

# **Glossary of Terms used in Financial Statements**



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

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## Foreword

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The 'Glossary of the Terms used in Financial Statements' provides the necessary guidance to the preparers as well as users of the financial statements regarding various terms used in financial statements and the objective of this publication is to facilitate a broad and basic understanding of the various terms used as well as to promote consistency and uniformity in their usage.

The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. In the present day era, the financial statements are the effective way of communication for entities to disseminate information to the various stakeholders and users therefore the terms should be used in the financial statements consistently and uniformly to the extent possible so that they are understood by the users in the same sense in which they are used by the preparers.

I would like to compliment CA. Babu Abraham Kallivayalil, Chairman, Research Committee, CA. Satish Kumar Gupta, Vice-Chairman and other members of the Research Committee for their efforts and bringing this publication.

I am confident that this Glossary will be immensely useful to the members and also to others users of financial statements.

New Delhi  
June 28, 2019

CA. Prafulla P. Chhajer  
President



## Preface

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Financial statements are formal records that convey the business activities, position of business and the financial performance of a Company. Financial statements of a Company perform several important functions. Firstly, they reflect the true state of affairs of the company. They also help in understanding important financial information. From shareholders and investors to government and creditors, many stakeholders rely on them. The objective of financial statements is to provide information about the financial position, financial performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

It is therefore important that efforts are made to make the financial statements as effective means of communication as possible. This requires, inter alia, that the terms used in financial statements should be consistently and uniformly followed. The present 'Guidance Note on Terms used in Financial Statements', clarifies these terms with a view to facilitate their broad and basic understanding as well as to promote consistency and uniformity in their usage. The Glossary does not purport to be a rigid dictionary of accounting nor has any attempt been made to describe the accounting methods and procedures. The definitions covered in this glossary are taken from Accounting Standards as on April 1, 2019 (Appendix A) and the Companies Act, 2013.

I would like to thank all members of the Research Committee especially Vice-Chairman, CA. Satish Kumar Gupta. I also compliment CA. Vidhyadhar Kulkarni, Technical Consultant, CA. Ashok Kapoor, Secretary, Research Committee and CA. Amit Agarwal, Sr. Executive Officer for their invaluable contribution in preparation of the Glossary.

I am confident that this Glossary of the Terms used in Financial Statements will be immensely useful not only to the members but also to all concerned with the Financial Statements.

New Delhi  
June 25, 2019

CA. Babu Abraham Kallivayalil  
Chairman, Research Committee



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# **Glossary of Terms used in Financial Statements**

## **Introduction**

1. The objective of this glossary is to facilitate a broad and basic understanding of the various terms as well as to promote consistency and uniformity in their usage. As such it does not purport to provide a comprehensive or rigid dictionary.
2. The basic considerations to be borne in mind when selecting terms for use in the financial statements are clarity, significance and consistency.
3. The definitions covered in this glossary are in the context of Accounting Standards applicable for non Ind AS entities. Accordingly, the Glossary contains terms defined in Companies (Accounting Standards) Rules 2006 notified under the Companies Act. It may also be noted that there are difference in definition of certain terms in the Accounting Standards and the Companies Act, 2013.
4. The Glossary is structured into following two parts:
  - a) General Definitions
  - b) Definitions as per Accounting Standards & Companies Act 2013
5. This glossary does not primarily cover the terms used in a specific sense by certain specialised institutions, e.g., banks, insurance companies, financial institutions or electricity companies. However, it is possible that some of the terms defined here may have common application for such institutions.
6. The terms have been defined in this note, keeping in view their usage in the preparation and presentation of the financial statements. Some of these terms may have different meanings when used in the context of certain special enactments.
7. The definitions of the terms in this guidance note do not spell out the accounting procedure and are not prescriptive of a course of action.

## **Glossary of Terms used in Financial Statements**

### **Part I- GENERAL DEFINITIONS**

#### **1 Absorption Costing**

A method whereby the cost is determined so as to include the appropriate share of both variable and fixed costs.

#### **2. Acceptance**

The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.

#### **3. Account Receivable**

See Sundry Debtor

#### **4. Accumulated Depletion**

The total to date of the periodic depletion charges on wasting assets.

#### **5. Accumulated Depreciation**

The total to date of the periodic depreciation charges on depreciable assets.

#### **6 Actual Cost**

See Cost

#### **7. Ad-valorem**

A method of levying tax or duty on goods by using their assessable value as the tax base.

#### **8. Added Value**

See Value Added

#### **9. Added Value Statement**

See Value Added Statement

#### **10. Amortisable Amount**

See Amortisation.

#### **11. Amortised Value**

The amortisable amount less any portion already provided by way of amortisation.

#### **12. Annual Report**

The information provided annually by the management of an enterprise to the owners and other interested persons concerning its operations and financial

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position. It includes the information statutorily required, e.g., in the case of a company, the balance sheet, profit and loss statement and notes on accounts, the auditor's report thereon, and the report of the Board of Directors. It also includes other information voluntarily provided e.g., value added statement, graphs, charts, etc.

### **13. P&L Appropriation Account**

An account sometimes included as a separate section of the profit and loss statement showing application of profits towards dividends, reserves, etc.

### **14. Auditor's Report**

The formal expression of opinion by an independent external auditor on the financial statements of an enterprise including such reservations, qualifications and negations as may be called for and incorporating, where appropriate, such statutory affirmations as may be prescribed.

### **15. Average Cost**

The cost of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as weighted average cost.

### **16. Bad Debts**

Debts owed to an enterprise which are considered to be irrecoverable.

### **17. Balance Sheet**

A statement of the financial position of an enterprise as at a given date, which exhibits its assets, liabilities, capital, reserves and other account balances at their respective carrying amount.

### **18. Bill of Exchange**

An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.

### **19. Bond**

See Debenture

### **20. Bonus Shares**

Shares allotted by capitalisation of the reserves or surplus of a corporate enterprise.

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### **21. Book Value**

The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g., cost, replacement value, etc.

### **22. Call**

A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or debentures after allotment.

### **23 Cash basis of Accounting**

The method of recording transactions by which revenues and costs and assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made.

### **24. Capital Assets**

Assets, including investments not held for sale, conversion or consumption in the ordinary course of business.

### **25. Capital Commitment**

Future liability for capital expenditure in respect of which contracts have been made.

### **26 Capital Employed**

The finances deployed by an enterprise in its net fixed assets, investments and working capital. Capital employed in an operation may, however, exclude investments made outside that operation.

### **27. Capital Loss**

See Capital Profit

### **28. Capital Profit**

Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a capital asset over its cost. When the result of this computation is negative, it is referred to as capital loss.

### **29. Capital Redemption Reserve**

A reserve created on redemption of the redeemable preference shares of a corporate enterprise out of its profits which would otherwise have been available for distribution as dividend.

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### **30. Capital Reserve**

A reserve of a corporate enterprise which is not available for distribution as dividend.

### **31. Capital Work-in-progress**

Expenditure on capital assets which are in the process of construction or completion.

### **32. Cash Discount**

A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.

### **33. Cash Profit**

The net profit as increased by non-cash costs, such as depreciation, amortisation, etc. When the result of the computation is negative, it is termed as cash loss.

### **34. Changes in Financial Position, Statement of**

A financial statement which summarises, for the period covered by it, the changes in the financial position including the sources from which funds were obtained by the enterprise and the specific uses to which such funds were applied. This is also called the funds flow statement or include cash flow statement.

### **35. Cheque**

A bill of exchange drawn upon a specified banker and not expressed to be payable otherwise than on demand.

### **36. Cost of Purchase**

The purchase price including duties and taxes, freight inwards and other expenditure directly attributable to acquisition, less trade discounts, rebates, duty drawbacks, and subsidies in respect of such purchase.

### **37. Collateral Security**

Security which is given in addition to the principal security against the same liability or obligation.

### **38. Contra Account**

One or two or more accounts which partially or wholly off-set another or other accounts.

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### **39. Cost of Goods Sold**

The cost of goods sold during an accounting period. In manufacturing operations, it includes (i) cost of materials; (ii) labour and factory overheads; selling and administrative expenses are normally excluded.

### **40. Cost of Sales**

Cost of goods sold plus selling and administrative expenses.

### **41. Convertible Bond**

See Convertible Debenture

### **42. Convertible Debenture**

A debenture which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.

### **43. Creditor**

See Sundry Creditor

### **44. Current cost**

Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset were acquired currently. Liabilities are carried at the Undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

### **45. Cumulative Dividend**

A dividend payable on cumulative preference shares which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders.

### **46. Cumulative Preference Shares**

A class of preference shares entitled to payment of cumulative dividends. Preference shares are always deemed to be cumulative, unless they are expressly made non-cumulative.

### **47. Debenture Redemption Reserve**

A reserve created for the redemption of debentures at a future date.

### **48. Debtor**

See Sundry Debtor

## **Glossary of Terms used in Financial Statements**

### **49. Deferral**

Postponement of recognition of a revenue or expense after its related receipt or payment (or incurrance of a liability) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by newspapers and magazine selling companies, etc.

### **50 Deferred Expenditure**

Expenditure for which payment has been made or a liability incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods. This is also referred to as deferred revenue expenditure.

### **51 Deferred Revenue**

Revenue or income received or recorded before it is earned and carried forward to a subsequent period or periods to which it relates.

### **52 Deferred Revenue Expenditure**

See Deferred Expenditure

### **53 Deficiency**

The excess of liabilities over assets of an enterprise at a given date. The debit balance in the profit and loss statement.

### **54 Deficit**

The debit balance in the profit and loss statement.

### **55 Depletion**

A measure of exhaustion of a wasting asset represented by periodic write off of cost or other substituted value.

### **56 Depreciable Asset**

Asset which is expected to be used during more than one accounting period, has a limited useful life, and is held by an enterprise for use in the production or supply of goods, and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

### **57 Depreciation Rate**

A percentage applied to the historical cost or the substituted amount of a depreciable asset (or in case of diminishing balance method, the historical cost or the substituted amount less accumulated depreciation).

## **Glossary of Terms used in Financial Statements**

### **58 Development Allowance Reserve**

A reserve created in compliance with one of the conditions for claiming development allowance under the Income-tax Act, 1961.

### **59 Development Rebate Reserve**

A reserve created in compliance with one of the conditions for claiming development rebate under the Income-tax Act, 1961.

### **60. Diminishing Balance Method**

A method under which the periodic charge for depreciation of an asset is computed by applying a fixed percentage to its historical cost or substituted amount less accumulated depreciation (net book value). This is also referred to as written down value method.

### **61. Direct Cost**

An item of cost that can be reasonably identified with a specific unit of product or with a specific operation or other cost center.

### **62. Direct Costing**

A method whereby the cost is determined so as to include the appropriate share of variable costs only, all fixed costs being charged against revenue in the period in which they are incurred.

### **63 Discount**

A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.

### **64 Dividend Equalisation Reserve**

A reserve created to maintain the rate of dividend in future years.

### **65 Earnings Per Share**

The earnings in monetary terms attributable to each equity share, based on the net profit for the period, before taking into account prior period items, extraordinary items and adjustments resulting from changes in accounting policies but after deducting tax appropriate thereto and preference dividends, divided by the number of equity shares issued and ranking for dividend in respect of that period.

### **66 Entity Concept**

The view of the relationship between the accounting entity and its owners

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which regards the entity as a separate person, distinct and apart from its owners.

### **67 Expenditure**

Incurring a liability, disbursement of cash or transfer of property for the purpose of obtaining assets, goods or services.

### **68 Expired Cost**

That portion of an expenditure from which no further benefit is expected. Also termed as expense.

### **69 Fair Market Value**

The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and not under any compulsion to transact. Arm's length is a term applied to any transaction on the assumption that the parties to the transaction would act without being influenced by each other or by any other person.

### **70 Fixed Asset**

See definition of Property, Plant and Equipment in other definitions as per Accounting Standards.

### **71 Fictitious Assets**

Item grouped under assets in a balance sheet which has no real value (e.g. the debit balance of the profit and loss statement).

### **72 First Charge**

A charge having priority over other charges.

### **73 First In, First Out (FIFO)**

Computation of the cost of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.

### **74 Fixed Cost**

That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.

### **75 Fixed Deposit**

Deposit for a specified period and at specified rate of interest.

### **76 Fixed or Specific Charge**

A charge which attaches to a particular asset which is identified when the

## **Glossary of Terms used in Financial Statements**

charge is created, and the identity of the asset does not change during the subsistence of the charge.

### **77 Floating Charge**

A general charge on some or all assets of an enterprise which are not attached to specific assets and are given as security against a debt.

### **78 Foreign Currency Translation**

The process of expressing amounts stated in a foreign currency into equivalent amounts in reporting currency by using an exchange rate between the two currencies.

### **79 Foreign Currency Conversions**

The process of expressing amounts stated in a foreign currency into equivalent amounts in local currency by using the exchange rate at which the foreign currency is bought or sold.

### **80 Forfeited Share**

A share to which title is lost by a member for non-payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.

### **81 Functional Classifications**

A system of classification of expenses and revenues and the corresponding assets and liabilities to each function or activity, rather than by reference to their nature.

### **82 Funds Flow Statement**

See Changes in Financial Position, Statement of...

### **83 General Reserve**

A revenue reserve which is not earmarked for a specific purpose.

### **84 Gross Margin or Gross Profit**

The excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as gross loss.

### **85 Gross Sales**

See Sales Turnover

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### **86 Gross Turnover**

See Sales Turnover

### **87 Income and Expenditure Statement**

A financial statement, often prepared by non-profit making enterprises like clubs, associations etc. to present their revenues and expenses for an accounting period and to show the excess of revenues over expenses (or vice versa) for that period. It is similar to profit and loss statement and is also called revenue and expense statement.

### **88 Investment**

Expenditure on assets held to earn interest, income, profit or other benefits.

### **89 Investment Allowance Reserve**

A reserve created in compliance with one of the conditions for claiming investment allowance under the Income-tax Act, 1961.

### **90 Last In, First Out (LIFO)**

Computation of the cost of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.

### **91 Lien**

Right of one person to satisfy a claim against another by holding or retaining possession of that other's assets/property.

### **92 Loss**

See Profit

### **93 Mercantile Basis of Accounting**

See Accrual Basis of Accounting

### **94 Mortgage**

A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability. The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.

### **95 Net Assets**

The excess of the book value of assets (other than fictitious assets) of an

## **Glossary of Terms used in Financial Statements**

enterprise over its liabilities. This is also referred to as net worth or shareholders' funds.

### **96 Net Fixed Assets**

Fixed assets less accumulated depreciation thereon up-to-date.

### **97 Net Loss**

See Net Profit

### **98 Net Sales**

See Sales Turnover

### **99 Net Turnover**

See Sales Turnover

### **100 Obsolescence**

Diminution in the value of an asset by reason of its becoming out-of-date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, or legal or other restrictions.

### **101 Operating Profit**

The net profit arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.

### **102 Pari Passu Charge**

Charge created by an enterprise on its assets in favour of more than one person on the condition that each such person has equal rights of realisation out of the assets as the other(s).

### **103 Pledge**

Deposit of goods by one person (pledgor or pawnor) to another person (pledgee or pawnee) as a security for payment of a debt or performance of a promise. The pledgee has a special lien/right on the property in the pledged goods with a right to sell the same after notice if the pledgor fails to discharge the debt or perform his promise on the stipulated date.

### **104 Preferential Payment**

Payment which in a winding up or insolvency has to be made in priority to all other debts as per statute.

## **Glossary of Terms used in Financial Statements**

### **105 Preliminary Expenses**

Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.

### **106 Pre-paid Expense**

Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).

### **107 Prime Cost**

The total cost of direct materials, direct wages and other direct production expenses. Also referred as Direct Cost.

### **108 Profit and Loss Statement**

A financial statement which presents the revenues and expenses of an enterprise for an accounting period and shows the excess of revenues over expenses (or vice versa). It is also known as profit and loss account.

### **109 Promissory Note**

An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

### **110 Propriety Concept**

A concept of evaluating performance or specific transactions of an enterprise with reference to the tests of commonly accepted norms, customs and standards of conduct including those based on considerations of public interest.

### **111 Provision for Doubtful Debts**

A provision made for debts considered doubtful of recovery.

### **112 Public Deposits**

Fixed deposits accepted by an enterprise from the public in accordance with the prevailing Rules made in this behalf.

### **113 Redeemable Preference Share**

The preference share that is repayable either after a fixed or determinable period or at any time decided by the management (by giving due notice),

## **Glossary of Terms used in Financial Statements**

under certain conditions prescribed by the instrument of incorporation or the terms of issue.

### **114 Redemption**

Repayment as per given terms normally used in connection with preference shares and debentures.

### **115 Reduction of Capital**

The extinguishment or reduction of shareholders' liability on any of the shares of a corporate enterprise in respect of the share capital not fully paid up or the cancellation of paid-up share capital of a company which is not represented by available assets. It also refers to the return of any paid-up share capital in excess of requirements.

### **116 Revaluation Surplus**

An increase in the carrying amount of an asset arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus.

### **117 Revenue and Expense Statement**

See Income and Expenditure Statement

### **118 Revenue Reserve**

Any reserve other than a capital reserve.

### **119 Right Shares**

An allotment of shares on the issue of fresh capital by a corporate enterprise to which a shareholder is entitled on payment, by virtue of his holding certain shares in the enterprise in proportion to the number of shares already held by him. (Shares allotted to certain categories of debenture holders pursuant to the rights enjoyed by them are sometimes called right shares).

### **120 Sales Turnover**

The aggregate amount for which sales are effected or services rendered by an enterprise. The terms gross turnover and net turnover (or gross sales and net sales) are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts.

### **121 Secured Loan**

Loan secured wholly or partly against an asset.

## **Glossary of Terms used in Financial Statements**

### **122 Self-Insurance**

The assumption by an enterprise of a risk which is not covered by an external insurance agency and for which internal allocations or provisions have been made.

### **123 Share Capital**

Aggregate amount of money paid or credited as paid on the shares and/or stocks of a corporate enterprise.

### **124 Share Discount**

The excess of the face value of shares over their issue price.

### **125 Shareholders' Equity**

The interest of the shareholders in the net assets of a corporate enterprise. However, in the case of liquidation it is represented by the residual assets after meeting prior claims.

### **126 Shareholders' Funds**

See Net Assets

### **127 Share Issue Expenses**

Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.

### **128 Share Premium**

The excess of the issue price of shares over their face value.

### **129 Short-term Liability**

A liability which is less than twelve months.

### **130 Sinking Fund**

A fund created for the repayment of a liability or for the replacement of an asset.

### **131 Social Cost Benefit Analysis**

The identification, measurement and reporting of social costs and benefits related to a project or an enterprise.

## **Glossary of Terms used in Financial Statements**

### **132 Social Benefit**

The benefits or income to society resulting from operations of an enterprise in its particular circumstances. Such benefits are often not readily measurable in monetary terms.

### **133 Social Cost**

The cost or the loss to society resulting from the operations of an enterprise in its particular circumstances. Such costs are often not readily measurable in monetary terms. This term is also used in a specific sense to denote the costs incurred by an enterprise in providing social amenities.

### **134 Standard Cost**

A pre-determined cost of an activity, operation, process or product, established as a basis for control and reporting.

### **135 Straight Line Method**

The method under which the periodic charge for depreciation is computed by dividing the depreciable amount of a depreciable asset by the estimated number of years of its useful life.

### **136 Test Check**

Examination of representative items selected from an account or record for the purpose of arriving at an opinion on the entire account or record.

### **137 Trade Discount**

A reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

### **138 Transfer Price**

The price charged (or value assigned) to a product or service which is transferred within an enterprise from one segment/division to another.

### **139 Unclaimed Dividend**

Dividend which has been declared by a corporate enterprise and a warrant or a cheque in respect whereof has been despatched but has not been encashed by the shareholder concerned.

### **140 Unexpired Cost**

That portion of an expenditure whose benefit has not yet been exhausted.

## **Glossary of Terms used in Financial Statements**

### **141 Unissued Share Capital**

That portion of the authorised share capital for which shares have not been offered for subscription.

### **142 Unpaid Dividend**

Dividend which has been declared by a corporate enterprise but has not been paid, or the warrant or cheque in respect whereof has not been despatched within the prescribed period.

### **143 Value Added**

The increase in value of a product or service resulting from an alteration in the form, location or availability excluding the cost of bought-out materials or services. This is also referred to as added value.

### **144 Value Added Statement**

A statement of the value added that an enterprise has been able to generate and its distribution among those contributing to its generation. This is also referred to as added value statement.

### **145 Variable Cost**

That cost which varies directly, or nearly directly, with the volume of activity.

### **146 Wasting Asset**

Natural resource which is subject to depletion through the process of extraction or use e.g. mines, quarries.

### **147 Weighted Average Cost**

See Average Cost

### **148 Working Capital**

The funds available for conducting day-to-day operations of an enterprise. Also represented by the excess of current assets over current liabilities including short-term loans.

### **149 Work in Process**

Work in Process includes all materials which have undergone manufacturing or processing operations, but upon which further operations are necessary before the product is ready for sale.

### **150 Written Down Value Method (W.D.V.)**

See Diminishing Balance Method

## **Glossary of Terms used in Financial Statements**

### **Part II- Definitions as per Accounting Standards & Companies Act 2013**

#### **1. Accounting Policies**

*Source: AS 1 Para 11 & AS 5 Para 4.4*

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

#### **2. Accounting income (loss)**

*Source: AS 22 Para 4.1*

Accounting income (loss) is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income tax expense or adding income tax saving.

#### **3. Accounting Standards**

*Source: Companies Act 2013 Section 2 (2)*

“accounting standards” means the standards of accounting or any addendum thereto for companies or class of companies referred to in section 133;

#### **4. Accrual basis of Accounting**

*Source: Framework<sup>1</sup> Para 22*

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past events involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

#### **5. Actuarial gains and losses comprise:**

*Source: AS 15 Para 7.19*

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<sup>1</sup> Framework for the Preparation and Presentation of Financial Statements issued by ICAI

## **Glossary of Terms used in Financial Statements**

- (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.

### **6. Active Market**

*Source: AS 26 Para 6.12*

An active market is a market where 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
- (c) prices are available to the public.

### **7. Advance**

*Source: AS 7 Para 40*

Advances are amounts received by the contractor before the related work is performed.

### **8 Agricultural activity**

*Source: AS 10 Para 6*

Agricultural Activity is the management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

### **9 Agricultural Produce**

*Source: AS 10 Para 6*

Agricultural Produce is the harvested product of biological assets of the enterprise.

### **10. Amortisation**

*Source: AS 26 Para 6.7 & AS 28 Para 4.7*

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

### **11. Amalgamation**

*Source: AS 14 Para 3(a)*

Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.

## **Glossary of Terms used in Financial Statements**

### **12. Amalgamation in the nature of merger**

*Source: AS 14 Para 3(e)*

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

### **13 Amalgamation in the nature of purchase**

*Source: AS 14 Para 3(f)*

Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified in sub-paragraph (e) of AS 14.

### **14. Assets**

*Source: Announcement of Council Para 4 & Framework Para 49 (a)*

“An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

## **Glossary of Terms used in Financial Statements**

### **15 Associate**

*Source: AS 18 Para 10.5*

An Associate - an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party.

### **16 Associate Company**

*Source: Companies Act 2013 Section 2 (6)*

“Associate Company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

### **17 Assets held by a long-term employee benefit fund**

*Source: AS 15 Para 7.15*

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:

- (a) are held by an entity (a fund) that is legally separate from the reporting enterprise 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 enterprise’s own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, 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 enterprise; or
  - (ii) the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

### **18 Auditing Standards**

*Source: Companies Act 2013 Section 2 (7)*

“auditing standards” means the standards of auditing or any addendum thereto for companies or class of companies referred to in sub-section (10) of section 143;

## **Glossary of Terms used in Financial Statements**

### **19. Authorised Share Capital**

*Source: Companies Act 2013 Section 2 (8)*

“authorised capital” or “nominal capital” means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company;

### **20 Average Rate**

*Source: AS 11 Para 7.1*

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

### **21 Banking Company**

*Source: Companies Act 2013 Section 2 (9)*

“banking company” means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;

### **22 Books of account**

*Source: Companies Act 2013 Section 2 (13)*

“books of account” includes records maintained in respect of—

- (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) all sales and purchases of goods and services by the company;
- (iii) the assets and liabilities of the company; and
- (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

### **23 Bearer Plant**

*Source: AS 10 Para 6*

Bearer plant is a plant that

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than a period of twelve months; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

## **Glossary of Terms used in Financial Statements**

### **24 Body Corporate**

*Source: Companies Act 2013 Section 2 (11)*

“body corporate” or “corporation” includes a company incorporated outside India, but does not include—

- (i) a co-operative society registered under any law relating to co-operative societies; and
- (ii) any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification, specify in this behalf;

### **25 Borrowing costs**

*Source: AS 16 Para 3.1*

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

### **26 Biological Asset**

*Source: AS 10 Para 134*

Biological Asset is a living animal or plant.

### **27 Book and paper/Book or paper**

*Source: Companies Act 2013 Section 2 (12)*

“book and paper” and “book or paper” include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.

### **28 Business Segment**

*Source: AS 17 Para 5.1*

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

### **29 Cash**

*Source: AS 3 Para 5.1*

Cash comprises cash on hand and demand deposits with Banks.

### **30 Carrying Amount**

*Source: AS 10 Para 134*

## **Glossary of Terms used in Financial Statements**

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

### **31 Cash Equivalents**

*Source: AS 3 Para 5.2*

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

### **32 Cash Flows**

*Source: AS 3 Para 5.3*

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

### **33. Called-up Share Capital**

*Source: Companies Act 2013 Section 2 (15)*

“called-up capital” means such part of the capital, which has been called for payment;

### **34. Capital**

*Source: Framework Para 101*

Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the enterprise. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the enterprise based on, for example, units of output per day.

### **35. Charge**

*Source: Companies Act 2013 Section 2 (16)*

“charge” means an interest or lien created on the property or assets of a company or any of its undertakings or both as security and includes a mortgage.

### **36 Company**

*Source: Companies Act 2013 Section 2 (20)*

“company” means a company incorporated under this Act or under any previous company law;

## **Glossary of Terms used in Financial Statements**

### **37 Consideration**

*Source: AS 14 Para 3 (g)*

Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

### **38 Completed Service Contract Method**

*Source: AS 9 Para 4.2*

Completed service contract method is a method of accounting which recognises revenue in the statement of profit and loss only when the rendering of services under a contract is completed or substantially completed.

### **39 Contributory**

*Source: Companies Act 2013 Section 2 (26)*

“contributory” means a person liable to contribute towards the assets of the company in the event of its being wound up.

### **40. Contingency**

*Source: AS 4 Para 3.1*

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

### **41 Contingent Assets**

*Source: AS 29 Para 10.5*

A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

### **42. Contingent Liability**

*Source: AS 29 Para 10.4*

A possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

## **Glossary of Terms used in Financial Statements**

A present obligation that arises from past events but is not recognised because:

(i) *it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation;*

*or*

(ii) *a reliable estimate of the amount of the obligation cannot be made.*

### **43 Construction Contract**

*Source: AS 7 Para 2.1*

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

### **44. Cost**

*Source: Framework Para 99*

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements.

*Source: AS 10 Para 6*

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Accounting Standards.

### **45 Cost plus contract**

*Source: AS 7 Para 2.3*

A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus percentage of these costs or a fixed fee.

### **46 Control**

*Source: Companies Act 2013 Section 2 (27)*

“control” shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or

## **Glossary of Terms used in Financial Statements**

persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;

### **47. Conversion Cost**

*Source: AS 2 Para 8*

The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

### **48 Cost of Property, Plant and Equipment**

*Source: AS 10 Para 17*

The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

### **49 Cost of Inventories**

*Source: AS 2 Para 6*

The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

## **Glossary of Terms used in Financial Statements**

### **50 Costs of disposal**

*Source: AS 28 Para 4.4*

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

### **51 Closing Rate**

*Source: AS 11 Para 7.2*

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

### **52 Current service cost**

*Source: AS 15 Para 7.12*

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

### **53 Current Investment**

*Source: AS 13 Para 3.2*

A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made.

### **54. Current Assets**

*Source: Schedule III Division I Part I Para 1*

An asset shall be classified as current when it satisfies any of the following criteria:—

- (a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the reporting date; or
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

### **55. Current Liability**

*Source: Schedule III Division I Part I Para 3*

A liability shall be classified as current when it satisfies any of the following

## Glossary of Terms used in Financial Statements

criteria:—

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

### 56 Contingent rent

*Source: AS 19 Para 3.19*

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

### 57 Consolidated financial statements

*Source: AS 21 Para 5.5*

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

### 58 Corporate assets

*Source: AS 28 Para 4.11*

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash generating unit under review and other cash generating units.

### 59 Current tax

*Source: AS 22 Para 4.4*

Current tax is the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.

### 60 Document

*Source: Companies Act 2013 Section 2 (36)*

“document” includes summons, notice, requisition, order, declaration, form and register, whether issued, sent or kept in pursuance of this Act or under

## **Glossary of Terms used in Financial Statements**

any other law for the time being in force or otherwise, maintained on paper or in electronic form;

### **61 Deposit**

*Source: Companies Act 2013 Section 2 (31)*

“deposit” includes any receipt of money by way of deposit or loan or in any other form by a company, but does not include such categories of amount as may be prescribed in consultation with the Reserve Bank of India;

### **62 Defined contribution plans**

*Source: AS 15 Para 7.5*

Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no 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.

### **63 Defined benefit plans**

*Source: AS 15 Para 7.6*

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

### **64 Deferred tax**

*Source: AS 22 Para 4.5*

Deferred tax is the tax effect of timing differences.

### **65. Debenture**

*Source: Companies Act 2013 Section 2 (30)*

“debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not;

### **66 Derivative**

*Source: Announcement of the Council Para XXX (1)*

A ‘derivative’ is a financial instrument or other contract with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange

## Glossary of Terms used in Financial Statements

rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- (c) it is settled at a future date.

*Source: Companies Act 2013 Section 2 (33)*

“derivative” means the derivative as defined in clause (ac) of section 2 of the Securities Contracts (Regulation) Act, 1956;

### 67 Depreciable Amount

*Source: AS 10 Para 6*

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

*Source: AS 26 Para 6.8*

Depreciable amount is the cost of an asset less its residual value.

*Source: AS 28 Para 4.8*

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

*Source: Companies Act 2013 Schedule II (1)*

The depreciable amount of an asset is the cost of an asset or other amount substituted for cost, less its residual value.

### 68 Depreciation

*Source: AS 10 Para 6 & AS 28 Para 4.7 & Companies Act 2013 Schedule II (1)*

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

### 69 Depreciation Method

*Source: AS 10 Para 62 & 63*

## **Glossary of Terms used in Financial Statements**

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

### **70 Dividend**

*Source: Companies Act 2013 Section 2 (35)*

“dividend” includes any interim dividend;

### **71 Discontinuing operation**

*Source: AS 24 Para 3*

A discontinuing operation is a component of an enterprise:

- (a) that the enterprise, pursuant to a single plan, is:
  - (i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
  - (ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
  - (iii) terminating through abandonment; and
- (b) that represents a separate major line of business or geographical area of operations; and
- (c) that can be distinguished operationally and for financial reporting purposes.

### **72 Economic life**

*Source: AS 19 Para 3.9*

Economic life is either:

- (a) the period over which an asset is expected to be economically usable by one or more users; or

## Glossary of Terms used in Financial Statements

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

### 73 Enterprise Revenue

*Source: AS 17 Para 5.4*

Enterprise revenue is revenue from sales to external customers as reported in the statement of profit and loss.

### 74 Employee Stock Options

*Source: Companies Act 2013 Section 2 (37)*

“employees’ stock option” means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers or employees, the benefit or right to purchase, or to subscribe for, the shares of the company at a future date at a pre-determined price;

### 75 Employee benefits

*Source: AS 15 Para 7.1*

Employee benefits include benefits provided to either employees or their spouses, children or other dependants and may be settled by payments (or the provision of goods or services) made either:

- (a) directly to the employees, to their spouses, children or other dependants, or to their legal heirs or nominees; or
- (b) to others, such as trusts, insurance companies.

### 76 Enterprise-Specific value

*Source: AS 10 Para 6*

Enterprise-specific value is the present value of the cash flows an enterprise expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

### 77 Equity

*Source: AS 21 Para 5.6*

Equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

### 78 Equity method

*Source: AS 23 Para 3.8*

## **Glossary of Terms used in Financial Statements**

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.

### **79 Equity Share**

*Source: AS 20 Para 4.1*

An equity share is a share other than a preference share.

### **80 Events occurring after the balance sheet date**

*Source: AS 4 Para 3.2*

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

### **81 Executory contracts**

*Source: AS 29 Para 3*

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

### **82 Exchange Difference**

*Source: AS 11 Para 7.3*

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

### **83 Exchange rate**

*Source: AS 11 Para 7.4*

Exchange rate is the ratio for exchange of two currencies.

### **84 Expense**

*Source: Framework Para 69*

## **Glossary of Terms used in Financial Statements**

*Expenses* are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

### **85 Extraordinary Item**

*Source: AS 5 Para 4.2*

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

### **86 Development**

*Source: AS 26 Para 6.6*

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

### **87 Fair Value**

*Source: AS 10 Para 6 & AS 11 Para 7.5*

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

### **88 Fellow subsidiary**

*Source: AS 18 Para 10.12*

Fellow subsidiary - a company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

### **89 Financial Statement**

*Source: Companies Act 2013 Section 2 (40)*

"financial statement" in relation to a company, includes —

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;

## **Glossary of Terms used in Financial Statements**

- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

### **90 Financing Activities**

*Source: AS 3 Para 5.6*

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

### **91 Financial Instrument**

*Source: AS 20 Para 4.3*

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity shares of another enterprise.

### **92 Finance Lease**

*Source: AS 19 Para 3.2*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

### **93 Fixed Price Contract**

*Source: AS 7 Para 2.2*

A fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

### **94 Foreign Currency**

*Source: AS 11 Para 7.6*

Foreign currency is a currency other than the reporting currency of an enterprise.

### **95 Foreign Operation**

*Source: AS 11 Para 7.7*

Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.

## Glossary of Terms used in Financial Statements

### 96 Forward Exchange Contract

*Source: AS 11 Para 7.8*

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

### 97 Forward Rate

*Source: AS 11 Para 7.9*

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

### 98 Financial Year

*Source: Companies Act 2013 Section 2 (41)*

“financial year”, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up:

### 99 Free Reserve

*Source: Companies Act 2013 Section 2 (43)*

“free reserves” means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that—

- (i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
- (ii) any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves;

### 100 Fund

*Source: Companies Act 2013 Schedule III Division I Part I*

A reserve specifically represented by earmarked investments shall be termed as a “fund”.

## **Glossary of Terms used in Financial Statements**

### **101 Fundamental Accounting Assumptions**

*Source: AS 1 Para 9 & 10*

Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

The following have been generally accepted as fundamental accounting assumptions:—

#### *a. Going Concern*

The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

#### *b. Consistency*

It is assumed that accounting policies are consistent from one period to another.

### **102 Gain**

*Source: Framework Para 74*

Gains represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an enterprise. Gains represent increases in economic benefits and as such are no different in nature from revenue.

### **103 General Purpose Financial Statements**

*Source: Framework Para 3.4*

The term 'General Purpose Financial Statements' includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. References to financial statements in this Preface and in the standards issued from time to time will be construed to refer to General Purpose Financial Statements.

## **Glossary of Terms used in Financial Statements**

### **104 Going concern assumption**

*Source: Framework Para 23 & AS 1 Para 10*

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

### **105 Goodwill**

*Source: AS 21 Para 13 (b)*

Any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as goodwill to be recognised as an asset in the consolidated financial statements;

### **106 Global Depository Receipt**

*Source: Companies Act 2013 Section 2 (44)*

“Global Depository Receipt” means any instrument in the form of a depository receipt, by whatever name called, created by a foreign depository outside India and authorised by a company making an issue of such depository receipts;

### **107 Government Company**

*Source: Companies Act 2013 Section 2 (45)*

“Government Company” means any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company;

### **108 Geographical Segment**

*Source: AS 17 Para 5.2*

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

## **Glossary of Terms used in Financial Statements**

### **109 Gross investment**

*Source: AS 19 Para 3.14*

Gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

### **110 Gross Carrying Amount**

*Source: AS 10 Para 6*

Gross carrying amount of an asset is its cost or other amount substituted for the cost in the books of account, without making any deduction for accumulated depreciation and accumulated impairment losses.

### **111 Guidance Notes**

*Source: Announcement of the Council Para 5*

'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.

### **112 Government**

*Source: AS 12 Para 3.1*

Government refers to government, government agencies and similar bodies whether local, national or international.

### **113 Government Grants**

*Source: AS 12 Para 3.2*

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value

## **Glossary of Terms used in Financial Statements**

placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

### **114 Group**

*Source: AS 21 Para 5.4*

A group is a parent and all its subsidiaries.

### **115 Guaranteed residual value**

*Source: AS 19 Para 3.12*

Guaranteed residual value is:

(a) in the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party on behalf of the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

(b) in the case of the lessor, that part of the residual value which is guaranteed by or on behalf of the lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee.

### **116 Historical cost**

*Source: Framework Para 99(a)*

Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

### **117 Holding Company**

*Source: AS 18 Para 10.10*

Holding company - a company having one or more subsidiaries.

*Source: Companies Act 2013 Section 2 (46)*

“holding company”, in relation to one or more other companies, means a company of which such companies are subsidiary companies;

### **118 Impairment Loss**

*Source: AS 10 Para 6*

## **Glossary of Terms used in Financial Statements**

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

### **119 Investor**

*Source: AS 27 Para 3.5*

An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

### **120 Income**

*Source: Framework Para 69*

Income is increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

### **121 Inception of the Lease**

*Source: AS 19 Para 3.5*

The inception of the lease is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.

### **122 Interim period**

*Source: AS 25 Para 4.1*

Interim period is a financial reporting period shorter than a full financial year.

### **123 Interim financial report**

*Source: AS 25 Para 4.2*

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 Standard) for an interim period.

### **124 Interest cost**

*Source: AS 15 Para 7.13*

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

### **125 Interest rate implicit in the lease**

*Source: AS 19 Para 3.17*

## **Glossary of Terms used in Financial Statements**

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 under a finance lease from the standpoint of the lessor; and
- (b) any unguaranteed residual value accruing to the lessor, to be equal to the fair value of the leased asset.

### **126 Intangible Asset**

*Source: AS 26 Para 6.1*

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

### **127 Integral Foreign Operation**

*Source: AS 11 Para 7.10*

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

### **128 Interim Reports**

*Source: AS 25 Para 18*

Interim reports should include interim financial statements (condensed or complete) for periods as follows:

- (a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;
- (b) statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;
- (c) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year to- date period of the immediately preceding financial year.

### **129 Investing Activities**

*Source: AS 3 Para 5.5*

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

## **Glossary of Terms used in Financial Statements**

### **130 Inventory**

*Source: AS 2 Para 3.1*

Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

### **131 Investments**

*Source: AS 13 Para 3.1*

Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'.

### **132 Investment Property**

*Source: AS 13 Para 3.4*

An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

### **133 Issued Share Capital**

*Source: Companies Act Section 2 (50)*

"issued capital" means such capital as the company issues from time to time for subscription.

### **134 Joint venture**

*Source: AS 18 Para 10.6*

A Joint venture - a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

### **135 Joint control**

*Source: AS 18 Para 10.7*

Joint control - the contractually agreed sharing of power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

## Glossary of Terms used in Financial Statements

### 136 Key management personnel

*Source: AS 18 Para 10.8*

Key management personnel - those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

*Source: Companies Act 2013 Section 2 (51)*

“key managerial personnel”, in relation to a company, means —

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed;

### 137 Lease

*Source: AS 19 Para 3.1*

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.

### 138 Lease Term

*Source: AS 19 Para 3.6*

The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

### 139 Lessee's incremental borrowing rate of interest

*Source: AS 19 Para 3.18*

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.

## **Glossary of Terms used in Financial Statements**

### **140 Liability**

*Source: Framework Para 49 (b) & AS 29 Para 10.2*

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.

### **141 Listed Company**

*Source: Companies Act 2013 Section 2 (52)*

“listed company” means a company which has any of its securities listed on any recognised stock exchange;

### **142 Long term investment**

*Source: AS 13 Para 3.3*

A long term investment is an investment other than a current investment.

### **143 Materiality**

*Source: Framework Para 30 & AS 1 Para 17 (c) & AS 25 Para 21*

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.

### **144 Market Value**

*Source: AS 13 Para 3.6*

Market value is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

### **145 Minority Interest**

*Source: AS 21 Para 5.7*

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary(ies), by the parent.

## **Glossary of Terms used in Financial Statements**

### **146 Minimum lease payments**

*Source: AS 19 Para 3.7*

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 taxes to be paid by and reimbursed to the lessor, together with:

- (a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or
- (b) in the case of the lessor, any residual value guaranteed to the lessor:
  - (i) by or on behalf of the lessee; or
  - (ii) by an independent third party financially capable of meeting this guarantee.

### **147 Multi-employer plans**

*Source: AS 15 Para 7.7*

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 enterprises that are not under common control; and
- (b) use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.

### **148 Monetary assets**

*Source: AS 26 Para 6.3*

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

### **149 Monetary Items**

*Source: AS 11 Para 7.11*

Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

### **150 Non Current Liability**

*Source: Companies Act 2013 Schedule III Division I Part I Para 3*

A liability shall be classified as current when it satisfies any of the following criteria:—

## **Glossary of Terms used in Financial Statements**

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

### **151 Non Current Assets**

*Source: Companies Act 2013 Schedule III Division I Part I Para 1*

An asset shall be classified as current when it satisfies any of the following criteria:—

- (a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the reporting date; or
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

### **152 Near Future**

*Source: AS 21 Para 11 (b)*

The meaning of the words 'near future' is considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case.

### **153 Net Investment in a non-integral foreign operation**

*Source: AS 11 Para 7.12*

Net investment in a non-integral foreign operation is the reporting enterprise's share in the net assets of that operation.

## **Glossary of Terms used in Financial Statements**

### **154 Non-monetary assets**

*Source: AS 26 Para 6.4*

Non-monetary assets are assets other than monetary assets.

### **155 Non-cancellable Lease**

*Source: AS 19 Para 3.4*

A non-cancellable lease is a lease that is cancellable only:

- (a) upon the occurrence of some remote contingency; or
- (b) with the permission of the lessor; or
- (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 an additional amount such that, at inception, continuation of the lease is reasonably certain.

### **156 Net Profit**

*Source: AS 5 Para 7*

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss:

- (a) profit or loss from ordinary activities; and
- (b) extraordinary items.

### **157 Net Realisable Value**

*Source: AS 2 Para 3.2*

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **158 Net selling price**

*Source: AS 28 Para 4.3*

Net selling price 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.

### **159 Net Worth**

*Source: Companies Act Section 2 (57)*

## **Glossary of Terms used in Financial Statements**

“net worth” means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

### **160 Net investment in the lease**

*Source: AS 19 Para 3.16*

Net investment in the lease is the gross investment in the lease less unearned finance income.

### **161 Non-integral foreign operation**

*Source: AS 11 Para 7.13*

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

### **162 Non-monetary items**

*Source: AS 11 Para 7.14*

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

### **163 Nominal Share Capital**

*Source: Companies Act 2013 Section 2 (8)*

“authorised capital” or “nominal capital” means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company;

### **164 Obligating event**

*Source: AS 29 Para 10.3*

An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation.

### **165 Operating Cycle**

*Source: Companies Act 2013 Schedule III Division I Part I Para 2*

An operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of twelve months.

## **Glossary of Terms used in Financial Statements**

### **166 One Person Company**

*Source: Companies Act 2013 Section 2 (62)*

“One Person Company” means a company which has only one person as a member;

### **167 Ordinary Activities**

*Source: AS 5 Para 4.1*

Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

### **168 Other long-term employee benefits**

*Source: AS 15 Para 7.8*

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

### **169 Paid-up Share Capital**

*Source: Companies Act 2013 Section 2 (64)*

“paid-up share capital” or “share capital paid-up” means such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called.

### **170 Past service cost**

*Source: AS 15 Para 7.20*

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

### **171 Preference Share Capital**

*Source: AS 20 Para 4.2*

A preference share is a share carrying preferential rights to dividends and repayment of capital.

## **Glossary of Terms used in Financial Statements**

*Source: Companies Act 2013 Section 2 (43)*

“preference share capital”, with reference to any company limited by shares, means that part of the issued share capital of the company which carries or would carry a preferential right with respect to—

- (a) payment of dividend, either as a fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income-tax; and
- (b) repayment, in the case of a winding up or repayment of capital, of the amount of the share capital paid-up or deemed to have been paid-up, whether or not, there is a preferential right to the payment of any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company;

### **172 Private Company**

*Source: Companies Act 2013 Section 2 (68)*

“private company” means a company having a minimum paid-up share capital of one lakh rupees or such higher paid-up share capital as may be prescribed, and which by its articles,—

- (i) restricts the right to transfer its shares;
- (ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member:

Provided further that—

- (A) persons who are in the employment of the company; and
  - (B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and
- (iii) prohibits any invitation to the public to subscribe for any securities of the company;

## **Glossary of Terms used in Financial Statements**

### **173 Proportionate consolidation**

*Source: AS 27 Para 3.6*

Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

### **174 Plan assets**

*Source: AS 15 Para 7.14*

Plan assets comprise:

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

### **175 Parent**

*Source: AS 21 Para 5.3*

A parent is an enterprise that has one or more subsidiaries.

### **176 Permanent differences**

*Source: AS 22 Para 4.7*

Permanent differences are the differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently.

### **177 Pooling of Interests**

*Source: AS 14 Para 3 (i)*

Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

### **178 Post-employment benefits**

*Source: AS 15 Para 7.3*

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

## **Glossary of Terms used in Financial Statements**

### **179 Post-employment benefit plans**

*Source: AS 15 Para 7.4*

Post-employment benefit plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.

### **180 Possible Obligation**

*Source: AS 29 Para 10.7*

Possible obligation - an obligation is a possible obligation if, based on the evidence available, its existence at the balance sheet date is considered not probable.

### **181 Present Obligation**

*Source: AS 29 Para 10.6*

Present obligation - an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

### **182 Present value of a defined benefit obligation**

*Source: AS 15 Para 7.11*

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.

### **183 Prior Period Item**

*Source: AS 5 Para 4.3 & AS 5 Para 16*

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

### **184 Public Company**

*Source: Companies Act 2013 Section 2 (71)*

“public company” means a company which—

- (a) is not a private company;
- (b) has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed: Provided that a company which is a subsidiary of a company, not being a private company, shall be

## **Glossary of Terms used in Financial Statements**

deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

### **185 Profit**

*Source: Framework Para 106*

Any amount over and above that required to maintain the capital at the beginning of the period is profit.

### **186 Proportionate Completion Method**

*Source: AS 9 Para 4.3*

Proportionate completion method is a method of accounting which recognises revenue in the statement of profit and loss proportionately with the degree of completion of services under a contract.

### **187 Provision**

*Source: AS 29 Para 10.1*

Provision is a liability which can be measured only by using a substantial degree of estimation.

### **188 Property, plant and equipment (PPE)**

*Source: AS 10 Para 6*

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than a period of twelve months.

### **189 Prudence**

*Source: Framework Para 37*

The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of receivables, the probable useful life of plant and machinery, and the warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## **Glossary of Terms used in Financial Statements**

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would then not be neutral and, therefore, not have the quality of reliability.

### **190 Qualifying Asset**

*Source: AS 16 Para 3.2*

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

### **191 Qualifying Insurance Policy**

*Source: AS 15 Para 7.16*

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in AS 18 Related Party Disclosures) of the reporting enterprise, 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 enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, 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 enterprise to reimburse it for employee benefits already paid.

### **192 Operating Activities**

*Source: AS 19 Para 5.4*

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.

### **193 Operating Lease**

*Source: AS 19 Para 3.3*

An operating lease is a lease other than a finance lease.

### **194 Onerous Contract**

*Source: AS 29 Para 1 (i)*

## **Glossary of Terms used in Financial Statements**

An 'onerous contract' is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Thus, for a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

### **195 Reporting Currency**

*Source: AS 11 Para 7.15*

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

### **196 Reportable Segment**

*Source: AS 17 Para 5.3*

A reportable segment is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.

### **197 Research**

*Source: AS 26 Para 6.5*

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

### **198 Reserve**

*Source: AS 14 Para 3 (d)*

Reserve means the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.

### **199 Restructuring**

*Source: AS 29 Para 10.8*

A restructuring is a programme that is planned and controlled by management, and materially changes either:

- (a) the scope of a business undertaken by an enterprise; or
- (b) the manner in which that business is conducted.

## **Glossary of Terms used in Financial Statements**

### **200 Residual value**

*Source: AS 10 Para 6*

The residual value of an asset is the estimated amount that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

### **201 Return on plan assets**

*Source: AS 15 Para 7.18*

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

### **202 Relative**

*Source: AS 18 Para 10.9*

Relative – in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

*Source: Companies Act 2013 Section 2 (77)*

“relative”, with reference to any person, means any one who is related to another, if—

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed;

### **203 Reliability**

*Source: Framework Para 31*

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action against the enterprise are highly uncertain, it

## Glossary of Terms used in Financial Statements

may be inappropriate for the enterprise to recognise the amount of the claim in the balance sheet, although it may be appropriate to disclose the amount and circumstances of the claim.

### 204 Recoverable Amount

*Source: AS 10 Para 6*

Recoverable amount is the higher of an asset's net selling price and its value in use.

### 205 Revenue

*Source: Announcement of the Council Para XXV*

"*Revenue* is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration."

### 206 Related Party

*Source: AS 18 Para 10.1*

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.

*Source: Companies Act 2013 Section 2 (76)*

"related party", with reference to a company, means—

- (i) a director or his relative;

### 207 Related party transaction

*Source: AS 18 Para 10.2*

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

### 208 Segment Revenue

*Source: AS 17 Para 5.5*

## **Glossary of Terms used in Financial Statements**

Segment revenue is the aggregate of

- (i) the portion of enterprise revenue that is directly attributable to a segment,
- (ii) the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
- (iii) revenue from transactions with other segments of the enterprise.

### **209 Segment Expense**

*Source: AS 17 Para 5.6*

Segment expense is the aggregate of

- (i) the expense resulting from the operating activities of a segment that is directly attributable to the segment, and
- (ii) the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment, including expense relating to transactions with other segments of the enterprise.

### **210 Segment Result**

*Source: AS 17 Para 5.7*

Segment result is segment revenue less segment expense.

### **211 Segment Assets**

*Source: AS 17 Para 5.8*

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.

### **212 Segment Liabilities**

*Source: AS 17 Para 5.9*

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.

### **213 Segment Accounting**

*Source: AS 17 Para 5.10*

Segment accounting policies are the accounting policies adopted for preparing and presenting the financial statements of the enterprise as well as those accounting policies that relate specifically to segment reporting.

## **Glossary of Terms used in Financial Statements**

### **214 Securities**

*Source: Companies Act 2013 Section 2 (81)*

“securities” means the securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;

### **215 Share**

*Source: Companies Act 2013 Section 2 (84)*

“share” means a share in the share capital of a company and includes stock;

### **216 Share warrants or options**

*Source: AS 20 Para 4.5*

Share warrants or options are financial instruments that give the holder the right to acquire equity shares.

### **217 Short-term employee benefits**

*Source: AS 15 Para 7.2*

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

### **218 Subsidiary**

*Source: AS 18 Para 10.11*

Subsidiary - a company:

- (a) in which another company (the holding company) holds, either by itself and/or through one or more subsidiaries, more than one-half in nominal value of its equity share capital; or
- (b) of which another company (the holding company) controls, either by itself and/or through one or more subsidiaries, the composition of its board of directors.

*Source: Companies Act 2013 Section 2 (87)*

“subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) controls the composition of the Board of Directors; or

## **Glossary of Terms used in Financial Statements**

- (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

### **219 Subscribed Share Capital**

*Source: Companies Act 2013 Section 2 (86)*

“subscribed capital” means such part of the capital which is for the time being subscribed by the members of a company;

### **220 Substance over Form**

*Source: AS 1 Para 17(b)*

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

### **221 Surplus**

*Source: Companies Act 2013 Schedule III Division I Part I*

Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/ from reserves, etc.

### **222 Significant influence**

*Source: AS 18 Para 10.4*

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

### **223 State-controlled enterprise**

*Source: AS 18 Para 10.13*

State-controlled enterprise - an enterprise which is under the control of the Central Government and/or any State Government(s).

### **224 Small Company**

*Source: Companies Act 2013 Section 2 (85)*

“small company” means a company, other than a public company,—

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or
- (ii) turnover of which as per its last profit and loss account does not

## **Glossary of Terms used in Financial Statements**

exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees:

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act;

### **225 Sweat Equity Shares**

*Source: Companies Act 2013 Section 2 (88)*

“sweat equity shares” means such equity shares as are issued by a company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

### **226 Taxable Income (Tax Loss)**

*Source: AS 22 Para 4.2*

Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income tax payable (recoverable) is determined.

### **227 Tax expense (tax saving)**

*Source: AS 22 Para 4.3*

Tax expense (tax saving) is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

### **228 Timing differences**

*Source: AS 22 Para 4.6*

Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

### **229 Trade Payable**

*Source: Companies Act 2013 Schedule III Division I Part I Para 5*

A payable shall be classified as a “trade payable” if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

## **Glossary of Terms used in Financial Statements**

### **230 Trade receivable**

*Source: Companies Act 2013 Schedule III Division I Part I Para 4*

A receivable shall be classified as a “trade receivable” if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

### **231 Termination benefits**

*Source: AS 15 Para 7.9*

Termination benefits are employee benefits payable as a result of either:

- (a) an enterprise’s decision to terminate an employee’s employment before the normal retirement date; or
- (b) an employee’s decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement).

### **232 Transferor company**

*Source: AS 14 Para 3 (b)*

Transferor company means the company which is amalgamated into another company.

### **233 Transferee company**

*Source: AS 14 Para 3 (c)*

Transferee company means the company into which a transferor company is amalgamated.

### **234 Turnover**

*Source: Companies Act 2013 Section 2 (91)*

“turnover” means the aggregate value of the realisation of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;

### **235 Useful life**

*Source: AS 10 Para 6 & AS 26 Para 6.9 & AS 28 Para 4.9*

- (a) the period over which an asset is expected to be available for use by an enterprise ; or
- (b) the number of production or similar units expected to be obtained from the asset by an enterprise.

## Glossary of Terms used in Financial Statements

### 236 Unguaranteed Residual Value

*Source: AS 19 Para 3.13*

Unguaranteed residual value of a leased asset is the amount by which the residual value of the asset exceeds its guaranteed residual value.

### 237 Unearned Finance Income

*Source: AS 19 Para 3.15*

Unearned finance income is the difference between:

- (a) the gross investment in the lease; and
- (b) the present value of
  - (i) the minimum lease payments under a finance lease from the standpoint of the lessor; and
  - (ii) any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

### 238 Value in use

*Source: AS 28 Para 4.2*

“Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, or a reasonable estimate thereof. ”

### 239 Venturer

*Source: AS 27 Para 3.4*

A venturer is a party to a joint venture and has joint control over that joint venture.

### 240 Vested employee benefits

*Source: AS 15 Para 7.10*

Vested employee benefits are employee benefits that are not conditional on future employment.

# Appendix A

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## **List of Mandatory Accounting Standards notified by the Ministry of Corporate Affairs for Companies effective as on April 01, 2019**

1. AS 1 Disclosure of Accounting Policies
2. AS 2 Valuation of Inventories
3. AS 3 Cash Flow Statements
4. AS 4 Contingencies and Events Occurring after the Balance Sheet Date
5. AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6. AS 7 Construction Contracts
7. AS 9 Revenue Recognition
8. AS 10 Property, Plant and Equipment
9. AS 11 The Effects of Changes in Foreign Exchange Rates
10. AS 12 Accounting for Government Grants
11. AS 13 Accounting for Investments
12. AS 14 Accounting for Amalgamations
13. AS 15 Employee Benefits
14. AS 16 Borrowing Costs
15. AS 17 Segment Reporting
16. AS 18 Related Party Disclosures
17. AS 19 Leases
18. AS 20 Earnings Per Share
19. AS 21 Consolidated Financial Statements
20. AS 22 Accounting for Taxes on Income.
21. AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
22. AS 24 Discontinuing Operations

## **Glossary of Terms used in Financial Statements**

- 23. AS 25 Interim Financial Reporting
- 24. AS 26 Intangible Assets
- 25. AS 27 Financial Reporting of Interests in Joint Ventures
- 26. AS 28 Impairment of Assets
- 27. AS 29 Provisions, Contingent Liabilities and Contingent Assets