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IFRS, their Interpretations and US GAAPs – An Overview

Question 1

Write short note on some key differences between IAS, US GAAP and Indian AS with respect to

(i) Fixed Assets

(ii) Changes in Accounting Policy and Prior period items. *(4 Marks, November, 2004)*

Answer

	IAS	*US GAAPs*	*Indian AS*
(i) Fixed Assets	IAS 16 does not exclude accounting for real estate developers from its scope.	ASC 970 specifically deals with real estate in general.	AS 10 specifically excludes accounting for such real estate developers from its scope.
	As per IAS 16, each major part of PPE with a cost that is significant in relation to the total cost of the item, is treated as separate component and is depreciated separately.	As per ASC, the management determines whether to record specified categories of assets in groups and / or by its component.	AS 10, states that accounting for tangible fixed assets may be improved if total cost thereof is allocated to its various parts. Hence, AS 10 approach is purely recommendatory.

(ii) Changes in Accounting Policy and Prior period items.	IAS 8 does not permit an entity to change an accounting policy even if it is required by the statute. If an entity changes an accounting policy voluntarily, it needs to apply the change retrospectively.	ASC 250 provides that changes in accounting principle be reflected in financial statements by retrospective application to all prior periods presented unless it is impracticable to do so.	AS 5 allows change in an accounting policy in case the change is required by the Statute. This standard is silent that whether a change in accounting policy to be accounted for either retrospectively or prospectively.
	IAS 8 uses the term "Prior period errors" which covers all items in the financial statements including assets and liabilities. As per IAS 8, material prior period errors shall be corrected retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred.	"Prior period errors" covers all items in the financial statements including assets and liabilities. Correction of prior period errors (i.e. restatements) are made by restating all prior period financial statements presented.	AS 5 deals with "Prior period items" which basically cover income and expenses only. Prior period items are included in the Statement of Profit or Loss of the current period i.e. the period in which the error is discovered. Such errors are separately disclosed in the statement of profit and loss in a manner that the impact on current profit or loss can be perceived. There is no requirement of restating the comparatives of the prior periods.

Question 2

State the treatment of the following items with reference to 'Indian Accounting Standards' (AS) and International Financial Reporting Standards (IFRS):

(i) Extra ordinary items

(ii) Contingencies. *(4 Marks, November, 2008)*

Answer

Indian Accounting Standards	*International Financial Reporting Standards*
Extraordinary Items	
Events or transactions, clearly distinct from the ordinary activities of the entity, which are not expected to recur frequently and regularly, are termed as extra-ordinary items. Disclosure of the nature and amount of such item is required in the income statement to perceive the impact of current and future profits.	Not allowed.
Contingencies	
Contingent Liabilities are disclosed unless the probability of outflows is remote. Contingent gains are neither recognised nor disclosed.	Unrecognised possible losses and possible gains are disclosed.

Question 3

State the treatment of the following items with reference to Indian Accounting Standards and IFRS:

(i) Discontinued operations – definition and measurement

(ii) Acquired intangible assets. *(4 Marks, June, 2009)*

Answer

Treatment under Indian Accounting Standard and IFRS

		Indian Accounting Standards	*IFRS*
(i)	Discontinuing operation - definition and measurement	Operations and cash flows that can be clearly distinguished for financial reporting and represent major line of business or geographical area of operations are discontinued operations. Measurement of discontinued operations is based on AS 24.	Definition of discontinued operations under IFRS is similar to Indian Accounting Standards. However, it also includes a subsidiary acquired exclusively with a view to resale. Discontinued operations are measured at lower of carrying amount and fair value less cost to sell.
(ii)	Acquired intangible assets	If recognition criteria are satisfied then it can be	If recognition criteria are satisfied then it can be

		capitalized. All intangibles are amortized over useful life with rebuttable presumption of not exceeding 10 years. Revaluations are not permitted. Intangible assets acquired free of charge or for nominal consideration by way of government grant is recognised **at nominal value or at acquisition cost**, as appropriate, plus any expenditure that is attributable to making the asset ready for intended use.	capitalized. It is amortized over useful life. Intangibles assigned an indefinite useful life are not amortized but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances. When intangible assets are acquired free of charge or for nominal consideration by way of government grant an entity should record both the grant and the intangible asset **at fair value.** If an entity chooses not to recognise the asset initially at fair value, the entity may recognise the asset initially **at a nominal amount** plus any expenditure that is directly attributable to preparing the asset for its intended use.

Question 4

Assam Ltd. purchased an oil well for $ 100 million. It estimates that the well contains 250 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 10,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? *(4 Marks, November, 2010)*

Answer

As per IFRS 6 "Exploration for and Evaluation of Mineral Resources", depletion rate and depletion expense can be computed as:

Depletion rate = Current period production/Total barrels of production

= 10,000 barrels/250,000,000 barrels = 0.00004

Depletion expense for the first year = Purchase price x Depletion rate

= $100,000,000 x 0.00004

= $ 4,000.

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Corporate Financial Reporting

Question 1

(a) In order to enhance the level of disclosure by the listed companies, SEBI has amended clause 32 of the listing agreement. After amendment what disclosures are required?

(b) After the havoc caused by TSUNAMI, a group of companies undertakes during the period from January, 2005 to March, 2005 various commercial activities, having granted considerable subsidy, along the related coast line. The management intends to highlight the results of such activities while publishing financial statements for the year 2004-2005. What is the scope? (2 x 4 = 8 marks, May, 2005)

Answer

(a) After SEBI's amendment of Clause 32 of Listing Agreement, the following disclosures are required:

(i) In case the company has changed its name consequent upon the going in for a new line of business including software business during any period after 1st January, 1998, the company will disclose the turnover and income etc. from such new activities in the annual reports for a period of 3 years from the date of change of name of the company.

(ii) The company will give a cash flow statement prepared as per AS 3 presented under indirect method and will attach this cash flow statement to the balance sheet and the profit and loss account of the company.

(iii) The company shall mandatorily publish consolidated financial statements in the annual report in addition to the individual financial statement. The consolidated financial statement shall be audited by the statutory auditors and submitted to the stock exchange.

(iv) The company shall make disclosures in compliance with the accounting standard on "Related Party Disclosures" in the annual reports.

(b) Corporate social reporting is information communiqué with respect to discharge of social responsibilities of corporate entity. Through 'Corporate Social Report' the corporate enterprises disclose the manner in which they are discharging their social responsibilities. More specifically, it is addressed to the public or society at large, although it can be squarely used by other user groups also.

Section 135 of the Companies Act, 2013 mandated the companies fulfilling the criteria mentioned in the section to spend certain amount of their profit on activities as specified in the Schedule VII to the Act. Companies not falling within that criteria can also spend on CSR activities voluntarily. However, the act requires a company to constitute a CSR committee and to frame a CSR policy and get it approved by the Board for incurring on specified CSR activities. Expenditure incurred on such specified and approved CSR activities has to be reflected in an Annual Report on CSR activities which will be included in the Board of Directors' Report along with the composition of CSR committee and CSR policy details and other required details. If expenditure incurred is for the activities in the ordinary course of business, then it will not be qualified as expenditure incurred on CSR activities.

In light of the above, if the group of companies wish to highlight the results of the activities while publishing financial statements accordance with the above, they have to take care of the following points:

1. The expenditure incurred is not for the activities in the ordinary course of business.
2. Expenditure incurred on the CSR activities is as specified in the Schedule VII to the Act.

Here the 'considerable subsidy granted along the related coast line' may fall within the first activity mention in the Schedule VII i.e.

"Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water."

Question 2

One of the important factors generally considered for awarding shields and plaques in India for 'best presented accounts' is that the information presented in the accounts make useful disclosures.

What are actually looked into in this regard? *(5 Marks, May, 2008)*

Answer

In order to ascertain whether the nature and quality of information presented in the accounts make useful disclosures, the following features are generally looked into:

1. Statement of changes in financial position.
2. Sufficient details of revenues / expenses for financial analysis e.g. distinction between manufacturing cost, selling cost and administration cost.
3. Use of vertical form as against the conventional T form; judicious use of schedules, use of sub-totals, manner of showing comparative figures, ease of getting at figures.
4. To what extent additional financial information is provided to the readers through charts and graphs.

5. Financial highlights and ratios including earnings per share.
6. Inclusion of one or more bits of information like value added statement, break up of operations, organization chart, location of factories / branches, human resource accounting, inflation adjusted accounts, social accounts etc.

Question 3

What are the objectives of financial reporting? *(4 Marks, June, 2009)*

Answer

The following are the objectives of financial reporting:

(i) To provide information that is useful to present and potential investors, creditors and other users in making rational investment, credit, and similar decisions.

(ii) To provide information to help investors, creditors, and others to assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise.

(iii) To provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events and circumstances that change resources and claims to those resources.

(iv) To provide information about an enterprise's financial performance during a period.

(v) To give information about an enterprise's performance provided by measures of earnings and its components.

(vi) To provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise's resources to owners, and about other factors that may affect an enterprise's liquidity or solvency.

(vii) To provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it.

(viii) To provide information that is useful to managers and directors in making decisions in the interest of owners.

Question 4

The following balances are extracted from the books of Ram Ltd. a real estate company on 31st March, 2011:

	Dr. (₹ in '000)	*Cr. (₹ in '000)*
Lease hold premises	*42*	
Equipment, fixtures and fittings at cost on 1.4.2010	*264*	
Deprecation on equipments, fixtures and fittings on 1.4.2010		*164*

The following additional information's are also provided:

1. *Depreciation on equipment, fittings and fixtures is provided @ 15% on written down value.*
2. *On 1st October 2010, the company moved to a new premise. The premise is on a 12 year lease and the lease premium paid amounted to ₹ 42,000. The company used sub-contract labour of ₹ 40,000 and materials at cost of ₹ 38,000 in the refurbishment of the premise. These are to be considered as part of the cost of lease hold premise.*

You are required to prepare the 'Notes to accounts' including significant accounting policies forming part of the financial statements, for disclosure of above facts and information provided.

Answer

Since the implicit rate of interest is not mentioned in the question, it is assumed that value of lease premium paid along with the refurbishment cost is the fair value of the leased asset. Accordingly, question has been solved assuming the lease as finance lease.

Notes on Accounts for the year ended 31st March, 2011:

The cost of leasehold premises includes the cost of refurbishment to the extent of ₹ 78,000 (Materials ₹ 38,000 + Labour ₹ 40,000).

Working Notes:

(a)	Fixed Assets :		*(₹ in 000)*
	Equipment, fixtures & fittings	264	
	* Lease hold premises (42+40+38)	120	
		384	
(b)	Depreciation		
	Equipment, fixtures & fittings as on 1.4.2010	164	
	For the year 2010-11	15	179
	* Cost of leasehold premises written off [(42+40+38) x 1/12 x ½]		5
			184

Significant Accounting Policies

1. Depreciation has been charged on equipment, fixtures & fittings on the basis of written down value method year after year. Equipment fixtures & fittings are shown at cost in the Balance Sheet & depreciation accumulated thereon is shown on the liability side of the balance sheet.

2 According to AS 19 'Leases', the lease has been classified as finance lease assuming that lessor has transferred substantially all the risks and rewards incident to ownership to Ram Ltd. At the inception of lease, asset under finance lease is capitalized in the books

of the lessee with the corresponding liability wherein lease payments are recognized as an expense in the profit and loss account on a systematic basis (i.e straight line) over the lease term.

Question 5

H Ltd. engaged in the business of manufacturing lotus wine. The process of manufacturing this wine takes around 18 months. Due to this reason H Ltd. has prepared its financial statements considering its operating cycle as 18 months and accordingly classified the raw material purchased and held in stock for less than 18 months as current asset. Comment on the accuracy of the decision and the treatment of asset by H Ltd. as per revised Schedule VI.*

(4 Marks, November, 2012)

Answer

Note: Schedule III to the Companies Act, 2013 has been notified in April, 2014, which replaces revised Schedule VI to the Companies Act, 1956. Since Schedule III is applicable to students, the answer to the question is given in reference to Schedule III to the Companies Act, 2013 and not as per revised Schedule VI to the Companies Act, 1956.

As per Schedule III to the Companies Act, 2013, one of the criteria for classification of an asset as a current asset is that the asset is expected to be realised in the company's operating cycle or is intended for sale or consumption in the company's normal operating cycle.

Further, Schedule III defines that an operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. However, when the normal operating cycle cannot be identified, it is assumed to have duration of 12 months.

As per the facts given in the question, the process of manufacturing of lotus wine takes around 18 months; therefore, its realisation into cash and cash equivalents will be done only when it is ready for sale i.e. after 18 months. This means that normal operating cycle of the product is 18 months. Therefore, the contention of the company's management that the operating cycle of the product lotus wine is 18 months and not 12 months is correct. H. Ltd. will classify the raw material purchased and held in stock as current asset in its Balance Sheet.

* Now Schedule III to the Companies Act, 2013.