ 45,00,000/(1.05)6], i.e., the approximate cost of turbine before 6 years.

The current carrying amount of the turbine which is required to be replaced of ₹ 13,43,160 would be derecognised from the books of account, (i.e., Original Cost ₹ 33,57,900 as reduced by accumulated depreciation for past 6 years ₹ 20,14,740, assuming depreciation is charged on straight-line basis.)

The cost of the new turbine, ₹ 45,00,000 would be added to the cost of machine, resulting in a revision of carrying amount of machine to ₹ 71,56,840. (i.e., ₹ 40,00,000* – ₹ 13,43,160 + ₹ 45,00,000).

*Original cost of machine ₹ 1,00,00,000 reduced by accumulated depreciation (till the end of 6 years) ₹ 60,00,000.

Question

Alfa Ltd. Has machinery at cost ₹ 4,800 and provision for depreciation ₹ 1,600 as on 01.04.2018. On that date the remaining life of the machine is 6 years with residual value of ₹ 800. On the same date one component of the machine is replaced, the price of the new component is ₹ 600 and the cost of the old component was ₹ 500 with accumulated depreciation ₹ 200. The supplier of the new component took the old component at a fair value of ₹ 360.
On 31.03.2019 the machine is revalued as per company policy at ₹ 5000. On 31.03.2020 an impairment loss of ₹ 900 has been recognized for the machine. Pass journal entries and show the accounting treatments to be made in the financial statement for the years ending on 31.03.2019, 31.03.2020 and 31.30.2021. Depreciation to be charged based on straight line method.

Solution:

Working note-1

Particulars	**(₹)**	**(₹)**
On 1.4.2018: Carrying amount ₹ (4,800 – 1,600)	**3,200**	
Add. Replacement Cost of New Component	300	
(600 - Carrying amount of old ₹ 500 – ₹ 200 i.e ₹ 300)		
[Profit on disposal of old machinery = ₹ 360 – ₹ 300 = ₹ 60]		
Carrying amount	3,500	
Depreciation for 2018-2019: ₹(3,500 – ₹ 800)/6	450	
[Carrying amount – residual value] ÷ Life]		
On 31.03.2019 Depreciated value	**3,050**	
On 31.03.2019: Revalued at	5,000	
Depreciation for **2019-2020** (₹ 450 + ₹ 1950/5)	(840)	
Depreciated value ₹ (5,000 – 840)	4,160	
Less: Impairment Loss	(900)	
On 31.03.2020 Carrying amount after Impairment	**3,260**	
Depreciation. For 2020-2021: ₹ (3,260 – 800)/4	**615**	

Note:

(i) 1/5th of Revaluation surplus is to be transferred from Revaluation Surplus other compare (OCI) to Retained earnings for 2019-20 [as depreciation (1/5th) is realized]

(ii) Impairment loss is charged to P & L a/c but as Revaluation Surplus exists it is charged to Revaluation surplus on 31.03.2020.

Journal

Particulars	**Dr. (₹)**	**Cr. (₹)**
01.04.2018		
Machinery A/c Dr.	600	
To, Supplier A/c		600
Prov. for Depreciation A/c Dr.	200	
Supplier A/c Dr.	360	
To, Machinery A/c		500
To, Profit on Disposal of Machinery A/c		60

31.03.19		
Depreciation A/c Dr.	450	
To, Provision for Depreciation A/c		450
31.03.19 Machinery A/c Dr.	100	
Provision for Depn. A/c Dr.	1850	
To, Revaluation Surplus A/c		1950
31.03.20 Depreciation A/c Dr.	840	
To, Provision for Depreciation A/c		840
Impairment loss A/c Dr.	900	
To, Machinery A/c.		900
31.03.21 Depreciation A/c Dr.	615	
To, Provision for Depreciation A/c		615

Accounting treatment to be shown in the financial statements :

On 31.03.2019

In Statement of P & L —

(i) Profit on disposal of machinery is shown as income ₹ 60
(ii) Annual depreciation is shown as expense ₹ 450
(iii) Revaluation surplus recognized as other comprehensive Income ₹ 1,950

In Balance Sheet—

(i) Machinery is shown under PPE ₹ 5,000 (Revalued)
(ii) Provision for depn. NIL
(iii) Revaluation surplus is recognized as other comprehensive income and shown under other equity.

On 31.03.2020

In Statement of P & L—

(i) Annual Depreciation is shown as expense ₹ 840
(ii) Revaluation surplus as OCI is reduced for impairment loss ₹ 900
(iii) Transfer from Revaluation profit to retained Earnings ₹ 390

In Balance Sheet—

(i) Machinery is shown under PPE ₹ 4,100
(ii) Provision for depreciation ₹ 840
(iii) Revaluation surplus under other equity₹ 660 (₹ 1,950 –₹ 390 ₹ 900)

On 31.03.2021

In Statement of P & L—

(i) Depreciation ₹ 615
(ii) Transfer from revaluation profit to retained darning's 1/4th ×₹ 660 = ₹ 165

In Balance Sheet—

(i) Machinery ₹ 4,100
(ii) Prov. for Depn.₹ (840 + 615) = ₹ 1,455
(iii) Revaluation Profit under other equity =₹₹660 – ₹ 165 = ₹ 495

ACCOUNTING STANDARD - 5

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

What is the objective of AS 5?

The objective of this Statement is:

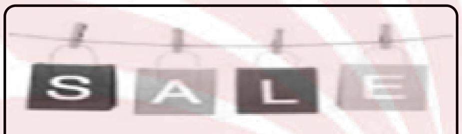
Accounting Policies- Disclosure

Classification and disclosure of extraordinary and prior period items, and the disclosure of certain items within profit or loss from ordinary activities.

Change in estimate Accounting treatment & Disclosures

This Statement ***does not deal with the tax implications*** of extraordinary items, prior period items, changes in accounting estimates, and changes in accounting policies for which appropriate adjustments will have to be made depending on the circumstances.

What are Ordinary activities?



Sales

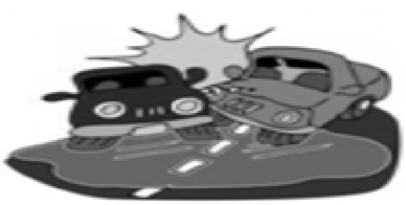
Purchase


Incidental

Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of,
incidental to, or arising from, these activities.

What are Extraordinary Items?

Events clearly distinct from ordinary activity



Extraordinary items are income or expenses that arise from events or transactions that are **clearly distinct from** the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

What are Prior period items?
Prior period items are income or expenses which arise in the current period **as a result of errors or omissions** in the preparation of the financial statements of one or more prior periods.

What are the requirements of AS 5 for determining Net Profit or Loss for the Period?

Items included in P&L in same period

Extra ordinary items | Change in estimate | Ordinary items

How Extraordinary Items are disclosed?

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

Income before extraordinary items	XXX,XXX
Extraordinary items (less applicable taxes of ___) (Note XX)	X,XXX
Net income	XXX,XXX

Extraordinary item determined by

nature of the event in relation to business

not by

frequency of occurence of event

Therefore, an event or transaction may be extraordinary for one enterprise but not so for another enterprise because of the differences between their respective ordinary activities.

Earthquake

Factory Destroyed(Extraordinary)

Policy claim(Ordinary)

For example, losses sustained as a result of an earthquake may qualify as an extraordinary item for many enterprises. However, claims from policyholders arising from an earthquake do not qualify as an extraordinary item for an insurance enterprise that insures against such risks.

Examples of events or transactions that generally give rise to extraordinary items for most enterprises are:

Attachment of property of the enterprise; or an earthquake.

A suit of damages of Rs. 1 lakh for breach of contract of sale (breach occurred in 2003) was decreased in favor of May Ltd. in March, 2005. The company has included the amounts in its turnover for the financial year 2005
Answer
Amount received is not prior period item as suit was decreed during current financial year only. Also, securing damages for breach of contract is not extra-ordinary item.
The amount received seems to be material. Having regard to materiality, it should be disclosed separately

As a statutory auditor, how would you deal with the following?

XYZ Ltd., as a part of overall cost cutting measure announced voluntary retirement scheme (VRS) to its employees, to reduce the employee strength. During the first half year ended 30.9.2005 the company paid a compensation of Rs. 72 lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular salaries and wages paid by the company. Is this correct?

Answer
VRS payment as a cost cutting measure is considered to be ordinary activity. Nature and amount involved makes it material requiring separate disclosure and shall not be clubbed with salary and wages

How Profit or Loss from Ordinary Activities is disclosed?

(Materiality) When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Circumstances which may give rise to the separate disclosure of items of income and expense include:

a. the write-down of inventories to net realizable value as well as the reversal of such write downs;
b. a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;
c. disposals of items of fixed assets;
d. disposals of long-term investments;
e. legislative changes having retrospective application;
f. litigation settlements; and
g. other reversals of provisions.

How Prior Period Items are disclosed?

The nature and amount of prior period items *should be separately disclosed* in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

'prior period items' *refers only to*	*income or expenses* which *arise in the current period* as a result of *errors or omissions* in the preparation of the financial statements of *one or more prior periods*
does not include	other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, **e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period**

Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a **result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight**.
Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates.

Prior period items	•Error or •Omission
Change in estimate	•Approximation needs revision as more information is known

Accounting estimates by their nature are approximations that may need revision as additional information becomes known. **For example, income or expense recognised on the outcome of a contingency which previously could not be estimated reliably does not constitute a prior period item.**

Prior period items are normally included in the determination of **net profit or loss for the current period**. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

Errors under Ind AS 8

Definition

- Prior period errors are omission 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:
  - Was available when financial statements for those periods were approved for issue, and
  - 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

Principle

- Correct material prior period error retrospectively by:
  - Restating the comparatives for the prior period(s) presented, or
  - 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

- If it is impractical to determine period-specific effects of the error (or cumulative effects of the error), restate opening balance (restate comparative information) for earliest period practicable.

Disclosure

- The nature of the prior period error,
- For each prior period presented, if practicable, the amount of the correction:
  - For each financial statement line item affected and
  - For basic and diluted earnings per share
- The amount of the correction of the start of thje earliest prior period presented and
- If retrospective restatement is impracticable, the circumstances that led to that condition and a description of how and from when the error has been corrected.

A company signed an agreement with the Employees Union on 1.9.2011 for revision of wages with retrospective effect from 30.9.2010. This would cost the company an additional liability of Rs. 5,00,000 per annum. Is a disclosure necessary for the amount paid in 2011-12? **Solution:** It is given that revision of wages took place on 1st September, 2012 with retrospective effect from 30.9.2011. Therefore wages payable for the half year from 1.10.2011 to 31.3.2012 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item. Additional wages liability of Rs.7,50,000 (for 1½ years @ Rs. 5,00,000 per annum) should be included in current year's wages. It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per AS 5 (Revised), when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.
A Limited Company finds that the stock sheets as on 31.3.2011 had included twice an item the cost of which was Rs. 20,000. You are asked to suggest, how the error would be dealt with in the accounts of the year ended 31.3.2012. **Solution** Accounting Standard 5 on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods". Rectification of error in stock valuation is a prior period item vide AS 5. Rs.14.5 lakhs must be added to the opening stock of 1.4.2011. It is also necessary to show Rs. 14.5 lakhs as a prior period adjustment in the Profit and loss Account below the line. Separate disclosure of this item as a prior period item is required as per AS 5.
Fuel surcharge is billed by ht State Electricity Board at provisional rates. Final bill for fuel surcharge of Rs. 5.30 lakhs for the period October, 2007 to September, 2011 has been received and paid in February, 2012 **Solution** The final bill having been paid in February, 2012 should have been accounted for in the annual accounts of the company for the year ended 31st March, 2012. However it seems that as a result of error or omission in the preparation of the financial statements of prior period i.e., for the year ended 31st March 2012, this material charge has arisen in the current period i.e., year ended 31st March, 2013. Therefore it should be treated as 'Prior period item' as per para 16 of AS 5. As per para 19 of AS 5 (Revised), prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss. It may be mentioned that it is an expense arising from the ordinary course of business. Although abnormal in amount or infrequent in occurrence, such an expense does not qualify an extraordinary item as per AS 5 (Revised). For better understanding, the fact that power bill is accounted for at provisional rates billed by the state electricity board and final adjustment thereof is made as and when final bill is received may be mentioned as an accounting policy.
The company finds that the stock sheets of 31.3.2007 did not include two pages containing details of inventory worth Rs. 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2008 with reference to AS 5. As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth Rs.20 lakhs in 31.3.2007 is a prior period item. As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, Rs.20 lakhs must be added to ... proach is to show such items in the statement of profit and

loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

The company finds that the inventory sheets of 31.3.2016 did not include two pages containing details of inventory worth Rs.14.5 lakhs. State, how you will deal with the following matters in the accounts of Omega Ltd. for the year ended 31st March,2017

Answer

Paragraph 4 of Accounting Standard 5 on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies, defines Prior Period items as "income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods". Rectification of error in inventory valuation is a prior period item vide Para 4 of AS 5. Rs.14.5 lakhs must be added to the opening inventory of 1.4.2016. It is also necessary to show Rs.14.5 lakhs as a prior period adjustment in the Profit and loss Account below the line. Separate disclosure of this item as a prior period item is required as per Para 15 of AS 5

How Changes in Accounting Estimates be accounted for?

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

a. the period of the change, if the change *affects the period only*; or

b. the period of the change and future periods, *if the change affects both*.

How Changes in Accounting Policies be presented and disclosed

When a change in an accounting policy can be made? What are the disclosure requirements in this regard?

A change in an accounting policy should be made **only if** the adoption of a different accounting policy is **required by statute or for compliance with an accounting standard** or if it is considered that the change would result in a more appropriate **presentation of the financial statements** of the enterprise.

Required by statute → Complaince with A.S. → Better presentation of Financial Statement

The following are *not* changes in accounting policies:

Shifted from Ex Gratia payment to formal retirement scheme

a. the adoption of an accounting policy for events or **transactions that differ in substance** from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement; and

b. the adoption of a new accounting policy for events or **transactions which did not occur previously** or that were immaterial.

Not change in Accounting Policy

- transaction that differs in substance
- new transaction

Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated.

When change cannot be distinguished between change in policy or change in estimate, it will always be considered as change in estimate

Change in Accounting policy under Ind AS 8

Changes in accounting policies only if	• Is required by an Ind AS • Results in the financial statements providing reliable and more relevant information
The following are not changes in accounting policies	• Accounting policy differs in substance from those previously undertaken • Transaction did not occur previously or were immaterial. Any revaluation is assets as per AS16 and AS38 is a change in accounting policy to be dealt with their respective standards and not this standard

Principle of Change in Accounting Policy	• If change is due to new standard / interpretation, apply transitional provision • If no transitional provisions, apply retrospectively
Limitations on retrospective application	If it is impractical to apply retrospective application to prior periods, then apply new policy retrospectively to the earliest periods practicable which may be the current period, and make a corresponding adjustment to the opening balance of each affected component of equity for that period

During the year 2011-12, a medium size manufacturing company wrote down its inventories to net realizable value by Rs. 5,00,000. Is a separate disclosure necessary?

Solution

Although the case under consideration does not relate to extraordinary item, but the nature and amount of such item may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. AS 5 (Revised in 1997) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies states that:

"When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."

Circumstances which may give to separate disclosure of items of income and expense in accordance with AS 5 include the write-down of inventories to net realisable value as well as the reversal of such write-downs.

A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss.

According to para 8 of AS 4 (Revised 1995), the unexpected increase in sale price of petrol by the government after the balance sheet date cannot be regarded as an event occurring after the Balance Sheet date, which requires an adjustment at the Balance Sheet date, since it does not represent a condition present at the balance sheet date. The revenue should be recognized only in the subsequent year with proper disclosures. The retrospective increase in the petrol price should not be considered as a prior period item, as per AS 5, because there was no error in the preparation of previous period's financial statements.

Explain whether the following will constitute a change in accounting policy or not as per AS 5.
(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of ` 20,000 per month. Earlier there was no such scheme of pension in the organization.
Solution
As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.
(i)Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy

Comparison

Ind AS 8	**AS 5**
Change in accounting policy is permitted only if 1. Required by an Ind AS 2. Results in 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	Change in accounting policy is permitted only if 1. Required by an AS 2. Required by statute 3. Results in 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

Ind AS 8	**AS 5**
Material prior period errors are corrected retrospectively by restating the comparative amounts for the prior periods presented in which the error occurred, before the earliest prior period presented, restating the opening statement of financial positions	Prior period errors are included in determination of profit or loss of the period in which the error was discovered and are separately disclosed in the statement of profit and loss in a manner that the impact of current year profit or loss can be perceived

IND AS-8

Accounting Policies, Changes in Accounting Estimates and Errors

Objective

- selecting and Changing accounting policies, and
- accounting treatment and disclosure of
    - changes in accounting policies,
    - changes in accounting estimates and
    - corrections of prior period errors.

Definition of Accounting Policies

- Principles & bases- how revenue is recognized
- Rules- Law
- Convention & Practices- Customs

Definition is broader as it includes customs also.

Eg of accounting policies

- Basis of accounting – Cash or accrual or hybrid?
- Method of determination of cost of inventories – FIFO or specific identification or Weighted Average?
- What is included in cash equivalents and what is excluded from cash equivalents?

Selection of accounting Policies

- When an Ind AS specifically applies to a transaction, other event or condition
    - The accounting policy(s) applied to the item shall be determined as per that Ind AS
- When no Ind AS specifically applies to a transaction, other event or condition (New Business due to technological advances-Zerodha, Byju, Zomato)
    - Management shall use its judgement in developing and applying an accounting policy that results in information that is
        - Relevant-enables timely economic decision making
        - Reliable- Contains following characteristics
            - Faithful Representation
            - Substance over form
            - Neutral
            - Prudent - Wisdom
            - Complete
    - Even while applying judgement following process should be followed (in sequence)
        - Check if there are any other Ind AS available which are dealing with similar and related issues
        - Check the basic Framework of Ind AS, which provides the general principles
        - Check the pronouncements of International Accounting Standard Board (which prepares IFRS & IAS)
        - Check the pronouncements of other standard setting bodies having a similar conceptual framework like ICAI
        - Check the accounting literature (any famous Author) and accepted industry

Changes in accounting policies

- Consistency should be followed but
- Allowed only if
  - Required by Ind AS
  - Change results in 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
    Eg. As per Ind AS 27 'Separate Financial Statements', investment in subsidiaries, associates and joint ventures are accounted for in an entity's separate financial statements at **cost** or in accordance with Ind AS 109 (i.e., at fair value).
- Frequent changes in policy not allowed by IND AS (FIFO & NRV for valuation of inventories)

The following are **not changes in accounting policies:**

- the application of an accounting policy for transactions, that differ in substance from those previously occurring
  (eg. A company owns several hotels and operates it- classified as PPE and can value at cost or revaluation model. Same company purchased a new hotel but does not operates it but Outsources the entire management and remains an investor- classified as Investment property and valued at cost)
- the application of a new accounting policy for transactions that did not occur previously or were Immaterial (Purchase of new Land which and applying revaluation model, but already existing Machinery valued on cost model)
- Changes in depreciation method should be classified as change in accounting estimate and dealt as per IND AS 8

Question.
A company uses a building for admin purpose and classify it as PPE. Next year, it shifts its admin office to another leased building and building owned by it is given on lease and classify it as Investment property. Is this change in Accounting policy

- As per IND AS 16 PPE means Which are held for use
- As per IND AS 40 IP means held for rental or capital appreciation and not use

Thus this re classification is mandatory as per IND AS, as there is change in purpose and not considered as change in policy

Changes in accounting policy-When?

- Change is due to new specific IND AS
  - Then it is non voluntary, the new IND AS will specify the transitional provision of retrospective or prospective
- Voluntarily
  - shall apply the change retrospectively, if specific transitional provisions does not apply to that change.

Note.

- Early application of an Ind AS is not a voluntary change in accounting policy (IND AS 101) but adoption of new IND AS is change in policy and dealt as per new IND AS.
- If there is change in IND AS (amendment) then also it is change in accounting policy- dealt as per amendment

- Some changes in accounting policy to be dealt with respective IND AS and not IND AS 8. (Initial application of revaluation model on PPE from cost model is change in accounting policy but not dealt with IND AS 8, but IND AS 16)

Retrospective application of a change in accounting policy

- 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.
- Usually the adjustment is made to retained earnings.
- Change in 3 BS- current year, previous year & opening of previous year

Eg. Change in valuation of PPE from cost to revaluation model
A land was purchased on 15-06-2018 for Rs. 500. Its market value on 31-03-2019 was 500, 31-03-2020 was 550, 31-03-2021 was 580, 31-03-2022 was 600 and 31-03-2023 was 650. If policy is changed on 31-03-2023, how the statement will be prepared?

Exception -Impracticable (loss of records due to fire or virus attack on records)

- 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,
  - 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.
- If 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
  - adjust the comparative information to apply the new accounting policy **prospectively** from the earliest date practicable.

Disclosure requirements

- When initial application of IND AS
  - Title of IND AS
  - That change is made in accordance with transitional provision
  - Nature of change in policy
  - Description of transitional provision
  - Transitional provision that might have effect on future periods
  - Amount of adjustment for comparative periods ad also change in basic and diluted EPS
  - Amount of adjustment to prior period to the extent it is possible
  - In case of impractability, a description of how and from when the change in accounting policy has been applied
- When voluntary change in policy
  - Nature of change in policy
  - the reasons why applying the new accounting policy provides reliable and more relevant information
  - Amount of adjustment for comparative periods ad also change in basic and diluted EPS
  - Amount of adjustment to prior period to the extent it is possible
  - In case of impractability, a description of how and from when the change in accounting policy has been applied

Change in Accounting Estimate

Meaning

- Use of **judgement** in measurement of financial items

Eg.

- Provision for bad debts
- Depreciation (scrap value, useful life)

Reasons for revision in accounting estimates

- Change in circumstances
- As a result of new information or more experience

Nature

- A change in accounting estimates neither relates to prior periods nor is a correction of an error.
- 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.

Change in Basis- It is change in accounting policy (change in cost formula for inventory valuation)

Treatment

- Recognised **prospectively** by including it in profit or loss in:
  - the period of the change, if the change affects that period only (PDD)
  - the period of the change and future periods, if the change affects both. (Depreciation)
- 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

Disclosure

- Nature & Amount of change in estimate having effect in current period & prior period

Prior period Errors

Meaning

- omissions
- misstatements

in, the entity's financial statements **for one or more prior periods** arising from a **failure to use, or misuse of, reliable information**

Types of errors

- mathematical mistakes,
- mistakes in applying accounting policies, (offsetting of asset & liability)
- oversights or misinterpretations of facts (adjusting event after reporting date)
- Omission
- Fraud- Intentional error (theft)

Effects of errors

- Financial statements **will not be considered as complied with Ind AS**

Error should be treated if

- **Material (In Individual or Totality)**
- **Immaterial but intentional**

When can error happen

- **Current-** Rectification in current period before approval of Financial statement
- **Prior period but discovered subsequently**
  - Immediate prior period- rectified by restating the comparative amounts for the prior period
    (Eg. Error in FY 2021-22 and current year is 2022-23)
  - Before the Immediate prior period- Rectified by restating **additional** BS
    (Eg. Error in FY 2019-20 and current year is 2022-23)

The correction of a prior period error is **excluded** from profit or loss for the period in which the error is discovered.

Exception – Impracticable (same treatment as change in policy)

Disclosure

- **Nature of error**
- **Amount of correction foe each prior period in each financial item & Change in EPS**
- amount of the correction at the beginning of the earliest prior period
- If impracticable how and when error is corrected

Accounting Standard 2 (Revised)
Valuation of Inventories

What do you mean by Inventories?

Inventories are assets:
a. held for sale in the ordinary course of business;
b. in the process of production for such sale; or
c. in the form of materials **or** supplies to be consumed in the production process or in the rendering of services.

Company deals in purchase sale of car
Company has furniture in its showroom replace in every 4yrs

Company manufactures car and during year end 50 cars remain unfinished

Company manufactures car and has steel, tires, headlamps kept in stock
Company has coal in stock which is used for melting steel

Which machinery spares are covered under AS 2 and AS 10 and what should be the accounting for machinery spares under the respective standards?

Revised AS 10:

Spares not specific to particular FA	Value as per AS-2
Spares specific to particular FA replaced regularly	Value as per AS-2
Spares specific to particular FA not replaced regularly	Value as per AS-10
Insurance Spares	1. Capitalize and apportion to asset over time 2. Write off when realted asset written off or sold
Stand by equipment	Value as per AS-10

Explain the scope of AS 2 (Revised)

This Statement should be applied in accounting for inventories **other than**:

a. work in progress arising under construction contracts, including directly related service contracts

b. work in progress arising in the ordinary course of business of service providers

c. shares, debentures and other financial instruments **held as stock-in-trade**; and

d. producers' inventories **of livestock**,
agricultural and forest products,
and mineral oils, ores and gases to the extent that they are measured at net realizable value in accordance with well-established practices in those industries.(Measured at NRV)

Scope under Ind AS 2

- All inventories except:
  - Financial instruments (Ind AS 32)
  - Biological assets (Ind AS 41)
- Does not apply to the measurement of inventories held by:
  - Producers of agricultural and forest products measured at NRV
  - Minerals and mineral products measured at NRV
  - Commodity broker-trader who measure inventory at fair value less cost to sell

Night Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Night Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

(i) Decide whether the stock of empty bottles is an asset of the company;

(ii) If so, whether the stock of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS-2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

(i) Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets. Night Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. Therefore, empty bottles are assets for the company.

(ii) As per AS 2 "Valuation of Inventories", inventories are assets held for sale in the ordinary course of business. Stock of empty bottles existing on the Balance Sheet date is the inventory and Night Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality. Hence stock of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Can material issued on loan be classified along with inventory or under the head loans and advances?

Answer

Inventory means held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials **or** supplies to be consumed in the production process or in the rendering of service.

From the definition, it is clear that inventory issued on loan cannot be classified as inventory. It should be classified under the head, loans and advances

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A is wholesale trader of grains claims that he can value his stock at fair value as AS does not apply to him. Comment?

Answer

AS 2 does not apply to producer's inventory of agriculture, however exemption is not available to trader's inventory. Hence, they cannot value their inventory at NRV. As per Ind AS 2, however they are excluded from valuation under Ind AS 2 and hence can value their inventory at NRV

The main object of a Company is to undertake plantation activities, rising of teak and other forestry operations. It takes about 10 to 12 years for a teak tree to grow. In order to carry out these plantation activities till the full growth of the tree is ready for sale, the Company will be incurring expenditure on maintaining them as also paying lease rent to the owners of the land. The Company has decided to treat ... Maintenance, Lease Rent, etc. as a capital expenditure and treat as long term capital receipts, the sales proceeds realized when finally at the end of 10 to 12 years the trees would be felled and sold. Comment on the appropriateness of the accounting policy.

Answer

Timber plantation can be disclosed as WIP under Current Assets till it attains maturity. The expenditure cannot be treated as Capital expenditure. They shall be valued at NRV as AS 2 does not apply to them.

How Inventories are measured?

Inventories should be valued at the **lower of** cost and net realizable value.

How to ascertain cost of Inventories?

The cost of inventories should comprise all costs of

1. purchase,
2. costs of conversion and
3. Other costs incurred in **bringing the inventories to their present location** and condition.

Costs of Purchase

The costs of purchase consist of the

Purchase price **including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities)**, **freight inwards** and other expenditure **directly attributable** to the acquisition. Trade discounts, rebates, duty drawbacks (**and other similar items under Ind AS 2**) are deducted in determining the costs of purchase.

Costs of Conversion

The costs of conversion of inventories include costs directly related to the units of production, such as direct labour.

They also include a **systematic allocation of fixed and variable production overheads** that are incurred in converting materials into finished goods.

Cost of conversion

- Labour costs
- Stores and spares
- Raw Material at Factory
- Repair and Maintenance
- Royalty on Manufactured goods
- Supervisory Staff at Factory
- Depreciation
- Power and Fuel

ALLOCATION OF FIXED OVERHEADS			
	NORMAL CAPACITY		
Why we use Normal Capacity for allocating Fixed costs			
And why not actual production			
Fixed overheads		100000	Rs
Normal Capacity		10000	units
Cost Allocated /unit		10	Rs
Absorption when Production is			
Production	**Available for Allocation to Stock**	**charged to P& L**	
3000 units	30000	70000	
6000 units	60000	40000	
3000 units	30000	70000	
12000 units	100000	0	
Reason:			
Idle Capacity Cost is charged to Profit and Loss Account			
and not absorbed over the closing stock			

What costs should not be included in the cost of Inventories?
abnormal amounts of wasted materials, labour, or other production costs;
storage costs, unless those costs are necessary in the production process prior to a further production stage
administrative overheads that do not contribute to bringing the inventories to their present location and condition
selling and distribution costs

A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.
Comment on the valuation of the stocks by the company.
Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."
Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

State with reference to accounting standard, how will you value the inventories in the following cases:
ii. In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost of per MT input is Rs. 1,000. The entire quantity of waste is on stock at the year end.
Solution: As per para 13 of AS 2 (Revised), abnormal amounts of waste materials, labour or other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred.
In this case, normal waste is 250 MT and abnormal waste is 50 MT.
The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste amounting to Rs. 50,000 (50 MT x Rs. 1,000) will be charged in the profit and loss statement.

Anil Pharma Ltd. ordered 16,000 kg of certain material at Rs.160 per unit. The purchase price includes excise duty Rs.10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs. 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS 2 and amount of abnormal loss.

...ation of total cost of material as per AS-2

	Rs.
Purchase price (16,000 kg. x Rs. 160)	25,60,000
Less : CENVAT credit (16,000 kg. x Rs. 10)	(1,60,000)
	24,00,000
Add : Freight	1,40,160
Total material cost	25,40,160
Number of units after normal loss = 16,000 kg. x (100-2)% = 15,680 kg	
Revised cost per kg. = = Rs. 162 per kg (25,40,160/15,680) kg Closing inventory = Material actually received – Material consumed = 15,500 kg – 13,600 kg = 1,900 kg	
Value of closing stock = 1,900 kg x Rs. 162 = Rs. 3,07,800	
Abnormal loss in kg = Material after normal loss - Material actually received =15,680 kg – 15,500 kg = 180 kg	
Abnormal loss in value = 180 kg x Rs. 162 = Rs. 29,160	

How to treat Joint Products and By Products?

Apportionment of Joint Cost

Joint Product

By Product

NRV

Sale Value

Deduct from Total cost(same as scrap)

What should be done, when specific costs cannot be attributed to the identified items of inventory?

cost of inventories, other than those for which specific costs are attributed		
FIFO	**WEIGHTED AVG.**	**LIFO**
Permitted	*Permitted*	*Not Permitted*
assumes that the items of inventory which were purchased or produced first are consumed or sold first	the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period	assumes that the items of inventory which were purchased or produced last are consumed or sold first

LIFO is not permitted in Indian Accounting Standards

The company deals in three products. A, B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2002-03. The Historical Cost and Net Realisable value of the items of closing stock are determined as follows:

Items	**Historical Cost (Rs. In Lakhs)**	**Net Realisable Value (Rs. In Lakhs)**
A	**40**	**28**
B	**32**	**32**
C	**16**	**24**

What will be the value of Closing Stock?

Answer

As per para 14 of AS 2, the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been purchased or produced. Further, as per para 5 of AS 2 on 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case

Items	Historical cost	NRV	Valuation
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

Hence inventory to be valued at 76

If the items were similar and interchangeable, then inventory would have been valued at 88 or 84 wel i.e. 84

*(Important)******

Materials and other supplies held for use in the production of inventories are not written down below cost	*if the finished products in which they will be incorporated are expected to be sold at or above cost*
when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value	*the replacement cost of the materials may be the best available measure of their net realizable value*

What are Disclosure requirements as per AS 2?

The financial statements should disclose:

a. the accounting policies adopted in measuring inventories, including the cost formula used; and

b. the total carrying amount of inventories and its classification appropriate to the enterprise.

Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.

Comparison

Ind AS 2	AS 2
Shall not apply to 1. Inventory held by commodity brokers- traders who measure their inventory at fair value less cost to sell 2. Producers of agricultural and forest products 3. Agricultural produce after harvest 4. Mineral and mineral products to the extent they are measured at NRV When above mentioned products are measured at NRV, changes are reflected in P&L	

Ind AS 2	AS 2
Difference between purchase price in normal credit terms and amount paid is recognized as interest expense over the period of financing	Not covered

Ind AS 2	AS 2
Reversal of write down of inventory recognized in earlier years, which has occurred due to increase in NRV of such inventory in current year shall be reversed in the current year	Not covered

ACCOUNTING STANDARD 11 (REVISED 2003)
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Objective

To prescribe the principles regarding

Recognition of Foreign Exchange transactions and treatment	Translation of Statements of Foreign Operations	Recognition of gain or loss in a Forward Exchange Contract

This Statement does not specify the currency in which an enterprise presents its financial statements. **However, an enterprise normally uses the currency of the country in which it is domiciled**.

if not	→	foreign currency used	→	DISCLOSE
• use domesting currency for reporting		• Reason for using such currency		

What are the changes introduced by AS 11 (Revised)?

There are three major changes:

Import of machines by taking foreign loans

BARCLAYS

Interest and installment payments- Exchange diff over the period not allowed to be capitalized

italization of exchange difference arising on foreign currency borrowings for the purpose of acquiring the assets, over such assets. (*Amended as per Para 46/46A)*

TATA | JAGUAR | venky's | BLACKBURN ROVERS F.C. ARTE ET LABORE

TATA India — **Jaguar-UK** : **Integral**

Venky's acquired — **Blackburn Rover's Football club. UK** : **Non integral**

b. Classifying foreign operations into Integral and Non-Integral.

c. Classifying forward exchange contracts into *speculative and non-speculative* and specifying different principles for recognition of gain or loss on such forward exchange contracts.

Definitions

Average rate is the **mean of the exchange rates** in force during a period.

Closing rate is the exchange rate at the **balance sheet date**.

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the **reporting currency at different exchange rates**.

Exchange rate is the **ratio for exchange of two currencies**.

Fair value is the **amount for which an asset could be exchanged**, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Foreign currency is a currency **other than the reporting currency** of an enterprise.

Foreign operation is a **subsidiary associate, joint venture or branch** of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

Forward exchange contract means an **agreement to exchange different currencies at a forward rate**.

Forward rate is the **specified exchange rate** for exchange of two currencies at a specified future date.

Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.

Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

Net investment in a non-integral foreign operation is the **reporting enterprise's share in the net assets of that operation.**

Non-integral foreign operation is a foreign operation that is not an integral foreign operation.
Non-monetary items are assets and liabilities other than monetary items.

Reporting currency is the **currency used in presenting the financial statements**.

DEFINITIONS as per Ind AS 21		
Functional Currency	Currency of primary economic environment in which the entity operates	
	Factors to consider	Currency influencing sales prices for goods and services
		Currency of the country whose competitive forces and regulations determine the sale prices
		Currency influencing input cost
		If no clarity then considers the following • Currency in which the funds from financing activities are generated • Currency in which receipts from operating activities are usually retained
	Additional factors	Foreign operations are an extension of the reporting entity
		Foreign operations transactions with the reporting entity are high or low
		Cash flow from the foreign operations directly affect the cash flows of the reporting entity
		Cash flow from the foreign operations are sufficient to service existing and normally expected debt obligations
Net investment in foreign operations	the amount of the reporting entity's interest in the net assets of that operation	
	An item of which settlement is neither planned nor likely to occur in the foreseeable future is, E.g.: Long term receivable	
	Trade receivable or trade payables are not included in the investment in foreign operations	

Monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. E.g.: employee benefits to be paid in cash; provision that are to be settled in cash; and cash dividends that are recognized as a liability.
Non-Monetary items	Other than Monetary item I.e. absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. E.g. prepaid rent, goodwill; intangible assets; inventories, PPE etc.

How Foreign Currency Transactions are reported at Subsequent Balance Sheet Dates?

At each balance sheet date:

a. foreign currency **monetary items should be reported using the closing rate**.

when closing rate cannot be used for monetary items

- restrictions on remittances
- closing rate is unrealistic

In such circumstances, the relevant monetary item should be reported in the reporting currency at the *amount which is likely to be realised* from, or required to disburse, such item at the balance sheet date;

b. non-monetary items which are **carried in terms of historical cost** denominated in a foreign currency should be reported using the exchange rate at the date of the transaction; and

c. non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.

monetary
- closing rate
- in case of restrictions, likely rate of realization

non monetary
- historical cost
- fair value asset- realizable rate

REPORTING FOREIGN CURRENCY TRANSACTION IN THE FUNCTIONAL CURRENCY AS PER IND AS 21	
Initial recognition	spot exchange rate at the date of the transaction
At the end of subsequent reporting periods	Monetary items: translated at closing rate
	Non-monetary items: translated at exchange rate at the date of the transaction (measured at historical cost); and
	Non-Monetary items: translated at exchange rates when value was determined (measured at fair value).
Recognition of exchange difference	on settlement or transaction of monetary items: Recognized in profit and loss
	that gain or loss shall be recognized in OCI. Conversely, when a gain or loss on a non-monetary item is recognized in P/L, any exchange component of that gain or loss shall be recognized in P/L.
	exchange differences on a monetary item that forms part of a reporting ... ment in a foreign operation shall be recognized in profit or

	loss in the separate financial statement of the reporting entity or foreign operation, as appropriate.
	In the financial statements that reporting includes the foreign operation and the reporting entity, such exchange difference shall be recognized initially in OCI and reclassified from equity to P/L on deposal of the net investment.
Change in foreign currency	The entity shall apply the transaction procedures applicable to the new prospectively from the date of the change.

Exchange	Rate per $
Goods purchased on 1.1.2007 of US $ 10,000	Rs.45
Exchange rate on 31.3.2007	Rs.44
Date of actual payment 7.7.2007	Rs.43

Ascertain the loss/gain for financial years 2006-07 and 2007-08, also give their treatment as per AS 11.

As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2007 and corresponding creditor would be recorded at Rs.4,50,000 (i.e. $10,000 × Rs. 45)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US $10,000 on 31.3.2007 will be reported at Rs.4,40,000 (i.e. $10,000 × Rs.44) and exchange profit of Rs.10,000 (i.e. 4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2006-07.

On 7.7.2007, creditor of $10,000 is paid at the rate of Rs.43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs.10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2007-08.

How Exchange Differences are recognised?

Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise,

Exception :

integral operations
- exchange difference recognised as income or loss in P&L

non integral operations
- exchange difference recognised in Foreign exchange reserve account
- on disposal income or expense recognised in P&L

Integral Foreign Operations

Fixed Assets	**Historical cost or fair value date**
Inventory	**Purchase date price or NRV at fair value w.e.l.**
Current Assets & Liab	**Closing rate**
	Transferred to Profit and Loss

X Ltd. acquired some stock items at the cost of $ 3000. Exchange rate $1 = Rs. 42. Entire stock is still lying at depot of X Ltd situated in US. The rate of exchange at Balance Sheet date $1 = Rs. 44.
You are required to ascertain Indian Rupee value of such stock if fair value of stock on balance sheet date is

a. $2800
b. $3200

Answer
Cost as per AS 2 = 3000 * 42 considering historical rate = 126,000
Fair value applying closing rate to Fair value as per AS 11
Case 1: 2800 * 44 = 123,200
Inventory is valued at cost or fair value whichever is lower i.e. = 123,200
Difference to be transferred to P&L = 2800
Case2: 3200 * 44 = 140,800
Thus, inventory shall continue to be valued at 126,000

Explain briefly the accounting treatment needed as per AS 11 as on 31.3.2015 when Sundry Debtors include amount receivable ` 5,00,000 recorded at the prevailing exchange rate on the date of sales i.e. transactions recorded at US $ 1 = `58.50. Long term loan taken from US Company, amounting to ` 60,00,000. It was recorded at US $ 1 = ` 55.60, taking exchange rate prevailing at the date of transaction. On 31.3.2015, US $ 1 was ` 61.20

Answer
As per AS 11 “The Effects of Changes in Foreign Exchange Rates”, exchange differences arising on the settlement of monetary items or on reporting an enterprise’s monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expense in the period in which they arise. Accordingly, exchange difference on sundry debtors amounting ` 23,077{` 5,23,077(US $ 8547 x ` 61.20) less ` 5,00,000} and exchange difference on long term loan amounting ` 6,04,317 {66,04,317(US $ 1,07,913.67 x ` 61.20) less ` 60,00,000} should be charged to profit & loss account.
Alternatively, at the option of an entity, exchange differences arising on reporting of long- term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a “Foreign Currency Monetary Item Translation Difference Account” in the enterprise’s financial statements and amortized over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.
Thus, exchange difference on long term loan amounting ` 6,04,317 may either be charged to profit & loss or to Foreign Currency Monetary Item Translation Difference Account

Non-integral Foreign Operations

All assets and liab.	**Closing rate**
Income and Exp.	**Date of transaction**
Foreign Exchange Fluctuation	**Transferred to Foreign Currency Translation Reserve**

Disposal of a Non-integral Foreign Operation

TRANSFER THE AMOUNT IN ‘FOREIGN CURRENCY TRANSLATION RESERVE’ TO P&L

In the case of a **partial disposal**, only the **proportionate share** of the related accumulated exchange differences is included in the gain or loss.

Change in the Classification of a Foreign Operation

When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

reclassified as non integral

exchange difference of non monetary asset transferred to reserve

reclassified as integral

exchange difference NOT transferred to reserve, non monetary asset cost at date considered as historical cost

USE OF A PRESENTATION CURRENCY OTHER THAN FUNCTIONAL CURRENCY AS PER IND AS 21	
Translation to the presentation currency Whose functional currency is not the currency of a hyperinflationary economy	(a) Assets and liabilities at the closing rate; (b) Income and expenses at exchange rate at the date of the transaction; and (c) All resulting exchange difference shall be recognized in other comprehensive income.
Whose functional currency is the currency of a hyperinflationary economy	(a) All amounts at the closing rate, expect that when amounts are translated into the currency of a non-hyperinflationary economy, (b) Comparative amounts shall be those that were presented as current year amt in the relevant prior year. (c) The entity shall restate its financial statement under Ind AS 29 before applying the transaction method
Translation of a foreign operation	Follow normal consolidation procedures any goodwill and any fair value adjustments shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and translated at the closing rate.

Summary

Particulars	**Translation from foreign Currency to Functional currency**	**Translation from functional currency (not hyperinflationary) Presentation Currency**	**Translation from functional Currency (hyperinflationary) to presentation currency**
Monetary Assets & Liabilities	**Closing Rate**	**Closing Rate**	**Closing rate**
Non-monetary Assets & Liabilities measured at historical cost/ fair value	**Exchange rate at the date of the transaction/ fair valuation**	**Closing Rate**	**Closing rate**
Equity	**Exchange rate at the date of the transaction**	**Exchange rate at the date of the transaction**	**Closing Rate**
Income And Expenses	**Exchange rate at the date of the**	**Exchange rate at date of the transaction**	**Closing Rate**

Resulting exchange differences	**Profit or loss, unless:** **1. Non-monetary asset: gain/loss recognized in OCI** **2. It is a monetary item that forms part of net investment in foreign operations**	**Other comprehensive Income**	**Other Comprehensive Income**

Amendment to para 46 of Accounting Standard 11 of the Companies (Accounting Standards) Rules, 2006

Fluctuation related to Depreciable Asset
- Capitalise with Asset Value
- Depreciate over balance life

Fluctuation related to Monetary asset/Liability
- Create FCMITDA Reserve
- Amortise over balance period

Disclosure

An enterprise should disclose:

a. the amount of exchange differences included in the net profit or loss for the period; and

b. net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders' funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

When there is a change in the classification of a significant foreign operation, an enterprise should disclose:

a. the nature of the change in classification;

b. the reason for the change;

c. the impact of the change in classification on shareholders' funds; and

d. the impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.

Disclosure as per Ind AS 21
• An entity shall disclose: (a) The amount of exchange difference recognized in profit or loss except of those arising from Ind AS 109; (b) Net exchange difference recognized in other comprehensive income and accumulated in equity, and reconciliation at the beginning and end of the period. • When the presentation currency is different from the functional currency, that fact + disclosure + reason for using a different presentation currency. • When there is a change in the functional currency of reporting entity/significant foreign operation: fact + reason for the change & the date of change disclosed.

- When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with Ind Ass only if they company with all the requirements of each applicable standard including the transaction method.

Huge Ltd. acquired at the start of the financial year a fixed asset from USA at a price of US $ 1,25,000 and made a down payment of US $ 25,000. The exchange rate was 61.50 per dollar at the date of transaction. The balance amount was payable in 4 equal half yearly installments with interest @ 8% per annum. The exchange rates on due dates of installment have been 61.60; 61.80; 61.90; and 62.10. The asset was under construction during the period of six months from its acquisition. Ascertain the amount to be capitalized and the gain or loss to be recognized in each of the years.
As per AS 16, 'Borrowing Costs', an asset will be considered as a qualifying asset only when it takes substantial period of time to get ready for its intended use. Ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In the given case, since the asset was under construction for the period of six months from its acquisition, it is considered as a non-qualifying asset in an ordinary case. Accordingly, borrowing cost will not be capitalized. Further, the company may opt to capitalize the exchange difference arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, or to recognize as income or expense in the period in which they arise. Applying the provisions of AS 11 (option to capitalize) amount to be capitalized in each of the years will be as follows:

Date	Particulars	Fixed Asset	Loan	P&L
Beginning of Yr1	Asset Purchase 125000 * 61.5	7687500		
	Loan 100000 * 61.5		6150000	
1st half year	Interest 100000 * 4% * 61.6			246400
	FEF 100000 * (61.6 – 61.5)	10000	10000	
	Repayment 25000 * 61.6		(1540000)	
2nd half year	Interest 75000 * 4% * 61.8			185400
	FEF 75000 * (61.8 – 61.6)	15000	15000	
	Repayment 25000 * 61.8		(1545000)	
	TOTAL	7712500	3090000	
3rd half year	Interest 50000 * 4% * 61.9			123800
	FEF 50000 * (61.9 – 61.8)	5000	5000	
	Repayment 25000 * 61.9		(1547500)	

4^{th} half year	Interest 25000 * 4% * 62.1			62100
	FEF 25000 * (62.1 – 61.9)	5000	5000	
	Repayment 25000 * 62.1		(1552500)	

Comparison

Ind AS 21	AS 11
Functional currency is the currency of the primary economic environment in which entity operates Foreign currency is other than functional currency Presentation currency is currency in which financial statements are presented	Foreign currency are currency other than reporting currency

Ind AS 21	AS 11
Difference in foreign currency arising on translation or settlement in monetary terms is recognized in the profit and loss in the period in which they arise Ind AS provides an option to recognize exchange difference arising on translation of certain long term monetary items form foreign currency to functional currency directly into equity. Such difference to be transferred to P&L in appropriate manner	

Ind AS 21	AS 11
Assets and liabilities are translated using closing rate at the date of statement of financial position, income and expenses are converted at actual/average rates for the period. Exchange difference are recognized in statement of comprehensive income and recycled to profit or loss on disposal on the operations	The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting enterprise. For this purpose, foreign operations are classified as either integral foreign operations or non integral foreign operations Integral foreign operations monetary items are translated at closing rate, non monetary items at historical rate if values at cost but if carried at fair value then reported using exchange rates. Exchange difference are reported in profit and loss and recycled in P&L on disposal of non integral foreign operation. Non Integral foreign operation: Closing rate method is being followed. Exchange difference is transferred to reserve account.

ACCOUNTING STANDARD 13
ACCOUNTING FOR INVESTMENTS

What are Investments?

Investments are assets held by an enterprise for earning income by way of *dividends, interest, and rentals*, for capital appreciation, or for other benefits to the investing enterprise. *Assets held as stock-in-trade are not 'investments'.*

Classification as per Ind AS 40

Investment property
- Land held for long- term capital appreciation
- Land held for a currently undetermined future use.
- A building owned and leased out under an operating lease
- A vacant building held to be leased out under an operating leases.
- Property that is being constructed for future use as investment property

Non-investment property
- Property held for sale in the ordinary course of business or in the process of construction for such sale
- Owner-occupied property
- Property that is leased to another entity under a finance lease.

Specific considerations as per Ind AS 40	
Mixed property: partly own use & partly Rental	• **If sold or leased out separately: they are accounted for separately the part that is rental out is investment property** • **If not:** **The property is investment property only if the owner-occupied portion is insignificant**
Property providing ancillary services	- **Treat the property as investment property If services (e.g. security or maintenance services) are a relatively insignificant portion of the whole.** - **Otherwise treat it as owner-occupied property.** - **Judgment needed**
Intercompany rentals	- **Property rented to a parent, subsidiary etc. is not investment property in consolidated financial statements from the perspective of the group.** - **It will be investment property in the separate financial statements of the lessor, if the definition of**

What are various types of investments as per AS 13?

A current investment is an investment that is by its nature readily realisable and is intended to be held for **not more than one year** from the date on which such investment is made.

Investments other than current investments are classified as long term investments, even though they may be readily marketable. As per schedule III Investments that qualify as 'long-term investments' under AS 13 may be bifurcated into 'current' and 'non-current' categories of the revised Schedule as follows:

those which are expected to the realized within twelve months after the reporting date may be presented in the 'current' category as 'current portion of long-term investments' under relevant sub-heads. Eg. Redeemable portion of long term debenture

What are investment properties as per AS 13?

An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

Investment Property → not held for business purpose

What are principles for determination of cost of investment?

The cost of an investment includes acquisition charges such as brokerage, fees and duties.

acquired in exchange of shares or securities → fair value of such share or security

acquired in exchange of asset → fair value of such asset, **else** investment acquired whichever is clearly evident

acquired cum dividend/interest rights	• dividend/interest is deducted from the asset value
pre aquisition dividend	• deducted from the asset value
post acquisition dividend	• accounted in P&L

rights issue → • added to carrying amount of investment

rights not subscribed and sold → • transferred to P&L

if investment acquired cum right → • deduct sale of such rights portion from asset value

On 01.05.04 Mr. N acquired 20,000 equity shares in B Ltd., on cum-dividend and cum-right basis cost per equity share Rs. 35. Fair value on 30.06.04 is Rs. 32.
On 30.06.04 dividend of Rs. 5 purchase were received on 01.07.04 B Ltd. declared the date of subscription for the right shares for the following terms and conditions:
Last date to exercise the rights 31.07.04
Every share holder holding 2 shares can acquire one equity share at the price of Rs. 22 per share.
Shareholders can either in whole or in part transfer their rights to others.
Mr. N sold the entire rights to Mr. M on payment of
a. Rs. 26,000
b. Rs. 30,000
You are required to show the accounting treatment for above received amounts.
Answer

Particulars	**Amount**
Cost of acquisition (35 * 20000)	700,000
Less: Dividend received (5 * 20000)	(100,000)
	600,000

Theoretical ex-right price of shares
= (Fair value before right issue * purchased shares + Right price * offered shares) / Total shares
= (32 * 20000 + 22 * 10000) / 30,000
= (640,000 + 220,000) / 30,000
= 860,000 / 30,000
= 28.67 per share

Particulars	**Amount**
Cost of purchase cum right ex dividend	600,000
Cost ex right as calculated above (28.67 * 20,000)	573,400
Cost of rights offer	26,600

Case1: If Right is sold for Rs.26,000
Deduct complete amount received of Rs.26,000 from investments

Case2: If right is sold for Rs.30,000
Deduct Rs.26,600 from investments and transfer Rs.3400 to P&L

How is the carrying amount of investments determined?

Current Investments

Long-term Investments

Recognition as per Ind AS 40	
Investment property should be recognized as an asset when, and only when: **(a) It is probable that future economic benefits associated with the asset will flow to the entity; and** **(b) The cost of the investment property can be measured reliably.**	
Initial recognition	- **At its cost (transaction costs included)**
Subsequent recognition	- **An Entity should choose the Cost Model as its accounting policy and apply to all its investment properties** - **Cost Model: Follow Ind AS 16/ Ind AS 105**
For Disclosure purpose only	- **fair value Model: measure investment property at fair value only for disclosure purpose**

In preparing the financial statements of R Ltd. for the year ended31st March, 2012, you come across the following information. State with reasons, how would you deal with them in the financial statements:

An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2012 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000.

Solution

As it is stated in the question that financial statements for the year ended 31st March, 2012 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors. Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs. 20,000 in the financial statements for the year ended 31st March, 2012. Also as per AS 22, being timing difference capable of being reversed in future, DTA needs to be created for such loss
An unquoted long-term investment is carried in the books at cost of Rs. 2 lacs. The published accounts of unlisted company received in May, 2012 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2012? As per para 32 of AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. As per para 17 of the standard, indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. The facts of given case clearly suggest that there is decline in the market share of the company and the investment will not fetch more than Rs.20,000. Therefore, the provision of Rs.1,80,000 should be made to reduce the carrying amount of long term investment to Rs.20,000 in the financial statements for the year ended 31st March, 2012.

Investment Properties

An enterprise holding investment properties should *account for them as long term investments.*

The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

How Disposal of Investments is accounted for?

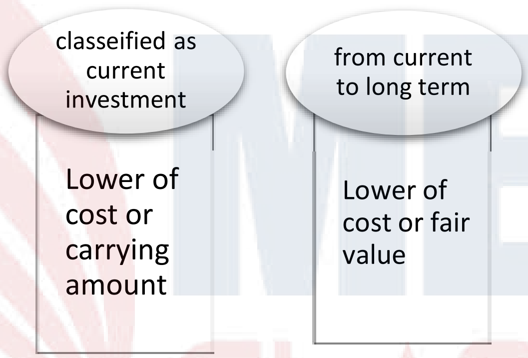
On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is *recognised in the profit and loss statement.*

When disposing of a part of the holding of an individual investment, the carrying amount to be allocated to that part is to be determined on the basis of the average carrying amount of the total holding of the investment.

Transfers as per Ind AS 40	
transfers to, or from, investment property should be made when, and only when , there is a change in use , evidenced by	**Disposals**
(a) commencement of owner- occupation; **(b) commencement of development for sale, for a transfer from investment property to inventories;**	- **an investment property should be derecognized (eliminated from balance from balance sheet) :** ○ **on disposal or**

(c) end of owner-occupation and transfer from owner-occupied property to investment property; **(d) Commencement of an operating lease. For a transfer from inventories to investment property.**	○ **when it is permanently withdraw from use and no future economic benefits are expected from its disposal.** - **Gains or losses is determined :** ○ **As the difference between the net disposal proceeds and the carrying amount of the asset and** ○ **Recognized in profit or loss in the period of the retirement or disposal.** **Compensation from third parties for property that was impaired, lost or given up :** ○ **Recognized in profit or loss when the compensation become receivable**

What are principles for Reclassification of Investments?



ABC Ltd. wants to re-classify its investments in accordance with AS-13. Decide and state on the amount of transfer, based on the following information:
(1) A portion of Current Investments purchased for Rs. 20 lakhs, to be reclassified as Long Term Investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.
(2) Another portion of current investments purchased for Rs. 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.
(3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognize permanent decline as per AS 13.

As per para no. 24 of AS 13 "Accounting for investments", where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.
(1) In the first case, the market value of the investment is Rs. 25 lakhs, which is higher than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. Rs. 20 lakhs.
(2) In the second case, the market value of the investment is Rs. 6.5 lakhs, which is lower than its cost i.e. Rs. 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. Rs. 6.5 lakhs. The loss of Rs. 8.5 lakhs should be charged to profit and loss account.
As per para no. 23 of AS 13 "Accounting for investments", where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(3) In the third case, the book value of the investment is Rs. 12 lakhs, which is lower than its cost i.e. Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current ... s.

Lal Ltd. had made an investment of Rs. 500 lakhs in the equity shares of Nose Ltd. on 10.01.2012. The realisable value of such investment on 31.03.2012 became Rs. 300 lakhs as Yellow Ltd. lost a case of patent rights. Lal Ltd. follows financial year as accounting year. How will you recognize this reduction in financial statements for the year 2011-12

Recognition of reduction in value of investment would depend upon the nature of investment and nature of decline as per Accounting Standard 13 “Accounting for Investments”. As per provisions of the standard, if the investments were acquired for long term and decline is temporary in nature, reduction in value will not be recognized and investments would be carried at cost. If the decline is of permanent nature, it will be charged to profit and loss account. If the investments are current investments, then the reduction should be recognized and charged to Profit and Loss Account as the current investments are carried at cost or fair value, whichever is less..

What are Disclosure requirements of AS 13?

The following disclosures in financial statements in relation to investments are appropriate:-

a. the accounting policies for the determination of carrying amount of investments;

b. classification of investments

c. the amounts included in profit and loss statement for:

i. interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid;

ii. profits and losses on disposal of current investments and changes in carrying amount of such investments;

iii. profits and losses on disposal of long term investments and changes in the carrying amount of such investments;

d. significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal;

e. the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

f. other disclosures as specifically required by the relevant statute governing the enterprise.

Disclosures as per Ind AS 40

- **Its accounting policy for measurement of investment property.**
- **The criteria it uses to distinguish investment property from owner-occupied property held for sale in the ordinary course of business**
- **The extent to which the fair value of investment property is based on a valuation by an professionally qualified and experienced independent valuer**
  - **If there has been no such valuation, that fact should be disclosed.**
- **The amounts recognized in profit or loss for:**
  - **Rental income from investment property;**
  - **Direct operating expenses arising from investment property that generated rental income; and**
  - **Direct operating expenses arising from investment property that did not generate rental income.**
- **The existence and amount of restrictions on the reliability of investment property or the remittance of income and proceeds of disposal.**
- **Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**
- **The depreciation methods used;**
- **The useful lives or the depreciation rates used;**
- **The gross carrying amount and the accumulated depreciation (with accumulated impairment losses) at the beginning and end of the period;**

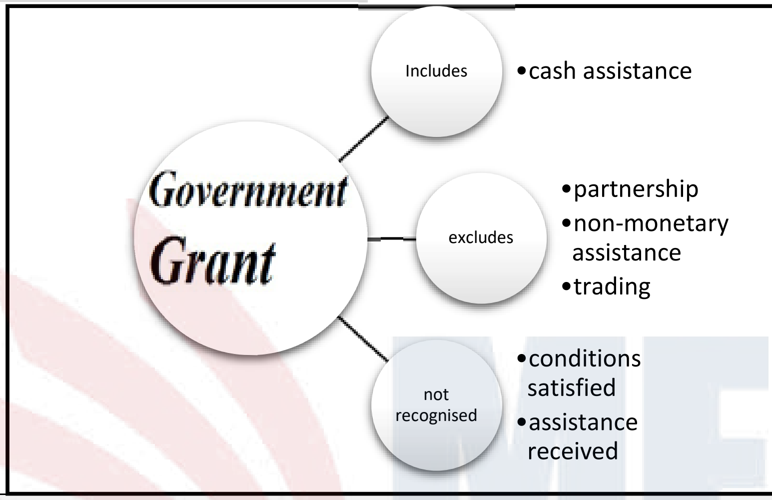
ACCOUNTING STANDARD 12
ACCOUNTING FOR GOVERNMENT GRANTS

Explain the scope of AS 12

(Includes both State Govt. and Central Govt.)

This Statement deals with accounting for government grants. Government grants are sometimes called by other names such as **subsidies, cash incentives, duty drawbacks** , etc.

What are Government Grants?



Government Grant as per Ind AS 20

Definition

- Assistance by government
- In the form of transfer of resources to an entity
- In return for past or future compliance with certain conditions relating to the operating activities on the entity
- Exclude those forms of government assistance which cannot reasonably have a value placed on them and which cannot be distinguished from the normal trading transactions of the entity

Scope

- It shall be applied in accounting and disclosure of government grant except
  - Special problems were changing prices affect government grants
  - Tax benefits: income tax holidays, investment tax credits, accelerated depreciation
  - Government participation in the ownership of an entity
  - Government grants covered by Ind AS 4

What are the requirements of AS 12 regarding the recognition of Government Grant?

Government grants should not be recognized until there is reasonable assurance that
(i) the enterprise will **comply with the conditions attached to them**, and
(ii) the **grants will be received**

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.

Alternatively, government grants *related to depreciable fixed assets may be treated as deferred income* which should be recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged.

Balance Sheet

Liabilities	**Amt.**	**Assets**	**Amt.**
Reserves and Surplus Deferred Income Grant	 xxx	Fixed Assets Assets under G.G.	 xxx

Profit & Loss

Particulars	**Amt.**	**Particulars**	**Amt.**
To Depreciation	Xxx	By Deferred Govt. Grant	xxx

Grants related to non-depreciable assets should be credited to capital reserve under this method.

However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations**, the grant should be credited to income over the same period over which the cost of meeting such obligations** is charged to income. The deferred income balance should be separately disclosed in the financial statements.

Recognition and management as per Ind AS 20	Government grants are determined when there is reasonable assurance that ○ The entity will comply with the conditions attaching to them ○ The grants will be received
	Income approach Government grants shall be recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related cost for which the grants are intended to compensate
PRESENTATION OF GOVERNMENT GRANTS AS PER IND AS 20	
Grants related to income	Grants related to income are presented as part of profit or loss ▪ Either separately or under a general heading such as Other Income or ▪ Deducted in reporting the related expenses
Grant related to assets	Government grant related to assets including non monetary grants shall be presented in the balance sheet by setting up the grant as deferred income
	Grant related to non depreciable asset which require the fulfillment of certain obligation in recognized in Profit or loss ▪ Over the same period over which cost of meeting obligation is charged
Disclosure	▪ The accounting policy adopted ▪ The nature and extent of government grants recognized in the financial statements and ▪ Unfulfilled conditions and other contingencies attaching to recognized government assistance
SPECIFIC CONSIDERATIONS	
Special grants	A government grant ▪ Awarded for giving immediate financial support or ▪ As compensation for expenses already incurred ▪ Is recognized as income in the period it becomes receivable
Non-monetary grants	▪ Non-monetary grant such as land or other resources is assessed at fair value and ▪ Both grant and asset are accounted for at that fair value

Sagar Limited belongs to the engineering industry. The Chief Account has prepared the draft accounts for the year ended 31.03.2012. You are required to advice the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standard.
The company purchased on 1.4.2011 a special purpose machinery for Rs. 25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years.

Solution

AS 12 'Accounting for Government Grants' regards two methods of presentation, of grants related to specific fixed assets, in financial statements as acceptable alternatives. Under the first method, the grant can be shown as a deduction from the gross book value of the machinery in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge.
Under the second method, it can be treated as deferred income which should be recognised in the profit and loss statement over the useful life of 10 years in the proportions in which depreciation on machinery will be charged. The deferred income pending its apportionment to profit and loss account should be disclosed in the balance sheet with a suitable description e.g., 'Deferred government grants' to be shown after 'Reserves and Surplus' but before 'Secured Loans'.
The following should also be disclosed:
(i) the accounting policy adopted for government grants, including the methods of presentation in the financial statements;
(ii) the nature and extent of government grants recognized in the financial statement of Rs. 6 lakhs is required to be credited to the profit and loss statement of the current year.

A Ltd. received Rs.20 lakh as government grant in the year 2016-17 related to preceding two year. During the preceding 2yrs company sold goods below market price to various distributors. The grant worked out as difference in selling price and market price multiplied by no. of units sold. No grant was received in last 2yrs though submissions were made. On the date of receipt of grant certain deductions were made related to sales not eligible for grant and balance was reimbursed. Determine when should A Ltd. recognize the grant

Answer

In case of selling goods under subsidy scheme there exists reasonable certainty that grant will be received. Hence A Ltd. should recognize the grant in the year of sale

B Ltd. received Government grant of Rs. 5 Crore for setting up a factory in remote location. Budgeted Expenses related to setting up will amount to Rs. 5 crore, Rs.4 crore, Rs.3 crore, Rs.4 crore and Rs.4 crore respectively. Actual expense incurred in year 1 and 2 were Rs.5 crore and Rs.8 crore and revised expectation of remaining years is Rs.3 crore, Rs.4 crore and Rs.4 crore. Determine Apportionment of Government grant as per Ind AS 20

Answer

Year	Budgeted exp	Basis of allocation	Grant a/c
0			5
1	5	5/20 * 5 = 1.25	3.75
2	8	8/25 * 3.75 = 1.2	2.55

X Ltd. purchased industrial land for Rs.1 Crore. As per the approved scheme, government grants 30% subsidy. Subsidy was received in same financial year. Determine accounting treatment as per Ind AS 20

Answer

Such government grant on non-monetary asset should be recognized in P&L at the time of purchase of land itself as there exists reasonable certainty that grant will be received.

Government provides a land worth Rs.10 crore to A Ltd. for Rs.2 crore. A Ltd. plans to build a factory on the land which is expected to earn revenue for the next 15yrs. determine accounting treatment

Answer

Land shall be recorded at fair value and difference of Rs.8 crore shall be transferred to Government grant account. Such amount shall be amortized over the next 15yrs equally to P&L i.e 0.53 crore every

ABC Ltd. received loan of Rs.10 crore from Government at discounted rate of 4% p.a. repayable after 5 years. Market interest rate is 10%. Determine accounting treatment
Answer

Year	Interest and Principal	PVF @ 10%	Present Value
0	-	1	-
1	40 lakhs	0.9091	36.36
2	40 lakhs	0.8264	33.06
3	40 lakhs	0.7513	30.05
4	40 lakhs	0.6830	27.32
5	1040 lakhs	0.6209	645.74
		TOTAL	772.53
		Amount Received	1000
		Govt. Grant	227.47

Accounting for loan

Year	Interest @ 10%	Repayment	Closing balance
0			772.53
1	77.25	40	809.78
2	80.98	40	850.76
3	85.07	40	895.83
4	89.58	40	945.41
5	94.59	1040	-

Accounting for government grant

Year	Interest @ 10%	Interest actually paid	Govt. Grant to be credited to P&L (difference)
0		-	-
1	77.25	40 lakhs	37.25
2	80.98	40 lakhs	40.98
3	85.07	40 lakhs	45.07
4	89.58	40 lakhs	49.58
5	94.59	40 lakhs	54.59
		TOTAL	227.47

Government grants *related to revenue* should be recognized on a systematic basis in *the profit and loss statement over the periods necessary to match them with the related costs* which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense.

Government grants of the nature of *promoters' contribution should be credited to capital reserve* and treated as a part of shareholders' funds.

Government grants in the form of **non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost**. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value.

Government grants that are receivable as **compensation for expenses or losses** incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, **should be recognized and disclosed in the profit and loss statement of the period in which they are receivable**, as an *extraordinary item* if appropriate (see Accounting Standard (AS) 5, Prior Period and Extraordinary Items and Changes in Accounting Policies).

A *contingency* related to a government grant, arising after the grant has been recognised, should be treated **in accordance with Accounting Standard (AS) 4**, Contingencies and Events Occurring After the Balance Sheet Date.

Government grants that become *refundable should be accounted for as an extraordinary item* (see Accounting Standard (AS) 5, Prior Period and Extraordinary Items and Changes in Accounting Policies).

The **amount refundable** in respect of a grant related to revenue should be applied *first against any unamortized deferred credit* remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where **no deferred credit exists, the amount should be charged to profit and loss statement**.

The amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, **depreciation on the revised book value should be provided prospectively** over the residual useful life of the asset.

Deductive Approach	• Increase book value of asset • depreciate PROSPECTIVELY
Additive Approach	• Reduce refundable amount from Capital Reserve

Government grants in the nature of promoters' contribution that become refundable should be reduced from the capital reserve.

On 1.4.2009 ABC Ltd. received Government Grant of Rs. 300 lakhs for acquisition of machinery costing Rs. 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The company had to refund the grant in May 2012 due to non-fulfillment of certain conditions. How would you deal with the refund of grant in the books of ABC Ltd.?

According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing the capital reserve or deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. The accounting treatment in both the alternatives can be given as follows:

Alternative 1:

		Rs. (in lakhs)
1st April, 2009	Acquisition cost of machinery (Rs. 1,500 – Rs. 300)	1,200.00
31st March, 2010	Less: Depreciation @ 20%	(240.00)
Book value		960.00
31st March, 2011	Less: Depreciation @ 20%	(192.00)
Book value		768.00
31st March, 2012	Less: Depreciation @ 20%	(153.60)
1st April, 2012	Book value	614.40
May, 2012	Add: Refund of grant	300.00
Revised book value		914.40

Depreciation @ 20% on the revised book value amounting Rs. 914.40 lakhs is to be provided prospectively over the residual useful life of the asset i.e. years ended 31st March, 2013 and 31st March, 2014.

Alternative 2:

ABC Ltd. can also debit the refund amount of Rs. 300 lakhs in capital reserve of the company.

Summary

Related to specific fixed Asset	**Deduct form value of asset or,**
	Created a deferred reserve account charged to P&L as deferred income account
Related to non-depreciable asset	**Credited to Capital Reserve**
Related to obligatory requirement	**Credit to P&L over the period of incurring cost of obligation**
Related to revenue	**Credit to P&L**
Non-monetary asset at concessional rate or no cost	**No accounting required**
Related to compensation for expense or loss	**Treated as extra-ordinary item**
Becomes refundable	**Treated as extraordinary expense**
(refund realted to specific fixed asset)	**Depreciate prospectively**

What are the disclosure requirements of AS 12?

The following should be disclosed:

i. the accounting policy adopted for government grants, including the methods of presentation in the financial statements;

ii. the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs. 50 crore in capital assets, received Rs. 10 crore from the Government in January, 2012 (accounting period being 2011-2012). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss ...2.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

Solution

As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.

A limited company has set up its business in a designated backward area and is entitled to a capital subsidy of 15% under a scheme in force. Accordingly, it received a subsidy of Rs. 30 lakhs on an investment of Rs. 200 lakhs in the unit. The accountant would like to treat it as income and reduce the losses made in the first year of its operations ending with 31st March, 2009. You are asked to advise the accountant, whether his view is in conformity with AS 12.

According to AS 12 states "where the Government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income".

Therefore, in the given case the subsidy is given with reference to the total investment in the unit located in the backward area by way of promoter's contribution, the amount should be treated as capital reserve and not income.

ACCOUNTING STANDARD – 16
BORROWING COSTS

What are Borrowing Costs?

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

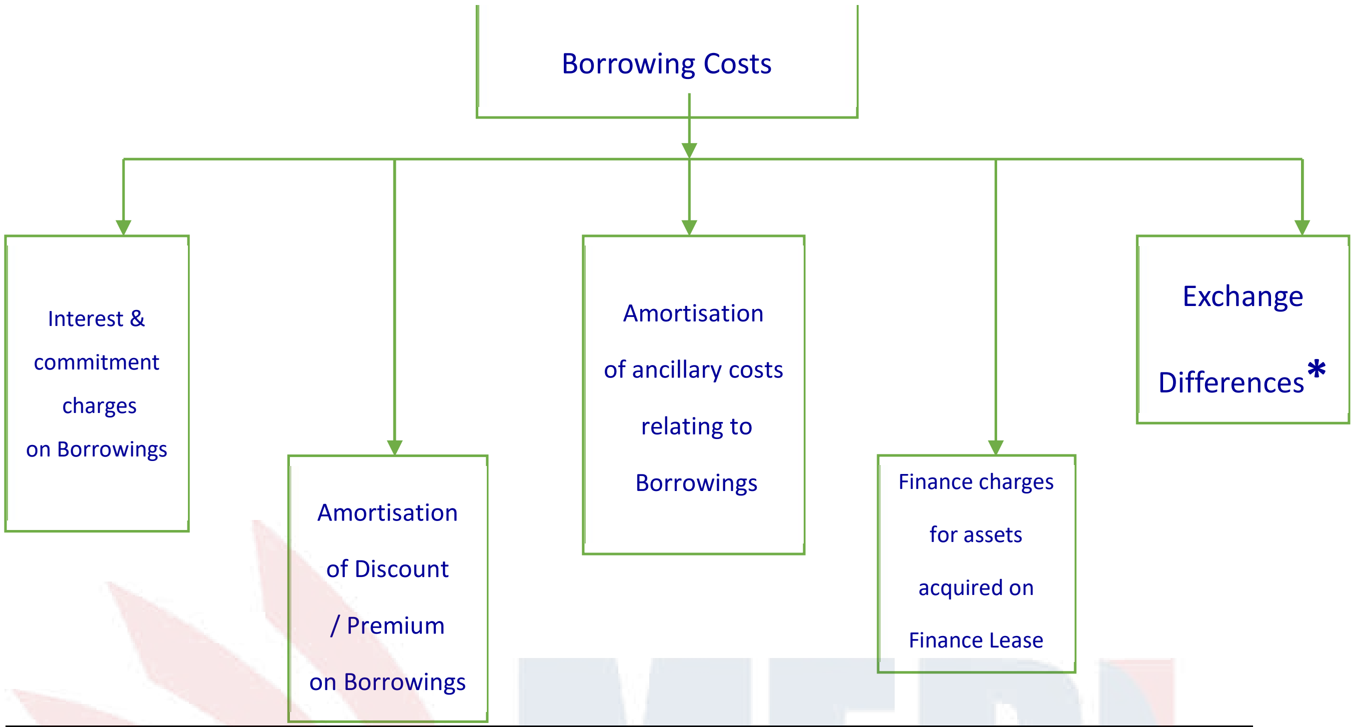
What is a Qualifying Asset?

A qualifying asset is an asset that necessarily takes a **substantial period of time to get ready** for its intended use or sale.

Qualifying assets (QA) As per Ind AS 23	A qualified asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Example include: I. Inventories (that are not produced over a short period of time.) II. Manufacturing plant III. Power generation facilities IV. Intangible assets V. Investment properties VI. Bearer plants Example that is not (AQ) I. Financial assets II. Assets that are ready for their intended use or sale when acquired

Borrowing costs may include:

1. *Interest and commitment charges* on bank borrowings and other short-term and long term borrowings;
2. Amortization of *discounts or premiums* relating to borrowings;
3. Amortization of *ancillary costs incurred* in connection with the arrangement of borrowings;
4. Finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
5. **Exchange differences** arising from foreign currency borrowings to the extent that **they are regarded as an adjustment to interest costs**.



Borrowing cost as per Ind AS 23 may include

1. **Interest expense calculated using the effective interest method**
2. **Finance charges in respect of finance lease**
3. **Exchange difference arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest cost.**

A company incorporated in June 2016, has setup a factory within a period of 8 months with borrowed funds. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. Answer with reference to AS 16.

As per para 3.2 to AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, Explanation to the above para states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

The above paras imply that there is a rebuttable presumption that a 12 months period constitutes substantial period of time. Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa. The substantial period criteria ensure that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization. Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalized although it has taken less than 12 months for the asset to get ready to use.

Firm produces its finished products in a peak season of five to six months in a year. No production takes place during the rest of the year. However sales takes place throughout the year and therefore large inventories need to be carried resulting in interest burden. Can this interest be included in the valuation

AS – 2 specifically excludes Interest cost in determining value of inventory. Also under AS 16, assets that are ready for their intended use/ sale when acquired are specifically excluded from Qualifying Assets.
Inventory which are produced in large quantity over a period of short time are not Qualifying asset. Hence in the instant case interest costs are not includible in the Asset cost
Such interest expense should be recognized in the statement of P&L in the period in which it is incurred.

Sweet & co. Is a sugar company. Due to the regulation by Central Government, the Company cannot decide, the quality to be sold in the markets. It is regulated on the basis of release orders issued by the Central Government and quantity to be sold is also notified by the Central Government on monthly basis. Because of the seasonal nature of production, the company has to carry large inventories throughout the year. The average holding period of the sugar stock is generally 12-15 months. In the years when there is surplus stock of sugar, the Government creates a buffer stock and reimburses the carrying charges to the sugar factories for the inventory to be carried by the sugar mill, which includes interest. Sweet & Co. Incurs high interest costs since borrowings are required to meet the large demand for the working capital and payment to sugarcane producers, Interest costs is the second largest item in the profit and loss account of the Company, next to raw materials consumed. Can interest be capitalized under AS 16 or AS 2 as cost of inventory?

A.S. Ltd. has taken a loan of Rs. 20 lacs which has been used to buy trees. The average remaining period for the maturity of tree, to be sold as timer, is three years. The company wants to include the interest cost for the period of three years in the inventory cost of timber. Comment
Answer
Interest paid on funds are necessary to hold the timber for prolonged period contributes to bring the asset to present condition. Thus interest cost can be capitalized as per AS 16

Treatment of Exchange Difference
Loan Amount : USD 10,000
Rate of Interest (in U.S.A.) : 8% p.a.
Exchange rate as at 01.04.2005 : Rs. 40 per USD
Exchange rate as at 31.03.2006 : Rs. 45 per USD
Rate of Interest (in India) : 12%
Computations to be made:

1. Interest for the Period = USD 10,000 x 8% x Rs. 45 = Rs. 36,000/-
2. Increase in liability towards the principal amount= USD 10,000 x (45-40)=Rs. 50,000/-
3. Interest if loan was raised in India = USD 10,000 x 40 x 12% = Rs. 48,000/-
4. Difference (2-1) = Rs. 48,000 – Rs. 36,000 = Rs. 12,000/-

Treatment of Exchange Difference of Rs.50,000

12,000
To be treated as borrowing cost as per AS-16

38,000
Transfer to P&L as Foreign Exchange Fluctuation

The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing costs incurred during the period

XYZ Ltd. has taken a loan of $10,000 on April 1, 2004, for a specific project at an interest rate of 6% p.a., payable annually. On April 1, 2004, the exchange rate between the currencies was Rs. 45 per $. The exchange rate, as at March 31, 2005, is Rs. 48 per $. The corresponding amount could have been borrowed by XYZ Ltd. in local currency at an interest rate of 11 per cent per annum as on April 1, 2004.

1. You are required to ascertain the amount of borrowing cost incurred and to be included under:
a. Para 4(a) of AS 16
b. Para 4(e) of AS 16
2. Is AS 11 applicable in the above case
3. What would be your answer if interest rate prevailing locally is 15% p. a.

Answer

The following computation would be made to determine the amount of borrowing costs for the purposes of paragraph 4(e) of AS 16:

(i) Interest for the period = USD 10,000 x 5%x Rs. 48/USD = Rs. 24,000
(ii) Increase in the liability towards the principal amount = USD 10,000 x (48-45)
= Rs. 30,000
(iii) Interest that would have resulted if the loan was taken in Indian currency
= USD 10,000 x 45 x 11% = Rs. 49,500
(iv) Difference between interest on local currency borrowing and foreign currency borrowing
= Rs. 49,500 – Rs. 24,000 = Rs. 25,500

Therefore, out of Rs. 30,000 increase in the liability towards principal amount, only Rs. 25,500 will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 49,500 being the aggregate of interest of Rs. 24,000 on foreign currency borrowings (covered by paragraph 4(a) of AS 16) plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 25,500

Thus, Rs. 49,500 would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 4,500 would be considered as the exchange difference to be accounted for as per Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates

Sun Co-operative Society Ltd. has borrowed a sum of US$12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4% . The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to the US dollar while the rate as on 31st March, 2012 is Rs. 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute 'Borrowing Cost'. Also show the amount of exchange difference as per prevailing Accounting Standards.

Computation of Borrowing Cost as per para 4(e) of AS 16" Borrowing Costs" and Amount of Exchange Difference as per AS 11 "The Effects of Changes in Foreign Exchange Rates":

(a) Interest for the period 2011-12
= US$ 12.5 million x 5% × Rs. 48 per US$ = Rs. 30 million
(b) Increase in the liability towards the principal amount
= US $ 12.5 million × Rs. (48 - 45) = Rs. 37.5 million
(c) Interest that would have resulted if the loan was taken in Indian currency
= US$ 12.5 million × Rs. 45 x 11% = Rs. 61.875 million
(d) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 61.875 million - Rs. 30 million = Rs. 31.875 million.

Therefore, out of Rs. 37.5 million increase in the liability towards principal amount, only Rs. 31.875 million will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 61.875 million being the aggregate of interest of Rs. 30 million on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 31.875 million.

Hence, Rs. 61.875 million would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 5.625 million (37.5 - 31.875) would be considered as the exchange difference to be accounted for as per AS 11.

Recognition:

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Statement. **Other borrowing costs should be recognised** *as an expense in the period* **in which they are incurred.**

An industry borrowed Rs.40,00,000 for purchase of machinery on 1.6.2007. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2008. Pass journal entry for the year ended 31.3.2008 to record the borrowing cost of loan as per AS 16.
Interest upto 31.3.2008 (40,00,000 × 9% ×10/12)= 3,00,000
Less: Interest relating to pre-operative period 3,00,000 *7/10 = 2,10,000
Amount to be charged to P&L A/c = 90,000
Pre-operative interest to be capitalized = 2,10,000
Journal Entry
Machinery A/c Dr. 2,10,000
To Loan A/c 2,10,000
(Being interest on loan for pre-operative period capitalized)
Interest on loan A/c Dr. 90,000
To Loan A/c 90,000
(Being the interest on loan for the post-operative period)
Profit and Loss A/c Dr. 90,000
To Interest on loan A/c 90,000
(Being interest on loan transferred to P&L A/c)

Borrowing Costs Eligible for Capitalization:

Borrowings Cost

Specifically for Qualifying Assets → Apply actual rate of Interest

Generally but part used for Qualifying Assets → Apply weighted average rate of interest

Capitalise the Borrowing Costs

X Ltd. had following general borrowings and investments in qualifying assets.

Source	Date of raising	Amount (Rs.)
12% Debentures	01.04.2004	1,500,000
15% Term Loan	01.04.2004	600,000
18% Term Loan	01.04.2004	400,000

Qualifying Assets	Amount (Rs.)	Date of Commencement	Date of Completion
A	600,000	01.04.2004	31.01.2005
B	500,000	01.05.2004	31.03.2005
C	400,000	01.07.2004	------

With the help of these details, determine for the year ended 31.03.2005

1. the amount of borrowing cost incurred

2. the amount of borrowing cost to be capitalised to qualifying assets

3. the amount of borrowing cost to be charged to revenue

Answer

Loan	Amount	Interest
12% Debenture	15,00,000	180,000
15% Term Loan	6,00,000	90,000
18% Term Loan	4,00,000	72,000

Weighted Average Interest Rate = 13.68%

A
Commence date: 1.4.2004
Completion date: 31.1.2005
Period = 10 months
Interest to be Capitalized = 6,00,000 * 13.68% * 10/12 months =68,400

B
Commence date: 1.5.2004
Completion date: 31.3.2005
Period = 11 months
Interest to be Capitalized = 5,00,000 * 13.68% * 11/12 months = 62,700

C
Commence date: 1.7.2004
Completion date: Yet to complete
Period = 9 months
Interest to be Capitalized = 4,00,000 * 13.68% * 9/12 months = 41,040

16.1 A.S. Ltd. is working on a new project for which a construction period of 2 years has been planned. The work started on 1-1-04. The company has availed bank loan from time to time in general. It has taken loan for this new project also. Following details are available regarding the loan, for the year 2004.

Date	Loan	Purpose
1-1-04	16% Rs. 10,00,000	General Requirement
1-7-04	15% Rs. 8,00,000	Plant for the new project
1-10-04	14% Rs. 6,00,000	General Requirement

The company has incurred expenses of Rs. 50,000 for general purpose and Rs. 1,20,000 in respect of the new project. Both these expenses qualify as borrowing costs to be capitalized. The qualifying assets at the end of year 2004 are:

New projects	Rs. 11,00,000
Other assets	3,00,000
Buildings	4,00,000

Find out the amount of borrowing costs to be capitalized for different assets for the year 2004

Answer

Date	Amount	Interest rate	Interest
1.1.2004	10,00,000	16%	160,000
1.10.2004	6,00,000	14%	21,000
	Incidental Exp		50,000
	TOTAL		231,000

Equivalent Loan Amount = 10,00,000 *12/12 + 6,00,000 * 3/12 = 11,50,000
Thus weighted Avg. Interest rate = 231,000 / 11,50,000 = 20.08%

Qualifying Asset	Loan Amount	Interest to be Capitalized

New Project	15% Rs. 800,000 loan	15% * 8,00,000 * 6/12 = 60,000
	Incidental Exp	120,000
	General borrowing	20.08% * 3,00,000 = 60,240
	Total	**240,240**
Other Assets	General Borrowing	3,00,000 * 20.36% = 60,240
Buildings	General Borrowing	4,00,000 * 20.08% = 80,320

How to treat excess carrying amount of qualifying asset as compared to realizable value?

When the carrying amount or the expected ultimate cost of the qualifying asset **exceeds its recoverable amount** or net realizable value, the carrying amount is **written down or written off** in accordance with the requirements of other Accounting Standards.

In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Accounting Standards.

Commencement of Capitalization:

Conditions

- Expenditure for the
  - acquisition
  - construction
  - production

  of a qualifying asset is being incurred
- Borrowing costs are being incurred
- Necessary activities for preparation of qualifying assets are in progress

Suspension of Capitalization:

Capitalisation of borrowing costs should be suspended *during extended periods* in which *active development is interrupted*.

Capitalisation of borrowing costs is also not suspended when ***a temporary delay*** is a necessary part of the process of getting an asset ready for its intended use or sale.

XYZ Ltd., has undertaken a project for expansion of capacity as per the following details:

	Plan	Actual
	Rs.	
April, 2012	2,00,000	2,00,000
May, 2012	2,00,000	3,00,000
June, 2012	10,00,000	–
July, 2012	1,00,000	–
August, 2012	2,00,000	1,00,000
September, 2012	5,00,000	7,00,000

The company pays to its bankers at the rate of 12% p.a., interest being debited on a monthly basis. During the half year company had Rs. 10 lakhs overdraft upto 31st July, surplus cash in August and again overdraft of over Rs. 10 lakhs from [illegible] June and hence could not continue the work during June. Work was again

commenced on 1st July and all the works were completed on 30th September. Assume that expenditure were incurred on 1st day of each month. Calculate:
(i) Interest to be capitalised.
(ii) Give reasons wherever necessary.
Assume:
(a) Overdraft will be less, if there is no capital expenditure.
(b) The Board of Directors based on facts and circumstances of the case has decided that any capital expenditure taking more than 3 months as substantial period of time.

Solution

(a) XYZ Ltd.

Month	*Actual Expenditure*	*Interest Capitalised*	*Cumulative Amount*	
	Rs.	Rs.	Rs.	
April, 2012	2,00,000	2,000	2,02,000	
May, 2012	3,00,000	5,020	5,07,020	
June, 2012	–	5,070	5,12,090	Note 2
July, 2012	–	5,120	5,17,210	
August, 2012	1,00,000	–	6,17,210	Note 3
September, 2012	7,00,000	10,000	13,27,210	Note 4
	13,00,000	**27,210**	**13,27,210**	

Note:
1. There would not have been overdraft, if there is no capital expenditure. Hence, it is a case of specific borrowing as per AS 16 on Borrowing Costs.
2. The company had a strike in June and hence could not continue the work during June. As per para 14 (c) of AS 16, the activities that are necessary to prepare the asset for its intended use or sale are in progress. The strike is not during extended period. Thus during strike period, interest need to be capitalised.
3. During August, the company did not incur any interest as there was surplus cash in August. Therefore, no amount should be capitalised during August as per para 14(b) of AS 16.
4. During September, it has been taken that actual overdraft is Rs. 10 lakhs only. Hence, only Rs. 10,000 interest has been capitalised even though actual expenditure exceeds Rs. 10 lakhs.
Alternatively, interest may be charged on total amount of (Rs. 6,17,210 + Rs. 7,00,000 = 13,17,210) for the month of September, 2012 as it is given in the question that overdraft was over Rs. 10 lakhs from 1.9.2012 and not exactly Rs. 10 lakhs. In that case, interest amount Rs. 13,172 will be capitalised for the month of September.

Cessation of Capitalization:

When capitalization of borrowing cost should be cease as per AS-16.?
Capitalization of borrowing costs should cease when substantially *all the activities necessary* to prepare the qualifying asset for its intended use or sale are *complete*.

Disclosure:

The financial statements should disclose:
a. the accounting policy adopted for borrowing costs; and
b. the amount of borrowing costs capitalised during the period.

Comparison

Ind AS 23	AS 16
No Option to capitalize borrowing cost is available for Qualifying asset measured at fair value like biological asset, inventories manufactured in large quantities on repetitive basis	No exception

Ind AS 23	AS 16
Borrowing cost may include 1. Interest expense calculated using the effective interest method 2. Finance charges in respect of finance lease 3. Exchange difference arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest cost.	Borrowing cost include 1. Interest and commitment charges on bank borrowings and other short term and long term borrowings 2. Amortization of discounts or premiums relating to borrowing 3. Amortization of ancillary cost incurred in connection with the arrangement of borrowings 4. Finance charges in respect of assets acquired under finance leases or under other similar arrangements and 5. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost

ACCOUNTING STANDARD – 17
SEGMENT REPORTING

Objective:

The objective of this Statement is to establish principles for reporting financial information, about the different types of *products and services an enterprise produces* and *the different geographical areas in which it operates.*

Identifying Reportable Segments:

Primary and Secondary Segment Reporting Formats

If the risks and returns of an enterprise are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically.

Geographical Segment- Primary & Business Segment- Secondary

Similarly, if the risks and returns of the enterprise are affected predominantly by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information should be geographical segments, with secondary information reported for groups of related products and services.

If risks and returns of an enterprise are strongly affected *both by differences in the products and services it produces and by differences in the geographical areas* then the enterprise should use *business segments as its primary segment reporting* format and geographical segments as its secondary reporting format;

If internal management structure of an enterprise and its system of internal financial reporting to the board of directors and the chief executive officer are based *neither on individual products or services or groups of related products/services nor on geographical areas,* the directors and management of the *enterprise should determine* whether the risks and returns of the enterprise are related more to the products and services it produces
…graphical areas in which it operates and should, accordingly,

choose business segments or geographical segments as the primary segment reporting format of the enterprise, with the other as its secondary reporting format.

Reportability	Condition	Primary Segment
Risk and returns affected	Difference in Product and service	BUSINESS SEGMENT
	Operation in different countries and Geographical areas	GEOGRAPHICAL SEGMENT

Operating segments as per Ind AS 108

- **an operating segment is a component of an entity:**
- **That engages in business activities from which it may earn revenues and incur expenses**
- **Whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about resources allocation and performance**
- **For which discrete financial information is available.**

Reportable Segments:

A business segment or geographical segment should be identified as a reportable segment if:

Revenue	Profit	Asset
10% or more of total revenue both internal and external	10% or more or combined profits or combined losses w.e.h.	10% or more of total assets

A business segment or a geographical segment, which is not a reportable segment as per paragraph 27, *may be designated as a reportable segment* despite its size at the *discretion of the management* of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent thresholds in paragraph 27, until at least 75 per cent of total enterprise revenue is included in reportable segments.

A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10 per cent thresholds **should *continue to be a reportable* segment for the current period notwithstanding that its revenue, result, and assets all no longer meet the 10 per cent thresholds.**

If a segment is identified as a reportable segment in the current period because it satisfies the relevant 10 per cent thresholds, preceding-period segment data that is presented for comparative purposes *should, unless it is impracticable to do so, be restated* to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the 10 per cent thresholds in the preceding period.

Following are the details of various segments of an enterprise.

(all figures are in Rs. Lakhs)

	A	B	C	D	E	F	G	H	I	J	K	L
External Sales	**100**	**170**	**220**	**400**	**200**	**210**	**500**	**200**	**210**	**260**	**260**	**120**
Transfer to other Segments	**0**	**30**	**30**	**100**	**0**	**40**	**200**	**20**	**0**	**60**	**0**	**0**
Total Turnover	**100**	**200**	**250**	**500**	**200**	**250**	**700**	**220**	**210**	**320**	**260**	**120**
Result	**10**	**15**	**30**	**40**	**(10)**	**(60)**	**50**	**(3)**	**15**	**11**	**15**	**5**
Assets	**120**	**130**	**500**	**600**	**120**	**110**	**700**	**200**	**200**	**500**	**250**	**100**

Segment A has to be reported as per management discretion.
In previous year segments B, C, D, G and J qualified the 10% threshold limit test.
You are required to identify the reportable segments for current year.

Answer
Reportable Segments as per revenue
Total Revenue = 3330
10% of total revenue = 333
Thus, reportable segments = D, G
Total of all Profit-making segments = 191
Total of all loss-making segments = 73
Whichever is higher = 191
10% of higher = 19.1
Thus, reportable segments = C, D, F and G
Total Assets = 3530
10% of total assets = 35.3
Reportable segments = C,D,G and J
Reportable as per management discretion = A
Reportable for qualifying previous year threshold limit = B,C,D,G and J
Thus, overall reportable segments = A, B, C, D, F, G and J
Total external sale of segments = 2850
Total external sale of reportable segments = 1860
%age = 1860 / 2850 = 65%
Thus further segments are required to be reported

P Ltd. Identifies the following as its segments and the respective contribution as a % of sales is given below. Identify reportable segments

Name of the Segment	% of Total Segmental Sales
1	22%
2	15%
3	6%
	20%

5	15%
6	5%
7	9%
10	8%

Answer

Reportable Segments = 1, 2, 4 and 5

Total of Reportable segments = 72%

Thus, further segments are required to be reported

M/s XYZ Ltd. Has three segments namely X, Y, Z. The total assets of the Company are Rs. 10.00 crores. Segment X has Rs. 2.00 crores, segment Y has Rs. 3.00 crores and segment Z has Rs. 5.00 crores. Deferred tax assets included in the assets of each segments are X- Rs. 0.50 crores, Y—Rs. 0.40 crores and Z—Rs. 0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are 8.8 crores [10 crores – (0.5+0.4+0.3)]. Segment X holds total assets of 1.5 crores (2 crores – 0.5 crores); Segment Y holds 2.6 crores (3 crores – 0.4 crores); and Segment Z holds 4.7 crores (5 crores – 0.3 crores). Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Disclosure:

1. An enterprise should disclose the following for each reportable segment:

2. Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

Includes	**Excludes**
• Direct Revenue • Inter segment income • Allocated income	• Extra ordinary item • Interest/ dividend income except they represent financial segment • Gain on sale of investment or redemption of liability except segment information is financial in nature

3. Segment result;

Includes	**Excludes**
• Expenses directly attributable • Expenses or transaction with other segment • Allocated income	• Extra ordinary item • Interest/ dividend income except they represent financial segment • E.g. Tax and Corporate Level Exp.

4. Total carrying amount of segment assets;

Includes	**Excludes**
• Operating Assets directly attributable • Operating assets allocated on reasonable basis • Includes goodwill if that can be directly attributable to a segment, or if it can be attributed on reasonable basis	• Income tax aasts i.e.advance tax • Corporate assets

5. Total amount of segment liabilities;

Includes	**Excludes**
• Arising out of operation directly attributable to the segment • Arising from operation allocated on a reasonable basis to segment	• Provision for tax • Corporate level borrowing

6. Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);
7. Total amount of expense included in the segment result for depreciation and 94mortization in respect of segment assets for the period; and
8. Total amount of significant non-cash expenses, other than depreciation and 94mortization in respect of segment assets, those were included in segment expense and, therefore, deducted in measuring segment result.

An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation, segment revenue should be reconciled to enterprise revenue; segment result should be reconciled to enterprise net profit or loss; segment assets should be reconciled to enterprise assets; and segment liabilities should be reconciled to enterprise liabilities.

Non Allocations

- Extra ordinary items
- Interest
- Dividend income
- Income taxes
- Overhead, general administration
- Sales of investments
- Share of profit of associate, joint venture

Primary Disclosure

- Segment revenue with internal and external sales
- segment result
- segment assets
- Capital Expenditure i.e. expenditure on purchase of fixed asssets
- segment liability
- depreciation on segment fixed assets
- non- cash expenses except depreciation in case of fixed assets

Secondary Segment Disclosure

Business segment is primary	Geographical segment based on location of customer are primary	Geographical segment based on location of assets as prmiary
Segment revenue of geographical segment by location of customer	Segment revenue of business segment	Segment revenue of business segment
Segment assets of geographical segment by location of assets	Segment assets of business segment	Segment assets of business segment
Segment capital expenditure by geographical segment by location of assets	Segment capital expenditure of business segment	Segment capital expenditure of business segment
	Segment assets of geographical segment based on location of assets	Segment Revenue of geographical segment based on location of customer
	segment capital expenditure of geographical segment based on location of assets	

Disclosures as Per Ind AS 108

- General information
  - Factors used to identify reportable segment
  - Mgmt judgments in applying aggregation CRITARIA
  - Types of products and service from which each reportable segment derives its revenues.
- Information about profit or loss and total assets for each reportable segment
  - Only if this information is regularly provided to the CODM
  - Other discloser for each reportable segment required if specific amount are provided to the CODM
- Reconciliations
  - Operating segment information disclosed must be reconciled back to Ind AS amounts disclosed in the financial statements
- Entity –wide disclosures following geographical information:
  - Revenues from the external customers + non-current asset located both in the entity's country of domicile and in foreign countries.
- Information about major customers
  - If revenue from transactions with a signal external customer to 10% or more of an entity's revenues, the entity discloses that fact.

Ind AS 108	AS 17
Identification of segments under Ind AS 108 is based on 'management approach' i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker	AS 17 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments

Ind AS 108	AS 17
Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance.	AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

Ind AS 108	AS 17
Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard	AS 17 does not deal specifically with this aspect.

Ind AS 108	AS 17
requires certain disclosures even in case of entities having single reportable segment	An explanation has been given in AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this standard is not required to be disclosed. However, this fact shall be disclosed by way of footnote

Ind AS 108	AS 17
Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.	An explanation has been given in the existing AS 17 that interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest.