ACCOUNTING STANDARDS

CA KOMAL BHOTIKA
Mobile:9836048717
Email: cakomalbajaj@gmail.com

ACCOUNTING STANDARDS

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AS 2

VALUATION OF INVENTORIES

MEANING OF INVENTORY

Goods purchased & held for resale Merchandise purchased by retailers	Held for sale in the ordinary course of Business Finished Goods	In the process of Production Raw Materials and Work In Progress	Materials to consumed in the process of production or in rendering the services Consumables and loose tools, etc.

VALUATION OF INVENTORY

1. Determination cost of Inventories

2. Determination Net Realisable Value of Inventories

3. Comparison between the Cost and Net Realisable Value

Inventory is valued at COST (or) NRV Whichever is LOWER

COST OF INVENTORY

Cost of Purchase

Costs incurred to purchase the material

Particulars	Amount
Basic Price **Add:**	XXX
• Non-refundable taxes & duties • Inward freight cost • Inward Insurance cost • Costs incurred directly related to acquisition and bringing it to warehouse	XXX
Less: • Trade discounts • Duty drawbacks	XXX
Cost or Purchase Price	XXX

Cost of conversion

Costs incurred to convert the raw materials into finished goods like Labour, Factory rent, fuel costs, power expenses. Factory overheads can be divided into two types based on its nature:

Variable expenses – which vary (change) along with the volume of production;

Fixed expenses – which do not vary with volume of production

Other Costs

Incurred to bring the inventory to present location and condition. Like transportation and transit insurance,production overhead , and R&D and Quality Control Costs, Packaging Cost.

Storage cost , godown rent and administrative overheads are NOT part of inventory

CONVERSION COST

- DIRECT MATERIAL
- DIRECT LABOUR
- DIRECT EXPENSES
- OVERHEADS
  - FIXED OVERHEADS
    - Actual Capacity > Normal Capacity Absorb based on Actual Capacity
    - Actual Capacity < Normal Capacity Absorb based on Normal Capacity
  - VARIABLE OVERHEAD
    - Absorb based on actual capacity utilisation per unit wise.

Q. Find Value of Closing Stock?

Particulars	2022	2023
Actual units produced (Kgs.)	40,000	50,000
Normal production at normal capacity (Kgs.)	48,000	48,000
Fixed production overheads (Rs)	60,000	60,000
Closing Stock (Kgs.)	3,600	4,000
Cost of Closing Stock per unit excluding FPOH (Rs)	@7.2	@7.5

Answer

Fixed Cost Rs	Normal Production Units	Actual Production Units	Working
In Year 2022			
60,000	48000	40000	Actual Production < Normal Production
			Cost/ Unit = 60,000/48,000 = Rs 1.25/ Unit
			Closing Stock = (Rs 7.25+1.25)*3600 Units = Rs 30,420
In Year 2023			
60,000	48000	50000	Actual Production > Normal Production
			Cost/ Unit = 60,000/50,000 = Rs 1.20/ Unit
			Closing Stock =(Rs 7.25+1.20)*4000 Units =Rs 34,800

CALCULATION OF NRV

Expected Selling Price − Expected Selling Expenses − Expected Cost Of Completion = NRV

NET REALISABLE VALUE

FINISHED GOODS	WORK IN PROGRESS	RAW MATERIAL
Estimated Selling Price in ordinary course of business LESS: Costs necessary to make sale	Estimated Selling Price in ordinary course of business LESS: A) Costs of Completion B) Costs necessary to make sale	1] If FG in which RM& supplies used is valued at cost then RM is valued at cost 2] If FG in which RM& supplies used is valued at NRV then RM is considered replacement price

Q. Raw material was purchased at Rs 100/kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs of raw material is on stock at the year end. Replacement cost is Rs 80/kg. What is the Value of inventory?

a) Rs 10,00,000

b) Rs 8,00,000

Answer: B

FG is recorded at NRV as NRV of Finished Goods less than Cost

Thus Raw Material used to make the Finished goods is valued at Replacement Cost = Rs 80/kg *10,000 kgs=Rs 8,00,000

Q. Cost of a partly finished unit at the end of 2023-2024 is Rs 150. The unit can be finished next year by a further expenditure of Rs 100. The finished unit can be sold at Rs 250, subject to payment of 4% brokerage on selling price. Compute value of inventory?

a) Rs 250

b) Rs 0

c) Rs 140

d) Rs 150

Answer: C

As per AS 2 "Valuation of Inventories" inventories should be valued at lower of cost and net realizable value. Thus, in the given case, the value of unfinished unit will be lower of

[a] Cost = Rs 150

[b] Net realizable value(step 1) = `=Rs 140 (Selling Price – Cost of Completion=250-10-100)

Conclusion : Value of closing stock = Rs 140.

Q. SS Ltd. ordered 16,000 kg of certain material at Rs 160 per unit. Freight incurred amounted to Rs 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS-2?

ANSWER

Particulars	Working	Amount Rs
Purchase Price	16000 Kg *160	25,60,000
Add: Freight	Given	1,40,160
Total Purchase Price		27,00,160
No of units Received	16000 Kg*98%	15,680
Cost / Kg	27,00,160/15,680	172

Closing Stock =(15500-13600)=1900 Kgs

Cost of Stock =(15500-13600) 1900*172=Rs 3,26,800

Abnormal Loss= (15680-15500) 180*172=Rs 30,960

Abnormal Cost are excluded from Cost of Inventories & treated as Expenses

Q. A trader purchased certain articles for Rs 85,000. He sold some of articles for Rs 1,05,000. The average percentage of gross margin is 25% on cost. Opening stock of inventory at cost was Rs 15,000.Compute cost of closing inventory?

a) 16,000

b) 20,000

c) 5000

Particuars	Rs	Particulars	Rs
To Op Stock (15000+25%)	18,750	By Sales (Given)	1,05,000
To Purchase (85000+25%)	1,06,250	By Cl Stock (AT SP)	20,000
TOTAL	**1,25,000**	**TOTAL**	**1,25,000**

AS 2 'Valuation of Inventories' Closing Stock is valued at lower of Cost & NRV

Value of Closing stock at cost =(20,000/125*100=16,000) Thus Value= Rs. 16000

Q. Company Das Ltd purchased raw material on 01.04.2023. The cash equivalent price of the material is Rs 1,00,000. Company negotiated with suppliers and final terms and conditions are as below:

1.Payment terms : To be paid after one year

2.Amount : Rs 1,50,000

What will be the value of material?

- The payment is deferred beyond normal credit and the difference of Rs 50,000(1,50,000-1,00,000) will be recognized as interest cost over the period of 1 Year and material will be recorded at Rs 1,00,000which is the cash equivalent price of the material .
- When an arrangement effectively contains a financing element is recognized as interest expense over the period of financing (Inventories purchased on Deferred Settlement Terms)

Allocation of costs in special situations:

POINTS	JOINT PRODUCTS	BY PRODUCT
MEANING	Two or more outputs generated simultaneously, by a single manufacturing process using common input, and being substantially equal in value	It is a secondary or incidental product in a process of manufacture and generally it has insignificant value.
Example	1) Butter, cheese from milk	Sugar is main product and molasses is by- product.
Allocation of Cost	In this case, the joint costs (common costs) are allocated between the products on a rational and consistent basis. a) On the Sales value of each product when the products become separately identifiable; (b) On the sale value after completion of production;	1. Find out the joint costs of main product & by-products. 2. Compute Net realisable value of by product at the time of separation. 3. Cost of main product = total joint costs of main product & by-product Less NRV of by product.

Q. In a manufacturing process of SS Limited, one by-product BP emerges besides main products MP1. Output Units MP1 6250 and BP 1600 Units.

Details of cost of production process as under:

Raw material Rs. 1,60,000, Wages Rs. 82000, Fixed Overhead Rs. 58,000, Variable Overhead Rs. 40,000. Average market price of MP1 Rs. 50 per unit respectively, by-product is sold Rs. 25 per unit. What is the Cost of MP1?

Particuars	Rs
Total Cost (1,60,000+82000+58,000+40,000)	3,40,000
Less: NRV of By-Product (1600*25)	40,000
Joint Cost To be Allocated	**3,00,000**

As per AS 2, most by-products as well as sale of scrap or waste material are immaterial. So they are measured at NRV.

Cost of inventory should be ascertained in following manner

NOT ORDINARILY INTERCHANGABLE	ORDINARILY INTERCHANGABLE
If stock in hand is unique not similar to each other, use Specific Identification Method or Actual basis. (Inventory made on customized basis like Aircraft, jewellery or Ships.)	If stock in hand is similar to each other, then use following two methods of stock valuation a) FIFO Method b) Weighted Average Method (price*Quantity)/Total Quantity

This standard is not applicable to the following:

- WIP of service provider (Only on Tangible items)
- If the entity holds shares, debentures and other financial instruments as stock-in-trade ; (It is discussed in AS 13.)
- Work-in-progress (WIP) arising under construction contracts; (It is discussed in AS 7)
- Inventories of livestock, Agricultural and forest products Mineral oils, ores and gases to the extent that they are measured at NRV in accordance with well established practices in those industries

Disclosure Requirements:

The accounting policies adopted in measuring inventories, including the cost formula used;

The total carrying amount of inventories and its classification appropriate to the enterprise.

AS 4

CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

CONTINGENCY

1. Existing condition or situation at the Balance Sheet Date

2. Whose ultimate outcome is gain (ignored) or loss

3. Which will be known after occurrence or non occurrence (happening or non happening) of one or more uncertain event.

Contingencies
(other than covered in AS 29)

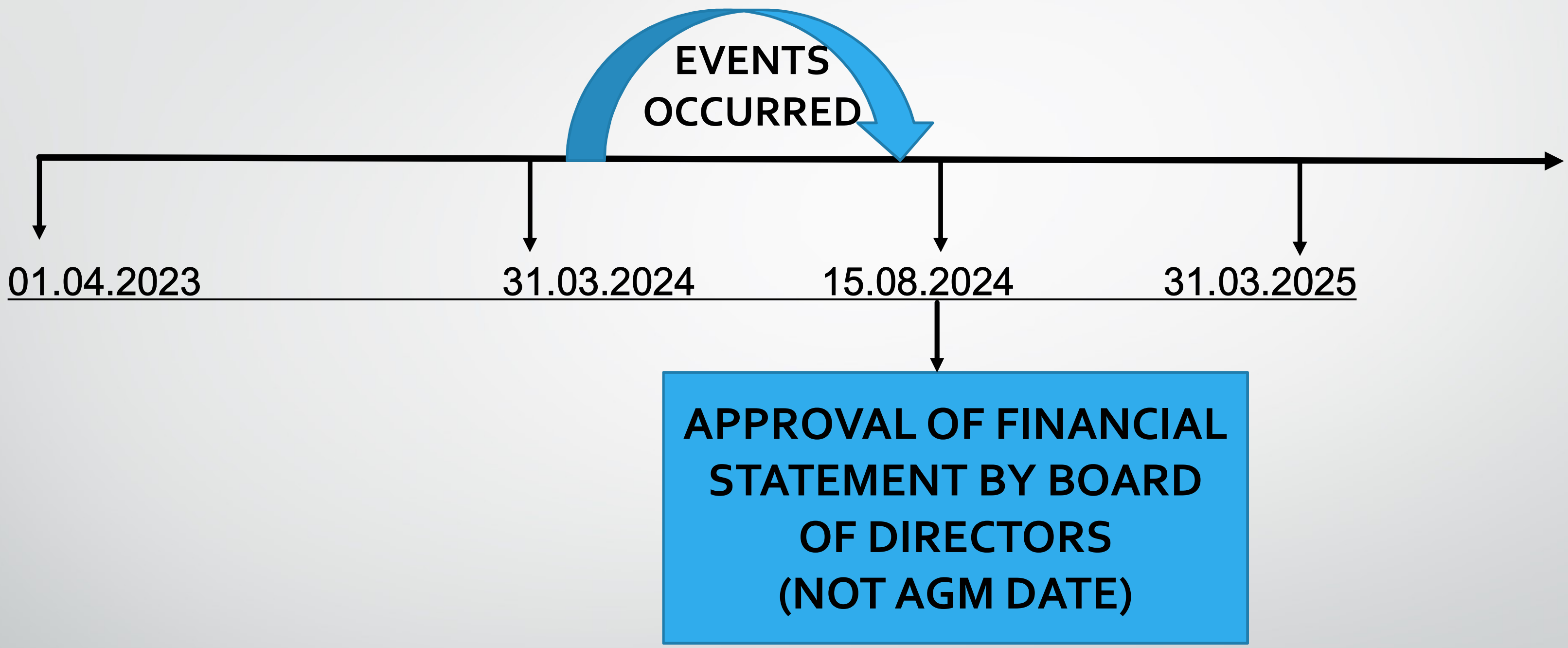
Contingencies relating to:
Existing condition or situation at the Balance Sheet date.

- Expected outcome: Contingent Gain -Shall be ignored
- Expected outcome: Contingent Loss
  - If Loss is Probable: Provision shall be made
  - If Loss is reasonable possible: Disclosure is made in accounts by way of Note
  - If expected loss is remote: it will be ignored

Contingencies relating to:
Condition or situation after the Balance Sheet date.

- Ignore it completely, no provision or disclosure required

When to record Events occurring after Balance Sheet date?



Events Occurring after Balance Sheet Date

Adjusting Events

1. Condition exist on Balance Sheet Date.
2. But Event occurred after Balance Sheet Date confirms or provide additional information about condition existing on Balance sheet.

Adjust the balances of assets and liabilities as on Balance Sheet date (Recognise Losses)

Non-Adjusting Events

No Condition exist on Balance Sheet Date.

Don't Adjust the Balances as on BS Date (Just Disclosure)

Q. On 31-08-2023, the Board of Directors of X Ltd. proposed dividend of 10% for FY 2022-23. Financials of 2022-23 are approved by BOD on 30-09-2023. Discuss the accounting treatment of the proposed dividend as per AS 4.

A: Proposed dividend is an event occurring after the balance sheet date. The company DOESN'T have any liability to pay dividend on balance sheet date. The reason being dividend will be a liability to the company only when it is approved by the members of company in the General Meeting. As there are NO conditions existing as on 31-3-2023, the subsequent proposal for dividend is a NON-adjusting event, as per the Schedule III proposed dividend information should be disclosed in the notes on accounts separately

Q. In Raj Co. Ltd., theft of cash of Rs 2 lakhs by the cashier in January, 2022 was detected in May, 2022.

The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2022. Decide?

Answer: Though the theft, by the cashier Rs 2,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date.

Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2022 for recognition of the loss amounting to Rs 2,00,000.

Q) With reference to AS 4, state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet in case of a company which follows April to March as its financial year.

(*i*) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(*ii*) It sent a proposal to purchase an immovable property for Rs 30 lakhs in March. The book value of the property is Rs 20 lakh as on year end date. However, the deed was registered as on 15th April.

(*iii*) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was Rs 40 lakh.

(*i*) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

Ans: Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is non-adjusting in nature.

(*iii*) It sent a proposal to purchase an immovable property for Rs 30 lakhs in March. The book value of the property is Rs 20 lakh as on year end date. However, the deed was registered as on 15th April.

Ans: In the given case, proposal for deal of immovable property was sent before the closure of the books of account. This is a non-adjusting event as only the proposal was sent and no agreement was effected in the month of March *i.e.* before the balance sheet date.

(*iv*) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was Rs 40 lakh.

Ans: As the term and conditions of acquisition of business of another company had been decided by the end of March, acquisition of business is an adjusting event occurring after the balance sheet date. Adjustment to assets and liabilities is required since the event affects the determination and the condition of the amounts stated in the financial statements for the financial year ended on 31st March.

Q. During the year 2022-23, Raj Ltd. was sued by a competitor for Rs. 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of Rs. 10 lakhs in its financial statements for the year ended 31st March, 2023.

On 18th May, 2023, the Court decided in favor of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of Rs. 14 lakhs.

The financial statements were prepared by the company's management on 30th April, 2023, and approved by the Board on 30th May, 2023. Comment.

Ans*:* As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 2022-23 for which the provision was also made by it, the decision of the Court on 18th May, 2023, for payment of the **penalty will constitute as an adjusting event** because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by Rs 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

Q. X Ltd. purchased a building for Rs. 50 lakh in January 2024 and the agreement to purchase was concluded in January 2024. X Ltd's financial year ends on 31st March.

In the month of April, 2024, the same building is registered in the name of X Ltd.

In which financial year should X Ltd. account for the building?

Ans : Looking at the substance of the transaction, the agreement was concluded in Jan. 2024 and registration is required for security purpose.

The subsequent registration is confirming the agreement. So, the building should be recorded in 2023-24 only.

Q. As Company follows April-March as its financial year. The company recognizes cheques dated 31st March or before, received after the balance sheet date but before approval of FS by debiting cheques in hand a/c & crediting Debtors a/c.

The cheques in hand are shown in the balance sheet as an item of Cash & Cash equivalents. All cheques in hand are presented to bank in the month of April & are also realized in the same month in normal courses after deposit in the Bank.

Should the same be recognized as adjusting item as per AS-4?

ANSWER:

- Even if the cheques bear the date 31st March or before, the cheques received after 31st March do not represent any condition existing as on 31st March. It means, it is not an asset under the control of the entity as on the balance sheet date. Hence, there is no situation/condition exist as on 31st March.
- Considering the above points, collection of cheques after the balance sheet date is NOT an adjusting event. So recognising these as cheques in hand is not consistent with AS-4. Moreover, the collection of cheques after the balance sheet date does not represent any material change or commitments affecting the financial position of the enterprise and therefore no disclosure in the Director's Report are necessary.

Non Adjusting Events

1. Decline in market value of investment.
2. Major Business combination after Balance Sheet date.
3. Announcing plan to discontinue operations.
4. The distraction of a major production plant by a fire after reporting period.
5. Announcing or commencing the implementation of a major restructuring.
6. Abnormally large changes after Balance Sheet date in asset prices or foreign exchange rates.
7. Commencing major litigation arising solely out of events that occurred after the reporting period.
8. Changes in tax rates announced after Balance sheet date

Exception To Non Adjusting Event

1. If it is a STATUTORY requirement OR it is of special nature; (AS cannot override Law)
2. If events occurring after the balance sheet date affects the GOING CONCERN ASSUMPTION of the entity

Means in the above two cases event should be adjusted as on balance sheet date even though event occurred after Balance Sheet date.

If the entity doesn't have going concern assumption, it should prepare financial statement on liquidation basis (i.e. at NRV).

AS 9

REVENUE RECOGNITION

Revenue means gross inflow of cash and receivable from

Sale of goods

Rendering of services

Interest, dividend & royalty.

Q. Which of the following item is included within the revenue?

A- Unrealised holding gains, resulting from the change in the value of current asset

B- Realised or unreleased gains, resulting from change in foreign exchange

C- Realised gains resulting from the discharge of an obligation at less than it's carrying amount

D- None of these

Answer: D

Q. What aspect has special consideration for a recognition and are not recognized is AS 9 ?

A- Renewing from construction contract,

B- Revenue arising from higher purchase lease agreement

C- Revenue from government, grant and other similar subsidies

D- All of these

Answer: D

Revenue From Construct contract (It is Dealt in AS – 7)

Revenue From Lease (H.P.) (It is Dealt in AS – 19)

This AS does not deal with

Profit on Sale of Asset (It is Dealt in AS – 10)

Revenue From Government Grants (It is Dealt in AS – 12)

Interest, dividend & aRevenue From insurance contracts of insurance companies; (As per regulatory requirements)royalty.

The following revenues are also EXCLUDED from this standard

- ❖ Profit on sale of fixed assets (Realized gains); (It is dealt in AS 10)
- ❖ Unrealised gains of non-current assets (revaluation of fixed assets); (It is dealt in AS 10)
- ❖ The natural increases in herds and agricultural and forest products; (accounted as per industry Standards)
- ❖ Realised/ unrealised gains arising from fluctuation of foreign currency and gain on translation of financial statements of foreign operation; (It is dealt in AS 11)
- ❖ Gains on settlement of a liability by paying less than its carrying amount; (general principles of accounting)
- ❖ Notional Gain in value of current Asset (Current asset revalued at market value)- check
- ❖ Sale and lease back transactions (It is dealt in as AS 19)

Q. When does the recognition of revenue is postponed?

A- Consideration receivable is not determined within reasonable limits

B- The time of sale of goods has uncertainty relating to collectability

C- The time of rendering of the services has uncertainty relating to collectability

D- Both B and C

Answer: A

When to recognize revenue?

Significant **Risk** and **Rewards** of Ownership has been transferred	Entity **does not retain** any Effective Control over Goods Sold nor any **Managerial Involvement**	Revenue and cost **Reliably Measurable**	**Certainty** of Collection

If any one is Uncertain

Postpone the recognition

Uncertainty Arises Later

Make **Provision , Do not reverse the revenue**

Guidance on recognition of revenue under different situations

Delivery of goods is delayed at buyer's request and buyer takes title and accepts billing but the Goods are with seller

Recognize the revenue when it is sure that delivery will be made and it should also satisfy the following conditions:

1. Goods must be in hand;

2. The buyer's goods should be identified;
&

3. Goods must be ready for delivery at the time recognition.

(i.e. in packed condition)

Guidance on recognition of revenue under different situations

Delivery of goods is subjected to conditions: **installation and" inspection**	Recognize the revenue only when customer accepts the **delivery and installation** and inspection is complete. If installation is a simple process, recognise the revenue when goods are delivered.
Sale is **Subject to approval** of customer (Sale on approval)	Recognise only when 1. Goods are formally accepted by the buyer; **OR** 2. Time period allowed is elapsed; **OR** 3. Reasonable time period is elapsed - **in case NO specific** period is mentioned;

Guidance on recognition of revenue under different situations

Guaranteed sales i.e. goods are delivered by giving an unlimited right to return to buyer.

Depends on the substance of the agreement.

In case of retail sales, if the entity offers a guarantee of "money back if not completely satisfied" –

It may be appropriate to recognise revenue for full invoice amount at the time of sale of goods & the entity can create an appropriate provision for expected goods returns based on the previous experience.

Guidance on recognition of revenue under different situations

Consignment Sales	Recognize revenue only when goods are sold to a **third party** by the consignee.
Cash on delivery sales	Recognize revenue only when cash is received either by **the seller or his agent**.
Instalment Sales	1. Recognize revenue on the date of sale to the extent **attributable to sale price** excluding interest amount. 2. Interest should be recognized on time basis in proportion to receivable balance.

Q. M/s. A Ltd. recognized Rs. 5.00 lakhs, on accrual basis, income from dividend during the year 2023-24, on shares of the face value of Rs. 25.00 lakhs held by it in Steel Ltd. as at 31st March,2024. Steel Ltd. proposed dividend @ 20% on 10th April, 2024. However, dividend was declared on 30th June, 2024.

Please state with reference to relevant Accounting Standard, whether the treatment is correct by M/s. A Ltd?

Ans:

Dividend income is recognized only when a right to receive dividend is established irrespective of the year it is relating to. The investor gets the right to receive dividend only when the dividend is declared by the members in the General Meeting. Hence it should be recognized only on the date of declaration by General Meeting.

There should **NOT be any significant uncertainty** in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed.

Hence, the right to receive dividend is established on 30th June, 2024 only

Therefore, the recognition of income from dividend of Rs. 5 lakhs, on accrual basis, in the financial year 2023-24 is not in accordance with AS 9

Recognition of Interest Revenue

Interest is income received by the entity as its cash resources are used by other entities

Interest is recognized on time proportion basis based on the outstanding amount and rate applicable;

AND

There should **NOT** be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed till the time there is NO uncertainty.

Recognition of Royalty Revenue

Royalty income is received as the intangible assets like know-how, patents,
trade-marks and copy rights of the entity are used by the other entity.

Royalty is recognised on accrual basis in accordance with the terms of agreement

AND

There should **NOT** be any significant uncertainty in ultimate collection at the time of recognition. If any uncertainty exists, recognition should be postponed till the time there is NO uncertainty.

Methods to determine the performance of services

Service should be PERFORMED + NO significant uncertainty in ultimate collection at the time of recognition

Proportionate Completion Method

This method is Applicable When performance consists of execution of more than one act.

Revenue is recognised based on the percentage of completion of work.
It can be assessed based on
1. Contract value;
2. Associated costs;
3. Number of acts (works); or
4. Any other reasonable and rational basis.

Completed Service Method

When performance consists of execution of single act
OR
Performance consists of more than one single act and the services yet to be performed are significant to the whole performance

Revenue is recognised when the sole or final act takes place and the service becomes chargeable to customer

AS 18

RELATED PARTY DISCLOSURES

The objective of this Standard Related Party Disclosures is to establish requirements for disclosure of:

- **Related party relationships**
- **Transactions between a reporting enterprise and its related parties**

MEANING

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

Related party transaction

a transfer of resources or obligations between related parties regardless of whether or not a price is charged.

MEANING

Control

Ownership, directly or indirectly, of more than **one-half** of the voting power of an enterprise

OR

Control of the **composition** of the board of directors in the case of a company

OR

substantial **interest in voting power and the power to direct**, by statute or agreement, the financial and/or operating policies of the enterprise

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

RELATED PARTY RELATIONSHIPS

a) Enterprises that controlled by the reporting enterprise

b) Associates and joint ventures of the entity

c) Individuals who have control or significant influence directly or indirectly & their relatives

d) Key management personnel and relatives of such personnel

e) Enterprises over which any person described in (c) or (d) is able to exercise significant influence

Does the entity has 20% or more voting power?

- **YES**
  - Does It exercise significant influence?
    - **YES**
      - It is an ASSOCIATE
      - Disclose as required
    - **NO**
      - It is an NOT an ASSOCIATE.
      - NO need of disclosures.
      - (It should be proved)
- **NO**
  - Does It exercise significant influence?
    - **YES**
      - It is an ASSOCIATE
      - Disclose as required
    - **NO**
      - It is NOT an ASSOCIATE.
      - NO Need to Disclose as required

Q. Consider a scenario wherein:

A Ltd. has 60% voting right in B Ltd.

A Ltd. also has 22% voting right in C Ltd.; and

B Ltd. has 30% voting right in C Ltd.

Whether C Ltd. is to be treated under AS-18 as a party related to A Ltd.?

Answer - Yes

In relation to A Ltd. (the reporting enterprise), C Ltd is a related party under AS-18.

This is because A Ltd **indirectly controls** C Ltd. In this case, A Ltd. (together with its subsidiary B Ltd.) controls **more than one half of the voting rights** of C Ltd.

Q. Consider a scenario wherein:

R Ltd. holds 60% voting right in S Ltd.

S Ltd. holds 15% voting right in T Ltd.

R Ltd. directly has voting rights 10% in T Ltd.

T Ltd. regularly supplies goods to R Ltd. The management of T has not disclosed its relationship with R Ltd. Asses the situation

Answer – NO

R Ltd has direct interest in T Ltd to the extent of 10% and through S Ltd it has further control of 9% in T Ltd (60% of 15%) Together being (10%+9%) total control of 19% of R Ltd in T Ltd.

Thus R and T Ltd are not related Parties.

Q. Consider a scenario wherein:

X Ltd. holds 28% voting right in Y Ltd. (and hence Y Ltd. is an associate of XLtd.

Y Ltd. holds 32% voting right in Z Ltd.(and hence Z Ltd. is an associate of YLtd.

Whether Z Ltd is to be treated under AS 18 as a party related to X Ltd?

Answer – NO

In relation to X Ltd. (the reporting enterprise), Z Ltd is not a related party underAS-18.

This is because as per requirement of As 18 "Associate of an Associate" is not a related party.

Q. Roy Ltd sold goods for Rs 90 Lakhs to Saha Ltd in the FY 23-24.The managing Director of Roy Ltd owns 100% of Saha Ltd.

The sales made to Saha Ltd was at normal Selling Price followed by Roy Ltd.

Comment if any disclosure is required as per As 18?

Ans: Yes

Roy and Saha Ltd are related Parties and thus disclosure is required as per AS 18 irrespective of whether the transaction was done at normal selling price.

Q. Power Limited is a producer of electricity. Transmission Limited regularly purchases electricity from Power Limited. Power Limited whose financial year ends on March 31, 2023, acquired 100% shareholding of Transmission Limited on July 15, 2022. However, the entire shareholding is disposed of on March 21, 2023.

Power Limited and Transmission Limited had transactions when Transmission Limited was a subsidiary of Power Limited and also in the period when it was not a subsidiary of Power Limited.

What related party disclosures should Power Limited make in its financial statements for the year ended March 31, 2023 with respect to transactions with a Transmission Limited?

Ans: Power Limited should in its financial statements for the year ended March 31, 2023 make related party disclosures for the period from July 15, 2022 to March 21, 2023 when Transmission Limited was its subsidiary .

DISCLOSURE

A) Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

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

- The name of the transacting related party;
- A description of the relationship between the parties;
- A description of the nature of transactions;
- Volume of the transactions either as an amount or as an appropriate proportion;
- Any other elements of the related party transactions necessary for an understanding of the financial statements;
- The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date;

and

- Amounts written off or written back in the period in respect of debts due from or to related parties.

AS 29

Provisions, Contingent Liabilities and Contingent Assets

MEANING

LIABILITY	PROVISION	CONTINGENT
It is liability to make future Payments for goods/services already received or obligations already created.	Provision is not an existing liability	Things are to happen in future whereby a liability may arise
Or accruals - whole or part of the expense pertains to the current period	Substantial Degree of estimation is required	Hence the liability is not recognised as such

Recognised Provision only when it satisfies all of the following conditions

1. The entity should have a present obligation arising from past events.
2. Outflow of future economic benefits should be probable; and
3. Provision should be measured reliably by using a substantial degree of estimation

CHANGES IN PROVISION

1. Provisions should be reviewed at each balance sheet date
2. Should be Adjusted based on the best evidence /estimate available as on that date.
3. If there is no outflow of future economic benefits as on the subsequent balance sheet date, the provision should be reversed.

A CONTINGENT LIABILITY IS

(a) 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, which are not fully within the control of the entity;

OR

b) A present obligation arising from past events but it is not recognised as a provision because:

(i) Outflow of future economic benefits are not probable or

(ii) A reliable estimate of the obligation cannot be made

Examples: - Bills Discounted, Guarantees Given, Tax disputes pending, Other legal cases pending before the court.

It should be disclosed in financial statements in notes to accounts, if outflow of future economic benefits is not remote (rare).

Recognised Contingent Asset only when it satisfies all of the following conditions

1. Inflow of future economic benefits is probable; and
2. Cost or value can be measured reliably

Example :

- An insurance contract arranged to cover a risk;
- An indemnity clause in a contract; or
- A warranty provided by a supplier.

DISCLOSURE

Disclosure related Provision

1) Brief description of the nature of the provision and timing of Future Economic Benefits outflow;
2) Assumptions made and uncertainties involved.
3) Opening balance of the provision;
4) Additions made during the year;
5) Amount used (i.e. Amount incurred or charged against) during the period;
6) Unused amounts reversed during the period.
7) Closing balance of the provision;

Disclosure related Contingent liability

An entity should disclose the following for each class of contingent liability at the balance sheet date

1) A brief description of the nature;
2) An estimation of its financial effect;
3) An indication of the uncertainties relating to any outflow; and
4) Any possibility of reimbursement

SINCERELY THANKS!