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Compendium of
Accounting Standards for Local Bodies (ASLBs)

Volume - II

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The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Local Bodies are important building blocks of our Indian Government. They deliver public services and strengthen the Infrastructure in the area of their jurisdiction and are also entrusted the task to manage public funds generated from citizens in an effective and efficient manner. Therefore, there is a need of timely, high quality, and decision-useful financial information that require enhanced public financial reporting.

In this context, it is an essential step to review and relook at financial reporting practices being followed by Local Bodies in the country. ICAI, as a partner in nation building, has been making relentless efforts to prescribe and support in implementation of high quality accrual based Accounting Framework for Local Bodies in India (i.e., Accounting Standards for Local Bodies) that is at par with the internationally accepted accounting and financial reporting standards by all levels of Governments. These Standards also take into account India's unique regulatory, governance, and demographic features. I believe that accrual based accounting framework would definitely add value and improve the quality of existing financial reporting practices at the level of Local Bodies.

I am glad to note that for the ease of various stakeholders and users, Compendium of Accounting Standards for Local Bodies (ASLBs) Volume II is being issued that contains ASLBs issued by the ICAI subsequent to 2015 including twelve ASLBs and Conceptual Framework approved and issued by the Council of the ICAI during 2019-20. ASLBs issued by the Council of the ICAI, are recommendatory in nature in the initial years for use by the Local Bodies and will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

I am thankful to various regulators, municipalities and other bodies, our members, in supporting the technical activities of the Institute and in providing invaluable inputs/suggestions in the process of formulation of ASLBs. In particular, I acknowledge the efforts of all experts involved in the formulation of ASLBs at relevant times.

I would also like to congratulate CA. Dhiraj Kumar Khandelwal, Chairman, CP&GFM, CA. Sanjeev Kumar Singhal, Vice-Chairman, CP&GFM and other members of the Committee, for their determined efforts in formulating ASLBs at an accelerated pace during the current Council Year. These efforts will

hasten the achievement of the desired objectives and targets with regard to formulation and implementation of ASLBs in India.

I firmly believe that the Compendium of ASLBs, Volume II would be immensely useful to all concerned.

New Delhi **CA. Prafulla P. Chhajed**

February 4, 2020 **President, ICAI**

Preface

Improved public financial management and accountability environment is vital to better governance, performance and provision of better services to the citizens. It is worth appreciating that the attempts are being made by the Government of India to improve Financial Management and Financial Reporting at Government level including Local-Self-Government.

Various Local Bodies have been adopting accrual system of accounting to grab performance linked grants or because of the mandate from the Supreme Court to do so. However, there is a need to further step up these reforms so that the adoption of accrual accounting is motivated not only because of the aforesaid mandate but also because this brings great value to the financial statements of Local Bodies as it enables proper recording of assets, liabilities, revenues and expenses, and thereby enhances the accountability, transparency and comparability in their financial reporting. These accounting reforms are intended to provide relevant financial information to various users and stakeholders in a timely and organised manner.

This stepping up requires that these bodies are provided with relevant accrual accounting guidance/framework for adoption. Therefore, ICAI have been issuing Accounting Standards for Local Bodies (ASLBs) since 2005 which are being formulated as extension of National Municipal Accounting Manual (NMAM), as these Standards prescribe the accounting principles in more detailed manner. ASLBs are also being issued on a few important subjects that are not dealt in NMAM. ASLBs are high quality financial reporting standards that are based on globally accepted Government/ Public Sector Accounting Standards (i.e., International Public Sector Accounting Standards). Keeping in view the peculiarities of operations of Local Bodies in India, the carve outs are also made. The views of various experts, stakeholders, invitees from relevant Government Departments are sought while formulating these Standards to make them best suited to Indian conditions. The ASLBs are also being formulated in a dynamic environment and keeps on evolving with changing economic environment and accounting developments.

The above initiative undertaken by the ICAI during 2005 through its erstwhile Committee on Accounting Standards for Local Bodies (CASLB) are being carried forward by a new Committee namely Committee on Public and Government Financial Management (CP&GFM) constituted during council

year 2019-20. Awareness of the new financial reporting regime and education/training on the technical aspects is also very critical and central to the adoption of the new system. Therefore, CP&GFM is also striving in this direction and taking some critical steps on this path. The attempts are also being made by the committee jointly with relevant stakeholders to bring in place the system for implementation of the new regime. Implementation of these Accounting Standards by the Local Bodies would be a monumental step in their accounting history and I believe that these ASLBs when implemented would transform the reporting practices of Local Bodies, in the best interests of the society at large, and will augment more resources to Local Bodies.

We acknowledge that for the benefit of various stakeholders and users, a consolidated manual of Standards should be in place. Therefore, a compendium of ASLBs was issued by the erstwhile CASLB in 2015 containing:

- Preface to the ASLBs;
- ASLB 1, '*Presentation of Financial Statements';*
- ASLB 3, *'Accounting Policies, Changes in Accounting Estimates and Errors';*
- ASLB 5, *'Borrowing Costs';*
- ASLB 9, *'Revenue from Exchange Transactions',*
- ASLB 11, *'Construction Contracts';*
- ASLB 12, *'Inventories';*
- ASLB 14, *'Events after the Reporting Date';*
- ASLB 17, *'Property, Plant and Equipment';*
- ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets';*
- ASLB 31, *'Intangible Assets';* and
- Cash based ASLB on '*Financial Reporting under Cash Basis of Accounting*' to facilitate the Local Bodies to convert their accounts from cash to accrual basis of accounting.

Now during the current Council Year 2019-20, the Committee has fast tracked the formulation of ASLBs so as to issue all relevant ASLBs corresponding to the respective IPSASs on priority basis. Therefore, along with '*The Conceptual Framework for General Purpose Financial Reporting by*

Local Bodies', the following twelve ASLBs have been issued under authority of Council of ICAI during the current Council Year:

- ASLB 2, '*Cash Flow Statements*';
- ASLB 4, '*The Effects of Changes in Foreign Exchange Rates';*
- ASLB 13, '*Leases*';
- ASLB 16, '*Investment Property';*
- ASLB 18, '*Segment Reporting*';
- ASLB 20, '*Related Party Disclosures*';
- ASLB 21, '*Impairment of Non-Cash-Generating Assets*';
- ASLB 23, '*Revenue from Non-Exchange Transactions (Taxes and Transfers)*';
- ASLB 24, '*Presentation of Budget Information in Financial Statements*';
- ASLB 26, '*Impairment of Cash-Generating Assets*';
- ASLB 32, '*Service Concession Arrangements: Grantor*';
- ASLB 33, '*First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies*';
- ASLB 34, '*Separate Financial Statements*';
- ASLB 36, '*Investments in Associates and Joint Ventures*';
- ASLB 39, '*Employee Benefits*'; and
- ASLB 42, '*Social Benefits*'.

It gives us immense pleasure to present the Compendium of Accounting Standards for Local Bodies (ASLBs), Volume – II. The publication, in addition to the Conceptual Framework and ASLBs issued during the current Council Year, also includes following four ASLBs issued subsequent to the issue of Compendium of Accounting Standards for Local Bodies during 2015:

- ASLB 2, '*Cash Flow Statements*';
- ASLB 18, '*Segment Reporting*';
- ASLB 20, '*Related Party Disclosures*'; and
- ASLB 24, '*Presentation of Budget Information in Financial Statements*'.

We take this opportunity to thank all the members and special invitees on the CP&GFM during the Council Year 2019-20, namely, CA. Prafulla Premsukh

Chhajed (President, ICAI), CA. Atul Kumar Gupta (Vice-President, ICAI), CA. Jay Chhaira, CA. Tarun Jamnadas Ghia, CA. Nihar Niranjan Jambusaria, CA. G. Sekar, CA. M. P. Vijay Kumar, CA. Anuj Goyal, CA. Prakash Sharma, CA. Satish Kumar Gupta, CA. Charanjot Singh Nanda, Ms. Ritika Bhatia, Shri Vijay Kumar Jhalani, CA. Praveen Kumar Shetty, CA. Sanjoy Gupta, CA. Harsh Kumar Sarawagi, CA. Ramesh R. Mamidwar, CA. Mastan Singh Chambyal, Shri Manoj Jain, Shri Sanjeeb Kumar Patjoshi, CA. R. S. Murali, CA. Ashok Rao, CA. Jayant Gokhale, Dr. Avinash Chander, CA. Amarjit Chopra (Past President, ICAI), CA. Ashwani Gupta, CA. Akshat Kedia, CA. Manish Bansal, CA. Rajesh Agarwal, CA. Deepak Kedia, CA. Sanjeev Shah, Shri Yogender Singh, Mr. Krishnendu Sarkar, Shri J P S Chawla, Shri Rupendra Ghosh, Dr. Sandeep Thakur, Shri Pawan Kumar Chowdhary, Shri Sandeep Sultania, and Ms. Vidhu Sood, for their contribution in the Standard formulation and other activities of the Committee.

We are also thankful to the Past Chairmen, Vice-Chairmen, members of erstwhile CASLB and members of various Study Groups constituted by the Committee, who have contributed in formulation of ASLBs at relevant times. We are also grateful to various experts, regulators and municipalities, for contributing in the Standard formulation and other activities of the Committee. We also place on record our appreciation for the efforts put in by experts/ officers from the Technical Directorate, ICAI, involved in formulation of ASLBs at relevant times and bringing out this publication.

We believe that the accounting guidance provided in this publication would be immensely helpful to stakeholders, users as well as all others concerned.

New Delhi

February 4, 2020

CA. Dhiraj Kumar Khandelwal — **Chairman**

CA. Sanjeev Kumar Singhal — **Vice-chairman**

Committee on Public and Government Financial Management

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The Conceptual Framework for General Purpose Financial Reporting by Local Bodies

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Introduction

The Conceptual Framework establishes and makes explicit the concepts that are to be applied in developing Accounting Standards for Local Bodies (ASLBs).

The Conceptual Framework acknowledges that, to respond to users' information needs, GPFRs may include financial statements and information that enhances, complements, and supplements the financial statements. Chapters 1, 2, 3, 4 and 8 deal with concepts that are applicable to all matters that may be encompassed within the scope of GPFRs. Chapters 5, 6 and 7 deal with concepts applicable to the financial statements and do not apply to more comprehensive areas of financial reporting outside the financial statements.

The Preface to the Conceptual Framework for General Purpose Reporting by Local Bodies

Introduction

1. The *Conceptual Framework for General Purpose Financial Reporting by Local Bodies* (the Conceptual Framework) establishes the concepts that are to be applied in developing Accounting Standards for Local Bodies (ASLBs) that are applicable to the preparation and presentation of General Purpose Financial Reports (GPFRs) of Local Bodies.

2. The primary objective of local bodies is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFRs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFRs of local bodies need information to support assessments of such matters as:

   - Financial position of a local body,
   - Resources controlled by a local body and restriction and conditions attached to their use,
   - Overall Financial solvency of a local body,
   - Whether the entity provided its services to constituents in an efficient and effective manner; and
   - Ability of a local body to continue to provide efficient and effective services.

3. The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural, housing and drinking water, etc. The State Governments are required to devolve powers and responsibilities upon the PRIs and the ULBs with respect to preparation of plans for economic development and social justice, and for the implementation of development schemes as may be required to enable them to function as institutions of self-government. Due to such devolution of powers and responsibilities, the role of the PRIs and ULBs varies across various States.

Article 243G and 243W of the 73rd and 74th Constitutional Amendment Acts, respectively, deals with powers, authority and responsibilities of Panchayats and Municipalities, etc., subject to the provisions of this Constitution, the Legislature of a State may, by law, endow-

(a) The Panchayat and Municipalities, etc., with such powers and authority as may be necessary to enable them to function as institutions of Self-Government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to-

(i) The preparation of plans for economic development and social justice;

(ii) The performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Eleventh and Twelfth Schedule respectively for Panchayat and Municipalities;

(b) The Committees with such powers and authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

3A. Powers to impose taxes by, and Funds of, the Local Bodies:

Article 243H and 243X of the 73rd and 74th Constitutional Amendment Acts, respectively, of the Constitution states that the legislature of a State may, by law:

- Authorise a Panchayat/ Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits;
- Assign to a Panchayat/ Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
- Provide for making such grants-in-aid to the Panchayats/ Municipality from the Consolidated Fund of the State; and
- Provide for Constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats/ Municipality and also for the withdrawal of such moneys.

3B. Accounting Reforms as Engines of Good Governance:

An integral part of the new expectations of governance is for Public Information – without which there cannot be meaningful participation or shared decision-making. The public expects a fair account of how the government is faring in its job.

It is necessary that accounting system has to satisfy the following basic objectives: (i) be accurate in capturing the underlying transactions, (ii) enhance transparency, and (iii) be user-friendly to facilitate understanding of the accounting statements by most users. The prevailing single entry/ cash-based accounting system in India is deficient on the dimensions of transparency and user-friendliness and therefore it becomes necessary to reform the accounting system.

The Supreme Court of India in the year 2001, while hearing a Public Interest Litigation (PIL) relating to the functioning of ULBs, opined that Urban Local Bodies in India should take immediate steps to get their accounts converted from cash basis to accrual basis.

The Accrual System of accounting is an improvement over the present single entry/ cash system of accounting and not a mere replacement of the existing system. While cash accounts serve the purpose of legislative control over public finances, an accrual system is helpful in expanding the efficacy of fiscal management. The appropriate accounting system provides all the information that is available in the present dispensation, besides providing such additional information which will make the accounting records more complete from a users' perspective.

Further, Article 243J and Article 243Z of the 73rd and 74th Constitutional Amendment Acts, respectively, of the Constitution states that the Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats and the auditing of such accounts.

3C. The term 'Local Body' may be defined as a local self-government at the third tier of governance in an administrative and geographical vicinity, e.g., a municipal corporation, a municipality or a panchayat. In many cases, the Local Bodies delegate their functions such as building of schools, city roads, parks, running transport services, providing water supply etc., to some other bodies that may or may not be controlled by the Local Bodies, e.g., development authorities, boards,

parastatals, etc. Such bodies may be constituted, in partnership with private sector or otherwise, directly or indirectly by or on behalf of a Local Body to promote or carry out some specific objective(s) or function(s) of the Local Bodies. Such entities may be constituted under a statute. The term 'Local Body' would also encompass all such entities.

4. The following sections highlight peculiar characteristics of the local body that the CP&GFM has considered in the development of the Conceptual Framework.

The Volume and Financial Significance of Non-Exchange Transactions

5. In a non-exchange transaction, an entity either receives/ gives value from/to another party without directly giving/ receiving any value in exchange, such transactions are common in the local body. The level and quality of services received by an individual, or group of individuals, is not normally directly related to the level of taxes assessed as they have to pay a charge or fee and/or may make specified contributions to access certain services. However, such transactions are, generally, of a non-exchange nature, because the amount that an individual or group of individuals obtains in benefits will not be equal to the amount of any fees paid or contributions made by the individual or group. The nature of non-exchange transactions may have an impact on how they are recognised, measured, presented and disclosed to best support assessments of the entity by service recipients and resource providers.

6. Taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the local-self-government. Tax-raising powers can vary considerably, dependent upon the relationship between the powers of the state government and those of local self-governments.

7. Local Bodies are accountable to resource providers, particularly to those that provide resources through taxes and other compulsory transactions. The accountability objective of financial reporting Chapter 2, *Objectives and Users of General Purpose Financial Reporting,* discusses the accountability objective of financial reporting.

The Importance of the Approved Budget

8. Mostly local bodies prepare budgets and make them publicly available as per the requirement of the relevant legislature (or equivalent). Legislation, i.e., relevant act/ law often defines the contents of that documentation. The governing body, i.e., the elected representatives exercises oversight, and hold the entity's management financially accountable through the budget and other mechanisms. The approved budget is often the basis for setting taxation levels, and is part of the process for obtaining governing body's approval for spending.

9. Because of the approved budget's significance, information that enables users to compare financial results with the budget facilitates an assessment of the extent to which an entity has met its financial objectives. Such information promotes accountability and informs decision making in subsequent budgets. Reporting against budget is commonly the mechanism for demonstrating compliance with legal requirements relating to the public finances. The needs of users for budget information is discussed in Chapter 2.

The Nature of Local Body Programmes and Interpretation of Going Concern principle

10. Many local body programmes are long term and the ability to meet commitments depends upon future taxation and contribution. Many commitments arising from local body programmes and powers to levy future taxation do not meet the definitions of a liability and an asset which is discussed in Chapter 5, *Elements in Financial Statements*. Therefore, such commitments and powers are not recognised in the financial statements.

11. Consequently, the balance sheet and income and expenditure statement cannot provide all the information that users need on long-term programmes, particularly those delivering social benefits. The financial consequences of many decisions will have an impact many years or even decades into the future, so GPFRs containing prospective financial information on the long-term sustainability of an entity's finances and key programmes are necessary for accountability and decision-making purposes as discussed in Chapter 2.

12. Many times, due to changes in political control the Local Bodies may encounter severe financial difficulties, and may default on sovereign

debt obligations, still local bodies continue to exist. If Local Bodies get into financial difficulties, other level of governments might act as lenders of last resort or provide large scale guarantees. The main service delivery commitments of entities may continue to be funded by a higher level of government. In other cases, entities that are unable to meet their liabilities as they fall due may continue to exist by restructuring their operations.

13. The going concern principle underlie the preparation of the financial statements. Interpretation of the principle needs to reflect the issues discussed in paragraphs 11 and 12.

The Nature and Purpose of Assets and Liabilities in the Local Body

14. In the local body, the primary reason for holding property, plant and equipment and other assets is for their service potential rather than their ability to generate cash flows[1]. Because of the types of services provided, a significant proportion of assets used by local bodies is specialised—for example, roads, sewage plant and water treatment plant. There may be a limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. These factors have implications for the measurement of such assets. Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, discusses measurement bases for assets.

15. Local Bodies may hold items that contribute to the historical and cultural character - for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, entities have a responsibility to preserve and maintain them for current and future generations.

16. Local bodies may have powers over natural and other resources such as mineral reserves, water, fishing grounds, and forests. These powers allow them to grant licenses for the use of such resources or to obtain royalties and taxes from their use. The definition of an asset,

[1] Many local body assets will generate cash flows, but this is often not the main reason for holding them.

recognition criteria and measurement bases for assets are discussed in Chapters 5, 6 & 7.

17. Local Bodies incur liabilities related to their service delivery objectives. Many liabilities arise from non-exchange transactions and include those related to programmes that operate to deliver social benefits. Liabilities may also arise from any obligations to transfer resources to those affected by disasters. The definition of a liability and recognition criteria are discussed in Chapters 5 and 6.

The Regulatory Role of Local Bodies

18. Local Bodies have powers to regulate in many cases entities operating in certain sectors of the economy, either directly or through specifically created agencies. In addition to this, Local Bodies have powers to regulate granting permission for land use and approval of construction activity/ building plan etc. The underlying public policy rationale for regulation is to safeguard the public interest in accordance with specified public policy objectives. Such regulatory activities are carried out in accordance with legal processes.

19. Local bodies may also regulate themselves and other entities controlled by them. Judgment may be necessary to determine whether such regulations create rights of, and obligations on, entities that require recognition as assets and liabilities, or whether amendment of such regulations has an impact on how such rights and obligations are accounted for. Chapter 5 considers rights and obligations.

20-24. [Refer to Appendix 1]

Chapter 1
Role and Authority of the Conceptual Framework

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Chapter 1
Role and Authority of the Conceptual Framework

Role of the Conceptual Framework

1.1 The *Conceptual Framework for General Purpose Financial Reporting by Local Bodies* (the Conceptual Framework) establishes the concepts that underlie general purpose financial reporting (financial reporting) by local bodies that adopt the accrual basis of accounting. The Committee on Public and Government Financial Management (CP&GFM) will apply these concepts in developing Accounting Standards for Local Bodies (ASLBs) that are applicable to the preparation and presentation of General Purpose Financial Reports (GPFRs) of Local Bodies.

Authority of the Conceptual Framework

1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by local bodies that apply ASLBs, nor does it override the requirements of ASLBs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFRs are specified in ASLBs.

1.3 The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by ASLBs. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts covered in the Conceptual Framework.

General Purpose Financial Reports

1.4 GPFRs are a central component of, and support and enhance, transparent financial reporting by local bodies. GPFRs are financial reports intended to meet the information needs of users.

1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find, the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

1.6 GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters. GPFRs encompass financial statements including their notes (hereafter, referred to as financial statements, unless specified otherwise), and the presentation of additional information by the entity that enhances, complements and supplements the financial statements which is useful for the users for accountability, decision making purposes and for assessment of future service delivery capacity.

1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the next chapter.

Applicability of the Conceptual Framework

1.8 The Conceptual Framework, applies to financial reporting by entities described as local bodies in the 'Preface to the Accounting Standards for Local Bodies' that apply ASLBs.

Chapter 2
Objectives and Users of General Purpose Financial Reporting

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Chapter 2
Objectives and Users of General Purpose Financial Reporting

Objectives of Financial Reporting

2.1 The objectives of financial reporting by local bodies are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

2.2 The objectives of financial reporting are determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

2.3 Local Bodies raise resources from taxpayers, grantors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.

2.4 Consequently, GPFRs of local bodies are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a local body to disclose the information they need for accountability and decision-making purposes. The governing body, i.e., the elected representatives are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as "service recipients and resource providers", unless identified otherwise).

2.5 Citizens receive services from, and provide resources to, the local bodies. Therefore, citizens are primary users of GPFRs. Some service

recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral external assistance/ grantor agencies and many lenders that provide resources to, and transact with, a local body.

2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, statisticians, analysts, the media, financial advisors, public interest and advocacy groups and others may find the information provided by GPFRs useful for their own purposes organisations/ bodies that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, local body audit departments, sub-committees of the governing body, and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

2.7 The primary function of local bodies is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programmes and policing, public education, health and transportation services. In most cases, these services are provided as a result of a non-exchange transaction[2] and in a non-competitive environment.

2.8 Local Bodies are accountable to resource providers, and dependent users during the reporting period and over the longer term which

[2] Exchange transactions are transactions in which the entity transfers goods or services, or use of assets, and receives some value (primarily in the form of cash, goods, services or has liabilities extinguished) from another entity in exchange. Non-exchange transactions are transactions in which an entity receives value from another entity without directly giving any value in exchange or gives value to the another entity without receiving any value in exchange.

requires the provision of information about the entity's management of the resources entrusted to it and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations.

2.9 Service recipients and resource providers will also require information as input for making decisions. For example:

- Lenders, creditors, grantors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the local body. In some circumstances, members of the governing body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of the entity, its departments, agencies or programmes and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the local body on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the services provided by a local body or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the local body, the resources to be allocated for the provision of services by a particular entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected representatives—these decisions may have resource allocation consequences for certain local bodies.

2.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by users of GPFRs, including decisions that grantors and other financial supporters make about providing resources to the entity.

Information Needs of Service Recipients and Resource Providers

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information about the performance, liquidity, solvency, sustainability and capacity of the entity that supports the assessments of such entity.

2.12 The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

While lenders and creditors will require information as input to assessments of the liquidity, repayment capability; grantors will require

information about economical, efficient and effective use of resources as intended.

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance, and Cash Flows

2.14 Information about financial position, financial performance and cash flows are typically presented in financial statements. Information about the financial position of a local body will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.15 Information about the financial performance of a local body will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives.

2.16 Information about the cash flows of a local body contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, from operating, financing and investing activities.

2.17 To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the local body's:

- Compliance with approved budgets and other authority governing its operations;

- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long-term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Resources

2.18 Typically, a governing body of the local body approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of resources from taxpayers and other resource providers, and establishes the authority for expenditure of resources.

2.19 Some resources to support the activities of local bodies may be received from grantors, lenders or as a result of exchange transactions. However, resources to support the activities of local bodies are predominantly provided in non-exchange transactions by taxpayers and others.

2.20 GPFRs provide information about the financial results (described as "surplus or deficit"), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.

2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a local body has met its financial objectives.

Service Delivery Achievements

2.22 The primary objective of local bodies is to provide needed services to constituents. Consequently, the financial performance of local bodies

will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.

2.23 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity.

2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such information is necessary for a local body to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents and for future allocation of resources.

Prospective Financial and Non-financial Information

2.25 Given the longevity of local body programmes, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

2.26 Decisions made by a local body in a particular period about programmes for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.27 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity and the likely sources of funding for such

resources, will be necessary as input to any assessment of the ability of the local body to meet its service delivery and financial commitments in the future.

Explanatory Information

2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underlie expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements those statements.

2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognised and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other chapters of the Conceptual Framework and in the development of individual ASLBs, as appropriate.

Other Sources of Information

2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a local body's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the

information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by local bodies provide more detailed financial and non-financial information about the financial characteristics of the plans of local bodies over the short and medium terms. Local Bodies and their agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, local body budgets and forecasts, and information about local body policy initiatives not reported in GPFRs.

Chapter 3
Qualitative Characteristics

Contents

Chapter 3:
Qualitative Characteristics

Introduction

3.1 GPFRs present financial and non-financial information about economic and other events. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of local bodies are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other events that exist or have already occurred can also have predictive value which helps to form expectations about the future.

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs.

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other events. Faithful representation is attained when the depiction of the event is complete, neutral, and free from material error. Information that faithfully represents an economic or other event depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 Pervasive efforts should be made so that the information presented in GPFRs is complete, neutral, and free from error.

3.12 An omission of some information can cause the representation of an economic or other event to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to

faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation.

3.13 Neutrality in financial reporting is the absence of bias which requires reporting without any intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

3.14 Neutral information faithfully represents the economic and other events that it intents purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior.

3.15 The economic and other events represented in GPFRs generally occur under conditions of uncertainty and often include estimates that are generally based on the management's judgment which shall be supported by appropriate input and best available information. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other events.

3.16 Free from material error does not mean complete accuracy in all respects. Free from material errors means there are no errors or omissions that are individually or collectively material in the description of the event and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery programme may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of local bodies should present information in a classified, concise, comparable and in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users.

3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyse the information presented with reasonable diligence. All efforts should be undertaken to represent economic and other events included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Availability of information timely can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods.

Comparability

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of events. Comparability is not a quality of an individual item of information, but

rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other events that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that

helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other events that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other events that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other events that it purports to represent.

3.30 GPFRs of local bodies may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programmes undertaken during the reporting period, and (c) prospective financial and non-financial

information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other events that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated

transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

3.34 Materiality is classified as a constraint on information included in GPFRs in this Conceptual Framework. In developing ASLBs, the CASLB will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any ASLB, entities preparing GPFRs will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

3.38 Information provided by GPFRs are not only used by users but also used internally by management for better decision making. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and ASLBs will enhance and reinforce perceptions of the transparency of financial reporting by local bodies.

3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristic might be sacrificed to some degree to reduce cost.

3.40 [Refer to Appendix 1]

Balance between the Qualitative Characteristics

3.41 The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant event, nor a depiction that unfaithfully represents a relevant event, results in useful information. Similarly, to be relevant, information must be timely and understandable.

3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

Chapter 4
Reporting Entity

Contents

Chapter 4
Reporting Entity

Introduction

4.1 A reporting entity is a local body, its programme or identifiable area of activity (hereafter referred to as an entity or local body) that prepares GPFRs.

4.2 A reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

4.3 Key characteristics of a reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.

4.4 A local body may operate through or delegate its functions to some other bodies such as development authorities, boards, societies, parastatals, etc. Such bodies may be constituted, in partnership with private sector or otherwise, directly or indirectly by or on behalf of a Local Body to promote or carry out some specific objective(s) or function(s) of the Local Bodies. Such entities may be constituted under a statute. Such entities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.

4.6 GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.

4.7 The factors that are likely to signal the existence of users of GPFRs of an entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that an entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those entities for which such users exist are required to prepare GPFRs.

4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of an entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of local bodies, i.e., municipal corporation, municipal councils, etc. This is because these entities generally have the capacity to raise substantial resources from and/or deploy substantial resources on behalf of their constituents, to incur liabilities, and to impact the economic and/or social well-being of the communities that depend on them for the provision of services.

4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, particular programme or identifiable areas of activity/ scheme of local bodies, its departments and agencies for information for accountability and decision-making purposes. Determining whether these programmes or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgment.

4.11 The local bodies have a separate identity or standing in law (a legal identity). However, programmes and activities without a separate legal identity may also raise or deploy resources, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these programmes and activities for information for accountability and decision-making purposes. Consequently, a reporting entity may have a separate legal identity or be, for example, programme or activity without a separate legal identity.

Chapter 5
Elements in Financial Statements

Contents

Chapter 5
Elements in Financial Statements

Introduction

Purpose of this Chapter

5.1 This Chapter defines the elements used in financial statements and provides further explanation about those definitions.

Elements and their Importance

5.2 Financial statements portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics. These broad classes are termed the elements of financial statements. Elements are the building blocks from which financial statements are constructed. These building blocks provide an initial point for recording, classifying and aggregating economic data and activity in a way that provides users with information that meets the objectives of financial reporting and achieves the qualitative characteristics of financial reporting while taking into account the constraints on information included in GPFRs.

5.3 The elements defined in this Chapter do not refer to the individual items that are recognised as a result of transactions and events. Sub-classifications of individual items within an element and aggregations of items are used to enhance the understandability of the financial statements. Presentation is addressed in Chapter 8, *Presentation in General Purpose Financial Reports.*

5.4 For a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena and events that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude ASLBs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter.

Elements Defined

5.5 The elements that are defined in this Chapter are:

- Assets;

- Liabilities;
- Revenue;
- Expense;
- Ownership contributions[3]; and
- Ownership distributions.

Assets

Definition

5.6 An asset is:

A resource presently controlled by the entity as a result of a past event.

A Resource

5.7 A resource is an item for its own use with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource. Some resources embody an entity's rights to a variety of benefits including, for example, the right to:

- Use the resource to provide services[4];
- Use an external party's resources to provide services, for example, leases;
- Convert the resource into cash through its disposal;
- Benefit from the resource's appreciation in value; or
- Receive a stream of cash flows.

5.8 Service potential is the capacity of the asset to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

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[3] Ownership contribution in case of local bodies denotes the contribution from the Central Government/respective State Government.

[4] References to "services" in the Conceptual Framework encompass "goods".

5.9 Local Body's assets that embody service potential may include recreational, heritage, community, and other assets which are held by local bodies, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialised in nature.

5.10 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 entity. The potential may be a productive one that is part of the operating activities of the entity and it may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows. In other words, economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- An asset's use in the production and sale of services;
- The direct exchange of an asset for cash or other resources;
- An asset's use in settlement of a liability; or
- Distribution of asset to the government/owners of the entity.

Presently Controlled by the Entity

5.11 An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.

5.12 In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:

- Legal ownership;
- Access to the resource, or the ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and

- The existence of an enforceable right to service potential and or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

Past Event

5.13 The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources.

Liabilities

Definition

5.14 A liability is:

A present obligation of the entity for an outflow of resources that results from a past event.

A Present Obligation

5.15 Local bodies can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

An Outflow of Resources from the Entity

5.16 A liability must involve an outflow of resources from the entity for it to

be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

Past Event

5.17 To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of a past transaction or other event and requires an outflow of resources from the entity. The complexity of local body programmes and activities means that a number of events in the development, implementation and operation of a particular programme may give rise to obligations. For financial reporting purposes it is necessary to determine whether such commitments and obligations, including binding obligations that the entity has little or no realistic alternative to avoid but are not legally enforceable (non-legally binding obligations) are present obligations and satisfy the definition of a liability. Where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify. In other cases, it may be more difficult to identify the past event and identification involves an assessment of when an entity has little or no realistic alternative to avoid an outflow of resources from the entity.

Legal and Non-Legally Binding Obligations

5.18 Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for a present obligation and a liability to exist.

5.19 Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves an outflow of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

Legal Obligations

5.20 A legal obligation is enforceable in law. Such enforceable obligations may arise from a contract, legislation or other operation of law. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. Obligations that are binding through alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law there can be no doubt that an entity has no realistic alternative to avoid the obligation and that a liability exists.

5.21 Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions— or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.

5.22 The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

Non-Legally Binding Obligations

5.23 Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

- The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

5.24 In the local body, obligations may arise at a number of points. For example, in implementing a programme or service:

- Making a political promise such as an electoral pledge;
- Announcement of a policy;
- Introduction (and approval) of the budget (which may be two distinct points);
- The budget becoming effective (in some cases, the budget will not be effective until an appropriation has been effected); and
- The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability.

5.25 The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that that the entity has little or no realistic alternative to avoid an outflow of resources include:

- The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that a local body has little option to withdraw. Where a local body has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;
- The ability of the entity to modify or change the obligation before it crystallises. For example, the announcement of policy will generally not give rise to a non-legally binding obligation; and
- There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been

approved and linked funding is assured through an appropriation, or through the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.

5.26 "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the local body is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.

Net Financial Position, Other Resources, and Other Obligations

5.27 As explained in paragraph 5.4, in some cases, in developing or revising an ASLB, the CASLB may determine that to achieve the objectives of financial reporting a resource or obligation that does not satisfy the definition of an element defined in the Conceptual Framework needs to be recognised in the financial statements. In these cases, the ASLB may require or allow these resources or obligations to be recognised as other resources or other obligations, which are items additional to the six elements defined in this Framework.

5.28 Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognised in the balance sheet. Net financial position can be a positive or negative residual amount.

Revenue and Expense

Definitions

5.29 Revenue is:

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows results in an increase in the net financial position of the entity, other than increases arising from ownership contributions.

5.30 Expense is:

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in the net financial position of the entity, other than decreases arising from ownership distributions.

5.31 Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealised increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and impairments. Revenue and expense may arise from individual transactions or groups of transactions.

Surplus or deficit for the Period

5.32 The entity's surplus or deficit for the period is the difference between revenue and expense reported on the income and expenditure statement.

Ownership Contributions and Ownership Distributions

Definitions

5.33 Ownership contributions[5] are:

Inflows of resources to an entity, contributed by external parties in their capacity as owners, towards the corpus of Local Bodies which establish or increase an interest in the net financial position of the entity.

5.34 Ownership distributions[6] are:

Outflows of resources from the entity, distributed to external parties in

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[5] In case of Local Bodies, normally the contribution towards corpus will come from the Central/respective State Government. However, where local bodies enter into joint ventures/Special Purpose Vehicles (SPVs) with other entities, the controlling local body itself may contribute in capacity as owner towards corpus of controlled entity.

[6] The concept of ownership distribution may not be relevant for local bodies in normal course where ownership contribution comes from the Central/ respective State Government as surplus of Local Bodies is generally not meant for distribution. However, in certain instances local bodies enter into joint ventures/SPVs with other entities. In such cases, this concept may apply.

their capacity as owners, which return or reduce an interest in the net financial position of the entity.

5.35 It is important to distinguish inflows of resources from owners, including those inflows that initially establish the ownership interest, and outflows of resources to owners in their capacity as owners from revenue and expense. In addition to the injections of resources and the payment of dividends that may occur, in some jurisdictions it is relatively common for assets and liabilities to be transferred between entities. Where such transfers satisfy the definitions of ownership contributions or ownership distributions they will be accounted for as such.

5.36 Ownership interests may arise on the creation of an entity when another entity contributes resources to provide the new entity with the capacity to commence operational activities. In the local body, contributions to, and distributions from, entities are sometimes linked to the restructuring of government and will take the form of transfers of assets and liabilities rather than cash transactions. Ownership interests may take different forms, which may not be evidenced by an equity instrument.

5.37 Ownership contributions may take the form of an initial injection of resources at the creation of an entity or a subsequent injection of resources, including those where an entity is restructured. Ownership distributions may be: (a) a return on investment; (b) a full or partial return of investment; or (c) in the event of the entity being wound up or restructured, a return of any residual resources.

Chapter 6
Recognition in Financial Statements

Contents

Chapter 6
Recognition in Financial Statements

Recognition Criteria and their Relationship to Disclosure

6.1 This chapter identifies the criteria that must be satisfied in order for an element to be recognised in the financial statements. Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs.

6.2 The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

6.3 All items that satisfy the recognition criteria are recognised in the financial statements. In some circumstances, an ASLB may also specify that, to achieve the objectives of financial reporting, a resource or obligation that does not meet the definition of an element is to be recognised in the financial statements provided it can be measured in a way that meets the qualitative characteristics and constraints. Other resources and other obligations are discussed in Chapter 5, *Elements in Financial Statements.*

6.4 Recognition involves an assessment of uncertainty related to the existence and measurement of the element. The conditions that give rise to uncertainty, if any, can change. Therefore, it is important that uncertainty is assessed at each reporting date.

Definition of an Element

6.5 In order to be recognised as an element, an item must meet the definition of one of the elements in Chapter 5. Uncertainty about the existence of an element is addressed by considering the available evidence in order to decide whether an item satisfies all essential characteristics of the definition of that element, taking into account all available facts and circumstances at the reporting date.

6.6 If it is determined that an element exists, uncertainty about the amount of service potential or ability to generate economic benefits represented by that element is taken into account in the measurement of that element (see paragraphs 6.7 and 6.8). Preparers review and assess all available evidence in determining whether an element exists and is recognised, whether that element continues to qualify for recognition (see paragraph 6.9), or whether there has been a change to an existing element.

Measurement Uncertainty

6.7 In order to recognise an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognised in the financial statements. The selection of an appropriate measurement basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements.*

6.8 There may be uncertainty associated with the measurement of many amounts presented in the financial statements. The use of estimates is an essential part of the accrual basis of accounting. A decision about the relevance and faithful representativeness of measurement involves the consideration of techniques, such as using ranges of outcomes and point estimates, and whether additional evidence is available about economic circumstances that existed at the reporting date. Disclosures can provide useful information on estimation techniques employed. There may be rare instances in which the level of uncertainty in a single point estimate is so large that the relevance and faithful representativeness of the measure is questionable even if disclosures are provided to explain estimation techniques. Under these circumstances the item is not recognised.

Disclosure and Recognition

6.9 The failure to recognise items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. However, disclosure can provide information about items that meet many, but

not all the characteristics of the definition of an element. Disclosure can also provide information on items that meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting. Disclosure is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting.

Derecognition

6.10 Derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognised from the financial statements, and removing the item if such changes have occurred. In evaluating existence uncertainty the same criteria are used for derecognition as at initial recognition.

Chapter 7
Measurement of Assets and Liabilities in Financial Statements

Contents

Chapter 7
Measurement of Assets and Liabilities in Financial Statements

Introduction

7.1 This Chapter identifies the measurement concepts that guide the CASLB in the selection of measurement bases for ASLBs and by preparers of financial statements in selecting measurement bases for assets and liabilities where there are no requirements in ASLBs.

The Objective of Measurement

7.2 The objective of measurement is:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity accountable, and for decision-making purposes.

7.3 The selection of a measurement basis for assets and liabilities contributes to meeting the objectives of financial reporting in the local body by providing information that enables users to assess:

- The cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and
- Financial capacity—the capacity of the entity to fund its activities.

7.4 The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

Measurement Bases and their Selection

7.5 It is not possible to identify a single measurement basis that best meets the measurement objective at a Conceptual Framework level. Therefore, the Conceptual Framework does not propose a single measurement basis (or combination of bases) for all transactions,

events and conditions. It provides guidance on the selection of a measurement basis for assets and liabilities in order to meet the measurement objective.

7.6 The following measurement bases for assets are identified and discussed in terms of the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity, and the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Market value;
- Replacement cost;
- Net selling price; and
- Value in use.

Table 1 summarises these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific[7].

Table 1: Summary of Measurement Bases for Assets

Measurement Basis	Entry / Exit Value	Observable / Unobservable in a Market	Entity / Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity-specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Replacement cost	Entry	Observable	Entity-specific

[7] In some cases a judgment has been made in classifying a particular measurement basis as observable or unobservable in a market and/or as entity or non-entity specific.

Net selling price	Exit	Observable	Entity-specific
Value in use	Exit[8]	Unobservable	Entity-specific

7.7 The following measurement bases for liabilities are identified and discussed in terms of (a) the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity; and (b) the extent to which they provide information that meets the qualitative characteristics:

- Historical cost;
- Cost of fulfillment;
- Market value;
- Cost of release; and
- Assumption price.

Table 2 summarises these measurement bases in terms of whether they (a) provide entry or exit values; (b) are observable in a market; and (c) whether or not they are entity-specific.

Table 2: Summary of Measurement Bases for Liabilities

Measurement Basis	Entry / Exit Value	Observable / Unobservable in a Market	Entity / Non-entity Specific
Historical cost	Entry	Generally observable	Entity-specific
Cost of fulfillment	Exit	Unobservable	Entity-specific
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity-specific
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique
Cost of release	Exit	Observable	Entity-specific
Assumption price	Entry	Observable	Entity-specific

[8] As pointed out in paragraph 7.66, for non-cash-generating assets the calculation of value in use may require the use of replacement cost as surrogate.

Entry and Exit Values

7.8 Measurement bases may provide either entry or exit values. For assets, entry values reflect the cost of purchase. Historical cost and replacement cost are entry values. Exit values reflect the economic benefits from sale. An exit value also reflects the amount that will be derived from use of the asset. In a diversified economy entry and exit prices differ as entities typically:

- Acquire assets tailored to the entity's particular operating requirements for which other market participants would be unwilling to pay a similar price; and
- Incur transaction costs on acquisition.

7.9 Measurement bases for liabilities may also be classified in terms of whether they are entry or exit values. Entry values relate to the transaction under which an obligation is received or the amount that an entity would accept to assume a liability. Exit values reflect the amount required to fulfill an obligation or the amount required to release the entity from an obligation.

Observable and Unobservable Measures

7.10 Certain measures may be classified according to whether they are observable in an open, active and orderly market. Measures that are observable in a market are likely to be more understandable and verifiable than measures that are not observable. They may also be more faithfully representative of the phenomena they are measuring.

Entity-Specific and Non-Entity Specific Measures

7.11 Measures may also be classified according to whether they are "entity-specific" or "non-entity-specific". Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by an entity. Entity-specific measures may reflect economic opportunities that are not available to other entities and risks that are not experienced by other entities. Non-entity-specific measures reflect general market opportunities and risks. The decision on whether to use an entity-specific or non-entity-specific measure is taken by reference to the measurement objective and the qualitative characteristics.

Level of Aggregation or Disaggregation for Measurement

7.12 In order to present assets and liabilities in the financial statements in a way that provides information that best meets the measurement objective and achieves the qualitative characteristics it may be necessary to aggregate or disaggregate them for measurement purposes. In assessing whether such an aggregation or disaggregation is appropriate the costs are compared with the benefits.

Measurement Bases for Assets

(I) Historical Cost

7.13 Historical cost for an asset is:

The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

7.14 Historical cost is an entry, entity-specific value[9]. Under the historical cost model assets are initially reported at the cost incurred on their acquisition. Subsequent to initial recognition, this cost may be allocated as an expense to reporting periods in the form of depreciation or amortisation for certain assets, as the service potential or ability to generate economic benefits provided by such assets are consumed over their useful lives. Following initial recognition, the measurement of an asset is not changed to reflect changes in prices or increases in the value of the asset.

7.15 Under the historical cost model the amount of an asset may be reduced by recognising impairments. Impairment is the extent to which the service potential or ability to generate economic benefits provided by an asset have diminished due to changes in economic or other conditions, as distinct to their consumption. This involves assessments of recoverability. Conversely, the amount of an asset may be increased to reflect the cost of additions and enhancements (excluding price increases for unimproved assets) or other events, such as the accrual of interest on a financial asset.

[9] The term "historical cost" may also be referred to as the "cost model" or generically as "cost-based measures".

Costs of Services

7.16 Where historical cost is used, the cost of services reflects the amount of the resources expended to acquire or develop assets consumed in the provision of services. Historical cost generally provides a direct link to the transactions actually undertaken by the entity. Because the costs used are those carried forward from an earlier period without adjustment for price changes, they do not reflect the cost of assets when the assets are consumed. As the cost of services is reported using past prices, historical cost information will not facilitate the assessment of the future cost of providing services if cumulative price changes since acquisition are significant.

Operational Capacity

7.17 If an asset has been acquired in an exchange transaction, historical cost provides information on the resources available to provide services in future periods, based on their acquisition cost. At the time an asset is purchased or developed, it can be assumed that the value to the entity of its service potential is at least as great as the cost of purchase[10]. When depreciation or amortisation is recognised it reflects the extent to which the service potential of an asset has been consumed. Historical cost information shows that the resources available for future services are at least as great as the amount at which they are stated. Increases in the value of an asset are not reflected under the historical cost model. If an asset has been acquired in a non-exchange transaction the transaction price will not provide information on operating capacity.

Financial Capacity

7.18 The amount at which assets are stated in financial statements assists in an assessment of financial capacity. Historical cost can provide information on the amount of assets that may be used as effective security for borrowings. An assessment of financial capacity also requires information on the amount that could be received on sale of an asset, and reinvested in assets to provide different services. Historical cost does not provide this information when significantly different from current exit values.

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[10] Where this is not the case the initial historical cost measurement will be reduced by the amount of the impairment.

Application of the Qualitative Characteristics

7.19 Paragraphs 7.16–7.18 explain the areas where historical cost provides relevant information in terms of its confirmatory or predictive value. Application of historical cost is often straightforward, because transaction information is usually readily available. As a result amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire or develop an asset based on actual transactions. Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are verifiable, understandable and can be prepared on a timely basis.

7.20 Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare the amounts of assets that were acquired at different times when prices differed in a meaningful way.

7.21 In certain circumstances the application of historical cost necessitates the use of allocations—for example where:

- Several assets are acquired in a single transaction;
- Assets are constructed by the entity itself and overheads and other costs have to be attributed; and
- The use of a flow assumption, such as first-in-first-out, is necessary when many similar assets are held. To the extent such allocations are arbitrary they reduce the extent to which the resulting measurement achieves the qualitative characteristics.

(II) Current Value Measurements

7.22 Current value measurements reflect the economic environment prevailing at the reporting date.

7.23 There are four current value measurement bases for assets:

- Market value;
- Replacement cost;

- Net selling price; and
- Value in use.

(i) Market Value

7.24 Market value for assets is:

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

7.25 At acquisition market value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. Market evidence, in turn, depends upon the characteristics of the market in which the asset is traded. Market value is particularly appropriate where it is judged that the difference between entry and exit values is unlikely to be significant or the asset is being held with a view to sale.

7.26 In principle, market values provide useful information because they fairly reflect the value of the asset to the entity. In an open, active and orderly market (see paragraph 7.28), the asset cannot be worth less than market value as the entity can obtain that amount by selling the asset, and cannot be worth more than market value, as the entity can obtain equivalent service potential or the ability to generate economic benefits by purchasing the same asset.

7.27 The usefulness of market values is more questionable when the assumption that markets are open, active and orderly does not hold. In such circumstances it cannot be assumed that the asset may be sold for the same price as that at which it can be acquired and it is necessary to determine whether an exit price or an entry price is the more useful measure. Exit-based market values are useful for assets that are held for trading, such as certain financial instruments, but may not be useful for specialised operational assets. Furthermore, while the purchase of an asset provides evidence that the value of the asset to the entity is at least as great as its purchase price, operational factors may mean that the value to the entity may be greater. Hence market values may not reflect the value to the entity of the asset, represented by its operational capacity.

Market Values in Open, Active and Orderly Markets

7.28 Open, active and orderly markets have the following characteristics:

- There are no barriers that prevent the entity from transacting in the market;
- They are active so there is sufficient frequency and volume of transactions to provide price information; and
- They are orderly, with many well-informed buyers and sellers acting without compulsion, so there is assurance of "fairness" in determining current prices—including that prices do not represent distress sales.

An orderly market is one that is run in a reliable, secure, accurate and efficient manner. Such markets deal in assets that are identical and therefore mutually interchangeable, such as commodities, currencies and securities where prices are publicly available. In practice few, if any, markets fully exhibit all of these characteristics, but some may approach an orderly market as described.

Market Values where it cannot be Assumed that Markets are Open, Active and Orderly

7.29 Markets for assets that are unique and rarely traded are not open, active and orderly: any purchases and sales are individually negotiated, and there may be a large range of prices at which a transaction might be agreed. Therefore, participants will incur significant costs to purchase or to sell an asset. In such circumstances it is necessary to use an estimation technique to estimate the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions.

Costs of Services

7.30 Revenue from services reported in financial statements is measured on the basis of prices current in the reporting period. If assets used to provide services are measured at market value, the allocation of the cost of assets to reflect their consumption in the current reporting period is based on the current market value of the asset.

7.31 The use of market values permits a return on assets to be determined. However, Local Bodies do not generally carry out activities with the

primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in a reported return derived from exit-based market prices.

7.32 As noted above, revenue from providing services reported in financial statements is measured on the basis of prices current in the reporting period. Thus, the surplus or deficit for a period includes price movements that take place over the period during which assets and liabilities are held, and no profit or loss is reported on the sale of an asset. Where the asset is traded on an open, active and orderly market, the existence of the market provides assurance that the entity would be able to realise the market value (and no more) at the reporting date: it is therefore, unnecessary to postpone recognition of changes in value until a surplus is realised on sale. However, where assets used to provide services are not traded on open, active and orderly markets, or a close approximation to such markets, the relevance of revenue and expense related to changes in market value is more questionable.

Operational Capacity

7.33 Information on the market value of assets held to provide services in future periods is useful if it reflects the value that the entity is capable of deriving from assets by using them in providing or delivering services. However, if an exit-based market value is significantly lower than historical cost, market value is likely to be less relevant than the historical cost of such assets in providing information on operational capacity—such a market value is also likely to be less relevant than entry value-based current measures.

Financial Capacity

7.34 An assessment of financial capacity requires information on the amount that would be received on sale of an asset. This information is provided by market value.

Application of the Qualitative Characteristics

7.35 Values determined in open, active and orderly markets can be readily used for financial reporting purposes. The information will meet the qualitative characteristics—that is it will be relevant, representationally faithful, understandable, comparable, and verifiable. Under such

market conditions entry and exit values can be assumed to be the same or very similar. Because it can be prepared quickly, such information is also likely to be timely.

7.36 The extent to which market values meet the qualitative characteristics will decrease as the quality of market evidence diminishes and the determination of such values relies on estimation techniques. As indicated above, exit-based market values are only likely to be relevant to assessments of financial capacity.

(ii) Replacement Cost

7.37 Replacement cost[11] is:

The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.

7.38 Replacement cost differs from market value because:

- In a Local Body context it is explicitly an entry value that reflects the cost of replacing the service potential of an asset;
- It includes all the costs that would necessarily be incurred in the replacement of the service potential of an asset; and
- It is entity specific and therefore reflects the economic position of the entity, rather than the position prevailing in a hypothetical market. For example, the replacement cost of a vehicle is less for an entity that usually acquires a large number of vehicles in a single transaction and is regularly able to negotiate discounts than for an entity that purchases vehicles individually.

7.39 Because entities usually acquire their assets by the most economic means available, replacement cost reflects the procurement or construction process that an entity generally follows. Replacement cost reflects the replacement of service potential in the normal course of operations, and not the costs that might be incurred if an urgent necessity arose as a result of some unforeseeable event, such as a fire.

[11] The full term is "optimised depreciated replacement cost" to denote that it refers to the replacement of the service potential embodied in an asset and not the asset itself. (see paragraph 7.41) The term "replacement cost" is used for economy of expression in the Framework.

7.40 Replacement cost is the cost of replacing an asset's service potential. Replacement cost adopts an optimized approach and differs from reproduction cost, which is the cost of acquiring an identical asset[12]. Although in many cases the most economic replacement of the service potential will be by purchasing an asset that is similar to that which is controlled, replacement cost is based on an alternative asset if that alternative would provide the same service potential more cheaply. For financial reporting purposes, it is therefore necessary to reflect the difference in service potential between the existing and replacement asset.

7.41 The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacement cost of an asset reflects reductions in required service capacity. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for current and reasonably foreseeable requirements, the replacement cost of the asset is that of a school for 100 pupils.

7.42 In some cases the value that will be derived from an asset will be greater than its replacement cost. However, it would not be appropriate to measure the asset at that value, as it includes benefits from future activities, rather than service potential at the reporting date. Replacement cost represents the highest potential value of an asset, as, by definition, the entity is able to secure equivalent service potential by incurring replacement cost.

Costs of Services

7.43 Replacement cost provides a relevant measure of the cost of the provision of services. The cost of consuming an asset is equivalent to the amount of the sacrifice of service potential incurred by that use. That amount is its replacement cost—the entity is able to restore its position to that prevailing immediately before the consumption of the asset by an outlay equal to replacement cost.

7.44 The costs of services are reported in current terms when based on

[12] There may be cases where replacement cost equates to reproduction cost. This is where the most economic way of replacing service potential is to reproduce the asset.

replacement cost. Thus, the amount of assets consumed is stated at the value of the assets at the time they are consumed—and not, as with historical cost, at the time they were acquired. This provides a valid basis for a comparison between the cost of services and the amount of taxes and other revenue received in the period—which are generally transactions of the current period and measured in current prices—and for assessing whether resources have been used economically and efficiently. It also provides a useful basis for comparison with other entities that report on the same basis, as asset values will not be affected by different acquisition dates, and for assessing the cost of providing services in the future and future resource needs, as future costs are more likely to resemble current costs than those incurred in the past, when prices were different (see also paragraph 7.48).

Operational Capacity

7.45 In principle, replacement cost provides a useful measure of the resources available to provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.

Financial Capacity

7.46 Replacement cost does not provide information on the amounts that would be received on the sale of assets. It, therefore, does not facilitate an assessment of financial capacity.

Application of the Qualitative Characteristics

7.47 As noted above, replacement cost is relevant to assessments of the cost of services and operational capacity. It is not relevant to assessments of financial capacity. In some circumstances, calculation of replacement cost is complex, and subjective judgments are required. These factors may reduce the representational faithfulness of replacement cost. In these circumstances, the timeliness, comparability and verifiability of information prepared on a replacement cost basis may be affected, and replacement cost may be more costly than some alternatives. Replacement cost information may also not be straightforward to understand, particularly when that information reflects a reduction in required service capacity (see paragraph 7.41).

7.48 Replacement cost information is comparable within an entity as assets that provide equivalent service potential are stated at similar amounts, regardless of when those assets were acquired. In principle different entities may report similar assets at different amounts, because replacement cost is an entity-specific measure that reflects the opportunities for replacement that are available to the entity. The opportunities for replacement may be the same or similar for different entities. Where they are different, the economic advantage of an entity that is able to acquire assets more cheaply is reported in financial statements through lower asset values and a lower cost of services in order to be representationally faithful.

(iii) Net Selling Price

7.49 Net selling price is:

The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.

7.50 Net selling price differs from market value in that it does not require an open, active and orderly market or the estimation of a price in such a market and that it includes the entity's costs of sale. Net selling price therefore reflects constraints on sale. It is entity-specific.

7.51 The potential usefulness of measuring assets at net selling price is that an asset cannot be worth less to the entity than the amount it could obtain on sale of the asset. However, it is not appropriate as a measurement basis if the entity is able to use its resources more efficiently by employing the asset in another way, for example by using it in the delivery of services.

7.52 Net selling price is therefore useful where the most resource-efficient course available to the entity is to sell the asset. This is the case where the asset cannot provide service potential or the ability to generate economic benefits at least as valuable as net selling price. Net selling price may provide useful information where an entity is contractually obligated to sell an asset at below market value. There may be cases where net selling price can indicate a development opportunity.

Costs of Services

7.53 It is not appropriate to quantify the cost of the provision of services at net selling prices. Such an approach would involve the use of an exit value as the basis of the expense reported.

Operational Capacity

7.54 Stating assets held for use in the provision of services at net selling price does not provide information useful to an assessment of operating capacity. Net selling price shows the amount that could be derived from an asset's sale, rather than the value of the service potential that could be derived from that asset.

Financial Capacity

7.55 As noted above, an assessment of financial capacity requires information on the amount that would be received on sale of an asset. Such information is provided by the use of net selling price. However, such a measure is not relevant for assets that may yield more valuable service potential by continuing to use them to deliver services.

Application of the Qualitative Characteristics

7.56 As indicated in paragraph 7.52, net selling price provides relevant information only where the most resource-efficient course available to the entity is to sell the asset. Assessments of net selling price may be made by reference to active markets where they exist. For major assets it may be possible and cost-effective to obtain professional appraisals. Net selling price will generally provide understandable information.

7.57 In most cases where net selling price is relevant, it will achieve the qualitative characteristics of faithful representation, verifiability, and timeliness.

(iv) Value in Use

7.58 Value in use is:

The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Suitability of Value in Use

7.59 Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. As noted in paragraph 7.42 above, the value that will be derived from an asset is often greater than its replacement cost—it is also usually greater than its historical cost. Where this is the

case, reporting an asset at its value in use is of limited usefulness, as by definition, the entity is able to secure equivalent service potential at replacement cost.

7.60 Value in use is also not an appropriate measurement basis when net selling price is greater than value in use, as in this case the most resource-efficient use of the asset is to sell it, rather than continue to use it.

7.61 Therefore, value in use is appropriate where it is less than replacement cost and greater than net selling price. This occurs where an asset is not worth replacing, but the value of its service potential or ability to generate economic benefits is greater than its net selling price. In such circumstances value in use represents the value of the asset to the entity.

7.62 Value in use is an appropriate measurement basis for the assessment of certain impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.

Costs of Services, Operational Capacity, Financial Capacity

7.63 Because of its potential complexity[13], its limited applicability and the fact that its operationalisation in a local body context for non-cash-generating assets involves the use of replacement cost as a surrogate, value in use is generally inappropriate for determining the cost of services. Its usefulness to assessments of operational capacity is limited, and is only likely to be significant in the atypical circumstances where entities have a large number of assets that are not worth replacing, but their value in use is greater than their net selling price. This may be the case if, for example, an entity will discontinue provision of a service in the future, but the proceeds of immediate sale are less than the service potential embodied in the assets. Value in use does involve an estimate of the net amount that an entity will receive from disposal of the asset. However, its limited applicability reduces its relevance for assessments of financial capacity.

Application of the Qualitative Characteristics

7.64 While value in use may be used in assessments of certain impairments its relevance for financial reporting purposes is limited to the circumstances outlined in paragraph 7.61.

[13] See below paragraph 7.66

7.65 The extent to which value in use meets the other qualitative characteristics depends on how it is determined. In some cases, an asset's value in use can be quantified by calculating the value that the entity will derive from the asset assuming its continued use. This may be based on the future cash inflows related to the asset, or on cost savings that will accrue to the entity through its control of the asset. The calculation of value in use takes into account the time value of money and, in principle, the risk of variations in the amount and timing of cash flows.

7.66 The calculation of value in use can be complex. Assets that are employed in cash-generating activities often provide cash flows jointly with other assets. In such cases, value in use can be estimated only by calculating the present value of the cash flows of a group of assets and then making an allocation to individual assets.

7.67 In the Local Body, most assets are held with the primary objective of contributing to the provision of services, rather than to the generation of a commercial return: such assets are referred to as "non-cash-generating assets". Because value in use is usually derived from expected cash flows, its operationalisation in such a context can be difficult. It may be inappropriate to calculate value in use on the basis of expected cash flows, because such a measure would not be faithfully representative of the value in use of such an asset to the entity. Therefore, it would be necessary to use replacement cost as a surrogate for financial reporting purposes.

7.68 The method of determining value in use reduces its representational faithfulness in many cases. It also affects the timeliness, comparability, understandability and verifiability of information prepared on a value in use basis.

Measurement Bases for Liabilities

7.69 This section discusses the measurement bases for liabilities. This section does not repeat all the discussion the section on assets. It considers the following measurement bases:

- Historical Cost;
- Cost of Fulfillment;
- Market Value;

- Cost of Release; and
- Assumption Price.

(I) Historical Cost

7.70 Historical cost for a liability is:

The consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred.

7.71 Under the historical cost model, initial measures may be adjusted to reflect factors such as the accrual of interest, the accretion of discount or amortisation of a premium.

7.72 Where the time value of a liability is material—for example, where the length of time before settlement falls due is significant— the amount of the future payment is discounted so that, at the time a liability is first recognised, it represents the value of the amount received. The difference between the amount of the future payment and the present value of the liability is amortised over the life of the liability, so that the liability is stated at the amount of the required payment when it falls due.

7.73 The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply in relation to assets. Historical cost is appropriate where liabilities are likely to be settled at stated terms. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is also unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. It is also difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

(II) Cost of Fulfillment

7.74 Cost of fulfillment is:

The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

7.75 Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfillment, which aims to reflect all those possible outcomes in an unbiased manner.

7.76 Where fulfillment requires work to be done—for example, where the liability is to rectify environmental damage—the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant where employing a contractor is the least costly means of fulfilling the obligation.

7.77 Where fulfillment will be made by the entity itself, the fulfillment cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as the total amount charged by the contractor will be a claim on the entity's resources—this is consistent with the approach for assets, where replacement cost would include the profit required by a supplier, but no profit would be included in the replacement cost for assets that the entity would replace through self-construction.

7.78 Where fulfillment will not take place for an extended period, the cash flows need to be discounted to reflect the value of the liability at the reporting date.

7.79 Cost of fulfillment is generally relevant for measuring liabilities except in the following circumstances:

- Where the entity can obtain release from an obligation at a lower amount than cost of fulfillment, then cost of release is a more relevant measure of the current burden of a liability, just as, for an asset, net selling price is more relevant when it is higher than value in use.
- In the case of liabilities assumed for a consideration, assumption price (see paragraphs 7.87-7.91) is more relevant when assumption price is higher than both cost of fulfillment and cost of release.

(III) Market Value

7.80 Market value for liabilities is:

The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.

7.81 The advantages and disadvantages of market value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an open, active and orderly market. However, in cases where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear the case for market values, even if they exist, is significantly weaker. This is particularly the case for liabilities arising from obligations in non-exchange transactions, because it is unlikely that there will be an open, active and orderly market for such liabilities.

(IV) Cost of Release

7.82 "Cost of release" is the term used in the context of liabilities to refer to the same concept as "net selling price" in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount—this is consistent with the approach for assets, where net selling price would not reflect the amount that would be received on sale to a scrap dealer, if a higher price could be obtained from sale to a purchaser who would use the asset.

7.83 For some liabilities, particularly in the Local Body, transfer of a liability is not practically possible and cost of release will therefore be the amount that the creditor will accept in settlement of its claim. This amount will be known if it is specified in the agreement with the creditor—for example, where a contract includes a specific cancellation clause.

7.84 In some cases, there may be evidence of the price at which a liability may be transferred—for example, in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfill the entity's obligation or bear all the costs stemming from a liability. For a liability to be transferred it is necessary that all of the creditor's rights against

the entity are extinguished. If this is not the effect of an arrangement, the liability remains a liability of the entity.

7.85 In assessing whether cost of release is appropriate for measuring liabilities it is necessary to consider whether release in the envisaged manner is an option that is open to the entity in practice, having regard to any consequences of obtaining release, such as damage to the entity's reputation.

7.86 Just as net selling price is relevant only when the most resource-efficient course available to the entity is to sell the asset, so cost of release is relevant only when the most resource-efficient course is to seek immediate release from an obligation. In particular, where cost of fulfillment is lower than cost of release, cost of fulfillment provides more relevant information than cost of release, even if it is feasible to negotiate a release from the obligation in accordance with the methods for transferring a liability in paragraph 7.84.

(V) Assumption Price

7.87 "Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of assumption price—this is not the case for non-exchange transactions.

7.88 In the context of an activity that is carried out with a view to profit, an entity will assume a liability only if the amount it is paid to assume the liability is greater than the cost of fulfillment or release—i.e., the settlement amount. Once that assumption price has been received by the entity, the entity has an obligation to its creditor.

7.89 At the time a liability is first incurred in an exchange transaction, assumption price represents the amount that was accepted by the entity for assuming the liability—it is therefore usually reasonable to assume that assumption price is the price that the entity would rationally accept for assuming a similar liability. It would charge a higher amount, if competitive pressures allowed it to do so, but it might be unwilling to accept a lower price. Just as replacement cost is a current value so, conceptually, is assumption price. There are,

however, practical problems in reflecting changes in prices in obligations that are stated at assumption price.

7.90 A consequence of stating performance obligations at the assumption price is that no surplus is reported at the time the obligation is taken on. A surplus or deficit is reported in the financial statements in the period when fulfillment (or release) takes place, as it is the difference between the revenue arising from satisfaction of the liability and the cost of settlement.

7.91 An entity may have a potential obligation that is larger than assumption price. If the entity has to seek release from a contract, the other party to the contract may be able to claim recompense for losses that it will sustain, as well as the return of any amounts paid. However, provided that the entity can settle the obligation by fulfillment, it can avoid such additional obligations and it is representationally faithful to report the obligation at no more than assumption price—this is analogous to the position where an asset will yield greater benefits than replacement cost. Under such circumstances, as explained in paragraph 7.42, replacement cost rather than value in use is the most relevant measurement basis.

Chapter 8
Presentation in General Purpose Financial Reports

Contents

Chapter 8
Presentation in General Purpose Financial Reports

Introduction

8.1 This Chapter sets out the concepts applicable to the presentation of information in GPFRs, including financial statements of entities.

8.2 Presentation is linked to Chapters 1 to 4—the objectives of financial reporting, users' needs, the qualitative characteristics, constraints on information included in GPFRs and the reporting entity all influence presentation decisions. For information reported in the financial statements, presentation is also linked to the definitions of the elements, recognition criteria and measurement bases identified in Chapters 5 to 7-—for example:

- The definition of the elements affects the items that can be presented in the financial statements;
- Application of the recognition criteria affects the location of information; and,
- The selection of measurement bases impacts the information presented on measurement methodologies.

Language in which Financial Statement and Other GPFRs are Issued

8.3 The language (or languages) in which financial statements and other GPFRs are issued supports achievement of the objectives of financial reporting and the qualitative characteristics. All translated versions need to be faithful to the original language version. The translated version is made available to meet the needs of users with reference to:

- Legal requirements in the entity's jurisdiction; and
- Translation costs and benefits.

Presentation

8.4 Presentation is the selection, location and organisation of information that is reported in the GPFRs.

8.5 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative

characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organisation of information are made in response to the needs of users for information about economic or other phenomena.

8.6 Chapter 1 explains that GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFRs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a particular report, guide presentation decisions for that report.

8.7 Presentation decisions may:

- Result in the development of a new GPFR, the movement of information between reports, or the amalgamation of existing reports; or,
- Be detailed decisions on information selection, location and organisation within a GPFR.

Presentation Decisions are Interlinked

8.8 Decisions on information selection, location and organisation are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organised into tables or separate schedules. The following three sections separately focus on each presentation decision.

Information Selection

8.9 Decisions on information selection address what information is reported:

- In the financial statements; and
- In GPFRs outside the financial statements (other GPFRs).

8.10 As Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, explains, the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes. Chapter 2 describes the

types of information that users need to meet the objectives of financial reporting. That description guides decisions on whether particular types of reports are needed. This Chapter focuses on the selection of information to be presented in GPFRs, including financial statements and other reports.

Information Selection—Nature of Information

Nature of Information in Financial Statements

8.11 Users' information needs identified in Chapter 2 underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity in order to:

- Enable users to identify the resources of the entity and claims on those resources at the reporting date;
- Inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives; and,
- Inform assessments of financial performance and the entity's liquidity and solvency.

8.12 The financial statements may also provide information that assists users in assessing the extent to which:

- An entity has met its financial objectives;
- Revenues, expenses, cash flows and financial results of the entity comply with approved budgets; and
- An entity has adhered to relevant legislation or other authority governing the raising and use of public monies.

8.13 The financial statements do not report comprehensively on an entity's service performance. However, information in the financial statements may provide information relevant to the financial aspects of service performance such as information about:

- Revenue, expenses and cash flows related to services; and
- The assets and liabilities that inform users' evaluations of, for example, an entity's operational capacity or financial risks that could impact on service provision.

8.14 Other reports in GPFRs present information additional to the financial statements. Such information could, for example, include:

- Information on the sustainability of an entity's public finances;
- Financial statement discussion and analysis; or
- Service performance information.

Information Selected for Display or Disclosure

8.15 Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information. Disclosure is not a substitute for display.

8.16 Repetition of information in a GPFR needs to be generally be avoided. However, the same information may be both displayed and disclosed. For example, a total displayed on the face of the financial statements may be repeated in the notes, where the notes provide a disaggregation of the displayed total. Similarly, the same information may be presented in different GPFRs in order to address their different aims.

Information Selected for Display

8.17 Every GPFR contains key messages that are communicated, so every GPFR contains displayed information. Displayed information is kept to a concise, understandable level, so that users can focus on the key messages presented and not be distracted by detail that could otherwise obscure those messages. Displayed information is presented prominently, using appropriate presentation techniques such as clear labeling, borders, tables and graphs.

8.18 The items displayed on the face of the financial statements provide information about such matters as the reporting entity's financial position, financial performance and cash flows.

8.19 Assessment of whether an item satisfies the recognition criteria is one of the key mechanisms in determining whether information is displayed on the face of the balance sheet or income and expenditure statement and/or disclosed either in the notes or elsewhere in the GPFRs. In other cases, for example a statement of cash flows, displayed

information will also support achievement of the objectives of financial reporting.

8.20 Developing requirements for the display of line items and totals involves balancing the standardisation of displayed information, which facilitates understandability, with information that is tailored for entity-specific factors. The aim of both standardised display requirements and entity specific information is to ensure that information necessary to meet the objectives of financial reporting is available for all entities, while allowing information to be displayed in a manner that reflects the nature and operations of specific entities.

Information Selected for Disclosure

8.21 Disclosed information is likely to include:

- The basis for the displayed information, such as applicable policies or methodologies;
- Disaggregations of displayed information; and,
- Items that share some but not all of the aspects of displayed information—for example, disclosures on items that meet some, but not all, of the characteristics of the definition of an element[14] or disclosures on items that meet the definition of an element, but not the recognition criterion.

8.22 The level of detail provided by disclosed information contributes to achievement of the objectives of financial reporting, without being excessive. Disclosed information, like displayed information, is necessary for achievement of the objectives of financial reporting.

8.23 Information disclosed in the notes to the financial statements:

- Is necessary to a user's understanding of the financial statements;
- Provides information that presents the financial statements in the context of the entity and its operating environment; and
- Generally, will have a clear and demonstrable relationship to

[14] Chapter 5, *Elements in Financial Statements*, explains that other resources and other obligations that do not meet the definition of elements may be recognised in order to contribute to the objectives of financial reporting.

information displayed on the face of the financial statement(s) to which it pertains.

8.24 Information disclosed in the notes may also include:

- Entity-related factors that could influence judgments about reported information (for example, information about related parties and controlled entities or interests in other entities);
- The basis for what is displayed (for example, information on accounting policies and measurement, including measurement methods and measurement uncertainties where applicable);
- Disaggregations of amounts displayed on the face of the statements (for example, a breakdown of property, plant and equipment into different classes);
- Items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services— for example, information about events and conditions, that might affect future cash flows or service potential, including their natures, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions; and
- Information that may explain underlying trends affecting displayed totals.

Principles Applicable to Information Selection

8.25 Decisions about what information needs to be displayed and disclosed involve consideration of:

- The objectives of financial reporting;
- The qualitative characteristics and constraints on information included in GPFRs; and
- The relevant economic or other phenomena about which information may be necessary.

8.26 Information selection results in information that contributes to meeting the objectives of financial reporting, as applied to the area covered by a particular report, and provides the appropriate level of detail. Decisions on information selection involve information prioritisation and summarisation. Information selection avoids information overload

that reduces understandability. Too much information may make it difficult for users to understand the key messages, and, consequently undermines achievement of the objectives of financial reporting.

8.27 Preparers, applying pronouncements and their professional judgment, are responsible for ensuring that information that meets the objectives of financial reporting and achieves the qualitative characteristics is provided in the GPFRs that they prepare.

8.28 Decisions on information selection require continuing and critical review. Information identified for possible selection is reviewed as it is developed and considered for presentation, with particular reference to its relevance, materiality and cost-benefit, although all the qualitative characteristics and constraints are applied to decisions on information selection. Past decisions may require reconsideration because new information may make existing information requirements redundant with the result that those items no longer achieve the qualitative characteristics and/or the constraints.

8.29 All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved.

8.30 The benefits to users of receiving information need to justify the costs to entities of collecting and presenting that information. In making this assessment it is important to consider how individual items impact on the overall view presented and the nature of the information presented. Items that may appear to have little benefit when viewed in isolation could have much greater benefit in contributing to the complete set of information presented.

8.31 Information needs to be presented on a sufficiently timely basis to enable users to hold a management accountable and to inform users' decisions.

8.32 GPFRs may include additional information derived from sources other than the financial information system. The qualitative characteristics apply to such information. The date of delivery of any such additional information needs to be as close as possible to the financial statements' reporting date, so that reported information will be timely.

Principles for Selection of Information for Display and Disclosure

8.33 Decisions about display or disclosure apply to both the financial statements and other GPFRs. The objectives of financial reporting are applied to the area covered by a particular report to guide the identification of information for display or disclosure. The identification of information for display and disclosure in a particular GPFR may involve the development of:

- Classification principles;
- A list of broad types of information that are displayed and a similar list of broad types of information that are disclosed; and/or,
- Lists of specific information that preparers must display or disclose.

8.34 Decisions about selection of information to be displayed and disclosed are made:

- With reference to each other rather than in isolation; and
- To effectively communicate an integrated set of information.

8.35 Selection decisions with respect to information in other GPFRs are made after carefully considering the relationship of the other GPFRs to the financial statements.

Information Location

8.36 Decisions on information location are made about which:

- Report information is located within; and
- Component of a report information is located.

8.37 The location of information has an impact on information's contribution to achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information. Location may be used to:

- Convey the relative importance of information and its connections with other items of information;
- Convey the nature of information;

- Link different items of information that combine to meet a particular user need; and
- Distinguish between information selected for display and information selected for disclosure.

Principles for Allocation of Information between Different Reports

8.38 Factors relevant to decisions about allocating information between the financial statements and another GPFR include:

- *Nature*: Whether the nature of the information, for example, historical versus prospective, supports including the information either in the same or a different GPFR, because of considerations related to, for example, comparability and/or understandability;
- *Jurisdiction-Specific:* Whether jurisdiction-specific factors, such as legal provisions, specify requirements on information location; and
- *Linkage:* Whether or not the additional information envisaged needs to link very closely to information already included in an existing report. The linkages between all information need to be assessed, not only linkages between new and existing information.

8.39 The factors above, which are expressed from the perspective of adding information to an existing set of information, also apply to considerations of whether the grouping of existing information could be improved, which is discussed in the section on information organisation.

8.40 A separate GPFR may be necessary when:

- Additional user information needs, not satisfied by an existing report, are identified; and
- A separate GPFR to meet those needs is more likely to achieve the objectives of financial reporting and the qualitative characteristics than including information in an existing report.

Principles for Location of Information within a Report

8.41 Paragraph 8.17 of this Chapter states that displayed information is

presented prominently, using appropriate presentation techniques—location is one way to achieve this. Information location within a report ensures that displayed information is given appropriate prominence and is not obscured by more detailed and extensive disclosed information.

8.42 The location of information in the financial statements contributes to communicating a comprehensive financial picture of an entity.

8.43 For the financial statements, displayed information is shown on the face of the appropriate statement, while disclosures are in the notes. Distinguishing displayed information and disclosed information through location ensures that those items that directly relate to communicating matters, such as an entity's financial position, financial performance and cash flows, can be highlighted, with further more detailed information provided through disclosure in the notes.

8.44 For other GPFRs, displayed information may either be located separately from disclosed information or located in the same area, but distinguished from disclosed information and given prominence through the use of another presentation technique.

Information Organisation

8.45 Information organisation addresses the arrangement, grouping and ordering of information, which includes decisions on:

- How information is arranged within a GPFR; and
- The overall structure of a GPFR.

8.46 Information organisation involves a range of decisions including decisions on the use of cross referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order. How information is organised can affect its interpretation by users.

Nature of Information Relevant to Organisation

8.47 Decisions about the organisation of information take into account:

- Important relationships between information; and
- Whether information is for display or disclosure.

Types of Relationships

8.48 Important relationships include, but are not restricted to:

- Enhancement;
- Similarity; and
- Shared purpose.

8.49 *Enhancement*: Information in one place in a GPFR may be enhanced through information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements. Tables and graphs may be used to enhance the understanding of narrative information. Links to information reported outside the GPFRs may enhance the understandability of information reported in GPFRs.

8.50 *Similarity*: A relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and the information either has not been adjusted or has had relatively minor adjustments. For example, if service performance information includes the cost of services, or the value of assets used in different services, then it may be helpful to show how those totals relate to expense and assets reported in the financial statements. Another example is the relationship between the total expense reported against budget and total expense reported in the income and expenditure statement. A reconciliation between the two different amounts can enhance users' understanding of an entity's finances.

8.51 *Shared purpose*: A relationship of shared purpose exists where information reported in different places contributes to the same purpose. An example is where different statements and disclosures provide information needed for assessments of accountability for services delivered. Information about (a) the actual and budgeted cost of different services, (b) financial and non-financial resources used in the provision of different services, and (c) future provision of different services may be included in different places. To make the relationship between the information in different places clear, it may be appropriate to organise the information by using techniques such as common headings and referencing.

8.52 Relationships may exist between information in different:

- GPFRs;
- Components within a GPFR; and
- Parts of a single component.

Grouping of Information

8.53 The three factors noted the section on information selection as being applicable to decisions on information location—linkage, nature of information and jurisdiction-specific considerations—also apply to considerations of whether the grouping of existing information could be improved. Decisions on effective grouping of information consider linkages between information sets, the nature of the different information sets, and, to the extent appropriate, jurisdiction-specific factors.

Principles Applicable to Information Organisation

8.54 Information organisation:

- Supports achievement of the objectives of financial reporting; and
- Helps reported information meet the qualitative characteristics.

8.55 Information organisation:

- Helps to ensure that key messages are understandable;
- Clearly identifies important relationships;
- Gives appropriate prominence to information that conveys key messages; and
- Facilitates comparisons.

8.56 Related information is linked through the use of consistent headings, presentation order, and/or other methods appropriate to the relationship and type of information. Where links are to information reported outside the GPFRs it is important that:

- Links to information from other sources do not undermine a GPFR's achievement of the qualitative characteristics; and
- The issuance date of any such linked information is as close as possible to the financial statements' reporting date so that reported information will be timely.

Comparability

8.57 Information organisation take*s* into account the benefits of consistent presentation over time. Consistent presentation supports users' ability to understand information and facilitates their access to information. It helps to achieve the qualitative characteristic of comparability.

Principles for Information Organisation within the Financial Statements

8.58 Information displayed on the face of the financial statements is usually organised into numeric totals and sub-totals. Its organisation provides a structured overview of such matters as the reporting entity's financial position, financial performance and cash flows.

8.59 For the financial statements, relationships may exist between:

- Subsets of displayed amounts or changes in displayed amounts and their impact on an entity's financial position, financial performance and/or cash flows;
- Different displayed amounts in different financial statements, which all reflect the impact of a common external event, or contribute together towards an understanding of an aspect of the entity's financial position or financial performance; and
- Displayed amounts and related note disclosures that provide information that explains or could otherwise support users' understanding of displayed items.

8.60 The organisation of information in financial statements includes decisions on:

- The type and number of statements;
- Disaggregation of totals into meaningful sub-categories;
- Ordering and grouping of items displayed within each statement;
- Identification of aggregates (additive and subtractive); and
- Identification of other information for inclusion on the face of the statement.

8.61 Information disclosed in the notes to the financial statements is organised so that relationships to items reported on the face of the financial statements are clear. The notes are an integral part of the financial statements.

Principles for Organisation of Information within Other GPFRs

8.62 As is the case for the financial statements, information organisation in other GPFRs helps to ensure that key messages conveyed by displayed information are understandable. Presentation that clearly identifies important relationships is likely to enhance the extent to which a report:

- Meets the objectives of financial reporting; and
- Achieves the qualitative characteristics.

8.63 Linking related information helps users to find important information. Some information is more understandable when organised into graphs, charts, tables, ratios or key performance indicators. Other information may be presented more effectively in narrative form. Information organisation supports users' understanding of linkages between information within the same GPFR.

8.64 Information organisation facilitates comparisons such as making clear when items are similar or dissimilar. Inter-period comparability is facilitated by avoiding changes to the way that information is organised for the same entity from year to year unless such changes enhance relevance and understandability. Inter-entity comparisons are facilitated when different reporting entities organise the information they present in similar ways.

Appendix 1

Note: This Appendix is not a part of The Conceptual Framework for General Purpose Financial Reporting by Local Bodies. The purpose of this appendix is only to bring out the major differences between this Conceptual Framework and the corresponding Conceptual Framework of the International Public Sector Accounting Standard Board (IPSASB).

Comparison with IPSAS's Conceptual Framework

- Some additional information regarding 73rd and 74th Constitutional Amendment Act envisaging a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) has been incorporated in the CP&GFM's Conceptual Framework.
- Paragraphs 20 – 24 of the *Preface to the Conceptual Framework* pertaining to '*Relationship to Statistical Reporting*' and paragraphs 3.40 of the *Chapter 3 Qualitative Characteristics* contained in the IPSASB's Conceptual Framework have not been retained in the CP&GFM's Conceptual Framework since these are not relevant in the context of Local Bodies in India.
- The paragraph 5.33 containing definition of '*Ownership Contribution*' has been modified in the CP&GFM's Conceptual Framework in the context of Local Bodies of India. Some more clarification with regard to the relevance of concept of '*Ownership Distribution*' for Local Bodies has also been provided in the CP&GFM's Conceptual Framework by way of foot note.
- CP&GFM's Conceptual Framework uses different terminology, in certain instances, from IPSASB's Conceptual Framework. For example, '*Balance Sheet*' and '*Income and Expenditure Statement*' in CP&GFM's Conceptual Framework. The equivalent term in IPSASB's Conceptual Framework is '*Statement of Financial Position*' and '*Statement of Financial Performance*'.
- CP&GFM's Conceptual Framework contains additional commentary in certain paragraphs of its Preface and Chapters that reflects the circumstances of the Local Bodies in India.
- Some examples in the CP&GFM's Conceptual Framework have been deleted and modified to better address the circumstances of the Local Bodies.

- Consequential changes resulting from above departures have been made in CP&GFM's Conceptual Framework. However, paragraph numbers have been retained to maintain consistency with IPSASB's Conceptual Framework.

Accounting Standard for Local Bodies (ASLB 2)
Cash Flow Statements

Contents

Accounting Standard for Local Bodies (ASLB) 2
Cash Flow Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 2, *'Cash Flow Statements'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

Objective

The cash flow statement identifies (a) the sources of cash inflows, (b) the items on which cash was expended during the reporting period, and (c) the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision-making purposes. Cash flow information allows users to ascertain how an entity raised the cash it required to fund its activities, and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows. The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing and financing activities.

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'.*

Scope

1. ***An entity that prepares and presents financial statements under the accrual basis of accounting should prepare a cash flow statement in accordance with the requirements of this Standard and should present it as an integral part of its financial statements for each period for which financial statements are presented.***

2. Information about cash flows may be useful to users of an entity's financial statements in (a) assessing the entity's cash flows, (b) assessing the entity's compliance with legislation and regulations (including authorised budgets where appropriate), and (c) making decisions about whether to provide resources to, or enter into transactions with, an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities. Entities need cash for essentially the same reasons, however different their principal revenue producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard requires all entities to present a cash flow statement.

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[3].***

4. [Refer to Appendix 1]

Benefits of Cash Flow Information

5. Information about the cash flows of an entity is useful in assisting users to predict (a) the future cash requirements of the entity, (b) its *ab*ility to generate cash flows in the future, and (c) its ability to fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

6. A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets/equity of an entity, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.

7. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

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

Cash ***comprises cash on hand and demand deposits.***

Cash equivalents ***are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.***

Cash flows ***are inflows and outflows of cash and cash equivalents.***

Control: ***An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amount of those benefits through its power over the other entity.***

Financing activities ***are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.***

Investing activities ***are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.***

Operating activities ***are the activities of the entity that are not investing or financing activities.***

Reporting date ***means the date of the last day of the reporting period to which the financial statements relate.***

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Cash and Cash Equivalents

9. Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

10. Bank borrowings are generally considered to be financing activities. However, bank overdrafts that are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

11. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing, and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Economic Entity

12. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

13. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group.

14. An economic entity may include entities with both social policy and commercial objectives. For example, a Local Body XYZ (controlling entity) may control an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising Local Body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.

Future Economic Benefits or Service Potential

15. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

16. [Refer to Appendix 1]

Net Assets/Equity

17. Net assets/equity is the term used in this Standard to refer to the residual measure in the balance sheet (assets less liabilities). Net assets/equity may be positive or negative.

Presentation of a Cash Flow Statement

18. ***The cash flow statement should report cash flows during the period classified by operating, investing, and financing activities.***

19. An entity presents its cash flows from operating, investing, and financing activities in a manner that is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity, and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

20. A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element classified as a financing activity.

Operating Activities

21. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

(a) By way of taxes (directly and indirectly); or

(b) From the recipients of goods and services provided by the entity.

The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations and make new investments, without recourse to external sources of financing. The consolidated operating cash flows of an economic entity provide an indication of the extent to which a Local Body has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants related to revenue/ general grants (excluding grants which are covered under financing activities, i.e., grants in the nature of contribution to the corpus/ municipal fund of Local Body by the government and grants related to assets) or transfers and other appropriations or other budget authority made by Central/ State Government or other entities;

(d) Cash receipts from rentals, royalties, fees, commissions, and other revenue;

(e) Cash payments to other entities to finance their operations (not including loans);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) [Refer to Appendix 1];

(i) Cash payments of local property taxes, income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts or payments from discontinuing operations;

(k) Cash receipts or payments in relation to litigation settlements; and

(l) Cash payment of sitting fee/ honorarium to elected members.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities.

23. [Refer to Appendix 1]

24. In some cases, Local Bodies will appropriate or authorise funds to entities to finance the operations of an entity, and no clear distinction is made for the disposition of those funds between current activities, capital works, and contributed capital. Where an entity is unable to separately identify appropriations or budgetary authorisations into current activities, capital works, and contributed capital, the appropriation or budget authorisation should be classified as cash flows from operations, and this fact should be disclosed in the notes to the financial statements.

Investing Activities

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery. Only cash outflows that result in a recognised asset in the balance sheet are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant, and equipment, intangibles, and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant, and equipment;

(b) Cash receipts from sales of property, plant, and equipment, intangibles, and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents);

(e) Cash advances and loans made to other parties/ employees;

(f) Cash receipts from the repayment of advances and loans made to other parties/ employees;

(g) Cash payments for futures contracts, forward contracts, option contracts, and swap contracts;

(h) Cash receipts from futures contracts, forward contracts, option contracts, and swap contracts; and

(i) Receipt of any interest and dividend on investments.

Financing Activities

26. The separate disclosure of cash flows arising from financing activities is important, because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, bonds, mortgages, and other short or long-term borrowings;

(b) Cash receipts from contributions made by the Central/ State Government towards the corpus of Local Bodies;

(c) Cash receipts from grants related to fixed assets;

(d) Cash repayments of amounts borrowed; and

(e) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting Cash Flows from Operating Activities

27. ***An entity should report cash flows from operating activities using either:***

(a) ***The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or***

(b) ***The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a non-cash nature, any***

deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

28. Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information that (a) may be useful in estimating future cash flows, and (b) not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

    (a) From the accounting records of the entity; or

    (b) By adjusting operating revenues, operating expenses, and other items in the income and expenditure statement for:

        (i) Changes during the period in inventories and operating receivables and payables;

        (ii) Other non-cash items; and

        (iii) Other items for which the cash effects are investing or financing cash flows.

29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting surplus or deficit from ordinary activities for the effects of:

    (a) Changes during the period in inventories and operating receivables and payables;

    (b) Non-cash items such as depreciation, provisions and unrealised foreign currency gains and losses; and

    (c) All other items for which the cash effects are investing or financing cash flows.

    (d) [Deleted]

Reporting Cash Flows from Investing and Financing Activities

31. ***An entity should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 32 and 35 are reported on a net basis.***

Reporting Cash Flows on a Net Basis

32. ***Cash flows arising from the following operating, investing, or financing activities may be reported on a net basis:***

    (a) ***Cash receipts collected and payments made on behalf of customers, taxpayers, or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and***

    (b) ***Cash receipts and payments for items in which the cash receipts and related payments are in quick succession, the amounts are large, and the maturities are short.***

33. Paragraph 32(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

    (a) The collection of taxes by Local Body for State Government or another entity not including taxes collected by a Local Body for its own use as part of a tax-sharing arrangement;

    (b) [Refer to Appendix 1];

    (c) [Refer to Appendix 1];

    (d) Rents collected on behalf of, and paid over to, the owners of properties; and

    (e) Transfers to third parties consistent with legislation or other government authority.

34. Examples of cash receipts and payments referred to in paragraph 32(b) are advances made for, and the repayment of:

    (a) The purchase and sale of investments; and

    (b) Other short-term borrowings, for example, those that have a maturity period of three months or less.

35. [Refer to Appendix 1]

Foreign Currency Cash Flows

36. ***Cash flows arising from transactions in a foreign currency should be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.***

37. [Refer to Appendix 1]

38. Cash flows denominated in a foreign currency are reported in a manner consistent with ASLB 4, '*The Effects of Changes in Foreign Exchange Rates'*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions.

39. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

Interest and Dividends or Similar Distributions

40. ***Cash flows from receipt of interest and dividends or similar distributions and payment of interest should be disclosed separately. Cash flow arising from interest paid on bonds, debentures, etc., should be classified as cash flow from financing activities while interest and dividend received should be classified as cash flow from investing activities.***

41. The total amount of interest paid during a period is disclosed in the cash flow statement, whether it has been recognised as an expense in the income and expenditure statement or capitalised in accordance with the ASLB 5, '*Borrowing Costs'*.

42. [Refer to Appendix 1]

43. [Refer to Appendix 1]

Taxes on income arising from goods or services supplied by a Local Body outside its own jurisdictional area[4]

44. ***Cash flows arising from taxes on income of a Local Body arising from goods or services supplied by it outside its own jurisdictional area should be separately disclosed and should be classified as cash flows from operating activities, unless they can be specifically identified with financing and investing activities.***

45. Local Bodies are generally exempt from taxes on income. However, taxes are levied on income of Local Bodies arising from goods or services supplied by them outside their jurisdictional area.

46. [Refer to Appendix 1]

Investments in Controlled Entities, Associates and Joint Ventures

47. When accounting for an investment in an associate, a joint venture or a controlled entity[5], for reporting cash flows in this regard, the guidance can be found in the ASLBs on the relevant subjects.

48. [Refer to Appendix 1]

Acquisitions and Disposals of Controlled Entities and Other Operating Units

49. ***The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units should be presented separately and classified as investing activities.***

50. ***An entity should disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:***

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[4] These services do not cover supply of water or electricity. For details refer Section 10 (20) of the Income Tax Act, 1961.

[5]The Guidance with regard to consolidation may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

(a) ***The total purchase or disposal consideration[6];***

(b) ***The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;***

(c) ***The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and***

(d) ***The amount of the assets and liabilities, other than cash or cash equivalents, recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.***

50A. [Refer to Appendix 1]

51. The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those acquisitions.

52. The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.

52A. [Refer to Appendix 1]

52B. [Refer to Appendix 1]

53. [Refer to Appendix 1]

Non-cash Transactions

54. ***Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.***

55. Many investing and financing activities do not have a direct impact on current cash flows, although they do affect the capital and asset

[6] Purchase consideration may arise, if the entity acquired by the Local Body is a private entity.

structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) The acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a finance lease; and

(b) The conversion of debt/loans to grants in the nature of contribution to corpus/municipal fund of Local Body by the Government.

Components of Cash and Cash Equivalents

56. ***An entity should disclose the components of cash and cash equivalents, and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet.***

57. In view of the variety of cash management practices and banking arrangements and in order to comply with ASLB 1, an entity discloses the policy that it adopts in determining the composition of cash and cash equivalents.

58. The effect of any change in the policy for determining components of cash and cash equivalents is reported in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

Other Disclosures

59. ***An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.***

60. There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a controlled entity that operates under legal restriction, when the balances are not available for general use by the controlling entity or other controlled entities.

61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this

information, together with a description in the notes to the financial statements, is encouraged, and may include:

(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

(b) [Deleted]; and

(c) The amount and nature of restricted cash balances.

62. Where appropriations or budget authorisations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the Local Body's budgetary information. (As indicated in ASLB 1 for comparison of actual and budgeted figures)

63-64 [Refer to Appendix 1]

Illustrative Examples

These examples accompany, but are not part of, ASLB 2.

Cash Flow Statement

Direct Method Cash Flow Statement (paragraph 27(a))

Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In ₹ lakhs)

(in ₹ lakhs)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants related to revenue/general grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X

Net cash flows from investing activities	(X)	(X)
CASH FLOWS FROM FINANCING ACTIVITIES		
Grants received from the Central Government/ State Governments for creation of specific fixed assets	X	X
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Net cash flows from financing activities	X	X
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	**X**	**X**

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

(in ₹ lakhs)	**20X2**	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of grants for creation of specific fixed assets received from the Central Government/ State Governments. Cash payments of X were made to purchase property, plant and equipment.

(c) *Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

(in ₹ lakhs)	**20X2**	**20X1**
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortisation	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Indirect Method Cash Flow Statement (paragraph 27(b))

Entity—Consolidated Cash Flow Statement for Year Ended December 31, 20X2 (In ₹ lakhs)

(in ₹ lakhs)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortisation	X	X

Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Net cash flows from operating activities	**X**	**X**

Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

(in ₹ lakhs)	**20X2**	**20X1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructure projects.

(b) *Property, Plant and Equipment*

During the period, the economic entity acquired property, plant, and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by the Central Government/ State Governments. Cash payments of X were made to purchase property, plant and equipment.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 2 and the corresponding International Public Sector Accounting Standard (IPSAS) 2, 'Cash Flow Statements'.

Comparison with IPSAS 2, *'Cash Flow Statements'*

1. Different terminologies have been used in the ASLB 2 as compared to corresponding IPSAS 2, e.g., terms 'balance sheet' and 'income and expenditure statement' have been used in place of 'statement of financial position' and 'statement of financial performance'.

2. The following paragraphs of IPSAS 2 have been deleted. In order to maintain consistency with the corresponding IPSAS 2, the paragraph numbers have been retained:

   (i) Paragraph 4 and 16 of IPSAS 2 provides that Government Business Enterprises (GBE) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.

   (ii) Local Bodies in India do not deal in sale and purchase of securities in normal course of their operations. Therefore, provisions pertaining to it have been deleted. (deleted paragraph 23)

   (iii) Local Bodies in India are not engaged in the Insurance Business and Public Financial Institutions. Therefore, provisions pertaining to these have been deleted. (deleted paragraphs 22(h), 28, 33(b), 35)

   (iv) Provisions relating to payment of dividends or similar distribution to owners, do not seem to be relevant in the context of Local Bodies in India. Therefore, the same have been deleted. (paragraphs 42-43 deleted)

   (v) Local bodies in India may not have a foreign controlled entity, therefore, the paragraphs pertaining to such entities have been deleted. (paragraph 37 deleted)

   (vi) Paragraph 46 as the taxes related guidance has already been covered in paragraphs 44-45.

(vii) Paragraph 48 of IPSAS 2 prescribing equity method to report cash flows in respect of investments in an associate or joint venture, has been deleted as ASLB on this subject is under formulation.

(viii) Paragraphs 50A, 52A and 52B as these paragraphs prescribe the accounting method to be followed in case of consolidation on which ASLBs are yet to be formulated.

(ix) Paragraph 53 as it may not be relevant for Local Bodies in India.

(x) Paragraphs 63 - 64 pertaining to effective date have been deleted as the ASLB 2 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

3. The following paragraphs of IPSAS 2 have been amended significantly to make the same more relevant in the context of Local Bodies in India:

(i) Deleted the last line of paragraph 9 of IPSAS 2 that the equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

(ii) List line of paragraph 17 of IPSAS 2, other terms may be used in place of net assets/ equity, provided that their meaning is clear, has been removed.

(iii) Reference to paragraph 83A of IPSAS 17, '*Property, Plant and Equipment*' has been deleted from paragraph 22 of the ASLB 2 because similar paragraph is not given in ASLB 17 which was prepared earlier in line with the then corresponding IPSAS.

(iv) Requirements pertaining to the Income tax expenses have been modified in ASLB 2 as per the provisions of Income Tax Act, 1961 applicable to Local Bodies in India. (refer paragraphs 30(b), 44 – 45 of ASLB 2)

(v) IPSAS 2 provides guidance for reporting cash flows, when accounting for investment in controlled entities, associates and joint ventures. However, ASLB 2 refers to the ASLBs on the relevant subjects for the guidance in this regard which are under preparation and until the same are issued, guidance to be drawn

from the existing Accounting Standards issued by the ICAI. (refer paragraph 47 of ASLB 2)

4. Some examples of IPSAS 2 have been deleted/ included in the ASLB 2, and some examples have been modified in light of Indian conditions. (refer paragraphs 14, 22, 25, 26, 33, 38, 55(b) and 58)

5. The following paragraphs appear as 'Deleted' in IPSAS 2. In order to maintain consistency with paragraph numbers of IPSAS 2, the paragraph numbers are retained in ASLB 2:

   (i) Paragraph 30 (d); and

   (ii) Paragraph 61 (b).

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 2 and the existing Accounting Standard (AS) 3, 'Cash Flow Statements' issued by the Institute of Chartered Accountants of India.

Comparison with Existing AS 3, *'Cash Flow Statements'*

1. ASLB 2 specifically included bank overdrafts which are repayable on demand as a part of cash and cash equivalents, whereas the existing AS 3 is silent on this aspect. (refer paragraph 10 of ASLB 2)
2. ASLB 2 does not contain provisions for the Insurance Business and Public Financial Institution as Local Bodies in India are not engaged in Insurance Business and Public Financial Institutions. However, existing AS 3 contains such provisions.
3. Existing AS 3 contains provisions relating to payment of dividends or similar distribution to owners. However, ASLB 2 does not provide for the same as these are not relevant in the context of Local Bodies.
4. Existing AS 3 requires separate disclosure for the cash flows associated with extraordinary items classified as arising from operating, investing or financing activities. However, ASLB 2 does not provide for the same.
5. In ASLB 2, the provisions in respect of income taxes have been modified as per Income Tax Act, 1961, applicable to Local Bodies in India. (refer paragraph 44 - 45 of ASLB 2)
6. As compared to existing AS 3, ASLB 2 does not contain provisions for cash flows from a foreign controlled entity, as the same is not relevant for Local Bodies in India.
7. As compared to the existing AS 3, ASLB 2 requires the entity to disclose the amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of (refer paragraph 50 (c) & (d) of ASLB 2). ASLB 2 also requires to report the aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of (refer paragraph 52 of ASLB 2). The existing AS 3 does not contain such requirements.

8. Different terminology is used in certain instances, e.g., the term 'Income and Expenditure Statement' is used instead of 'Profit and Loss Account'.

9. ASLB 2 includes additional examples as compared to existing AS 3 such as in case of examples of cash flows from operating activities given in ASLB 2.

Accounting Standard for Local Bodies (ASLB 4)

The Effects of Changes in Foreign Exchange Rates

Contents

Accounting Standard for Local Bodies (ASLB) 4 The Effects of Changes in Foreign Exchange Rates

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 4, *'The Effects of Changes in Foreign Exchange Rates'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. An entity may carry on activities involving foreign exchange in two ways. It may have transactions in foreign currencies or it may have foreign operations[3]. In order to include foreign currency transactions and foreign operations in the financial statements of an entity, transactions must be expressed in the entity's reporting currency and the financial statements of foreign operations must be translated into the entity's reporting currency.

2. The principal issues are (a) which exchange rate(s) to use, and (b) how to report the effects of changes in exchange rates in the financial statements.

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

[3] The Concept of foreign operations may not be relevant for local bodies in India in current scenario. However, the same has been retained for future use.

Scope

3. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard:***

   (a) ***In accounting for transactions and balances in foreign currencies;***

   (b) ***In translating the financial statements of foreign operations; and***

   (c) [Refer to Appendix 1].

4. [Refer to Appendix 1]

5. This Standard also deals with accounting for foreign currency transactions in the nature of forward exchange contracts[4].

6. ***This Standard applies to the entities described as Local Bodies in the Preface to Accounting Standards for Local Bodies[5].***

7. [Deleted]

8. This Standard does not deal with the restatement of an entity's financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.

9. [Refer to Appendix 1]

Definitions

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

Average rate is the mean of the exchange rates in force during a period.

[4] This Standard is applicable to exchange differences on all forward exchange contracts including those entered into to hedge the foreign currency risk of existing assets and liabilities and is not applicable to the exchange differences arising on forward exchange contracts entered into to hedge the foreign currency risks of future transactions in respect of which firm commitments are made or which are highly probable forecast transactions. A 'firm commitment' is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates and a 'forecast transaction' is an uncommitted but anticipated future transaction.

[5] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

Closing rate *is the spot exchange rate at the balance sheet date.*

Exchange difference *is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.*

Exchange rate *is the ratio of exchange for two currencies.*

Foreign currency *is a currency other than the reporting currency of an entity.*

Foreign operation *is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.*

Forward exchange contract *means an agreement to exchange different currencies at a forward rate.*

Forward rate *is the specified exchange rate for exchange of two currencies at a specified future date.*

Integral foreign operation *is a foreign operation, the activities of which are an integral part of those of the reporting entity.*

Monetary items *are units of currency money held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.*

Non-integral foreign operation *is a foreign operation that is not an integral foreign operation.*

Non-monetary items *are assets and liabilities other than monetary items.*

Reporting currency *is the currency used in presenting the financial statements.*

Spot exchange rate *is the exchange rate for immediate delivery.*

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

11-16 [Refer to Appendix 1]

Monetary Items

17. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g., prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

18-22. [Refer to Appendix 1]

Reporting Foreign Currency Transactions

Initial Recognition

23. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

    (a) Buys or sells goods or services whose price is denominated in a foreign currency;

    (b) Borrows or lends funds when the amounts payable are denominated in a foreign currency; or

    (c) becomes a party to an unperformed forward exchange contract; or

    (d) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

24. ***A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the spot exchange rate between the reporting currency and the foreign currency at the date of the transaction.***

25. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with ASLBs. For practical reasons, a rate that approximates the actual rate at the date of the

transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

26. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in ASLB 2, '*Cash Flow Statements*'. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities, and include the differences, if any, if those cash flows had been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

27. ***At each balance sheet date:***

    (a) ***Foreign currency monetary items should be translated using the closing rate;***

    (b) ***Non-monetary items that are measured in terms of historical cost in a foreign currency should be translated using the exchange rate at the date of the transaction; and***

    (c) ***Non-monetary items that are measured at fair value in a foreign currency should be translated using the exchange rates at the date when the fair value was determined.***

28. The carrying amount of an item is determined in conjunction with other relevant ASLBs. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with ASLB 17, '*Property, Plant and Equipment'.* Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency, it is then translated into the reporting currency in accordance with this Standard.

29. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realisable value in accordance with ASLB 12, '*Inventories*'. Similarly, in accordance with ASLB 21, '*Impairment of Non-Cash-Generating Assets'*, the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

    (a) The cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (i.e., the rate at the date of the transaction for an item measured in terms of historical cost); and

    (b) The net realisable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g., the closing rate at the reporting date).

    The effect of this comparison may be that an impairment loss is recognised in the reporting currency but would not be recognised in the foreign currency, or vice versa.

30. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

31. [Refer to Appendix 1]

32. ***Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, should be recognised in surplus or deficit in the period in which they arise, except as described in paragraph 37.***

33. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.

34. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 26.

35. ***When a gain or loss on a non-monetary item is recognised directly in net assets/equity, any exchange component of that gain or loss should be recognised directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss should be recognised in surplus or deficit.***

36. Other ASLBs require some gains and losses to be recognised directly in net assets/equity. For example, ASLB 17 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognised directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27 (c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in net assets/equity.

Net Investment in a Non-integral Foreign Operation

37. ***Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a non-integral foreign operation should be accumulated in a net asset/equity in the entity's financial statements until the disposal of the net investment, at which time they should be recognised in surplus or deficit in accordance with paragraph 57.***

37A. An entity may have a monetary item that is receivable from, or payable to, a non-integral foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable

future is, in substance, an extension to, or deduction from, the entity's net investment in that non-integral foreign operation. Such monetary items may include long-term receivables or loans but do not include receivables or payables.

38-39. [Refer to Appendix 1]

Financial Statements of Foreign Operations

Classification of Foreign Operations

39A. The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting entity. For this purpose, foreign operations are classified as either 'integral foreign operations' or 'non-integral foreign operations'.

39B. A foreign operation that is integral to the operations of the reporting entity carries on its operations as if it were an extension of the reporting entity's operations. For example, such a foreign operation might only sell goods imported from the reporting entity and remit the proceeds to the reporting entity. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting entity's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting entity's net investment in that operation.

39C. In contrast, a non-integral foreign operation accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the reporting currency. When there is a change in the exchange rate between the reporting currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting entity. The change in the exchange rate affects the reporting entity's net investment in the non-integral foreign operation rather than the individual monetary and non-monetary items held by the non-integral foreign operation.

39D. The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:

(a) while the reporting entity may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting entity;

(b) transactions with the reporting entity are not a high proportion of the foreign operation's activities;

(c) the activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting entity;

(d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency;

(e) the foreign operation's sales are mainly in currencies other than the reporting currency;

(f) cash flows of the reporting entity are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation;

(g) sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation; and

(h) there is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.

The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a non-integral foreign operation or an integral foreign operation of the reporting entity may not be clear, and judgement is necessary to determine the appropriate classification.

Integral Foreign Operations

39E. ***The financial statements of an integral foreign operation should be translated using the principles and procedures in paragraphs 23-37A if the transactions of the foreign operation had been those of the reporting entity itself.***

39F. The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting entity itself. The cost and depreciation of tangible fixed assets is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value or other similar valuation, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The recoverable amount or realisable value of an asset is translated using the exchange rate that existed when the recoverable amount or net realisable value was determined. For example, when the net realisable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realisable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting entity to its recoverable amount or net realisable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting entity.

39G. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is unreliable.

Non-integral Foreign Operations

39H. ***In translating the financial statements of a non-integral foreign operation for incorporation in its financial statements, the reporting entity should use the following procedures:***

(a) ***the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate;***

(b) ***income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and***

(c) ***all resulting exchange differences should be accumulated in net asset/equity until the disposal of the net investment.***

39I. For practical reasons, a rate that approximates the actual exchange rates, for example an average rate for the period is often used to translate income and expense items of a foreign operation.

39J. The translation of the financial statements of a non-integral foreign operation results in the recognition of exchange differences arising from:

(a) translating income and expense items at the exchange rates at the dates of transactions and assets and liabilities at the closing rate;

(b) translating the opening net investment in the non-integral foreign operation at an exchange rate different from that at which it was previously reported; and

(c) other changes to net asset/equity in the non-integral foreign operation.

These exchange differences are not recognised in surplus or deficit for the period because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting entity. When a non-integral foreign operation is consolidated but is not wholly owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated

to, and reported as part of, the non-controlling interest in the consolidated balance sheet.

39K. Any goodwill/other adjustment arising on the acquisition of a non-integral foreign operation is translated at the closing rate in accordance with paragraph 39H.

39L. A contingent liability disclosed in the financial statements of a non-integral foreign operation is translated at the closing rate for its disclosure in the financial statements of the reporting entity.

39M. The incorporation of the financial statements of a non-integral foreign operation in those of the reporting entity follows normal consolidation procedures, as per ASLB 35, '*Consolidated Financial Statements*[6]'.

40-56. [Refer to Appendix 1]

Disposal of a Non-integral Foreign Operation

57. ***On the disposal of a non-integral foreign operation, the cumulative amount of the exchange differences deferred in the separate component of net assets/equity relating to that foreign operation should be recognised in surplus or deficit when the gain or loss on disposal is recognised.***

57A-57D. [Refer to Appendix 1]

58. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital or abandonment of all, or part of, that entity. The payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange

[6] ASLB 35 is not yet formulated/ issued. Therefore, the Guidance with regard to consolidation, if applicable, may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

gain or loss is recognised in surplus or deficit at the time of a write-down.

Change in the Classification of a Foreign Operation

58A. ***When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.***

58B. The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the reporting entity may lead to a change in the classification of that foreign operation. When a foreign operation that is integral to the operations of the reporting entity is reclassified as a non-integral foreign operation, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are accumulated in a net asset/equity. When a non-integral foreign operation is reclassified as an integral foreign operation, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the period of change and subsequent periods. Exchange differences which have been deferred are not recognised in surplus or deficit until the disposal of the operation.

Forward Exchange Contracts

58C. ***An entity may enter into a forward exchange contract or another financial instrument that is in substance a forward exchange contract, which is not intended for trading or speculation purposes, to establish the amount of the reporting currency required or available at the settlement date of a transaction. The premium or discount arising at the inception of such a forward exchange contract should be amortised as expense or income over the life of the contract. Exchange differences on such a contract should be recognised in the statement of Income and Expenditure in the reporting period in which the exchange rates change. Any surplus or deficit arising on cancellation or renewal***

of such a forward exchange contract should be recognised in surplus or deficit for the period.

58D. The risks associated with changes in exchange rates may be mitigated by entering into forward exchange contracts. Any premium or discount arising at the inception of a forward exchange contract is accounted for separately from the exchange differences on the forward exchange contract. The premium or discount that arises on entering into the contract is measured by the difference between the exchange rate at the date of the inception of the forward exchange contract and the forward rate specified in the contract. Exchange difference on a forward exchange contract is the difference between (a) the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and (b) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date.

58E. ***A gain or loss on a forward exchange contract to which paragraph 58C does not apply should be computed by multiplying the foreign currency amount of the forward exchange contract by the difference between the forward rate available at the reporting date for the remaining maturity of the contract and the contracted forward rate (or the forward rate last used to measure a gain or loss on that contract for an earlier period). The gain or loss so computed should be recognised in the statement of Income and Expenditure for the period. The premium or discount on the forward exchange contract is not recognised separately.***

58F. In recording a forward exchange contract intended for trading or speculation purposes, the premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.

59. [Refer to Appendix 1]

Disclosure

60. [Refer to Appendix 1]

61. ***The entity should disclose:***

    (a) ***The amount of exchange differences recognised in surplus or deficit; and***

    (b) ***Net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.***

61A. ***When there is a change in the classification of a significant foreign operation, an entity should disclose:***

    (a) ***the nature of the change in classification;***

    (b) ***the reason for the change;***

    (c) ***the impact of the change in classification on net asset/equity; and***

    (d) ***the impact on net surplus or deficit for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.***

61B. The effect on foreign currency monetary items or on the financial statements of a foreign operation of a change in exchange rates occurring after the balance sheet date is disclosed in accordance with relevant ASLB.

61C. Disclosure is also encouraged of an entity's foreign currency risk management policy.

62-73. [Refer to Appendix 1]

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 4 and the corresponding International Public Sector Accounting Standard (IPSAS) 4, 'The Effects of Changes in Foreign Exchange Rates'.

Comparison with IPSAS 4, *'The Effects of Changes in Foreign Exchange Rates'*

1. Different terminologies have been used in ASLB 4 as compared to corresponding IPSAS 4, e.g., terms 'balance sheet' and 'income and expenditure statement' have been used in place of 'statement of financial position' and 'statement of financial performance'.

2. ASLB 4 uses the term 'reporting currency' in place of 'functional currency' as the concept of 'functional currency' is not relevant for Local Bodies in Indian context.

3. The concept of foreign operations may not be relevant for Local Bodies in India in current scenario; therefore, an appropriate footnote has been inserted in this regard in the Standard. ASLB 4 is based on integral foreign operations and non-integral foreign operations approach for accounting for a foreign operation, whereas IPSAS 4 is based on functional currency approach.

4. The terms 'average rate', 'foreign currency', 'forward rate', 'forward exchange contract', 'integral foreign operation', 'non-integral operation', 'non-monetary assets', and 'reporting currency' have been defined additionally in ASLB 4.

5. IPSAS 4 refers to the IPSASs on '*Financial Instruments*' at various places. Those provisions have been deleted in the ASLB 4 keeping in view that formulation of ASLBs corresponding to the IPSASs on '*Financial Instruments*' is not proposed to be taken up in near future considering that Local Bodies in India are at very early stage of adoption of accrual basis of accounting, it would be difficult for local bodies to implement ASLBs on *'Financial Instruments'*. However, some provisions pertaining to accounting of forward exchange contracts and other similar financial instruments have been inserted in line with the existing AS 11.

6. Paragraph 6 of IPSAS 4 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provisions pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

7. IPSAS provides procedure for translation of financial performance and financial position of an entity whose functional currency is the currency of a hyperinflationary economy. These paragraphs have not been included in this ASLB 4 because the Indian economy is not hyperinflationary economy.

8. The provisions pertaining to translation of an entity's financial statement into presentation currency have been deleted from ASLB 4 as it may not be relevant for Local Bodies in Indian context.

9. Paragraphs 57-58 of IPSAS 4 have been modified in line with existing AS 11. The concept of partial disposal is not there in ASLB 4.

10. Paragraph 59 of IPSAS 4 which provides for tax effects of exchange differences has been deleted, as it is not relevant for Local Bodies in India.

11. Paragraphs 71-72 pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

12. Other consequential changes in ASLB 4 have also been made due to all above changes. However, paragraph numbers have been retained to maintain consistency with the corresponding IPSAS.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 4 and the existing Accounting Standard (AS) 11, 'The Effects of Changes in Foreign Exchange Rates' issued by the Institute of Chartered Accountants of India.

Comparison with Existing AS 11, *'The Effects of Changes in Foreign Exchange Rates'*

1. Different terminologies have been used in certain instances, e.g., the terms 'Income and Expenditure Account' and 'non-controlling interest' have been used instead of 'Profit and Loss Account' and 'minority interest'.

2. Existing AS 11 provides guidance for accounting of tax effects of exchange differences but ASLB 4 does not deal with the same.

3. Existing AS 11, given an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity to be transferred to profit or loss over the life of the relevant liability/asset if such items are not related to acquisition of fixed assets; where such items are related to acquisition of fixed assets, the foreign exchange differences can be recognised as part of the cost of the asset (paragraphs 46 and 46 A of Existing AS 11). ASLB 4 does not provide the same.

Accounting Standard for Local Bodies (ASLB) 13
Leases

Contents

Accounting Standard for Local Bodies (ASLB) 13 Leases

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority, Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 13, 'Leases' issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies (ASLB) 13, 'Leases':

Objective

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

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for all leases other than:***

   (a) ***Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and***

   (b) ***Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

However, this Standard should not be applied as the basis of measurement for:

(a) [Refer to Appendix-1];

(b) ***Investment property provided by lessors under operating leases (see ASLB 16, 'Investment Property');***

(c) ***Biological assets held by lessees under finance leases; or***

(d) ***Biological assets provided by lessors under operating leases.***

The criteria of classification of leases as prescribed in the standard is not to be applied to the leases of the Land or/and Buildings. All leases of land or/and buildings are to be treated as operating leases for the purpose of accounting as per this Standard.

3. ***This Standard applies to all the entities described as local bodies in the 'Preface to Accounting Standards for Local Bodies'[3].***

4. [Deleted]

5. This Standard applies to agreements that transfer the right to use assets, even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other. Local Bodies may enter into complex arrangements for the delivery of services, which may or may not include leases of assets. These arrangements are discussed in paragraphs 25 to 27.

6. This Standard does not apply to (a) lease agreements to explore for or use natural resources such as oil, gas, timber, metals, and other mineral rights, and (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights. This is because these types of agreements have the potential to raise complex accounting issues that need to be addressed separately.

[3] Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

7. This Standard does not apply to investment property. Investment properties are measured in accordance with the provisions of ASLB 16.

Definitions

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

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).

Contingent rent is that portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).

Economic life is either:

(a) ***The period over which an asset is expected to yield economic benefits or service potential to one or more users; or***

(b) ***The number of production or similar units expected to be obtained from the asset by one or more users.***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Gross investment in the lease is the aggregate of:

(a) ***The minimum lease payments receivable by the lessor under a finance lease; and***

(b) ***Any unguaranteed residual value accruing to the lessor.***

***Guaranteed residual value* is:**

(a) ***For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and***

(b) ***For a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.***

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

(a) ***A lease is classified as either an operating or a finance lease; and***

(b) ***In the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.***

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

(a) ***The minimum lease payments; and***

(b) ***The unguaranteed residual value***

to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

The lease term is the non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the

lease it is reasonably certain that the lessee will exercise the option.

The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

Minimum lease payments are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

(a) ***For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or***

(b) ***For a lessor, any residual value guaranteed to the lessor by:***

(i) ***The lessee;***

(ii) ***A party related to the lessee; or***

(iii) ***An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.***

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

A non-cancelable lease is a lease that is cancelable only:

(a) ***Upon the occurrence of some remote contingency;***

(b) ***With the permission of the lessor;***

(c) ***If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or***

(d) ***Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.***

An operating lease is a lease other than a finance lease.

Unearned finance revenue is the difference between:

(a) ***The gross investment in the lease; and***

(b) ***The net investment in the lease.***

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Useful life is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

Terms defined in other Accounting Standards for Local Bodies (ASLBs) are used in this Standard with the same meaning as in those other Standards.

Changes in Lease Payments between the Inception of the Lease and the Commencement of the Lease Term

9. A lease agreement or commitment may include a provision to adjust the lease payments (a) for changes in the construction or acquisition cost of the leased property, or (b) for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes should be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Hire Purchase Contracts

10. The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the

asset upon the fulfillment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Incremental Borrowing Rate of Interest

11. Where an entity has borrowings that are guaranteed by the government, the determination of the lessee's incremental borrowing rate of interest reflects the existence of any government guarantee and any related fees. This will normally lead to the use of a lower incremental borrowing rate of interest.

Classification of Leases[4]

12. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of (a) losses from idle capacity, technological obsolescence, or (b) changes in value because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life, and of gain from appreciation in value or realisation of a residual value.

13. ***A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.***

14. Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

15. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations that individually or in

[4] Paragraphs 12 to 18 relating to classification of leases are not applicable to leases of Land or/ and Building as all leases of land or/ and building are to be classified as operating leases.

combination would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

(a) The lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) The lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) The leased assets are of such a specialised nature that only the lessee can use them without major modifications; and

(f) The leased assets cannot easily be replaced by another asset.

16. Other indicators that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

(c) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

17. The examples and indicators in paragraphs 15 and 16 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case (a) if ownership of the asset transfers at the end of the lease for

a variable payment equal to its then fair value, or (b) if there are contingent rents as a result of which the lessee does not have substantially all such risks and rewards.

18. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs 12 - 17 if the changed terms had been in effect at the inception of the lease, the revised agreement is regarded as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property) or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

19-20. [Deleted]

20A-24. [Refer to Appendix 1]

Example: (a) The lease term is for the major part of the economic life of the asset even if title is not transferred;

(b) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset

Local Body takes a sewage plant on lease on Jan 1, 20XX. Details are as under:

Fair value of plant is ₹ 1,00,000/-

Useful life of plant: 6 years

Annual lease payment ₹ 26,380/-

Term of lease: 5 years

Implicit Interest Rate : 12%

Annuity factor (5 years for 12%)=3.604776

Solution:

Present value of minimum lease payment is calculated as follows:

Annual Lease payment*annuity factor

26,380*3.604776 = 95,094

Analysis:

Criteria (a): the lease has been entered into for 5 years which is the 83% (i.e., for significant part of the useful life of the plant), hence, criteria (a) above is met.

Criteria (b): when the Present value of minimum lease payment is substantially all of the fair value of leased asset at the inception of lease, criteria (b) above is met. In this example, Present value of minimum lease payment is ₹ . 95,094/- which is almost 95% (substantially all of the Fair value of the plant).

Leases and Other Contracts

25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate, and/or transfer assets. Local Bodies often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. Other agreements may involve a local body leasing infrastructure from the private sector. The entity determines whether the arrangement is a service concession arrangement, as defined in ASLB 32, '*Service Concession Arrangements: Grantor'.*

26. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with ASLB 32 and the arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.

27. Local Bodies may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether a service concession arrangement as defined in ASLB 32 or a lease, as defined by this Standard, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen this standard is applied; if a lease has not arisen, entities account for those agreements by applying the provisions of other relevant ASLBs.

Leases in the Financial Statements of Lessees

Finance Leases

28. ***At the commencement of the lease term, lessees should recognise assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their balance sheet. The assets and liabilities should be recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.***

29. Transactions and other events are accounted for and presented in accordance with their substance and financial reality, and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.

30. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the financial statements at the same amounts, except for any initial direct costs of the lessee that are added to the amount recognised as an asset.

31. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.

32. If, for the presentation of liabilities on the face of the balance sheet, a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

33. Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

34. ***Minimum lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents should be charged as expenses in the period in which they are incurred.***

35. In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

36. ***A finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy for depreciable leased assets should be consistent with that for depreciable assets that are owned, and the depreciation recognised should be calculated in accordance with ASLB 17, 'Property, Plant and Equipment', and ASLB 31, 'Intangible Assets', as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.***

37. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term or its useful life.

38. The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments

payable for the period, and it is therefore inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.

39. To determine whether a leased asset has become impaired, an entity applies relevant impairment tests in accordance with ASLB 21, '*Impairment of Non-Cash-Generating Assets*' and ASLB 26, '*Impairment of Cash-Generating Assets*'.

40. ***Lessees should disclose the following for finance leases:***

(a) ***For each class of asset, the net carrying amount at the reporting date;***

(b) ***A reconciliation between the total of future minimum lease payments at the reporting date, and their present value;***

(c) ***In addition, an entity should disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:***

(i) ***Not later than one year;***

(ii) ***Later than one year and not later than five years; and***

(iii) ***Later than five years;***

(d) ***Contingent rents recognised as an expense in the period;***

(e) ***The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date; and***

(f) ***A general description of the lessee's material leasing arrangements including, but not limited to, the following:***

(i) ***The basis on which contingent rent payable is determined;***

(ii) ***The existence and terms of renewal or purchase options and escalation clauses; and***

(iii) ***Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of***

capital contributions, additional debt, and further leasing.

41. In addition, the requirements for disclosure in accordance with ASLB 16, '*Investment Property*', ASLB 17, '*Property, Plant and Equipment*', ASLB 21, '*Impairment of Non-Cash-Generating Assets*', ASLB 26, '*Impairment of Cash-Generating Assets*', and ASLB 31, '*Intangible Assets*' are applied to the amounts of leased assets under finance leases that are accounted for by the lessee as acquisitions of assets.

Operating Leases

42. ***Lease payments under an operating lease should be recognised as an expense on a straight-line basis over the lease term, unless either:***

    (a) ***Another systematic basis is representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or***

    (b) ***The payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.***

43. For operating leases, lease payments (including initial direct costs and excluding costs for services) are recognised as an expense on a straight-line basis, unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

43A. Initial direct costs are often incurred by lessee in negotiating and securing operating leasing arrangements and are added to the lease payments. However, costs for services such as insurance and maintenance are excluded from lease payments.

44. ***Lessees should disclose the following for operating leases:***

    (a) ***The total of future minimum lease payments under non-cancelable operating leases for each of the following periods:***

        (i) ***Not later than one year;***

(ii) ***Later than one year and not later than five years; and***

(iii) ***Later than five years;***

(b) ***The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;***

(c) ***Lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and***

(d) ***A general description of the lessee's significant leasing arrangements including, but not limited to, the following:***

(i) ***The basis on which contingent rent payments are determined;***

(ii) ***The existence and terms of renewal or purchase options and escalation clauses; and***

(iii) ***Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, additional debt, and further leasing.***

Leases in the Financial Statements of Lessors

Finance Leases

45. This Standard describes the treatment of finance revenue earned under finance leases. The term "manufacturer or trader lessor" is used in this Standard to refer to all entities that manufacture or trade assets and also act as lessors of those assets, regardless of the scale of their leasing, trading, and manufacturing activities. With respect to an entity that is a manufacturer or trader lessor, the Standard also describes the treatment of gains or losses arising from the transfer of assets.

46. Local Bodies may enter into finance leases as a lessor under a variety of circumstances. Some local bodies may trade assets on a regular basis. For example, local bodies may create special purpose entities that are responsible for the central procurement of assets and supplies for all other entities. Centralisation of the purchasing function may provide greater opportunity to obtain trade discounts or other favorable

conditions. In some cases, a central purchasing entity may purchase items on behalf of other entities, with all transactions being conducted in the name of the other entities. In other cases, a central purchasing entity may purchase items in its own name, and its functions may include:

(a) Procuring assets and supplies;

(b) Transferring assets by way of sale or finance lease; and/or

(c) Managing a portfolio of assets, such as a motor vehicle fleet, for use by other entities, and making those assets available for short or long term lease, or purchase.

47. Other local bodies may enter into lease transactions on a more limited scale and at less frequent intervals. In particular, in some cases entities that have traditionally owned and operated infrastructure assets such as roads, dams, and water treatment plants are no longer automatically assuming complete ownership and operational responsibility for these assets. Local Bodies may transfer existing infrastructure assets to private sector entities by way of sale or by way of finance lease. In addition, local bodies may construct new long-lived physical and infrastructure assets in partnership with private sector entities, with the intention that the private sector entity will assume responsibility for the assets by way of outright purchase or by way of finance lease once they are completed. In some cases, the arrangement provides for a period of control by the private sector before reversion of title and control of the asset to the local body — for example, a local body may lease the facility of water treatment plant to a private sector company for a period of twenty years, after which time the facility reverts to public control.

48. ***Lessors should recognise lease payments receivable under a finance lease as assets in their balance sheet. They should present such assets as a receivable at an amount equal to the net investment in the lease.***

49. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance revenue to reimburse and reward the lessor for its investment and services.

Initial Recognition

50. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees, and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads, such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable, and reduce the amount of revenue recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease, are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease, and are recognised as an expense when the gain or loss on sale is recognised, which for a finance lease is normally at the commencement of the lease term.

51. ***The recognition of finance revenue should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.***

52. A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the accounting period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

53. Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the revenue allocation over the lease term is revised, and any reduction in respect of amounts already accrued is recognised immediately.

54. ***Manufacturer or trader lessors should recognise gains or losses on sale of assets in the period, in accordance with the policy followed by the entity for outright sales.***

55. ***If artificially low rates of interest are quoted, any gains or losses on sale of assets should be restricted to what would apply if a market rate of interest were charged. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease should be recognised as an expense when the gain or loss is recognised.***

56. Local Bodies that manufacture or trade assets may offer to potential purchasers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or trader lessor gives rise to two types of revenue:

    (a) The gain or loss equivalent to the gain or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

    (b) The finance revenue over the lease term.

57. The sales revenue recognised at the commencement of the lease term by a manufacturer or trader lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a commercial rate of interest. The cost of sale of an asset recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property, less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the gain or loss on sale which is recognised in accordance with the entity's policy for outright sales.

58. Manufacturer or trader lessors may sometimes offer customers lower rates of interest than their normal lending rates. The use of such a rate would result in an excessive portion of the total revenue from the transaction being recognised at the time of sale. If artificially low rates of interest are quoted, revenue recognised as gain or loss on sale is restricted to what would apply if the entity's normal lending rate for that type of transaction were charged.

59. Initial direct costs are recognised as an expense at the commencement of the lease term because they are mainly related to earning the manufacturer's or trader's gain or loss on sale.

60. ***Lessors should disclose the following for finance leases:***

    (a) ***A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity should disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:***

        (i) ***Not later than one year;***

        (ii) ***Later than one year and not later than five years; and***

        (iii) ***Later than five years;***

    (b) ***Unearned finance revenue;***

    (c) ***The unguaranteed residual values accruing to the benefit of the lessor;***

    (d) ***The accumulated allowance for uncollectible minimum lease payments receivable;***

    (e) ***Contingent rents recognised in the income and expenditure statement; and***

    (f) ***A general description of the lessor's material leasing arrangements.***

61. As an indicator of growth in leasing activities it is often useful to also disclose the gross investment less unearned revenue in new operation added during the accounting period, after deducting the relevant amounts for canceled leases.

Operating Leases

62. ***Lessors should present assets subject to operating leases in their balance sheet according to the nature of the asset.***

63. ***Lease revenue from operating leases should be recognised as revenue on a straight-line basis over the lease term, unless either:***

    (a) ***another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished, even if the payments to the lessors are not on that basis; or***

    (b) ***the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.***

64. Costs, including depreciation, incurred in earning the lease revenue are recognised as an expense. Lease revenue (excluding receipts for services provided such as insurance and maintenance) is recognised as revenue on a straight line basis over the lease term, even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

65. ***Initial direct costs incurred by lessors in negotiating and arranging an operating lease should be added to the carrying amount of the leased asset, and recognised as an expense over the lease term on the same basis as the lease revenue.***

66. ***The depreciation policy for depreciable leased assets should be consistent with the lessor's normal depreciation policy for similar assets, and depreciation should be calculated in accordance with ASLB 17 or ASLB 31, as appropriate.***

67. To determine whether a leased asset has become impaired, an entity applies relevant impairment tests in accordance with ASLB 21, '*Impairment of Non-Cash-Generating Assets*' and ASLB 26, '*Impairment of Cash-Generating Assets*'.

68. A manufacturer or trader lessor does not recognise any gain on sale on entering into an operating lease because it is not the equivalent of a sale.

69. ***Lessors should disclose the following for operating leases:***

(a) ***The future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods:***

(i) ***Not later than one year;***

(ii) ***Later than one year and not later than five years; and***

(iii) ***Later than five years;***

(b) ***Total contingent rents recognised in the income and expenditure statement in the period; and***

(c) ***A general description of the lessor's leasing arrangements.***

Sale and Leaseback Transactions

70. A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent, because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

71. ***If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should not be immediately recognised as revenue by a seller-lessee. Instead, it should be deferred and amortised over the lease term.***

72. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason, it is not appropriate to regard an excess of sales proceeds over the carrying amount as revenue. Such excess is deferred and amortised over the lease term.

73. ***If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss should be recognised immediately. If the sale price is below fair value, any gain or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and***

amortised over the period for which the asset is expected to be used.

74. If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any gain or loss is recognised immediately.

75. ***For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.***

76. For finance leases, no such adjustment is necessary unless (a) there has been an impairment in value, and (b) that impairment is required to be recognised in accordance with ASLB 21, '*Impairment of Non-Cash-Generating Assets*' and ASLB 26, '*Impairment of Cash-Generating Assets*' that has been adopted by the entity.

77. Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of the material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

78. Sale and leaseback transactions may be required to be separately disclosed in accordance with ASLB 1, '*Presentation of Financial Statements*'.

79-80. [Deleted]

81-87. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 13.

Classification of a Lease[5]

IG1. The objective of the chart on the next page is to assist in classifying a lease as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

IG2. The examples contained in this chart do not necessarily reflect all possible situations in which a lease may be classified as a finance lease, nor should a lease necessarily be classified as a finance lease by virtue of the route followed in this chart. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract (paragraph 15).

IG3. In the flowchart, the numbers in parentheses refer to paragraph numbers in this Standard.

[5] Paragraphs 12 to 18 relating to classification of leases are not applicable to leases of Land or/ and Building as all leases of land or/ and building are to be classified as operating leases.

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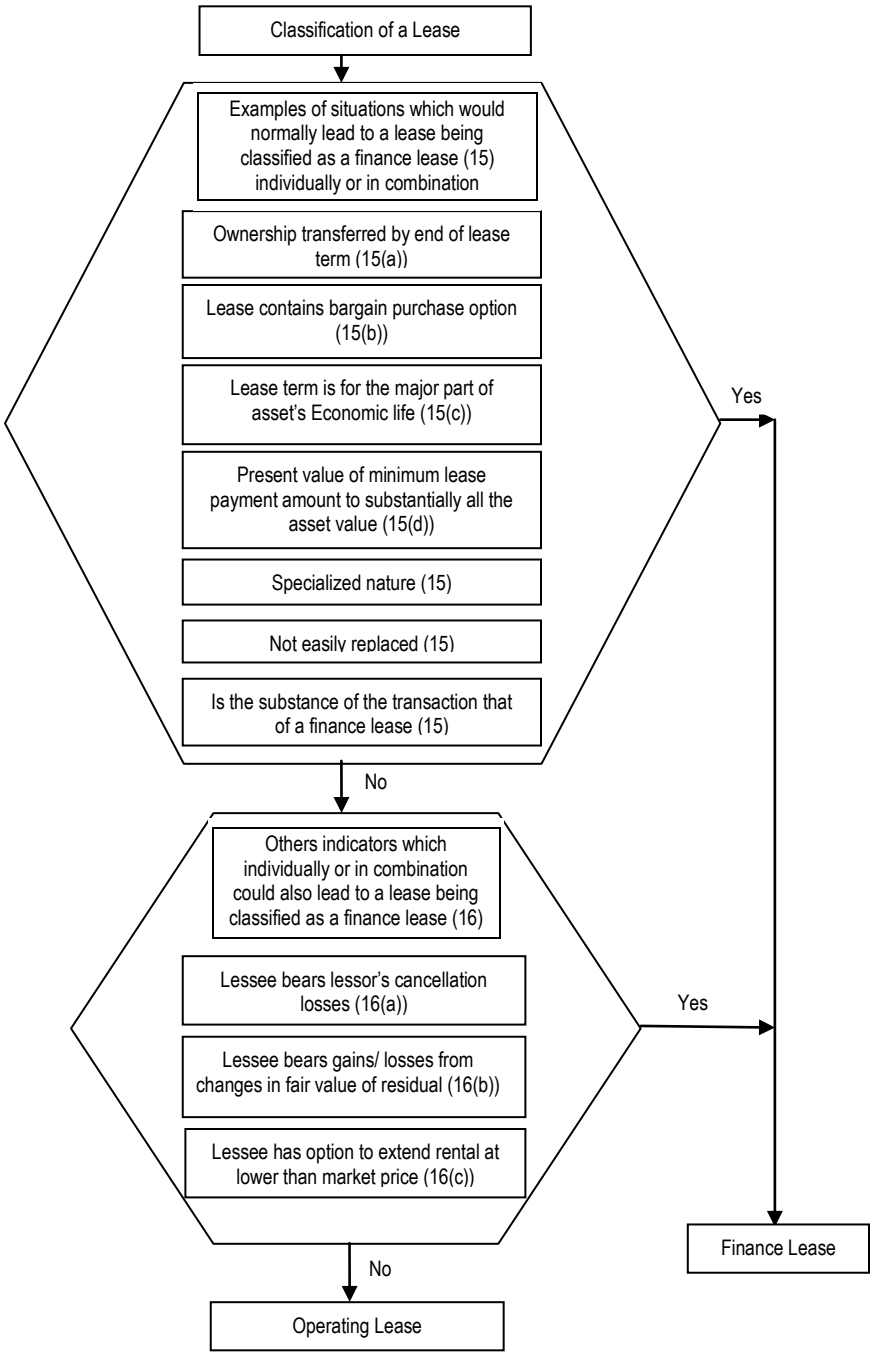
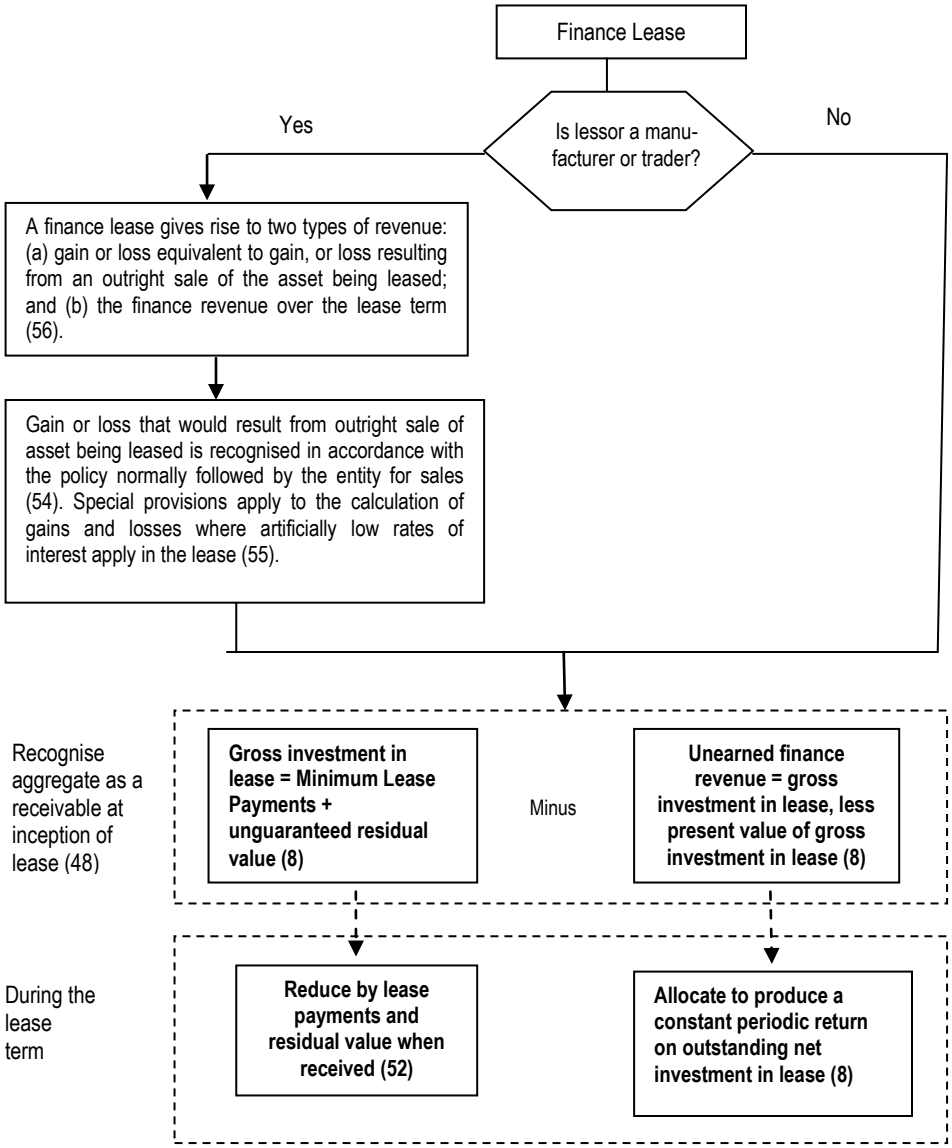

Classification of a Lease
Examples of situations which would normally lead to a lease being classified as a finance lease (15) individually or in combination
Ownership transferred by end of lease term (15(a))
Lease contains bargain purchase option (15(b))
Lease term is for the major part of asset's Economic life (15(c))
Present value of minimum lease payment amount to substantially all the asset value (15(d))
Specialized nature (15)
Not easily replaced (15)
Is the substance of the transaction that of a finance lease (15)
Yes
No
Others indicators which individually or in combination could also lead to a lease being classified as a finance lease (16)
Lessee bears lessor's cancellation losses (16(a))
Lessee bears gains/ losses from changes in fair value of residual (16(b))
Lessee has option to extend rental at lower than market price (16(c))
Yes
No
Finance Lease
Operating Lease

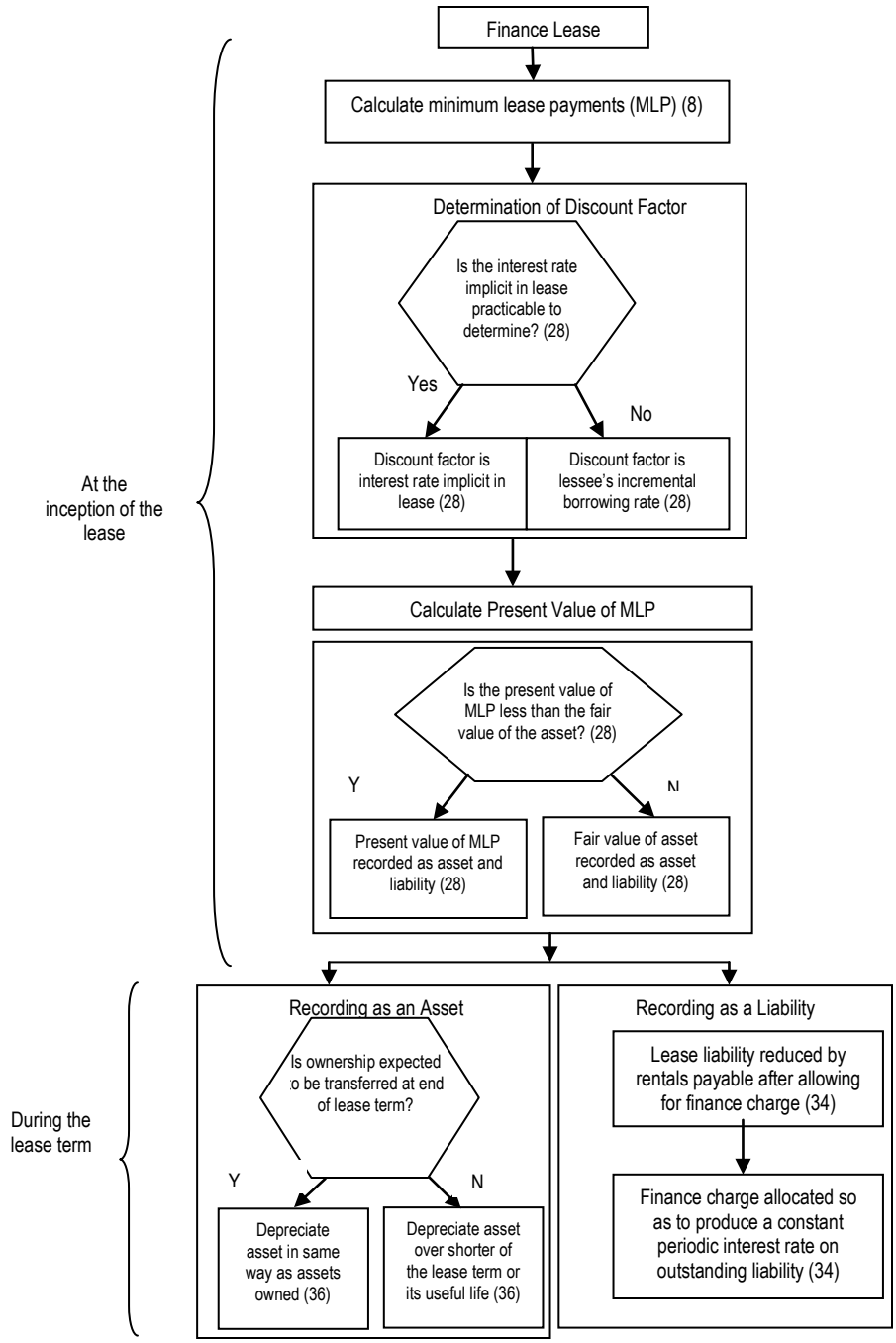
Accounting for a Finance Lease by a Lessor

IG4. In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.



Accounting for a Finance Lease by a Lessee

IG5. In the flowchart, the numbers in parentheses refer to paragraph numbers in the Standard.


Finance Lease
Calculate minimum lease payments (MLP) (8)
Determination of Discount Factor
Is the interest rate implicit in lease practicable to determine? (28)
Yes
No
Discount factor is interest rate implicit in lease (28)
Discount factor is lessee's incremental borrowing rate (28)
At the inception of the lease
Calculate Present Value of MLP
Is the present value of MLP less than the fair value of the asset? (28)
Y
N
Present value of MLP recorded as asset and liability (28)
Fair value of asset recorded as asset and liability (28)
During the lease term
Recording as an Asset
Is ownership expected to be transferred at end of lease term?
Y
N
Depreciate asset in same way as assets owned (36)
Depreciate asset over shorter of the lease term or its useful life (36)
Recording as a Liability
Lease liability reduced by rentals payable after allowing for finance charge (34)
Finance charge allocated so as to produce a constant periodic interest rate on outstanding liability (34)

Sale and Leaseback Transactions that Result in Operating Leases

A sale and leaseback transaction that results in an operating lease may give rise to a gain or a loss, the determination and treatment of which depends upon the leased asset's carrying amount, fair value, and selling price. The table on the following page shows the requirements of this Standard in various circumstances.

Sale price established at fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	no gain	recognise gain immediately	no gain
Loss	no loss	no loss	recognise loss immediately

Sale price below fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	no gain	recognise gain immediately	no gain (note 1)
Loss <u>not</u> compensated by future lease payments at below market price	recognise loss immediately	recognise loss immediately	(note 1)

Loss compensated by future lease payments at below market price	defer and amortise loss	defer and amortise loss	(note 1)

Sale price above fair value (paragraph 65)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	defer and amortise gain	defer and amortise gain (note 2)	defer and amortise gain (note 3)
Loss	no loss	no loss	(note 1)

Notes

1 These parts of the table represent circumstances that would have been dealt with under paragraph 75 of this Standard. Paragraph 75 requires the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.

2 If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used (paragraph 73).

3 The gain would be the difference between fair value and sale price, as the carrying amount would have been written down to fair value in accordance with paragraph 75.

Calculating the Interest Rate Implicit in a Finance Lease

IG7. The Standard (paragraph 28) requires the lessees of assets acquired under finance leases to calculate the interest rate implicit in a lease, where practical. Paragraph 34 requires the lessees to apportion lease

payments between the finance charge and the reduction of the outstanding liability, using the interest rate implicit in the lease. Many lease agreements explicitly identify the interest rate implicit in the lease, but some do not. If a lease agreement does not identify the interest rate implicit in the lease the lessee needs to calculate the rate, using the present value formula. Financial calculators and spreadsheets will automatically calculate the interest rate implicit in a lease. Where these are not available, entities can use the present value formula to manually calculate the rate. This guidance illustrates the following two common methods for calculating the interest rate: trial and error, and interpolation. Both methods use the present value formula to derive the interest rate.

IG8. Derivations of present value formulas are widely available in accounting and finance textbooks. The Present Value (PV) of Minimum Lease Payments (MLP) is calculated by means of the following formula:

$$PV(MLP) = \frac{S}{(1+r)^n} + \frac{A}{r}\left[1 - \frac{1}{(1+r)^n}\right].$$

Where:

"S" is the guaranteed residual value

"A" is the regular periodical payment

"r" is the periodic interest rate implicit in the lease expressed as a decimal

"n" is the number of periods in the term of the lease

Example

IG8. Department X enters into an agreement to acquire a motor vehicle on a finance lease. The fair value of the motor vehicle at the inception of the lease is ₹ 25,000; the annual lease payments are ₹ 5,429 payable in arrears; the lease term is four years; and the guaranteed residual value is ₹ 10,000. The lease agreement does not provide for any services additional to the supply of the motor vehicle. Department X is responsible for all the running costs of the vehicle, including insurance, fuel, and maintenance. The lease agreement does not specify the interest rate implicit in the lease. The Department's

incremental borrowing rate is 7% per annum. Several financial institutions are advertising loans secured by motor vehicles at rates varying between 7.5% and 10%.

Trial and Error Method

IG9. The calculation is an iterative process – that is, the lessee must make a "best guess" of the interest rate and calculate the present value of the minimum lease payments and compare the result to the fair value of the leased asset at the inception of the lease. If the result is less than the fair value, the interest rate selected was too high; if the result is greater than the fair value, the interest rate selected was too low. The interest rate implicit in a lease is the rate used when the present value of the minimum lease payments is equal to the fair value of the leased asset at the inception of the lease.

IG10. Department X would begin calculations using a best estimate – for example, its incremental borrowing rate of 7% per annum, which is too low. It would then use the maximum feasible rate – for example, the 10% per annum rate offered for loans secured by a motor vehicle, which would prove too high. After several calculations, it would arrive at the correct rate of 8.5% per annum.

IG11. To calculate the interest rate, the Department uses the PV(MLP) formula above, where:

S = 10,000 n = 4 r = Annual interest rate expressed as a decimal

A = 5,429 Target PV(MLP) = 25,000

IG12. At Department X's incremental borrowing rate of 7% (0.07) per annum (figures are rounded):

$$PV(MLP) = \frac{10{,}000}{(1+0.07)^4} + \frac{5{,}429}{0.07}\left[1 - \frac{1}{(1+0.07)^4}\right]$$

$$= 7{,}629 + 18{,}390$$

$$= 26{,}019$$

IG13. The PV(MLP) using the incremental borrowing rate is greater than the fair value of the leased asset, therefore a higher rate is implicit in the lease. The Department must make calculations at other rates to determine the actual rate (figures are rounded):

PV(MLP) at 7.5%	= 25,673	Interest rate too low
PV(MLP) at 10%	= 24,040	Interest rate too high
PV(MLP) at 9%	= 24,674	Interest rate too high
PV(MLP) at 8%	= 25,333	Interest rate too low
PV(MLP) at 8.5%	= 25,000	Correct interest rate

IG14. The Department will now use the interest rate of 8.5% to apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Interpolation Method

IG15. Calculating the interest rate implicit in a lease requires lessees to initially calculate the present value for an interest rate that is too high, and one that is too low. The differences (in absolute terms) between the results obtained and the actual net present value are used to interpolate the correct interest rate. Using the data provided above, and the results for 7% and 10%, the actual rate can be interpolated as follows (figures are rounded):

PV at 7% = 26,019, difference = 1,019 (i.e., 26,019 – 25,000)

PV at 10% = 24,040, difference = 960 (i.e., 24,040 – 25,000)

$$r = 7\% + (10\% - 7\%) \frac{1{,}019}{(1{,}019 + 960)}$$

$$= 7\% + (3\% \times 0.5)$$

$$= 7\% + 1.5\%$$

$$= 8.5\%$$

IG16. Department X will now use the interest rate of 8.5% to record the lease in its books and apportion the lease payments between the finance charge and the reduction of the lease liability, as shown in the table below.

Apportionment of Lease Payment (figures are rounded)

	Year 0	Year 1	Year 2	Year 3	Year 4
Opening PV of Lease Liability	25,000	25,000	21,696	18,110	14,221
Interest Expense	–	2,125	1,844	1,539	1,209
Reduction of Liability	–	3,304	3,585	3,890	14,221*
Closing Lease Liability	25,000	21,696	18,110	14,221	–

* Includes payment of guaranteed residual value.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 13 and the corresponding International Public Sector Accounting Standard (IPSAS) 13, 'Leases'.

Comparison with IPSAS 13, *'Leases'*

1. Different terminologies have been used in the ASLB 13 as compared to corresponding IPSAS 13, e.g., the terms 'balance sheet', 'entities' and 'income and expenditure statement' have been used in place of 'statement of financial position', 'public sector entities' and 'statement of financial performance'.

2. The following paragraphs of IPSAS 13 have been deleted. In order to maintain consistency with the corresponding IPSAS 13, the paragraph numbers have been retained:

   (i) Paragraphs 20A-24 have been deleted as a consequence of the departure in the ASLB 13 pursuant to which all the leases of the land or/and buildings are to be treated as operating leases. The lease classification criteria given in the Standard is not to be applied to the lease of land and/ or buildings.

   (ii) Paragraphs 80A-C pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time adoption of Accrual basis ASLBs*' has been issued that contains all transitional provisions at one place.

   (iii) Paragraphs 85-87 pertaining to effective date have been deleted as ASLBs would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

3. Paragraph 3 of IPSAS 13 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

4. The following paragraphs appear as 'Deleted' in IPSAS 13. In order to maintain consistency with paragraph number of IPSAS 13, this paragraph number has been retained in ASLB 13.

   (i) Paragraph 4,

   (ii) Paragraph 19,

   (iii) Paragraph 20,

   (iv) Paragraph 79, and

   (v) Paragraph 80.

5. The following paragraphs of IPSAS 13 have been amended to make the same more relevant in the context of entities, i.e., Local Bodies in India to whom the ASLB is applicable:

   (i) Scope paragraph has been amended as ASLB 13 proposes to consider all leases of land and/or buildings as operating leases.

   (ii) Paragraph 8: The term 'fair value' has been defined additionally for more clarification within the Standard.

   (iii) Provisions pertaining to payment of dividends or similar distribution do not seem to be relevant in the context of entities, i.e., Local Bodies in India to whom the ASLB is applicable. Therefore, the same have been deleted. (refer paragraphs 40(f)(iii) & 44(d)(iii)).

   (iv) ASLB 13 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases should not be straight lined. IPSAS 13 does not provide for the same (paragraph 42 and 63).

   (v) Paragraph 43A has been inserted to clarify that initial direct costs incurred by lessee in negotiating and security operating lease are to be added in lease payments. IPSAS 13 does not provide the same.

6. Consequential changes resulting from the above departures have been made in the ASLB 13.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 13 and the existing Accounting Standard (AS) 19, 'Leases' issued by the Institute of Chartered Accountants of India.

Comparison with Existing AS 19, *'Leases'*

1. Different terminologies have been used in the ASLB 13 as compared to the existing AS 19, e.g., the terms 'income and expenditure statement' and 'trader lessor' have been used in place of 'profit and loss account' and 'dealer lessor'.
2. As per the ASLB 13, all leases of land or/and buildings are within the scope of ASLB 13 and all such leases are to be treated as operating leases. However, the lease agreements to use lands are excluded from its scope from existing AS 9 and the lease of the buildings may be operating or finance as per the criteria prescribed in the existing AS 19.
3. ASLB 13 prescribes when an entity has borrowings that are guaranteed by the government then in that case the lessee's incremental borrowing rate of interest will be lower due to existence of any government guarantee and any related fees. However, existing AS 19 does not provide the same.
4. Existing AS 19 provides that in case of sale and leaseback transaction that results in a finance lease, any excess of sales proceeds over the carrying amount should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset. ASLB 13 retains the deferral and amortisation principle, it does not specify any method of amortisation.
5. Existing AS 19 provides certain exemptions in respect of the disclosure requirements to a small and medium sized company/ enterprises. However, no such exemptions are provided to any local body in the ASLB 13.
6. ASLB 13 requires that in case of operating lease, where escalation of lease rentals is in line with the expected general inflation so as to

compensate the lessor for expected inflationary cost increases should not be straight lined. Existing AS 19 does not provide for the same.

7. ASLB 13 also clarifies that initial direct costs incurred by lessee in negotiating and security operating lease are to be added in lease payments. Existing AS 19 does not provide for the same.

8. Appendices and Implementation Guidance in the ASLB 13 are more reflective of the circumstances of the Local Bodies.

Accounting Standard for Local Bodies (ASLB) 16
Investment Property

Contents

Accounting Standard for Local Bodies (ASLB) 16 Investment Property

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 16, *'Investment Property'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investment property.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[3].***

4. [Deleted]

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'*.

5. This Standard applies to accounting for investment property, including the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This Standard does not deal with matters covered in ASLB 13, '*Leases'*, including:

   (a) Classification of leases as finance leases or operating leases[4];

   (b) Recognition of lease revenue from investment property (see also ASLB 9, '*Revenue from Exchange Transactions'*);

   (c) Measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

   (d) [Refer to Appendix 1];

   (e) Accounting for sale and leaseback transactions; and

   (f) Disclosure about finance leases and operating leases.

6. This Standard does not apply to:

   (a) Biological assets, i.e., living animals or plants, related to agricultural activity ; and

   (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Definitions

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

   Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognised in the balance sheet.

   Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

[4] As per ASLB 13, '*Leases*', all leases of land or/and buildings are to be treated as operating leases.

<u>Investment property</u> is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:

(a) ***Use in the production or supply of goods or services, or for administrative purposes; or***

(b) ***Sale in the ordinary course of operations.***

<u>Owner-occupied property</u> is property held (by the owner) for use in the production or supply of goods or services, or for administrative purposes.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

8. [Refer to Appendix 1]

Investment Property

9. In certain circumstances, local bodies may not hold the property with the intention of earning rentals. For example, a local body has set up a shopping complex in order to provide shops to the street hawkers at a very nominal rent. Intention of the local body here appears to be more of providing service to the weaker section of the society rather than earning rentals. Therefore, the said property may not be classified as Investment Property but as an item of property governed under ASLB 17, '*Property, Plant and Equipment'*. However, there may be other circumstances in which the entities may hold property to earn rental. For example, a local body may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to provide social services. This property would meet the definition of investment property. Similarly, in some cases local bodies may intentionally take the benefit of capital appreciation. For example, a Local Body auctioned a high-end shopping mall for lease/rental and charged a lump sum amount which is determined by market price. After the expiry of the lease term, the auction is repeated. In this case, the local body gets the benefit of capital appreciation. Therefore, such a property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property.

10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the supply or production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. ASLB 17, '*Property, Plant, and Equipment*', applies to owner-occupied property.

11. In some cases, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a local body may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognises the property in its financial statements.

12. The following are examples of investment property:

    (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a municipal dispensary that may be sold at a beneficial time in the future.

    (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by municipal parks to current and future generations, or for rentals in the ordinary course of operations, the land is regarded as held for earning rentals).

    (c) A building owned by the entity and leased out under one or more operating leases on a commercial basis. For example, local bodies may own shopping malls that it leases on a commercial basis to external parties.

    (d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

(e) Property that is being constructed or developed for future use as investment property.

13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:

(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see ASLB 12, '*Inventories*'). For example, a local body may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

(b) Property being constructed or developed on behalf of another governmental body. For example, a housing department may enter into construction contracts with another governmental body (see ASLB 11, '*Construction Contracts*').

(c) Owner-occupied property (see ASLB 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for local body's personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [Deleted]

(e) [Refer to Appendix 1]

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such

property is not considered an 'investment property' and would be accounted for in accordance with ASLB 17.

(g) Property held for strategic purposes which would be accounted for in accordance with ASLB 17.

14. In many cases, entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property. However, where an entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, entities hold some property that comprises (a) a portion that is held to earn rentals or for capital appreciation rather than to provide services, and (b) another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a local body may own a building, part of which is used for administrative purposes, and part of which is leased out on a commercial basis. If these portions could be sold separately, an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

15. In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example is when a local body agency (a) owns an office building that is held exclusively for rental purposes and rented on a commercial basis, and (b) also provides security and maintenance services to the lessees who occupy the building.

16. In other cases, the services provided are significant. For example, an entity may own a guest house that it manages through its general property management agency. The services provided to guests are significant to the arrangement as a whole. Therefore, an owner-managed guest house is owner-occupied property, rather than investment property.

17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a local body or local body agency that is the owner of a

guest house may transfer some responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the local body's or local body agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the local body or local body agency may simply have outsourced day-to-day functions, while retaining significant exposure to variation in the cash flows generated by the operations of the guest house.

18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property, and with the related guidance in paragraphs 9–17. Paragraph 86(c) requires an entity to disclose these criteria when classification is difficult.

18A. Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or an entity combination within the scope of ASLB 40, '*Entity Combinations*[5]'. Reference should be made to ASLB 40 to determine whether it is an entity combination. The discussion in paragraphs 9-18 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is an entity combination as defined in ASLB 40. Determining whether a specific transaction meets the definition of an entity combination as defined in ASLB 40 and includes an investment property as defined in this Standard requires the separate application of both Standards.

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a local body establishes a

[5] ASLB on this subject is yet to be formulated.

property management entity to manage local body's office buildings. The buildings are then leased out to other controlled entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the local body, the property would be accounted for as property, plant, and equipment in accordance with ASLB 17.

Recognition

20. ***Investment property should be recognised as an asset when, and only when:***

    (a) ***It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and***

    (b) ***The cost of the investment property can be measured reliably[6] except for an investment property acquired through non-exchange transaction that is to be accounted in accordance with paragraph 27.***

21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset, and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognised.

22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph 27 of this Standard,

[6] Information that is reliable is free from material errors and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

an investment property acquired through non-exchange transaction is measured at nominal value of Re. 1/-.

23. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred to make it fit for use. These costs include costs incurred initially to acquire an investment property, and costs incurred subsequently to add to, replace part of, or service a property.

24. Under the recognition principle in paragraph 20, an entity does not recognise in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognised in surplus or deficit as incurred. Costs of day-to-day servicing of a property are primarily the costs of labour and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the repairs and maintenance of the property.

25. Parts of investment property may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognises in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard.

Measurement at Recognition

26. ***Investment property should be measured initially at its cost (transaction costs should be included in this initial measurement).***

27. ***Where an investment property is acquired through a non-exchange transaction, its cost should be measured at its nominal value[7] of Re. 1/-.***

28. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable

[7] The corresponding credit head is to be determined as per the principles of the ASLB 23 *'Revenue from Non-exchange Transactions'*.

expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs.

29. [Deleted]

30. The cost of investment property is not increased by:

    (a) Start-up costs (unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management);

    (b) Operating losses incurred before the investment property achieves the planned level of occupancy; or

    (c) Abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

31. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit.

32. An investment property may be acquired through a non-exchange transaction. For example, a local body may transfer at no charge a surplus office building to another entity, which then lets it out at market rent. An investment property may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. In these circumstances, the property is measured in accordance with paragraph 27.

33. Where an entity initially recognises its investment property in accordance with paragraph 27, the entity should decide subsequent to initial recognition to adopt either the fair value model (paragraphs 42-64) or continue to record the asset at nominal value of Re. 1/-.

34. [Refer to Appendix 1]

35. [Refer to Appendix 1]

36. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the

exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

    (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

    (b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

    (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

    For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction should reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

Measurement after Recognition

Accounting Policy

39. ***With the exception noted in paragraph 43, an entity should choose as its accounting policy either the fair value model in paragraphs 42-64 or the cost model prescribed in paragraph 65, and should apply that policy to all of its investment property.***

40. ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' states that a voluntary change in accounting policy should be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the cost model will result in a more relevant presentation.

41. This Standard requires all entities to determine the fair value of investment property, for the purpose of measurement and disclosure (if the entity uses the fair value model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification[8] and has recent experience in the location and category of the investment property being valued.

Fair Value Model

42. ***After initial recognition, an entity that chooses the fair value model should measure all of its investment property at fair value, except in the cases described in paragraph 62.***

43. *[Refer to Appendix 1]*

44. ***A gain or loss arising from a change in the fair value of investment property should be recognised in surplus or deficit for the period in which it arises.***

45. The fair value of investment property is the price at which the

[8] A valuer should be a person having such qualification, experience and registered as a valuer in such manner as prescribed in the Companies Act, 2013 or any other act/rules applicable to local bodies in India.

property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7). Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

46. An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

47. ***The fair value of investment property should reflect market conditions at the reporting date.***

48. Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (e.g. periodic payments such as contingent rents).

50. [Refer to Appendix 1]

51. The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions at the reporting date. A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not

pay a higher price than a market comprising knowledgeable, willing buyers and sellers would require.

52. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (e.g., a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

53. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

54. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location, or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

55. In the absence of current prices in an active market of the kind described in paragraph 54, an entity considers information from a variety of sources, including:

    (a) Current prices in an active market for properties of different nature, condition, or location (or subject to different lease or other contracts), adjusted to reflect those differences;

    (b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

    (c) Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external

evidence, such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

(d) [Refer to Appendix 1]

56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a range of reasonable fair value estimates.

57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable on a continuing basis (see paragraph 62).

58. Fair value differs from value in use, as defined in ASLB 21, '*Impairment of Non-Cash-Generating Assets*' and ASLB 26, '*Impairment of Cash-Generating Assets*'. Fair value reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors, to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

(a) Additional value derived from the creation of a portfolio of properties in different locations;

(b) Synergies between investment property and other assets;

(c) Legal rights or legal restrictions that are specific only to the current owner; and

(d) Tax benefits or tax burdens that are specific to the current owner.

59. In determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities. For example:

    (a) Equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than recognised separately as property, plant, and equipment.

    (b) If an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognise that furniture as a separate asset.

    (c) The fair value of investment property excludes prepaid or accrued operating lease revenue, because the entity recognises it as a separate liability or asset.

60. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognised liabilities) will exceed the present value of the related cash receipts. An entity applies ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*' to determine whether to recognise a liability and, if so, how to measure it.

Inability to determine Fair Value Reliably

62. ***There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for***

example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it should measure the fair value of that investment property either when its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity should measure that investment property using the cost model in ASLB 17. The residual value of the investment property should be assumed to be zero. The entity should apply ASLB 17 until disposal of the investment property.

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it should measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, in accordance with paragraph 62, the property should be accounted for using the cost model in accordance with ASLB 17.

62B. The presumption that the fair value of investment property under construction can be measured reliably can be rebutted only on initial recognition. An entity that has measured an item of investment property under construction at fair value may not conclude that the fair value of the completed investment property cannot be determined reliably.

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the cost model in accordance with ASLB 17, it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the cost model for one investment property, the entity should continue to account for each of the remaining properties using the fair value model.

64. ***If an entity has previously measured an investment property at fair value, it should continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.***

Cost Model

65. ***After initial recognition, an entity that chooses the cost model should measure all of its investment property in accordance with ASLB 17's requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.***

Transfers

66. ***Transfers to or from investment property should be made when, and only when, there is a change in use, evidenced by:***

    (a) ***Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;***

    (b) ***Commencement of development with a view to sale, for a transfer from investment property to inventories;***

    (c) ***End of owner-occupation, for a transfer from owner-occupied property to investment property; or***

    (d) ***Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.***

    (e) [Deleted]

67. A local body's use of property may change over time. For example, a local body may decide to occupy a building currently used as an investment property, or to convert a building currently used for administrative purposes into a guest house and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as

property, plant, and equipment until its occupation ceased and it is reclassified as an investment property.

68. Paragraph 66(b) requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is de-recognised (eliminated from the balance sheet) and does not treat it as an inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

69. A local body housing department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the local body decided to hold the building for its ability to generate rent revenue and its capital appreciation potential, it would be reclassified as an investment property on commencement of any subsequent operating lease.

70. Paragraph 71-76 apply to when an entity uses recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

71. ***For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with ASLB 17 or ASLB 12, should be its fair value at the date of change in use.***

72. ***If an owner-occupied property becomes an investment property that will be carried at fair value, an entity should apply ASLB 17 up to the date of change in use. The entity should treat any difference at that date between the carrying amount of the***

property in accordance with ASLB 17, and its fair value in the same way as a revaluation in accordance with ASLB 17.

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognises any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with ASLB 17, and its fair value in the same way as a revaluation in accordance with ASLB 17. In other words:

(a) Any resulting decrease in the carrying amount of the property is recognised in surplus or deficit. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus.

(b) Any resulting increase in the carrying amount is treated as follows:

(i) To the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognised.

(ii) Any remaining part of the increase is credited directly to net assets/equity in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in net assets/equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

74. ***For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in surplus or deficit.***

75. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

76. ***When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in surplus or deficit.***

Disposals

77. ***An investment property should be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.***

78. The disposal of an investment property may be achieved by sale. In determining the date of disposal for investment property, an entity applies the criteria in ASLB 9 for recognising revenue from the sale of goods and considers the related guidance in the Implementation Guidance to ASLB 9. ASLB 13 applies to a disposal effected by entering into a sale and leaseback.

78A. An Investment Property should also be derecognised in case it has been declared as heritage property which does not have commercial use or acquired by the Central Government/ State Government for any purpose.

79. If, in accordance with the recognition principle in paragraph 20, an entity recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that part to be replaced has lost its value. In other

cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

80. ***Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and should be recognised in surplus or deficit (unless ASLB 13 requires otherwise on a sale and leaseback) in the period of the retirement or disposal.***

81. The consideration receivable on disposal of an investment property is recognised initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with ASLB 9, using the effective interest method.

82. An entity applies ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*' or other standards, as appropriate, to any liabilities that it retains after disposal of an investment property.

83. ***Compensation from third parties for investment property that was impaired, lost, or given up should be recognised in surplus or deficit when the compensation becomes receivable.***

84. Impairments or losses of investment property, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

    (a) Impairments of investment property are recognised in accordance with ASLB 21 or ASLB 26, as appropriate;

    (b) Retirements or disposals of investment property are recognised in accordance with paragraphs 77–82 of this Standard;

(c) Compensation from third parties for investment property that was impaired, lost, or given up is recognised in surplus or deficit when it becomes receivable; and

(d) The cost of assets restored, purchased, or constructed as replacements is determined in accordance with paragraphs 26–38 of this Standard.

Disclosure

Fair Value Model and Cost Model

85. The disclosures below apply in addition to those in ASLB 13, '*Leases*'. In accordance with ASLB 13, the owner of an investment property provides lessors' disclosures about leases into which it has entered. An entity that holds an investment property under an operating lease provides lessors' disclosures for any operating leases into which it has entered.

86. ***An entity should disclose:***

(a) ***Whether it applies the fair value or the cost model along with justification of using or not using a particular model;***

(b) [Refer to Appendix 1];

(c) ***When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;***

(d) ***The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;***

(e) ***The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and***

has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed;

(f) ***The amounts recognised in surplus or deficit for:***

(i) ***Rental revenue from investment property;***

(ii) ***Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and***

(iii) ***Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.***

(g) ***The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and***

(h) ***Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.***

Fair Value Model

87. ***In addition to the disclosures required by paragraph 86, an entity that applies the fair value model in paragraphs 42–64 should disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:***

(a) ***Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised in the carrying amount of an asset;***

(b) ***Additions resulting from acquisitions through entity combinations;***

(c) ***Disposals;***

(d) ***Net gains or losses from fair value adjustments;***

(e) ***The net exchange differences arising from foreign currency transaction, if applicable;***

(f) ***Transfers to and from inventories and owner-occupied property; and***

(g) ***Other changes.***

88. ***When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 59, the entity should disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the significant adjustments.***

89. ***In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the cost model in ASLB 17, the reconciliation required by paragraph 87 should disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity should disclose:***

(a) ***A description of the investment property;***

(b) ***An explanation of why fair value cannot be determined reliably;***

(c) ***If possible, the range of estimates within which fair value is highly likely to lie; and***

(d) ***On disposal of investment property not carried at fair value:***

(i) ***The fact that the entity has disposed of investment property not carried at fair value;***

(ii) ***The carrying amount of that investment property at the time of sale; and***

(iii) ***The amount of gain or loss recognised.***

Cost Model

90. ***In addition to the disclosures required by paragraph 86, an entity should disclose:***

(a) ***The depreciation methods used;***

(b) ***The useful lives or the depreciation rates used;***

(c) ***The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;***

(d) ***The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:***

(i) ***Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;***

(ii) ***Additions resulting from acquisitions through entity combinations;***

(iii) ***Disposals;***

(iv) ***Depreciation;***

(v) ***The amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with ASLB 21 or ASLB 26, as appropriate;***

(vi) ***The net exchange differences arising from foreign currency transaction, if applicable;***

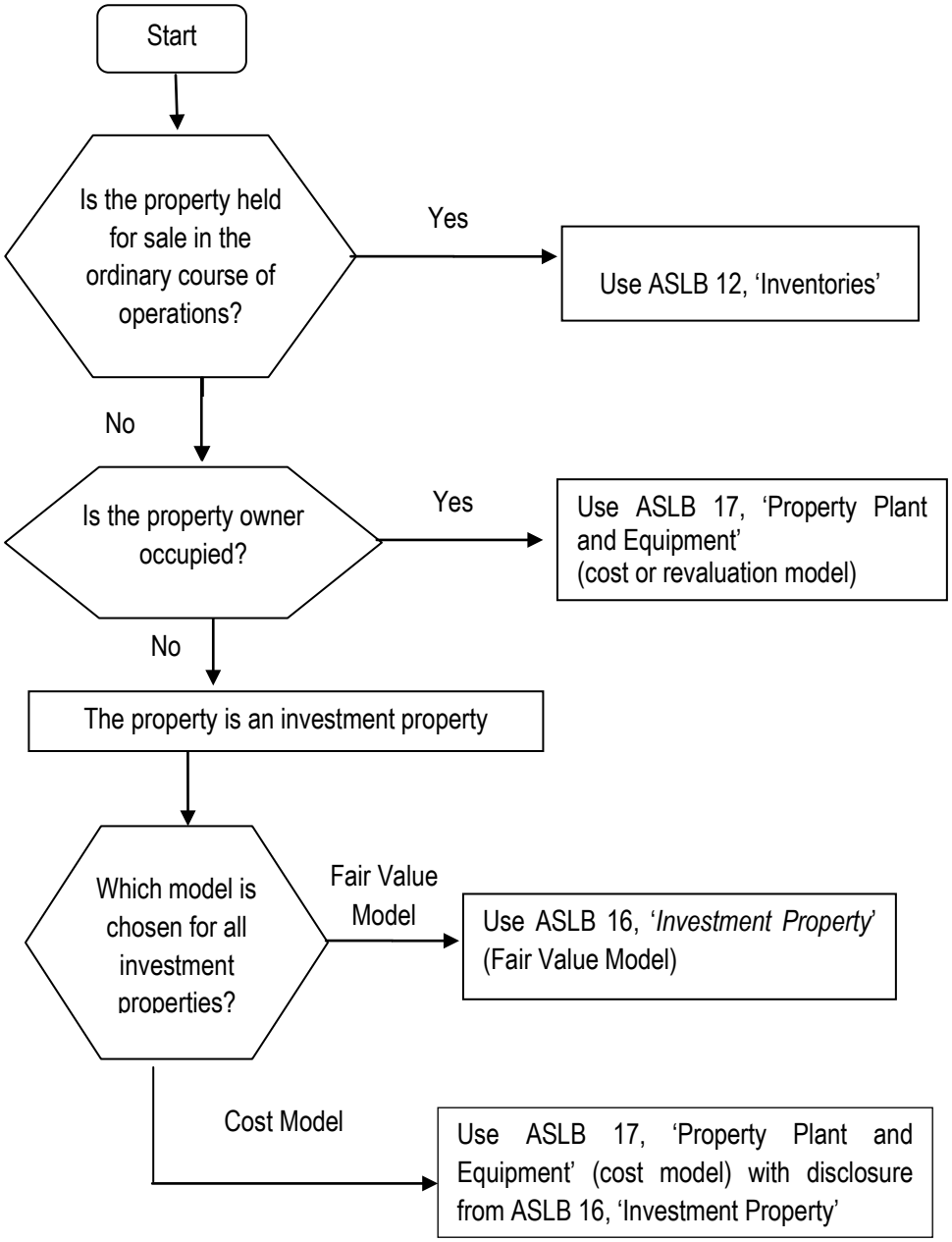
(vii) ***Transfers to and from inventories and owner-occupied property; and***

(viii) ***Other changes.***

91-103. [Refer to Appendix 1]

Illustrative Decision Tree

This decision tree accompanies, but is not part of, ASLB 16.



Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 16 and the corresponding International Public Sector Accounting Standard (IPSAS) 16, 'Investment Property'.

Comparison with IPSAS 16, *'Investment Property'*

1. Different terminology have been used in the ASLB 16 as compared to corresponding IPSAS 16, e.g., terms 'balance sheet' has been used in place of 'statement of financial position'.

2. Paragraph 3 of IPSAS 16 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provisions pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

3. In India, the intention of the Local Bodies may not be to earn rentals and capital appreciation in each case. Additional commentary in this regard has been provided in the standard.

4. As per ASLB 13, '*Leases*', the lease of land or/and building to be treated as operating lease for the purpose of accounting, therefore, consequential changes have been done in this ASLB.

5. Fair value of Investment property is to be disclosed only when fair value model is adopted by the entity. However, IPSAS 16 requires fair value disclosures in case of adoption of cost model as well.

6. Examples provided in paragraphs 9, 12 and 67 of IPSAS 16 have been modified to make these more relevant for Local Bodies.

7. Paragraph 78A has been inserted in ASLB 16 with regard to derecognising the investment property that has been declared as heritage property.

8. Paragraphs 91-100 pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First time adoption of ASLBs*' has been issued that contains all transitional provisions at one place.

9. Paragraphs 101–102 pertaining to effective date have been deleted as the ASLB 16 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

10. The following paragraphs appear as 'Deleted' in IPSAS 16. In order to maintain consistency with paragraph numbers of IPSAS 16, the paragraph numbers are retained in ASLB 16:

    (i) Paragraph 4

    (ii) Paragraph 13 (d)

    (iii) Paragraph 29

    (iv) Paragraph 66 (e)

Accounting Standards for Local Bodies (ASLB) 18
Segment Reporting

Contents

Accounting Standard for Local Bodies (ASLB) 18 Segment Reporting

*This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the "Preface to Accounting Standards for Local Bodies"[1].*

The Accounting Standards for Local Bodies (ASLB) 18 '*Segment Reporting*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standards for Local Bodies (ASLB) 18, '*Segment Reporting*'.

Objective

The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:

(a) Help users of the financial statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity; and

(b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

Scope

1. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the presentation of segment information.***

2. ***This Standard applies to the entities described as Local Bodies in the Preface to Accounting Standards for Local Bodies[3].***

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[1] Attention is specifically drawn to paragraph 4.2 of the 'Preface to Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'.*

[3] Refer paragraph 1.3 of the 'Preface to Accounting Standards for Local Bodies'.

3. [Refer to Appendix 1]

4. ***This Standard should be applied in complete sets of published financial statements that comply with Accounting Standards for Local Bodies (ASLBs).***

5. A complete set of financial statements includes a balance sheet (including statement of changes in net assets/equity[4] annexed thereto), income and expenditure statement, cash flow statement and notes, as provided in ASLB 1, '*Presentation of Financial Statements'.*

6. ***If both consolidated financial statements of a Local Body or other economic entity and the separate financial statements of the parent entity are presented together, segment information need be presented only on the basis of the consolidated financial statements.***

7. If the consolidated financial statements of the Local Body or other economic entity and the separate financial statements of the controlling entity are compiled and presented together in a single report, the report that contains the Local Body's or other controlling entity's consolidated financial statements needs to present segment information only for the consolidated financial statements.

Definitions

8. [Deleted]

9. ***The following term is used in this Standard with the meaning specified:***

   A <u>segment</u> is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives, and (b) making decisions about the future allocation of resources.

   Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those Standards.

[4] As per the decision taken by the Council of the ICAI at its meeting held during December.2019, the statement of changes in net assets/equity is not required to be prepared.

10. Local Bodies and their agencies control significant public resources and operate to provide a wide variety of goods and services in differing geographical regions and in regions with differing socio-economic characteristics within its jurisdiction/territory. These entities are expected, and in some cases formally required, to use those resources efficiently and effectively to achieve the entity's objectives. Entity-wide and consolidated financial statements provide an overview of (a) the assets controlled and liabilities incurred by the reporting entity, (b) the cost of services provided, and (c) the taxation revenue, budget allocations and cost recoveries generated to fund the provision of those services. However, this aggregate information does not provide information about the specific operational objectives and major activities of the reporting entity and the resources devoted to, and costs of, those objectives and activities.

11. In some cases, the activities of the entity within its territory/ jurisdiction may be broad, and encompass so wide a range of different geographical regions, or regions with different socio-economic characteristics, that it is necessary to report disaggregated financial and non-financial information about particular segments of the entity to provide relevant information for accountability and decision making purposes.

Reporting by Segments

12. ***An entity should identify its separate segments in accordance with the requirements of paragraph 9 of this Standard and should present information about those segments as required by paragraph 51-75 of this Standard.***

13. Under this Standard, Local Bodies will identify as separate segments each distinguishable activity or group of activities for which financial information should be reported for purposes of evaluating the past performance of the entity in achieving its objectives, and for making decisions about the allocation of resources by the entity. In addition to disclosure of the information required by paragraphs 51 to 75 of this Standard, entities are also encouraged to disclose additional information about reported segments as identified by this Standard or as considered necessary for accountability and decision making purposes.

Reporting Structures

14. In most cases, the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the authorised senior official of the entity. In most cases, the segments reported to the governing body and the authorised senior official will also reflect the segments reported in the financial statements. This is because the governing body and the authorised senior official will require information about segments to enable them to discharge their managerial responsibilities and to evaluate the performance of the entity in achieving its objectives in the past and to make decisions about the allocation of resources by the entity in the future.

15. Determining the activities which should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes involves judgment. In making that judgment, preparers of the financial statements will consider such matters as:

    (a) The objective of reporting financial information by segment as identified in paragraph 9 above;

    (b) The expectations of members of the community and their elected or appointed representatives regarding the key activities of the entity;

    (c) The qualitative characteristics of financial reporting as identified in the '*Conceptual Framework for General Purpose Financial Reporting in Local Bodies'*. They include the relevance, faithful representation, understandability, timeliness, comparability and verifiability over time of financial information that is reported about an entity's different segments; and

    (d) Whether a particular segment structure reflects the basis on which the governing body and the authorised senior official require financial information to enable them to assess the past performance of the entity in achieving its objectives and to make decisions about the allocation of resources to achieve entity objectives in the future.

16. At the Local Body level, financial information is often aggregated and reported in a manner which reflects, for example, major economic

classifications of activities undertaken by local body, such as health, education, welfare, transportation, and water supply, etc.

Service Segments and Geographical Segments

17. The types of segments reported to the governing body and the authorised senior official of an entity are frequently referred to as "service segments" or "geographical segments". These terms are used in this Standard with the following meanings:

    (a) A "service segment" refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and

    (b) A "geographical segment" is a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a particular geographical area.

18. The departments and agencies of Local Bodies are usually managed along service lines because this reflects the way in which major outputs are identified, their achievements monitored and their resource needs identified and budgeted. An example is an entity, which reports internally on the basis of service lines or service segments, whose organisational structure and internal reporting system reflects various services such as health, education, water supply, transportation, etc., as separate segments. This basis of segmentation may be adopted internally because the skills and facilities necessary to deliver the desired outputs and outcomes for each of these services are perceived to be different. In addition, key financial decisions faced by management include determination of the resources to allocate to each of those outputs or activities. In these cases, it is likely that reporting externally on the basis of service segments will also satisfy the requirements of this Standard.

19. Factors that will be considered in determining whether outputs (goods and services) are related and should be grouped as segments for financial reporting purposes include:

    (a) The primary operating objectives of the entity and the goods, services and activities that relate to the achievement of each of

those objectives and whether resources are allocated and budgeted on the basis of groups of goods and services;

(b) The nature of the goods or services provided or activities undertaken;

(c) The nature of the production process and/or service delivery and distribution process or mechanism;

(d) The type of consumer for the goods or services;

(e) Whether this reflects the way in which the entity is managed and financial information is reported to senior management and the governing body, i.e., administrative reporting; and

(f) If applicable, the nature of the regulatory environment, (for example, Urban Local Bodies or Rural Local Bodies).

20. An entity may be organised and reported internally to the governing body and the authorised senior official on a regional basis — within its jurisdictional boundaries. Where this occurs the internal reporting system reflects a geographical segment structure.

21. A geographical segment structure may be adopted where, for example, the organisational structure and internal reporting system of an entity is structured on the basis of regional outcomes within its jurisdictional boundaries because the key performance assessments and resource allocation decisions to be made by the governing body and the authorised senior official are determined by reference to regional achievements and regional needs. This structure may have been adopted to preserve regional autonomy of needs and delivery of various services, or because operating conditions or service delivery objectives are substantially different from one region to another. It may also have been adopted simply because management believes that an organisational structure based on regional devolution of responsibility better serves the objectives of the entity. In these cases, resource allocation decisions are initially made, and subsequently monitored, by the governing body and the authorised senior official on a regional basis. In these cases, it is likely that reporting information by geographical segments in the financial statements will also satisfy the requirements of this Standard.

22. Factors that will be considered in determining whether financial information should be reported on a geographical basis include:

(a) Similarity of economic, social and political conditions in different regions;

(b) Relationships between the primary objectives of the entity and the different regions;

(c) Whether service delivery characteristics and operating conditions differ in different regions;

(d) Whether this reflects the way in which the entity is managed and financial information is reported to the authorised senior officials and the governing body; and

(e) Special needs, skills or risks associated with operations in a particular area.

22A. In case the number of segments that are reportable in accordance with the requirements of this Standard increases above ten, it is considered that the practical limit has been reached and beyond this segment information may become too detailed. Therefore, the number of segments to be reported in accordance with this Standard should not increase above ten.

Multiple Segmentation

23. In some cases, an entity may report to the governing body and the authorised senior official segment revenue, expense, assets and liabilities on the basis of more than one segment structure, for example, by both service and geographical segments. Reporting on the basis of both service segments and geographical segments in the external financial statements often will provide useful information if the achievement of an entity's objectives is strongly affected both by the different products and services it provides and the different geographical areas to which those goods and services are provided. In such cases, the segments may be reported separately or as a matrix. In addition, a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

23A. The entity's internal reporting system to the governing body and the authorised senior official should govern whether its primary segment reporting format will be service segments or geographical segments. For example, if the organisational structure and internal reporting

system of an entity is structured on the basis of regional outcomes within its jurisdictional boundaries then its internal reporting system reflects the geographical segment structure. In such case, geographical segment structure will become its primary segment reporting format and service segment structure will become its secondary segment reporting format.

Reporting Structures Not Appropriate

24. As noted above, in most cases the segments for which information is reported internally to the governing body and the authorised senior official of the entity for the purpose of evaluating the entity's past performance and for making decisions about the future allocation of resources, will reflect those identified in budget documentation and will also be adopted for external reporting purposes in accordance with the requirements of this Standard. However, in some cases an entity's internal reporting to the governing body and the authorised senior official may be structured to aggregate and report on a basis which distinguishes revenue, expenses, assets and liabilities related to budget-dependent activities from those of activities that are not dependent on budget. Reporting segment information in the financial statements on the basis of only these segments is unlikely to meet the objectives specified for this Standard. This is because these segments are unlikely to provide information that is relevant to users about, for example, the performance of the entity in achieving its major operating objectives.

25. In some cases, the disaggregated financial information reported to the governing body and the authorised senior official may not report expenses, revenues, assets and liabilities by service segment, geographical segment or by reference to other activities. Such reports may be constructed to reflect only expenditures by nature (for example, wages, rent, supplies and capital acquisitions) on a line item basis that is consistent with the budget appropriation or other funding or expenditure authorisation model applicable to the entity. This may occur where the purpose of financial reporting to the governing body and senior management is to evidence compliance with spending mandates rather than for purposes of evaluating the past performance of the entity's major activities in achieving their objectives and for making decisions about the future allocation of resources. When internal reporting to the governing body and the authorised senior

official is structured to report only compliance information, reporting externally on the same basis as the internal reporting to the governing body and the authorised senior official will not meet the requirement of this Standard.

26. When an entity's internal reporting structure does not reflect the requirements of this Standard, for external reporting purposes the entity will need to identify segments which satisfy the definition of a segment in paragraph 9 and disclose the information required by paragraphs 51-75.

Definitions of Segment Revenue, Expense, Assets, Liabilities and Accounting Policies

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

***Segment revenue** is revenue reported in the entity's statement of income and expenditure that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees or sales or rendering services to external consumers or from transactions with other segments of the same entity. Segment revenue does not include:*

(a) ***Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or***

(b) ***Gains on sales of investments or gains on extinguishment of debt unless the segment's operations are primarily of a financial nature.***

Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method only if those items are included in consolidated or total entity revenue.

Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with ASLB 8, 'Interests in Joint

Venture[5]'.

<u>Segment expense</u> is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include:

(a) ***Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;***

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

(c) ***An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method;***

(d) ***Income tax expense, if applicable; or***

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

Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with ASLB 8, 'Interests in Joint Ventures'.

For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as

[5] IPSAS 8, '*Interests in Joint Ventures*', has been superseded by a new IPSAS, accordingly, ASLB 8 would not be formulated and appropriate revisions in this ASLB would be carried out in the revision stage.

a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.

***Segment assets** are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.*

If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets.

Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with ASLB 8, 'Interests in Joint Ventures'.

Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's balance sheet.

***Segment liabilities** are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.*

If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with ASLB 8, 'Interests in Joint Venture'.

Segment accounting policies** are the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

Attributing Items to Segments

28. The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of such items that are directly attributable to a segment and amounts of such items that can be allocated to a segment on a reasonable basis.

29. An entity looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. That is, where segments used for internal reporting purposes are adopted, or form the basis of segments adopted, for general purpose financial statements, there is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets and segment liabilities.

30. In some cases, a revenue, expense, asset or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by entity management but that could be deemed subjective, arbitrary or difficult to understand by external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, segment expense, segment assets and segment liabilities in this Standard. Conversely, an entity may choose not to allocate some item of revenue, expense, asset or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such an item is allocated pursuant to the definitions of segment revenue, segment expense, segment assets and segment liabilities in this Standard.

31. Local Bodies can generally identify the costs of providing certain groups of goods and services or of undertaking certain activities and the assets that are necessary to facilitate those activities. This information is needed for planning and control purposes. However, in many cases the operations of Local bodies and its departments are funded by “block” appropriations, or appropriations on a “line item” basis reflecting the nature of the major classes of expenses or expenditures. These “block” or “line item” appropriations may not be

related to specific service lines, functional activities or geographical regions. In some cases, it may not be possible to directly attribute revenue to a segment or to allocate it to a segment on a reasonable basis. Similarly, some assets, expenses and liabilities may not be able to be directly attributed, or allocated on a reasonable basis, to individual segments because they support a wide range of service delivery activities across a number of segments or are directly related to general administration activities which are not identified as a separate segment. The unattributed or unallocated revenue, expense, assets and liabilities would be reported as an unallocated amount in reconciling the segment disclosures to the aggregate entity revenue as required by paragraph 64 of this ASLB.

32. Local Bodies and their departments may enter into arrangements with private sector entities for the delivery of goods and services or to conduct other activities. These arrangements may take the form of a joint venture or an investment in an associate which is accounted for by the equity method of accounting. Where this is the case, segment revenue will include the segment's share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue and it can be directly attributed or reliably allocated to the segment on a reasonable basis. In similar circumstances, segment revenue and segment expense will include the segment's share of revenue and expense of a jointly controlled entity which is accounted for by proportionate consolidation.

Segment Assets, Liabilities, Revenue and Expense

33. Examples of segment assets include current assets that are used in the operating activities of the segment; property, plant and equipment; assets that are the subject of finance leases; and intangible assets. If a particular item of depreciation or amortisation is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head office purposes, for example:

    (a) The office of the central administration of an entity is not included in segments reflecting the delivery of various services such as education, housing, transportation, water supply, etc., or

(b) The general assembly building is not included in segments reflecting major functional activities such as education and health when reporting at the level of the economic entity.

Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists.

34. The consolidated financial statements of a Local Body may encompass entities acquired in an entity acquisition which gives rise to purchased goodwill[6]. In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related amortisation of goodwill.

35. Examples of segment liabilities include payables, accrued liabilities, advances from members of the community for the provision of partially subsidised goods and services in the future and claims relating to the provision of goods and services. Segment liabilities do not include borrowings, liabilities related to assets that are the subject of finance leases, and other liabilities that are incurred for financing rather than operating purposes. If interest expense is included in segment expense, the related interest-bearing liability is included in segment liabilities.

36. The liabilities of segments whose operations are not primarily of a financial nature do not include borrowings and similar liabilities because segment revenues and expenses do not include financing revenues and expenses. Further, because debt is often issued at the head office level or by a central borrowing authority on an entity-wide basis, it is often not possible to directly attribute, or reasonably allocate, the interest-bearing liability to the segment. However, if the financing activities of the entity are identified as a separate segment, as may occur at the economic entity level, expenses of the "finance" segment will include interest expense, and the related interest-bearing liabilities will be included in segment liabilities.

37. Accounting Standards may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see for example AS 14). Measurements of

[6] Purchase consideration may be there in case of acquisition of a private entity by a Local Body and in that case goodwill may arise.

segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition, in accordance with the revaluation model in ASLB 17, '*Property, Plant and Equipment*', measurements of segment assets reflect those revaluations.

38. In some cases, a Local Body may control an entity that operates on a commercial basis, and is subject to income tax. These entities may be required to apply accounting standards such as Accounting Standard (AS) 22, '*Income Taxes*' which prescribe the accounting treatment of income taxes. Such standards may require the recognition of income tax assets and liabilities in respect of income tax expenses, which are recognised in the current period and are recoverable or repayable in future periods. These assets and liabilities are not included in segment assets or segment liabilities because they arise as a result of all the activities of the entity as a whole and the tax arrangements in place in respect of the entity.

39. Some guidance for cost allocation can be found in other ASLBs. For example, ASLB 12, '*Inventories*' provides guidance for attributing and allocating costs to inventories, and ASLB 11, '*Construction Contracts*' provides guidance for attributing and allocating costs to contracts. That guidance may be useful in attributing and allocating costs to segments.

40. ASLB 2, '*Cash Flow Statements*' provides guidance on whether bank overdrafts should be included as a component of cash or should be reported as borrowings.

41. The financial statements of a Local Body, and certain other controlling entities, may require the consolidation of a number of separate entities such as departments, and its agencies. In preparing these consolidated financial statements, transactions and balances between controlled entities will be eliminated in accordance with ASLB on

'*Consolidated and Separate Financial Statements*'[7]. However, segment revenue, segment expense, segment assets and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

42. While the accounting policies used in preparing and presenting the financial statements of the entity as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as the method of pricing inter-segment transfers, and the basis for allocating revenues and expenses to segments.

Segment Accounting Policies

43. ***Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.***

44. There is a presumption that the accounting policies that the governing body and management of an entity have chosen to use in preparing the consolidated or entity-wide financial statements are those that the governing body and management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgments about the entity as a whole, this Standard requires the use, in preparing segment information, of the accounting policies that the governing body and management have chosen for preparation of the consolidated or entity-wide financial statements. That does not mean, however, that the consolidated or entity accounting policies are to be applied to segments as if the segments were separate reporting entities. A detailed calculation done in applying a particular accounting policy at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so.

[7] ASLB on '*Consolidated Financial Statements*' is yet to be formulated. The Guidance in regard to this may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

Employee entitlement calculations, for example, are often done for an entity as a whole, but the entity-wide figures may be allocated to segments based on salary and demographic data for the segments.

45. As noted in paragraph 42, accounting policies that deal with entity only issues such as inter-segment pricing may need to be developed. ASLB 1, '*Presentation of Financial Statements'* requires disclosure of accounting policies necessary to understand the financial statements. Consistent with those requirements, segment specific policies may need to be disclosed.

46. This Standard permits the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the consolidated or entity financial statements provided that:

    (a) The information is relevant for performance assessment and decision making purposes; and

    (b) The basis of measurement for this additional information is clearly described.

Joint Assets

47. ***Assets that are jointly used by two or more segments should be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.***

48. The way in which asset, liability, revenue and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not possible or appropriate to specify a single basis of allocation that should be adopted by all entities. Nor is it appropriate to force allocation of entity asset, liability, revenue and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, the definitions of segment revenue, segment expense, segment assets and segment liabilities are interrelated, and the resulting allocations should be consistent. Therefore, jointly used assets are allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortisation is included in measuring segment expense.

Newly Identified Segments

49. ***If a segment is identified as a segment for the first time in the current period, prior period segment data that is presented for comparative purposes should be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.***

50. New segments may be reported in financial statements in differing circumstances. For example, an entity may change its internal reporting structure from a service segment structure to a geographical segment structure and management may consider it appropriate that this segment structure also be adopted for external reporting purposes. An entity may also undertake significant new or additional activities, or increase the extent to which an activity previously operating as an internal support service provides services to external parties. In these cases, new segments may be reported for the first time in the general purpose financial statements. Where this occurs, this Standard requires that prior period comparative data should be restated to reflect the current segment structure where practicable.

Disclosure

51. ***The disclosure requirements in paragraphs 52–75 should be applied to each segment.***

52. ***An entity should disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources and segment revenue from transactions with other segments should be separately reported.***

53. ***An entity should disclose the total carrying amount of segment assets for each segment.***

54. ***An entity should disclose the total carrying amount of segment liabilities for each segment.***

55. ***An entity should disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.***

56. An entity is encouraged, but not required, to disclose the nature and amount of any items of segment revenue and segment expense that

are of such size, nature, or incidence that their disclosure is relevant to explain the performance of each segment for the period.

57. ASLB 1, *'Presentation of Financial Statements'* requires that when items of revenue or expense are material, their nature and amount of such items are disclosed separately. ASLB 1 identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

58. This Standard does not require a segment result to be disclosed. However, if a segment result is calculated and disclosed, it is an operating result which does not include finance charges.

59. An entity is encouraged but not required to disclose segment cash flows consistent with the requirements of ASLB 2, '*Cash Flow Statements'*. ASLB 2 requires that an entity present a cash flow statement that separately reports cash flows from operating, investing, and financing activities. It also requires the disclosure of information about certain cash flows. The disclosure of cash flow information about each segment can be useful in understanding the entity's overall financial position, liquidity and cash flows.

60. An entity which does not disclose segment cash flows in accordance with ASLB 2, '*Cash Flow Statements'* is encouraged, but not required, to disclose for each reportable segment:

    (a) Segment expense for depreciation and amortisation of segment assets;

    (b) Other significant non-cash expenses; and

    (c) Significant non-cash revenues that are included in segment revenue.

    This will enable users to determine the major sources and uses of cash in respect of segment activities for the period.

61. ***An entity should disclose for each segment the aggregate of the entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment.***

62. While a single aggregate amount is disclosed pursuant to the requirements of paragraph 61, each associate, joint venture or other equity method investment is assessed individually to determine whether its operations are substantially all within a segment.

63. ***If an entity's aggregate share of the net surplus (deficit) of associates, joint venture, or other investments accounted for under the equity method is disclosed by segment, the aggregate investments in those associates and joint ventures should also be disclosed by segment.***

64. ***An entity should present reconciliation between the information disclosed for segments and the aggregated information in the consolidated or entity financial statements. In presenting the reconciliation, segment revenue should be reconciled to entity revenue from external sources (including disclosure of the amount of entity revenue from external sources not included in any segment's revenue); segment expense should be reconciled to a comparable measure of entity expense; segment assets should be reconciled to entity assets; and segment liabilities should be reconciled to entity liabilities.***

Additional Segment Information

65. As noted previously, it is anticipated that segments will usually be based on the major goods and services the entity provides, the programs it operates or the activities it undertakes. This is because information about these segments provides users with relevant information about the performance of the entity in achieving its objectives and enables the entity to discharge its accountability obligations. However, in some organisations, a geographical or other basis may better reflect the basis on which services are provided and resources allocated within the entity and, therefore, will be adopted for the financial statements.

66. This Standard adopts the view that disclosure of minimum information about both service segments and geographical segments is likely to be useful to users for accountability and decision-making purposes. Therefore, if an entity reports segment information on the basis of:

    (a) The major goods and services the entity provides, the programs it operates, the activities it undertakes or other service segments, it is also encouraged to report the following for each geographical segment that is reported internally to the governing body and the authorised senior official of the entity:

        (i) Segment expense;

        (ii) Total carrying amount of segment assets; and

        (iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment and intangible assets); and

    (b) Geographical segments or another basis not encompassed by (a), the entity is encouraged to also report the following segment information for each major service segment that is reported internally to the governing body and the authorised senior official of the entity:

        (i) Segment expense;

        (ii) Total carrying amount of segment assets; and

        (iii) Total outlay during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment and intangible assets).

Other Disclosure Matters

67. ***In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that they occur. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.***

68. ***Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed. Such disclosure should include a description of the***

nature of the change, the reasons for the change, and the financial effect of the change if it is reasonably determinable. If an entity changes the identification of its segments, then for the purpose of comparison, an entity should report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.

69 Changes in accounting policies adopted by the entity are dealt with in ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors'*. ASLB 3 requires that changes in accounting policy are made by an ASLB, or if the change will result in reliable and more relevant information about transactions, other events or conditions in the financial statements of the entity, or if change in an accounting policy is required by a statue.

70. Changes in accounting policies applied at the entity level that affect segment information are dealt with in accordance with ASLB 3. Unless a new ASLB specifies otherwise, ASLB 3 requires that:

(a) A change in accounting policy be applied retrospectively unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change;

(b) If retrospective application is not practicable for all periods presented, the new accounting policy should be applied retrospectively from the earliest practicable date; and

(c) If it is impracticable to determine the cumulative effect of applying the new accounting policy at the start of the current period, the policy should be applied prospectively from the earliest date practicable.

71. [Refer to Appendix 1]

72. Paragraph 67 requires that, for segment reporting purposes, inter-segment transfers should be measured on the basis that the entity actually used to price those transfers. If an entity changes the method that it actually uses to price inter-segment transfers that is not a change in accounting policy. However, paragraph 67 requires disclosure of the change.

73. ***If not otherwise disclosed in the financial statements or elsewhere in the annual report, an entity should indicate:***

    (a) ***The types of goods and services included in each reported service segment;***

    (b) ***The composition of each reported geographical segment; and***

    (c) ***If neither a service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.***

Segment Operating Objectives

74. If not otherwise disclosed in the financial statements or elsewhere in the annual report, the entity is encouraged to disclose the broad operating objectives established for each segment at the commencement of the reporting period and to comment on the extent to which those objectives were achieved.

75. To enable users to assess the performance of an entity in achieving its service delivery objectives, it is necessary to communicate those objectives to users. The disclosure of information about the composition of each segment, the service delivery objectives of those segments and the extent to which those objectives were achieved will support this assessment. This information will also enable the entity to better discharge its accountability obligations. In many cases, this information will be included in the annual report as part of the report of the governing body or the authorised senior official. In such cases, disclosure of this information in the financial statements is not necessary.

76-77. [Refer to Appendix 1]

Appendix A

Illustrative Segment Disclosures

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the standard to assist in clarifying its meaning.

The appendix illustrate the both service segment and geographical segment disclosures that this Standard would require for a Local Body. For illustrative purpose, the examples given below presents comparative data for two years. Segment data is required for each year for which a complete set of financial statements is presented.

SCHEDULE A – INFORMATION REPORTED AS PER SERVICE SEGMENTS (All amounts in ₹ lakhs)

	Health		Education		Water Supply & Sewage Services		Housing		Eliminations		Consolidated	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
SEGMENT REVENUE												
Appropriation	48	40	22	23	10	10	7	7				
Revenue from external sources	5	4	-	-	9	6	-	-				
Inter-segment transfers	10	6	6	7	2	4	2	2				
Total Segment Revenue	63	50	28	30	21	20	9	9	20	19	101	90
SEGMENT EXPENSE												
Salaries and Wages	(39)	(31)	(13)	(13)	(13)	(13)	(2)	(2)				
Depreciation	(9)	(7)	(5)	(7)	(5)	(3)	(1)	(1)				
Other expense	(12)	(11)	(10)	(9)	(5)	(5)	(2)	(2)				
Total Segment	(60)	(49)	(28)	(29)	(23)	(21)	(5)	(5)	20	19	(96)	(85)

Expenses										
Unallocated central expenses									(7)	(9)
Deficit from Operating Activities									(2)	(4)
Interest expense									(4)	(3)
Interest income									2	3
Share of net surplus of associates							8	7	8	7
Surplus for the period									4	3
OTHER INFORMATION										
Segment assets	54	50	34	30	10	10	10	9	108	99
Investment in associates (equity method)							32	26	32	26
Unallocated central assets									35	30
Consolidated Total Assets									175	155
Segment liabilities	25	15	8	11	8	8	1	1	42	35
Unallocated central liabilities									40	55
Consolidated Total Liabilities									82	90
Capital expenditure	13	10	9	5	4	0	2	3		
Non-cash expense excluding depreciation	(8)	(2)	(3)	(3)	(2)	(2)	(1)	(1)		
Non-cash revenue	-	-	-	-	1	1	-	-		

SCHEDULE B – INFORMATION REPORTED AS PER GEOGRAPHIC SEGMENTS (All amounts in ₹ lakhs)

	North Zone		East Zone		West Zone		South Zone		Eliminations		Consolidated	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
SEGMENT REVENUE												
Appropriation	48	40	22	23	10	10	7	7				
Revenues from external sources	5	4	-	-	9	6	-	-				
Inter-segment transfers	10	6	6	7	2	4	2	2				
Total Segment Revenue	63	50	28	30	21	20	9	9	20	19	101	90
SEGMENT EXPENSE												
Salaries and Wages	(39)	(31)	(13)	(13)	(13)	(13)	(2)	(2)				
Depreciation	(9)	(7)	(5)	(7)	(5)	(3)	(1)	(1)				
Other expense	(12)	(11)	(10)	(9)	(5)	(5)	(2)	(2)				
Total Segment Expenses	(60)	(49)	(28)	(29)	(23)	(21)	(5)	(5)	20	19	(96)	(85)
Unallocated central expenses											(7)	(9)
Deficit from Operating Activities											(2)	(4)
Interest expense											(4)	(3)
Interest income											2	3
Share of net surplus of associates							8	7			8	7
Surplus for the period											4	3
OTHER INFORMATION												
Segment assets	54	50	34	30	10	10	10	9			108	99

Investment in associates (equity method)							32	26	32	26
Unallocated central assets									35	30
Consolidated Total Assets									175	155
Segment liabilities	25	15	8	11	8	8	1	1	42	35
Unallocated central liabilities									40	55
Consolidated Total Liabilities									82	90
Capital expenditure	13	10	9	5	4	0	2	3		
Non-cash expense excluding depreciation	(8)	(2)	(3)	(3)	(2)	(2)	(1)	(1)		
Non-cash revenue	-	-	-	-	1	1	-	-		

Note : Under Schedule A, Local Body reports to the governing body on the basis of major services: health, education, water supply & sewage services and housing and under Schedule B, Local Body report on the basis of major geographical areas: north zone, east zone, west zone & south zone.

In above examples, the information reported about the segments is used by the governing body and the authorised senior officials as a basis for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Inter-segment transfers: In both examples segment revenue and segment expense include revenue and expense arising from transfers between segments. Such transfers are usually accounted for at cost and are eliminated on consolidation. Investments in associates are accounted for using the equity method. The investment in, and the Local Body's share of associate's net profit are excluded from segment assets and segment revenue.

Appendix B

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 18.

Summary of Required Disclosures

[¶xx] refers to paragraph xx in the Standard.

Disclosures

Total expense by segment [¶52]

Total revenue by segment [¶52]

Revenue from budget appropriation or similar allocation by segment [¶52]

Revenue from external sources (other than appropriation or similar allocation) by segment [¶52]

Revenue from transactions with other segments by segment [¶52]

Carrying amount of segment assets by segment [¶53]

Segment liabilities by segment [¶54]

Cost to acquire assets by segment [¶55]

Share of net surplus (deficit) of [¶61] and investment in [¶63] equity method associates or joint ventures by segment (if substantially all within a single segment)

Reconciliation of revenue, expense, assets and liabilities by segment [¶64]

Other Disclosures

Basis of pricing inter-segment transfers and any changes therein [¶67]

Changes in segment accounting policies [¶68]

Types of products and services in each service segment [¶73]

Composition of each geographical segment [¶73]

If neither a service nor geographical basis of segmentation is adopted, the nature of the segments and activities encompassed by each segment [¶73]

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) on, 'Segment Reporting' and the corresponding International Public Sector Accounting Standard (IPSAS) 18, '*Segment Reporting*'*.*

Comparison with IPSAS 18, '*Segment Reporting*'

1 In certain instances, different terminology has been used in the ASLB 18 as compared to the corresponding IPSAS 18*, 'Segment Reporting',* e.g., the term 'balance sheet' has been used in place of 'statement of financial position', 'income and expenditure statement' has been used in place of 'statement of financial performance' and the 'authorised senior official' has been used in place of 'senior manager'.

2 Appendix on qualitative characteristics of financial reporting given in IPSAS 18 has been removed from the ASLB 18 as the same are proposed to be covered in the *'Conceptual Framework for General Purpose Financial Reporting in Local Bodies'*.

3 Paragraph 3 of IPSAS 18 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for the ASLB 18, which is applicable to Local Bodies in India. However, paragraph number has been retained in ASLB 18 in order to maintain consistency with IPSAS 18.

4 Certain examples given in the IPSAS 18 have been deleted/ modified and illustrative example given in Appendix A of the IPSAS 18 has been modified in the ASLB 18 in order to make them more relevant for the Local Bodies in India.

5 ASLB 18 provides the threshold limit for the number of segments that are required to be reported, i.e., not more than ten segments are to be reported. IPSAS 18 does not provide the same.

6 ASLB 18 contains additional guidance for identification of the primary and secondary segments as compared to the IPSAS 18.

7 As per IPSAS 18, the statement showing changes in net assets/equity is included as separate statements in the complete set of the financial statements in line with IPSAS 1. The said requirement has been

modified in the ASLB 18 in line with the ASLB 1 which prescribes that the statement of changes in equity is to be annexed to the balance sheet.

8 In case of change in accounting policies adopted for the segment, IPSAS 18 requires to restate the comparative information for each segment unless it is impracticable to do so. The said requirement has been removed in the ASLB 18 in line with the ASLB 3.

9 Paragraphs pertaining to Effective Date have been deleted as the ASLB 18 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

10 Consequential changes in the ASLB 18 have been made due to all above changes. However, paragraph numbers have been retained to maintain consistency with the corresponding IPSAS.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) on Segment Reporting and the corresponding existing Accounting Standard (AS) 17, 'Segment Reporting' (Issued 2000).

Major differences between the ASLB 18, '*Segment Reporting*', and existing AS 17 (issued 2000)

1. ASLB 18 is based on the corresponding IPSAS which require entities to report segments on a basis appropriate for assessing past performance and making decision about allocation of resources. Whereas, the corresponding existing AS requires segments to be reported on the basis of risk and reward.

2. Additional commentary to that in existing AS 18 is there in order to clarify the applicability of the Standard to Local Bodies.

3. In certain circumstances, different terminology has been used in ASLB 18 such as 'Income and Expenditure Statement' in place of 'Profit and Loss Account', and 'Governing Body' and 'Authorised Senior Official' in place of 'Board of Directors' and 'Chief Executive Officer', respectively.

4. ASLB 18 provides that where the entity report to the Governing body on the basis of more than one segment structure, in that case both segments may be reported in form of matrix or separately in form of primary and secondary segment reporting structure with only limited disclosure made about secondary segments whereas as per AS 17 reportable segments are classified as primary and secondary segments on basis of risk and return.

5. ASLB 18 does not require entities to disclose segment results whereas as per AS 17 the segment results are to be disclosed.

Accounting Standards for Local Bodies (ASLB) 20
Related Party Disclosures

Contents

Accounting Standard for Local Bodies (ASLB) 20 Related Party Disclosures

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to Accounting Standards for Local Bodies[1].)*

The Accounting Standards for Local Bodies (ASLB) 20, '*Related Party Disclosures*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standards for Local Bodies.

Objective

The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.

Scope

1. ***An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in disclosing information about related party relationships and certain transactions with related parties.***

[1]Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'.*

2. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[3].***

3. [Refer to Appendix 1]

Definitions

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

Close members of the family of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.

Key management personnel are:

(a) ***All directors or members of the governing body of the entity; and***

(b) ***Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:***

(i) ***Where there is a member of the governing body of Central/State Government who has the authority and responsibility for planning, directing and controlling the activities of the reporting entity, that member;***

(ii) ***Any key advisors of that member; and***

(iii) ***Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.***

Oversight means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

Related party means ***parties are considered to be related if one party has the ability (a) to control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:***

(a) ***Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;***

(b) ***Associates (see ASLB 36, 'Investments in Associates and Joint Ventures');***

(c) ***Individuals having, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;***

(d) ***Key management personnel, and close members of the family of key management personnel; and***

(e) ***Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.***

Related party transaction ***is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the Government of which it forms part.***

Remuneration of key management personnel ***is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body or otherwise as employees of the reporting entity.***

Significant influence ***(for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by***

representation on the governing body or any of its Committees but also by, for example, participation in the policy making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in ASLB 36.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Close Member of the Family of an Individual

5. Judgment will be necessary in determining whether an individual should be identified as a close member of the family of an individual for purposes of application of this Standard. In the absence of information to the contrary, such as that a spouse or other relative is estranged from the individual, the following immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of an individual:

   (a) A spouse, domestic partner, dependent child or relative living in a common household;

   (b) A grandparent, parent, nondependent child, grandchild, brother or sister; and

   (c) The spouse or domestic partner of a child, a parent-in-law, a brother-in-law or a sister-in-law.

Key Management Personnel

6. Key management personnel include all directors or elected or appointed members of the governing body of the reporting entity where that body has the authority and responsibility for planning, directing and controlling the activities of the entity.

7. Where an entity is subject to the oversight of an elected or appointed representative of the governing body of the Central/ State Government, that person is included in key management personnel if the oversight function includes the authority and

responsibility for planning, directing and controlling the activities of the entity. In many cases, key advisors of that person may not possess sufficient authority, legal or otherwise, to satisfy the definition of key management personnel. In other cases, key advisors of that person may be deemed to be key management personnel because they have a special working relationship with an individual who has control over an entity. They therefore have access to privileged information and may also be able to exercise control or significant influence over an entity. Judgment is required in assessing whether an individual is a key advisor and whether that advisor satisfies the definition of key management personnel, or is a related party.

8. The governing body and its Committees, together with the chief executive and senior management group has the authority and responsibility to plan and control the activities of the entity, to manage the resources of the entity and for the overall achievement of entity objectives. Therefore, key management personnel will include the chief executive and senior management group of the reporting entity.

9. The senior management group of an economic entity may comprise individuals from both the controlling entity and other entities that collectively make up the economic entity.

Related Parties

10. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

11. Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.

12. In the context of this Standard, the following are deemed not to be related parties:

    (a) (i) Providers of finance in the course of their business in that regard; and

    (ii) Trade unions;

in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and

(b) An entity with which the relationship is solely that of an agency.

13. Related party relationships may arise when an individual is either a member of the governing body or is involved in the financial and operating decisions of the reporting entity. Related party relationships may also arise through external operating relationships between the reporting entity and the related party. Such relationships will often involve a degree of economic dependency.

14. Economic dependency, where one entity is dependent on another in that it relies on the latter for a significant volume of its funding or sale of its goods and services, would on its own be unlikely to lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. As such, a single customer, supplier, franchisor, distributor, or general agent with whom an entity transacts a significant volume of operation will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence and therefore a related party relationship. Judgment is required in assessing the impact of economic dependence on a relationship. Where the reporting entity is economically dependent on another entity, the reporting entity is encouraged to disclose the existence of that dependency.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In Local Bodies, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures.

15A. ***Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.***

Remuneration of Key Management Personnel

16. Remuneration of key management personnel includes remuneration derived by individuals from the reporting entity for services provided to the reporting entity in their capacity as members of the governing body or employees. Benefits derived directly or indirectly from the entity for services in any capacity other than as an employee or a member of the governing body do not satisfy the definition of remuneration of key management personnel in this Standard. However, paragraph 34 requires disclosures to be made about certain of these other benefits. Remuneration of key management personnel excludes any consideration provided solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel.

17. [Refer to Appendix 1]

The Related Party Issue

18. Related party relationships exist throughout the Local-self Government, because:

    (a) Administrative units are subject to the overall direction of the Local Body and, ultimately, the Council or similar body of elected or appointed officials, and operate together to achieve the policies of the Local Body;

    (b) Local Bodies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and

    (c) Ministers of the government or elected or appointed members of the governing body of Local Body and senior management

group can exert significant influence over the operations of a Local Body.

19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes and enables users to better understand the financial statements of the reporting entity because:

    (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;

    (b) Related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of the relationship; and

    (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This may occur in Local Bodies where goods and services are transferred between one Local Body to another Local Body at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity. The entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.

20. Disclosure of certain types of related party transactions that occur and the terms and conditions on which they were conducted allows users to assess the impact of those transactions on the financial position and performance of an entity and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.

20A. Because there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosures of such effects is not required by the Standard.

Remuneration of Key Management Personnel

21. Key management personnel hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. Their salaries are often established by statute or Government Order or Governing Body of the entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about the remuneration of key management personnel and close members of the family of key management personnel during the reporting period, loans or advances made to them and the consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee. The disclosures required by this Standard will ensure that appropriate minimum levels of transparency are applied to the remuneration of key management personnel and close members of the family of key management personnel.

Materiality

22. ASLB 1, '*Presentation of Financial Statements*' requires the separate disclosure of material items. The materiality of an item is determined with reference to the nature or size of that item. When assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party and the nature of the transaction may mean that a transaction is material regardless of its size.

Disclosure

23. [Refer to Appendix 1]

24. Some ASLBs also require disclosure of transactions with related parties. For example, ASLB 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties. ASLB 38, '*Disclosure of Interests*

in Other Entities'[4] requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.

Disclosure of Control

25. ***Related party relationships where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.***

26. In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether or not there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity and the name of the ultimate controlling entity, if any.

Disclosure of Related Party Transactions

27. ***If there have been transactions between related parties, during the existence of related party relationship, the reporting entity should disclose the following:***

    (a) ***The name of the transacting related party;***

    (b) ***A description of the nature of the relationship with related parties involved in the transactions. For example, whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;***

    (c) ***A description of the related party transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/or balances;***

    (d) ***Any other elements of the related party transactions***

[4] ASLB 38 is yet to be formulated/ issued. The Guidance in regard to this subject may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes; and

(e) ***Amounts or appropriate proportions of outstanding items.***

28. The following are examples of the related party transactions in respect of which disclosures may be made by a reporting entity:

(a) Rendering or receiving of services;

(b) Purchases or transfers/sales of goods (finished or unfinished);

(c) Purchases or transfers/sales of property and other assets;

(d) Agency arrangements;

(e) Leasing arrangements;

(f) Transfer of research and development;

(g) License agreements;

(h) Finance (including loans, capital contributions, grants whether in cash or in kind and other financial support including cost sharing arrangements);

(i) Guarantees and collaterals; and

(j) Management contracts including deputation of employees.

28A. Paragraph 27 (d) requires disclosure of "any other elements of the related party transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes". An example of such a disclosure would be an indication that the transfer of a major asset had taken place at an amount materially different from that obtainable on normal operating terms.

29. [Refer to Appendix 1]

30. [Refer to Appendix 1]

31. Paragraph 34 of this Standard requires additional disclosures to be made about certain transactions between an entity and key management personnel and/or the close members of the family of key management personnel.

32. ***Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable information for decision making and accountability purposes.***

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity are eliminated on consolidation in accordance with ASLB 35, '*Consolidated Financial Statements*'[5].

Disclosure — Key Management Personnel

34. ***An entity should disclose:***

    (a) ***The aggregate remuneration of key management personnel and the number of individuals, determined on a full time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;***

    (b) ***The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period showing separately the aggregate amounts provided to:***

        (i) ***Key management personnel; and***

        (ii) ***Close members of the family of key management personnel; and***

    (c) ***In respect of loans or advances which are not widely available to persons who are not key management personnel and loans or advances whose availability is not***

[5] ASLB 35 is yet to be formulated/ issued. The Guidance with regard to this subject may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:

(i) ***The amount of loans or advances given during the period and terms and conditions thereof;***

(ii) ***The amount of loans or advances repaid during the period;***

(iii) ***The amount of the closing balance of all loans, advances and receivables; and***

(iv) ***Where the individual is not a member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.***

35. [Refer to Appendix 1]

36. Persons who are key management personnel may be employed on a full or part time basis. The number of individuals disclosed as receiving remuneration in accordance with paragraph 34(a) needs to be estimated on a full time equivalent basis. Entities will make separate disclosures about the major classes of key management personnel that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups will be made separately. Where an individual is a member of both the governing body and the senior management group, that individual will be included in only one of those groups for the purposes of this Standard. The categories of key management personnel identified in the definition of key management personnel provide a guide to identifying classes of key management personnel.

37. Remuneration of key management personnel can include a variety of direct and indirect benefits. Where the cost of these benefits is determinable, that cost will be included in the aggregate remuneration disclosed. Where the cost of these benefits is not determinable, a best estimate of the cost to the reporting entity or entities will be made and included in the aggregate remuneration disclosed.

38. Requirements on the measurement of employee benefits are found in ASLB 39, '*Employee Benefits*'. When non-monetary remuneration that

is able to be reliably measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

39. This Standard requires the disclosure of certain information about the terms and conditions of loans or advances made to key management personnel and close members of the family of key management personnel, where these loans or advances:

    (a) Are not widely available to persons outside the key management group; and

    (b) May be widely available outside the key management group but whose availability is not widely known to members of the public.

    The disclosure of this information is required for accountability purposes. The exercise of judgment may be necessary in determining which loans or advances should be disclosed to satisfy the requirements of this Standard. That judgment should be exercised after consideration of the relevant facts and in a manner consistent with the achievement of the objectives of financial reporting.

40. Paragraph 34(a) of this Standard requires disclosure of the aggregate remuneration of key management personnel. Key management personnel include directors or members of the governing body and members of the senior management group of the entity. Directors or members of the governing body of the entity may also receive remuneration or compensation from the entity for services provided in a capacity other than as director or member of the governing body of the entity or as an employee of the entity. Paragraph 34(b)(i) of this Standard requires the disclosure of the total amount of this other remuneration or compensation.

41. Close members of the family of key management personnel may influence, or be influenced by, key management personnel in their transactions with the reporting entity. Paragraph 34(b)(ii) of this Standard requires the disclosure of the total remuneration and compensation provided during the period to close members of the family of key management personnel.

42-43. [Refer to Appendix 1]

Illustrative Examples

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying their meaning.

Disclosures — Local Body X

The following disclosures are made in the financial statements of Local Body X.

Controlled Entities (Paragraph 25)

The Local Body controls the following reporting entities: Power distribution entity, water supply entity and transport entity. Joint Ventures for Solid Waste Management or other specific projects on PPP mode, entities for power generation, water supply, transportation, etc.

(Note: ASLB 35 requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

A Councilor was provided with a motor vehicle, rent free. The provision of vehicle is not part of the facilities to Councilor. However, in this case it was necessary to provide a vehicle for the Councilor.

The business partner of a Councilor as an Advisor to the Local Body was provided with a motor vehicle, rent free. Cars similar to that provided normally rent for INR K per annum.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by ASLB 20, '*Related Party Disclosures*') are the members of Council, who together constitute the governing body of Local Body X. The aggregate remuneration of members of the Council and the number of individuals determined on a full-time equivalent basis receiving remuneration from Local Body X are:

Aggregate remuneration ₹ X crores.

Number of persons Y persons.

Loans or advances that are not widely available (and/or widely known) to persons outside the Key Management Group (Paragraph 34(c))

Amounts of such loans advanced and repaid during the period, and the balances outstanding at the end of the period are outlined below:

Individual	Advanced	Repaid	Balance
The Honorable ABC	J	K	L
Ms. VSL	M	N	P
D, the Commissioner	Q	R	Z

Terms and Conditions

The Honorable ABC, Chairman of Taxation Committee, received a loan at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

Ms. VSL, Technical Advisor to Mayor, received a loan from Local Body. The loan is for N years at X% per annum, the current Government borrowing rate.

The salary package of D, the Commissioner allow him to take out a Government loan for up to A years at Y% per annum to purchase a car.

Other remuneration and compensation provided to key management personnel and their close family members (Paragraph 34(b))

During the reporting period, total compensation of INR X amount was provided to members of the Council for consulting services provided to particular departments of the Local Body.

During the reporting period, the Local Body provided total remuneration and compensation of INR Y amount to close family members of key management personnel. This amount consists of the remuneration of Local Body employees who are close members of the family of members of the Council.

Disclosure—Government Agency XYZ

These disclosures are made in the financial statements of Government Agency XYZ, which is a separate reporting entity.

Controlled Entities (Paragraph 25)

The Agency is controlled by Local Body X.

The Agency controls the e-procurement services.

(Note: ASLB 35 requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

The Agency provided a house, rent free, to the Councilor. Houses similar to that provided to the Councilor rent for approximately INR Z per annum. The house is not part of the remuneration package of the Councilor and, as a matter of operating procedure, Local Bodies do not provide residential accommodation to Councilors. However, Local Body X advised that the house should be provided on this occasion.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by ASLB 20) of Agency XYZ are: the Minister, the members of the governing body and the Members of the senior management group. The governing body consists of members appointed by Local Body X; the chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Agency XYZ. The aggregate remuneration of members of the governing body and the number of members determined on a full time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration AX crores.

Number of persons AY persons.

The senior management group consists of the Agency's chief executive officer, the chief financial officer, and the AZ heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration AP crores.

Number of persons AQ persons.

Two division heads are on secondment from Local Body X and are remunerated by Local Body X.

Loans or advances that are not widely available (and/or widely known) to persons outside the key management group (Paragraph 34(c))

Amounts advanced and repaid during the period and balance outstanding at the end of the period:

Individual	Advanced	Repaid	Balance
The Mayor	J	K	L
Mr. G	M	N	P
Ms. H	Q	R	Z

Terms and Conditions

The Mayor received a loan of INR J at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

The salary package of senior staff members Mr. G and Ms. H allows them to take out a Government loan for up to N years at Y% per annum to purchase a car.

Remuneration and compensation provided to close family members of key management personnel (Paragraph 34(b))

During the reporting period, total remuneration and compensation of F amount was provided by the Agency to employees who are close family members of key management personnel.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 20, 'Related Party Disclosures' and the corresponding International Public Sector Accounting Standard (IPSAS) 20, 'Related Party Disclosures'.

Comparison with IPSAS 20, '*Related Party Disclosures*'

1. The following paragraphs of IPSAS 20 have been deleted. In order to maintain consistency with the corresponding IPSAS 20, the paragraph numbers have been retained.

   (a) Paragraph 3 provides that Government Business Enterprises (GBEs) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India;

   (b) Paragraph 17 relating to voting power has been deleted as the Local Bodies may not have a corporate type structure;

   (c) Paragraph 23 pertaining to disclosure for GBEs in some countries, has been deleted as may not be relevant for Local Bodies in India;

   (d) Paragraphs 29 and 35 pertaining to disclosure of the information about transactions between related parties that occur other than on normal terms and conditions, have been deleted as disclosure of all related party transactions has been made mandatory in the ASLB 20;

   (e) Disclosures of related party transactions prescribed under paragraph 30 in IPSAS 20 have been merged with the paragraph 27 in ASLB 20; and

   (f) Paragraphs 42 - 43 pertaining to effective date have been deleted as the ASLB 20 would become mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

2. The following paragraphs of IPSAS 20 have been amended and some new paragraphs have been incorporated in ASLB 20 to make the Standard more relevant in the context of Local Bodies in India:

(i) To clarify that this ASLB applies to Local Bodies (refer paragraph 2);

(ii) Explanation with regard to civil servants not qualifying as KMPs in some jurisdictions has been deleted;

(iii) Disclosures that conflict with the confidentiality requirements of a statue/regulations are not required to be made (insertion of a new paragraph 15A);

(iv) Where there is an inherent difficulty for management to determine the effect of influences that do not lead to the transactions, disclosures of such effects are not required (insertion of a new paragraph 20A); and

(v) Disclosure of all related party transactions have been made mandatory (paragraphs 27, 28 modified and insertion of a new paragraph 28A).

3. Some examples of IPSAS 20 have been deleted/ included in the ASLB 20, and some examples have been modified in the light of Indian conditions.

(a) Management contracts including for deputation or employees' has been added in the example of transactions that are disclosed if they are with related party. (refer paragraph 28 (j)).

(b) Example in paragraph 29 has been modified in context of Local Bodies in India.

(c) Illustrative Examples given in Appendix have been modified suitably.

4. Different terminology as relevant for Local Bodies in Indian Context such as 'Governing Body' in place of 'Board of Directors', 'Local Body/Entity' in place of 'Public Sector Entity', etc., has been used in ASLB 20.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 20, 'Related Party Disclosures' and the corresponding existing Accounting Standard (AS) 18, 'Related Party Disclosures'.

Major differences between the ASLB 20, '*Related Party Disclosures*' and existing AS 18, '*Related Party Disclosures*'

1. Existing AS 18 uses the term 'relatives of an individual', whereas the ASLB 20 uses the term 'a close member of the family of an individual'. The definition of 'close member of the family of an individual' given in ASLB 20 is wider than that is contained in existing AS 18, as according to definition in ASLB 20 domestic partner, relative living in a common household, grand-parent, grand-children, spouse or domestic partner of child, parent-in-law, brother-in-law or sister-in-law are also covered under 'close members of a family of an Individual'.

2. Existing AS 18 covers 'Key Management Personnel (KMP)' of the entity only, whereas in addition the ASLB 20 covers the member of governing body of Central/ State Government and any key advisors of that member.

3. ASLB 20 includes a definition of 'remuneration of key management personnel'. Existing AS does not include this definition.

4. Paragraph 36 of ASLB 20 requires extended disclosures for compensation of KMP under different categories, whereas the existing AS 18 does not specifically require.

Accounting Standard for Local Bodies (ASLB) 21
Impairment of Non-Cash-Generating Assets

Contents

Accounting Standard for Local Bodies (ASLB) 21 Impairment of Non-Cash-Generating Assets

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 21, *'Impairment of Non-Cash-Generating Assets'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity would reverse an impairment loss, and prescribes disclosures.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for impairment of non-cash-generating assets, except:***

   (a) ***Inventories (see ASLB 12, 'Inventories');***

   (b) ***Assets arising from construction contracts (see ASLB 11, 'Construction Contracts');***

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(c) ***Financial assets***[3]***;***

(d) ***Investment Property that is measured using the fair value model (see ASLB 16, 'Investment Property'); and***

(e) *[Deleted]*

(f) *[Deleted]*

(g) ***Other assets in respect of which accounting requirements for impairment are included in another ASLB.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies***[4]***.***

4. [Deleted]

5. ***Entities that hold cash-generating assets as defined in paragraph 14, should apply ASLB 26, 'Impairment of Cash-Generating Assets', to such assets. Entities that hold non-cash-generating assets should apply the requirements of this Standard to non-cash-generating assets.***

6. This Standard excludes from its scope the impairment of assets that are dealt with in another ASLB. Entities apply ASLB 26 to their cash-generating assets, and apply this Standard to their non-cash-generating assets. Paragraphs 6−13 explain the scope of the Standard in greater detail.

7. [Deleted]

8. This Standard does not apply to inventories and assets arising from construction contracts, because existing ASLBs applicable to these assets contain requirements for recognising and measuring these assets.

9. This Standard does not apply to financial assets.

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[3] A **financial asset** is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity;

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'.*

10. This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with ASLB 16. This is because, under the fair value model in ASLB 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.

11. [Deleted]

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the allowed alternative treatment in ASLB 17, are dealt with under ASLB 26.

13. Investments in:

    (a) Controlled entities, as defined in ASLB 35, '*Consolidated Financial Statements*';

    (b) Associates, as defined in ASLB 36, '*Investments in Associates and Joint Ventures*'; and

    (c) Joint arrangements, as defined in ASLB 37, '*Joint Arrangements*';[5]

    are financial assets. Where such investments are classified as cash-generating assets, they are dealt with under ASLB 26. Where these assets are non-cash-generating assets, they are dealt with under this Standard.

Definitions

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

    An <u>active market</u> is a market in which all the following conditions exist:

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

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

[5] The guidance with regard to consolidation and joint arrangements may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates, and Errors*' till the time ASLBs 35 and 37 are not formulated.

(c) ***Prices are available to the public.***

Cash-generating assets ***are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.***

Costs of disposal ***are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense[6].***

"Fair value less costs to sell" ***is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.***

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Impairment of Non-Cash-Generating Assets ***is a loss in the service potential of a non-cash generating asset over and above the loss recognised through depreciation.***

An impairment loss of Non-Cash-Generating Asset is the amount by which the carrying amount of a non-cash-generating asset exceeds its recoverable service amount.

Non-cash-generating assets ***are assets other than cash-generating assets.***

Recoverable service amount ***is the higher of a non-cash-generating asset's 'fair value less costs to sell' and its value in use.***

Useful life ***is either:***

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

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

Value in use of a non-cash-generating asset ***is the present value of the asset's remaining service potential.***

[6] Income tax expenses, wherever applicable, are excluded while determining cost of disposal.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards.

15. [Deleted]

Cash-Generating Assets

16. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a commercial return indicates that an entity intends to generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return, even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset, even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to an asset or assets in the following paragraphs of this Standard are references to non-cash-generating asset(s).

17. There are a number of circumstances in which entities may hold some assets with the primary objective of generating a commercial return, although the majority of assets are not held for that purpose. For example, a municipal hospital/ dispensary may deploy a building for fee-paying patients. Cash-generating assets of an entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

18. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by hospitals controlled by a Local Body, and, is accordingly a non-cash-generating asset, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

19. In other instances, an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or ASLB 26. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies ASLB 26 rather than this Standard.

20. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases, it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than ASLB 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets, and with the related guidance in paragraphs 16–20. Paragraph 73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most Local Bodies the presumption is that assets are non-cash-generating and, therefore, ASLB 21 will apply. For example, a municipal school has started tuition classes for students during summer vacation on commercial basis. However, the primary objective of municipal school is to provide education service on non-commercial basis. The commercial activities (tuition classes) carried out by municipal school during summer vacation is insignificant. In this case, the municipal school is a non-cash generating asset, and, therefore, ASLB 21 will apply.

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognised where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, no goodwill is recognised in respect of service potential that does not give

rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies ASLB 26 rather than this Standard to determine whether to impair goodwill.

21. Assets held by local bodies with the primary objective of generating a commercial return are cash-generating assets. Entities may hold assets to generate a commercial return. For the purposes of this Standard, an asset held by an entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) is operated with the objective of generating a commercial return through the provision of goods and/or services to external parties.

Depreciation

22. Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term amortisation is generally used instead of depreciation. Both terms have the same meaning.

Impairment

23. This Standard defines an impairment as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Impairment of non-cash-generating asset, therefore, reflects a decline in the service potential/utility of an asset to the entity that controls it. For example, a local body hospital may have a medical waste incinerator that it no longer uses. In addition, because of the specialised nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset. The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

24. Paragraphs 26−34 specify when recoverable service amounts would be determined.

25. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

26. ***An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable service amount of the asset.***

26A. ***Irrespective of whether there is any indication of impairment, an entity should also test an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset should be tested for impairment before the end of the current reporting period.***

26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

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

External sources of information

(a) ***Cessation, or near cessation, of the demand or need for services provided by the asset;***

(b) ***Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place***

in the near future, in the technological, legal, or government policy environment in which the entity operates;

Internal sources of information

(c) ***Evidence is available of physical damage of an asset;***

(d) ***Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose off an asset before the previously expected date;***

(e) ***A decision to halt the construction of the asset before it is complete or in a usable condition; and***

(f) ***Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.***

28. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilised in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have nearly ceased when it is so low that the entity (a) would not have attempted to respond to that demand, or (b) would have responded by not acquiring the asset being considered for impairment testing.

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:

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

(b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

30. The events or circumstances that may indicate an impairment of an asset will be significant, and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment, or government policy environment would indicate impairment only if such a change was significant, and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a hospital undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long-term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change, and the entity's assessments at each reporting date would reflect that. The Implementation Guidance sets out examples of impairment indications referred to in paragraph 27.

31. In assessing whether a halt in construction would trigger an impairment test, the entity would consider (a) whether construction has simply been delayed or postponed, (b) whether there is an intention to resume construction in the near future, or (c) whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work-in-progress and is not considered as halted.

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

(a) Significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and

(b) Significantly lower service or output levels provided by the asset, compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.

34. If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortisation) method, or (c) the residual value for the asset needs to be reviewed and adjusted in accordance with the ASLB applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring Recoverable Service Amount

35. This Standard defines recoverable service amount as the higher of an asset's "fair value, less costs to sell", and its value in use. Paragraphs 36-50 set out the basis for measuring recoverable service amount.

36. It is not always necessary to determine both an asset's "fair value less costs to sell" and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

37. It may be possible to determine "fair value less costs to sell", even if an asset is not traded in an active market. Paragraph 42 sets out possible alternative bases for estimating "fair value less costs to sell" when an active market for the asset does not exist. However, sometimes it will not be possible to determine "fair value less costs to sell", because there is no basis for making a reliable[7] estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable service amount.

38. If there is no reason to believe that an asset's value in use materially exceeds its "fair value less costs to sell", the asset's "fair value less costs to sell" may be used as its recoverable service amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds. However, for many local body's non-cash-generating assets that are held on an ongoing basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its "fair value less costs to sell".

39. In some cases, estimates, averages, and computational shortcuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining "fair value less costs to sell" or value in use.

39A. [Refer to Appendix 1]

Fair Value Less Costs to Sell

40. The best evidence of an asset's "fair value less costs to sell" is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

41. If there is no binding sale agreement, but an asset is traded in an active market, "fair value less costs to sell" is the asset's market price less the costs of disposal. The appropriate market price is usually the

[7] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate "fair value less costs to sell", provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

42. If there is no binding sale agreement or active market for an asset, "fair value less costs to sell" is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. "Fair value less costs to sell" does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

43. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining "fair value less costs to sell". Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in ASLB 39, '*Employee Benefits'*) and costs associated with reducing or reorganising an operation following the disposal of an asset, are not direct incremental costs to dispose off the asset.

Value in Use

44. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use in this Standard refers to value in use of a non-cash-generating asset, unless otherwise specified. The present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs 45-49, as appropriate.

Depreciated Replacement Cost Approach

45. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through

replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

46. The replacement cost and reproduction cost of an asset are determined on an optimised basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

47. In certain cases, standby or surplus capacity is held for safety or other reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration Cost Approach

48. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs 45 and 47 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service Units Approach

49. Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its

impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Application of Approaches

50. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:

    (a) Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

    (b) Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and

    (c) Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate.

Recognising and Measuring an Impairment Loss

51. Paragraphs 52-57 set out the requirements for recognising and measuring impairment losses for an asset. In this Standard, impairment loss refers to impairment loss of a non-cash-generating asset unless otherwise specified.

52. ***If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable service amount. That reduction is an impairment loss.***

53. As noted in paragraph 26, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 27−33 identify key indications that an impairment loss may have occurred.

54. ***An impairment loss should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in***

accordance with another Standard (for example, in accordance with the revaluation model in ASLB 17 and ASLB 31). Any impairment loss of a revalued asset should be treated as a revaluation decrease in accordance with that other Standard.

54A. An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.

55. ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity should recognise a liability if, and only if, that is required by another ASLB.***

56. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero, with a corresponding amount recognised in surplus or deficit. A liability would be recognised only if another ASLB so requires. An example is when a municipal building (community hall/warehouse) is no longer used as the area has been declared as green zone and the entity is required by law to remove the said building. The entity may need to make a provision for dismantling costs if required by ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*.

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

Reversing an Impairment Loss

58. Paragraphs 59-70 set out the requirements for reversing an impairment loss recognised for an asset in prior periods.

59. ***An entity should assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable service amount of that asset.***

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

External sources of information

(a) ***Resurgence of the demand or need for services provided by the asset;***

(b) ***Significant long-term changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;***

Internal sources of information

(c) ***Significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;***

(d) ***A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and***

(e) ***Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.***

61. Indications of a potential decrease in an impairment loss in paragraph 60 mainly mirror the indications of a potential impairment loss in paragraph 27.

62. The list in paragraph 60 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, either of the following may be an indication that the impairment loss may have reversed:

(a) A significant rise in an asset's market value; or

(b) A significant long-term increase in the demand or need for the services provided by the asset.

63. A commitment to discontinue or restructure an operation in the near future is an indication of a reversal of an impairment loss of an asset belonging to the operation, where such a commitment constitutes a significant long-term change, with a favourable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indication of reversal of impairment often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilisation of the asset. An example is an x-ray machine that has been underutilised by a clinic managed by a local body hospital and, as a result of restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilisation. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indication that an impairment loss recognised for the asset in prior periods may have to be reversed.

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

65. ***An impairment loss recognised in prior periods for an asset should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.***

66. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraph 60 identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased.

67. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 77 requires an entity to identify the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:

    (a) A change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on "fair value less costs to sell" or value in use);

    (b) If recoverable service amount was based on value in use, a change in estimate of the components of value in use; or

    (c) If recoverable service amount was based on "fair value less costs to sell", a change in estimate of the components of "fair value less costs to sell".

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

69. ***A reversal of an impairment loss for an asset should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in ASLB 17 and ASLB 31). Any reversal of an impairment loss of a revalued asset should be treated as a revaluation increase in accordance with that other Standard.***

69A. A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.

70. ***After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying***

amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation of Assets

71. ***The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets should only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the listed indications applicable to the asset after redesignation.***

72. There are circumstances in which entities may decide that it is appropriate to redesignate a non-cash-generating asset as a cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from a social housing unit, for which no charge is made. The social housing unit has been demolished, and the site will be developed for industrial and retail purposes. It is intended that, in future, the plant will be used to treat industrial effluent at commercial rates. In light of this decision, the entity decides to redesignate the effluent treatment plant as a cash-generating asset.

Disclosure

72A. ***An entity should disclose the criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets.***

73. ***An entity should disclose the following for each class of assets:***

    (a) ***The amount of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are included; and***

    (b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are reversed;***

(c) ***The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and***

(d) ***The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.***

73A. [Deleted]

74. A class of assets is a grouping of assets of similar nature and use in an entity's operations.

75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by ASLB 17.

76. ***An entity that reports segment information in accordance with ASLB 18, 'Segment Reporting', should disclose the following for each segment reported by the entity:***

(a) ***The amount of impairment losses recognised in surplus or deficit during the period; and***

(b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period.***

77. ***An entity should disclose the following for each material impairment loss recognised or reversed during the period:***

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

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

(c) ***The nature of the asset;***

(d) ***The segment to which the asset belongs, if the entity reports segment information in accordance with ASLB 18;***

(e) ***Whether the recoverable service amount of the asset is its "fair value less costs to sell" or its value in use;***

(f) ***If the recoverable service amount is "fair value less costs to sell", the basis used to determine "fair value less costs to***

sell" (such as whether fair value was determined by reference to an active market); and

(g) ***If the recoverable service amount is value in use, the approach used to determine value in use.***

78. ***An entity should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 77:***

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

(b) ***The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.***

79. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

80-83.[Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 21.

Indications of Impairment (paragraph 27)

External Sources of Information

(a) **Cessation, or Near Cessation, of the Demand or Need for Services Provided by the Asset.**

IG1. The asset still maintains the same service potential, but demand for that service has ceased or nearly ceased. Examples of assets impaired in this manner include:

(a) A school closed because of a lack of demand for school services, arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;

(b) A school designed for 1,500 students currently has an enrolment of 150 students – the school cannot be closed because the nearest alternative school is 100 kilometres away. The entity does not envisage the enrolment increasing. At the time of establishment, enrolment was 1,400 students – the entity would have acquired a much smaller facility had future enrolment been envisaged to be 150 students. The entity determines that demand has nearly ceased, and the recoverable service amount of the school should be compared with its carrying amount; and

(c) A stadium whose principal occupant does not renew its occupancy agreement, with the result that the facility is expected to close.

(b) **Significant Long-Term Changes with an Adverse Effect on the Entity in the Technological, Legal, or Government Policy Environment in Which the Entity Operates.**

Technological Environment

IG2. The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

(a) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indication (a) above);

(b) Software that is no longer being supported by the external supplier because of technological advances, and the entity does not have the personnel to maintain the software; and

(c) Computer hardware that has become obsolete as the result of technological development.

Legal or Government Policy Environment

IG3. An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indication include:

(a) An automobile (Bus) that does not meet new emission standards or new noise standards;

(b) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exits; and

(c) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal Sources of Information

(c) **Evidence is Available of Physical Damage of an Asset.**

IG4. Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

(a) A building damaged by fire or flood or other factors;

(b) A building that is closed due to identification of structural deficiencies;

(c) Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;

(d) A dam whose spillway has been reduced as a result of a structural assessment;

(e) A water treatment plant whose capacity has been reduced by an intake blockage, and the removal of the blockage is not economical;

(f) A bridge that is weight-restricted due to identification of structural deficiencies; and

(g) Equipment that is damaged and can no longer be repaired, or for which repairs are not economically feasible.

(d) **Significant Long-Term Changes, with an Adverse Effect on the Entity, in the Extent to Which an Asset is Used, or is Expected to be Used.**

IG5. The asset still maintains the same service potential, but long-term changes have an adverse effect on the extent to which the asset is used. Examples of circumstances in which assets may be impaired in this manner include:

(a) If an asset is not being used to the same degree as it was when originally put into service, or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indication is a mainframe computer that is underutilized, because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used; and

(b) If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a Community hall that is being used for storage rather than for letting out purposes.

(e) **A decision to Halt the Construction of the Asset Before it is Complete or in a Usable Condition.**

IG6. An asset that will not be completed cannot provide the service intended.

Examples of assets impaired in this manner include those where:

(a) Construction was stopped due to identification of an archaeological discovery or environmental condition, such as a nesting ground for a threatened or endangered species; or

(b) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work-in-progress, and is not considered as halted.

(f) **Evidence is Available from Internal Reporting that Indicates that the Service Performance of an Asset is, or will be, Significantly Worse than Expected.**

IG7. Internal reports may indicate that an asset is not performing as expected, or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

IG8. Internal report states that the x-ray machine emits harmful radiation and also inspected by concerned Government department that there is a need to close that facility down permanently in the interest of public health safety norms. It indicates that the aforesaid machine is impaired.

Illustrative Examples

These examples accompany, but are not part of, ASLB 21.

Measurement of Impairment Loss

Note: In the following examples, it is assumed that the "fair value less costs to sell" of the asset tested for impairment is less than its value in use or is not determinable, unless otherwise indicated. Therefore, the asset's recoverable service amount is equal to its value in use. In these examples, the straight-line method of depreciation is used.

Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment—Underutilised Mainframe Computer

IE1. In 1999, a Local Body 'A' purchased a new mainframe computer at a cost of Rs.10 million[8]. Local body 'A' estimated that the useful life of the computer would be seven years, and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of ₹ 500,000 that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

The indication of impairment is the significant long-term change in the technological environment resulting in conversion of applications from the mainframe to other platforms, and therefore, decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:

[8] In these examples monetary amounts are denominated in "rupees" (Rs.).

a	**Acquisition cost, 1999**	**10,000,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**5,714,286**
b	**Carrying amount, 2003**	**4,285,714**
c	**Replacement cost**	**500,000**
	Accumulated depreciation (c × 4 ÷ 7)	**285,714**
d	**Recoverable Service Amount**	**214,286**
	Impairment loss (b – d)	**4,071,428**

Near Cessation in Demand for the Services Provided by a Non-cash-Generating Asset—Underutilised Mainframe Software Application

IE3. In 1999, a local body B purchased a software license for an application for its new mainframe computer for ₹ 350,000. Local body B estimated that the useful life of the software would be seven years, and that it would receive economic benefits and service potential from the software on a straight-line basis over the life of the software. By 2003, usage of the application had declined to 15 percent of its originally anticipated demand. A license for a software application to replace the remaining service potential of the impaired software application costs ₹ 70,000.

Evaluation of Impairment

IE4. The indication of impairment is technological change, brought about by the loss of mainframe computer capacity.

a	**Acquisition cost, 1999**	**350,000**
	Accumulated depreciation, 2003 (a × 4 ÷ 7)	**200,000**
b	**Carrying amount, 2003**	**150,000**
c	**Replacement cost**	**70,000**
	Accumulated amortisation (c × 4 ÷ 7)	**40,000**
d	**Recoverable Service Amount**	**30,000**
	Impairment loss (b – d)	**120,000**

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use—Hospital building Used as Warehouse

IE5. In 1997, Local Body constructed a hospital at a cost of ₹ 10 million. The estimated useful life of the hospital is fifty years. In 2003, the hospital is closed due to a population shift caused by less employment opportunity in the area and non-availability of advanced facility at the hospital. The hospital is converted to use as a storage warehouse, and Local Body has no expectation that the building would be reopened for use as a hospital. The current replacement cost for a warehouse with the same storage capacity as the hospital is ₹ 4.2 million.

Evaluation of Impairment

IE6. Impairment is indicated, because the purpose for which the building is used has changed significantly from a hospital building to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:

a	**Historical cost, 1997**	**10,000,000**
	Accumulated depreciation, 2003 (a × 6 ÷ 50)	**1,200,000**
b	**Carrying amount, 2003**	**8,800,000**
c	**Replacement cost of a storage facility of similar capacity**	**4,200,000**
	Accumulated depreciation (c × 6 ÷ 50)	**504,000**
d	**Recoverable Service Amount**	**3,696,000**
	Impairment loss (b - d)	**5,104,000**

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use— School Partially Closed Due to Decline in Enrolment

IE7. In 1983, the Local Body A constructed a school at the cost of ₹ 2.5 million. The entity estimated the school would be used for 40 years. In 2003, the enrolment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three-story school building. Local Body A has no expectation that enrolments will increase in the future such that the upper stories would be reopened. The current replacement cost of the one-story school is estimated at ₹ 1.3 million.

Evaluation of Impairment

IE8. Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of a reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant, and the enrolment is expected to remain at the reduced level for the foreseeable future. Impairment loss using a depreciated replacement cost approach would be determined as follows:

a	**Acquisition cost, 1983**	**2,500,000**
	Accumulated depreciation, 2003 (a × 20 ÷ 40)	**1,250,000**
b	**Carrying amount, 2003**	**1,250,000**
c	**Replacement cost**	**1,300,000**
	Accumulated depreciation (c × 20 ÷ 40)	**650,000**
d	**Recoverable Service Amount**	**650,000**
	Impairment loss (b - d)	**600,000**

Restoration Cost Approach

Physical Damage—School Bus Damaged in Road

IE9. In 1998, Local body X Primary School acquired a bus at the cost of ₹ 200,000 to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident, requiring ₹ 40,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is ₹ 250,000 in 2003.

Evaluation of Impairment

IE10. Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:

a	**Acquisition cost, 1998**	**200,000**
	Accumulated depreciation, 2003 (a × 5 ÷ 10)	**100,000**
b	**Carrying amount, 2003**	**100,000**
c	**Replacement cost**	**250,000**
	Accumulated depreciation (c × 5 ÷ 10)	**125,000**
d	**Depreciated replacement cost (undamaged state)**	**125,000**
	Less: restoration cost	**40,000**
e	**Recoverable Service Amount**	**85,000**
	Impairment loss (b - e)	**15,000**

Physical Damage—Building damaged by fire

IE11. In 1984, the Local body Y built an office building at a cost of ₹ 50 million. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed, and structural repairs costing ₹ 35.5 million are to be made to restore the office building to an occupiable condition. The replacement cost of a new office building is ₹ 100 million.

Evaluation of Impairment

IE12. Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows:

a	**Acquisition cost, 1984**	**50,000,000**
	Accumulated depreciation, 2003 (a × 19 ÷ 40)	**23,750,000**
b	**Carrying amount, 2003**	**26,250,000**
c	**Replacement cost (of a new building)**	**100,000,000**
d	**Accumulated depreciation (c × 19 ÷ 40)**	**47,500,000**
	Depreciated replacement cost (undamaged)	**52,500,000**
	Less: restoration cost	**35,500,000**
e	**Recoverable Service Amount**	**17,000,000**
	Impairment loss (b - e)	**9,250,000**

Service Units Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use— High-rise Building Partially Unoccupied for the Foreseeable Future

IE13. In 1988, local body Z constructed a 20-storey office building for use by the Council at the cost of ₹ 80 million. The building was expected to have a useful life of 40 years. In 2003, National Safety Regulations required that the top four stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a "fair value less costs to sell" of ₹ 45 million in 2003 after regulations came into force. The current replacement cost of a similar 20-storey building is ₹ 85 million.

Evaluation of Impairment

IE14. Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new National Safety Regulations. The reduction in the extent of use is significant, and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

(a)	**Acquisition cost, 1988**	**80,000,000**
	Accumulated depreciation, 2003 (a × 15 ÷ 40)	**30,000,000**
(b)	**Carrying amount, 2003**	**50,000,000**
(c)	**Replacement cost (20-story building**	**85,000,000**
	Accumulated depreciation (c × 15 ÷ 40)	**31,875,000**
(d)	**Depreciated replacement cost before adjustment for remaining service units**	**53,125,000**
(e)	**Value in Use of the building after the regulation came into force (d × 16 ÷ 20)**	**42,500,000**
(f)	**Fair value less costs to sell of the building after regulation came into force**	**45,000,000**
(g)	**Recoverable service amount (higher of e and f) Impairment loss (b – g)**	**45,000,000**
		5,000,000

Evidence from Internal Reporting—Higher Cost of Operating the Printing Machine

IE15. In 1998, Local Body X Education Department purchased a new printing machine at a cost of ₹ 40 million. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected, resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is ₹ 45 million in 2003.

Evaluation of Impairment

IE16. Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than expected. Circumstances suggest that the decline in the service potential of the asset is significant and of a long-term nature. Impairment loss using a service units approach is determined as follows:

a	**Acquisition cost, 1998**	**40,000,000**
	Accumulated depreciation (a × 5 ÷ 10)	**20,000,000**
b	**Carrying amount, 2003**	**20,000,000**
c	**Replacement cost**	**45,000,000**
	Accumulated depreciation (c × 5 ÷ 10)	**22,500,000**
d	**Depreciated replacement cost before adjustment for remaining service units**	**22,500,000**
e	**Recoverable Service Amount (d × 75%)**	**16,875,000**
	Impairment loss (b - e)	**3,125,000**

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 21 and the corresponding International Public Sector Accounting Standard (IPSAS) 21, 'Impairment of Non-Cash-Generating Assets'.

Comparison with IPSAS 21, *'Impairment of Non-Cash-Generating Assets'*

1. Different terminologies have been used in ASLB 21 as compared to corresponding IPSAS 21, e.g., the terms 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial performance' and 'public sector entities'.

2. The following paragraphs of IPSAS 21 have been deleted. In order to maintain consistency with the corresponding IPSAS 21, the paragraph numbers have been retained:

   (i) The concept of intangible assets with indefinite useful life has not been retained in ASLBs. Accordingly, paragraph 26A has been modified and paragraph 39A has been deleted.

   (ii) Paragraphs 80-81 pertaining to transitional provision have been deleted as a separate ASLB 33, '*First-time Adoption of IPSASs*' has been issued that contains all transitional provisions at one place.

   (iii) Paragraphs 82-83 pertaining to effective date have been deleted as ASLB 21 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

3. Paragraph 3 of IPSAS 21 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

4. The following paragraphs of IPSAS 21 have been amended to make the same more relevant in the context of Local Bodies in India:

Paragraph 14: Definitions

(i) The terms '*impairment of non-cash-generating asset*' and 'impairment loss of non-cash-generating asset' have been defined additionally to distinguish it from impairment/ impairment loss of cash-generating asset more clearly.

(ii) A footnote has been appended to the definition of 'cost of disposal' for more clarification.

5. The following paragraphs appear as 'Deleted' in IPSAS 21. In order to maintain consistency with paragraph numbers of IPSAS 21, the paragraph numbers have been retained in ASLB 21:

(i) Paragraph 2 (e) & (f),

(ii) Paragraph 4,

(iii) Paragraph 7,

(iv) Paragraph 11,

(v) Paragraph 15,

(vi) Paragraph 73A,

(vii) Paragraph 80, and

(viii) Paragraph 81.

6. Some examples of IPSAS 21 have been deleted or modified in light of Indian conditions, and some examples have been included in ASLB 21. (refer paragraphs 18, 20, 23 & 56)

7. Consequential changes resulting from the above departures have been made in ASLB 21.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 21 and the existing Accounting Standard (AS) 28, 'Impairment of Assets'.

Comparison with Existing AS 28, *'Impairment of Assets'*

1. For impairment purposes, ASLB Framework has concept of segregating assets into 'cash-generating assets' and 'non-cash-generating assets' and accordingly, two different ASLBs deal with this topic. However, Existing AS Framework has no such segregation and has only one AS dealing with this topic.

2. The method of measurement of value in use of a non-cash-generating asset under ASLB 21 is different from that applied to a cash-generating asset under existing AS 28. ASLB 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. Existing AS 28 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.

3. ASLB 21 does not include a change in the market value of the asset as an indication of impairment whereas existing AS 28 provides a significant, unexpected decline in market value as part of the minimum set of indications of impairment. ASLB 21 refers to it in commentary.

4. ASLB 21 includes a decision to halt the construction of an asset before completion as an indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss whereas existing AS 28 does not include such an indicator.

5. ASLB 21 deals with the impairment of individual assets. However, impairment prescriptions under existing AS 28 are based on concept of 'cash-generating unit' which would include more than one individual asset.

6. Existing AS 28 has concept of Corporate Assets, i.e., the assets other than goodwill that contribute to the future cash flows of both the cash-generating units under review and other cash generating units. ASLB 21 has no such concept.

7. ASLB 21 uses different terminology in certain instances. For example, ASLB 21 uses the term “recoverable service amount” whereas existing AS 28 uses the terms “recoverable amount”.

Accounting Standard for Local Bodies (ASLB) 23

Revenue from Non-Exchange Transactions (Taxes and Transfers)

Contents

Accounting Standard for Local Bodies (ASLB) 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1].)*

The Accounting Standard for Local Bodies (ASLB) 23, *'Revenue from Non-Exchange Transactions (Taxes and Transfers)'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions including the identification of contributions from owners.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

3. ***This Standard applies to all entities described as local bodies in the Preface to the Accounting Standards for Local Bodies[3].***

4. [Refer to Appendix 1]

5. This Standard addresses revenue arising from non-exchange transactions. Revenue arising from exchange transactions is addressed in ASLB 9, 'Revenue from Exchange Transactions'. While revenues received by local bodies arise from both exchange and non-exchange transactions, the majority of revenue of local bodies is typically derived from non-exchange transactions such as:

   (a) Taxes; and

   (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, and goods and services in-kind.

6. Governments may reorganise the local bodies, merging some local bodies and dividing other entities into two or more separate entities. An entity combination occurs when two or more operations are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. Entity Combinations should be accounted for in accordance with ASLB on 'Entity Combination[4]'.

Definitions

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

   <u>Conditions on transferred assets</u> are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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[3] Refer paragraph 1.3 of the *'Preface to the Accounting Standards for Local Bodies'*.

[4] Formulation of ASLB on this subject is yet to be undertaken. Till that time, paragraph 15 of ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' may be referred for guidance on accounting policy hierarchy.

Control of an asset ***arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.***

Contributions from owners[5] ***means inflows of resources to an entity, contributed by external parties in their capacity as owners, towards the corpus of local bodies which establish or increase an interest in the net financial position of the entity.***

Exchange transaction ***is one in which the entity transfers goods or services, or use of assets, and receives some value (primarily in the form of cash, goods, services or has liabilities extinguished) from the other party in exchange.***

Expenses paid through the tax system ***are amounts that are available to beneficiaries regardless of whether or not they pay taxes.***

Fines ***are economic benefits received or receivable by the entities which are imposed as a consequence of the breach of laws or regulations***[6]***.***

Government ***refers to government, government agencies and similar bodies whether local, state, national or international.***

Grants ***are transfers to local bodies in the form of assistance by government or other entities in cash or kind with or without conditions.***

Non-exchange transactions ***are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving any value in exchange, or gives value to another entity without directly receiving any value in exchange.***

Restrictions on transferred assets ***are stipulations that limit or direct the purposes for which a transferred asset may be used,***

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[5] In case of Local Bodies, normally the contribution towards corpus will come from the Central/ respective State Government. However, where local bodies enter into joint ventures/SPVs with other entities, the controlling local body itself may contribute in capacity as owner towards corpus of the controlled entity.

[6] Fines also encompass penalities.

but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

***Stipulations on transferred assets** are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.*

***Tax expenditures** are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.*

***The taxable event** is the event that the government, legislature or other authority has determined will be subject to taxation.*

***Taxes** are economic benefits or service potential compulsorily paid or payable to local bodies, in accordance with laws and/or regulations, established to provide revenue to the local bodies. Taxes do not include fines/ penalties imposed for breach of the law.*

***Transfers** are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.*

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Non-Exchange Transactions

8. In some transactions it is clear that there is an exchange of some value. These are exchange transactions and are addressed in ASLB 9, '*Revenue from Exchange Transactions*'.

9. In other transactions, an entity will receive resources and provide no consideration directly in return. These are clearly non-exchange transactions and are addressed in this Standard. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. While the taxing entity will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.

10. [Refer to Appendix 1]

11. [Refer to Appendix 1]

Revenue

12. Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organisation or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

13. Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognised separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognised as an asset, in accordance with ASLB 17, '*Property, Plant and Equipment*'.

Stipulations

14. Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations, or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations, as defined in this ASLB. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls. For example, a local body may issue an internal order that the donations received from a particular source will be used for building renovation only. This does not constitute a stipulation under this standard.

15. Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential

embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation).

16. Stipulations are enforceable through legal or administrative processes. If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'* establishes requirements for the recognition and measurement of constructive obligations.

Conditions on Transferred Assets

17. Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties, or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.

18. As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity will still recognise the gross amounts in its financial statements, that is, the entity will recognise a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities, and/or revenue for the new transfer.

Restrictions on Transferred Assets

19. Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, for example, through an administrative process such as a directive from central or state government, or otherwise. Such actions may result in the entity being directed to fulfill the restriction or face a civil or criminal penalty for defying the court, other tribunal or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

Substance over Form

20. In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

21. In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable, and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition, and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not

the substance of a condition, and is, therefore, a restriction. If the entity has no experience with the transferor, or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.

22. The definition of a condition imposes on the recipient entity a performance obligation – that is, the recipient is required to consume the future economic benefits or service potential embedded in the transferred asset as specified, or return the asset or other future economic benefits or service potential to the transferor. To satisfy the definition of a condition, the performance obligation will be one of substance not merely form, and is required as a consequence of the condition itself. A term in a transfer agreement that requires the entity to perform an action that it has no alternative but to perform, may lead the entity to conclude that the term is in substance neither a condition nor a restriction. This is because, in these cases, the terms of the transfer itself do not impose on the recipient entity a performance obligation.

23. To satisfy the criteria for recognition as a liability, it is necessary that an outflow of resources will be probable, and performance against the condition is required and is able to be assessed. Therefore, a condition will need to specify such matters as the nature or quantity of the goods and services to be provided or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur. In addition, performance will need to be monitored by, or on behalf of, the transferor on an ongoing basis. This is particularly so where a stipulation provides for a proportionate return of the equivalent value of the asset if the entity partially performs the requirements of the condition, and the return obligation has been enforced if significant failures to perform have occurred in the past.

24. In some cases, an asset may be transferred subject to the stipulation that it be returned to the transferor if a specified future event does not occur. This may occur where, for example, a central/state government provides funds to an entity subject to the stipulation that the entity raise a matching contribution. In these cases, a return

obligation does not arise until such time as it is expected that the stipulation will be breached, and a liability is not recognised until the recognition criteria have been satisfied.

25. However, recipients will need to consider whether these transfers are in the nature of an advance receipt. In this Standard, advance receipt refers to resources received prior to a taxable event or a transfer arrangement becoming binding. Advance receipts give rise to an asset and a present obligation because the transfer arrangement has not yet become binding. Where such transfers are in the nature of an exchange transaction, they will be dealt with in accordance with ASLB 9, '*Revenue from Exchange Transactions*'.

Taxes

26. Taxes are the major source of revenue for many local bodies. Taxes are defined in paragraph 7 as economic benefits compulsorily paid or payable to entities, in accordance with laws or regulation, established to provide revenue to the local bodies, excluding fines or other penalties imposed for breaches of laws or regulation. Non-compulsory transfers to the entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A local body levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its powers conferred on it.

27. State/Central tax laws and regulations (a) establish a local body's right to collect the tax, (b) identify the basis on which the tax is calculated, and (c) establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. The taxpayer generally provides details and evidence of the level of activity[7] subject to tax, and the amount of tax receivable by the entity is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the entity receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

28. Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

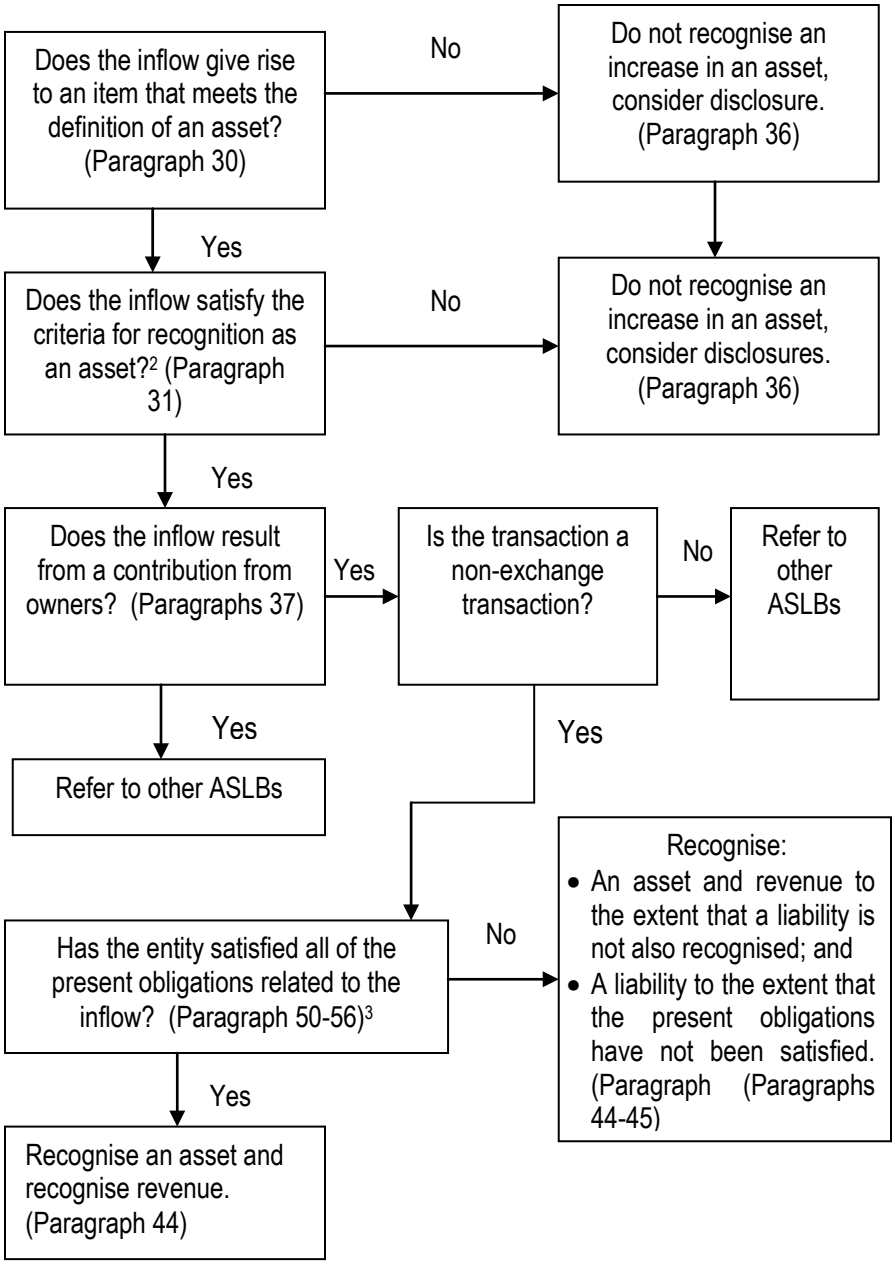
[7] The level of activity implies the nature and / or magnitude of activity.

Initial Analysis of the Inflow of Resources from Non-Exchange Transactions

29. An entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognise as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analysed, and any contributions from owners are accounted for separately. Consistent with the approach set out in this Standard, entities will analyse non-exchange transactions to determine which elements of general purpose financial statements will be recognised as a result of the transactions. The flow chart on the following page illustrates the analytic process an entity undertakes when there is an inflow of resources to determine whether revenue arises. This Standard follows the structure of the flowchart. Requirements for the treatment of transactions are set out in paragraphs 30-115.

Illustration of the Initial Analysis of Inflows of Resources[1]

1. The flowchart is illustrative only, it does not take the place of the Standards. It is provided as an aid to interpreting this ASLB.
2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset, the entity decreases the carrying amount of the liability.
3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of “conditions on a transferred asset”, and the criteria for recognising a liability, are considered.


Does the inflow give rise to an item that meets the definition of an asset? (Paragraph 30)
No
Do not recognise an increase in an asset, consider disclosure. (Paragraph 36)
Yes
Does the inflow satisfy the criteria for recognition as an asset?2 (Paragraph 31)
No
Do not recognise an increase in an asset, consider disclosures. (Paragraph 36)
Yes
Does the inflow result from a contribution from owners? (Paragraphs 37)
Yes
Is the transaction a non-exchange transaction?
No
Refer to other ASLBs
Yes
Refer to other ASLBs
Yes
Has the entity satisfied all of the present obligations related to the inflow? (Paragraph 50-56)3
No
Recognise:
• An asset and revenue to the extent that a liability is not also recognised; and
• A liability to the extent that the present obligations have not been satisfied. (Paragraph (Paragraphs 44-45)
Yes
Recognise an asset and recognise revenue. (Paragraph 44)

Recognition of Assets

30. Asset is defined as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential is expected to flow to the entity.

31. ***An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset should be recognised as an asset when, and only when:***

    (a) ***It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and***

    (b) ***The fair value of the asset can be measured reliably[8] except for a few transactions that are to be measured at nominal value of ₹ 1/- in accordance with this Standard.***

Control of an Asset

32. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In accordance with paragraph 98, entities may, but are not required, to recognise services in-kind. For example, a local body may have the authority of allotment of use of a city town hall to specific entities based on established rules.

33. An announcement of an intention to transfer resources to an entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school were destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school, the school would not recognise an inflow of resources (resources receivable) at the time of the announcement. In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding, because the recipient entity cannot exclude or regulate the access of

[8] Information that is reliable is free from material errors and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognise an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources.

Past Event

34. Local bodies normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore, the past event that gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer.

Probable Inflow of Resources

35. An inflow of resources is "probable" when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where (a) a government agrees to transfer funds to a local body (reporting entity), (b) the agreement is binding, and (c) the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

36. An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset to be dealt with in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'[9].

Contributions from Owners

37. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in the definition as

[9] See paragraph 104 of this ASLB for example of contingent asset under non-exchange transaction.

provided in this Standard. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. If, despite the form of the transaction, the substance is clearly that of a loan or another kind of liability, or revenue, the entity recognises it as such and makes an appropriate disclosure in the notes to the general purpose financial statements, if material. For example, if a transaction purports to be a contribution from owners, but specifies that the reporting entity will pay fixed distributions to the transferor, with a return of the transferor's investment at a specified future time, the transaction is more characteristic of a loan. For contractual arrangements, an entity also considers the guidance on '*Financial Instruments'*[10] when distinguishing liabilities from contributions from owners.

38-41. [Refer to Appendix 1]

Measurement of Assets on Initial Recognition

42. ***An asset acquired through a non-exchange transaction should initially be measured at its fair value as at the date of acquisition except non-monetary transfers (transfer of tangible/intangible assets) that are accounted in accordance with paragraph 43.***

43. Non-monetary transfers (transfer of tangible/intangible assets) such as 'Inventories', 'Investment Property', 'Property, Plant and Equipment' and 'Intangible Asset', acquired through non-exchange transaction should initially be measured at nominal value of Re. 1/-.

Recognition of Revenue from Non-Exchange Transactions

44. ***An inflow of resources from a non-exchange transaction recognised as an asset should be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.***

45. ***As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange***

[10] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

transaction recognised as an asset, it should reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.

46. When an entity recognises an increase in net assets as a result of a non-exchange transaction, it recognises revenue. If it has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognises revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognised as a liability or revenue.

47. The timing of revenue recognition is determined by the nature of the conditions and their settlement. For example, if a condition specifies that the entity is to provide goods or services to third parties, or return unused funds to the transferor, revenue is recognised as goods or services are provided.

Measurement of Revenue from Non-Exchange Transactions

48. ***Revenue from non-exchange transactions should be measured at the amount of the increase in net assets recognised by the entity.***

49. When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph 42, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph 57, and the amount of the increase in net assets, if any, will be recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

Present Obligations Recognised as Liabilities

50. ***A present obligation arising from a non-exchange transaction that meets the definition of a liability should be recognised as a***

liability when, and only when:

(a) ***It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and***

(b) ***A reliable estimate can be made of the amount of the obligation.***

Present Obligation

51. A present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

52. In many instances, taxes are levied and assets are transferred to entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes. For example:

    (a) Taxes, the use of which is limited by laws or regulations to specified purposes;

    (b) Transfers, established by a binding arrangement that includes conditions:

        (i) From central governments to local bodies;

        (ii) From state governments to local bodies;

        (iii) From local bodies/other entity to other local bodies;

        (iv) To governmental agencies that are created by laws or regulation to perform specific functions with operational autonomy, such as statutory authorities or regional boards or authorities; and

        (v) From donor agencies to local bodies.

53. In the normal course of operations, a reporting entity may accept resources prior to a taxable event occurring. In such circumstances, a liability of an amount equal to the amount of the advance receipt is recognised until the taxable event occurs.

54. If a reporting entity receives resources prior to the existence of a binding transfer arrangement, it recognises a liability for an advance receipt until such time as the arrangement becomes binding.

Conditions on a Transferred Asset

55. ***Conditions on a transferred asset give rise to a present obligation on initial recognition that will be recognised in accordance with paragraph 50.***

56. Stipulations are defined in paragraph 7. Paragraphs 14-25 provide guidance on determining whether a stipulation is a condition or a restriction. An entity analyses any and all stipulations attached to an inflow of resources, to determine whether those stipulations impose conditions or restrictions.

Measurement of Liabilities on Initial Recognition

57. ***The amount recognised as a liability should be the best estimate of the amount required to settle the present obligation at the reporting date.***

58. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised in accordance with the principles contained in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'.

Taxes

59. ***An entity should recognise an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.***

60. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset set out in paragraph 31. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

61. Taxation revenue arises only for the entity that imposes the tax, and

not for other entities. For example, where the state government imposes a tax that is collected by its local body, assets and revenue accrue to the state government, not the local body.

62. Taxes do not satisfy the definition of contributions from owners, because the payment of taxes does not give the taxpayers a right to receive (a) distributions of future economic benefits or service potential by the entity during its life, or (b) distribution of any excess of assets over liabilities in the event of the local body being wound up. Nor does the payment of taxes provide taxpayers with an ownership right in the local body that can be sold, exchanged, transferred or redeemed.

63. Taxes satisfy the definition of 'non-exchange transaction' because the taxpayer transfers resources to the entity, without receiving directly any value in exchange. While the taxpayer may benefit from a range of services provided by the local bodies, these are not provided directly in exchange as consideration for the payment of taxes.

64. As noted in paragraph 52, some taxes are levied for specific purposes. If the entity is required to recognise a liability in respect of any conditions relating to assets recognised as a consequence of specific purpose tax levies, it does not recognise revenue until the condition is satisfied and the liability is reduced. However, in most cases, taxes levied for specific purposes are not expected to give rise to a liability because the specific purposes amount to restrictions not conditions.

The Taxable Event

65. The reporting entity analyses the taxation law to determine what the taxable event is for the various taxes levied. For example, taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Advance Receipts of Taxes

66. Consistent with the definitions of 'assets', 'liabilities' and the requirements of paragraph 59, resources for taxes received prior to the occurrence of the taxable event are recognised as an asset and a liability (advance receipts), because (a) the event that gives rise to

the entity's entitlement to the taxes has not occurred, and (b) the criteria for recognition of taxation revenue have not been satisfied (see paragraph 59), notwithstanding that the entity has already received an inflow of resources. Advance receipts in respect of taxes are not fundamentally different from other advance receipts, so a liability is recognised until the taxable event occurs. When the taxable event occurs, the liability is discharged and revenue is recognised.

Measurement of Assets Arising from Taxation Transactions

67. Paragraph 42 requires that assets arising from taxation transactions be measured at their fair value as at the date of acquisition. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform with the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the entity, and the fair value of the resultant assets.

68. Where there is a separation between the timing of the taxable event and collection of taxes, entities may reliably measure assets arising from taxation transactions by using, for example, statistical models based on the history of collecting the particular tax in prior periods. These models will include consideration of the timing of cash receipts from taxpayers, declarations made by taxpayers and the relationship of taxation receivable to other events in the economy. Measurement models will also take account of other factors such as:

    (a) The tax law allowing taxpayers a longer period to file returns than the entity is permitted for publishing general purpose financial statements;

    (b) Taxpayers failing to pay tax on a timely basis;

    (c) Valuing non-monetary assets for tax assessment purposes;

    (d) Complexities in tax law requiring extended periods for assessing taxes due from certain taxpayers;

(e) The potential that the financial and political costs of rigorously enforcing the tax laws and collecting all the taxes legally due to the entity may outweigh the benefits received; and

(f) The tax law permitting taxpayers to defer payment of some taxes.

69. Measuring assets and revenue arising from taxation transactions using statistical models may result in the actual amount of assets and revenue recognised being different from the amounts determined in subsequent reporting periods as being due from taxpayers in respect of the current reporting period. Revisions to estimates are made in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

70. In some cases, the assets arising from taxation transactions and the related revenue cannot be reliably measured until some time after the taxable event occurs. This may occur if a tax base is volatile and reliable estimation is not possible. In many cases, the assets and revenue may be recognised in the period subsequent to the occurrence of the taxable event. However, there are exceptional circumstances when several reporting periods will pass before a taxable event results in an inflow of resources embodying future economic benefits or service potential that meets the definition of an asset and satisfies the criteria for recognition as an asset. For example, it may take several years to determine and reliably measure the amount of a new tax because the authority to levy the tax might get established well beyond the reporting period because of underlying disputes on the validity of the tax itself. Consequently the recognition criteria may not be satisfied until payment is received or receivable.

Expenses Paid Through the Tax System and Tax Expenditures

71. ***Taxation revenue should be determined at a gross amount. It should not be reduced for expenses paid through the tax system.***

72. The local body uses the tax system as a convenient method of paying to taxpayers benefits that would otherwise be paid using another

payment method, such as writing a cheque, directly depositing the amount in a taxpayer's bank account, or settling another account on behalf of the taxpayer. For example, local body may pay part of residents' health insurance premiums, to encourage the uptake of such insurance, either by reducing the individual's tax liability, making a payment by cheque or by paying an amount directly to the insurance company. In these cases, the amount is payable irrespective of whether the individual pays taxes. Consequently this amount is an expense of the entity and should be recognised separately in the statement of income and expenditure. Tax revenue should be increased for the amount of any of these expenses paid through the tax system.

73. ***Taxation revenue should not be grossed up for the amount of tax expenditures.***

74. Local body may use the tax system to encourage certain financial behavior and discourage other behavior. For example, a local body allows a rebate of 10% to tax payers who pay property tax before a date as specified by the local body. These types of concessions are available only to taxpayers. If an entity (including a natural person) does not pay tax, it cannot access the concession. These types of concessions are called tax expenditures. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue, or expenses of the taxing entity.

75. The key distinction between expenses paid through the tax system and tax expenditures is that, for expenses paid through the tax system, the amount is available to recipients irrespective of whether they pay taxes, or use a particular mechanism to pay their taxes. ASLB 1, '*Presentation of Financial Statements*', prohibits the offsetting of items of revenue and expense unless permitted by another Standard. The offsetting of tax revenue and expenses paid through the tax system is not permitted.

Transfers

76. ***Subject to paragraph 98, an entity should recognise an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.***

77. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing any value in exchange, and are not taxes as defined in this Standard.

78. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset prescribed in paragraph 31. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognised liability may arise. In these cases, instead of recognising an asset as a result of the transfer, the entity decreases the carrying amount of the liability.

79. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. However, sometimes one entity promises to transfer resources, but fails to do so. Consequently only when (a) a claim is enforceable, and (b) the entity assesses that it is probable that the inflow of resources will occur, assets, liabilities, and/or revenue will be recognised. Until that time, the entity cannot exclude or regulate the access of third parties to the benefits of the resources proposed for transfer.

80. Transfers of resources that satisfy the definition of 'contributions from owners' will not give rise to revenue.

81. Transfers satisfy the definition of non-exchange transactions because the transferor provides resources to the recipient entity without the recipient entity providing any value directly in exchange. If an agreement stipulates that the recipient entity is to provide some value in exchange, the agreement is not a transfer agreement, but a contract for an exchange transaction that should be accounted for under ASLB 9, '*Revenue from Exchange Transactions*'.

82. An entity analyses all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.

Measurement of Transferred Assets

83. As required by paragraph 42, transferred assets are measured at their fair value as at the date of acquisition except non-monetary transfers (transfer of tangible/intangible assets) that are recorded at nominal value of Re. 1/-. Entities develop accounting policies for the recognition and measurement of assets that are consistent with ASLBs.

Debt Forgiveness and Assumption of Liabilities

84. Lenders will sometimes waive their right to collect a debt owed by an entity, effectively canceling the debt. For example, Central Government may cancel a loan owed by a local body. In such circumstances, the local body recognises an increase in net assets because a liability it previously recognised is extinguished.

85. Entities recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

86. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners, as described in paragraphs 37–38.

87. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

Fines

88. Fines are economic benefits or service potential received or receivable by an entity, from an individual or other entity, as determined by a statutory or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. In some cases, law enforcement officials are able to impose fines on individuals considered to have breached the law. In these cases, the individual will normally have the choice of paying the fine, or going to court to defend the matter. Where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment is recognised as a fine.

89. Fines normally require an individual /another entity to transfer a fixed amount of cash to the entity, and do not impose on the entity any obligations which may be recognised as a liability. As such, fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset set out in paragraph 31. As noted in paragraph 12, where an entity collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

90. A bequest is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate.

91. Bequests which satisfy the definition of an asset are recognised as assets when it satisfies the recognition criteria as prescribed in Paragraph 31. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any assets. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity.

92. The bequeathed assets should be measured in accordance with the paragraph 83.

Gifts and Donations, including Goods In-kind

93. Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98-103 below.

94. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organisations often includes a component of goods in-kind.

95. Gifts and donations (other than services in-kind) are recognised as assets and revenue when it satisfies the recognition criteria as prescribed in paragraph 31. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.

96. Goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

97. Paragraph 83 prescribes the measurement principle for gifts and donations including goods in-kind.

Services In-kind

98. ***An entity may, but is not required to, recognise services in-kind as revenue and as an asset.***

99. Services in-kind are services provided by individuals to entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential are expected to flow to the entity. These assets are, however, immediately consumed, and a transaction of equal value is also recognised to reflect the consumption of these services in-kind. For example, a municipal school that receives volunteer services from teachers' aides, the fair value of which can be reliably measured, may recognise an increase in an asset and revenue, and a decrease in an asset and an expense. In many cases, the entity will recognise an expense for the consumption of services in-kind. However, services in-kind may also be utilised to construct an asset, in which case the amount

recognised in respect of services in-kind is included in the cost of the asset being constructed.

100. Local bodies may be recipients of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:

(a) Technical assistance from other governments or international organisations;

(b) Persons convicted of offenses may be required to perform community service for a local body;

(c) Municipal hospitals may receive the services of volunteers;

(d) Municipal schools may receive voluntary services from parents as teachers' aides or as board members; and

(e) Local bodies may receive the services of volunteer fire fighters.

101. Some services in-kind do not meet the definition of an asset because the entity has insufficient control over the services provided. In other circumstances, the entity may have control over the services in-kind, but may not be able to measure them reliably, and thus they fail to satisfy the criteria for recognition as an asset. Entities may, however, be able to measure the fair value of certain services in-kind, such as professional or other services in-kind that are otherwise readily available in the national or international marketplace. When determining the fair value of the types of services in-kind described in paragraph 100, the entity may conclude that the value of the services is not material. In many instances, services in-kind are rendered by persons with little or no training, and are fundamentally different from the services the entity would acquire if the services in-kind were not available.

102. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, this Standard does not require the recognition of services in- kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. As for all disclosures, disclosures relating to services in-kind are only made if they are material. For some entities, the services provided by volunteers are not material in amount, but may be material by nature.

103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognise those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognise a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

Pledges

104. Pledges are unenforceable undertakings to transfer assets to the recipient entity. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Entities do not recognise pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognised as a gift or donation, in accordance with paragraphs 93–97 above. Pledges may warrant disclosure as contingent assets under the requirements of ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'.

Advance Receipts of Transfers

105. Where an entity receives resources before a transfer arrangement becomes binding, the resources are recognised as an asset when they meet the definition of an asset and satisfy the criteria for recognition as an asset. The entity will also recognise an advance receipt liability if the transfer arrangement is not yet binding. Advance receipts in respect of transfers are not fundamentally different from other advance receipts, so a liability is recognised until the event that makes the transfer arrangement binding occurs and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognised.

105A-B. [Refer to Appendix 1]

Disclosures

106. ***An entity should disclose either on the face of, or in the notes to, the general purpose financial statements:***

(a) ***The amount of revenue from non-exchange transactions recognised during the period by major classes showing separately:***

(i) ***Taxes, showing separately major classes of taxes; and***

(ii) ***Transfers, showing separately major classes of transfer revenue.***

(b) ***The amount of receivables recognised in respect of non-exchange revenue;***

(c) ***The amount of liabilities recognised in respect of transferred assets subject to conditions;***

(cA) [Refer to Appendix 1]

(d) ` ***The amount of assets recognised that are subject to restrictions and the nature of those restrictions;***

(e) ***The existence and amounts of any advance receipts in respect of non-exchange transactions; and***

(f) ***The amount of any liabilities forgiven.***

107. ***An entity should disclose in the notes to the general purpose financial statements:***

(a) ***The accounting policies adopted for the recognition of revenue from non-exchange transactions;***

(b) ***For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;***

(c) ***For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax;***

(d) ***The nature and type of major classes of bequests, gifts, and donations showing separately major classes of goods in-kind received; and***

(e) ***The nature and extent of grants received from the government and other entities separately, recognised in the financial statements, including grants of non-monetary assets.***

108. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

109. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in ASLB 1, '*Presentation of Financial Statements*', which is to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it.

110. Disclosure of the major classes of revenue assists users to make informed judgments about the entity's exposure to particular revenue streams.

111. Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of (a) the amount of liabilities recognised in respect of conditions, and (b) the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 106(c).

112. Paragraph 106(e) requires entities to disclose the existence of advance receipts in respect of non-exchange transactions. These liabilities carry the risk that the entity will have to make a sacrifice of future economic benefits or service potential if the taxable event does not occur, or a transfer arrangement does not become binding. Disclosure of these advance receipts assists users to make judgements about the entity's future revenue and net asset position.

113. As noted in paragraph 68, in many cases an entity will be able to reliably measure assets and revenue arising from taxation

transactions, using, for example, statistical models. However, there may be exceptional circumstances where an entity is unable to reliably measure the assets and revenue arising until one or more reporting periods has elapsed since the taxable event occurred. In these cases, the entity makes disclosures about the nature of major classes of taxation that cannot be reliably measured, and therefore recognised, during the reporting period in which the taxable event occurs. These disclosures assist users to make informed judgements about the entity's future revenue and net asset position.

114. Paragraph 107(d) requires entities to make disclosures about the nature and type of major classes of gifts, donations, and bequests it has received. These inflows of resources are received at the discretion of the transferor, which exposes the entity to the risk that, in future periods, such sources of resources may change significantly. Such disclosures assist users to make informed judgements about the entity's future revenue and net asset position.

115. Where services in-kind meet the definition of an asset and satisfy the criteria for recognition as an asset, entities may elect to recognise these services in-kind and measure them at their fair value. Paragraph 108 encourages an entity to make disclosures about the nature and type of all services in-kind received, whether they are recognised or not. Such disclosures may assist users to make informed judgments about (a) the contribution made by such services to the achievement of the entity's objectives during the reporting period, and (b) the entity's dependence on such services for the achievement of its objectives in the future.

116- 125. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of ASLB 23.

Measurement, Recognition and Disclosure of Revenue from Non- Exchange Transactions — Examples

Example 1: Property Tax (Paragraph 65)

1. A Local body levies a tax of one percent of the assessed value of all property within its jurisdiction. The Local Body's reporting period is April 1 to March 31. The tax is levied on April 30, with notices of assessment being sent to property owners in April, and payment due by May 31. If taxes are unpaid on that date, property owners incur penalty interest rate payments of two percent per month of the amount outstanding. The tax law permits the local body to seize and sell a property to collect outstanding property taxes.

2. The local body controls a resource–property taxes receivable–when the taxable event occurs, which is the passing of the date on which the taxes are levied–April 30. The government recognises assets and revenue in the general purpose financial statements of the reporting period in which that date occurs. At this stage, the penalty is not recognised.

Example 2: Grant received from Government for General Purposes (Paragraphs 14 - 16, 76)

3. The central government (transferor) makes a grant of ₹ 10 lakhs to a local body in a socio-economically deprived area. The local body is required under its constitution to undertake various social programs; however it has insufficient resources to undertake all of these programs without assistance. There are no stipulations attached to the grant. The Local Body is required to prepare and present audited general purpose financial statements.

4. There are no stipulations attached to these grants, and no performance obligation, so the transfers are recognised as assets and revenue in the general purpose financial statements of the reporting period in which they are received or receivable by the local body.

Example 3: Transfer with Stipulations that do not satisfy the Definition of a Condition (Paragraphs 20 – 25)

5. The central government makes a cash transfer of ₹ 50 lakhs to a local body's school specifying that it:

   (i) increases the stock of school housing by an additional 10 units over and above any other planned increases; or

   (ii) uses the cash transfer in other ways to support its school housing objectives.

   If neither of these stipulations is satisfied the recipient entity must return the cash to the central government.

6. The local body recognises an increase in an asset (cash) and revenue in the amount of ₹ 50 lakhs. The stipulations in the transfer agreement are stated so broadly as to not impose on the recipient a performance obligation–the performance obligation is imposed by the operating mandate of the entity, not by the terms of the transfer.

Example 4: Transfer to a Municipal Education Institution with Restrictions (Paragraphs 19 and 76)

7. The government (transferor) transfers 200 hectares of land in a major city to a Municipal Education Institution (reporting entity) for the establishment of a Municipal Education Institution campus. The transfer agreement specifies that the land is to be used for a campus, but does not specify that the land is to be returned if not used for a campus.

8. The Municipal Education Institution recognises the land as an asset in the balance sheet of the reporting period in which it obtains control of that land. The land should be recognised at its nominal value of Re. 1/-. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the Municipal Education Institution recognises revenue in respect of the land in the statement of income and expenditure of the reporting period in which the land is recognised as an asset.

Example 5: Grant to Local Body with Conditions (see paragraphs 17 - 18)

9. The government (transferor) grants ₹ 1,000 lakhs to a local body (reporting entity) to be used to improve and maintain mass transit systems. Specifically, the money is required to be used as follows: 50 percent for existing transport system modernisation, 50 percent for new transport systems. Under the terms of the grant, the money can only be used as stipulated and the local body is required to include a note in its audited general purpose financial statements detailing how the grant money was spent. The agreement requires the grant to be spent as specified in the current year or be returned to the government.

10. The local body recognises the grant money as an asset. The local body also recognises a liability in respect of the condition attached to the grant. As the local body satisfies the condition, that is, as it makes authorised expenditures, it reduces the liability and recognises revenue in the statement of income and expenditure of the reporting period in which the liability is discharged.

Example 6: Debt Forgiveness (Paragraphs 84 - 87)

11. The government (transferor) lent a local body (reporting entity) ₹ 200 lakhs to enable the local body to build a water treatment plant. After a change in policy, the government decides to forgive the loan. There are no stipulations attached to the forgiveness of the loan. The government writes to the local body and advises it of its decision; it also encloses the loan documentation, which has been annotated to the effect that the loan has been waived.

12. When it receives the letter and documentation from the government, which communicates this decision, the local body de-recognises the liability for the loan and recognises revenue in the statement of income and expenditure of the reporting period in which the liability is de-recognised.

Example 7: Proposed Bequest (Paragraphs 90 - 92)

13. A 66-year-old citizen (transferor) names the local body (reporting entity) as the primary beneficiary in her will. This is communicated to the local body. The citizen is unmarried and childless and has an estate currently valued at ₹ 5,00,000.

14. The local body does not recognise any asset or revenue in its general purpose financial statements for the period in which the will is made. The past event for a bequest is the death of the testator (transferor), which has not occurred. In other words, the proposed bequest can only be recognised on happening of the past event, i.e., the death of the transferor.

Example 8: Pledge – Television Appeal for Municipal Hospital (Paragraph 104)

15. On the evening of March 31, 20X5 a local television station conducts a fund raising appeal for a municipal hospital (reporting entity). The annual reporting date of the municipal hospital is March 31. Television viewers telephone or e-mail promising to send donations of specified amounts of money. At the conclusion of the appeal, ₹ 20 lakhs has been pledged. The pledged donations are not binding on those making the pledge. Experience with previous appeals indicates approximately 75 percent of pledged donations will be made.

16. The municipal hospital does not recognise any amount in its general purpose financial statements in respect of the pledges. The entity does not control the resources related to the pledge because it cannot exclude or regulate the access of the prospective transferors to the economic benefits or service potential of the pledged resources, therefore, it cannot recognise the asset or the related revenue until the donation is binding on the donor.

Example 9: Fine (Paragraph 88 – 89)

17. A company is found guilty of polluting surroundings of municipal limits. As a penalty it is required to clean up the pollution and to pay a fine of ₹ 50 lakhs. The company is in sound financial condition and is capable of paying the fine. The company has announced that it will not appeal the case.

18. The local body (reporting entity) recognises a receivable and revenue of ₹ 50 lakhs in the general purpose financial statements of the reporting period in which the fine is imposed.

Example 10: External Assistance Recognised (Paragraph 76 - 82)

19. Local Body (reporting entity) enters into an external assistance agreement with world bank which provides Local Body with

development assistance grants to support Local Body's health objectives over a two year period. The external assistance agreement is binding on both parties. The agreement specifies the details of the development assistance receivable by Local Body. Local Body measures the fair value of the development assistance at ₹ 50 lakhs.

20. When the external assistance agreement becomes binding, Local Body recognises an asset (a receivable) for the amount of ₹ 50 lakhs, and revenue in the same amount. The resources meet the definition of an asset and satisfy the recognition criteria when the agreement becomes binding. There are no conditions attached to this agreement that require the entity to recognise a liability.

Example 11: Revenue of Local Body (Paragraphs 76, 93 - 97)

21. Local Body relies on funding from a group of governments. The governments have signed a formal agreement, which determines the percentage of Local Body's approved budget that each government will fund. Local Body can only use the funds to meet the expenses of the budget year for which the funds are provided. Local Body's financial year begins on April 1. Local Body's budget is approved in the preceding December and the invoices are mailed out to the individual governments ten days after the budget is approved. Some governments pay before the start of the financial year and some during the financial year. However, based on past experience, some governments are very unlikely to pay what they owe, either during the financial year or at any future time.

22. For the budget year 2009-10, the profile of amounts and timing of payments was as follows:

	(₹ Lakhs)
Budget approved December 24, 2008	55
Amount invoiced January 4, 2009	55
Transfers received as at March 31, 2009	15
Transfers received during 2009-10	38
Amount not received by March 31, 2010 and unlikely to be received	2

23. In 2008-09, Local Body recognises an asset of ₹ 15 lakhs for the amount of transfers received before the start of 2009-10, because it

has control over an asset when the transfer is received and deposited in its bank account. An equivalent ₹ 15 lakhs liability, revenue received in advance, is recognised.

24. In 2009-10, Local Body recognises ₹ 53 lakhs of revenue from transfers. In the notes to its general purpose financial statements, it discloses that ₹ 55 lakhs was invoiced and an allowance for doubtful debts of ₹ 2 lakhs was established.

Example 12: Disclosure of Services In-kind not Recognised (Paragraphs 98 - 102, 108)

25. A municipal hospital's (reporting entity) accounting policies are to recognise voluntary services received as assets and revenue when they meet the definition of an asset and satisfy the criteria for recognition as assets. The hospital enlists the services of volunteers as part of an organised program. The principal aim of the program is to expose volunteers to the hospital environment and to promote nursing as a career. Volunteers must be at least sixteen years of age and are initially required to make a six-month commitment to work one four-hour morning or afternoon shift per week. The first shift for each volunteer consists of a hospital orientation training session. Many local high schools permit students to undertake this work as part of their education program. Volunteers work under the direction of a registered nurse and perform non-nursing duties such as visiting patients and reading to patients. The municipal hospital does not pay the volunteers nor would it engage employees to perform volunteers' work if volunteers were not available.

26. The hospital analyses the agreements it has with the volunteers and concludes that, at least for a new volunteer's first six months, it has sufficient control over the services to be provided by the volunteer to satisfy the definition of control of an asset. The hospital also concludes that it receives service potential from the volunteers, satisfying the definition of an asset. However, it concludes that it cannot reliably measure the fair value of the services provided by the volunteers, because there are no equivalent paid positions either in the hospital or in other health or community care facilities in the region. The hospital does not recognise the services in-kind provided by the volunteers. The hospital discloses the number of hours of

service provided by volunteers during the reporting period and a description of the services provided.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 23 and the corresponding International Public Sector Accounting Standard (IPSAS) 23, 'Revenue from Non-Exchange Transactions (Taxes and Transfers)'.

Comparison with IPSAS 23, *'Revenue from Non-exchange transactions (Taxes and Transfers)'*

1. Different terminologies have been used in ASLB 23 as compared to corresponding IPSAS 23, e.g., the terms 'statement of income and expenditure' and 'entity combination' have been used in place of 'statement of financial performance' and 'public sector combination' respectively.

2. The following paragraphs of IPSAS 23 have been deleted. In order to maintain consistency with the corresponding IPSAS 23, the paragraph numbers have been retained:

   (I) Paragraph 4 of IPSAS 23 provides that Government Business Enterprises (GBEs) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.

   (II) Off-market portion of concessionary loans received would fall under the category 'exchange transactions' as per the requirements of ASLB 9, *'Revenue from Exchange Transactions*'. Therefore, paragraphs 10-11 and 105A-B have been deleted.

   (III) Paragraphs 39-41 relating to exchange and non-exchange components of a transaction have been deleted because these may not be relevant as the exchange and non-exchange transactions have been defined differently in ASLBs than in IPSASs.

   (IV) Paragraphs 116-123 pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' has been issued that contains all transitional provisions at one place.

   (V) Paragraphs 124-125 pertaining to effective date have been

deleted as ASLB 23 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

3. The following paragraphs of IPSAS 23 have been amended to make the same more relevant in the context of Local Bodies in India:

   (I) The definitions of 'contribution from owners', 'exchange transactions' and 'non-exchange transactions' have been modified and the definitions of 'government' and 'grants' have been included. (paragraph 7)

   (II) Criteria for recognition of assets has been modified. An exception to measure fair value has been inserted in case of transactons that are measured at Re. 1/- in accordance with this Standard. (paragraph 31)

   (III) Initial measurement of non-monetary transfer (transfer of tangible/intangible assets) has been modified to measure the same at nominal value of Re. 1/-. (paragraph 42 & 43)

   (iv) The requirement to measure the liability at the present value of the amount expected to be required to settle the obligation where the time value of money is material, has been removed. (paragraph 58)

   (v) An additional disclosure of the nature and extent of grants received from the government and other entities that are recognised in the financial statements, in the notes to the general purpose financial statements, has been included (paragraph 107(e)).

4. Paragraph 3 of IPSAS 23 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provisions pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

5. Some examples of IPSAS 23 have been deleted/ included in ASLB 23, and some examples have been modified in light of Indian conditions. (refer paragraphs 14, 32, 38, 61, 65, 70 & 74)

6. Consequential changes resulting from the above departures have been made in ASLB 23.

Accounting Standards for Local Bodies (ASLB) 24 Presentation of Budget Information in Financial Statements

Contents

Accounting Standard for Local Bodies (ASLB) 24 Presentation of Budget Information in Financial Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 24, *'Presentation of Budget Information in Financial Statements'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. This Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating (a) compliance with the approved budget(s) for which they are held publicly accountable and (b) where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'.*

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies and are required or elect to make their approved budget(s) publicly available.***

4. [Refer to Appendix 1]

5. This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets that are not made publicly available.

6. In some cases, approved budgets will be compiled to encompass all the activities controlled by a Local Body. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities, or entities included in the financial statements of a Local Body. This may occur where, for example, financial statements of a Local Body encompass Local Body's agencies or programmes that have operational autonomy and prepare their own budgets. This Standard applies to all entities that present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Definitions

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

   Annual budget** means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

   Appropriation** is an authorisation granted by a governing body to allocate funds for purposes specified by the governing body or similar authority.

   Approved budget** means the anticipated revenue or receipts and expenditure approved by the governing body or similar authority relating to the budgeted period.

Budgetary basis ***means the accrual, cash, or other basis of accounting adopted in the budget that has been approved by the governing body.***

Budget period ***is the period covered by the budget as prescribed in the relevant legislation.***

Comparable basis ***means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.***

Revised budget[3] ***is the original budget adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations and other changes authorised by the governing body or similar authority changes applicable to the budget period.***

Governing body ***is a body that is authorised by relevant legislative law to formulate policies concerning the activities of a Local Body such as a Committee, Board or a Council.***

Multi-year budget ***is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.***[4]

Original budget ***is the initial approved budget for the budget period.***

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Approved Budgets

8. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period, based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by the governing body or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management

[3] The revised budget defined in this ASLB is the revised budget of the current financial year that is presented along with the budget of the next financial year by a Local Body to its governing body at the specified date as per the existing applicable law /practice.

[4] At present the concept of multi-year budget is not prevalent in India.

actions that are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information, which may be in the form of a forecast, a projection, or a combination of both; for example, a one-year forecast plus a five-year projection.

9. The critical feature of approved budgets is that the authority to withdraw funds for agreed and identified purposes is provided by the governing body. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some cases, the approved budget for which the entity will be held accountable may be the original budget, and in others cases it may be the revised budget.

10. If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Revised Budget

11. The original budget may include residual appropriated amounts automatically carried over from prior years by law. In some cases, there may be a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some cases, they may be referred to as obligations or encumbrances, and include outstanding purchase orders, work orders and contracts where goods or services have not yet been received.

12. Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, natural disasters. In addition, there may be a shortfall in budgeted revenues during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The revised budget includes all such authorised changes or amendments.

Actual Amounts

13. This Standard uses the term actual or actual amount to describe the amounts that result from execution of the budget. In some cases, budget out-turn, budget execution, or similar terms may be used with the same meaning as actual or actual amount.

Presentation of a Comparison of Budget and Actual Amounts

14. ***Subject to the requirements of paragraph 21, an entity should present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with ASLBs. The comparison of budget and actual amounts should present separately for each level of governing body's oversight:***

    (a) ***The original and revised budget amounts;***

    (b) ***The actual amounts on a comparable basis; and***

    (c) ***By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts.***

15. Presentation in the financial statements of the original and revised budget amounts and actual amounts on a comparable basis with the budget that is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or revised budget (often referred to as the variance in accounting), may also be presented in the financial statements for completeness.

16. An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

17. An entity may be required, or may elect, to make publicly available its original budget, its revised budget, or both its original and

revised budget. In circumstances where both the original and revised budget are required to be made publicly available, the regulation, governing body or other similar authority will often provide guidance on whether explanation of material differences between the actual and the original budget amounts, or actual and the revised budget amounts, is required in accordance with paragraph 14(c). In the absence of any such guidance, material differences may be determined by reference to, for example, (a) differences between actual and original budget to focus on performance against original budget, or (b) differences between actual and revised budget to focus on compliance with the revised budget.

18. In some cases, the revised budget and the actual amount may be the same. This is because budget execution is monitored over the reporting period, and the original budget progressively revised to reflect changing conditions, changing circumstances, and experiences during the reporting period. Paragraph 29 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and revised budget. Those disclosures, together with the disclosures required by paragraph 14 above, will ensure that entities that make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

19. Management discussion and analysis, operations review, or other public reports that provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements.

20. [Refer to Appendix 1]

Presentation and Disclosure

21. ***An entity should present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.***

22. Comparisons of budget and actual amounts may be presented in a separate financial statement, (Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) included in the complete set of financial statements as specified in ASLB 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and same reporting period, and adopt the same classification structure – additional columns may be added to the existing primary financial statements presented in accordance with ASLBs. These additional columns will identify original and revised budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

23. When the budget and financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, to ensure that readers do not misinterpret financial information that is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ, and that the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

24. In some cases where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the primary financial statements required by ASLBs. However, in some cases, budgets prepared on the accrual basis may be presented in the form of only certain of the primary financial statements that comprise the full set of financial statements as specified by ASLBs – for example, the budget may be presented as an income and expenditure statement or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the primary financial statements that are also adopted for presentation of the budget.

Level of Aggregation

25. Budget documents may provide great detail about particular activities, programmes, or entities. These details are often aggregated into broad classes under common budget heads, budget classifications, or budget headings for presentation to, and approval by, the governing

body or other similar authority. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of governing body's or other similar authority's oversight identified in the budget documents.

26. ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' requires financial statements to provide information that meets a number of qualitative characteristics, including that the information is:

    (a) Relevant to the decision-making needs of users; and

    (b) Reliable in that the financial statements:

        (i) Represent faithfully the financial position, financial performance, and cash flows of the entity;

        (ii) Reflect the economic substance of transactions, other events, and conditions, and not merely the legal form;

        (iii) Are neutral, that is, free from bias;

        (iv) Are prudent; and

        (v) Are complete in all material respects.

27. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of governing body's or other similar authority's oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph 26 above and in '*The Conceptual Framework for General Purpose Financial Reporting in Local Bodies*'.

28. Additional budget information, including information about service level benchmarks, may be presented in documents other than financial statements. A cross reference from financial statements to such documents is encouraged, particularly to link budget and actual data to non-financial budget data and service level benchmarks.

Changes from Original to Revised Budget

29. ***An entity should present an explanation of whether changes between the original and revised budget are a consequence of reallocations within the budget, or of other factors by way of note disclosure in the financial statements.***

30. The revised budget includes all changes approved by the governing body or other designated authority to revise the original budget. Consistent with the requirements of this Standard, an entity will include in the notes to the financial statements, an explanation of changes between the original and revised budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy.

Comparable Basis

31. ***All comparisons of budget and actual amounts should be presented on a comparable basis to the budget.***

32. The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash, or other basis), same classification basis, and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

33. Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 5, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because

this Standard requires a comparison of actual amounts with the approved budget amounts.

34. Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, a Local Body may adopt the accrual basis for its financial statements and the cash basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report assets, liabilities, net assets/equity, revenues, expenses, other changes in net assets/equity, and cash flows. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner that facilitates the comparison of budget and actual data for management and for accountability purposes. For example, for monitoring progress of execution of the budget during the budget period and for reporting to the Government, the public, and other users on a relevant and timely basis.

35. [Refer to Appendix 1]

36. [Refer to Appendix 1]

Multi-year Budgets

37. Some Local Bodies approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.

38. Entities with multi-year budgets may take different approaches to determining their original and revised budget, depending on how their budget is passed. For example, a Local Body may pass a biennial budget that contains two approved annual budgets, in which case an

original and revised approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorised to be spent in the second year, the original budget for the second-year period will be increased for these carry over amounts. In the rare cases in which a Local Body passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period in determining annual budgets for the purposes of this Standard. For example, the original and revised approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the original budget for the second annual period, and that budget together with any amendments thereto would form the revised budget for the second year. Where multi-period budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

39. ***An entity should explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.***

40. There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flows and accrual information.

41. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the

same basis as is adopted in the financial statements, for example, by economic nature (compensation of employees, use of goods or services, etc.), or function (health, education, etc.). Alternatively, the budget may classify items by specific programmes (for example, poverty reduction or control of contagious diseases) or programme components linked to performance outcome objectives (for example, students completing training under nursing programme or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

42. ASLB 1, '*Presentation of Financial Statements*', requires entities to present, in notes to the financial statements, information about the basis of preparation of the financial statements and the significant accounting policies adopted. Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

43. ***An entity should disclose in notes to the financial statements the period of the approved budget.***

44. Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget, where that period differs from the reporting period adopted for the financial statements, will assist the users of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements.

45. ***An entity should identify in notes to the financial statements the entities included in the approved budget.***

46. [Refer to Appendix 1]

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

47. ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 31 should, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences:***

    (a) ***If the accrual basis is adopted for the budget, total revenues, total expenses, and net cash flows from operating activities, investing activities, and financing activities; or***

    (b) ***If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities.***

    The reconciliation should be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements.

48. Differences between the actual amounts identified consistent with the comparable basis, and the actual amounts recognised in the financial statements, can usefully be classified into the following:

    (a) Basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis and the financial statements are prepared on the accrual basis;

    (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

    (c) Entity differences, which occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

49. The reconciliation required by paragraph 47 of this Standard will enable the entity to better discharge its accountability obligations, by identifying major sources of difference between the actual amounts on a budget basis and the amounts recognised in the financial statements. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

50. For some entities adopting the same basis of accounting for preparation of both the budget documents and the financial statements, only the identification of differences between actual amounts in the budget and the equivalent amounts in the financial statements will be required. This will occur where the budget (a) is prepared for the same period, (b) encompasses the same entities, and (c) adopts the same presentation format as the financial statements. In these cases, a reconciliation is not required. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity, or reporting period; for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multi-year budget. A reconciliation would be necessary where there are presentation, timing, or entity differences between the budget and the financial statements prepared on the same accounting basis.

51. For those entities using the cash basis (or a modified cash or modified accrual basis) of accounting for the presentation of the approved budget and the accrual basis for their financial statements, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash flows from financing activities as presented in the cash flow statement prepared in accordance with ASLB 2, '*Cash Flow Statements*'.

52. ***The disclosure of budget related comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***

53. This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities that make publicly available their approved budget(s). It does not require the disclosure of a comparison of actuals of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

54. [Refer to Appendix 1]

55. [Refer to Appendix 1]

Illustrative Examples

These examples accompany, but are not part of, ASLB 24, 'Presentation of Budget Information in Financial Statements'.

Statement of Comparison of Budget and Actual Amounts
For Local Body XX for the Year Ended March 31, 20XX
Budget on Cash Basis

(Classification of Payments by Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(In ₹)

Actual 20XX-XX	Particulars (1)	Original Budget (2)	Revised Budget (3)	Actual Amounts on Comparable Basis (4)	*Difference: Revised Budget and Actual (5) = (3) – (4)
	RECEIPTS				
X	Taxation	X	X	X	X
	Aid Agreements				
X	International agencies	X	X	X	X
X	Other Grants and Aid	X	X	X	X
X	Proceeds: Borrowing	X	X	X	X
X	Proceeds: Disposal of Plant & Equipment	X	X	X	X
X	Trading Activities	X	X	X	X
	Other receipts	X	X	X	X
X	**Total Receipts**	**X**	**X**	**X**	**X**
	PAYMENTS				
(X)	Health	(X)	(X)	(X)	(X)
(X)	Education	(X)	(X)	(X)	(X)
(X)	Public order/safety	(X)	(X)	(X)	(X)
(X)	Social protection	(X)	(X)	(X)	(X)

(X)	Housing and community amenities	(X)	(X)	(X)	(X)
(X)	Recreational, cultural and religion	(X)	(X)	(X)	(X)
(X)	Economic affairs	(X)	(X)	(X)	(X)
(X)	Others	(X)	(X)	(X)	(X)
(X)	**Total Payments**	**(X)**	**(X)**	**(X)**	**(X)**
X	**NET RECEIPTS/ (PAYMENTS)**	**X**	**X**	**X**	**X**

* The "Difference…" column is not required. However, a comparison between actual and the original or the revised budget, clearly identified as appropriate, may be included.

Additional Column Approach

For Local Body YY for the Year Ended March 31, 20XX
Both Annual Budget and Financial Statements Adopt Accrual Basis
(Illustrated only for Income and Expenditure Statement. Similar presentation would be adopted for other financial statements.)

(In ₹)

Actual 20XX-XX (1)	Particulars (2)	Actual 20XX (3)	Revised Budget 20XX (4)	Original Budget 20XX (5)	*Difference: Original Budget and Actual (6) = (5) - (3)
	Revenue				
X	Taxes	X	X	X	X
X	Fees, fines, penalties, and licenses	X	X	X	X
X	Revenue from exchange transactions	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other revenue	X	X	X	X
X	**Total revenue**	**X**	**X**	**X**	**X**
	Expenses				
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)	(X)

(X)	Supplies and consumables	(X)	(X)	(X)	(X)
(X)	used	(X)	(X)	(X)	(X)
(X)	Depreciation/amortisation expense	(X)	(X)	(X)	(X)
(X)	Other expenses	(X)	(X)	(X)	(X)
	Finance costs				
(X)	**Total expenses**	**(X)**	**(X)**	**(X)**	**(X)**
X	Share of surplus of associates	X	X	X	X
X	**Surplus/(deficit) for the period**	**X**	**X**	**X**	**X**
	Attributable to:				
X	Owners of the controlling entity	X	X	X	X
X	Minority interest	X	X	X	X
X		**X**	**X**	**X**	**X**

*The "Difference…" column is not required. However, a comparison between actual and the original or the revised budget, clearly identified as appropriate, may be included.

Extract of Note Disclosures—for Local Body X

(Local Body X presents its approved budget on a cash basis and the financial statements on the accrual basis.)

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from April 1, 20XX to March 31, 20XX, and includes all entities within the Local Body. (Prepared in accordance with ASLB XX, '*Consolidated and Separate Financial Statements*')

2. The original budget was approved by governing body on (date), and a supplemental appropriation of XXX for disaster relief support was approved by governing body on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies and subsequent revisions are explained more fully in the Operational Review and Budget Outcomes reports issued in conjunction with the financial statements.

3. The excess of actual expenditure over the revised budget of XX% (XX% over original budget) for the Health function was due to expenditures above the level approved by governing body in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

4. The budget and the accounting bases differ. The financial statements are prepared on the accrual basis, using a classification based on the

nature of expenses in the income and expenditure statement. The financial statements are consolidated statements that include all controlled entities for the fiscal period from April 1, 20XX to March 31, 20XX. The financial statements differ from the budget which is approved on the cash basis.

5. The amounts in the financial statements were re-cast from the accrual basis to the cash basis, and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the financial statements for timing differences associated with the continuing appropriation were made to express the actual amounts on a comparable basis to the final approved budget. The amount of these adjustments are identified in the following table.

6. A reconciliation between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts and the actual amounts in the Statement of Cash Flows for the Year Ended March 31, 20XX is presented below. The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the Local Body and the financial statements consolidate all controlled entities.

There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the accrual basis.

(In ₹)

	Operating	**Financing**	**Investing**	**Total**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**	**X**	**X**
Basis Differences	**X**	**X**	**X**	**X**
Timing Differences	**-**	**-**	**-**	**-**
Entity Differences	**X**	**X**	**X**	**X**
Actual Amount in the Statement of Cash Flows	**X**	**X**	**X**	**X**

(This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.)

Encouraged Note Disclosure: Biennial Budget on Cash Basis— For Local Body A for the Year Ended March 31, 20XX

Particulars	Original Biennial Budget Year	Target Budget for 1st Year	Revised Budget in 1st Year	1st Year Actual on Comparable Basis	Balance Available for 2nd Year	Target Budget for 2nd Year	Revised Budget in 2nd Year	2nd Year Actual on Comparable Basis	*Difference: Budget and Actual over Budget Period
1	2	3	4	5	6=2-4	7=2-3	8	9	10
RECEIPTS									
Taxation	X	X	X	X	X	X	X	X	X
Aid Agreements	X	X	X	X	X	X	X	X	X
Proceeds: Borrowing	X	X	X	X	X	X	X	X	X
Proceeds: Disposal of plant and equipment	X	X	X	X	X	X	X	X	X
Trading Activities	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total Receipts	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
PAYMENTS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total Payments	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
NET RECEIPTS/ (PAYMENTS)	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

*This column is not required. However, a comparison between actual and the original or the revised budget, clearly identified as appropriate, may be included.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 24 and the corresponding International Public Sector Accounting Standard (IPSAS) 24, 'Presentation of Budget Information in Financial Statements'.

Comparison with IPSAS 24, '*Presentation of Budget Information in Financial Statements*'

1. Different terminologies have been used in ASLB 24 as compared to corresponding IPSAS 24, e.g., terms 'balance sheet', 'income and expenditure statement', 'governing body', 'revised budget' and 'service level benchmarks' have been used in place of 'statement of financial position', 'statement of financial performance', 'legislative body', 'final budget' and 'service achievements'.

2. Some definitions additional to that in IPSAS 24 have been provided in ASLB 24 and definition of 'accounting basis' given in IPSAS 24 has been deleted in ASLB 24.

3. Paragraph 4 of IPSAS 24 which provides that Government Business Enterprises (GBEs) should use IFRSs, has been deleted, as it is not relevant for Local Bodies in India.

4. Paragraphs 35 - 36 of IPSAS 24 relating to preparation of the budgets in accordance with or in consistent with statistical reporting system have been deleted as the same does not seem relevant for Local Bodies in India.

5. Some examples provided in IPSAS 24 have been modified in ASLB 24 to better address the circumstances of the Local Bodies.

6. In line with corresponding IPSAS 24, ASLB 24 requires an explanation of material differences between the budget for which the entity is held publicly accountable and the actual amounts. However, if such explanation is provided in any other public document, then cross referencing of that document is not permitted in ASLB 24 which is permitted in IPSAS 24.

7. Paragraphs pertaining to effective date have been deleted as ASLB 24 would become mandatory for the Local Bodies in a State from the date specified by the State Government concerned.

8. Other consequential changes in ASLB 24 have also been made due to all above changes. However, paragraph numbers have been retained to maintain consistency with the corresponding IPSAS.

Accounting Standard for Local Bodies (ASLB) 26
Impairment of Cash-Generating Assets

Contents

Accounting Standard for Local Bodies (ASLB) 26
Impairment of Cash-Generating Assets

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the "Preface to Accounting Standards for Local Bodies[1].)*

The Accounting Standards for Local Bodies (ASLB) 26, '*Impairment of Cash-Generating Assets*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired, and to ensure that impairment losses are recognised. This Standard also specifies when an entity should reverse an impairment loss, and prescribes disclosures.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for the impairment of cash-generating assets, except for:***

   (a) ***Inventories (see ASLB 12, 'Inventories');***

   (b) ***Assets arising from construction contracts (see ASLB 11, 'Construction Contracts');***

---

[1]Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(c) ***Financial assets[3];***

(d) ***Investment property that is measured using the fair value model (see ASLB 16, 'Investment Property');***

(e) [Deleted];

(f) [Refer to Appendix 1];

(g) ***Assets arising from employee benefits (see ASLB 39, 'Employee Benefits');***

(h-i) [Deleted];

(j-k) [Refer to Appendix 1];

(l) [Deleted]; and

(m) ***Other cash-generating assets in respect of which accounting requirements for impairment are included in another Standard.***

3. This Standard applies to all entities that are described as the Local Bodies in the Preface to the Accounting Standards for Local Bodies[4].

4. [Deleted]

5. Entities that hold non-cash-generating assets as defined in paragraph 13 apply ASLB 21, '*Impairment of Non-Cash-Generating Assets',* to such assets. Entities that hold cash-generating assets apply the requirements of this Standard.

6-7. [Deleted]

8. This Standard does not apply to inventories, cash-generating assets arising from construction contracts and assets related to employee

[3] A **financial asset** is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity;
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

[4] Refer paragraph 1.3 of the *'Preface to the Accounting Standards for Local Bodies'.*

benefits, because ASLBs applicable to these assets contain requirements for recognising and measuring such assets.

9. This Standard does not apply to any financial assets.

10. This Standard does not require the application of an impairment test to an investment property that is carried at fair value in accordance with ASLB 16. This is because, under the fair value model in ASLB 16, an investment property is carried at fair value at the reporting date, and any impairment will be taken into account in the valuation.

11. [Deleted]

12. Investments in:

    (a) Controlled entities, as defined in ASLB 35, '*Consolidated Financial Statements';*

    (b) Associates, as defined in ASLB 36, '*Investments in Associates and Joint Ventures';* and

    (c) Joint arrangements, as defined in ASLB 37, '*Joint Arrangements'*[5]**,**

    are financial assets. Where such investments are in the nature of cash-generating assets, they are dealt with under this Standard. Where these assets are in the nature of non-cash-generating assets, they are dealt with under ASLB 21.

Definitions

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

    A <u>cash-generating unit</u> is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

[5] The Guidance with regard to consolidation and joint arrangements may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates, and Errors*' till the time ASLBs 35 and 37 are not formulated.

***Impairment of cash-generating assets** is a loss in the future economic benefit of a cash generating asset over and above the loss recognised through depreciation.*

***An impairment loss of cash-generating asset** is the amount by which the carrying amount of a cash-generating asset exceeds its recoverable amount.*

***Recoverable amount** is the higher of an asset's or a cash-generating unit's "fair value less costs to sell" and its value in use.*

***Value in use of a cash-generating asset** is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.*

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Cash-Generating Assets

14. Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to (a) generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and (b) earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. Unless stated otherwise, references to "an asset" or "assets" in the following paragraphs of this Standard are references to "cash-generating asset(s)".

15. There are a number of circumstances in which local bodies may hold some assets with the primary objective of generating a commercial return, although the majority of their assets are not held for that purpose. For example, a municipal hospital/dispensary may deploy a

building for fee-paying patients. Cash-generating assets of an entity may operate independently of the non-cash-generating assets of the entity. For example, the deeds office may earn land registration fees independently from the department of land affairs.

16. In certain instances, an asset may generate cash flows although it is primarily held for service delivery purposes. For example, a waste disposal plant is operated to ensure the safe disposal of medical waste generated by a hospital controlled by a Local Body, and, is accordingly, a non-cash-generating asset, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

17. In other instances, an asset may generate cash flows and also be used for non-cash-generating purposes. For example, a public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or ASLB 21. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard, rather than ASLB 21.

18. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable, rather than ASLB 21. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 14-17. Paragraph 114 requires an entity to disclose the criteria used in making this judgment. However, given the overall

objectives of most entities, the presumption is that assets are non-cash-generating in these circumstances and, therefore, ASLB 21 will apply. For example, a municipal school has started tuition classes for students during summer vacation on commercial basis. However, the primary objective of municipal school is to provide education service on non-commercial basis. The commercial activities (tuition classes) carried out by municipal school during summer vacation is insignificant. In this case, the municipal school is a non-cash-generating asset, and, therefore, ASLB 21 will apply.

18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. ASLB 21 deals with the assessment of individual assets. Goodwill is only recognised where it gives rise to cash inflows or reductions in an acquirer's net cash outflows. No goodwill is recognised in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in ASLB 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.

Depreciation

19. Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life. In the case of an intangible asset, the term "amortisation" is generally used instead of "depreciation". Both terms have the same meaning.

Impairment

20. This Standard defines an "impairment" as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Impairment of a cash-generating asset, therefore, reflects a decline in the future economic benefits embodied in an asset to the entity that controls it. For example, an entity may have a municipal parking lot that is currently being used at 25 percent of capacity. It is held for commercial purposes, and management has estimated that it generates a commercial rate of return when usage is at 75 percent of capacity and above. The decline in usage has not been accompanied

by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Identifying an Asset that may be Impaired

20A. Paragraphs 21-30 specify when recoverable amount should be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31-70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71-97 set out the requirements for recognising and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71-75. Paragraphs 76-97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98-105 set out the requirements for reversing an impairment loss recognised in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106-109, for a cash-generating unit in paragraphs 110-111, and for goodwill in paragraphs 111A-111B.

(d) Paragraphs 112-113 set out the requirements for the redesignation of an asset from a cash-generating asset or from a non-cash generating asset to a cash-generating asset.

(e) Paragraphs 114-122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123-125 specify additional disclosure requirements for cash-generating units to which goodwill have been allocated for impairment testing purposes.

21. An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 25-27 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except for the circumstances described in paragraph 23, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present.

22. ***An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable amount of the asset.***

23. ***Irrespective of whether there is any indication of impairment, an entity should also:***

    (a) ***Test an intangible asset that is not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current reporting period, that intangible asset should be tested for impairment before the end of the current reporting period.***

    (b) ***Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A-90O.***

24. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

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

External sources of information

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

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

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

Internal sources of information

(d) ***Evidence is available of obsolescence or physical damage of an asset;***

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

(e) ***A decision to halt the construction of the asset before it is complete or in a usable condition; and***

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

26. The list in paragraph 25 is not exhaustive. An entity may identify other indications that an asset may be impaired, and these would also require the entity to determine the asset's recoverable amount.

27. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

    (a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

    (b) Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted;

    (c) A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or

    (d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

28. As indicated in paragraph 23, this Standard requires an intangible asset that is not yet available for use to be tested for impairment, at least annually. Apart from when the requirements in paragraph 23 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 25.

29. As an illustration of paragraph 28, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:

    (a) If the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.

    (b) If the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market

rates, but previous sensitivity analysis of recoverable amount shows that:

(i) It is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (for example, in some cases, an entity may be able to demonstrate that it adjusts its revenues (mainly exchange revenues) to compensate for any increase in market rates); or

(ii) The decrease in recoverable amount is unlikely to result in a material impairment loss.

30. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method, or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring Recoverable Amount

31. This Standard defines "recoverable amount" as the higher of an asset's “fair value less costs to sell” and its value in use. Paragraphs 32-70 set out the requirements for measuring recoverable amount. These requirements use the term "an asset" but apply equally to an individual asset or a cash-generating unit.

32. It is not always necessary to determine both an asset's “fair value less costs to sell” and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

33. It may be possible to determine “fair value less costs to sell”, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine “fair value less costs to sell” because there is no basis for making a reliable[6] estimate of the amount obtainable from the sale of the asset in an arm's length transaction

[6] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that it purports to represent or could reasonably be expected to represent.

between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable amount.

34. If there is no reason to believe that an asset's value in use materially exceeds its "fair value less costs to sell", the asset's "fair value less costs to sell" may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.

35. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 85-90), unless either:

    (a) The asset's "fair value less costs to sell" is higher than its carrying amount; or

    (b) The asset is a part of a cash-generating unit but is capable of generating cash flows individually, in which case the asset's value in use can be estimated to be close to its "fair value less costs to sell" and the asset's "fair value less costs to sell" can be determined.

36. In some cases, estimates, averages and computational shortcuts may provide reasonable approximations of the detailed computations for determining fair value less costs to sell or value in use.

37. [Refer to Appendix 1]

Fair Value less Costs to Sell

38. The best evidence of an asset's "fair value less costs to sell" is the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

39. If there is no binding sale agreement but an asset is traded in an active market, "fair value less costs to sell" is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price

of the most recent transaction may provide a basis from which to estimate "fair value less costs to sell", provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

40. If there is no binding sale agreement or active market for an asset, "fair value less costs to sell" is based on the best information available that reflects the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. "Fair value less costs to sell" does not reflect a forced sale.

41. Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining "fair value less costs to sell". Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits and costs associated with reducing or reorganising an operation following the disposal of an asset are not direct incremental costs to dispose of the asset.

42. Sometimes, the disposal of an asset would require the buyer to assume a liability, and only a single "fair value less costs to sell" is available for both the asset and the liability. Paragraph 89 explains how to deal with such cases.

Value in Use

43. ***The following elements should be reflected in the calculation of an asset's value in use:***

    (a) ***An estimate of the future cash flows the entity expects to derive from the asset;***

    (b) ***Expectations about possible variations in the amount or timing of those future cash flows;***

    (c) ***The time value of money, represented by the current market risk free rate of interest;***

(d) ***The price for bearing the uncertainty inherent in the asset; and***

(e) ***Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.***

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

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

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

45. The elements identified in paragraph 43(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, i.e., the weighted average of all possible outcomes. The Application Guidance provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for Estimates of Future Cash Flows

46. ***In measuring value in use, an entity should:***

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

(b) ***Base cash flow projections on the most recent financial budgets/forecasts approved by management, but should exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/ forecasts should***

cover a maximum period of five years, unless a longer period can be justified; and

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

47. Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management should ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided that the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

48. Detailed, explicit, and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable, and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

49. Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts, using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.

50. [Refer to Appendix 1]

51. In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of Estimates of Future Cash Flows

52. ***Estimates of future cash flows should include:***

    (a) ***Projections of cash inflows from the continuing use of the asset;***

    (b) ***Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and***

    (c) ***Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.***

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

54. Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.

55. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.

56. To avoid double-counting, estimates of future cash flows do not include:

    (a) Cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and

    (b) Cash outflows that relate to obligations that have been recognised as liabilities (for example, payables, pensions, or provisions).

57. ***Future cash flows should be estimated for the asset in its current condition[7]. Estimates of future cash flows should not include estimated future cash inflows or outflows that are expected to arise from:***

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

    (b) ***Improving or enhancing the asset's performance.***

58. Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:

    (a) Future cash outflows or related cost savings (for example, reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or

    (b) Future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.

59. A restructuring is a program that is (a) planned and controlled by management, and (b) materially changes either the scope of the entity's activities or the manner in which those activities are carried out. ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*, contains guidance clarifying when an entity is committed to a restructuring.

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[7] The term 'asset in its current condition' encompasses the usual maintenance or servicing of asset that is done in the normal course which is incidental to its smooth running/ operation.

60. When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:

    (a) Its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and

    (b) Its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with ASLB 19.

61. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits or service potential associated with the expected cash outflow.

62. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits or service potential expected to arise from the asset in its current condition. When a unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

63. ***Estimates of future cash flows should not include:***

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

    (b) ***Income tax payments[8].***

64. Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of

[8] Wherever applicable.

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

65. ***The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life should be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.***

66. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's "fair value less costs to sell", except that, in estimating those net cash flows:

    (a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used; and

    (b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

Foreign Currency Future Cash Flows

67. Future cash flows are estimated in the currency in which they will be generated, and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount Rate

68. ***The discount rate (rates) should be a pre-tax rate (rates) that reflect(s) current market assessments of:***

(a) ***The time value of money, represented by the current risk-free rate of interest; and***

(b) ***The risks specific to the asset for which the future cash flow estimates have not been adjusted.***

69. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing, and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets. However, the discount rate(s) used to measure an asset's value in use should not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

70. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The Application Guidance provides additional guidance on estimating the discount rate in such circumstances.

Recognising and Measuring an Impairment Loss

71. Paragraphs 72-75 set out the requirements for recognising and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76-97H.

72. ***If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. That reduction is an impairment loss.***

73. ***An impairment loss should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another standard (for example, in accordance with the revaluation model in ASLB 17 and ASLB 31). Any impairment loss of a revalued asset should be treated as a revaluation decrease in accordance with that other Standard.***

73A. An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.

74. ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity should recognise a liability if, and only if, that is required by another Standard.***

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

Cash-Generating Units and Goodwill

76. Paragraphs 77-97H set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognising impairment losses for, cash-generating units and goodwill.

Identifying the Cash-Generating Unit to which an Asset Belongs

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

78. The recoverable amount of an individual asset cannot be determined if

    (a) The asset's value in use cannot be estimated to be close to its "fair value less costs to sell" (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

(b) The asset does not generate cash inflows that are largely independent of those from other assets and is not capable of generating cash flows individually.

In such cases, value in use and, therefore, recoverable amount can be determined only for the asset's cash-generating unit.

79. As defined in paragraph 13, an asset's cash-generating unit is the smallest group of assets that (a) includes the asset, and (b) generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgment. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

80. Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors, including how management (a) monitors the entity's operations (such as by service lines, individual locations, districts, or regional areas), or (b) makes decisions about continuing or disposing of the entity's assets and operations. The Implementation Guidance gives an example of the identification of a cash-generating unit.

81. ***If an active market exists for the output produced by an asset or group of assets, that asset or group of assets should be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity should use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:***

(a) ***The future cash inflows used to determine the asset's or cash generating unit's value in use; and***

(b) ***The future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.***

82. Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity, this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

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

84. If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 120 requires disclosures about the cash-generating unit if an impairment loss is recognised or reversed for the cash-generating unit.

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

85. The recoverable amount of a cash-generating unit is the higher of the cash generating unit's “fair value less costs to sell” and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 31-70 to an asset is read as a reference to a cash-generating unit.

86. ***The carrying amount of a cash-generating unit should be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.***

87. The carrying amount of a cash-generating unit:

    (a) Includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate

the future cash inflows used in determining the cash-generating unit's value in use; and

(b) Does not include the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because "fair value less costs to sell" and value in use of a cash generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognised (see paragraphs 41 and 56).

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs 90A-90O explain how to deal with these assets in testing a cash-generating unit for impairment.

89. It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the "fair value less costs to sell" (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the estimated selling price for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

90. For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of (a) assets that

are not part of the cash-generating unit (for example, receivables or other financial assets), or (b) liabilities that have been recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill[9]

Allocating goodwill to cash-generating units

90A. ***For the purpose of impairment testing, goodwill acquired in an acquisition should, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflow of the acquirer, the acquirer should be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated should:***

(a) ***Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and***

(b) ***Not be larger than a segment as defined by paragraph 9 of ASLB 18, 'Segment Reporting'.***

90B. Goodwill recognised in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are individually identified and separately recognised. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or group of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to

[9] This concept may not be relevant for local bodies in India in current scenario. However, the same may be relevant in future, hence retained here.

individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with ASLB 4, '*The Effects of Changes in Foreign Exchange Rates',* for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by ASLB 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. ***If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation should be completed before the end of the first annual period beginning after the acquisition date.***

90F. In accordance with ASLB 40, '*Entity Combinations*[10]', if the initial accounting for an acquisition can be determined only provisionally by

[10] This ASLB is yet to be formulated.

the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognises any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognised in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. ***If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of should be:***

(a) ***Included in the carrying amount of the operation when determining the gain or loss on disposal; and***

(b) ***Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed off.***

90H. ***If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill should be reallocated to the units affected. This reallocation should be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units.***

Testing cash-generating units with goodwill for impairment

90I. ***When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit should be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss should be recognised in accordance with paragraph 91.***

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. ***A cash-generating unit to which goodwill has been allocated should be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit should be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity should recognise the impairment loss in accordance with paragraph 91.***

Timing of impairment tests

90L. ***The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit should be tested for impairment before the end of the current annual period.***

90M. ***If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they should be***

tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units should be tested for impairment before the group of units containing the goodwill.

90N. At the time of impairment testing, a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. ***The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:***

(a) ***The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;***

(b) ***The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and***

(c) ***Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.***

Impairment Loss for a Cash-Generating Unit

91. ***An impairment loss should be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss should be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:***

    (a) ***First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and***

    (b) ***Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.***

    These reductions in carrying amounts should be treated as impairment losses on individual assets and recognised in accordance with paragraph 73.

92. ***In allocating an impairment loss in accordance with paragraph 91, an entity should not reduce the carrying amount of an asset below the highest of:***

    (a) ***Its "fair value less costs to sell" (if determinable);***

    (b) ***Its value in use (if determinable); and***

    (c) ***Zero.***

    The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated pro rata to the other cash-generating assets of the unit (group of units).

93. ***Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset should be allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset should reflect any impairment losses at the reporting date that have been determined under the requirements of ASLB 21.***

94. If the recoverable amount of an individual asset cannot be determined (see paragraph 78):

    (a) An impairment loss is recognised for the asset if its carrying amount is greater than the higher of its "fair value less costs to sell" and the results of the allocation procedures described in paragraphs 91-93; and

    (b) No impairment loss is recognised for the asset if the related cash generating unit is not impaired. This applies even if the asset's "fair value less costs to sell" is less than its carrying amount.

95. In some cases, non-cash-generating assets contribute to cash-generating units. This Standard requires that, where a cash-generating unit subject to an impairment test contains a non-cash-generating asset, that non-cash generating asset is tested for impairment in accordance with the requirements of ASLB 21. A proportion of the carrying amount of that non-cash generating asset, following that impairment test, is included in the carrying amount of the cash-generating unit. The proportion reflects the extent to which the service potential of the non-cash-generating asset contributes to the cash-generating unit. The allocation of any impairment loss for the cash-generating unit is then made on a pro-rata basis to all cash-generating assets in the cash-generating unit, subject to the limits in paragraph 92. The non-cash generating asset is not subject to a further impairment loss beyond that which has been determined in accordance with ASLB 21.

96. [Deleted]

97. ***After the requirements in paragraphs 91-93 have been applied, a liability should be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Standard.***

Impairment testing cash-generating units with goodwill and non-controlling interests[11]

97A. In accordance with ASLB 40, the acquirer measures and recognises goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with ASLB 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with ASLB 40; and

(iii) In an acquisition achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with ASLB 40.

Allocation of goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

[11] This concept may not be relevant for local bodies in India in current scenario. However, the same may be relevant in future, hence retained here.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognised in the controlling entity's consolidated financial statements. As a consequence, an entity should gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro-rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognised in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognised as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognised as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99-105 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106-109 and, for a cash-generating unit in paragraphs 110 and 111, and for goodwill in paragraphs 111A and 111B.

99. ***An entity should assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable amount of that asset.***

100. ***In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity should consider, as a minimum, the following indications:***

External sources of information

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

(b) ***Significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or***

legal environment in which the entity operates or in the market to which the asset is dedicated;

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

Internal sources of information

(d) ***Significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;***

(dA) ***A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and***

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

101. Indications of a potential decrease in an impairment loss in paragraph 100 mainly mirror the indications of a potential impairment loss in paragraph 25.

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

103. ***An impairment loss recognised in prior periods for an asset other than goodwill should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was***

recognised. If this is the case, the carrying amount of the asset should, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.

104. A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. An entity is required to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

(a) A change in the basis for recoverable amount (i.e., whether recoverable amount is based on "fair value less costs to sell" or value in use);

(b) If recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows, or in the discount rate; or

(c) If recoverable amount was based on "fair value less costs to sell", a change in estimate of the components of "fair value less costs to sell".

105. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the unwinding of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an Impairment Loss for an Individual Asset

106. ***The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.***

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of

amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.

108. ***A reversal of an impairment loss for an asset other than goodwill should be recognised immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in ASLB 17 and ASLB 31). Any reversal of an impairment loss of a revalued asset should be treated as a revaluation increase in accordance with that other Standard.***

108A. A reversal of an impairment loss on a revalued asset is recognised directly in the revaluation reserve and increases the revaluation surplus for that class of assets. However, to the extent that an impairment loss on the same class of revalued assets was previously recognised in surplus or deficit, a reversal of that impairment loss is also recognised in surplus or deficit.

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

Reversing an Impairment Loss for a Cash-Generating Unit

110. ***A reversal of an impairment loss for a cash-generating unit should be allocated to the cash-generating assets of the unit, except for goodwill, pro-rata with the carrying amounts of those assets. These increases in carrying amounts should be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 108. No part of the amount of such a reversal should be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.***

111. ***In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset should not be increased above the lower of:***

(a) ***Its recoverable amount (if determinable); and***

(b) ***The carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised for the asset in prior periods.***

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated pro-rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

111A. ***An impairment loss recognised for goodwill should not be reversed in a subsequent period.***

111B. ASLB 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill.

Redesignation of Assets

112. ***The redesignation of an asset from a cash-generating asset to a non-cash- generating asset or from a non-cash-generating asset to a cash-generating asset should only occur when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. At the subsequent reporting date after a redesignation, an entity should consider, as a minimum, the listed indications in paragraph 25.***

113. There are circumstances in which entities may decide that it is appropriate to redesignate a cash-generating asset as a non-cash-generating asset. For example, an effluent treatment plant was constructed primarily to treat industrial effluent from an industrial estate at commercial rates, and excess capacity has been used to treat effluent from a social housing unit, for which no charge is made. The industrial estate has recently closed and, in future, the site will

be developed for social housing purposes. In light of the closure of the industrial estate, the entity decides to redesignate the effluent treatment plant as a non-cash-generating asset.

Disclosure

114. ***An entity should disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.***

115. ***An entity should disclose the following for each class of assets:***

    (a) ***The amount of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are included;***

    (b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period, and the line item(s) of the statement of income and expenditure in which those impairment losses are reversed;***

    (c) ***The amount of impairment losses on revalued assets recognised directly in revaluation surplus during the period; and***

    (d) ***The amount of reversals of impairment losses on revalued assets recognised directly in revaluation surplus during the period.***

116. In some cases it may be not be clear whether the primary objective of holding an asset is to generate a commercial return. That judgment is needed to determine whether to apply this Standard or ASLB 21. Paragraph 114 requires the disclosure of the criteria used for distinguishing cash-generating and non-cash-generating assets.

117. A class of assets is a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount

of property, plant, and equipment at the beginning and end of the period, as required by ASLB 17.

119. ***An entity that reports segment information in accordance with ASLB 18, 'Segment Reporting', should disclose the following for each reported segment based on an entity's reporting format:***

(a) ***The amount of impairment losses recognised in surplus or deficit during the period; and***

(b) ***The amount of reversals of impairment losses recognised in surplus or deficit during the period.***

120. ***An entity should disclose the following for each material impairment loss recognised or reversed during the period for a cash-generating asset (including goodwill) or a cash-generating unit:***

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

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

(c) ***For a cash-generating asset:***

(i) ***The nature of the asset; and***

(ii) ***If the entity reports segment information in accordance with ASLB 18, the reported segment to which the asset belongs, based on the entity's reporting format.***

(d) ***For a cash-generating unit:***

(i) ***A description of the cash-generating unit (such as whether it is a service line, a plant, an operation, a geographical area, or a reported segment);***

(ii) ***The amount of the impairment loss recognised or reversed by class of assets, and, if the entity reports segment information in accordance with ASLB 18, by reported segment based on the entity's reporting format; and***

(iii) ***If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.***

(e) ***Whether the recoverable amount of the asset (cash-generating unit) is its "fair value less costs to sell" or its value in use;***

(f) ***If the recoverable amount is "fair value less costs to sell", the basis used to determine "fair value less costs to sell" (such as whether fair value was determined by reference to an active market); and***

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

121. ***An entity should disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 120:***

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

(b) ***The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.***

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period.

122A. ***If, in accordance with paragraph 90E, any proportion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill should be disclosed together with the reasons why that amount remains unallocated.***

123-127. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 26.

Using Present Value Techniques to Measure Value in Use

It provides guidance on the use of present value techniques in measuring value in use. Although the guidance uses the term "asset", it equally applies to a group of assets forming a cash-generating unit.

The Components of a Present Value Measurement

AG1. The following elements together capture the economic differences between cash-generating assets:

(a) An estimate of the future cash flow, or, in more complex cases, series of future cash flows that the entity expects to derive from the asset;

(b) Expectations about possible variations in the amount or timing of those cash flows;

(c) The time value of money, represented by the current market risk-free rate of interest;

(d) The price for bearing the uncertainty inherent in the asset and

(e) Other, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

AG2. This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the traditional approach, adjustments for factors (b) - (e) described in paragraph AG1 are embedded in the discount rate. Under the expected cash flow approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the

expected present value of the future cash flows, i.e., the weighted average of all possible outcomes.

General Principles

AG3. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

(a) Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 percent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 percent rate should not be used to discount expected cash flows, because those cash flows already reflect assumptions about future defaults.

(b) Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.

(c) Estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely minimum or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

Traditional Approach

AG4. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as the rate commensurate with the risk. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.

AG5. In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in a 12 percent bond.

AG6. However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for the rate commensurate with the risk requires analysis of at least two items - an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset's cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:

(a) Identify the set of cash flows that will be discounted;

(b) Identify another asset in the marketplace that appears to have similar cash flow characteristics;

(c) Compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);

(d) Evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and

(e) Evaluate whether both sets of cash flows are likely to behave (i.e., vary) in a similar fashion in changing economic conditions.

Expected Cash Flow Approach

AG7. The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most

likely cash flow. For example, a cash flow might be ₹ 100[12], ₹ 200, or ₹ 300, with probabilities of 10 percent, 60 percent and 30 percent, respectively. The expected cash flow is ₹ 220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

AG8. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of ₹ 1,000 may be received in one year, two years, or three years, with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The example below shows the computation of expected present value in that situation.

Present value of Rs.1,000 in 1 year at 5%	952.38	
Probability	10%	95.24
Present value of Rs.1,000 in 2 years at 5.25%	902.73	
Probability	60%	541.63
Present value of Rs.1,000 in 3 years at 5.50%	851.61	
Probability	30%	255.48
Expected present value		892.36

AG9. The expected present value of ₹ 892.36 differs from the traditional notion of a best estimate of ₹ 902.73 (the 60 percent probability). A traditional present value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, which would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

AG10. The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph AG6) requires the same estimates and

[12] In this and other examples monetary amounts are denominated in rupees (Rs.).

subjectivity without providing the computational transparency of the expected cash flow approach.

AG11. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

(a) The estimated amount falls somewhere between ₹ 50 and ₹ 250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is ₹ 150 [(50+250)/2];

(b) The estimated amount falls somewhere between ₹ 50 and ₹ 250, and the most likely amount is ₹ 100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is ₹ 133.33 [(50+100+250)/3]; or

(c) The estimated amount will be ₹ 50 (10 percent probability), ₹ 250 (30 percent probability), or ₹ 100 (60 percent probability). Based on that limited information, the estimated expected cash flow is ₹ 140 [(50 x 0.10) + (250 x 0.30) + (100 x 0.60)].

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely, or maximum amount taken alone.

AG12. The application of an expected cash flow approach is subject to a cost benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.

AG13. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 percent probability that the cash flow will be

₹ 10 and a 10 percent probability that the cash flow will be ₹ 1,000. They observe that the expected cash flow in that example is ₹ 109, and criticise that result as not representing either of the amounts that may ultimately be paid.

AG14. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be ₹ 10, even though that is the most likely cash flow. This is because a measurement of ₹ 10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for ₹ 10.

Discount Rate

AG15. Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

AG16. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of

(a) The time value of money for the periods until the end of the asset's useful life; and

(b) Factors (b), (d) and (e) described in paragraph AG1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.

AG17. As a starting point in making such an estimate, the entity might take into account the following rates:

(a) The entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;

(b) The entity's incremental borrowing rate; and

(c) Other market borrowing rates.

AG18. However, these rates must be adjusted:

(a) To reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and

(b) To exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk, and price risk.

AG19. The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.

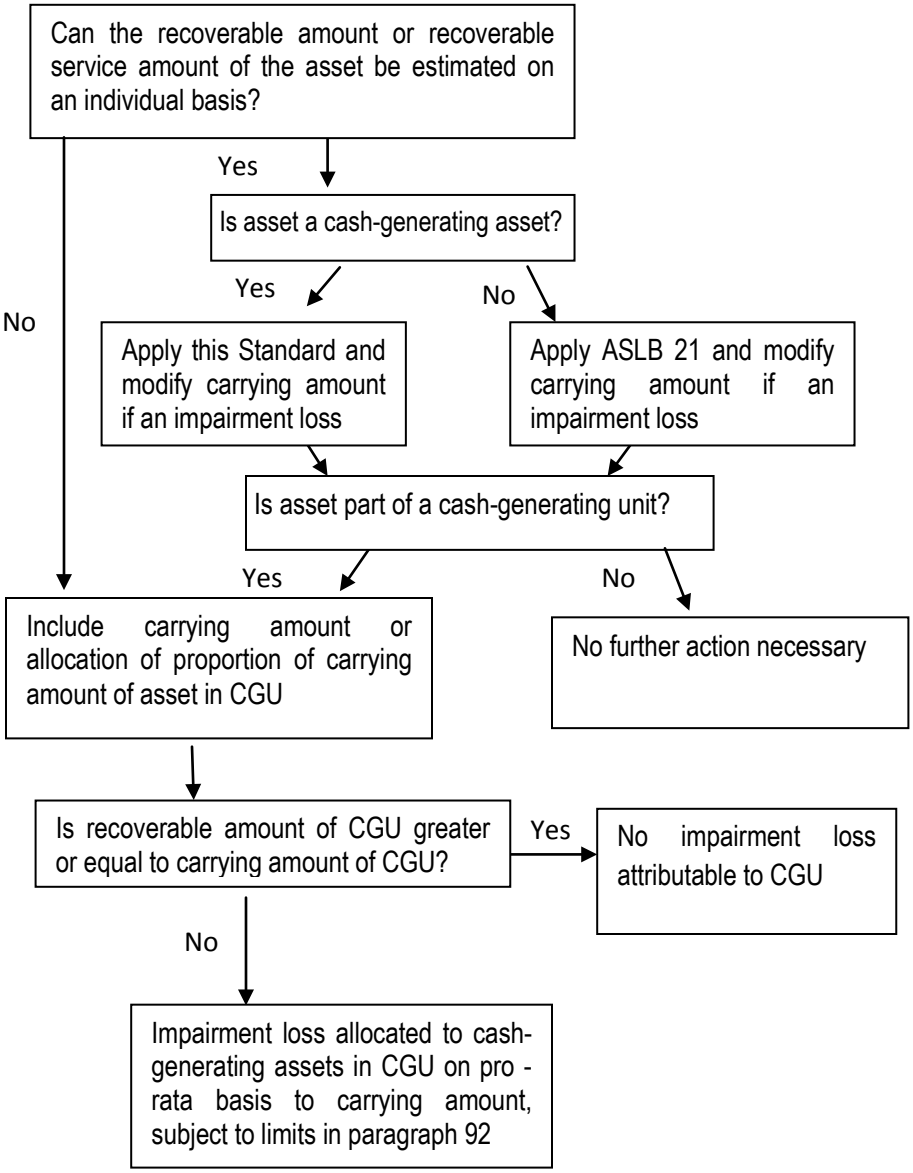
AG20. Paragraph 68 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.

AG21. An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Illustrative Decision Tree

This decision tree accompanies, but is not part of, ASLB 26.

For simplicity and clarity, this flow chart assumes that any asset that is part of a CGU also contributes service potential to non-cash-generating activities.



Implementation Guidance

The guidance accompanies, but is not part of ASLB 26.

Most assets held by local bodies are non-cash-generating assets, and accounting for their impairment should be undertaken in accordance with ASLB 21.

In those circumstances when an asset held by a local body is held with the objective of generating a commercial return, the provisions of this Standard should be followed. An example is a seed producing unit run on a commercial basis that is part of an agricultural research entity.

For the purposes of all these examples, a local body undertakes commercial activities.

Identification of Cash-Generating Units

The purpose of this example is:

(a) *To indicate how cash-generating units are identified in various situations; and*

(b) *To highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.*

A- Reduction in Demand Related to a Single-Product Unit

Background

IG1. A local body has an electricity-generating utility. The utility has two turbine generators in a single electric plant. In the current period, a major manufacturing plant in the area is closed and demand for power was significantly reduced. In response, the local body shut down one of the generators.

Analysis

IG2. The individual turbine generators do not generate cash flows in and of themselves. Therefore, the cash-generating unit to be used in determining an impairment is the electric plant as a whole.

B -IG3-IG4 [Refer Appendix-1]

C- Crushing Plant in Waste Disposal Entity

Background

IG5. A municipality runs a waste disposal entity that owns a crushing plant to support its waste disposal activities. The crushing plant could be sold only for scrap value, and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the waste disposal entity.

Analysis

IG6. It is not possible to estimate the recoverable amount of the crushing plant, because its value in use cannot be determined and is probably different from the scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the crushing plant belongs, i.e., the waste disposal entity as a whole.

D- Routes Provided by Bus Company

Background

IG7. A bus company (Special Purpose Vehicle of municipality) provides services under contract with a municipality that specifies minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Analysis

IG8. Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit is the bus company as a whole.

Calculation of Value in Use and Recognition of an Impairment Loss

Background and Calculation of Value in Use

IG9. At the beginning of 20X0, Local Body R, through its Department of Power, puts into service a power plant that it constructed for ₹ 250 million.

IG10. At the beginning of 20X4, power plants constructed by competitors are put into service, resulting in a reduction in the revenues produced by the power plant of Local Body R. Reductions in revenue result because the volume of electricity generated has decreased from expectations, and also because the prices for electricity and stand-by capacity have decreased from expectations.

IG11. The reduction in revenue is evidence that the economic performance of the asset is worse than expected. Consequently, Local Body R is required to determine the asset's recoverable amount.

IG12. Local Body R uses straight-line depreciation over a 20-year life for the power plant and anticipates no residual value.

IG13. It is not possible to determine the "fair value less costs to sell" of the power plant. Therefore, recoverability can only be determined through the calculation of value in use. To determine the value in use for the power plant (see Schedule I), Local Body R:

(a) Prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;

(b) Estimates subsequent cash flows (years 20Y0-20Y9) based on declining growth rates ranging from -6 percent per annum to -3 percent per annum; and

(c) Selects a 6 percent discount rate, which represents a rate that reflects current market assessments of the time value of money and the risks specific to Local Body R's power plant.

Recognition and Measurement of Impairment Loss

IG14. The recoverable amount of Local Body R's power plant is ₹ 121.1 million.

IG15. Local Body R compares the recoverable amount of the power plant to its carrying amount (see Schedule 2).

IG16. Because the carrying amount exceeds the recoverable amount by ₹ 78.9 million, an impairment loss of ₹ 78.9 million is recognised immediately in surplus or deficit.

Schedule 1- Calculation of the Value in Use of Local Body R's Power Plant at the End of 20X4

Year	Long term growth rates	Future cash flows	Present value factor at 6% discount rate***	Discounted future cash flows (Rs.)
20X5 (n=l)		16.8*	0.94340	15.8
20X6		14.4*	0.89000	12.8
20X7		14.2*	0.83962	11.9
20X8		14.1*	0.79209	11.2
20X9		13.9*	0.74726	10.4
20Y0	6%	13.1**	0.70496	9.2
20Y1	6%	12.3**	0.66506	8.2
20Y2	6%	11.6**	0.62741	7.3
20Y3	5%	11.0**	0.59190	6.5
20Y4	5%	10.5**	0.55839	5.9
20Y5	5%	10.0**	0.52679	5.3
20Y6	4%	9.6**	0.49697	4.8
20Y7	4%	9.2**	0.46884	4.3
20Y8	3%	8.9**	0.44230	3.9
20Y9	3%	8.6**	0.41727	3.6
Value in use				**121.1**

* Based on management's best estimate of net cash flow projections.

** Based on an extrapolation from preceding year cash flow using declining growth rates.

*** The present value factor is calculated as k = 1/1 (+a)^n, where a = discount rate and n = period discount

Schedule 2- Calculation of the Impairment Loss for Local Body R's Power Plant at the Beginning of 20X5

Beginning of 20X5	Total ₹ (m)
Historical cost	250.0
Accumulated depreciation (20X4)	(50.0)
Carrying amount	200.0
Carrying amount after impairment loss	121.1
Impairment loss	(78.9)

Reversal of an Impairment Loss

This Example relies on the data for Local Body R as *presented in Example 2, with supplementary information provided in this Example. In this Example, tax effects are ignored.*

Background

IG17. By 20X6 some competitors have closed down power plants and this has meant that the negative impact on the revenues of Local Body R has been less than projected at the end of 2004. This favourable change requires the local body to re-estimate the recoverable amount of the power plant.

IG18. Calculations similar to those in Example 2 show that the recoverable amount of the power plant is now ₹ 157.7 million.

Reversal of Impairment Loss

IG19. Local Body R compares the recoverable amount and the net carrying amount of the power plant and reverses part of the impairment loss previously recognised at Example 2.

Non-Cash-Generating Asset that Contributes to a Cash-Generating Unit Background

Background

IG20. A local body hospital owns and operates a Magnetic Resonance Imaging (MRI) scanner that is primarily used by wards for non-fee paying patients. However, 20% of its usage is for treatment of fee-paying patients. The fee-paying patients are accommodated and

treated in a separate building that includes wards, an operating theatre, and numerous pieces of capital equipment used solely for fee-paying patients. At December 31, 20X6, the carrying value of the building and capital equipment is ₹ 30,000. It is not possible to estimate the recoverable amount of the building and the items of capital equipment on an individual basis. Therefore, the building and capital equipment are considered as a cash-generating unit (CGU). At January 1, 20X6 the MRI scanner had a carrying value of ₹ 3,000. A depreciation expense of ₹ 600 is recognised for the MRI scanner at December 31, 20X6. Because there have been significant technological advances in the field, the MRI scanner is tested for impairment at December 31, 20X6 and an impairment loss of ₹ 400 is determined, so that the carrying value of the MRI scanner at December 31, 20X6 is ₹ 2,000.

Determination of Recoverable amount of Cash-Generating Unit

IG21. During the year there had been a significant reduction in the number of fee-paying patients at the hospital. The CGU is therefore, tested for impairment. The recoverable amount of the CGU, based on its value in use, is assessed as ₹ 27,400. 20% of the revised carrying value of the MRI scanner (₹ 400) is allocated to the carrying amount of the CGU before determining the impairment loss (₹ 3,000). The impairment loss is allocated to the building and capital equipment pro-rata based on their carrying values. No further impairment loss is allocated to the MRI scanner, as an impairment loss has already been determined under the requirements of ASLB 21, '*Impairment of Non-Cash-Generating Assets'.*

Inclusion of Recognised Liabilities in Calculation of Recoverable Amount of a Cash-Generating Unit

Background

IG22. A municipality operates a waste disposal site and is required to restore the site on completion of its operations. The cost of restoration includes the replacement of the topsoil, which must be removed before waste disposal operations commence. A provision for the costs to replace the top soil was recognised as soon as the top soil was removed. The amount provided was recognised as part of the cost of the site and is being depreciated over the site's useful life.

The carrying amount of the provision for restoration costs is ₹ 500, which is equal to the present value of the restoration costs.

Impairment Testing

IG23. The municipality is testing the site for impairment. The cash-generating unit is the site as a whole. The municipality has received various offers to buy the site at a price of around ₹ 800. This price reflects the fact that the buyer will assume the obligation to restore the topsoil. Disposal costs for the site are negligible. The value in use of the site is approximately ₹ 1,200, excluding restoration costs. The carrying amount of the waste disposal site is ₹ 1,000.

IG24. The cash-generating unit's "fair value less costs to sell'' is ₹ 800. This amount includes restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs, and is estimated to be ₹ 700 (₹ 1,200 minus ₹ 500). The carrying amount of the cash-generating unit is ₹ 500, which is the carrying amount of the site (₹ 1,000) minus the carrying amount of the provision for restoration costs (₹ 500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for ₹ 100, an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is ₹ 300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore,

25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Accounting Treatment of an Individual Asset in a Cash-Generating Unit dependent on whether Recoverable Amount can be Determined

Background

IG25. A holding tank at a water purification plant has suffered physical damage but is still working, although not as well as before it was damaged. The holding tank's “fair value less costs to sell” is less than its carrying amount. The holding tank does not generate independent cash inflows. The smallest identifiable group of assets that includes the holding tank and generates cash inflows that are largely independent of the cash inflows from other assets is the plant to which the holding tank belongs. The recoverable amount of the plant shows that the plant taken as a whole is not impaired.

Recoverable Amount of Holding Tank Cannot be Determined

IG26. Assumption 1: Budgets/forecasts approved by management reflect no commitment of management to replace the holding tank.

IG27. The recoverable amount of the holding tank alone cannot be estimated because the holding tank's value in use:

(a) May differ from its “fair value less costs to sell”; and

(b) Can be determined only for the cash-generating unit to which the holding tank belongs (the water purification plant).

The plant is not impaired. Therefore, no impairment loss is recognised for the holding tank. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the holding tank. Perhaps, a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the holding tank or the pattern in which economic benefits are expected to be consumed by the entity.

Recoverable Amount of Holding Tank Can be Determined

IG28. Assumption 2: Budgets/forecasts approved by management reflect a commitment of management to replace the holding tank and sell it in the near future. Cash flows from continuing use of the holding tank until its disposal are estimated to be negligible.

IG29. The holding tank's value in use can be estimated to be close to its “fair value less costs to sell”. Therefore, the recoverable amount of the holding tank can be determined, and no consideration is given to the cash-generating unit to which the holding tank belongs (i.e., the production line). Because the holding tank's “fair value less costs to sell” is below its carrying amount, an impairment loss is recognised for the holding tank.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 26 and the corresponding International Public Sector Accounting Standard (IPSAS) 26, 'Impairment of Cash-Generating Assets'.

Comparison with IPSAS 26, '*Impairment of Cash-Generating Assets*'

1. Different terminologies have been used in ASLB 26 as compared to corresponding IPSAS 26, e.g., the terms 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial performance' and 'public sector entities'.

2. The following paragraphs of IPSAS 26 have been deleted. In order to maintain consistency with the corresponding IPSAS 26, the paragraph numbers have been retained:

   I. Scope exclusions with regard to deferred tax assets (para 2(f)), biological assets related to agricultural activity that are measured at fair value less cost to sell (para 2(j)), deferred acquisition costs and intangible assets arising under insurance contracts (para 2(k)), provided in paragraph 2 of IPSAS 26 have been deleted/removed in ASLB 26 as it may not be relevant for Local Bodies in India.

   II. The concept of intangible assets with an indefinite useful life has not been retained in ASLBs. Accordingly, paragraph 23 has been modified and paragraphs 37 and 123-125 have been deleted.

   III. Paragraph 50 of IPSAS 26 has been deleted as the main objective of Local Bodies is to provide services and not to earn profit.

   IV. Paragraphs 126-127 pertaining to effective date have been deleted as ASLB 26 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

   V. Example in IG3-IG4 under Implementation Guidance, found not relevant in context of Local Bodies, hence, deleted.

3. Paragraph 3 of IPSAS 26 that pertained to applicability of IPSASs has been deleted by the IPSASB from this Standard because a separate document of IPSASB on '*Applicability of IPSASs*' now deals with the same. However, the provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs.

4. The following paragraphs of IPSAS 26 have been amended to make the same more relevant in the context of Local Bodies in India:

   I. The terms '*impairment of cash generating asset*' and '*impairment loss of cash generating asset*' have been defined additionally (paragraph 14).

   II. The footnotes have been appended to the below mentioned paragraphs for more clarifications with regard to the following concepts:

      (i) Paragraph 63 (b) with regard to income tax expenses.

      (ii) Paragraphs 90A-90O and 97A-97H with regard to concept of goodwill and impairment testing CGUs with goodwill and non-controlling interest.

5. The following paragraphs appear as 'Deleted' in IPSAS 26. In order to maintain consistency with paragraph numbers of IPSAS 26, the paragraph numbers are retained in ASLB 26:

   I. Paragraph 2 (e), (h), (i) & (l)

   II. Paragraph 4

   III. Paragraph 6

   IV. Paragraph 7

   V. Paragraph 11

   VI. Paragraph 96

6. Some examples of IPSAS 26 have been deleted/ modified in light of Indian conditions. Some examples have also been included in ASLB 26 (refer paragraphs 15, 18).

7. Consequential changes resulting from the above departures have been made in ASLB 26.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 26 and the existing Accounting Standard (AS) 28, 'Impairment of Assets'.

Comparison with Existing AS 28, '*Impairment of Assets*'

1. ASLB 26 deals with the impairment of cash-generating assets of Local Bodies, whereas existing AS 28 deals with the impairment of cash-generating assets of commercial entities.

2. ASLB 26 requires annual impairment testing for an intangible asset not yet available for use and goodwill acquired in an acquisition, irrespective of whether there is any indication of impairment. However, existing AS 28 does not require the annual impairment testing for the goodwill unless there is an indication of impairment.

3. ASLB 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.

4. The definition of a cash-generating unit in ASLB 26 is modified from that in existing AS 28.

5. Existing AS 28 deals with impairment of corporate assets separately whereas there is no such concept in ASLB 26.

6. ASLB 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity's market capitalisation as indicating impairment. The fact that the carrying amount of the net assets is more than the entity's market capitalisation is treated by existing AS 28 as part of the minimum set of indications of impairment.

7. Existing AS 28 requires that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event whereas ASLB 26 prohibits the recognition of reversals of impairment loss for goodwill.

8. ASLB 26 includes requirements and guidance dealing with the redesignation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. ASLB 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in existing AS 28.

Accounting Standard for Local Bodies (ASLB) 32
Service Concession Arrangements: Grantor

Contents

Accounting Standard for Local Bodies (ASLB) 32

Service Concession Arrangements: Grantor

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 32, *'Service Concession Arrangements: Grantor'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a Local Body.

Scope (see paragraphs AG1-AG2)

2. ***An entity[3] that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for service concession arrangements.***

3. ***This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[4].***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

[3] An entity for the purposes of this Standard is referred to as the grantor.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'*.

4. [Deleted]

5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor.

6. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing service contracts, or privatisation).

7. This Standard does not specify the accounting by operators.

Definitions (see paragraphs AG3-AG4)

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

A binding arrangement, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

A grantor, for the purposes of this Standard, is the entity that grants the right to use the service concession asset to the operator.

An operator, for the purposes of this Standard, is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

A service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) ***The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and***

(b) ***The operator is compensated for its services over the period of the service concession arrangement.***

A service concession asset is an asset used to provide public services in a service concession arrangement that:

(a) ***Is provided by the operator which:***

(i) ***The operator constructs, develops, or acquires from a third party; or***

(ii) ***Is an existing asset of the operator; or***

(b) ***Is provided by the grantor which:***

(i) ***Is an existing asset of the grantor; or***

(ii) ***Is an upgrade to an existing asset of the grantor.***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those other Standards.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5-AG35)

9. ***The grantor should recognise an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:***

(a) ***The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and***

(b) ***The grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the asset at the end of the term of the arrangement.***

10. ***This Standard also applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the conditions in paragraph 9(a) are met.***

11. ***The grantor should initially measure the service concession asset recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value, except as noted in paragraph 12.***

12. ***Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-***

of-life asset), the grantor should reclassify the existing asset as a service concession asset. The reclassified service concession asset should be accounted for in accordance with ASLB 17, 'Property, Plant and Equipment' or ASLB 31, 'Intangible Assets', as appropriate.

13. ***After initial recognition or reclassification, service concession assets should be accounted for in accordance with ASLB 17 or ASLB 31, as appropriate.***

Recognition and Measurement of Liabilities (see paragraphs AG36-AG50)

14. ***Where the grantor recognises a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor should also recognise liability. The grantor should not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 15.***

15. ***The liability recognised in accordance with paragraph 14 should be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.***

16. The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

17. In exchange for the service concession asset the grantor may compensate the operator for the service concession asset by any combination of:

    (a) Making payments to the operator (the "financial liability" model); e.g., A municipality has entered into a concession

arrangement with private party to construct municipal solid waste processing facility (e.g., compost plant). The operator will design, construct, finance, operate, maintain, manage and transfer the project after 10 years. The grantor compensates the operator by making payment of specified monthly amount in accordance with the terms of the concession arrangement.

(b) Compensating the operator by other means (the "grant of a right to the operator" model) such as:

(i) Granting the operator the right to earn revenue from third party users of the service concession asset; or e.g., the municipal corporation has entered into an arrangement with a private entity to strengthen a highway whereby the operator is required to design, construct, operate and maintain the project highway for a period of 20 years. The operator will earn from the toll collection and the rate of the toll will be regulated by the municipality.

(ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model (see paragraphs AG37-AG46)

18. ***Where the grantor has an unconditional obligation to pay cash or another financial asset[5] to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor should account for the liability recognised in***

[5] A **financial asset** is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity;
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

accordance with paragraph 14 as a financial liability[6].

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

    (a) Specified or determinable amounts; or

    (b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. [Refer to Appendix 1]

21. ***The grantor should allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognised in accordance with paragraph 14, a finance charge, and charges for services provided by the operator.***

22. ***The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 21 should be accounted for as expenses.***

23. ***Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator should be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.***

[6] Financial Liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Grant of a Right to the Operator Model (see paragraphs AG47-AG49)

24. ***Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor should account for the liability recognised in accordance with paragraph 14 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.***

25. ***The grantor should recognise revenue and reduce the liability recognised in accordance with paragraph 24 according to the economic substance of the service concession arrangement.***

26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that generates revenue. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognise revenue from the exchange immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. The revenue is recognised according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.

Dividing the Arrangement (see paragraph AG50)

27. ***If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognised in accordance with paragraph 14. The amount initially recognised for the total liability should be the same amount as that specified in paragraph 15.***

28 ***The grantor should account for each part of the liability referred to in paragraph 27 in accordance with paragraphs 18-26.***

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraphs AG51-AG54)

29. ***The grantor should account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets'.***

Other Revenues (see paragraphs AG55-AG64)

30. ***The grantor should account for revenues from a service concession arrangement, other than those specified in paragraphs 24-26, in accordance with ASLB 9, 'Revenue from Exchange Transactions'.***

Presentation and Disclosure (see paragraphs AG65-AG67)

31. ***The grantor should present information in accordance with ASLB 1.***

32. ***All aspects of a service concession arrangement should be considered in determining the appropriate disclosures in the notes. A grantor should disclose the following information in respect of service concession arrangements in each reporting period:***

    (a) ***A description of the arrangement;***

    (b) ***Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);***

    (c) ***The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:***

        (i) ***Rights to use specified assets;***

(ii) ***Rights to expect the operator to provide specified services in relation to the service concession arrangement;***

(iii) ***The carrying amount of service concession assets recognised at the end of the reporting period, including existing assets of the grantor reclassified as service concession assets;***

(iv) ***Rights to receive specified assets at the end of the service concession arrangement;***

(v) ***Renewal and termination options;***

(vi) ***Other rights and obligations (e.g., major overhaul of service concession assets); and***

(vii) ***Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and***

(d) ***Changes in the arrangement occurring during the reporting period.***

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections or water treatment services). This disclosure is in addition to the disclosures required in ASLB 17 and/or ASLB 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with ASLB 17 and/or ASLB 31 or may be included in more than one class of assets disclosed in accordance with ASLB 17 and/or ASLB 31. For example, for the purposes of ASLB 17 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

34. [Refer to Appendix 1]

35. [Deleted]

35A-37. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 32.

Scope (see paragraphs 2-7)

AG1. [Refer to Appendix 1]

AG2 Paragraph 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 10 of the Standard specifies the condition under which whole-of-life assets are within the scope of the Standard.

Definitions (see paragraph 8)

AG3. Paragraph 8 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) The grantor is a Local Body;

(b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;

(c) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(d) The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

(e) The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG4. Paragraph 8 defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, hospitals, water distribution facilities and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

AG4A. Service concessions are different from leases because in service concessions the grantor retains control over the use of the infrastructure, by controlling or regulating what services the operator must provide, to whom it must provide them, and at what price whereas, in leases the lessor transfers the right to use an underlying asset. A lessor does not necessary retain significant residual interest throughout the period of the arrangement. In service concession arrangement, operator provides public services related to the service concession asset on behalf of the grantor, whereas, in a lease the lessee does not act on behalf of the lessor. In a lease, an obligation to permit the lessee access to the underlying asset is not a liability because there would appear to be no expected outflow of future economic benefits from the lessor, which is an essential component of the definition of a liability, whereas in a service concession arrangement, a liability is also recognised by the grantor in respect of the service concession asset as per the Standard.

AG4B. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with ASLB 32 and the arrangement contains an identifiable operating lease or finance lease as defined in ASLB 13, '*Leases*' then the provisions of ASLB 13 are applied in accounting for the lease component of the arrangement.

AG4C. Local Bodies may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether a service concession arrangement as defined in ASLB 32 or a lease, has arisen. In these cases, professional judgment is exercised, and if a service concession arrangement has arisen this Standard is applied; if a service concession arrangement has not arisen, entities account for those agreements by applying provisions of other relevant ASLBs.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9-13)

Recognition of a Service *Concession Asset*

AG5. The assessment of whether a service concession asset should be recognised in accordance with paragraph 9 (or paragraph 10 for whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG6. The control or regulation referred to in paragraph 9(a) could be by a binding arrangement, or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 9(a) regarding control in relation to those to whom the operator must provide services.

AG7. For the purpose of paragraph 9(a) the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry, or sector (e.g., hospitals, schools, or universities) as the grantor (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG8. Many local-self governments have the power to regulate the behaviour of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph 9(a), the broad regulatory powers described above do not constitute control. In this Standard, the term ‘regulate’ is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the

specific regulation and not from the fact that the grantor is a local body that is related to the regulator.

AG9. For the purpose of paragraph 9(a), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf-even though, in many cases, it may have wide managerial discretion.

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9(a) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 9(a) and partly unregulated. However, these arrangements take a variety of forms:

(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in ASLB 26, '*Impairment of Cash-Generating Assets'* is analysed separately to determine whether the condition set out in paragraph 9(a) is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) When purely ancillary activities (such as a hospital's medical test labs) are unregulated, the control tests are applied as if

those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 9(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with ASLB 13.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. The requirement in paragraph 11 is to measure assets recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) initially at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified from its existing classification of asset rather than newly recognised under this Standard. Only an upgrade to an existing asset of the grantor (e.g., that increases its capacity) is recognised as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).

AG16. In applying the impairment tests in ASLB 17 or ASLB 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to ASLB 21, '*Impairment of Non-Cash-Generating Assets'* or ASLB 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in ASLB 17 or ASLB 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognised. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognised. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with ASLB 13.

AGI8. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset). If those conditions are met, the upgrade is recognised and measured in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognises the asset as a service concession asset and accounts for it in accordance with this Standard.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognises and measures the asset in accordance with this Standard. ASLB 17 or ASLB 31, as appropriate, set out the criteria for when a service concession asset should be recognised. Both ASLB 17 and ASLB 31 require that an asset should be recognised if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably[7].

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognise the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the grantor. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the local body grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in ASLB 17 or ASLB 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in ASLB 17 for constructed assets or in ASLB 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract or a similar binding arrangement, the costs are recognised as progress is made towards completion of the asset. Thus, the grantor recognises a service concession asset and an associated liability.

[7] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of fair value on initial recognition does not constitute a revaluation under ASLB 17 or ASLB 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in ASLB 17 and ASLB 31.

Types of Compensation

AG26. Service concession arrangements are rarely if ever the same; technical requirements vary from local body to local body. Furthermore, the terms of the arrangement may also depend on the contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG27. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments (e.g., cash) to the operator,

(b) Compensating the operator by other means, such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for its use.

AG28. Where the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (e.g., the binding arrangement specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable Payments

AG29. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession assets itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30. ASLB 17 and ASLB 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. When the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

AG31. Where the asset and service component of payments by the grantor to the operator are not separable, the fair value in paragraph 11 is determined using estimation techniques.

AG32. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph 38 of ASLB 17 and paragraph 44 of ASLB 31, as appropriate, provide guidance on these circumstances.

AG34. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies ASLB 17 and ASLB 31 to the subsequent measurement and derecognition of a service concession asset. ASLB 21 and ASLB 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognised or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of Liabilities (see paragraphs 14-28)

AG36. The grantor recognises a liability in accordance with paragraph 14 only when a service concession asset is recognised in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset). The nature of the liability recognised in accordance with paragraph 14 differs in each of the circumstances described in paragraph AG 25 according to its substance.

The Financial Liability Model (see paragraphs 18-23)

AG37. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognised as a liability in accordance with paragraph 14. This liability does not include the finance charge and service components of the payments specified in paragraph 2l.

AG39. Where the grantor makes any payments to the operator in advance of the service concession asset being recognised, the grantor accounts for those payments as prepayments.

AG40. The finance charge specified in paragraph 21 are calculated using the effective interest method[8]. The finance Charge is determined

[8] The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial

based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

AG41. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

AG42. Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

AG43. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct develop, acquire, or upgrade a service concession asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

AG44. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG45. The finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges.

AG46. The service component of payments determined in accordance with paragraph 21 is ordinarily recognised evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognised as incurred.

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liabilities) and of allocating the interest revenue or interest expense over the relevant period. When calculating the effective interest rate, an entity should estimate cash flows considering all contractual terms.

Grant of a Right to the Operator Model (see paragraphs 24-26)

AG47. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognised immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. Revenue is recognised and the liability reduced in accordance with paragraph 25 based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated).

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognised and the liability recognised in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in ASLB 17 or ASLB 31, as appropriate.

AG49. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service

concession asset. Accordingly, such payments do not relate to the liability specified in paragraph AG 48. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with ASLB 1.

Dividing the Arrangement (see paragraphs 27-28)

AG50. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognised initially at the fair value of the consideration paid or payable.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 29)

AG51. Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for shortfalls).

AG52. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement are financial guarantee contract. The accounting for the guarantee has not been dealt in this Standard.

AG53. [Refer to Appendix 1]

AG54. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with ASLB 19.

Other Revenues (see paragraph 30)

AG55. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments,

(b) Revenue-sharing provisions;

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator, and

(d) Rent payments for providing the operator access to a revenue-generating asset.

AG56. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with ASLB 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG57. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to earn the revenue from third-party use of the service concession asset or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognised as a liability until the conditions for revenue recognition are met.

AG58. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognised in accordance with paragraph 30.

AG59. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognising revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an

annuity method that applies a compounding interest factor that more evenly recognises revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG60. When an upfront payment is received from the operator, the revenue is recognised in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual installments over the term of the service concession arrangement or predetermined sums for specific years, the revenue is recognised over the specified term.

AG61. For service concession arrangements under which the operator is granted the right to earn revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognised on the same basis as the liability is reduced. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG62. The grantor recognises revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies ASLB 19 to determine when the contingent event has occurred.

AG63. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognised as the liability is reduced.

AG64. When the operator pays a nominal rent for access to a revenue-generating asset the rental revenue is recognised in accordance with ASLB 23, '*Revenue from Non-Exchange Transactions (Taxes and Transfers)'.*

Presentation and Disclosure (see paragraphs 31-33)

AG65. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 32.

AG66. ASLB 1 requires finance costs to be presented separately in the income and expenditure statement. The finance charge determined in accordance with paragraph 21 is included in this item.

AG67. In addition to the disclosures outlined in paragraphs 31-33, the grantor also applies the relevant presentation and disclosure requirements in other ASLBs as they pertain to assets, liabilities, revenues, and expenses recognised under this Standard.

AG68-73. [Deleted]

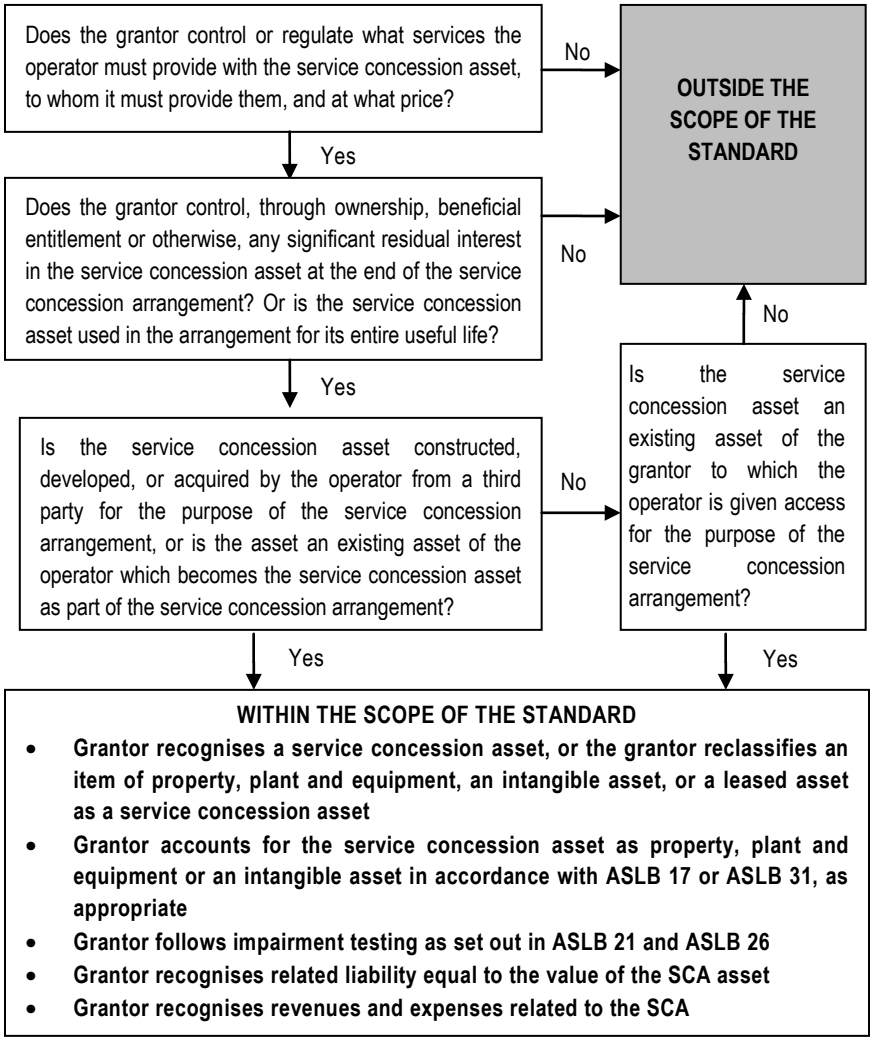
Implementation Guidance

This guidance accompanies, but is *not part of, ASLB 32.*

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 32.

Accounting Framework for Service Concession Arrangements

IG2. The diagram below summarises the accounting for service concession arrangements established by ASLB 32.



References to ASLBs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

IG3. The table sets out the typical types of arrangements for private sector participation in the provision of local body services and provides references to ASLBs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements.

IG4. Shaded text shows arrangements within the scope of ASLB 32.

<table>
<tr><th>Category</th><th>Lessee</th><th colspan="3">Service provider</th><th colspan="2">Owner</th></tr>
<tr><td>Typical arrangement types</td><td>Lease (e.g., operator leases asset from grantor)</td><td>Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)</td><td>Rehabilitate-operate-transfer</td><td>Build-operate-transfer</td><td>Build-own-operate</td><td>100% Divestment/ Privatisation/ Corporation</td></tr>
<tr><td>Asset ownership</td><td colspan="4">Grantor</td><td colspan="2">Operator</td></tr>
<tr><td>Capital investment</td><td colspan="2">Grantor</td><td colspan="4">Operator</td></tr>
<tr><td>Demand risk</td><td>Shared</td><td>Grantor</td><td colspan="2">Grantor and/ or Operator</td><td colspan="2">Operator</td></tr>
<tr><td>Typical duration</td><td>8-20 years</td><td>1-5 years</td><td colspan="2">25-30 years</td><td colspan="2">Indefinite (or may be limited by binding arrangement or license)</td></tr>
<tr><td>Residual interest</td><td colspan="4">Grantor</td><td colspan="2">Operator</td></tr>
<tr><td>Relevant ASLBs</td><td>ASLB 13</td><td>ASLB 1</td><td colspan="2">This ASLB/ ASLB 17/ ASLB 31</td><td colspan="2">ASLB 17/ ASLB 31(derecognition) ASLB 9 (revenue recognition)</td></tr>
</table>

Illustrative Examples

These examples accompany, but are not part of, ASLB 32.

IE1. These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

IE2. In these examples, monetary amounts are denominated in "Rupees" (Rs.).

IE3. These terms are common to the three examples that follow:

IE4. The terms of the arrangement require an operator to construct a road-completing construction within two years - and maintain and operate the road to a specified standard for eight years (i.e., years 3-10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset).

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of Rs. 110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in ASLB 17 when the service concession asset is initially recognised. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be

recognised as a separate component when the resurfacing occurs.[9] It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognised as a separate component of the service concession asset. The road surface is therefore recognised as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3-8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

IE7. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognised by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognised evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognise revenue relevant to that improvement only once it has occurred.

IE8. At the beginning of year 3, the total fair value of the road is Rs. 1,050, comprised of Rs. 940 related to the construction of the base layers and Rs. 110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with ASLB 17). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE9. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore Rs. 38 (940/25) for the base layers. The surface layers are depreciated over

[9] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognise a component.

6 years (years 3-8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is Rs. 18 (Rs.110/6 = 18 approx.). There is no impairment in the value of the road over the term of the service concession arrangement.

IE10. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE11. It is assumed that all cash flows take place at the end of the year.

IE12. It is assumed that the time value of money is not significant. Paragraph AG59 provides guidance on methods that may be appropriate where the time value of money is significant.

IE13. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the operation of the road to the grantor.

IE14. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE15. The grantor's accounting policy for property, plant, and equipment is to recognise such assets using the cost model specified in ASLB 17.

Exhibit 1: Fair Values of the Components of the Arrangement (Rupees)

Contact Component	Fair Value
Road –base layers	940
Road -original surface layers	110
Total FV of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Additional Terms

IEl6. The terms of the arrangement require the grantor to pay the operator Rs. 200 per year in years 3-10 for making the road available to the public. The total consideration (payment of Rs. 200 in each of years 3-10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of Rs. 12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of Rs. 110.

Financial Statement Impact

IE17. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers), starting from year 3.

IE18. The grantor initially recognises a financial liability at fair value equal to the fair value of the asset under construction at the end of year 1 (Rs. 525). The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost, i.e., the amount initially recognised plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE19. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken

and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE20. The compensation for maintenance and operating the road (Rs. 12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognises an expense annually.

IE21. The costs of services are accounted for in accordance with ASLB 1.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

IE22. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash Flows (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement	-	-	-	-	-	-	-	-	(18)	(19)	(37)

surface layers											
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/ (deficit)	-	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.

2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 76 of ASLB 17 requires that, "The depreciation method should reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity." Likewise, for intangible assets, paragraph 96 of ASLB 31 requires that, "The depreciable amount of an intangible asset with a finite useful life should be allocated on a systematic basis over its useful life."

Table 1.3 Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layers	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layers	-	-	-	-	-	-	-	110	92	73

Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus/deficit	-	32	167	295	414	525	628	721	811	891

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 1.4 Changes in Financial Liability (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,082	961	832	695	550	396	343	177
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Finance charged added to liability prior	-	32	-	-	-	-	-	-	-	-

to payments being made										
Portion of predetermined series of payments that reduces the liability*	-	-	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,082	961	832	695	550	396	343	177	-

* This amount is calculated as follows: by reducing finance charge (refer table 1.2) and service expense (refer table 1.2) from predetermined series of payments (refer table 1.1)

Year 3: (200-67-12) = (121),
Year 4: (200-59-12) = (129),
Year 5: (200-51-12) = (137),
Year 6: (200-43-12) = (145),
Year 7: (200-34-12) = (154),
Year 8: (200-25-12) = (163),
Year 9: (200-22-12) = (166), and
Year 10: (200-11-12) = (177).

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE23. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of Rs. 200 in each of years 3-10. The total consideration (tolls of Rs. 200 in each of years 3-10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended

to cover the cost of constructing the road, annual operating costs of Rs. 12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of Rs. 110.

Financial Statement Impact

IE24. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers, starting in year 3).

IE25. As consideration for the service concession asset, the grantor recognises a liability under the grant of a right to the operator model for granting the operator the right to collect tolls of Rs. 200 in years 3-10. The liability is recognised as the asset is recognised.

IE26. The liability is reduced over years 3-10, and the grantor recognises revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement from the point at which the asset is capable of providing economic benefits.

IE27. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE28. The compensation for maintenance and operating the road (Rs. 12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognised as an operating expense because the fair value of the asset and liability initially recognised do not include any service costs the operator may incur.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

IE29. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.3. In addition Table 2.4 shows the changes in the liability.

Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.2 Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	-	-	145	145	145	145	145	145	145	145	1160
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	-	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3)
4. All revenue is recognised evenly over the term of the arrangement.

Table 2.3 Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layers	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layers	-	-	-	-	-	-	-	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	-	-	-	-	-	-	-	-	-	-
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	-
Cumulative surplus/deficit	-	-	(89)	(177)	(266)	(355)	(443)	(532)	(621)	(709)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 2.2).
3. The liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 2.4 Changes in Liability (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	525	1,050	905	760	615	470	325	290	145
Liability recognised along with initial service concession asset	525	525	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	525	1,050	905	760	615	470	325	290	145	-

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE31. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of Rs. 100 in each of years 3-10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of Rs. 100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE24. The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (total Rs. 1,050, comprised of Rs. 940 related to construction of the base layers and Rs. 110 related to construction of the original surface layers). The

asset is recognised as it is constructed (Rs. 525 in year 1 and Rs. 525 in year 2). Depreciation is taken annually (Rs. 56, comprised of Rs. 38 for the base layers and Rs. 18 for the surface layers).

IE33. As consideration for the service concession asset, the grantor recognises both a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of Rs. 100 in years 3-10, and a financial liability to make payments of Rs. 100 in years 3-10. A liability and a financial liability are recognised as the asset is recognised at the end of year 1 (Rs. 525). The liability and financial liability are increased at the end of year 2 to reflect both the fair value of the additional construction (Rs. 525) and the finance charge on the outstanding financial liability.

IE34. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore, in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts – a liability and a financial liability.

IE35. The liability of Rs. 525 (recognised evenly at the end of year 1 and 2) is reduced over years 3-10, and the grantor recognises revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement from the point at which the asset is capable of providing service benefits.

IE36. The grantor initially recognises a financial liability at fair value equal to half of the fair value of the asset (Rs. 525), recognised evenly at the end of years 1 and 2; a liability under the grant of a right to the operator model is recognised in an amount equal to the other half of the fair value of the asset. The financial liability is also increased at the end of year 2 by the finance charge on the outstanding financial liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognised annually. The liability is subsequently measured at amortised cost i.e., the amount initially recognised plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE37. The operator is compensated for the road resurfacing (Rs. 110) equally through the tolls the operator expects to earn over the term of

the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of Rs. 110/6 = Rs. 18, beginning in year 9.

IE38. The operator is compensated for maintenance and operating the road (Rs. 12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognises an expense annually for the portion of the compensation related to the series of predetermined payments (Rs. 6). There is no financial statement impact for the remaining Rs. 6 of this service expense. It is not recognised as an operating expense because the fair value of the asset and liability initially recognised do not include any service costs the operator may incur.

IE39. The grantor's cash flows, income and expenditure statement, and balance sheet over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Overview of Cash Flows, Income and Expenditure Statement, and Balance Sheet

Table 3.1 Cash Flows (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/(outflow)	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Income and Expenditure Statement (Rupees)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	-	-	73	72	73	72	73	72	73	72	580

Service expense	-	-	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	-	(16)	(33)	(30)	(26)	(22)	(17)	(12)	(11)	(5)	(172)
Depreciation – base layers	-	-	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layers	-	-	-	-	-	-	-	-	(18)	(19)	(37)
Total depreciation	-	-	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	-	(16)	(22)	(21)	(15)	(12)	(7)	(2)	-	4	(91)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9 – 10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 3.3)
4. All revenue is recognised evenly over the term of the arrangement.

Table 3.3 Balance Sheet (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – surface layers	-	110	92	73	55	37	18	-	-	-
Service concession asset – replacement surface layers	-	-	-	-	-	-	-	110	92	73
Total Service concession asset	525	1,050	994	937	881	825	768	822	766	709

Cash	-	-	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	(262)	(525)	(452)	(380)	(307)	(235)	(162)	(145)	(72)	-
Financial liability	(263)	(541)	(480)	(416)	(348)	(276)	(199)	(172)	(89)	-
Cumulative surplus/deficit	-	16	38	59	74	86	93	95	95	91

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with ASLB 17 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9-10 reflect deprecation on this additional component (Table 3.2).
3. The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.
4. The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Table 3.4 Changes in Liability (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	262	525	452	380	307	235	162	145	72
Liability recognised along with initial service concession asset	262	263	-	-	-	-	-	-	-	-
Revenue (reduction of liability)	-	-	(73)	(72)	(73)	(72)	(73)	(72)	(73)	(72)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	262	525	452	380	307	235	162	145	72	-

Table 3.5 Changes in Financial Liability (Rupees)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	263	541	480	416	348	276	199	172	89
Liability recognised along with initial service concession asset	263	262	-	-	-	-	-	-	-	-
Finance charged added to liability prior to payments being made	-	16	-		-	-	-	-	-	-
Portion of predetermined series of payments that reduces the liability*	-	-	(61)	(64)	(68)	(72)	(77)	(82)	(83)	(89)
Liability recognised along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	263	541	480	416	348	276	199	172	89	-

* This amount is calculated as follows: by reducing finance charge (refer table 3.2) and service expense (refer table 3.2) from predetermined series of payments (refer table 3.1)

Year 3: (100-33-6) = (61),

Year 4: (100-30-6) = (64),

Year 5: (100-26-6) = (68),

Year 6: (100-22-6) = (72),

Year 7: (100-17-6) = (77),

Year 8: (100-12-6) = (82),

Year 9: (100-11-6) = (83), and

Year 10: (100-5-6) = (89).

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 26 and the corresponding International Public Sector Accounting Standard (IPSAS) 32, 'Service Concession Arrangements: Grantor'.

Comparison with IPSAS 32, *'Service Concession Arrangements: Grantor'*

1. Different terminologies have been used in ASLB 32 as compared to corresponding IPSAS 32, e.g., the terms 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial performance' and 'public sector entities'.

2. The provision pertaining to applicability of ASLBs has been covered in the Standard itself in line with other issued ASLBs (refer paragraph 3).

3. The following paragraphs of IPSAS 32 have been deleted or amended significantly to make the same more relevant in the context of local bodies in India:

   I. The term '*fair value*' has been defined additionally. (paragraph 8)

   II. The Standard provides reference of IPSAS on '*Financial Instruments*' at various places. However, ASLB on '*Financial Instruments*' is not proposed to be issued in near future. Accordingly, such reference has been deleted. (paragraph 20 &AG 53 deleted & paragraph 29 modified)

   III. Footnotes have been inserted with regard to explanation of effective interest method and defining financial asset & financial liability for more clarity (refer paragraph 18& AG 40).

   IV. Paragraphs 34 & 35A-B pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' has been issued that contains all transitional provisions at one place.

   V. Paragraphs 36-37 pertaining to effective date have been

deleted as ASLB 32 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. Paragraphs AG4A-4C have been inserted in ASLB 32 for more clarification that how service concession arrangements are different from leases.

5. The following paragraphs appear as 'Deleted' in IPSAS 32. In order to maintain consistency with paragraph numbers of IPSAS 32, the paragraph numbers are retained in ASLB 32:

   I. Paragraph 4, and

   II. Paragraph 35.

6. Some examples of IPSAS 32 have been modified in light of Indian conditions.

ASLB 33, First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies

Contents

Accounting Standard for Local Bodies (ASLB) 33 First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies'[1].)*

The Accounting Standard for Local Bodies (ASLB) 33, '*First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies (ASLBs)*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to provide guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis ASLBs, in order to present high quality information:

   (a) That provides transparent reporting about a first-time adopter's transition to accrual basis ASLBs;

   (b) That provides a suitable starting point for accounting in accordance with accrual basis ASLBs irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption; and

   (c) Where the benefits are expected to exceed the costs.

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[1]Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

Scope

2. ***An entity should apply this ASLB when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis ASLBs.***

2A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

3. This ASLB applies when an entity first adopts accrual basis ASLBs and during the transitional period allowed in this ASLB. It does not apply when, for example, a first-time adopter:

   (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis ASLBs;

   (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis ASLBs; or

   (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis ASLBs, even if the auditors modified their audit report on those financial statements.

4. This Standard should be applied from the date on which a first-time adopter adopts accrual basis ASLBs and during the period of transition. This Standard permits a first-time adopter to apply transitional exemptions and provisions that may impact fair presentation. Where these transitional exemptions and provisions are applied, a first-time adopter is required to disclose information about the transitional exemptions and provisions adopted, and progress towards fair presentation and compliance with accrual basis ASLBs.

5. At the end of the transitional period a first-time adopter must comply with the recognition, measurement, presentation and disclosure requirements in the other accrual basis ASLB in order to assert compliance with accrual basis ASLBs as required in ASLB 1, '*Presentation of Financial Statements'*.

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[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

6. This ASLB does not apply to changes in accounting policies made by an entity that already applies ASLBs. Such changes are the subject of:

   (a) Requirements on changes in accounting policies in ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'; and

   (b) Specific transitional requirements in other ASLBs. The transitional provisions in other ASLBs apply only to changes in accounting policies made by an entity that already applies accrual basis ASLBs; they do not apply to a first-time adopter's transition to ASLBs, except as specified in this ASLB.

7. [Deleted]

8. [Deleted]

Definitions

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

   Date of adoption of ASLBs** is the date an entity adopts accrual basis ASLBs for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis ASLBs and for which the entity presents its first transitional ASLB financial statements or its first ASLB financial statements.

   Deemed cost** is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

   First ASLB financial statements** are the first annual financial statements in which an entity complies with the accrual basis ASLBs and can make an explicit and unreserved statement of compliance with those ASLBs because it adopted one or more of the transitional exemptions in this ASLB that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs.

   First-time adopter** is an entity that adopts accrual basis ASLBs for the first time and presents its first transitional ASLB financial statements or its first ASLB financial statements.

   Opening balance sheet** is a first-time adopter's balance sheet at the date of adoption of ASLBs.

Period of transition ***is the period during which a first-time adopter applies one or more of the exemptions in this ASLB before it complies with the accrual basis ASLBs, and before it is able to make an explicit and unreserved statement of such compliance with ASLBs.***

Previous basis of accounting ***is the basis of accounting that a first-time adopter used immediately before adopting accrual basis ASLBs.***

Transitional ASLB financial statements ***are the financial statements prepared in accordance with this ASLB where a first-time adopter cannot make an explicit and unreserved statement of compliance with other ASLBs because it adopted one or more of the transitional exemptions in this ASLB that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs.***

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards.

Date of Adoption of ASLBs

10. The date of adoption of ASLBs is the date that an entity adopts accrual basis ASLBs for the first time. It is the start of the reporting period in which the first-time adopter adopts accrual basis ASLBs and for which it presents its first transitional ASLB financial statements or its first ASLB financial statements. If a first-time adopter takes advantage of the exemptions in this ASLBs that affect fair presentation and compliance with accrual basis ASLBs (see paragraphs 36–62) in producing its first transitional ASLB financial statements, it can only make an explicit and unreserved statement of compliance with accrual basis ASLBs when the exemptions that provided the relief have expired, and/or when the relevant items are recognised, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable ASLBs (whichever is earlier). Financial statements should not be described as complying with ASLBs unless they comply with all the requirements of all the applicable ASLBs.

First ASLB Financial Statements

11. An entity's first ASLB financial statements are the first annual financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with accrual basis ASLBs. If a first-time adopter does not adopt the exemptions in this ASLB that affect fair presentation and compliance with accrual basis ASLBs (see paragraphs 36–62), its first financial statements following the adoption of accrual basis ASLBs will also be its first ASLB financial statements.

Previous Basis of Accounting

12. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis ASLBs. This might be a cash basis of accounting, an accrual basis of accounting, a modified version of either a cash basis or an accrual basis of accounting, or another prescribed basis.

Transitional ASLB Financial Statements

13. An entity's transitional ASLB financial statements are the annual financial statements in which an entity transitions to accrual basis ASLBs and adopts certain exemptions in this ASLB that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs. If a first- time adopter adopts the exemptions in this ASLBs that affect fair presentation and compliance with accrual basis ASLBs (see paragraphs 36–62), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis ASLBs until the exemptions that provided the relief in this ASLB have expired and/or when the relevant items are recognised, measured and/ or the relevant information has been presented and/or disclosed in accordance with the applicable ASLBs (whichever is earlier). Financial statements should not be described as complying with ASLBs unless they comply with all the requirements of all the applicable ASLBs.

14. An entity's transitional ASLB financial statements are those financial statements, where the entity transitions from another accounting basis such as when it:

    (a) Prepared its most recent previous financial statements in

accordance with the ASLB, '*Financial Reporting Under the Cash Basis of Accounting*';

(b) Presented its most recent previous financial statements:

(i) In accordance with prescribed requirements that are not consistent with ASLBs in all respects;

(ii) In conformity with ASLBs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with ASLBs;

(iii) Containing an explicit statement of compliance with some, but not all, ASLBs, including the adoption of the exemptions provided in this ASLB that affect fair presentation and compliance with accrual basis ASLBs (see paragraphs 36–62);

(iv) In accordance with prescribed requirements inconsistent with ASLBs, using some individual ASLBs to account for items for which prescribed requirements did not exist; or

(v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with ASLBs;

(c) Prepared financial statements in accordance with ASLBs for internal use only, without making them available to external users;

(d) Prepared a reporting package in accordance with ASLBs for consolidation purposes without preparing a complete set of financial statements as defined in ASLB 1; or

(e) Did not present financial statements for previous periods.

Recognition and Measurement

Opening Balance Sheet on Adoption of ASLBs

15. ***A first-time adopter should prepare and present an opening balance sheet at the date of adoption of ASLBs. This is the starting point for its accounting in accordance with accrual basis ASLBs.***

Accounting Policies

16. ***On the date of adoption of accrual basis ASLBs, a first-time***

adopter should apply the requirements of the ASLBs retrospectively except if required, or otherwise permitted, in this ASLB.

17. ***A first-time adopter should use the same accounting policies in its opening balance sheet and throughout all periods presented, except as specified in paragraphs 36–134. The accounting policies should comply with each ASLB effective at the date of adoption of ASLBs, except as specified in paragraphs 36–134.***

18. A first-time adopter that takes advantage of the exemptions in paragraph 36–134 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognised, measured and/or the relevant information is presented and/ or disclosed in the financial statements in accordance with the applicable ASLBs (whichever is earlier).

19. A first-time adopter should apply the versions of accrual basis ASLBs effective at the date of adoption of ASLBs. A first-time adopter may apply a new ASLB that is not yet mandatory if that ASLB permits early application. Any new ASLBs that become effective during the period of transition should be applied by the first-time adopter from the date it becomes effective.

20. Except as described in paragraphs 36–134, a first-time adopter should, in its opening balance sheet:

    (a) Recognise all assets and liabilities whose recognition is required by ASLBs;

    (b) Not recognise items as assets or liabilities if ASLBs do not permit such recognition;

    (c) Reclassify items that it recognised in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with ASLBs; and

    (d) Apply ASLBs in measuring all recognised assets and liabilities.

21. The accounting policies that a first-time adopter uses in financial statements may differ from those that it used at the end of its

comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of ASLBs. Therefore, a first-time adopter should recognise those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognised and/or measured (or, if appropriate, another category of net assets/equity). The first-time adopter should recognise these adjustments in the earliest period presented.

22. The transitional exemptions and provisions in other ASLB apply to changes in accounting policies made by an entity that already applies accrual basis ASLBs. The transitional exemptions and provisions in this ASLB applies to a first-time adopter that prepares and presents its annual financial statements on the adoption of, and during the transition to accrual basis ASLBs.

Exceptions to the Retrospective Application of ASLBs

23. ***A first-time adopter's estimates in accordance with ASLBs at the date of adoption of ASLBs, should be consistent with estimates made in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were inconsistent with the requirements in ASLBs.***

24. This ASLB prohibits retrospective application of some aspects of accrual basis ASLBs. A first-time adopter may receive information after the date of adoption of ASLBs about estimates that it had made under its previous basis of accounting. In accordance with paragraph 23, a first-time adopter should treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with ASLB 14, '*Events after the Reporting Period'*.

25. A first-time adopter may need to make estimates in accordance with ASLBs at the date of adoption of ASLBs or during the period of transition that were not required at that date under the previous basis of accounting. To achieve consistency with ASLB 14, those estimates in accordance with ASLBs should reflect conditions that existed at the date of adoption of ASLBs or at the date during the period of

transition. In particular, estimates determined at the date of adoption of ASLBs or during the period of transition of market prices, interest rates should reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of ASLBs or the date during the period of transition.

26. Paragraphs 23–25 apply to the opening balance sheet. They also apply to a comparative period where an entity elects to present comparative information in accordance with paragraph 78, in which case the references to the date of adoption of ASLBs are replaced by references to the end of that comparative period.

Fair Presentation and Compliance with ASLBs

27. ***A first-time adopter's first ASLB financial statements should fairly present the financial position, financial performance, and cash flows of the entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in ASLBs. If a first-time adopter takes advantage of the exemptions in paragraphs 36–62, these exemptions will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis ASLBs, until the exemptions that provided the relief have expired and/or when the relevant items are recognised and/or measured in accordance with the applicable ASLB (whichever is earlier).***

28. ***A first-time adopter should claim full compliance with ASLBs only when it has complied with all the requirements of the applicable ASLBs effective at that date, subject to paragraph 11. If a first-time adopter adopts one or more of the exemptions in paragraph 36–62, the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs will be affected. An entity's whose financial statements comply with ASLBs should make an explicit and unreserved statement of such compliance in the notes. Financial statements should not be described as complying with ASLBs unless they comply with all***

the requirements of ASLBs, and should be qualified as accrual basis ASLB complaint financial statements.

29. In accordance with paragraph 29 of ASLB 1 fair presentation is achieved in virtually all circumstances by compliance with applicable ASLBs. For a first- time adopter to claim full compliance with ASLBs, all the requirements of the applicable ASLBs needs to be complied with to ensure that information is presented in a manner that meets the qualitative characteristics, subject to paragraph 11.

30. The exemptions in paragraphs 36–62 provide relief from the recognition, measurement, presentation and/or disclosure requirements in ASLBs on the date of adoption of ASLBs and during the period of transition. A first-time adopter may elect to adopt these exemptions, but should consider that applying these exemptions will affect the fair presentation of its financial statements and its ability to assert compliance with accrual basis ASLBs in accordance with paragraphs 27 and 28 until the exemptions that provided the relief have expired and/or when the relevant items are recognised, measured, and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable ASLBs (whichever is earlier). Before making use of such exemptions, a first-time adopter should consider all the relevant facts and circumstances and the potential effect on its financial statements.

31. ***A first-time adopter should assess whether the transitional exemptions adopted affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis ASLBs.***

32. For example, a first-time adopter adopts the three year transitional relief period for the recognition and measurement of traffic fines because insufficient data is available about the value of fines issued, fines written off, the compromises reached with offenders etc. The relief period is not applied to any other class of non-exchange revenue. The revenue received from fines is not material in relation to the financial statements as a whole. The entity concludes that, by adopting the transitional exemption and provisions, fair presentation and compliance with ASLBs will not be affected. As a result, the first-time adopter will still be able to achieve fair presentation and assert compliance with accrual basis ASLBs at the date of adoption of accrual basis ASLBs or during the period of transition.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis ASLBs during the Period of Transition

33. ***A first-time adopter may adopt the exemptions in paragraphs 36–62. These exemptions will affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis ASLBs during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter should not apply these exemptions by analogy to other items.***

34. ***Notwithstanding the exemptions provided in paragraphs 36–62 a first- time adopter is encouraged to comply in full with all the requirements of the applicable ASLBs as soon as possible.***

35. ***To the extent that a first-time adopter applies the exemptions in paragraph 36–62, it is not required to apply any associated presentation and/or disclosure requirements in the applicable ASLBs until the exemptions that provided the relief have expired or the relevant items are recognised and/or measured in the financial statements in accordance with the applicable ASLBs (whichever is earlier).***

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. ***Where a first-time adopter has not recognised assets and/or liabilities under its previous basis of accounting, it is not required to recognise and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of ASLBs:***

    (a) ***Inventories (see ASLB 12, 'Inventories');***

    (b) ***Investment property (see ASLB 16, 'Investment Property');***

    (c) ***Property, plant and equipment (see ASLB 17, 'Property, Plant and Equipment');***

    (d) ***Defined benefit plans and other long-term employee benefits (see ASLB 39, 'Employee Benefits');***

(e) ***Biological assets and agricultural produce (see ASLB 27, 'Agriculture'[4]);***

(f) ***Intangible assets (see ASLB 31, 'Intangible Assets');***

(g) ***Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see ASLB 32, 'Service Concession Arrangements: Grantor');***

(h) ***Financial instruments (Refer paragraph 15 of ASLB 3 with regard to Guidance on 'Financial Instruments'); and***

(i) ***Social benefits (see ASLB 42, 'Social Benefits').***

37. ***Where a first-time adopter applies the exemption in paragraph 36(d), it should recognise the obligation and any related plan assets at the same time.***

38. ***Where a first-time adopter has recognised the assets and/or liabilities included in paragraph 36 under its previous basis of accounting, it is not required to change its accounting policy(ies) in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of ASLBs.***

39. Subject to paragraphs 36 and 38, a first-time adopter is not required to change its accounting policy(ies) in respect of the recognition and/or measurement of assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of ASLBs. The transitional exemptions in paragraphs 36 and 38 are intended to allow a first-time adopter a period to develop reliable[5] models for recognising and/or measuring its assets and/ or liabilities during the period of transition. The first-time adopter may apply

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[4] The Guidance with regard to accounting policy for 'Agriculture', if required, may be obtained from other corresponding pronouncement as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'* till the time ASLB on this subject is not formulated.

[5] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

accounting policies for the recognition and/or measurement of such assets and/or liabilities that do not comply with the provisions of other ASLBs.

40. ***Subject to the provisions of paragraphs 36 and 38, a first-time adopter should only change its accounting policies during the period of transition to better conform to the accounting policies in accrual basis ASLBs, and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognised and/or measured in the financial statements in accordance with the applicable ASLBs (whichever is earlier). A first-time adopter may change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities on a class-by-class or category-by-category basis where the use of classes or categories is permitted in the applicable ASLB.***

41. [Refer to Appendix 1]

Recognition and/or Measurement of Non-Exchange Revenue

42. ***A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of non-exchange revenue for reporting periods beginning on a date within three years following the date of adoption of ASLBs. A first-time adopter may change its accounting policy in respect of revenue from non-exchange transactions on a class-by-class basis***.

43. The transitional provision in paragraph 42 is intended to allow a first-time adopter a period to develop reliable models for recognising and measuring revenue from non-exchange transactions in accordance with ASLB 23, '*Revenue from Non-Exchange Transactions (Taxes and Transfers)'* during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from non-exchange transactions that do not comply with the provisions of ASLB 23. The transitional provision in paragraph 42 allows a first-time adopter to apply ASLB 23 incrementally to different classes of revenue from non-exchange transactions. For example, a first-time adopter may be able to recognise and measure property taxes and some other classes of transfers in accordance with ASLB 23

from the date of adoption of ASLBs, but may require three years to fully develop a reliable model for recognising and measuring income tax revenue.

Other Exemptions

ASLB 5, '*Borrowing Costs'*

44. ***Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognise and/or measure assets, and, it is not required to capitalise any borrowing costs on qualifying assets for which the commencement date for capitalisation is prior to the date of adoption of accrual basis ASLBs, until the exemption that provided the relief has expired and/or when the relevant assets are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).***

45. Paragraph 36 allows a first-time adopter to not, recognise and/or measure assets in accordance with ASLBs 16, 17, 27, 31 and 32 for a period of up to three years from the date of adoption of ASLBs. During this period, a first-time adopter may need to consider the requirements of those ASLBs at the same time as the capitalisation of borrowing costs. Where a first-time adopter takes advantage of the transitional exemption period for the recognition and/or measurement of assets in accordance with ASLBs 16, 17, 27, 31 and 32 it is not required to capitalise borrowing costs incurred on qualifying assets prior, or during the period of transition. Only when the exemptions that provided the relief have expired, and/or when the relevant assets are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier) will a first-time adopter be allowed to capitalise borrowing costs incurred on the qualifying assets in accordance with the requirement of ASLB 5.

ASLB 13, '*Leases*'

46. ***Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognise assets, it is not required to apply the requirements related to finance leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognised in accordance with the applicable ASLBs***

(whichever is earlier).

47. This ASLB allows a first-time adopter a period of up to three years from the date of adoption of ASLBs to not recognise assets in accordance with ASLBs 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the recognition requirements of those ASLBs at the same time as considering the recognition of finance leases in this ASLB. Where a first-time adopter takes advantage of the exemption in accordance with ASLBs 16, 17, 27, 31 and 32 it is not required to recognise finance lease assets and/or liabilities until the exemptions that provided the relief have expired, and/or when the relevant assets are recognised in accordance with the applicable ASLBs (whichever is earlier).

ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*

48. ***Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognise and/or measure property, plant and equipment, it is not required to recognise and/ or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for ASLB 17 has expired, and/or the relevant asset is recognised and/or measured in accordance with ASLB 17 (whichever is earlier).***

49. This ASLB allows a first-time adopter a period of up to three years from the date of adoption of ASLBs to not recognise and/or measure property, plant and equipment. ASLB 17 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided the relief has expired, and/or when the relevant asset is recognised and/or measured in accordance with ASLB 17 (whichever is earlier). The liability should be measured as at

the date of adoption of ASLBs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognised and/ or measured in accordance with the applicable ASLBs.

50. ***Where a first-time adopter takes advantage of the exemption in paragraph 48, it should recognise and/or measure the obligation and any related asset at the same time.***

ASLB 20, '*Related Party Disclosures'*

51. ***A first-time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of adoption of ASLBs.***

52. ***Notwithstanding the transitional provision in paragraph 51, a first-time adopter is encouraged to disclose information about related party relationships, related party transactions and information about key management personnel that is known at the date of adoption of ASLB.***

ASLB 34, 'Separate Financial Statements', ASLB 35, 'Consolidated Financial Statements' and ASLB 36, 'Investments in Associates and Joint Ventures'[6]

53. ***Where a first-time adopter has not recognised its interests in controlled entities, associates or joint ventures under its previous basis of accounting, it is not required to recognise and/or measure its interests in other entities as a controlled entity, associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of accrual basis ASLB.***

54. Subject to paragraph 53, a first-time adopter is not required to change

[6] Consolidation may not be applicable to local bodies in current scenario, therefore, ASLB 35 is not yet formulated/issued. However, the provisions pertaining to consolidation have been retained. The Guidance with regard to 'Consolidated financial Statements', if required, may be obtained from other corresponding pronouncement as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'* till the time ASLB 35 is not formulated.

its accounting policy in respect of the recognition and/or measurement of its interests in controlled entities, associates or joint ventures for reporting periods beginning on a date within three years following the date of adoption of ASLBs. The transitional exemption in paragraph 53 is intended to allow a first-time adopter a period to identify and appropriately classify its interests in other entities as either controlled entities, associates or joint ventures during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of its interests in controlled entities, associates or joint ventures that do not comply with the provisions of other ASLBs.

ASLB 35, '*Consolidated Financial Statements'*

55. ***Subject to paragraph 53, a first-time adopter should present consolidated financial statements following the adoption of accrual basis ASLBs. A first-time adopter presenting consolidated financial statements is, however, not required to eliminate all balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within three years following the date of adoption of ASLBs.***

56. On adoption of ASLBs, an entity may have controlled entities with a significant number of transactions between controlled entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 55 provides relief for a period of up to three years to fully eliminate balances, transactions, revenue and expenses between entities within the economic entity.

57. ***Notwithstanding the transitional exemption in paragraph 55, a first-time adopter is encouraged to eliminate those balances, transactions, revenue and expenses that are known on the date of adoption of ASLBs to comply in full with the provisions of ASLB 35 as soon as possible.***

58. ***Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 55, it should not present financial statements as consolidated financial statements***

until:

(a) ***The exemptions that provided the relief have expired; and***

(b) ***Its interests in other entities have been appropriately recognised and/or measured as controlled entities, associates or joint ventures; or***

(c) ***Inter-entity balances, transactions, revenue and expenses between entities within the economic entity are eliminated (whichever is earlier).***

ASLB 36, 'Investments in Associates and Joint Ventures'

59. ***When a first-time adopter applies the equity method on adoption of ASLB 36, the investor is not required to eliminate its share in the surplus and deficit resulting from upstream and downstream transactions between the investor and its associate or joint venture for reporting periods beginning on a date within three years following the date of adoption of ASLBs.***

60. On adoption of ASLBs, a first-time adopter may be an investor in one or more associates or joint ventures with a significant number of upstream and downstream transactions between the investor and the investee. Accordingly, it may be difficult to identify some upstream and/or downstream transactions in which the investor's share in the associate's or joint venture's surplus or deficit needs to be eliminated in applying the equity method. For this reason, paragraph 59 provides the investor relief with a period of up to three years to fully eliminate its share in the associate's or joint venture's surplus or deficit resulting from upstream and/or downstream transactions.

61. ***Notwithstanding the transitional exemption in paragraph 59, a first-time adopter is encouraged to eliminate its share in the associate's and joint venture's surplus and deficit resulting from upstream and downstream transactions that are known on the date of adoption of ASLBs, to comply in full with the provisions of ASLB 36 as soon as possible.***

62. ***Where a first-time adopter has taken advantage of the transitional exemption in paragraph 53 and/or paragraph 59, it should not present financial statements in which investments in associates or joint ventures are accounted for using the equity method until:***

(a) ***The exemptions that provided the relief have expired; and***

(b) ***The interest in other entities have been appropriately recognised and/or measured as an associate or joint venture; or***

(c) ***Its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the investee are eliminated (whichever is earlier).***

ASLB 40, 'Entity Combinations'[7]

62A. ***Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognise and/or measure assets and/or liabilities, the first-time adopter may be a party to an entity combination during that three year transitional relief period. The first-time adopter is not required to recognise and/or measure the assets and/or liabilities associated with the entity combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).***

62B. ***Where a first-time adopter applies the exemption in paragraph 62A it should not recognise goodwill in respect of an acquisition. The first-time adopter should recognise the difference between (a) and (b) below in net assets/equity:***

(a) ***The aggregate of:***

(i) ***Any consideration transferred;***

(ii) ***Any non-controlling interests in an acquired operation; and***

(iii) ***Any previously held equity interests in an acquired operation.***

(b) ***The net amounts of any identifiable assets acquired and the liabilities assumed.***

[7] The Guidance with regard to 'Entity Combination', if required, may be obtained from other corresponding pronouncement as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'* till the time ASLB 40 is not formulated.

62C. ASLB 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognised as a result of an entity combination that occurred prior to the application of ASLB 40.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis ASLBs During the Period of Adoption

63. ***A first-time adopter is required, or may elect, to adopt the exemptions in paragraphs 64–134. These exemptions will not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis ASLBs during the period of transition in accordance with paragraphs 27 and 28 while they are applied. A first-time adopter should not apply these exemptions by analogy to other items.***

Using Deemed Cost to Measure Assets and/or Liabilities

64. ***A first-time adopter may elect to measure the following assets and/or liabilities at their municipal value calculated as per respective state accounting/asset valuation manual when reliable cost information about the assets and liabilities is not available, and use that value as the deemed cost for:***

    (a) ***Inventory (see ASLB 12);***

    (b) ***Investment property, if the first-time adopter elects to use the cost model in ASLB 16;***

    (c) ***Property, plant and equipment (see ASLB*** 17);

    (d) ***Intangible assets, other than internally generated intangible assets (see ASLB 31) that meets the recognition criteria in ASLB 31 (excluding the reliable measurement criterion);***

    (e) ***Financial Instruments; or***

    (f) ***Service concession assets (see ASLB 32).***

65. Deemed cost can only be determined where the acquisition cost of the asset and/ or the liability is not available. Deemed cost assumes that the entity had initially recognised the asset and/ or the liability at the given date. Subsequent depreciation or amortisation is based on that

deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost at the date of adoption of ASLBs because cost information about the item of property, plant and equipment was not available on that date, and use value as per paragraph 64 as its deemed cost at that date. Any subsequent depreciation is based on that value determined at that date and starts from the date that the deemed cost has been determined.

66. [Refer to Appendix 1]

67. [Refer to Appendix 1]

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant and equipment by measuring it at value as stated in paragraph 64 at one particular date because of a specific event:

    (a) If the measurement date is at or before the date of adoption of ASLBs, a first-time adopter may use such event-driven value measurements as deemed cost for ASLBs at the date of that measurement.

    (b) If the measurement date is after the date of adoption of ASLBs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise and/or measure certain assets, the such event-driven value measurements may be used as deemed cost when the event occurs. A first-time adopter should recognise the resulting adjustments directly in accumulated surplus or deficit when the asset is recognised and/or measured.

69. [Refer to Appendix 1]

70. [Refer to Appendix 1]

Using Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

71. ***A first-time adopter may elect to measure an asset acquired through a non-exchange transaction in accordance with ASLB 23, 'Revenue from Non-Exchange Transactions (taxes & transfers)'.***

Using Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates (ASLB 34)

72. ***Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption of ASLBs, elect to measure that investment at one of the following amounts in its separate balance sheet:***

    (a) ***Cost; or***

    (b) ***Deemed cost. The deemed cost of such an investment should be its fair value at the first-time adopter's date of adoption of ASLBs in its separate financial statements.***

73. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at its fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph 72(a) and (b).

Date at which Deemed Cost can be Determined

74. ***The date at which deemed cost is determined may vary depending on whether the first-time adopter takes advantage of the exemptions that provides a three year transitional relief period to not recognise and/or measure certain assets and/or liabilities. When the first-time adopter takes advantage of the exemption, deemed cost can be determined at any date during this period, or on the date that the exemption expires (whichever is earlier), and should be recognised in accordance with paragraph 76. If a first-time adopter does not adopt the exemption, deemed cost should be determined at the beginning of the earliest period for which the first-time adopter presents ASLB financial statements.***

75. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise and/or measure certain assets and/or liabilities, it may determine a deemed cost for that asset and/or liability at any point of time within the three year transitional relief period.

76. ***When a deemed cost is determined during the period in which a first-time adopter takes advantage of the exemption that provides***

a three year transitional exemption not to recognise and/or measure an asset and/or liability, a first-time adopter should recognise the adjustment against the opening accumulated surplus or deficit in the year in which the deemed cost of the asset and/or liability is recognised and/or measured.

ASLB 1, *'Presentation of Financial Statements'*

Comparative Information

77. ***A first-time adopter is encouraged, but not required, to present comparative information in its first transitional ASLB financial statements or its first ASLB financial statements presented in accordance with this ASLB. When a first-time adopter presents comparative information, it should be presented in accordance with the requirements of ASLB 1.***

78. ***Where a first-time adopter elects to present comparative information, the transitional ASLB financial statements or the first ASLB financial statements presented in accordance with this ASLB should include:***

    (a) ***One balance sheet with comparative information for the preceding period, and an opening balance sheet as at the beginning of the reporting period prior to the date of adoption of accrual basis ASLB;***

    (b) ***One income and expenditure statement with comparative information for the preceding period;***

    (c) [Refer to Appendix 1];

    (d) ***One cash flow statement with comparative information for the preceding period;***

    (e) ***A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and***

    (f) ***Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 142.***

79. ***Where a first-time adopter elects to not present comparative information, its transitional ASLB financial statements following***

the adoption of accrual basis ASLBs or its first ASLB financial statements presented in accordance with this ASLBs should include:

(a) ***One balance sheet, and an opening balance sheet at the date of adoption of accrual basis ASLB;***

(b) ***One income and expenditure statement;***

(c) [Refer to Appendix 1];

(d) ***One cash flow statement;***

(e) ***A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and***

(f) ***Related notes and the disclosure of narrative information about material adjustments as required by paragraph 142.***

80. ***Where a first-time adopter takes advantage of the exemptions in paragraphs 36–62 which allow a three year transitional relief period to not recognise and/or measure an item, comparative information for the year following the date of adoption of ASLBs should be adjusted only when information is available about the items following their recognition and/or measurement during the relief period.***

81. ASLB 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter takes advantage of the exemption that provides a three year transitional exemption to not recognise and/or measure an item, it should, during the period of transition present comparative information for an item recognised and/or measured during that period only, if information is available about the item for the comparative period. The first-time adopter should apply the requirements in ASLB 1 after it has adjusted its first ASLB financial statements.

Non-ASLB Comparative Information

82. A first-time adopter may present comparative information in accordance with its previous basis of accounting. In any financial

statements containing comparative information in accordance with the previous basis of accounting, the first-time adopter should label the information prepared using the previous basis of accounting information as not being prepared in accordance with ASLBs, and disclose the nature of the main adjustments that would be required to comply with ASLBs.

83. Where a first-time adopter presents non-ASLB comparative information in its first ASLB or first transitional ASLB financial statements following its adoption of accrual basis ASLBs, the transitional exemptions and provisions provided in this Standard should not be applied to the non-ASLB comparative information presented in the first ASLB financial statements or first transitional ASLB financial statements.

Non-ASLB Historical Summaries

84. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with ASLBs. This ASLB does not require such summaries to comply with the recognition and measurement requirements of ASLBs. In any financial statements containing historical summaries in accordance with the previous basis of accounting, the first-time adopter should label the previous basis of accounting information prominently as not being prepared in accordance with ASLBs, and disclose the nature of the main adjustments that would be required to comply with ASLBs. The first-time adopter need not quantify those adjustments.

ASLB 4, '*The Effects of Changes in Foreign Exchange Rates*[8]'

85. ***On the date of adoption of ASLBs a first-time adopter need not comply with the requirements for cumulative translation differences that exist at that date. If a first-time adopter uses this exemption:***

    (a) ***The cumulative translation differences for all foreign operations are deemed to be zero at the date of adoption of***

[8] The concept of foreign operations may not be relevant for local bodies in current scenario. However, the provisions pertaining to this concept have been retained.

ASLBs; and

(b) ***The gain or loss on a subsequent disposal of any foreign operation should exclude translation differences that arose before the date of adoption of ASLBs and should include later translation differences.***

86. ***A first-time adopter should apply the requirement to treat any goodwill (see ASLB 40) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of ASLBs.***

87. In applying the transitional exemption in paragraph 85, a first-time adopter should not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of ASLBs, and accordingly should, where appropriate, treat goodwill and fair value adjustments arising on acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

ASLB 5, '*Borrowing Costs*'

88-89. [Refer to Appendix 1]

90. ***A first-time adopter should apply the requirements in ASLB 5 prospectively from the date of adoption of ASLBs.***

91-94. [Refer to Appendix 1]

ASLB 13, '*Leases*'

95. ***A first-time adopter should on the date of adoption of ASLB, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of ASLBs.***

96. ***If, however, the lessee and the lessor have agreed to change the provisions of the lease between the date of inception of the lease and the date of adoption of accrual basis ASLBs in a manner that***

would have resulted in a different classification of the lease at the date of adoption, the revised agreement should be regarded as a new agreement. A first-time adopter should consider the provisions of the new agreement at the date of adoption of accrual basis ASLBs in classifying the lease as an operating or finance lease.

ASLB 18, '*Segment Reporting*'

97. ***A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of ASLBs.***

ASLB 21, '*Impairment of Non-Cash-Generating Assets*'

98. ***A first-time adopter should apply the requirements in ASLB 21 prospectively from the date of adoption of ASLBs, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognise and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in ASLB 16, 17, 27, 31 and 32, it applies ASLB 21 when the exemption that provided the relief has expired, and/or the relevant assets are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).***

99. ***On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognised and/or measured in the financial statements (whichever is earlier), a first-time adopter should assess whether there is any indication that the non-cash-generating assets recognised and/or measured are impaired. Any impairment loss should be recognised in opening accumulated surplus or deficit on the date of adoption of ASLBs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognised and/or measured (whichever is earlier).***

100. A first-time adopter should apply the requirements of ASLB 21 prospectively. This means that on the date of adoption of accrual basis

ASLBs, or if the first- time adopter has adopted transitional relief relating to the recognition and/ or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognised and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any non-cash-generating assets included in the opening balance sheet, are impaired.

ASLB 39, *'Employee Benefits'*

101. ***A first-time adopter should recognise and/or measure all employee benefits on the date of adoption of ASLBs, except for defined benefit plans and other long-term employee benefits where it takes advantage of the exemption in paragraph 36.***

Defined Benefit Plans and Other Long-Term Employee Benefits

102. ***On the date of adoption of ASLBs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognised and/or measured in the financial statements (whichever is earlier), a first-time adopter should determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:***

(a) ***The present value of the obligation at the date of adoption of ASLBs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognised and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method; and***

(b) ***Minus the fair value, at the date of adoption of ASLBs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognised and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly.***

(c) [Deleted]

103. ***If the initial liability in accordance with paragraph 102 is more or less than the liability that was recognised and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter should recognise that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.***

104. The effect of the change in the accounting policy to ASLB 39 includes any remeasurements that arose, if any, in earlier periods. Under its previous basis of accounting, a first-time adopter may not have recognised and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of ASLBs or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognised and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 102(b). This increased liability is recognised in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.

105. ***A first-time adopter should recognise all cumulative remeasurements in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.***

106. [Deleted]

107. [Deleted]

ASLB 26, *'Impairment of Cash-Generating Assets'*

108. ***A first-time adopter should apply the requirements in ASLB 26 prospectively from the date of adoption of ASLBs, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognise and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in ASLBs 16, 17, 27, 31 and 32, it applies ASLB 26 when the***

exemption that provided the relief has expired, and/or the relevant assets are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).

109. ***On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognised and/or measured in the financial statements (whichever is earlier), a first-time adopter should assess whether there is any indication that the cash-generating assets recognised and/or measured are impaired. Any impairment loss should be recognised in opening accumulated surplus or deficit on the date of adoption of ASLBs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognised and/or measured (whichever is earlier).***

110. A first-time adopter should apply the requirements of ASLB 26 prospectively. This means that on the date of adoption of accrual basis ASLBs, or if the first- time adopter has adopted the transitional relief relating to the recognition and/ or measurement of assets, only when the three year transitional exemption expires, and/or when the relevant assets are recognised and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any cash-generating assets included in the opening balance sheet, are impaired.

111-124. [Refer to Appendix 1]

ASLB 31, '*Intangible Assets*'

125. ***A first-time adopter should recognise and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in ASLB 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.***

126. As required by paragraph 20, a first-time adopter is required to recognise all assets for which recognition is required by ASLBs. A first-time adopter should therefore recognise any internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in ASLB 31, irrespective of whether such costs

were expensed under its previous basis of accounting.

ASLB 32, '*Service Concession Arrangements: Grantor*'

Initial Measurement of Related Liability

127. ***Where a first-time adopter elects to measure service concession assets using deemed cost, the related liabilities should be measured as follows:***

    (a) ***For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in ASLB 32; or***

    (b) ***For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.***

128. ***A first-time adopter should recognise and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph 127 in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.***

ASLB 34, *'Separate Financial Statements', ASLB 35, 'Consolidated Financial Statements' and ASLB 36, 'Investments in Associates and Joint Ventures'*

129. ***If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity should, in its financial statements, measure its assets and liabilities at either:***

    (a) ***The carrying amounts determined in accordance with this ASLB that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of ASLBs, if no adjustments were made for consolidation procedures and for the effects of the entity combination in which the controlling entity acquired the controlled entity; or***

    (b) ***The carrying amounts required by the rest of this ASLB, based on the controlled entity's date of adoption of ASLBs. These carrying amounts could differ from those described***

in (a):

(i) ***When the exemptions in this ASLB result in measurements that depend on the date of adoption of ASLBs.***

(ii) ***When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the cost model in ASLB 17, whereas the economic entity may use the revaluation model.***

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

130. ***However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity should, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the entity combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this ASLB. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it should measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopted in this ASLB, except for consolidation adjustments.***

ASLB 35, *'Consolidated Financial Statements'*

131. ***A first-time adopter that is a controlled entity should assess whether it is an investment entity on the basis of the facts and circumstances that exist at the date of adoption of accrual basis ASLBs, and measure its investment in each controlled entity at fair value through surplus or deficit at the date of adoption of***

accrual basis ASLBs.

ASLB 37, *'Joint Arrangements*[9]*'*

132. ***Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture should be measured on the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see ASLB 40).***

133. ***The opening balance of the investment determined in accordance with paragraph 132 is regarded as the deemed cost of the investment at initial recognition. A first-time adopter should test the investment for impairment as at the date of adoption, regardless of whether there is any indication that the investment may be impaired. Any impairment loss should be adjusted to the accumulated surplus or deficit at the date of adoption.***

134. ***If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the first-time adopter should assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the first-time adopter should recognise a corresponding liability. If the first-time adopter concludes that it does not have legal or constructive obligations in relation to the negative net assets, it should not recognise the corresponding liability but it should adjust accumulated surplus or deficit at the date of adoption. The first-time adopter should disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures as at the date of adoption of accrual basis ASLBs.***

ASLB 42, *'Social Benefits'*

134A. ***A first-time adopter should apply the requirements in ASLB 42***

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[9] The Guidance with regard to 'Joint Arrangements', if required, may be obtained from other corresponding pronouncement as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'* till the time ASLB on this subject is not formulated.

prospectively from the date of adoption of ASLBs. On the date of adoption of ASLBs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognised and/or measured in the financial statements (whichever is earlier), a first-time adopter should determine its initial liability for a social benefit scheme at that date in accordance with ASLB 42.

134B. ***If the initial liability in accordance with paragraph 134A is more or less than the liability that was recognised and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter should recognise that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.***

Disclosures

135. ***A first-time adopter with financial statements that comply with the requirements of this ASLB while taking advantage of the transitional exemptions and provisions that affect fair presentation and its ability to assert compliance with accrual basis ASLBs, should make an explicit and unreserved statement of compliance with this ASLB in the notes to the financial statements. This statement should be accompanied by a statement that the financial statements do not fully comply with accrual basis ASLBs.***

136. ***Where a first-time adopter takes advantage of the transitional exemptions in this ASLB, the first-time adopter should disclose:***

    (a) ***The extent to which it has taken advantage of the transitional exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs; and/or***

    (b) ***The extent to which it has taken advantage of the transitional exemptions that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis ASLBs.***

137. ***To the extent that a first-time adopter has taken advantage of the***

transitional exemptions and provisions in this ASLB that affect fair presentation and compliance with accrual basis ASLBs in relation to assets, liabilities, revenue and/or expenses, it should disclose:

(a) ***Progress made towards recognising, measuring, presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of the applicable ASLB;***

(b) ***The assets, liabilities, revenue and/or expenses that have been recognised and measured under an accounting policy that is not consistent with the requirements of applicable ASLB;***

(c) ***The assets, liabilities, revenue and/or expenses that have not been measured, presented and/or disclosed in the previous reporting period, but which are now recognised and/or measured, and/or presented and/or disclosed;***

(d) ***The nature and amount of any adjustments recognised during the reporting period; and***

(e) ***An indication of how and by when it intends to comply in full with the requirements of the applicable ASLB.***

138. ***Where a first-time adopter takes advantage of the transitional exemption to not eliminate some balances, transactions, revenue and expenses, and/ or where it applies the three year transitional relief for the recognition and/or measurement of its interest in controlled entities, associates or joint ventures in paragraph 55, it should disclose the nature of the balances, transactions, revenue and expenses and/or upstream or downstream transactions that have been eliminated during the reporting period.***

139. ***Where a first-time adopter is not able to present consolidated financial statements because of the transitional exemptions and provisions adopted in paragraphs 58 or 62, it should disclose:***

(a) ***The reason why the financial statements, investments in associates or interests in joint ventures could not be presented as consolidated financial statements; and***

(b) ***An indication by when the first-time adopter will be able to present consolidated financial statements.***

140. ***The disclosure requirements of paragraphs 135 and 139 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable ASLBs during the period of transition.***

Explanation of Transition to ASLBs

141. ***A first-time adopter should disclose:***

(a) ***The date of adoption of ASLBs; and***

(b) ***Information and explanations about how the transition from the previous basis of accounting to ASLBs affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.***

Reconciliations

142. ***A first-time adopter should present in the notes to its transitional ASLB financial statements or its first ASLB financial statements:***

(a) ***A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of ASLBs; and***

(b) ***A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of ASLBs.***

A first-time adopter that has applied a cash basis of accounting in its previous financial statements is not required to present such reconciliations.

143. The reconciliation presented in accordance with paragraph 142 should provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening balance sheet and, where applicable, the restated comparative income and expenditure statement presented in accordance with accrual basis ASLB.

144. If an entity becomes aware of errors made under its previous basis of

accounting, the reconciliations required by paragraph 142 should distinguish the correction of those errors from changes in accounting policies.

145. ***If an entity did not present financial statements for previous periods, its transitional ASLB financial statements or its first ASLB financial statements should disclose that fact.***

146. ***Where a first-time adopter takes advantage of the exemptions in paragraphs 36–43 which allow a three year transitional relief period to not recognise and/or measure items, it should present as part of the notes, a reconciliation of items that have been recognised and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation should be presented in each period when new items are recognised and/or measured in accordance with this ASLB.***

147. The reconciliation presented in accordance with paragraph 146 provides sufficient detail to enable users to understand which items have been recognised and/or measured during the reporting period where the first-time adopter adopts one of more of the exemptions that provide a three year transitional relief period to not recognise and/or measure an item. The reconciliation explains the adjustments to the previously reported balance sheet and, where applicable, the previously reported income and expenditure statement in each period when new items are recognised and/or measured in accordance with this ASLB.

148. [Refer to Appendix 1]

Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Joint Ventures or Associates

149. ***If a first-time adopter uses fair value as deemed cost in its opening balance sheet for an investment in a controlled entity, joint venture or associate in its separate financial statements, its separate financial statements should disclose:***

    (a) ***The aggregate deemed cost of those investments for which deemed cost is fair value; and***

    (b) ***The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.***

150. ***The disclosure requirements required in paragraphs 148 and 149 should be disclosed in each period when new items are recognised and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).***

Exemptions from Disclosure Requirements in ASLBs During the Period of Transition

151. ***To the extent that a first-time adopter takes advantage of the exemption that provides a three year relief period to not recognise and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in ASLB 1, ASLB 18 and/or the applicable ASLBs until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).***

152. ***Notwithstanding the transitional provision in paragraph 151, a first-time adopter is encouraged to disclose the information required by ASLB 1, ASLB 18 and/or the applicable ASLB as soon as possible.***

153-154. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 33.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 33.

Date of Adoption of ASLBs

IG2. The date of adoption of ASLBs is the date an entity adopts accrual basis ASLB for the first time in preparing its financial statements.

IG3. Prior to the adoption of this ASLB, a first-time adopter should have adequately prepared for its transition to accrual basis ASLBs. The relief provided in this ASLB should therefore not be seen as a complete roadmap for the adoption of accrual basis ASLBs, but rather the end stage of the adoption process.

IG4. A first-time adopters' date of adoption will therefore to be the start of the reporting period in which it elects to adopt accrual basis ASLBs for which it presents its transitional ASLB financial statements or its first ASLB financial statements. For example, an entity elects to adopt accrual basis ASLBs from April 1, 20X0 for its reporting period ending March 31,20X1. The date of adoption of ASLBs will be April1, 20X0.

Transitional ASLB Financial Statements

IG5. On the date of adoption of ASLBs, a first-time adopter may elect to adopt one of more of the exemptions included in ASLB 33, '*First-time Adoption of Accrual Basis Accounting Standards for Local Bodies (ASLBs)'.* Some of the exemptions included in ASLB 33 affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis ASLBs (Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis ASLBs and illustrates whether fair presentation and the first-time adopter's ability to assert compliance with accrual basis ASLBs will be affected).

IG6. As a first-time adopter is not able to make an explicit and unreserved statement of compliance with accrual basis ASLBs following the adoption of the exemptions provided in ASLB 33, the financial statements presented for the first reporting period following the

adoption of accrual basis ASLBs, will be referred to as the "transitional ASLB financial statements".

IG7. For example, if the first-time adopter adopts the transitional exemption that provides relief for the recognition of certain items of property, plant and equipment when adopting accrual basis ASLBs on April1, 20X0, it would not be able to make an explicit and unreserved statement of compliance with accrual basis ASLBs at the end of its first reporting period, i.e., March 31, 20X1. The financial statements prepared for the first reporting period, will therefore be referred to as the "first transitional ASLB financial statements".

IG8. The financial statements presented during the period of transition until the exemptions that provided the relief have expired, and/or when the relevant items are recognised and/or measured in the financial statements in accordance with the applicable ASLBs, will be referred to as the "transitional ASLB financial statements".

Basis of Preparation When Preparing Transitional ASLB Financial Statements

IG9. As stated in paragraph 27 of ASLB 33, a first-time adopter that elects to adopt one or more of the exemptions included in ASLB 33, may not be able to make an explicit and unreserved statement of compliance with accrual basis ASLBs as required by ASLB 1. During the period of transition, this fact should be highlighted to the users of financial statements in presenting the "basis of preparation" in the financial statements.

IG10. As an illustration, if a first-time adopter elected to adopt the transitional exemption that allows it three years in which to recognise and/or measure investment property, the following explanation may be provided in the "basis of preparation" paragraph in the financial statements during the period of transition:

Basis of preparation

The financial statements have been prepared in accordance with accrual basis Accounting Standards for Local Bodies (ASLBs). ASLB 33 allows a first-time adopter a period of up to three years to recognise and/or measure certain assets and/or liabilities.

In its transition to accrual basis ASLBs, Entity X took advantage of this transitional exemption for investment property. As a result, it is unable to make an explicit and unreserved statement of compliance with accrual basis ASLBs in preparing its transitional ASLB financial statements for this reporting period. Entity X intends to recognise and/or measure its investment property by April 20X3.

First ASLB Financial Statements

IG11. A first-time adopter's first ASLB financial statements will be the first set of financial statements that it presents in which it makes an explicit and unreserved statement of compliance with accrual basis ASLBs.

IG12. A first-time adopter will not be able to prepare its first ASLB financial statements until the exemptions in ASLB 33 that provided relief which affected fair presentation and compliance with ASLB, have expired, or when the relevant items are recognised, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable ASLBs (whichever is earlier).

IG13. Following from the example in IG5, the transitional exemptions that provided the relief for the recognition of certain items of property, plant and equipment expire after three years, i.e., March 31, 20X3. If it is assumed that the entity has not adopted any other transitional exemptions in ASLB 33 that affect fair presentation and compliance with ASLBs, and that it recognises and/or measures the items of property, plant and equipment during the transitional period, a first-time adopter will present its first ASLB financial statements for the period ending March 31, 20X3.

IG14. If a first-time adopter has not adopted any of the exemptions in ASLB 33 that affect fair presentation and its ability to claim compliance with accrual basis ASLBs, its first accrual financial statements will also be its first ASLB financial statements.

To illustrate:

Timeline – First Time Adoption ASLB (assuming that entity elects to apply the three year transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis ASLBs on 1 April 20X0 by applying ASLB 33, '*First Time Adoption of Accrual Basis ASLBs'*

The first-time adopter elects to apply the three year relief for the recognition of property, plant and equipment. Assume that it does not adopt of any other relief periods. It also elects not to present comparative information.

The first-time adopter recognises all property, plant and equipment by 31 March 20X3.

Start of second reporting period 1 April 20X1 **Start of third** reporting **period 1 April 20X2**

Year 1 Year 2 Year 3

Year 1 (ending 31 March 20X0) – First Transitional ASLB Financial Statements	Year 2 (ending 31 March 20X1) – Transitional ASLB Financial Statements	Year 3 (ending 31 March 20X3) – First ASLB Financial Statements
Cannot assert compliance with accrual basis ASLBs Present the following statements: *opening balance sheet as at 01/04/20X0 *balance sheet as at 31/03/20X1 *statement of income and expenditure for 31/03/20X1 *cash flow statement for 31/03/20X1 *statement of comparison of budget and actual information for 31/03/20X1 (depending on the policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements) Present the following in the notes: *reconciliation of changes	Cannot assert compliance with ASLBs Present the following statements for both 31/03/20X1 and 20X0: *balance sheet *statement of income and expenditure *cash flow statement Present the statement of comparison of budget and actual information for 31/03/20X1 only (depending on policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)	Can assert compliance with ASLBs Present the following statements for both 31/03/20X2 and 20X1: *balance sheet *statement of income and expenditure *cash flow statement Present the statement of comparison of budget and actual information for 31/03/20X2 only (depending on policy chosen for presentation of information, the first-time adopter may include an additional column in the annual financial statements)

from its previous basis of accounting (reflect adjustments related to the adoption of all ASLBs besides ASLB 17) **Note: If the first-time adopter elected to present comparative information, the following statements should have been presented:** ***opening balance sheet as at 01/04/19X9** ***balance sheet as at 31/03/19X9 and 31/03/20X0** ***statement of income and expenditure for 31/03/19X9 and 31/03/20X0** ***cash flow statement for 31/03/19X9 and 31/03/20X0** ***statement of comparison of budget and actual information for 31/03/19X9 and 31/03/20X0**		**Present the following in the notes:** ***reconciliation of adjustments made to recognize property, plant and equipment**

Estimates

IG15. Paragraph 23 of ASLB 33 requires that a first-time adopter's estimates in accordance with ASLBs at the date of adoption of ASLBs should be consistent with estimates made at the end of its comparative period in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. An entity may receive information after the date of adoption of ASLBs about estimates that it had made under the previous basis of accounting. In accordance with paragraph 24, a first-time adopter should treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with ASLB 14, '*Events after the Reporting Period*'.

IG16. For example, assume that a first-time adopter's date of adoption of ASLBs is April1, 20X4 and new information on July 15, 20X4 requires the revision of an estimate made in accordance with the previous basis of accounting at March 31, 20X4. The first-time adopter should not

reflect that new information in its opening balance sheet (unless the estimates require adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the first-time adopter should reflect that new information in surplus or deficit for the year ended March 31, 20X5.

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

IG17. ASLB 33 provides a first-time adopter a period of up to three years' relief in which it is allowed to not recognise and/or measure certain assets and liabilities. Where a first-time adopter takes advantage of this exemption, it will have to consider and analyse title deeds, contracts and other similar arrangements in accounting for, and classifying these assets in accordance with the applicable ASLB.

IG18. For example, assume that a first-time adopter controls a wide range of property, plant and equipment when it adopts accrual basis ASLBs on April1, 20X1. If the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise and/or measure the property, plant and equipment, it may recognise and/or measure the property, plant and equipment during the period of transition from April 1, 20X1 until March 31, 20X4. If the property, plant and equipment is recognised for example, on July 1, 20X2, the first-time adopter should adjust the opening accumulated surplus or deficit on April 1, 20X2. As required by paragraph 142 of ASLB 33, the first-time adopter should, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at March 31, 20X2 (i.e. the opening balance as at April 1, 20X2) for the property, plant and equipment that was recognised on July 1, 20X2.

IG19. Where a first-time adopter has taken advantage of the three year relief period, it should not derecognise any of the assets and/or liabilities that were recognised under its previous basis of accounting unless it is to comply with an ASLB requirement. Any adjustments to the assets and/or liabilities recognised under its previous basis of accounting should be adjusted during the period of transition against the opening accumulated surplus of deficit in the period in which the adjustment is made.

Accounting for Finance Leases Assets and Finance Lease Liabilities

IG20. Where a first-time adopter takes advantage of the exemption that

provides a three year transitional relief period to not recognise its finance lease assets, it will also not be able to comply with the recognition requirements relating to the finance lease liabilities, until the transitional exemptions related to the finance leased assets have expired, or the finance leased assets have been recognised in accordance with ASLB 13.

IG21. For example, assume that a first-time has a motor vehicle that is subject to a finance lease agreement on the date of adoption of accrual basis ASLBs on April 1, 20X1. The first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise the motor vehicle. The motor vehicle is recognised on March 31, 20X4 when the exemption expires. ASLB 33 requires the first-time adopter to only recognise the corresponding finance lease liability for the motor vehicle on March 31, 20X4, i.e., on the date that the finance lease asset (the motor vehicle) is recognised.

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant and Equipment

IG22. ASLB 17 recognises that in some cases, the construction or commissioning of an item of property, plant and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant and equipment and restore the site on which the asset is located. An entity is required to apply ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'* in recognising and measuring the resulting provision to be included in the initial cost of the item of property, plant and equipment.

IG23. ASLB 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognise and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for ASLB 17 expires and/or the relevant asset is recognised and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with ASLB 17 (whichever is earlier).

IG24. For example, an entity adopts accrual basis ASLBs on April 1, 20X1 and takes advantage of the exemption in ASLB 33 that provides a three year transitional relief period to not recognise a sewage plant.

The first-time adopter determines a deemed cost for the asset on June 30, 20X3 and recognises the asset on that date at ₹ 1,000,000. The first-time adopter determines that it has a decommissioning obligation under ASLB 19 of ₹ 500,000 at the date of adoption of ASLBs. The obligation amounts to ₹ 550,000 on June 30, 20X3 when the asset is recognised.

IG25. ASLB 33 requires the first-time adopter to only recognise and/or measure its obligation relating to the dismantling and restoring of the site on June 30, 20X3, i.e., the date on which the asset is recognised. The liability will be measured at ₹ 550,000 which reflects the first-time adopter's obligation on the date that the asset is recognised. The first-time adopter should, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at March 31, 20X3 (i.e., the opening balance as at April 1, 20X3) for the recognition of the obligation and the related asset that was recognised on June 30, 20X3.

Borrowing Costs Incurred on Qualifying Assets

IG26. Paragraph 90 of ASLB 33 requires that, requirements of ASLB 5, '*Borrowing Costs'* should be applied prospectively.

IG27. Paragraph 44 of ASLB 33 provides an exemption to this requirement by allowing a first-time adopter to commence capitalisation of borrowings costs incurred on qualifying assets after the recognition of an asset where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period for the recognition of assets.

IG28. [Refer to Appendix 1]

Presenting Comparative Information

IG29. Paragraph 78 of ASLB 33 encourages, but does not require an entity to present comparative information in its transitional ASLB financial statements or its first ASLB financial statements in accordance with this ASLB. The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of ASLBs.

Date of Adoption of ASLBs

IG30. To illustrate: The end of a first-time adopter's first accrual basis

reporting period is March 31, 20X6. The first-time adopter decides to present comparative information in those financial statements for one year only (see paragraph 78 of ASLB 33). Therefore, its date of adoption of ASLBs is the beginning of the comparative period, i.e., April 1, 20X4 (or equivalently March 31, 20X4).

Information Presented when a First-Time Adopter Elects to Prepare Comparative Information

IG31. Where the first-time adopter elects to prepare comparative information, it is required to apply the accrual basis ASLBs effective for periods ending on March 31, 20X6 in:

(a) Preparing and presenting its opening accrual basis balance sheet at April 1, 20X4; and

(b) Preparing and presenting its:

(i) Balance sheet for March 31, 20X6 (including comparative amounts for the year ended March 31, 20X5);

(ii) Statement of income and expenditure (including comparative amounts for the year ended March 31, 20X5);

(iii) [Refer to Appendix 1];

(iv) Statement of cash flows for the year to March 31, 20X6 (including comparative amounts for the year ended March 31, 20X5);

(v) Disclosures (including comparative information for the year ended March 31, 20X5);

(vi) A comparison of budget and actual amounts for the year to March 31, 20X6; and

(vii) Reconciliations in accordance with paragraph 142.

First-Time Adopter Elects to Not Prepare Comparative Information

IG32. Where a first-time adopter elects to not prepare comparative information, it is required to apply the accrual basis effective for periods ending on March 31, 20X6:

(a) Preparing and presenting its opening accrual basis balance sheet at 1 April 20X5; and

(b) Preparing and presenting its:

(i) Balance sheet for March 31, 20X6;

(ii) Statement of income and expenditure for March 31, 20X6;

(iii) [Refer to Appendix 1];

(iv) Statement of cash flows for the year to March 31, 20X6;

(v) Disclosures;

(vi) A comparison of budget and actual amounts for the year to March 31, 20X6; and

(vii) Reconciliations in accordance with paragraph 142.

Adoption of Three Year Transitional Relief Period

IG33. Where the first-time adopter takes advantage of the exemptions that provide relief from the recognition and/or measurement of assets and/or liabilities, ASLB 33 requires it to only adjust comparative information for reporting periods following the date of adoption of ASLBs to the extent that reliable and relevant information is available about the items that have been recognised and/or measured.

IG34. To illustrate: The end of a first-time adopter's first accrual basis reporting period is March 31, 20X3. The first-time adopter on the date of adoption of ASLBs on April 1, 20X1, adopts the transitional exemption providing a three year relief period for the recognition of investment property. At March 31 20X4 the first-time adopter has recognised the investment property, which is included in the balance sheet as at March 31, 20X4. Only if reliable and relevant information if available about the value of the investment property recognised during 20X3-20X4, the first-time adopter adjust the comparative information presented (i.e., for the period ending March 31, 20X3).

Presenting Reconciliations

IG35. Paragraph 142 of ASLB 33 requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with ASLBs for the transitional ASLB financial statements or its first ASLB financial statements. A reconciliation is presented of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of ASLBs.

IG36. For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis ASLBs on April 1, 20X4 and elects to present comparative information as permitted in ASLB 33. The first-time adopter should, in accordance with paragraphs 142 and 143 of ASLB 33, present a reconciliation in the notes to its transitional ASLB financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening balance sheet as at April 1, 20X4, and the restated comparative statement of income and expenditure, where applicable.

IG37. Paragraph 146 further requires a first-time adopter that takes advantage of the exemptions that provide a three year transitional relief period to not recognise and/or measure items, to present a reconciliation of items that have been recognised and/or measured during the reporting period which were not recognised and/or measured in the previous financial statements.

IG38. Following from the example in IG29, a first-time adopter adopts the exemption in ASLB 33 that allows it to not recognise investment property for a period of three years. The first-time adopter applies this exemption and only recognises the investment property at the end of year three, i.e., March 31, 20X5. As an adjustment is made to the opening balance of accumulated surplus or deficit as on April 1, 20X4 in recognising the investment property, paragraph 146 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the year ending March 31, 20X5 to allow users to understand the adjustment that was made following the recognition of the investment property.

Deemed Cost

IG39. ASLB 33 allows a first-time adopter to determine a deemed cost as a substitute for acquisition cost or depreciated cost at the date of adoption of ASLBs, where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise and/or measure certain assets and/or liabilities. A deemed cost may however only be determined if no cost information is available about the historical cost of the asset and/or liability. When a first-time adopter initially measures these assets on the date of adoption of ASLBs, or when the transitional exemptions that provided

the first-time adopter with a three year relief period to not recognise and/or measure certain assets have expired, it recognises the effect:

As an adjustment to the opening balance of accumulated surplus or deficit in the opening balance sheet in the period in which the deemed is determined.

Determining a Deemed Cost During the Period of Transition

IG40. If a first-time adopter takes advantage of the exemption in ASLB 33 that provides a three year transitional relief period to not recognise and/or measure an asset, the ASLB requires that it may determine a deemed cost for that asset during any point of time within the three year transitional relief period.

IG41. Subsequent depreciation and amortisation, if applicable, is based on that deemed cost and starts from the date of adoption of ASLBs, or when the transitional exemptions that provided the relief have expired, or when the relevant items are recognised and/or measured in accordance with the applicable ASLBs (whichever is earlier).

IG42. For example, a first-time adopter adopts ASLBs on April 1, 20X1 and adopts the exemption that provides a three year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of ASLBs it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e., 20X2-20X3) in which the first-time adopter applies the exemption. ASLB 33 allows the first-time adopter to use the deemed cost determined during 20X2-20X3 in recognising the investment property by adjusting the opening accumulated surplus and deficit on April 1, 20X2. The deemed cost as determined on April 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the cost model as its subsequent measurement basis in applying ASLB 16.

IG43-44. [Refer to Appendix 1]

ASLB 9, '*Revenue from Exchange Transactions*'

IG45. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with ASLB 9 (for example, the proceeds of a sale that does not qualify for recognition as revenue), the first-time adopter recognises the amounts received as a liability in its opening balance sheet and measures that liability at the amount received. It should derecognise the liability and recognise the revenue in its statement of income and expenditure when the recognition criteria in ASLB 9 are met.

IG46-47 [Refer to Appendix 1]

ASLB 14, '*Events After the Reporting Date*'

IG48. Except as described in paragraph IG49, a first-time adopter applies ASLB 14, '*Events After the Reporting Date'* in determining whether:

(a) Its opening balance sheet reflects an event that occurred after the date of transition; and

(b) Comparative amounts in its transitional ASLB financial statements or its first ASLB financial statements, where applicable, reflect an event that occurred after the end of that comparative period.

IG49. Paragraphs 23–26 of ASLB 33 require some modifications to the principles in ASLB 14 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of adoption of ASLBs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 23–26 of ASLB 33 do not require modifications to the principles in ASLB 14.

(a) Case 1—If a first-time adopter's previous basis of accounting required estimates of similar items for the date of adoption of ASLBs, using an accounting policy that is consistent with ASLBs. In this case, the estimates in accordance with ASLBs need to be consistent with estimates made for that date in accordance with previous basis of accounting, unless there is objective evidence that those estimates were in error (see ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors'*). The first-time adopter reports later revisions to those

estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of adoption of ASLBs.

(b) Case 2—Previous basis of accounting required estimates of similar items for the date of adoption of ASLBs, but the first-time adopter made those estimates using accounting policies that are not consistent with its accounting policies in accordance with ASLBs. In this case, the estimates in accordance with ASLBs need to be consistent with the estimates required in accordance with the previous basis of accounting for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening balance sheet reflects those adjustments for the difference in accounting policies. As in case 1, the first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions.

(c) Case 3—Previous basis of accounting did not require estimates of similar items for the date of adoption of ASLBs. Estimates in accordance with ASLBs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of adoption of ASLBs reflect market conditions at that date. This is consistent with the distinction in ASLB 14 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG50. To illustrate: Entity A's first transitional ASLB financial statements are for the period ending March 31, 20X6 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for March 31, 20X4 and 20X5:

(a) Estimates of accrued expenses and provisions were made at those dates;

(b) The entity accounted on a cash basis for a defined benefit pension plan; and

(c) No provision was recognised for a court case arising from events that occurred in September 20X4. When the court case was concluded on June 30, 20X5, entity A was required to pay ₹ 1000 and paid this on July 10, 20X5.

In preparing its transitional ASLB financial statements, entity A concludes that its estimates in accordance with its previous basis of accounting of accrued expenses and provisions at March 31, 20X4 and 20X5 were made on a basis consistent with its accounting policies in accordance with ASLBs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors'.*

Application of Requirements

In preparing its opening balance sheet at April 1, 20X4 and in its comparative balance sheet at March 31, 20X5, entity A:

(a) Does not adjust the previous estimates for accrued expenses and provisions; and

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with ASLB 39, '*Employee Benefits'*. Entity A's actuarial assumptions at April 1, 20X4 and March 31, 20X5 do not reflect conditions that arose after those dates. For example, entity A's:

   (i) Discount rates at April 1, 20X4 and March 31, 20X5 for the pension plan and for provisions reflect market conditions at those dates; and

   (ii) Actuarial assumptions at April 1, 20X4 and March 31, 20X5 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan after March 31, 20X5.

The treatment of the court case at March 31, 20X5 depends on the reason why entity A did not recognise a provision in accordance with its previous basis of accounting at that date.

Assumption 1 – The previous basis of accounting was consistent with ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with ASLBs are consistent with its assumptions in accordance with its previous basis of accounting. Therefore, entity A does not recognise a provision at March 31, 20X5.

Assumption 2 – Entity A's previous basis of accounting was not consistent with ASLB 19. Therefore, entity A develops estimates in accordance with ASLB 19. Under ASLB 19, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with ASLB 14, '*Events after the Reporting Period'*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognises a provision at March 31, 20X5. Entity A will make provision of ₹ 1000 paid on July 10, 20X5 in accordance with ASLB 19 and reflects market conditions at March 31, 20X5.

IG51. Paragraphs 23–26 of the ASLB 33 do not override requirements in other ASLBs that base classifications or measurements on circumstances existing at a particular date. Example include: the distinction between finance leases and operating leases (see ASLB 13, '*Leases'*).

ASLB 13, '*Leases*'

IG52. In accordance with paragraph 95 of ASLB 33 and paragraph 18 of ASLB 13, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of adoption of accrual basis ASLBs. In some cases, the lessee and the lessor may agree to change the provisions

of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification in accordance with ASLB 13 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term from the date of adoption of accrual basis ASLBs. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased asset) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

ASLB 17, '*Property, Plant and Equipment'*

IG53. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with ASLBs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 22 and 26 of ASLB 33 and paragraph 76 of ASLB 17). However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with ASLBs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening balance sheet retrospectively so that it complies with ASLBs.

IG54. [Refer to Appendix 1]

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognise certain assets, when the exemptions providing the relief have expired, or the asset has been recognised in accordance with ASLB 17 (whichever is earlier).

IG56-57. [Refer to Appendix 1]

IG58. ASLB 17 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, ASLB 17 does not prescribe the unit of measurement for recognition of an asset, i.e., what constitutes an item of property, plant and equipment. Thus,

judgment is required in applying the recognition criteria to an entity's specific circumstances (paragraphs 18 and 59).

ASLB 39, '*Employee Benefits*'

IG59. At the date of adoption of ASLBs, a first-time adopter applies ASLB 39 in measuring defined benefits plans and other long-term employee benefits, and recognises all cumulative actuarial gains or losses from the inception of the plan until the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier).

IG60. A first-time adopter's actuarial assumptions at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of ASLB 33) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 23 of the ASLB 33). Any later revisions to those assumptions are an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG61. A first-time adopter may need to make actuarial assumptions at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such

actuarial assumptions do not reflect conditions that arose after the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognised and/or measured in accordance with ASLB 39 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier) (paragraph 23 of ASLB 33).

IG62. In many cases, a first-time adopter's transitional ASLB financial statements or its first ASLB financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in accordance with paragraph 78 of ASLB 33): the end of the first reporting period, the date of the comparative balance sheet (where the first-time adopter elects to present comparative information) and the date of adoption of ASLBs, or where the first-time adopter takes

advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognised and/or measured in accordance with ASLB 39 (whichever is earlier). ASLB 39 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates.

ASLB 21, '*Impairment of Non-Cash-Generating Assets*' and ASLB 26, '*Impairment of Cash-Generating Assets'*

IG63. Paragraphs 98 and 108 of ASLB 33 requires a first-time adopter to apply the requirements in ASLB 21 and ASLB 26 prospectively from the date of adoption of accrual basis ASLBs, or where a first-time adopter takes advantage of the exemptions that provide a three year transitional relief period to not recognise and/or measure an asset, the date when the exemptions that provided the relief expire and/or the asset is recognised and/or measured. For example, if an entity adopts accrual basis ASLBs on April 1, 20X1 and takes advantage of the three year transitional relief period to not recognise and/or measure an item or property, plant and equipment, if would not be required to assess the item of property, plant and equipment for impairment until (a) March 31, 20X4 (i.e. the date on which the transitional exemption expire) or (b) the date following the recognition of the item of property, plant and equipment if it was recognised and/or measured during the period of transition (whichever is earlier).

IG64. The estimates used to determine whether a first-time adopter recognises an impairment loss (and to measure any such impairment loss) at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognised and/or measured in accordance with the applicable ASLB (whichever is earlier) are consistent with

estimates made for at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 78 of ASLB 33) the first-time adopter's previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 23 and 24 of ASLB 33). The first-time adopter reports any later revisions to those estimates as an event of the period in which it makes the revisions.

IG65. In assessing whether it needs to recognise an impairment loss (and in measuring any such impairment loss) at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognised and/or measured in accordance with the applicable ASLB (whichever is earlier), the first-time adopter may need to make estimates for that date that were not necessary in accordance with its previous basis of accounting. Such estimates and assumptions do not reflect conditions that arose after the date of transition, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognised and/or measured in accordance with the applicable ASLB (whichever is earlier) (paragraph 25 of ASLB 33).

IG66-74. [Refer to Appendix 1]

ASLB 31, '*Intangible Assets*'

IG75. A first-time adopter's opening balance sheet excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with ASLB 31 at the date of adoption of ASLB, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognised and/ or measured in accordance with the applicable ASLB (whichever is earlier) and includes all intangible assets that meet the recognition criteria in ASLB 31 at that date.

IG76. The criteria in ASLB 31 require an entity to recognise an intangible asset if, and only if:

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

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

ASLB 31 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG77. In accordance with paragraphs 63 and 66 of ASLB 31, an entity capitalises the costs of internally generated intangible assets prospectively from the date when the recognition criteria are met. ASLB 33 allows an entity to recognise previously expensed intangible assets to the extent that the item meets the definition of an intangible asset, and the recognition criteria in ASLB 31. Thus, if an internally generated intangible asset qualifies for recognition at the date of adoption of ASLBs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognised and/or measured in accordance with the ASLB 31 (whichever is earlier) the first-time adopter recognises and/or measures the asset in its opening balance sheet even if it had recognised the related expenditure as an expense in accordance with its pervious basis of accounting.

IG78. If the asset does not qualify for recognition in accordance with ASLB 31 until a later date, its cost is the sum of the expenditure incurred from that later date.

IG79. The criteria in paragraph IG76 also apply to intangible assets acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits or service potential. Furthermore, as explained in paragraph 33 of ASLB 31, the cost of a separately acquired intangible asset can usually be measured reliably.

IG80. [Refer to Appendix 1]

IG81. If a first-time adopter's amortisation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with ASLBs, it accounts for any change in estimated useful life or amortisation pattern prospectively from when it makes that change in estimate (paragraphs 23 and 24 of ASLB 33 and paragraph 103 of

ASLB 31). However, in some cases, the first-time adopter's amortisation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with ASLBs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the first-time adopter adjusts accumulated amortisation on in its opening balance sheet retrospectively so that it complies with ASLBs.

ASLB 35, '*Consolidated Financial Statements*'

IG82. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of ASLBs, after adjusting for consolidation procedures and for the effects of the entity combination in which it acquired the controlled entity (paragraph 130 of ASLB 33). If the controlled entity has not adopted accrual basis ASLBs in its financial statements, the carrying amounts described in the previous sentence are those that ASLBs would require in those financial statements.

Controlling Entity Adopts Accrual Basis ASLBs Before the Controlled Entity

Background

IG83. Controlling entity A presents its (consolidated) first ASLB financial statements at year ended March 31, 20X6. Its controlled entity B, wholly owned by controlling entity A since formation, prepares information in accordance with accrual basis ASLBs for internal consolidation purposes from that date, but controlled entity B does not present its first ASLB financial statements until year ended March 20X8.

Application of Requirements

IG84. If controlled entity B applies paragraph 129(a) of ASLB 33, the carrying amounts of its assets and liabilities are the same in both its opening ASLB balance sheet at April 1, 20X6 and controlling entity's A consolidated balance sheet (except for adjustments for consolidation procedures) and are based on controlled entity B's date of adoption of ASLBs.

IG85. Alternatively, controlled entity B, in accordance with paragraph 129(b) of ASLB 33, measure all its assets or liabilities based on its own date of adoption of ASLBs (April 1, 20X6). However, the fact that controlled entity B becomes a first-time adopter in 20X7-20X8 does not change the carrying amounts of its assets and liabilities in controlling entity A's consolidated financial statements.

Controlled Entity Adopts Accrual Basis ASLBs Before the Controlling Entity

Background

IG86. Controlling entity C presents its (consolidated) transitional ASLB financial statements ASLBs in 20X7-20X8. Its controlled entity D, wholly owned by controlling entity C since formation, presented its transitional ASLB financial statements in 20X5-20X6. Until March 31 20X8, controlled entity D prepared information for internal consolidation purposes in accordance with controlling entity's C previous basis of accounting.

Application of Requirements

IG87. The carrying amounts of controlled entity D's assets and liabilities at April 1, 20X6 are the same in both controlling entity's C (consolidated) opening accrual basis balance sheet and controlled entity D's financial statements (except for adjustments for consolidation procedures) and are based on controlled entity D's date of adoption of ASLBs. The fact that controlling entity C becomes a first-time adopter in 20X7-20X8 does not change those carrying amounts (paragraph 129 of ASLB 33).

IG88. Paragraphs 129 and 130 of ASLB 33 do not override the following requirements:

(a) The rest of ASLB 33 in measuring all assets and liabilities for which paragraphs 129 and 130 of ASLB 33 are not relevant.

(b) To give all disclosures required by this ASLB as of the first-time adopter's own date of transition to ASLBs.

IG89. Paragraph 129 of ASLB 33 applies if a controlled entity becomes a first-time adopter later than its controlling entity, for example if the controlling entity previously prepared a reporting package in accordance with accrual basis ASLBs for consolidation purposes but did not present a full set of financial statements in accordance with

ASLBs. This may be relevant not only when a controlling entity reporting package complies fully with the recognition and measurement requirements of ASLBs, but also when it is adjusted centrally for matters such as review of events after the reporting date and central allocation of pension costs. However, paragraph 129 of ASLB 33 does not permit a controlled entity to ignore misstatements that are immaterial to the consolidated financial statements of its controlling entity but material to its own financial statements.

Presentation and Disclosure

IG90. Paragraphs 135 to 140 in ASLB 33 require a first-time adopter to disclose certain information when it has taken advantage of the transitional exemptions and provisions in its adoption of accrual basis ASLBs.

To illustrate:

Notes to the financial statements for the year ending March 31, 20X3

Note 48 – Adoption of transitional exemptions and provisions in ASLB 33

Entity X adopted accrual basis ASLB on April 1, 20X1 and elected to adopt the transitional exemption in ASLB 33 that allows it to apply a deemed cost and a period of up to three years in which to measure land and buildings and investment property.

Entity X took advantage of these exemptions in determining a deemed cost, and to measure its land and buildings and investment property. As a result of adopting these transitional exemptions and provisions the entity is not able to make an explicit and unreserved statement about its compliance with accrual basis ASLBs, as the adoption of these transitional exemptions affect the fair presentation of Entity X's financial statements and its ability to assert compliance with accrual basis ASLBs.

No other transitional exemptions that affect fair presentation and compliance with accrual basis ASLBs during the period of transition were adopted or applied to any other assets and/or liabilities.

During the period under review, Entity X restated its opening balance of investment property with an additional value of ₹ 1, 200, 000 after

determining the deemed cost on June 30, 20X2 for the investment property under its control.

As at year end, Entity X has not yet determined a deemed cost for land and buildings and has not yet measured these assets in its financial statements. Land and buildings reflect a closing balance of ₹ 2, 500, 000 as at March 31, 20X3. This value was determined under Entity X's previous basis of accounting.

Entity X plans to apply a three year transitional exemption for measuring its land and buildings and in determining a deemed cost for these asset.

Entity X has appointed an appraiser to value the land and has developed a model for the measurement of buildings. The progress in determining the valuations for land and buildings is in accordance with its implementation plan.

Summary of Transitional Exemptions and Provisions Included in ASLB 33, '*First-time Adoption of Accrual Basis ASLBs*'

IG91. The diagram below summarises the transitional exemptions and provisions included in other accrual basis ASLBs

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
ASLB 1, '*Presentation of Financial Statements*'						√ To extent that 3 year relief period was adopted		• Presenting comparative info encouraged
ASLB 2, '*Cash Flow Statements*'	√							
ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'	√							

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
ASLB 5, '*Borrowing Costs*'			√					• Accounting policy to be applied prospectively
ASLB 9, '*Revenue from Exchange Transactions*'	√				√ To extent that 3 year relief period was adopted for assets and/or liabilities			
ASLB 11, '*Construction Contracts*'	√							
ASLB 12, '*Inventories*'		√	√ Inventory not	√ Inventory rec-ognised under				

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			recognised under previous basis of accounting	previous basis of accounting				
ASLB 13, '*Leases*'			√ Leased assets and/or liabilities not recognised under previous basis of accounting	√ Leased assets and/or liabilities recognised under previous basis of accounting				
ASLB 14, '*Events After the*	√							

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
Reporting Date'								
ASLB 16, '*Investment Property'*		√	√ Investment property not recognised under previous basis of accounting	√ Investment property recognised under previous basis of accounting				
ASLB 17, '*Property, Plant and Equipment'*		√	√ Property, plant and equipment not recognised under previous	√ Property, plant and equipment recognised under previous basis of accounting				

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			basis of accounting					
ASLB 18, '*Segment Reporting*'	√ No segment report to the extent that 3 year relief period was adopted							
ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'			√ Only liabilities related to assets not recognised under previous	√ Only liabilities related to assets recognised under previous basis of accounting				

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site	to be included initial estimate of cost of dismantling/ removing item/ restoring site				
ASLB 20, '*Related Party Disclosures'*						√		
ASLB 21, '*Impairment of Non-Cash-*								• Prospective application

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
Generating Assets'								
ASLB 23, '*Revenue from Non-Exchange Transactions'*			√ All non-exchange revenue not recognised under previous basis of accounting	√ All non-exchange revenue recognised under previous basis of ac counting	√ To extent that 3 year relief period was adopted for assets and/or liabilities			
ASLB 24, '*Presentation of Budget Information in Financial Statements'*	√							

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
ASLB 26, '*Impairment of Cash-Generating Assets*'			√					• Prospective application
ASLB 27, '*Agriculture*'			√ Biological and agricultural activities not recognised under previous basis of accounting	√ Biological and agricultural activities recognised under previous basis of accounting				
ASLB 31, '*Intangible Assets*'		√ Intangible assets	√ Intangible assets not	√ Intangible assets				• Provision to recognise previously

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
		other than internally generated I/A	recognised under previous basis of accounting	recognised under previous basis of accounting				expensed internally generated intangible assets
ASLB 32, '*Service Concession Arrangements: Grantor'*		√ Service concession asset	√ Service concession asset and related liability not recognised under previous basis of accounting	√ Service concession asset and related liability recognised under previous basis of accounting				• Provision on how to recognise related liability
ASLB 35,		√			√		√	• Provisions

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
'Consolidated Financial Statements'					To appropriately classify and identify interests in other entities			when controlling and/or controlled entity adopts ASLB at different time • Exemption to not prepare financial statements as consolidated financial statements • *(Assess if investment entity on date*

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
								of adoption and measure at fair value at that date)
ASLB 36, '*Investments in Associates and Joint Ventures'*		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling entity and associate adopts ASLB at different time • Exemption to not include investment in associate in consolidated

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
								financial statements
		√			√ To appropriately classify and identify interests in other entities		√	• Provisions when controlling entity and associate and jointly controlled entities adopt ASLB at different time • Exemption to not include interests in joint venture in

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
								consolidated financial statements
ASLB 37,' *Joint Arrangements'*								• Provision on how to measure investment in joint venture previously accounted for using proportionate consolidation
ASLB 39, '*Employee Benefits'*			√ defined benefit plans and other	√ for defined benefit and other long-				• Provisions on how to determine initial liability

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			long-term employee benefits not recognised under previous basis of accounting	term employee benefits recognised under previous basis of ac counting				• Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments
ASLB 42, 'Social Benefits'			√ liabilities for social benefits not recognised under previous	√ liabilities for social benefits recognised under previous basis of accounting				

ASLB	Transitional exemption provided							
	NO	YES						
		Deemed cost	3 year transitional relief for recognition	3 year transitional relief for measurement	3 year transitional relief for recognition and/ or measurement	3 year transitional relief for disclosure	Elimination of transactions, balances, revenue and expenses	Other
			basis of accounting					

Appendix

Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis ASLBs

This Appendix summarises how the transitional exemptions and provisions that a first-time adopter is required to apply in terms of this ASLB, and those that a first-time adopter may elect to apply on adoption of accrual basis ASLBs.

As the transitional exemptions and provisions that may be elected can also affect the fair presentation and the first-time adopter's ability to assert compliance with accrual basis ASLBs as explained in paragraphs 27 to 32 of ASLB 33, the Appendix makes a distinction between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis ASLBs, and those that do not.

Transitional exemption or provision	**Transitional exemp- tions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
ASLB 1 • Present comparative information		√	
ASLB 4 • Cumulative transitional differences at the date of adoption		√	

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
ASLB 5 • Entity has taken advantage of relief period • Adopt accounting policy on date of adoption – prospective application	√		√
ASLB 9 • Relief for recognition and/or measurement of revenue related to adoption of three year relief period			√
ASLB 12 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
ASLB 13 • No recognition and/or measurement of finance lease liability and finance			√

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
lease asset if relief period for recognition and/or measurement of assets is adopted • Classification of lease based on circum-stances at adoption of accrual basis ASLB	√		
ASLB 16 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
ASLB 17 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
ASLB 18 • No preparation of segment report within three years of adoption		√	

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
ASLB 19 • No recognition and measurement of liability relating to initial estimate of costs of dismantling and removing item if relief for recognition and/or measurement of assets are adopted			√
ASLB 20 • No disclosure of related party relationships, related party transactions and information about key management personnel			√
ASLB 21 • Apply impairment provisions prospectively on date of adoption or when assets are recognised when relief period was applied	√		
ASLB 26 • Apply impairment provisions prospectively on	√		

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
date of adoption or when assets are recognised when relief period was applied			
ASLB 27 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets			√
ASLB 31 • Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets • Recognise all internally generated intangible assets	√		√
ASLB 32 • Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets			√

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
and/or liabilities • Measure liability either under financial liability model or grant of a right to the operator model on date of adoption or when asset is recognised if relief period is adopted	√		
Applying deemed cost to assets and/or liabilities		√	
Applying deemed cost to assets acquired in a non-exchange transaction		√	
Using deemed cost for investments in controlled entities, jointly controlled entities and associates		√	
Preparing reconciliations during transitional period	√		
ASLB 35 • Relief to recognise and/or measure interests in controlled entity	√		√

Transitional exemption or provision	**Transitional exemp- tions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
• Elect to not eliminate inter-entity balances, transactions, revenue and expenses • Controlled entity becomes first-time adopter later or earlier than its controlling entity			
• Not present financial statements as consolidated financial statements if three year relief for recognition and/or measurement and/or elimination option was adopted • *Assess if investment entity on date of adoption and determine fair value at that date)*	√		√ √
ASLB 36 • Relief to recognise and/or measure interest in associate • Elect to not eliminate			√

Transitional exemption or provision	**Transitional exemp- tions or provisions that have to be applied**	**Transitional exemptions or provisions that may be applied or elected**	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
share in associate's surplus and deficit • Associate becomes first-time adopter later or earlier than its controlling entity • Not present investment in associates in consolidated financial statements if three year relief for recognition and/or measurement and/or elimination option was adopted	√		√ √
ASLB 37 • *Measure investment in joint venture previously accounted for using proportionate consolidation*	√		

Transitional exemption or provision	Transitional exemp- tions or provisions that have to be applied	Transitional exemptions or provisions that may be applied or elected	
	Do not affect fair presentation and compliance with accrual basis ASLB	Do not affect fair presentation and compliance with accrual basis ASLB	Affect fair presentation and compliance with accrual basis ASLB
ASLB 39 • Three year relief for recognition and/or measurement of assets and/or liabilities and changing the accounting policy to measure assets and/or liabilities • Determine initial liability for defined benefit and other long-term employee benefit plans on date of adoption or when relief period expired	√ √		√
• Recognise increase/decrease on date of adoption or when relief period expires in opening accumulated surplus/deficit			

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 33 and the corresponding International Public Sector Accounting Standard (IPSAS) 33, 'First-Time Adoption of Accrual Basis IPSAS'.

Comparison with IPSAS 33, 'First-Time Adoption of Accrual Basis IPSASs'

1. Different terminologies have been used in ASLB 33 as compared to corresponding IPSAS 33, e.g., the terms 'balance sheet', 'statement of income and expenditure' and 'entities' have been used in place of 'statement of financial position', 'statement of financial performance' and 'public sector entities'.

2. As compared to IPSAS 33, ASLB 33 does not require to prepare the Statement of changes in net assets/ equity.

3. The following paragraphs of IPSAS 33 have been deleted. In order to maintain consistency with the corresponding IPSAS 33, the paragraph numbers have been retained:

   (i) In respect of assets as prescribed in Paragraph 64 of ASLB, the deemed cost has been prescribed as municipal value in place of fair value as prescribed in IPSAS. In this regard, paragraph no 66, 67, 69, 70 and 148 have been deleted.

   (ii) Paragraphs 90-93 pertaining to financial reporting in hyperinflationary economies as it may not be relevant for Local Bodies in Indian context.

   (iii) Paragraphs 41, 111-124 pertaining to financial instruments have been deleted as ASLBs on this subject are not proposed to be formulated/ issued in the future. However, a separate Guidance on '*Financial Instruments*' is proposed to be issued that will deal with this subject in detail including the specific transitional provisions.

   (iv) Paragraph 153 pertaining to transitional provision has been deleted as this ASLB contains all transitional provisions at one place.

(v) Paragraphs 154 & 154A-C pertaining to effective date have been deleted as ASLB 33 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

4. Paragraph 2A inserted with regard to applicability of ASLBs in line with other issued ASLBs.

5. IPSAS 5, 'Borrowing Costs' permits 'benchmark treatment' (expense-off) and 'allowed alternative treatment' (capitalisation in case of qualifying assets). The benchmark treatment has not been retained in corresponding ASLB 5. Only the treatment prescribed under 'allowed alternative treatment' has been retained but the term 'allowed alternative treatment' has not been used in ASLB 5. (deleted paragraphs 88-89, modified paragraphs 44-45, 90).

6. ASLB 33 prescribes to use the requirements of ASLB 5 prospectively from the date of adoption of ASLBs.

7. Transitional provisions pertaining to 'Social Benefits' have been incorporated in ASLB 33.

8. Footnotes have been appended in ASLB 33 with regard to subjects that may not be relevant for Local Bodies in current scenario or on which ASLBs are yet to be issue.

9. The following paragraphs appear as 'Deleted' in IPSAS 33. In order to maintain consistency with paragraph numbers of IPSAS 33, the paragraph numbers are retained in ASLB 33:

   (i) Paragraph

   (ii) Paragraph 106-107

10. Consequential changes resulting from the above departures have been made in ASLB 33.

Accounting Standard for Local Bodies ASLB 34
Separate Financial Statements

Contents

Accounting Standard for Local Bodies (ASLB) 34
Separate Financial Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies[1]'.)*

The Accounting Standard for Local Bodies (ASLB) 34, '*Separate Financial Statements*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by regulations, to present separate financial statements.***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

2A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

3. This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Accounting Standards for Local Bodies (ASLBs).

4. [Deleted]

5. [Deleted]

Definitions

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

<u>Consolidated financial statements</u> are the financial statements of an economic entity in which the asset, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

<u>Separate financial statements</u> are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with Guidance on 'Financial Instruments'.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in ASLB 35, 'Consolidated Financial Statements', ASLB 36, 'Investment in Associates and Joint Ventures' or ASLB 37, 'Joint Arrangements'[4]: associate, control, controlled entity, controlling entity, economic entity, investment entity, joint control, joint operation, joint venture, joint venturer and significant influence.

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[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

[4] The standard makes a reference to ASLBs 35 & 37 and Guidance on '*Financial Instruments*' that are yet to be formulated/ issued. The Guidance in regard to those may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

7. Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by ASLB 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 9-10.

8. The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.

9. An entity that is exempted in accordance with paragraph 5 of ASLB 35, from consolidation or paragraph 23 of ASLB 36, from applying the equity method may present separate financial statements as its only financial statements.

10. An investment entity[5] that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value through surplus or deficit in accordance with paragraph 56 of ASLB 35, presents separate financial statements as its only financial statements.

Preparation of Separate Financial Statements

11. ***Separate financial statements should be prepared in accordance with all applicable ASLBs, except as provided in paragraph 12.***

12. ***When an entity prepares separate financial statements, it should account for similar investments in controlled entities, joint ventures and associates either:***

    (a) ***At cost; or***

    (b) ***In accordance with Guidance on 'Financial Instruments'.***

    (c) [Refer to Appendix 1]

[5] The concept of 'investment entity' may not be applicable to Local Bodies in India in current scenario. However, the same may be relevant in future, hence retained here.

13. ***If an entity elects, in accordance with paragraph 24 of ASLB 36, to measure its investments in associates or joint ventures at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments', it should also account for those investments in the same way in its separate financial statements.***

14. ***If a controlling entity is required, in accordance with paragraph 56 of ASLB 35, to measure its investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments', it should also account for that investment in the same way in its separate financial statements. If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 58 of ASLB 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments' and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it should also account for that investment in the controlled investment entity in the same way in its separate financial statements.***

15. ***When a controlling entity ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurred, as follows:***

    (a) ***When an entity ceases to be an investment entity, the entity should account for an investment in a controlled entity in accordance with paragraph 12. The date of the change of status should be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date should represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 12.***

    (b) ***When an entity becomes an investment entity, it should account for an investment in a controlled entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments'. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor***

should be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets/equity in respect of those controlled entities should be treated as if the investment entity had disposed of those controlled entities at the date of change in status.

16. ***Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established.***

17. ***When a controlling entity reorganises the structure of its economic entity by establishing a new entity as its controlling entity[6] in a manner that satisfies the following criteria:***

    (a) ***The new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments[7] in exchange for existing equity instruments of the original controlling entity, if any, or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;***

    (b) ***The assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganisation; and***

    (c) ***The owners of the original controlling entity before the reorganisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganisation;***

    and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph 12(a) in its separate financial statements, the new controlling entity should measure cost at the carrying amount of its share of the net

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6 Restructuring/ reorganisation may normally happen in Local Bodies in India with Government directive/ order only.

7 Issuance of equity Instruments may also not be relevant for local bodies in India in current scenario.

assets/equity items shown in the separate financial statements of the original controlling entity at the date of the reorganisation.

18. Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph 17. The requirements in paragraph 17 apply equally to such reorganisations. In such cases, references to "original controlling entity" and "original economic entity" are to the "original entity".

Disclosure

19. ***An entity should apply all applicable ASLBs when providing disclosures in its separate financial statements, including the requirements in paragraphs 20-23.***

20. ***When a controlling entity, in accordance with paragraph 5 of ASLB 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it should disclose in those separate financial statements:***

    (a) ***The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with ASLBs have been produced for public use; and the address where those consolidated financial statements are obtainable.***

    (b) ***A list of significant investments in controlled entities, joint ventures and associates, including:***

    (i) ***The name of those controlled entities, joint ventures and associates.***

    (ii) ***The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).***

    (iii) ***Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.***

    (c) ***A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).***

21. ***When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph 20) prepares, in accordance with paragraph 10, separate financial statements as its only financial statements, it should disclose that fact. The investment entity should also present the disclosures relating to investment entities required by ASLB 38, 'Disclosure of Interest in Other Entities'.***

22. ***If a controlling entity that is not itself an investment entity is required, in accordance with paragraph 56 of ASLB 35, to measure the investments of a controlled investment entity at fair value through surplus or deficit in accordance with Guidance on 'Financial Instruments' and consolidate the other assets and liabilities and revenue and expenses of the controlled investment entity, it should disclose that fact. The entity should also present the disclosures relating to investment entities required by ASLB 38, 'Disclosure of Interest in Other Entities'.***

23. ***When a controlling entity (other than a controlling entity covered by paragraphs 20-21) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor should identify the financial statements prepared in accordance with ASLB 35, ASLB 36 or ASLB 37, to which they relate. The controlling entity or investor should also disclose in its separate financial statements:***

    (a) ***The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or other authority.***

    (b) ***A list of significant controlled entities, joint ventures and associates, including:***

        (i) ***The name of those controlled entities, joint ventures and associates.***

        (ii) ***The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).***

(iii) ***Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.***

(c) ***A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).***

24-34. [Refer to Appendix 1]

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 34 and the corresponding International Public Sector Accounting Standard (IPSAS) 34, 'Separate Financial Statements'.

Comparison with IPSAS 34, '*Separate Financial Statements*'

1. The following paragraphs of IPSAS 34 have been deleted. In order to maintain consistency with the corresponding IPSAS 34, the paragraph numbers have been retained:

   (i) Paragraphs 24-31 pertaining to transitional provision have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' has been issued that contains all transitional provisions at one place.

   (ii) Paragraphs 32-33 pertaining to effective date have been deleted as ASLB 21 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

2. IPSAS 34 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). This option is not given in ASLB 34, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

3. Paragraph 2A has been inserted with regard to applicability of ASLBs in line with other issued ASLBs.

4. ASLB 34 makes a reference to the Guidance on '*Financial Instruments*' and various ASLBs that are yet to be formulated/ issued. The clarification on obtaining guidance in regard to those ASLBs has been incorporated in the ASLB.

5. The footnotes have been appended in the Standard for the concepts of 'investment entity', 'restructuring/ reorganisation', and 'issuance of equity instruments' for clarification with regard to their applicability/ relevance in the context of Local Bodies in India.

Accounting Standard for Local Bodies (ASLB) 36
Investments in Associates and Joint Ventures

Contents

Accounting Standard for Local Bodies (ASLB) 36
Investments in Associates and Joint Ventures

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies[1]'.)*

The Accounting Standards for Local Bodies (ASLB) 36, '*Investment in Associates and Joint Ventures*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for investments in associates and joint ventures.***

2A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

3. ***This Standard should be applied by all entities that are investors with significant influence over, or joint control of, an investee***

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1 Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

2 In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

3 Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

where the investment leads to the holding of a quantifiable ownership interest.

4. This Standard provides the basis for accounting for ownership interests in associates and joint ventures. That is, the investment in the other entity confers on the entity the risks and rewards incidental to an ownership interest. This Standard applies only to quantifiable ownership interests. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital, such as units in a property trust. Quantifiable ownership interests may also include ownership interests arising from other investments in which the entity's ownership interest can be measured reliably[4] (for example, interests in a partnership). Where the equity structure of the other entity is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

5. Some contributions made by local bodies may be referred to as an "investment", but may not give rise to an ownership interest. For example, a local body may make a substantial investment in the development of a hospital that is owned and operated by the other entity. While such contributions are non-exchange in nature, they allow the local body to participate in the operation of the hospital, and the other entity owning the hospital is accountable to the local body for its use of public monies. However, the contributions made by the local body do not constitute an ownership interest, as the other entity could seek alternative funding and thereby prevent local body from participating in the operation of the hospital. Accordingly, the local body is not exposed to the risks, nor does it enjoy the rewards, that are incidental to an ownership interest.

6. [Deleted]

7. [Deleted]

[4] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.

Definitions

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

An associate is an entity over which the investor has significant influence.

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognised in the investee's surplus or deficit.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

<u>Significant influence</u> is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Terms defined in other ASLBs are used in this Standard with the same meaning as in those Standards. The following terms are defined in either ASLB 34, 'Separate Financial Statements', ASLB 35, 'Consolidated Financial Statements', or ASLB 37, 'Joint Arrangements'[5]: benefits, control, controlled entity, controlling entity, economic entity, investment entity, joint operation, power and separate financial statements.

Binding Arrangement

9. Binding arrangement can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Significant Influence

10. Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

11. If an entity holds a quantifiable ownership interest and it holds, directly or indirectly (e.g., through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g., through controlled entities), less than 20 per cent of the voting power

[5] The Standard makes a reference to ASLBs 35 and 37 that are yet to be formulated/ issued. The Guidance in regard to those may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

12. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

    (a) Representation on the board of directors or equivalent governing body of the investee;

    (b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;

    (c) Material transactions between the entity and its investee;

    (d) Interchange of managerial personnel; or

    (e) Provision of essential technical information.

13-14. [Refer Appendix-1]

15. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

Equity Method

16. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the surplus or deficit of the investee after the date of acquisition. The investor's share of the investee's surplus or deficit is recognised in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognised in the investee's surplus or deficit. Such changes include those arising from the

revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in net assets/equity of the investor.

17. The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate or a joint venture because the distributions received may bear little relation to the performance of the associate or joint venture. Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of the surplus or deficit of such an investee. As a result, application of the equity method provides more informative reporting of the investor's net assets/equity and surplus or deficit.

18-20. [Refer Appendix 1]

21. ***An investment in an associate or a joint venture accounted for using the equity method should be classified as a non-current asset.***

Application of the Equity Method

22. ***An entity with joint control of, or significant influence over, an investee should account for its investment in associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 23-25.***

Exemptions from Applying the Equity Method

23. An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a controlling entity that is exempt from preparing consolidated financial statements by the scope exception in paragraph 5 of ASLB 35 or if all of the following apply[6]:

    (a) The entity itself is a controlled entity and the information needs

[6] Normally, the conditions mentioned here may not be applicable to the local bodies in India. However, any entity controlled by a local body (for example corporate municipal entity as referred in SEBI regulations for issuance of Municipal Bonds) may have such structure that these exemptions may apply.

of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with ASLBs, in which controlled entities are consolidated or are measured at fair value in accordance with ASLB 35.

24. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through surplus or deficit in accordance with guidance on "*Financial Instruments*"[7]. An investment entity will, by definition, have made this election.

25. When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate in accordance with paragraph 24, regardless of whether the venture capital organization, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the entity makes that election, the entity should apply the equity method to any remaining portion of its investment in an

[7] The Guidance with regard to "Financial Instruments" may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

associate that is not held through a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. When an entity has an investment in an associate, a portion of which is held indirectly through an investment entity, the entity should measure that portion of the investment at fair value through surplus or deficit in accordance with paragraph 24.

Discontinuing the Use of the Equity Method

26. ***An entity should discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:***

    (a) ***If the investment becomes a controlled entity, the entity should account for its investment in accordance with ASLB 40, 'Entity Combinations' and ASLB 35, 'Consolidated Financial Statements'.***

    (b) ***If the retained interest in the former associate or joint venture is a financial asset, the entity should measure the retained interest at fair value. The entity should measure the retained interest at the carrying amount of the investment at the date that it ceases to be an associate or joint venture and that carrying amount, if it is impracticable to determine the fair value. The entity should recognise in surplus or deficit any difference between:***

        (i) ***The fair value (or, where relevant, the carrying amount) of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and***

        (ii) ***The carrying amount of the investment at the date the equity method was discontinued.***

    (c) ***When an entity discontinues the use of the equity method, the entity should account for all amounts previously recognised directly in the entity's net assets/equity in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.***

27. ***If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.***

Changes in Ownership Interest

28. If an entity's ownership interest in an associate or a joint venture is reduced, but the investment continues to be classified either as an associate or a joint venture respectively, the entity should transfer directly to accumulated surpluses or deficits the proportion of the gain or loss that had previously been recognised in net assets/equity relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surpluses or deficits on the disposal of the related assets or liabilities.

Equity Method Procedures

29. Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in ASLB 35. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a controlled entity are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

30. An economic entity's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has controlled entities, associates or joint ventures, the surplus or deficit and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 37-39).

31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in ASLB 40, between an entity (including its consolidated

controlled entities) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture.

32. When downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses should be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, the investor should recognise its share in those losses.

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in ASLB 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture should be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in ASLB 17, '*Property, Plant and Equipment'.* If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 34 also applies. Such unrealised gains and losses should be eliminated against the investment accounted for using the equity method and should not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

34. If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in surplus or deficit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in ASLB 40, between

an entity (including its consolidated controlled entities) and its associate or joint venture is recognised in full in the investor's financial statements.

34B. An entity might sell or contribute assets in two or more arrangements (transactions).When determining whether assets that are sold or contributed constitute an operation, as defined in ASLB 40, an entity should consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements of ASLB 35.

35. An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

(a) When an entity has included goodwill relating to an associate or a joint venture in the carrying amount of the investment, amortisation of that goodwill is not permitted.

(b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as revenue in the determination of the entity's share of the associate or joint venture's surplus or deficit in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's or joint venture's surplus or deficit after acquisition are made for impairment losses such as for property, plant and equipment or, where relevant, goodwill.

36. ***The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture, the associate or joint venture prepares for the use of entity, financial information as of the same date as the financial statements of the entity unless it is impracticable to do so.***

36A. When in accordance with paragraph 36, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments should be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity should be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods should be the same from period to period.

37. ***The entity usually prepares consolidated financial statements using uniform accounting policies for the like transactions and events in similar circumstances. In case an associate uses accounting policies other than those adopted for the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to the associate's financial statements when they are used by the investor in applying the equity method. If it is not practicable to do so, that fact is disclosed along with a brief description of the differences between the accounting policies.***

38. Except as described in paragraph 39, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments should be made to make the associate's or joint venture's accounting policies confirm to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

39. ***Notwithstanding the requirements in paragraph 38, if an entity has an interest in an associate or a joint venture that is an investment entity, the entity should, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in controlled entities.***

40. If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of surplus or deficit

after adjusting for the dividends on such shares, whether or not the dividends have been declared.

41. If an entity's share of the deficit of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognizing its share of further deficits. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include receivables, payables or any long-term receivables for which adequate collateral exists, such as secured loans. Deficits recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (i.e., priority in liquidation).

42. If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. If the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised.

Impairment Losses

43. After application of the equity method, including recognising the associate's or joint venture's deficits in accordance with Guidance on "*Financial Instruments*" to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

44. The entity also refers to the Guidance on "*Financial Instruments*" to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

45. Whenever application of Guidance on "*Financial Instruments*" indicates that the investment in an associate or a joint venture may be impaired, an entity applies ASLB 26, '*Impairment of Cash-Generating Assets'*, and, possibly, ASLB 21, '*Impairment of Non-Cash-Generating Assets'.*

46. ASLB 26 directs an entity to determine the value in use of the cash-generating investment. In determining the value in use of the cash-generating investment in accordance with ASLB 26, an entity estimates:

    (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

    (b) The present value of the estimated future cash flows expected to arise from dividends or similar distributions to be received from the investment, and from its ultimate disposal.

    Using appropriate assumptions, both methods give the same result.

47. ASLB 21 requires that, if the recoverable service amount of an asset is less than its carrying amount, the carrying amount should be reduced to its recoverable service amount. Recoverable service amount is the higher of an asset's fair value, less costs to sell and its value in use. Value in use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. The present value of the remaining service potential may be assessed using the depreciated replacement cost approach, the restoration cost approach or the service units approach, as appropriate.

48. ***The recoverable amount of an investment in an associate or a joint venture should be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.***

Separate Financial Statements

49. ***An investment in an associate or a joint venture should be accounted for in the entity's separate financial statements in accordance with paragraph 12 of ASLB 34, 'Separate Financial Statements'.***

Appendix A

Illustrative Examples

These examples accompany, but are not part of, ASLB 36.

Illustration 1:

Set out below are the draft accounts of ABC Municipal Corporation and its subsidiaries (Group) and of Associate Co. Group has acquired 40% of the equity capital of Associate Co. three years ago when the latter's reserves stood at Rs.10,000.

In 000's

Particular	Local Bodies (Consolidated)	Associates
Non-Current Assets		
Property, Plant and Equipment	250	170
Investment in Associate	60	
Loan to Associate	30	
Current Assets	120	50
Total	**460**	**220**
Capital	250	
Share Capital		**100**
Retained Earnings	130	70
Current Liabilities		
Payables	80	30
Loan from local body		20
Total	**460**	**220**

Particular	Local Bodies (Consolidated)	Associate
Surplus Before Tax	95	80
Income tax expense	-35	-30
Surplus for the year	60	50

Prepare financial statements of the group after accounting for the associate under Equity accounting.

Solution

Condensed Statement of Income and Expenditure

Particular	Local Bodies (Consolidated)
Surplus	95
Share of profits of associated company (50 x 40%)	20
Surplus before tax	115
Income tax expense	-35
Surplus attributable to the members of Local Bodies	80

Balance Sheet

Asset	Local Bodies (Consolidated)
Non-Current Assets	
Property, Plant and Equipment	250
Investment in Associates	84
Loan to Associates	30
Current Assets	120
Total	**484**
Capital	250
Retained Earnings	154
Current Liabilities	
Payables	80
Total	**484**

Retained Earnings	Amount
Reserves of Associates	**70**
Pre-acquisition	10
Post-acquisition	60
Group Share in associate	40%

Group share in retained earnings	24
Investment in Associates	**Amount**
Cost of investment	60
Share of post-acquisition retained earnings (W)	24
Total	**84**

Illustration 2:

Whether voting rights on shares held by nominee or in a fiduciary capacity are considered while evaluating the significant influence of beneficiary shareholder over the investee?

Response

Paragraph 11 of ASLB 36, inter alia, provides that, "if an entity holds, directly or indirectly (e.g., through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case".

Voting rights on shares held by nominee should be considered while evaluating the significant influence of beneficiary shareholder over the investee but not for the evaluation of significant influence by the nominee shareholder over the investee as such voting rights are exercised by the nominee as per the directions and in interest of the beneficiary. Further, the Ministry of Corporate Affairs vide general circular no. 24/2014, dated 25.06.2014 clarified that the shares held by a company in another company in a 'fiduciary capacity' should not be counted for the purpose of determining the relationship of 'associate company' under section 2(6) of the Companies Act, 2013.

Therefore, a corollary is drawn between Companies Act's requirement and ASLB 36. Beneficiary shareholder should not consider the voting rights on shares held by its nominee or in a fiduciary capacity while evaluating the significant influence over the investee.

Illustration 3:

ABC Municipal Corporation owns 20% of the voting rights in Y Ltd. and is not entitled to appoint director to the board which consist of five members. The remaining 80% of the voting rights are held by two entities each of which is entitled to appoint the directors.

A quorum of four directors and a majority of those present are required to make decisions. ABC Municipal Corporation representative can attend board meetings but without a vote. Is Y Ltd. an associate of ABC Municipal Corporation.

Solution

Despite the fact that the ABC Municipal Corporation owns 20% of the voting rights and has representations on the board, the existence of other shareholders holding a significant proportion of the voting rights prevent ABC Municipal Corporation from exerting significant influence. In this situation, Y Ltd. would not be an associate of ABC Municipal Corporation.

Illustration 4:

ABC Municipal Corporation holds 12% of the voting shares in Boho Ltd. Boho Ltd.'s board comprise of eight members and two of these members are appointed by ABC Municipal Corporation. Each board member has one vote at meeting. Is Boho Ltd. an associate of Kuku Ltd.?

Solution

Boho Ltd. is an associate of ABC Municipal Corporation as significant influence is demonstrated by the presence of directors on the board and the relative voting rights at meetings.

Illustration 5:

ABC Municipal Corporation creates a separate legal entity Y Limited in which it holds less than 20 % of the voting interests, however, controls that entity through contracts that ensures that decision-making power and the distribution of profits and losses lies with ABC Municipal Corporation. In such cases, the investor is able to exercise significant influence over its investee.

Illustration 6:

ABC Municipal Corporation owns 9% equity in Sync Ltd. However, it has the approval or veto rights over critical decisions of compensation, hiring, termination, and other operating and capital spending decisions of Sync Ltd. The non-controlling rights are so restrictive that it is appropriate to infer that control rests with the Info Ltd. for all major decisions. In this case, it would be a subsidiary on account of control.

Illustration 7:

Q Ltd. manufactures equipment for electric transmission utility of ABC Municipal Corporation. ABC Municipal Corporation provides all designs for the equipment and participates in scheduling, timing and quantity of the production. The majority (i.e., 90%) of Q Ltd.'s sales are made to the ABC Municipal Corporation. ABC Municipal Corporation has 10% shareholding in the Q Ltd. It acquired this interest many years ago at the start of their relationship. Does significant influence exist?

Solution

Q Ltd. is highly dependent on the ABC Municipal Corporation for the continued existence of the business. Despite having only a 10% interest in Q Ltd., P Ltd. has significant influence.

Illustration 8:

ABC Municipal Corporation owns 15% of the voting rights of Y Ltd., and the remainder are widely dispersed among the public. ABC Municipal Corporation also is the only supplier of crucial raw materials to Y Ltd., further it provides certain expertise guidance regarding the maintenance of Y Ltd. 's factory.

Discuss the relationship between ABC Municipal Corporation and Y Ltd.

Solution

Y Ltd. is effectively functioning because of the participation of ABC Municipal Corporation, in the Y Limited's factory despite having 15% interest in Y Ltd. ABC Municipal Corporation has significant influence.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 36 and the corresponding International Public Sector Accounting Standard (IPSAS) 36, 'Investments in Associates and Joint Ventures'.

Comparison with IPSAS 36, *'Investments in Associates and Joint Ventures'*

(a) ASLB 36 uses different terminology, in certain instances, from IPSAS 36 such as the terms *'statement of income and expenditure', 'balance sheet'* and *'entities'* have been used in place of *'statement of financial performance', 'statement of financial position'* and *'public sector entities'.*

(b) The following paragraphs of IPSAS 36 have been deleted. In order to maintain consistency with the corresponding IPSAS 36, the paragraph numbers have been retained:

- For considering share ownership for the purpose of significant influence, potential voting rights of the investee held by investor are not taken into account as per ASLB 36. As per IPSAS 36, existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has significant influence or not. Paragraph 13-14 and 18-20 have been deleted in this regard.
- Paragraph 50 pertaining to transitional provisions has been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' has been issued that contains all transitional provisions at one place.
- Paragraphs 51-52 pertaining to effective date have been deleted as ASLB 36 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

(c) Paragraph 2A pertaining to applicability of ASLBs has been inserted in ASLB 36 in line with other issued ASLBs.

(d) ASLB 36 makes a reference to the various ASLBs that are yet to be

formulated/ issued. Clarification on obtaining guidance in regard to those ASLBs has been incorporated in the ASLB.

(e) Additional commentary has been provided in ASLB 36 with regard to the provisions that may not be applicable to the local bodies but may be applicable to corporate municipal entity or any entity controlled by a local body having a structure of corporate or equivalent.

(f) ASLB 36 permits the use of financial statements of the associate drawn upto a date different from the date of financial statements of the investor when it is impracticable to draw the financial statements of the associate upto the date of the financial statements of the investor. The length of difference in the reporting dates of the associate or joint venture should not be more than three months. IPSAS 36 prescribes no such time limit.

(g) Both ASLB 36 and IPSAS 36 require that similar accounting policies should be used for preparation of investor's financial statements and in case an associate uses different accounting policies for like transactions, appropriate adjustments shall be made to the accounting policies of the associate. ASLB 36 provide exemption to this that if it is not possible to make adjustments to the accounting policies of the associate, the fact shall be disclosed along with a brief description of the differences between the accounting policies. IPSAS 36 provides that the entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances unless, in case of an associate, it is impracticable to do so.

(h) As per ASLB 36, investor's share of losses in the associate is recognised to the extent of carrying amount of investment in the associates. As per IPSAS 36 carrying amount of investment in the associates or joint venture determined using the equity method together with any long term interests that, in substance, form part of the entity's net investment in the associates or joint venture shall be considered for recognising entity's share of losses in the associates or joint venture.

(i) Where an entity is precluded by IPSAS 29 from measuring the retained interest in a former associate or joint venture at fair value, IPSAS 36 permits an entity to use carrying amount as the cost on initial

recognition of the financial asset whereas ASLB 36 prescribes that where it is impracticable to determine the fair value of retained interest in a former associate or joint venture, the measurement may be done at carrying value.

(j) Some examples have been included in ASLB 36 in the context of Local Bodies in India.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 36 and the Existing Accounting Standard (AS) 23, 'Accounting for Investment in Associates in Consolidated Financial Statements'.

Comparison with Existing AS 23, *'Accounting for Investment in Associates in Consolidated Financial Statements'*

- ASLB 36 uses different terminology, in certain instances, from existing AS 23. The most significant examples are the use of the terms "net assets/equity", "economic entity", "controlling entity" and "controlled entity" in ASLB 36. The equivalent terms in existing AS 23 are "equity", "group", "parent" and "subsidiary".
- ASLB 36 requires that after application of equity method, including recognising the associate's or joint venture's losses, the requirements of "guidance on financial Instruments" should be applied to determine whether it is necessary to recognise any additional impairment loss. With regard to impairment, Existing AS requires that the carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment
- In ASLB 36, the '*Significant Influence*' has been defined as 'power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies'. ASLB 36 defines joint control also. In existing AS 23, '*Significant Influence*' has been defined as 'power to participate in the financial and/or operating policy decisions of the investee but is not control over those policies'.
- ASLB 36 requires application of equity method in financial statements other than separate financial statements even if the investor does not have any subsidiary whereas AS 23 requires application of the equity method only when the entity has subsidiaries and prepares consolidated financial Statements.

- One of the exemptions from applying equity method in existing AS 23 is where the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investee. No such exemption is provided in ASLB 36.

Accounting Standard for Local Bodies ASLB 39, Employee Benefits

Contents

Accounting Standard for Local Bodies ASLB 39, Employee Benefits

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies'[1].)*

The Accounting Standards for Local Bodies (ASLB) 39, '*Employee Benefits*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

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

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

(b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. ***This Standard should be applied by an employer in accounting for all employee benefits, except share-based transactions.***

3. This Standard does not deal with reporting by employee retirement

[1]Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

benefit plans. This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of entities.

4. The employee benefits to which this Standard applies include those provided:

   (a) Under formal plans or other formal agreements between an entity and individual employees, groups of employees, or their representatives;

   (b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security program; or

   (c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5. Employee benefits include:

   (a) Short-term employee benefits, such as following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

      (i) Wages, salaries, and social security contributions;

      (ii) Paid annual leave and paid sick leave;

      (iii) Surplus-sharing and bonuses; and

      (iv) Non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees;

   (b) Post-employment benefits such as the following:

      (i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

(ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) Other long-term employee benefits, such as the following:

(i) Long-term paid absences such as long-service leave or sabbatical leave;

(ii) Jubilee or other long-service benefits; and

(iii) Long-term disability benefits; and

(d) Termination benefits.

6. Employee benefits include benefits provided either to employees or to their dependants, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children, or other dependants, or to others, such as insurance companies.

7. An employee may provide services to an entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in ASLB 20, '*Related Party Disclosures'.*

7A. ***This Standard applies to all entities described as local bodies in the Preface to Accounting Standards for Local Bodies[3].***

Definitions

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

Definitions of Employee Benefits

<u>Employee benefits</u> are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

<u>Short-term employee benefits</u> are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

Post-employment benefits *are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.*

Other long-term employee benefits *are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.*

Termination benefits *are employee benefits provided in exchange for the termination of an employee's employment as a result of either:*

(a) *An entity's decision to terminate an employee's employment before the normal retirement date; or*

(b) *An employee's decision to accept an offer of benefits in exchange for the termination of employment.*

Definitions Relating to Classification of Plans

Post-employment benefit plans *are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.*

Defined contribution plans *are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.*

Defined benefit plans *are post-employment benefit plans other than defined contribution plans.*

Multi-employer plans *are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:*

(a) *Pool the assets contributed by various entities that are not under common control; and*

(b) *Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.*

State plans ***are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.***

Definitions Relating to the Net Defined Benefit Liability (Asset)

The net defined benefit liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is:

(a) ***The present value of a defined benefit obligation less***

(b) ***The fair value of plan assets (if any).***

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

(a) ***Assets held by a long-term employee benefit fund; and***

(b) ***Qualifying insurance policies.***

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments[4] issued by the reporting entity) that:

(a) ***Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and***

(b) ***Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own***

[4] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

(i) ***The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or***

(ii) ***The assets are returned to the reporting entity to reimburse it for employee benefits already paid.***

A <u>qualifying insurance policy</u> is an insurance policy[5] issued by an insurer that is not a related party (as defined in ASLB 20) of the reporting entity, if the proceeds of the policy:

(a) ***Can be used only to pay or fund employee benefits under a defined benefit plan; and***

(b) ***Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either :***

(i) ***The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or***

(ii) ***The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.***

Definitions Relating to Defined Benefit Cost

<u>Service cost</u> comprises:

(a) ***Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;***

(b) ***Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a prior amendment (the introduction or withdrawal of, or changes to, defined benefit***

[5] A qualifying insurance policy is not necessarily an insurance contract. The guidance in this regard may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'.*

plan) or a curtailment (significant reduction by the entity in the number of employees covered by a plan); and

(c) ***Any gain or loss on settlement.***

Net interest on the net defined benefit liability (asset) ***is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.***

Remeasurements of the net defined benefit liability (asset) comprise:

(a) ***Actuarial gains and losses;***

(b) ***The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and***

(c) ***Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).***

Actuarial gains and losses ***are changes in the present value of the defined benefit obligation resulting from:***

(a) ***Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and***

(b) ***The effects of changes in actuarial assumptions.***

The return on plan assets ***is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:***

a) ***Any costs of managing the plan assets; and***

b) ***Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.***

A settlement ***is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.***

Short-Term Employee Benefits

9. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related employee service:

   (a) Wages, salaries, and social security contributions;

   (b) Paid annual leave and paid sick leave;

   (c) Surplus-sharing and bonuses; and

   (d) Non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services) for current employees.

10. An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and Measurement

All Short-Term Employee Benefits

11. ***When an employee has rendered service to an entity during an accounting period, the entity should recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:***

    (a) ***As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.***

    (b) ***As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, ASLB 12, 'Inventories', and ASLB 17, 'Property, Plant, and Equipment').***

12. ***Paragraphs 13, 16, and 19 explain how an entity should apply paragraph 11 to short-term employee benefits in the form of paid absences and surplus-sharing and bonus plans.***

Short-Term Paid Absences

13. ***An entity should recognise the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:***

    (a) ***In the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and***

    (b) ***In the case of non-accumulating compensated absences, when the absences occur.***

14. An entity may compensate employees for absence for various reasons, including holidays, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to compensated absences falls into two categories:

    (a) Accumulating; and

    (b) Non-accumulating.

15. Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognised, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

16. ***An entity should measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting period.***

17. The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

18. Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Surplus-Sharing and Bonus Plans

19. ***An entity should recognise the expected cost of surplus-sharing and bonus payments under paragraph 11 when, and only when:***

    (a) ***The entity has a present legal or constructive obligation to make such payments as a result of past events; and***

    (b) ***A reliable estimate of the obligation can be made.***

    A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20. In the local bodies, some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the objectives of local bodies, surplus-sharing plans are far less common in the local body than for profit-oriented entities. However, they are likely to be an aspect of employee

remuneration in segments of local bodies that operate on a commercial basis. Some local bodies may not operate surplus-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the reporting date. However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving surplus-sharing payments. Paragraph 22 provides further conditions that are to be satisfied before an entity can recognise the expected cost of performance-related payments, bonus payments, and surplus-sharing payments.

21. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or surplus-sharing scheme when, and only when:

    (a) The formal terms of the plan contain a formula for determining the amount of the benefit;

    (b) The entity determines the amounts to be paid before the financial statements are authorised for issue; or

    (c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

23. An obligation under surplus-sharing plans and bonus plans results from employee service and not from a transaction with the entity's

owners. Therefore, an entity recognises the cost of surplus-sharing and bonus plans not as a distribution of surplus but as an expense.

24. If surplus-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 155-161).

Disclosure

25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, ASLB 20 requires disclosures of the aggregate remuneration of key management personnel and ASLB 1, '*Presentation of Financial Statements'* requires the disclosure of information about employee benefits expenses.

Post-employment Benefits-Distinction between Defined Contribution Plans and Defined Benefit Plans

26. Post-employment benefits include such as the following:

    (a) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

    (b) Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

    Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

27. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan, as derived from its principal terms and conditions.

28. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the

fund. Thus, the amount of the postemployment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

    (a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

    (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

    (c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

30. Under defined benefit plans:

    (a) The entity's obligation is to provide the agreed benefits to current and former employees; and

    (b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31. Paragraphs 32-51 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans, and insured benefits.

Multi-Employer Plans

32. ***An entity should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).***

33. ***If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it should:***

    (a) ***Account for its proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan in the same way as for any other defined benefit plan; and***

    (b) ***Disclose the information required by paragraph 137–150 (excluding paragraph 150(d)).***

34. ***When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity should:***

    (a) ***Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and***

    (b) ***Disclose the information required by paragraph 150.***

35. One example of a multi-employer defined benefit plan is one where:

    (a) The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

    (b) Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

    (a) The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or

    (b) The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

    In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 should recognise the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined

contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39. ***In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity should apply ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets'.***

Defined Benefit Plans where the Participating Entities are under Common Control[6]

40. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

41. An entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity should, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost should be recognised in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities should, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

42. There are cases in the local body where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 41, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The

[6] In current scenarios, this may not be relevant for local bodies in India. However, in case any such situations arise in future, this may be relevant.

controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 151.

43. ***Participation in such a plan is a related party transaction for each individual entity. An entity should therefore, in its separate or individual financial statements, disclose the information required by paragraph 151.***

State Plans

44. ***An entity should account for a state plan in the same way as for a multi-employer plan (see paragraphs 32 and 39).***

45. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state, or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

46. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the

contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits

48. ***An entity may pay insurance premiums to fund a post-employment benefit plan. The entity should treat such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation either:***

    (a) ***To pay the employee benefits directly when they fall due; or***

    (b) ***To pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.***

    If the entity retains such a legal or constructive obligation, the entity should treat the plan as a defined benefit plan.

49. The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

50. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

    (a) Accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and

(b) Recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 118).

51. Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment Benefits-Defined Contribution Plans

52. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Recognition and Measurement

53. ***When an employee has rendered service to an entity during a period, the entity should recognise the contribution payable to a defined contribution plan in exchange for that service:***

(a) ***As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity should recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and***

(b) ***As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, ASLB 12 and ASLB 17).***

54. ***When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which employees render the related service, they should be discounted using the discount rate specified in paragraph 85.***

Disclosure

55. ***An entity should disclose the amount recognised as an expense for defined contribution plans.***

56. Where required by ASLB 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment Benefits-Defined Benefit Plans

57. Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

Recognition and Measurement

58. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity or fund that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

59. Accounting by an entity for defined benefit plans involves the following steps:

(a) Determining the deficit or surplus. This involves:

(i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69–71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72-76), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 77-100);

(ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69–71 and 85–88);

(iii) Deducting the fair value of any plan assets (see paragraphs 115-117) from the present value of the defined benefit obligation;

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).

(c) Determining amounts to be recognised in surplus or deficit:

(i) Current service cost (see paragraphs 72–76).

(ii) Any past service cost and gain or loss on settlement (see paragraphs 101–114).

(iii) Net interest on the net defined benefit liability (asset) (see paragraphs 125–128).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognised in net assets/equity, comprising:

(i) Actuarial gains and losses (see paragraphs 130 and 131);

(ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and

(iii) Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. ***An entity should determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.***

61. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation

63. ***An entity should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.***

64. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of

evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Balance Sheet

65. ***An entity should recognise the net defined benefit liability (asset) in the balance sheet.***

66. ***When an entity has a surplus in a defined benefit plan, it should measure the net defined benefit asset at the lower of:***

    (a) ***The surplus in the defined benefit plan; and***

    (b) ***The asset ceiling, determined using the discount rate specified in paragraph 85.***

67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognises a net defined benefit asset in such cases because:

    (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

    (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

    (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

    (a) To apply an actuarial valuation method (see paragraphs 69–71);

(b) To attribute benefit to periods of service (see paragraphs 72–76); and

(c) To make actuarial assumptions (see paragraphs 77–100).

Actuarial Valuation Method

69. ***An entity should use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.***

70. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 72–76), and measures each unit separately to build up the final obligation (see paragraphs 77–100).

71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing Benefit to Periods of Service

72. ***In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity should attribute benefit on a straight-line basis from:***

    (a) ***The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until***

    (b) ***The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.***

73. The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value

of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

74. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

75. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

76. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) For the purpose of paragraph 72(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial Assumptions

77. Actuarial assumptions should be unbiased and mutually compatible.

78. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) Mortality (see paragraphs 83 and 84);

(ii) Rates of employee turnover, disability, and early retirement;

(iii) The proportion of plan members with dependants who will be eligible for benefits;

(iv) The proportion of plan members who will select each form of payment option available under the plan terms; and

(v) Claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) The discount rate (see paragraphs 85-88);

(ii) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89–97);

(iii) In the case of medical benefits, future medical costs, including, claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98–100); and

(iv) Taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

79. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

81. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.

82. ***Financial assumptions should be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.***

Actuarial Assumptions: Mortality

83. ***An entity should determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.***

84. In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions-Discount Rate

85. ***The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.***

86. One actuarial assumption that has a material effect is the discount

rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

87. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

88. In some cases, there may be no government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available government bonds.

Actuarial Assumption - Salaries, Benefits and Medical Costs

89. ***An entity should measure its defined benefit obligations on a basis that reflects:***

    (a) ***The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;***

    (b) ***Any estimated future salary increases that affect the benefits payable;***

    (c) ***The effect of any limit on the employer's share of the cost of the future benefits;***

    (d) ***Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and***

    (e) ***Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:***

(i) ***Those changes were enacted before the end of the reporting period; or***

(ii) ***Historical data, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.***

90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

(a) The entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) The entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 110(c)): or

(c) Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

91. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) Past service cost, to the extent that they change benefits for service before the change; and

(b) Current service cost for periods after the change, to the extent that they change benefits for service after the change.

92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.

93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

    (a) The estimated life of the entity; and

    (b) The estimated life of the plan.

94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

    (a) If the amount of the contributions is dependent on the number of years of service, an entity should attribute the contributions to periods of service using the same attribution method required by paragraph 72 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

    (b) If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph AG13 provides related application guidance.

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(a), changes in the contributions result in:

(a) Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

97. Some post-employment benefits are linked to variables, such as the level of benefit entitlements from social security pensions or medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

98. ***Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.***

99. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilization or delivery patterns, and changes in the health status of plan participants.

100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past Service Cost and Gains and Losses on Settlement

101. ***Before determining past service cost, or a gain or loss on settlement, an entity should remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.***

102. An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognises past service cost before any gain or loss on settlement.

103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

105. ***An entity should recognise past service cost as an expense at the earlier of the following dates:***

    (a) ***When the plan amendment or curtailment occurs; and***

    (b) ***When the entity recognises related restructuring costs (see ASLB 19) or termination benefits (see paragraph 168).***

106. A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

107. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

109. Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

110. Past service cost excludes:

(a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) Underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) Estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and

(d) The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

Gains and Losses on Settlement

111. The gain or loss on a settlement is the difference between:

(a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

112. ***An entity should recognise a gain or loss on the settlement of a defined benefit plan when the settlement occurs.***

113. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

114. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 118–121 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement-Plan Assets

Fair Value of Plan Assets

115. The fair value of plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

116. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, payables and liabilities resulting from derivative financial instruments.

117. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

118. ***When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity should:***

    (a) ***Recognise its right to reimbursement as a separate asset. The entity should measure the asset at fair value.***

    (b) ***Disaggregate and recognise changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognised in accordance with paragraph 122 may be recognised net of amounts relating to changes in the carrying amount of the right to reimbursement.***

119. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48-51 and 117).

120. When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

121. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing

of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of Defined Benefit Cost

122. ***An entity should recognise the components of defined benefit cost, except to the extent that another ASLB requires or permits their inclusion in the cost of an asset, as follows:***

    (a) ***Service cost (see paragraphs 68–114) in surplus or deficit;***

    (b) ***Net interest on the net defined benefit liability (asset) (see paragraphs 125–128) in surplus or deficit; and***

    (c) ***Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132) in net assets/equity.***

123. Other ASLBs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see ASLB 12 and ASLB 17). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

124. ***Remeasurements of the net defined benefit liability (asset) recognised in net assets/equity should not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognised in net assets/equity within net assets/equity.***

Net Interest on the Net Defined Benefit Liability (Asset)

125. ***Net interest on the net defined benefit liability (asset) should be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.***

126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 85, both as determined at the start of the reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the Net Defined Benefit Liability (Asset)

129. Remeasurements of the net defined benefit liability (asset) comprise:

    (a) Actuarial gains and losses (see paragraphs 130 and 131);

    (b) The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and

    (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).

130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

    (a) Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) The effect of changes to assumptions concerning benefit payment options;

(c) The effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) The effect of changes in the discount rate.

131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

133. ***An entity should offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:***

(a) ***Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and***

(b) ***Intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.***

134. [Refer to Appendix 1]

Current/Non-Current Distinction

135. Some entities distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Components of Defined Benefit Cost

136. Paragraph 122 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with ASLB 1.

Disclosure

137. ***An entity should disclose information that:***

(a) ***Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);***

(b) ***Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142–146); and***

(c) [Refer to Appendix 1]

138-140. [Refer to Appendix 1]

Characteristics of Defined Benefit Plans and Risks Associated with Them

141. An entity should disclose:

(a) Information about the characteristics of its defined benefit plans, including:

(i) The nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

(ii) [Refer to Appendix 1]

(iii) [Refer to Appendix 1]

(b) [Refer to Appendix 1]

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

(e) An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that the wholly or partly funded.

Explanation of Amounts in the Financial Statements

142. An entity should provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

    (a) The net defined benefit liability (asset), showing separate reconciliations for:

        (i) Plan assets.

        (ii) The present value of the defined benefit obligation.

        (iii) The effect of the asset ceiling.

    (b) Any reimbursement rights. An entity should also describe the relationship between any reimbursement right and the related obligation.

143. Each reconciliation listed in paragraph 142 should show each of the following, if applicable:

    (a) Current service cost.

    (b) Interest revenue or expense.

    (c) Remeasurements of the net defined benefit liability (asset), showing separately:

        (i) The return on plan assets, excluding amounts included in interest in (b).

        (ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(a)).

        (iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(b)).

        (iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b).

    (d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

    (e) [Refer to Appendix 1]

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payments from the plan, showing separately the amount paid in respect of any settlements.

(h) The effects of entity combinations and disposals, if applicable.

144. An entity should disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets.

145. An entity should disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

146. An entity should disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 78). Such disclosure should be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it should provide such disclosures in the form of weighted averages or relatively narrow ranges.

147-149. [Refer to Appendix 1]

Multi-Employer Plans

150. If an entity participates in a multi-employer defined benefit plan, it should disclose:

(a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) A description of any agreed allocation of a deficit or surplus on:

(i) Wind-up of the plan; or

(ii) The entity's withdrawal from the plan.

(d) If the entity accounts for that plan as if it were a defined

contribution plan in accordance with paragraph 34, it should disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 141–149:

(i) The fact that the plan is a defined benefit plan.

(ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) The expected contributions to the plan for the next reporting period.

(iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined Benefit Plans that Share Risks Between Entities under Common Control

151. If an entity participates in a defined benefit plan that shares risks between entities under common control, it should disclose:

(a) The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) The policy for determining the contribution to be paid by the entity.

(c) If the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137–149.

(d) If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a

whole required by paragraphs 137–139, 141, 144–146 and 149(a) and (b).

152. The information required by paragraph 151(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) That group entity's financial statements separately identify and disclose the information required about the plan; and

(b) That group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure Requirements in Other ASLBs

153. Where required by ASLB 20, an entity discloses information about:

(a) Related party transactions with post-employment benefit plans; and

(b) Post-employment benefits for key management personnel.

154. Where required by ASLB 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

155. Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

(a) Long-term compensated absences such as long service or sabbatical leave;

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

(d) Bonuses and surplus sharing payable twelve months or more after the end of the period in which the employees render the related service;

(e) Deferred compensation paid twelve months or more after the end of the period in which it is earned; and

(f) Compensation payable by the entity until an individual enters new employment

156. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in net assets/equity.

157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57-154.

Recognition and Measurement

158. ***In recognising and measuring the surplus or deficit in another long-term employee benefit plan, an entity should apply paragraphs 58–100 and 115–117. An entity should apply paragraphs 118–121 in recognising and measuring any reimbursement right.***

159. ***For other long-term employee benefits, an entity should recognise the net total of the following amounts in surplus or deficit, except to the extent that another ASLB requires or permits their inclusion in the cost of an asset:***

(a) ***Service cost (see paragraphs 68 – 114);***

(b) ***Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and***

(c) ***Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132).***

160. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of

benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

161. Although this Standard does not require specific disclosures about other long-term employee benefits, other ASLBs may require disclosures. For example, ASLB 20 requires disclosures about employee benefits for key management personnel. ASLB 1 requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

164. The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

    (a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

    (b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

165. Indicators that an employee benefit is provided in exchange for services include the following:

    (a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).

    (b) The benefit is provided in accordance with the terms of an employee benefit plan.

166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

167. Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

168. ***An entity should recognise a liability and expense for termination benefits at the earlier of the following dates:***

    (a) ***When the entity can no longer withdraw the offer of those benefits; and***

    (b) ***When the entity recognises costs for a restructuring that is within the scope of ASLB 19 and involves the payment of termination benefits.***

169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

    (a) When the employee accepts the offer; and

    (b) When a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

170. For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

    (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

    (b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

    (c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

171. When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement

172. ***An entity should measure termination benefits on initial recognition, and should measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity should apply the requirements for post-employment benefits. Otherwise:***

(a) ***If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised, the entity should apply the requirements for short-term employee benefits.***

(b) ***If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity should apply the requirements for other long-term employee benefits.***

173. Because termination benefits are not provided in exchange for service, paragraphs 72–76 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other ASLBs may require disclosures. For example, ASLB 20 requires disclosures about employee benefits for key management personnel. ASLB 1 requires disclosure of employee benefits expense.

175-178. [Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 39.

Example Illustrating Paragraph 19: Accounting for Performance-Related Bonus Plan

AG1. A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognises a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 37: Accounting for a Multi-Employer Plan

AG2. Along with similar entities in State X, Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of ₹ 480 million(a) in the plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Local Government Unit A's total contributions under the contract are ₹ 40 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

(a) In this Standard monetary amounts are denominated in "Rupees (Rs.)".

Example Illustrating Paragraph 70: Projected Unit Credit Method

AG3. A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	1	2	3	4	5
Benefit attributed to:					
– prior years	0	131	262	393	524
– current year (1% of final salary)	131	131	131	131	131
– current and prior years	131	262	393	524	655
Year	1	2	3	4	5
Opening obligation	–	89	196	324	476
Interest at 10%	–	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*
2. *The current service cost is the present value of benefit attributed to the current year.*
3. *The closing obligation is the present value of benefit attributed to current and prior years.*

Examples Illustrating Paragraph 73: Attributing Benefit to Years of Service

AG4. A defined benefit plan provides a lump sum benefit of ₹ 100 payable on retirement for each year of service.

A benefit of ₹ 100 is attributed to each year. The current service cost is the present value of ₹ 100. The present value of the defined benefit obligation is the present value of ₹ 100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

AG5. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 74: Vesting and Non-Vesting Benefits

AG6. A plan pays a benefit of ₹ 100 for each year of service. The benefits vest after 10 years of service.

A benefit of ₹ 100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

AG7. A plan pays a benefit of ₹ 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of ₹ 100 is attributed to each subsequent year.

Examples Illustrating Paragraph 75: Attributing Benefits to Accounting Periods

AG8. A plan pays a lump sum benefit of ₹ 1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of ₹ 100 (₹ 1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

AG9. A plan pays a lump sum retirement benefit of ₹ 2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of ₹ 100 (₹ 2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (₹ 2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of ₹ 200 (₹ 2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

AG10. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

AG11. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

Example Illustrating Paragraph 76: Attributing Benefits to Accounting Periods

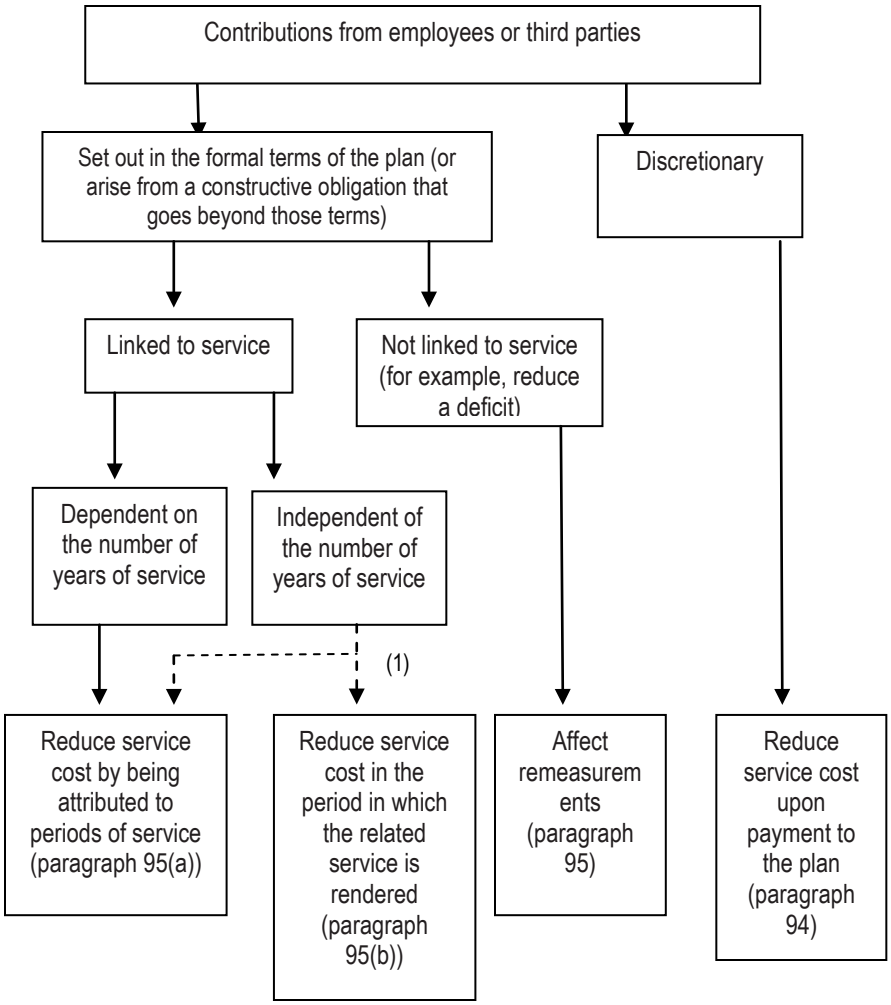
AG12. Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee

will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example Illustrating Paragraphs 94 and 95: Contributions from employees or third parties

AG13. The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting

Example Illustrating Paragraphs 162-173: Termination Benefits

AG14. Background

As a result of a recent acquisition, an entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of ₹ 30,000. Employees leaving before closure of the factory will receive ₹ 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are ₹ 3,200,000 (i.e., 20 × ₹ 10,000 + 100 × ₹ 30,000). As required by paragraph 163, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is ₹ 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore, the entity recognises a liability of ₹ 1,200,000 (i.e., 120 × ₹ 10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over

that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of ₹ 200,000 (i.e., ₹ 2,000,000 ÷ 10) is recognised in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 39 and the corresponding International Public Sector Accounting Standard (IPSAS) 39, 'Employee Benefits'.

Comparison with IPSAS 39, '*Employee Benefits*'

1. Different terminologies have been used in the ASLB 39 as compared to corresponding IPSAS 39, e.g., the terms 'balance sheet', 'entities' and 'surplus-sharing & bonuses' have been used in place of 'statement of financial position', 'public sector entities' and 'profit-sharing and bonuses'.

2. The following paragraphs of IPSAS 39 have been deleted. However, the same paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS 39:

   (i) Paragraph 134 pertaining to offsetting criteria of asset of plan against a liability relating to another plan provided similar to those of financial instruments has been deleted as ASLB corresponding to IPSAS on '*Financial Instruments*' is not proposed to be issued in near future.

   (ii) Paragraph 143(e) of IPSAS 39 pertaining to disclosure of effect of changes in foreign exchange rates has been deleted as it is not relevant for Local Bodies in Indian context.

   (iii) In order to simplify the disclosure requirements in respect of Defined Benefit Plan, a few disclosure requirements have been removed in ASLB 39. In this regard, paragraph number 137(c), 138-140, 141(a)(ii-iii), 141(b), 147-149, have been deleted.

   (iv) Paragraph 175 pertaining to transitional provisions has been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' has been issued that contains all transitional provisions at one place.

   (v) Paragraphs 176-177 pertaining to effective date have been deleted as ASLB 39 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

3. Disclosure requirements in Paragraph 143(c) and 144 have been modified in order to simplify the disclosure requirements. One disclosure requirements in Paragraph 144(e) has been incorporated.

4. Paragraph 7A inserted with regard to applicability of ASLBs in line with other issued ASLBs.

5. With regard to concept of entities under common control, a footnote has been incorporated for clarification.

6. Paragraph 81 has been modified to remove example pertaining to hyperinflationary economy as this concept does not seem relevant in Indian context.

7. As per ASLB 39, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the end of reporting period on government bond. The requirement in IPSAS 39 is that entities apply a rate that reflects the time value of money.

8. With regard to financial instruments and qualifying insurance policy, the reference of paragraph 15 of ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' has been provided in ASLB 39 in the footnote for guidance. (paragraph 8)

9. Consequential changes resulting from the above departures have been made in ASLB 39.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 39 and the existing Accounting Standard (AS) 15, 'Employee Benefits'.

Comparison with Existing AS 15, '*Employee Benefits*'

1. In ASLB 39, employee benefits arising from constructive obligations are also covered whereas existing AS 15 does not deal with the same. (Paragraph 4(c) of ASLB 39)

2. As per existing AS 15, the term 'employee' includes whole-time directors and other management personnel whereas under ASLB 39 the term 'employee' includes key management personnel. (Paragraph 7 of ASLB 39)

3. ASLB 39 uses different terminology, in certain instances, from existing AS 15, e.g., the terms 'controlling entity', 'controlled entity' and 'surplus-sharing & bonuses' have been used in ASLB 39 in place of 'parent', 'subsidiaries' and 'profit-sharing and bonuses'.

4. ASLB 39 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determine how the surplus in the plan will be distributed to the participants (or the deficit funded). (Paragraph 37 of ASLB 39) Existing AS 15 does not deal with it.

5. As per ASLB 39, participation in a defined benefit plan sharing risks between various entities under common control is a related party transaction for each controlled entity and some disclosures are required in the separate or individual financial statements of an entity whereas existing AS 15 does not contain similar provisions. (Paragraph 42-43 of ASLB 39)

6. ASLB 39 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations whereas AS 15 though does not require involvement of a qualified actuary, does not specifically encourage the same. (Paragraph 61 of ASLB 39)

7. Actuarial valuation is based on certain assumptions. Changes in these

assumptions give rise to actuarial gains and losses, for example, changes in estimates of salary or medical cost. ASLB 39 requires the recognition of actuarial gains and losses in net asset/equity. However, existing AS 15 requires recognition of the same immediately in the profit and loss.

8. Under ASLB 39, more guidance has been given for timing of recognition of termination benefits. Recognition criteria for termination benefits prescribed under ASLB 39, is different from the criteria prescribed in existing AS 15.

9. ASLB 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. Existing AS 15 does not include such rebuttable presumption.

Accounting Standard for Local Bodies (ASLB) 42, Social Benefits

Contents

Accounting Standard for Local Bodies (ASLB) 42, Social Benefits

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the 'Preface to Accounting Standards for Local Bodies'[1].)*

The Accounting Standards for Local Bodies (ASLB) 42, '*Social Benefits*', issued by the Council of the Institute of the Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies:

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this Standard. The information provided should help users of the financial statements and general purpose financial reports assess:

   (a) The nature of such social benefits provided by the entity;

   (b) The key features of the operation of those social benefit schemes; and

   (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

2. To accomplish that, this ASLB establishes principles and requirements for:

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to Accounting Standards for Local Bodies',* according to which Accounting Standards are intended to apply only to items which are material.

[2] In respect of compliance with the Accounting Standards for Local Bodies, reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'*.

(a) Recognising expenses and liabilities for social benefits;

(b) Measuring expenses and liabilities for social benefits;

(c) Presenting information about social benefits in the financial statements; and

(d) Determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

Scope

3. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for social benefits.***

3A. ***This Standard applies to all entities described as Local Bodies in the 'Preface to the Accounting Standards for Local Bodies'[3].***

4. ***This Standard applies to a transaction that meets the definition of a social benefit. This Standard does not apply to cash transfers that are accounted for in accordance with other Standards:***

(a) ***Financial instruments[4];***

(b) ***Employee benefits that are within the scope of ASLB 39, 'Employee Benefits'; and***

(c) ***Insurance contracts[5].***

Paragraphs AG1–AG3 provide additional guidance on the scope of this Standard.

Definitions

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

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[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

[4] The guidance with regard to financial instruments may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'*.

[5] The guidance with regard to insurance contracts may be obtained from other corresponding pronouncements as per the hierarchy prescribed in paragraph 15 of the ASLB 3, *'Accounting Policies, Changes in Accounting Estimates, and Errors'*.

Social benefits*[6] *are cash transfers provided to:

(a) ***Specific individuals and/or households who meet eligibility criteria;***

(b) ***Mitigate the effect of social risks; and***

(c) ***Address the needs of society as a whole.***

Paragraphs AG4–AG8 provide additional guidance on this definition.

Social risks ***are events or circumstances that:***

(a) ***Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and***

(b) ***May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.***

Paragraphs AG9–AG10 provide additional guidance on what is encompassed by social risks.

Recognition of a Liability for a Social Benefit Scheme

6. ***An entity should recognise a liability for a social benefit scheme when:***

(a) ***The entity has a present obligation for an outflow of resources that results from a past event; and***

(b) ***The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports as set out in the 'Conceptual Framework for General Purpose Financial Reporting by Local Bodies'.***

[6] In India, social benefits may be provided by the Local Bodies through some of the schemes covered under Direct Benefit Transfer (DBT) scheme.

Outflow of Resources

7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability.

8. There may be uncertainty associated with the measurement of the liability. The use of estimates is an essential part of the accrual basis of accounting. Uncertainty regarding the outflow of resources does not prevent the recognition of a liability unless the level of uncertainty is so large that the qualitative characteristics of relevance and faithful representativeness cannot be met. Where the level of uncertainty does not prevent the recognition of a liability, it is taken into account when measuring the liability.

Past Event

9. The past event that gives rise to a liability for a social benefit scheme is the satisfaction by each beneficiary of all eligibility criteria to receive a social benefit payment. The satisfaction of eligibility criteria for each social benefit payment is a separate past event.

   Paragraphs AG11–AG14 provide additional guidance on the recognition of a liability.

Recognition of an Expense for a Social Benefit Scheme

10. ***An entity should recognise an expense for a social benefit scheme at the same point that it recognises a liability.***

11. An entity should not recognise an expense for a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied. Rather, an entity should recognise a payment in advance as an asset in the balance sheet, unless the amount becomes irrecoverable, in which case it should recognise an expense.

Measurement of a Liability for a Social Benefit Scheme

Initial Measurement of the Liability

12. ***An entity should measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.***

13. An entity's best estimate of the costs (i.e., the social benefit payments) that the entity will make takes into account the possible effect of subsequent events on those social benefit payments.

14. [Refer to Appendix 1]

15. Paragraphs AG15–AG18 provide additional guidance on measuring the liability.

Subsequent Measurement

16. ***The liability for a social benefit scheme should be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognised in surplus or deficit in the period in which the liability is settled.***

17. [Refer to Appendix 1]

18. ***Where a liability is yet to be settled, the liability should be reviewed at each reporting date, and adjusted to reflect the current best estimate of the costs (i.e., the social benefit payments) that the entity will incur in fulfilling the present obligations represented by the liability.***

19–20. [Refer to Appendix 1]

Measurement of an Expense for a Social Benefit Scheme

21. ***An entity should initially measure the expense for a social benefit scheme at an amount equivalent to the amount of the liability measured in accordance with paragraph 12. Where the entity***

makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, it should measure the payment in advance or expense recognised in accordance with paragraph 11 at the amount of the cash transferred.

Disclosure

22. ***The objective of the disclosures as per this Standard, together with the information provided in the balance sheet, income and expenditure statement and statement of cash flows, is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the financial position, financial performance and cash flows of the entity. Paragraphs 23–25 specify requirements on how to meet this objective.***

23. ***An entity should disclose information that:***

    (a) ***Explains the characteristics of its social benefit schemes; and***

    (b) ***Explains the demographic, economic and other external factors that may affect its social benefit schemes.***

24. To meet the requirements of paragraph 23, an entity should disclose:

    (a) Information about the characteristics of its social benefit schemes, including:

        (i) The nature of the social benefits provided by the schemes (for example, retirement benefits, unemployment benefits, child benefits).

        (ii) Key features of the social benefit schemes, such as a description of the legislative framework governing the schemes, a summary of the main eligibility criteria that must be satisfied to receive the social benefits, and a statement about how additional information about the scheme can be obtained.

        (iii) A description of how the schemes are funded, including whether the funding for the schemes is provided by means of a budget appropriation, a transfer from another entity, or by other means. If a scheme is funded (whether

in full or in part) by social contributions, the entity should provide:

(a) A cross reference to the location of information about those social contributions and any dedicated assets (where this information is included in the entity's financial statements); or

(b) A statement regarding the availability of information on those social contributions and any dedicated assets in another entity's financial statements and how that information can be obtained.

(iv) A description of the key demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes. This description may be presented in aggregate where the same demographic, economic and other external factors impact a number of social benefit schemes in a similar manner.

(b) The total expenditure on social benefits recognised in the income and expenditure statement, analysed by social benefit scheme.

(c) A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:

(i) Changes to the level of social benefits provided; and

(ii) Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

In making the disclosures required by this paragraph, an entity should have regard to the requirements of paragraphs 45–47 of ASLB 1, '*Presentation of Financial Statements*', which provide guidance on materiality and aggregation.

25-36.[Refer to Appendix 1]

Appendix A

Application Guidance

This Appendix is an integral part of ASLB 42

Scope (see paragraphs 3–4)

AG1. This Standard is applied in accounting for transactions and obligations that meet the definition of a social benefit in paragraph 5 of this Standard. This Standard does not address transactions that are addressed in other ASLB, such as employee pensions (which are accounted for in accordance with ASLB 39, '*Employee Benefits'*) and financial instruments.

AG2. Similarly, this Standard does not apply to insurance contracts even if the risk covered by the insurance contract is a social risk as defined in paragraph 5 of this Standard.

AG3. This Standard does not apply to collective and individual services. The definition of social benefits only includes cash transfers, not the provision of services. This Standard does not apply to cash transfers to individuals and households that do not address social risks, for example emergency relief.

Definitions (see paragraph 5)

Guidance on the Definition of Social Benefits

AG4. Social benefits are cash transfers (including transfers in the form of cash equivalents, for example pre-paid debit cards) provided to individuals and/or households. Services provided by an entity are not social benefits. In some cases, an entity may provide vouchers that allow individuals and/or households to access services, or may reimburse individuals and/or households for costs incurred in accessing services. The economic substance of these transactions is that an entity is paying for the provision of the services; such transactions do not, therefore, meet the definition of a social benefit. Where an entity provides vouchers or reimbursements, the individual and/or household has no discretion over the use of the benefit. By contrast, social benefits provide cash transfers that may be used indistinguishably from income coming from other sources.

AG5. Some entities may provide cash transfers in the form of cash equivalents that have limited restrictions on the use of the cash transfer. For example, a local body may provide a pre-paid debit card that can be used to purchase any item except alcohol and tobacco products. Such limited restrictions do not contravene the principle that social benefits provide cash transfers that may be used indistinguishably from income coming from other sources. Pre-paid debit cards with limited restrictions are cash transfers, not the provision of services by a local body.

AG5A. The Social Benefit Scheme may also be managed by an entity in the same way as an Insurance contract is managed. In some circumstances, an entity may be required to make contributions to a social benefit scheme on behalf of those individuals and/or households who could not afford to do so. Such contributions may be made by the entity administering the scheme or some other entity. For example, an entity may be required to make contributions to a retirement pension scheme for those individuals who are unemployed. Where the contributions relate to specified individuals and/or households (which in some cases will require the contributions to be credited against the individuals' contribution accounts), the contributions made by an entity are to be considered as social benefit payment.

AG6. Social benefits are only provided when eligibility criteria to receive a social benefit payment when it is next paid are met. For example, a local body may provide unemployment benefits to ensure that the needs of those whose income during periods of unemployment would otherwise be insufficient are met. Although the unemployment benefit scheme potentially covers the population as a whole, unemployment benefits are only paid to those who are unemployed, i.e., those who meet the eligibility criteria. In some cases, eligibility criteria may relate to citizenship or residence, for example where an entity pays a universal basic income to all adult residents.

AG7. The assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a local body pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise

be insufficient are met. Such benefits satisfy the definition criteria that they are provided to mitigate the effect of social risks.

AG8. Social benefits are organised to ensure that the needs of society as a whole are addressed. This distinguishes them from benefits provided through insurance contracts, which are organised for the benefit of individuals, or groups of individuals. Addressing the needs of society as a whole does not require that each social benefit covers all members of society; in some cases, social benefits are provided through a range of similar benefits that cover different segments of society. A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole.

Guidance on the Definition of Social Risks

AG9. Social risks relate to the characteristics of individuals and/or households–for example, age, health, poverty and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household.

AG10. For example, unemployment benefits are social benefits because the condition, event, or circumstance covered by the unemployment benefit arises from characteristics of the individuals and/or households – in this case a change in an individual's employment status. By contrast, aid provided immediately following an earthquake is not a social benefit. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event is an active fault line, and the risk is that a possible earthquake causes damage. Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk.

Recognition of a Liability for a Social Benefit Scheme

AG11. In accordance with paragraph 9 of this Standard, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by

each beneficiary of all eligibility criteria to receive a social benefit payment. Being alive at the point at which the eligibility criteria are required to be satisfied may be an eligibility criterion, whether explicitly stated or implicit. Other ongoing eligibility criteria may be relevant for some social benefit schemes. For example, many unemployment benefits are only payable while the individual remains resident in the jurisdiction; residence is an ongoing eligibility criterion. For a liability to be recognised, a beneficiary must satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date, even if formal validation of the eligibility criteria occurs less frequently.

AG12. Where a beneficiary has not previously satisfied the eligibility criteria for the next payment, or there has been a break in satisfying the eligibility criteria, a liability is recognised at the point that the eligibility criteria for the next payment are first satisfied or when all the eligibility criteria are satisfied again. Examples may include:

(a) Reaching retirement age (in the case of a retirement pension);

(b) The death of a partner (in the case of a survivor benefit);

(c) Becoming unemployed (in the case of an unemployment benefit without a waiting period); and

(d) Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

An entity will recognise a liability where beneficiaries satisfy the eligibility criteria (to receive a social benefit payment) at, or prior to, the reporting date. Where a beneficiary satisfies the eligibility criteria for a social benefit payment prior to the point at which the next social benefit payment will be made, but after the reporting date, no liability is recognised, as there is no present obligation as at the reporting date.

AG13. Where a beneficiary has previously satisfied the eligibility criteria, and there has been no break in satisfying those criteria, a liability for social benefits is recognised each time the criteria are satisfied.

AG14. Whether being alive is a separate eligibility criterion will depend on the characteristics of each individual social benefit scheme. For some schemes, separate consideration of being alive is not required as it is indirectly addressed by another eligibility criterion. For example:

(a) An unemployment benefit may only be payable to those who have become unemployed and are available for work (which implicitly includes being alive).

(b) Being alive may not be an eligibility criterion for the recipient of the social benefit. A child benefit may be paid to the parents or guardian of the child; the payment of the benefit may be dependent on the child being alive, and not on the status of the parent or guardian.

(c) Benefits may be transferred to a survivor following the death of the beneficiary.

An entity needs to consider how being alive affects the recognition of each particular social benefit scheme, taking all relevant factors into consideration.

Measurement of a Liability for a Social Benefit Scheme

AG15. In accordance with paragraph 12 of this Standard, an entity should measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognised as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation.

AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include:

(a) The death of the beneficiary (where no survivor benefits are payable);

(b) Commencing employment (in the case of an unemployment benefit); and

(c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period).

The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15th of each month, and the reporting date is March 31. If the payment to be made on April 15 relates to unemployment up to March 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognised at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required.

However, if the payment on April 15 relates to unemployment between March 16 and April 15, measurement of the liability to be recognised at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied.

AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorised for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. ASL*B 14, 'Events After the Reporting Date'*, provides guidance on using this information.

AG18-25. [Refer to Appendix 1]

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 42

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of ASLB 42.

IG2. [Refer to Appendix 1]

Recognition and Measurement of Liabilities and Expenses in ASLB 42

IG3. **Where a retirement pension is paid monthly in arrears, will the liability at the reporting date be the same as the amount paid in the following month?**

IG4. The liability at the reporting date is unlikely to be exactly the same as the amount paid the following month. The extent of the difference will depend on the circumstances of the retirement benefit. Factors that will affect the extent of the difference include the following:

(a) Timing differences. The payment in the month following the reporting date may include payments that do not form part of the liability at that reporting date. For example, an entity prepares its financial statements as at March 31. If retirement benefits are paid on the 15th of each month, the payment made on April 15 may include payments made to individuals who reached retirement age between April 1 and April 15. The payments to these individuals will not form part of the liability as at March 31, because, at that date, those individuals had not met the eligibility criteria for the retirement pension.

(b) Incomplete information. The information which is used to calculate payments may be incomplete, and consequently the payment in the following month may not exactly match the liability at the reporting date. For example, payments are usually calculated a number of days prior to the payment being made. Changes in circumstances notified after that date are not reflected in the payment, but are adjusted in subsequent periods.

IG5. In considering the liability to be recognised as at the reporting date, entities may find it helpful to refer to the discussion of materiality in ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

IG6. **How do breaks in meeting the eligibility criteria for a social benefit scheme affect the recognition and measurement of the liability?**

IG7. For a social benefit scheme that has ongoing eligibility criteria (other than being alive, where this is an eligibility criterion) an individual may alternate between periods when they meet the eligibility criteria for the next social benefit payment, and periods when they do not meet those eligibility criteria. In these circumstances, each instance of an individual satisfying the eligibility criteria is recognised and measured separately.

IG8. For example, an entity prepares its financial statements as at March 31. As at that date, an individual was unemployed, and eligible to receive unemployment benefits. Consequently, the entity has a present obligation to the individual at the reporting date. The individual finds temporary employment on April 10 and ceases to be eligible for the unemployment benefits. This employment ends on April 24, when the individual once more becomes eligible for unemployment benefits. Only the first period of unemployment might be included in the liability at the reporting date, as the eligibility criteria for the subsequent period were not satisfied until after that reporting date.

Illustrative Examples

These examples accompany, but are not part of, ASLB 42

Scope and Definitions

Illustrating the Consequences of Applying Paragraphs 3–5 and AG1–AG10 of ASLB 42

IE1. The following scenarios illustrate the process for determining whether a transaction is within the scope of ASLB 42, '*Social Benefits'*. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying ASLB 42.

Example 1–Provision of Retirement Benefits to Employees of Local Bodies

IE2. Employees of Local Body A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided are based on the final salary of the employees, and their length of service.

IE3. The retirement benefits are cash transfers provided to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that the employees have sufficient income once they reach retirement age.

IE4. However, the retirement benefits do not address the needs of society as a whole, as they are only available to former employees of Province A. The retirement benefits are paid as compensation for employment services rendered. It follows that the retirement benefits do not meet all the elements of the definition of a social benefit. Consequently, the retirement benefits are outside the scope of ASLB 42. The retirement benefits are employee benefits, and are accounted for in accordance with ASLB 39, '*Employee Benefits'*.

Example 2–Provision of Retirement Pension

IE5. Local Body B pays a minimum state retirement pension to all citizens and residents who have reached the retirement age of 65. The said

retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the retirement pension pays the same amount to each retiree regardless of the contributions made.

IE6. The retirement benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The retirement benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income once they reach retirement age.

IE7. The retirement benefits address the needs of society as a whole. Paragraph AG7 of ASLB 42 notes that the "assessment of whether a benefit is provided to mitigate the effect of social risks is made by reference to society as a whole; the benefit does not need to mitigate the effect of social risks for each recipient. An example is where a local body pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met."

IE8. Consequently, the retirement pension is within the scope of ASLB 42.

Example 3–Provision of Universal Healthcare Services

IE9. Local Body C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The healthcare services are provided free at the point of delivery.

IE10. The healthcare services are provided to specific individuals who meet eligibility criteria. The healthcare services are intended to mitigate social risks, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by ill health. In doing so, they address the needs of society as a whole.

IE11. However, Local Body C is providing services rather than cash transfers. Consequently, the healthcare services are outside the scope of ASLB 42.

Example 4–Provision of Disability Pensions

IE12. Local Body D pays disability pensions to individuals who have a permanent disability that prevents them from working, regardless of

their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual to pay for an appropriate level of care.

IE13. The disability pensions are provided as cash transfers to specific individuals who meet eligibility criteria. The disability pensions are intended to mitigate the social risk of ill health, in that they are intended to ensure that the welfare of individuals and households is not adversely affected by disability. In doing so, they address the needs of society as a whole.

IE14. Consequently, the disability pensions are within the scope of ASLB 42.

Example 5–Provision of Unemployment Benefits

IE15. Province E pays unemployment benefits to individuals who are resident in the province and who become unemployed. The unemployment benefits are payable for a maximum of one year, and there is a two week 'waiting period' before the unemployment benefits are payable.

IE16. The unemployment benefits are provided as cash transfers to specific individuals who meet eligibility criteria. The unemployment benefits are intended to mitigate social risks, in that they are intended to ensure that individuals and households have sufficient income during periods of unemployment. In doing so, they address the needs of society as a whole.

IE17. Consequently, the unemployment benefits are within the scope of ASLB 42.

Example 6–Provision of Emergency Relief

IE18. Following an earthquake that has caused significant damage in a region, Local Body F provides emergency relief to assist with reconstruction and with providing services such as temporary housing to those affected by the earthquake.

IE19. Some costs will relate to providing benefits as cash transfers to specific individuals who meet eligibility criteria. Other costs will relate

to the provision of assets and services, for example the reconstruction of roads damaged by the earthquake.

IE20. The provision of assets, such as the reconstruction of roads, or services to specific individuals is not a cash transfer and consequently is outside the scope of ASLB 42.

IE21. The emergency relief provided as cash transfers does not mitigate the effects of social risks, but instead mitigates the effects of a geographical risk – the risk of earthquake. Paragraph AG10 of ASLB 42 explains that risks that do not relate to the characteristics of individuals and/or households – for example, risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks. Consequently, the emergency relief is outside the scope of ASLB 42.

IE22. Following a natural disaster, individuals and/or households may subsequently become eligible for other benefits, for example unemployment benefits. These benefits may be social benefits if they satisfy the definition of a social benefit (including the requirements that they are cash transfers and they mitigate social risks).

Illustrating the Consequences of Applying Paragraphs 6–21 and AG11–AG18 of ASLB 42

Example 7

IE23. The following example illustrates the process for recognising and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE24. Local Body H provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of ₹ 250 per month to each individual who has reached the retirement age of 65. Amounts are paid in full to those individuals who satisfied the eligibility criteria in full at the end of the previous month.

IE25. Local Body H prepares its financial statements as at March 31. Retirement pensions are paid at the end of each month.

IE26. As at March 31, 20X2, Local Body H recognised a liability for retirement pensions of ₹ 1,950,500. During 20X2-20X3, Local Body H paid retirement pensions as follows:

Month(s)	Pensions Paid (₹)
April 20X2	1,950,500
May 20X2–March 20X3	22,258,000
Total	24,208,500

IE27. During April 20X3, Local Body H pays retirement pensions totaling ₹ 2,095,750.

IE28. As at March 31, 20X3, Local Body H recognises a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Consequently, Local Body H recognises a liability of ₹ 2,095,750, the full amount of the retirement pensions paid in April.

IE29. During 20X2-20X3, the total amount recognised as an expense is ₹ 24,353,750. The breakdown of this amount is as follows:

	₹
Pensions paid in May 20X2 (recognised in April 20X2) to March 20X3 (recognised in February 20X3)	22,258,000
Pensions paid in April 20X3 (recognised in March 20X3)	2,095,750
Total	24,353,750

Example 8

IE30. The following example illustrates the process for recognising and measuring the liability and expense for a retirement pension. This example is not based on actual transactions.

IE31. Local Body I provides a retirement pension to its citizens and permanent residents. The pension scheme pays a fixed amount of ₹ 100 per month (in arrears) to each individual who has reached the retirement age of 70. Amounts are pro-rated in the months in which an individual reaches the retirement age, and in the months in which an individual dies.

IE32. Local Body I prepares its financial statements as at March 31. Retirement pensions are paid at the end of each month.

IE33. As at March 31, 20X8, Local Body I recognised a liability for retirement pensions of ₹2,990,656. During 20X8-20X9, Local Body I paid

retirement pensions as follows:

Month(s)	Pensions Paid (₹)
April 20X8	3,024,997
May 20X8–March 20X9	33,435,183
Total	36,460,180

IE34. In this example, it is assumed that Local Body I has complete information at the date it pays retirement pensions. Consequently, the difference between the amount paid in April 20X8 (₹3,024,997) and the liability recognised as at March 31, 20X8 (₹ 2,990,656) represents the pro-rated retirement pensions paid to those who reached retirement age during April 20X8 (₹ 34,341).

IE35. On April 30, 20X9, Local Body I pays retirement pensions totaling ₹ 3,053,576. There are three elements to this payment:

	₹
Full pensions paid to those pensioners eligible at March 31, 20X9 and remaining eligible at April 30, 20X9	2,979,600
Pro-rated pensions paid to those pensioners eligible at March 31, 20X9 who died during April 20X9	36,420
Pro-rated pensions paid to those who reached retirement age during April 20X9	37,556
Total	3,053,576

IE36. As at March 31, 20X9, Local Body I recognises a liability for retirement pensions payable to those who satisfied the eligibility criteria at that date. Because its 20X8-20X9 financial statements are issued after the April 20X9 retirement pensions have been paid, Local Body I uses the information available at that time to prepare its financial statements.

IE37. Consequently, Local Body I recognises a liability of ₹ 3,016,020. This includes the full pensions paid to those pensioners eligible at March 31, 20X9 and remaining eligible at April 30, 20X9 (₹ 2,979,600) and the pro-rated pensions paid to those pensioners eligible at March 31 who died during April 20X9 (₹ 36,420). The liability does not include the pro-rated pensions paid to those who reached retirement age during April 20X9 because they had not satisfied the eligibility criteria

as at March 31, 20X9.

IE38. During 20X8-20X9, the total amount recognised as an expense is ₹ 36,485,544. The breakdown of this amount is as follows:

	₹
Pro-rated pensions paid to those who reached retirement age during April 20X8 (recognised in April 20X8)	34,341
Pensions paid between May 20X8 and March 20X9 and recognised in the financial year April 1, 20X8 to March 31, 20X9	33,435,183
Full pensions paid to those pensioners eligible at March 31, 20X9 and remaining eligible at April 30, 20X9 (recognised in March 20X9)	2,979,600
Pro-rated pensions paid to those pensioners eligible at March 31, 20X9 who died during April 20X9 (recognised in March 20X9)	36,420
Total	36,485,544

Example 9

IE39. The following example illustrates the process for recognising and measuring the liability and expense for an unemployment pension. This example is not based on actual transactions.

IE40. Local Body J provides unemployment benefits to its citizens and permanent residents. The unemployment benefit scheme pays monthly amounts of 50% of an individual's previous salary, to a maximum of ₹ 500 per month (in arrears). Unemployment benefits are payable for a maximum of eighteen months. To be eligible to receive benefits, an individual must have been in paid employment in the Local Body's jurisdiction for at least 100 days in the past twelve months. Eligibility commences fourteen days after the individual last worked. Amounts are pro-rated in the months in which an individual first meets the eligibility criteria, and in the months in which an individual's eligibility comes to an end (finding paid employment, becoming self-employed, expiry of the eighteen month maximum period, moving out of the Local Body's jurisdiction or dying).

IE41. Local Body J prepares its financial statements as at March 31. Unemployment benefits are paid on the 15th day of each month.

IE42. As at March 31, 20X1, Local Body J recognised a liability for unemployment benefits of ₹125,067. During the financial year April 1, 20X1–March 31, 20X2, Local Body J paid unemployment benefits as follows:

Month	**Unemployment Benefits Paid (₹)**
April 20X1	129,745
May 20X1–March 20X2	1,582,131
Total	1,711,876

IE43. In this example, it is assumed that Local Body J has complete information at the date it pays unemployment benefits. Consequently, the difference between the amount paid on April 15, 20X1 (₹ 129,745) and the liability recognised as at March 31, 20X1 (₹ 125,067) represents the pro-rated unemployment benefit paid to those who became eligible for unemployment benefits between April 1, 20X1 and April 15, 20X1 (₹ 4,678).

IE44. On April 15, 20X2, Local Body J pays unemployment benefits totaling ₹ 132,952. There are four elements to this payment:

	₹
Unemployment benefits paid to unemployed persons eligible at March 15, 20X2 and remaining eligible at April 15, 20X2	113,120
Pro-rated unemployment benefits paid to those unemployed persons eligible at March 15, 20X2 whose eligibility had come to an end by April 15, 20X2	9,975
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between March 15, 20X2 and March 31, 20X2	5,045
Pro-rated unemployment benefits paid to those unemployed persons who became eligible between April	4,812

1, 20X2 and April 15, 20X2	
Total	132,952

IE45. As at March 31, 20X2, Local Body J recognises a liability for unemployment benefits payable to those who satisfied the eligibility criteria at that date. Because its April 20X1–March 20X2 financial statements are issued after the April 20X2 unemployment benefits have been paid, Local Body J uses the information available at that time to prepare its financial statements.

IE46. Consequently, Local Body J recognises a liability of ₹ 128,140. This includes:

(a) The unemployment benefits paid to those unemployed persons eligible at March 15, 20X2 and remaining eligible at April 15, 20X2 (₹ 113,120);

(b) The pro-rated unemployment benefits paid to those unemployed persons eligible at March 15, 20X2 whose eligibility had come to an end by April 15, 20X2 (₹ 9,975); and

(c) The pro-rated unemployment benefits paid to those unemployed persons who became eligible between March 15, 20X2 and March 31, 20X2 (₹ 5,045).

IE47. The liability does not include the pro-rated unemployment benefits paid to those who became eligible between April 1, 20X2 and April 15, 20X2 because they had not satisfied the eligibility criteria as at March 31, 20X2.

IE48. During the financial year April 1, 20X1–March 31, 20X2, the total amount recognised as an expense is ₹ 1,714,949. The breakdown of this amount is as follows:

	₹
Pro-rated unemployment benefits paid in April 20X1 to those who became eligible between April 1, 20X1 and April 15, 20X1 (recognised in April 20X1)	4,678
Unemployment benefits paid in between May 20X1 and March 20X2 and recognised in the financial year April 1, 20X1–March 31, 20X2	1,582,131

Unemployment benefits paid in April 20X2 to unemployed persons eligible at March 15, 20X2, both those remaining eligible and those whose eligibility had come to an end by April 15, 20X2; and those unemployed persons who became eligible between March 15, 20X2 and March 31, 20X2 (recognised in March 20X2)	128,140
	1,714,949

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 42 and the corresponding International Public Sector Accounting Standard (IPSAS) 42, 'Social Benefits'.

Comparison with IPSAS 42, *'Social Benefits'*

1. Different terminologies have been used in the ASLB 42 as compared to corresponding IPSAS 42, e.g., the terms 'statement of income and expenditure', 'balance sheet' and 'entities' have been used in place of 'statement of financial performance', 'statement of financial position' and 'public sector entities'.

2. The following paragraphs of IPSAS 42 have been deleted. In order to maintain consistency with the corresponding IPSAS 42, the paragraph numbers have been retained:

   (i) Paragraphs 14, 17, 19, 20 and AG 18 pertaining to discounting of liabilities and discount rate have been deleted in line with ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'/other earlier issued ASLBs and keeping in view that the Local Bodies in India are at very initial stages of implementation of accrual basis of accounting.

   (ii) Paragraph 32 pertaining to reporting on long term sustainability of an entity's finances has been deleted as it is not relevant in the context of Local Bodies in India.

   (iii) Paragraphs 33-34 pertaining to transitional provisions have been deleted as a separate ASLB 33, '*First-time Adoption of ASLBs*' have been issued that contains all transitional provisions at one place.

   (iv) Paragraphs 35-36 pertaining to effective date have been deleted as ASLB 42 would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

   (v) Paragraphs 25-31, AG 19-25 pertaining to insurance approach have been deleted as only one approach of recognition and

measurement of Social Benefits have been retained instead of two approaches (general approach, insurance approach) as in IPSAS 42 in order to have a simplified approach for local bodies in India. Since only one approach has been retained the term "general approach" is also not being used.

3. With regard to financial instruments and insurance contracts, the reference of paragraph 15 of ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' has been provided in the ASLB 42 in the footnote for guidance. (paragraph 4)

4. Paragraph 3A pertaining to applicability of ASLBs has been inserted in ASLB 42 in line with other issued ASLBs.

5. IG2 of IPSAS 42 that distinguishes social benefits from other exchange transactions and non-exchange expenses has been deleted as the ASLB with regard to non-exchange expenses is yet to be issued in Indian context. Therefore, the difference cannot be provided at this stage.

6. Consequential changes resulting from the above departures have been made in the ASLB 42.