Accounting Standards (AS) Frequently Asked Questions

S/L No.	Questions	Answers
1.	*What are Accounting Standards?*	Accounting Standards are the policy documents issued by the relevant Statutory Authority / Apex Accountancy body for recognition, measurement, presentation and disclosure of the events and business transactions having economic consequence on an enterprise.
2	*What is the treatment related to precedence of Companies Act 2013 and Accounting Standards over Schedule III*	According to Schedule I, if stipulations of the Companies Act and / or the notified Accounting Standards require a change in treatment or disclosure in the Financial Statements, the requirements of the Act and / or notified Accounting Standards will take precedence over Schedule III. As per the general instruction for preparation of the balance sheet, if the regulatory authority requires that Schedule III needs to be changed then Schedule III shall automatically stand modified to that extent.
3	*What is going concern concept?*	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 operations. Going concern concept indicates that assets are kept for generating benefit in future, not for immediate sale, current change in the asset value is not realisable and so it should not be counted.
4	*What is accrual concept?*	Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e. 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 accrual basis depict (a) past events involving payment and receipt of cash and also (b) obligations to pay cash in the future (c) resources that represent cash to be received in the future
5.	*What is meant by consistency concept?*	With a view to achieve comparability of the financial statements of an enterprise through time, the accounting policies are followed consistently from one period to another, a change in an accounting policy is made only in certain exceptional circumstances. The concept of consistency is applied particularly when alternative methods of accounting are equally acceptable. However, the concept of consistency does not imply rigidity as not to allow Improved method of accounting. An enterprise should change its accounting policies in any of the following cases – to bring the books of accounts in accordance with the issued Accounting standards – to ensure compliance with the provision of law and – when under changed circumstances it is felt that the new method will reflect more true and fair picture in the financial statement.
6	*What are accounting policies?*	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.
7.	*What are the components of Financial Statements?*	• A Balance Sheet at the end of the period • A Profit & Loss Account • Cash flow Statement • Notes and Schedules forming part of the above statements
8.	*What does Balance Sheet present?*	Balance Sheet presents the information related to short term and long-term solvency of the concern.

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9.	*What does Profit & loss account reflect?*	Profit and Loss account reflects the net financial result of the functioning of an enterprise during the last financial year in terms of net profits and losses.
10.	*What does Cash flow statement reflect?*	Cash flow statement reflects information for sources from where cash was acquired to finance activities during the relevant year and also assists in predictive approach in determining future cash requirements of the concern.
11	*What does Notes on Accounts depict?*	Notes and Schedules forming part of the Financial Statements are an integral part of the financial statements, since these disclose information which are not possible to be disclosed in Balance Sheet or Profit and Loss Account and also used for clarification purposes, absence of which may lead to misinterpretation of financial statements by the users.
12	*What are the major considerations governing the selection and application of accounting policies?*	the major considerations governing the selection and application of accounting policies are: a) Prudence b) Substance over legal form c) Materiality
13.	*What are the disclosure requirements depicted under AS I – Disclosure of Accounting policies?*	To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. Such disclosure should form part of the financial statements and significant accounting policies should normally be disclosed in one place. These need to include: Disclosure of changes in accounting policies Disclosure of deviations from fundamental accounting assumptions
14	*What is a contingency?*	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. The term "contingencies" used in AS 4 is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Para 10. The amount of a contingent loss should be provided for by a charge in the statement of profit and loss if: (a) it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and (b) a reasonable estimate of the amount of the resulting loss can be made. Para 11. The existence of a contingent loss should be disclosed in the financial statements if either of the conditions in paragraph 10 is not met, unless the possibility of a loss is remote. Para 12. Contingent gains should not be recognised in the financial statements.
15	*What are events after the Balance Sheet date?*	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. Two types of events can be identified:

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		(a) those which provide further evidence of conditions that existed at the balance sheet date; and (b) those which are indicative of conditions that arose subsequent to the balance sheet date.
16	*How should extra-ordinary items be disclosed?*	Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.
17	*How should prior period items be disclosed?*	The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived
18	*How would change of accounting estimates be disclosed?*	● The effect of a change in an accounting estimate should be included in the determination of net profit or loss in: (a) the period of the change, if the change affects the period only; or (b) the period of the change and future periods, if the change affects both. ● The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate ● The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.
19.	*How would change of accounting policies be disclosed?*	● A change in an accounting policy should be made only if the adoption of a different accounting policy is required (a) by statute or (b) for compliance with an accounting standard or (c) if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise. ● The following are not changes in accounting policies: (a) the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement; and (b) the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.
20.	*What are the classifications of cash flow statement?*	The classifications of cash flow statement are: ● Operating activities ● Investing activities ● Financing activities
21.	*What are operating activities?*	Activities that are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
22.	*What are*	Activities which result in changes in size and composition of the borrowings and equity of the entity (e.g.,

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	financing activities?	cash proceeds from issuing shares, cash proceeds from issuing debt instruments, cash payments to repay amount borrowed)
23.	*What are investing activities?*	activities representing acquisition and disposal of long-term assets and other investments (not including cash equivalents) (e.g. cash receipts and payments to acquire and dispose of property, plant and equipment, cash receipts and payments to acquired and dispose of equity and debt investments including subsidiaries and other business units)
24.	*How are Property, Plant & Equipment recognized?*	According to AS 10 - the cost of an item of property, plant and equipment should be recognised as an asset if, and only if: (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and (b) the cost of the item can be measured reliably.
25	*How are Property, Plant & Equipment measured initially?*	An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.
26	*What are the elements of cost of Property, Plant and Equipment?*	Elements of cost of Property, Plant and Equipment are: 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.
27	*How are Property, Plant & Equipment measured subsequently?*	**Subsequent measurement** Para 32. An enterprise should choose either the cost model in paragraph 33 or the revaluation model in paragraph 34 as its accounting policy and should apply that policy to an entire class of property, plant and equipment. **Cost model** Para 33. After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses. **Revaluation model** Para 34. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Para 39. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

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		Para 42. 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 However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss. Para 43. A decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
28.	*What is the provision related to depreciation highlighted in the Standard?*	Para 52. The depreciable amount of an asset should be allocated on a systematic basis over its useful life. Par 53. The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Para 62. 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. Para 63. 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.
29.	*What is the provision related to capitalization of borrowing cost?*	Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to Profit and Loss account.
30	*How are Government grants treated related to revenue?*	Government grants related to revenue should be recognised on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense.
31	*How are Government grants related to assets treated?*	Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged. Grants related to non-depreciable assets should be credited to capital reserve under this method. However, if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be separately disclosed in the financial statements.
32	*What is the provision related to*	An asset is impaired when the carrying amount of the asset exceeds its recoverable amount

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	impairment of assets?	An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such Indication exists, the enterprise should estimate the recoverable amount of the asset. Impairment loss may be in the following areas: (a) Impairment loss on a specific asset (b) Impairment loss for a cash generating unit. A Cash generating unit (CGU) is a smallest group of assets for which cash flows can be determined independently (c) Impairment loss for discontinuing operations. In this situation, the impairment loss shall depend on the way the discontinuing operation is disposed of: (i) Substantially in its entirety (ii) as piecemeal sales (iii) by abandonment
33	*What is a provision as per AS 29?*	A provision is a liability of uncertain timing or amount.
34	*When is provision recognized?*	A provision is recognized when • an entity has a present obligation (legal or constructive) as a result of a past event, • it is probable that an outflow of economic benefits will be required to settle the obligation, and • a reliable estimate can be made of the obligation.
35	*What is an onerous contract?*	Onerous Contract are contracts in which unavoidable costs of meeting obligations exceed economic benefits expected to be received. Liabilities derived from onerous contract have to be provided for as they fulfil all the three recognition criteria related to provisions.
36	*What are intangible assets?*	According to AS 26, a**n intangible asset** is an identifiable non-monetary asset, without physical substance held for production or supply of goods and services for rental to others or for administrative purposes. Examples are, patents, copyrights, license, brand name, import quota, computer software, leasehold right, marketing rights, technical know-how etc.
37	*What are the characteristics for determining recognition of intangible assets?*	***(A)*** ***Identifiability***: Need to be separable ***(B)*** ***Control:*** An enterprise has the power to obtain future economic benefits, and restrict access of others from the same ***(C)*** ***Future economic benefits:*** An enterprise need to assess the probability of future economic benefits using best estimate of the set of economic conditions that will exist during the useful life of the asset based on external evidence available at the time of initial recognition ***(D)*** ***Cost can be measured reliably:*** Initially measured at cost i.e. purchase price, taxes and duties and other directly attributable expenses to make the asset ready for its intended use.
38	*How are intangible assets acquired?*	**Intangible assets are acquired through** (a) purchase of assets e.g. acquisition of patent rights (b) business combination e.g. purchased goodwill on acquisition of business (c) Government grant (d) Internally generated: these are not recognised in the financial statements as intangible assets, except for research and development expenses, if it meets criteria for recognition

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39	*What is the initial measurement of intangible assets?*	Initial measurement is at historical cost.
40	*What is the subsequent measurement of intangible assets?*	Subsequent measurement of intangible assets is: a) Cost model – historical cost less amortization and accumulated impairment losses. b) Revaluation model – Any increase is credited to revaluation surplus and decrease is charged to Statement of Profit & Loss.
41	*Is goodwill an intangible assets? If so, how it is treated?*	Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. **Purchased goodwill is to be recognised and valued.** Calculation of purchased goodwill is the difference between the amount paid by the acquirer plus value of Minority interest and net assets (assets less liabilities). Internally generated goodwill cannot be recognised and valued.
42	*How are inventories valued?*	According to Para 5 of AS 2, Inventories should be valued at the lower of cost and net realisable value.
43	*What are the cost formulae used in valuing inventories?*	*Specific identification method* The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs *FIFO (First in first out)* *Weighted Average cost*
44	*What are the disclosure requirements related to inventories?*	In accordance with Para 26 of AS 2. the financial statements should disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used; and (b) the total carrying amount of inventories and its classification appropriate to the enterprise. Para 27. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. ***Common classifications of inventories are:*** (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)
45	*How are contingent liabilities disclosed?*	*Para 26. An enterprise should not recognise a contingent liability.* Para 27. A contingent liability is disclosed, as required by paragraph 68 of the Standard, unless the possibility of an outflow of resources embodying economic benefits is remote.

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46	*How are contingent assets recognised and disclosed?*	Para 32. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. Para 33. A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable.
47	*How is revenue recognized under AS 9?*	Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the following: a) Sale of goods b) Rendering of services c) from the use of others of enterprise resources yielding interest, royalty and dividends
48	*How are contract revenue and cost recognized under AS 7?*	Contract revenue and costs are recognized under AS 7 as under: When the outcome of a construction contract can be estimated reliably Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably revenue should be recognised only to the extent of contract costs incurred of which recovery is probable; and contract costs should be recognised as an expense in the period in which they are incurred. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.
49	*What is defined as current tax?*	The term "current tax" has been defined under AS 22" Accounting for Taxes" on income as the amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period. Hence, details of all taxes on income payable under the applicable taxation laws should be disclosed here. With respect to Minimum Alternative Tax under the Income Tax Act 1961, presentation of Minimum Alternate Tax (MAT) credit should be made as prescribed by the Guidance Note on the subject by ICAI.
50	*What is defined as deferred tax?*	In accordance with AS 22, Accounting for taxes on income defines "Deferred tax" as the tax effect of timing differences. Timing differences are defined as 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.
51	*What are discontinuing operations under AS 24?*	(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 selling off the component's assets and selling 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

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52	*How are leases classified under AS 19*	A lease is classified as ***finance lease*** or ***operating lease*** at its inception (i.e. when the agreement of commitment is made). ***Finance leases*** are those leases that transfer substantially the risks and rewards incidental to ownership to the lessee. All other leases are ***operating lease***, which signifies that substantially all the risks and rewards incidental to ownership are not transferred
53	*What are the characteristics of Finance lease?*	Whether a lease is a finance lease or an operating lease would depend on the substance rather than legal form, some characteristics of which are explained as under: (a) The lease transfers ownership of the asset to the lessee by the end of the lease term. (b) The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value of the asset, at the date the option becomes exercisable. (c) The lease term is for the major part of the economic life of the asset even if the title is not transferred (d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (e) The leased assets are of such a specialised nature that only the lessee can use them without major modifications (f) If the lessee can cancel the lease, then the lessor's losses associated with the cancellation are borne by the lessee (g) Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (h) The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than the market rent.
54	*How are investments classified under AS 13?*	Para 26. An enterprise should disclose current investments and long-term investments distinctly in its financial statements. Para 27. Further classification of current and long-term investments should be as specified in the statute governing the enterprise. In the absence of a statutory requirement, such further classification should disclose, where applicable, investments in: (a) Government or Trust securities (b) Shares, debentures or bonds (c) Investment properties (d) Others—specifying nature.
55	*How are investment properties valued under AS 13?*	Para 30. An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.
56	*How are investments recognized under AS 13?*	Para 31. Investments classified as current investments should be carried in the financial statements at the lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. Para 32. Investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.
57	*How are changes in carrying amount*	Para 33. Any reduction in the carrying amount and any reversals of such reductions should be charged or credited to the profit and loss statement.

<table>
<tr><th>S/L No.</th><th>Questions</th><th>Answers</th></tr>
<tr><td></td><td>of investments accounted?</td><td></td></tr>
<tr><td>58.</td><td>What are the conditions related to amalgamation in the nature of merger?</td><td>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.</td></tr>
<tr><td>59</td><td>What are the conditions related to amalgamation in the nature of purchase?</td><td>Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified in 58 above.</td></tr>
<tr><td>60.</td><td>What is the definition of fair value under AS 14?</td><td>Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction.</td></tr>
<tr><td>61</td><td>Is consolidation of financial statements mandatory under AS 21?</td><td>It is clarified that AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements for complying with the requirements of any statute or otherwise, it should prepare and present consolidated financial statements in accordance with AS 21.</td></tr>
<tr><td>62</td><td>What is the definition of control under AS 21?</td><td>For the purpose of this Standard, the following terms are used with the meanings specified:
Control:
(a) the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or
(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.
<table><tr><td>Control is presumed</td><td>when the parent acquires more than half of the voting rights of the entity either directly or indirectly through subsidiaries.</td></tr></table></td></tr>
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		Even otherwise control may be evidenced by: – control of the composition of board of directors in case of a company or – control of composition of governing body in case of any other enterprise
63	*What is meant by minority interest?*	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.
64	*What should consolidated financial statements normally include?*	Consolidated financial statements normally include (a) consolidated balance sheet, (b) consolidated statement of profit and loss, and (c) notes to accounts, (d) other statements and explanatory material that form an integral part thereof.
65	*What is meant by significant influence under AS 23?*	As regards share ownership, if an investor holds, directly or indirectly through subsidiary (ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence. Conversely, if the investor holds, directly or indirectly through subsidiary (ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. Significant influence is usually evidenced by: (a) Representation on the board of directors or corresponding governing body of the investee; (b) participation in policy making processes; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.
66	*What is Equity method of accounting under AS 23?*	It is a method of accounting whereby (a) the investment is initially recorded at cost, (b) any surplus or deficit in cost and net asset to be recorded as goodwill or capital reserve arising at the time of acquisition. (c) The carrying amount is adjusted for the post-acquisition change in the investor's share of – net assets of the associate share of profit or loss included in income statement and – the share of other changes included in equity.
67	*What are the characteristics of a Joint Venture under AS 27?*	***Characteristics of a JV*** • Where two or more parties undertake an economic activity that is subject to joint control under a contractual arrangement is termed as joint venture • The existence of a contract which would contain ▪ the activity , duration and reporting obligations of the joint venture

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		▪ the appointment of the board of directors ▪ the voting rights of the venturers ▪ capital contribution by the venturers ▪ the sharing of the venturers of the output, income, expenses or results of the joint venture • The parties undertake an economic activity and the economic activity is subject to joint control
68	*What are the types of JVs explained in AS 27?*	***Types of JVs are:*** – *jointly controlled operations* – *jointly controlled assets* – *jointly controlled* entities Joint control exists only when the strategic, financial and operating decisions related to economic activity require the undisputed consent of the parties sharing control. A venturer recognises its interest in a jointly controlled operation by recognizing in its financial statements the assets that it controls, the liabilities and expenses it incurs and its share of income from the sale of goods and services of the joint venture. A venturer recognises its interest in jointly controlled assets on a proportional basis. The venturer also recognises any liabilities or expenses it incurs, its share of liabilities or expenses incurred jointly, and any income from the sale or use of its share of the output of the joint venture.
69	*How are the transactions between a venturer and joint venture treated under AS 27?*	Transactions between a venturer and joint venture are treated as follows: • the venturer's share of unrealised profits on sales or contribution of assets to a joint venture is eliminated - full unrealised loss on sale or contribution of assets to a joint venture is eliminated • the venturer's share of profits or losses on sales of assets by a joint venture to the venturer is eliminated • An investor in a joint venture that does not have joint control should report its interest in a joint venture in the consolidated financial statements under AS 13 or it has significant influence in terms of AS 23. • Operators or managers of a joint venture should account for any fees as revenue in terms of AS 9
70	*What are Jointly controlled operations?*	***Jointly controlled operations (JCO)*** • each venturer has his own separate business • there is no separate entity for joint venture business • all venturers are creating their own assets and maintain them • each venturer record only his own transactions without any separate set of books maintained for the joint venture business • there is a common agreement between all of them • venturers use their assets for the joint venture business • venturers meet the liabilities created by them for the joint venture business • venturers meet the expenses of the joint venture business from their funds • any revenue generated or income earned from the joint venture is shared by the venturers as per the contract

S/L No.	Questions	Answers
71	*What are Jointly controlled assets?*	***Jointly controlled assets (JCA)*** • There is no separate legal entity • There is a common control over the joint assets • Venturers use these assets to derive some economic benefit to themselves • Each venturer incurs separate expenses for their transactions • Expenses on jointly held assets are shared by the venturers as per the contract • In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them • As the assets, liabilities, income and expenses are • already recognised in the separate financial statements of the venturer and consequently in its consolidated financial statements, no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements • Financial statements may not be prepared for the joint venture although the venturers may prepare the accounts for internal use so that they may evaluate the performance of the joint venture.
72	*What are Jointly controlled entities?*	***Jointly controlled entity (JCE)*** • A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. • A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled a share of the results of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture. • An example of a jointly controlled entity is when two enterprises combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled entity. Another example is when an enterprise commences a business in a foreign country in conjunction with the government or other agency in that country, by establishing a separate entity which is jointly controlled by the enterprise.