

IMPLEMENTATION ISSUES

AS 1, 4, 5, 20, 24

Anand Banka

talati & talati



AS 1 Disclosure of Accounting Policies

Basics



- What are accounting policies?
- Why do you need to disclose the same?
- Which accounting policies needs to be disclosed?

Accounting Policies

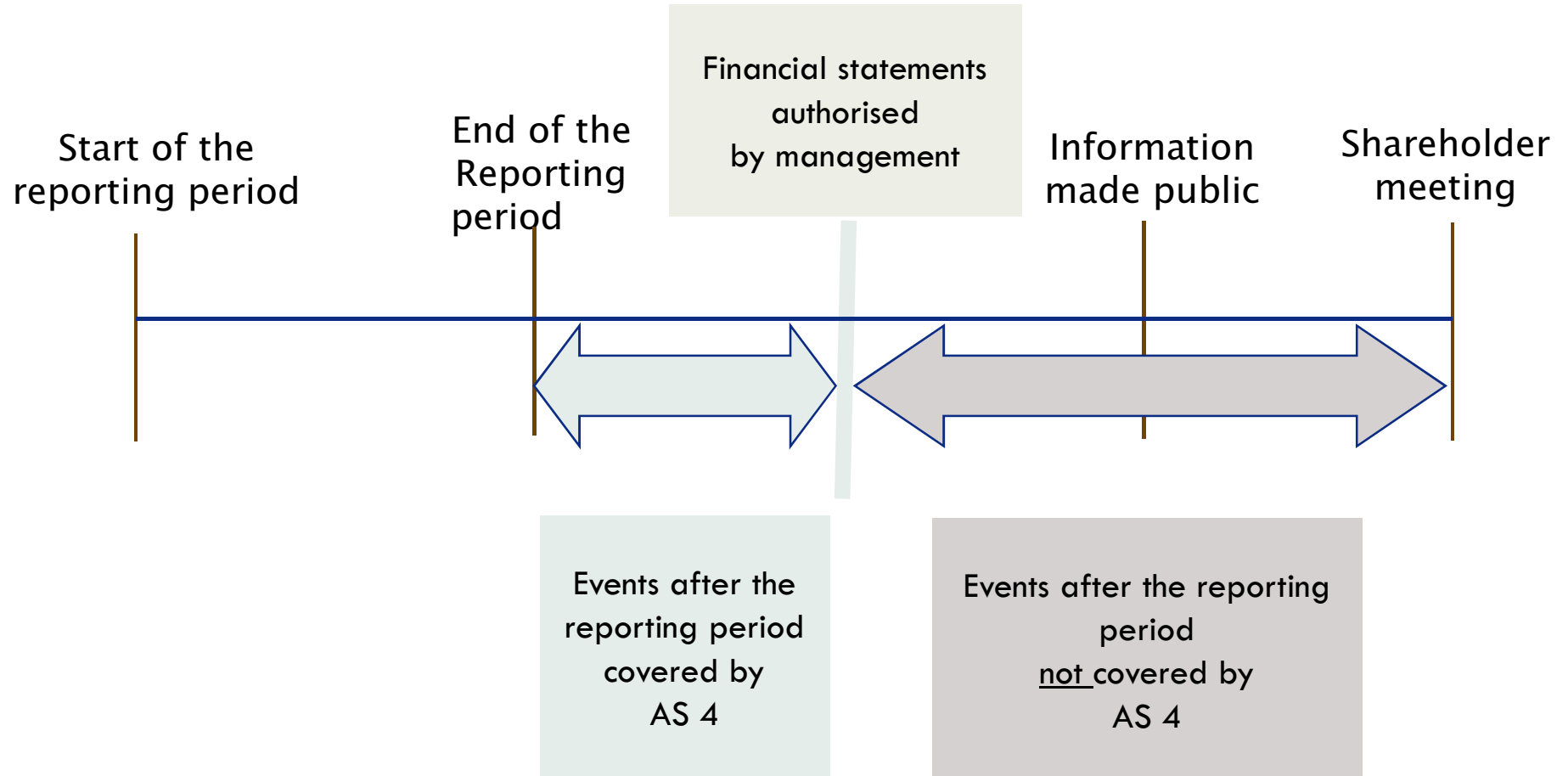


- Revenue Recognition
 - Timing – Goods & Services
- Valuation of Inventories
 - Cost Formulas??
- Others –
 - Borrowing costs
 - Investments and Dividends
 - Impairment of Assets
 - Provisions, Contingent Liabilities and Contingent Assets



AS 4 Contingencies and Events Occurring After the Balance Sheet Date

Events to be considered



Examples – Adjusting Events



- Settlement of a court case
- Bankruptcy declared by a customer
- Sale of inventories at significant loss
- Bonus (legal / constructive obligation)
- Discovery of frauds or errors

Examples – Non-adjusting Events



- Decline in market value of investments
- Fire in the factory
- Declaration of dividends
- Business combination

Going concern



- After reporting period, management decides to discontinue
- Fundamental change in the basis of accounting



AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

Net profit or loss for the period



- All items of income and expenditure should go to income statement
- E.g. Depreciation on revaluation
 - ▣ Charge directly to reserves - improper
 - ▣ Recoup out of reserves allowed
 - ▣ Disclose separately from depreciation

Exceptional vs. Extra-Ordinary

Exceptional Items

“Para 12: When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Para 13: Although the items of income and expense described in paragraph 12 are not extraordinary items, the nature and amount of such items may be relevant to users of Financial Statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is sometimes made in the notes to the Financial Statements.

Para 14: Circumstances which may give rise to the separate disclosure of items of income and expense in accordance with paragraph 12 include: the write-down of inventories to net realisable value as well as the reversal of such write-downs; a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;”

- ✓ disposals of items of fixed assets;
- ✓ disposals of long-term investments;
- ✓ legislative changes having retrospective application;
- ✓ litigation settlements; and
- ✓ other reversals of provisions.

Exceptional vs. Extra-Ordinary

Extra-Ordinary Items

'Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly. Further para 8 of AS-5 discusses about the disclosure of extraordinary items as below:

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

In case the company has more than one such item of income / expense of the above nature, the aggregate of such items should be disclosed on the face of the Statement of Profit and Loss. Details of the all individual items should be disclosed in the Notes.

Prior Period - What, where, when??

- All items of income and expense (BS items not included)
- The **nature** and **amount** of prior period items should be separately disclosed in the statement of profit and loss **in a manner that their impact on the current profit or loss can be perceived.**

Changes in Accounting Policies

- Policy vs. Estimate
 - Change in depreciation rate
 - Change in depreciation method
 - Revenue recognition – Completed contract method vs. Proportionate completion method
 - Change in inventory cost formula
- Changes in Accounting Policies
 - Retrospective or Prospective?



AS 20 Earnings Per Share

Basic earnings per share

- PAT attributable to ordinary share holders/ Weighted average number of ordinary shares outstanding
- PAT – dividends to preference share holders
- For profit or loss from continuing operations & discontinued operation separately
- Bonus shares to change prior year figures

Diluted earnings per share

- PAT attributable to ordinary share holders/ Weighted average number of ordinary shares (outstanding + potential)
- PAT – dividends to preference share holders + dividends, interest and other expenses/ incomes
- Decrease in EPS or Increase in LPS

Case Study

- Profit for the period = \$ 100
- Number of shares = 100
- EPS = \$1
- Number of Convertible Preference Shares = 100
- Dividend on the same = \$ 50
- Diluted EPS = ?

Case Study

- Loss for the period = \$ 100
- Number of shares = 100
- EPS = (\$1)
- Number of share warrants = 100
- Diluted EPS = ?

Case Study - ESOP

- Average Share Price during the year = 50
- ESOP value = 10
- Number of options = 100
- Diluted number of shares = $100 - (100 * 10 / 50)$

Case Study – Rights Issue

Before exercise of rights

- Fair Value per shares = 100
- Total number of shares outstanding = 10
- Total number of rights = 20
- Amount per right = 50
- Theoretical ex-right fair value = $\frac{100*10+50*20}{10+20}$
 $= 66.67$
- Basic & Diluted no. of shares = $10*100/66.67 = 15$
or $10 + (20 - \frac{50*20}{66.67}) = 15$

Disclosures



- On the face of Income Statement
- Other details in Notes
 - ▣ Numerator (incl. reconciliation with Profits)
 - ▣ Weighted average number of shares (Basic & Diluted)
 - ▣ Nominal value of shares
- Additionally
 - ▣ EPS excluding extra-ordinary items



AS 24 Discontinuing Operations

Meaning...

- Single plan for
 - ▣ Disposing of substantially in its entirety; or
 - ▣ Disposing of piecemeal; or
 - ▣ Terminating through abandonment
- Represents separate major line of business e.g. CGU
- Can be distinguished operationally or for financial reporting purposes
 - ▣ Assets and liabilities can be directly attributable
 - ▣ Revenue can be directly attributable
 - ▣ Majority of operating expenses can be directly attributable

Initial disclosure event...

- Whichever occurs earlier –
 - the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
 - *the enterprise's board of directors or similar governing body has both*
 - *approved a detailed, formal plan for the discontinuance and*
 - *made an announcement of the plan*

Recognition and measurement



- As per other accounting standards
 - Fixed Assets
 - Revenue
 - Cash Flows

ThanQ?

Anand Banka
Partner,
Talati & Talati

Email: anand.banka@talatiandtlati.com

Mob: 98673 53743

Contact us!

