1.2.4 Financial Reporting and Analysis

Module 1- Introduction to Financial Reporting & Analysis

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(1)

Topics

1. AS /ASB- Accounting standards and Accounting Standards Board
2. IASB- International Financial Reporting (Accounting) Standards Board
3. Convergence of Ind AS with IFRS
4. Comparative Analysis of AS, IFRS and Ind AS
5. Framework for applying Reporting Standards

Balance sheet - Illustrative

Standalone Financial Statements

Balance Sheet

as at March 31, 2020

All amounts are in ₹ crores, except share data and where otherwise stated

		Notes	As at March 31, 2020	As at March 31, 2019
A.	**ASSETS**			
	Non-current assets			
	(a) Property, plant and equipment	3.1	1,647.61	1,809.05
	(b) Right-of- use asset	3.2	178.48	-
	(c) Capital work-in-progress	3.1	732.58	233.88
	(d) Other intangible assets	4	3.13	3.71
	(e) Intangible assets under development	4	94.44	80.86
	(f) Financial assets			
	(i) Investments	5	13.92	20.16
	(ii) Other financial assets	6	6.33	6.95
	(g) Income tax assets (net)	20	26.21	21.48
	(h) Other non-current assets	11	74.99	115.78
	Total non - current assets		**2,777.69**	**2,291.87**
	Current assets			
	(a) Inventories	7	1,142.69	1,061.42
	(b) Financial assets			
	(i) Investments	5	142.25	0.30
	(ii) Trade receivables	8	636.28	768.58
	(iii) Cash and cash equivalents	9	32.60	50.15
	(iv) Bank balances other than (iii) above	10	51.91	21.60
	(v) Other financial assets	6	11.53	8.59
	(c) Other current assets	11	205.64	293.43
	Total current assets		**2,222.90**	**2,204.07**
	Total assets		**5,000.59**	**4,495.94**
B.	**EQUITY AND LIABILITIES**			
	Equity			
	(a) Equity share capital	12	17.08	17.08
	(b) Other equity	13	3,638.53	3,318.24
	Total equity		**3,655.61**	**3,335.32**
	Liabilities			
	Non-current liabilities			
	(a) Financial liabilities			
	(i) Borrowings	14	34.34	46.80
	(ii) Lease liabilities	15	21.67	-
	(b) Provisions	16	83.75	69.46
	(c) Deferred tax liabilities (net)	17	44.13	95.91
	(d) Other non-current liabilities	21	59.13	45.98
	Total non - current liabilities		**243.02**	**258.15**
	Current liabilities			
	(a) Financial liabilities			
	(i) Trade payables	18		
	-Total outstanding dues of Micro enterprises and small enterprises		73.91	59.60
	-Total outstanding dues of creditors other than Micro enterprises and small enterprises		540.98	450.84
	(ii) Other financial liabilities	19	204.89	170.52
	(iii) Lease liabilities	15	15.43	-
	(b) Provisions	16	99.41	61.89
	(c) Other current liabilities	21	167.34	159.62
	Total current liabilities		**1,101.96**	**902.47**
	Total equity and liabilities		**5,000.59**	**4,495.94**
	Corporate information	1		
	Significant accounting policies	2		

See accompanying notes to the financial statements

- **What are these numbers?**
- **Why is it presented in this manner**
- **Since how many years this statement is prepared in this way**
- **Who are required to prepare and present this statement**
- **How is this statement prepared- what method used**
- **Who decides the format, method of grouping the numbers**
- **Who prepares this statement**
- **Who uses it**
- **How does one use this statement**

Statement of Profit & Loss - Illustrative

Statement of Profit and Loss

for the year ended March 31, 2020

All amounts are in ₹ crores, except share data and where otherwise stated

		Notes	For the year ended March 31, 2020	For the year ended March 31, 2019
I	Revenue from operations	22	6,839.46	6,793.11
II	Other income	23	55.05	46.77
III	**Total Income (I+II)**		**6,894.51**	**6,839.88**
IV	**Expenses**			
	Cost of materials consumed		4,219.07	4,603.06
	Purchases of stock-in-trade		175.89	170.18
	Changes in inventories of finished goods, work-in-progress and stock-in-trade	24	52.17	(129.14)
	Employee benefits expense	25	385.18	345.23
	Finance costs	26	12.19	6.95
	Depreciation and amortization expense	27	300.74	261.20
	Other expenses	28	908.59	852.03
	Total Expenses		**6,053.83**	**6,109.51**
V	**Profit before tax (III - IV)**		**840.68**	**730.37**
VI	**Tax expense**	29		
	(i) Current tax		231.64	238.78
	(ii) Deferred tax		(51.78)	8.10
	Total tax expense		**179.86**	**246.88**
VII	**Profit for the year (V - VI)**		**660.82**	**483.49**
VIII	**Other Comprehensive Income**			
	(i) Items that will not be reclassified to profit or loss :			
	(a) Remeasurements of the defined benefit plans		(2.87)	(0.17)
	(b) Equity instruments through other comprehensive income		(6.53)	0.07
	Total Other Comprehensive Income / (Loss)		**(9.40)**	**(0.10)**
IX	**Total comprehensive income for the year (VII + VIII)**		**651.42**	**483.39**
	Earnings per share (of ₹1 each)	36		
	Basic and Diluted (₹)		**38.69**	**28.31**
	Corporate information	1		
	Significant accounting policies	2		

Cash flow Statement - Illustrative

Cash Flow Statement

for the year ended March 31, 2020

All amounts are in ₹ crores, except share data and where otherwise stated

	For the year ended March 31, 2020		For the year ended March 31, 2019	
A. Cash flows from operating activities				
Profit before tax		840.68		730.37
Adjustments for:				
Depreciation and amortisation expense	300.74		261.20	
(Gain)/Loss on sale of property, plant and equipment (net) / written off	(0.71)		3.48	
Finance costs	12.19		6.95	
Interest income on bank deposits	(2.95)		(2.77)	
Dividend income from equity instruments designated at FVTOCI	(0.00)		(0.00)	
Gain on disposal of mutual fund units	(16.57)		(5.35)	
Deferred revenue recognised	(9.46)		(8.41)	
Net gain arising on financial assets mandatorily measured at FVTPL	(2.18)		(0.02)	
Liabilities no longer required written back	(0.67)		(3.83)	
Provision for doubtful trade receivables written back	(1.77)		(1.79)	
Provision for doubtful trade receivables and advances	23.60		2.67	
Bad trade receivables written off (net)	0.89		0.33	
Net unrealised foreign exchange gain	(19.75)		(15.50)	
		283.36		236.9
Operating profit before working capital changes		**1,124.04**		**967.3**
Movements in working capital				
Adjustments for (increase)/decrease in operating assets:				
- Trade receivables	113.37		12.05	
- Inventories	(81.27)		(11.71)	
- Other assets	83.11		(119.24)	
Adjustments for increase/(decrease) in operating liabilities:				
- Trade payables	102.05		(76.72)	
- Other liabilities	30.03		(12.87)	
-Provisions	41.95		24.18	
		289.24		(184.3
Cash generated from operations		**1,413.28**		**783.**
Income taxes paid		(236.37)		(241.6
Net cash generated from operating activities (A)		**1,176.91**		**541.3**
B. Cash flows from investing activities				
Purchase of property, plant and equipment	(701.38)		(528.47)	
Proceeds from sale of property, plant and equipment	1.51		0.25	
Investment in subsidiary	(0.29)		(0.28)	
Purchase of current investments	(1,480.00)		(1,025.00)	
Proceeds from sale / redemption of current investments	1,356.80		1,045.40	
Bank balances not considered as cash and cash equivalents (net)	(29.47)		41.18	

Table continued to the next pa

Cash Flow Statement (contd.)

for the year ended March 31, 2020

All amounts are in ₹ crores, except share data and where otherwise stated

	For the year ended March 31, 2020		For the year ended March 31, 2019	
Interest received	3.18		3.78	
Dividend income	0.00		0.00	
Net cash (used in) investing activities (B)		**(849.65)**		**(463.14)**
C. Cash flows from financing activities				
Repayment of borrowings	(11.63)		(5.10)	
Repayment of Lease Liabilities	(15.83)			
Finance costs (including in relation to lease liabilities)	(5.20)		(1.06)	
Dividend paid including tax on dividend (Refer Note 43)	(331.13)		(85.46)	
Net cash (used in) financing activities (C)		**(363.79)**		**(91.62)**
Net decrease in cash and cash equivalents (A+B+C)		**(36.53)**		**(13.42)**
Cash and cash equivalents at the beginning of the year		50.15		48.73
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		18.98		14.84
Cash and cash equivalents at the end of the year (Refer Note 9)		**32.60**		**50.15**

Notes:

(a) The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Indian Accounting Standard (Ind AS - 7) - Statement of Cash Flows.

Financial Reporting - Meaning, Purpose and Objectives ……

- Meaning- **Statements or Reports described in financial terms to summarise**
  - **the activities transacted during the year - statement of Profit & Loss**
  - **the financial position at the end of the financial year- Balance sheet**
  - **changes in cash position – Cash flow statement**
  - **Statement of changes in Equity**
  - **Schedules**
  - **notes to accounts etc.**

- Purpose- **To understand**
  - **the financial details of business activities and summarise the performance - income earned from different income streams, expenses incurred on various business activities and thereby ascertain the profit or loss (P&L) earned during the financial year.**
  - **the financial position – Assets and Liabilities – at the beginning and end of the financial year- Balance Sheet**
  - **How the business activities during the year have generated and or consumed cash - Operating activities, Investing activities and Financing activities, Opening and closing Cash and cash equivalents**
  - **How the owners equity changed during the year after transfer to Reserves and distribution of dividend**
- Objectives- Helps in
  - **Evaluation of business performance and guide the management to control the operations to drive the business**
  - **Decision making and guide business strategy – when and where to expand, consolidate, reduce etc**
  - **To monitor the strength and weaknesses of the business /management and plan for the future**
  - **Raise funds from lenders, capital markets, Institutions , Private Equity etc**

Format **– Schedule III of Companies Act, 2013**

Analysis of Financial statements

- P&L, BS Cash flows etc are sources of important financial information on the basis of which analysis can be done to derive meaningful insights, conclusions and recommendations for decision making
- Analysis includes making meaningful comparisons and interpretations of various elements of P&L items with one another and also with elements of Balance sheet and vice versa and draw useful inferences for decision support
- Analysis of Financial statements is an attempt to assess the efficiency and performance of an enterprise- to measure efficiency, profitability, financial soundness and future prospects of a business units.
- Financial analysis serves the following purposes
    - Measure profitability- Return on capital invested- whether adequate , high or low and whether all stakeholders are adequately compensated
    - Indicating the trend of achievements- measure the growth and performance trends over a period of time- of incomes, expenses, growth of assets and liabilities and net worth
    - Assessing the growth potential of business- forecast the growth potential of the business , strength of management, controls and strategic direction
    - Comparative position in relation to other firms- compare with other companies/competitors in the industry to assess relative strength, position and strategy
    - Assess overall financial strength- internal generation of cash , financial ability to leverage and raise more funds, attract more investors, assess the quality of assets and liabilities
    - Assess solvency of the firm- ability of the business unit to meet its short and long term needs and commitments
- Users of Financial statements
    - Management
    - Shareholders –investors- present and potential
    - Lenders- Banks, Financial institutions, Private Equity, venture capitalises, FII, Mutual Funds , Hedge funds, Family Offices etc
    - Customers, Suppliers
    - Tax and government authorities, regulatory bodies like SEBI/Stock exchange
    - Research Analysts

Topic 1
Accounting Standards for Financial Reporting– why, what, who, how

- **Need for monitoring financial performance and health of business in a logical, systematic, consistent and transparent way for evaluation and decision making**
- **Variations in Accounting techniques for recognising , measuring , re measuring , treatment presentation and disclosure to users of financial statements in different countries/industries viz IGAAP, US GAAP, UK GAAP, IAS, …….**
- **Need for standardising the accounting methods and definitions of accounting and financial terms across different countries**
- **Accounting Standards are written regulations /instructions issued by expert accounting body or by Govt or other regultatory body**
- **Result – formulation of National Standards of Accounting –to regulate the method of accounting and reporting within a country**
- **set by Accounting Standards Board/ regulators in different countries – ICAI/MCA/SEBI/NFRA/RBI/Income Tax ….**
- **Globalisation- MNCs, Cross border business and banking transactions – need for standardising accounting and reporting practices across the countries - IFRS**

Regulators of Accounting and Reporting Standards- India and Global

- **Legal Aspects – MCA/ CBDT- Companies Act, 2013 and Income Tax Law 1961, SEBI /stock exchanges (listed cos)**
- **Regulators**
  - **NACAS (National Advisory Committee on Accounting standards)**
  - **NFRA (National Financial Reporting Authority)(Accounting Scandal in 2009) mainly to oversee the quality of service of accounting and auditing profession , to investigate matters of professional misconduct**
- **Reporting Framework- ICAI- (ASB) Accounting Standards Board recommends to NACAS all the accounting standards to be followed by companies in India. Issues the Accounting Standards and Guidance Notes.**
  - **Cos Act 1913- Books of account to be maintained and audit by qualified auditor; 1932 formation of Indian Accountancy Board to advise Governor General in council of India; 1947 – expert committee was set to recommend separate autonomous association of Accountants to regulate the profession; 1949- Chartered Accountants Act passed and ICAI formed under MCA control; ICAI became member of IFAC, SAFA, CAPA etc**
  - **International standards issued by IFAC –**
    - **IASC- International Accounting Standards Committee (IAS)**

      IASB- International Accounting Standards Board (IFRS)

ASB-ICAI- Accounting standards Board of Institute of Chartered Accountants of India

- **Objectives of ASB**
  - **Conceive and suggest areas in which AS need to be developed**
  - **Formulate AS to assist ICAI in evolving and establishing AS in India**
  - **Examine and adapt the relevant IAS/IFRS in formulating AS for India**
  - **Review periodically the AS and modify or revise in accordance with changed conditions**
  - **Provide interpretations and guidance on AS**
  - **Carry out such other functions relating to AS**

- **ASB is responsible for propagating AS and persuading the concerned parties to adopt them in preparing and presenting the Financial Statements**
- **ICAI is a member of IFAC/IASB and actively works towards promoting IAS/IFRS in India with a view to facilitate global harmonisation of AS**

Applicability of AS to Enterprises in India (IGAAP)

- **Enterprises are classified into 3 levels**
  - Level I-
    - Enterprises listed/In process of listing in India or outside India – Equity /Debt
    - Banks & Cooperative Banks, Financial Institutions, Insurance enterprises,
    - all Commercial, industrial and business (C I B) enterprises whose

      Turnover (excluding other income) is > Rs 50 cr (previous audited financials)

      Borrowings including Public deposits are > Rs 10 crore at any time during the year

      Holding & Subsdiary enterprises of any of the above

  - Level II
    - All Commercial, Industrial and business enterprises whose
      - **Turnover (excluding other income) is >Rs 40 lacs and less than Rs 50 cr (previous year audited financials)**
      - **Borrowings including public deposits is > Rs 1 crore but less than Rs 10 cr at any time during the yea**

      Level III

      - **Enterprises which do not fall under Level I and Level II**

Topic 2

IASB- International Accounting Standards Board

- **Since 1973 IASC produced 39 IAS and SIC Interpretations . Some IAS have been withdrawn but many are still in force.**
- **In 2001 IASB - a wing of IFRS foundation was formed in place of IASC to develop technical content of IFRS in public interest**
- **IASB adopted all effective IAS issued by IASC and the SIC interpretations . The adapted standards without any changes from IASC will have prefix IAS.**
- **New standards issued by IASB will have prefix IFRS and new interpretations will be called IFRIC interpretations (Intl Financial Reporting Interpretation Committee)**
- **IFRS is currently adopted/converged by 120 countries (easy to compare, report and understand)**

IFRS accounting standards demand extensive disclosures about company's management and financial transactions putting greater degree of responsibility in financial reporting

Under IFRS management would be held accountable for any errors or poor judgment in presentation.

Merits , Limitations of IFRS

- **Merits:**
  - **Easy to compare, uniform methods, transparent reporting – benefits all stakeholders**
  - **Consistent application of accounting principles leads to reliability/trust of the financial statements**
  - **Better access to capital markets globally as IFRS accounting practices and reporting are globally accepted**
  - **Dual filing of accounts and multiple accounting standards can be avoided – US GAAP, UK GAAP, IGAAP etc**
  - **Multi national corporations operating in several countries can uniformly adopt IFRS reporting – easy and uniform**
  - **Investors will be able to appreciate the strength /weakness of a company/group when the accounts of all entities all over the world are reported using one standard –IFRS**
  - **IFRS reporting is useful to secure cross border listing**
- **Limitations**
  - **IFRS reporting is good when the economy is booming or in mild economic conditions. Not in tougher economic conditions.**
  - **Fair value principles are extensively used in IFRS- which may result in significant differences in financial information especially in relation to financial instruments and business combinations (amalgamations, mergers etc) and will lead to volatility in financial reporting and distorting EPS, PE ratios- explaining reasons for fluctuations will become very tedious and difficult**
  - **Lack of adequate professionals trained in IFRS with valuation skills, fair value estimation abilities-**
  - **IFRS are principle based standards but offer several choices – usage of cost based model or a revaluation model in accounting for investment properties leading to reduced consistency and comparability of financial information**
  - **IFRS are formulated by IASB but implemented and regulated by local governments /accounting and regulatory bodies like ICAI and hence interpretations may differ leading to differences in practical application of the standards**

Challenges in implementing IFRS

- **Several laws and regulations pertaining to accounting and reporting will have to be changed – Cos Act, Income Tax Act, RBI Act, SEBI Act etc – Eg Treatment of redeemable Preferences shares as equity under one law and as financial liability in IFRS, Format of presentation of reporting different in Cos Act RBI Act and IFRS are significantly different.**
- **Lack of adequate number of trained professionals with practical IFRS conversion experience – dependence on external consultants , auditors. Lack of preparedness by companies – Entire organisation needs to understand the implications of IFRS and change in accounting leading to changes in presentation and profitability. (changes in P&L Revenue, expenses, estimates, fair values) balance sheet items – changes in business processes**
- **IGAAP is not same as IFRS and there are differences- IFRS does not give choices over accounting of certain transactions whereas IGAAP gives choices like pooling of interests method in accounting for business combinations (M&A)**
- **Convergence of IGAAP with IFRS is not a one time change but has long lasting impact on business and regulatory matters like structuring of ESOP schemes, training of employees, tax planning, modification of ERP and IT systems, compliance with debt covenants etc**
- **Investors and users of financial statements also need to be trained to understand the changes in reporting and accounting**
- **All other regulations, legal requirements need to be amended to be in conformity with IFRS transition**
- **Complex concepts like present value , fair value measurement, recognition and extent of disclosure further complicate the preparation and presentation and understanding of the financial statements**
    - **Eg Premium payable on redemption of debentures, Discount on issue of debentures, under writing commission paid on issue of debentures are accounted differently under IFRS compared to IGAAP- This would lead to distortions income statement leading to confusion and complexities**
    - **Financial statements become more complex under IFRS and can make decision making more difficult to users/investors**

Topic 3
IND AS – The Indianised version of IFRS

- **India has adapted IFRS with some changes wherever necessary to suit the local conditions.**
- **The Indian AS have been converged with IFRS to achieve harmony meaning the design of the AS aims to maintain the national accounting standards in a way that financial statements prepared will draw unreserved statement of compliance with IFRS.**
- **To succeed in the era of globalisation and to be come competitive and at the same time achieve harmonisation of accounting and reporting it is necessary to have a single globally accepted financial reporting system.**
- **The entities in emerging economies are increasingly accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside the country. Sound financial reporting structure is imperative for economic well being and effective functioning of capital markets**
- **If different countries use different accounting and reporting practices , it becomes very confusing and time consuming to deciper and understand the financial statements leading to inefficiencies due to different interpretations .**
- **Increasing complexity of business transactions and globalisation of capital markets call for a single set of high quality accounting standards for reporting . IFRS is the result of such a need and enormous effort and cooperation between various countries of the world.**

Benefits of convergence with IFRS to various users

- **Economy- increases the global competitiveness, business opportunities and capital flows and GDP growth**
- **Investors- opportunities to invest in various countries based on reliable and relevant information across jurisdictions**
- **Industry- Increased opportunities to raise capital at lower costs based on sound and uniform understanding of financial statements**
- **Accounting professionals- sell their services to global clients using uniform practices. Increases mobility to work in different parts of the world comfortably**

- **Ind AS standards are mostly same as IFRS with some relevant changes which are sensitive to local conditions including legal and economic environment.**

Road map for adopting Ind AS by enterprises

- **Ind AS are notified by Ministry of Corporate Affairs as Companies (Indian Accounting Standards) Rules , 2015**
- **IND AS is applicable to different classes of companies commencing from different financial years as follows**
  - **Voluntary adoption by any enterprise- From the financial year 2015-16 and give comparative numbers for 14-15**
  - **Phase I -Mandatory adoption from financial year 2016-17 by**
    - **Companies having Networth of > Rs 500 cr- whose securities – equity /debt are listed or in the process of listing in India /outside India**
    - **Companies Unlisted but having Networth of > Rs 500 cr**
    - **Holding & subsidiary, Joint Venture, Associate of the listed or unlisted companies (> Rs 500 cr networth)**

Phase II Madatory adoption from financial year 2017-18 by

- **Companies listed and having networth of < Rs 500 cr**
- **Companies Unlisted with networth of > Rs 250 cr and < Rs 500 cr**
- **Holding, subsidiary, JV, Associate of listed/unlisted companies mentioned above**

Exceptions

- **Companies in SME segment – listed or unlisted on SME Exchanges**
- **Companies not covered by the roadmap in mandatory catagories mentioned above**

- **These companies can continue to follow the Accounting Standards under IGAAP.**

- **Banking, and Insurance companies have been mandated by RBI/IRDA to adopt Ind AS from FY 2018-19**
- **NBFC with networth > Rs 250 cr but < Rs 500 cr to mandatorily adopt Ind AS from FY 2019-20**

Topic 4-
comparison of AS, IFRS and Ind AS

- **Few important differences/similarities in AS, IFRS and Ind AS are in the following areas**

	I GAAP	IFRS	Ind AS
Presentation of FS	AS1, AS 5	IAS 1	Ind AS 1
Components of FS	BS, SOPL,CFS, Notes	SOFP,Income St, SOCIE, Notes	SOFP, SOCIE, SOPL, CFS,Notes
Formats of FS	Sch III of Cos Act, 2013	Illustrative formats	Suggested formats
Cash flow St Bank OD	Financing Activity	Cash & Cash Equivalent	Same as IFRS
Cash flow st -Int and Div	Financing activity	Option either Op/Inv/Fin activity	Same As IGAAP
Events Occurring after date	AS 4	IAS 10	Ind AS 10
Dividend declared	If decl after BS – Liability	Recognise only when declared	Same as IFRS
Changes in Acctg Policies	Only prospective appln	Retrospective application	Same as IFRS
Prior period items	AS 5- only Inc/Exp	IAS 8- All items of FS	Same as IFRS
PPE- Dep method change	Retrospective compute	Only prospective	Same as IFRS
Revenue Recognition	AS 9 – as per contract	IAS 18-effect control /ownership	Same as IFRS
Employee Benefits			
Related Parties			
Borrowing costs			
Leases			
EPS			
Etc			

Revenue Recognition

Indian GAAP (AS)	Ind AS Requirement (Ind AS 18 and Ind AS 115)	Impact
➢ Revenue from sale of goods is recognised when the **risks and rewards** in respect of ownership are transferred to the buyer under the terms of the contract which usually coincide with **the despatch of goods to the customer or when they are unconditionally appropriated under the terms of sale.**	➢ Revenue is recognised net of returns and discounts, **when control over the goods is transferred to the customer** which is mainly upon delivery of goods as per the terms of contracts with customers. ➢ Ind AS 115 prescribes five steps model to account for revenue. ➢ The transfer of risks and rewards is an indicator of whether control has transferred under the new revenue standard, but **additional indicators** will also need to be considered such as • Entity has a present right to payment for the goods, • The customer has legal title to the goods, • The entity has transferred physical possession of the goods, • The customer has the significant risks and rewards of ownership of the goods, and • The customer has accepted the goods	✓ Under Ind AS 18 (old Standard), revenue is typically recognised on both FOB and CIF contracts once the goods are on board, reflecting the **substantial transfer of risks and rewards at that point.** ✓ Under new standard Ind AS -115 – Co reverses the sales made on month end where ever goods despatched from plants/branches but not delivered to customers irrespective of whether CIF basis /FOB basis. ✓ Hence for goods which are despatched and are in transit, the revenue recognised should be reversed. ✓ Corresponding to the sales reversal, the goods in-transit shall be recognised as inventory

Provisions for warranty, Provision for doubtful debts

Present Indian GAAP (AS)	Ind AS Requirement	Impact
➢ The Co provides for standard warranties in the year in which the products are sold. The standard warranty period across various product lines varies from 6 months to 36 months. ➢ The provision is estimated using historical information on the nature, frequency, quantum of warranty claims , corrective actions against product failures and these estimates are reviewed annually for any material changes. ➢ The provision made is **not discounted** to reflect the time value of money. ➢ There is **no concept of expected credit loss** for provision for doubtful debts.	➢ Ind AS 37 –"Provisions, Contingent Liabilities and Contingent Assets" requires that where the effect of the time value of money is material, the provision should be discounted to its present value using the Company's borrowing rate. ➢ The unwinding of provision due to passage of time is treated as a finance cost. ➢ As per Ind AS, Company shall **compute Expected Credit Loss** (ECL) allowance for doubtful trade receivables based on a provision matrix.	✓ Impact is taken into books on quarterly basis and treated as Finance cost. ✓ The unwinding of provision shall be charged to statement of profit and loss as a borrowing cost on quarterly basis. ✓ Additionally, Ind AS requires long term provisions to be discounted to their present value. ✓ Provision is making in the books by using ECL method.

Investments – Current Investments (Mutual funds etc.)

Present Indian GAAP (AS)	Ind AS Requirement	Impact
➢ Current investments are carried at **lower of cost and fair market value**	➢ *Ind AS 109 –Financial Instruments* requires the **investments to be fair valued.** ➢ The fair value of the investments shall be the **quoted market prices.** ➢ Based on the classification and measurement criteria given under Ind AS 109, investment in mutual funds have to be classified as financial assets measured at fair value through profit and loss (FVTPL).	✓ Investments in Mutual funds measured at Fair value. ✓ Changes in fair value of the Investment are recognized in the statement of Profit and Loss on monthly basis.

Investments – Long term Investments (Equity share etc.)

Present Indian GAAP (AS)	Ind AS Requirement	Impact
➢ The Company has long-term investments in : • Quoted equity shares • Unquoted equity shares ➢ Long-term investments are **stated at cost.** ➢ **Provision for diminution** in the value of long-term investments is made only if such diminution is other than of temporary nature.	➢ Ind AS 109 – Financial Instruments requires the investments **to be fair valued**. ➢ The fair value of the Quoted Investments shall be the **Quoted market prices.** ➢ The fair value of the unquoted investments shall be **the book value of the investments.** ➢ Based on the classification and measurement criteria given under Ind AS 109, Investment in equity shares have to be classified as **financial asset measured at fair value through profit and loss account (FVTPL) or FVTOCI** ➢ **However, Ind AS 109 also gives an option** to irrevocably designate and recognize changes in Fair value of equity instruments not held for trading in the statement of other comprehensive Income	✓ Investment in subsidiary – at cost ✓ Investment in listed companies - at FVTOCI (Quoted investments) ✓ Investment in APGPCL, Indian lead Ltd etc. (Unquoted Investments) - FVTOCI ✓ The opion to classify equity instruments as **FVTOCI shall be done at initial recognition and is irrevocable.**

Leases

Present Indian GAAP (AS)	Ind AS Requirement	Impact
➢ The Leases where the Lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. ➢ Operating lease payments are recognised as an expense in the Statement of Profit and Loss as per the applicable lease terms.	➢ Ind AS 116 introduces a single lessee accounting mode. ➢ For all leases, lessee need to recognize assets and liabilities. ➢ Lessee recognizes depreciation of the right-of-use asset and interest on the lease liability.	✓ Most of Rental agreements for leasing of Office and Warehouse premises fall into the definition of Lease contract. ✓ Leases previously classified as operating leases were recognised and measured at an amount equal to the lease liability (adjusted for any prepayments/accruals). ✓ On transition date of 1st April 2019, the Company recognised right-of-use assets amounting to 175.69 crores (including previously classified as finance lease) and a lease liability of 45.65 crores.

39 Ind AS issued and applicable

15 Based on IFRS 1 to 15	24 based on IAS
Ind AS 101- First Time adoption of Ind AS Ind AS 102- Share Based payments Ind AS 103- Business Combinations Ind AS 104- Insurance contracts Ind AS 105- Non Current Assets Held For Sale & discontinued operations Ind AS 106- Exploration and Evaluation of Mineral Resources Ind AS 107- Financial Instruments – Disclosures Ind AS 108- Operating Segments Ind AS 109- Financial Instruments Ind AS 110- Consolidated Financial Statements Ind AS 111- Joint Agreements Ind AS 112- Disclosure of Interests in Other entities Ind AS 113- Fair Value Measurement Ind AS 114- Regulatory Deferral Accounts Ind AS 115- Revenue from Contracts with Customers and impact on various sectors	Ind AS 1- Presentation of Financial Statements Ind AS 2- Inventories Ind AS 7- Statement of Cash flows Ind AS 8- Acctg policies, changes in Acc est& errors Ind AS 10- Events after the reporting period Ind AS 11- Construction Contracts Ind AS 12- Income Taxes Ind AS 16- Property Plant & Equipment Ind AS 17- Leases Ind AS 18- Revenue Ind AS 19- Employee Benefits Ind AS 20- Govt Grants, Govt assistance Ind AS 21-The Effect s of changes in Forex Rates Ind AS 23- Borrowing Costs Ind AS 24- Related Parties Ind AS 27- Consolidated and Separate Financial statements Ind AS 28- Investment in Associates Ind AS 29- Financial reporting in hyper inflationary economies Ind AS 31- Interests in Joint Ventures Ind AS 32- Financial Insstruments – Presentation Ind AS 33- Earnings per share Ind AS 34- Interim Financial Reporting Ind AS 36- Impairment of Assets Ind AS 37- Provisions , Contingent Liabilities & Contingent Assets

Topic 5
Reporting Frame work (Basic principles) for applying the Accounting Standards

- **Reporting framework is a "set of guidelines and concepts" on the basis of which the accounting standards are drafted and applied in the presentation of the financial statements**
- **The purpose of the framework is to**
  - **Assist preparers of financial statements in applying the AS**
  - **Assist the ASB in development of future AS and review of existing AS**
  - **Assist the ASB in promoting harmonisation of regulations , AS and procedures relating to preparation and presentation**
  - **Assist Auditors in forming an opinion as to whether the financial statements conform with the AS**
  - **Assist Users of Financial statements in interpreting the information provided in the statements**

  - **The framework guidelines do not over rule the Accounting Standard.**
  - **If and when there arises a conflict between the framework and the AS, the AS will prevail over the framework**

  - **The framework itself is reviewed from time to time and revised in the light of the experience of ASB in implementing the standards**

Scope of Framework guidelines

- **The Framework deals with**
  - **Objective of financial statements**
  - **Qualitative characteristics that determine the usefulness of information given in the financial statements**
  - **Definition, Recognition and measurement of the elements from which financial statements are prepared**
  - **Concept of capital and capital maintenance**

  - **Many users rely on he financial statements as their major source of financial information and hence the statements be prepared and presented with their needs in view**

  - **Special purpose financial reports like Prospectus, computations for tax purpose are outside the scope of this framework. However, the framework may be applied in the preparation of special purpose reports where their requirements permit.**

  - **Financial statements are “ part of “ financial reporting.**
  - **A complete set of financial statements normally include**
    - **Balance Sheet, statement of profit loss (Income statement), cash flow statement , notes, explanatory material , supplementary schedules and explanations based on or derived from and expected to be read with the financial statements**

    - **Financial statements do not include Directors Report , Chairman statement, Management Discussion & Analysis and similar information included in financial or annual report**

Objectives of Financial Statements

- **Provide information about (i) Financial Position (ii) performance and (iii) cash flows of an enterprise**
- **Provide information that portrays financial effects of past events and not on financial forecast**
- **Does not provide non financial information**
- **Show the result of stewardship of management and its accountability for the resources entrusted to it**
- **Helps the investors in taking economic decisions including whether to hold or sell their investment, whether to reappoint or replace the management.**
- **Provide information to evaluate the ability of the enterprise to generate cash and cash equivalents and timing and certainty of their generation to ensure its ability to meet its financial commitments to various stakeholders – employees, lenders, suppliers, govt, shareholders**
  - **Financial position is shown by the balance sheet**
  - **Performance is shown by statement of profit and loss**
  - **Addition/reduction to cash and cash equivalents is shown by Cash flow statements**

Financial statements- BS, P&L and cash flow statements, Supplementary Schedules & Notes

- **Balance sheet shows the financial position**
  - **capital structure- Equity and Debt levels- future borrowing capacity by leveraging its equity and assets**
  - **position of solvency and liquidity and current assets and current liabilities- to meet its financial obligations in long term and near term**
  - **capacity to adapt to changes in the environment – Health of Fixed/Non current assets and economic resources to generate cash flow in future**
- **Statement of Profit & Loss shows performance of the enterprise,**
  - **how effectively the management has utilised the available resources and ensured profitability of operations .**
  - **Also helps in predicting potential changes in economic resources that the enterprise is likely to control in future and to generate cash flows from available resources.**
- **Cash flow is useful to evaluate the efficiencies of activities of the enterprise**
  - **Cash flow from operations (PBT, working capital changes etc)**
  - **Cash flow from Investing activities (sale and purchase of Fixed assets, Long term investments etc)**
  - **Cash flow from financing activities (increase /decrease in capital , borrowings, interest , dividends etc)**
- **Supplementary schedules and Notes**
  - **Details of assets , liabilities, equity , loans are given in schedules and**
  - **Notes contain qualitative information that is relevant to the users of financial statements to understand the various items**
  - **Disclosures about risks and uncertainties affecting the enterprise and resources and obligations not recognised in the financials**
  - **Information about business and geographical segments , effect of changing prices (Fair value, Forex) etc**
  - **Notes on contingent Liabilities not provided for in the financial, significant litigation, extraordinary events and aspects that may have financial implication in future etc**
- **The components of the financial statements- Balance sheet and P&L and cash flows are interrelated as they reflect different aspects of same transactions .**
- **Although each statement provides information that is different from the others, each statement on its own when compared and correlated with other statements provide meaning insights and helps in drawing meaningful conclusions for decision making. Analysis and interpretation is very essential and useful.**

Under lying assumptions in preparing financial statements

- **Accrual Basis-**
  - **Accounting of transactions as and when they occur (not when cash is received or paid) – and reporting in the period to which they relate . Past events involving receipt and payment of cash and also the obligations for receipt and payments to made in future based on events/transactions already happened.**

- **Going Concern –**
  - **It is assumed that the enterprise has neither the intention nor the need to liquidate or materially curtail he scale of its operations . If the business operations are expected to be discontinued/significantly atltered there are prescribed methods in which accounting and reporting is to be done.**

- **Consistency-**
  - **For a meaning comparison of financial performance, position and cash flows over two or more periods – the accounting and reporting have to be done uniformly and consistently using same principles and methods and policies. Change in accounting policy if necessary can be made with adequate disclosure and quantification of the impact on financials**

Ten Qualitative Characteristics of Financial statements

1. Understandability -

- **should be easily understandable by users – readers assumed to have required knowledge**

2. Relevance-

- **should be useful for decision making and help in evaluating past , present and future events affecting the business- for eg information about wage payments to employees, capital expenditure , dividend payments history, liquidity and cash position to indicate the ability to pay all commitments and maintain high credit rating etc**
- **Information regarding abnormal or unusual and extra ordinary expenses, incomes that are infrequent etc to be highlighted and separately shown in financials**

3. Reliability-

- **information should be free from material error and bias and can be trusted by users**
- **Information sometimes may be relevant but very unreliable in nature or in the way it is presented that its recognition may be potentially misleading-**
- **For eg if the amount of a claim for damages under a legal action against the enterprise is highly uncertain, it may be inappropriate to recognise the amount of claim in the balance sheet as receivable even though it may be considered appropriate to disclose the amount and the circumstances of the claim**

4. Faithful Representation-

- **the information must represent faithfully all the transactions that are reasonably expected to be disclosed. Balance sheet should represent the transactions and events that result in Assets, Liabilities and Equity of an enterprise Expenses should not be represented as assets, Liabilities should not be represented as Income or vice versa (Profit management)**
- **Accounting estimates and judgments should be used prudently. No over statement of income/expense or no improper recognition of an asset (tangible or intangible) or liability.**
- **Where assumptions are used in recognition – adequate note /disclosure should be made in the financial statements.**

… Qualititative characteristics - contd

5. Materiality-

- **Relevance of information gets affected by its materiality**
- **A statement is considered as a misstatement (Omission or erroneous) if it could influence the economic decision of users**
- **Depends on the size and nature of the error and can be judged according to the circumstances.**
- **Materiality provides a" cut off point or a threshold" of tolerance**

6. Substance over form-

- **For the information to be considered to be representing all the transactions and events faithfully it is necessary that they are accounted for and presented in accordance with their substance (essence) and economic reality and not merely in its legal form.**
- **Eg- if the rights and beneficial interest in an immovable property are transferred but the registration/documentation and legal formalities are pending, the transaction should be recorded as it is completed in substance and documentation is only a form.**

7.Neutrality- the information in the FS should be free from bias and should not influence the decision making in order to achieve a pre determined result or outcome.

8. Prudence- while preparing the FS , one should be conscious of the uncertainties and probabilities that are associated with the transactions/events- Eg Collectibility of receivables, useful lives of the fixed assets, warranty claims etc and exercise reasonable caution and judgment in accounting and presenting the financials. One should avoid both understatement as well as overstatement of incomes, expenses, assets and liabilities.

Prudence does not mean that one should create hidden reserves by making excessive provisions or deliberately understate assets/income or overstate liabilities and expenses

…Qualititative characteristics - contd

9.Completeness-

- **The financial Statements must be complete within the bounds of materiality and cost**
- **Omission of any transaction can cause the information to be false or misleading and make the FS unreliable or irrelevant**

10. Comparability-

- **Information should be given for minimum two financial years (many companies give financial information for 10 years)**
- **Facilitate understanding of financial trends , performance trends, how the financial position has changed over the comparable years.**
- **Analysis of FS includes comparison of FS of one company over the years and comparison of one company with other companies**
- **The FS should be prepared using consistent principles and policies for a meaningful analysis interpretation and decision making**
- **Changes in accounting policies, significant changes in presentation (re grouping of accounts) must be highlighted**
- **Wherever the circumstances change , the accounting policies /presentation should be refined for better understanding**

Constraints on Relevant and reliable information

1. **Information should be provided in time for effective decision making- neither too early (before an event happens) or too late (after the period is over)**

2. Cost Benefit-

1. **Benefit should be better than cost .**
2. **The beneficiaries may not be the same ones who bear the cost**

3. True and fair view- the financial statements prepared using/within the frame work of accounting and reporting standards normally results in conveying a true and fair view of the information contained in the FS

Elements of Financial Statements

- **Financial transactions are grouped into broad classes according to their economic characteristics called elements of FS**
- **Elements related to the measurement of Financial position (BS) are Assets, Liabilities, Equity.**
- **Elements related to measurement of performance (P&L) are Income and Expenses**
- **Elements that reflect the changes in the financial position (BS) on account of the elements in performance (P&L) are shown in the cash flow statement (no separate elements).**
- **The presentation of elements in the FS involves a process of sub classification ie Assets and Liabilities may be classified by their nature or function in the business and presented in a manner that is useful to the users – Non current assets, current assets and liabilities etc. within the sub classification further grouping like Plant & machinery, investments, inventories etc is done for improving the presentation and understanding.**

- **Balance Sheet- Asset, Liability, Equity**
  - **Asset- Is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected**
  - **Liability- is a present obligation arising from past events the settlement of which is expected to result in an outflow of resources/economic benefits**
  - **Equity- is the residual interest in assets after deducting all liabilities**

  - **In assessing whether an item meets the definition of an asset, liability or equity- one must consider its underlying substance and economic reality and not merely its legal form – Eg Hire purchase (both asset and liability are created , recognised, presented)**

Financial elements relating to Financial Position - What are Assets

- **The future economic benefit embodied in an asset is "the potential" to contribute, directly or indirectly, to the flow of cash and cash equivalents to the enterprise.**
- **Assets are employed to produce goods, services that are needed to satisfy the wants of customers and receive cash/consideration.**
- **Future economic benefits embedded in an asset may flow to an enterprise in a number of ways**
  - **Used singly or in combination with other assets in the production of goods and services (raw materials + machinery+building)**
  - **Exchanged for other assets**
  - **Used to settle a liability**
  - **Distributed to owners of the enterprise**

- **Assets may have physical form (Buildings, Machinery) or no physical form/intangible like patents, Rights**
- **Many assets are associated with legal rights including right of ownership- Receivables, Property etc**
- **In determining the existence of an asset, right of ownership is not essential – for eg hire purchase item as the purchaser controls the benefits which are expected to flow from the item.**
- **Sometimes even without having a legal right over the item , one can exercise control over the flow of economic benefits from that item.For eg- technical knowhow- right to use**
- **Assets may be purchased, Produced or received as grant /right to exploit – land, mining rights etc**
- **Expenditure is not necessary to create an asset for eg govt grant /subsidy etc**

What are liabilities

- **Liability is a present obligation, duty or responsibility to act or perform in a certain way.**
- **Obligations may be legally enforceable due to a binding contract or statutory requirement (creditors, lenders)**
- **Obligations also arise from normal business practice/custom/good practices- warranties replacement .**
- **Present obligation is not same as future commitment (promise to do something in future without a legal agreement)**
- **Settlement of present obligation usually involves giving up resources embodying economic benefits in order to satisy the claim of other party.**
- **Settlement of present obligation may happen by payment of cash, trf of other assets, providing services, replacement with another obligation, conversion of obligation into equity, waiver or forfeiting the right by creditor**
- **Some obligations/liabilities can be measured only by using substantial degree of estimation- called provisions**

What is Equity

- **Equity is residue of Assets –Liabilities**
- **Funds contributed by owners, reserves /appropriations of retained earnings, unappropriated retained earnings , reserves representing capital maintenance adjustments etc constitute equity**
- **Creation of Reserves – like Debenture redemption reserve, statutory reserve etc are sometimes required by law to give adequate protection to the creditors against possible future losses.**
- **Transfers to reserves are appropriations of retained earnings (from PAT) and are not expenses**
- **Commercial, industrial and business activities may be constituted as sole proprietorship, partnership , trust , PSU, companies –Pvt and public. All these have different legal requirements regarding capital, equity contribution and distribution.**
- **There are more restrictions on a company as compared to other forms regarding distribution of profits/capital to the owners**

Performance related elements in Financial Statements - Income & Expenses

- **Profit is used as measure of performance , Return on Investment, EPS**
- **Elements that are directly related to measure profit are Income and Expenses**
- **Recognition and measurement of income and expenses depends on the concepts of capital and capital maintenance used in the preparation of FS**
- **Incomes and expenses are presented in the statement of P&L in different ways to provide information relevant for decision making –**
- **Incomes and expenses arising in the ordinary course of business are shown separately from those that arise under extraordinary circumstances- once in a while/not recurring/unusual which have a one time impact on the cash flows/profit**
- **What is normal course of operations for one enterprise may be extraordinary for another.**
- **Distinguishing between items of income and expense and combining them in different ways permits several measures of enterprise performance to be displayed like Gross profit, profit from ordinary activities before taxation, profit after extra ordinary activities, Net profit**

Income & Expense Gains & Losses- Meaning

- **Income is increase in economic benefit during the accounting period in the form of inflows or enhancement of assets or decrease of liabilities that result in increase in equity excluding the inflows relating to contributions from equity participants**
- **Income encompasses both revenue and gains-**
- **Revenue is from sales, fees, royalties, dividends, interest, grants**
- **Gains may or may not arise in ordinary course of business. Gains are normally included in profit**
- **Income includes realised as well as unrealised gains (but reasonably certain to be received)**
- **Gains include profit arising on disposal of fixed assets.**
- **Income enhances various kinds of assets- like cash receivables, goods and services received in exchange , by way of settlement of a liability (supplying goods and services to a lender and reduce the loan liability)**
- **Expense- is a decrease in economic benefit during the accounting period in the form of outflows or depletion of assets or incurrence of a liability that result in decrease in equity other than those relating to distributions to equity shareholders**
- **Expense includes those expenses incurred in the ordinary course of business as well as losses and expenses that arise once in a way /unexpectedly/unusual/one time /non recurring**
- **Losses represent other items that meet the definition of expenses and may or may not arise in ordinary course of business.- fire, flood, changes in law, sale of business. Expense include unrealised losses.**
- **Losses represent decrease in economic benefits and are like expense by nature**

Recognition of elements in FS

- **Recognition means incorporating/placing the elements in the balance sheet or P&L statement in accordance with the definition of the element – viz Income and Expense are placed in P&L and Assets, liabilities and Equity are placed in Balance Sheet.**
- **Recognition means depiction of the item in words and by a monetary amount and inclusion of that amount in the totals of the balance sheet and the P&L statement**
- **Failure to recognise the elements in the BS or P&L cannot be rectified or compensated by disclosure of the accounting policy used or by nor by notes nor by explanatory material.**
- **All items that meet the definition of an "Element" should be recognised if**
  - **It is probable that any future economic benefit associated with the item will flow to or from the enterprise**
  - **The item has a cost or value that can be measured with reliability**

- **While deciding whether an item/element meets the above criteria and therefore qualifies for recognition in FS, one should consider materiality**
- **The inter relationship between the elements means that if one item that meets the definition and recognition criteria of an element say Asset will automatically require the recognition of another element – say a liability or income (Double entry concept)**

Recognition .. contd

- **Probability of receiving or not receiving future economic benefit is recognised keeping in view the certainty or uncertainty of the inflow/outflow to the enterprise – provision for expected credit losses**
- **Recognition of an element is also based on the extent of reliability with which the cost or value can be measured**
- **Use of reasonable estimates regarding the elements is an essential part of preparation of FS and estimates do not undermine the reliability of FS.**
- **If a reasonable estimate cannot be made, the element/item is not recognised in BS/P&L- Eg damages payable in a legal case may meet the definition of a liability and expense as well as probability criterion for recognition , however it is not possible to measure the claim amount reliably and hence should not be recognised as a liability or expense**
- **An item that at a particular point of time is not meeting the recognition criteria may qualify for recognition at a later date due to subsequent circumstances or events or becoming measurable with certainty.**
- **An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may still be required to be disclosed in the notes, explanatory material or supplementary schedules**
- **If disclosure/knowledge of such an item is essential to understand the FS, financial position, performance or cash flows , then even if it cannot be measured realiably, it must be included in the FS by proper explanatory note**

Recognition of Asset, Liability Income ,Expense

- **Asset- Expense recognised as asset if it is probable that the future economic benefits associated with the expense will flow to the enterprise and the asset has cost and value that can be measured reliably. Otherwise the expense is recognised in the P&L**
- **Liability- is recognised in BS when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount of settlement can be measured reliably.**
- **Income – is recognised in statement of P&L when increase in future economic benefits related to increase in an asset or decrease in a liability has arisen which can be measured reliably . Increase in net assets when goods are sold and decrease in liability when a debt payable is waived**
- **Expense- is recognised in P&L when a decrease in future economic benefit related to a decrease in an asset or increase of a liability has arisen and can be measured reliably.- Eg accrual of salaries payable, depreciation. Many expenses are recognised in P&L on the basis of direct association between cost incurred and the earning of specific income- Matching concept- Eg Income from Sales matched with cost of goods sold (not produced)**
- **When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined , expenses are recognised in the P&L on the basis of systematic and rational allocation procedures- eg depreciation amortisation on assets and intangibles.**
- **An Expense is recognised immediately in P&L when it does not produce any future economic benefits.**
- **An expense is also recognised to the extent that future economic benefits from an expenditure do not qualify or cease to qualify for recognition in the balance sheet as an asset**
- **An expense is recognised in P&L in case where a liability is incurred without recognition of an asset- Eg liability under product warranty.**

Measurement of Elements in FS

- **Measurement is a process of determining the monetary amounts at which the elements of FS are to be recognised and carried in BS and P&L**
- **Several measurement bases are employed to different degrees and in various combinations like**
  - **Historical cost – Asset measured- cash or equivalent paid or fair value of other consideration given to acquire the asset**

    Liability- measured as the amount of proceeds received in exchange for the obligation, or cash expected to be paid to satisfy the liability in normal course of business
  - **Current Cost – Assets measured and recorded at the amount of cash/equivalents that would be paid if it is acquired currently as against historical cost**

    Liabilities are carried at undiscounted amount of cash/Equivalent expected to be paid to satisfy the liability in the normal course of business
  - **Realisable (settlement) value- Assets are carried at the amount of Cash/Equivalent that could currently be obtained by selling the asset in an orderly disposal.**

    Liabilities are carried at their settlement values ie undiscounted amounts of cash/Equivalents expected to be required to settle in normal course of business
  - **Present Value- Assets are carried at Present value of future net cash flows that the item is expected to generate in the normal course**

    Liabilities are carried at the present value of the future net cash flows that are expected to be required to settle the liabilities in normal course of business

  - **Most commonly used measurement is Historical Cost. This is combined with other combinations like**
    - **Inventories are measured at lower of historical cost or Net Realisable Value**
    - **Pension liabilities are measured and carried at their present value of future liability**

  - **In some cases , current cost basis is used if historical cost accounting model is not able to deal with the changes in prices of non monetary assets**

Capital and Capital maintenance

- **Under Financial concept of capital like Invested money or invested purchasing power- capital means Net assets of the enterprise (Assets – Liabilities= Equity capital)**
- **Under Physical concept of capital like operating capability- capital is regarded as the productive capacity of the enterprise based on units of output per day or other similar basis**
- **Depending on the needs of the users, appropriate concept of capital can be used ie**
  - **Use Financial concept is used if maintenance of nominal capital and purchasing power of invested capital is to be monitored or**
  - **Use Physical concept if operating capability of the enterprise is to be monitored**

- **The concept chosen indicates the goal to be attained in determining profit**

Capital Maintenance and Determination of Profit

- **Financial Capital Maintenance concept-**
  - **Profit is earned only if the financial amount of Net Assets at the end of the period exceeds the financial amount of net assets at the beginning of the period (Increase in Net worth/Reserves and surplus at the end of the year) after excluding distributions to and contributions from owners during the period.**
  - **Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.**
- **Physical capital Maintenance concept-**
  - **Profit is earned only if the physical productive capacity or operating capacity at the end of the period exceeds the one at the beginning of the period after excluding distributions to and contributions from owners during the period.**
  - **Profit is the residual amount that remains after expenses (including capital maintenance adjustments) have been deducted from income.**
  - **If expenses exceed income , the residual amount is a net loss**
  - **Generally all enterprises use financial capital maintenance concept for determination of profit .**

Thank you