

**Accounting Standards Interpretation (ASI) 16<sup>1</sup>**  
**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issuance of this Accounting Standards Interpretation, General Clarification (GC) – 6/2002, issued in June 2002, stands withdrawn.]*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

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<sup>1</sup> Published in 'The Chartered Accountant', March 2004, pp. 958. 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.

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.