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Ind AS Unit-3

Provisons Under Accounting Standards for Items Appearing in Finanancial Statements

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IND AS 18 Revenue Recognition

IND AS 18 Revenue Recognition sets the guidelines as to when to recognize the revenue arising from certain types of transactions and the accounting treatment of the same. Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Applicability of IND AS 18 Revenue Recognition

This Standard should be applied in accounting for revenue arising from the following transactions:

Sale of goods

Rendering of Services

Use of entity assets yielding Interest, Royalties or Dividends

Important Definition

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

Revenue is income that arises in the course of ordinary activities of an entity and if referred to by the variety of different names including sales, fees, interest, dividends, and royalties.

Fair Value (FV) is the amount for which an asset could be exchanged or the liability settled between knowledgeable, willing parties in an arm’s length transaction.

Measurement of Revenue

Revenue is measured at FV of the consideration received or receivable after deducting trade discounts and rebates. When the inflow of cash (or cash equivalents) is deferred, FV can be less than the nominal amount of cash. Under an effective financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Interest Revenue = Fair Value of consideration – Nominal Amount of consideration

The imputed rate of interest is the more clearly determinable of either:

Prevailing rate for a similar instrument of an issue with a similar credit rating

Rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services

Identification of Transaction

This standard is usually separately applied to each transaction but to reflect the substance of the transaction, it can be applied to separately identifiable components of a single transaction.

For example, when the product price includes a substantial amount for subsequent servicing, that amount is deferred and recognized as revenue when that service is performed.

On the other hand, to understand the commercial effect of series of transactions, recognition criteria can be applied together on two or more transactions at the same time.

Sale of Goods

Recognise revenue from the sale of goods when all below conditions are met:

Transfer of significant risks and rewards of ownership

Neither continuing managerial involvement nor effective control

Probable future economic benefits

Reliable measurement of revenue

Reliable measurement of costs

Rendering of Services

Sl.No	Event	Revenue Recognition
1	Outcome estimated reliably	Recognise revenue by reference to stage of completion (percentage of completion method) at end of reporting period
2	Outcome not estimated reliably	Recognise revenue only to extent of expenses recognized that are recoverable (no profit recognized)

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Criteria to be considered for reliably estimating the outcome of the transaction:

Reliable measurement of revenue

Probable future economic benefits

Reliable measurement of stage of completion

Reliable measurement of completion cost

The stage of completion of a transaction may be determined based on the nature of the transaction using the following:

Survey of work performed

Services performed to date as a percentage of total services to be performed

The proportion of the costs that are incurred to date bear to the estimated total costs of the transaction. Using the percentage of completion method also provides useful information on the extent of service activity and the performance during the period.

Interest, Royalty & Dividend

To recognize revenue related to interest, royalties, and dividends, the below-mentioned conditions are to be met:

Probable future economic benefits

Reliable measurement of revenue

Sl.No	Income Nature	Revenue Measurement
1	Interest	Effective interest method (as per Ind AS 109)
2	Royalties	Accrual basis in accordance with substance of the agreement
3	Dividends	Shareholder's right to receive payment is established

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Comparison with AS 9

Some of the key differences between IND AS 18 and AS 9 are given below:

Sl.No	IND AS 18 Revenue Recognition	AS 9 Revenue Recognition

1	Revenue covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants	Revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends
2	Real estate revenue is specifically not covered	Does not exclude Real estate revenue
3	Revenue has to be measured at fair value of the consideration receivable	Revenue is recognized at the nominal amount of consideration receivable
4	Specific guidance regarding barter transactions involving advertising services is given	No such specific guidance
5	Uses, only percentage of completion method for revenue recognition for rendering of service	Permits the use of completed service contract method
6	Requires interest to be recognized using effective interest rate method	Uses time proportion basis for interest recognition
7	IND AS 18 does not specifically deal with the same	Existing AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions
8	Disclosure requirements are more detailed	Not that detailed as IND AS 18

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Illustrations

A enters into consignment sales agreement with B who is a supplier. Can B recognize sales revenue in its book as soon as goods are dispatched to A?

No be **can recognize** only when A sells the goods to the third parties.

A Ltd sells equipment to B Ltd for Rs. 1,50,000 (actual cash price is 1,00,000). A Ltd provides a commitment to service the equipment for next 3 years with no additional charges.

In this case, A Ltd would recognize sales of 1,00,000 and the present value of 50,000 should be recognized over the next 3 years as service income.

A Ltd sells goods with a policy that if a customer is not satisfied with the product, it can be returned and A Ltd would refund the amount paid by the customer for the product.

Accounting treatment of this transaction would require A Ltd to apply the test of "transfer of significant risks and reward" and recognize the revenue during the point of sale provided future returns can be reliably measured based on past experience.

A, a club, charges Rs 100,000 as entrance fee. An additional annual fee of 20,000 is charged for using the club facilities. Can A recognize the entrance fee as revenue upon receipt?

Yes, since it only permits membership and there is no significant collection uncertainty.

A donates certain perishable food products to Homeless people, which have reached their best before date but are still fit for human consumption. Can A recognize revenue of the goods that are donated?

No. There is no probable inflow of economic benefits

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Indian Accounting Standard 2 – Inventories

inventories are assets:

held for sale in the ordinary course of business;

in the process of production for such sale; or

in the form of materials or supplies to be consumed in the production process or in the rendering of services

The Objective of the Standard

The objective of this standard is to prescribe the method of accounting for inventories. While accounting for inventories an entity needs to recognise the costs and amount to be carried forward until the related revenues are recognised. The standard also states how the cost should be determined and how it should be recognised as an expense subsequently, and write-downs to net realisable value.

Exclusions to the Scope of this Standard

This standard does not apply to the following :

Financial instruments.

Biological assets such as animal and plants used for agricultural activities.

This standard also does not apply to the measurement of the following inventories:

Agricultural and forest products, agricultural produce after harvest, and minerals and mineral products that are measured at net realisable value.

Commodity trades which are conducted by brokers that are measured at fair value less costs to sell.

In both these cases, if there is any change in the value of inventories, it will be recognised in profit or loss. The exclusion to the above is only to the extent of measurement of inventories.

How are Inventories Measured?

Inventories are measured at cost or NRV, whichever is lower.

What Does Cost Comprise of?

Cost comprises of the following:

Costs of purchase.

Costs of conversion.

Other costs incurred in bringing the inventories to their present condition and location.

Cost of purchase includes all the costs directly attributable to the purchase of finished goods, material or services. These costs are adjusted for any discounts and rebates. Example of such costs are purchase price, import duty, taxes, transport, handling, and other costs.

Costs of conversion include all costs that are directly related to the unit of production. It also includes a systematic allocation of fixed and variable overheads that are incurred in the conversion of raw materials to finished goods.

Fixed costs are costs incurred that are not dependent on the volume of production. Fixed production overheads are allocated on the basis of normal capacity. Normal capacity is the average production. Example: Depreciation

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Variable overheads are the indirect costs that vary directly or near directly with the volume of production. Variable production overheads are allocated to each unit of production on the basis of the actual use of production. Example: Indirect material costs.

For joint products, the cost is allocated on the basis of their sale value when the products become separately identifiable.

Other costs will be included in the cost of inventories only if it is incurred in bringing the inventories to their present location and condition. Other costs will be expenses out such as administrative costs, storage costs, and selling costs.

Techniques for the Measurement of Cost

The techniques for measurement of the cost depends on the type of industry and the method that best approximates the cost.

Cost Formulas Used for Valuation of Inventories

For determining the cost formula to be used for determining the inventory valuation firstly the nature of the inventory needs to be defined. If the inventory is not ordinarily interchangeable and has been produced for a particular project then specific costs have to be assigned to inventory. If otherwise, then the entity can use FIFO or Weighted Average cost formula to determine the cost of inventories.

FIFO method assumes that the inventory at the end of a period is the last purchased material as what is purchased first is sold first. Weighted average cost formula is based on the average cost of similar natured inventories. The entity must use the cost formulas consistently for all inventory that is similar in nature.

Net Realisable Value

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

Inventories should always be valued at cost or net realisable value, whichever is lower. In cases where the inventory is damaged, obsolete, or overvalued as compared to the market, an entity has to write down the inventory to net realisable value.

Write down of inventories can be item to item or group of items. Grouping of items has to be if the inventories have similar end use or belong to the same product line.

Net realisable value is estimated on the basis of the reliable evidence available at the time of estimation. Estimates also take into consideration the purpose for which the inventory is held. For example, if the inventory held is for a particular contract then the net realisable value is based on the contract price.

For items that are written down to net realisable value a periodic assessment is conducted to ensure accuracy. If there is clear evidence of the increase in net realisable value then the amount of write-down is reversed.

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When Should Inventory Cost be Recognised as an Expense?

In the following events, the carrying amount or net realisable value will be recognised as an expense.

Disclosure Requirements

The financial statements shall disclose:

The accounting policies used in measuring the inventories and the cost formula.

The total carrying amount and the amount as per classifications of the entity.

The inventory amount recognised as an expense.

The amount of any write-down of inventories recognised as an expense in the period of write-down and also the amount of reversal of write-downs.

The circumstances that led to the reversal of write-down of inventories.

The carrying amount of inventories pledged as security.

Ind AS 16 Property Plant Equipment

Ind AS 16 prescribes the accounting treatment for Property and P&E (Plant, and Equipment). The principal issues covered in the standard includes: –

Timing of recognizing an asset

Determining the carrying amounts of the assets

Depreciation to be recognized in the financial statements

Applicability and Scope

Ind AS 16 Property Plant Equipment is applicable to all Property and P&E (Plant & Equipment) unless and until any other accounting standard asks for a different treatment. Ind AS 16 Property Plant Equipment is not applicable in the following cases: (i) Property and P&E (Plant & Equipment) which are classified as held for sale as per Ind AS 105 (ii) Biological assets which are related to agricultural activities except bearer plants (iii) The measurement and recognition of exploration and evaluation assets (iv) Mineral rights and reserves like oil, natural gas and other such non-regenerative resources

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Recognition

The cost of any item of PPE must be recognized as an asset only when: (a) It is apparent that the future economic benefits related to such asset would flow to the business; and (b) Cost of such asset could be reliably measured

Constituents of cost

The cost of the item of PPE includes: (a) The purchase price, which includes the import duties and any non-refundable taxes on such purchase, after deducting rebates and trade discounts (b) Costs which are directly attributable to bringing assets to the condition and location essential for it to operate in a manner as intended by the management (c) Initial estimate of costs of removing and dismantling an item and restoring a site where it is located

Measurement after recognition

A business must choose cost model or revaluation model as the accounting policy and should apply such policy to its entire class of PPE.

Cost model

After recognizing an asset, PPE should be carried at the cost as reduced by the accumulated depreciation and accumulated impairment losses (if any).

Revaluation model

After recognizing an asset, PPE whose fair value could be reliably measured should be carried at the revalued amount, being the fair value at revaluation date and reduced by successively accumulated depreciation and successive accumulated impairment losses (if any). (a) Revaluations must be made with adequate regularity for ensuring that carrying amount doesn't differ substantially from that which would be determined if fair value at end of the reporting period is used (b) In case an item of PPE is revalued, whole class of such PPE to which such asset belongs should be revalued (c) In case the carrying amount of an asset increases due to revaluation, such increase should be credited to other comprehensive income and should be accumulated in equity. However, such increase should be recognized in P/L statement to the extent of reversal of a revaluation decrease of similar asset recognized previously in the P/L statement (d) In case the carrying amount of an asset is decreased due to revaluation, such decrease should be recognized in the P/L statement. However, such decrease should be debited to other comprehensive income to the extent of credit balances available in revaluation surplus with respect to such similar asset

Depreciation

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Each part of PPE with a cost which is substantial with respect to the total cost of the PPE should be separately depreciated. The amount of depreciation should be allocated on an orderly basis over the useful life of an asset. The standard also requires:

The method of depreciation used should reflect an asset's pattern of future economic benefits

At each balance sheet date, three standard requires review of

(i) Residual value and the useful life of assets (ii) Depreciation method employed

Derecognition

The carrying amount of items of PPE should be derecognized: (a) At the time of their disposal; or (b) When there are no future economic benefits anticipated from the use or disposal of such asset Any gain or loss arising from such derecognition should be included in the P/L statement when such item is derecognized. Gains arising from such derecognition shouldn't be classified as part of revenue.

Disclosure Requirements

Ind AS 16 prescribes financial statements should disclose, for every class of PPE: (i) Measurement basis for determining carrying amount (ii) Depreciation methods used (iii) Depreciation rates/ Useful lives of the assets (iv) Aggregate carrying amount and accrued depreciation at the start and at the end of period (v) Existence and value of restrictions on the title and PPE pledged as collateral for liabilities (vi) Amount of expenditure recognized in carrying amount of an item of PPE during its construction (vii) Amount with respect to contractual commitment for acquisition of PPE

Major differences between Ind AS 16 & 6

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Particulars	Ind AS 16 Property Plant Equipment	AS 10 & 6
Change in the methods of depreciation	Ind AS 16 considers such change as changes in the accounting estimate and is applied prospectively.	AS 10 necessitates retrospective recalculation of the depreciation and accounted for prospectively. This change is considered as the changes in accounting policy.
Reviewing residual value	The residual value must be reviewed at the end of every financial year at least and, any change must be accounted for as changes in the accounting estimate.	As per AS 10, estimates with respect to residual value aren't required to be updated and reviewed.
Reassessing the useful life	Ind AS 16 requires reviewing at the end of every financial year and applied prospectively.	AS 10 required periodical review and prospective application.
Government grant received for PPE	Ind AS doesn't allow the same.	AS 12 gives an option to reduce the grant so received from gross value of such asset
Cost of major Inspections	As per Ind AS 16, the cost of any major inspections must be recognized in carrying the amount of the PPE	As per AS 10, the cost of major inspections are usually expensed as and when they're incurred.

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Borrowing Cost

Need and Objective Entities has to borrow funds in order to acquire, build and install PPE and these assets take time to make them usable or saleable, therefore the entity incur the interest (cost on borrowings) to acquire and build these assets .The objective of this standard is to prescribe the treatment of borrowing cost (interest +other cost) in accounting, whether the cost of borrowing should be included in the cost of assets or not. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Differences between Ind AS-23 and AS -16

Ind AS 23

1. Allows only single statement Approach for preparing statement of Profit or loss

2. Relevant terms are Statement of profit and loss and balance sheet

AS 16

1. Provides option either to follow single statement Approach or to follow two statement approach for preparing statement of profit or loss

2. Relevant terms are Statement of Comprehensive Income and Statement of Financial Position

Definitions Borrowing costs Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds

Or

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

Examples – Inventories Manufacturing plants Power generation facilities Intangible assets Investment properties.

Borrowing cost may include

(a) Interest expense calculated using the effective interest method as described Ind AS 109 as the case may be

(b) Interest in respect of lease liabilities recognized in accordance with Ind AS 116 Leases

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(c) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs

Substantial Period of Time

It is based on facts and circumstances of each case. Ordinarily Substantial period =A Period of 12 months.

Recognition A .Borrowing costs directly attributable to the acquisition, Construction or Production of qualifying assets must be capitalized. Borrowing Costs should be capitalized. That means, Borrowing Costs should be included in the Cost of Property, Plant and Equipment (PPE is the new word for Assets).Please include Borrowing Cost in the cost of PPE as follows. Cost of PPE (IndAS-16and IAS-16) means the following:-
Purchase price - (Minus) (i) Trade discounts. (ii) Rebates
After Add
(i). Import duties
(ii) Non-refundable purchase taxes
(iii) Legal fees for purchase contract and recording ownership
(iv)Tittle guarantee insurance
(v).Directly attributable costs of bringing the assets to working condition such as:-
a. Employee benefit costs
b. Site preparation costs
c. Initial delivery costs
d. Installation Charges
e. Initial handling costs
f. Cost of testing
Less:
Sale Proceeds of goods produced in the testing process.
g. Professional fees (Architects, engineers)
h. Transportation costs.
i. Cost of Technical Staff to start operation of the plant.
(vi).Initial estimate of unavoidable cost of dismantling and removing Asset and restoring the site of installation (Using technique of Present Value)
(vii) Borrowing costs.
B. Other Borrowing costs are expenses in the statement of profit and loss C. When an entity applies IAS 29 Financial Reporting in Hyperinflationary Economies, the following concept is important in those conditions It recognizes as an expense the part of borrowing costs that compensates for inflation during the same period in accordance with paragraph 21 of that Standard.

VII. Measurement

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It depends on the following i. Funds Borrowed Specifically ii. Funds Borrowed Generally. Funds Borrowed Specifically. Amount of Borrowing Cost eligible for Capitalization =Actual interest plus related expenses Incurred less Investment Income from Excess idle Borrowings. Funds Borrowed Generally. Amount of Borrowing cost eligible for Capitalization =Amount of Qualifying Asset × Weighted Average Capitalization Rate Weighted Average Capitalization Rate=Total borrowing Cost/Total average outstanding ×100. Amount of Borrowing cost capitalized cannot exceed the amount of borrowing cost incurred during that period.

VIII. Capitalization of Borrowing Cost. It includes the following:-

a. Commencement

b. Suspension

c. Cessation a. Borrowing cost capitalization would be started when the entity first meets all the following conditions – Expenditure on qualifying asset is being incurred – Borrowing costs are being incurred – – Activities essential to prepare asset for its intended use are in progress.

Borrowing cost capitalization should be suspended If active development is interrupted for any extended period (excluding temporary delays or for period when substantial administrative or technical work is being done)

Borrowing cost capitalization should be stopped When substantially all activities necessary to prepare the qualifying asset for its use or sale are complete – It may be completed in parts, if each part can be used or sold separately.

IX. Disclosures. An entity shall disclose:

(a) The amount of borrowing costs capitalized during the period;

(b) The Weighted Capitalization rate used to determine the amount of Borrowing Costs eligible for capitalization.

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Introduction to Ind AS 38 (Intangible Assets)

The objective of Ind AS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Ind AS. The standard requires an entity to recognize an intangible asset, if and only if, certain criteria are met. The standard also specifies how to measure the carrying amount of intangible assets and requires certain disclosures regarding intangible assets.

Scope:

Ind AS 38 applies to all intangible assets other than:

financial assets

exploration and evaluation assets expenditure on the development and extraction of minerals, oil, natural gas, and similar resources

intangible assets arising from insurance contracts issued by insurance companies

intangible assets covered by another Ind AS, such as:

intangibles held for sale

deferred tax assets

lease assets assets arising from employee benefits plan

Goodwill acquired under business combination.

Definition of Intangible Assets

An identifiable non-monetary asset without physical substance controlled by the entity, from which future economic benefits are expected to flow towards the entity.

Recognition criteria:

Ind AS 38 requires an entity to recognize an intangible asset, when purchased or self created if, and only if:

it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

the cost of the asset can be measured reliably.

If an intangible item does not meet both the definition of and the criteria for recognition as an intangible asset, Ind AS 38 requires the expenditure on this item to be recognized as an expense

when it is incurred. If asset is acquired separately, then it shall be recognized at acquisition cost. If asset is acquired in a business combination or through a government grant, then recognition shall be at fair value of the asset.

If asset is generated internally, then the expenditure incurred in development phase shall be the recognition value.

Effects of revaluation

The increase in carrying amount to the extent of previous revaluation decrease shall be recognized in Profit & Loss A/c and the balance amount of revaluation to Other Comprehensive Income statement.

The decrease in carrying amount to the extent of previous revaluation increase shall be recognized to Other Comprehensive Income and the balance amount of revaluation to Profit & Loss A/c.

Useful Life

Two types of life have been mentioned in the standard:

Finite Life: A limited period of benefit to the entity from the asset.

Indefinite Life: No foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Indefinite life does not mean infinite life at all.

Amortization and Impairment

In case of finite useful lives, intangible assets should be amortized over their useful life and test for impairment should be done, when there is an indication. In case of indefinite useful lives, test for impairment should be made annually and whenever there is an indication that the intangible asset may be impaired.

De-recognition An asset should be derecognized:

on disposal or

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when no future economic benefits are expected from its use or disposal.

Any gain or loss on de-recognition shall be recognized in Profit & Loss A/c.

Disclosure Requirements

For each class of intangible asset, disclose:

useful life or amortization rate

amortization method

gross carrying amount

accumulated amortization and impairment losses

line items in the income statement in which amortization is included.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (IAS 37)

Objective To prescribe accounting for:

iProvision ii. Contingent liabilities iii. Contingent Assets iv .Provision for restructuring cost **Scope.** This standard shall may be used all entities in accounting for: i. Provisions ii. Contingent liabilities iii. Contingent Assets. Except for those covered by specific other standards like a. Ind AS -12 Income Taxes

b. Ind AS 116-Leases

c. Ind AS -19 Employee Benefits

d. Ind AS -104 Insurance Contracts

e. Ind AS-103 Business Combinations

f. Revenue from contracts with customers –Ind AS 115

g. Ind AS-19 Financial Instruments

Recognition of Provisions.

If Yes is the answer to all the following questions, then you have to make provisions

a. Whether a confirmed present legal or constructive obligation as a result of past obligating event?

b. Whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation?

c. Whether reliable estimate can be made of the obligation?

Factors affecting Measurement of Provisions

A. Measured at Best Estimate of the expenditure required to settle the present legal or constructive obligation as a result of past obligating event.

B. Management should really incorporate all available information in their estimates and they must not forget about I. Risks and uncertainties II. Time value of money III. Some probable future events

Change and use of Provisions.

Provisions to be reviewed at the end of every reporting period.

Provisions in the following cases

A. Future Operating losses—-No Provision is needed.

B. Onerous Contracts. It's a contract entered into with another party under which the unavoidable costs of fulfilling the terms of contract exceed any revenues to be received from goods or services supplied or purchased directly or indirectly under the contract and the entity would have to compensate the other party if it did not fulfil the terms of contract. Provision is needed

Provision for restructuring cost.

Restructuring affects the scope of a business and the manner in which that business is conducted. Therefore, Restructuring provisions are permitted.

Costs to be included in restructuring provision

Only direct expenditure arising from restructuring to be included They must be

– Necessarily entailed by the restructuring and.

– Should not be associated with ongoing activities.

Following costs should not be included.

– Retraining or relocating continuing staff.

– Marketing.

– Investment in new systems & distribution network.

Contingent liability

No need to recognize it.

Whereas, the entity should disclose in the financial statements

A contingent Liability is

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

b. a present obligation that arises from past events but is not recognized because :

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

ii. the amount of the obligation cannot be measured with sufficient reliability

Contingent Asset

No need to recognize it.

Whereas, the entity should disclose in the financial statements

Contingent Asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of entity.

Following changes have been made in the Ind AS 37 as per the above notification. In "Indian Accounting Standard (Ind AS) 37", in paragraph 10, in the definition of the term "liability", after the word "liability", the symbol "*"with corresponding following footnote shall be inserted, namely:- "*The definition of a liability in this Standard is not revised following the revision of the definition of a liability in the Conceptual Framework for Financial Reporting under Indian Accounting Standards issued in 2021 by the Institute of Chartered Accountants of India.";

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Indian Accounting Standard 33 – Earnings per Share

Earnings per share is a method used to review the performance of an entity. As the term itself denotes it simply means determining the profit attributable to each share. Such information is required to understand the return on investment for the shareholders and prospective investors.

What is the objective of the standard?

The objective of the standard is to provide a common parameter for reviewing the performance of the entities and compare the same. Also, the computation can be used for reviewing the performance of the entity between different periods.

What is the scope of the standard?

This standard requires that if an entity computes earnings per share then it must calculate and disclose the same as per this standard. Further, this standard requires that if an entity presents both Consolidated financial statements and Separate financial statements as per the standards then it must present the earnings per share in both the statements separately The standard **prescribes two methods for measurement of earnings per share:**

Basic earnings per share

Diluted earnings per share

Basic earnings per share will be calculated by dividing the profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding for the period. This computation enables in understanding the earnings attributable to each ordinary share.

Computing earning per share

Detailed formula: Profit or loss attributable to ordinary equity holders of parent entity – After-tax preference dividend. A weighted average of ordinary shares.

Example: Apple Ltd has a profit of Rs. 5 crores The number of ordinary shares outstanding is 10 lakhs. So the EPS will be Rs. 50. The numerator that is the profit or loss will be profit or loss from continuing operations attributable to the parent entity and profit or loss attributable to the parent entity adjusted for after-tax amounts of preference dividends, differences arising on the settlement of preference shares, any other effects on preference share classified as equity.

If any item that is to be recognised in profit or loss as per the standards is adjusted in the securities premium account or other reserves, the amount will be deducted from profit or loss from continuing operations for the purpose of computing basic earnings per share. The denominator is the weighted average number of ordinary shares outstanding during the period.

The weighted average number of ordinary shares is the number of ordinary shares at the beginning of the period, adjusted by the number of shares bought back or issued during the period multiplied by a time weighing factor. Shares are included in the above computation from the date on which the consideration is receivables.

The weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

Diluted earnings per share: The diluted earnings per share are computed by adjusting the profit or loss and ordinary shares for the effects of all dilutive potential ordinary share. The numerator will be the profit or loss as computed for basic earnings per share adjusted by the after-tax effect of the

dividends or any other items that are related to dilutive potential ordinary shares that are deducted in computing basic earnings per share.

interest in the period related to dilutive potential ordinary shares that are recognized

changes in income or expense that would be due to the conversion of the dilutive potential ordinary share.

The denominator is the weighted average number of ordinary shares as per the computation of basic earnings per share plus the weighted average number of shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares will be dilutive only when their conversion to ordinary shares reduces the earnings per share or increase the loss per share from continuing operations.

What are the retrospective adjustments permitted?

Due to capitalisation, bonus issue or share split if the number of ordinary or potential ordinary shares outstanding increases, or decreases as a result of a reverse share split, calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur post the reporting period but before the financial statements are approved for the issue, the per-share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

How are earnings per share to be presented?

An entity shall present basic and diluted earnings per share with equal prominence for all periods.

An entity shall present basic and diluted earnings share even if it is negative.

What are the disclosure requirements?

An entity shall disclose the following:

The amounts used as the numerators in calculating basic and diluted earnings per share and a reconciliation to the profit or loss.

the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share and a reconciliation of the denominators to each other.

instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the period(s) presented.

description of ordinary share transaction or potential ordinary share transactions

Definitions

The following terms are used in the standard with the meanings specified Anti Dilution is the increase in the earnings per share or reduction in the loss per share that results from the assumption that convertible instruments are converted, options or warrants exercised or that ordinary share are issued upon the satisfaction of specified conditions.

A contingent share agreement is an agreement that is dependent on the satisfaction of conditions for the issue of shares. Contingently issuable ordinary shares are issued on the satisfaction of specified conditions in a contingent share agreement for consideration or otherwise. Dilution is the reduction in the earnings per share or increase in the loss per share that results from the assumption that convertible instruments are converted, options or warrants exercised or that ordinary share are issued upon the satisfaction of specified conditions.

Options, warrants and their equivalent give the holder the right to purchase an ordinary share. An ordinary share is an equity instrument that is subordinate to all equity instruments. A potential ordinary share is an instrument that may entitle its holder to ordinary shares. Put options on ordinary shares are contracts that give the holder the right to sell ordinary shares at a specified price for a given period.

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