

Accounting Standards Interpretation (ASI) 12¹

Applicability of AS 20

Accounting Standard (AS) 20, Earnings Per Share

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 1/2002, issued in March 2002 stands withdrawn.]

ISSUE

- Whether companies which are required to give information under Part IV of Schedule VI to the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20.

CONSENSUS

- Every company, which is required to give information under Part IV of Schedule VI to the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20, whether or not its equity shares or potential equity shares are listed on a recognised stock exchange in India.

BASIS FOR CONCLUSIONS

- AS 20, 'Earnings Per Share', has come into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in

respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. AS 20 does not mandate an enterprise, which has neither equity shares nor potential equity shares which are so listed, to calculate and disclose earnings per share, but, if that enterprise discloses earnings per share for complying with the requirements of any statute or otherwise, it should calculate and disclose earnings per share in accordance with AS 20.

- Part IV of Schedule VI to the Companies Act, 1956, requires, among other things, disclosure of earnings per share. Accordingly, every company, which is required to give information under Part IV of Schedule VI to the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20, whether or not its equity shares or potential equity shares are listed on a recognised stock exchange in India.

Accounting Standards Interpretation (ASI) 13¹

Interpretation of paragraphs 26 and 27 of AS 18

Accounting Standard (AS) 18, Related Party Disclosures

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 2/2002, issued in May 2002 stands withdrawn.]

ISSUES

- Paragraph 23 of AS 18 requires certain disclosures in respect of transactions between related parties. Paragraph 26 of AS 18, inter alia, provides that items of a similar nature may be disclosed in aggregate by type of related party. The issue is as to what is the meaning of type of related party for this purpose.

- Paragraph 27 of AS 18 provides that "Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transac-

¹ The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

tions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. **Nor a material related party transaction with an individual partly is clubbed in an aggregated disclosure**” (emphasis added). The issue is as to how the test of the materiality should be applied for this purpose.

CONSENSUS

3. The type of related party for the purpose of aggregation of items of a similar nature should be construed to mean the related party relationships given in paragraph 3 of AS 18.

The manner of disclosure required by paragraph 23 of AS 18, read with paragraph 26 thereof, in accordance with the above requirement, is illustrated in the Appendix to this Interpretation.

4. Materiality primarily depends on the facts and circumstances of each case. In deciding whether an item or an aggregate of items is material, the nature and the size of the item(s) are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. As regards size, for the purpose of applying the test of materiality as per paragraph 27 of AS 18, ordinarily a related party transaction, the amount of which is in excess of 10% of the total related party transactions of the same type (such as purchase of goods), is considered material, unless on the basis of facts and circumstances of the case it can be concluded that even a transaction of less than 10% is material. As regards nature, ordinarily the related party transactions which are not entered into in the normal course of the business of the reporting enterprise are considered material subject to the facts and circumstances of the case.

BASIS FOR CONCLUSIONS

5. Paragraphs 23 and 26 of AS 18 provide as below:

“23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:

- (i) the name of the transacting related party;***
- (ii) a description of the relationship between the parties;***
- (iii) a description of the nature of transactions;***
- (iv) volume of the transactions either as an amount or as an appropriate proportion;***

(v) any other elements of the related party transactions necessary for an understanding of the financial statements;

(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and

(vii) amounts written off or written back in the period in respect of debts due from or to related parties.”

“26. Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.”

6. Paragraph 3 of AS 18 provides as under:

“This Statement deals only with related party relationships described in (a) to (e) below:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
 - (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
 - (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
 - (d) key management personnel and relatives of such personnel; and
 - (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.”
7. In view of the above, for the purpose of providing disclosures under paragraph 23 of AS 18, the items of a similar nature may be aggregated by the type of related parties described in paragraph 3 of AS 18, e.g., subsidiaries, joint ventures, associates etc. However, the aggregation cannot be done when

separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting enterprise.

8. Paragraph 30 of the Framework for the Preparation and Presentation of Financial Statements, provides as follows:

“30. The relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the particular circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than

being a primary qualitative characteristic which the information must have if it is to be useful”.

In the context of paragraph 27 of AS 18, a rebuttable presumption of 10% is considered appropriate for application of the test of materiality so far as size is concerned. Further, since materiality not only depends on the size but also depends on the nature of the transaction, the related party transactions, which are not entered into in the normal course of the business are considered material on the basis of facts and circumstances of the case. An example of such a transaction is purchase of an asset by an enterprise from an outside party and selling the same to its subsidiary when the parent is not primarily engaged in the purchase and sale of such assets. Another example could be granting a loan by a parent enterprise to its subsidiary when the parent is not primarily engaged in the financial activities.

Appendix

Note: This appendix is illustrative only and does not form part of the Accounting Standards Interpretation. The purpose of this appendix is to illustrate the application of the Interpretation to assist in clarifying its meaning.

The manner of disclosures required by paragraphs 23 and 26 of AS 18 is illustrated as below. It may be noted that the format given below is merely illustrative in nature and is not exhaustive.

	Holding Company	Subsidiaries	Fellow Subsidiaries	Associates	Key Management Personnel	Relatives of Key Management Personnel	Total
Purchases of goods							
Sale of goods							
Purchase of fixed assets							
Sale of fixed assets							
Rendering of services							
Receiving of services							
Agency arrangements							
Leasing or hire purchase arrangements							
Transfer of research and development							
Licence agreements							
Finance (including loans and equity contributions in cash or in kind)							
Guarantees and collaterals							
Management contracts including for deputation of employees							

Note:

Names of related parties and description of relationship:

- | | |
|--|---|
| 1. Holding Company | A Ltd. |
| 2. Subsidiaries | B Ltd. and C (P) Ltd. |
| 3. Fellow Subsidiaries | D Ltd. and Q Ltd. |
| 4. Associates | X Ltd., Y Ltd. and Z (P) Ltd. |
| 5. Key Management Personnel | Mr. Y and Mr. Z |
| 6. Relatives of Key Management Personnel | Mrs. Y (wife of Mr. Y), Mr. F (father of Mr. Z) |

Accounting Standards Interpretation (ASI) 14¹

Disclosure of Revenue from Sales Transactions

Accounting Standard (AS) 9, Revenue Recognition

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 3/2002, issued in June 2002 stands withdrawn.]

ISSUE

1. What should be the manner of disclosure of excise duty in the presentation of revenue from sales transactions (turnover) in the statement of profit and loss.

CONSENSUS

2. The amount of turnover should be disclosed in the following manner on the face of the statement of profit and loss:

Turnover (Gross)	XX	
Less: Excise Duty	XX	
Turnover (Net)		XX

BASIS FOR CONCLUSIONS

3. Financial analysts and other users of financial statements, sometimes, require the information related to turnover gross of excise duty as well as net of excise duty for meaningful understanding of financial statements. However, it was noted that some enterprises disclose turnover net of excise duty while others disclose turnover at gross amount. Accordingly, this Interpretation requires disclosure of turnover gross of excise duty as well as net of excise duty on the face of the statement of profit and loss.

Accounting Standards Interpretation (ASI) 15¹

Notes to the Consolidated Financial Statements

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 5/2002, issued in June 2002, stands withdrawn.]

ISSUE

1. Whether all the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries should be included in the notes to the consolidated financial statements.

CONSENSUS

2. All the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries need not be included in the notes to the consolidated financial statements. For preparing consolidated financial statements, the following principles should be observed in respect of notes and other explanatory

material that form an integral part thereof:

- (a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements should be included in the consolidated financial statements as an integral part thereof.
- (b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose should be assessed in relation to the information contained in consolidated financial statements. In view of this, it is possible that certain notes which are disclosed in separate financial statements of a parent or a subsidiary would not be required to be disclosed in the consolidated financial statements when the test

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of materiality is applied in the context of consolidated financial statements.

- (c) Additional statutory information disclosed in separate financial statements of the subsidiary and/or a parent having no bearing on the true and fair view of the consolidated financial statements need not be disclosed in the consolidated financial statements. For instance, in the case of companies, the information such as the following given in the notes to the separate financial statements of the parent and/or the subsidiary, need not be included in the consolidated financial statements:
- (i) Source from which bonus shares are issued, e.g., capitalisation of profits or Reserves or from Share Premium Account.
 - (ii) Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.
 - (iii) The name(s) of small scale industrial undertaking(s) to whom the company owe any sum together with interest outstanding for more than thirty days.
 - (iv) A statement of investments (whether shown under "Investment" or under "Current Assets" as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.
 - (v) Quantitative information in respect of sales, raw materials consumed, opening and closing stocks of goods produced/traded and purchases made, wherever applicable.
 - (vi) A statement showing the computation of net profits in accordance with section 349 of the Companies Act, 1956, with relevant details of the calculation of the commissions payable by way of percentage of such profits to the directors (including managing directors) or manager (if any).
 - (vii) In the case of manufacturing companies, quantitative information in regard to the licensed capacity (where licence is in force); the installed capacity; and the actual production.
 - (viii) Value of imports calculated on C.I.F. basis

by the company during the financial year in respect of :-

- (a) raw materials;
 - (b) components and spare parts;
 - (c) capital goods.
- (ix) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional, consultation fees, interest, and other matters.
 - (x) Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.
 - (xi) The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.
 - (xii) Earnings in foreign exchange classified under the following heads, namely:-
 - (a) export of goods calculated on F.O.B. basis;
 - (b) royalty, know-how, professional and consultation fees;
 - (c) interest and dividend;
 - (d) other income, indicating the nature thereof.

BASIS FOR CONCLUSIONS

3. Paragraph 6 of Accounting Standard (AS) 21, Consolidated Financial Statements, states as below: "Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, and notes, other statements and explanatory material that form an integral part thereof. Consolidated cash flow statement is presented in case a parent presents its own cash flow statement. The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements."
4. Paragraph 8 of AS 21 provides as under:

"Users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position and results of operations of not only the enterprise itself but also of the group as a whole. This need is served by providing the users -

- (a) separate financial statements of the parent; and
 - (b) consolidated financial statements, which present financial information about the group as that of a single enterprise without regard to the legal boundaries of the separate legal entities.”
5. In view of the above, consolidated financial statements should be prepared considering parent and subsidiary enterprises as one enterprise. Therefore, the test of materiality is to be applied in the context of the consolidated financial statements.
 6. As per the Framework for the Preparation and

Presentation of Financial Statements, the benefits derived from information should exceed the cost of providing it. In the separate financial statements, certain information is disclosed as a result of the statutory requirements. Such information may not have a bearing on the true and fair view of the consolidated financial statements. Accordingly, with a view to maintain a balance between cost and the benefits, such information need not be disclosed in the consolidated financial statements.

Accounting Standards Interpretation (ASI) 16¹

Treatment of Proposed Dividend under AS 23 Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 6/2002, issued in June 2002, stands withdrawn.]

ISSUE

1. In case an associate has made a provision for proposed dividend in its financial statements, whether the investor should consider the same while computing its share of the results of operations of the associate.

CONSENSUS

2. In case an associate has made a provision for proposed dividend in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.

BASIS FOR CONCLUSIONS

3. Pursuant to the requirements of Schedule VI to the Companies Act, 1956, the provision for dividend is shown under the head 'Current Liabilities and Provisions', and in the statement of profit and loss, it is included after determination of the net profit or loss for the period (below the line). Although provision for dividend is disclosed by companies which are governed by the Companies Act, 1956, under the head 'Current Liabilities and Provisions', from accounting point of view, it is strictly not a liability. In this context, the definition of the term 'liability' can be noted from the 'Framework for the Preparation and Presentation of Financial Statements', which is

as follows:

“A *liability* is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.”

Proposed dividend, pending the approval of the shareholders in General Meeting, does not fulfill the above definition since it is not a present obligation at the balance sheet date.

4. AS 23 defines 'the equity method' as under:

“***The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.***”

Paragraph 6 of AS 23 states that:

“...Distributions received from an investee reduce the carrying amount of the investment....”

In view of paragraph 3 above, it is appropriate that while applying the equity method, proposed dividend provided by the associate in its separate financial statements is not considered by the investor.

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Accounting Standards Interpretation (ASI) 17¹

Adjustments to the Carrying Amount of Investment arising from Changes in Equity not Included in the Statement of Profit and Loss of the Associate

Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 7/2002, issued in June 2002, stands withdrawn.]

ISSUE

1. The issue is as to how the adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate, should be made.

CONSENSUS

2. Adjustments to the carrying amount of investment in an associate arising from changes in the associate's equity that have not been included in the statement of profit and loss of the associate should be directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit should be made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the associate, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve should be shown in the consolidated balance sheet.

BASIS FOR CONCLUSIONS

3. Paragraph 6 of AS 23 states as follows:
“6. Under the equity method, the investment is

initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the statement of profit and loss. Such changes include those arising from the revaluation of fixed assets and investments, from foreign exchange translation differences and from the adjustment of differences arising on amalgamations.”

4. In view of the above, adjustments to the carrying amount of an investment in an associate are made for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the statement of profit and loss. In respect of the corresponding effect of such adjustments, it is not appropriate to route the same through the consolidated statement of profit and loss since the relevant item has not been recognised by the associate in its statement of profit and loss.

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Accounting Standards Interpretation (ASI) 18¹

Consideration of Potential Equity Shares for Determining whether an Investee is an Associate under AS 23

Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 8/2002, issued in June 2002, stands withdrawn.]

ISSUE

1. For applying the definition of an ‘associate’, whether the potential equity shares of the investee held by the investor should be taken into account for determining the voting power of the investor.

CONSENSUS

2. The potential equity shares of the investee held by the investor should not be taken into account for determining the voting power of the investor.

BASIS FOR CONCLUSIONS

3. AS 23 defines ‘associate’ as “*an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor*”. ‘Significant influence’ is defined in AS 23 as “*the power to participate in the financial and/or operating policy decisions of the investee but not control over*

those policies”. AS 23 further explains in paragraph 4 that as regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary(ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

4. For the above purpose, it is appropriate that the voting power is determined on the basis of the current outstanding securities with voting rights since potential equity shares do not have the voting power from the point of view of participating in the financial and/or operating policy decisions of the investee.

Accounting Standards Interpretation (ASI) 19¹

Interpretation of the term ‘intermediaries’

Accounting Standard (AS) 18, Related Party Disclosures

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 9/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. The issue is how the term ‘intermediaries’ should be interpreted for the purposes of paragraphs 3 and 13 of AS 18.

CONSENSUS

2. For the purposes of paragraphs 3 and 13 of AS 18, the term ‘intermediaries’ should be confined to mean enterprises which are ‘subsidiaries’ as defined in AS 21, Consolidated Financial Statements.

BASIS FOR CONCLUSIONS

3. Paragraphs 3 and 13 of AS 18 state as under:
 “3. This Statement deals only with related party relationships described in (a) to (e) below:
 (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);

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.....”

“13. Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material inter-company transactions, interchange of managerial personnel, or dependence on technical information. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investing party holds, directly or indirectly through intermediaries, 20 per cent or more of the voting power of the enterprise, it is presumed that the investing party does have significant influence, unless it can be clearly demonstrated that this is

not the case. Conversely, if the investing party holds, directly or indirectly through intermediaries, less than 20 per cent of the voting power of the enterprise, it is presumed that the investing party does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investing party does not necessarily preclude an investing party from having significant influence.”

4. In the context of ‘control’ and exercise of ‘significant influence’, the meaning of the term ‘intermediaries’ should be confined to mean only enterprises which are ‘subsidiaries’ within the meaning of AS 21, and extending it to cover ‘associate’ etc. would not be practicable.

Accounting Standards Interpretation (ASI) 20¹

Disclosure of Segment Information

Accounting Standard (AS) 17, Segment Reporting

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 11/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. Whether an enterprise, which has neither more than one business segment nor more than one geographical segment, is required to disclose segment information as per AS 17.

CONSENSUS

2. In case, by applying the definitions of ‘business segment’ and ‘geographical segment’, contained in AS 17, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per AS 17 is not required to be disclosed.

BASIS FOR CONCLUSIONS

3. The paragraph of AS 17 dealing with ‘Objective’ provides as under:

“The objective of this Statement is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Such information helps users of financial statements:

 - (a) better understand the performance of the enter-

prise;

- (b) better assess the risks and returns of the enterprise; and
- (c) make more informed judgements about the enterprise as a whole.

Many enterprises provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about different types of products and services of an enterprise and its operations in different geographical areas - often called segment information - is relevant to assessing the risks and returns of a diversified or multi-locational enterprise but may not be determinable from the aggregated data. Therefore, reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements.”

In case of an enterprise, which has neither more than one business segment nor more than one geographical segment, the relevant information is available from the balance sheet and statement of profit and loss itself and, therefore, keeping in view the objective of segment reporting, such an enterprise is not required to disclose segment information as per AS 17.

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Accounting Standards Interpretation (ASI) 21¹

Non-Executive Directors on the Board – whether related parties

Accounting Standard (AS) 18, Related Party Disclosures

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 13/2002, issued in October 2002, stands withdrawn.]

ISSUES

1. The issue is as to whether a non-executive director on the Board of Directors of a company is a key management person.
2. Another related issue is as to whether a non-executive director is covered by AS 18 in case he participates in the financial and/or operating policy decisions of an enterprise.

CONSENSUS

3. A non-executive director of a company should not be considered as a key management person under AS 18 by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.
4. The requirements of AS 18 should not be applied in respect of a non-executive director even if he participates in the financial and/or operating policy decision of the enterprise, unless he falls in any of the categories in paragraph 3 of AS 18.

BASIS FOR CONCLUSIONS

5. AS 18 defines “key management personnel” as under:
“Key management personnel - those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.”

Paragraph 14 of AS 18 explains as under:

“14. Key management personnel are those persons who have the authority and responsibility for plan-

ning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.”

AS 18 considers only such persons as key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. Therefore, merely being a director of a company is not sufficient for becoming key management person within the meaning of AS 18, unless that director has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

6. AS 18 defines ‘related party’ and ‘significant influence’ as below:

“Related party - parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.”

“Significant influence - participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.”

A non-executive director, who participates in the financial and/or operating policy decisions of the enterprise, may qualify as a ‘related party’. However, paragraphs 2 and 3 of AS 18 dealing with the scope of AS 18 provide as below:

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“2. This Statement applies only to related party relationships described in paragraph 3.

3. This Statement deals only with related party relationships described in (a) to (e) below:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;

- (d) key management personnel and relatives of such personnel; and
- (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.”

In view of the above, a non-executive director, merely by virtue of his being a director and thereby participating in the financial and/or operating policy decisions of the enterprise, is not covered under any one of the above. Accordingly, AS 18 is not applicable to such a non-executive director. However, a non-executive director is covered by a related party relationship in case other requirements of the Standard are met. For instance, he is considered as a key management person as per paragraph 3 of this Interpretation or he is in a position to exercise control or significant influence by virtue of owning an interest in the voting power as per paragraph 3 (c) of AS 18.

Accounting Standards Interpretation (ASI) 22¹

Treatment of Interest for determining Segment Expense

Accounting Standard (AS) 17, Segment Reporting

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 14/2002, issued in October 2002, stands withdrawn.]

ISSUES

1. Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not.
2. Another issue is that in case interest is included as a part of the cost of inventories where it is so required as per Accounting Standard (AS) 16, Borrowing Costs, read with Accounting Standard (AS) 2, Valuation of Inventories, and those inventories are part of segment assets of a particular segment, whether such interest would be considered as a segment expense.

CONSENSUS

3. The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories as per paragraph 4 below.
4. In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2, Valuation of Inventories, and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense.

¹ The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

BASIS FOR CONCLUSIONS

- The definition of the term “segment expense” (paragraph 5) contained in AS 17 does not include, inter alia, “*interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.*” Accordingly, the interest expense relating to overdrafts and other operating liabilities identified to a particular segment is not included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories as per paragraph 4 above.

- According to AS 16, read with AS 2, interest can be added to the cost of inventories only where time is the major factor in bringing about a change in the condition of inventories. Change in the condition of inventories is an operational activity. Accordingly, such interest is resulting from the operating activities of the segment in respect of which such inventories constitute the segment asset. The definition of ‘segment expense’ under AS 17 comprises, inter alia, “*the expense resulting from the operating activities of a segment that is directly attributable to the segment.*” Accordingly, interest on such inventories should be considered as a segment expense. The clause excluding the interest expense in the definition of ‘segment expense’ (see paragraph 5 above) does not apply to such interest.

Accounting Standards Interpretation (ASI) 23¹

Remuneration paid to key management personnel – whether a related party transaction

Accounting Standard (AS) 18, Related Party Disclosures

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 15/2002, issued in October 2002, stands withdrawn.]

ISSUES

- The issue is whether remuneration paid to key management personnel is a related party transaction. Another related issue is whether remuneration paid to non-executive directors on the Board of Directors is a related party transaction.

CONSENSUS

- Remuneration paid to key management personnel should be considered as a related party transaction requiring disclosures under AS 18. In case non-executive directors on the Board of Directors are not related parties (see Accounting Standards Interpretation 21), remuneration paid to them should not be considered a related party transaction.

BASIS FOR CONCLUSIONS

- AS 18 defines “related party transaction” as under:

“Related party transaction - a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.”

Paragraph 24 of AS 18 provides as under:

“24. The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- purchases or sales of goods (finished or unfinished);
- purchases or sales of fixed assets;
- rendering or receiving of services;

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- agency arrangements;
- leasing or hire purchase arrangements;
- transfer of research and development;
- licence agreements;
- finance (including loans and equity contributions in cash or in kind);
- guarantees and collaterals; and
- management contracts including for deputation of employees.”

As per the definition of the related party transaction, the transaction should be between related parties to qualify as a related party transaction.

Since key management personnel are related parties under AS 18, remuneration paid to key management personnel is a related party transaction requiring disclosures under AS 18. Further, in case non-executive directors on the Board of Directors are not related parties (see Accounting Standards Interpretation 21), remuneration paid to them is not considered a related party transaction.

Accounting Standards Interpretation (ASI) 24¹

Definition of ‘Control’

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 16/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. In case an enterprise is controlled by two enterprises - one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities - whether in such a case both the controlling enterprises should consolidate the financial statements of the first mentioned enterprise.

CONSENSUS

2. In a rare situation, when an enterprise is controlled by two enterprises as per the definition of ‘control’ under AS 21, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises should consolidate the financial statements of that enterprise as per the requirements of AS 21.

BASIS FOR CONCLUSIONS

3. AS 21 defines “control” and “subsidiary” as under:

“Control:

- (a) *the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or*
- (b) *control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.*

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).”

The definition of ‘control’ lays down two independent tests as above. Consequently, it is possible that an enterprise is controlled by two enterprises - one controls by virtue of ownership of majority of the voting power of that enterprise and the other controls, by virtue of an agreement or otherwise, the composition of the board of directors so as to obtain economic benefits from its activities. This Interpretation, while recognising that the above situation will occur rarely, requires that in such a case, the first mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of AS 21 and, therefore, both the enterprises should consolidate the financial statements of that enterprise as per the requirements of AS 21.

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Accounting Standards Interpretation (ASI) 25¹

Exclusion of a subsidiary from consolidation

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 17/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. In case an enterprise owns majority of the voting power of another enterprise but all the shares are held as 'stock-in-trade', whether this will amount to temporary control within the meaning of paragraph 11(a) of AS 21.

CONSENSUS

2. Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise should be considered to be temporary within the meaning of paragraph 11(a).

BASIS FOR CONCLUSIONS

3. Paragraph 11 of AS 21 provides as under:
"11. A subsidiary should be excluded from consolidation when:

(a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or

(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

In consolidated financial statements, investments in such subsidiaries should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements."

In view of the above, merely holding all the shares as 'stock-in-trade', is not sufficient to be considered as temporary control within the meaning of paragraph 11(a) above. It is only when all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future, the control would be considered to be temporary within the meaning of paragraph 11(a).

Accounting Standards Interpretation (ASI) 26¹

Accounting for taxes on income in the consolidated financial statements

Accounting Standard (AS) 21, Consolidated Financial Statements

[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 18/2002, issued in October 2002, stands withdrawn.]

ISSUE

1. For preparing consolidated financial statements, whether the tax expense (comprising current tax and deferred tax) should be recomputed in the context

of consolidated information or the tax expense appearing in the separate financial statements of the parent and its subsidiaries should be aggregated and no further adjustments should be made for the purposes of consolidated financial statements.

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CONSENSUS

2. While preparing consolidated financial statements, the tax expense to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

BASIS FOR CONCLUSIONS

3. The amounts of tax expense appearing in the sepa-

rate financial statements of a parent and its subsidiaries do not require any adjustment for the purpose of consolidated financial statements. In view of this, while preparing consolidated financial statements, the tax expense to be shown in the consolidated financial statements is the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

Accounting Standards Interpretation (ASI) 27¹

Applicability of AS 25 to Interim Financial Results

Accounting Standard (AS) 25, Interim Financial Reporting

ISSUE

1. Whether AS 25 is applicable to interim financial results presented by an enterprise pursuant to the requirements of a statute/regulator, for example, quarterly financial results presented under Clause 41 of the Listing Agreement entered into between Stock Exchanges and the listed enterprises.

CONSENSUS

2. The presentation and disclosure requirements contained in AS 25 should be applied only if an enterprise prepares and presents an 'interim financial report' as defined in AS 25. Accordingly, presentation and disclosure requirements contained in AS 25 are not required to be applied in respect of interim financial results (which do not meet the definition of 'interim financial report' as per AS 25) presented by an enterprise. For example, quarterly financial results presented under Clause 41 of the Listing Agreement entered into between Stock Exchanges and the listed enterprises do not meet the definition of 'interim financial report' as per AS 25. However, the recognition and measurement principles laid down in AS 25 should be applied for recognition and measurement of items contained in such interim financial results.

BASIS FOR CONCLUSIONS

3. The consensus is arrived at on the basis of the provisions of the following paragraphs of AS 25: "Accounting Standard (AS) 25, 'Interim Financial

Reporting', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2002. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard." (applicability paragraph)

"1. This Statement does not mandate which enterprises should be required to present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Statement."

"2. A statute governing an enterprise or a regulator may require an enterprise to prepare and present certain information at an interim date which may be different in form and/or content as required by this Statement. In such a case, the recognition and measurement principles as laid down in this Statement are applied in respect of such information, unless otherwise specified in the statute or by the regulator."

"4. The following terms are used in this Statement with the meanings specified:

.....

Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Statement) for an interim period.

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Accounting Standards Interpretation (ASI) 28¹

Disclosure of parent's/venturer's shares in post-acquisition reserves of a subsidiary/jointly controlled entity

Accounting Standard (AS) 21, Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures

ISSUE

1. What should be the manner of disclosure of the parent's/venturer's share in the post-acquisition reserves of a subsidiary/jointly controlled entity in the consolidated balance sheet?

CONSENSUS

2. The parent's share in the post-acquisition reserves of a subsidiary, forming part of the corresponding reserves in the consolidated balance sheet, is not required to be disclosed separately in the consolidated balance sheet.
3. While applying proportionate consolidation method, the venturer's share in the post-acquisition reserves of the jointly controlled entity should be shown separately under the relevant reserves in the consolidated financial statements.

BASIS FOR CONCLUSIONS

4. The objective paragraph of AS 21 provides, inter alia, that the consolidated financial statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and the results the group achieves with its resources. Further, paragraph 8 of AS 21 provides that users of the financial statements of a parent are usually concerned with, and need to be informed about, the financial position and results of operations of not only the enterprise itself but also of the group as a whole. It further provides that this need is served by providing the users separate financial statements of the parent and consolidated financial statements, which present financial information about the group as that of a single enterprise without regard to the legal boundaries of the separate legal entities.
5. Paragraph 13 of AS 21, as a starting point of applying consolidation procedures, provides, inter alia, that in preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis adding together like items of assets, liabilities, income and expenses. Pursuant to this, the reserves of the subsidiary(ies) are also added line by line with the corresponding reserves of the parent. Other provisions of paragraph 13 and

paragraphs 14 to 27 lay down other consolidation procedures which, considering the overall scheme of the consolidation procedures, are to be applied after addition on a line by line basis. These procedures are applied so as to present financial information about the group as that of a single enterprise. The effect of applying consolidation procedures as per AS 21 is that the parent's share in the post-acquisition reserves of the subsidiary forms part of the corresponding reserves in the consolidated balance sheet. This is not disclosed separately keeping in view the objective of consolidated financial statements to present financial information of the group as a whole.

6. Paragraphs 31 and 33 of AS 27 provide as below:

“31. The application of proportionate consolidation means that the consolidated balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The consolidated statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in Accounting Standard (AS) 21, Consolidated Financial Statements.”

“33. Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.”

In view of the above, while applying proportionate consolidation method, as in the case of items of assets and liabilities, the venturer's share in the post-acquisition reserves of the jointly controlled entity is shown separately under the relevant reserves in the consolidated financial statements.

¹The authority of this ASI is the same as that of the Accounting Standards to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standards to which it relates. ASI is intended to apply only to material items.