Accounting Concepts, Standards and IFRS

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Learning Objectives

After studying this chapter, you will be able to

- Understand accounting concepts and conventions
- Learn principles of accounting
- Know the International Financial Reporting Standards (IFRS)
- Understand Indian Accounting Standards (Ind AS)

LET US SET THE STAGE . . .

Mr Ram started a sole proprietary concern and he bought machinery of Rs 2,00,000. Initially, he recorded it at purchase price and started making accounting records on his own. He used to record machinery and inventory at market value at the end of the year in the balance sheet. He was recording expenses and incomes as paid or received. He approached Mr Shayam, a Chartered Accountant, to convert all past data to correctly prepare accounting records. While looking at his records, Mr Shayam pointed out that recording of machinery at market value was not as per accounting concepts and principles. He explained that assets should be recorded at historical cost after providing relevant depreciation. Mr Shayam opined that accounting policies should be in conformity with the Accounting Standards (AS).

- What are accounting concepts and principles?
- What are accounting policies and standards?
- Are they the same worldwide or differ from country to country?

All such questions will be answered by studying this chapter.

INTRODUCTION

For making accounting information meaningful for the users, it is necessary that such information is reliable and comparable. This is possible only when it is provided with consistent principles and policies. Accounting transactions are recorded with certain basic assumptions and common practices which are called accounting concepts and conventions. The Institute of Chartered Accountants of India (ICAI), the regulatory body for standardisation of accounting policies in the country, has issued the Accounting Standards that are expected to be uniformly adhered to, in order to bring consistency in the accounting practices. Similarly, at international level, there are International Financial Reporting Standards, which aims at bringing uniformity in reporting practices across the globe. Let us discuss these issues in detail.

ACCOUNTING CONCEPTS AND CONVENTION

Objective 1
To understand accounting concepts and conventions

Accounting concepts refer to the basic assumptions that are the basis for recording of business transactions and preparing financial statement. These are tenets or postulates used by accountants.

Accounting conventions refer to the common practices that are followed in recording and presenting accounting information. They are followed like customs, traditions, etc., in a society. Accounting conventions are evolved through the regular and consistent practice over the years to facilitate appropriate recording in the books of accounts. Going concern, consistency and accrual are considered as Fundamental Accounting Assumptions as per the Indian Accounting Standards.

The following are important accounting concepts and conventions.

Going Concern Concept

This concept states that a business firm will continue to carry on its activities for an indefinite period of time. It will not be dissolved in the foreseeable future. Going concern concept implies that the resources of the concern would continue to be used for the purposes for which they are meant to be used. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet. For example, a company purchases a machinery for Rs 1,30,000 and its useful lifespan is 10 years. According to this concept, every year, depreciation will have to be calculated to write off the asset in 10 years. The possibility of disposal of machinery before 10 years due to closure of entity is ruled out.

Consistency

The convention of consistency means that same accounting principles, assumptions and methods should be used for preparing financial statements year after year. Comparison between financial statements of an enterprise will be possible only when accounting policies and practices followed by the enterprise are uniform and consistent over a period of time. If different accounting procedures and practices are used for preparing financial statements of different years, then the result will not be comparable. For instance, depreciation should be recorded using a particular method every year on consistent basis.

Accrual Concept

Accrual refers to something that becomes due, especially an amount of money that is yet to be paid or received at the end of the accounting period. It means that revenues are recognised when they become receivable, though cash may or may not be received and the expenses are recognised when they become payable though cash may or may not be paid. The transactions will be recorded in the accounting period to which they relate.

The Cash System of accounting contradicts the accrual concept/Double-Entry System. Under the cash system, revenues and expenses are recorded and accounted as and when they are received and paid in cash, respectively. The Generally Accepted

Accounting Principles (GAAP) usually do not permit application of the Cash System of accounting. For example, if the firms make payment of salary every month for the earlier month, while recording salary in the books of accounts even outstanding salary has to be recorded.

Entity Concept

This concept assumes that, for accounting purposes, the organisation and its owner are two separate independent entities. The business and personal transactions of its owner are separate. When the owner invests money in the business in the form of capital, it is recorded as liability of the business. Similarly, when the owner takes away from the business cash/goods for his/her personal use, it is not treated as business expense but it is considered as withdrawal of capital. Thus, the accounting records are made in the books of accounts from the point of view of the entity and not the person owning the business. Let us take an example. Suppose Mr Sandeep started business investing Rs 1,50,000. He purchased goods for Rs 80,000, furniture for Rs 25,000 and plant and machinery of Rs 35,000. Rs 10,000 remains in hand. These are the assets of the business and not of the owner. According to the business entity concept, Rs 1,50,000 will be treated by business as capital, i.e. a liability of business towards Mr Sandeep, the owner of the business.

Accounting Period Concept

This concept requires that a balance sheet and profit and loss account should be prepared at regular intervals. This is necessary for different purposes such as calculation of profit, ascertainment of financial position and tax computation. Profit/loss of the business is measured periodically. This is measured for a specified interval of time, called the accounting period. For the purpose of reporting to outsiders, one year is the usual accounting period, though quarterly reporting is required in certain cases. In India, the accounting year was traditionally followed from Diwali to Diwali. Different countries follow different accounting years (Table 2.1).

TABLE 2.1 List of Accounting Years in Different Countries

Country	*Accounting year*
Australia	1st July 1 to 30th June
Canada	1st April to 31st March
China	1st January to 31st December
India	1st April to 31st March
UK	1st April to 31st March
USA	1st October to 30th September

A common accounting/financial year is very useful for comparison of company performance, aggregation of national/international data, tax assessment and so on.

Dual Aspect Concept

Dual aspect concept assumes that every transaction has two effects, i.e. it affects two accounts in their respective opposite sides. Each transactions has equal amount of debit and credit.

For example, goods purchased for cash worth Rs 10,000 has two aspects:

1. Cash Paid Rs 10,000
2. Goods Received worth Rs 10,000

Both the aspects should be recorded.

Disclosure/Transparency

Convention of full disclosure requires that all material and relevant facts concerning financial statements should be fully disclosed. Full disclosure means that there should be fair and adequate disclosure of information. The business provides financial information to all interested parties such as investors, lenders, creditors, and shareholders. The shareholder would like to know profitability of the firm while the creditor would like to know the solvency of the business. In the same way, other parties would be interested in the financial information according to their requirements. This is possible if financial statement discloses all relevant information in full, fair and adequate manner.

Materiality

The convention of materiality states that, to make financial statements meaningful, only material fact, i.e. important and relevant information, should be provided in the financial statements. The materiality of a fact depends on its nature and the amount involved. The material fact means the information that will influence the decision of its user. An item worth Rs 5,000 may be immaterial for a firm whose turnover is in crores. This may not be the case for a firm whose turnover is a few thousands.

Conservatism/Prudence

This convention is based on the principle: “Anticipate no profit, but provide for all possible losses.” It provides guidance for recording transactions in the books of accounts. It is based on the policy of playing safe in regard to showing profit. Profit should not be overstated. Thus, this convention clearly states that profit should not be recorded until it is realised. But if the business anticipates any loss in the near future, provision should be made in the books of accounts for the same, for example, valuing closing stock at cost or market price whichever is lower and creating provision for doubtful debts.

Matching Concept

The matching concept is an accounting principle that requires the identification and recording of expenses associated with revenue earned and recognised during the same accounting period. Accordingly, under the matching concept, the expenses of a particular accounting period are the costs of the assets used to earn the revenue that is recognised in that period. It follows, therefore, that when expenses in a period are matched with the revenues generated for the same period, the result is the net income or loss for that period.

Money Measurement Concept

This concept assumes that all business transactions should be expressed in monetary terms. Further, the transactions that can be expressed in terms of money are alone recorded. For example, important business meeting may be valuable but it is not recorded. Similarly, a motivated and honest employee joining business is also not recorded in books of accounts. On the other hand, transactions like sale of goods worth Rs 2,00,000, purchase of raw materials Rs 1,20,000, rent paid Rs 13,000, etc. are expressed in terms of money, and so they are recorded in the books of accounts.

Cost Concept

As per the cost concept, all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition and expenses incurred to put it for use. It means that fixed assets like building, plant and machinery, furniture, etc. are recorded in the books of accounts at the purchase price and not at the market price.

Accounting Policies

Objective 2
To understand principles of accounting

Accounting policies encompass the principles, bases, conventions, rules and procedures adopted by managements in preparing and presenting financial statements. There are many different accounting policies in use even in relation to the same subject. Accounting policies are the specific accounting assumptions and the methods of applying these principles for the preparation and presentation of financial statements of an enterprise. These policies are based upon the accounting concepts and conventions. Since different enterprises follow different accounting concepts, there cannot be a single set of accounting policies, which can be applicable to every type of enterprise, under all the situations. They are usually as per the prevalent Generally Accepted Accounting Principles (GAAP) with limited choice to entity.

The areas where different types of accounting policies are used by different enterprises are:

- Valuation of inventories
- Treatment of goodwill
- Valuation of fixed assets
- Treatment of contingent liabilities
- Valuation of investments
- Treatment of retirement benefits
- Treatment of depreciation
- Treatment of foreign exchange transactions

There are a few areas where adopting different accounting policies is permissible, depending upon the laws, customs, usage, and the business environment.

Exhibit 2.1 illustrates Accounting Policies of Tata Motors Ltd. It will serve as an example of how various accounting policies are framed.

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) includes accounting standards, provisions of law and guidelines issued by regulators. These principles enable standardisation in recording and reporting of information so that the users, once they are aware of the principles, can read and understand the financial statements prepared by diverse organisations.

> "Generally Accepted Accounting Principles incorporate the consensus at a particular time as to which economic resources and obligations should be recorded as assets and liabilities by financial accounting, which changes in assets and liabilities should be recorded, when these changes are to be recorded, how the assets and liabilities and changes in them should be measured, what information should be disclosed and which financial statement should be prepared."
> —Statement No. 4 of Accounting Principles Board (USA) on 'Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises'

EXHIBIT 2.1 Extracts of Major Accounting Policies of Tata Motors Ltd.

(a) Fixed Assets (See Chapter 6, Fixed Assets and Depreciation for details.)

(b) Depreciation/Amortisation (See Chapter 6, Fixed Assets and Depreciation for details.)

(c) Leases:

(i) Finance Lease: Assets taken on finance lease are accounted for as fixed assets in accordance with Accounting Standard (AS 19) "Leases". Accordingly, the assets are accounted at fair value. Lease payments are apportioned between finance charge and reduction in outstanding liability.

(ii) Operating Lease: Assets taken on lease under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under operating leases are recognised as expenses on straight-line basis.

(d) Investments: Long-term investments are carried at cost, less provision for diminution other than temporary, if any, in the value of such investments. Current investments are carried at lower of cost and fair value.

(e) Inventories: Inventories of stores and spare parts and loose tools are valued at or below cost. Cost is ascertained on weighted average basis. Work-in-progress is valued at lower of cost and net realisable value. Cost includes material costs, labour and manufacturing overheads on the basis of absorption costing.

(f) Taxes on Income: Current tax is determined as the amount of tax payable in respect of taxable income for the year. Credit in respect of Minimum Alternate Tax Paid is recognised only if there is convincing evidence of realisation of the same. Deferred tax, which is computed on the basis of enacted/substantively enacted rates, is recognised, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Where there is unabsorbed depreciation or carry forward losses, deferred tax assets are recognised only if there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised only to the extent there is reasonable certainty of realisation in future.

(g) Research and Development Expenses: Research and Development costs of a revenue nature are charged as an expense in the year in which these are incurred.

(h) Intangible Assets: Intangible assets are recognised only if it is probable that the future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably.

(i) Premium on Redemption of Debentures and Foreign Currency Convertible Bonds (FCCB): Premium payable on redemption of FCCB and debentures as per the terms of their respective issues is provided fully in the year of issue by adjusting against the Securities Premium Account.

(j) Warranty Expenses: Anticipated product warranty costs for the period of warranty are provided for in the year of sale. Other warranty obligations are accounted for as and when claims are admitted.

(k) Foreign Exchange Transactions: All monetary assets and monetary liabilities in foreign currencies are translated at the relevant rates of exchange prevailing at the year end. In respect of foreign exchange contracts, the premium or discount arising at the inception of such a contract is amortised as expense or income over the life of the contract. In case of monetary assets and monetary liabilities in foreign currencies the exchange differences are recognised in the profit and loss account.

(l) Employee Benefits:

(i) *Defined Contribution Plan:* Company's contributions paid/payable during the year to Provident Fund, Superannuation Fund, ESIC, and Labour Welfare Fund are recognised in the profit and loss account.

(ii) *Defined Benefit Plan/Long-term Compensated Absences:* Company's liability towards gratuity, compensated absences, post retirement medical benefit schemes, etc., are determined by independent actuaries, using the projected unit credit method. Past services are recognised on a straight-line basis over the average period until the benefits become vested. Actuarial gains and losses are recognised immediately in the profit and loss account as income or expenses. Obligation is measured at the present value of estimated future cash flows using a discounted rate that is determined by reference to the market yields at the balance sheet date on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

(m) Revenue Recognition:

(i) Revenue from power supply is accounted for on the basis of billings to consumers, inclusive of fuel adjustment charges and includes unbilled revenues accrued up to the end of the accounting year.

(ii) The Company determines surplus/deficit (i.e. excess/shortfall of/in aggregate gain over Return on Equity entitlement) for the year in respect of its license area operations (i.e. Generation, Transmission and Distribution) based on the principles laid down under the (Terms and Conditions of Tariff) Regulation, 2005 notified by the Maharashtra Electricity Regulatory Commission (MERC) and the basis of Tariff Order issued by it. In respect of such surplus/deficit, appropriate adjustments as stipulated under the regulations are made during the year. Further, any adjustments that may arise on annual performance review by MERC under the aforesaid Tariff Regulations are made after the completion of such review.

(iii) Delayed payment charges and interest on delayed payments for power supply are recognised, on grounds of prudence, as and when recovered.

(n) Accounting for Contracts: Income on contracts in respect of Transmission EPC, Strategic Electronics Business and Project Management Services are accounted on “percentage of completion” basis measured by the proportion that cost incurred up to the reporting date bear to the estimated total cost of the contract.

(o) Issue Expenses:

(i) Expenses incurred in connection with issue of Rights Shares and Global Depository Shares are amortised over the remaining period of the license for supply of electricity, in accordance with the treatment adopted for the determination of “Clear Profit” under the repealed Electricity (Supply) Act, 1948. However, the closing balance of the expenditure in connection with Global Depository Shares carried forward under ‘Miscellaneous Expenditure (to the extent not written off)’ has been disclosed as an adjustment against Securities Premium Account.

(ii) Expenses incurred in connection with the issue of euro notes, foreign currency convertible bonds and debentures are adjusted against securities premium account.

(iii) Discount on issue of euro notes are amortised over the tenure of the notes.

(p) Expenditure on Amalgamation: The expenditure incurred is amortised over a period of five years.

(q) Payments under Voluntary Retirement Schemes (VRS): Compensation paid under VRS is amortised over a period of thirty-six months commencing from the month following the month of separation.

(r) Segment Reporting: The accounting policies adopted for segment reporting are in line with the accounting policy of the Company. Revenue and expenses have been identified to segments on the basis of their relationship to the operating activities of the segment. Revenue and expenses, which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis, have been included under ‘Unallocated Income/Expenses’.

Accounting standards are concepts, policies and practices as notified by accounting bodies. It has been dealt with in detail later.

To standardise the accounting information, every organisation would have to establish certain accounting policies based on GAAP.

The Generally Accepted Accounting Principles are a combination of authoritative standards (set by policy boards) and the accepted ways of doing accounting. These differ from country to country, depending upon the accounting principles and standards adopted in that country. Table 2.2 gives a list of professional bodies determining the GAAP in select countries.

TABLE 2.2 List of Accounting Standard Setting Bodies

Country	*Standard Setting Board*	*Institute*
India	Accounting Standards Board (ASB)	The Institute of Chartered Accountants of India (ICAI)
Canada	Canadian Accounting Standards Board (CASB)	Canada Institute of Chartered Accountants (CICA)
USA	Financial Accounting Standards Board (FASB)	American Institute of Certified Public Accountant (AICPA)
Australia	Australian Accounting Standards Board (AASB)	The Institute of Chartered Accountants of Australia (ICAA)

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Objective 3
To become familiar with International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are a set of accounting standards, developed by the International Accounting Standards Board (IASB), London, that are becoming the global standard for the preparation of public company financial statements.

International Accounting Standards Committee (IASC) was constituted in 1973 to formulate accounting standards. International Accounting Standards (IAS) were issued by the IASC from 1973 to 2000. The IASB replaced the IASC in 2001 and all 41 IAS issued by IASC. Since then, the IASB has amended some IAS and has proposed to amend others, has replaced some IAS with new International Financial Reporting Standards (IFRS), and has adopted or proposed certain new IFRS on topics for which there was no previous IAS. Through committees, both the IASC and the IASB also have issued Interpretations of Standards. Financial statements may not be described as complying with IFRS unless they comply with all of the requirements of each applicable standard and each applicable interpretation. Figure 2.1 shows the structure of IFRS Board.

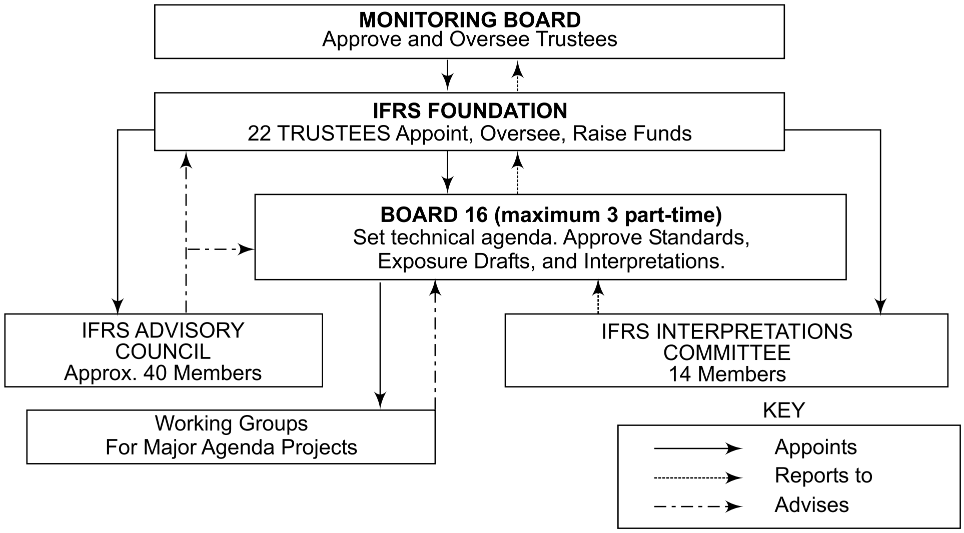

Figure 2.1 IFRS Board Structure
Source: http://www.iasplus.com/restruct/restruct.htm, accessed on 16 January 2012

The International Financial Reporting Standards (IFRS) are discussed in detail below.

IFRS 1: First-time Adoption of International Financial Reporting Standards

The objective of IFRS 1 is to ensure that an entity's first IFRS financial statements and its interim financial reports for part of the period covered by those financial statements contain high-quality information that:

(a) is transparent for users and comparable over all periods presented;
(b) provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRS); and
(c) can be generated at a cost that does not exceed the benefits.

An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRS. This is the starting point for its accounting in accordance with IFRS. An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. In general, those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period.

Generally, this IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRS:

(a) Recognise all assets and liabilities whose recognition is required by IFRS
(b) Not recognise items as assets or liabilities if IFRS do not permit such recognition
(c) Reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRS
(d) Apply IFRS in measuring all recognised assets and liabilities

IFRS 2: Share-based Payment

The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including the expenses associated with transactions in which share options are granted to employees. This IFRS requires an entity to recognise share-based payment transactions in its financial statements, including the transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. There are no exceptions to the IFRS, other than for transactions to which other Standards apply. This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity. This IFRS sets out measurement principles and specific requirements for three types of share-based payment transactions:

(a) Equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).
(b) Cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.
(c) Transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash or by issuing equity instruments.

IFRS 3: Business Combinations

The objective of the IFRS is to enhance the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. It does that by establishing principles and requirements for how an acquirer:

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
(c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This IFRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorised for issue. After a business combination, the acquirer must disclose any adjustments recognised in the current reporting period that relate to business combinations that occurred in the current or previous reporting periods.

IFRS 4: Insurance Contracts

The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires the following:

(a) Limited improvements to accounting by insurers for insurance contracts.
(b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

The IFRS requires disclosure to help users understand:

(a) The amounts in the insurer's financial statements that arise from insurance contracts
(b) The nature and extent of risks arising from insurance contracts

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, this IFRS requires the following:

(a) Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease.

(b) An asset classified as held for sale and the assets and liabilities included within a disposal group classified as held for sale to be presented separately in the statement of financial position.

(c) The results of discontinued operations to be presented separately in the statement of comprehensive income.

IFRS 6: Exploration for and Evaluation of Mineral Assets

The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources. Exploration and evaluation expenditures are expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy. An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

IFRS 7: Financial Instruments—Disclosures

The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate the following:

(a) The significance of financial instruments for the entity's financial position and performance

(b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The IFRS 7 applies to all entities, including entities that have few financial instruments (e.g. a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (e.g.

a financial institution most of whose assets and liabilities are financial instruments). When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

IFRS 8: Operating Segments

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The IFRS 8 requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision-maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements. This IFRS requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the IFRS 8 does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive. The IFRS also requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Indian Accounting Standards (Ind AS)

Objective 4
To know Indian Accounting Standards (Ind AS)

The Institute of Chartered Accountants of India (ICAI), recognising the need to harmonise the diverse accounting policies and practices in use in India, constituted the Accounting Standards Board (ASB) on 21 April, 1977. The main function of the ASB is to formulate Accounting Standards so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in India. The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is actively promoting the

International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB gives due consideration to International Accounting Standards (IAS) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRS) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

The Accounting Standards are issued under the authority of the Council of the ICAI. The ASB has also been entrusted with the responsibility of propagating the accounting standards and of persuading the concerned parties to adopt them in the preparation and presentation of financial statements. The ASB provides interpretations and guidance on issues arising from accounting standards. The ASB also reviews the accounting standards at periodical intervals and, if necessary, revises the same.

The following is the list of the Indian Accounting Standards (Ind AS):

AS 1: Disclosure of Accounting Policies

AS 2: Valuation of Inventories (Revised)

AS 3: Cash Flow Statements

AS 4: Contingencies and Events Occurring after the Balance date

AS 5: Net Profit/Loss for the Period Prior Period Items and Changes in Accounting Policies

AS 6: Depreciation Accounting

AS 7: Accounting for Construction Contracts

AS 8: Accounting for Research and Development

AS 9: Revenue Recognition

AS 10: Accounting for Fixed Assets

AS 11: Accounting for Effects of Changes in Foreign Exchange Rates

AS 12: Accounting for Government Grants

AS 13: Accounting for Investments

AS 14: Accounting for Amalgamations

AS 15: Accounting for Retirement Benefits in the Financial Statement of Employers

AS 16: Borrowing Costs

AS 17: Segment Reporting

AS 18: Related Party Disclosures

AS 19: Leases

AS 20: Earnings per Share

AS 21: Consolidated Financial Statements

AS 22: Accounting for Taxes on Income

AS 23: Accounting for Investments in Associates in Consolidated Financial Statements

AS 24: Discounting Operations

AS 25: Interim Financial Reporting

AS 26: Intangible Assets

AS 27: Financial Reporting of Interests in Joint Ventures

AS 28: Impairment of Assets

AS 29: Provisions, Contingent Liabilities and Contingent Assets

AS 30: Financial Instruments: Recognition and Measurement and Limited Revisions to Other Accounting Standards

AS 31: Financial Instruments: Presentation

AS 32: Financial Instruments: Disclosures and Limited Revisions to AS 19

As the markets expand globally, local standards have to be matched with international standards. The convergence with IFRS benefits the country by increasing the growth of its international business. It plays important role from the point of the investors who wish to invest in different countries. Investors want the information that is more relevant, reliable, timely and comparable across the countries. The financial statements prepared using a common set of accounting standards help the investors to better understand investment opportunities as opposed to financial statements prepared using a different set of national accounting principles. The convergence is also helpful from industry point of view as it will be able to raise capital from foreign markets at lower cost if it can increase confidence of the foreign investors that their financial statements comply with the globally accepted accounting practices. With the diversity in accounting standards from country to country, enterprises that operate in different countries face multitude of accounting requirements prevailing in the countries.

The proposed converged accounting standards have been prepared after following a detailed consultative exercise through issue of exposure drafts by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI), examination of comments received thereon and thereafter consideration of such standards by ICAI, National Advisory Committee on Accounting Standards (NACAS) and thereafter by the Central Government (Ministry of Corporate Affairs) in consultation with the Minister of Law and Justice. ICAI has released the following new set of Indian Accounting Standards (Ind AS), which incorporate the requirements of IFRS. Ind AS 101 to 108 are similar to IFRS; other Indian Accounting Standards are listed below:

- Ind AS 1: Presentation of Financial Statements
- Ind AS 2: Inventories
- Ind AS 7: Statement of Cash Flows
- Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- Ind AS 10: Events after the Reporting Period
- Ind AS 11: Construction Contracts
- Ind AS 12: Income Taxes
- Ind AS 16: Property, Plant and Equipment
- Ind AS 17: Leases
- Ind AS 18: Revenue
- Ind AS 19: Employee Benefits
- Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance
- Ind AS 21: The Effects of Changes in Foreign Exchange Rates
- Ind AS 23: Borrowing Costs
- Ind AS 24: Related Party Disclosures
- Ind AS 27: Consolidated and Separate Financial Statements
- Ind AS 28: Investments in Associates
- Ind AS 29: Financial Reporting in Hyperinflationary Economies
- Ind AS 31: Interests in Joint Ventures
- Ind AS 32: Financial Instruments: Presentation
- Ind AS 33: Earnings per Share
- Ind AS 34: Interim Financial Reporting
- Ind AS 36: Impairment of Assets
- Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets
- Ind AS 38: Intangible Assets
- Ind AS 39: Financial Instruments: Recognition and Measurement
- Ind AS 40: Investment Property

India's Road map to Convergence with IFRS

On 22 January 2010, the Ministry of Corporate Affairs (MCA) issued a press release setting out the road map for International Financial Reporting Standards (IFRS) convergence in India. The road map requires IFRS to be made applicable in a phased manner (Table 2.3).

TABLE 2.3 Timeline for IFRS Implementation in India

<table>
<tr><th colspan="3">Class of companies</th><th>Opening Balance Sheet as per converged accounting standards</th></tr>
<tr><td colspan="3">Insurance Companies</td><td>April 1, 2012</td></tr>
<tr><td rowspan="5">Banking Companies</td><td colspan="2">Scheduled Commercial Banks</td><td>April 1, 2013</td></tr>
<tr><td rowspan="3">Urban Co-operative Banks (UCB)</td><td>Net worth in excess of Rs. 300 crores</td><td>April 1, 2013</td></tr>
<tr><td>Net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores</td><td>April 1, 2014</td></tr>
<tr><td>Net worth not exceeding Rs. 200 crores</td><td>Optional</td></tr>
<tr><td colspan="2">Regional Rural Banks (RRB)</td><td>Optional</td></tr>
<tr><td rowspan="6">Non-Banking Financial Companies (NBFC)[1]</td><td colspan="2">Companies which are a part of NSE - Nifty 50</td><td rowspan="3">April 1, 2013</td></tr>
<tr><td colspan="2">Companies which are a part of BSE - Sensex 30</td></tr>
<tr><td colspan="2">Companies, whether listed or not, which have a net worth in excess of Rs 1,000 crores</td></tr>
<tr><td rowspan="3">All NBFCs that do not fall in the above categories</td><td>Listed</td><td>April 1, 2014</td></tr>
<tr><td>Non-listed which have a net worth in excess of Rs 500 crores</td><td>April 1, 2014</td></tr>
<tr><td>Non-listed which have a net worth not exceeding Rs 500 crores</td><td>Optional</td></tr>
<tr><td rowspan="8">Other Companies</td><td colspan="2">Companies which are a part of NSE - Nifty 50</td><td rowspan="4">April 1, 2011 (Phase 1)</td></tr>
<tr><td colspan="2">Companies which are a part of BSE - Sensex 30</td></tr>
<tr><td colspan="2">Companies whose shares or other seecurities are listed on stock exchange outside India</td></tr>
<tr><td colspan="2">Companies, whether listed or not, which have a net worth in excess of Rs. 1,000 crores</td></tr>
<tr><td colspan="2">Companies, whether listed or not, which have a net worth in excess of Rs. 500 crores but not exceeding Rs 1,000 crores</td><td>April 1, 2013 (Phase 2)</td></tr>
<tr><td colspan="2">Listed companies which have a net worth not exceeding Rs 500 crores</td><td>April 1, 2014 (Phase 3)</td></tr>
<tr><td colspan="2">Non-listed companies which have a net worth not exceeding Rs 500 crores and whose shares or other securities are not listed on stock exchanges outside India</td><td rowspan="2">Optional</td></tr>
<tr><td colspan="2">Other defined small and medium sized companies (SMC)</td></tr>
</table>

[1]For NBFCs and companies whose financial year commences on any date other than April 1, the conversion of the opening balance sheet will be on the financial year commencement date immediately following April 1 of the relevant year.

There will be two separate sets of accounting standards under Section 211(3C) of the Companies Act, 1956, which are as follows:

- The first set would comprise the Indian Accounting Standards that are fully convergent with IFRS and that are to be applied by specified companies. These standards are known as Ind AS.
- The second set would comprise the existing Indian Accounting Standards that are not fully convergent with IFRS and would be applicable to other companies, including Small-and Medium-sized Companies (SMC). These standards are known as AS.

Indian Government Accounting Standards (IGAS)

The Office of the Comptroller and Auditor General of India constituted the Government Accounting Standards Advisory Board (GASAB) in August 2002 "in order to establish and improve standards of governmental accounting and financial reporting and enhance accountability mechanisms for Union and the State Government accounts". The Indian Government Accounting Standards, proposed by the Board and approved by the Comptroller and Auditor General of India are under consideration by the President of India for notification, are:

- Guarantees given by Governments: Disclosure Requirements (IGAS 1)
- Accounting and Classification of Grants-in-aid (IGAS 2)
- Cash Flow Statements (IGAS 3)
- General Purpose Financial Statement of Government (IGAS 4)
- Loans and Advances made by Governments (IGAS 5)
- Foreign Currency Transactions and Loss or Gain by Exchange Rate Variations (IGAS 7)
- Public Debt and Other Liabilities of Governments: Disclosure Requirements (IGAS 10)

All the IGAS are mandatory and financial statements cannot be described as complying with IGAS unless they comply with all requirements of IGAS.

Consequent upon the recommendation of the Twelfth Finance Commission for introduction of accrual basis of accounting in government and acceptance by the Government of India in principle, GASAB has suggested an operational framework and road map of transition to accrual basis of accounting in governments.

The operational framework will encompass the contours of the accounting system under accrual basis, including accounting and treatment of assets, liabilities, revenue and expenses and the final accounts of the governments consistent with the provisions of the Constitution, and duly meeting budgetary reporting requirements. This means the operational framework to be suggested by GASAB would indicate the following broad accounting heads and treatment of transactions relating thereto:

(a) Revenues and Expenditure Accounting
(b) Fixed Assets Accounting
(c) Long-term Liability Accounting
(d) Accounting for Current Assets and Current Liabilities
(e) Accounting for Period Costs (Interest and Depreciation)
(f) Non-Financial and Contingent Liabilities

Such transition would bring fundamental change in the present system of government accounting.

Summary

- Accounting concepts refer to the basic assumptions that are the basis for recording of business transactions and preparing financial statement.
- Accounting conventions refer to the common practices that are followed in recording and presenting accounting information.
- Fundamental accounting assumptions are going concern, consistency and accrual. Other accounting concepts and conventions are business entity, money measurement, historical cost, accounting period, dual aspect, disclosures, materiality and matching.
- Accounting policies are the specific accounting assumptions and the methods of applying these principles for the preparation and presentation of financial statements of an enterprise.
- The Generally Accepted Accounting Principles (GAAP) include accounting standards, provisions of law and guidelines issued by regulators. These principles enable standardisation in recording and reporting of information so that the users, once they are aware of the principles, can read and understand the financial statements prepared by diverse organisations.
- Accounting standards are the concepts, policies and practices as notified by accounting bodies.
- The International Financial Reporting Standards (IFRS) are a set of accounting standards, developed by the International Accounting Standards Board (IASB), London, that are becoming the global standard for the preparation of public company financial statements.

MULTIPLE CHOICE QUESTIONS*

1. Accounting concepts refer to
   (a) The basic assumptions
   (b) Rules and regulations
   (c) Procedures
   (d) None of the above
2. The business entity concept assumes that, for accounting purposes,
   (a) The business enterprise and its owner are two separate independent entities
   (b) The business enterprise and its owner are same entities
   (c) Business is continued forever
   (d) None of the above
3. This money measurement concept assumes that
   (a) All business transactions should be expressed in non-monetary terms
   (b) All business transactions should be expressed in monetary terms
   (c) Either in monetary or non-monetary terms
   (d) None of the above
4. In accordance with which of the following basic accounting concepts, during the lifetime of an entity, financial statements are prepared periodically?
   (a) Conservation
   (b) Matching
   (c) Accounting period
   (d) None of the above
5. When information about two different entities have been prepared and presented in a similar manner the information shows the characteristic of
   (a) Verifiability
   (b) Relevance
   (c) Reliability
   (d) None of the above
6. A concept that a business organisation will not be closed down in the near future is known as
   (a) Going concern
   (b) Economic entity
   (c) Monetary
   (d) None of the above
7. The primary qualities that make accounting information useful for decision-making are
   (a) Relevance and freedom from bias

* Answers to Multiple Choice Questions are provided on the website of the book, www.mhhe.com/bapat-raithatha.

(b) Reliability and comparability
(c) Comparability and consistency
(d) None of the above

8. Krishna Enterprises follows the written-down value method of depreciating machinery year after year due to
(a) Comparability
(b) Consistency
(c) Convenience
(d) All of the above

9. A purchased a car for Rs 10,00,000 in 2011 and its market value goes down to Rs 7,00,000 in 2012. The accounting effects would be
(a) It should be recorded at gross value of Rs 10,00,000 in 2011 and 2012 as well due to the cost concept.
(b) It should be recorded at Rs 10,00,000 in 2011 and Rs 7,00,000 in 2012 due to the market value concept.
(c) Either (a) or (b)
(d) Neither (a) nor (b)

10. The determination of expenses for an accounting period is based on the principle of
(a) Objectivity
(b) Materiality
(c) Matching
(d) Periodicity

11. The 'going concern concept' is the underlying basis for
(a) Stating fixed assets at their values
(b) Disclosing the market value of securities
(c) Disclosing the sales and other operating information in the income statement
(d) None of the above

12. Economics life of an enterprise is split into the periodic interval as per
(a) Periodicity
(b) Matching
(c) Going concern
(d) Accrual

13. Salary of Rs 7,000 payable in the financial year has not been taken into account. Which of the following concepts is violated?
(a) Accrual
(b) Conservatism
(c) Historical cost
(d) Materiality

14. Mr A purchased an asset for Rs 75,000 but its fair value on the date of purchase was Rs 85,000. Mr A recorded the value of asset in his books at Rs 85,000. Which of the following concepts is violated?
    (a) Accrual
    (b) Conservatism
    (c) Historical cost
    (d) Materiality
15. Convention of full disclosure requires that
    (a) All material and relevant facts concerning financial statements should be fully disclosed.
    (b) Only monetary information should be fully disclosed
    (c) Only non monetary information should be disclosed
    (d) None of the above
16. On which of the following principles, the convention of conservatism is based?
    (a) Anticipate all possible profit, and provide for all possible losses
    (b) Anticipate no profit, but provide for all possible losses
    (c) Anticipate all possible profit, but no losses
    (d) None of the above
17. The areas wherein different accounting policies can be adopted are
    (a) Providing depreciation
    (b) Valuation of inventories
    (c) Valuation of investments
    (d) All of the above
18. Accounting policies refer to
    (a) Specific accounting principles
    (b) Specific methods of applying those principles
    (c) Both (a) and (b)
    (d) None of the above
19. The Generally Accepted Accounting Principles (GAAP) include
    (a) Accounting standards
    (b) Provisions of law
    (c) Guidelines issued by regulators
    (d) All of the above
20. Which of the following is becoming the global standard for the preparation of public company financial statements?
    (a) Ind AS
    (b) IFRS
    (c) IAS
    (d) None of the above

THEORY QUESTIONS

1. The proprietor of a firm withdrew Rs 56,000 for his personal use. This was shown as an expense of the firm. Profits were reduced to pay a lower tax. Is this right from accounting point of view? Justify your answer.
2. The CEO of a company is killed in a plane crash. To the extent "an organisation is the lengthened shadow of a man", the real value of the company will change immediately and this will be reflected in the market price of the company shares. Will this have any effect as far as the accounts of the company are concerned? Give appropriate reasons.
3. A company revalues its buildings, which were purchased at a cost of Rs 10, 00,000 in 1995 to Rs 90, 00,000 in 2010, and records the difference of Rs 80, 00,000 as profit for the year 2003. Is this practice right? Give reasons.
4. The accounting year of a firm closes on 31st December each year. The rent for business premises of Rs 45,000 for the last quarter could not be paid to the owner on account of his being away in a foreign country. Should the rent payable be taken into account for computing the firm's profit for the accounting year? Give reasons.
5. A government contractor supplies stationery to various government offices. Some bills amounting to Rs 10,000 were still pending with various offices at the close of the accounting year on 31st March. Should the businessman take the revenue of Rs 10,000 into account for computing the net profit of the period?
6. A company had been charging depreciation on a machine at Rs 10,000 per year for the first three years. Then it began charging Rs 9,000 for the fourth year and Rs 7,800 for the fifth year and so on. Is this practice justified? Give reasons for your answer.
7. Indicate which of the following transactions relate to Mr Keshav's business as news agent and which are his personal transactions:
   (a) Rs 50,000 won from a lottery ticket
   (b) Rs 10,000 for placing advertisement on a local cricket ground regarding his up to date news service
   (c) Sale of unsold newspaper to local stationary shop
   (d) Payment to newspaper wholesaler Rs 20,000
   (e) Purchase of new car for family use although it was used in each morning to collect newspapers from suppliers
8. At the end of the year 2012, an organisation had a factory on a piece of land measuring 10 acres, office building containing 50 rooms, 50 personal computers, 50 office chairs and tables, 100 kg of raw materials. All these assets were disclosed as mentioned above in the balance sheet. Using accounting concepts, you are required to comment on this approach.

9. Using the realisation concept, offer your comments on recording the following transactions in the books of accounts:
   (a) N.P. Jewellers received an order to supply gold ornaments worth Rs 5,00,000. It supplied ornaments worth Rs 2,00,000 up to the year ending 31st December 2010 and rests of the ornaments were supplied in January 2011.
   (b) Bansal sold goods for Rs 1, 00,000 for cash in 2010 and the goods have been delivered during the same year.
   (c) Akshay sold goods on credit for Rs 50, 000 during the year ending 31st December 2010. The goods have been delivered in 2010 but the payment was received in March 2011.

Research Assignments

1. Collect annual reports of manufacturing, service and IT companies (one each). Identify differences in their accounting policies disclosures. Also list out and explain with examples as to how accounting concepts and conventions are used for preparing financial statements.
2. Study the annual report of Dabur India Ltd. for 2010–11. You will notice that the financial statements are disclosed as per the Indian GAAP as well as IFRS. You are required to identify major differences in both the reporting practices.

Interpreting Financial Reports

Read the following case and answer the questions.

The government accounting system in our country is rule based and follows primarily, cash-based accounting. The Comptroller and Auditor General of India have constituted Government Accounting Standards Advisory Board (GASAB) with the support of the Government of India to facilitate reforms in government accounting.

The cash-based system of accounting is based only on the receipt and disbursement of cash and it fails in providing information required for a total picture of the financial position of the government. It does not provide a full picture of the government's liabilities, because accrued liabilities are not taken into account. It keeps no track of the assets of the government, nor does it provide information on the costs of holding and operating them or of their consumption or use. Moreover, under the cash-based accounting system, taxes can be collected in excess during a period, to be refunded later; expenditures can be under recorded by deferring payments, etc. In contrast, accrual accounting provides financial flows at the time when economic value is created, transformed, exchanged, transferred or extinguished, whether or not cash is exchanged at that time. Thus, all payables and receivables, whether or not paid or realised, get recorded. Costs of inventories used up during the accounting period are included in the operating costs while those of long-lasting assets are amortised over their life by charging depreciation.

Questions:

1. What are the major differences between cash method of accounting and accrual method of accounting?
2. What will be the major differences in reporting financial information under both the methods? You may support your answer with appropriate example.

BUSINESS CASE

The following are the details of the accounting policies followed by Adani Mundra Port and SEZ Ltd. for the year 2010–11.

1. **Fixed assets** are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.
   (a) Borrowing cost relating to acquisition/construction of fixed assets, which take substantial period of time to get ready for its intended use, are also included to the extent they relate to the period till such assets are ready to be put to use.
   (b) Exchange differences arising on reporting of the long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in the previous financial statements are added to or deducted from the cost of the asset and are depreciated over the balance life of the asset, if these monetary items pertain to the acquisition of a depreciable fixed asset.
   (c) Insurance spares/standby tools are capitalised as part of mother assets.

2. **Depreciation**

   Depreciation on fixed assets, except for those stated in paras (ii) to (iv) below, is provided on the straight-line method (SLM) at the rates prescribed under Schedule XIV of the Companies Act, 1956, or the rates determined on the basis of useful lives of the respective assets, whichever is higher.

   Assets Estimated Useful Life

   (a) Leasehold Land Development, Marine Structure, Leasehold Land: Right to Use and Dredged Channel over the balance period of Concession Agreement or Supplementary Concession Agreement with Gujarat Maritime Board.

(b) Dredging Pipes: 1.5 years
(c) Nylon and Steel coated belt on Conveyor: 4 years and 10 years, respectively
(d) Fender, Buoy, Capstan installed at Jetty: 10–15 years
(e) Depreciation on individual assets costing up to Rs 5,000 and mobile phones, included under office equipment, is provided at the rate of 100% in the month of purchase.
(f) Insurance spares/standby tools are depreciated prospectively over the remaining useful lives of the respective mother assets.

3. Intangibles

Intangible assets are amortised on straight line basis over their estimated useful lives as follows:

Intangible Assets Estimated Useful Life (Years)

Goodwill arising on the amalgamation of Adani Port Limited over the balance period of Concession Agreement computed from the appointed date of the Scheme of Amalgamation, i.e. 28 years.

Software: 3 years

4. Borrowing Costs

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets to the extent they relate to the period till such assets are ready to be put to use. 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 revenue. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

5. Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments.

All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of investments.

6. Inventories

Stores and Spares: Valued at lower of cost and net realisable value. Cost is determined on a moving weighted average basis. Cost of stores and spares lying in bonded warehouse includes custom duty accounted for on an accrual basis.

Net realisable value is the estimated current procurement prices in the ordinary course of the business.

7. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

(i) Port Operation Services

Revenue from port operation services including rail infrastructure is recognised on proportionate completion method basis based on service rendered.

Income in the nature of license fees/royalty is recognised as and when the right to receive such income is established as per terms and conditions of relevant agreement.

(ii) Income from Long-Term Leases

As a part of its business activity, the Company leases/sub-leases land on long-term basis to its customers. In some cases, the Company enters into cancellable lease/sub-lease transaction, while in other cases, it enters into non-cancellable lease/sub-lease transaction. The Company recognises the income based on the principles of leases as per Accounting Standard 19.

Leases and accordingly in cases the land lease/sub-lease transaction are cancellable in nature, the income as regards to upfront premium received/receivable is recognised on operating lease basis, i.e. pro rata over the period of lease/sub-lease agreement/Memorandum of Understanding takes effect and annual lease rentals are recognised on an accrual basis. In cases where land lease/sub-lease transaction are non-cancellable in nature, the income is recognised on finance lease basis, i.e. at the inception of lease/sub-lease agreement/Memorandum of Understanding takes effect, the income recognised is equal to the present value of the minimum lease payment over the lease period (including non-refundable upfront premium) which is substantially equal to the fair value of land leased/sub-leased. In respect of land given on finance lease basis, the corresponding cost of the land is expensed off in the profit and loss account.

(iii) Contract Revenue

Revenue from construction contracts is recognised on a percentage completion method, in proportion that the contract costs incurred for work performed up to the reporting date stand to the estimated total contract costs indicating the stage of completion of the project. Contract revenue earned in excess of billing has been reflected under the head 'Other Current Assets' and billing in excess of contract revenue has been reflected under the head "Current Liabilities" in the Balance Sheet. Full provision is made for any loss in the year in which it is first foreseen.

(iv) Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(v) Dividends

Revenue is recognised when the shareholders' right to receive payment is established by the Balance Sheet date.

You are required to analyse the above policy and compare with similar accounting policies disclosed in annual report of other companies (at least three).