**Unit-1**

**ACCOUNTING STANDARDS**

Accounting standards codify the generally accepted accounting principles. They lay down the norms of accounting policies and practices by way of codes or guidelines to direct as to how the items appearing in the financial statements should be dealt with in the books of account and shown in the financial statements and annual reports. They present the general principles to be put to application using professional judgment.

The main purpose of accounting standards is to provide information to the user as to the basis on which the accounts have been prepared. They make the financial statements of different business unit or the financial statements of the same business unit comparable. In the absence of accounting standards, comparison of different financial statements may lead to misleading conclusions. Accounting standards bring about uniformity of assumptions, rules and policies adopted in financial reporting and thus they ensure consistency and comparability in the data published by the business enterprises. To be useful, an accounting standard must be capable of being well understood and it must be able to reduce significantly the degree of manipulation of the reported data.

**Meaning of Accounting Standards**

Accounting Standards are written policy document issued by expert accounting body or by government or regulatory body covering the aspects of recognition, treatment, measurement, presentation and disclosure of accounting transaction and events in the financial statements. Accounting Standards (ASs) provide framework and standard accounting policies so that financial statements of different enterprises become comparable. The Accounting Standards seek to ensure that the financial statements of an enterprise should give a true and fair view of its financial position and working results. The Accounting Standards not only prescribe appropriate accounting treatment of complex business transactions but also foster greater transparency and market discipline.

Accounting Standards promote:

* Uniformity.
* Rationalization.
* Comparability.
* Transparency.

**Accounting Standards in India**

Realising that there was a need of accounting standards in India and keeping in view the international developments in the field of accounting, the Council of the Institute of Chartered Accountings of India constituted the Accounting Standards Board (ASB) in April, 1977. The Accounting Standards Board is performing the function of formulating the accounting standards. While doing so, it takes into account the applicable laws, customs, usages and business environment. It gives adequate representation to all the interested parties. The Board consists of representatives of industries, Central Board of Direct Taxe and the Comptroller and Auditor General of India.

To start with, ASB finalized the procedure to be followed in the formulation of standards. The "Preface to the Standards of Accounting Standards" was issued in January, 1979. The preface outlines scope and functions of ASB, the scope of accounting standards, the procedure to be followed by ASB in formulating the standards and the phased manner in which the compliance with the standards will be encouraged by the Institute.

Hence, the Institute of Chartered Accountants of India (ICAI) being apex accounting body in India constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonies the diverse accounting policies and practices in use in India. While formulating accounting standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country. The ASB also gives due consideration to International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by IASB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India.

**Procedure of Preparing Accounting Standards**

The Accounting Standards Board determines the broad areas in which accounting standards are to be formulated and the priority which is to be given to each one of the selected areas. In the task of preparation of accounting standards. ASB is assisted by different study groups constituted to conisider specific subjects. In the formation of study groups, care is taken that there is wide participation by members of the Institute of Chartered Accountants and other bodies. A dialogue is held with the representatives of the Government, the public sector undertakings, industries and other organisations to ascertain their views. Then, an exposure draft of the proposed accounting standard is prepared and issued for comments by the members of the Institute and the public at large. The draft is sent to various outside bodies like **FICCI, ASSOCHAM, SCOPE, C&AG, ICWA1, 1CSI, CBDT** etc. for their views. The draft includes the following points :

(i) A statement of concepts and fundamental accounting principles relating to the standard,

(ii) Definitions of the terms used in the standard.

(iii) The manner in which the accounting principles have been applied for formulating the standard.

(iv) The presentation and disclosure requirements in complying with the standard. .

(v) Class of enterprises to which the standard will apply,

(vi) Date from which the standard will be effective.

After taking into the consideration the comments received from different quarters, the draft of the proposed standard is finalised by the Accounting Standards Board and submitted to the Council of the Institute of Chartered Accountants of India for the latter's approval. The Council considers the draft and if found necessary, modifies it in consultation with the Accounting Standards Board. Finally. the accounting standard is issued under the authority of the Council. Initially, the standard is made recommendatory and after some time it is made mandatory.

**Indian Accounting Standards**

The accounting standards board of the Institute of Chartered Accountants of India has issued the following Accounting Standards:

* AS 1 – Disclosure of Accounting policies
* AS 2 – Valuation of Inventories
* AS 3 –  Cash Flow Statement
* AS 4 –  Contingencies and Events Occurring after the Balance Sheet Date
* AS 5 – Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
* AS 6 – Depreciation Accounting
* AS 7 – Construction Contracts (revised 2002)”’
* AS 8 – Accounting for Research and Development (AS-8 is no longer in force since it was merged with AS-26)
* AS 9 –  Revenue Recognition
* AS 10 – Accounting for Fixed Assets
* AS 11 – The Effects of Changes in Foreign Exchange Rates (revised 2003)
* AS 12 – Accounting for Government Grants
* AS 13 –  Accounting for Investments
* AS 14 – Accounting for Amalgamations
* AS 15 –  Employee Benefits (revised 2005)
* AS 16 – Borrowing Costs
* AS 17 – Segment Reporting
* AS 18 – Related Party Disclosures
* AS 19 – Leases
* AS 20 –  Earnings Per Share
* AS 21 – Consolidated Financial Statements
* AS 22 – Accounting for Taxes on Income.
* AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements
* AS 24 – Discontinuing Operations
* AS 25 – Interim Financial Reporting
* AS 26 – Intangible Assets
* AS 27 – Financial Reporting of Interests in Joint Ventures
* AS 28 – Impairment of Assets
* AS 29 – Provisions, Contingent` Liabilities and Contingent Assets
* AS 30 – Financial Instruments: Recognition and Measurement
* AS 31 – Financial Instruments: Presentation

1. **Accounting Standard (AS 1) (Disclosure of accounting policies)**  
   This accounting standard guides to company accountants for making their companies financial statements. After making financial statement, it should disclose all financial information of business because business of company is not the business of one man. It is also duty of accountant to make and disclose also extra accounting policy if company is using different depreciation, stock and investment valuation method. This accounting standard is made also for public interest and providing them full financial information. After they can take the decision of investment by purchasing the shares of company from stock exchange.  
   **Accounting Standard(AS2)(Valuation of Inventories:** This accounting standard is very helpful to calculate the value of inventories. ASB comprise all stocks which are purchased for sale or production in inventories.  
   Value of stock is not fixed by single formula but this standard provides following guidelines for calculating the value of inventories.   
   1. stock must be valued on cost or net realizable value which is lower .
2. Every company is free to use FIFO, LIFO or weighted average method for proper calculation of the value of inventories.
3. Cost of inventories = cost of raw material + cost of direct labour + cost of direct expenses.
4. Companies are also free to use standard cost method or retail cost method for calculating the value of inventories.
5. An inventory does not encompass the value of tools which is used for repair of machinery.
6. **Accounting Standard ( AS 3)(Cash flow statement)**  
   Accounting standard three which is revised in 1997 states that cash flow statement is a necessary statement under this standard for banks , financial institute or any institute whose annual turnover is more than Rs. 50 crores or any institute who has borrowed money more than Rs. 10 crores. This standard does not provide the Performa of cash flow statement but deeply explain the two way of making this statement .  
   **1. Way Direct Method: Under** this method, cash flow statement is made by inflow and outflow of cash in operating, investing and financial activities.

**2. Way Indirect method:** It is different from direct method. Under this method cash from operating activities is calculated on the basis of net profit after different adjustments of non cash and non operating items like depreciation, interest, dividend paid and also adjusting net changes in working capital. All other part of cash flow from investing and financial activities is as same as direct method.

**Accounting standard (AS 4)(Contingencies and events occurring after the balance sheet date) :** Accounting standard four provides the rules of accounting treatment of losses due to contingencies and event happening after balance sheet date but before approving of balance sheet by board of directors.  
Any contingencies like loss by fire or liabilities due to employee’s accident should be provided in financial statement after these contingencies losses are confirmed. Impairment losses of assets is also covered under AS Any losses due to happening of any event is also shown in financial statement before approving financial statement

**Accounting standard (AS 5) Profit or loss for the period prior of changing accounting policies:-** ICAI’s this standard explains two simple rules  
  
1. All ordinary and extraordinary items relating to the financial statement should be disclosed if it effects on profit or loss period before changing of accounting policies.  
  
2. If accounting policies are changed. Then it is the duty of enterprise to disclose all important items relating to income and expenditures, so that profit or losses before the period and after period of changes of accounting policies can easily compare with other enterprises business.

**Accounting standard (AS 6) accounting of Depreciation:** Accounting standard 6 explains rules and regulations regarding charging of depreciation on any fixed asset. These rules can be explained in following way.  
  
1. Depreciation must be charged on fixed assets which is used in business for more than one year.

2. Depreciation should charge with consisted method of charging depreciation. Two famous method of charging depreciation are straight line and reducing balance method.

3. Rate of depreciation should be according to company law 1956 and if it is not written in it then companies are free to charge depreciation with appropriate rate of depreciation.

4. Any company can also change the method of charging depreciation. But its effect in the form of deficiency or surplus also should show in profit and loss account of business.

5. Deficiency due to changing the method of depreciation will be debited in profit and loss account and surplus due to changing the method of depreciation will be credited in profit and loss account of business.

**Accounting standard (AS 7 )Accounting of construction contracts**  
Construction contracts are those contracts relating to build of dam, building, pipelines, ships and other fixed assets. The nature of business is different from business of general manufacturing. Because time of completing contract is more than the time of accounting period. So, ICAI makes some rules and regulation that should be adopt in the business relating to construction.  
  
1. Construction Company should identify all their resources of revenue. It may be fixed at the time of contract or it may be cost plus profit basis. So, it is necessary to make contract account statement in which all revenue of construction business must be shown.

2. Costs of contract comprise all raw material labour and other expenses which incurred for completing of contact. These costs should also calculate and deduct from revenue for calculating net earnings from each contract.

**Accounting standard (AS 8)(Accounting for research and development)**  
Research and development is important department of any company. AS 8 cares its accounting treatment and related to calculate its proper cost and charging on profit and loss account.

**Ist part** Calculate the cost of research and development with following formula  
**= Cost of raw material used in research and development + Cost of wages and salaries of employees working in this department +depreciation of assets used in this department + amortization cost of patents and licenses + other related cost.**

**2nd part:** This part is related to charge the written off proportion to profit and loss account. For this company’s accountant should see what will company gets future benefits and how many years will company get these profits. On this estimation, company will charge written off cost to debit side of profit and loss account and rest amount of deferred expenditure of research and development will be shown in balance sheet’s asset side under miscellaneous expenditures.

***Accounting Standard (AS 9) Revenue recognition:*** Accounting standard of India explains the concept of revenue deeply. When goods are sold or services rendered. At this time it is deemed that money is earned by enterprise. There is also revenue from interest, royalty and dividend. Revenue recognition standard comprises different earning relating to advertising and other services projects when these are completed by professionals. But this standard also provides guidance about revenue recognition in following cases.

* If stock is sold on approval basis then, revenue is generated only when the buyer gives the approval.
* In case of agency business revenue will be recognized when risk of ownership also transferred under consignment.

***Accounting Standard (AS 10)(Accounting of fixed assets)***  
Accounting standard 10 of ICAI helps professional accountants for proper accounting treatment [of fixed assets](http://svtuition.blogspot.com/2009/02/how-to-make-fixed-asset-account-under.html).

**Determination of cost of fixed assets**

**Assets purchase value + all cost to bring the fixed assets to plant.**   
  
**New extension of fixed assets**: Any new extensions are capital nature expenditure and it will include in the total value of respective fixed assets.  
  
Goodwill is also treated as fixed asset in balance sheet if the amount is for this paid. In fixed assets, Enterprise will also include the amount of knowhow and patents.  
  
***Accounting standard ( AS 11 )Effect of changes of foreign exchange rates***   
There are two main reasons for providing effect of changes of [foreign exchange](http://svtuition.blogspot.com/2008/12/foreign-exchange-accounting-facility-in.html) rates on accounting.

1. When goods are sold or buy in price which is dominated in foreign currency.
2. When enterprise is doing any foreign operations.

**Calculate the value of foreign exchange profit or loss**   
It is very simple when any transaction is done, this date is called closing date and we can calculate foreign exchange profit or loss on the basis of exchange rate. If it is rated to purchasing or selling related profit from foreign exchange currency. Then it will show as capital reserve. Otherwise it is revenue earning and it will transfer to profit and loss account.

***Accounting standard (AS 12) (Accounting treatment of Govt. grants)***   
The Govt. grant means any benefit given by govt. in the form of subsidy,

reduction in duty and taxes and other non monetary help . Accounting standard accepts two ways for providing accounting treatment of govt. grants. If it is received by any special enterprise.

**First way :** To show as capital earning and include it in the value of shareholder fund in liability side of balance sheet and also shown in bank in current assets side .  
  
  
**2nd Way:**Transfer all govt. grants to the credit side of profit and loss account   
  
**Accounting Standard (AS) 13 Accounting for Investments**

This Standard deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.

This Standard does not deal with:

(a) the bases for recognition of interest, dividends and rentals earned on investments which are covered by Accounting Standard 9 on Revenue Recognition;

(b) Operating or finance leases;

(c) Investments of retirement benefit plans and life insurance enterprises; and

(d) Mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 1956

**Accounting Standard (AS) 14 Accounting for Amalgamations**

1. This standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. This standard is directed principally to companies although some of its requirements also apply to financial statements of other enterprises.

2. This standard does not deal with cases of acquisitions which arise when there is a purchase by one company (referred to as the acquiring company) of the whole or part of the shares, or the whole or part of the assets, of another company (referred to as the acquired company) in consideration for payment in cash or by issue of shares or other securities in the acquiring company or partly in one form and partly in the other. The distinguishing feature of an acquisition is that the acquired company is not dissolved and its separate entity continues to exist.

**Accounting Standard (AS) 15 Employee Benefits**

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an enterprise to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

**Accounting Standard (AS) 16 Borrowing Costs**

The objective of this Standard is to prescribe the accounting treatment for borrowing costs.

Scope

1. This Standard should be applied in accounting for borrowing costs.

2. This Standard does not deal with the actual or imputed cost of owners’ equity, including preference share capital not classified as a liability.

**Definitions**. The following terms are used in this Standard with the meanings specified:

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

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

**Accounting Standard (AS) 17 Segment Reporting**

This Accounting Standard is not mandatory for Small and Medium Sized Companies, as defined in the Notification. Such companies are however encouraged to comply with the Standard.

Objective

The objective of this Standard 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. Such information helps users of financial statements:

(a) Better understand the performance of the enterprise;

(b) Better assess the risks and returns of the enterprise; and

(c) Make more informed judgements about the enterprise as a whole.

Many enterprises provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about different types of products and services of an enterprise and its operations in different geographical areas - often called segment information - is relevant to assessing the risks and returns of a diversified or multi-locational enterprise but may not be determinable from the aggregated data. Therefore, reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements.

**Accounting Standard (AS) 18 Related Party Disclosures**

The objective of this Standard is to establish requirements for disclosure of:

(a) Related party relationships; and

(b) Transactions between a reporting enterprise and its related parties.

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise as also to consolidate financial statements presented by a holding company.

**Accounting Standard (AS) 19 Leases**

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

Scope

1. This Standard should be applied in accounting for all leases other than: (a) lease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights; and (b) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and (c) lease agreements to use lands.

2. This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. On the other hand, this Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

**Accounting Standard (AS) 20 Earnings Per Share**

This Accounting Standard is mandatory for all companies. However, disclosure of diluted earnings per share (both including and excluding extraordinary items) is not mandatory for Small and Medium Sized Companies, as defined in the Notification. Such companies are however encouraged to make these disclosures.

Objective:

The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. The focus of this Standard is on the denominator of the earnings per share calculation. Even though earnings per share data has limitations because of different accounting policies used for determining ‘earnings’, a consistently determined denominator enhances the quality of financial reporting.

**Scope:**

1. This Standard should be applied by all companies. However, a Small and Medium Sized Company, as defined in the Notification, may not disclose diluted earnings per share (both including and excluding extraordinary items).

2. In consolidated financial statements, the information required by this Statement should be presented on the basis of consolidated information.

**Accounting Standard (AS) 21 Consolidated Financial Statements**

The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary (ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources.

Scope

1. This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.

2. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

3. In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the financial statements.

4. This Standard does not deal with: (a) methods of accounting for amalgamations and their effects on consolidation, including goodwill arising on amalgamation (see AS 14, Accounting for Amalgamations); (b) accounting for investments in associates (at present governed by AS 13, Accounting for Investments 2) and (c) accounting for investments in joint ventures (at present governed by AS 13, Accounting for Investments3).

**Accounting Standard (AS) 22 Accounting for Taxes on Income**

The objective of this Standard is to prescribe accounting treatment for taxes on income. Taxes on income are one of the significant items in the statement of profit and loss of an enterprise. In accordance with the matching concept, taxes on income are accrued in the same period as the revenue and expenses to which they relate. Matching of such taxes against revenue for a period poses special problems arising from the fact that in a number of cases, taxable income may be significantly different from the accounting income. This divergence between taxable income and accounting income arises due to two main reasons. Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss

Scope

1. This Standard should be applied in accounting for taxes on income. This includes the determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and the disclosure of such an amount in the financial statements.

2. For the purposes of this Standard, taxes on income include all domestic and foreign taxes which are based on taxable income.

3. This Standard does not specify when, or how, an enterprise should account for taxes that are payable on distribution of dividends and other distributions made by the enterprise.

**Accounting Standard (AS) 23 accounting for Investments in Associates in Consolidated Financial statements**

The objective of this Standard is to set out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group.

Scope

1. This Standard should be applied in accounting for investments in associates in the preparation and presentation of consolidated financial statements by an investor.

2. This Standard does not deal with accounting for investments in associates in the preparation and presentation of separate financial statements by an investor.

**Accounting Standard (AS) 24 Discontinuing Operations**

The objective of this Standard is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations.

Scope

1. This Standard applies to all discontinuing operations of an enterprise.

2. The requirements related to cash flow statement contained in this Standard are applicable where an enterprise prepares and presents a cash flow statement.

**Accounting Standard (AS) 25 Interim Financial Reporting**

The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in a complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity.

Scope

1. This Standard does not mandate which enterprises should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard.

2. A statute governing an enterprise or a regulator may require an enterprise to prepare and present certain information at an interim date which may be different in form and/or content as required by this Standard. In such a case, the recognition and measurement principles as laid down in this Standard are applied in respect of such information, unless otherwise

3. The requirements related to cash flow statement, complete or condensed, contained in this Standard are applicable where an enterprise prepares and presents a cash flow statement for the purpose of its annual financial report.

**Accounting Standard (AS) 26 Intangible Assets**

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. This Standard requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

**Scope:** This Standard should be applied by all enterprises in accounting for intangible assets, except:

(a) intangible assets that are covered by another Accounting Standard; (b) financial assets; (c) mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources; and (d) intangible assets arising in insurance enterprises from contracts with policyholders.

Accounting Standard (AS) 27 Financial Reporting of Interests in Joint Ventures

This Standard is mandatory in respect of separate financial statements of an enterprise. In respect of consolidated financial statements of an enterprise, this Standard is mandatory in nature where the enterprise prepares and presents the consolidated financial statements.

**Objective**

The objective of this Standard is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors.

**Scope**

1. This Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors, regardless of the structures or forms under which the joint venture activities take place.

2. The requirements relating to accounting for joint ventures in consolidated financial statements, contained in this Standard, are applicable only where consolidated financial statements are prepared and presented by the venture.

**Accounting Standard (AS) 28 Impairment of Assets**

The objective of this Standard is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the enterprise to recognise an impairment loss. This Standard also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

**Scope :**This Standard should be applied in accounting for the impairment of all assets, other than: (a) inventories (see AS 2, Valuation of Inventories); (b) assets arising from construction contracts (see AS 7, Construction Contracts); (c) financial assets1, including investments that are included in the scope of AS 13, Accounting for Investments; (d) deferred tax assets (see AS 22, Accounting for Taxes on Income).

**Accounting Standard (AS) 29 Provisions, Contingent Liabilities and Contingent Assets**

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

Scope: This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except: (a) those resulting from financial instruments that are carried at fair value; (b) those resulting from executor contracts, except where the contract is onerous;

**Accounting Standard (AS) 30 Financial Instruments: Recognition and Measurement**

The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in Accounting Standard.

**Accounting Standard (AS) 31 Financial Instruments: Presentation**

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in Indian AS 29.

**Meaning of International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

Having an international standard is especially important for large companies that have subsidiaries in different countries. Adopting a single set of world-wide standards will simplify accounting procedures by allowing a company to use one reporting language throughout. A single standard will also provide investors and auditors with a cohesive view of finances.

Currently, over 100 countries permit or require IFRS for public companies, with more countries expected to transition to IFRS by 2015. Proponents of IFRS as an international standard maintain that the cost of implementing IFRS could be offset by the potential for compliance to improve credit ratings.

IFRS is sometimes confused with IAS (International Accounting Standards), which are older standards that IFRS has replaced.

**History of International Financial Reporting Standards (IFRS)**

The IASB has continued to develop standards calling the new standards International Financial Reporting Standards (IFRS).

On 1 April 2001, the new International Accounting Standards Board took over from the IASC the responsibility for setting International Accounting Standards.

IAS was issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC).

**Accounting principles and applicability of IFRS**

The IASB has the authority to set IFRS and to approve interpretations of those standards. IFRSs are intended to be applied by profit-orientated entities. These entities’ financial statements give information about performance, position and cash flow that is useful to a range of users in making financial decisions. These users include shareholders, creditors, employees and the general public. A complete set of financial statements includes a: • Balance sheet. • Statement of comprehensive income. • Cash flow statement. • Statement of changes in equity. • A description of accounting policies. • Notes to the financial statements. The concepts underlying accounting practices under IFRS are set out in the IASB’s ‘Framework for the preparation and presentation of financial statements.

**List of International Financial Reporting Standard**

 IFRS 1 First-time Adoption of International Financial Reporting Standards

 [IFRS 2](https://www.iasplus.com/en/standards/ifrs/ifrs2) Share-based Payment

 [IFRS 3](https://www.iasplus.com/en/standards/ifrs/ifrs3) Business Combinations

 [IFRS 4](https://www.iasplus.com/en/standards/ifrs/ifrs4) Insurance Contracts

 [IFRS 5](https://www.iasplus.com/en/standards/ifrs/ifrs5) Non-current Assets Held for Sale and Discontinued Operations

 [IFRS 6](https://www.iasplus.com/en/standards/ifrs/ifrs6) Exploration for and Evaluation of Mineral Assets

 [IFRS 7](https://www.iasplus.com/en/standards/ifrs/ifrs7) Financial Instruments: Disclosures

 [IFRS 8](https://www.iasplus.com/en/standards/ifrs/ifrs8) Operating Segments

 [IFRS 9](https://www.iasplus.com/en/standards/ifrs/ifrs9) Financial Instruments

 [IFRS 10](https://www.iasplus.com/en/standards/ifrs/ifrs10) Consolidated Financial Statements

 [IFRS 11](https://www.iasplus.com/en/standards/ifrs/ifrs11) Joint Arrangements

 [IFRS 12](https://www.iasplus.com/en/standards/ifrs/ifrs12) Disclosure of Interests in Other Entities

 [IFRS 13](https://www.iasplus.com/en/standards/ifrs/ifrs13) Fair Value Measurement

**IFRS 1 First-time Adoption of International Financial Reporting Standards**

The main objective of IFRS 1 is to ensure that the entity’s financial statements that firstly adopted IFRS contain high quality of information for benefit of users of Financial Statement. It try to make sure that transitional cost is not exceed the benefit of adoption along with the guidance on how and here to start it first time adoption.

**IFRS 2 Share-based payment**

The objective of IFRS 2 Share-based payment is to specify the financial reporting by an entity when it undertakes a share-based payment transaction.   
IFRS 2 requires an entity to reflect the effect of share-based payment transactions (including share options to employees) in its profit or loss and statement of financial position.

**What is a share-based payment transaction?**

* Share-based payment transaction is a transaction in which the entity:

Receives goods or services from the supplier (including employee) in a share-based payment arrangement.

Incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

**IFRS 3 Business Combinations**

The ***objective*** of IFRS 3 Business Combinations is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a ***business combination*** and its effects.

More specifically, IFRS 3 establishes principles and requirements for how the acquirer:

* Recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire.
* Recognizes and measures the goodwill acquired in the business combination, or a gain from a bargain purchase.
* Determines what information to disclose about the business combination.

[**IFRS 4**](https://www.iasplus.com/en/standards/ifrs/ifrs4)**Insurance Contracts**

Insurance contracts are contracts where an entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if the insured event adversely affects the policyholder. The risk transferred in the contract must be insurance risk, which is any risk except for financial risk.

IFRS 4 applies to all issuers of insurance contracts whether or not the entity is legally an insurance company. It does not apply to accounting for insurance contracts by policyholders.

[**IFRS 5**](https://www.iasplus.com/en/standards/ifrs/ifrs5)**Non-current Assets Held for Sale and Discontinued Operations**

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

Defined terms

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to re-sale. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

[**IFRS 6**](https://www.iasplus.com/en/standards/ifrs/ifrs6)**Exploration for and Evaluation of Mineral Assets**

The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources. • In particular, the IFRS requires: (a) limited improvements to existing accounting practices for exploration and evaluation expenditures.

(b) Entities that recognise exploration and evaluation assets to assess such assets for impairment in accordance with this IFRS and measure any impairment in accordance with IAS 36 Impairment of Assets.

(c) disclosures that identify and explain the amounts in the entity’s financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

# IFRS 7 - Financial Instrument Disclosures

Users of financial statements frequently needs information about the impact of financial instruments on the financial aspects of the entity, including entity’s exposure to any risks relating to those financial instruments and how entity manages associated risks.

This standard prescribes the disclosure requirements relating to financial instruments, which are to be provided by the entity in its financial statements to enable the users of financial statements, to analyze the

* The impact of financial instruments on the financial performance and position of the entity and
* The entity’s exposure to the risks relating to its financial instruments, the nature and extent of risks arising from such financial instruments during the year and at the end of accounting period, along with the strategies of the entity to manage those risks

**IFRS8 – Operating Segments**

The accounting standard IFRS 8 sets out how entities should report information about their operating segments in annual financial statements and interim financial reports and gives requirements for related disclosures about products and services, geographical areas and major customers.

**IFRS 9 Financial Instruments**

The objective of this Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

**IFRS 10 Consolidated Financial Statements**

The objective of IFRS 10 as set out in the standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. To meet this objective, the standard:

* Requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
* Defines the principle of “control”, and establishes control as the basis for consolidation;
* Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
* Sets out the accounting requirements for the preparation of consolidated financial statements; and
* Defines an investment entity and sets out the exception to consolidating particular subsidiaries of an investment entity.

**IFRS 11 Joint Arrangements**

The objective of IFRS 11 Joint Arrangements is to establish principles for financial reporting by entities that ***have an interest in arrangements that are controlled jointly*** (i.e. joint arrangements).

To meet this objective, IFRS 11:

* Defines joint control;
* Requires determining the type of joint arrangement; and
* Account for the interest in a joint arrangement based on the type.

Standard IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the *unanimous consent* of the parties sharing control.

**IFRS 12 Disclosure of Interest in other entities**

The objective of IFRS 12 as set out in the standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

* the nature of, and risks associated with, its interests in other entities; and
* The effects of those interests on its financial position, financial performance and cash flows.

To meet this objective, an entity shall disclose: The significant judgements and assumptions it has made in determining:

* The nature of its interest in another entity or arrangement; -
* The type of joint arrangement in which it has an interest; -
* That it meets the definition of an investment entity if applicable; and

Information about its interests in:

* Subsidiaries;
* Joint arrangements and associates; and –
* Structured entities that are not controlled by the entity.

**IFRS 13- Fair Value Measurement**

The objectives of IFRS 13 are:

* to define fair value;
* to set out in a single IFRS a framework for measuring fair value; and
* to require disclosures about fair value measurements.

Fair value is a ***market-based*** measurement, not an entity-specific measurement. It means that an entity:

* shall look at how the *market participants* would look at the asset or liability under measurement
* Shall not take own approach (e.g. use) into account.

**Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Unit-II**

**Introduction of Corporate Financial Reporting :** Corporate financial reporting is not only to show the financial statements of corporate but it includes to highlight important financial data and to show the application of financial policy. A good financial reporting will show true financial position of company. Company can save from hidden losses, if its accountant highlights critical points in it. In this way, it is helpful tool to investors for better decision making.  
  
**Definition of Corporate Financial Reporting :**Corporate financial reporting is the system of making corporate financial reports. These corporate financial reports are income statement, balance sheet, cash flow statement, statement of retained earnings and financial policies explanation. Corporate financial reporting may be shown at the end of month or at the end of each quarter or at the end of year.

**1. Corporate Financial Report: Income Statement**

It is also called profit and loss account. In income statement, we come to know whether company is earning profit or suffering loss. We can find the main expenses of company and main sources of earning. What amount , it is giving in the form of dividend which is showed in statement of retained earning. Net income after all adjustments is transferred to reserve and surplus section in the liability side of balance sheet.

**2. Corporate Financial Report: Balance Sheet:** This corporate financial report shows the financial position at given point of time. It provides the information of all assets and liabilities. This financial report is useful for [balance sheet analysis](http://www.svtuition.org/2011/05/balance-sheet-analysis.html).

**3. Corporate Financial Report: Cash Flow Statement**

In cash flow statement tells us the net cash flow in operating, investing and financial activities. These indications are helpful to[analyze cash flow](http://www.svtuition.org/2010/06/cash-flow-ratios.html). This report explains the sources and applications of liquidity of company.  
  
**4. Corporate Financial Report: Explanation of Financial Policies and Notes**  
Assets Big corporate also makes some financial notes and explain the financial policies in detail with above financial reports. In these policies, company shows its inventory policy, depreciation policy, debt terms and dividend policy. It also shows list of loss of impairment on fixed.

**Features of Corporate Financial Reporting:**

1. Credible

2. Relevant

3. Authentic

4. Engaging

5. Digestible

1. **Credible:** Corporate Financial Reporting provides realistic information about financial position of company.

2. **Relevant:** The task of prioritizing social and environmental issues for strategic planning and reporting purposes can be discouraging for any company. The key is to identify and illustrate issues that are highly material – those that have the greatest potential to impact the company’s long-term success and that matter to its most relevant stakeholders.

3. **Authentic:** Although “authenticity” has become a business buzzword, it’s often an afterthought in the CR reporting world. Reports that lack authenticity miss a valuable opportunity to build a connection with stakeholders. One way to test the authenticity of your reporting is to ask a range of employees at various levels and from various departments within your company to review draft content.

4. **Engaging:** Over the last five years many companies have made the jump from print to online reporting formats (or a hybrid of the two), and some have gone a step further. We’re thrilled to see companies aren’t just focusing on what is presented but how it’s presented, with improved design and functionality.

5. **Digestible** One of the most challenging aspects of CR reporting is the balancing act between being thorough and concise. Companies with good intentions that aim for a high level of transparency sometimes over share and lose their audiences in the weeds.

**Objectives of Corporate Financial Reporting**

• Giving information primarily for those to specific users.

• Giving information about the performance of the company.

• Giving information about the difficulties faced by the company

• Information about sources and applications of funds during the year.

• Information about the products of the company

• Information about the loan taken & loan give.

• Information about the research and development undertaken during the year and the progress made thereof

• Information about the capital project.

• Information about employee’s management relations.

• Information about the economics scene and its effect on the performance.

**Users of Accounting Information**

The users of Accounting Information are as follows:

* 1. External Users of Accounting Information a) Investors b) Creditors c) Member of Non-Profit organization d) Government e) Consumers f) Research Scholars
  2. Internal Users of Accounting Information a)Owners b)Management c) Employees.

**Definitions of Interim Financial Reporting**

The following terms are used in this Standard with the meanings specified: Interim period is a financial reporting period shorter than a full financial year.

**Interim financial report** means a financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Standard) for an interim period.

During the first year of operations of an enterprise, its annual financial reporting period may be shorter than a financial year. In such a case, that shorter period is not considered as an interim period.

**Content of an Interim Financial Report**

A complete set of financial statements normally includes:

(a) balance sheet;

(b) Statement of profit and loss;

(c) Cash flow statement; and

(d) Notes including those relating to accounting policies and other statements and explanatory material that are an integral part of the financial statements.

In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an enterprise may be required to or may elect to present less information at interim dates as compared with its annual financial statements. The benefit of timeliness of presentation may be partially offset by a reduction in detail in the information provided. Therefore, this Standard requires preparation and presentation of an interim financial report containing, as a minimum, a set of condensed financial statements. The interim financial report containing condensed financial statements is intended to provide an update on the latest annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported.

This Standard does not prohibit or discourage an enterprise from presenting a complete set of financial statements in its interim financial report, rather than a set of condensed financial statements. This Standard also does not prohibit or discourage an enterprise from including, in condensed interim financial statements, more than the minimum line items or selected explanatory notes as set out in this Standard. The recognition and measurement principles set out in this Standard apply also to complete financial statements for an interim period, and such statements would include all disclosures required by this Standard (particularly the selected disclosures in paragraph 16) as well as those required by other Accounting Standards.

**Minimum Components of an Interim Financial Report:**

An interim financial report should include, at a minimum, the following components:

(a) Condensed balance sheet;

(b) Condensed statement of profit and loss;

(c) Condensed cash flow statement; and

(d) Selected explanatory notes.

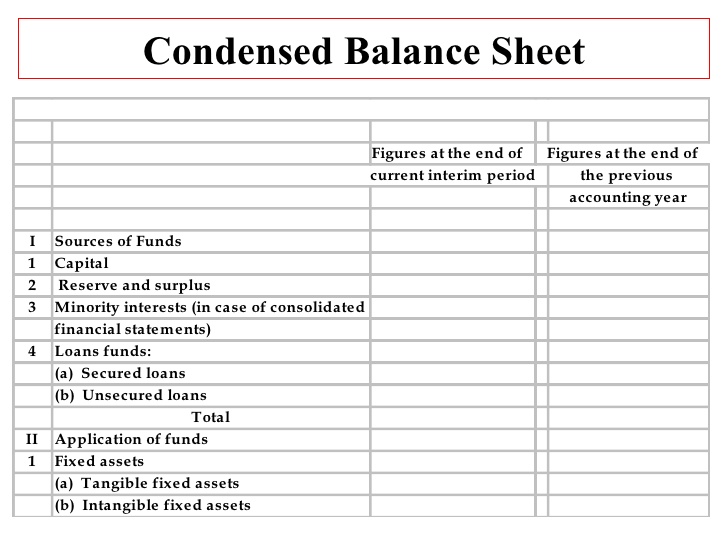
**Form and Content of Interim Financial Statements**

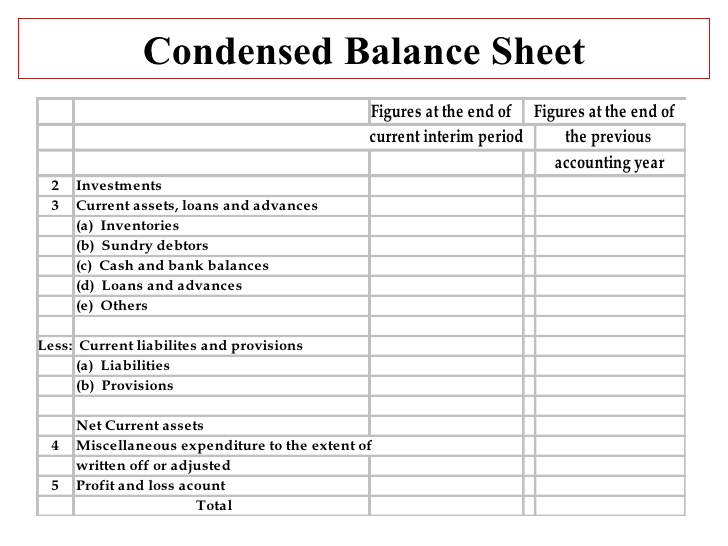
If an enterprise prepares and presents a complete set of financial statements in its interim financial report, the form and content of those statements should conform to the requirements as applicable to annual complete set of financial statements.

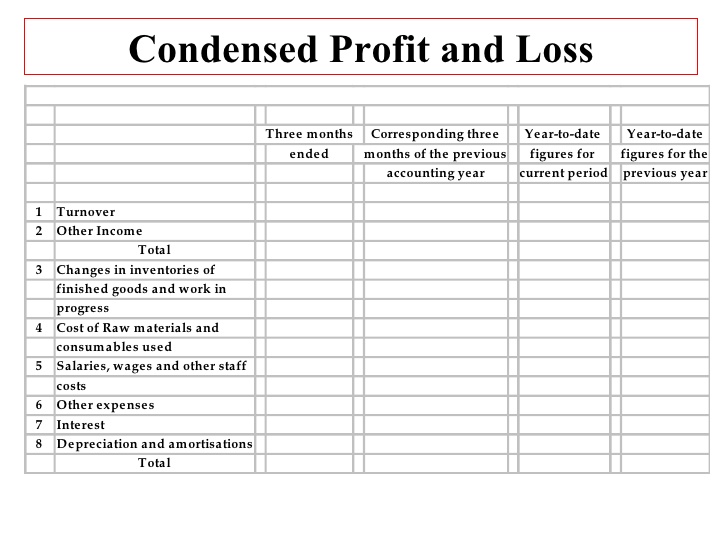
If an enterprise prepares and presents a set of condensed financial statements in its interim financial report, those condensed statements should include, at a minimum, each of the headings and sub-headings that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes should be included if their omission would make the condensed interim financial statements misleading.

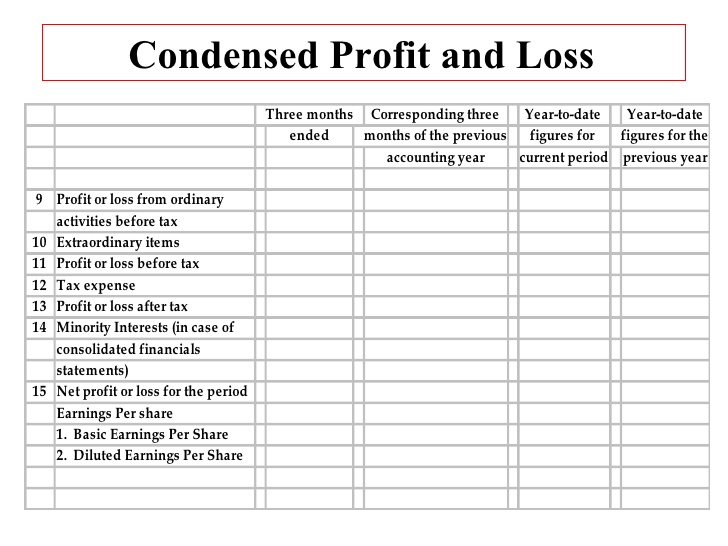
If an enterprise presents basic and diluted earnings per share in its annual financial statements in accordance with Accounting Standard (AS) 20, Earnings per Share, basic and diluted earnings per share should be presented in accordance with AS 20 on the face of the statement of profit and loss, complete or condensed, for an interim.

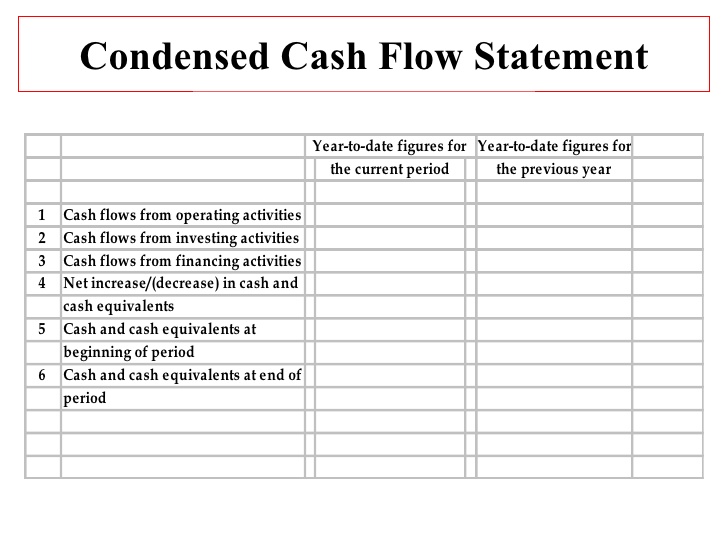
If an enterprise's annual financial report included the consolidated financial statements in addition to the parent's separate financial statements, the interim financial report includes both the consolidated financial statements and separate financial statements, complete or condensed.











**Selected Explanatory Notes**

A user of an enterprise's interim financial report will ordinarily have access to the most recent annual financial report of that enterprise. It is, therefore, not necessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual financial report. At an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the enterprise since the last annual reporting date is more useful.

An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:

(a) A statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change.

(b) Explanatory comments about the seasonality of interim operations.

(c) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidence

(d) The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.

(e) Issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares; (f) dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares.

(g) segment revenue, segment capital employed (segment assets minus segment liabilities) and segment result for business segments or geographical segments, whichever is the enterprise's primary basis of segment reporting (disclosure of segment information is required in an enterprise's interim financial report only if the enterprise is required, in terms of AS 17, Segment Reporting, to disclose segment information in its annual financial statements).

(h) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

(i) The effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

(j) Material changes in contingent liabilities since the last annual balance sheet date. The above information should normally be reported on a financial year-to-date basis. However, the enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.

**Introduction to Segment Reporting**

Segment reporting is the reporting of the operating segments of a company in the disclosures accompanying its financial statements. Segment reporting is required for publicly-held entities, and is not required for privately held ones. Segment reporting is intended to give information to investors and creditors regarding the financial results and position of the most important operating units of a company, which they can use as the basis for decisions related to the company.

Under Generally Accepted Accounting Principles (GAAP), an operating segment engages in business activities from which it may earn revenue and incur expenses, has discrete financial information available, and whose results are regularly reviewed by the entity's chief operating decision maker for performance assessment and resource allocation decisions. Follow these rules to determine which segments need to be reported:

Aggregate the results of two or more segments if they have similar products, services, processes, customers, distribution methods, and regulatory environments.

* Report a segment if it has at least 10% of the revenues, 10% of the profit or loss, or 10% of the combined assets of the entity.
* If the total revenue of the segments you have selected under the preceding criteria comprise less than 75% of the entities total revenue, then add more segments until you reach that threshold.
* You can add more segments beyond the minimum just noted, but consider a reduction if the total exceeds ten segments.

**The information you should include in segment reporting includes:**

* The factors used to identify reportable segments
* The types of products and services sold by each segment
* The basis of organization (such as being organized around a geographic region, product line, and so forth)
* Revenues
* Interest expense
* Depreciation and amortization
* Material expense items
* Equity method interests in other entities
* Income tax expense or income
* Other material non-cash items
* Profit or loss

The segment reporting requirements under International Financial Reporting Standards are essentially identical to the requirements just noted under GAAP.

**Definitions**

A ***business segment*** is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

(a) The nature of the products or services;

(b) The nature of the production processes;

(c) The type or class of customers for the products or services;

(d) The methods used to distribute the products or provide the services; and

(e) If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

A **geographical segment** is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

(a) Similarity of economic and political conditions.

(b) Relationships between operations in different geographical areas.

(c) Proximity of operations.

(d) Special risks associated with operations in a particular area.

(e) Exchange control regulations.

(f) The underlying currency risks.

A **reportable segment** is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard. 5.4 Enterprise revenue is revenue from sales to external customers as reported in the statement of profit and loss.

**Segment revenue** is the aggregate of:

* 1. the portion of enterprise revenue that is directly attributable to a segment,
  2. the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
  3. Revenue from transactions with other segments of the enterprise.

Segment revenue does not include:

(a) Extraordinary items as defined in AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies;

(b) Interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and

(c) Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature;

(d) Income tax expense; and

(e) General administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis.

**Segment result** is segment revenue less segment expense.

**Segment assets** are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If the segment result of a segment includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other interest or dividend generating assets.

Segment assets do not include income tax assets. Segment assets are determined after deducting related allowances/ provisions that are reported as direct offsets in the balance sheet of the enterprise.

**Segment liabilities** are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities do not include income tax liabilities.

**Segment accounting policies** are the accounting policies adopted for preparing and presenting the financial statements of the enterprise.

**Objective of Accounting Standard (AS) 17:**

The objective of this Standard 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. Such information helps users of financial statements:

(a) Better understand the performance of the enterprise;

(b) Better assess the risks and returns of the enterprise; and

(c) Make more informed judgements about the enterprise as a whole.

Many enterprises provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about different types of products and services of an enterprise and its operations in different geographical areas - often called segment information - is relevant to assessing the risks and returns of a diversified or multi-vocational enterprise but may not be determinable from the aggregated data. Therefore, reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements.

**Scope of** **Accounting Standard (AS) 17:**

1. This Standard should be applied in presenting general purpose financial statements.
2. The requirements of this Standard are also applicable in case of consolidated financial statements.
3. An enterprise should comply with the requirements of this Standard fully and not selectively.
4. If a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements. In the context of reporting of segment information in consolidated financial statements, the references in this Standard to any financial statement items should construed to be the relevant item as appearing in the consolidated financial statements.

**Unit-III**

***CONCEPT AND MEANING OF VALUATION***

Valuation is the act of determining the value of assets and critical examination of these values on the basis of normally accepted accounting standard. Valuation of assets is to be made by the authorized officer and the duty of auditor is to see whether they have been properly valued or not. For ensuring the proper valuation, auditor should obtain the certificates of professionals, approved values and other competent persons. Auditor can rely upon the valuation of concerned officer but it must be clearly stated in the report because an auditor is not a technical person.

An auditor should consider the following points regarding the assets while making valuation off assets:

\* Original cost

\* Expected working life

\* Wear and tear

\* Scrap value

### Importance Of Valuation Of Assets And Liabilities

Assets and liabilities are very important aspects of business. Balance sheet is prepared on the basis of them and an auditor should prove the true and fairness of information provided by balance sheet. So it is very important for an auditor. Its importance can be highlighted as follows:

**1. To Show the Actual Financial Position**

Balance sheet is prepared to show the actual financial position of a business. If proper valuation is not made, such balance sheet does not provide true and fair information. So, to provide information about the real financial position, verification and valuation of assets are essential.

**2. To Know the Real Position Of Profit And Loss**

Depreciation and other expenses on assets will be incorrect if proper valuation of assets is not made. So, to calculate the actual amount of profit and loss, proper valuation of assets and liabilities is necessary.

**3. To increase Goodwill**

Proper valuation gives fair information about profitability and financial position of a business. So, people can get information which creates positive attitude towards company. Positive attitude of public increases goodwill.

**4. To Assure Shareholders**

Valuation and verification provide actual information about assets and liabilities to the shareholders which assure the safety of their investment.

**5 Easy For Sale**

At the time of sale of the company, it can be sold at the price which is enlisted in the balance sheet, but the assets whose valuation is not made need valuation before selling the company.

**6. Easy To Get Loan**

Company discloses the balance sheet proved by auditor for public knowledge which increases the trust of the company. Financial institutes provide loan easily to such companies.

**7. Easy To Get Compensation**

Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

### Methods Of Valuation Of Assets

Valuation of various assets can be made by using different methods. Valuation of fixed assets can be made in different ways. Some of the major methods are as follows:

***1. Cost Method***

In this method, valuation of assets is made on the basis of purchase price of the assets. It is very simple method of valuation of assets. Sometimes, existence of one assets depends on the existence of another. Then it is difficult to use this method.

***2. Market Value Method***

Valuation of assets can be made on the basis of market price of such assets. But if same nature of assets is not available in the market, it is very difficult to determine the value of such assets. So, there are two methods related to it. They are:

**i. Replacement Value Method**

If same asset is to be purchased then on the basis of same value, valuation of assets can be done.

**ii. Net Realizable Value**

It refers to the price in which such asset can be sold in the market. But expenditure incurred at the sale of such asset should be deducted.

***3. Base Stock Method***

Under this method of valuation, company should maintain certain level of stock and valuation of stock is made on the basis of valuation of base stock.

***4. Standard Cost Method***

Some of the business organizations fix the standard cost on the basis of their past experience. On the basis of standard cost, they make valuation of assets and present in the balance sheet.

***5. Average Cost Method***

It is a simple method for the valuation of such assets which cannot be distinguished. Like petrol, petrol is kept in the tank but e cannot separate its stock on the basis of lot. So, valuation of stock is made adding to all the cost and dividing by the quantity.

**VALUATION OF INTANGIBLE ASSET**

The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. This Standard requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets.

Scope

1. This Standard should be applied by all enterprises in accounting for intangible assets, except:

(a) Intangible assets that are covered by another Accounting Standard;

(b) Financial assets;

(c) Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources; and

(d) Intangible assets arising in insurance enterprises from contracts with policyholders.

This Standard should not be applied to expenditure in respect of termination benefits also.

2. If another Accounting Standard deals with a specific type of intangible asset, an enterprise applies that Accounting Standard instead of this Standard. For example, this Statement does not apply to: (a) intangible assets held by an enterprise for sale in the ordinary course of business (see AS 2, Valuation of Inventories, and AS 7, Construction Contracts).

(b) Deferred tax assets (see AS 22, Accounting for Taxes on Income).

(c) Leases that fall within the scope of AS 19, Leases.

(d) Goodwill arising on an amalgamation (see AS 14, Accounting for Amalgamations) and goodwill arising on consolidation (see AS 21, Consolidated Financial Statements).

3. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it. This Standard also applies to rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

4. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee deals with an intangible asset held under a finance lease under this Standard.

5. Exclusions from the scope of an Accounting Standard may occur if certain activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the expenditure on the exploration for, or development and

Extraction of, oil, gas and mineral deposits in extractive industries and in the case of contracts between insurance enterprises and their policyholders. Therefore, this Standard does not apply to expenditure on such activities. However, this Standard applies to other intangible assets used (such as computer software), and other expenditure (such as start-up costs), in extractive industries or by insurance enterprises. Accounting issues of specialised nature also arise in respect of accounting for discount or premium relating to borrowings and ancillary costs incurred in connection with the arrangement of borrowings, share issue expenses and discount allowed on the issue of shares. Accordingly, this Standard does not apply to such items also.

**Definitions**

The following terms are used in this Standard with the meanings specified:

1 **An intangible asset** is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. 2 **An asset** is a resource:

(a) Controlled by an enterprise as a result of past event.

(b) From which future economic benefits are expected to flow to the enterprise.

3 **Monetary assets** are money held and assets to be received in fixed or determinable amounts of money.

4 **Non-monetary assets** are assets other than monetary assets.

5 **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

6 **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

7 **Amortisation** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

8 **Depreciable amounts** is the cost of an asset less its residual value.

9 **Useful lives** are either:

(a) The period of time over which an asset is expected to be used by the enterprise; or

(b) The number of production or similar units expected to be obtained from the asset by the enterprise.

10 **Residual value** is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

11 **Fair value of an asset** is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

12 An **active market** is a market where all the following conditions exist:

(a) The items traded within the market are homogeneous;

(b) Willing buyers and sellers can normally be found at any time; and

(c) Prices are available to the public.

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

14 **Carrying amount** is the amount at which an asset is recognised in the balance sheet, net of any accumulated amortisation and accumulated impairment losses thereon.

**Intangible Assets**

Enterprises frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, fishing licences, import quotas, franchises, customer or supplier relationships, customer loyalty, market share and marketing rights. Goodwill is another example of an item of intangible nature which either arises on acquisition or is internally generated.

Not all the items described in above paragraph will meet the definition of an intangible asset, that is, identifiability, control over a resource and expectation of future economic benefits flowing to the enterprise. If an item covered by this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred. However, if the item is acquired in an amalgamation in the nature of purchase, it forms part of the goodwill recognised at the date.

Some intangible assets may be contained in or on a physical substance such as a compact disk (in the case of computer software), legal documentation (in the case of a licence or patent) or film (in the case of motion pictures). The cost of the physical substance containing the intangible assets is usually not significant. Accordingly, the physical substance containing an intangible asset, though tangible in nature, is commonly treated as a part of the intangible asset contained in or on it.

In some cases, an asset may incorporate both intangible and tangible elements that are, in practice, inseparable. In determining whether such an asset should be treated under AS 10, Accounting for Fixed Assets, or as an intangible asset under this Standard, judgement is required to assess as to which element is predominant. For example, computer software for a computer controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as a fixed asset. The same applies to the operating system of a computer. Where the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

**Identifiability**

The definition of an intangible asset requires that an intangible asset be identifiable. To be identifiable, it is necessary that the intangible asset is clearly distinguished from goodwill. Goodwill arising on an amalgamation in the nature of purchase represents a payment made by the acquirer in anticipation of future economic benefits. The future economic benefits may result from synergy between the identifiable assets acquired or from assets which, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the amalgamation.

An intangible asset can be clearly distinguished from goodwill if the asset is separable. An asset is separable if the enterprise could rent, sell, exchange or distribute the specific future economic benefits attributable to the asset without also disposing of future economic benefits that flow from other assets used in the same revenue earning activity.

Reparability is not a necessary condition for identifiability since an enterprise may be able to identify an asset in some other way. For example, if an intangible asset is acquired with a group of assets, the transaction may involve the transfer of legal rights that enable an enterprise to identify the intangible asset. Similarly, if an internal project aims to create legal rights for the enterprise, the nature of these rights may assist the enterprise in identifying an underlying internally generated intangible asset. Also, even if an asset generates future economic benefits only in combination with other assets, the asset is identifiable if the enterprise can identify the future economic benefits that will flow from the asset.

**Control**

An enterprise controls an asset if the enterprise has the power to obtain the future economic benefits flowing from the underlying resource and also can restrict the access of others to those benefits. The capacity of an enterprise to control the future economic benefits from an intangible

Asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control since an enterprise may be able to control the future economic benefits in some other way.

Market and technical knowledge may give rise to future economic benefits. An enterprise controls those benefits if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted) or by a legal duty on employees to maintain confidentiality.

An enterprise may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The enterprise may also expect that the staff will continue to make their skills available to the enterprise. However, usually an enterprise has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training to consider that these items meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits expected from it, and it also meets the other parts of the definition.

An enterprise may have a portfolio of customers or a market share and expect that, due to its efforts in building customer relationships and loyalty, the customers will continue to trade with the enterprise. However, in the absence of legal rights to protect, or other ways to control, the relationships with customers or the loyalty of the customers to the enterprise, the enterprise usually has insufficient control over the economic benefits from customer relationships and loyalty to consider that such items (portfolio of customers, market shares, customer relationships, customer loyalty) meet the definition of intangible assets.

**Future Economic Benefits**

The future economic benefits flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the enterprise. For example, the use of intellectual property in a production process may reduce future production costs rather than increase future revenues.

**Recognition and Initial Measurement of an Intangible Asset**

The recognition of an item as an intangible asset requires an enterprise to demonstrate that the item meets the:

(a) Definition of an intangible asset (see paragraphs 6-18); and

(b) Recognition criteria set out in this Standard (see paragraphs 20- 54).

An intangible asset should be recognised if, and only if:

(a) It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

(b) The cost of the asset can be measured reliably.

An enterprise should assess the probability of future economic benefits using reasonable and supportable assumptions that represent best estimate of the set of economic conditions that will exist over the useful life of the asset.

An enterprise uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

An intangible asset should be measured initially at cost. Separate Acquisition.

If an intangible asset is acquired separately, the cost of the intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

The cost of an intangible asset comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use. Directly attributable expenditure includes, for example, professional fees for legal services. Any trade discounts and rebates are deducted in arriving at the cost.

If an intangible asset is acquired in exchange for shares or other securities of the reporting enterprise, the asset is recorded at its fair value or the fair value of the securities issued, whichever is more clearly evident.

**Acquisition as Part of an Amalgamation**

An intangible asset acquired in an amalgamation in the nature of purchase is accounted for in accordance with Accounting Standard (AS) 14, Accounting for Amalgamations. Where in preparing the financial statements of the transferee company, the consideration is allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

Judgement is required to determine whether the cost (i.e. fair value) of an intangible asset acquired in an amalgamation can be measured with sufficient reliability for the purpose of separate recognition. Quoted market prices in an active market provide the most reliable measurement of fair value. The appropriate market price is usually the current bid price. If current bid prices are unavailable, the price of the most recent similar transaction may provide a basis from which to estimate fair value, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the asset's fair value is estimated.

If no active market exists for an asset, its cost reflects the amount that the enterprise would have paid, at the date of the acquisition, for the asset in an arm's length transaction between knowledgeable and willing parties, based on the best information available. In determining this amount, an enterprise considers the outcome of recent transactions for similar assets.

Certain enterprises that are regularly involved in the purchase and sale of unique intangible assets have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in an amalgamation in the nature of purchase if their objective is to estimate fair value as defined in this Standard and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, where appropriate, applying multiples reflecting current market transactions to certain indicators driving the profitability of the asset (such as revenue, market shares, operating profit, etc.) or discounting estimated future net cash flows from the asset.

In accordance with this Standard:

(a) A transferee recognises an intangible asset that meets the recognition criteria in paragraphs above, even if that intangible asset had not been recognised in the financial statements of the transferor.

(b) If the cost (i.e. fair value) of an intangible asset acquired as part of an amalgamation in the nature of purchase cannot be measured reliably, that asset is not recognised as a separate intangible asset but is included in goodwill.

Unless there is an active market for an intangible asset acquired in an amalgamation in the nature of purchase, the cost initially recognised for the intangible asset is restricted to an amount that does not create or increase any capital reserve arising at the date of the amalgamation.

**Acquisition by way of a Government Grant**

In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a government grant. This may occur when a government transfers or allocates to an enterprise intangible assets such as airport landing rights, licences to operate radio or television stations, import licences or quotas or rights to access other restricted resources. AS 12, Accounting for Government Grants, requires that 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. AS 12 also require that in case a non-monetary asset is given free of cost, it should be recorded at a nominal value. Accordingly, intangible asset acquired free of charge, or for nominal consideration, by way of government grant is recognised at a nominal value or at the acquisition cost, as appropriate; any expenditure that is directly attributable to making the asset ready for its intended use is also included in the cost of the asset.

**Exchanges of Assets**

An intangible asset may be acquired in exchange or part exchange for another asset. In such a case, the cost of the asset acquired is determined in accordance with the principles laid down in this regard in AS 10, Accounting for Fixed Assets.

**Internally Generated Goodwill**

Internally generated goodwill should not be recognised as an asset.

In some cases, expenditure is incurred to generate future economic benefits, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost.

Differences between the market value of an enterprise and the carrying amount of its identifiable net assets at any point in time may be due to a range of factors that affect the value of the enterprise. However, such differences cannot be considered to represent the cost of intangible assets controlled by the enterprise.

**Internally Generated Intangible Assets**

It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition. It is often difficult to:

(a) Identify whether, and the point of time when, there is an identifiable asset that will generate probable future economic benefits; and

(b) Determine the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the enterprise's internally generated goodwill or of running day-to-day operations. Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an enterprise applies the requirements and guidance in paragraphs below to all internally generated intangible assets.

To assess whether an internally generated intangible asset meets the criteria for recognition, an enterprise classifies the generation of the asset into:

(a) A research phase; and

(b) A development phase.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.

**Research Phase**

No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.

This Standard takes the view that, in the research phase of a project, an enterprise cannot demonstrate that an intangible asset exists from which future economic benefits are probable. Therefore, this expenditure is recognised as an expense when it is incurred.

Examples of research activities are:

(a) Activities aimed at obtaining new knowledge;

(b) The search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

**Development Phase**

An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) Its intention to complete the intangible asset and use or sell it;

(c) Its ability to use or sell the intangible asset;

(d) How the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) Its ability to measure the expenditure attributable to the intangible asset during its development reliably.

In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that future economic benefits from the asset are probable. This is because the development phase of a project is further advanced than the research phase.

Examples of development activities are:

(a) The design, construction and testing of pre-production or pre-use prototypes and models;

(b) The design of tools, jigs, moulds and dies involving new technology;

(c) The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

To demonstrate how an intangible asset will generate probable future economic benefits, an enterprise assesses the future economic benefits to be received from the asset using the principles in Accounting Standard on Impairment of Assets. If the asset will generate economic benefits only in combination with other assets, the enterprise applies the concept of cash generating units as set out in Accounting Standard on Impairment of Assets.

Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a business plan showing the technical, financial and other resources needed and the enterprise's ability to secure those resources. In certain cases, an enterprise demonstrates the availability of external finance by obtaining a lender's indication of its willingness to fund the plan.

An enterprise's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing copyrights or licences or developing computer software.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.

This Standard takes the view that expenditure on internally generated brands, mastheads, publishing titles, customer lists and items similar in substance cannot be distinguished from the cost of developing the business as a whole. Therefore, such items are not recognised as intangible assets.

**Cost of an Internally Generated Intangible Asset**

The cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria in paragraphs above.

The cost of an internally generated intangible asset comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and making the asset ready for its intended use. The cost includes, if applicable:

(a) Expenditure on materials and services used or consumed in generating the intangible asset.

(b) The salaries, wages and other employment related costs of personnel directly engaged in generating the asset.

(c) any expenditure that is directly attributable to generating the asset, such as fees to register a legal right and the amortisation of patents and licences that are used to generate the asset.

(d) Overheads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset (for example, an allocation of the depreciation of fixed assets, insurance premium and rent). Allocations of overheads are made on bases similar to those used in allocating overheads to inventories (see AS 2, Valuation of Inventories). AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the cost of a qualifying asset. These criteria are also applied for the recognition of interest as a component of the cost of an internally generated intangible asset.

The following are not components of the cost of an internally generated intangible asset:

(a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to making the asset ready for use;

(b) Clearly identified inefficiencies and initial operating losses incurred before an asset achieves planned performance; and

(c) Expenditure on training the staff to operate the asset.

**Recognition of an Expense**

Expenditure on an intangible item should be recognised as an expense when it is incurred unless:

(a) It forms part of the cost of an intangible asset that meets the recognition criteria; or

(b) The item is acquired in an amalgamation in the nature of purchase and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of acquisition) should form part of the amount attributed to goodwill (capital reserve) at the date of acquisition (see AS 14, Accounting for Amalgamations).

In some cases, expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred.

For example, expenditure on research is always recognised as an expense when it is incurred. Examples of other expenditure that is recognised as an expense when it is incurred include:

(a) Expenditure on start-up activities (start-up costs), unless this expenditure is included in the cost of an item of fixed asset under AS 10. Start-up costs may consist of preliminary expenses incurred in establishing a legal entity such as legal and secretarial costs, expenditure to open a new facility or business (pre-opening costs) or expenditures for commencing new operations or launching new products or processes (pre-operating costs);

(b) Expenditure on training activities;

(c) Expenditure on advertising and promotional activities; and

(d) Expenditure on relocating or re-organising part or all of an enterprise.

The first Paragraph does not apply to payments for the delivery of goods or services made in advance of the delivery of goods or the rendering of services. Such prepayments are recognised as assets.

**Past Expenses not to be recognised as an Asset**

Expenditure on an intangible item that was initially recognised as an expense by a reporting enterprise in previous annual financial statements or interim financial reports should not be recognised as part of the cost of an intangible asset at a later date.

**Subsequent Expenditure**

Subsequent expenditure on an intangible asset after its purchase or its completion should be recognised as an expense when it is incurred unless:

1. it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
2. The expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset. Subsequent expenditure on a recognised intangible asset is recognised as an expense if this expenditure is required to maintain the asset at its originally assessed standard of performance. The nature of intangible assets is such that, in many cases, it is not possible to determine whether subsequent expenditure is likely to enhance or maintain the economic benefits that will flow to the enterprise from those assets. In addition, it is often difficult to attribute such expenditure directly to a particular intangible asset rather than the business as a whole. Therefore, only rarely will expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset result in additions to the cost of the intangible asset.

Consistent with paragraph above, subsequent expenditure on brands, mastheads, publishing titles, customer lists and items similar in substance (whether externally purchased or internally generated) is always recognised as an expense to avoid the recognition of internally generated goodwill.

**Concept and Meaning of Valuation of Shares**

The value of every share is printed in front of the shares. Such a value is called as par value or face value of shares. The face value is assigned by the promoters of Joint Stock Company and is given in the memorandum of association. Except the face value, it has also get market value on stock exchange market which may be differ from face value. The market value of a share is determined by the demand and supply. Such a value is affected by the action and opinions of investors and their fear, guess, investment policy etc. Hence, the market price does not reflect the true value of shares and requires a proper valuation of shares. Specially, in the case of private limited company the shares of such a company are not freely purchased and sold to the public. In that case, the valuation becomes absolutely necessary.

The value of shares can be determined in different ways. It can be valued either by taking the earning of a company or net assets that comprise the company. The choice is governed by the reasons for investment.

**Need for Valuation of Shares**

**The following are the circumstances where need for the valuation of shares arises:**

1. Where companies amalgamate or are similarly reconstructed, it may be necessary to arrive at the value of shares hold by the members of the company being absorbed or taken over.

2. Where shares are hold jointly by the partners in a company and partnership firm dissolved, it becomes necessary to value of shares.  
  
3. Where a portion of the shares is to be given by a member of proprietary company to another member as the member cannot sell it in the open market, it becomes necessary to certify the fair price of these shares by an auditor.  
  
4. When a loan advanced on the security of shares, it becomes necessary to know the value of shares on the basis of which loan has been advanced.  
  
5. When shares are given in a company as gift it may be necessary for the purpose of assessing gift tax, to place a value on the shares.  
  
6. When preference shares or debentures are converted into equity share it becomes necessary to value the equity shares for ascertaining the number of equity shares required to be issued for debentures or preference shares which are to be converted.

7. When equity shareholders are to be compensated on the acquisition of their shares by the government under a scheme of nationalization then it is necessary to value the equity shares.

**Factors Affecting The Value Of Shares**

***The factors affecting the value of shares can be summarized as under:***  
1. The nature of the business.  
  
2. The income yielding capacity of the company.  
  
3. The demand and supply of shares.  
  
4. The percentage of dividend declared on shares.  
  
5. The availability of sufficient assets over liabilities.  
  
6. General economic condition e.g. availability of raw materials, possibility of new competitions.  
  
7. Financial, political and other factors affecting the business

8. Reserves of the company.

**Methods Of Valuation Of Shares :**The methods of valuation depends on the purpose for which valuation is required. Generally, there are three methods of valuation of shares:

**1. Net Assets Method Of Valuation Of Shares:**

Under this method, the net value of assets of the company are divided by the number of shares to arrive at the value of each share. For the determination of net value of assets, it is necessary to estimate the worth of the assets and liabilities. The goodwill as well as non-trading assets should also be included in total assets. The following points should be considered while valuing of shares according to this method:

* Goodwill must be properly valued
* the fictitious assets such as preliminary expenses, discount on issue of shares and debentures, accumulated losses etc. should be eliminated.
* The fixed assets should be taken at their realizable value.
* Provision for bad debts, depreciation etc. must be considered.
* All unrecorded assets and liabilities ( if any) should be considered.
* Floating assets should be taken at market value.
* The external liabilities such as sundry creditors, bills payable, loan, debentures etc. should be deducted from the value of assets for the determination of net value.

1. The net value of assets, determined so has to be divided by number of equity shares for finding out the value of share. Thus the value per share can be determined by using the following formula:

Value Per Share=(Net Assets-Preference Share Capital)/Number Of Equity Shares   
  
**2. Yield or Market Value Method of Valuation of Shares**the expected rate of return in investment is denoted by yield. The term "rate of return" refers to the return which a shareholder earns on his investment. Further it can be classified as (a) Rate of earning and (b) Rate of dividend. In other words, yield may be earning yield and dividend yield.  
  
a.Earning Yield : under this method, shares are valued on the basis of expected earning and normal rate of return. The value per share is calculated by applying following formula:

Value Per Share = (Expected rate of earning/Normal rate of return) \* Paid up value of equity share

Expected rate of earning = (Profit after tax/paid up value of equity share) X 100  
  
b.Dividend Yield : Under this method, shares are valued on the basis of expected dividend and normal rate of return. The value per share is calculated by applying following formula:

Expected rate of dividend = (profit available for dividend/paid up equity share capital) X 100  
  
Value per share = (Expected rate of dividend/normal rate of return) X 100  
  
**3. Earning Capacity Method Of Valuation Of Shares**

Under this method, the value per share is calculated on the basis of disposable profit of the company. The disposable profit is found out by deducting reserves and taxes from net profit. The following steps are applied for the determination of value per share under earning capacity:  
  
Step1 : To find out the profit available for dividend  
Step2: To find out the capitalized value  
**Capitalized Value =( Profit available for equity dividend/Normal rate of return) X 100**

Step 3: To find out value per share  
Value per share = Capitalized Value/Number of Shares

**Business Valuation**

Business valuation is a process and a set of procedures used to determine what a business is worth. While this sounds easy enough, getting your business valuation done right takes preparation and thought.

## Business valuation results depend on your assumptions

For one thing, there is no one way to establish what a business is worth. That’s because business value means different things to different people.

A business owner may believe that the business connection to the community it serves is worth a lot. An investor may think that the business value is entirely defined by its historic income.

In addition, economic conditions affect what people believe a business is worth. For instance, when jobs are scarce, more business buyers enter the market and increased competition results in higher business selling prices.

The circumstances of a business sale also affect the business value. There is a big difference between a business that is shown as part of a well-planned marketing effort to attract many interested buyers and a quick sale of business assets at an auction.

## Expected selling price and business value

Hence, business value is really an expected price the business would sell for. The real price may vary quite a bit depending on who determines the business value. Compare a buyer who wants the business now because it fits important lifestyle goals to a buyer that purchases an income stream at the lowest price possible.

The selling price also depends on how the business sale is handled. Contrast a well-conducted business marketing campaign and a “fire sale”.

## Three business valuation approaches

That said, there are three fundamental ways to measure what a business is worth:

* Asset Approach
* Market Approach
* Income Approach

**Asset-based business valuation methods**

Sometimes referred to as the cost-based methods, these business valuation methods estimate the value of a business as the sum total of the costs required to create another business of equal economic utility.

Asset based business valuation methods are useful for accurate business purchase price allocation, an important element of structuring a **business acquisition deal**.

The central methods under the asset approach are these:

* Asset accumulation method
* Excess earnings method

The asset accumulation method is a framework for tabulating the market values of business assets and liabilities. The difference is the business value. Note that the method differs from the typical cost basis accounting balance sheet.

Important off balance sheet assets include the internally developed intellectual property, customer lists, and valuable business agreements. On the other side, the method accounts for contingent liabilities such as pending legal action judgments and costs associated with regulatory compliance.

A classical asset based business valuation method is [**Capitalized Excess Earnings**](http://www.valuadder.com/tour/business-goodwill.html), also known as the [**Treasury Method**](http://www.valuadder.com/tour/business-goodwill.html). In addition to business value calculation this method lets you determine the value of business goodwill.

**Income-based business valuation methods**

The income methods, as the name implies, determine the business value based on its income producing capacity and risk.

The main business valuation techniques used by these methods are [**capitalization and discounting**](http://www.valuadder.com/valuationguide/business-valuation-capitalization-discounting.html). Business risk is captured in the form of discount and capitalization rates.

Income business valuation methods most commonly used in business appraisals are:

* Capitalization of earnings
* Multiple of discretionary earnings
* Discounted cash flow

The well-known capitalization method is [**Multiple of Discretionary Earnings**](http://www.valuadder.com/tour/multiple-of-discretionary-earnings.html). The [**Discounted Cash Flow**](http://www.valuadder.com/tour/discounted-cash-flow.html) business valuation method is the most common way of determining business value by discounting its income.

**Market-based business valuation methods**

These methods help you estimate the subject business value by comparison to the recent selling prices of similar businesses.

Professional business appraisals often include these market valuation methods:

* Guideline publicly traded company method
* Comparative transaction method

Both types of methods work by [**comparing the subject business to similar companies**](http://www.valuadder.com/examples/valuing-a-business-based-on-market-comps.html) that sold recently. For private companies, the sales of similar privately owned businesses can offer a compelling source of market comparables. However, the quality of such data is usually not nearly as reliable as transaction data filed by public companies. Transactions involving small capitalization public companies are often used as evidence of business value for privately owned firms.

[**Valuation Formulas**](http://www.valuadder.com/tour/business-valuation-market-comparables.html) derived from comparable business sales are a standard way to determine the business fair market value.

**Use of multiple methods in business appraisals**

Using a number of business valuation methods is highly recommended for accurate determination of business value.

To conclude what a business is worth, you can take the results of several *business valuation methods* into account. This process is often referred to as [**business value synthesis**](http://www.valuadder.com/valuationguide/business-valuation-five-steps.html).

## UNIT-4

## Development financial reporting

## Financial Reporting Defined

**Financial reporting** involves the disclosure of financial information to management and the public (if the company is publicly traded) about how the company is performing over a specific period of time. Financial reports are usually issued on a quarterly and annual basis. This is different from **management reporting**, which is financial information that is disclosed to those inside the company to be used to make decisions within the company. Financial reports are included in a public company's annual report.

## Purpose

Financial reporting serves two primary purposes. First, it helps management to engage in effective decision-making concerning the company's objectives and overall strategies. The data disclosed in the reports can help management discern the strengths and weaknesses of the company, as well as its overall financial health. Second, financial reporting provides vital information about the financial health and activities of the company to its stakeholders including its shareholders, potential investors, consumers, and government regulators. It's a means of ensuring that the company is being run appropriately. You should note that if a company is publicly traded, it is subject to some very strict reporting regulations enforced by the Securities and Exchange Commission (SEC).

## What is Value Added Statement

The statement prepared for a specified period by showing the sources of sales and value added is known as value added statement. On the basis of financial statement prepared by a firm, the value added statement has to be prepared. Actually speaking, it is largely a rearrangement of the information available in the firm's published accounts. So many people charge value added statement as a cosmetic device to place less emphasis on profit. But it is not true. A value added statement provides a better understanding of a operating results. In particular, the inclusion of relevant percentage of value added by the side of items in the second part of the statement would make people aware of the respective share of various team members.

The statement which shows how much value has been created by a concern through utilization of its resources and how it is allocated among the different stakeholders in an accounting period is known as Value Added Statement.

**APPLICATION OF VALUE ADDED**

The amount of value added by a concern is shared by its employees, provider of capital and government while a part of Value added is are invested in the business. As per enterprise concept profit is calculated for :-

• Employees

• Directors

• Government

• Providers of long term finance

• Shareholders

• Entity (Legal Body)

(\*Such profit is called Value Added.)

## Advantages of Value Added Statement

Value added statement is very important for a concern. In UK, this statement has been incorporated in financial account since least 1975. In 1975 the Accounting Standard Board (ASB) of UK advocated the publication of value added statement along with the conventional annual corporate reports. Subsequently large British companies included it in their annual corporate reports.

* It has a broader concept. It is based on 'enterprise' rather than 'entity theory'. The net profit is ascertained under the entity theory as a reward of the proprietor. Actually this view is a narrow view of the term 'Net Income'. On the other hand, Value added statement represents the income of the stakeholders as a whole. The stakeholders include the employees, lenders, shareholders or owners, government and other persons who have a stake in the enterprises.
* Value added statement helps to introduce the productivity of the company. By employing various productivity measures like value added per rupee of capital employed, value added per rupee sale, value added per employee etc; it helps in judging the productivity of the concern.
* Value added statement is a useful diagnostic tool. It provides different value added based ratios e.g. value added to payroll, taxation to value added, value added to sale etc; which are useful diagnostic tool and predictive tools.
* Value added statement links a company. Financial statement to the 'National Income'. It indicates the company's contribution to national income.
* Value added statement is an alternative performance measures to profit. It helps in the comparison of the performance of the company. It also serves as a better measure for ranking the companies according to their size. It can be taken as a superior performance measure, because it pays attention on inputs which are under the control of management.
* Value added statement is a key measure of the productivity of the labors. It can be compared (in terms of amount or percentage) with previous year and meaningful decision can be drawn to the better performance of the enterprises.
* It is a good method of communicating the enterprise's financial performance to employees, owners, government and other stakeholders. The different added value ration, created form the different figures consisting in value added statement provide a yardstick for control purposes.

EVA - Economic Value Added • Economic Value Added is a measure of economic profit. It is calculated as the difference between the Net Operating Profit after Tax and the cost of financing the firm’s Capital.

**EVA = NoPAT – CAPITAL x COST OF CAPITAL**

TO DERIVE THE NOPAT VALUE
SALES
VARIABLE COST
------------------------------------CONTRIBUTION
FIXED COST
----------------...

Definition In corporate finance, Economic Value Added or EVA, is an estimate of a firm's economic profit - being the value created in excess of the required return of the company's investors (being shareholders and debt holders). Application It is determined to pay INCENTIVES & BONUS.

Benefits of EVA • Measurement – designing a measure of value creation that best reflects economic reality in a particular industry. • Management—developing policies, procedures and tools which link decision-making to the measure of value-creation. • Motivation—establishing incentive plans that simulate ownership by giving managers a share of value created. They understand that they should be rewarded only if they create shareholder value. Why use EVA as a performance metric? \* What separates EVA® from other performance metrics is that it measures all of the costs of running a business-operating and financing. This makes EVA® the soundest performance metric, and the one most closely aligned with the creation of shareholder value.

**Market Value Added**

**Market Value Added** is the difference between the [capital](http://www.investinganswers.com/node/5749) contributed to the company by [bondholders](http://www.investinganswers.com/node/5222) and shareholders and the final [market value](http://www.investinganswers.com/node/779) of the product.

## HOW IT WORKS (EXAMPLE):

The formula used to find market value added is:

**Market Value Added = Market Value -**[**Capital**](http://www.investinganswers.com/node/5749)**Invested**

Increasing MVA or increasing shareholder [wealth](http://www.investinganswers.com/node/5711) is the primary goal of any business and the reason for its existence.

If MVA is positive, the firm has added value. If it is negative, the firm has destroyed value. The amount of value added needs to be greater than the firm's investors could have achieved investing in the market portfolio, adjusted for the leverage ([beta coefficient](https://en.wikipedia.org/wiki/Beta_coefficient)) of the firm relative to the market.

MVA is the present value of a series of [EVA](https://en.wikipedia.org/wiki/Economic_value_added) values. MVA is economically equivalent to the traditional [NPV](https://en.wikipedia.org/wiki/Net_present_value) measure of worth for evaluating an after-tax cash flow profile of a project if the [cost of capital](https://en.wikipedia.org/wiki/Cost_of_capital) is used for discounting.

**Shareholder Value**

**Shareholder value** is a business term, sometimes phrased as **shareholder value maximization** or as the **shareholder value model**, which implies that the ultimate measure of a company's success is the extent to which it enriches shareholders. It became popular during the 1980s, and is particularly associated with former CEO of [General Electric](https://en.wikipedia.org/wiki/General_Electric), [Jack Welch](https://en.wikipedia.org/wiki/Jack_Welch).

The term can be used to refer to:

* The [market capitalization](https://en.wikipedia.org/wiki/Market_capitalization) of a company
* The concept that the primary goal for a company is to increase the [wealth](https://en.wikipedia.org/wiki/Wealth) of its [shareholders](https://en.wikipedia.org/wiki/Shareholders) (owners) by paying dividends and/or causing the stock price to increase
* The more specific concept that planned actions by management and the returns to shareholders should outperform certain bench-marks such as the [cost of capital](https://en.wikipedia.org/wiki/Cost_of_capital) concept. In essence, the idea that shareholders’ money should be used to earn a higher returns than they could earn themselves by investing in other assets having the same amount of [risk](https://en.wikipedia.org/wiki/Risk). The term in this sense was introduced by [Alfred Rapp port](https://en.wikipedia.org/wiki/Alfred_Rappaport_(economist)) in 1986.

**Definition**

For a publicly traded company, Shareholder Value (SV) is the part of its capitalization that is [equity](https://en.wikipedia.org/wiki/Shareholders%27_equity) as opposed to long-term [debt](https://en.wikipedia.org/wiki/Debt). In the case of only one type of [stock](https://en.wikipedia.org/wiki/Stock), this would roughly be the number of outstanding shares times current share price. Things like [dividends](https://en.wikipedia.org/wiki/Dividend) augment shareholder value while issuing of shares ([stock options](https://en.wikipedia.org/wiki/Stock_options)) lower it. This **shareholder value added** should be compared to average/required increase in value, making reference to the [cost of capital](https://en.wikipedia.org/wiki/Cost_of_capital).

For a privately held company, the value of the firm after debt must be estimated using one of several [valuation](https://en.wikipedia.org/wiki/Valuation_(finance)) methods, s.a. [discounted cash flow](https://en.wikipedia.org/wiki/Discounted_cash_flow) or others.

**Maximizing Shareholder Value**

This management principle, also known under **value based management**, states that management should first and foremost consider the interests of shareholders in its business actions. (Although the legal premise of a publicly traded company is that the executives are obligated to maximize the company's profit,[[18]](https://en.wikipedia.org/wiki/Shareholder_value#cite_note-18) this does not imply that executives are legally obligated to maximize shareholder value.)

The concept of maximizing shareholder value is usually highlighted in opposition to alleged examples of CEO's and other management actions which enrich themselves at the expense of shareholders. Examples of this include acquisitions which are dilutive to shareholders, that is, they may cause the combined company to have twice the profits for example but these might have to be split amongst three times the shareholders.

As shareholder value is difficult to influence directly by any manager, it is usually broken down in components, so called value drivers. A widely used model comprises 7 drivers of shareholder value,[[19]](https://en.wikipedia.org/wiki/Shareholder_value#cite_note-19) giving some guidance to managers:

* Revenue
* Operating Margin
* Cash Tax Rate
* Incremental Capital Expenditure
* Investment in Working Capital
* Cost of Capital
* Competitive Advantage Period

Looking at some of these elements also makes it clear that short term profit maximization does not necessarily increase shareholder value. Most notably, the competitive advantage period takes care of this: if a business sells sub-standard products to reduce cost and make a quick profit, it damages its reputation and therefore destroys competitive advantage in the future. The same holds true for businesses that neglect research or investment in motivated and well-trained employees. Shareholders, analysts and the media will usually find out about these issues and therefore reduce the price they are prepared to pay for shares of this business. This more detailed concept therefore gets rid of some of the issues (though not all of them) typically associated with criticism of the shareholder value model.

Based on these seven components, all functions of a business plan and show how they influence shareholder value. A prominent tool for any department or function to prove its value are so called shareholder value maps that link their activities to one or several of these seven components. So, one can find "HR shareholder value maps", "R&D shareholder value maps", and so on.