

# *Practical AS Compliances in Income and Expenses and Financial Reporting For Proprietorship and Partnership*

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For Pune Branch of WIRC of ICAI, Pune  
6th June 2026

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# Agenda

- Why Accounting Standards
- What constitutes Indian GAAP
- SME and applicability of AS relating to Income and Expenses
- Financial Reporting of Income and Expenses

# Standards to be discussed today

- AS 7 Construction Contracts
- AS 9 Revenue Recognition
- AS 10 Property Plant and Equipment  
(Combination of AS 10 (revised) and earlier AS 6 –  
Depreciation now deleted)
- AS 15 Employee Benefits
- AS 16 Borrowing Cost
- AS 22 Accounting for taxes on Income
- AS 28 Impairment of Assets



# AS-7 CONSTRUCTION CONTRACTS

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# What is a Construction Contract ?

- Is a contract:
  - specifically negotiated
  - for a construction of an asset or combination of assets
  - that are closely interrelated or interdependent
  - for their design, technology and function or their ultimate purpose or use.

# Types of Construction Contract

- **Fixed Price Contract**

- A Lumpsum price is agreed for work
- Easy to determine the sales contract estimate

- **Cost Plus Contract**

- The Sale price will depend upon cost to be added by profit as decided
- The Sales estimate will depend upon cost to be incurred hence cost estimate is critical

# Contract revenue and cost

- **Contract Revenue**

- Initially agreed
- Variations :
  - It is probable that it will result in revenue
  - It is possible to reliably measured

- **Contract Cost**

- Cost directly related to the Contract
- Cost attributable to contracts in general and to the contract
- Cost chargeable to customer under the contract

# Criteria for recognition of revenue

- **Under fixed price method**

- Total contract revenue can be measured reliably
- Contract cost and Percentage completion can be measured reliably
- Economic Benefits will flow to the entity
- Contract cost attributable to contract can be identified and comparable with estimate

- **Under cost plus contract method**

- Economic Benefits will flow to the entity
- Contract cost attributable to contract can be identified

# How to compute Contract revenue

- **Under fixed price method**

- Compute Total Estimated Revenue from the contract
- Compute total estimated contract cost for the entire project
- Find out percentage completion of the work done
- Apply percentage to the Total Contract Revenue less revenue already recognised in earlier years for that contract
- Deduct cost incurred during the period
- Net result is contract profit

- **Under cost plus contract method**

- Compute total cost incurred for the period
- Apply profit or fee to be added to the cost
- Compute revenue as total of both

# Issues relating to Construction Contracts

- Transfer of Risks and Reward
- Percentage Completion Method
- Revenue can be measured
- Cost Estimate and validation – Estimation Uncertainty.
- Where outcome cannot be estimated reliably
- Recognition of Expected Losses
- Accounting for Retentions – whether to recognise or not.
- Warranty
  - Standard Warranty arrangement – embedded in price
  - Estimate cost required to service warranty – AS 29
  - Based on past history
  - Possible future incidence based on corrective action on product failures

# Issues relating to Construction Contracts contd...

## **Variation in Contract Work**

- It is probable that it will result in revenue
- Capable of being measured
- Whether written or verbal confirmation – Trade practice
- Cost escalation clause
- Changes in design, scope, duration or specifications

## **Percentage Completion**

- Estimation of Cost
- Technical vs Cost Completion percentage
- Should reflect work performed
- Exclude stock of materials except where made specifically for contract
- Changes in revenue and cost estimate
- Cost to complete

Example : Percentage Completion for Construction Contract :

	Year 1	Year 2	Year 3
Estimated Contract Value	1200	1200	1200
Estimated Cost	800	1000	1150
Estimated Profit	400	200	50
Cost Incurred Till Date	400	600	650
Percentage Completed	50%	60%	57%
Revenue Recognised Cumulative	600 (1200*50%)	720 (1200*60%)	678 (1200*57%)
Cost Recognised	400	600	650
Profit Recognised (Cumulative)	200	120	28
Revenue Recognised For the Year	600	120	-42
Cost Recognised For the Year	400	200	50
Profit Recognised For the Year	200	-80	-92



# ***AS-9 REVENUE RECOGNITION***

## **Revenue arising from**

- Sale of goods
- Rendering of services and
- Use by others of entity's assets yielding interest, royalties & dividend.

## **Excludes revenue arising from**

- Lease Agreements
- Dividends arising from investments which are accounted for under the equity method
- Insurance contracts
- Change in the fair value of financial assets/liabilities
- Change in the value of other assets
- Relating to Biological Assets
- Extraction of mineral ores

## **Revenue to be disclosed net of tax**

## **Other Income**

- Interest - effective interest method – EAC (As per Standard – silent)
- Dividend - when shareholder's right to receive payment is established
- Royalty - Charges for the use of assets such as knowhow, patents, trademarks & copyrights on accrual basis in accordance with the substance of the relevant agreement

- Sale of goods – 5 conditions
  - Transfer of significant risks and rewards
  - Does not retain involvement nor effective control
  - Revenue can be measured
  - Economic benefits will be derived
  - Cost can be measured reliably
  
- Rendering of services – 4 conditions
  - Revenue can be measured
  - Economic benefits will be derived
  - Stage of completion can be measured
  - Cost can be measured
  
- Only Proportionate Completion method is allowed
- In C&F agency enterprise – recognize only commission.

If significant risks of ownership is retained, transaction is not a sale and revenue is not recognized

## **Revenue Recognition – Accounting Challenge**

- a) Determines the top line as well as bottom line
- b) Impacts true and fair presentation
- c) Tax Angle – Direct and Indirect
- d) Point of recognition
- e) Quantum of recognition
- f) Accrual Principles
- g) E-Commerce transactions
- h) Industry specific issues
- i) Substance vs Form

## **Special types**

- Contractual Revenue
- Real Estate Sales
- Joint Ventures
- Software
- Telecommunication

## **Criteria for Revenue Recognition**

- a) Accrued, Earned, Realisable or realised – Entity has substantially accomplished what it must do to be entitled to the contract benefits.
- b) Transfer of significant risks and rewards
- c) Quantum can be reasonably determined

## **Special Arrangements**

- a) Jointly controlled operations – top line sharing
- b) Joint Development – top line sharing
- c) Deferred Development Agreements – consideration by way of top line sharing
- d) Agreements with allotment of flats against development rights
- e) Transferrable Development Rights (TDR)

## **Issues and special considerations .....1**

- Accounting for Gift Vouchers
- Barter Transactions
- Delivered subject to conditions – Installations, Approval, Guaranteed Sales
- Sale/Repurchase Agreements
- Delivery Delayed at buyers request
- Export of Material – Date of Sale
- Software Delivery through Internet
- Principal –Agency Sales

## **Issues and Special Considerations ....2**

- Admission Fees/Tuition Fees
- Ballooning of Interest income
- Special Order and shipments
- Volume Discount Received/Receivable
- Inter Unit Sales
- Revenue for Customer Loyalty Schemes

# Disclosures

- Accounting policies for revenue recognition
- If revenue is deferred or not recognised, the reasons for the same



# AS-10

## PROPERTY,

## PLANT & EQUIPMENT



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- ***Depreciation***

- Each part of item of PPE is with a cost that is significant in relation to the total cost should be depreciated separately.
- Depreciation method : SLM or WDV or Units of Production Method
- Useful life of item is specified in Schdule II of Companies Act, 2013

- Rate of depreciation is calculated on the basis of useful life of asset by using the formula given in companies Act, 2013 – Rate of Depre =  $[1-(S/C)^{1/N}] * 100$ 
  - Where S = Salvage Value (5% of Cost)
  - C = Cost of Item
  - N = Useful life of Asset
- Change in method of Depreciation : Change in accounting policy – Prospective effect
- Useful life of asset and Residual value of the Asset is reviewed at each financial year-end. If expectation differs – change in accounting estimates as per AS 5

- **Derecognition** : Carrying amount of an item of PPE shall be derecognized
  - On disposal; or
  - When no future economic benefits are expected from its use or disposal.

- **Gain/loss on derecognition**

- Gain/loss and derecognition shall be included in the statement of profit and loss
- $\text{Gain/loss} = \text{Net disposal proceeds} - \text{carrying amount of the item.}$

- **Component Accounting**

- Schedule II to the Companies Act 2013 requires that useful life for significant components of tangible assets should be determined separately. This requirement is commonly known as ‘Component Accounting’

To depreciate significant components separately if Useful life differs. Option to depreciate insignificant parts separately.

Eg. 1. Aircraft – The airframe, the engine interiors have different individual useful lives. If the life of airframe is taken as life of aircraft, then how should the expenditure on replacement of interiors and engines during the life dealt with? Hence component of a single asset is treated as different assets for accounting purpose.

2. A composite asset costs R100. It has a major component X, whose cost is R40. This component is expected to have a life of 4 years while the rest of the asset is expected to have a life of 20 years. Here component is treated as separate asset.

- a) Depreciation on major component –  $(40/4) = 10$
- b) Depreciation on rest of the asset –  $(60/20) = 3$
- c) Total Depreciation = 13

- **Replacement of Components**

The new part shall be capitalized if it fulfills the recognition criteria and the replaced part shall be derecognized.



# AS-15 Employee Benefits

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To recognize expense of benefit to employees during their service period which may be paid :

- Short term employee Benefit, such as wages, salary currently
- Post employment benefit such as gratuity, pension, other retirement benefit on Retirement
- Other long term employee benefit including long service leave, sabbatical leave, bonuses post retirement
- Termination benefits

Covers all kinds of employees

- Permanent
- Casual
- Temporary

# Scope

**It covers all employee benefits as per –**

- Formal Agreement
- Legislative Requirement
- Informal Practice

**Does not Cover –**

- Employee share based payments – Guidance Note
- Accounting and reporting by employee benefits plans.

# Definitions:

**a. Employee benefits:** All form of consideration given by an enterprise in exchange of service rendered by employees

**b. Vested employee benefits:** benefits that is not conditional on future employment.

**c. Current service cost:** Increase in present value of defined benefit obligation from employee service in current period.

**d. Plan assets:**

- Assets held by long term employee benefit fund and
- Qualifying insurance policies

**e. Fair value :** Amount for which asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length price.

# Nature of benefits :

## **Short term Benefits:**

(payable within 12 months after providing service)

- Wages, Salaries and Social Security contributions
- Leave Compensation (Compensated Absences)
- Profit sharing and Bonus
- Non Monetary benefits
  - Free and subsidized goods and services

## **Post employment Benefits:**

- Falls due only after completion of employment
- Retirement Benefits ex: gratuity and pension
- Provident Fund
- Post employment medical care

## **Long term Benefits:**

(payable after 12 months after providing service)

- Long service or sabbatical leave
- Long term disability benefits
- Profit sharing and bonus
- Deferred compensation

## **Termination Benefits :**

- Falls due when employer-employee relation ends
- Compensation & other benefits on termination or premature retirement.
- Example:VRS

# Post Employment Benefits

Defined Contribution  
Plan

Defined Benefit Plan

# Defined Contribution Plan

- Enterprise pays fixed contribution into separate fund and will have no obligation to pay amount in future.
- In event of shortfall in fund- No further obligation
- If Actuarial risk (benefits will be less than expected) and Investment Risk (assets invested will be insufficient to meet expected benefits) fall on employees – DCP else DBP

## Accounting Treatment:

- Obligation falls due within 12 months – Adopt Accrual Basis of accounting
- Obligation to pay doesn't fall due within 12 months – Present value Concept

# Defined Benefit Plan

- Post employment benefit plan other than defined contribution.
- Obligation to pay arises as employee render services.
- The provision is required even if the benefits are not vested
- Adopt present value concept and recognize future liability.
  
- Eg : A defined benefit plan provides a lump-sum benefit of Rs. 100 payable on retirement for each year of service. A benefit of Rs. 100 is attributed to each year. The current service cost is the present value of Rs. 100. The present value of the defined benefit obligation is the present value of Rs. 100, multiplied by the number of years of service up to the balance sheet date.

# Recognition:

**Liability** = Present value of defined benefit obligation – fair value of plan assets –  
Past service cost net yet recognised

## **Profit & loss:**

- Current service cost
  - Interest Cost
  - Expected return on plan asset
  - Actuarial gain or losses
  - Effect of any curtailments & settlements
  - Past service cost
- 
- Actuarial Profit/Loss to be debited to Profit and Loss account immediately.
  - Use Projected Unit Credit (PUC) Method
  - Provision required for Gratuity even if employees have not completed 5 years
  - Restrictions on recognition of Asset - Para 55 of AS15

# Obligation under Post Employment benefit plan

```
graph TD; A["Obligation under Post Employment benefit plan"] --> B["Funded Obligation"]; A --> C["Non-Funded Obligation"]; B --> D["Company has planned asset"]; D --> E["Multi-Employer Plans<br/>State Plans<br/>Insured Plans"]; C --> F["Company does not have planned asset"];
```

Funded Obligation

Non-Funded Obligation

Company has planned asset

Company does not have planned asset

Multi-Employer Plans  
State Plans  
Insured Plans

# Termination Benefits

- Golden Hand shake – VRS
- Legal liability vs Constructive Liability
- Initial deferment clause has expired - Effective 1.4.2010 - write off to P&L

# Disclosure

- The amount recognized as an expense for defined contribution plans.

## **Defined benefit plan:**

- Accounting policy for recognizing actuarial gains & losses.
- Nature of Defined Benefit plan & effect of changes if any.
- Reconciliation of opening & closing balances of present value of defined benefit obligation.
- A reconciliation of opening & closing balance of fair value of plan asset and reimbursement right recognized as an asset.
- Total expense recognized in statement of profit & loss.
- Principal actuarial assumptions used at balance sheet date.

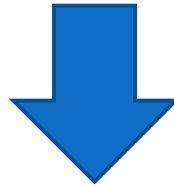
# Audit Perspective

- Reliance on Certificate of an Expert – Actuary
- Disclaimer given by Actuary and Management Representation
- Inputs given to Actuary are the basis of valuation – to be verified by Auditor



# ***AS-16 Borrowing Costs***

Objective



To prescribe the **accounting treatment for** borrowing costs

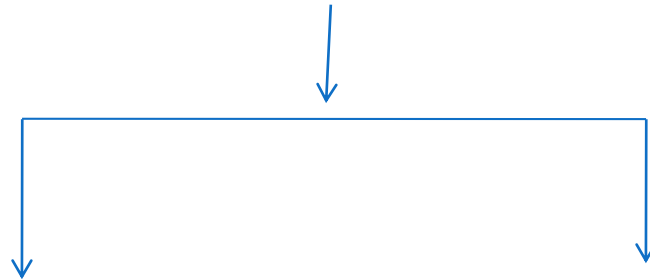
## Accounting treatment of *any cost*

```
graph TD; A[Accounting treatment of any cost] --> B[Include in the cost of the asset]; A --> C[Recognise it as an expense in the P&L Statement];
```

Include in the  
cost of the asset

Recognise it as  
an expense in  
the P&L  
Statement

*AS 16- Flow of Study*



Meaning and  
Computation of  
Borrowing Costs

Accounting  
Treatment of  
Borrowing Costs

## What is Borrowing Cost?

Para 3 of AS 16:-

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

## Explanatory Para 4 of AS 16 Borrowing

Borrowing costs may include:

- (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- (b) **amortisation of discounts or premiums relating to borrowings;**
- (c) **amortisation of ancillary costs incurred in connection with the arrangement of borrowings;**
- (d) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
- (e) exchange differences arising from foreign currency borrowings **to the extent that they are regarded as an adjustment to interest costs.**

Para 4(e) of AS 16

exchange differences arising from foreign currency borrowings **to the extent that they are** regarded as an adjustment to interest costs.

## **Substantial Period of time (ASI 1)**

A Qualifying asset is the one that takes substantial period of time

**ordinarily, a period of twelve months is considered as substantial period of time.**

## **Recognition of Borrowing Costs**

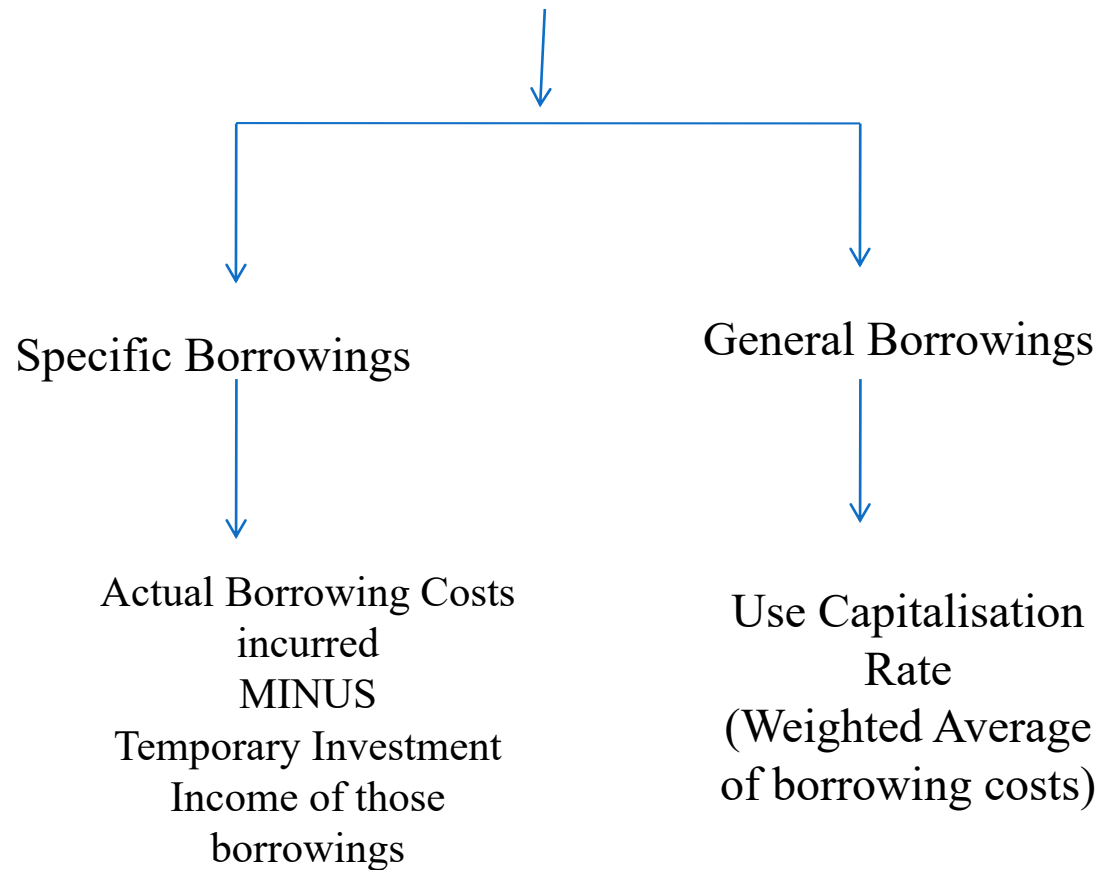
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Other borrowing cost should be recognised as an expense in the period in which they are incurred.

## Commencement of Capitalisation

### 3 Conditions

- Expenditure for the acquisition, construction or production of a qualifying asset is incurred;
- Borrowing costs are being incurred;
- Activities that are necessary to prepare the asset ready for its intended use or sale are in progress

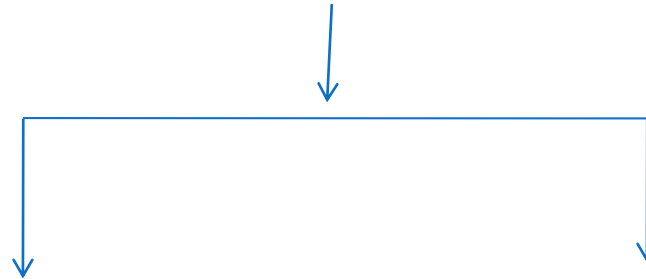
## Borrowing Cost eligible for capitalisation



## Para 17 - Suspension of Capitalisation

Capitalisation of borrowing cost should be suspended during extended period in which active development is interrupted.

## Suspension of Capitalisation



### Avoidable Reasons

The Capitalisation of borrowing costs should be suspended as the borrowing cost incurred during such period is the cost of holding incomplete asset

### Unavoidable Reasons

Enterprise can continue to capitalise the borrowing cost subject to prudence

## Cessation of Capitalisation

Capitalisation of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

*e.g. Construction of Cinema Hall completed on 1 Jan 2013. However license to exhibit the shows is obtained from local authority as on 1st March 2013. Assuming the construction is out of borrowed funds when shall enterprise cease to capitalise the borrowing cost?*

## **Cessation of Capitalisation**

When the construction of qualifying asset is completed in parts and completed part is capable of being used while the construction continues for the other parts, capitalisation of borrowing cost in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete

## **Disclosures**

- The accounting policy adopted for borrowing costs and
- the amount of borrowing costs capitalised during the period



# AS 22 – Accounting for Taxes on Income

# AS 22 : Accounting for Taxes on Income

- Scope : This Standard should be applied in accounting for taxes on income.

Which includes :

- determination of the amount of the expense or saving related to taxes on income in respect of an accounting period and
- the disclosure of such an amount in the financial statements.
- **Why Deferred Tax Provision:**
  - Making a provision for tax on income in the same year of its accrual irrespective of its actual due

## Situation before Deferred Tax provisions :

Particulars	Year 1 (Figures in Lakh)		Year 2 (Figures in Lakh)	
	Books	IncomeTax	Books	IncomeTax
Profit Before Tax	110	110	110	110
Depreciation	10	110	10	0
Profit Before Tax	100	0	100	110
Provision for Income Tax	0	0	33	33 (110*30%)
Profit After Tax	100		67	
EPS (PAT / No. of Share)	10		6.7	

Here assumes that

1. The profit before tax is same for year 1 and year 2, where Depreciation is allowed 100% in the 1<sup>st</sup> year as per Income Tax.
2. Total No. of Shares are 10 Lakh.

## Situation after Deferred Tax provisions :

Particulars	Year 1 (Figures in Lakh)		Year 2 (Figures in Lakh)	
	Books	IncomeTax	Books	IncomeTax
Profit Before Tax	110	110	110	110
Depreciation	10	110	10	0
Profit Before Tax	100	0	100	110
Provision for Income Tax	0	0	33	33 (110*30%)
Provision for Deferred Tax Liability/ (Asset)	30 (100*30%)		(-3) (-10*30%)	
Net profit after Tax	70		70	
EPS (PAT / No of Shares)	7		7	

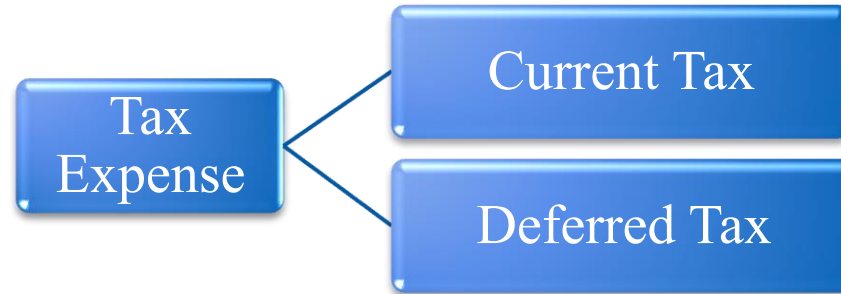
Here assumes that

1. The profit before tax is same for year 1 and year 2, where Depreciation is allowed 100% in the 1<sup>st</sup> year as per Income Tax.
2. Total No. of Shares are 10 Lakh.

- **Taxable Timing Differences vs Permanent Differences**

- Timing Differences are those difference which originate in one period and capable of being reverse in one or more subsequent period
  - Eg. 1. Difference in depreciation charge as per income tax and as per Companies act
  - 2. Expense disallow U/s 43B later allowed when actually pays etc.
- Permanent Difference are those difference which originate in one period and do not reverse subsequently Eg. Income Exempt from tax, Expense not allowed as deduction

- **Recognition :**

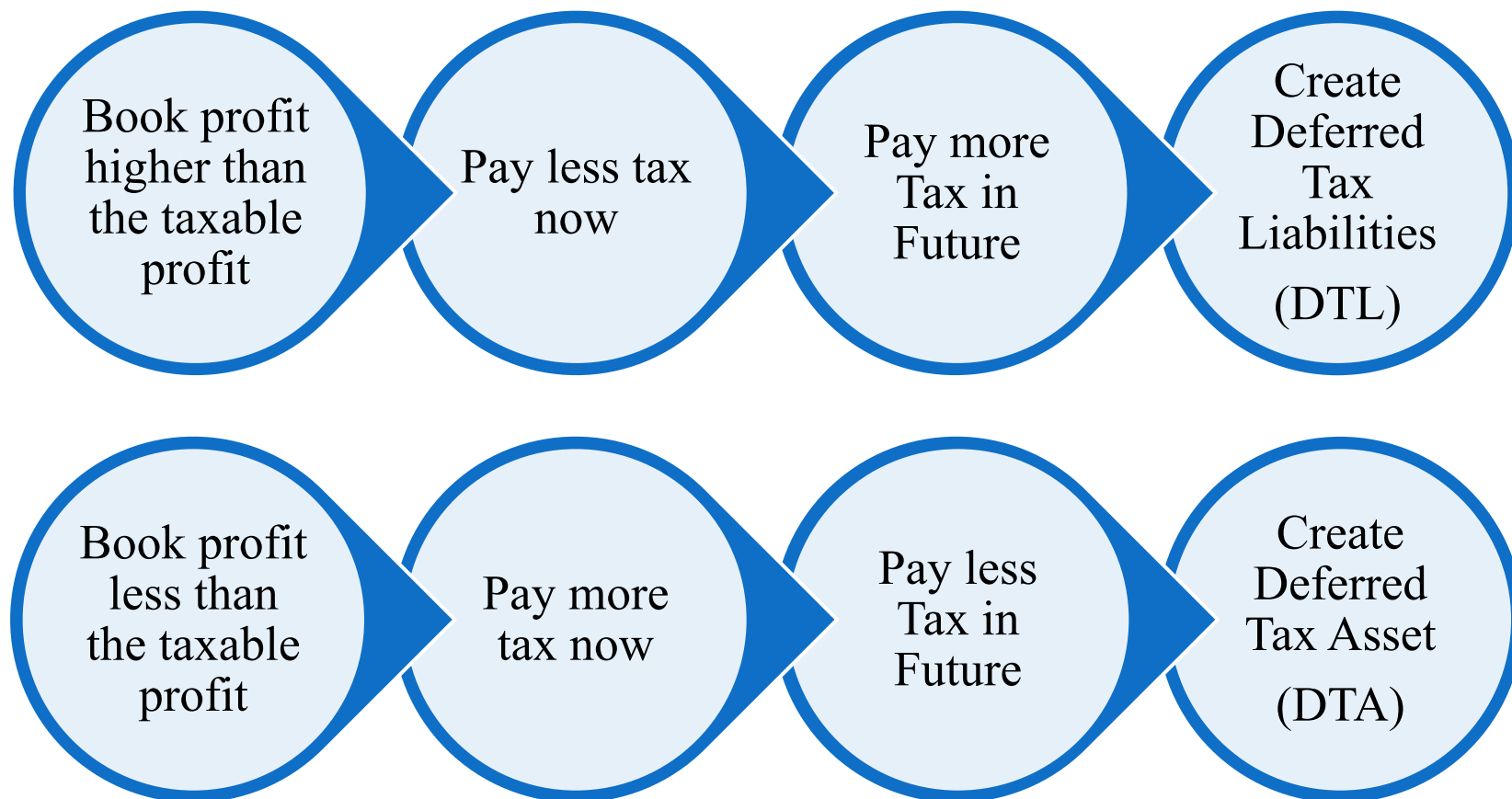


- The tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets or deferred tax liabilities, in the balance sheet
- Permanent differences do not result in deferred tax assets or deferred tax liabilities.

## **Re-assessment of Unrecognized Deferred Tax Assets :**

- At each balance sheet date, an enterprise re-assesses unrecognized deferred tax assets to the extent that it has become reasonable certain or virtually certain. Sufficient future taxable profit will be available against which deferred tax asset can be realized.
  - Eg: Improvement of Trading conditions may make reasonably certain that there will be sufficient taxable profit in future.

## When to create DTA, When DTL :



## **Presentation and Disclosure :**

- An enterprise should **offset assets and liabilities representing current tax** if the enterprise: (a) has a legally enforceable right to set off the recognised amounts; and (b) intends to settle the asset and the liability on a net basis.
- An enterprise should **offset deferred tax assets and deferred tax liabilities** if: (a) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and (b) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

## ...Continued **Presentation and Disclosure** :

- In the Balance sheet, Disclose under separate heading of Deferred Tax Asset/liabilities, separately from current assets and liabilities.
  - Deferred tax asset – separately after the head ‘Investment’
  - Deferred tax liabilities – separately after the head ‘Unsecured Loans’
- The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

## Case Study:

1. Let's understand how DTA/DTL created in the books with simple example :

Amount in Lacs

Particulars	Books	Income Tax	Difference	(DTA)/DTL @ 30%
Income	1000	800	200	
Opening Bal. of (DTA)/DTL	-	-	-	-
Depreciation	100	200	100	30
Sales Tax payable	50	0	(50)	(15)
Leave Encashment	200	100	(100)	(30)
Closing Bal. of (DTA)/DTL	-	-	-	(15)

Current Tax on Taxable Income =  $800 \times 30\% = 240$  L

Deferred Tax Asset/income (As above) = (15) L

Net Tax Effect = 225 L



# AS 28: Impairment of Assets

# AS 28 : Impairment of Assets

- **Applies to all entities**
- **Assets not covered :**
  - Inventories (AS- 2 )
  - Construction Contracts (AS – 7)
  - Deferred Tax Assets (AS – 22)
  - Financial Assets including Investment Property (AS – 13)

# When to test for impairment

Look for symptoms. Only if symptoms exists – test for impairment

- **Existence of Symptoms - Test for impairment**
  - External Factors
  - Internal Factors
- **External Source of Information**
  - Substantial decline in market value
  - Technological and other changes impacting adversely
  - Interest rates – increased
    - need not require testing if :
      - (a) Changes in Short Term Loans
      - (b) Corresponding increase in cash inflows
  - Carrying Amount is more than market capitalization

# Factors – Test for Impairment

## Contd...

- **Internal Source of Information**
  - Obsolescence of assets or physical damage of assets
  - Internal plans to re-organize / discontinue operations
  - Economic performance of asset worst than expected

# Impairment Testing – How ?

- Identify Cash Generating Unit (CGU) : Smallest independent source of revenue

(Product of CGU has active market even though consumed internally example tyre tubes)

**Impairment Loss = Carrying Amount – Recoverable Amount**

- First apply to individual asset.
- If RA for individual asset cannot be worked out use CGU.

# Recoverable Amount is :

## Higher of :

- Fair Value less cost to sell
- Value in Use

Value in Use = Present Value of future cash flows of CGU and on ultimate disposal

Some special machines may not have a Realisable Value – Apply Value in Use.

In case of SMC, VIU can be worked out based on a Reasonable Estimate of the Value.

# Factors for calculating VIU :

- **Cash Flows**

- Based on Supportable assumptions – greater weightage to external evidence
- Maximum for five years
- Cash Flow projections based on recent forecast with steady or declining growth rate
- Current Conditions - Do not consider future expenditure and its revenue
- Residual Value
- No financial activities
- Before tax impacts
- Forex – PV as per foreign currency translated on valuation date.
- Restructuring only if committed.

## Discount Rate – how determined

- Discounting rate – current market rate pre-tax covering risks specific to the asset.
  - Enterprise's Weighted Average Cost of Capital
  - Enterprise's Incremental Borrowing Cost
  - Other Market Borrowing Rates

### **Adjust the above :**

- Add specific risks associated with cash flows
- Deduct risks not relevant to cash flows

### **Consider :**

- Country Risk
- Currency Risk
- Price Risk
- Cash Flow Risk

# How to identify assets for impairment

First identify individual assets which have independent cash flows

If such assets not available, find cluster of assets (Cash Generating Unit – CGU to which such asset belongs)

**For example –**

One individual machine in a manufacturing line performing only one activity and its cash flow is dependant on the output of the entire production line.

– Entire Production Line is CGU

In some case some of the output may be used internally – example Tyres in Automobile Manufacturing unit

## **Treatment of Impairment Loss :**

- Carrying Amount – Recoverable Amount = P&L
- If Carrying Amount is revalued
  - first reduce Revaluation reserve to that extent and
  - balance to P&L

**If RA is negative = provide a liability if other Standards permit else take Carrying Amount as NIL**

Deferred Tax Impact due to Impairment

Impairment Loss creates timing difference in tax computation as Impairment Loss is not allowable as expense  
Hence recognise DTA as per AS22.

# Impact of Impairment on Depreciation

- Depreciation to be provided on the assets' revised carrying amount over its remaining useful life
- Previously recognized impairment loss is increased or decreased depending on the circumstances.

# Disclosures

Impairment loss recognized for each class of asset

- PL, Revaluation Reserve

Impairment loss reversed

- PL, Revaluation Reserve

Segment wise break up of above, if applicable

Events and circumstances requiring

- Impairment
- Reversals

CGU description

Realisable Amount – Net Selling Price or Value in Use

Net Selling price – basis of determining

Value in Use - Discount rate applied for PV

Main Class of Assets impacted due to impairment or reversals

# Financial reporting

# General Instruction for Statement of Profit and Loss

## Revenue from Operations :

- **Sale of Products**  
Less: Excise Duty
- **Sale of Services**
- **Other Operating Revenues**

## For Finance Non-Corporate Entities, Revenue from Operations Includes:

- Interest
- Other Financial Services

# General Instruction for Statement of Profit and Loss

## **Finance Cost**

- **Interest Expense**  
Other than interest on partners' / members' capital
- **Interest on Partners'/Members' Capital**
- **Other Borrowing Costs**
- **Net Gain/Loss on Foreign Currency Transactions and Translation**

# General Instruction for Statement of Profit and Loss

## **Other Income**

### **Classification**

- 1. Interest Income**
- 2. Dividend Income**
- 3. Net Gain/Loss on Sale of Investments**
- 4. Other Non-Operating Income**  
Net of expenses directly attributable to such income

## Notes to Income & Expenditure – Detailed Disclosures

### **Aggregate Income & Expenditure:**

#### **1. Employee Benefits Expense**

- Salaries and wages
- Contribution to provident and other funds
- Staff welfare expenses

**2. Any item of income or expenditure exceeding 1% of Revenue or ₹1,00,000, whichever is higher**

#### **3. Adjustments to the Carrying Amount of Investments**

#### **4. Net Gain or Loss on Foreign Currency Transaction and Translation**

Excluding finance cost

#### **5. Exceptional and Extraordinary Items**

#### **6. Prior Period Items**

## Notes to Income & Expenditure – Detailed Disclosures


### **Expenditure Incurred Separately for Each Item:**

- 1. Consumption of Stores and Spare Parts**
- 2. Power and Fuel**
- 3. Rent**
- 4. Repairs to Buildings**
- 5. Repairs to Machinery**
- 6. Insurance**
- 7. Rates and Taxes**  
Excluding taxes on income
- 8. Miscellaneous Expenses**

## **List of recurring errors or oversights that can compromise the reliability and usefulness of a financial statements of non-corporate entities:**

1. Inadequate disclosure of Accounting Policies
2. Non-compliance with Accrual basis of Accounting
3. Improper Valuation of Inventory
4. Revenue Recognition Error
5. Not recognizing provisions for known Expenses or Liabilities
6. Wrong Classification of Capital and Revenue Expenditure

7. Improper Depreciation Accounting
8. Non-recognition of Contingent Liabilities
9. Errors in Foreign Currency Transactions
10. Not Accounting for Prior Period Items Separately
11. Not Capitalizing Borrowing Costs Appropriately
12. Non-segregation of Current and Non-Current Items
13. Not Revaluing Investments at Fair Value Where Required
14. Changing Accounting Policies Without Disclosure

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15. Ignoring Treatment of Government Grants
  16. Clubbing of Personal and Business Expenses
  17. Not Adjusting Deferred Revenue Expenditure Properly
  18. Non-recording or Misclassification of Trade Discounts and Rebates
  19. Non-reporting of Events After Balance Sheet Date



***ANY QUERIES?***

*Thank You!*

