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REVISION NOTES
Financial Reporting

Part - III

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AS – 15: Accounting for Retirement Benefits in the Financial Statement of Employers

1) Retirement benefits usually consists of :

a) Provident Fund
b) Superannuation / Pension
c) Gratuity
d) Leave encashment benefit on retirement
e) Post-retirement health and welfare scheme
f) Other retirement benefit

2) This statement does not apply to those retirement benefits for which the employer's obligation cannot be reasonably estimated e.g. ad-hoc, ex-gatia payments made to employees when they retire.

3) Retirement benefit are of two types :

a) Defined Contribution Scheme : Retirement benefits are determined by contributions to a fund together with income of the fund. e.g. Provident Fund, (Payments are determinable).

b) Defined Benefit Scheme : Retirement benefits under this scheme are determined by reference to employee's earnings and length of service. Accrued liability is ascertained by actuarial valuation e.g. Gratuity, Leave Encashment, pension etc. Since the benefit depends on length of service, salary etc., (the benefits payable are uncertain).

4) Funding and Accounting are separate activities. Funding makes amount available to meet future obligations. It represent transfer of funds, to a trust or a separate entity. Accounting is systematic allocation of cost of retirement benefit to accounting periods related to services received of the employee.

5) Retirement benefits under defined contribution schemes are accounted by charging the employer's contribution to the Profit & Loss of the year. If the actual payment is less than the contribution payable then the short fall is charged to Profit & Loss of the year. If contribution paid is in excess of the amount payable for the year than the excess should be treated as pre-payment.

6) Accounting treatment of Defined Benefit Scheme depends on the type of arrangement chosen by the employer.

a) If payment of retirement benefits are out of own fund then the accruing liability is charged to Profit & Loss account by way of a provision. The accruing liability will be calculated by actuarial method.

b) If payment of retirement benefits is out of a specially created trust then the amount paid to the trust will be charged to Profit & Loss account for the year. The amount required to be contributed is calculated by actuarial valuation. If the contribution paid is less than the contribution payable then the short fall is charged to Profit & Loss account. If the annual contribution paid is more than the excess is treated on pre-payment.

c) If payment of retirement benefits is out of a scheme administered by an insurer then the contribution paid to insurer is charged to Profit & Loss account. The amount of contribution is determined by on Actuary or the insurer. If annual contribution paid is less than amount payable, the shortfall will be charged to Profit & Loss account. If the amount paid is in excess of the amount required then the excess is treated as pre-payment.

7) Change in actuarial valuation is deemed to be change in accounting policy. The alterations are charged or credited to the Profit & Loss account for the year in which the change takes place.

8) An actuarially determined past service cost arising on introduction of a retirement benefit scheme or making improvements to an existing scheme is to be immediately recognised and charged or credited to Profit & Loss account of the year in which it has arisen.

9) Actuarial valuations can be undertaken every year or less frequently, say, once in every three years. If actuarial valuation is done every year then the annual accruing liability is easily known. If Actuarial valuations are not conducted annually then the actuary's report should specify the annual contributions to be made by the employer during the intercalation period.

10) Disclosure requirements :

a) Method by which retirement benefit costs for the period has been determined.

b) In case of actuarial valuation, the Financial Statement must disclose the date of valuation.

c) A change in actuarial valuation method is deemed to be change in accounting policy and has to be disclosed as per Accounting Standard - 5.

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AS : 15 (Revised) : Employee benefits

1. This standard comes into effect for accounting periods commencing on or after 1.4.2006. It is mandatory in full for Level I enterprises.

2. **Benefits are classified as follows :**
   (I) Payable During Service :
   (1) Short-Term Benefits paid immediately or in less than 12 months
   (2) Long-Term Benefits that fall due after 12 months
   (II) Post Employment Benefits :
   (1) Gratuity, Pension, etc. payable on or after retirement
   (2) Termination benefits payable on employer terminating the employee's service

3. Employer should recognise a liability when the employee renders services though benefits are to be paid later (accrual concept).

4. Vested employee benefits are employee benefits that are not conditional on future employment. Non-vested benefits are conditional upon future employment conditions.

5. **Accounting for Short-Term Benefits :** The total amount accruing should be recognised as an expense. Any unpaid portion is recognised as a liability. Where the amount paid exceeds the amount payable the excess is in an asset, i.e. prepaid expense. A portion of such expense can be included as cost of an asset if permitted by another Accounting Standard. Egs. : Salaries, Wages, Compensated absences (leave salary), profit sharing plans, Bonus, etc.

6. **Post – Employment Benefits (other than termination benefits) are classified as follows :**
   (1) Defined Contribution Plans (DCP)
   (2) Defined Benefit Plant (DBP)

7. **Under DCP actuarial risk (i.e. Income risk) and investment risk does not fall on the employer. In case of DBP, both risks are borne by employer.**

8. **Benefit plans are operated in a variety of ways :**
   (1) State plans : These plans are established by legislation & operated by Government. E.g. Provident Fund operated by Central Government.
   (2) Multi-Employers Plans : These are managed by third parties, say an Asset Management Company. Here assets contributed by various enterprises that are not under common control are used to provide benefits to employees of more than one employer without regard to the identity of the employer.
   (3) Group Administration Plans : Here inter-related enterprises operate plans at a single point to save administration cost. The inter-relationship may be in capacity of a Holding Company, Subsidiary, Associate, Joint Venture or in some other manner.
   (4) Insured Benefits : The plans are managed by Insurance Companies.
   The above plans are generally DCP but can be DBP if acturial risk or Investment risk falls on the employer.

9. Accounting for DCP is same as Accounting for Defined Contribution Scheme in the earlier standard i.e., contribution payable is recognise as an expense if the amount paid is less than the contribution, the short fall will be a liability. If the amount paid exceeds the contribution, the excess paid will be recognise as an asset (prepaid expenses)

10. Accounting for DBP :

(a) The Present Value of benefits payable, resulting from employee service in the current & prior periods is to be recognising as a liability. To determine the present value of the defined benefit obligation, projected unit credit method (PUCM) should be used. PUCM requires assumptions regarding economic & financial variables. The discount rate should be rate of return on a Government security of a comparable maturity. There can be gains or losses arising from a change in actuarial assumptions. Modification of terms of benefits also leads to gains or losses affecting the Profit and Loss.

The Benefit Plan obligations are subjected to a careful annual review and to an actuarial valuation atleast once in 3 years.

(b) Plan Assets are assets created for the sole purpose of meeting the payment of benefits to employees and not for any other purpose. These are held by an entity legally separate from the employer i.e., third parties hold them.

Fair value of Plan Assets means the amount that is available settle the benefit payments.

The fair value should be reviewed at each balance sheet date. Return on Plan Assets means Interest, Dividend and other revenue plus realised & unrealised gains or losses on plan assets less administration costs and tax payable by the plan itself.

(c) Recognition : All costs attributable to post-employment benefits should be recognised in the Profit and Loss A/c as an expense in Present Value terms.

The Present Value (PV) of the obligations is recognised as the Gross Liability. Deduct any past service cost not yet recognised.

This gross liability should be adjusted by the fair value of plan assets and the net amount is shown in the Balance Sheet.

Actuarial gains or losses are also to be recognised to the Profit and Loss A/c.

11. Termination Benefits are payable when the employer terminates the service of the employee before retirement date OR the employee voluntarily retires in return for certain benefits. (e.g. VRS).

An enterprise should recognise termination benefits as an expense and a liability when :

(i) These is a present obligation as a result of past events, and

(ii) It is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and

(iii) A reliable estimate can be made of the amount of obligation (as per AS - 29)

If termination benefits fall due after 12 months from the Balance Sheet date then they should be discounted to their Present Value.

When there is uncertainty about the nos. of employees who will accept the offer of termination benefits, i.e., when a reliable estimate is not possible, a contingent liability should be disclosed.

Termination benefits should be recognised as an expense in the Profit and Loss A/c as and when it is incurred.

AS – 25 : Interim Financial Reporting

1) An interim period is a financial reporting period shorter than a full financial year. The Accounting Standard does not define the intervals at which the interim reports are to be presented. All listed companies have to submit unaudited Interim Financial Reports on a quarterly basis. The first accounting period may be shorter than a year is not an interim period.

2) **An Interim Financial Reports consists of either a complete set of Financial Statement or condensed Financial Statement. A complete set of Financial Statement consists of :**

Balance Sheet

Statement of Profit & Loss

Cash Flow Statement

Notes forming part of Financial Statement.

The condensed set of Financial Statement consists of :

Condensed Balance Sheet	Headings and subtotal that were
Condensed Statement of Profit & Loss	included in the most recent annual
Condensed Cash Flow Statement	Financial Statement.

Selected explanatory notes as regards following items :

i) 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 ;

ii) Explanatory comments about the seasonality of interim operations ;

iii) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence (see Accounting Standard - 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies) ;

iv) 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 ;

v) Issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares ;

vi) Dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares ;

vii) 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 Accounting Standard - 17, Segment Reporting, to disclose segment information in its annual financial statements);

viii) 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, restructuring, and discontinuing operations; and

ix) Material changes in contingent liabilities since the last annual balance sheet date.

3) There are two approaches to interim period reporting.

Intergral Approach: The Interim period is viewed as a part of the overall annual accounting period and as on instalment of the financial year. This approach will smoothen the impact of events on the profit & loss account of interim periods.

Discrete Approach: This approach treats each interim period as a distinct accounting period almost like a full financial year. Accounting Standard - 25 adopts the Discrete Approach though intergral approach is adopted in few cases e.g. Income tax provision, Volume rebates etc.

4) An enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements.

5) Interim reports should include interim Financial Statement (complete or condensed) for periods as follows :

i) balance sheet as at the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;

ii) statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year ;

iii) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

For an enterprise whose business is highly seasonal, financial information for the twelve months ending on the interim reporting date and comparative information for the prior twelve-month period may be useful.

AS - 28 : IMPAIRMENT ASSETS

1) **Accounting Standard - 28,** 'Impairment of Assets', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1.4.2006 and is mandatory in nature from that date for the following :

   (i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of director's resolution in this regard.

   (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds ₹ 50 crores.

   In respect of all other enterprises, the Accounting Standard comes into effect in respect of accounting periods commencing on or after 1.4.2007 and is mandatory in nature from that date.

2) The objective of this statement is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount.

3) **This statement should be applied in accounting for the impairment of all assets, other than:**

   (a) inventories (see Accounting Standard – 2, Valuation of Inventories);

   (b) assets arising from construction contracts (see Accounting Standard - 7, Accounting for Construction Contracts);

   (c) financial assets, including investments that are included in the scope of Accounting Standard - 13, Accounting for Investments ; and

   (d) deferred tax assets (see Accounting Standard - 22, Accounting for Taxes on Income).

4) **Definitions : The following terms are used in this statement with the meanings specified:**

   Recoverable amount is the higher of an assets net selling price and its value in use.

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

   Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

   Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

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

   A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

   Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.

   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.

5) An asset is impaired when the carrying amount of the asset exceeds its recoverable amount.

6) An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset.

If no indication of a potential impairment loss is present, this statement does not require an enterprise to make a formal estimate of recoverable amount.

In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications:

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(b) significant changes with an adverse effect on the enterprise have taken place during time period, or will take place in the near future, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which an asset is dedicated;

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;

(d) the carrying amount of the net assets of the reporting enterprise is more than its market capitalisation;

Internal sources of information

(e) evidence is available of obsolescence or physical damage of an asset;

(f) significant changes with an adverse effect on the enterprise have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date; and

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset need to be reviewed and adjusted.

7) It is not always necessary to determine both an asset's net selling price and its value in use. For example, if either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

8) Net Selling Price

The best evidence of an asset's net selling price is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental Costs that would be directly attributable to the disposal of the asset.

If there is no binding sale agreement but an asset is traded in an active market, net selling price is the assets market price less the costs of disposal.

If there is no binding sale agreement or active market for an asset, net selling price is based on the best information available to reflect the amount that an enterprise could obtain, at the balance sheet date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Value in Use

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Estimating the value in use of an asset involves the following steps:

(a) Estimating the future cash inflows and outflows arising from continuing use of the asset and from its ultimate disposal; and

(b) Applying the appropriate discount rate to these future cash flows.

In measuring value in use:

(a) Cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset, Greater weight should be given to external evidence;

(b) Cash flow projections should be based on the most recent financial budgets/forecasts that have been approved by management, Projections based on these budgets/forecasts should cover a maximum period of five years, unless a longer period can be justified; and

(c) Cash flow projections beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets / forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate should not exceed the long- term average growth rate for the products, industries, or country or countries in which the enterprise operates, or for the market in which the asset is used, unless a higher rate can be justified.

9) Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases due to general inflation. Therefore, if the discount rate includes the effect of price increases due to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases due to general inflation, future cash flows are estimated in real terms but include future specific price increases or decreases.

10) Future cash flows should be estimated for the asset in its current condition. Estimates of future cash flows should not include estimated future cash inflows or outflows that are expected to arise from:

(a) A future restructuring to which an enterprise is not yet committed; or

(b) Future capital expenditure that will improve or enhance the asset in excess of its originally assessed standard of performance.

11) Estimates of future cash flows should not include :

(a) Cash inflows or outflows from financing activities ; or

(b) Income tax receipts or payments.

Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, since the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis.

Foreign currency cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency.

12) The discount rate should be a pre-tax that reflects current market assessments of the time value of money and the risks specific to the asset. The discount rate should not reflect risks for which future cash flow estimates have been adjusted.

13) An impairment loss on a revalue asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

14) After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the assets revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

15) If an impairment loss is recognised, any related deferred tax assets or liabilities are determined under Accounting Standard – 22, Accounting for Taxes on Income.

16) If there is any indication that an asset may be impaired, the recoverable amount should be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an enterprise should determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

    The recoverable amount of an individual asset cannot be determined if:

    The asset does not generate cash inflows from continuing use that are largely independent of those from other assets. In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.

    Example I

    A mining enterprise owns a private railway to support its mining activities. The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine.

    It is not possible to estimate the recoverable amount of the private railway because the value in use of the private railway cannot be determined and it is probably different from scrap value. Therefore, the enterprise estimates the recoverable amount of the cash – generating unit to which the private railway belongs, that is, the mine as a whole.

    Example II

    A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

    Because the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets is the cash - generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.

17) Even if part or all of the output produced by an asset or a group of asset is used by other units of the reporting enterprise (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the enterprise could sell this output in an active market.

18) Cash - generating units should be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

19) The recoverable amount of cash - generating unit is the higher of the cash - generating units net selling price and value in use. For the purpose of determining the recoverable amount of a cash - generating unit, any reference earlier to 'an asset' is read as a reference to 'a cash - generating unit'.

20) **Goodwill** does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. As a consequence, if there is an indication that goodwill may he impaired, recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognised.

Whenever a cash-generating unit is tested for impairment, an enterprise considers any goodwill that is associated with the future cash flows to be generated by the cash-generating unit. If goodwill can be allocated on a reasonable and consistent basis, an enterprise applies the 'bottom-up' test only. If it is not possible to allocate goodwill on a reasonable -and consistent basis, an enterprise applies both the 'bottom-up' test and 'top-down' test.

21) Corporate Assets

Corporate assets include group or divisional assets such as the building of a headquarters or a division of the enterprise, EDP equipment or a research centre. Key characteristics of corporate assets are that they do not generate cash inflows independently from other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.

Because corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot bc determined unless management has decided to dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit to which the corporate asset belongs, compared to the carrying amount of this cash-generating unit and any impairment loss is recognised.

In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that relate to the cash - generating unit under review, For each identified corporate asset, an enterprise should then apply tests for impairement, i.e.:

(a) if the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis to the cash - generating unit under review, an enterprise should apply the 'bottom-up' test only; and

(b) if the carrying amount of the corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply both the 'bottom-up' and 'top-down tests,

22) Impairment loss for a Cash-Generating Unit

An impairment loss should be recognised for a cash-generating unit if, and only if, its recoverable amount is less than its carrying amount, The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order :

(a) first, to goodwill allocated to the cash-generating unit (if any) ; and

(b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

23) In allocating impairment loss under paragraph, 87, the carrying amount of an asset should not be reduced below the highest of :

(a) its, net selling price (if determinable) ;

(b) its value its use (if determinable); and

(c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis,

Example

A machine has suffered physical damage but is still working, although not as well as it used to. The net selling price of the machine is less than its carrying amount. The machine does not generate independent cash inflows from continuing use. The smallest identifiable group of assets that includes the machine and generates cash inflows from continuing use that are largely independent of the cash inflows from other assets is the production line to which the machine belongs. The recoverable amount of the production line shows that the production line taken as a whole is not impaired.

Assumption 1: Budgets / forecasts approved by management reflect no commitment of management to replace the machine.

The recoverable amount of time machine alone cannot be estimated since the machine's value in use :

(a) May differ from its net selling price ; and

(b) Can be determined only for the cash-generating unit to which the machine belongs (the production line). The production line is not impaired, therefore, no impairment loss is recognised for the machine. Nevertheless, the enterprise may need to reassess the depreciation period or the depreciation method for the machine. Perhaps, a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the machine or the pattern in which economic benefits are consumed by the enterprise.

Assumption 2 : Budgets / forecasts approved by management reflect a commitment of management to replace the machine and sell it in the near future. Cash flows from continuing use of the machine until its disposal are estimated to be negligible.

The machine's value in use can be estimated to be close to its net selling price. Therefore, the recoverable amount of the machine can be determined and no consideration is given to the cash - generating unit to which the machine belongs (the production line). Since the machines net selling price is less than its carrying amount, an impairment loss is recognised for the machine.

24) An enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for all asset in prior accounting periods may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset.

In assessing whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased, an enterprise should consider, as a minimum, the following indications :

External sources of information :

(a) The asset's market value has increased significantly during the period;

(b) Significant changes with a favourable effect on the enterprise have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which the asset is dedicated ;

(c) Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially ;

Internal sources of information

a) Significant changes with a favourable effect on the enterprise have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure that has been incurred during the period to improve or enhance an asset in excess of its originally assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs ; and

b) Evidence is available from internal reporting that indicates that the economic performance of the asset is or will be, better than expected.

25) If there is an indication that an impairment loss recognised for an asset may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value may need to be reviewed and adjusted in accordance with the Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.

26) Reversal of an Impairment Loss for an Individual Asset

The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

Any increase in the carrying amount of an asset above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior accounting periods is a revaluation. In accounting for such a revaluation, an enterprise applies the Accounting Standard applicable to the asset.

A reversal of an impairment loss for an asset should be recognised as income immediately in the statement of profit and loss, unless the asset is carried at revalued amount in accordance with another Accounting Standard (see Accounting Standard (AS) 10, Accounting for Fixed Assets) in which case any reversal of an impairment loss on a revalued asset should be treated as a revaluation increase under that Accounting Standard.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the statement of profit and loss, a reversal of that impairment loss is recognised as income in the statement of profit and loss.

After a reversal of an impairment loss is recognised, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

27) Reversal of an Impairment Loss for a Cash-Generating Unit

A reversal of an impairment loss for a cash-generating unit should be allocated to increase the carrying amount of the assets of the unit in the following order :

(a) first, assets other than goodwill on a pro-rata basis based on the carrying amount of each asset in the unit ; and

(b) then, to goodwill allocated to the cash-generating unit (if any).

An impairment loss recognised for goodwill should not be reversed in a subsequent period unless :

(a) The impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and

(b) Subsequent external events have occurred that reverse the effect of that event.

Accounting Standard (AS) 26, Intangible Assets, prohibits the recognition of internally generated goodwill. Any subsequent increase in the recoverable amount of goodwill is likely to be an increase in internally generated goodwill, unless the increase relates clearly to the reversal of the effect of a specific external event of an exceptional nature.

29) The approval and announcement of a plan for discontinuance is an indication that the assets attributable to the discontinuing operation may be impaired or that an impairment loss previously recognised for those assets should be increased or reversed. Therefore, in accordance with this Statement, an enterprise estimates the recoverable amount of each asset of the discontinuing operation and recognises an impairment loss or reversal of a prior impairment loss, if any.

30) Disclosure

For each class of assets, the financial statements should disclose:

(a) the amount of impairment losses recognised in the statement of profit and loss during the period;

(b) the amount of reversals of impairment losses recognised in the statement of profit and loss during the period ;

(c) the amount of impairment losses recognised directly against revaluation surplus during tine period; and

(d) the amount of reversals of impairment losses recognised directly in revaluation surplus during the period.

An enterprise that applies Accounting Standard - 17, Segment Reporting, should disclose the following for each reportable segment based on an enterprise's primary format (as defined in Accounting Standard - 17) :

(a) the amount of impairment losses recognised in the statement of profit and loss and directly against revaluation surplus during the period; and

(b) the amount of reversals of impairment losses recognised in the statement of profit and loss and directly in revaluation surplus during the period.

If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose :

(a) the events and circumstances that led to the recognition or reversal of the impairment loss ;

(b) the amount of the impairment loss recognised or reversed ;

(c) for an individual asset :

(i) the nature of the asset ; and

(ii) the reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in Accounting Standard - 17, Segment Reporting).

(d) for a cash - generating unit :

   (i) a description of the cash - generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in Accounting Standard - 17 or other) ;

   (ii) the amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprises primary format (as defined Accounting Standard - 17) ; and

   (iii) if the aggregation of assets for identifying the cash - generating unit has changed since the previous estimate of the cash - generating units recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash - generating unit is identified ;

(e) whether the recoverable amount of the asset (cash - generating unit) is its net selling price or its value in use;

(f) if recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way) ; and

(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following :

(a) the main classes of assets affected by impairment losses (reversals of impairment losses) ;

(b) the main events and circumstances that led to the recognition (reversal) of these impairment losess.

JKSC

Ind AS 19/ AS 15

Q.1. The Company reviewed an actuarial valuation for the first time for its pension scheme, which revealed at a surplus of 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advice the Company considering the accounting standard.

Q.2. CANARA Bank has followed the policies for retirement benefits as under :

(a) Contribution to Pension Fund is made based on actuarial valuation at the year end. In respect of employees who have opted for pension scheme.

(b) Contribution to the Gratuity Fund is made based on actuarial valuation at the year end.

(c) Leave Encashment is accounted for on "PAY-AS-YOU-GO" method.

Comment whether the policy is in accordance with Accounting Standard - 15.

Q.3. Indian Airlines has a post-retirement medical benefits scheme to its employees. As per the scheme, employees who have put in 20 years of service are eligible for post retirement medical benefit. There are 6,000 employees on 31.03.2009 who were eligible for post-retirement benefit scheme. All the post-retirement medical expenses will be borne by the Company itself, as Company has not taken any post-retirement medical scheme from any insurance company. During the year, Company has actually paid ₹ 2 crores to retired employees as medical expenses.

No provision for accrual liabilities of retirement medical expenses for the eligible 6,000 employees has been made.

Comment upon the accounting treatment whether it is in accordance with Accounting Standard - 15.

Q.4. Premiums Ltd. makes a regular contribution of ₹ 36 lacs, under a defined benefit scheme. Actuarial valuation revealed a shortfall of ₹ 48 lacs. Remaining service lives of participating employees is 4 years. Applying the norms under Accounting Standard - 15, provide the proper accounting treatment for this situation. Also state the treatment, if an amount of ₹ 8 lacs included in the shortfall, were to relate to employees already retired.

Q.5. A lump-sum benefit equal to 1% of final salary for each year of service is payable on termination of service. The salary is year 1 is ₹ 20,000 and is assumed to increase at 5% (compound) each year resulting in ₹ 25,500 (rounded off) at the end of year 6. The Discount rate used is 6% p.a. (assumed YTM on 6 year Bond).

Determine the obligation under PUCM.

Q.6. An enterprise operates a pension plan that provides a pension of 1.5% of final salary for each year of service. The benefits become vested after 5 years of service. On 1.1.2009 the enterprise improves the pension to 2% of final salary for each year of service starting from 1.1.2005. At the date of improvement, the present value of the additional benefits for service from 1.1.2005 to 1.1.2009 is as follows :

Employees with more than 5 years of service on 1.1.2009 ₹ 200

(Benefit already vested)

Employees with less than 5 years of service on 1.1.2009 ₹ 150

(Average period until vesting is 3 years)

How will the enterprise recognise the past service cost?

Q.7. The following information is given about a funded defined benefit plan. All transactions are assumed to occur at the year end. The present value of the obligation and the fair value of the plan assets were both ₹ 1,000 on 1st April, 2006.

		Amount (₹)		
		2006-07	**2007-08**	**2008-09**
(i)	Discount rate of start of the year	10%	9%	8%
(ii)	Expected rate of return return on plan Assets at the start of the year	12%	11.10%	10.3%
(iii)	Contributions paid	130	140	150
(iv)	Benefits paid	150	180	190
(v)	Current Service Cost	90	100	110
(vi)	Present value obligations on	1141	1197	1295
(vii)	Fair value of plant assets on 31.3.	1092	1109	1093
(viii)	Average remaining life of employees (year)	10	10	10

In 2007-08 the plan was amended to provide additional benefits effective from year 2006-07. The present value at the end of year 1 of additional benefits for employee service before 2006-07 was ₹ 50 for vested benefits and ₹ 30 for non-vested benefits. As on 1st April, 2007, the enterprise estimated that the average period until the non-vested benefits would become vested was 3 years ; the past service cost arising from additional non-vested benefits is therefore on a Straight Line Method over 3 years. The past service cost arising from additional vested benefits is recognised immediately.

Calculate Amounts recognised in the Balance Sheet and statement of Profit & Loss A/c.

Ind AS : 34 / AS 25

Q.1. Explain the recognition and measurement principles under AS 25 / Ind AS 34 for the following

1) An asset or a Liability
2) Provisions
3) Pension, Gratuity & Leave
4) Income Tax
5) Contingencies
6) Inventories
7) Bonus
8) Costs incurred unevenly or irregularly during the financial year.
9) Rebates & Price Changes
10) Depreciation
11) Foreign Currency translation gains & losses.
12) Impairments

Q.2. Pradeep Ltd. has ₹ 2,10,000 net income for the quarter ended 31st March, 2018, including the following items:

a) ₹ 90,000 extraordinary gain received on September 30, 2017, was allocated equally to the second, third and fourth quarter of financial year 2017-2018.

b) ₹ 24,000 cumulative loss resulting from change in method of inventory valuation method was recognized on February 2, 2018. Out of this loss ₹ 15,000 relates to the previous quarters.

Required : Compute the profit as per Accounting Standard - 25 for the quarter ended 31st March 2018.

Q.3. It is expected that the company would make profit on an annual basis though in the first quarter there would be a significant loss. In such cases, how will the tax adjustments be made for quarterly results?

Q.4. Intelligent Corp. (I-Corp.) is dealing in seasonal products. The quarterly sales pattern of the product is given below :

Qtr. –I	II	III	IV
Ending 31st March	30th June	30th September	31st December

For the First quarter ending 31st March, 2018 I-Corp. gives you the following information :

	₹ crore
Sales	50
Salary and other expenses	30
Advertisement expenses (routine)	02
Administrative and selling expenses	08

While preparing interim financial report for the first quarter 'I-Corp.' wants to defer ₹ 21 crore expenditure to third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure. Considering the seasonal nature of business, the expenditure are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 / Ind AS 34 and comment on the company's view.

Ind AS : 36/ AS 28

Q.1. AB Ltd is having a plant carrying amount of which is ₹ 200 lakhs on 31-3-2009. Its Balance useful life is 5 years and residual value at the end of 5 years is ₹ 10 lakhs. Estimated future cash flow from using the plant in next 5 years are :

For the year ended on	Estimated cash flow (₹ in lakhs)
31-3-2010	100
31-3-2011	60
31-3-2012	60
31-3-2013	40
31-3-2014	40

Calculate "value in use" for plant if the discount rate is 25 % and also calculate the recoverable amount if net selling price of plant on 31-3-2009 is ₹ 120 lakhs.

Q.2. CD Ltd. acquired plant on 1-4-2002 for ₹ 100 lakhs having 10 years useful life. It provides depreciation on straight-line basis with nil residual value. On 1-4-2007, CD Ltd. revalued the plant at ₹ 58 lakhs against its book value of ₹ 50 lakhs and credited Rs.8 lakhs to revaluation reserve.
On 31-3-2009 the plant was impaired and its recoverable amount on this date was ₹ 28 lakhs. Calculate the impairment loss and how this loss should be treated in accounts.

Q.3. PQ Ltd. has an asset with W.D.V. in accounts is ₹ 100 lakhs on 31.03.2009, its recoverable amount on 31.03.2009 was determined at ₹ 76 lakhs, the tax rate is 30% and carrying amount of the assets for tax purpose is 84 lakhs what is tax effect as per Accounting Standard - 22.

Q.4. XY Ltd. acquired a machine for ₹ 64,00,000 on 30-11-2005. The machine has five-years life with ₹ 10,00,000 salvage value and was depreciated using straight-line method. On 31-3-2008 a test for impairment reveals the following :

(a) Present value of future cash flow 27,00,000
(b) Net selling price 30,08,000
(c) Salvage value estimated Nil

Assuming loss for impairment is recognized for the year 31-3-2008. What should be the depreciation expenses for the year ended 31-3-2009?

Q.5. MN Ltd. gives the following estimates of cash flows relating to fixed asset on 31-3-2009. The discount rate is 15%.

Year	Cash flow (₹ in lakhs)
2009-10	4,000
2010-11	6,000
2011-12	6,000
2012-13	8,000
2013-14	4,000
Residual value at the end of 2014	1,000

Fixed Asset purchased on 1-4-2006 for ₹ 40,000 lakhs
Useful life 8 years
Residual value is estimated at ₹ 1,000 lakhs at the end of 8 years. Net selling price is estimated of ₹ 20,000 lakhs.
Calculate
a) Impairment loss to be recognized for the year ended 31-3-2009.
b) Depreciation charge for 2009-10.

Q.6. ABC Corporation acquired LMNS business on 31.03.2007 for ₹ 2,500 lakhs. The details of acquisition are as under :-
Fair value of identifiable asset 2,000 lakhs
Goodwill (to be amortised in 5 years) 500 lakhs
The anticipated useful life of acquired assets is 8 years. ABC uses straight-line method of depreciation and no residual values is anticipated. On 31-3-2009 ABC Corporation estimated the significant decline in production due to changed Government policies. The net selling price of identifiable asset is not determinable. The cash flow forecast based on recent financial budget for next 6 years after considering changed Govt. policies are as follows, incremental financing cost is 10% which represent current market assessment of the time value of money.

Year	Cash flow	Year	(₹ in lakhs) Cash flow
2009-10	350	2012-13	250
2010-11	350	2013-14	250
2011-12	350	2014-15	250

The Acquired business is a cash-generating unit.
Find out Impairment loss, if any.

Q.7. On 31-3-2007 PQR Industries Ltd. acquired CD Ltd. for ₹ 300 lakhs. CD Ltd. has three cash-generating unit X, Y & Z with net fair values of ₹ 120 lakhs, 80 lakhs and 40 lakhs respectively. PQR Industries Ltd. recognizes goodwill of ₹ 60 lakhs. For the accounting year ended 31-3-2009, X unit incurred substantial losses its recoverable amount is estimated to be Rs. 105 lakhs.Carrying amount of different cash-generating units are as under :

X 96 lakhs
Y 64 lakhs
Z 32 lakhs
Goodwill 30 lakhs
222 lakhs

Calculate the impairment loss to be recognized in financial statement if goodwill can be allocated on reasonable and consistent basis to cash-generating unit.

Q.8. ALEX Ltd. has three cash-generating units X, Y & Z. Carrying amount on 31-3-2009 of X, Y & Z is ₹ 200 lakhs, ₹ 300 lakhs and ₹ 400 lakhs respectively.
Due to adverse technological changes effecting Alex Ltd., the company conduct impairment test of each of its cash-generating units on 31-3-2009.
Company has corporate assets as head office building of ₹ 300 lakhs and Research and Development (R&D) Centre of ` 100 lakhs. Carrying amount of building can be allocated on reasonable basis but R & D centre cannot be allocated on reasonable basis to X, Y & Z cash-generating units. The remaining useful life of 'X' unit is 10 years and Y & Z is 20 years. The H.O. assets are depreciated on straight-line basis.

Net selling price of each cash-generating unit is not determinable. Hence recoverable amount is based on "value in use". 15% discount rate fairly indicate time value of money.

Calculate impairment loss to be recognized in financial statement for the year ended 31-3-2009 and allocation of impairment loss. Also calculate the revised carrying amount of assets of all cash-generating units.

Future cash flow for X, Y & Z and for Alex Ltd. as a whole at the end of 31-3-2009 is below (₹ in lakhs).

Year	X	Y	Z	(Alex Ltd. as a whole)
1 - 5	70 each yr	50 each yr	60 each yr	185 each yr
6 - 10	100 each yr	65 each yr	120 each yr	325 each yr
11 - 20	--	41 each yr	115 each yr	223 each yr

Q.9. Brown Ltd., is in a business of manufacturing and export of its product. Sometimes back in 2002, the Govt. put the restriction on export of goods exported by Brown Ltd. Due to that restriction Brown Ltd. impaired its asset. Brown acquired at the end of 1998 ` 2,000 lakhs of identifiable assets and paid ₹ 3,000 lakhs, balance is treated as goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight-line basis. When Govt. put the restriction at the end of 2002, the company recognized the impairment loss by determining the recoverable amount of assets of ₹ 1,360 lakhs. In 2004 Govt. lifted the restictions imposed on the export and due to this favourable change Brown Ltd. re-estimate recoverable amount, which was estimated of ₹ 1,710 lakhs.

Required:-

(a) Calculation and allocation of impairment loss in 2002.

(b) Resersal of an impairment loss and its allocation as per Accounting Standard - 28 in 2004.